Where Do High Growth Political Economies Come From? The Japanese Lineage of Korea’s “Developmental State”

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Summary. — While many scholars have sought to analyze South Korea’s economic success, not enough attention has been paid to the impact of Japanese colonialism. Japanese colonial influence on Korea in 1905-45, while brutal and humiliating, was also decisive in shaping a political economy that later evolved into the high-growth South Korean path to development. More specifically, three state-society characteristics that we now readily associate as elements of the South Korean “model” originated during the colonial period: Korean state under the Japanese influence was transformed from a relatively corrupt and ineffective social institution into a highly authoritarian, penetrating organization, capable of simultaneously controlling and transforming Korean society; production-oriented alliances involving the state and dominant classes evolved, leading up to considerable expansion of manufacturing, including “exports;” and the lower classes in both the city and the countryside came to be systematically controlled by the state and dominant classes. While there were important discontinuities following WWII, when the dust settled, South Korea under Park Chung-Hee fell back into the grooves of colonial origins and traveled along them, well into the 1980s.

Questions about the wide range of (economic) performance of underdeveloped countries today ... belong as much to history as (they) do to economic analysis.
Sir Arthur Lewis

[We] turn to history and only to history if what we are seeking are the actual causes, sources, and conditions of overt changes of patterns and structures in society.
Robert Nisbet

1. INTRODUCTION

Three decades of sustained, high economic growth has made South Korea a “model of development.” Performance of other developing countries is now often judged against that of “East Asian newly industrializing countries (NICs),” including South Korea. Scholars and policy makers around the world have become curious: “How did South Korea do it?; “Can others learn from the experience?” A large body of literature has developed — some of it of rather high quality — attempting to interpret the Korean political economy.¹ A central debate in this literature concerns the relative roles of the state and of the market in explaining South Korea’s economic success. While hardly any sensible observer continues to deny the state’s extensive role in Korean economic development, the current debate bogs down over the interpretation of this role, i.e. over the extent to which state intervention was “market conforming” versus “market distorting,” or to use a related set of concepts, the extent to which the state “led” rather than “followed” the market.²

Interesting and significant as this debate is, it is also incomplete. Much of it revolves around unraveling the economic role of the South Korean state and, in turn, tracing the impact of this role on economic outcomes. The prior question of why the South Korean state was able to do what it did, and the related genetic issue of the historical roots of the Korean political economy thus tend to be underemphasized. Since there is much to be learned about the Korean “model of development” by adopting a longer historical per-

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spective, especially tracing its origins back to its Japanese colonial lineage, this neglect is unfortunate.

For example, few "developmentalists," if any, ascribe much significance to the continuities that link colonial and postcolonial Korea. This is certainly so among the more strictly economic analysts of South Korean growth experience; however, somewhat surprisingly and unfortunately, this problem also characterizes the works of several institutionally sensitive scholars of South Korea. Among the latter, some discuss the colonial period but quickly conclude that the impact was not of lasting significance (e.g., Jones and Sakong, 1980, pp. 22-37), others deny the contributions of this past altogether, and yet others virtually ignore it, presumably because of a view that significant changes in South Korean economy began only after the adoption of an "export-led model of development" in the early 1960s. Korean scholarship on Korea has its own, albeit understandable, blind spots; the nationalist impulse often leads to a denial of any continuity between colonial and postcolonial periods, lest the contemporary achievements be viewed as a product of a much disliked colonial rule. Only a handful of Korean specialists, especially those with a strong historical bent, have understood and emphasized the Japanese colonial roots of the more recent, high-growth Korean political economy. Building on the insights of this last group of Korean specialists, I attempt in this essay to reinterpret some specific historical materials with the hope of deriving general lessons of interest to scholars of comparative and international development.

The argument below is that Japanese colonial influence on Korea, in 1905-45, was decisive in shaping a political economy that later evolved into the high-growth South Korean path to development. Japanese colonialism differed in important respects from the colonialism of European powers. As late developers, the Japanese made extensive use of state power for their own economic development, and they used the same state power to pry open and transform Korea in a relatively short period. Japanese colonial impact was thus more intense, more brutal and deeply architeconic; it also left Korea with three and a half decades of economic growth (the average, annual growth rate in production was more than 3%) and a relatively advanced level of industrialization (nearly 35% of Korea's "national production" in 1940 originated in mining and manufacturing). While there were important discontinuities in the postcolonial period, the grooves that Japanese colonialism carved on the Korean social soil cut deep. The decade and a half following the departure of the Japanese was at least chaotic, and often tragic. When the dust settled, however, South Korea under Park Chung-Hee fell back into the grooves of an earlier origin and traversed along them, well into the 1980s. Of course, this was not inevitable; historical continuities seldom are. Korea had competing historical legacies: e.g., there was the distant legacy of Choson (i.e. of Korea under the rule of Yi dynasty) of corrupt court politics at the apex; then there were indigenous revolutionary tendencies that found expression in North Korea; and there was the possibility of considerable American influence. Moreover, completely new paths could have been charted. Subsequent decisions were thus critical in putting South Korea on a path that reestablished historical continuities. Nevertheless, it is difficult to imagine South Korea adopting a growth path that it did without a deeply influential Japanese colonial past.

More specifically, I trace below the colonial origins of three patterns that we now readily associate as elements of the South Korean "model." First, I discuss how the Korean state under the Japanese influence was transformed from a relatively corrupt and ineffective social institution into a highly authoritarian, penetrating organization, capable of simultaneously controlling and transforming the Korean society. This is followed by an analysis of a second pattern, namely, the new state's production-oriented alliances with the dominant classes, an alliance that buttressed the state's capacity to both control and transform. Relatedly, it is also important to take note of the structural changes in the economy; not only did the colonial economy experience steady growth and industrialization, but it also became rather heavily export-oriented, including exports of manufactured products. Finally, there was the third pattern of brutal repression and systematic control of the lower classes in both the cities and the countryside. The cumulative impact of these state-class configurations was to help create a framework for the evolution of a high-growth political economy. I also, toward the end of this discussion, briefly suggest — though not develop, leaving that for another essay — how these patterns continued into subsequent periods.

It is important to reiterate that the main task of this paper is not to set the historical record straight. That is for historians of Korea; they are already busy doing so and I am only building on some of their work. Given the importance of the South Korean case in the contemporary discourse on development, it is important that developmentalists understand what country specialists already know; I thus hope to reinterpret and synthesize some specific materials with general implications. Three sets of general ideas will be debated via the historical materials. First, there are Korea-related comparative questions. For example, how much choice does a developing country really have when adopting a specific development strategy? i.e. to what extent was South Korea a beneficiary of its historical inheritance, as distinct from creating anew a high-growth, export-oriented "model of development?" Closely related is the issue of transferability of the Korean "model" across national boundaries: if the
roots of contemporary South Korean political economy are indeed as deep as a relatively unique colonial experience, can others really emulate the experience? Second, at a higher level of generality, there are theoretical issues revolving around the concept of "developmental states": what characterizes them and where do they come from? Finally, at the most general level, there is at least an implication in this essay that some of the variations we notice today among the more or less dynamic Third World political economies may have some of their roots in a variable colonial past. If so, a further investigation of this analytical claim would require reopening the issue of the colonial roots of the contemporary Third World that has unfortunately been lost in the postdependency scholarship on development.

2. THE CONSTRUCTION OF A COLONIAL STATE

(a) The old, "predatory" state

By the time the Japanese gained decisive influence over Korea — say around 1905, after the Japanese victory in Russo-Japanese war of 1904 — the old state within Choson was already in an advanced state of disintegration. While it is not necessary to recall historical details, a brief understanding of the state-society links in late Choson is essential to appreciate changes wrought by Japanese colonial power.9 The Yi dynasty had provided continuous and, for the most part, stable rule to Korea for nearly 500 years. The same intricate state and class alliances that were responsible for this stability, however, also became major constraints on successful adaptation to changing external pressures, especially in the second half of the nineteenth century. For example, the clearest manifestation of the powerlessness of a centralized monarchical state was the continued inability to collect taxes owed to the state on agrarian incomes, especially from the powerful Yangban elite, the landowning-official class of Korea (Palais, 1975). This recurring inability, in turn, came to be associated with several problematic political trends: First, the state resorted to squeezing the peasantry via "taxation" (e.g., corvee labor and military service), contributing to brigandage and a restive peasant population. Second, the state's limited resources exacerbated the competition and tensions in what was already a personalized and factionalized elite at the apex of the political pyramid. Finally, financial limitations made it difficult to mobilize any serious military response to growing external pressures.

How does one explain powerlessness in a centralized polity? The leading historian of late Yi Korea, James Palais, traces the roots of this conundrum back to the manner in which the monarchy and the Korean officials-cum-aristocrats, the Yangban, mutually checked each others powers. The power of the Yangban class rested in part on access to hereditary land wealth but also on a close identification with the centralized bureaucracy, which helped both secure socioeconomic privileges and was a further source of wealth and power. Royal authority, in turn, was seldom all that great. Being under Chinese suzerainty, Korean emperors did not enjoy the "mandate of heaven" that the Chinese emperors possessed. In addition, the recruitment of the aristocracy to the bureaucracy via the examination system enabled landed power to be deeply embedded all through the Korean state, checking the scope of Royal authority vis-a-vis the Yangban.10 While this balance of power was a source of stability for several centuries, as external pressures grew, and along with it the state's need for taxes and other socioeconomic resources, it also became a major constraint on monarchical power to initiate reforms: The monarchical state, according to Palais, "could not solve the problem of creating adequate political authority for the achievement of national goals." Yi state was thus simultaneously "centralized and weak."11 In addition to the limiting balance of power between the monarchy and the Yangban, there were other factors at work that contributed to the Yi state's ineffectiveness. First, it was not merely the presence of a powerful land-controlling strata in society that limited the state's capacity. As I discuss below, the colonial state in Korea carved out a different type of ruling alliance with the same landowning class, but with a vastly more effective state. The key factor at work in Yi Korea was thus the direct control that landed groups exercised on state offices (Fairbank, Reischauer and Craig, 1978, p. 307). Second, the Korean monarch remained to the end a highly personalistic, patronymic institution. In the words of Cumings (1981), the Korean monarchs were incapable of acting along "the modern distinction between public and private realms" and thus incapable of designing state-led national goals of economic development (p. 10). Third, the ruling strata below the monarch was highly factionalized.12 Such strife in the ruling strata made it difficult to design cohesive responses to growing challenges. Finally, it is important to note that the reach of the Yi state from the center to the periphery was rather limited. While provincial and county officials were directly appointed from Seoul, each county magistrate was responsible for governing nearly 40,000 people (there being some 330 magistrates for about 12 million Koreans).13 Since these magistrates were rotated frequently, they often depended on the well-entrenched Yangban elite for local governance. Moreover, the lower level officials below the magistrate were not salaried employees. They were rather a hereditary group who were allowed to collect and keep some local taxes as com-
pensation for their services. These petty functionaries operated virtually as local czars, not easily influenced from above and responsible for the "venality and exploitation of the peasant population" (Lee in Eckert et al., 1990, p. 111).

In sum, the ineffectiveness of the Yi state was rooted in part in the pattern of state-class linkages and in part in the design of the state itself. Regarding the latter, a personalistic apex, a factionalized ruling strata, and a limited downward reach of central authorities, were all significant characteristics contributing to the state's powerlessness. This state — weak from the inside and hemmed in by powerful social actors from the outside — contributed little, if any, to sustained economic progress.14 Worse, when faced with growing security challenges and related fiscal crises, the Yi state turned on its own society, becoming rapacious and predatory. The views of several historians and observers of the day converge on such a perspective on the precolonial Korean state: programs of the Yi government became "embezzlement facilities for a rapacious officialdom" (Lew in Eckert et al., 1990, p. 179); "maladministration . . . of the native Yi dynasty had affected adversely the whole of Korean public service" (Ireland, 1926, p. 92); "one of the strongest and most fixed impressions made (during my travels to Korea) was that of the well-nigh hopeless corruption of Korean court:"15 and the Korean government "takes from the people directly and indirectly, everything that they earn over and above a bare subsistence, and gives them in return practically nothing."16

Since corrupt and ineffective states are indeed a common feature in parts of the contemporary Third World, one may genuinely wonder: how was Korea's "predatory" state historically transformed into what some may describe as a "developmental" state?17 The impact of Japanese colonial power was decisive in altering both the nature of the Korean state and the relationship of this state to various social classes. The transformation of the state is discussed immediately below and the changing relationship of the state to social classes in subsequent sections.

(b) Toward a "developmental" state

The Japanese military victory over the Russians in 1904 marked the emergence of Japan as the major regional power, a power that had been rising steadily since the Meiji restoration in the 1860s. Subsequently, Japan, with the acquiescence of Western powers, had a relatively free hand in dominating and molding Korea. Japanese motives in Korea, like the motives of all imperial powers, were mixed; they sought to control it politically and to transform it economically for their own advantage. Security concerns were probably dominant insofar as Korea had been an object of regional power competition for quite some time (Conroy, 1960). Given the mercantilist nature of Japanese political economy, however, it does not make much sense to raise the old question on imperialism of whether security was more important than economic interests. More than in the case of most imperial powers, the Meiji oligarchs of Japan readily associated national power with national wealth and national wealth with overseas economic opportunities (Duus, 1984, pp. 132–133).

Certain unique aspects of Japanese imperialism are essential to note for a full understanding of the colonial impact on Korea (Peattie, 1984, pp. 3–60). First, the Japanese had themselves barely escaped being imperialized. As both late developers and late imperialists, Japan colonized neighboring states with whom they shared racial and cultural traits; it was as if England had colonized a few, across-the-channel continental states. Proximity meant that many more Japanese ended up playing a direct role in colonial rule, including a much larger role of military and police, than was ever the case in European overseas colonies. The near geographical contiguity and shared cultural and racial traits also implied that the Japanese could realistically consider their rule to be permanent, leading eventually to a full integration of colonies into an expanded Japan. As will be discussed below, this possibility, in turn, influenced both the economic and political strategies of Japan in Korea, especially the Japanese-initiated industrialization of Korea.

Furthermore, Japanese colonial strategy was deeply informed by their own successful domestic reform efforts following the Meiji restoration. Of all the colonizing nations, Japan stands out as nearly the only one with a successful record of deliberate, state-led political and economic transformation. By trial and error the Meiji oligarchs had designed a political economy that was well suited for the task of "catching up" with advanced Western powers. The essential elements of this political economy are well known and can be briefly reiterated: the creation of an effective centralized state capable of both controlling and transforming Japanese society; deliberate state intervention aimed, first at agricultural development, and second at rapid industrial growth; and production of a disciplined, obedient and educated work force. It was this model of deliberate development, with its emphasis on state building and on the use of state power to facilitate socioeconomic change — in contrast, say, to the British, who having created a private property regime, waited in vain for Bengali zamindars in India to turn into a sheep farming gentry — that moved the Japanese colonizers.18 In Peattie's words, much of what Japan undertook in its colonies "was based upon Meiji experience in domestic reform" (Peattie, 1984, p. 29).

It is not surprising that the earliest Japanese efforts in Korea were focused on reforming the disintegrating
Chosŏn state; both political control and economic transformation depended on it. A fair number of political reforms had thus in fact been put into place during 1905–10, especially 1907–09, even prior to the formal annexation of Korea in 1910. Subsequently, the decade of 1910–20 was again critical, when, under very harsh authoritarian circumstances, a highly bureaucratized and a deeply penetrating state was constructed.

A key architect of the early reforms in 1907–09, whose role helps us trace the origins of the design of the new Korean state, was the Meiji oligarch and the former Meiji era premier of Japan, Ito Hirobumi. Ito as a young man had been one of the handful of leaders who had led the Meiji “revolution” and who had subsequently participated in the reform efforts that followed the destruction of Tokugawa Shogunate. Ito had travelled extensively in Europe and had been fascinated with Prussian bureaucracy as a model for Japan: the Prussian “model” offered to him a route to Western rationality and modernity without “succumbing” to Anglo-American liberalism (Halliday, 1975, p. 37). Within Japan, Ito in 1878 had “led the campaign to make the bureaucracy the absolutely unsailable base and center of political power in the state system.” Subsequently, Ito helped reorganize Tokyo University in 1881 as a “school for government bureaucrats” and by 1887, “a basic civil service and entrance apprenticeship based on the Prussian model was installed.”19 With this experience behind him, when Ito was appointed in the early 1900s to run the Korean protectorate, and where his powers as Resident-General were near absolute — “The uncrowned King of Korea” — he was quite self-conscious of his task: “Korea can hardly be called an organized state in the modern sense; I am trying to make it such” (Ladd, 1908, pp. 435 and 174).

Ito and his successors set out to deliberately construct a new Japanese-controlled Korean state. The first task was to gain central control. With superior military power behind them, the Japanese in 1907 dismantled the Korean army, repressed those who “mutinied,” incorporated other army officers into a Japanese-controlled gendarmerie, and forced the Korean monarch to abdicate. Having captured the heart of the state, the colonial rulers sought to systematically create a depersonalized “public arena,” to spread their power both wide and deep, and to coopt and/or repress native Korean political forces. For example, the patrimonial elements of the monarchial state were destroyed rather early, and replaced by a cabinet-style government run by Japanese bureaucrats.20 Since the appointments of these and other lower level bureaucrats were governed by “elaborate rules and regulations which, in the main followed the lines of the Imperial Japanese services,” the new Korean state quickly acquired a “rational” character (Ireland, 1926, p. 104; and H.J.J.M.'s Residency General, 1909, p. 45); scholarly observers have in retrospect characterized the Japanese colonial civil service as “outstanding,” composed of “hard working and trusted cadres,” who deserve “high marks as a group” (Peattie, 1984, p. 26). Elements of the highly developed, Japanese style of bureaucratic government were thus transferred directly to Korea.

(i) The new civil service

While other colonial powers in other parts of the world also created a competent civil service (e.g., the British in India), the Japanese colonial project was qualitatively distinct; both the extent and the intensity of bureaucratic penetration was unique. There were some 10,000 officials in the Japanese–Korean government in 1910; by 1937, this number was up to 87,552. More than half of these government officials in 1937, 52,270 to be exact, were Japanese. Contrast this with the French in Vietnam (where, by the way, the presence of the French was already more significant than, say, that of the British in Africa), who ruled a nearly similar sized colony with some 3,000 French; in other words, there were nearly 15 Japanese officials in Korea for every French administrator in Vietnam (Robinson, in Eckert et al., 1990, p. 257). The presence of Korean bureaucrats, trained and employed by the Japanese, was also sizable: nearly 40,000 Koreans qualified as government officials just before WWII. While most of the Koreans did not occupy senior positions in the colonial government, there can be little doubt that, over the four decades of colonial rule, they became an integral part of a highly bureaucratic form of government. Moreover, during WWII, as the demand for Japanese officials grew elsewhere, many Koreans moved higher up in the bureaucratic hierarchy. I will return below to the issue of continuity: this sizable cadre of Japanese-trained Korean bureaucrats virtually took over the day-to-day running of a truncated South Korea, first under US military government and eventually when a sovereign state was formed.

One further characteristic of the colonial government that needs to be underlined is the successful links that the Japanese created between a highly concentrated power center in Seoul, and a densely bureaucratized periphery. All bureaucracies face the problem of how to ensure that central commands are faithfully implemented by the officials at the bottom rung. This, in turn, requires ensuring that lower level officials respond mainly to those above them in the bureaucratic hierarchy, rather than to personal interests, or to the interests of societal actors with whom they interact. The Japanese in Korea were quite self-conscious of this problem and repeatedly experimented till they arrived at arrangements deemed satisfactory.

Of course, certain circumstances were helpful in establishing authority links between the center and the periphery: ruling arrangements in Seoul were highly authoritarian — the power of the Japanese Governor
Generals in both policy making and implementation was absolute and nearly all of them were senior military men — and Korea was not a very large country (again, for example, note the contrast with the role of the British in India). The Japanese, however, took additional actions. For example, when confronted with corrupt regional or local officials, the central authorities experimented — in line with "new" institutional economics — with paying these officials higher salaries, especially "entertainment-allowance," with the hope that, if more satisfied, they may perform public tasks better. When this did not work, or at least not fully, the colonial authorities further centralized, leading up to even less discretion, and more rule-governed behavior for lower level officials. These officials in the early colonial period were even required to wear crisp uniforms, replete with swords, so as to distinguish them sharply from an average citizen — thus creating a state-society, or a public-private, distinction through the use of symbolic politics — as well as to convey the will of the state in the far reaches of the society. When such efforts also failed to secure full compliance, Korean officials would be replaced by the more socialized and complying Japanese officials, at least until more suitable Koreans, who were likely to comply, could be found for the job.

(ii) The police force

In addition to the civil bureaucracy, the other essential arm of the new Korean state that the Japanese helped develop was a well-organized police force. Once again, there is nothing unique about colonial Korea in developing a police force; what is noteworthy here are both the extensive and the intensive nature of police supervision in colonial Korea. The colonial police force was designed on the lines of the Meiji police force insofar as it was highly centralized, well disciplined and played an extensive role in social and economic reforms. The police force in colonial Korea grew rapidly: from some 6,222 gendarmes and police in 1910 to 20,777 in 1922 and again to over 60,000 in 1941 (Robinson in Eckert et al., 1990, p. 259). One scholar suggests that at the height of the colonial rule, there were enough police so that the lowest level policeman knew "every man in the village" (Chen, 1984, p. 225). While senior police officers were normally Japanese, over half the police force was made up of Koreans, often lower class Koreans. These Koreans were trained by the Japanese in police academies, especially established within Korea for the purpose. Records indicate that for every Korean police position there were 10–20 applicants (Chen, 1984, p. 236), suggesting a level of cooperation between Koreans and Japanese that probably pains the modern Korean nationalist sentiments. Beyond formal training, the Japanese maintained very close supervision over their police force; for example, during 1915–20, about 2,000 policemen — or nearly one out of every 10 available policemen — were sternly disciplined every year for transgression of police rules (Chen, 1984, pp. 236–239).

This extensive and closely supervised police force, that penetrated every Korean village, performed numerous functions other than "normal" police duties of law and order maintenance. Powers granted to police included control over "politics, education, religion, morals, health and public welfare, and tax collection" (Robinson in Eckert et al., 1990, p. 259). The police, who presented themselves in military uniforms, again replete with swords, also had summary powers to judge and punish minor offenders, including the punishment of whipping. Even in production, local police were known to have "compelled villages to switch from existing food crops" to cash crops and to adopt "new techniques" in rice production so as to facilitate exports to Japan. Moreover, during land surveys (conducted during 1910–18; more on this below), as a result of which tenancy and conflicts over land increased, local police "always intervened in favor of landlords." It is thus not surprising that even a Japanese observer was led to conclude that Terauchi (the first Japanese Governor General of Korea, following Ito and formal annexation) and his successors had transformed the "entire Korean peninsula into a military camp."

One final aspect of the police role concerns the links between the police and local society via local elites. The police successfully utilized the proverbial carrot and stick to incorporate "village elders" and others into a ruling "alliance." The police thus buttressed their already extensive powers by working with, rather than against, indigenous authority structures. So armed, the police used the knowledge and influence of the local elites to mold the behavior of average citizens in such diverse matters as, "birth control, types of crops grown, count and movement of people, prevention of spread of diseases, mobilization of forced labor and to report on transgressions" (Chen, 1984, p. 226). The police and many local elites thus came to be viewed and despised by Koreans at large as "collaborationists"; unfortunately for Koreans, while many of the landed elite were indeed eventually eliminated as a political force (i.e. via land reforms following the Korean War), much of the colonial police force was incorporated directly into the new state structure of South Korea.

In sum, the personalized and factionalized Yi state with a limited reach in society came to be replaced by a colonial state with considerable capacity to penetrate and control the society; this state was simultaneously oppressive and efficacious. A highly centralized apex with near absolute powers of legislation and execution — and thus of setting and implementing "national" goals — and a pervasive, disciplined civil and police bureaucracies constituted the cores of the new state.
(iii) The politics of the new state

The politics practiced by the new rulers added to the state's capacity to convey its will to the society. Except for a somewhat liberal interlude in the 1920s, for the most part, the political practices of the Japanese colonial state in Korea were brutally authoritarian. For example, Korean newspapers were either suspended or heavily censored, political protest was met with swift retribution, and political organizations and public gatherings were generally banned. Those professing Korean nationalist sentiments were thus either exiled or remained fragmented; while there was latent and scattered sympathy for nationalists and for communists all through the colonial period, a coherent nationalist movement was never allowed to develop. The Japanese used "thought police" to detect and eliminate political dissidence, and also developed a "spy system" to buttress the civil and police bureaucracy that was "probably better developed in Korea than anywhere in the world" (Grajdanzev, 1944, p. 55).

The colonial authorities were quite self-conscious about their use of repression as a means to instill fear in the minds of Koreans and thus to minimize dissidence and reinforce bureaucratic control: in order to avoid "restlessness" in the "popular mind," note government reports of the period, it was "essential" to "maintain unshakable the dignity of the government" and "to impress the people with the weight of the new regime" (Government-General of Chosen, 1914, pp. 2–3). When Koreans still resisted, Governor General Terauchi Masatake supposedly responded, "I will whip you with scorpions" (quoted in Peattie, 1984, p. 18), and when eventually the Koreans succumbed, the gloating satisfaction is also obvious in official documents: "they have gradually yielded their obstinate prejudices and their disdainful attitude" (Government-General of Chosen, 1935, p. 81).

In spite of the awesome state that the Japanese created, it would be a mistake to believe that a thorough bureaucratic penetration and politics of fear were the only ruling instruments in the hands of the colonialists. There is no doubt that bureaucratic growth enabled the new state to undertake many more economic activities that contributed to economic growth (more on this below), and that repression enabled the establishment of order, freeing the state elite to focus on other "developmental" matters. Nevertheless, bureaucratic and repressive power are seldom enough to elicit a measure of cooperation — from, at least, some groups in society — that is essential for generating economic dynamism. We must thus also take note of some other, nonrepressive ruling instruments that the new colonial state put to use.

First, a segment of the Korean political elite in the precolonial period was quite favourably inclined toward Japan. These Koreans from the political class were both officially and unofficially incorporated into the new system of colonial rule. Second, and relatedly, the colonial state forged numerous implicit and explicit "alliances" with Korean propertied classes. The nature of these turned out to be of critical long-term significance. While I return to a detailed discussion of this issue below, it should be noted here that, on the whole, Korean monied groups — in both the city and the countryside — did not oppose colonial rule. Most of them benefited from this rule and generally went along — some even with enthusiasm — with the colonial project. Third, the Japanese undertook considerable expansion of education, facilitating propaganda and political resocialization. Whereas in 1910 nearly 10,000 students attended some sort of school, by 1941 this number was up to 1.7 million and the rate of literacy by 1945 was nearly 50%. The focus was on primary education and the curricula was designed with the "object" of raising "practical men able to meet the requirements of the state." 27

To conclude this subsection, the Japanese colonialists in Korea replaced the decrepit Yi state with a centralized and powerful state. This was no liberal state; it was more statist vis-a-vis the Korean society, and considerably more repressive, than even the statist and illiberal Japanese political economy of the period. Central decision making was highly concentrated in the office of the Governor General. The Governor General's will, reflecting the imperial design and goals, was translated into implemented policies via the use of an extensive, well-designed and disciplined bureaucracy. The new state also achieved considerable downward penetration: both the civil and police bureaucracies reached into the nooks and crannies of the society, while continuing to respond to central directives: Korean elites in the localities were incorporated into the ruling "alliance"; and, when all else failed in the Japanese efforts to control and transform Korea, there existed a well-functioning intelligence service to buttress the state's supervisory role. While a fuller understanding of how power was generated in this system, and the uses to which it was put, will emerge in due course, it should already be evident as to how the precolonial, ineffective state was transformed into a state that — for better or for worse — could get things done.

3. THE COLONIAL STATE, PROPERTIED CLASSES AND ECONOMIC CHANGE

The colonial state in Korea was a busy state. While pursuing the imperial interests of Japan, it evolved a full policy agenda, including the goal of economic transformation of Korea. The broad strategy of transformation was two pronged: the state utilized its bureaucratic capacities to directly undertake quite a few economic tasks; and, more important, the state involved propertied groups — both in the countryside
and in the cities, and both Japanese and Koreans — in production-oriented alliances leading up to sustained economic change. The results measured by the criteria of growth and industrialization (though not by such other criteria as human rights, national self-determination and fair economic distribution) were a considerable success. Since successes generally begets emulation and continuity, it is important to analyze the colonial economic strategy.

Two general observations ought to be noted at the outset. First, while the Governor-General in Korea possessed near absolute powers, he was nevertheless an agent of the Japanese imperial government. The colonial state in Korea thus pursued, not Korean, but Japanese needs and interests that changed over time. In broad brush strokes, during the early phase, say, the first decade of the colonial rule, Japan treated Korea mainly as a strategic gain that could also be exploited in a fairly classic fashion: exchange of agricultural products for manufactured goods. Subsequently, as Japanese demand for food outpaced its own supply, the colonial state aggressively undertook measures to increase food production in Korea. Manufacturing was discouraged in this early phase, again in a fairly classic fashion, to protect Japanese exports to Korea. Following WWI, however, with swollen company profits, Japan sought opportunities for export of capital and thus relaxed restrictions against production of manufactured products in Korea. At the same time, following the need to coopt nationalistic pressures within Korea, the colonial state also involved selected and prominent Korean businessmen in the growth of manufacturing. Aggressive industrialization of Korea occurred only in the 1930s. This was in part a result of Japan's strategy to cope with the depression — i.e. to create a protected, high-growth economy on an empire-wide scale — and in part a result of Japan's aggressive industrialization, again on an empire-wide scale, that reflected national power considerations. Japan was able to switch its imperial policies in Korea frequently and decisively; this, in turn, underlined the highly centralized nature of authority within the Japanese controlled Korean state.

The second related observation concerns the pressures on the Governor-General in Korea to simultaneously pursue imperial interests and run a cost-effective government. Reading through historical documents of the time, especially the annual reports of the Governor-General in Korea, it becomes clear that, among their various achievements, the colonial authorities in Korea wanted to emphasize their repeated efforts to enhance revenues and to minimize expenditures, especially by rationalizing the bureaucracy. Since any shortfall between revenues and expenditures within Korea had to be financed by the Japanese Imperial government — and typically, there was a net revenue inflow from Japan to Korea — one presumes that constant and firm pressure was maintained on respective Governor-Generals to boost the cost-efficiency of public services. Unlike many other governments, the colonial state in Korea did not operate with a "soft budget constraint." On the contrary, there was consistent pressure to economize, "hardening" the budget constraint, with significant, positive "trickle-down" effect on the efficiency of the bureaucracy, including the economic bureaucracy.

(a) Increased state capacity

The increased capacity of the new colonial state in Korea to directly undertake economic tasks is evident fairly early in the historical record. For example, there was the issue of state capacity to collect taxes. The old Yi state, one may recollect, proved quite incapable of extracting taxes from society, especially revenues from landowners. The contrasting performance of the colonial state is notable. Land revenue in 1905, the year the Japanese influence in Korea started to grow, was some 4.9 million yen; by 1908, this had jumped to 6.5 million yen, or a real increase of some 30% in three years. Subsequently, numerous other sources of revenue were added to that obtained from land — e.g., railways, post office and customs; and receipts from the ginseng monopoly and from such public undertakings as salt manufacture, coal mines, timber work and printing bureaus — and the jump in revenue intake was phenomenal. Whereas the total revenue in 1905 (land and other revenues) was 7.3 million yen, by 1911 one year after formal annexation, the total revenue intake was 24 million yen, or an increase of more than 300%. The factors that help explain this increased state capacity were two-fold. First, the colonial state, backed by superior coercive power, snapped the stranglehold landowning groups had on the Yi state, pensioning off the Yangban elite, and replacing them by Japanese career bureaucrats; I will return to this issue below. Second, the colonial elite utilized the newly created civil and police bureaucracy to collect taxes. More specifically, as early as 1906, 36 revenue collection officers, again replete with uniforms and swords, were posted all over Korea to identify cultivated land, owners of the land, and the revenue due from the land (H.I.J.M.'s Residency General, 1908, Chapter V). While the rate of taxation on land was not increased, it was regularized. In addition, uniformed revenue officers worked in conjunction with local police officers in the process of tax collection, lest any one forget this newly established separation of state and society, or the willful presence of the new state in society.

The successful land survey that the Japanese conducted in Korea during 1910–18 similarly highlighted the efficacy of the new state. The Yi state had repeatedly discussed such a comprehensive land survey but
never carried it out; the bureaucratic capacity was absent, as was the power to confront land controlling groups who wanted to hide the extent of their taxable lands. By contrast, the colonial state made an exhaustive land survey a priority. Over a period of eight years the Japanese invested some 30 million yen in the project (compared, say, to the total revenue intake of the Government-General in 1911 of 24 million yen). The survey "mapped all plots of land, classified it according to type, graded its productivity and established ownership."33 While Japanese civil servants supervised the entire project, Korean landowners cooperated and eventually benefited; local land investigation committees, for example, who were responsible for investigating the "ownership, location, boundaries and class of land" were composed of "land-owners themselves" (Government-General of Chosen, 1912, p. 13). As a result of the survey, the colonial state secured a revenue base and, less obviously, enhanced its control over the Korean agrarian sector by involving the landowning classes as ruling partners. What the Korean landlords lost in terms of autonomy from, and influence over, the traditional Yi state, they made up by, first, securing new, Western-style, legal private property rights and later (as discussed below), by enhanced profits from land (Robinson in Eckert et al., 1990, pp. 266–267).

Over time, the colonial state in Korea undertook numerous other projects of economic value. This is no place for a comprehensive discussion; I simply wish to flag some of the main areas.34 First, the Government-General invested heavily in infrastructure, so much so that Korea's roads and railways were among the finest that a developing country inherited from their colonial past. Second, as mentioned above, the Japanese made significant investments in Korea in primary education. Given the long gestation period, however, the returns on this investment were probably reaped, less by colonial Korea, but more by the two sovereign Koreas who inherited a relatively literate labor force. Third, the colonial government ran a number of economic enterprises directly: e.g., railways, communications, opium, salt and tobacco. Judged by the regular financial contribution that these public undertakings made to public revenues, they were run relatively efficiently. Finally, the Government-General played an important role in the overall process of capital accumulation. While I will return to this issue again below, and the direct role of the new colonial state in extracting taxes has already been noted, a few other points also deserve attention. The currency and banking reforms that the new colonial state undertook rather early led to a significant jump in private, institutional savings: e.g., deposits in the Bank of Chosen (Korea) doubled from some 18 million yen in 1911 to 37 million yen in 1913 and the number of depositors in the postal savings bank went up from about 20,000 in 1909 to 420,000 in 1913 (the corresponding sums of deposits being 120,000 yen in 1909 and 981,000 yen in 1913) (Government-General of Chosen, 1914, p. 19). Later during the colonial rule, the Government-General required Koreans to buy government bonds that helped finance the industrialization drive of the 1930s. While capital inflows from Japan remained the dominant source, local capital accumulation also increased considerably. The colonial state in Korea, even more than the Japanese Meiji state on which it was modeled, became heavily and directly involved in economic tasks, and judged strictly by economic criteria, performed these tasks rather effectively.

More significant than the state's direct economic role was the indirect role that led up to the involvement of wealthy groups in productive activities. The mechanics of how these state-private sector alliances were created are important because similar arrangements were later central to South Korea's phenomenal economic success. The dynamics of change in both the agrarian and industrial sectors thus deserve our attention.

(b) The state and the agrarian sector

The colonial state restructured its relationship with the Korean landed classes. The highest Yangban elite who held offices in the Yi state were pensioned off (Government-General of Chosen, 1911, pp. 18–19). As career bureaucrats took over official functions, the direct control of landed classes on the state weakened. The successful land survey further confirmed the supremacy of the new state because, as a result of it, the capacity of the landed classes to evade the reach of the state had shrunk. In return, however, the state offered the landowners plenty, so as to not only not alienate them, but to make them active partners in executing the state's goals. For example, the Japanese introduced a new legal code — based on the Meiji legal code — that created Western-style legal private property, thus securing the control of Korean landed groups over land in perpetuity. While the Japanese in the process ended up owning significant amount of agricultural land in Korea, most Koreans who controlled land prior to the arrival of the Japanese maintained, nay, even expanded their land ownership.35 Moreover, as mentioned above, many among the landed elite were incorporated into local governance, cooperating with and helping local agents of the state maintain control over villages. While students of colonialism often distinguish direct and indirect colonial rule, the Japanese political arrangement in Korea utilized both forms: direct bureaucratic penetration was buttressed by the authority of local influential. This arrangement also suggests that, contrary to some recent arguments, the presence of a landowning class does not necessarily inhibit the formation of a power-
ful “developmental” state; much depends on the specific relationship of the state and landowners.36

The Japanese colonial government periodically made significant efforts to boost agricultural production, especially Korea’s main product, rice. The underlying motivation was changing Japanese economic needs: e.g., prior to 1919, the efforts to boost production were minimal. Following a rice shortage and related riots in Japan in 1918, a major plan to expand rice production in Korea was implemented. The success on this front contributed to “overproduction” and following a glut and pressures from Japanese rice producers, all plans to increase rice production were cancelled in 1933. Again, however, the war with China in 1938–39 created food shortages in Japan and Korea was “resuscitated as a granary of the Empire.”37

During the early phase the Japanese focused their efforts on land improvement, especially on irrigation, drainage and reclamation of arable land. The resulting increase in production was not huge and resulted both from extensive and intensive efforts; e.g., increase in rice production during 1910–24 averaged around 1.5% per annum and land productivity in the same period improved at about 0.8% per annum (Suh, 1978, p. 73, Table 33). Subsequently, when rapid increase in rice production became a goal, Korea’s Japanese rulers utilized the knowledge acquired during the Meiji transformation and concentrated their efforts on spreading the use of improved seeds, fertilizer and irrigation. The gains were significant: the percentage of paddy land using improved seed doubled during 1915–40, reaching 85%; fertilizer input expanded 10 times during the same period (Suh, 1978, p. 77, Table 34); and during 1919–38 land under irrigation increased annually by nearly 10% (Suh, 1978, p. 73, Table 33; and Ishikawa, 1967, pp. 84–109). As a result, rice production during 1920–35 grew at nearly 3% per annum and nearly two-thirds of this growth resulted from improvements in land productivity.38

The overall rate of increase in rice production per unit of land for the colonial period (1910–40) averaged a respectable 2% per annum (compare this, for example, with India’s post-Green Revolution — say, 1970 to present — rates of productivity increase in cereal production; they have been only a little higher than 2% per annum). While some of these improvements may have been a “spontaneous” response to food shortages and higher prices in Japan, it is nevertheless difficult to imagine a relatively quick increase in supply without significant public efforts, especially in providing new seeds and in facilitating the spread of fertilizer.

It is a sad fact that increases in production in Korea did not lead to improvement in food consumption. Bulk of the increased production ended up in the export market and imported goods did not become consumption items for the vast majority. As a well documented study concludes, “per capita use of food grains as a whole declined substantially after the early years of the colonial period.” The same author points out that this disjuncture between production and consumption was a result of several causes, but mainly due to a combination of population growth and few nonagricultural opportunities that increased the burden on tenants and on small farmers (Suh, 1978, pp. 86–87). If there was steady growth in production but the consumption for the majority of the population declined, given the considerable inequality in land ownership, it is likely that the incomes of landowning groups mushroomed. Other available evidence is consistent with this proposition: the rates of return on agricultural investment were very high for most of the period; income inequalities widened; and, as noted above, there was rapid growth of small depositors in saving institutions. The general point is that Korean landowning groups did rather well under colonial government; they became part of an implicit but comfortable ruling alliance.

Three other characteristics of the changing agrarian sector are noteworthy. First, Japanese corporations and entrepreneurs ended up owning large tracts of Korean agricultural land — anywhere from one-quarter to one-third of all the arable land. This was a result of a conscious government policy that began with the hope of attracting Japanese immigrants to Korea, but when that goal met with only limited success. Japanese corporations became heavily involved. Especially significant as a landowner was the infamous Oriental Development Company (e.g., see Moskowitz, 1974), which, like most other Japanese landowners, leased lands to tenants, collected rents in kind, most often rice, and sold the rice in the export market back to Japan. The rate of return on such activities was high, higher than in Japan, and many a fortunes were made (Suh, 1978, p. 85, Table 39). From our standpoint, the direct involvement of the Japanese in Korean agriculture helps explicate two points: the mechanics of how the more advanced techniques of agricultural production may have been transferred from Japan to Korea; and the mechanics underlying “forced exports,” whereby Japanese landowners sold rice grown in Korea back to Japan directly.

A second characteristic of the changing agrarian sector was its heavy export orientation. For example, while total Korean rice production during the colonial period nearly doubled, rice exports to Japan during the same period increased six times (Suh, 1978, p. 92, Table 43). In addition, while the overall economy of the Japanese empire was protected, trading within the empire was relatively free of tariffs and other restrictions. Rapid growth of exports to the metropole with a more advanced agricultural sector thus points to an additional source — the quintessential source of competition — that must have also contributed to sustained improvements in agricultural productivity. Finally, the geography of the changing agrarian scene
is worthy of attention. Rice production and Japanese ownership of Korean land were both more concentrated in the southern half of Korea. Bulk of rice exports also originated in the South. The southern half of Korea thus developed a relatively productive agriculture during the colonial period.

To conclude this discussion on the changes in the agrarian sector, two developments of long-term consequence need to be underlined. The nearly obvious point is that a productive agriculture was a necessary component of rapid economic growth, first during colonial Korea, and later, even more prominently, in sovereign South Korea. While many developing countries, such as in Africa, are still attempting their agricultural revolution, and others, such as India and the Philippines, hailed the Green Revolution from the mid-1960s onward, Korea was already undergoing a biological revolution in agriculture in the first half of this century. Just before WWII, rice yields in Korea were approaching Japanese yields, which were then among the highest in the world (e.g., if the US yields in 1938 were 100, Japan’s were 154 and Korea’s 111) (Grajdanzev, 1944, p. 87; and Ishikawa, 1967, p. 95, Charts 2-5). Rapid increase in agriculture production, in turn, provided both food and inputs to sustain an industrial drive on the one hand, and on the other hand, yielded high incomes and savings that found their way back into a growing economy. A decade hence, after land reforms were implemented in South Korea, the productive agricultural base and related incomes also contributed to the emergence of a domestic market for manufactured goods.

The other less obvious legacy concerns the “model of development” that undergirded the agrarian transformation. As in Meiji Japan, but even more so, the colonial state in Korea established its superiority as the key actor that would direct economic change. The state then employed various carrots and sticks to incorporate the expected groups in a production-oriented alliance. A key focus of the state’s efforts was improving the technology of production, namely, better seeds, fertilizer and irrigation. Even after decolonization, these efforts left behind a bureaucratic infrastructure that was adept at facilitating technology-intensive agricultural development. Moreover, public subsidies from the colonial state helped improve the profitability of private producers, as well as productivity and production. This pattern of state and property class alliance for production, centered around technology and other public subsidies, would of course repeat itself in subsequent periods, and in numerous other economic activities, especially in industry, to which I now turn.

(c) The state and industrialization

The extent of Korea’s industrialization during the colonial phase was both considerable and nearly unique in the comparative history of colonialism: the average, annual rate of growth in industry (including mining and manufacturing) during 1910-40 was nearly 10%; and by 1940, nearly 35% of the total commodity production originated in the industrial sector (Suh, 1978, p. 48, Tables 11; and p. 46, Tables 17 and 18). While analyzing the why and how of this experience below, as well as its long-term significance, the main point is not that South Korea somehow inherited a relatively industrialized economy. It did not! A fair amount of the heavy industry was located in the north and significant industrial concentrations were destroyed during the Korean war. Nevertheless, a war-destroyed economy, with an experience of rapid industrialization behind it, is quite different than a tradition-bound, nearly stagnant, agrarian economy. I will return below to the issue of the creation of a trained and disciplined working class. At the apex of the social pyramid, and from the standpoint of the colonial legacy, several issues of long-term significance deserve our attention here: the style of development, especially a state-dominated, state-private sector alliance for production and profit that emerged under Japanese rule; the emergence of a significant entrepreneurial strata among Koreans; and a growing economy whose structure was already heavily export oriented.

The Japanese approach to Korea’s industrialization went through three more or less distinct phases. During the first decade of the colonial rule, Japan sought to protect Korean market as an outlet for Japanese manufactured goods. Rules and regulations were thus created to inhibit the start up of new factories in Korea by both Japanese and Korean entrepreneurs. The fact that annual growth rates in the manufacturing sector during this decade still averaged a respectable 7%, reflected the very low starting base. This growth had several components. First, there were the new public sector investments in power, railways and other infrastructure. The private sector growth originated mainly in food processing industries — especially rice mills — that were initiated by Japanese migrants with the hope of selling rice back to Japan. Exchanging Japanese manufactured goods for Korean rice and other primary products was, of course, the initial colonial policy. The Government-General thus helped Japanese entrepreneurs start up these mills by providing both financial and infrastructural support. Finally, some of this early growth also involved the participation of Koreans. Small-scale manufacturing did not require the permission of the Government-General. Moreover, incomes of landowning Koreans had started to rise and not all of their demand could be met by Japanese imports. Emulating the Japanese migrants, Koreans set up small industries (often called household industries in Japanese colonial documents; they employed 10–20 workers) in such areas as metals, dyeing, paper making, ceramics, rubber shoes,
and native Korean capital. Revisionist historians.

WWI transformed Japan from a debtor to a creditor country. With swollen company profits, the Japanese imperial government sought opportunities for Japanese capital overseas, including in Korea. Restrictions on manufacturing in Korea were abolished and thus began a second phase in Korean industrialization. Japanese investors did not rush in. The competitive pressure from Japanese manufactured goods was considerable and the Government-General wanted to encourage complementarities rather than competition between Japanese exporters to and Japanese investors in Korea. The colonial state supported a select few Japanese investors by helping them chose areas of investment, providing cheap land, raising capital for investment, guaranteeing initial profits via subsides and by moving workers to out-of-the-way locations. As a result, major business groups such as Mitsui and Mitsubishi moved into Korea; others followed. The average, annual rate of growth in industry during the 1920s was over 8%. A significant component of this was Japanese private investment in textiles, some in processing of raw materials and some rather large scale investments in mining, iron, steel, hydroelectric power, and even shipbuilding. The number of factories employing more than 50 workers went up from 89 in 1922 to 230 in 1930 (Park, 1985, p. 42).

Korean participation in this second phase, while a distant second to the role of Japanese capital was not insignificant. Relatively small-scale, "household industries" continued to mushroom. Their growth reflected several underlying trends: rising demand resulting from growing incomes of wealthy Koreans and Japanese in Korea, as well as economic growth in Japan; the role of Japanese factories as "Schumpeterian innovators" that were followed by a "cluster" of Korean imitators; and forward and backward linkages created by Japanese investments (Chung, 1973, p. 93). Moreover, after the Korean nationalist outburst in 1919, the colonial government liberalized its ruling strategy for several years and sought to coopt some wealthy Korean businessmen. Enterprising Koreans with initial capital — often with roots in land wealth — were thus allowed to enter medium to large-scale trade and manufacturing. Those willing to cooperate with the Government-General were also provided credit, subsidies, and other public supports. Of the 230 factories that employed more than 50 workers in 1930, 49 thus came to be Korean owned (Park, 1985, p. 47). Smith Korean nationalist historiography often underestimates the level of cooperation between Japanese colonial state and native Korean capital. Revisionist historians, however, have now documented the extensive nature of such cooperation (Eckert, 1991; and McNamara, 1990). In the words of Eckert, "Korean capitalism . . . came to enjoy its first flowering under Japanese rule and with official Japanese blessing" (Eckert, 1991, p. 6). Major Korean chaebols, such as Kyungbang — the most prominent Korean group during the colonial period, that began in textiles — Kongsin Hosiery, Paeksan Trading Company, Hwasin Department Store and Mokpo Rubber Company thus got started during this period.40

During the 1930s and well into WWII, Korea underwent very rapid industrialization. The rate of industrialization hastened and the process acquired considerable depth during this phase. The annual, average rate of growth of industry was nearly 15% and a significant component of new growth originated in heavy industries, especially chemical industry. The moving force behind these developments was, once again, government policies. As the Western world went into a depression, and protected economies sprouted, Japan aggressively sought growth by creating an import-substituting economy of sorts on an empire-wide scale (Schumpeter, 1940, Chs. XXI. 3 and XXII. 8). After annexing Manchuria in 1931, moreover, Korea became an advanced military supply base for the Japanese war efforts in China. The Korean economy was thus developed by the colonial government, as part and parcel of an empire-wide strategy to promote rapid growth, with a potential war always in mind.

The development of hydroelectric power in northern Korea during the 1920s and early 1930s had brought down costs of electricity and thus barriers to starting new factories. Raw materials such as coal and iron ore were also concentrated in the same part of Korea, reducing transportation costs. With wages for workers nearly half of that in Japan, and absolutely no labor protection laws (more on this below), "market conditions" for investment in Korea, especially in northern Korea, were far from adverse during the 1930s. There was also a "push" factor at work: the Japanese imperial government had tightened control on Japanese industry within Japan, while giving business a freer hand elsewhere in the Empire. Nevertheless, direct role of the Government-General in encouraging business into Korea was essential. The colonial state periodically laid out its industrial policy, indicating the preferred direction of economic change, especially given war planning, where the government expected demand to grow. Moreover, government and business cooperated to an extent that contours of corporate policy were "indirectly fixed" by the government's economic plans (Eckert, 1991, p. 73). Another analyst notes that "adaptability to state economic priorities was a prerequisite for successful large-scale enterprise" in colonial Korea (McNamara, 1990, p. 9).

The Government-General utilized several economic and noneconomic instruments to ensure compliance with its preferred economic direction. First,
the colonial state kept a "tight control on the colony's financial structure" (Eckert, 1991, p. 73). The Chosen Industrial Bank, which helped finance new investments, and which had controlling interests in a number of diverse industries, was controlled by the Government-General. This was a critical issue for Korean investors who had no other independent source of credit. Even for Japanese zaibatsu, who could raise some of their finances from corporate sources in Japan, cooperation with the state was important; for example, the Government-General floated compulsory savings bonds within Korea as a way of helping Japanese companies finance some of the gigantic investment projects (hydroelectric power and fertilizer plants) in northern Korea. Second, there were the perennial subsidies; one analyst estimates that these were of the order of 1% of "GNP" per year (Chung, 1973, p. 91). These were used selectively to promote government's priorities. For example, the highest subsidy for a time was provided to Mitsubishi to encourage gold mining; the Japanese imperial government needed the gold to pay for such strategic imports from the United States as scrap iron, copper and zinc. The next largest subsidy was provided to producers of zinc and magnesium, products necessary for manufacturing aeroplanes. And so on. Tax exemptions were similarly used discriminately to both encourage and direct economic activity.

While it is difficult to assess the significance of noneconomic factors in this state-directed, state-business alliance, they are nevertheless worth noting. The Governor-General would periodically exhort businessmen to eschew narrow "capitalistic profits and commercial self-interest" and to consider the economic "mission" of Korea from the standpoint of the "national economy." The direction of influence between the state and business is also nicely captured by the fact that both Japanese and Korean businessmen referred to the Governor-General as jifū (a loving father), highlighting the benevolent upper hand of the state. Again, in the words of Eckert, businessmen were intricately incorporated into the policy making process and what they lost in "autonomy," they made up for "magnificently" by way of "corporate profits."

A few specific examples of government-business cooperation will further help flush out the nature of this mutually convenient alliance. The example of government subsidies for Mitsubishi to encourage gold mining has already been noted. Mitsubishi was similarly granted the ginseng monopoly by the Government-General in exchange for a healthy share of the sprawling profits as taxes on the monopoly. The case of the smaller Onoda cement factory has been studied in detail and is interesting (Park, 1985, pp. 83-99). The Government-General discovered large limestone deposits in Korea during its surveys. This information was provided to cement manufacturers in Japan. The Government-General also indicated its needs for cement within Korea, thus encouraging Onoda to invest in Korea. Most important, the Government-General laid the ground work for Onoda's expansion by ordering provincial governors to buy cement from Onoda factories for all government construction projects during the agricultural expansion phase in the 1920s, and regularly set aside nearly 10% of the annual budget intended for agricultural production projects for purchase of this cement.

The level of cooperation between the Government-General and colonial Korea's largest Japanese business group, Nihon Chissō, was so intricate that it is difficult to tell where the public efforts ended and private efforts began. For example, the preliminary work for the construction of hydroelectric power plants — such as the necessary surveys, choice of location, soil tests — was conducted by the Government General. Private energies of Nihon Chissō were then tapped but, again, the Government-General played a critical role in capital accumulation by putting at the company's disposal the service of government controlled Industrial Bank, and by floating savings bonds. The government further helped move workers from the south to the labor-scarce northern region, where power generators were to be located, and subsequently remained deeply involved in the pricing and distribution of electrical power. What the government got out of all this collaboration was a ready supply of cheap electricity in Korea which, in turn, became the basis for rapid industrialization. From Nihon Chissō's point of view, hydroelectric power was only one of numerous projects that the company undertook in Korea. What it did buy in the process was enormous goodwill of the Government-General that subsequently was translated into opportunities for expansion in a number of other lucrative fields, such as nitrogen and fertilizer production.

Several of the larger Korean Business groups also benefited from a close cooperation with the Government-General. For example, new research has documented how the largest Korean business group, Kyongbang, financed its investments with the help of the Government-General (Eckert, 1991). The subsidies provided by the government during 1924-35 added up to nearly "one fourth of the company's paid-up capital in 1935" (p. 84). Furthermore, the main source of finance was loans from the government-controlled Chosen Industrial Bank. Personal relationships of key actors helped secure the bonds between Kyongbang, the Industrial Bank and the Government-General. The terms of the loans were very favorable, indicating a comfortable and close relationship between the colonial state and a Korean business group. Another research similarly documents the close cooperation between the colonial state and the Min brothers in the field of banking and Pak Hung-sik
in commerce; these ventures eventually matured into such major Korean chaebols as the Hwasin Department Store (McNamara, 1990).

Within the framework of a war economy, the planned government-business cooperation became the basis of very rapid industrialization of Korea during 1930-45. During some years the rates of growth were especially breathtaking: for example, during 1936-39, industrial production more than doubled. By the early 1940s, agricultural and industrial production were nearly at par (both providing some 40% of the national production); and by 1943, heavy industry provided nearly half of the total industrial production (Park, 1985, p. 51, Tables 11 and 12). Some specific patterns within this overall economic transformation also deserve our attention, especially because they proved to be of long-term significance.

First, the colonial state preferred to work with large business groups. Following the Meiji model, but with a vengeance in Korea, the Government-General utilized various means to encourage the formation of large-scale business enterprises: larger groups enjoyed preferred interest rates on credit, lower charges on electricity, direct price supports, and indirect subsidies such as lower transportation costs on government-controlled railways. Nearly two-thirds of the total production in the late 1930s was thus produced by only a handful of Japanese zaibatsu in Korea. Since the Korean, family-centered, but gigantic enterprises also came into their own under this regime, herein may lie the origin of chaebols.43

It is important to underline a second pattern, namely, that a significant strata of Korean entrepreneurs emerged under the colonial auspices. Many of these would go on to establish such major chaebols of modern South Korea as Samsung, Hyundai and Lucky. If judged mainly by the proportion of total private capital or of large enterprises that Koreans owned, the Korean presence in comparison to that of the Japanese appears miniscule.44 As has been pointed out by others, however, this approach is misleading. A significant minority of firms (nearly 30%) were owned jointly by Koreans and Japanese. More important from the standpoint of the emergence of an entrepreneurial class was the scale of Korean participation by 1937: “there were 2,300 Korean run factories throughout the industrial spectrum, and about 160 of these establishments employed over 50 workers” (Eckert, 1991, p. 55). Since these figures are for all of Korea, and since it is fair to assume that most of these must have concentrated in the South after the communists took over the northern half, one may observe with some confidence that colonialism left behind a considerable density of entrepreneurship in South Korea.

A third pattern concerns the geographical distribution of industry. Those wishing to deny continuities with the colonial period again point to the fact that much of the industry was located in the north and was thus not inherited by South Korea. This is partly true, insofar as the largest chemical and other heavy industries were indeed located in the northern provinces. A number of qualifications, however, are also needed. The chemical, metal and electricity-generating industries, that were concentrated in the North, constituted 30, 8 and 2.2% respectively of the total industrial production in 1938.45 That adds up to some 40%, leaving a good chunk for the South. More than half of the total industry was probably located in the South. The nature of southern industries was also distinct; they tended to be in such fields as food processing, textiles, machine and tools and tobacco related industries. By contrast, the industries in the north were highly capital intensive, high-cost production units that were not well integrated with the local economy. Northern industries were much more likely to evolve into “white elephants,” requiring continuous protection, rather than into nimble, labor-intensive exporters of consumer products.

The last pattern that needs to be noted concerns the deep ties that came to link colonial Korean and Japanese economies. This pattern is, of course, not unique to Japan and Korea; it tends to characterize many metropoles and their colonies. What is unique, however, is the degree to which Korea was already an exporting economy, and the degree to which it was already exporting manufactured products to Japan during the colonial phase. If the average “foreign trade ratio” for a country of the size of Korea in 1938–39 was 0.24, Suh (1978) estimates that Korea’s foreign trade ratio in those years was around 0.54, suggesting that Korea was exporting twice as much as any other comparable economy. Moreover, 43% of these exports were manufactured goods (Suh, 1978, pp. 120–121, Table 58). How many other developing countries in the world emerged from colonialism with this type of an economic profile? Critical to note here is not only the structure of the economy that was inherited by South Korea, but also the psychological legacy: whereas most developing countries emerged from WWII with a distrust of open economies — because they either associated openness with stagnation (as in India), or import substitution with successful industrial growth (as in Brazil) — many South Korean elites came to associate, rather early, an export orientation with a high-growth economy.

To sum up this section, the highly authoritarian and bureaucratic state that the Japanese helped construct in colonial Korea turned out to be a rather efficacious economic actor. The state utilized its bureaucratic capacities to directly undertake numerous economic tasks: anywhere from collecting more taxes, to building infrastructure, to undertaking production directly. More important, the state incorporated property-owning classes in production-oriented alliances. The colonial state was highly purposive: it
put increasing production near the top of its priorities. Propertied classes were offered various rewards — especially, handsome profits — for cooperating with the state in fulfilling this economic agenda. The state, in turn, utilized numerous means — including promotion of technology, control over credit, subsidies, capital accumulation, and even noneconomic exhortations — to ensure compliance from both Korean and Japanese landlords and businessmen. As a result of this state-business alliance, the economy was successful in exporting manufactured goods. Moreover, as documented by revisionist historians, a substantial strata of Korean entrepreneurs developed, who either flourished while cooperating with the state, or who wished for larger government support so they could also flourish. In either case, a “model” of development — inspired by Meiji Japan, but also transformed in a colonial setting — was in the making that would situate a state-directed economy with state-business alliance at the heart of the strategy of transformation.

4. THE COLONIAL STATE AND THE LOWER CLASSES

The colonial authorities sought to transform Korea in accordance with Japanese imperial needs. Controlled involvement of the lower classes — peasants and workers — was essential for the success of this project; and both the colonial state and the propertied classes collaborated to ensure their compliance. While historical studies of lower classes in colonial Korea are meager — and as they become available, we may well be led to change our minds — the scattered evidence that is available suggests that both peasants and workers lived highly constrained lives, deriving few benefits from Korea’s rapid economic transformation. These outcomes, moreover, were part of a deliberate plan that served important political and economic interests. From a political standpoint, the highly repressive and penetrating colonial state succeeded in imposing order on Korean society; this freed the state to focus its political energies in the pursuit of a narrow, production-oriented agenda. On the economic front, incomes and wages generally lagged behind productivity gains, facilitating higher profitability, savings and investments. Moreover, since much of the growth was export oriented, lagging incomes and the limited mass demand did not become a constraint on growth.

Since repression and exclusion of the lower classes was integral to the colonial political economy, and since critical components of this “model,” especially the harsh political control of the working class, continued well into the future, it is important to analyze the structure and the dynamics of the labor-repressive strategy. As far as trends in the colonial countryside were concerned, recall that precolonial, Yi Korea was hardly a haven for the lowly tenants, peasants or others at the bottom of the social hierarchy. Yi Korea was a slave society, at least until 1800, and even though the practice of slavery declined sharply through the 19th century, it was the Japanese who abolished slavery in Korea. The recurring fiscal crises of the Yi state had also led Korean rulers to squeeze the peasantry, especially via indirect taxation, thus contributing to misery, rebellion and brigandage. What the Japanese did in this situation was rationalize the strategies of both extraction and control.

While well-organized gendarmes subdued pockets of openly rebellious peasants, and continued to do so for quite some time, bulk of the peasantry was systematically brought under state’s domination. First, the legalization of private property in the hands of landlords, and a regularization of land rents, created a legitimate basis for tenancy as the modal relationship adjoining the tiller and the landowner. While tenancy had existed in Korea for a long time, given steady population growth, tenancy increased throughout the colonial period; toward the end of the period, nearly 70% of farming households worked under tenancy arrangement of one type or another (Robinson in Eckert et al., 1990, p. 307). And as most students of agrarian societies understand, tenancy as the main mode of production makes tenants dependent on landowners, and dependencies tend to be especially severe where tenants are not legally protected, where attempts to forge tenant organizations are met with swift retribution, and where the weight of the state is mainly behind the landowners.

The Japanese strategy for controlling the peasant population was twofold: direct and effective downward penetration of the state; and incorporation of landowning or other influential local groups as ruling allies. Both of these themes have been discussed above. To the best of my knowledge, there are no detailed studies available (at least not in English language) as to how this system worked in practice, especially from the viewpoint of the peasant. As far as one can make out, while sporadic peasant rebellion never died out, the ruling strategy was effective at establishing a repressive order. In addition to severe economic dependencies, which sap the rebellious energy of any social group, the effectiveness of control rested on a combination of direct and indirect rule. The traditional system of influence within villages, as well as of information flows, was buttressed by a well-organized bureaucracy: local police with uniforms and telephones; tax collectors, also replete with uniforms; and an intelligence service that periodically prepared reports for the provincial and central governments on a wide variety of issues.

The Korean working class originated under Japanese rule. While Korea was still largely an agrarian country in the 1940s (more than 70% of the population still derived its livelihood from agriculture), a
considerable working class had also come into being by then. For example, if there were less than 10,000 industrial workers in 1910, the population of industrial workers had reached 1.3 million in 1943 (Park, 1985, Part I). Assuming a minimum family size of four, a good 20% of the population must have thus depended on industrial work for their livelihood. Moreover, another 15% of Koreans lived outside of Korea in the Japanese empire, a significant minority working as unskilled urban labor in Japan and some in Manchuria. Since many of the workers within Korea had been moved from the populated south to factories in the north, and since most of the Koreans working in the Empire returned to Korea when the Empire disintegrated, a significant minority of the population in colonial Korea found itself moved around and uprooted from its traditional society niche.47

The colonial state collaborated with both Japanese and Korean capitalists to devise the structures of control for this working class. The state provided the broad framework, which, in its essence, was brutally simple: attempts to create labor union were prohibited; trespasses were met with severe retribution; and few, if any, laws existed to regulate and protect workers (Grajdanzev, 1944, p. 182). While these restrictions did not fully succeed in eliminating unionization attempts and even strikes (Park, 1985, pp. 60–68; Asagiri, 1929; and Chen, 1930) — especially in the somewhat more liberal 1920s, and again in the late 1930s, when with a war economy, labor demand and thus labor's bargaining power increased — they do help underline the highly anti-labor stance of the colonial state.

Within this broad framework, individual companies had a fairly free hand in setting down labor management practices (at least until the war years, when the state actively got involved in the control and mobilization of labor). Not surprisingly, Japanese companies, such as the Onoda cement factory — which, as already noted, has been studied in detail — adopted a Japanese labor management style.48 Japanese managers sought to create a skilled, disciplined, and hierarchically organized work force in exchange for decent wages — that were often higher than earnings in both Korean-owned factories and in agriculture, but lagged way behind the steady productivity gains — and job security. Young Koreans of peasant origins, with only little education, were hired at a rather early age (say 18–22), provided on-the-job training, occasionally sent to Japan for more specialized experience, punished severely for lack of punctuality or diligence, rewarded for loyalty and steady performance, and for those who survived the various tests and hurdles, given assurances of continuous service pension and retirement fund benefits. The carrots and sticks appear to have been quite successful: in this one specific case, at least, over a few decades, young Korean peasants were transformed into "Onoda men," who, in spite of such social problems as being treated as inferior to Japanese workers, took pride in their skilled industrial work in a Japanese company.

Since there is very little research available that does not depend on company documents, one has to be wary of how "satisfied" and "loyal" Korean workers really were. There was very little real increase in wages throughout this period of high growth. Moreover, when economic opportunities increased during the hypergrowth of the 1930s, workers voted with their feet: e.g., the rate of turnover in the Onoda cement factory during the 1930s rose sharply as skilled workers took their skills elsewhere for higher wages (Park, 1985, p. 142). Most important, workers were totally prohibited from forming any organizations of their own. Any efforts were met with dismissal, arrest and a permanent police record. Industrial relations in colonial Korea were thus "absolutely one sided," favoring the management (Park, 1985, p. 142). Workers were closely supervised. The factories themselves were "very closed, isolated, and protected place(s)." The work place was "closed to outsiders by a wire fence, the constant patrol of its guards and the availability of police protection in case of an incident." Finally, closing the state and company cooperation loop, the Japanese management "kept radical elements out by tight inspection and in doing this they were fully supported by government policy and a strong police posture" (Park, 1985, p. 184).

Worker's conditions in Korean-owned factories were certainly no better, and may have been worse. One case study of the largest Korean business house that is readily available would certainly support this view.49 For example, 80% of the workers at Kyongbong's textile mill were unmarried peasant girls in their late teens, some even recruited from tenant families who worked the lands owned by the mill owners. The factories operated round-the-clock, each girl working a grueling 12-hour shift, with one 40-minute rest time. Since labor control was deemed essential, work was under "intense labor supervision." Discipline inside the factory was "severe" and extended to personal lives. All the girls lived in dormitories within a factory compound and needed permission to both leave the compound and to receive visitors. The system resembled "a low-security prison." Whenever labor conditions in this and other plants became turbulent, "strikes were repressed with the same energy as was used to repress communism." State "intimidation and force" were thus central to this relatively simple and "crude approach to social control."

During the war years social controls on workers tightened as the state got directly involved in labor management. A sampo system was established, whereby, "industrial patriotism clubs," involving employers and employees, were created, aimed at
increasing production. Workers' representatives — paid full-time salaries by employers — and employers formed associations that designed programs of "educating the workers, making the production process more efficient and preventing disputes among workers."50

In sum, a bureaucratic and penetrating authoritarian state collaborated with property-owning groups in colonial Korea to carve out a rather repressive and exclusionary strategy to control the laboring classes. This strategy of control, moreover, was necessary for rapid economic transformation. With majority of the lower classes subdued, the colonial state was free to concentrate its architectonic energies on devising and pursuing a strategy of economic transformation. Moreover, the political capacity to hold wages behind productivity gains facilitated high rates of profitability and thus continued investment and growth.

5. GENERAL INFERENCES

If Korea at the turn of the 20th century was a mini-China, by mid-century, Japanese colonialism had transformed it into a mini-Japan. While this statement both oversimplifies and distorts, the grain of truth in it is essential for understanding the subsequent high growth political economy of South Korea. Moreover, if this claim is acceptable, a number of general inferences follow. In order to draw these out, I address three themes below: the implications of the historical materials discussed above for a comparative understanding of Korea; the insights that can be derived from these historical materials for the study of the nature and origins of "developmental states"; and finally, some general thoughts on the importance of reopening the issue of the variable colonial pasts of developing countries, so as to fully appreciate the roots of the divergent paths that these countries are now traversing.

(a) Korea in a comparative perspective

It is clear that Japanese colonialism in Korea helped establish some basic state-society patterns that many now readily associate as integral to the later South Korean "model" of a high-growth political economy. These patterns include a highly bureaucratized, penetrating and architectonic state, a state-dominated alliance of state and property owners for production and profits, and repressive social control of the working classes. Demonstrating parallels between historical and contemporary situations, however, is clearly not enough to sustain an argument for historical continuity; one also needs to point out the mechanisms whereby continuity was maintained.

It would take a separate essay to fully demonstrate exactly how and why there was a fair amount of institutional continuity between colonial Korea and subsequent South Korea, especially under Park Chung-Hee.51 In any case, elements of such an argument already exist in the literature (Cumings, 1984b; Eckert, 1991; and McNamara, 1990) and, for our present purposes, a brief outline will suffice. There was more than a 15-year interlude, a traumatic interlude one may add, between the Japanese leaving Korea and when a truncated South Korea settled on a high-growth path under Park Chung-Hee. This interlude was marked by a US occupation, a civil war, a division of the country into communist and anti-communist halves, establishment of a government with some nationalist and democratic credentials in the South, and then a degeneration of this government under diverse pressures, leading up to a military coup. In spite of all of this social drama, when diverse historical legacies were simultaneously unleashed and when the future was anything but certain, how did South Korea under Park Chung-Hee end up resembling colonial Korea in its basic state-society outlines?

The answer revolves in part around the structures that were simply never altered in any fundamental way, and in part around conscious choices made by leaders of South Korea. For example, Cumings has demonstrated with great care how and why the US occupying forces in Korea left the colonial state more or less intact; the alternative would have been to unleash a popular revolution of nationalist and radical forces. As a result, the bureaucracy, the police and the military that sovereign South Korea inherited were essentially colonial creations. In Cumings's words, in spite of a prolonged American involvement in Korean affairs, "it was Japan's impact that lasted," and "whether it was in the military, the bureaucracy or the polity, Americans during the occupation found themselves playing midwife to a Japanese gestation, rather than bringing forth their own Korean progeny."52

Not only were state structures kept intact but the state's capacity and willingness to direct economic change, as well as the economic instruments used by the state — e.g., control over credit — continued from colonial to postcolonial periods.53 There is little evidence, moreover, that Korean businessmen in South Korea objected much to these arrangements. On the contrary, there was also a fair amount of continuity in the state-dependent nature of Korean capitalism. For example, Eckert (1991, p. 254) has found that "60 percent of the founders of South Korea's top fifty chaebols had participated directly in business under colonial auspices. Since these businessmen had either flourished with the help of the colonial state, or complained and periodically petitioned the colonial state for more support, it is likely that their political preferences strengthened the state-directed, state-business alliance for production and profit. Finally, the corporatist patterns of worker control were also colonial in
origin: the employer-employee “clubs” for promoting “patriotism” and production, in the words of a labor analyst, became “one of Japan’s permanent contributions to Korea’s industrial relations system” (Ogle, 1990, p. 6).

None of these continuities were inevitable. North Korea, a product of the same historical legacy, clearly went on a very different path. In South Korea, the chaos of the Rhee period could have continued indefinitely; or, alternatively, a new leadership could have undertaken basic changes and put South Korea on a totally different path. The postcoup leadership, however, chose continuity with colonial patterns. While complex motivations of national security and of protecting sectional social interests were at work, it was the nature of the leadership which finally undergirded the choice of continuity. Park Chung-Hee was a product of Japanese colonial Korean army, trained in Japanese military academy in Manchuria. Chong-Sik Lee, one of the leading Korea scholars in the United States, describes him as a “Japanophile,” fascinated by the “Meiji model,” and bent on steering Korea along the Japanese path to modernity (Lee, 1985, pp. 62–63). South Korean leaders often covered such proclivities with an anti-Japanese rhetoric here and a nationalist flourish there. Desirous mainly of high economic growth, however, leaders such as Park Chung-Hee knew well that the key elements of the “model” left behind by the Japanese were still intact in the early 1960s: a highly pervasive and penetrating state that could be turned authoritarian, purged of corruption and made to refocus attention on matters economic; a state-dependent business strata that understood the benefits of cooperating with a purposive state; and a highly controlled working class. Since this “model” had worked in the past, until proven to the contrary, or unless it had to be abandoned, there was no reason why it ought not also work for sovereign South Korea. Moreover, the extent to which postwar Japan remained a “reference society” for South Korea was itself, in part, a production of considerable colonial contacts that had created links of language, economic structures and a shared understanding of how to construct high growth political economies.

If the case for considerable continuity is thus persuasive — and this does not necessitate denying either some important changes in the subsequent political economy, or the credit due to Koreans for their economic achievements, for they could have easily derailed the whole process — it follows that the roots of the high-growth Korean political economy lie deep in a unique colonial experience. Two further implications follow. First, quite a few development scholars compare South Korea’s economic performance to that of other slower growing developing countries. The underlying assumption often is that, all of these countries began from more or less the same starting point of very low per capita incomes in the 1950s, but somehow South Korea, and a few other newly industrializing countries (NICs) rushed ahead. The question then becomes, “Why South Korea?” In light of the discussion above, this manner of posing the question appears inappropriate. The starting point for comparison has to be deeper in history, especially in the formative colonial phase. Even if South Korea’s low per capita income in the 1950s was similar to that of an India, Brazil or a Nigeria, South Korea’s starting point was very different: it had a much more dynamic economy in the half a century preceding the 1950s and, by the 1950s, its deeper state-society configurations were relatively unique.

Second, some development scholars pose the puzzle of South Korea’s phenomenal economic success in the following terms: Why was South Korea able to switch to an “export-oriented policy” in the early 1960s, whereas many other developing countries continued on the “import substitution policy” path (e.g., Haggard, 1991). Again, this manner of framing the comparative question is somewhat misconceived. South Korea indeed made some important policy changes under Park Chung-Hee, but their significance can easily be exaggerated; moreover, the state-society configuration that enabled these policies to succeed had deeper historical roots. In this sense, South Korea under Park Chung-Hee did not so much “switch,” as it fell back into the grooves of colonial origins, or, more precisely, chose one of the two or three main alternatives that were available to it from its complex historical legacy. Revolutionary communism, a corrupt and wasteful autocracy of the Rhee type and a more US-style open democracy were all realistic possible paths along which South Korea could have traveled. The key elements, however, of the eventual path it adopted — a Japanese-style, state-driven export economy — were deeply etched into the social fabric. More specifically, Korean economy, especially southern Korean economy, was already export-oriented, its entrepreneurs had considerable experience in selling abroad, and the state within this economy had learned from its own history that strong support for business and exports, and tight control over labor, was a route to high economic growth.

(h) Nature of “developmental states”

Among scholars who share the view that states have played both a positive and a negative role in economic development, a pressing subsequent question concerns the comparative analysis of “developmental” and “predatory” states. More specifically, what distinguishes patterns of state intervention in the economy, and why do some developing country states end up successfully transforming their economies, whereas others end up as “rent seekers,” preying on their own society’s scarce resources? While detailed
comparative analyses are the best route to develop answers to this complex but important question, the single country materials presented above also speak to the issue, especially because the Korean case is central to any such analysis and because the Korean state was itself, at the turn of the century, transformed from a "predatory" to a "developmental" state.

Evans (1989) has described "developmental states" as exhibiting the characteristic of "embedded autonomy"; "autonomy" of bureaucratized states from social entanglements gives them a capacity to direct social change, and social "embeddeness," in turn, especially the links these states forge with business and industrial classes, enable state elites to incorporate these powerful groups in the state's economic project. The historical materials analyzed above are not inconsistent with this account of "developmental states." Nevertheless, the Korean historical materials also suggest some qualifications and further specifications.

The first important qualification concerns the issue of where the policy goals of any state directed economy come from. Arguments about "developmental states," whether in Evans's or in other versions, often focus more on explaining a state's capacity to implement goals and less on where those goals come from in the first place. The latter issue requires an explicit focus on the political process of a society. Policy goals of any society reflect complex processes involving how the highest authorities balance their own preferences against national and international pressures. In the colonial Korean case discussed here, it was clear that the major shifts in policy goals — trade of raw materials for manufactured goods, followed by encouragement of food production in the early phase; encouragement of Japanese investments in manufacturing, along with some Korean participation during the middle phase; and finally, in the last phase, a war economy with rapid industrialization — mainly reflected Japanese priorities, with an occasional concession to Korean pressures. In sovereign polities, this process of policy prioritization is often highly complex and would require a more detailed study than the colonial type of case discussed here. Nevertheless, the general point ought to be clear: since efficacious states can be used by their leaders to accomplish various goals, including nondevelopmental goals, the politics of how developmental goals emerge as a priority must be an important component of any study of "developmental states."

The juxtaposition of the late Choson or Yi state against the colonial state also yields some further insights about "predatory" and "developmental" states. The late Choson state was personalistic and factionalized at the apex, and it had very little downward reach in the society; it was also deeply penetrated by landowning classes. These characteristics bequeathed political incapacity. The result was that the Yi state was quite incapable of laying out and pursuing an agenda of socioeconomic change. By contrast, the colonial state turned out to be highly efficacious. While this was no developmental state in the sense that it helped develop the whole society — on the contrary, it was a rather brutal, exclusionary state, not to mention that it was a colonial state — it nevertheless could establish order and facilitate economic growth. How did it achieve this capacity? The changes introduced by the Japanese that helped increase state capacity can be best thought of as changes along three dimensions: changes in the state structures; creation of new economic instruments in the hands of the state; and new patterns of state-class relations. Since all of these have been discussed in some detail above, now they only require a brief reiteration.

First, the significant changes in the state structure were three: creation of centralized authority with a clear agenda of change; depersonalization of authority structures, so that public and private interests were first separated and only then reintegrated on a new basis, with public goals mainly in command; and downward penetration of the state's authority in society via the creation of a disciplined bureaucracy. These changes enabled the new political authorities to formulate specific public goals and to implement them in the far reaches of the society.

Second, the state also created a number of economic instruments that did not exist before and that enhanced the state's capacity to direct the economy: a rationalized currency system, banks and other credit institutions that the state controlled, long and short-term economic plans, production-oriented new technology, and a variety of direct and indirect subsidies. Finally, the state and social classes established a new relationship. In both the countryside and the city, the state and property-owning classes entered an alliance that was set mainly on the state's terms, but that was nevertheless mutually beneficial: the state desired and succeeded in securing steady increases in production, whereas the property-owning groups received enough political support to ensure healthy profits. The state and property owning classes also collaborated to control peasants and workers in what amounted to a successful labor-repressive strategy.

This last point directs attention to another important modification in Evans's type of formulation of "developmental states," namely, the significance of downward penetration of systematic political control. Far too much analytical attention is being devoted in contemporary attempts to understand "developmental states" to the apex of the political economy. This is unfortunate because the relationship of the state to laboring classes, especially the modalities of participation and control in the process of production, is a central part of the "story" of how and why some states succeed in industrializing their economies. For example, it is clear in the account above that the colonial state and Japanese and Korean businessmen collaborated, not only to strictly control any demand-making
or dissident actions of workers, but also to train them at work, pay a living wage, transmit some pride in their endeavors and provide job security. This combination of "carrots and sticks" generated considerable control over the lives and behavior of workers. While hardly conducive to the creation of a free and desirable society, this control, in turn, contributed to both productivity gains and, more importantly, enabled the state to single-mindedly pursue economic growth.

A bureaucratized and penetrating authoritarian state with clear growth-oriented goals, armed with a panoply of economic instruments, and allied with propertied but against laboring social classes, this is the stuff of which transformative power in the hands of the state is made of. Or so, at least, emerges from the study of this one specific case. Neither the brutal, controlling nature, nor the colonial origins of this specific "developmental state" can be recommended to others on normative grounds. Yet, for those who believe that states have an important role to play in facilitating economic development, the question remains: how can power to develop be generated without outside forces remolding state structures, or without states that repress and control large majorities of their own citizens? The study of other cases and imaginative rethinking may yield insights into how to approximate "developmental states," without acquiring some of their worst features.

(c) Rethinking comparative colonialism

Finally, I wish to conclude with some speculative thoughts concerning future research directions. Developmental success has always ignited intellectual inquiry: why did they succeed? Why not the "others"? Marx and Weber struggled over these questions, trying to understand the early rise of capitalism in north-western Europe. Ever since, successful industrializers have attracted scholarly attention. It is hardly surprising that in our own times the successful NICs should attract similar attention. The puzzle is especially appealing when, in a group assumed to be more or less similar, some move ahead, while others are left behind. Scholarly imagination then wants an explanation for both the speedy growers and the laggards.

A variety of answers have been proposed in recent years as to why some developing countries have better performing economies than others; these vary from sharply market-oriented answers, through more state-focused analyses, all the way to religion and culture as the real variables. What many of these efforts in the hands of "developmentalists" lack, unfortunately, is historical depth. Large-scale processes of historical transformation often tend to display long historical continuities; when they do not, ruptures, new beginnings and shifts in path are dramatic. Establishment of sovereignty or, at least, the post-WWII beginning, is often assumed by development scholars as the "new beginning" from where comparative analyses of developing countries must begin. This trend is unfortunate because it is likely that a significant component of the explanation for why countries traverse different developmental paths lie in their colonial heritage.

An earlier generation of "dependency" scholars were well aware of historical continuities. However, that body of scholarship lost its intellectual sway for a variety of reasons, including the tendency to homogenize the anti-developmentalist nature of all colonialism. A central question in the minds of a new generation of scholars became, "why are developing countries traversing such different paths?" Any framework that mainly drew attention to a universal constraint (e.g., "world capitalism" or "neocolonialism") was thus likely to lose appeal; satisfactory answers would rather have to explain why countries dealt differently with the same set of constraints. Unfortunately, however, scholars in rightly discarding dependency propositions, also threw out the proverbial baby with the bathwater; they threw out the colonial pasts of the developing world. Instead of asking, could the roots of varying performances be located in a variety of colonial pasts, most developmentists now focus on the nature of post-WWII states, social structures, and policy choices as the primary explanations of divergent performances.

If the historical discussion in this essay is persuasive, it suggests that the roots of economic dynamism in the critical case of South Korea are located, at least in part, in the state-society relations created under the auspices of Japanese colonialism: as a late developer, who had perfected a state-led model for catching-up in the world economy. Japan in its colonies constructed a political economy which also turned out to be well suited at catching-up. In other historical cases, different colonial powers, in different time periods, pursued a variety of colonial ruling strategies. They thus left behind a variety of political economies: distributive politics and a slow-growing economy in India; incomplete states that readily turned into predatory states in much of Africa; semi-sovereign political economies that came to be dominated by foreign investors and agrarian oligarchies prior to the onset of deliberate, state-led developmental experiments in large parts of Latin America. Is it not possible that the legacy of colonialism, though varying from case to case, especially region to region, was of long lasting significance in much of the developing world? If so, it behooves scholars interested in understanding divergent paths of contemporary developing countries to once again pay attention in their comparative analyses to the colonial pasts of these countries.
NOTES

1. The literature here is rather large; the bibliographies in any of the following sources (especially Amsden and Woo) offer a complete list of references. An incomplete list (listed alphabetically) of some of the major works with a political economy focus would include: Amsden (1989); Cumings (1984a); Deyo (1987); Haggard (1991), especially the chapter on South Korea and some of his other work cited therein; Jones and Sakong (1980); Masan et al. (1980); Westphal (1990); and Woo (1991).

2. The conceptual distinction between government's leading or following the market is made in Wade (1990), especially p. 28 and chapter 10. The scholar who has probably gone the farthest in suggesting that Korean government "distorted" prices to get growth up is Alice Amsden. See, Amsden (1989), especially chapter 6. For the argument that South Korean and other East Asian economic successes resulted from "free market" conditions, see Balassa's essays in his own edited volume (1981); and Krueger (1980).

3. See, for example, Frank, Kwang and Westphal (1975); Hasan (1976); and Krueger (1979). For an early exception, see Kuznets (1977).

4. See, for example, Amsden (1989), when in five pages (pp. 31--35) the author quickly concludes that the "inheritance" left by the Japanese colonialists to Koreans was "useless" for their future developmental struggles.

5. Haggard, for example, has made valuable contributions to unraveling the "why" and "how" of South Korean industrialization. Bulk of his analytical energy, however, is devoted to the onset of export-led model under Park Chung-Hee. See, for example, Haggard (1991), chapter on South Korea, where only about two paragraphs are devoted to the colonial period.

6. I am afraid I have only examined the English language publications of Korean scholars. One good example of the nationalist bias in what is otherwise an excellent study is, Suh (1978). My confidence in extrapolating the broader assertion from limited materials was enhanced when another scholar, who had examined many of the Korean language sources, reached the same conclusion. See, Woo (1991), pp. 19-20.

7. Most significant here are the contributions of Cumings. He states his basic thesis in a summary form in Cumings (1984a). Scattered but brilliant insights on this topic can also be gleaned from his other writings: Cumings (1981); Cumings (1990); and Cumings (1984b). Another very important book that helps trace historical continuities is Eckert (1991). Also, see, Woo (1991); and McNamara (1990).

8. While these issues will be discussed in greater detail below, the economic data here is taken from Suh (1978, Tables 11 and 17). Note that the "national production" data do not include construction, trade, services and public utilities that are generally included in the more conventional "national income" data; the latter for pre-WWII Korea are not readily available.

9. The best book on the late Choson continues to be Palais (1975). For a differing account, see, Choe (1972). A good "overview" is provided by Ki-baik Lee in Eckert, et al. (1990). For another useful but abbreviated account that helps put traditional Korea in a comparative perspective vis-

10. For a discussion of how "open" or "closed" Korea's examination system may have been to non-Seoul based landed elite, see, Wagner (1974). Prolonged study of Chinese classics that was necessary to succeed in the exams appears to have been a major impediment for those without an independent source of wealth. Nevertheless, below the highest levels, there is evidence to indicate that some merit-based recruitment did occur.

11. Palais (1975), especially chapters 1--4 and 14. The direct quotes are from p. 5. Palais has informed me in a personal communication that he has modified some of these views. While these are not readily available to me, they are apparently developed in Palais (forthcoming).

12. As I read the historical evidence, Palais is probably correct in denying intraelite factionalism the central place in his analysis of the political problems of Yi Korea. See Palais (1975), especially the "Introduction." Nevertheless, most historical treatments document a deeply factionalized elite in Yi Korea. See, for example, Ki-baik Lee in Eckert et al. (1990), where he concludes that "intra-bureaucratic strife" rendered "the decision making process dilatory and ineffective," p. 110. Fairbank, Reischauer and Craig (1978), also note that factional struggles were "hereditary" and "endemic" in Yi Korea (p. 313). I see no analytical conflict, therefore, in suggesting factionalism as an additional debilitating trait.


14. This is not to suggest, as Palais rightly corrected me on his comments on this paper, that the state did not on occasion aid economic activity. There is also some evidence from revisionist historians that late Yi Korea experienced a degree of economic dynamism, but none to suggest that this was state induced. Cumings cites the work of Korean historian Kim Yong-Sop to suggest that pre-Japanese Korean agriculture was probably not stagnant. See Cumings (1984b), p. 491. Also see Shin (1975).

15. See Ladd (1908), While this is a highly pro-Japanese, even a prejudiced, account, there is no reason to not make use of some of its more descriptive observations.

16. The quote is from George Kennan, a friend of Theodore Roosevelt, who influenced Roosevelt's attitudes toward Korea. It was cited — though not approvingly — in Grujdanzev (1944), p. 35.

17. I use quotations around the evocative concepts of
predatory and developmental states to indicate my considerable discomfort in describing these states as such. Predatory is misleading because it creates a state versus society image; in reality, where “predation” prevails, political and economic elite often collude to squeeze and misuse a society’s resources. Developmental is also misleading because the states so described are often not strictly developmental. For example, both the Japanese colonial state and the subsequent South Korean state under Park Chung-Hee, while successful agents of economic transformation, were also, to varying degrees, rather brutal states. The normative calculus, in turn, of evaluating a state that is simultaneously brutal and helps promote economic growth is clearly complex. In any case, two recent and useful essays that discuss the concept of developmental states are, Johnson (1987); and Evans (1989).

18. Kublin (1959) has argued that Japanese “colonial doctrine” evolved in Formosa (later Taiwan) and was subsequently implemented in Korea. This is true insofar as Formosa was colonized in 1895 and Korea in 1910. It is important to note, however, that Kabo reforms in Korea (tried around 1895) and early experimentation in Formosa were simultaneous efforts, both probably a product of a single “colonial official mindset” in Japan — a product of Meiji Japan — with simultaneous political learning going on in both Korea and Formosa.

19. Halliday (1975), pp. 35–36. For a discussion of the development of the Prussian bureaucracy, especially concerning how some such traits as an esprit de corps, an ethos of public service, a degree of insulation from aristocratic interests, tight internal authority structure and a relative absence of corruption, developed, see Rosenberg (1958); and for evolution of this bureaucracy in 19th century Germany, see Bonham (1991), especially chapters 2, 7 and 8.

20. For details see, H.I.J.M.’s Residency General (1908).

21. The following examples are taken from various reports on “administration” that the Japanese colonial government published regularly. See, for example, H.I.J.M.’s Residency General (1908); and Government-General of Chosen (1921, chapter on “local administration”).

22. One scholar of Meiji Japan thus notes: “The police . . . had operational responsibility for a bewildering variety of government programs and policies in addition to public safety, traffic control, and criminal investigation and apprehension. They enforced economic controls, discouraged unionism, inspected factories, censored publications, licensed commercial enterprises, arranged for public welfare aid, supervised drugists and publications, controlled public gatherings, managed flood control and fire prevention, maintained surveillance of people suspected of “dangerous thoughts,” and did countless other things that brought government close to the daily life of every Japanese.” See Spaulding (1971), pp. 36–37.

23. Chen (1984), pp. 228–231. It is important to note that the extensive role of the police remained intact throughout the colonial period. For example, when Americans finally arrived in Korea after the Japanese surrender, they found (e.g., in South Cholla province) that police departments were the biggest within the local bureaucracy, and within the police departments, “economic sections” of the police were important. See Meade (1951), p. 31.

24. The quote is from Shikuo Shunjo and is cited in Chen (1984), p. 222.


26. For example, when confronted with the fact of being left behind in the race to modernity, many Koreans had looked to Meiji Japan as a model for their own advancement; for better or for worse, therefore, “modernity” to many Koreans came to be represented by Japan. See Henderson (1968, p. 67). Moreover, some Korean elites, enamored with Japan, had participated in Japanese-supported Kabo reforms of 1895. Later, the pro-Japanese Korean organisation, Ichin-hoe (Advancement Society) enjoyed considerable support in 1905–10; for example, at its least popular phase in 1910, the Ichin-hoe still enjoyed a membership of nearly 140,000 and had some one hundred subsidiary organizations. See, for example, Chandra (1974, p. 52).

27. The quote is from official documents of the Government-General and taken from Ireland (1926, p. 190).


29. See, for example, Schumpeter (1940), especially chapters IX–XI, XXI and XXII, and the conclusion.

30. The reference is to Government-General of Chosen, Annual Report on Reforms and Progress in Chosen (Korea), Keijo, (Seoul), published regularly — for the most part, annually — during 1910–39. See, for example, the 1914 report, where in the opening chapter, repeated references are made to “financial efficiency” and to the “economy of administration.”

31. The figures are from H.I.J.M.’s Residency General (1908 and 1909). The real increase was probably somewhat less because this simple calculation does not take account of increase in production, which, in any case, we know to have been relatively small in those years.

32. The 1905 figure is from H.I.J.M.’s Residency General (1907), and the 1911 figure is from Government-General of Chosen (1910–11). While reliable data on inflation for these years is not readily available, there is no indication in government documents of huge price increases.

33. See Robinson in Eckert (1990), p. 265. There is apparently also a good doctoral thesis on the subject of this land survey by Edward Gragert at Columbia University. Unfortunately, I was unable to locate this unpublished manuscript.

34. For a full discussion, see Ho (1984).

35. The colonial government’s own assessment is interesting. While lamenting the political opposition from educated Koreans, government documents of the period note: “People of the upper class having personally experienced imperial
favor and being in a position to feel directly or indirectly the benefit of the new regime, seem to be contented with it.” See Government General of Chosen (1914), p. 64. Also see Robinson in Eckert, et al. (1990), pp. 266–267.

36. Migdal (1988), for example, tends to view state capacity in agrarian societies as inversely related to the power of landowning and other traditional elites. Evans (1987), makes a similar argument.

37. For these policy swings and for the direct quote, see Grajdanzev (1944), pp. 92–94.


39. This distinction can be sharpened by using the concepts of “idea gaps” and “object gaps” proposed in the “new” economic growth theory. Whereas the “object gap” refers to lack of concrete objects as factories, that direct attention to savings and investment bottlenecks in development, the “idea gap” refers to the knowledge base on which development rests. The “new” growth theory emphasizes (as did several old growth theories) the role of knowledge and technology in economic growth: See, for example, Romer (1993). One may thus argue that in Korean colonial economic history, even if “objects” were destroyed during decolonization, the legacy of “ideas” was substantial.

40. The point here is not that these same groups subsequently facilitated Korea’s export-led growth. Some contributed to this process, others failed and yet other new ones also emerged. The point here is instead that a “system” was being created. I am indebted to Chung-in Moon’s criticisms that forced me to clarify this point.

41. There is a great self-congratulatory discussion of how Governor-General Ugaki thought of this scheme to provide subsidies for gold mining. See his speech in, Government-General of Chosen (1935).

42. All the materials in quotations in this paragraph are from Eckert (1991), pp. 73–74. Note that the exhortations to businessmen began rather early with colonial rule. A government report of 1914 notes that the Governor General called business leaders to a party, explained government’s policies, and urged them to be concerned not only with profits but “to bear in mind the promotion of the interest of the state.” See Government General of Chosen (1914), p. 13.

43. This theme is well developed in McNamara (1990), pp. 127–130.

44. This, for example, is the approach adopted in Suh (1978).

45. These and the subsequent facts concerning geographical distribution of industry are from Grajdanzev (1944), Appendix III.

46. For evidence on the nature and extent of lower class restiveness, especially as expressed through the communist movement. See Scalpino and Lee (1972), chapter III.

47. See, Cumings (1981), Chapter 2 for a moving discussion of the human toll exacted by the large scale movement of Koreans under Japanese rule.

48. The following account is based on the case study of Onoda cement factory in Park (1985), Part II, B, sections 1, 4, 5, and 9.

49. See, Eckert (1991), chapter 7, from where the account in this paragraph is drawn.

50. This quote and the materials in this paragraph are drawn from Ogle (1990), p. 6.

51. I am currently involved in writing such an essay, but in the context of a larger study from which the present essay is drawn. The larger study is a comparative analysis of the “state and economic development” in four countries, namely, Korea, Brazil, India and Nigeria.

52. See Cumings (1984b), pp. 479–480. For his detailed analysis of why and how Americans left the colonial state more or less intact in Korea, see Cumings (1981), chapter 5.

53. See Woo (1991) for the specific issue of state control over credit.

54. For one insightful analysis of this question, see Evans (1989).

55. Note that Evans’s “autonomy” component of the “embedded autonomy” formulation (1989) mainly directs attention to the second of these three structural components.

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JAPANESE LINEAGE OF KOREA’S “DEVELOPMENTAL STATE”


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

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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 extract 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 neo-utilitarian 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 ac-
cumulation must be discovered, almost invented, and its implementation de-
mands 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, Ger-
schenkronian or Hirschmanian arguments demand a state that is much more
"embedded" in society (cf. Granovetter, 1985, for a discussion of "embed-
dedness").

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 transfor-
mation 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 ex-
pected by either approach. In short, application of these arguments to tradi-
tional societies or communist states would require substantial extension and
revision. Finally, while most of the arguments apply in principle to both ad-
vanced industrial and developing countries, they apply most strongly to sit-
uations in which structural transformation, like the movement from reliance
on agriculture to reliance on industry, is the order of the day. Thus, the de-
bate is probably best moved forward by comparing Third World states, in-
cluding 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 per-
sonal fortunes from the revenues generated by exporting the country's im-
pressive 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 considered 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 Belgian 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 provides only a weak test of the limits to which individual maximization can be allowed to rule without undermining even the repressive apparatus necessary for regime survival.⁴

Zaire confirms our initial suspicion that it is not bureaucracy that impedes development so much as the lack of capacity to behave like a bureaucracy, 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 confirms 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 incoherent 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 Taiwan was not the model market economy portrayed by its American advisors

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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 “klepto-patrimonialism” 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 capide 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,8 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 Marxian 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.10

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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The East Asian developmental state was a form of government which manifested itself in slightly different ways across many of the societies of North and South East Asia. It emphasised state intervention to promote economic growth through the co-ordination of key levers of the economy (cf. Beeson, 2007: 141). It is most closely associated with the Cold War years and especially with the period from the early 1960s to the early 1990s. While Japan is often considered the prototype because it was the subject of Chalmers Johnson’s path-breaking study which first coined the term, South Korea, Taiwan, Singapore and Hong Kong are also viewed as part of the first wave of developmental states. Malaysia and Thailand (and for some Indonesia) make up the second wave, with China and Vietnam labelled third-wave developmental states.

There are key characteristics which help to distinguish the East Asian developmental states from other types of government: ideational, relational and institutional. It is certainly possible to see these characteristics emerging as the developmental state took shape and to see them being eroded as the developmental state was challenged by internal events and changes to each society’s external environment. It is, however, important to note that although the following analysis emphasises the common aspects of the East Asian developmental state’s stages of growth and maturity, each one went through its own distinctive variation on the basic ideal type. The particular variations depended on each society’s history, institutions, geographic location and role in the Cold War. And then, of course, each of East Asia’s developmental states

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began to retreat or adapt in the face of domestic and external challenges in different ways influenced by many of the same factors.

This chapter is divided into five parts. First it outlines the key characteristics of the developmental state. Second, it analyses the internal and external conditions that facilitated the rise of the developmental state and the way in which these conditions were undermined both by internal economic and political developments and by external changes to the regional and international geopolitical and geo-economic environment. Third, it establishes that a contesting-coalitions framework is useful in evaluating how the developmental state has fared in the face of the neoliberal challenge that has influenced economic polices around the globe. Fourth, it assesses how the future of the developmental state may best be examined. Finally, the chapter provides a brief conclusion.

The Main Characteristics of the Developmental State

There are three interrelated dimensions of the East Asian developmental state: ideational, relational and institutional (Stubbs, 2009: 5–6). The foundational ideational elements of the developmental state were circulating in the region for some time even before the Second World War. The work of mercantilist theorists such as Alexander Hamilton and Friedrich List arrived in Japan via the German historical school in the latter years of the nineteenth century (Fallows, 1994: 179–240; Pempel, 1999: 139; Woo-Cumings, 1999: 4–5). The Japanese then spread these mercantilist approaches to other parts of East and South East Asia. What then essentially became neo-mercantilism informed the rise of the developmental state in the post-Second World War period. The basic idea was that governments should aim to strengthen their economies in order to reinforce the capacity of the state to defend their societies against internal and external threats (Harlen, 1999: 740). Crucial to this approach was the nurturing of infant industries so that a manufacturing sector could be developed as the basis of an industrialising strategy. Hence, driving the establishment of the East Asian developmental states in tandem with the theories of mercantilism and neo-mercantilism were ideas around nationalism, industrial policies, plan rationality, export-oriented manufacturing and performance legitimacy.

The second dimension of the East Asian developmental state that is important for this analysis is the relational aspect (Bolesta, 2015:
13–18). The key point here is the various relationships among the politicians, the bureaucrats, the business leaders and general society. A number of scholars have commented on this feature of the developmental state. Chalmers Johnson (1982: 316) argues that, in Japan at least, ‘politicians reign and the bureaucrats rule’, but that it is also ‘important that the politicians create space for bureaucratic initiative unconstrained by political power’. More generally, Peter Evans (1992, 1995) advances the notion of the ‘embedded autonomy’ pointing to the positive way state autonomy is ‘embedded in a concrete set of social ties which bind the state to society and provide institutional channels for the continued negotiation and renegotiation of goals and policies’ (Evans, 1992: 164; see also Leftwich 2000: 160). Similarly, Meredith Woo-Cumings (1999: 1) sees the developmental state in terms of ‘the seamless web of political, bureaucratic, and moneyed influences that structure economic life in capitalist Northeast Asia’. Peter Katzenstein (2005: 224) notes the ‘network structures that vitiate the distinction between public and private spheres in Japan and are replicated in and externalized to Asia’. The important point, then, is that the manner in which these relationships were structured smoothed the way for the East Asian developmental state, in conjunction with other key groups within society, to plan, co-ordinate and, most importantly, implement a specific range of policies that promoted rapid industrialization (Chang, 1999).

Third, there is the institutional dimension of the East Asian developmental state. Chalmers Johnson for example, highlights the emergence of an institutionalised, authoritative governing elite, as well as the role of a ‘small, inexpensive, but elite bureaucracy staffed by the best managerial talent available’ (Johnson 1982: 314–20). A well-run ministry of finance and central bank are often seen as at the heart of the bureaucracy of a developmental state. Johnson also points to the importance of a pilot organisation, like Japan’s Ministry of International Trade and Industry (MITI – later METI), which controls industrial policy through its influence over industrial planning, energy, domestic production, international trade, banking and finance, and government revenue.

Obviously these three dimensions of the developmental state can overlap in important ways. For example, as Mark Blyth (2002: 309) notes, ‘institutions are “crystallized ideas” about how to organize things’, and neo-mercantilist ideas clearly underpinned many of the formal governmental institutions controlling finance and industrial
development that were at the core of the developmental state. In Japan, MITI’s role was supplemented by the *keidanren*, or Federation of Economic Organizations, which institutionalised government–business relations and in the process provided a crucial forum in which cross-business co-operation could be guided by the bureaucracy. Furthermore, nationalism promoted government–society co-operation as all sought to defeat the imminent external threat from the Soviet Union and China.

Each of the developmental states of East Asia combined the ideational, relational and institutional dimensions in a slightly different way. These unique combinations were the result of the differing histories; cultures; and social, political and economic institutions of each society, and of the way they responded to the regional and international environment in which they found themselves. This leads to the facilitative condition which gave rise to the East Asian developmental states of the Cold War years.

**Facilitative Conditions**

These particular dimensions of the East Asian developmental state were very much the product of a set of conditions – what can best be termed facilitative conditions – that emerged from the end of the Second World War onwards. First, throughout East and South East Asia the various civil societies were greatly weakened and fragmented as a result of the physical destruction and social disintegration caused by the fighting and consequent social dislocation during the Second World War, the Korean War, the Chinese Civil War and various guerrilla wars in the region. These weakened societies were unable to offer any concerted resistance as the central governments used the space that was created to expand and develop increasingly strong institutions that could exercise control over the different societal interests. Importantly, the fighting during the Second World War and its chaotic aftermath conspired to promote the emergence of autonomous elite bureaucracies in the developmental states of East Asia. This happened for a variety of reasons. For example, in Japan the bureaucracy was the one major element of the state apparatus that survived the Second World War. In part this occurred because the occupying Americans needed the old bureaucracy to help them administer the country. In Taiwan, the existing bureaucracy was augmented by the influx of Nationalist
officials fleeing Beijing, while in Malaya and Singapore the British colonial authorities expanded the respective bureaucracies in order to fight the communist insurgency (Stubbs, 2005: 54, 114–15).

Second, there was a clear, imminent domestic and international threat coming from Asian communism. The Korean War and the various guerrilla wars fought by communist groups in the region, such as in Vietnam and Malaya, demonstrated that the threat was very real and had to be taken seriously. The possibility of international or civil war encouraged both leaders and their general populations to seek ways of organising the state so as to resist the threat. An important by-product of this process was an increased sense of nationalism that fuelled each society’s collective action. Indeed, it was around the hegemonic project of warding off the threat of communism and promoting military strength through economic development that leaders could rally the support of relatively weak societal interests (Pempel, 1999: 160).

Third, there was strong support among the major players in the international community for a centralisation of power within society in East Asia – what Joel Migdal (1988: 272) refers to as ‘concentrated social control’. The United States, in particular, was willing to countenance the emergence of authoritarian, centralised states, including the building of massive military and policing capabilities in order to contain the threat from Asian communism. Organised labour, which was thought to be a vehicle for domestic communist subversion, was also neutered. This increase in the coercive capacity of the state also meant turning a blind eye to the exercise of violent repression of labour and pro-free-speech and democracy groups by governments in places such as South Korea, Taiwan, Thailand and later Indonesia.

Fourth, the international and regional economic environments were conducive to the formation of developmental states in East Asia. Most significantly, capital, in the form of massive amounts of aid, was channelled into America’s East Asian allies. Military and economic aid, prompted by the Korean War, the Vietnam War and the overarching Cold War, and later economic aid from Japan and various international financial institutions, contributed to the substantial resources that were funnelled into East Asian economies. The influx of capital was crucial, for as Johnson (1989: 6) notes, ‘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’. In addition, the US sent
over highly trained officials with organisational and technical knowledge to help with the planning and the implantation of programmes in places such as Taiwan and South Korea (Cole, 1980; Jacoby, 1966; Stubbs, 2005). Aid also supported the training of new government officials and the rapid expansion of bureaucratic capacity. Moreover, the US opened up its expanding domestic markets to manufactured goods from its East Asian allies. In Malaya and Singapore rising prices for tin and rubber produced by buying for the Korea War and later the general regional prosperity created by US aid to East and South East Asia during the Vietnam War buoyed up their economies, and sustained the expansion of the central government’s authority (Stubbs, 2005). Moreover, just as US aid during the Korean War had promoted Japan’s banking sector, so the influx of US dollars and the resulting economic booms of the Vietnam War years kick-started the banking sectors of Singapore, Thailand and Malaysia (Jarvis, 2011).

Finally, there was a consensus among the US officials and political elites within developmental states that a developmental ideology based on state intervention to promote rapid industrialisation should be implemented as urgently as possible. The strong developmental motivation of the East Asian political elites was engendered by the fear of communism and the need to build a strong economy to face down the threat it posed. It manifested itself first in a commitment to an import-substitution strategy and then an adoption of an export-oriented strategy for consumer goods in particular. These industrialisation strategies were promoted by neo-mercantilist, protectionist policies. In each developmental state the government gained what can best be termed ‘performance legitimacy’ by providing security, stability and prosperity. This further enhanced the centrality of the state in guiding economic development (Fallows, 1994; Stubbs, 2001; Woo-Cumings, 1999; Zhu, 2002, 2003).

Out of these five facilitative conditions emerged the East Asian developmental state. Crucially, the developmental states had many years of rapid economic growth during which they became well and truly embedded in their respective societies. For Japan it was from the 1930s to the 1970s, while for Taiwan it was from the early 1960s to the late 1980s, and for South Korea it was from the mid-1960s to the late 1980s. The South East Asian states – Singapore, Malaysia and Thailand – were much more influenced by the Vietnam War and it was not until the mid- to late 1960s that all three developed, at least compared
to the rest of the developing world, relatively strong administrative states (Johnson, 1998; Stubbs, 2005; Zhu, 2002).

However, beginning in the late 1970s in the case of Japan’s developmental state and the 1980s in the case of the other developmental states of the region, the facilitative conditions that had nurtured the developmental state came under pressure. The very success of the ‘miracle’ economies meant that the domestic setting began to change quite markedly. Moreover, the rapid increase in the influence of the forces of globalisation and the winding down of the Cold War transformed the overarching regional and international structures within which the economies of East Asia operated. Slowly, the developmental state itself was forced to adapt to the new environment (Beeson, 2006; Stubbs, 2005: 184–98). Yet not all the developmental states were affected at the same time and in the same way. The distinctive backgrounds and characteristics of each economy and the impact of the Korean and Vietnam Wars on their economies meant that the consequences of the erosion of the facilitative conditions affected each of the key elements of the developmental states in different ways.

First, the ideational dimension of the developmental state was undermined. For example, although the threat from Asian communism was not altogether extinguished, the winding down of the Cold War during the late 1980s reduced the fear of communism. Nationalism began to wane and the legitimacy of the state’s centralised authority, which was built around mobilising resources to ward off the threat from communism, came under increased scrutiny. The globalisation of ideas also brought pressures for change. In particular, new ideas were brought into the developmental states by technocrats trained in US and UK universities. Their neoliberal economic polices, which emphasised market rather than state institutions as the most effective way of allocating resources and promoting industrialisation, began to clash with and dilute the interventionist industrialising strategies of the old developmental state. As a consequence, ideas basic to the developmental state, such as neo-mercantilism, bureaucratic guidance and plan rationality, were called into question. Moreover, demands for democratisation from an increasingly educated and rapidly expanding middle class also raised questions about the role of centralised state authority in economic decision making. Overall, the ideas which underpinned the developmental state began to be challenged.
Second, significant changes in the relationships among the key domestic players began to appear. The weak societies of the post-Second World War years which had allowed for a centralisation of power in the developmental states of East Asia were steadily revitalised by the general prosperity that the developmental state delivered. As the economy grew, so businesses of all sizes expanded and thrived, with the larger corporations, in particular, gaining increased economic and political leverage. The consequence of this development was that the relationship between the state and business, which had originally been dominated by the state, became much more evenly weighted. The developmental states had greater difficulty directing their economies. Furthermore, the increased complexity of the developmental state economies made it more difficult for governments to implement comprehensive industrial strategies and to fully manage the way in which their domestic economies became linked into the rapidly globalising world economy. Democratisation also meant that politicians found it more difficult to forge a national consensus and provide bureaucrats with the political space to develop policies independent of emerging political interest groups. The result was that bureaucracies around the region were not always able to maintain the coherent set of policies that had produced the rapid economic development of the past.

The relationship between the East Asian developmental states and the wider world, especially the US, also changed. With the end of the Cold War the United States no longer felt obliged to favour authoritarianism within the societies of East Asia. In other words, the US started to reinforce changes that were already starting to emerge within the developmental state. Washington put considerable pressure on its allies to move down the road to democratisation and greater respect for individual human rights. Similarly, the end of the Cold War meant that the US no longer felt it could ignore the neo-mercantilist protectionist economic policies of its regional allies. The US government commenced a campaign to liberalise 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 US began to put considerable pressure on the governments of Japan, South Korea, Taiwan and Thailand to liberalise all facets of their economies, especially the financial sectors. In good part this meant that Washington actively promoted deregulation and privatisation within the developmental states of East Asia.

In addition, 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 gone through the state and had, therefore, given governments a marked advantage when dealing with the major societal players in their respective economies. The changing perception of the threat from Asian communism reduced the need to maintain the large military and police forces that were to be 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. Significantly, the much-reduced aid, which came mostly from the US, was replaced by foreign direct investment (FDI), which tended to reinforce the rise of the business sector in relation to the central state.

Finally, the institutional dimensions of the developmental state changed with the onset of economic prosperity, globalisation and the end of the Cold War. With growth in the business sector, some aspects of the elite bureaucracy and pilot organisations that characterised the developmental state were eroded. For example, a number of the most well-trained and skilled bureaucrats decamped to well-paid private-sector positions, hence reducing the capability of the bureaucracy (Ortis, 1999: 45). Corruption and a loss of autonomy also crept into some bureaucracies as the increasing wealth of the private sector was used to try and shape economic policies. This problem was compounded by democratisation and the need for political parties to find funds to run election campaigns. Democratisation also reduced the coherence of the governing political elite. Moreover, as liberalisation, deregulation and privatisation were introduced by neoliberal technocrats, so the pilot agencies and the broader bureaucracies, especially those which controlled the financial sector within the developmental states, were shorn of many of their former functions and their co-ordinating capacity was restricted.

The disappearance of the original facilitative conditions that had ushered in the developmental state meant that the old order was challenged by new ideas, new sets of relationships and the emergence of new institutions. What, then, is the best way to analyse this seeming shift away from the developmental state in East Asia?

**Contesting Coalitions**

The move away from the ideational, relational and institutional aspects of the developmental state and the introduction of new ideas, relationships and institutions associated with neoliberalism can best be
analysed using a framework which emphasises political contestation between coalitions (Solingen 1998, 1999, 2004). Coalitions, or semi-permanent alliances of individuals and groups that co-operate to achieve a distinct purpose, compete in many different political settings. In East and South East Asian societies where the developmental state had taken hold and then began to be undermined – by domestic changes, the advent of globalisation and the end of the Cold War – each of the two contesting coalitions attempted to promote their views on the role of the state in the society’s economy (See Stubbs, 2011: 151–3).

The developmental state coalitions had a distinct advantage in that they had been formed and gained an ascendency as the state structures and policies associated with the developmental state began to deliver increasing prosperity and greater levels of internal social stability and external security. They emphasised a competent, relatively autonomous bureaucracy; a pilot agency able to co-ordinate industrial policy through its influence over key sectors of the economy, such as finance, energy and transport; and links between the state and the business community that blurred the public–private distinction and enabled the state to steer the economy in a particular direction (Johnson, 1982: Leftwich, 1995; Deans, 2000). They advanced policies that pursued rapid, co-ordinated industrial development through extensive planning and regulation, promoted new industries, aided technology transfers, eased the dislocation created by the shift from old industries being phased out to new leading-edge industries, gave a comparative advantage to export manufacturing sectors, and protected import-substitution industries (Johnson, 1982; Onis, 1991; Woo-Cumings, 1999).

The memberships of the various developmental state coalitions were reasonably diverse. These tended to include politicians who had tied their careers to the developmental state approach as well as those who had large numbers of constituents who benefited from developmental state policies. Also, members of these coalitions were those bureaucrats who came from ministries and agencies that had successfully implemented developmental state policies and believed in their value to the larger society. Similarly, businesses that had benefited from import-substitution policies such as tariffs or quotas and the protection of infant industries, as well as business groups of all sizes that had been helped by export subsidies of one form or another, gravitated to developmental state coalitions. Moreover, the coalitions were supported by
people within the general public who valued the rapid, generally equitable and widespread economic growth that developmental state policies delivered and by those who became concerned that neoliberal policies could lead to increasing disparities of wealth that, in turn, could adversely affect social harmony and stability (Hayashi, 2010; Pempel, 1999; Stubbs, 2009).

Neoliberal coalitions emerged as the facilitative conditions that had led to the developmental states began to wane and new ideas began to percolate through East Asian societies. But, of course, the neoliberal coalitions were at a disadvantage in that they had to take on developmental state coalitions that were already well established. Neoliberal coalitions looked to emphasise a more regulatory role for the bureaucracy in the economy, with the state often centrally involved in constructing market societies (Carroll, 2012; Carroll and Jarvis, 2014). As a consequence neoliberal coalitions sought to implement policies that privatised and re-regulated the economy; enforced rules against monopoly pricing and collusion among companies; generally opened up the economy to market forces, especially in areas such as currency values and interest rates; and encouraged the free flow of capital and trade in order to capture the gains made from participating in the global economy (Steger and Roy, 2010).

The neoliberal coalitions that emerged in East Asia tended to have a more limited, although increasingly politically powerful, membership. They counted among their numbers many Western-trained technocrats and economists who held key positions in economic planning agencies; central ministries, such as finance or trade and industry; the central bank; universities; and policy think tanks. Members also included managers in Asian companies who valued emulating America’s strong economic performance over the years and adhering to Western orthodox economic philosophy (Yeung, 2007), as well as those in domestic export-oriented manufacturing companies and multinational corporations, especially American-based and European-based companies, who tended to support free-trade policies. They did so because they feared that protectionist policies on the part of the government could jeopardise their attempts to gain access to foreign markets if other governments imposed retaliatory protectionist measures (Busch and Milner 1994). Furthermore, those, both within the political and business elite and within the general population, who viewed the unrestricted inflow of capital, whether in the form of foreign direct investment (FDI) or
portfolio capital, into the country as positive for the economy were also members of the neoliberal coalition (Gamble, 2006; Solingen, 2004).

The battle that was waged between the developmental state coalitions and the neoliberal coalitions in the various East Asian states went through a series of phases. Although the developmental state coalitions had the advantage of being able to consolidate their positions during the early years, the neoliberal coalitions gained ground during the late 1980s and into the 1990s. Certainly, the neoliberal coalitions were given a major boost in the post-Cold War years by active and substantial support from the US government and such international agencies as the OECD, the IMF and the World Bank.

During, and in the aftermath of, the Asian financial crisis (AFC), the battle between the two coalitions in most developmental states of the region intensified. Rodney Bruce Hall (2003) has shown how the IMF, the US Treasury and the Kim Dae-jung government in South Korea sought to blame the AFC on the developmental state model, which was equated with crony capitalism. This bolstered the position of the neoliberal coalitions. However, as Richard Higgott (1998) has noted, frustration and resentment built up around East Asia over the way in which the region was treated by the US and the IMF. Moreover, there was clearly an argument that those countries with a reasonably sized, well-trained bureaucracy were able to manage their way out of the AFC much more easily than those, such as Thailand and Indonesia, that had been unable to maintain an effective bureaucracy during the period of liberalisation, deregulation and privatisation advocated by the neoliberal coalitions (Chuan, 1998; see also St Marie, Hansen and Tuman, 2007). In addition, during the AFC, governments that had adopted a neo-mercantilist approach of maintaining relatively substantial reserves, which could be used to counter a run on their currencies, fared better than those countries with limited reserves (Hamilton-Hart, 2008: 69). These issues added to the arguments deployed by the developmental state coalitions.

Similarly, during the global financial crisis (GFC) and in the years since then, the two coalitions have battled to move state structures and state policies closer to their ideal of the strategy that should be followed in order to ensure strong economic growth. The developmental state coalitions were aided by the apparent failure of the US as a model of economic development for others and by the importance that
economic stimulus packages played in the region’s recovery from the GFC. Notably, China's economic stimulus package was unveiled in November 2008 and put a premium on state intervention in a number of targeted areas, including major infrastructure projects such as high-speed rail links, regional airports and an expanded power; low-cost housing for low-income workers; ecological and environmental projects; and ‘indigenous innovation’ (Anderlini, 2010; Dyer, 2010; EIU, 2009). Yet in the last year or so, China’s economic downturn and the success of the US economy as one of the sole sources of global economic growth has once again boosted the cause of East and South East Asia’s neoliberal coalitions.

The contesting-coalitions framework, therefore, has a number of features to recommend it. It makes no assumption that economic development is linear. It does not assume that the mix of structures and policies will necessarily trend away from the developmental state structures and policies and steadily towards increasingly neoliberal state structures and policies. It sees the battle between the two coalitions as dynamic, with a mix of structures and policies that can, and do, oscillate backwards and forwards as each coalition tries to move structures and policies closer to the ideal they espouse. Furthermore, the framework allows for each of the East Asian developmental states to develop a different mix – or hybrid version of the ideal types – of developmental state and neoliberal structures and policies as the two coalitions in each state come under different sets of domestic and international influences.

The Future of the East Asian Developmental State

How may the future of the contested coalitions and the former East Asian developmental states best be analysed? Three approaches suggest themselves. First, it is possible to assess the future of the regional developmental states at the level of the state itself. Second, the fate of the developmental state may be examined on a sector-by-sector basis with some sectors seemingly more susceptible to moving away from developmental state structures and policies and towards neoliberal policies and structures than others. Finally, and this may be more applicable to China than to any other society, it is possible to think of various regions of a country being more willing to maintain developmental state
structures and policies than others. It is to these three ways of analysing the future of the developmental state that this analysis now turns.

In terms of the societies of East Asia, some were clearly developmental states a great deal longer, and more intensely so, than others. This meant that they were more immersed in the ideas and culture of the developmental state, had more time to cement in place the key relationships that buttressed the developmental state, had more developmental institutions in place, and had greater experience of the benefits that developmental state policies could offer. In this sense, then, countries such as Indonesia, about which there is a good deal of debate as to whether it should be considered a developmental state or not (Henley, 2007; MacIntyre, 1994: 6; Stubbs, 2005: 23), are more likely to see the neoliberal coalitions gaining ground at the expense of the developmental state coalitions.

Similarly, it can be argued that the developmental state and the coalitions that formed to defend it were disrupted most tellingly by rapid changes in a society’s political leadership. Whereas continuity of political leadership had been a feature of the developmental state, with the emergence of a more educated, prosperous middle class; divisions amongst elites; and democratisation, a parade of different leaders became much more commonplace in a number of societies. For example, with democratisation came a greater turnover in political leadership in places like South Korea, Thailand and, after the Asian financial crisis, Indonesia. In South Korea there have been eight different presidents and changes in government from 1989 until now. In Thailand there have been more than ten changes in government over the last twenty-five years, and even Indonesia has seen a number of changes at the top since the fall of President Soeharto. And with political liberalisation came pressure for greater economic liberalisation and a shift in influence towards the state structures and policies favoured by the neoliberal coalitions. In other words, then, some former developmental states appear more likely to experience a greater shift over to a neoliberal, regulatory state or competition state model and to see their developmental state coalitions cede the upper hand to neoliberal coalitions.

A second approach strongly suggests that the best way to explore the battle between the contesting coalitions is at the level of industrial or commercial sectors. Many years ago, Theda Skocpol (1985: 17, quoted in Larsson, 2013: 343, emphasis in the original) noted that ‘one of the
most important facts about the power of the state may be its *uneven-ness* across policy areas’. More recently, Iain Pirie (2012), in an attempt to come to grips with the debate about whether or not South Korea had abandoned its developmental state structures and policies (e.g. Suh and Kwon, 2014), argues that it depended on which policy areas were being analysed. For example, he indicates that while the financial sector in South Korea has been restructured along essentially neoliberal lines, the government has actively managed the telecommunications industry. This, he argues, has been done by co-ordinating domestic innovation, setting regulatory standards, bringing together domestic research networks, and restricting the entry of foreign technologies into the domestic market, all traditional facets of the developmental state (Pirie, 2012: 380).

The importance of a sector-by-sector approach is underscored by scholars working on China. Roselyn Hsueh (2011), for example, notes that the state in China controls the telecommunications and telecommunications equipment sectors but that it exercises very little influence over the textiles sector. Sarah Eaton (2013, 2015) makes very much the same point, noting the strong control exercised by the Chinese state with respect to the airlines. In terms of the push and pull of the contesting coalitions in China she also notes that the Chinese government’s fiscal stimulus package in the wake of the 2008 GFC boosted the role of large SOEs and saw the ‘retreat’ of private enterprise in sectors such as steel and real estate (Eaton, 2013: 64–5).

Finally, it is possible to see the developmental state surviving in some regions of a country and losing out to neoliberal structures and policies in others. In many ways this is most relevant for China. Shaun Breslin (1996) has long argued that China is too complex for there to be one governing style for the whole country. Most recently, Jun Zhang and Jamie Peck (2014) have reinforced this point, arguing that China’s variegated capitalism is made up of a range of regional capitalsims so that it is difficult to identify any institutional coherence at the national level. Similarly, Andreas Mulvad (2014) compares Guangdong’s more neoliberal form of government with Chongqing’s statist approach and underscores the point that variegated capitalism needs to be examined in more depth. In China, then, it can be argued that the developmental state coalitions and the neoliberal coalitions contest at regional levels and in different sectors of the economy, with a variety of outcomes.
Conclusion

Three conclusions can be drawn from this analysis. First, the ideational, relational and institutional dimensions of the developmental state were major features of the economic success of a number of East Asian societies. As a consequence of their success over a fairly lengthy period of time, developmental state structures and policies became entrenched in those societies. Hence, despite the disappearance of the facilitative conditions that led to the establishment of the developmental state, it will take some time before many of its ideational, relational and institutional features are fully eliminated. Indeed, it may be that in some societies the key elements of the developmental state will never completely disappear.

Second, using a contesting-coalitions framework helps to analyse the battle between those who wish to retain elements of the developmental state and those who wish to see it replaced by structures and policies associated with neoliberalism. Importantly, the approach does not assume that economic development is linear and that the mix of structures and policies will necessarily trend steadily towards increasingly neoliberal state structures and policies. The mix of structures and policies can, and does, move backwards and forwards as the struggle between the two coalitions is played out over time.

Finally, the analysis of the battle between the two contesting coalitions occurs at various levels. It can take place at the national or sub-national/regional levels as well as at the level of particular industries and sectors of the economy. This array of venues for the developmental state and neoliberal coalitions to contest policies seems, in part at least, to explain why it is so difficult to find a consensus among analysts as to whether or not neoliberalism has triumphed in East Asia and the extent to which the region has moved beyond the developmental state.

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Late Capitalism and the Shift from the ‘Developmental State’ to the Variegated Market State

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Introduction

In this chapter I argue that previous developmentalist/neo-mercantilist capitalist regimes in Asia have exhibited important changes, shifting from ‘developmental states’ to states that increasingly reflect the imperatives of reorganising state and society around market rationality. This shift is evident in terms of the increased adoption over time of key policy sets that reduce national policy autonomy and increasingly constrain the push for national competitiveness within developmentally anaemic neoliberal boundaries. This transformation has not generated homogeneous simple ‘monolithic neoliberal states’, nor has it completely deconstructed ‘developmentalist’ state structures. This said, policy agendas and state structures have undoubtedly altered – consistently evolving with important transformations in the global political economy, the contested evolution of neoliberalism and critical junctions related to both of these, such as the crisis of 1997–8.

To understand the transformation of what were previously dubbed ‘developmental states’ it is important to focus on several formative processes. The first of these has been a dramatically changing global political economy, characterised by the demise of Fordist/nation-state oriented development regimes to what Harvey (2007: 75–6) describes as ‘flexible accumulation’: a pattern of accumulation involving the diffusion of neoliberalism and the reorganisation of production on the back of this and technological advancements. This tectonic shift has provided the gestating context for various battles between fractions of capital, labour and sections of the state over state form and policy, and culminated in the fracturing of the state–capital/capital–labour compromises that variously underpinned developmental states and the ‘welfare’ and social-democratic states in the West. The onset of flexible
accumulation has combined with the broader eclipsing of the historically unique post-Second World War/Cold War period in which the United States (US) as hegemon variously extended to amenable regimes capital, technology and degrees of security while also tolerating the use by these regimes of neo-mercantilist policies without penalty in terms of the ability to profit from the US’s economic expansion and market demand. Periodic economic crises resulting from the contradictions of capitalism and intensifying competitive dynamics have only driven processes of change further, with the former having been met consistently with further bouts of neoliberal reform, often (though not always, as we shall see) as part of conditional lending and policy advice from international finance institutions (IFIs) such as the International Monetary Fund (IMF) and the World Bank.

While points of difference in state form are, of course, evident among previous developmental states,1 and political conflict continues to exact a toll on the actually existing constitution of neoliberal agendas, a broad centrifugal tendency has increasingly drawn countries into the world market as earlier envisaged by the most famous critics of classical political economy (Cammack, 2012, 2016). This world market comprises the ‘soft infrastructure’ derived of multiple phases of neoliberal reform, global and regional value chains and important technological developments in information and communications technology (ICT), logistics and production. This reality has bequeathed to competitive fractions of capital the flexibility to disaggregate production in ways that have perforated the limitedly permeable membranes that states wrapped themselves in to insulate themselves and fractions of domestic capital from external market forces, often as part of national developmental agendas. As this integrative process has proceeded, states have only been compelled further towards the adoption of market-oriented policies and institutions, often under pressure from countries such as the US, multilateral institutions, and competitive fractions of transnational and domestic capital seeking to capture advantages in production, market share and profit. Importantly, for developmental states this process has involved the important transformation

1 This is also the case, of course, in states of the West and elsewhere, a point regularly lost or diminished in the work of leading scholars of the developmental state.
Late Capitalism and the Shift from the ‘Developmental State’

of ‘national winners’ – conglomerates nurtured by neo-mercantilist policies – into ‘international winners’ responsible to shareholders and lenders, further undermining the sustenance of neo-mercantilist development agendas.

In making the argument above, I begin by critically analysing the characteristics and institutional features of the developmental state, while juxtaposing these characteristics against emerging features associated with what Brenner et al. (2010) characterise as the ‘variegated market state’. This latter concept resonates with what has been described elsewhere as ‘the regulatory state’, ‘the competition state’ or (by neoliberals) ‘the enabling state’ (Carroll, 2015; Cerny et al., 2005: 7; Jayasuriya 2004), while acknowledging and explaining divergence in actually existing state forms. Taking issue with both statist and neoliberal positions characterised by methodological nationalism and various normative fetishes, I provide an explanation as to why certain policy sets and institutions associated with the developmental state have been embraced at particular points within the evolution of capitalism and why too they are now being displaced by the variegated market state. Here I focus upon the dynamic interests of fractions of capital and the role of social conflict (between key interests) operating within the broader contradiction-prone context of capitalism in the constitution of variegated market states.

Central to understanding the context in which state transformation is occurring is the relationship between the spatial reorganisation of capital (from Fordist nationally oriented regimes of accumulation to ‘flexible’, transnational regimes) and the soft infrastructure of phases of neoliberal reform – the latter defined broadly as policies and/or agendas that seek to reorder state and society along liberal market lines and instil market discipline – that has aided and abetted this. These various iterations of neoliberal policy represent the outcomes of contestation between material and ideological forces at multiple levels, with their implementation frequently incomplete, ‘distorted’ or ‘mediated’. Yet the politically conditioned messiness of actual reform implementation has not detracted from setting in place new policy and political terrains that have increasingly exposed labour, capital and the state to new competitive and contradictory pressures. Here, the ‘developmentally crucial’ combinations of techno-bureaucratic insulation in powerful ministries and agencies and ‘ideal’ connections between state and...
business encapsulated in statist notions of ‘embedded autonomy’ and ‘governed interdependence’ (Evans, 1995; Weiss, 1998 – see below) give way to something altogether messier and fluid that can only be explained with reference to politics within the context of an ever-more globalised and contradictory political economy.2

The second section of the chapter addresses the actual impact of flexible accumulation in South Korea (hereafter ‘Korea’), which has consistently eroded facets of the developmental state, and the politics of this. Here I pay particular attention to the implementation of the soft infrastructure of neoliberalism given its pivotal implications for state form and function. The implementation of neoliberal agendas in Korea has come about both by external force, from multilateral institutions and the US during times of crisis (such as the 1997–8 crisis) and/or periods of intensifying competition, and in domestic battles waged by interests aligned with and/or amenable to neoliberal reform at certain points in time. In the latter instance I emphasise the manner in which ‘national champions’ initially enabled by the developmental state transitioned towards becoming transnational capital, with their prerogatives, and political and policy demands, changing accordingly. I conclude by offering that while we should consider the developmental state experiences of East Asia as overwhelmingly derived of a combination of specific endogenous and exogenous factors operating within a particular moment of capitalism, this moment has now well and truly concluded, giving way to a new period that more substantively than ever foists market discipline and the imperatives of capitalist competitiveness on labour, capital and the state.

2 Brenner, Peck and Theodore (2010: 209, original emphasis) have recently described such processes well: ‘Here, we invoke a similar metaphor, that of successive rounds of distinctively patterned, market-oriented regulatory restructuring, each of which is predicated upon, but also partially transformative of, inherited institutional landscapes at various spatial scales. This “layering” process is inescapably incomplete and contradictory – indeed, flawed attempts to manage the contradictions of previous restructuring efforts have tended, increasingly, to animate successive rounds of market oriented reform . . . The consequences of these developments should not be calibrated against some ideal-type notion of end-stage neoliberalism; neither should they be expected to entail a flattening of the regulatory landscape or simple institutional convergence. Rather, the diagnostic indicators of what we characterize here as a progressive deepening of neoliberalization processes relate to the growing interdependence, inter-referentiality and co-evolution of market-oriented reform efforts among territorial jurisdictions, spatial scales and policy fields . . . ’
The Developmental State and the Contest over Understanding and Doing Development within the Shift from National Development to ‘Flexible Accumulation’

Chalmers Johnson’s seminal 1982 work on the Japanese Ministry of International Trade and Industry (MITI) (later the Ministry of Economy, Trade and Industry – METI) and its relationship with that country’s ‘miracle’ is for many the starting point of an influential body of literature (see Amsden, 1989; Deyo, 1987b; Johnson, 1982, 1999; Kohli, 2004; Öniş, 1991; Wade, 2003; Woo-Cumings, 1999). This literature played a prominent role in both shedding light on and explaining the development trajectories of countries in Asia as positive outliers when compared to experiences elsewhere. Against a backdrop of rapidly re-emerging liberal-market tendencies within both political and policy circles, and implicitly and explicitly challenging both these tendencies and critical analyses, this collection of authors emphasised that the exceptional economic performance achieved by ‘late-developing countries’ in Asia (Japan, South Korea and Taiwan) was due to strategies that countered simple neoliberal postulates about the state (as a repository of ‘rent seeking’ and a distorther of the price-setting mechanism) and its relationship with economic performance. Indeed, from Johnson’s intervention on, the statist tradition contrasted markedly (a point emphasised by many of its leading figures) with schools sympathetic to ascending assumptions inspired by neoclassical economics. Notably, statists generally homed in on the state’s pivotal role in industrial policy, echoing economic nationalist/neo-mercantilist approaches that had antecedents in the ‘German historical school’ and Listian ideas:

3 The quote marks no doubt deployed by Johnson to further emphasise his contention regarding the importance of the state in generating economic performance.

4 By 1982 the Milton Friedman-influenced ‘Chicago boys’ – the US-trained economists who were a product of an anti-leftist Cold War programme run by the US government – had already had a significant influence in Latin America and both Thatcher and Reagan were in power (Harvey 2007: 8–9).

5 In line with the work of other scholars (see, for example, Deyo 1987a: 15; Rodan, Hewison and Robison 2001), I use the term ‘statist’ broadly to encapsulate an array of scholars – influential in the 1980s and 1990s (up to the 1997–8 crisis) who variously worked on analysing the non-neoliberal roles played by states in economic development. This is in some contrast with some scholars of the developmental state who use the term narrowly to connote a sub-school of thought interested in ‘strong states’.
of cultivating national productive forces prior to (or instead of) peeling back the protective barriers to free trade (Johnson, 1982: 17; Woo-Cumings, 1999: 4).

For Johnson, the contrast between ‘market-rational’ economies and ‘plan-rational’ economies (he distinguished between the latter and the ‘plan-ideological’ economies of the Soviet Union) was crucial in demarcating the difference between countries such as the US and Japan. He also argued that given that states consolidated during different historical periods – which he linked directly to levels of industrialisation – they were naturally subjected to different imperatives. In paragraphs that present rather a caricature of earlier industrialisers in that they more accurately apply to the US and early post-Industrial Revolution European experiences than, say, the post-Second World War welfare states of the United Kingdom, Europe and Australia – Johnson lays down his binary typological distinction thus:

At the most basic level the distinction between market and plan refers to differing conceptions of the functions of the state in economic affairs… Until approximately the nineteenth century, states everywhere performed more or less the same functions that make large-scale social organization possible but that individuals or families or villages cannot perform for themselves. These functions included defense, road building, water conservancy, the minting of coins, and the administration of justice. Following the industrial revolution, the state began to take on new functions. In those states that were the first to industrialize, the state had little to do with the new forms of economic activity but towards the end of the nineteenth century the state took on regulatory functions in the interest of maintaining competition, consumer protection, and so forth…

In states that were late to industrialize, the state itself led the industrialization drive, that is, it took on developmental functions. These two differing orientations toward private economic activities, the regulatory orientation and the developmental orientation, produced two different kinds of government–business relationships. The United States is a good example of a state in which the regulatory orientation predominates, whereas Japan is a good example of a state in which the developmental orientation predominates. A regulatory, or market-rational state concerns itself with the forms and procedures – the rules, if you will – of economic competition, but it does not concern itself with substantive matters. For example, the United States government has many regulations concerning the antitrust implications of the size of firms, but it does not concern itself with what industries ought to exist and what industries are no longer needed. The developmental, or
plan-rational, state, by contrast, has as its dominant feature precisely the setting of such substantive social and economic goals (Johnson, 1982: 19, emphasis added).

Johnson later proceeds to temper the caricature slightly, suggesting that the plan-rational state is a form which gives ‘greatest precedence’ to industrial policy centred upon enhancing a country’s international competitiveness. Moreover, he states that the market-rational state ‘usually will not even have an industrial policy’, preferring ‘rules and reciprocal concessions (although perhaps influenced by goals that are not industrially specific, goals such as price stability or full employment)’ (ibid.). However, a powerful binary typology (one which has had lasting analytical sway) was drawn which has been repeated in many key statist works. On one side of this binary is a type that is Western, liberal and market-oriented in terms of the allocation of resources and the prioritisation of particular policy sets, embodied in the early industrialising, market-rational countries that came to initially dominate in industrial and other spheres. On the other side, capturing what statisticians have concentrated on in the late-developing countries of Asia, rests a type characterised by neo-mercantilist concerns with competitiveness and security and, subsequently, a steadfast focus upon industrial policy and policy planning as goal-oriented elements contributing towards national advantage.

Often methodologically nationalist in nature, especially in terms of failing to locate the observed countries and their institutions in relation to the global political economy (see Beeson and Stubbs, this volume), and presaging to some degree the sort of analyses characterised by the now-influential ‘varieties of capitalism’ (VoC) school (with its typological distinction between ‘liberal market economies’ (LMEs) and ‘co-ordinated market economies’ (CMEs)), statist scholars (also captured under ‘historical institutionalist’ and ‘path dependency’ monikers) mapped out the characteristics of the developmental state that Johnson had initially drawn attention to across various cases. Here the importance and form of specific state institutions – such as MITI or the Economic Planning Board (EPB) in Korea – imbued with the capacity to plan and execute stood in marked contrast to orthodox readings of what development required (Deyo, 1987a: 15). Yet more than this, these authors quite adroitly described a state form that engaged in substantial state-centred ‘intelligence gathering’ and
planning, directed credit and extended trade protection to support the cultivation of industries that could compete through exports (‘pick-
ing national winners’), and which – with a stab at liberal economics – deliberately ‘got the prices wrong’ (Amsden, 1989: 14). Alice Amsden – also a leading figure within developmental state analyses – captured this well:

The conventional explanation for why countries like Korea, Japan and Tai-
wan have grown relatively fast is that they conformed to free market prin-
ciples. In fact, the fundamentals of their industrial policies are the same as other late industrializers. In all cases key prices do not reflect true scarcities. Instead . . . Korea has had an outstanding growth record because the institutions on which late industrialization is based have been managed differently (ibid.: 4, emphasis added).

Statists also described ostensibly optimal forms of state–capital rela-
tions – where the state afforded capital protection and extended credit within the context of national development plans. Here, overtures were made toward the explanatory power of the observed and apparently developmentally pivotal compositions of meritocratic – read ‘nearly Weberian’ – bureaucracies that were somehow sufficiently insulated from vested interests yet which exhibited robust connections with capital, making possible the efficient implementation of plans. Captured in Evans’s concept of ‘embedded autonomy’ and Weiss’s ‘governed inter-
dependence’ (Evans, 1995; Weiss, 1998), this seemingly symbiotic relationship was frequently at the centre of explanations of what made it possible to achieve particular late-developmental outcomes, especially in relation to industrialisation. For Evans the state–capital relationship was at the centre of what typologically distinguished developmental states from predatory states:

The internal organization of developmental states comes much closer to approximating a Weberian bureaucracy. Highly selective meritocratic recruitment and long-term career rewards create commitment and a sense of corporate coherence. Corporate coherence gives these apparatuses a cer-
tain kind of ‘autonomy’. They are not, however, insulated from society as Weber suggested they should be. To the contrary, they are embedded in a concrete set of social ties that binds the state to society and provides institutionalized channels for the continual negotiation and renegotiation of goals and policies. Either side of the combination by itself would not work. A state that was only autonomous would lack both sources of intelligence and the
ability to rely on decentralized private implementation. Dense contracting networks without a robust internal structure would leave the state incapable of resolving ‘collective action’ problems, of transcending the individual interests of its private counterparts. Only when embeddedness and autonomy are joined together can a state be called developmental (Evans, 1995: 12, emphasis added).

Yet for many in the statist camp, these were not simply attributes to be analysed – they were often celebrated elements to be revered and replicated or indicative of problematic claims by competing positions such as those regarding diminishing state power in the face of globalisation or the futility of the very institutions and policies embraced by developmental and other non-neoliberal state forms. For Weiss, for example, the ‘powerless state’ and the ‘neoliberal state’ were myths, a dismissive invocation that the state and, in particular, the developmental state – a state capable of transformative capacity, especially in relation to industrialisation (Weiss, 1998: 44) – continued to manage capitalist economies.

For statists it was within useful and determining institutional arrays and combinations of the state–capital relation that East Asia’s competitive advantage lay; not within the region’s particular position in the context of the Cold War (which granted it security coverage, productive technology, capital and privileged market access) or an evolving and rapidly growing global political economy. Neither was advantage to be explained with reference to the region’s relative abundance of cheap labour (often heavily disciplined and/or repressed by soft and not-so-soft authoritarian regimes) (Hart-Landsberg, Jeong and Westra, 2007: 1), or any selective embrace of liberal policy sets – as a result of internal and external pressure – within these broader contexts. Robert Wade (echoing Amsden above) articulated this position succinctly in direct relation to development policy:

To think about strategies of response, it is essential to understand the mechanism of East Asian competitiveness. Is it based mainly upon cheap labor and devotion to free markets? Or is it based on a different arrangement of the institutions of capitalism, with government helping to strengthen competitiveness of selected industries? If the latter, it questions the viability of the philosophical aversion in the United States, especially toward a government role in identifying and supporting specific industrial goals. It cautions against economic liberalization and less intervention as the central thrust of the developed country response (Wade, 1990: 6, emphasis added).
Of course, these tightly focused yet deficient analyses (and their normative implications) sat in opposition (though not as entirely as many might assume) to the counter-revolution that had been taking place in Western economic thought, and in select government and development policy circles from the early 1980s onwards. Importantly, this emergent push, which over time would provide the ideational underpinning for the variegated market state, presented alternative explanations for East Asian development and, later, the 1997–8 crisis. Crucial here was the manner in which neoliberals saw the state in relation to what were recognised as impressive developmental outcomes. If neoliberal positions were to have universal explanatory validity, given their apparent grounding in the ‘natural laws’ of liberal economics, there was no escaping the need to be able to explain rare but spectacular examples of late development.

However, in terms of the precise alignment with early neoliberal positions this was going to be somewhat of a stretch compared to nuanced descriptive typologies outlined by statists. The idea that the state had any transformative or catalytic role in facilitating industrialisation and development was anathema to neoliberal development policy’s first phase, encapsulated in what came to be described as the Washington consensus. Indeed, this position – which aligned closely with what Brenner and Theodore (2002: 26) have dubbed ‘roll-back neoliberalism’ precisely because it comprised ideas about downsizing or rolling back the state – placed the problems of underdevelopment squarely at the feet of the state. In a policy sense, what was required was the removal of the state from interfering in the price-setting mechanism and the systematic targeting of the state as a repository of rent seeking. This approach, too, was methodologically nationalist in terms of its scale of analysis and normative orientation, conceiving of the Keynesian and post-colonial states variously as irrational anti-market embodiments requiring reform to ‘let markets work’ (a phrase which instantly dissolved any reference to the social relations and conflictual interests involved). Here, long and formative histories of highly extractive colonialism, extremely asymmetrical distributions of productive technology or authoritarian and/or kleptocratic regimes supported by superpowers within the context of the Cold War were cast aside – in much the same way that they were under-emphasised by statists – for the promotion of a simplistic policy set. This included promotion of market-making/market-opening/market-connecting reforms.
such as deregulation (to remove ‘entry and exit’ barriers), fiscal discipline, liberalising trade, foreign direct investment (FDI) flows and interest rates, privatising state-owned institutions, promoting property rights, tax reform and floating currencies (Williamson, 1990).

Much like the institutions and policies of developmental states, the ascendancy of Washington consensus policies was no accident of history emerging out of the latest findings of the North American social-science or multilateral institutions. Indeed, the agenda’s incubation had occurred within the context of a crisis-plagued global political economy and the end of the post-war boom in the North (characterised by declining profits and ‘stagflation’), which along with broader transformations in the global political economy would all but finish off non-market nationally oriented approaches to development. Here, various integrative processes associated with what would become known as ‘globalisation’ – a term that encapsulated the ability and increasing necessity (driven by competitive pressures) for certain fractions of capital (in particular those able to operate at transnational levels) to reorganise production and access markets off the back of new technologies (in information and communication, for example) and logistical developments (such as large-scale containerised shipping and just-in-time production techniques) – had altered the realm of what could be plausibly considered in terms of capitalism-oriented policy. However, beyond the techno-logistical elements accompanying this grand transformation towards flexible accumulation, economic decline and crisis had also opened opportunities for the ideas of Hayek and his acolytes (such as Milton Friedman) to be brought out of the near cryogenic state that they were placed in after the Second World War and be embraced by new administrations in the United Kingdom (Thatcher) and the US (Reagan). These ideas would underpin and inform the soft infrastructure of globalisation and set in train catalysing processes of marketisation that would, in turn, incentivise further demands for both more reform and a further reorganising of production. Taken together, these

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6 In describing the spatio-temporal reorganisation of capital associated with ‘flexible accumulation’, Harvey (1990: 147) talks of flexibility for capital in regard to ‘labour processes, labour markets, products and patterns of consumption’, along with the ‘emergence of entirely new sectors of production, new ways of providing financial services, new markets, and, above all, greatly intensified rates of commercial, technological, and organizational innovation’.
elements would be at the forefront of undoing the ‘embedded liberalism’ and nationally oriented production structures that had significantly shaped post-war development stories in the West – structures that heavily constrained capital within nationally-instantiated ‘class compromises’ (Ruggie, 1982).

The target of these new market-oriented approaches was not only the first world techno-managerial Keynesian and social-democratic state forms of embedded liberalism but also the myriad state-ordered developmentalist strategies (including those associated with the developmental state) that comprised post-war/pre-neoliberal development strategies. Within the context of persistent underdevelopment and debt crises, underdeveloped countries would find themselves at the mercy of Washington consensus structural adjustment policies promoted by ‘lenders of last resort’ (the World Bank and the IMF) who used conditional lending as a means to force compliance with neoliberal policies. Yet the arrival of conditional structural adjustment in Asia – save for a few examples such as the Philippines – was delayed partly because much of the region enjoyed economic growth in the post-war period. Indeed, it was not until the 1997–8 crisis that countries in the region were finally forced to accept structural adjustment policies, in particular Thailand, Indonesia and Korea. Governments had, however, selectively embraced market reforms before the crisis (sometimes under increasing pressure from the US and the multilateral institutions in which it held sway, sometimes in a bid to access capital and markets). However, neoliberal attempts to explain East Asian development by explaining away the state or the embrace of certain market elements (like reorienting capitalist production towards export) were frequently derided (not least by members of the statist camp) as being highly selective, neglecting much of the total story (Carroll and Jarvis, 2014: 8). These countries had been initial winners from ongoing processes of flexible accumulation, albeit winners that were often characterised by repressive dictatorships, labour exploitation and significant environmental costs (Hart-Landsberg, Jeong and Westra, 2007: 1). Being winners bought developmental states leverage (and reverence) in terms of their policy sets, suggesting to some that industrialisation and late development under capitalism were possible and, in some case, replicable from these ‘models’.

Yet by the time of the 1997–8 crisis the explanatory task for neoliberals had become easier, dovetailing with a rethinking of the role of
the state in relation to markets that was to become embedded in a new round of structural adjustment and neoliberal policy reform. Here, the state would undergo an important reconceptualisation under the post-Washington consensus (PWC) that would use notions of ‘crony capitalism’ as an important fillip to promote ‘good governance’. This would increasingly entail projecting a neoliberal version of the state that centred upon institutions that were market complementing and market enabling. This recognition of the state by neoliberals was not part of some reverse Polanyian movement against neoliberalism or a nod to the success of the developmentalist regimes of East Asia. Rather the PWC was a means of attending to implementation and legitimacy issues by incorporating the state and co-opting sections of civil society into the broader neoliberal project that now depended on ‘building institutions for markets’ (World Bank, 2002). This institution-building project would heavily depend on depoliticised participatory methods and processes of co-option – traits the PWC somewhat ironically (given its connection with liberalism) shared with the developmentalist regimes of East Asia.7

To be clear, however, this rendition of neoliberal policy had no time for government engaging in industrial policy. Indeed, under the PWC, the state, while not being allowed to set aside adherence to the principles of the Washington consensus, was increasingly steered towards addressing ‘information asymmetries’ and ‘transaction costs’ and, most importantly, ‘market failure’. The institutions of the state, in other words, were to be reconceived as regulatory bodies and guarantors of property rights designed to restrict government opportunism, limit political risk to capital, and remove as far as possible the state and politics (including popular politics) from the market. From this perspective, industrial policy (a term almost never used by neoliberals in a positive sense) was reduced to providing the right institutional environment for capital – a process that would subsequently be dubbed by the World

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7 Interestingly, Weiss – perhaps deriving from her very narrow definition of neoliberalism which essentially hangs around a very simple Washington consensus understanding – pointed to key elements associated with the PWC as evidence that states were being taken more seriously by mainstream economics rather than recognising these as a substantive step in the evolution of neoliberalism (see Carroll and Jarvis, 2015: 288–98). Here, the static, ahistorical, binary tendencies of the statist camp are once again on display, as if neoliberalism was some vacuum-sealed doctrine not subjected to politics or innovation (Weiss 2012: 31).
Bank as constructing ‘an enabling environment’. Utility provision was still to be privatised but this would be done in politically sensitive hybrid forms (‘public–private partnerships’ – PPPs), which often translated into a private service provider overseen by an independent state regulatory agency. Responding to the impact of an increasingly integrated global market with an enlarged reserve army of labour, the PWC now emphasised ‘human capital’ (in the form of knowledge and educational inputs), labour ‘flexibility’ (ease of hiring and firing) and ‘life-long learning’ as important in terms of providing market players with the ‘correctly priced’ trained workers they needed and the only way left to improve the lot of workers (Cammack, 2004; Carroll, 2010). Not surprisingly given the resistance that neoliberal reforms frequently encountered, highly limited forms of social protection (such as unemployment insurance) were entertained, yet labour policy and healthcare were certainly not framed around ‘jobs for life’, ‘full employment’ or the public provision of broad-based health services (as was often the case in many – though not all evenly – developed countries and some developmental states in the post-war period).

Continuing the work of the Washington consensus, notions of infant-industry protection within the PWC were still to be cast aside with the continued promotion of trade liberalisation, tariff reduction and the liberalisation of non-trade barriers to entry. Likewise, the pegging of currencies was still to be supplanted by floating arrangements, and the deliberate channelling of capital to industry by government at non-market rates was to give way to efforts to attract FDI characterised by ‘the market’ recognising not only the merits of a particular capital investment in a target commercial entity but also the broader institutional environment in which it was located. There was certainly no celebration of planning-useful relationships between state and capital to be seen within the increasingly influential ideas and prescriptions of the PWC. While the recognition of the state by neoliberals might have initially been trumpeted by ‘progressive’-leaning authorities like Joseph Stiglitz (a political liberal who made his name within orthodox economics) (Stiglitz, 2001), it ultimately became nothing more than a politically necessary push to place market-led development policy on a more sound footing after the well-documented negative results and fallout from structural adjustment programs (SAPRIN 2004).

By the mid-2000s the politically demanding institution-building neoliberalism of the PWC was giving way to a new form of neoliberal development policy, what Darryl Jarvis and I (Carroll and Jarvis 2014)
have elsewhere called ‘deep marketisation’, reflecting a new politics of development. If the Washington consensus sought to work on the state to downsize it, and the PWC worked on and through the state to both curtail and reshape the state for liberal market ends, deep marketisation works on, through and around the state. In this manner it continues the agendas of its forebears but – dovetailing closely with increasing financialisation within the global political economy – prioritises direct-to-sector, market-based finance initiatives that, in marked contrast to developmental state approaches, are predicated on recognising the reality of capital’s (and especially financial capital’s) flexibility and mobility under late capitalism. Here, the kernels of the Washington consensus and the PWC remain, but the death of development as any sort of national project has been all but ensured by prioritising concerns over attracting foreign direct investment and sending the ‘right’ signals to capital. In this game, institutions such as the World Bank’s private-sector arm, the International Finance Corporation (IFC), along with the G20 and others, are at the forefront of reconstituting development policy – and policy generally – in the interests of financialised capitalism. Cumbersome conditional lending to build market-supporting institutions gives way to signal-setting and naming and shaming exercises such as the Doing Business report series, which ranks countries on their ability to provide institutional environments receptive to capital, along with scrutinising benchmarking by ratings agencies and ‘market sentiment’. ‘Development’ projects are now centred upon risk mitigation for capital and targeted towards fostering the micro-, small- and medium-enterprise (MSME) sector – the latest plausible missing link in ‘big-D’ development. All of this has run closely in tandem with the massive increase in interest of Northern capital – faced with slowing or worse growth and limited market opportunities – in ‘emerging and frontier markets’.

Deep marketisation is in many ways a simple policy agenda reflecting the ongoing reinvention of neoliberal policy in relation to dominant ideological and material interests and the contradictions and challenges of earlier phases of neoliberalism. However, in an environment where most of the world’s countries are now integrated into a world market characterised by a highly asymmetrical allocation of the means of production, and by increased market competition and discipline, there is little latitude for countries to substantively move in terms of alternative developmental approaches and state forms – a fact borne out in the relative demise of dirigiste approaches. Market protectionism,
interventionist industry policy, capital controls, managed currencies and rigid labour market rules run the risk of attracting pariah status, culminating in higher borrowing costs, capital flight and marginalisation from global markets.

While states and the policies that they adopt have differing precise characteristics, given their divergent histories and politics, when assessed by degree of adoption of Washington consensus, by PWC and deep-marketisation policy sets and by institutional form and function, significant evidence of the variegated market state that responds to the incentives of financialised capitalism is apparent. This is demonstrated by often dramatically increased levels of trade and exchange liberalisation, increased deregulation, the divestment of public assets, and the demise of planning institutions and state control of finance. For example, as Wacziarg and Welch note, while only 22 per cent of all countries (21 per cent of the global population) had open trade policies in 1960, by the turn of the millennium almost three-quarters of countries (73 per cent), accounting for 46 per cent of the world’s population, were classed as open to international trade (Wacziarg and Welch, 2008: 187). Moreover, by 2013, the IMF in its Annual Report on Exchange Arrangements and Exchange Restrictions was citing sixty-five countries as having ‘floating’ or ‘free-floating’ exchange rates, including ‘developmental states’ such as Korea (floating) and Japan (free-floating) (International Monetary Fund, 2013: 6).

In terms of privatisation (a key measure of state–market relations) the World Bank documented over 10,000 privatisation transactions between 1998 and 2008, with many of the most recent high-value privatisations accounted for by China and Russia (with finance from initial public offerings (IPOs) prominent in this) (World Bank, 2015a). The broader point is that the structural realities of the world market leave little room for states to pursue the non-neoliberal notions of transformative capacity revered by statists. Indeed, the unique conditions that supported developmental and welfare state forms largely no longer exist, undone as they have been by flexible accumulation.

The Evolution of Global Capitalism and the Demise of the Developmental State both in Practice and as an Aspirational Model: the Case of South Korea

In the section above, I argued that competing and ultimately deficient explanations of development dominated the relevant policy and
academic landscapes in the 1980s and 1990s. These were positions that were significantly distinguished by how they saw the state’s role in development. On one side, statists observed and celebrated an active role for the state, demarcating this as a central variable in achieving rare instances of late development. While these scholars provided a nuanced typology of state forms, they underplayed the importance of these forms being situated within a particular period of world capitalism that made possible politically driven capital and technology transfer and which had significant bearing on the social relations attending this period (relations between capital and the state, tolerance of labour repression, etc.). Many of these conditions were done away with by the transformation in global capitalism, necessitating often painful reform and a reappraisal of state form and policy instruments. Within the context of a consolidating world market in which the interests of transnational capital became increasingly important, neoliberals were better placed to sell their policies, which were essentially based upon tapping into and fomenting flexible accumulation.

In this section, I draw on critical political economy literatures (and to a lesser degree some of the statist work) on Korea to briefly illustrate the demise of developmental state policy agendas within the context of the ascendancy of flexible accumulation. Critical IPE scholars align with statists in highlighting that throughout Korea’s industrial transformation the state played a central role, especially during the period of military rule and the later post-dictatorship period. However, analyses by critical scholars – Gramscian, classical Marxist and more eclectic perspectives – place more emphasis on endogenous and exogenous political and economic factors and, specifically, those associated with class interest and conflict in relation to the evolving dynamics and contradictions of capitalism in explaining how institutions have been constituted. As Iain Pirie notes in his appraisal of the Korean developmental state, statists have largely failed to acknowledge the broader context of the post-war developmental project and the shift from nationally based/centred capitalism to flexible accumulation, not to mention the varied and dynamic impacts that the latter has exacted on countries such as Korea (Pirie, 2008: 2).

Korea is regularly considered the paragon of post-war late development and one of the premier examples of a developmental state. Indeed, no other country in the post-war period has achieved such a remarkable transition in combined terms of industrial advancement, and by several important measures of growth it remains in a select category.
During the 1960s, for example, the country grew an average of 9 per cent per annum, an impressive figure that was to increase to 9.3 per cent in the 1970s and almost 10 per cent in throughout the 1980s and early 1990s (Hart-Landsberg, Jeong and Westra, 2007: 1). Moreover, its rise out of extremely dire material conditions (per capita GDP measured in constant US$ (2005) was just US$1,106 in 1960, rising to US$13,650 just before the 1997–8 crisis and now at a level of US$24,565 (World Bank, 2015b)) was characterised by more than just growth. Indeed, the Organisation for Economic Co-operation and Development (OECD) member exhibited a seemingly elusive ability to foster domestically owned corporate powerhouses\(^8\) exhibited a seemingly elusive ability to foster domestically owned corporate powerhouses – the chaebol – similar to the zaibatsu (now keiretsu) in Japan, avoiding simply becoming a site of manufacturing for international companies or a repository of natural resources (common attributes associated with contemporary growth patterns in underdeveloped countries). The rise of international brands centred on family-oriented conglomerates such as Samsung, Hyundai, LG and SK Group, for example, with activities spread across advanced production, manufacturing and services, earmarks Korea as the only late developer to approximate industrialised countries in terms of trade and production attributes (Hart-Landsberg, Jeong and Westra, 2007: 2). Importantly, by the mid-1990s the country was the leading ‘supplier of computer memory chips, the second largest shipbuilder in the world, the third largest producer of semiconductors, the fourth largest maker of electronics, the fifth largest car maker and the largest steel producer’ (Cathie quoted in Hart-Landsberg, Jeong and Westra, 2007: 2).

Much, though not all, of the above was associated with a series of state-led developmental policies that were selected for neo-mercantilist reasons in order to further nationalist economic projects, all of which was permitted by external powers throughout formative periods of Korea’s development – a factor that was to change as global economic competitiveness deepened and the Cold War waned. At the forefront of state-directed strategies were efforts centred on the allocation of capital, with planners playing important roles relating to the cost and targeting of capital and ‘picking winners’ in an effort to foster

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\(^8\) Korea joined OECD, that exclusive grouping of the world’s most economically powerful countries, in 1996.
import-substitution industrialisation (ISI) and export-oriented industrialisation (EOI). Planning was designed to gain productive-capacity advantages within certain industrial sectors (in particular, the heavy and chemical industrialisation (HCI) programme in the early 1970s) in tandem with the fortification of trade protection measures for firms competing with importing companies (Hart-Landsberg, Jeong and Westra, 2007: 8; Pirie, 2008: 4). During Korea’s formative development, and especially during the period after the coup led by General Park Chung-Hee in 1961, the state thus played a crucial role in fostering and directing industrialisation (Kohli, 2004: 84). Importantly, this followed the formation of a significant domestic capitalist class that emerged out of the privatisation of colonial operations under the grossly corrupt post-Second World War government of Syngman Rhee (the latter characterised by patrimonial relations ‘in which political contributions were given in response to provision of foreign exchange and import licenses’ (Gray, 2011: 309)).

As Gray (ibid.) notes in his analysis of state transformation, the developmentalist turn within the Korean elite which arose predominantly after the coup was far from inevitable. Rather, it was based upon a confluence of interrelated internal and external factors associated with the transformation of social relations. The Rhee administration – despite persistent economic problems – had resisted the (re)internment of Korea into the post-war regional political economy dominated by Japan (the latter having played an important role as exporter of declining industries to both Korea and Taiwan well before the Second World War (Cumings, 1987: 46)). However, the militarisation associated with the Cold War – and the Korean War (1950–3) as an important part of this – would rapidly change the regional and domestic contexts, with many young Koreans who would later play important roles within the bureaucracy and the chaebol gaining military training and literacy skills. By the time of the 1961 coup, the US under Kennedy was presiding over a broad shift from large-scale military support and the promotion of ISI towards a new regime based around the promotion of EOI, with the US and Japan attempting to pull Korea into the regional relations of production within the context of declining aid support, the latter imbuing the situation with a competitive dynamic that elites would need to respond to and which would only make the legitimising of government decisions more compelling (Gray, 2011: 304). Overall, the picture during this period is one involving considerable regional
and hegemonic pressure, albeit with important transfers of capital and knowledge, and extensive relationships between Japanese and Korean firms – crucial in accruing productive knowledge, productive technology and other benefits – and large-scale military and economic support to Korea totalling US$6 billion between 1947 and 1976 (Pirie, 2008: 8).

Under Park’s authoritarian regime, new disciplinary efforts were made towards the (regularly brutal) control of labour and fractions of capital, with the state able to achieve the increased autonomy often noted by statist authors. For labour this entailed the arrest of radicals and the prohibition of industrial action (Gray, 2011: 311). For capital, this meant a substantive reordering the relations between state and capital that largely hinged upon the authoritarian state subordinating capital – significantly through state-directed credit – to broader nationally oriented goals that extended beyond the autonomous profit interest of firms. Gray describes this situation thus:

Following a populist anti-corruption campaign aim [sic] at ‘illicit profiteers,’ a deal was made with ten of the major business leaders in which criminal prosecutions were dropped in exchange for fines consisting of the establishment of industrial firms and the donation of shares to the government. As the developmental state literature has widely documented, this led to a model of political economy in which business lacked its own access to capital outside the government provision of credit directed towards the industrial sectors deemed by the bureaucracy to have the greatest potential in export markets (ibid.).

Yet the crisis of profitability and growth that began in the late 1960s and continued during the 1970s was to place new competitive and accumulative pressures upon both states and capital, a process that both compelled industrial capital towards a reconfiguration of production and forced states to come to terms with the dismantling of protective economic policies. This reality would become more apparent with dramatic advancements in communications, transport, logistics and geographically disaggregated production, challenging existing social relations as labour and fractions of domestic capital were increasingly subjected to intensified forms of market discipline that now also emanated from outside their host countries.

The declining competitiveness of the US during the 1970s and the various other crises faced by industrialised countries – such as the oil price shock and the rise of stagflation – would underpin the rise of
subsequent phases of neoliberalism and demands for recalibrating economic relations between the US and its trading partners. The 1985 Plaza Accord, for example, would see the dramatic appreciation of the yen against the dollar and result in a commensurate reduction in the competitiveness of Japanese exports. Korea – including both capital and sections of labour – would initially benefit from the changing relations of competition between the US and Japan during the 1980s. Here state strategies (including those associated with planning, protection and fostering industrial capacity) combined with new efforts towards enhancing competitiveness (through a devaluing of the currency, for example), and a relatively congenial set of regional and international conditions combined to yield what some have described as a high point of both the Korean economy and interest in developmental state ‘model’. While the US permitted a generous trade arrangement with Korea, largely responsible for generating Korea’s first trade surplus of US$4.2 billion in 1986, this would soon change, with increasing demands from the US for adjustments in trade and currency policies. Within this environment the chaebol grew considerably more powerful, challenging the state’s ability to exert control. Moreover, increasing amounts of labour activism achieved gains for workers, much to the consternation of capital. Taken together, these two elements would challenge the status quo and demand new strategies from capital and the state to maintain competitiveness (Hart-Landsberg, Jeong and Westra, 2007: 9–10).

Importantly, though, despite the celebration of the developmental state model and Korea’s achievements during the 1980s and 1990s, and despite the 1997 crisis and intervention by the IMF, Korea had actually embarked upon neoliberal reforms well before the financial crisis of 1997–8. Kim (1999), for example, charts the ideological shift within the Korean state as a result of the fundamental shift from Park to General Chun between 1971 and 1981, repositioning Korea from an authoritarian form of developmentalism to a more neoliberal orientation. In part, this was the result of economic challenges faced prior to Park’s assassination. Under the Chun junta, by contrast, crucial roles were allocated to often American-trained economists whose ideas were countenanced by the World Bank and the IMF (including through lending) and closely tied to neoliberal fundamentals. As Kim notes:

The new military regime finally abandoned the old idea of a developmental state and decided to ally with ‘neoliberal’ economists, who had been
influenced by the emerging ideologies of marketization and privatization. Chun appointed them to positions of strategic command in the economic bureaucracy. Thus the economic liberalization policies were implemented by neoliberal economists such as Kim Jae Ik, a Stanford Ph.D., who became the senior advisor to the President. Kim Jae Ik played a very important role in prompting the Economic Planning Board (EPB) to move towards economic liberalization. Others included academic economists, Park Yong Chul and Sakong Il, and EPB bureaucrats, Kang Kyong Shik, Kim Ki Hwan, Kim Man Jae. They all had American Ph.D.s in Economics from US universities, more specifically, in monetary economics.

This marked a notable change from the first generation of economic bureaucrats under Park who had been educated under the Japanese, and were more familiar with Friedrich List and John Maynard Keynes. Many neoliberal economists were recruited from universities or research institutes, and were closer to Ludwig von Mises and Milton Friedman. The neoliberal economists were strongly supported by the World Bank and IMF, which supplied Korea with a restructuring loan in return for economic liberalization policies. The worldwide battle between Keynesians and neoliberals was neither an abstract technical debate between economists, nor a purely economic policy confrontation. This was a serious political battle of two different ideologies (Kim, 1999: 445).

The recognition by these new ideologues that the problems associated with the Korean economy in the late 1970s could be attributed to statism led to more reforms that recognised the processes of intensifying globalisation and the need to adjust to this new normal. These reforms – which were combined with largely unsuccessful efforts to deal with the concentration of corporate power – would relate to many Washington consensus dictates, including privatisation, liberalisation and deregulation, linked to enhancing competitiveness within the context of an increasingly liberalised world economy. Crucially, though, the reforms would include financial deregulation and liberalisation, signalling the end of a key pillar of state control over capital and the domestic economy, and with the chaebol coming to play an increasingly powerful role in the control of capital and investment (ibid.: 446).

After the transition to democracy in 1987, the chaebol placed ever greater pressure upon the state to address their evolving interests as they underwent the transition from domestic capital subordinated to a relatively powerful state to transnational capital keen to delink from nationally centred efforts that had shaped Korean development for almost three decades (ibid.: 447–8). As Lee writes:
From the early 1990s, Korean chaebol started introducing what was known as a ‘New Management Strategy’ (shin gyeongyeong jeollyak). This new management approach aimed at making their operation more competitive both internally and internationally. First, the chaebol strived to globalize their research and development, production, marketing, and sales to become top global corporations. At the same time, they targeted to increase the managerial control over labor processes against organized labor that was exercising its newly gained, rising influence on the shop floor. Firms introduced various methods for tighter management of labor, such as automation of production lines, performance-based remuneration and promotion schemes... Chaebol also sought to deregulate the labor market by advocating for the introduction of legal stipulations to make hiring and dismissal easy and to allow unrestricted use of contingent labor (Lee, 2014: 186).

Under Kim Young Sam’s administration, initiatives were taken to restructure (deregulate) labour relations on the back of relative gains having been made by organised labour during the democratic period. Moreover, substantial further privatisation efforts were made in telecommunications (Korea Telecom), power (Korea Electric Power) and banking, further diminishing the state’s influence over the allocation of resources. Finally, and importantly given the emphasis of the developmental state literature on state planning, in the years leading up to Korea joining the neoliberally oriented Organisation for Economic Co-operation and Development (OECD) in 1996 and the conditional lending associated with the crisis that began in 1997, the EPB was abolished in 1994 in tandem with the creation of a new Ministry of Finance and Economy and a ‘streamlined’ version of the Ministry of Trade, Industry and Energy (Kim, 1999: 451–3).

If there was still any doubt by the late 1990s that Korea was now firmly enmeshed within the global political economy and, despite its performance, was far from immune to the disciplinary market relations associated with that, the 1997–8 crisis (often referred to as the ‘Asian Crisis’) would put paid to that. With the Korean economy languishing from large numbers of underperforming loans, record bankruptcies by over-extended sections of capital and over-investment by the chaebol, the credit rating agencies took aim, leading to a restriction in access to capital (Kim, 2000). The crisis – which was regularly attributed by many to the embrace of capital account liberalisation and other neoliberal fundamentals – would also be an important accelerator of neoliberalisation of the South Korean political economy, with
key neoliberal reform targets attached to the IMF US$57 billion-dollar conditional lending bailout package. These targets included measures to achieve macroeconomic stability, financial and monetary austerity, the deregulation of exchange rates and the restructuring of finance (with foreign private equity firms and big international financial capital swinging in to take advantage),

9 corporate efficiency and labour market flexibility (Crotty and Lee, 2006: 383–4; Kim, 1999: 453; Lee, 2014: 187). These reforms would only further the processes relating to both Korea’s internment into the world market and the weakening of the Korean state vis-à-vis capital and the national economy as understood in a developmentalist sense. Encapsulating the combined impact of cascading reforms and global market relations on the Korean state several years after the crisis, Hyuk-rae Kim wrote that ‘market liberalization and the massive movement of capital across national borders have shifted the Korean government out of its dominant position as the center point of economic governance’. Countenancing this, Yun Tae Kim wrote around the same time, ‘Instead of being in control of its own national policies, the state has had to adapt to the reality of the globalizing world economy’ (Kim, 1999: 453).

This trajectory has involved a continuing transformation of the state, with the state’s embrace of neoliberalism after the crisis yielding highly uneven outcomes. Yoonkyung Lee is unambiguous in depicting the Janus-faced nature of Korean development, with successful global chaebol brands and popular cultural exports (such as television dramas and cinema, K-pop and fashion) juxtaposed against street protests criticising increasing social polarisation and wealth inequalities. Importantly, Lee points to the ongoing transformation of the chaebol from domestic capital to transnational capital, and the prioritisation and realisation of the ‘flexible’ labour arrangements so revered under flexible accumulation and neoliberal development policy:

On the one hand, there are the chaebol (large conglomerate groups) that have grown into global corporations accounting for a lion’s share in the production of national wealth. On the other hand, the middle class is

9 Crotty and Lee (2006) note that foreign ownership for the eight largest banks in the country after the crisis had skyrocketed from 12 per cent in 1998 to 64 per cent at the end of 2004, with Korea exhibiting foreign ownership within its banking sector that exceeded nearly all of Asia and Latin America. Moreover, they also point out that foreign ownership of publicly held stock jumped from 15 per cent to 43 per cent over roughly the same period.
dwindling while the working class is becoming increasingly stratified and fragmented.

The production of a Hyundai car illustrates the case in point. Hyundai Automobile is one of the most successful global corporations made in Korea and its 2013 production recorded USD 75 billion with a net profit of USD 7.5 billion. This is about a 40% increase from 2007 in its production capacity. Yet, during these years, the company employed 2,000 additional workers while filling the remaining labor shortage of 8,000 with irregular workers (Lee, 2014: 185).

Here it is instructive that large amounts of FDI flowed outward from the country in the 2000s (comprising the equivalent of two-thirds of inward FDI (Crotty and Lee, 2006: 383)) along with the ascendancy of large-scale Korean brands, with the latter becoming a truly global presence – in terms of both production and sales:

international flexibility has led the Korean chaebols to move capital and goods around the globe, and the chaebols are increasingly freeing themselves from state control. Since the late 1980s the chaebols have aggressively launched foreign investment plans as export-led industrialization based on domestic plans gives way to globalization based on broader manufacturing bases. This spatial expansion of production systems is more likely to limit the capacity and possibilities of national economic policies (Kim, 1999: 453).

The Korean case is emblematic of the unfolding of the grand shift in the regime of accumulation outlined in the first section of this chapter and the wholesale incorporation of countries into the world market; processes which have been both furthered by various periods of neoliberal reform and, indeed, demanded more reform as states and capital attempt to maintain competitiveness within the confines of market discipline. Where once the chaebol were subordinated to the state (via control of credit allocation and protection), these ‘national champions’ were able to break free of their national shackles. Large and able conglomerates found new ways of structuring production, and new markets, and indeed pursued the development of new products and services (including financial services) to promote domestically and offshore. Here, the metamorphosis of national capitalists (previously fostered by the state and demarcated by statists and others as ‘national champions’ and ‘winners’), whose interests for a period were in sync with (and indeed dependent upon) those of national projects, into entities with transnational interests has been crucial in the relative
separation of the interests of national capitalists and nation states. Elements of this process have unfolded in many contexts as competition, marketisation (through market-oriented borrowing and exchange listings, for example) and other realities of the world market, aided and abetted by various iterations of neoliberalism, have exacted their toll. As contradictions have emerged (such as with the 1997–8 crisis, the hollowing out of the middle class and the recent dramatic rise in inequality), new waves of neoliberal reform have only further catalysed transformations in state form and policy in line with the current fervour for ‘enabling states’. Ironically, however, in the case of Korea even neoliberally oriented institutions such as the OECD have recently demonstrated high levels of concern that government has failed to embrace more PWC-style measures relating to social safety nets and social insurance coverage of non-regular workers (who make up one-third of wage earners) within the context of rapidly increasing inequality and relative poverty (OECD, 2013: 47–9).10 Importantly, though, this has not prevented the OECD from recommending many modalities associated with deep marketisation as means to improve the country’s situation (OECD 2014: 10–11).

**Conclusion**

In this chapter I have argued that the nationalist, neo-mercantilist and frequently authoritarian projects that comprised ‘developmental states’ need to be understood via dialectical analysis that pays serious attention to the contradictions and conflicting interests attending capitalism. By undertaking such analysis it is possible to comprehend the manner in which ‘developmental states’ were not simply about ideal lashings of state autonomy and bureaucratic prudence but were rather the product of an interrelated set of historically and politically unique external and internal factors (including evolving and conflictual social relations) within the context of nationally oriented capitalism and the Cold War. However, these states have been increasingly subjected to the realities of competitive transnational production and the necessary (at least for survival and/or receipt of assistance within the context of

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10 The Gini coefficient rose from around 0.26 in 1990 to 0.32 in 2011 and 15 per cent of people live on less than half the median income, up from under 8 per cent in 1990.
a liberal capitalist world economy) adoption of neoliberal policy sets that by their very nature entail the surrendering of significant autonomy (both that of bureaucratic interests and that of the nation state more broadly) to the interests of capital and the instruction of those institutions most compatible with capital’s interests: the international financial institutions that have played a crucial ideological and policing role in the expansion of neoliberalism and the world market.

Importantly, these changes in both state institutions and policies are tied to capitalism’s constellations of interests (and the relative shifts in power of these) and contradictions. Here, grand trajectories within history are wedded to the relative power of capital and labour within particular contradictory regimes of accumulation, giving rise to fierce ideological battles and various struggles between state, capital and labour. Crises of accumulation often serve as critical junctures for struggles between capital and labour over the policy sets/agendas that each would prefer, with the outcomes of these struggles reflected in particular state forms that vary within broad limits across nation states and within particular grand historical variants of the capitalist mode of production. In this manner the shift from the welfare state within the context of embedded liberalism to the regulatory/variegated market state within the backdrop of flexible accumulation has its counterpart in the shift from the developmental state to the regulatory/variegated market state.

None of this is to say that previous developmental states have been *homogenised into perfect ‘regulatory’ or ‘enabling states’* or that the state has been completely subordinated to the interests of transnational capital (hence the use of ‘variegated’ and the emphasis upon power and politics in mediating state and policy form). However, it is to say that by the benchmarks of key neoliberal agendas – such as those demanding trade and capital liberalisation, privatisation, deregulation (including financial deregulation), currency convertibility, the steering away from/avoidance of redistribution and substantive welfare systems (despite large-scale hollowing-out processes) – a qualitative shift has occurred in terms of state/policy transformation in key developmental states such as Korea. This soft infrastructure (with its impact upon the relative power of labour, fractions of capital and the state) further incentivises the spatial reorganisation of production and market access to the structural benefit of transnational capital, with the latter also leveraging (politically and materially) off important technological
developments associated with information and communications technology, automation and logistics. The above are central in the formation of the world market, leaving vastly less room for autonomy in policy making, without facing the sanctions of market-oriented IFIs or the market itself. Recalling Evans’s statement that ‘only when embeddedness and autonomy are joined up can a state be called developmental’ (Evans, 1995: 12), it now must be recognised that a qualitatively different array of institutions, social relations and incentives to those of the post-Second World War era is observable across geographical spaces – an array that increasingly has the variegated market state at its core.

References


Late Capitalism and the Shift from the ‘Developmental State’


Globalisation and Development

The Evolving Idea of the Developmental State

SHIGEKO HAYASHI

Countries labelled 'developmental states' have attracted considerable scholarly attention in the discourse on economic development over the past few decades. In particular, much ink has been splashed in efforts to explain why some East Asian countries have achieved remarkable economic development (in relative growth percentage, absolute and per capita terms) while many countries in other regions continue to struggle. Up until quite recently, in the grand debates of the late 1980s and 1990s surrounding the emergence of developmental states, developmental state theory challenged neoliberal orthodoxy and provoked intense debate about the role of the state in economic development. Today, detailing a simple dichotomy between the state and the market, or between the East Asian developmental model and the neoliberal consensus, seems less clear-cut than before. Here, the shift from the Washington consensus - which was often highlighted as being 'anti-state' - to neoliberal agendas that specify important roles for the state, such as the post-Washington consensus (PWC) in the late 1990s and more recently to what some scholars have described as 'deep marketisation', has clearly played a role in confusing matters. At the same time, the development of globalisation and the political setting after the Cold War have coattailed the neoliberal trend not only in East Asia, but also in today's global political economy in general.

Various factors have contributed to the changing character of the above statist-neoliberal debate. First, discussions about the efficacy of the developmental state model have in a way been eclipsed by the shift in focus of the international development authorities, such as the World Bank, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD). While earlier structural adjustment programs (SAPs) under the Washington consensus simply emphasised liberalisation and privatisation to promote economic efficiency, for example, the PWC approach adopted by the international financial organisations in the 1990s articulated a more sophisticated market-led approach that emphasised poverty reduction and the importance of institutions - many of which were related to the state - to address market failure. Arguments between neoliberal and developmental statists not only on how developing countries could promote economic growth and, more specifically, on what role the state should play in promoting economic efficiency. However, the new neoliberal policy framework - which emphasises the state's role in market-led development and which also embraces elements of social protection - has seemingly blurred the lines beyond the point of contention. We will discuss below how economic development is still a significant item on the international agenda, but suffice it to say that new jargon emanating from various international organisations and their promotion of social protection arrangements to complement more traditional neoliberal economic policy appear to have overwhelmed the developmental state approach. Importantly, though, while some might have the impression that the gap between the above two approaches has become narrower, as I make clear below significant differences still exist. That is to say, the PWC and deep marketisation fundamentally represent neoliberal economic and development perspectives, from which the emphasis of the developmental state approach differs theoretically and methodologically.

Second, for critics of developmental state theory, the deepening globalisation of the world economy and the end of the Cold War mean that today's developing countries have increasingly fewer policy tools for state-led development. The World Trade Organization (WTO) requires developing countries to liberalise trade at much earlier stages of
development than the developmental states of the past. The new post-Cold War international order is much less tolerant of the exercise of protectionist developmental state policy. Under the bipolarity of the past, the US accepted the intensive export drive of East Asian countries, but large trade deficits resulting from "unfair" policies became less tolerated with the conclusion of the Cold War. Critics of developmental state theory argue that the policy tools associated with the developmental state are a mismatch with today's global conditions, which apparently demand policy adjustments to improve liberalised competitiveness. Put simply, the profound changes in the international political economy appear to have given critics grounds to argue that state-led economic development is a thing of the past.

In fact, some scholars (including in this volume) observe that a key element of the developmental state—namely protection of national industry—has been increasingly irrelevant in East Asia since the late 1980s. The transition towards a more market-oriented economy seems to have started in Japan and South Korea as early as the 1980s. Furthermore, East Asian economies have been increasingly integrated into the global economy, which has fostered regional economic dynamism. While the first-generation developmental state protagonists, namely Japan, South Korea and Taiwan, largely relied on infant-industry protection, the newcomers in South East Asia have achieved economic development by participating in the rapid expansion of regional trade and FDI networks. Unlike North East Asia, South East Asian countries have realised economic gains through the liberalisation of trade, FDI and the introduction of various macro-prudential measures (Urata, 2001). East Asia's political economy is considerably different to the state-led development models of the post-war period, with Japanese-style industrialisation policy, subsidies and protectionism increasingly displaced by an FDI-led development model which became increasingly prominent in the 1990s. For critics of the developmental state approach, this signalled the continuing retreat of industrial policy in East Asia, as countries have come to recognise the advantages of openness and accepted the discipline of the WTO (Yunuf, 2001). These observations may have challenged the popularity of the developmental state approach, driving us to question whether the developmental state model has been giving way to a more liberal market-led political economy in East Asia. We will examine this point later, but to put it simply, this chapter argues that the South East Asian experience over the last few decades demonstrates the continued importance of developmental state policies under globalisation. The ascendancy of FDI-led development off the back of regional economic integration does not mean, however, that South East Asian countries have left their fate to the market.

This chapter analyses the evolution of both developmental state strategies and scholarship. It addresses the synergies and contestation between the now-dominant neoliberal policy frameworks emanating from international organisations and developmental state theory. I argue that developmental state theory still retains utility and attracts interest from policymakers, albeit in modified form and with important conditionalities that derive from increased liberalisation and demands from civil society.

From the Washington Consensus to the Post-Washington Consensus

The role of the state relative to the market in promoting economic development has always been a subject of academic controversy. In the early decades of the post-war period, structuralism, which placed faith in the state, was the dominant idea of development economics. Many developing countries adopted an import-substitution industrialisation (ISI) strategy designed to encourage domestic capital formation and the emergence of domestic industry. However, ISI generated serious economic imbalances. The onset of severe debt crises in developing countries forced countries to reform their economic policies as the IMF and the World Bank embarked upon structural adjustment in the early 1980s. Accordingly, the 1980s witnessed a complete turnaround from state-led development to market-oriented approaches in the wake of serious economic shocks and enduring poverty in the developing world. Increasingly, neoliberalism displaced structuralism and ISI, assuming mainstream status in the study and practice of economic development. Notably, under an arrangement known as 'conditionality', developing countries were required to undertake a package of neoliberal reforms in order to obtain financial assistance from the IMF and the World Bank.

However, the heyday of neoliberalism, or the Washington consensus, did not last long. Through the course of the 1990s it became increasingly apparent that the policies implemented based on the Washington
consensus did not work as well as had been desired. Poor achievements in promoting economic growth and reducing poverty in many low-income countries were particularly evident. In Latin America, after the troubled decade of the 1980s, neoliberal reforms did help stimulate economic growth and poverty reduction in the early 1990s. However, this was short-lived. Formerly centrally planned economies adopted SAPs, but the transition crisis was much deeper and longer than had been thought. Furthermore, under structural adjustment African economies—some of the most prominent recipients of conditional lending—failed to take off, with the period dubbed 'Africa's lost decade'. Various international economic organizations, the World Bank in particular, became increasingly aware that liberalization alone was not enough for developing countries to overcome underdevelopment and poverty, officially admitting the limitations of the Washington consensus as a growth strategy. Reflecting on its policy sets, the Bank acknowledged that the economic policy reforms of the 1990s yielded results that were below expectations. While the Bank claimed that reforms had enabled better use of existing capacity, it also acknowledged that the reforms did not afford strong incentives for expanding that capacity, signalling that economic growth would require more than simply the efficient use of existing resources (World Bank 2005a). In general, wide recognition that neoliberal reforms under the Washington consensus had not produced the desired outcomes forced the international development organizations to reassess their policy approaches and philosophy throughout the course of the 1990s.

Importantly, the thinking of various international organizations was also influenced by a decade-long debate about East Asian economic success. While structural adjustment did not work as expected in Africa, Latin America and transitional countries in Eastern Europe, some countries in East Asia that seemed not to have followed neoliberal policies outperformed their developing-country peers. In the face of empirical evidence and political pressure, it became increasingly difficult for the international economic organizations to overlook this. It was manifest to most that some East Asian countries had surpassed others, but their experience provoked considerable controversy about what distinguished these countries from others; indeed, neoliberal institutions had originally argued in the 1980s that East Asia achieved its economic success on the back of integrating deeply into the world economy through export-led, outward-oriented strategies.

In other words, East Asian success was a demonstration of the superiority of market-centred neoliberal policies. This attitude was challenged in the course of the 1990s by a statist position that argued the opposite.

Notably, the interpretation of East Asian success had caused intense arguments between the Japanese government and the Washington consensus institutions (see Hayashi, 2006: 70–71). The Japanese government began to raise questions about the prevailing neoclassical orthodoxy in the early 1990s. Japan's articulation of the cause of East Asian success was triggered by a practical problem. Japan's subsidised policy-directed loans to various developing countries, which were targeted at specific sectors, were opposed by the World Bank. This was unacceptable to Japanese officials, as the policy-directed loans were one of the main vehicles of Japan's foreign aid. Japanese officials began to study the World Bank's approach, specifically structural adjustment, and found that the policies that the Washington consensus institutions had imposed on developing countries were firmly at odds with Japan's experience of economic development. Japanese officials began to voice their disagreement with the World Bank's policies, arguing that well-designed and well-operated industrial policies were key ingredients that had contributed to East Asia's economic performance. Among Japanese academics and officials there has long been a consensus as to the significance of the state in economic development. Observing the Japanese postwar experience from inside Japan, the idea that there are certain sectors in developing economies that require special support from the government in order to achieve sustainable economic development in the long term was broadly recognised. The World Bank and Japan became aware of the fundamental difference between them in the early 1990s, when Japan's economic power and stature within multilateral organisations was growing rapidly. This confluence of factors led to a major study entitled The East Asian Miracle (World Bank, 1993), which was sponsored by Japan and conducted by World Bank staff and outside experts.

At the same time, a large amount of literature was emerging that pointed to non-orthodox policies and the broader structure of the developmental state as being responsible for East Asia's superior performance. The concept of the developmental state has been advanced theoretically and empirically since Chalmers Johnson's seminal work on the role played by the Japanese Ministry of International
Trade and Industry (Johnson, 1982). In essence, developmental state theory advocates state-led industrialisation centering on industrial policy with long-term perspectives. The specific institutional characteristics of the developmental state have been extensively discussed, although, as considered above, the developmental state has taken various institutional forms. The essential element of the developmental state is its plan-rational characteristics, in which the state has developmental goals, intervenes in the economy to achieve those goals, and guides the market through industrial policy. Industrial policy, in essence, is the targeting of priority industry from a long-term perspective without regard to the principle of comparative advantage.

It is now generally accepted that the state played a crucial role in East Asian economic success, or at least accepted that the role of the state was more than minimal. The explanation of East Asian economic development consolidated over time, where the role of the developmental state became increasingly recognised. In fact, as early as 1991 the World Bank noted that development was associated with the availability of a range of institutional endowments (including, for example, the rule of law, the existence of property rights) and a range of requisite capacities associated with efficiency and effectiveness in the functioning of these institutions (World Bank, 1991). As discussed below, however, the fundamental disagreement over the efficacy of industrial policy was not narrowed, and the position of the World Bank never went beyond the confines of neoclassical economics. However, it is important to note that a role for the state in economic development began to be recognised by various multilateral development organisations—although this was a differently envisaged role to that associated with the developmental state.

By the turn of the millennium, various international economic organisations came to recognise fully that an approach ‘beyond’ the Washington consensus was needed. Indeed, given the numerous failures of neoliberal policy prescriptions across a swath of countries in Africa, Latin America and Eastern Europe, it was evident that institutions like the World Bank and IMF, if not more broadly the Washington consensus itself, were facing a crisis of credibility, prompting reflection at senior levels about means and ways to innovate their ideological agenda to stay relevant. Further, in the wake of the Asian financial crisis of 1997-8, the IMF and World Bank had faced enormous criticism, with SAPs, in particular, blamed for deepening the crisis rather than ameliorating it, raising further questions about their credibility and future possible engagement in the region. Added to this were structural changes in the global and regional political economy. In particular, rapid economic development in China, India and other Asian economies, whose developmental policies had remained highly unconventional by Washington consensus standards, including the use of trade protection, state intervention into the economy, state-directed credit, and targeted industrial policies, was laying bare a huge gulf between neoliberal policy prescriptions and state practices in the region. As Rodrik (2006: 975) noted, ‘had they been dismal failures instead of the successes they turned out to be, they would have arguably presented strong evidence in support of Washington Consensus policies’. In short, the ascendance of the PWC is regarded as a response to the international conditions that the Washington Consensus had encountered in the 1990s. The emphasis on liberalisation, deregulation and privatisation had to be replaced by a set of new foci in international development communities.

The new international development assistance framework that has largely replaced the Washington consensus contains a broad agenda. It is founded on the development of new institutional economics (NIE), which investigates the significance of market imperfection and failure arising from various factors, such as the problems of information asymmetries and transaction costs. NIE is compatible with many of the fundamental assumptions of neoliberalism, and thus the PWC should be understood as an extension of neoliberal development policy to non-economic factors rather than a significant departure from it. Here we analyse this new trend by considering two key features: (1) the stronger focus on social protection and (2) the wider recognition of the significance of institutions, namely the state and various institutions within the state. Subsequently, the question then arises what developmental state theory can offer given the shift in focus of the PWC.

The emphasis on social protection in the post-Washington consensus was a recognition that poverty reduction is not an automatic by-product of economic growth and must be addressed directly.

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3 Rodrik (2002) raises ten issues that were added to the original list of the Washington consensus: corporate governance, anti-corruption, flexible labour markets, WTO agreements, financial codes and standards, ‘prudent’ capital-account opening, non-intermediate exchange rate regimes, independent central banks/inflation targeting, social safety nets and targeted poverty reduction.
Globalisation and Development

Furthermore, the apparent difficulties the Washington consensus experienced caused various international economic organisations to recognise that neoliberal reforms would not work without effective institutions. They came to recognise that the key to promoting economic development was to develop institutions that would rectify market imperfections. The significance of well-functioning institutions became increasingly acknowledged in terms of the way the state, as the primary institution, could provide legal, financial, trade, labour market, healthcare and education institutions that otherwise comprised an enabling environment necessary to the operation of efficient markets and thus economic development. While the role of the state under the Washington consensus had been viewed as largely anachronical to market operation, under the PWC the significance of the state was elevated and now seen as a central contributory factor and determinant of market functionality.

In the ideational move by various international organisations from the Washington consensus to the PWC, direct confrontation between neoliberals and statists tended to abate somewhat – albeit different attitudes toward market-distorting state interventions and industrial policy persisted. Indeed, with the rise of the PWC, the salience of developmental state perspectives appeared to be ‘mainstreamed’, fit inside the ideological tent of multilateral developmental organisations in ways that attempted to downplay contrarian perspectives. That said, it is important to be clear that the very nature of developmental state approaches, and the demonstrable historical utility of state-led developmental policy in developing economic growth and industrialisation, continued to offer important insights for developing economies.

Is There Convergence of Development Philosophy?

New approaches to development by international organisations might have blurred the discussions between developmental state advocates and neoliberals. In fact, the former seem to have been overwhelmed by the latter. The new PRSP scheme, for example, is highly influential as it requires developing countries to follow its recommendations in order to be eligible to receive international economic assistance. In doing so, the increasing emphasis on state institutions under the PWC framework has tended to sublimate the practical policy differences between PWC and developmental state policy agendas.

*For an empirical account of the creation of the MDGs, see Holden (2009).*
However, developmental state theory as a research programme still holds a distinct place in the discourse on international development, posing an alternative framework to the agendas of various international organisations. For example, while neoliberal ideational values remain intact under the PWC, dirigiste policy orientations remain strongly entailed in developmental state theoretical approaches and practically industrial policy agendas. The PWC centring on CDS, PRSP and MDGs is not a substantive departure from the earlier Washington consensus. As touched upon above, we could rather regard this move as meaning that the controllability in the Washington consensus has been expanded to non-economic factors. Responding to the disappointing outcomes of structural adjustment and the recognition that its failure was due to 'an inadequate application of an otherwise sound set of principles', the Washington consensus had to be 'augmented', entailing extensive institutional reforms (Rodrik, 2002: 1). In this sense, the PWC just makes the list of reforms longer to broaden the scope of development assistance, but remains within the bounds of neoliberalism. As Carroll (2010: 3) puts it, the PWC is a political attempt to 'relegitimise market-led development, embed market society and institute market citizenship in the name of poverty reduction'.

Most importantly, the two approaches still differ about how, and indeed whether, the government should proactively intervene in the market to rectify market failures and improve economic efficiency and competitiveness. For neoliberalists, market failures should unambiguously be addressed by market-friendly institutions (often captured under the banners of 'good governance' or 'enabling environments'), with efficiency seen to be realised by allowing markets to allocate resources. For developmentalists, the market still matters. However, active engagement by government in industrial policy and industrial competitiveness is still prioritised as important. In essence, what developmental state theory argues is that the state should take more active roles to establish market mechanisms and make them work rather than merely remove obstacles (Hayashi, 2006). Subsequently, industrial policy remains the key point of contention between developmental state theorists and Washington consensus institutions.

As noted above, responding to situations where neoliberal reforms did not work as expected in developing and transitioned countries in the 1990s, neoliberal institutions began to stress the need to improve political, economic and social institutions. However, the World Bank and other neoliberal development organisations remain cautious about recommending industrial policy to developing countries. The World Bank still characterises industrial policy as a 'gamble'; 'the more ambitious the goal and the weaker the governance, the longer the odds of success' (World Bank 2005a: 13). The discussion about whether selective or targeted intervention is justified continues to revolve around the same point. The World Bank still contends that the market, not the state, should be responsible for a country's economic and industrial structure, and what is needed is functioning institutions and good governance so that the market is able to function optimally and thus generate welfare gains. As the Bank notes, there are many examples of selective interventions going spectacularly wrong — at best wasting public resources, but sometimes creating large distortions that harm the investment climate, and distracting attention from broader improvements' (World Bank 2005a: 13). Advocates of the developmental state, on the other hand, criticise the World Bank's position as merely aiming to create Western-style institutions while ignoring the past performance of developmental states.6

The pro-poor nature of the PRSP framework has gradually incorporated more growth-oriented characteristics since the mid-2000s.7 The recent emphasis of the World Bank and the international aid community on what it terms an inclusive-growth paradigm is particularly noteworthy. The World Bank states that rapid and sustained poverty reduction requires inclusive growth: growth should be broad-based across sectors and inclusive of a large part of a country’s labour force (World Bank, 2009). However, the position of the World Bank on industrial policy remains the same. It clearly states that inclusive growth does not imply a return to government-sponsored industrial policies (ibid.).

In addition to disagreement over the efficacy of industrial policy, the PRSP framework and developmental state theory exhibit important methodological differences, too. The PRSP is in essence a neoliberal framework in that it requires developing countries to adopt international best practices as outlined by multilateral agencies like the World Bank, along with the precepts of its 'good governance' agenda which stipulate a swath of governance mechanisms associated with transparency, accountability, and the construction of regulatory systems of

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6 For example, see Oko and Obin (2002).
7 This move is observed in a growing literature, including World Bank (2005a, 2005b) and Commission of Growth and Development (2008).
It is argued that global circumstances have changed considerably over the past few decades, and the conditions that allowed the East Asian developmental state to deliver rapid and remarkable economic transformation for various countries in Asia historically perhaps no longer exist today. However, despite these observations, as we will see below, the developmental state approach still maintains an important position in the discourse on international development. More generally, the developmental state approach retains considerable intellectual and practical appeal among policymakers, offering practical policy sets and an historically proven 'roadmap' by which to engineer industrial expansion.

That said, it cannot be denied that today's developing countries would have difficulties adopting the same policies as Japan, South Korea or Taiwan did. These countries implemented various protectionist measures when they had been experiencing rapid growth. However, the international political and economic climate has been substantially transformed over the last few decades. In the immediate post-war period, for example, geopolitical confrontation, and subsequent war on the Korean peninsula and in Vietnam, created a political climate in which various East Asian states were given preferential economic treatment and access to the American market in order to bolster their economic development and ward off threats of communist insurgency - preferential treatment which included American tolerance for domestic protectionist measures. The two wars in Korea and Vietnam and the Cold War directly and indirectly expanded markets for exports from the East Asian countries with increased American aid and spending in the region (Stubbs 2005, 2009). The end of the Cold War – and the broader security and economic relationships that accompanied it – signifies the demise of older-style industrial policy and its ability to foster infant industries. The US and other developed countries have increasingly put pressure on developing countries to liberalise economic activities bilaterally and through international organisations, including the WTO, the IMF and the World Bank. Liberalism (or neoliberalism) has become the predominant norm, pushing the trend of globalisation further forward. Developing countries have been under enormous pressure to integrate fully with the global economy, increasingly subject to an open-market logic and progressively required to dismantle forms of protectionism which historically provided the basis for their accelerated industrial development.
However, in and of itself, this should not be interpreted as an end to the developmental state or that dirigiste industrial policies have disappeared entirely from the arsenal of developing states. Dirigisme is not monolithic or set in stone; it too is a product of its time and place. In East Asia it reflected a particular moment in the region’s post-war evolution, and in the evolution of the international division of labour which facilitated the possibility of offshore industrial relocation which benefited, in the first instance, Japan, South Korea and then Taiwan. Indeed, it represented the development of industrial policies that were responding to these exogenous transformations in the organisation of international production and the declining costs associated with international shipping and communications (Wade, 2014). With the ongoing transformation in the regional and global political economies, the more pertinent question to ask is what type of policy is available to government today—or how can overtly dirigiste policies be modified in the face of deepening liberalisation to meet the precise needs of developing states (Ferraz, Kupfer and Marques, 2014, UNCTAD, 2014)?

In this respect, the experiences of some South East Asian countries should not be overlooked, as they provide a scenario in which today’s developing countries could successfully implement developmental policies. South East Asian countries did not depend extensively on protection of infant industries. They promoted particular sectors that they thought would have a significantly positive impact on their economies through selective FDI. Unlike infant-industry protection, FDI-led industrialisation through trade and investment liberalisation allows developing countries to guide and promote economic development by being proactively engaged in the global economy, and thereby can generally comply with WTO rules. Industrial policy can help developing countries to attract FDI, and direct multinational corporations (MNCs) into strategic sectors (Chang, 2003, Kasahara, 2013). South East Asian countries’ FDI-led industrialisation significantly differs from the experiences of North East Asian countries in that it relies on foreign companies, rather than nurturing national firms. In fact, South East Asian countries exchanged their ambition to build nationally controlled industries for efforts to secure more advantageous positions within MNC-orchestrated international divisions of labour (Pelker, 2003).

Although FDI and integration into global and regional economies helped some South East Asian economies take off and successfully upgrade their industrial and economic bases, we must note that there is still a significant economic gap between the first generation of developmental states and high-achieving South East Asian followers, specifically Thailand and Malaysia. MNCs have enabled Thailand and Malaysia to achieve middle-income status, but these countries have not risen to the level of economic development of South Korea or Taiwan. As Ohno (2009) asserts, South East Asian middle-income countries must deal with foreign dependence on technology and management in order to overcome the middle-income trap. This issue may merit further research, but Ohno argues that liberalisation and good governance would not help the middle-income economies to continue to grow to a higher income level, and policy beyond the neoliberal consensus—namely policy to enhance technology transfer, industrial clusters and industrial human resources—is required (Ohno, 2009). The importance of high policy capability/leadership with a proper industrial vision cannot be stressed enough.

It must be noted, however, that, given that there are a considerable number of countries who fall far short of middle-income status, South East Asian experiences could provide important insights into what low-income developing countries could do to facilitate industrialisation and reduce poverty. In fact, today’s developing countries have taken note of the successful experiences of North East and South East Asian countries and the role that the developmental state played, despite the dominance of the PRSP framework orchestrated by international economic organisations and major developed countries (Ohno, 2013: 25-51). In this respect, discussions about the African developmental state might usefully be examined here. African states are not generally associated with the concept of the developmental state; however, the prospect of establishing developmental states in Africa has drawn notable interest of late.

There has been general scepticism about the feasibility of establishing effective developmental states in Africa among international development authorities. The WDR 1997 contended that activist industrial policy can be a recipe for disaster, unless countries have unusually strong institutional capability (World Bank, 1997: 74-5). Many African states apparently lack such a quality. It is generally thought
that African states fall far short of development-oriented leadership. The above report in fact warned that an urgent priority in Africa was to build state capability through an overhaul of public institutions and credible checks on the abuse of state power (ibid.: 162). In addition, the poor performance of state-led development policies in the post-colonial era has greatly contributed to the negative view of establishing the developmental state in Africa (UNCTAD, 2007).

However, there has been growing recognition among African scholars that African countries need some form of the developmental state given the sheer plight of their economic conditions since the 1990s. The apparent failure of neoliberal structural adjustment in the 1980s led to a number of developmental proposals being put forward as an alternative to SAPs, and began to force African scholars and policymakers to rethink a new strategy (Edighieji, 2005). The economic success of some East Asian countries had a tremendous impact on their thinking, and commenced a series of intensive debates about the suitability and adaptability of the developmental state model in the African context (Meyns and Musamba, 2010).

Today, there is a tacit consensus, at least among some African scholars and policymakers, about the need to adopt developmental state models as a means to rapidly accelerate economic growth and development (UN Economic Commission for Africa and African Union, 2014). A large part of the African population remains trapped in economic poverty, facing rampant unemployment and inequality despite average growth of 5 per cent a year over the last decade (ibid.). The same report argues that this ‘paradox’ is due to the fact that the contribution from industrialisation was minimal, and Africans still depend on agriculture for their livelihoods. The need for industrial policy is felt strongly in Africa. Notably, Mkandawire (2001) argues against those who question the feasibility of adopting developmental state modalities and structures in Africa, pointing to the instructive historical efforts of policymakers and other elites in driving dirigiste agendas in other settings.

This said, debates rage over Africa’s ability to pursue developmental state policies and, where they are countenanced, the precise form that they should take. For example, a number of African scholars and policymakers emphasise that democratic governance must be a component of the African developmental state. The emphasis upon democratic governance is perhaps to be expected given that Africa’s poor

post-colonial developmental outcomes are often attributed to undemocratic, top-down and, indeed, predatory regimes (Edighieji, 2005). Moreover, although the World Bank and IMF deem their work to be apolitical – as stipulated by their mandates – the demands from these and other organisations, such as the OECD, are regularly viewed in highly political terms by many within African civil society, which has become increasingly vocal given ongoing economic difficulties facing the continent. Subsequently, debates over the applicability of developmental state modalities for the African context have strongly focused upon democratic developmental states, in marked contrast to earlier iterations in East Asia.

Conclusion

This chapter has argued that, despite being seemingly overwhelmed by the new international development agenda that emerged from the mid-1990s on, the developmental state and its attendant policy modalities still retain salience in both scholarly and policy circles. Moreover, the claim that the developmental state constitutes an anachronism in the era of globalisation should be treated with caution. Indeed, the resilience of developmental state theory and interest in the experience of East Asian developmental states within scholarly and policy-making circles in developing countries attests to an emerging renaissance for the developmental state, albeit with important qualifications and modifications. It still remains to be seen how the policies of the developmental state can be adapted to new international political and economic realities. There are good grounds, theoretical and historical, however, to think that strong and capable institutions are needed to advance economic development, and it would seem that such institutions are regularly of a very different form to those promoted within the good-governance agenda of the international financial institutions.

References

Globalization and Development


Late Capitalism and the Shift from the 'Developmental State' to the Variegated Market State

TOBY CARROLL

Introduction

In this chapter I argue that previous developmentalist/neoliberal capitalist regimes in Asia have exhibited important changes, shifting from 'developmental states' to states that increasingly reflect the imperatives of reorganising state and society around market rationality. This shift is evident in terms of the increased adoption over time of key policy sets that reduce national policy autonomy and increasingly constrain the push for national competitiveness within developmentally anaemic neoliberal boundaries. This transformation has not generated homogeneous simple 'monolithic neoliberal states', nor has it completely deconstructed 'developmentalism' state structures. This said, policy agendas and state structures have undeniably altered—consistently evolving with important transformations in the global political economy, the contested evolution of neoliberalism and critical junctures related to both of these, such as the crisis of 1997–8.

To understand the transformation of what were previously dubbed 'developmental states' it is important to focus on several formative processes. The first of these has been a dramatically changing global political economy, characterised by the demise of Fordist/nation-state oriented development regimes to what Harvey (2007: 75–6) describes as 'flexible accumulation': a pattern of accumulation involving the diffusion of neoliberalism and the reorganisation of production on the back of this and technological advancements. This tectonic shift has provided the gestating context for various battles between fractions of capital, labour and sections of the state over state form and policy, and culminated in the fracturing of the state—capital/capital—labour compromises that variously underpinned developmental states and the 'welfare' and social-democratic states in the West. The onset of flexible