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MIRACLES AND MYSTERIES IN THE ECONOMIC TAKE-OFF OF TAIWAN AND SOUTH KOREA (1)

Introduction

'Economic miracle' is a term frequently applied to the post-World War Two experiences of Taiwan and South Korea (2). A proper regard for the fragility of the scientific element in social science would perhaps imply a continued use of the word 'miracle' in a rather literal sense. For the capacity of social science to explain inter-country variation in GNP growth rates in very questionable. We should perhaps humbly accept that there is an element of mystery here.

I am prepared to proffer a little humility. At the same time, I submit that the mystery lies not so much in the overall causes of high GNP growth rates as in the reasons why the Taiwanese and South Korean states managed to intervene in such a relatively efficient and effective way to promote this growth. In other words, (a) the broad causes of this good economic performance are fairly clear, at least with the wisdom of hindsight; and (b) the direct state promotion of industry is one of these causes. 'All' that remains mysterious is why the efforts of the Taiwanese and South Korean governments to promote industry did not flounder, as they have in so many other countries, under the combined weight of corruption and the inability of bureaucracies to out-perform the market.

The Causes of Growth

Economists sometimes look back at Taiwan and South Korea (henceforth Korea) in the late 1940s and early 1950s and infer that conditions then were not intrinsically favourable for rapid economic growth. True, they might agree, that forced economic development under Japanese colonial rule in the first half of the century had left a useful legacy - relatively educated populations; substantial physical infrastructure; a fairly productive agriculture and agro-based industry in Taiwan; and an industrial manufacturing base in Korea. But, it might then be argued (a) in Korea at least much of this infrastructure was destroyed during the Korea War; (b) the departure of the Japanese had removed most of the senior industrial

and administrative cadre; (c) the substantial American aid which arrived in the 1950s and 1960s merely offset high military expenditure; and (d) all this left both countries with poverty, few natural resources, dense populations, capital scarcity, and major employment problems. It is but a short step to suggest that, since Taiwan and Korea were soon to become manifestly successful economically, a major cause must have been correct government policies, where "correct" implies market-conforming.

A less economistic stance, and one which focuses on institutions, geopolitical relations, and opportunities, as well as on factors of production in the narrow sense, generates a far less pessimistic diagnosis of the economic prospects for Taiwan and Korea in the early 1950s. Circumstances which at the time were perceived largely as threats and constraints can now be seen in a more positive light, especially if one starts from the notion of Taiwan and Korea as components of a Northeast Asian politico-economic system at the very forefront of the Cold War (3). Major features of this scene were: the rapid recovery and growth of the Japanese economy, with which Taiwan and Korea had close historic links and to which they, alone among the countries of the 'Western bloc', and therefore, alone among acceptable trading partners, were geographically adjacent; the 'American umbrella' - the de facto guarantees of political stability and external support for effective government which were by-products of Taiwan and Korea's geo-political position, vulnerability and value to the West; substantial foreign aid, especially from the US; privileged access to American and Japanese markets (including the Americans-in-Vietnam-market) at a time when world trade and thus export markets were growing unusually fast; and the dominant imperative to develop experienced by the governments of the Republic of China in Taiwan Province and the Republic of Korea by virtue of both the external military threat and the internal political threat deriving from competition with the governments of the Peoples Republic of China and the Democratic People's Republic of Korea for the right to speak for all the people of China and Korea respectively.

Taiwan and Korea, therefore, had unusually high levels of opportunity, foreign support and internal governmental commitment to economic growth. To this extent their economic success can be viewed mainly as a product of a favourable historical conjuncture which is unlikely to recur. That might seem to imply that there are no 'lessons' to be learned by other poor countries. In fact I believe there are 'lessons', although they are irritatingly general and often negative, rather than simple formulae which may be applied in other circumstances. These 'lessons' concern the way in which the Taiwanese and Korea states were able to capitalise on some promising circumstances by implementing what appear to have been rather successful policies for promoting industrial growth.

States and Industrial Policy

Currently-fashionable doctrine tells us that there are severe limits on the ability of states to accelerate the rate of economic growth through direct promotion of new economic enterprises. The role of government is mainly supportive, and should be focused on providing a favourable environment: physical infrastructure, a legal framework, political and policy stability and predictability etc. According to the degree of dogmatism, the state may be permitted to provide a range of relatively unselective supporting incentives, e.g. time-bound tax holdings, tariff protection etc. for fairly broad categories of economic activity. The suggestion that governments might take a strong lead in selecting particular activities for new investment and promoting them by favouring a rather small number of enterprises is generally interpreted as adherence to statist planning paradigm which has been discredited by experience.

I have considerable sympathy with the current worldwide flight from economic statism to the market and to economic liberalism. A great deal of experience does indeed suggest that politicians and bureaucrats find it far easier to supplant and repress the market than to match it in terms of efficiency and innovation. What I do disagree with is the implication that all statist economic strategies are inferior to all market strategies under all circumstances. For Taiwan and Korea do seem to fall into a category of cases which prove the opposite: that state dirigisme can generate faster growth than can reliance on market incentives.

Let us look first at the abstract side of the argument. A clear case can be made that in certain circumstances state promotion of investment and innovation could generate a higher GNP growth rate than could the market alone. For, under a market-oriented capitalist economic system, there are at least three sets of factors which might tend to depress rates of investment and innovation below levels which are optimal on formal economic criteria.

In the first place, normal risk aversion will discourage capital owners from investing in fixed assets, and thus in direct production, and conversely encourage use of capital in trading or hoarding in liquid or semi-liquid form, possibly overseas. The extent of this divergence between

private and social rationality will be greater: in situations of political uncertainty; where governments have a weak financial base and are subject to a continual temptation to raise heavy taxes, formal or informal, on 'captive' capital embodied in fixed productive investment; and where potential investment projects are big, innovative, and have long gestation periods. Here we are largely talking of issues which have a long history in development studies - the apparent absence of entrepreneurship and the 'comprador' rather than 'national' nature of the bourgeoisie. These problems have been re-discovered by at least some of the 'early adopters' in the current wave of economic liberalisation.

In the second place, the interdependence of private investment decisions can result in a vicious circle of low expectations and low investment in circumstances where economic performance has long been poor. Capitalists A, B, C may decide to, respectively, renovate the cotton plant, expand the textile mill, and establish a shirt making business if each is sure that the other will act. But, without that assurance, each individual may decide to play safe.

In the third place, there is an innate conservatism within individual business enterprises. They are managed by people who are relatively good at doing whatever it is that the firm already does. An opportunity to diversify from importing trucks into local assembly may be passed by - or indeed, never created - because a venture into factory production will disturb the status and peace of mind of the traders who currently manage the business.

It is then easy to conceive of plausible circumstances in which a powerful agent, the government, induces, through a variable combination of incentive, pressure and confidence-creation, rates of private sector investment and innovation higher than those which would result from reliance on market signals alone. And this is the achievement of several governments in the post-World War Two era, notably Taiwan, Korea, Japan and, in the earlier decades, France.

State Capitalism

There are of course differences between Taiwan, Korea, Japan and France in the mechnisms used by government to promote private sector industrial geowth. Equally, both detailed industrial policy mechanisms and state-society relations have evolved over time within these countries. The focus here is on the basic smilitarities. The dominant features are:

1. Targets for structural economic change and innovation have been derived from the experiences of more advance countries. For Taiwan and Korea in particular Japan has not only been a source of more advanced technology at any moment in time. It has also been interpreted as a model for structural economic change - 'if Japan went into the production of X commodity five years after establishing industry Y, then we should at least have a bias in favour of doing the same thing'. This is a special category of 'catching-up'. Because of the close affinities and contacts with Japan, there has been a tendency to catch-up by following in Japan's footsteps.
2. Government has established relatively high-powered intelligence and planning agencies with staff who have specialists' understanding of industry and industrial technology and the capacity to translate strategic goals (e.g. establish a ship-building industry) in detail operational targets for sub-sectors of the economy (e.g. develop the capacity to do A kind of specialist welding, and to manufacture B kind of diesel engines).
3. Regular channels have been created for interaction between the private sector and state agencies over the formulation and detailed implementation of planning goals. In Taiwan the industry association, created and to some degree administered by the state, has been a widely used channel. In Korea industrial development has been to a large degree based on privileged relations between the state and a few large trading companies (jaebol), with increasingly-familiar names such as Hyundai and Samsung. There was relatively little need for intermediary industrial organisations between Korean state agencies and the individual form.
4. Most importantly, state agencies have exercised real influence over the investment decisions of individual firms. The instruments have varied widely, and have included the tax remissions and investment subsidies which are available in virtually every capitalist economy. The broad difference is that, in the state capitalist cases considered here, such incentives have generally been used in a relatively discriminating fashion. They have been available for relatively narrowly-specified activities (e.g. investment in power plants meeting certain specifications) rather than for industrial investment in general or even, for example, investment in the power supply industry. Equally, the incentives tend to be negotiated more on a case-by-case basis than by the application of universal rules, and individual firms are more likely to be approached by state agencies to undertake specific projects rather than vice versa. In the French case, and rather unusually, an important planning instrument was the capacity to exempt individual firms from otherwise-rigorous controls on product prices (in a period of appreciable inflation). But in each of our four country cases the dominant instrument was the selective allocation of credit through banking systems owned and/or controlled by the state. In all four countries the private sector has been relatively very heavily indebted to banks and correspondingly very little dependent on equity capital (or on the judgements of private shareholders). By contrast in the USA and the UK business has depended very heavily on internally-generated funds, i.e. profits and equity issues.

National State Capitalism

The operationalisation of this state capitalist growth model requires a degree of insulation of the economy from the world economy, and, therefore, a degree of state surveillance and control of private economic activity which goes beyond the particular mechanisms outlined in the previous section. One cannot, for example, operate an effective credit rationing policy if foreign banks are given a wide scope to make domestic loans according to their own criteria, or if transnational corporations are given sufficient freedom to move funds in and out of the country that they can function as de facto bankers for their domestic suppliers and customers. In fact, in Taiwan, Korea and Japan, state economic surveillance or control has been used in a pervasive and rather consistent fashion in an attempt to maximise the share of the benefits of international economic transcations which accrues to nationals and the national economy. In particular:

1. Direct private foreign investment is carefully monitored, contracts are designed to maximise the likely transfer of technology to the domestic economy and, in Korea in particular, contracts are re-negotiated in an extra-legal fashion once the Korean side (state and firm) feels in a sufficiently strong bargaining position.
2. The real barriers to importing are considerably greater than they appear on paper, and include mechanisms which encourage domestic importers to seek very thoroughly for actual or potential domestic sources of supply before import permission and foreign currency (given separately) are

granted. There are also mechanisms to make permission to import conditional upon export performance.

3. Strong state support is given to assist domestic firms (or cartels of local firms) to penetrate foreign markets.

There is then a consistent attempt to skew in favour of both national economic actors and, in a more abstract sense, national objectives, those institutional processes which mediate between the domestic and the external economy. Such a nationalist project is not in an analytical sense a necessary component of the state capitalist model outlined above. It is, however, a major component of the political and ideological basis of the East Asian economic regimes, and to that extent practically inextricable from this variant of state capitalism.

The Conditions for State Capitalism

State capitalism appears to have been successful in Taiwan and South Korea. The criteria of 'success' is not (just) that industrial growth has been rapid - for that there could be many explanations (see above). The additional criterion is whether the states' industrial plans were fulfilled, i.e. whether the new sectors and activities which the state gave as targets, and which it then strove to fulfill, were actually realised. And the overall answer seems clearly positive. The state broadly achieved its goals, and in the context of a rate of industrial growth that is unprecedented in capitalist systems. The big question is why this approach has been successful in these cases.

One can attempt to answer this question at various levels. At the first and more direct level one can refer to particular contingent features of the post-World War Two Korean and Taiwanese context which made it easier to implement the state capitalist model.

In the first place, contingent geographical and geo-political circumstances were favourable to a substantial degree of state monitoring and control of private sector economic activity at low cost. Taiwan is literally an island economy and South Korea effectively so in a region of great geo-political and military tension where intra-regional trade has been very limited and, in their case, confined largely to trade with Japan and Hong Kong. It has been relatively easy for highly militarised and military-alert governments to collect information on foreign trade and foreign currency transactions. Similarly, it has been relatively easy to monitor and control the local activities of foreign forms and banks. Foreign banks in particular have been permitted to operate only under very

restrictive conditions. Further, because foreign merchandise trade plays such a major role in the economy, especially in Taiwan (e.g. exports and imports combined equalled GNP by 1980), control and surveillance of border transactions have provided a powerful base for control and surveillance of the economy more generally. The logistical conditions for state direction of the private sector were thus relatively favourable.

In the second place, the type of industry which was being developed in Taiwan and Korea, at least in earlier decades, was relatively unsophisticated and to a large degree a replication of industries already in existence elsewhere. For that reason the scope for planners to make major errors of judgement was less than it is in other circumstances where choices have to be made from a far wider range of options. (This statement does indeed reflect adherence to the broad notion that direct government action is not only needed to promote industry at an early stage of development, but that it is less likely at that stage to result in major errors in economic judgement.)

In the third place, and closely related to the previous point, industrial policy in Taiwan and Korea (and Japan) was relatively uncomprehensive in the sense that it did not begin from the presumption that the entire private sector should be brought under the umbrella of the planning and guidance systems. There was a tendency to focus on what were seen as the more important sectors and issues. For the rest the market was permitted a freer reign, and in particular, a large informal and nominally-illegal credit market was tolerated. The burden on the planning system was thus very much less than under socialist regimes.

These various points take us some way. But they still do not directly address what must in international comparative perspective be seen as the major set of questions: why was the state planning system not subverted by some combination of resistance from organised private economic interests (industrialists, finance capital, labour, farmers etc.) and the limited competence and corrupt self-interest of its own cadres? Were the political conditions for successful state capitalism unusually favourable in Taiwan and Korea - and Japan and France?

I would give an unhesitating positive answer to this question. All these cases seem to represent variations on a situation of 'state autonomy' in relation to domestic social and political forces ('civil society'), where 'state autonomy' is characterised by:

1. The existence of a relatively small and coherent state class which

controls the state machine and has a clear sense of mission and purpose.

2. The ability of this 'state class' to control the state bureaucracy. .
3. The relative dearth of organised political groupings in civil society.
4. The capacity of the state to control the political organisation of civil society such as to create some kind of political legitimacy and mechanisms for incorporating civil organisations into the implementation of state policy.
5. The existence of a relatively secure and predictable revenue base for the state.

Evidence may be found elsewhere that this represents a useful characterisation of the Japanese state and the French state in the 1950s and 1960s (4). For Taiwan and Korea space constraints prevent one from going more deeply here than listening the dominant features of any satisfactory account. For Taiwan the key points are: the absence of a strong indigenous bureaucratic, military, or commercial upper class because of Japanese colonial rule; the severe blow sustained by the urban middle classes by the bloody repression of Taiwanese protests against recolonisation, this time by Mainlander Nationalists, in the late 1940s; the destruction of landlords as a class by the land reform in the early 1950s; political domination by the Guomindang (KMT) Party which was organised on Leninist principles and based initially on the Mainlander population; a dense system of political surveillance and state sponsorship of a wide range of social and labour organisations and a system of limited but to some degree genuine competitive electoral politics; the capacity of the regime in the 1950s to draw a large surplus from agriculture in order to finance the state system; and the prevalence of family and individual occupational patterns which combine both family farming and industrial labour, which has blunted the formation of class or occupational political consciousness in both spheres.

For Korea the most significant points are: radical land reform in 1949 which seriously undermined the remaining (non-Japanese) landlord class; the destruction or removal to North Korea, in the course of the Korean War, of the substantial number of political radicals, rural and urban, who had constituted a major threat to the American occupation regime and its successor after 1945; the military coup of 1961 which brought permanently into key political and administrative positions members of a clique of developmentally-minded military officers led by late-President Park; the provision of substantial American aid, including food aid; the continual repression of emerging industrial labour organisations; the relative

homogeneity of the Korean people which along with the evident destruction of much 'old privilege' and a clear and successful government commitment to modernisation and material progress, has left a large proportion of the population relatively disposed to trust in the basic correctness and legitimacy of the governments' economic strategy; and existence of an electoral system which has seemed to offer at least some scope for choosing between alternatives.

At the level of detail the relevant aspects of the recent histories of Taiwan and Korea differ considerably. At a higher level of generality their stories are very similar: both had governments which were for political reasons committed to rapid material growth and due to historical contingency had the 'political space' to evolve and operate the kind of state capitalist model outlined above. In neither case were there forces in civil society sufficiently well-organised to oppose this strategy in any major way.

Mystery?

Yet have we really disposed of all mystery here? The Taiwanese and Korean states had a great deal of autonomy to implement state capitalism, and some favourable conditions in which to do so. One might add that relatively high levels of education have probably been important in running the kinds of detailed economic information systems mentioned above. And a Confucian background is certainly useful because it can be utilised relatively easily by the 'state ideological apparatuses' to justify loyalty to and trust in the government and the necessity for individual sacrifices in the collective interest.

Yet do all these factors give as a real grasp of why it is that the Taiwanese and Korean state machinery appears to have been so effective, judged at least by the results? Examined at close quarters, this state machinery is not obviously so very different from that found in other parts of Asia. And corruption is certainly not unknown. We are dealing with matters where individual judgements are formed on a extremely impressionistic basis, and almost always on the basis of implicit comparisons with the individual's perceptions of different elsewheres. I find my own interpretation of these cases very plausible; I have every expectation that other observers of Taiwan and Korea will continue to adhere to very different explanations.

Notes

(1) For the empirical basis of what I argue here, and for a great deal of my interpretation of the empirical material, I am very heavily indebted to scholars who know Taiwan and Korea better than I, but above all to my present and former colleagues Richard Leudde-Neurath, Robert Wade and Gordon White. This paper has its roots in a research project in which I was involved with these colleagues some years ago. The main conclusions of that research are published in G. White (ed.), Developmental States in East Asia, Macmillan, London, 1987. To save much space which would otherwise be consumed in copious footnoting, I make no separate reference to issues or factual points found in that book.

(2) I do not deal here with Hong Kong and Singapore as I see them as belonging to a different category. To a large degree their economic growth must be explained by their service roles in relation to wider economic regimes - as foci of entrepot trade, regional headquarters of transnational economic enterprises, and refuge for nervous capital.

(3) For an excellent explanation of this context see B. Cumings, The Origins and Development of the North East Asian Political Economy: Industrial Sectors, Product Cycles, and Political Consequences, International Organisation, 38(1), Winter 1984.

(4) See C. Johnson, MITI and the Japanese Miracle, Stanford University Press, 1982; and P. Hall, Governing the Economy. The Politics of State Intervention in Britain and France, Polity Press, London 1986.

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TAIWAN - EIN MODELL FÜR ÖKONOMISCHE ENTWICKLUNG?

I. Einführung

Die vier asiatischen Länder Hong-Kong, Südkorea, Singapur und Taiwan haben während der vergangenen zwei Jahrzehnte außergewöhnliche Erfolge in ihrer ökonomischen Entwicklung erzielt.

Worin liegen die Ursachen für diese ungeheuer rasante Entwicklung und wie kann die rasche Industrialisierung der genannten Länder erklärt werden? Kann dieser Entwicklungsprozeß wirtschaftspolitisch beeinflußt werden? Ist dieses "Modell" auf andere Länder übertragbar? Werden sie in der Lage sein, diese Entwicklung auch in Zukunft fortzusetzen?

Solche und ähnliche Fragen werden in diesem Zusammenhang häufig gestellt. In der vorliegenden Arbeit soll versucht werden, einige neue Antworten auf diese Fragen zu finden. Dabei werden wir uns allerdings auf das Beispiel Taiwans konzentrieren, da Taiwan sowohl in bezug auf den erreichten Grad der Industrialisierung als auch hinsichtlich der Größe eine Sonderstellung einnimmt.

II. Die Entwicklung Taiwans bis heute

Taiwan (Formosa) liegt auf dem Wendekreise des Krebses im Südchinesischen Meer und ist von China durch die Taiwanstraße getrennt. Heute leben auf der 36.188 km² großen Insel ca. 19 Mio. Menschen.

Vom Beginn der Sui-Dynastie (589) bis zum Ende der Ming-Dynastie (1644) wanderten nur vereinzelt Chinesen aus Südchina nach Taiwan aus. Zur Zeit der Ming-Dynastie wurde von den Holländern ein Stützpunkt im Süden des Landes ausgebaut (1624), während die Spanier eine kleine Kolonie im Norden der Insel errichteten. Als die Ming-Dynastie von der Ching-Dynastie abgelöst wurde, floh ein loyaler Fürst namens "Koxinga" (Cheng Ch'eng-kung) mit seinen Truppen nach Taiwan und vertrieb dort die Holländer (1661). Er begann ein Staatswesen nach chinesischem Vorbild aufzubauen. Damit wurde der Grundstein für den Aufbau eines politischen und ökonomischen Systems chinesischer Prägung gelegt. Unter Mitwirkung

Wir danken K. Raffer herzlich für seine wertvollen Bemerkungen und sind selbstverständlich allein für die ev. noch verbliebenen Fehler verantwortlich.