Developmental States in East Asia:[1] *Editorial Introduction*

Gordon White and Robert Wade

> 'Cosmopolitical economy . . . that science which teaches how the entire human race may attain prosperity'. 'Political economy . . . that science which limits its teaching to the inquiry how a *given nation* can obtain (under the existing conditions of the world) prosperity, civilisation, and power, by means of agriculture, industry, and commerce'.
>
> [List (1885) 1966:119]

For Friedrich List, concerned above all with how Germany could develop manufacturing industry at a time when British manufactures were sweeping all before them, the distinction between these two kinds of economics was vital. What we know as classical economics was, of course, List's 'cosmopolitical economy'. It operated on the Enlightenment assumption of citizens of the world as economic men, seeking competitive advantage in free international and internal trade. Marxian economics introduced class distinctions, but gave the division of citizens of the world into nations no more significance than it had in classical economics.

List's 'political economy' remains to this day unelaborated. In the post-Second World War era, when the role of sovereign (often newly sovereign) states in conditioning the market has become unavoidably apparent to any reader of newspapers, economics still prefers to speak of the various systems of 'political economy' mainly (though not entirely) for the purpose of demonstrating their inefficiency. It is true that development economics has debated seriously the idea that what is best for advanced and powerful countries is not necessarily best for poor and weak countries. But even within development economics there has lately been a powerful reassertion of the argument that global production would be maximised if all countries, including the poor and weak, followed free trade principles. Even if not all other countries follow these principles, the argument runs, it is still in the best interests of the citizens of any one poor country that its government should follow the principles of free trade domestically and internationally. And much of the evidence for this proposition is said to come from the capitalist states of East Asia [Little 1982].

East Asia is undoubtedly the fastest growing region of the world — with (although this is not a point that neoclassical interpretations emphasise) socialist China and North Korea also turning in relatively fast growth by international standards. In the socialist states, the principals of market economics have (until recently) been decisively rejected and there has been all-encompassing state involvement in the economy. But if we turn to Japan, South Korea and Taiwan, among the most dramatic and equitable cases in the history of capitalist development, industrialisation has in each case been accompanied by aggressive government intervention. The authorities have acted to guide markets and modulate the competitive process in a way that neoclassical economics says public officials cannot get right.

The papers in this *Bulletin* focus on different aspects of the historical experience of state economic involvement in three East Asian NICs, one socialist (China) and two capitalist (Taiwan and South Korea). Taking the two capitalist cases first, state economic involvement has been thorough-going in both (though with important differences): officials have imposed strict controls on flows of investment funds and have acted systematically to change the incentive structures of commodity markets in pursuit of national economic priorities. They have not only intervened to determine the evolving structure of the domestic economy, but also to capture the potential benefits offered by foreign capital and commodity markets by setting favourable terms of interaction conducive to strategic national goals.

As the case studies in this issue demonstrate, the Korean and Taiwanese Governments may well have

[1] Five members of the academic staff of the IDS have been working on a joint project of this name over the past two years. They would like to thank the Gatsby Charitable Trust for providing financial support for the project.

IDS Bulletin, 1984, vol 15 no 2, Institute of Development Studies, Sussex

'got the prices right' in certain important areas but this is only one part of a larger developmental story. State economic action has extended beyond the conventional arsenal of 'parametric' controls: through direct public ownership (particularly substantial in Taiwan), investment strategy, multifaceted import restrictions, direct negotiations with foreign companies and, in the Korean case, even direct coercion against sections of the business class! The distinction between 'public' and 'private', so central to conventional economic theory, has been blurred and the role of intermediate organisations (such as industry and farmers' associations), hybrid state/private institutions acting as 'transmission belts' between state and economy, has also been important, especially in Korea.

In the process of what Michell calls 'government-led growth', state action has in the main been guided by certain strategic considerations. The state has influenced the structure of the economy by regulating the terms of interaction between industry and agriculture (Moore), by protecting infant industries (Fransman), by choosing key industrial sectors for expansion (Jacobsson on the machine-tool industries in Korea and Taiwan and Enos on Korean petrochemicals) and by anticipating future needs in key sectors (Wade on the nuclear and petrochemicals industries in Taiwan). Both governments have recognised the cardinal importance of technological change and have promoted it actively through investment and manpower policies, a selective import regime and controls over foreign capital. The underlying aim throughout has been to assert the primacy of national economic interests and to develop relatively comprehensive and dynamic economies which, while heavily reliant on external transactions, can respond flexibly to fluctuations in international markets.

The crucial importance of state action in East Asian capitalist development becomes clearer if we go beyond the narrow sphere of economic policy to the domains of social structure, ideology and culture, and politics. As the articles by Hamilton and Moore suggest, economic development embodies fundamental social and political changes. In both Taiwan and South Korea, the state has acted to change class structures and establish political conditions conducive to rapid industrialisation — through major social reforms such as land reform, by subordinating the agricultural population in the first phase of industrialisation, through authoritarian political systems, nationalist ideological mobilisation and repressive (and in the Korean case intermittently brutal) controls over labour. It is important to realise that the relative 'freedom' of labour markets was maintained by political unfreedom.

In List's terms, Korea and Taiwan are prime cases of 'political economy'. Their experience, and their success, fits only partially with the theorems of neoclassical economists (Fransman provides an account of the latter). On the other hand, while it would be incorrect to describe the action of the Taiwanese and Korean states as simply 'market conforming', they have both shown considerable sensitivity to the benefits of market signals. Their real achievement has lain in their ability to *both* implement national planning priorities *and* expose their economies to market disciplines, especially international (for example, linking import licences to export performance). They demonstrate the unsoundness of any simple counter-position of state/private, or plan/market, and suggest that, in these cases at least, spectacularly successful industrialisation has been accompanied by an apparently judicious combination of both.

The same point is supported from an opposite perspective by the experience of Chinese industrialisation. The Chinese model, though modified to some extent by successive reforms, retained the basic elements of Soviet central planning whereby both macro and micro economic processes of production, distribution, exchange and accumulation were overwhelmingly subject to direct politico-administrative regulation. Though this played a positive role in the early stages of industrialisation, laying the basis for a relatively comprehensive modern economy, the economic costs of a heavily 'statist' mode of development became increasingly apparent and the pressures for reform ineluctable [see the articles by Gray and White]. In the post-Mao era, Chinese socialist economists and (to a lesser degree) policy-makers have become increasingly aware of the need to enliven the economy by increasing the decision-making autonomy of economic agents and constructing a complementary relationship between a reformed (and curtailed) planning system and revitalised markets. The aim, if not the current reality, is a guided market, modulated by the state in ways which bear a family resemblance to the situations we have identified in South Korea and Taiwan (not to mention Japan). We see, in short, a certain degree of convergence in economic systems, which straddles (but may eventually serve to diminish) the gulf between competing political-ideological systems.

While analysis of the deficiencies of socialist central planning falls on ready ears, our argument about the positive role of pervasive state intervention in capitalist East Asia is more contentious. Part of our case is brutishly empirical: the actual range and depth of state involvement in industrialisation has been far greater than most conventional economic analyses would allow. A case in point is Luedde-Neurath's analysis of the alleged 'liberal' nature of South Korea's policies towards foreign investment. This empirical evidence at least allows us to make the negative argument that Taiwan and South Korea cannot be used to support the generalised case that if only the government of a developing country 'gets the prices right', then that country too can expect the marvellous growth of Taiwan and South Korea. The governments of these countries have done much more than get the prices right (plus of course provide infrastructure and maintain a macro balance). Without these other things, getting prices right may have no more effect than pushing a piece of string.

But the association of pervasive state intervention with successful industrialisation does not amount to an explanation of the latter. Even if it did, moreover, we would still have to explain why East Asian capitalist states have been so effective while their counterparts in other developing (and developed) countries have been far less so. These are both difficult questions and the answers to them obviously affect the validity of any general lessons to be drawn from the East Asian capitalist NICs. As Fransman points out, there is no shortage of alternative explanations of their success and it is hard to identify the precise impact of state action (as Wade reminds us with his allusion to Jacques Rueff's epithet about the relationship between a cock-crow and the dawn).

Several of our authors address this issue, more or less explicitly, They allow that certain policies have brought economic costs (for example, Jacobsson's critique of the impact of import restrictions on the machine tool sector) and there is ample evidence of official miscalculations (for example, early agricultural policy and the Heavy and Chemical Industrial Plan in Korea). But they tend to agree that the state's attempt to impose a longer-term rationality on the industrialisation process through a combination of public power and market allocation has been successful in net terms. Fransman, for instance, commends the Korean success in nurturing infant industries. Luedde-Neurath concludes that, on balance, the development of indigenous Korean industry owes much to the government's policy of screening, and controlling, direct foreign investment. Enos attempts a more precise evaluation of the Korean government's policies on technology transfer, ending with the tentative conclusion that these were both influential and beneficial.

While the material presented in these case studies supports a plausible case for the positive impact of state action, this is an area of analysis which needs further work. Let us re-emphasise, however, that the effectiveness of state action does not rest solely on the net effects of any specific government's particular economic policies, but is rooted in the basic nature of the state itself and its overall relationship to society, notably its impact on social structure and attitudes. These latter provide the matrix within which specific policies flourish or shrivel away.

To the extent that the East Asian states, both socialist and capitalist, have been economically effective, how do we account for their developmental *capacity*? All three are clearly examples of Myrdal's 'hard state', but this fact rests on certain distinctive characteristics which imperil generalisation: the historical legacy of a strong and economically active state, traditions of social and political hierarchy; and strong nationalist sentiments underpinned by cultural homogeneity and reinforced by external threats.

These peculiarities notwithstanding, certain tentative conclusions can be drawn which may contribute to wider development debates. First, the experience of our three East Asian cases should give pause to any sweeping policy generalisations based on the alleged economic omnipotence of either state planning or markets. While earlier developmental economics can be faulted for a certain blithe optimism about the developmental capacity of states and for privileging macro over micro economic factors, recent critics of orthodox development economics can be faulted for denigrating or downgrading the positive economic potential of state action. East Asian experience points to the need to establish a balance between state planning and markets, a *Marktlenkung* economy, which accords a substantial role to the state as the executor of a national economic interest. Second, this central economic challenge confronts both socialist and capitalist societies, though the political character and social basis of the 'national economic interest' may be very different. Third, as Moore argues for Taiwan and Korea and White for China, the nature of the relationship between state and society, planning and markets must change along with different phases of the industrialisation process if it is to remain developmentally progressive. Fourth, the action of development states should not be seen merely in terms of a state 'intervening' in an economy, which is in some sense alien or discrete. The relationship between state and economy is more organic and multifaceted and the state's impact on economic changes depends heavily on its broader, 'non-economic' social and political influences. Thus, the search for a deeper understanding of the economic role of the state, poses a challenge not only to development economics but to development studies as an interdisciplinary endeavour.

References

List, F., (1885) 1966, *The National System of Political Economy*, Augustus Kelley, New York

Little, I., 1982, *Economic Development: theory, policy, and international relations*, Basic Books, New York