

The Study on “To What Extent Can Rapid East Asian Economic Development be Explained by the ‘Developmental State’?”

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Abstract

This paper objectively analyses the question that to what extent can rapid East Asian economic development be explained by the “developmental state”.the “developmental state” model is extremely beneficial to late developers to rapidly implement the catch-up economic developing strategy. The extent of state intervention determines the success and failure of development. The East Asian economic miracle is the result of the interaction of specific economic, political and cultural factors in this region. these states not only learned advanced western models and technologies but also followed the track of their own national and regional traditional culture, thus exploring a unique development model with Oriental characteristics. The “developmental state”, which created the East Asian miracle through government-led cooperation with business, is facing great dilemmas. Nearly half a century has passed since the East Asian miracle took place. The first part will be a short review of different theories in analysing this period of rapid growth. The second part will be the discussion of the effectiveness of the “developmental state” in explaining the East Asian miracle. In the third part, this paper will further discuss the deficiency of “developmental state”.

Keywords

Developmental State; East Asian Miracle; Government’s Intervention; Economic Development; Political.

1. Introduction

This paper objectively analyses the question that to what extent can rapid East Asian economic development be explained by the “developmental state”. Nearly half a century has passed since the East Asian miracle took place. However, whether “developmental state” theory can serve as a comprehensive and coherent explanation for the East Asian rapid economic growth remains a debatable issue. This paper will revolve around this question and include four parts. The first part will be a short review of different theories in analysing this period of rapid growth. The second part will be the discussion of the effectiveness of the “developmental state” in explaining the East Asian miracle. In the third part, this paper will further discuss the deficiency of “developmental state”. The final and the most important part will be the conclusion where all results and arguments are assembled. The combination of the theoretical basis and empirical evidence will be added in each part to substantiate the arguments. The conclusion indicates that the “developmental state” may be only a stage role, effective in the catch-up stage, but may lose momentum in the post-development stage. And that is when the original motive force, namely the power of the market itself, becomes prominent.

2. Many Theories in Analysing the East Asian Miracle

In a long period after World War II, two distinctively different theories successively occupied the mainstream position in studying the political and economic development of the late developers -- modernization theory and dependency theory. Supporters of former like Rostow (1959) constructed a "take off model", argued that there is a universal and linear pattern of development. Late developers can become developed as long as they follow the path taken by early western developed countries. The dependency theory and the later world system theory were born to criticize the modernization theory. Cardoso (1979) and Wallerstein (1974) both supported that the "center-periphery" capitalist world system locks the developing countries in a "chain of unequal exchange", which is the fundamental reason for the economic underdevelopment in the periphery areas. Late developers, therefore, cannot develop without structural changes in the international economy as a whole. These two theories reflect the development status of late developers under the background of unbalanced international economic development in a certain period. They both, however, failed to explain East Asia's rapid economic growth between the 1960s and 1990s. Just as Fukuyama (1992, p. 100) described as below:

It (dependency theory) has by now been exploded as a theoretical model by one large phenomenon it cannot possibly explain: that is, the economic development of East Asia in the postwar period.

Indeed, Japan's rapid development in the 1960s and 1970s made it into the forefront of developed countries in the 1980s. Meanwhile, South Korea, Taiwan, Hong Kong and Singapore, from the periphery areas at the end of the Second World War, became the leaders of the late developer after two or three decades of rapid development. The statistics show that Japan's economy grew at an annual rate of 9.8% in the 1960s and 6% in the 1970s. From 1965 to 1990, The average economic growth rates of South Korea and Taiwan were 9.82% and 9.55%. Together with the average growth rates of per capita income during the same period, South Korea and Taiwan ranked second and third in the world. (World Bank, 1992) It is in this sense that the rapid economic development of East Asia in this period is widely known as the "East Asian miracle". If, according to dependency theory, the underdevelopment of those countries in the periphery area is to blame for their participation in the global capitalist order, then what explains the economic miracle of East Asia? Besides, the development model of these East Asian countries did not copy the path of western developed countries as described in the modernization theory. Hence, the new development reality calls for new theories to explain it.

Among multiple theoretical explorations, there have long been two distinctly opposing views, and become the focus of analysing the East Asian economic miracle. One is market-centric and the other is state-centric. The market-centric approach originates from the neo-classical economics analytical framework, insists that this miracle was the result of the development of the free market. Market prices automatically allocate resources to maximize production efficiency, while the government does not intervene in the market, only acts as a "night watchman" and takes measures to ensure the free operation of the market. (Fields, 1982) Some scholars even think that the East Asian miracle proved that this is the rule that every country seeking development bound to abide by. (Fukuyama, 1992) Although sounds reasonable, the market-centric approach, however, does not examine the particularity of East Asia, that is, it does not compare the development of East Asia with the underdevelopment of other regions with free-market policies like Latin America. Meanwhile, the state-centric approach evolved, gradually forming the famous theory of "developmental state".

The concept of the "developmental state" was first invented by Chalmers Johnson in his well-known book *MITI and the Japanese Miracle*. Johnson (1982) distinguished Japan's "capitalist developmental state" model from the Central planning model of the Soviet Union and the free

market model of the U.S. Japan's model, he argued, is neither the Soviet model of total state control of the economy nor the Laissez-faire of Anglo-Saxon model, but a "third way" in between. The "developmental state" mainly relies on selective industrial policies and micro state intervention. Economic catch-up and development are completed by state-supported strategic industries. And outside the strategic industry is generally regulated by the market. How this theoretical framework explains the East Asian economic miracle will be discussed below.

3. The "Developmental State": A Catalyst for Rapid Development

Although Gordon White and Robert Wade (1988) divided the "developmental state" into "capitalist developmental state" and "socialist developmental state" ---- Japan, South Korea, Taiwan, Hong Kong and Singapore belong to the former, while Mainland China and North Korea belong to the latter, most analyses still within the framework of the capitalist market economy. Therefore, this article will temporarily leave socialist countries aside and mainly focus on the "capitalist developmental states". Start with Japan. Although the emperor system was abolished in postwar Japan, the emperor, however, remained not only a symbol of national sovereignty and unity but also a symbol of social authority. Although the principles of western democracy have directly influenced the Japanese political system, the Japanese government system still retains quite a lot of centralization characteristics. The Japanese government is still extremely powerful and lacks supervision. After the war, Japan implemented a constitutional multi-party system based on elections, but until the early 1990s, Japan was ruled by the Liberal Democratic Party (LDP), which constituted a "one-party system" in reality. On this basis, Japan has widely adopted the economic development and operation system of "government, industry and school" integration. By setting up the MITI and declaring the industrial policies, the Japanese government implemented economic planning management and micro-intervention, thus forming a government-enterprise relationship model significantly different from that of western countries. (Johnson, 1982)

Besides Japan, South Korea, Singapore, Hong Kong and Taiwan have also attracted scholars' attention for their rapid development and are known as "Asian Tigers". Among them, Hong Kong and Singapore are city states. Their national development is not broadly representative. Therefore, South Korea and Taiwan became the focus of research. Wade (1990) believed that the economic miracle of Northeast Asia was what the "developmental state" makes of it. Were it not for the government intervention, it would be impossible to allow more investment to flow into key industries. Indeed, stimulated by the development of Japan, South Korea actively promoted the emergence of large conglomerates and industrial groups after President Park Chung-hee took office in 1961 and before the 1987 Gwangju Uprising. In 20 years, South Korea's economy also took off rapidly, creating the "Miracle on the Han River" and successfully hosting the 1988 Seoul Olympic Games.

Unlike South Korea's political abrupt change, Taiwan has not experienced political upheaval. Park Chung-hee achieved political centralization through a coup at a critical moment. Taiwan's centralization process, however, began when Chiang Kai-shek set foot on the island. The Kuomintang (KMT) gives top priority to strengthening the centralization of power. And it did not cease after the death of Chiang Kai-shek and the rise of Chiang Ching-kuo. During the two Chiangs period (especially the period of Chiang Ching-kuo), Taiwan implemented the compulsory education system and attached great importance to it, which greatly improved the human resources and human capital in a short time. Under the specific leadership of Chiang Ching-kuo, Taiwan launched ten major construction projects in 1973, including large steel plants, petrochemical plants and shipyards. (Amsden, 1985) Comparing South Korea and Taiwan, we can find their commonalities. Governments in both South Korea and Taiwan play a key role in economic development. First, both governments imposed strict financial regulations.

The financial markets were negligible and the banking system was under direct government control. Mastering the banking system means mastering the lifeblood of industrial development. Second, both governments concentrated financial resources to support strategic industries through selective industrial policies.

At this moment, a question should be asked: How could everything go on so smoothly? In other words, what motivates these governments to adopt development strategies, and what makes them sustainable and ultimately succeed? One explanation focuses on external threats and collective action. As Zhu (2002, p.7) argued:

the Northeast Asian states had a particular kind of perception regarding external military threats...and that this was a primary factor in creating cohesive states and ensuring their consistent commitment to industrialisation. In other words, this particular kind of threat perception gave rise to the developmental state in Northeast Asia.

The essence of the “development state” requires collective action by government officials and business people. External military threats make them unify their personal and national interests to form a whole interventional economy with common development intention, thus solving the dilemma of collective action. Meanwhile, the elites who graduated from the University of Tokyo, Seoul National University in government departments, in a sense, can make industrial policies more intelligently, and run the country for the benefit of the whole society (such as the improvement of material level and the narrowing of the gap between the rich and the poor) based on social and economic development conditions (Wade, 1990). These countries have thus achieved a vision, stability and continuity that transcends individual interests. Why did civilians obey? Unlike any other region in the world, under the dual influence of Confucianism and liberalism, Asian countries have a set of Asian values different from western values. A similar characteristic of East Asian regimes is their emphasis on economic development, prioritizing economic growth over individual freedom. Second, people generally respect the authority of leaders and attach great importance to social cohesion, which gives them the characteristics of authoritarian politics. (Heywood, 2002) This type of regime is what Fukuyama (1992, pp.123-124) called the “market-oriented authoritarianism”, a mixture of liberal economics and authoritarian politics that fits into a political arrangement in which economic growth is the primary goal of the state. The reason of East Asia’s success lies in the fact that the intervention of the state precludes the irrational choices in democratic countries, enforces a relatively high degree of social discipline on its people, and gives them enough freedom to encourage the invention and application of the most modern technologies at the same time. However, when the rapid economic development of East Asia comes to an abrupt halt, we can not help but think rationally about the “developmental state” model.

4. The Dilemma Faced by the “Developmental State”

The most obvious challenge in logic to the “developmental state” is that, if the East Asian economic miracle was indeed created by the “developmental state”, then why did it not continue? After decades of rapid development, by the end of the 20th century, the “developmental state” in East Asia was faced with both external and internal challenges. Since the early 1980s, the United States has been pushing East Asian countries to open their domestic markets under the banner of neoliberalism and globalization, which has played an important role in the development of the region. The rise of Japan, South Korea, and Taiwan in the 1960s and 1970s depended largely on the opening of America’s domestic markets to them. (Wade, 1990) And once the U.S. no longer supports, rather east Asia’s rapid economic development will come to an end.

After entering the 1990s, as the U.S.-Soviet bipolar structure ended in the collapse of the Soviet Union, the U.S. no longer had a competitor that could challenge the U.S. in economic, military

and ideological aspects. The strategic position of East Asia also began to decline, which made the United States free to put pressure on East Asian countries. Another change in the external environment is that the military environment of South Korea and Taiwan has moved from tension to relaxation. Since the mid-1970s, North Korea's economic growth, weapons production and diplomatic recognition have been on the wane. (Zhu, 2002) On the Taiwan side, the PRC eased relations with the U.S. and succeeded in establishing diplomatic relations and restoring its lawful seat in the United Nations in 1971. However, the U.S. has not given up its promise of military defense of Taiwan. Meanwhile, PRC's policy toward Taiwan is also moving toward relaxation. The cessation of the shelling of Kinmen Island, the proposal of "one country, two systems" and the active attraction of Taiwan's investment in the mainland have jointly created a relatively relaxed situation across the Taiwan Strait. In this way, the easing of the external environment after the 1970s weakened the internal motivation of East Asian countries to unite against the outside world. Their willingness to develop for a common purpose began to break down, creating a convenient environment for rent-seeking and rent-creating activities by government officials and business groups.

Besides, the internal change of East Asian countries also works against the explanation of the "developmental state". Rapid industrialization and urbanization inevitably increased the size and political power of the working and middle classes. As the organizing power of the working class grows, the power of civil society accumulates. (Huntington, 1991) In the theory of "developmental state", the government always dominates the cooperation with business groups. This cooperation basically excludes other social forces. However, with the rise of civil society, the cooperative relationship between government and business maintained by the "development state" began to break down by democratization. The second internal factor that challenges the "developmental state" is the increasingly complex economic situation of East Asian countries. (Zhu, 2005) In the early stages of development, the economy was relatively simple and the government could pool its resources to solve problems. But with the increase of economic scale, faced with complex economic conditions, the simple intervention method adopted by the government in the early stage is no longer suitable. At the same time, the exclusion of social forces has gradually narrowed the circle of the government's economic policy decision-making. The lack of social power and public opinion left the state to fail to cope with the economic crisis. In summary, the theory of the "developmental state" was confronted with various internal and external challenges in the 1980s, which made people doubt whether there are other explanations for the East Asian economic miracle.

5. Conclusion

Undeniably, the "developmental state" model is extremely beneficial to late developers to rapidly implement the catch-up economic developing strategy. The simple relationship between government and enterprise facilitates the reduction of transaction costs of information transmission, as well as the concentration of capital for targeted investment and development, thus improving development efficiency. However, when the cooperative willingness of social forces declines, the explanatory power of the "developmental state" model touches its boundary. For 60 years, Japan was the only real successful example of "developmental state", ranking among the most developed countries. What the "developmental state" fails to see is that the government's intervention is used to compensate for the externalities faced by innovative enterprises in the process of the change of comparative advantage and the upgrading of industrial structure, rather than to protect and support industries with no self-sustaining ability. (Lin, Cai and Li, 1999) In fact, the East Asian economic miracle is the result of the interaction of specific economic, political and cultural factors in this region. In the process of promoting economic development, these states not only learned

advanced western models and technologies but also followed the track of their own national and regional traditional culture, thus exploring a unique development model with Oriental characteristics, in which state intervention is a unique aspect.

The “developmental state”, which created the East Asian miracle through government-led cooperation with business, is facing great dilemmas. Its fate will continue to be debated. However, in today’s era of globalization, late developers face a more intense international competition environment. The more deeply embedded in global trade, the more vulnerable domestic economies are to global shocks and the more they need domestic protection. (Katzenstein, 1985) the extent of state intervention determines the success and failure of development. On this point, Lewis (1955) is right: No country can make economic progress without the active promotion of a wise government. And states may fail by doing too much as they do too little.

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