Preface

The Owl of Minerva, it is said, takes flight as evening falls. The 1997 financial disaster in East Asia, which started with the collapse of the real estate market in Thailand in the early summer and then spread to Northeast Asia in the autumn, has struck many observers as an omen of the encroaching evening for the Asian model of development, beckoning us to reassess the legacy of industrialization in the region. Indeed, the World Bank recently embarked on a project called “Rethinking the East Asian Miracle,” hoping to revise its earlier twists and turns on the “East Asian Miracle” (as the most sustained economic growth of the twentieth century is often called), which finally had convinced some elements in the Bank that East Asia was truly different, especially regarding the role of the state in the economy. After the Asian crisis, however, it is back to the drawing board.

The extraordinary fluctuation of American thinking about East Asia in the past decade—from sharp worries about Japan being hegemonic in the twenty-first century to many contemporary judgments that the market is the only way to go—should give us pause, for a number of reasons. One is philosophical: as the result of some happenstance or sudden new phenomenon (such as the Asian crisis), the entire developmental experience of the last thirty years in East Asia is thrown into question. As the dominant global viewpoint turns and evolves, a mirage replaces a “miracle,” and “crony capitalism” comes to signify a region where remarkable growth was once said to go hand in hand with remarkable equity. The World Bank’s preferred method of revisiting the East Asian experience now is to go through a developmental checklist of apparent pathologies—opaque regulatory frameworks or ineffective corporate gover-

nance—that remained in the shadow of more familiar indicators of development. But why now and not in the past? The problems of corruption and lack of transparency in Southeast Asia and financial instability in the massively leveraged Korean corporate sector have long been understood and well documented. How can one era represent a developmental miracle and the next a mere mirage, when nothing fundamental has changed?

If a particular pattern of industrial development, an intricate relationship between government and business, or a complex of existing policies can be shown in 1998 to be deleterious to the health of a particular economy or even a menace to the good workings of the world economy, that fact does not allow us the pretense that several decades of history can easily be erased. In 1932 the American people decided that the very economic system now presented to the world as the only possible model, namely, the *laissez-faire*, transparent, price-sensitive free market, was precisely the “Hooverism” that had brought on the crash of 1929, world depression, and catastrophic levels of unemployment. It was half a century before another president could win an election on that same free-market platform. Of course, that does not mean that *laissez-faire* was necessarily wrong or the cause of the depression, but people *thought* it was the cause—and all the king’s horses and all the king’s men could not reverse that verdict for two generations.

Now it is fair to say that no other developing country was more frequently praised, lauded, supported, emulated, and showered with all manner of American and global aid than South Korea since it inaugurated its export-led growth in the mid-1960s, a program begun and sustained under close American, International Monetary Fund (IMF), and World Bank tutelage. It cannot be the case that in a few short years or months, this same Republic of Korea (ROK) became a cesspool of crony capitalism. To think so is not simply to read history backward (the fallacy of “presentism”) but also to misconstrue completely the very possibilities of reform in our time. Every political economy persists, changes, goes forward or backward, in some deeply complex, intimate, and consequential relationship to its own past. Yet our very human perceptions lead us precisely toward an act of erasure, whereby everything that seemed solid and durable for many decades evaporates overnight in the wake of new phenomena, unintended consequences, or a general reversal of human verdicts and judgments.

There is another sense in which the act of “rethinking” should give us pause: there never was a consensus about the nature and causes of economic development in East Asia (with decades of World Bank studies perhaps proving this point best). Explaining the success of East Asian economies has always been contentious, subject to ideological overtones

and shifting judgments and opinions. Even the World Bank's *Miracle* report, so cautious and middle-of-the-road that it seemed to have been written in the best tradition of Harry Truman's proverbial two-handed economist (forever saying "on the one hand" and "on the other hand"), was widely criticized when it was published. Hence it is not clear exactly what it is that we should *r*ethink; we must wonder what the next iteration will yield. We should expect more than just another chicken scratch on the palimpsest of development.

The contributors to this volume believe that there is less a need to rethink than fundamentally to reexamine the framework of East Asian growth—and our own assumptions about that growth. We hope to convey a sense of East Asia in *time* and *place*, thus to understand the historical interplay of forces—historical, political, market, security—that have determined the structure of opportunity in East Asia, which situated and launched the different nations of the area in a path-dependent manner. It is critical that we think historically, not just for the sake of the past but also to delineate the limits of feasible reform in East Asia today, so we can recommend policies that are plausible and effective and not ideologically driven. This is part of the purpose of the book.

What does it mean to think about East Asia in time and place? First, it is to recognize that there is no such thing as the "Asian" crisis, not even an "East Asian" one—even though many analysts still lump free-market Hong Kong together with developmental Korea. East Asia is an enormously heterogeneous and diverse area and cannot be reduced to a single model of trade or political economy. The *Miracle* report recognized this but preferred to place the differences on a continuum, such that Southeast Asia was perceived to be more liberal and open, and Northeast Asia less so—and the twain could meet when Northeast Asia and other developing countries moved closer to the Southeast Asian model. But what if the Northeast Burnham Wood cannot move to the Southeast Dunsinane because Korea has less in common with Thailand than it has with, say, Mexico?

Northeast Asia contains three countries which formed the core of the prewar Japanese empire and whose economic structures were tightly interwoven and articulated: Japan, South Korea and Taiwan. Notwithstanding the great suffering that Japan inflicted on its former colonies, the postwar developmental trajectories of South Korea and Taiwan were heavily influenced by the models and policies that Japan imposed on them before World War II or demonstrated to them in the 1950s and 1960s during Japan's heyday of rapid, export-led growth. Nothing succeeds like success, and thus South Korea and Taiwan learned lessons, absorbed advanced technologies and capital from Japan, and embarked on a similar trajectory of light-industrial exporting under multiyear plans, guided by

strong state ministries (if less so in Taiwan than Korea). This gave all three economies a highly neomercantilist, nationalist tendency; in Japan and Korea especially, it meant strong state involvement with and promotion of big economic conglomerates.

We need to be sensitive not just to regional differences in Asia but to very different histories as well. This is another way of saying that we need to be sensitive to “path dependency.” South Korea, Japan, and Taiwan are not leopards that can instantly change their spots. We cannot preclude the possibility of Barrington Moore’s important point that big changes are often easier than small changes; a radical reform may be possible in East Asia. Of necessity, however, it will be in the direction of an adaptive change, however big, consistent with what went before.

Perhaps the best historical example might be to take the small coterie of foreign IMF and Clinton administration officials who urged and prodded the Korean reform effort in 1997-98 and compare them to the seven-year American occupation of defeated Japan in which the war hero of the Pacific campaigns, General Douglas MacArthur, with the full panoply of extraordinary powers vested in him and his staff at the Supreme Commander of Allied Powers, still could not decisively break the power of the *zaibatsu*—which hunkered down and waited when they could, restructured when they had to, and transmogrified into the post-Occupation *keiretsu*. It was a definite improvement, but not the thorough breakup and reform that MacArthur had planned. We do not expect, just because of the economic difficulties that Japan and South Korea have encountered in the late 1990s, that their political economies will become “more like us,” to use James Fallows’s phrase. For half a century the United States has sought to make Japan and South Korea “more like us,” and yet here they are on the verge of the twenty-first century, still pursuing an economic model more deeply influenced by the historical legacy of nationalism and economic mobilization that has shaped Northeast Asia.

This is not to say that reform is not needed or that the developmental states can continue as before. It would be to everyone’s benefit if Japan and South Korea reformed their systems so as to promote more respect for the rule of law (rather than administrative discretion), a concept broadly understood to mean legality, regulation, and transparency throughout the nexus of state, banks, and big business. They need to do this, if for nothing else, to hone the international competitiveness of their industries and come roaring back to prominence. But in this book, we are more concerned with figuring out how things arrived at their current state.

This book grew out of a memorable panel at the annual meeting of the Association of Asian Studies. The intent of the panel was to reexamine the theory of the developmental state, which, for all the criticism that it

has weathered over the years, has rarely received full historical and comparative scrutiny. Later on Lawrence Dumas, then dean of Arts and Sciences (and now provost) at Northwestern University, provided the seed money to launch the Roundtable on Political Economy (ROPE), which expanded and carried on the original project, resulting in a major conference at Northwestern. Roger Haydon of Cornell University Press guided this project with unfailing humor, patience, and professionalism, and I thank him for sticking with this book, which is, after all, not entirely uncontroversial in today's academic climate. Peter Katzenstein read the manuscript and offered penetrating criticisms and advice; he is the kind of fair-minded and intelligent reader one can only hope for, and this is a much better book for his input. Kathryn Ibata helped me put together this book at the initial stage, and Erin Chung helped me bring it to fruition.

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The Developmental State