The Developmental Alliance for Industrialization in East Asia: State and Business in South Korea and Taiwan

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The East Asian NICs of South Korea, Taiwan, Hong Kong and Singapore have attained some of the most rapid rates of economic development in the world in the last three decades. South Korea recorded 7.1 per cent in average annual growth rate of GNP per capita between 1965 and 1980, making it the second fastest growing economy in the world – after Botswana – during that period (World Bank 1992). Between 1980 and 1992, South Korea was the fastest growing economy in the world with an impressive 8.5 per cent in average annual growth rate of GNP per capita.

A common strategy for industrialization in all four East Asian NICs was export-oriented industrialization (EOI) based on light manufacturing. This strategy allowed them to take advantage of the relatively low wages of their workers, and of the expanding and less protectionist world economy of the 1960s and 1970s. EOI also helped companies hire more workers, albeit at lower wages compared to many Latin American nations which had adopted import-substitution industrialization (ISI) strategies. As a result, income inequality in the East Asian NICs did not rise concomitant with their rapid rate of economic development. More and more workers work in the manufacturing sector and in services rather than in agriculture, and some of these nations have already experienced labour shortages in certain sectors of their economies.

Looking at the four NICs today, we tend to forget that they have overcome tremendous obstacles and challenges in the last three decades, as the Eastern and Central European nations face today. These challenges included scarce natural resources, in particular oil, relatively small domestic markets, low levels of domestic capital accumulation, lack of indigenous technology, political instability, and in the case of South Korea, a devastating civil war in 1950–53.
The key to their success lay in a combination of the establishment of key institutions responsible for economic development, the creation of institutional alliances between the state and business, and effective implementation of the EOI strategy for economic development. This chapter focuses on the first two issues since they form the basic foundation for economic development, from which the latter was possible. My contention is that EOI would not have been successful had there been no appropriate institutional foundation for its implementation. Furthermore, this chapter sidesteps the tired debate between the state-centred and market-centred studies (which focuses on the question of which set of institutions played the more crucial role for attaining economic development), and provides an alternative framework where both the state and business are treated as key institutions for economic growth, and where both their roles, and in particular, the relations between them are explored in the context of economic and political development. The chapter deals with three topics: the key institutions for economic development, namely, the ‘developmental state’ and business; the ‘developmental alliance’ between the state and business; and the implications of the developmental alliance for the long-term economic development and political democracy.

KEY INSTITUTIONS OF ECONOMIC DEVELOPMENT

For South Korea and Taiwan, an overwhelming amount of evidence suggests that their respective states played much more interventionist roles in their economies than suggested by the World Bank (1993) and other market-centred studies. In South Korea the key institutions were the developmental state and large private business groups (chaebol). A developmental state was established in 1961 following the military coup led by General Park Chung Hee. The tight developmental alliance formed between the state and the chaebol dominated the South Korean economy during the first two decades of rapid growth (1960s and 1970s). In Taiwan the developmental state was also established under the guidance of a military general, Chiang Kai-shek, who fled the People’s Republic of China in 1949. President Chiang’s party, the KMT (Kuo Min Tang), established a number of state-owned enterprises to initiate industrialization. The developmental alliance was formed between the developmental state and a few state enterprises. On the other hand, small and medium-sized enterprises played a significant role in the Taiwanese economy for they hired a large number of workers and produced a large share of the manufactured products for exports. However, they were not part of the developmental alliance, and