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Abstract

The current literature on the developmental state tends to focus on state–economy and state–business relations. Very few studies take the developmental state as a historical phenomenon and analyse its origins and possible demise. Even fewer studies link threat perception to the rise and decline of such states. This study argues that a particular kind of threat perception, namely that of an extremely intensive and long-term threat, played a fundamental role in creating the developmental states in Northeast Asia. Later, a changed threat perception was one of the important factors that caused the decline of such states.

Threat perception and developmental states in Northeast Asia

TIANBIAO ZHU[1]

INTRODUCTION

Northeast Asian development has entered an interesting period. For many years, Japan, Taiwan and South Korea were held up to the rest of the developing world as a model for successful industrialisation. However, the economic problems they encountered in the 1990s cast doubt on their developmental experience. Japan has faced economic stress for more than ten years; South Korea was struck hard by the Asian financial crisis of 1997; and although Taiwan was able to avoid the crisis, it has experienced low growth since the early 1990s and has more recently encountered banking problems.[2]

At the very heart of an analysis of Northeast Asian development is the notion of the developmental state. The current literature has focused on how the developmental state engineered the Northeast Asian economic success, whether it played a better role than that of the free market in promoting industrialisation, and what problems it has encountered in the 1980s and 1990s. However, very few studies have taken the developmental state as a historical phenomenon and analysed its origins and possible demise. I argue that it is crucial that we understand how the developmental state came about if we are to understand what role it played in Northeast Asian development and how it has evolved since the early 1980s. Thus, the rise and decline of the developmental state in Northeast Asia is the central concern of this paper.

1 Postdoctoral Fellow, Department of International Relations, Research School of Pacific and Asian Studies, Australian National University. I would like to thank Chris Braddick, I-Chung Chen, Craig Meer, Greg Noble, Chris Reus-Smit, Mon-han Tsai, Peter Van Ness and Darshan Vigneswaran for their thoughtful comments on the paper. I am also grateful to Jessica Ellis and Mary-Louise Hickey for their efforts in editing the paper.

2 'Too many debts to settle', *Economist* 11 November 2000, p. 109.

My inquiry begins with a simple question: what is the developmental state? In his 1982 book, Chalmers Johnson coined the term the 'capitalist developmental state', and used it to describe the Japanese state in terms of bureaucratic autonomy, administrative guidance for industrial development and selective intervention in the economy.[3] Other scholars later extended this notion to describe the Taiwanese and Korean states.[4] In fact, the very name 'capitalist developmental state' tells us much about the basic characteristics of this type of state— it has to be 'capitalistic', it has to be 'developmental' and, with a few clarifications, it has to be 'cohesive'.

By 'capitalistic', I mean that the state has to commit itself to some basic values of capitalism, such as private property rights and market mechanisms. This study, like many others, discusses the developmental state in a capitalist world, so its 'capitalistic' character will not be a focus but an assumed constant. By 'developmental', I mean that the state has to have a consistent commitment to industrialisation. In order to establish a consistent commitment, such a state should not be subordinate to any special business interests.

The characteristic of 'cohesiveness' needs a bit more elaboration. Early on, scholars talked about state power over social groups. Johnson refers to Japan as a 'soft authoritarian' state and to Taiwan and South Korea as 'hard authoritarian' states.[5] Later, scholars tended to focus on the reciprocal relationship between the state and business. Even then, the state has to be a unified force in dealing with business groups. For example, Peter Evans argues that internal coherence, corporate identity

3 Chalmers Johnson, *MITI and the Japanese miracle: The growth of industrial policy, 1925–1927* (Stanford: Stanford University Press, 1982).

4 See, for example, Alice Amsden, *Asia's next giant: South Korea and late industrialization* (Oxford and New York: Oxford University Press, 1989), Robert Wade, *Governing the market: Economic theory and the role of government in East Asian industrialization* (Princeton: Princeton University Press, 1990), and Peter Evans, *Embedded autonomy: States and industrial transformation* (Princeton: Princeton University Press, 1995).

5 Chalmers Johnson, 'Political institutions and economic performance: The government–business relationship in Japan, South Korea, and Taiwan', in Frederic C. Deyo, ed., *The political economy of the new Asian industrialism* (Ithaca and London: Cornell University Press, 1987), p. 138.

and cohesive organisation are key elements of the developmental state.[6] These characteristics contribute to state cohesiveness, which guarantees selective intervention with minimum disruption from special interests.

My explanation of the rise and decline of the developmental state in Northeast Asia is directly concerned with two of its basic characteristics—its cohesiveness and its consistent commitment to industrialisation. I argue that the Northeast Asian states had a particular kind of perception regarding external military threats—a perception of extremely intensive and long-term threats—and that this played the key role in creating cohesive states and their consistent commitment to industrialisation. In other words, this particular kind of threat perception gave rise to the developmental state in Northeast Asia. I also argue that changing threat perceptions in the 1980s and 1990s is one of the important factors causing the decline of the developmental state. The first part of this study discusses the analytical linkage between threat, threat perception and the developmental state, and alternative arguments on the rise of the developmental state. The second and third parts of the study provide evidence of the relationship between the particular kind of threat perception and the rise and decline of the developmental state in Northeast Asia.

It should be noted that although I do believe, with a few modifications, that this argument could apply to the Japanese case (especially Meiji Japan), given the limit in scope this study concentrates on Taiwan and South Korea. It should also be noted that the aim of this study is to explain the rise and decline of the developmental state rather than economic growth or industrialisation. A country's economic performance is determined by multiple factors, of which its form of state in relation to economic management is only one.

6 Evans, *Embedded autonomy*, pp. 49–50.

TOWARD A THREAT PERCEPTION-CENTRED ARGUMENT

State and state interest

My investigation into the relationship between threat perception and the rise and decline of the developmental state in Northeast Asia begins with the concept of the state. In particular, I address how it has been treated in the famous state-versus-market debate, which has dominated the academic field of Northeast Asian political economy since the early 1980s. By introducing different images of the state from the debate, I problematise the state and state interest on an analytical level. I then show the importance of the external military threat in breaking down the analytical barrier for understanding the state and state interest, and thereby provide a framework for analysing the rise and decline of the developmental state in Northeast Asia.

The state-versus-market debate is essentially about the role of the state in Northeast Asian development. Those who focus on the positive role of the state, for simplicity let us call them 'the statists', argue that the state's selective intervention directed investment to key industries, which would not occur under normal market operations. The state therefore created the economic success of Japan, Taiwan and South Korea in the post-World War II period.[7] On the other hand, neo-classical economists attribute Northeast Asian success to free market operation.[8] They do acknowledge a positive role for public policies (and therefore for government), but the general point is that the proper role for government is to facilitate market operation rather than to alter it.[9] In explaining the recent financial crisis and economic decline of Northeast Asia, some neoclassical economists have been quick to link the current

7 See notes 2, 3 and 4 for examples of statist literature. For more recent work, see Linda Weiss, *The myth of the powerless state: Governing the economy in a global era* (Cambridge: Polity Press, 1998), and Meredith Woo-Cumings, ed., *The developmental state* (Ithaca and London: Cornell University Press, 1999).

8 See, for example, Edward Chen, *Hypergrowth in Asian economics: A comparative survey of Hong Kong, Japan, Korea, Singapore and Taiwan* (New York: Holmes & Meier, 1979), and James Riedel, 'Economic development in East Asia: Doing what comes naturally?', in Helen Hughes, ed., *Achieving industrialization in East Asia* (Cambridge: Cambridge University Press, 1988).

9 World Bank, *The East Asian miracle: Economic growth and public policy* (New York: Oxford University Press, 1993).

problems with past state intervention. They argue that an excessively close relationship between state and business promoted special interests and thereby distorted free market operation.[10]

I believe that the essential difference between the two perspectives lies in their different levels of analysis. The statists, like many other political scientists, take the state and its development interests as given, and perform their analyses at the state–society level or above. Thus it is normal for them to treat the developmental state in Northeast Asia as a unitary actor dealing with social forces, which is therefore able to govern state–business relationships in the pursuit of economic development.[11] Meanwhile, the neoclassical economists question the statist concept of the state and the state's interest. If the state is made of rational individuals, how can those individuals stick together, let alone pursue a common goal of industrialisation? Politicians and bureaucrats are after all self-interested human beings who seek to maximise their own economic wealth and political power. Rent-seeking theorists in particular argue that heavy state intervention necessarily leads to rent-seeking activity; that is, special business interests capture self-seeking politicians and bureaucrats by offering them personal benefits.[12]

It should be noted that some statists do acknowledge and even use the rent-seeking image of the state in their analyses. For example, Evans classified developing countries into three categories.[13] At one extreme are developmental states such as Japan, Taiwan and South Korea, while at the other extreme are rent-seeking states such as Zaire. In between, there are 'intermediate' states like India and Brazil. However, those three types of

10 See, for example, Chris Rowley and Johngseok Bae, 'Introduction: The Icarus paradox in Korean business and management', in Chris Rowley and Johngseok Bae, eds, *Korean businesses: Internal and external industrialisation* (London and Portland: Frank Cass, 1998).

11 To be sure, the statists do talk about divisions within government over policy choices. However, an overall commitment to industrialisation is always assumed, and in the end the state or bureaucracy as a whole is always given credit for economic success.

12 Gordon Tullock, 'The welfare costs of tariffs, monopolies, and theft', *Western Economic Journal* 5 (1967), and Anne O. Krueger, 'The political economy of the rent-seeking society', *American Economic Review* 44 (1974). The rent-seeking theory was invented by Tullock, Krueger and others.

13 Evans, *Embedded autonomy*.

state are the starting point of Evans' analysis of different economic performance. The aim of Evans' study is not to explain what gives rise to different types of the state and how they may transform. The developmental state as a unitary actor and its development interests continue to be assumed.

It is not my intention here to address the state-versus-market debate in detail, but the analytical differences concerning the state do raise a crucial question regarding the rise and decline of the developmental state in Northeast Asia. That is, under what conditions can the neoclassical image of the state transform into the statist image of the state, and vice versa? To what extent can self-interested rational politicians and bureaucrats act as one, and what conditions can produce such group solidarity and push them to engage in a consistent pursuit of industrialisation as their common interest? Or, to put it simply, what creates a developmental state?

External military threats can serve as a bridge between the neoclassical and statist images of the state. Concerning the genesis of cooperative institutions, sociologist Michael Hechter argues that crises such as wars, invasions and natural disasters create cooperation among self-interested individuals; the more serious the crisis, the greater the demand for cooperation.[14] I believe that a security crisis in which an external military threat jeopardises national survival is the most serious of all, since the personal wealth, political power and even lives of the politicians and bureaucrats of the threatened country are in great danger. Thus, such an external threat should provide the strongest incentive for self-interested rational politicians and bureaucrats of the threatened country to put group interests (of security) ahead of all others and to cooperate and behave as a unitary actor. In this way, state cohesiveness is created.

Hechter also argues that this cooperative institution is likely to produce goods in addition to those demanded in its initial rationale because it has the advantage of being organised.[15] So it is possible for the cohesive state

14 Michael Hechter, 'The emergence of cooperative social institutions', in Michael Hechter, Karl-Dieter Opp and Reinhard Wippler, eds, *Social institutions: Their emergence, maintenance and effects* (New York: Aldine de Gruyter, 1990).

15 Hechter, 'The emergence', p. 20.

to 'produce' not only national security, but also industrialisation, especially in the long run, as economic power is the ultimate foundation of military power. Thus, an external military threat may both strengthen the state and prompt it to commit to industrialisation. This general point is supported by Erich Weede's quantitative study.[16] He performed a statistical analysis of 31 developing countries during the 1970s, and found that an external threat can limit rent-seeking activity in the threatened country.

By problematising the state, I have provided a framework which hypothesises the relationship between military threat and the rise and decline of the developmental state in Northeast Asia. It suggests that external military threats gave rise to the developmental state by creating state cohesiveness, commitment to industrialisation and by limiting rent-seeking activities. But later, as such threats declined, group solidarity among politicians and bureaucrats weakened and commitment to industrialisation became inconsistent. This opened the door for rent-seeking activities, which ultimately led to the decline of the developmental state in Northeast Asia.

This framework hinges on both external military threats and the developmental state. Having analysed the concept of the developmental state, the next step is to take a closer look at the external military threat. Obviously, not every threat jeopardises national survival, and not every national-survival threat can make the state commit to industrialisation consistently. In the next section, we will deal with the concept of threat and threat perception, especially in the context of Northeast Asian development.

Threat and threat perception

There is an existing literature on the relation between military tension and economic development in general, and in Northeast Asia in particular. One body of work has focused on the link between war, state making and

16 Erich Weede, 'Rent seeking, military participation, and economic performance in LDCs', *Journal of Conflict Resolution* 30(2) 1986.

the rise of capitalism in Europe.[17] These comparative historical studies argue that the rise of organic states and capitalism in Europe was due to centuries of military competition among European countries. Persistent military competition and interstate rivalry in Europe, the argument goes, created centralised states and strong economic foundations essential for military success.

There are also studies concerning the relationship between military threat and industrialisation in Northeast Asia. Several brief studies point out that political survival under external threat is the main concern of the developmental states in East Asia, and industrialisation is a means rather than a goal.[18] Perhaps the only study that gives a detailed account of the security-growth link in Northeast Asia is Jung-en Woo's 1991 book.[19] Woo argues that security concerns were the main force pushing the South Korean state to mobilise financial resources for rapid industrialisation. She was able to break the Cold War into different periods and examine, in particular, how security concerns were related to economic strategy in the 1970s. Her 1998 article compares Taiwan to Korea, arguing that national security was directly linked to the state-led nature of development in both cases.[20]

A general question in the threat-development literature is why some threats and wars strengthen the state and promote economic development but others do not. Gregory Kasza argues that the common problem of the studies in this field is that they attribute equal significance to all military threats and wars.[21] In fact, different military threats and wars affect state

17 See, for example, Michael Mann, *War and capitalism: Studies in political sociology* (Oxford and Cambridge, Mass.: Blackwell, 1988), and Charles Tilly, *Coercion, capital, and European states, AD 990–1990* (Cambridge, Mass.: Basil Blackwell, 1990).

18 See, for example, Dave Kang, 'South Korean and Taiwanese development and the new institutional economics', *International Organization* 49(3) 1995, and Richard Stubbs, 'War and economic development: Export-oriented industrialization in East and Southeast Asia', *Comparative Politics* 31(3) 1999.

19 Jung-En Woo, *Race to the swift: State and finance in Korean industrialization* (New York: Columbia University Press, 1991).

20 Meredith Woo-Cumings, 'National security and the rise of the developmental state in South Korea and Taiwan', in Henry S. Rowen, ed., *Behind East Asian growth: The political and social foundations of prosperity* (London and New York: Routledge, 1998).

21 Gregory Kasza, 'War and comparative politics', *Comparative Politics* 28(3) 1996.

formation and development commitment in different ways. It is difficult for a country to consider long-term goals like industrialisation while it is actively engaged in war. Equally, industrialisation is not an automatic response for all countries under threat. Precisely how a country responds to a military threat depends on how it perceives that threat. The literature reviewed above tends to ignore this crucial issue of threat perception.[22] By introducing threat perception into the relationship between threats and developmental states and their economic policies, this study departs from previous studies of the issue.

International relations literature is rich in discussions of threat perception.[23] Based on the common understanding of threat perception in the field,[24] threat perception, as used in this study, is rooted in expected threat and expected outside support to the threatened state. Expected threat is often estimated by the intention and capability of the threatening state. While capability can be estimated by the relative size of defence spending, armies and economies of the threatening state over the threatened, the estimation of intentions is more uncertain. Outside support may provide real security, but it also induces real anxiety, since the more one relies on outside support, the higher the cost if the support is withdrawn. This again involves uncertainty surrounding intentions.

22 See a possible exception, Michael Barnett, *Confronting the costs of war: Military power, state, and society in Egypt and Israel* (Princeton: Princeton University Press, 1992). This study breaks down war preparations to examine the impact of different kinds of war preparations on the state–society relationship. However, it stops one step short of discussing the issue of threat perception.

23 See, for example, Thomas Schelling, *The strategy of conflict* (London, Oxford and New York: Oxford University Press, 1971), Robert Jervis, Richard Lebow and Janice Stein, *Psychology and deterrence* (Baltimore and London: Johns Hopkins University Press, 1985), and Barry Buzan, *People, states and fear: An agenda for international security studies in the post-Cold War era* (Boulder: Lynne Rienner, 1991).

24 See David Singer, 'Threat-perception and the armament tension dilemma', *Journal of Conflict Resolution* 2(1) 1958, p. 94, David Baldwin, 'Thinking about threats', *Journal of Conflict Resolution* 15 (1971), p. 74, Klaus Knorr, 'Threat perception', in Klaus Knorr, ed., *Historical dimensions of national security problems* (Lawrence, Manhattan, and Wichita: University Press of Kansas, 1976), p. 78, Raymond Cohen, *Threat perception in international crisis* (Wisconsin and London: University of Wisconsin Press, 1979), p. 4, and Stephen Walt, *The origins of alliance* (Ithaca and London: Cornell University Press, 1987), pp. 21–8.

Actions taken by a state can be interpreted in different ways and leaders can make public statements that are exactly opposite to their real intentions. Misreading the intentions of the threatening state often leads to misperception of threat in international conflict.[25] However, in some cases, intentions are relatively easy to determine based on past and recent experience in dealing with the relevant state.[26] For example, threatened countries, especially weak ones, find it relatively easy to estimate the intentions of the threatening countries if they 'have been subject to repeated attack and military pressure'.[27]

Given a strong capability of a potentially threatening state, estimates of intentions must include not only the existence of the threat, but also the intensity of the threat. Repeated aggressive action, threatening statements, past experience of conflict and uncertainty about outside support can produce a perception of a highly intensive threat. Obviously, changes in the intentions and capability of the enemy and ally can alter the perception of the threat.

Once a threat is perceived, the options of response are varied. The international relations literature focuses on short-term and political/military responses to a threat, which suggests that a commitment to Industrialisation is not an inevitable reaction. In fact, very few external threats inspire a commitment to industrialisation (this is probably the reason that the international relations literature has almost no discussion on this issue). I argue that the commitment can follow only when the perceived threat is both intensive and long-term. Only an extremely intense threat will suffice to unite politicians and bureaucrats and create a cohesive state, and only a long-term threat can motivate the cohesive state to engage in a long-term response. Industrialisation, the foundation of national strength in general and military power in particular, is a major option when a cohesive state seeks to fight a long-term threat. It remains

25 Robert Jervis, *Perception and misperception in international politics* (Princeton: Princeton University Press, 1976).

26 Dean Pruitt, 'Definition of the situation as a determinant of international action', in Herbert C. Kelman, ed., *International behavior: A social-psychological analysis* (New York: Holt, Rinehart and Winston, 1965), and Knorr, 'Threat perception'.

27 Knorr, 'Threat perception', p. 98.

to be seen whether a long-term threat can be perceived early enough to produce a long-term response. Concerning this question, Klaus Knorr notes that '[a]ll we can do is to speculate on the shape of future events by studying the relevant (especially the recent) past'.[28] Thus, it depends on how history and the recent past indicate the intention of the threatening state and that of outside supporters.

By problematising the state, I established in the previous section the initial hypothesis about the relationship between external military threat and the rise and decline of the developmental state in Northeast Asia. By problematising threat in this section, I can now modify the hypothesis and make it complete. That is, the perception of an extremely intensive and long-term threat gave rise to the developmental state in Northeast Asia, while deviation from such a perception raised the possibility of rent-seeking activities and therefore contributed to the decline of the developmental state.

Geopolitics and geopolitical structures

My argument is closely linked to the geopolitics of Northeast Asia. It suggests that actions and policies taken by the major geopolitical actors impacted on the threat perceptions of the ruling elites in Taiwan and South Korea, and therefore shaped the rise and decline of the developmental states. This geopolitics-focused argument should be distinguished from geopolitical structural arguments. For example, the latter arguments would state that both the expected threats and expected outside support to Taiwan and South Korea were just a function of the Cold War confrontation in Northeast Asia. It is no doubt that there was a clear division and rivalry between the two camps in Northeast Asia, but this structure is not flexible enough to capture the complexity of geopolitics. For example, the strategic approach made by the US to China in the early 1970s generally reduced the tension in the cold-war front of Northeast Asia, but it actually strengthened Taiwan's perception of the threat from the mainland. Thus, actions and policies of the major geopolitical actors may not always confirm or even relate to the geopolitical structure, but they may have a

28 Knorr, 'Threat perception', p. 112.

profound impact on the threat perceptions of Taiwan and South Korea, and therefore on the rise and decline of the developmental state.

A more persuasive argument concerns the geopolitical structure before the Cold War, which has a historical impact on the formation of the developmental state in Taiwan and South Korea during the Cold War. Bruce Cumings argues that the geopolitical structure in Northeast Asia was dominated by Japan from the late nineteenth century to the end of World War II with its colonisation of Taiwan and Korea, and later with its invasion of China.[29] In particular, he argues that the Japanese model of the developmental state was transmitted to Taiwan and Korea through the training of local elites by the Japanese colonisers. Thus, the developmental state in Taiwan and South Korea in the Cold War period was a legacy of Japanese colonisation. The strength of this argument lies in its historical perspective. Obviously, politicians and bureaucrats do not make rational choices in every move they make. Their interests and choices are affected and even structured by their past experience, by their interaction with others and by the collective experience of an organisation and a nation. In fact, of a very limited number of studies focusing on the origins of the developmental state in Northeast Asia, Cumings's argument is the dominant one.[30]

However, this argument suffers from a few serious problems. First, unlike Korea, Taiwan was ruled by a large number of politicians and bureaucrats who came from Mainland China and had not been trained by the Japanese at all. The Kuomintang (KMT) government basically moved to Taiwan from the mainland as a unit in 1949. Furthermore, the KMT government in its mainland era is often regarded as an extremely corrupt government. In fact, one of the inventors of rent-seeking theory, Gordon Tullock, was then in China. Having witnessed the corruption and rent-seeking activities in the KMT regime, he later wrote, 'undoubtedly this

29 Bruce Cumings, 'The origins and development of the Northeast Asian political economy: Industrial sectors, product cycles, and political consequences', in Deyo, ed., *The political economy of the new Asian industrialism*.

30 See also Atul Kohli, 'Where do high growth political economies come from? The Japanese lineage of Korea's "developmental state"', *World Development* 22(9) 1994.

experience had a lot to do with my eventual discovery of rent seeking'.[31] Second, even for the Korean case, some scholars argue that there was a significant historical discontinuity in the 1950s, where the corrupt government under Syngman Rhee was nothing like the earlier Japanese colonial state or Chung-hee Park's later developmental state.[32] Finally, if the Japanese colonial legacy produced the developmental state in Korea (and even Taiwan), then where did the Japanese developmental state come from?[33]

Obviously, historical continuity cannot explain the transformation of corrupt governments into developmental states in Taiwan and South Korea. This study points out an alternative source of interest formation, i.e. perceived external military threat with high intensity and longevity. However, this does not mean historical legacies played no role. While the perception of intensive and long-term threats created cohesive states and inspired development interests in Taiwan and South Korea, historical legacies determined the particular way in which the developmental state engaged in economic management. For example, like its rule in the

31 Gordon Tullock, *The economies of special privilege and rent seeking* (London: Kluwer Academic Publishers, 1989), p. 91.

32 For example, Chung-in Moon and Sang-young Rhyu, '"Overdeveloped" state and the political economy of development in the 1950s: A reinterpretation', conference paper, University of British Columbia, 1996.

33 While this study focuses on the cases of Taiwan and Korea, it does imply that the rise of the developmental state in Japan is due primarily to the Meiji elite's responses to a continuing foreign threat. The threat factor has been discussed in a number of historical and comparative studies, such as William G. Beasley, *The modern history of Japan* (New York and Washington: Frederick A. Praeger, 1966), William G. Beasley, *The rise of modern Japan* (New York: St. Martin's Press, 1990), Barrington Moore, *Social origins of dictatorship and democracy: Lord and peasant in the making of the modern world* (Boston: Beacon Press, 1966), E. H. Norman, *Origins of the modern Japanese state*, selected writings of E. H. Norman, edited by John W. Dower, including Norman's classic book *Japan's emergence as a modern state* (New York: Pantheon Books, 1975), and Peter Duus, *The rise of modern Japan* (Boston: Houghton Mifflin Company, 1976). Although the external threat Japan faced since the end of World War II has been much less serious, one could argue that the threat perception of the Meiji period has been successfully institutionalised. This is probably why systematic creation of industrial wealth is always a key part of the Japanese idea of security. Several studies have dealt with this topic or some aspects of it, for example Richard Samuels, *'Rich nation, strong army': National security and the technological transformation of Japan* (Ithaca and London: Cornell University Press, 1994), and Peter Katzenstein, *Cultural norms and national security: Police and military in postwar Japan* (Ithaca and London: Cornell University Press, 1996).

mainland, the KMT government in Taiwan continued to promote public enterprises and to use them as major carriers of its industrial policy. In South Korea, like the Japanese colonial government, Park's government promoted big business conglomerates and used them as major policy carriers. But those specific characteristics are clearly secondary to the shared characteristics between the developmental states of Taiwan and South Korea. A corrupt government can still promote public enterprises or business conglomerates, but can hardly have a consistent commitment to industrialisation.

This study will discuss the shared characteristics only, as they are essential for us to understand the rise and decline of the developmental state. On this note, I shall now present specific evidence on the threat perceptions of Taiwan and South Korea and their relation to those shared characteristics, and therefore to the rise and decline of the developmental state in Northeast Asia.

THE RISE OF DEVELOPMENTAL STATES IN NORTHEAST ASIA

Defining the threat perceptions of Taiwan and South Korea

In the three decades from 1950 to 1980, Taiwan's and South Korea's perceptions of intense threat were first and foremost rooted in their enemies' clear and most intimidating intentions. 'Most intimidating', because the national strategies of Mainland China and North Korea were 'reunification by military forces'—the end of Taiwan and South Korea as political entities. The intentions were 'clear' because they were repeatedly demonstrated in the public statements of Chinese and North Korean leaders and in the actions of their militaries.

Verbal and written threats to Taiwan and South Korea were common in the government-owned newspapers, official announcements and even the constitutions of China and North Korea. In addition, the clear and most threatening intentions were sustained through continuing military clashes. There were two so-called Taiwan Strait crises, the first in 1954 and the second in 1958, which were both marked by heavy bombardment by the People's Liberation Army (PLA) of the two KMT-held offshore islands. In fact, the periodic bombardment of one of the islands, Quemoy, continued throughout the 1960s and 1970s. In 1965, the two sides also engaged in three naval fights. South Korea faced a similar

situation in terms of military clashes. Even though there have been no major conflicts since the Korean War, the (North) Korean People's Army (KPA) initiated small clashes from time to time. For example, in the four years from 1966 to 1969 there were close to 600 infiltrations by the KPA, and hundreds of soldiers from both sides were killed, captured or wounded.[34]

Taiwan's perception of Mainland China's threatening intentions was also strongly supported by the long and bloody history of armed conflict between the CCP and the KMT dating back to 1927. With a possible exception during the Sino–Japanese War (1937–45), the armed conflict between the two sides was continuous. South Koreans, meanwhile, lived with the memory of the Korean War in which millions of people were killed, and huge structural destruction was wrought. At one time during the early war period, South Korea nearly fell to the KPA. In addition to recent history, ideological rivalries also hardened the conflicts in both cases. It was not merely military confrontation, but confrontation between two sociopolitical orders.

Capabilities are also important in constructing the perception of extremely intensive and long-term threats in Northeast Asia. Taiwan's perception was partly constructed by the asymmetric resource bases of the two governments. Mainland China has 50 times the population of Taiwan and 200 times the territory. China is a nuclear power and has the largest general-purpose land army in the world. With the naval equipment supplied by the Soviets, Mao Zedong planned a direct attack on Taiwan in 1951, a plan that was only prevented by the Korean War.[35] It was also reported that the PLA naval power was strong enough to attack Taiwan directly from the early 1960s.[36] In the Korean case, the KPA had over 300,000 soldiers in the early 1960s. By the end of the 1970s, the number approached one million. Even a moderate account put the

34 Taik-Young Hamm, *Arming the two Koreas: State, capital and military power* (London and New York: Routledge, 1999), p. 77.

35 See Shi Qing, '1950 nian jie fang tai wan ji hua ge qian de mu hou' [Beyond the failed plan of liberating Taiwan in 1950] *Bai Nian Chao* 1 (1997).

36 Tsan-ho Chang, *Liang an kuan hsi pien ch'ien shih* [A evolutionary history of across straits relations] (Taipei: Chou Chih Wen Hua and Fo Kuang University, 1996), p. 161.

size of the KPA by the late 1970s at more than 500,000 soldiers—about the same size as the Southern army, despite North Korea's population being less than half that of the South. North Korea was also reported to lead in almost all types of military equipment by the late 1970s. For some important equipment, such as tanks, artillery and armed personnel carriers, the margin was around two to one in ratio.[37]

Given the clear and threatening intentions and strong capabilities of Mainland China and North Korea, the crucial role of US support to Taiwan and South Korea should be emphasised. This outside support is reflected in the US security commitment to Northeast Asia and its massive amount of aid to the region. US troops have been stationed in South Korea ever since the Korean War. In 1955, the US Congress also passed the Formosa Resolution authorising the US army to defend Taiwan in the case of an attack from Mainland China. In a comparison with other developing countries, Douglas Dacy identified South Vietnam, South Korea, Taiwan and Israel as the most aided cases in the developing world between the early 1950s and the mid-1970s.[38]

Clearly US support made it possible to expect that there would be no immediate war in Northeast Asia. However, if US support is so powerful and Taiwan and South Korea felt so secure, why would there be a perception of an extremely intensive and long-term threat? As I have already suggested, outside support is an uncertain factor. The US did abandon Taiwan and Korea at the beginning of the Cold War, which presented Mainland China and North Korea with opportunities to launch invasions. I have mentioned Mao's plan of attack in 1951, and the Korean War was also a result of US abandonment. In a 1963 secret letter to the US State Department, Samuel Berger, the US Ambassador to South Korea, used the following words to describe the Korean attitude towards the US:

37 Joseph Wood, 'President Carter's troop withdrawal from Korea', in Phil Williams, Donald M. Goldstein and Henry L. Andrews Jr, eds, *Security in Korea: War, stalemate, and negotiation* (Boulder, San Francisco and Oxford: Westview Press, 1994), p. 164 and pp. 177–8.

38 Douglas Dacy, *Foreign aid, war, and economic development: South Vietnam, 1955–1975* (Cambridge: Cambridge University Press, 1986), p. 245.

> On the psychological side, the Koreans are a nervous, frightened, agitated, and frustrated people. They blame all their troubles on our agreement with the Soviets in 1945 to divide the country; our troop withdrawals in 1948–49 in accordance with this agreement; and our declaration in 1950 that Korea was not an area of strategic importance that led to the North Korean invasion. Because of this recent history they regard American policy as erratic and indifferent to their interests, and they have a pathological fear of being deserted.[39]

Furthermore, the reduction and eventual termination of US economic aid from the late 1950s to the mid-1960s and the weakening of US security commitments in the early 1970s served as periodic reminders of the uncertainty of US support. This uncertainty created a gap between the expected threat (from Mainland China and North Korea) and expected outside support (from the US). It was this gap that gave rise to a perception of an extremely intensive and long-term threat.

The rise of cohesive states

There was no shortage of conflict experience for the KMT government when it ruled the mainland. The civil war between the CCP and KMT began in 1927, only to be interrupted by the even larger Sino–Japanese war between 1937 and 1945. The civil war continued until 1949 when the KMT lost Mainland China. As argued earlier, war should be distinguished from threat, as war tends to focus government attention on day-to-day security issues rather than long-term goals, such as industrialisation, and comprehensive political and organisational reforms that strengthen the state (though the war experience did encourage party factions to cooperate with Chiang Kai-Shek as the undisputed leader in the KMT).

The KMT government's key response to war was to obtain and keep US military and economic support. A similar situation can be found with the South Korean government under Rhee during the Korean War. Both regimes had to rely on US support for political survival in the war situation, neither paid much attention to economic development, and both therefore embraced a large scale of rent-seeking activity.

39 National Archives II, Central Files, 1950–63, Records of the Department of State, US Government.

Despite the similarities, the two regimes later proceeded down different paths of state reorganisation, which gave rise to cohesive states in both places. Threat and threat perception in the 1950s are important in explaining the different paths chosen. In Taiwan, the war with the CCP receded into a threat from the CCP. To be sure, the threat was intensive—as demonstrated by the Taiwan Strait crises and armed conflict over a few offshore islands. Chiang described the early 1950s as time in which 'there was a great danger every month, and every time, it could lead to the fall of the country'.[40] However, Taiwan was in no immediate danger as long as it retained US support, and this provided a relatively secure environment for the KMT government to engage in state reorganisation in response to the intensive threat.

State reorganisation in Taiwan began in the early 1950s with a party purge. The targets of the purge included corrupt politicians and bureaucrats and Chiang's political opponents. Senior officials and even relatives of Chiang did not escape punishment for corruption. Every party member was required to re-register and regularly participate in activities organised by party branches and cells. The party also extended its power to almost every important part of the government, military and society. The political centralisation transformed the KMT state from a factional entity of the mainland into a unified force in Taiwan, and the state began to dominate other social forces. Land reform from 1949 to 1953 reduced the landed class to an insignificant political force in Taiwan's political–economic development. The state also strengthened its position *vis-à-vis* the private capitalists by monopolising banks and nationalising those industrial plants formerly owned by the Japanese.[41] According to many studies by Taiwanese scholars, the offsetting of

40 Kai-shek Chiang, *Chiang tsung t'ung szu hisang yen lun chi—Chiang yen, fu hsing shih ch'i (1)* [A collection of thoughts and speeches of President Chiang—Lecture, the period of resurging (1)], edited by the Editing Committee for Collection of Thoughts and Speeches of President Chiang (Taipei: Chung Yang Kung Ying She, 1966), p. 253.

41 Obviously, the failure of many mainland capitalists to follow the KMT to Taiwan, and the lack of native Taiwanese capitalists, made the state a lot more powerful than the capitalist class from the beginning of Taiwan's post-war development. See Thomas Gold, *State and society in the Taiwan miracle* (Armonk: M. E. Sharpe, 1986), and Hagen Koo, 'The interplay of state, social class, and world system in East Asian development: The cases of South Korea and Taiwan', in Deyo, ed., *The political economy of the new Asian industrialism*.

security threats was a key motive for the KMT state to engage in such land reform and promotion of public enterprises.[42]

While the process of state reorganisation took place *within* the political regime in Taiwan, South Korea's change required a transition to a new regime. Taiwan and South Korea faced different threat situations in the 1950s. Taiwan faced an intensive threat, while the situation for South Korea was much less intimidating. The Korean War had almost totally destroyed both sides, and the North simply did not have the capability to carry out another attack soon despite its threatening intentions. Furthermore, the presence of both Chinese and American troops in the Korean peninsula between 1953 and 1958 prevented either side from attacking and therefore played a stabilising role. Thus, South Korea faced a situation in which the danger was expected to endure but the threat intensity was limited. It was in this situation that the corrupt government run by Rhee was able to survive.

However, towards the end of the 1950s, rapid economic recovery in the North intensified the threat. The North's rate of industrialisation was faster than that of the South. The North was able to initiate a rapid military build-up in the early 1960s, backing up its talk of another full-scale attack.[43] However, the South's perceptions were most affected by signs of weakening US support even before the North's military build-up. Between 1957 and 1959, US economic aid to South Korea dropped by US$100 million. These economic and political pressures led to the downfall of the Rhee government in 1960. However, the new govern-

42 See, for example, Shih-meng Ch'en, et al., *Chieh kou tang kuo tzu pen chu yi: Lun t'ai wan kuan ying chih min ying hua* [Disintegrating KMT-state capitalism: A closer look at privatising Taiwan's state- and party-owned enterprises] (Taipei: Taipei Society, 1991), p. 29, Jing-sen Chang, 'Hsu kou te ke ming: Kuo Min Tang t'u ti kai ke cheng ts'e te hsing ch'eng yu chuan hua (1905–1989)' [A fictitious revolution: The formation and transformation of KMT's land reform policies], *T'ai wan she hui yen chiu chi k'an* [Taiwan: A radical quarterly in social studies] 13 (1992), p. 182, Jo-yu Wu, *Chan hou t'ai wan kung ying shih yeh chih cheng ching fen hsi* [A political-economic analysis of Taiwan's postwar public sector] (Taipei: Institute for National Policy Research, 1992), pp. 65–7, and Chin-ch'ing Liu, *T'ai wan chan hou ching chi fen hsi* [Analysis of Taiwan's postwar economy], originally published in Japanese in 1975, translated by Wang Hung-jen, Lin Chi-wan and Li Ming-chun (Taipei: Jen Chien Publisher, 1995), p. 109.

43 Hamm, *Arming the two Koreas*, p. 77.

ment under Chang Myon was just as weak as Rhee's. In May 1961, Park Chung-Hee led a successful military coup, which finally gave rise to a developmental state in South Korea.

The military always had a strong presence in Park's government.[44] Given Park's military background, the military presence ensured the loyalty of the bureaucracy to him and also strengthened the concern of national security in the government. In terms of state–business relations, strong control over business was a hallmark of the Park government and its bureaucracy. One of the first actions of Park immediately after the coup was to jail leading industrialists in the name of anti-corruption reform. They were released only after they agreed to fully cooperate with the government on economic issues. The government also nationalised all commercial banks and therefore controlled 'the life line' of private business. It should be noted that in both Taiwan and South Korea, the state not only dominated domestic business forces, but also foreign capital.[45]

The quest for economic independence

If the perception of intensive threat made the state a unitary actor, it was the longevity of the threat that made it possible for the state to make a consistent commitment to industrialisation. US support in both cases made it possible to expect that there would be no immediate war, allowing the leaders of Taiwan and South Korea to think in terms of economic development. At the same time, as suggested earlier, there was uncertainty associated with US support. It was therefore the combination of expected short-term calm and the uncertainty about long-term outside support that gave rise to the quest for economic independence in Taiwan and South Korea, and made rapid Industrialisation their top priority.

44 See David Cole and Princeton Lyman, *Korean development: The interplay of politics and economics* (Cambridge, Mass.: Harvard University Press, 1971), p. 45, Hahn-Been Lee, *Korea: Time, change, and administration* (Honolulu: East-West Center Press, 1968), p. 174, and Dong-Suh Bark and Chae-Jin Lee, 'Bureaucratic elite and development orientations', in Dae-Sook Suh and Chae-Jin Lee, eds, *Political leadership in Korea* (Seattle and London: University of Washington Press, 1976).

45 Peter Evans, 'Class, state, and dependence in East Asia: Lessons for Latin America', in Deyo, ed., *The political economy of the new Asian industrialism*.

As early as 1952, the KMT leaders had called for economic self-reliance. In his address to the party congress, Chiang pointed out the following major failure of his government in the mainland: 'putting our trusts in the US has always been our diplomatic principle, which, in my belief, was not a mistake. However, relying only on the US, but lacking the determination of self-reliance was a major factor leading to today's failure'.[46] In a 1965 speech entitled 'Economic development and defence', Li Kuo-ting (also known as K.T. Li), Minister of Economic Affairs, made it clear that 'defence can not develop alone without a general industrial development'.[47] He argued that production of military equipment requires various parts and technologies from civilian industry, some of which, in times of war, can also transfer into defence production. Therefore, raising the general industrial capacity and technological level increases defence capacity. A similar point was made by other leaders from time to time.[48]

The situation was the same in South Korea. Having experienced the Korean War, the reduction of US aid in the late 1950s, and facing an increasing Northern threat, Park was determined to build a more independent economy. Addressing the primary reason for the military coup, Park wrote that

> [W]ith a strong enemy across the 38th parallel, this economic struggle takes precedence over combat or politics. … We have to accomplish, as quickly as

46 Nan Chiang, *Chiang ching-kuo chuan* [Biography of Chiang Ching-Kuo] (Hong Kong: Li Yuan Book & Publisher, 1984), p. 122.

47 Kuo-ting Li, *Ching chi cheng ts'e yu ching chi fa chan* [Economic policy and economic development] (Taipei: CIECD, 1968), p. 108.

48 See, for example, Chung-jung Yin, *Wo tui t'ai wan ching chi te k'an fa (hsiu pien)* [My view on Taiwan's economy (2)] (Taipei: Council for US Aid, 1960), p. 32, Chung-jung Yin, 'T'an t'ai wan ching chi' [Speaking on Taiwan's economy], *Wo tui t'ai wan ching chi te k'an fa (szu pien)* [My view on Taiwan's economy (4)] (Taipei: Council for US Aid, 1962), p. 6, Ying-ch'in Ho, 'Kuo fang yu shih yu' [Defence and petroleum], *Tzu yu chung kuo chih kung yeh* [Free China industry] 30(6) 1968, p. 3, Chien-kan Yen, 'Ta ch'eng ching chi hsien tai hua te mu piao' [To reach the target of economic modernisation], *Tzu yu chung kuo chih kung yeh* [Free China industry] 37(1) 1972, p. 4, and Ching-kuo Chiang, *Chiang tsung t'ung ching kuo hisen sheng yen lun chu shu ts'uan pien (9)* [An edition of Mr. President Chiang Ching-Kuo's speeches and writings (9)] (Taipei: Li Ming Wen Hua Shih Yeh, 1982), p. 507.

possible, the goal of an independent economy. We must manage our own affairs as our own responsibility.[49]

Similar ideas frequently appeared in Park's writings.[50] Developing or strengthening national economic autonomy was one of the top objectives in every Korean five-year economic plan from 1962 to 1986.

The idea of building an independent economy was also consistently reflected in both governments' economic strategies, in particular the strategy of secondary import substituting industrialisation (ISI), which emphasised developing heavy and chemical industries. As early as the mid-1950s, KMT leaders were pushing to build a large-scale integrated steel mill. Their reasoning was simple: a strong defence industry needs a strong steel industry.[51] In fact, contrary to conventional belief (shared by many neoclassical and statist works), secondary ISI was not just a phenomenon of the 1970s, but had been the top development priority for both states much earlier on. The evolution of economic strategy in both Taiwan and South Korea can be directly linked to the uncertainty about long-term US support.

In Taiwan, massive military and economic aid from the US during the 1950s was used for two purposes. First, it helped to stabilise the economy that had been facing hyperinflation since the late 1940s. Second, it promoted primary ISI emphasising consumer necessities such as textiles and food processing, which were also absolute necessities for war preparation. However, after a re-examination of its global aid policy, the US government in 1959 hinted that it would soon cut economic aid to Taiwan. Even with massive aid, the KMT government was running budget and balance of payments deficits. The termination of the aid would make the situation much worse. The withdrawal of aid intensified the threat perception by increasing the uncertainty about US

49 Chung-Hee Park, *The country, the revolution and I*, translated by L. Sinder (Seoul: No Publisher, 1963), p. 23.

50 Chung-hee Park, *Major speeches by Korea's Park Chung Hee*, compiled by Shin-Bum Shik (Seoul: Hollym Corporation, 1970), p. 124, and Chung-hee Park, *Toward peaceful unification* (Seoul: Kwangmyong Publishing Company, 1976), p. 170. See also Woo, *Race to the swift,* p. 118.

51 From my interview with Yeh Wan-an, former vice-chairman of Council for Economic Planning and Development, at the Chung-Hua Institution for Economic Research, Taipei, on 5 September 1997.

support, which in turn intensified the KMT government's effort to gain economic independence. First of all, exports were promoted to replace the aid, in order to earn foreign exchange, and therefore solve the balance of payment problems.[52] In fact, Chiang accepted the strategy of export-oriented industrialisation (EOI) because he came to believe that exports could promote Taiwan's economic independence (from US aid).[53] However, an independent economy requires industrial capacity, and so the government promoted ISI emphasising the development of heavy and chemical industries. This was exactly the course the KMT government followed from the early 1960s, resulting in a more rapid (average rate of) growth of heavy and chemical industries in the 1960s than in any other period between 1951 and 1985.[54]

In fact, both EOI and ISI strategies worked hand in hand in the 1960s in 1970s. While exports provided foreign exchange to import-substituting industries, those industries developed Taiwan's economic independence. Thus EOI and ISI were simultaneously promoted by the desire for economic independence. In the early 1970s, the weakening of the US commitment to East Asian security, Taiwan's loss of its seat in the United Nations (UN), and Nixon's visit to Beijing further strengthened the KMT government's determination to seek economic independence. In 1973, Premier Chiang Ching-kuo announced ten big development projects, including several major public infrastructure projects and industrial projects to construct steel, petrochemical and shipbuilding plants.

52 Yung-ning Wei, *Wei yung-ning hsien sheng fang t'an lu* [The reminiscences of Mr. Wei Yung-ning], Oral History Series No. 3. (Taipei: Academia Historica, 1994), p. 93. Wei was an economic bureaucrat, who personally experienced the policy shift in the early 1960s, and he noted in the reminiscences that export promotion was a response to the expected termination of the US economic aid.

53 Sophia Wang, *Li kuo ting k'ou shu li shih: Hua shuo t'ai wan ching yen* [Oral history by Li Kuo-Ting: About Taiwan experience] (Taipei: Cho Yueh Wen Hua Shih Yeh, 1993), p. 143.

54 Takeji Sasaki, 'Kung yeh hua te k'ai chan kuo ch'eng' [The developing process of industrialisation], in Taniura Takao, ed., *T'ai wan te kung yeh hua: Kuo chi chia kung chi ti te hsing ch'eng* [Taiwan's industrialisation: The formation of international processing base], originally in Japanese, and translated by Lei Hui Ying (Taipei: Jen Chien Publisher, 1992), p. 30 (Figure 2).

As in Taiwan, the same double strategy of ISI and EOI was implemented in South Korea. The Park government was even more forceful in pushing for secondary ISI from 1962. There were 93 industrial projects related to import-substitution industries in the first five-year plan (1962–66), and the mining industry alone was to receive 34 per cent of total investment.[55] However, further cuts in aid from 1962 to 1963 produced a balance of payment crisis and forced the government to reassess its focus on ISI in 1964. The number of planned industrial projects was cut to 22, and the government began to promote labour-intensive exports. However, once the economic situation improved, secondary ISI resurfaced as the top development priority. After the mid-1960s, a series of laws were passed to promote the development of heavy industry, including bills promoting the machinery industry and shipbuilding in 1967, and petrochemicals and steel in 1970. The annual average growth rate of heavy and chemical industries in the manufacture sector not only increased faster than that of light industry between 1967 and 1971, but also faster than that of heavy and chemical industries in the period between 1971 and 1976—the period conventionally regarded as the beginning of Korean heavy and chemical industrialisation.[56]

Viewing the 1970s as a whole, secondary ISI reached a new height as Korea's threat perception was further strengthened. In 1969, the Nixon doctrine signalled a decline in the US commitment to East Asian security. Later, the withdrawal of the Seventh Division from South Korea made the Northern threat seem more serious. In 1973, Park's government initiated a Heavy and Chemical Industry Plan (HCIP), which targeted the steel, chemical, metal, machine-building, ship-building and electronics industries for rapid growth. According to Ralph Clough and Jung-En Woo,[57] security concerns were behind the HCIP. In the early 1970s, South Korea was still more than ten years behind the North in terms of

55 Kazuo Kawai, 'Gong ye hua zheng ce de bian qian—Zi chao xian jie fang zhi 70 nian dai' [The transformation of industrial policy: From Korea's liberation to the 1970s], in Ogawa Yuhei, Kim Young-Ho and Zhao Fengbin, eds, *Nan chao xian jing ji fen xi* [Economic analysis of South Korea] (Beijing: Zhong Guo Zhan Chong Publisher, 1989), p. 86.

56 Bank of Korea, *Economic statistics yearbook, 1980* (Seoul: Han'guk Unhaeng, 1980).

57 Ralph Clough, *Embattled Korea: The rivalry for international support* (Boulder and London: Westview Press, 1987), and Woo, *Race to the swift: State and finance in Korean industrialization*.

manufacturing modern weapons. With weakening US support, South Korea had to rely on itself more and more for defence production. Park stated in 1970, 'we have to secure our own independent self-defence strength adequate to crush any North Korean aggression without the help of other nations'.[58] Heavy and chemical industries were the base for defence production, and therefore had to be promoted as widely and rapidly as possible.

THE DECLINE OF THE DEVELOPMENTAL STATE IN NORTHEAST ASIA

Forces of change

The geopolitical experience of Taiwan and South Korea from the 1950s to the 1970s suggests that the cohesiveness of both states and their consistent commitment to industrialisation (reflected by their quests for economic independence) are closely associated with the particular kind of threat perceptions both states held, i.e. the perception of an extremely intensive and long-term threat. However, starting from the early 1980s, changes in the threat situation, together with changes in Taiwan's and South Korea's international and social conditions, posed a strong challenge to state power, and eventually led to the decline of the developmental state in Northeast Asia.

Changes in US economic policy represented the first challenge to the developmental states of Taiwan and South Korea. Partly because of the resurgence of neo-conservative free-market ideology in the UK and the US from the late 1970s and partly out of a desire to reduce its trade deficits with Northeast Asian countries, the US government from the early 1980s pressed Taiwan and South Korea to loosen government control and liberalise their economies. The rise of a new generation of economic bureaucrats in both governments, many of whom were educated in neoclassical economics in the US, strengthened American pressure for economic liberalisation. South Korea began trade liberalisation under the new regime of Chun Doo-Hwan. In 1985, Taiwan's

58 Chung-hee Park, *Major speeches by President Park Chung Hee* (Seoul: The Samhwa Publishing, 1973), p. 83.

government initiated economic reform under the banner of 'liberalisation, internationalisation, and institutionalisation'.

While external pressure from the US weakened governments' control over the economy in Northeast Asia, the growth of social forces also began to challenge the political power of both the KMT and South Korean regimes. Two decades of rapid industrialisation and urbanisation expanded the size of the working and middle classes, which gave rise to an ever-growing demand for democratisation in the 1980s. Both Taiwan and South Korea began to open up their political systems in 1987, and by the early 1990s most politicians were directly elected by the people. The rapid industrialisation also gave rise to ever-increasing business power. In 1985, for the first time, a business leader was invited to directly participate in policy-making in Taiwan.[59] As the political system was opened from the late 1980s, business groups quickly found representatives in parliament, from both the ruling and opposition parties, willing to influence economic policy-making. Business groups in South Korea were even more powerful than their counterparts in Taiwan, since they were much larger in size and more organised. In 1992, the founder of the Hyundai business group, Chong Chu-Yong, established a new political party and in the same year won 25 per cent of the National Assembly seats. Chong himself ran as a presidential candidate. Also running for president in that election was the chair of Daewoo, another powerful business group.

Parallel to mounting US pressure and growing social forces, the threat situation of both Taiwan and South Korea began to change in the 1980s. The Beijing government changed its Taiwan policy from 'liberation' to 'peaceful unification' in the late 1970s. In various public speeches, the Chinese leader Deng Xiaoping argued that the essential way for the mainland to achieve reunification would be to promote economic development at home in order to catch up with Taiwan. Since the early 1980s, Beijing's official policy has been 'one country, two systems', which promises Taiwan high autonomy (for example, keeping its own

59 Cheng-huan Wang, 'Kuo chia chi ch'i yu t'ai wan shih hua yeh te fa chan' [The state and the development of Taiwan's petrochemical industry], *T'ai wan she hui yen chiu k'an* [Taiwan: A radical quarterly in social studies] 18 (1995).

army, and social and economic systems) if Taipei regards the Beijing government as the central government. Softening intentions can also be discerned in Beijing's effort to reduce the cross-strait tensions. Although Beijing never ceded the right to use violence against Taiwan, military action was no longer the top option, and the PLA has avoided any direct military conflict with Taiwan since the late 1970s. The bombardments of Quemoy Island stopped. In fact, defence spending as a percentage of GNP consistently declined in Mainland China through the 1980s.[60] On the economic front, China established several special economic zones in coastal areas to attract foreign capital, especially capital from Hong Kong and Taiwan.

While Mainland China initiated a change of its intention towards Taiwan, North Korea experienced a change of its capability. First, North Korea lost its economic race against the South. In 1975, the size of North Korea's GNP was slightly larger than that of the South; by 1980 it had dropped to two-thirds of the South's; in 1990 it was only one-quarter; and from the early 1990s North Korea began to experience negative growth rates.[61] Second, North Korea lost its armed race against the South. Figure 1 shows that South Korea surpassed the North in the amount of defence spending in the second half of the 1970s. Taik-Young Hamm argues that from the early 1980s North Korea's economy could not keep up with the growing arms race with the South, and by the mid-1980s, it had to shift to a cheap option, i.e. developing a nuclear bomb.[62]

Threat perceptions and the decline of the developmental state

With the threat situations changing, threat perceptions of Taiwan and South Korea in the 1980s and 1990s became much less clear-cut. From the 1950s to the 1970s, the intentions and capabilities of Mainland

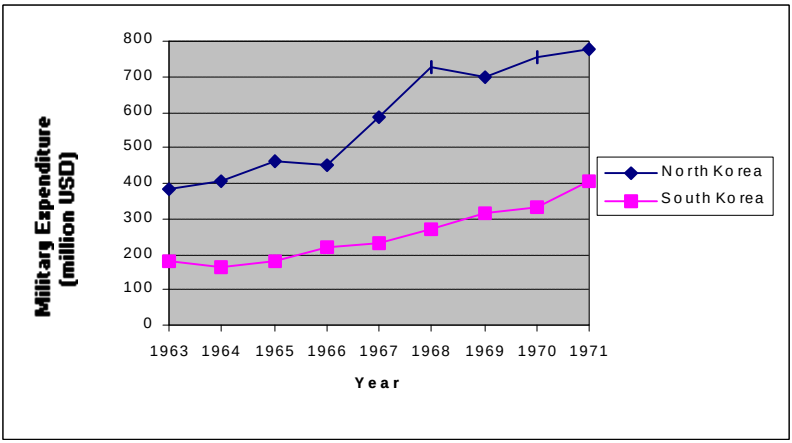
60 Information Office of the State Council of the People's Republic of China, 'China's national defense', *Beijing Review* 10–16 August 1998.

61 Ming Li, *Nan pei han cheng ching fa chan yu tung pei ya an ch'uan* [Development of political economy in North and South Korea and northeast security] (Taipei: Wu Yuan T'u Su, 1998), pp. 111 and 113.

62 Hamm, *Arming the two Koreas*.

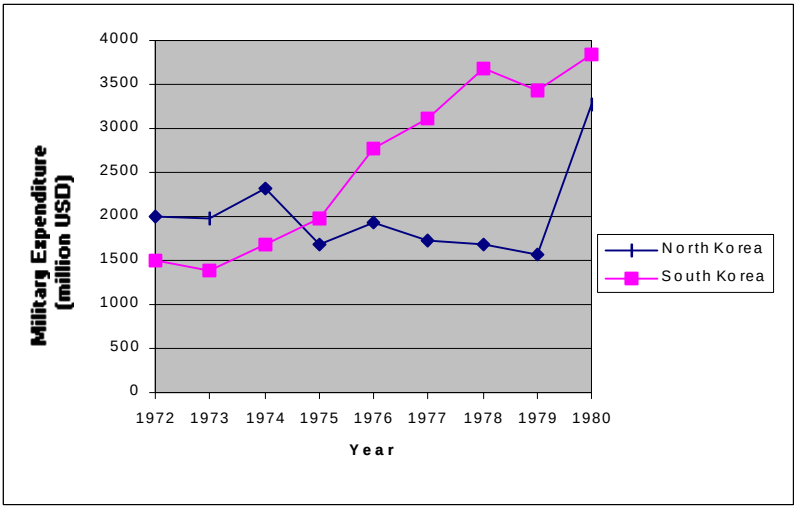
China and North Korea were both clear and stable. Together with uncertainty about long-term US support, they created perceptions of extremely intensive and long-term threats for Taiwan and South Korea. However, the situation between expected threat and expected support

Figure 1: Military expenditure of North and South Korea, 1953–1991[63]



(1)

63 Calculated from US Arms Control and Disarmament Agency, *World military expenditures and arms trade* (Washington, DC: ACDA, 1963–1990).


Militarg Expenditure (million USD)
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3000
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1000
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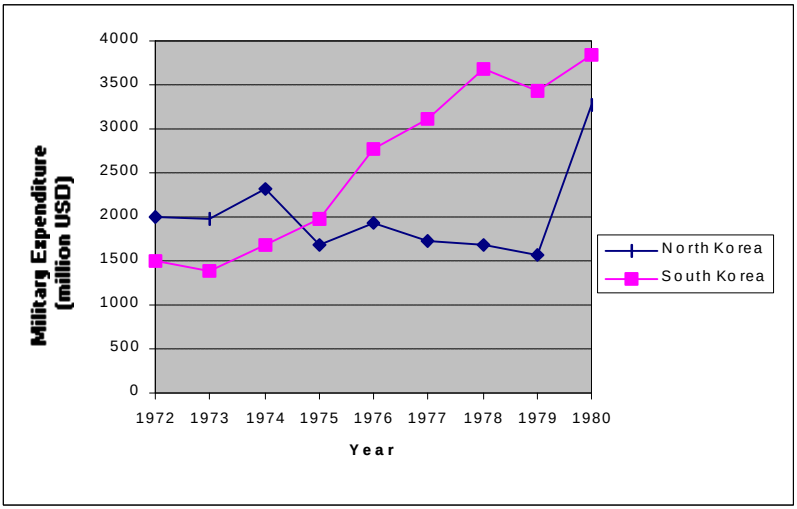
0
1972 1973 1974 1975 1976 1977 1978 1979 1980
Year
North Korea
South Korea

(2)


Militarg Expenditure (million USD)
4000
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1972 1973 1974 1975 1976 1977 1978 1979 1980
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North Korea
South Korea

(3)

was reversed in the 1980s and 1990s. The US support to both states became more stable than before. The establishment of diplomatic relations between China and the US in 1979 did send a shockwave to Taiwan, but the US Congress quickly passed 'the Taiwan Act' which re-confirmed the US security commitment to Taiwan. The US further strengthened its security tie with South Korea by stationing more US troops there in 1981, and by committing to military exercises annually since then.

While the US support was stable, the expected threat from Mainland China and North Korea began to waver. China's intention towards Taiwan softened and North Korea's capability to maintain its threat declined. Hao Po-ts'un, former Chief of Staff of the KMT army, acknowledged in his reminiscences that the reduction of military tension began when the PLA stopped bombing Quemoy Island in the early 1980s.[64] The KMT government began to allow its veterans to visit the mainland in 1987, and Taiwan's private capital also began to flow into the mainland in the 1980s. The Koreans, North and South, signed their first non-aggression agreement in 1991. However, there were periodic resurgences of threat during this time—for example, the North Korean nuclear scare in 1993, and the massive display of power of the PLA in response to the visit of Taiwan's president to the US in 1995 and to Taiwan's presidential election of 1996.

In general, the above discussion suggests that the threat perceptions of Taiwan and South Korea from the 1980s deviated from the earlier extreme, and this introduced uncertainty into economic policy-making in both cases. Former Premier of Taiwan Yu Kuo-hua was quoted as saying that it was the reduced threat that made financial liberalisation possible in the 1980s.[65] On the other hand, the 'South-ward' policy of the early l990s, which aimed at redirecting Taiwan's private investment from the mainland to Southeast Asia, was a direct result of national

64 Po-ts'un Hao, *Hao tsung chang jih chi chung te ching kuo hsien sheng wan nien* [The later years of Mr. Ching-kuo as recorded in chief of staff Hao's diary] (Taipei: T'ien Hsia Wen Hua, 1995), pp. 38–9.

65 Chun Wang, *Ts'ai ching chiu nieh: Yu kuo-hua sheng ya hsing chiao* [A great man in economy and finance] (Taipei: Sunbright Publishing Co., 1999), p. 459.

security concerns.[66] Concerning South Korea, Mark Clifford made the following comparison in 1994:

> South Korea produced one of the world's most impressive rates of economic growth because Park Chung Hee and his coterie of businessmen, bureaucrats, and generals were goaded by North Korea. … Ironically, now that the North is tottering, South Korea has no clear policy.[67]

The nuclear threat in the early 1990s was deadly, but any response focusing on industrialisation seemed useless.

Uncertainty in economic policy-making facilitated the penetration of free-market ideology and special interests into the developmental states in Northeast Asia. The US pressure for economic liberalisation directly called into question state economic intervention and helped the rise of liberalisation programs in both Taiwan and South Korea, while growing business power and opening political systems led to rent-seeking activities. It is argued that the balance of power between state and business in South Korea shifted from one of state domination before the 1980s to one with equal power between the two in the 1980s.[68] Taiwan's president Lee Teng-hui is reported to have made the following statement about the rent-seeking problem in 1991:

> The collaboration between politicians and business people is the worst example of corruption, in fact, this problem is always due to more and more spending required for election, some business people provide financial support for certain person so that he or she can be elected as people's representative, who actually speaks for them (i.e. the business people), so how to eliminate this kind of corruption is very important.[69]

The cohesiveness of the state and the consistence of its development commitment were further weakened when a number of key state-owned

66 Cheng-chao Sung, 'Chung hua min kuo chih tung nan ya cheng ching fa chan kuan hsi yu nan hsiang cheng ts'e' [Developing ROC's political and economic relationship with Southeast Asia and south-ward strategy], *Li lun yu cheng ts'e* [Theory and policy] 9(36) 1995, p. 79.

67 Mark Clifford, *Troubled tiger: The unauthorized biography of Korea, inc* (Singapore: BH Asia, 1994), p. 342.

68 Eun Mee Kim, *Big business, strong state: Collusion and conflict in South Korean development, 1960–1990* (Albany: State University of New York Press, 1997), p. 182.

69 Ao Li, *Lee teng-hui te cheng mien mu* [The real Lee Teng-Hui] (Taipei: Kuei Kuan, 1995), p. 130.

enterprises (for example, China Steel), which had been the key carriers of Taiwan's industrial policy, were privatised in the 1990s. This weakening continued in South Korea when the Economic Planning Board, the main body for making economic strategy since the early 1960s, was abolished in 1993 under pressure from both domestic and international capital.[70] As a consequence, traditional industrial policies and investment co-ordination were weakened in Taiwan and completely abandoned in South Korea.

CONCLUSION

The developmental state of Northeast Asia is a historical phenomenon associated with a particular kind of threat perception. I have argued that a perception of an extremely intensive and long-term threat played the key role in creating the developmental states in Taiwan and South Korea, and changing threat perception in the 1980s and 1990s was an important factor causing the decline of the developmental states. In particular, the gap between expected threats from Mainland China and North Korea and expected US support is the key to explaining why politicians and bureaucrats in Taiwan and South Korea could act together and put Industrialisation at the top of their policy priorities. When the expected threat changed in the 1980s and 1990s, it opened a space in the process of economic policy-making of both cases for alternative ideas of economic management and rent-seeking activities. Together with opening political systems, growing business forces and mounting US pressure for economic liberalisation, they led to the decline of the developmental state in Northeast Asia.

Does this argument then imply the end of the developmental state in Northeast Asia? First, the external threats to Taiwan and South Korea may have become less extreme and less clear, but they still exist. While the threat to South Korea has further declined since the nuclear scare of 1993, the threat to Taiwan may have become stronger recently, given that the current government was formed by a pro-Taiwanese independence party. Second, we cannot completely discount the historical

70 Robert Wade and Frank Veneroso, 'The Asian crisis: The high debt model versus the Wall Street–Treasury–IMF complex', *New Left Review* 228 (1998), pp. 9–10.

institutions of the developmental state. After all, this form of state has existed in Taiwan and South Korea for about 30 years. Its practice has been institutionalised, and continues to shape the behaviour and interest of politicians and bureaucrats today. Although I do not think the historical institutions alone can resist the forces of change discussed above, it does not mean they have no influence over policy-making. It will be interesting to see how changing threat perceptions, the historical institutions of the developmental state and the global trend toward economic liberalisation play out in the beginning of the new century.

How do the cases of Taiwan and South Korea speak to the post-war developing world in general? It is not hard to see that both the threat perceptions and the developmental states discussed in this study tend to be unique cases. What is special about the perception of extremely intensive and long-term threats is that the intention of the threatening country is not only extremely serious—concerning the national survival of the threatened country[71]—but it is also unambiguously demonstrated and backed by strong capability, which leaves very little room for alternative interpretations of the threat. Aside from the Northeast Asian cases, Cuba and Israel are probably the only other examples in the post-war developing world which experienced similar situations. More research needs to be done on whether they also share the essential features of the developmental states of Northeast Asia—state cohesiveness and consistent commitment to industrialisation.[72]

Deviations from the perception of an extremely intensive and long-term threat are not likely to give rise to a developmental state. When a threat develops into war or constant military conflict, the state elite's attention is concentrated on immediate security crises at the expense of economic development. As discussed earlier, the KMT state on Mainland China is

71 Jeffrey Herbst argues that states facing national survival threats or wars are only exceptional cases in the post-World War II era. See Jeffrey Herbst, 'War and the state in Africa', *International Security* 14(4) 1990, p. 123.

72 I would argue that they probably share these essential features, but with important qualifications. First, Cuba is certainly not a *capitalist* developmental state. Second, it is unclear whether Israel is comparable to other developing countries, since its level of economic, social and political development is more like that of a developed country.

an example of this. South Vietnam's experience (1955–75) is another. On the other hand, when the intention of the threatening country is ambiguous and/or its capability is weak, the threat is open to different interpretations among the elite of the threatened country, and the resulting division makes the state more vulnerable to the penetration of special interests. Most developing countries experience such an 'ambiguous threat', or experience no threat at all. Those states may differ in their strength and commitment to industrialisation, but in most cases, cooperation among politicians and bureaucrats is hard to form and easy to break.[73]

This comparative perspective brings us back to the central argument of this study—that the developmental state in Northeast Asia is a historical phenomenon associated with a particular kind of threat perception, and that the decline of such a state is probably both inevitable and natural.

73 Again, I want to emphasise here, as I did in the introduction, that the aim of this study is to explain certain forms of state in relation to economic management, not industrialisation itself. There are multiple ways to achieve industrialisation, and the developmental state is only one of them.

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