

VARIETIES OF DEVELOPMENTAL STATES: RETHINKING THE GOVERNMENT-BUSINESS RELATIONSHIP IN SOUTH KOREA AND CHAIWAN

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Abstract— This study analyzes different levels of bureaucrat's policy autonomy over private business sector in an effort to explore the varieties of East Asian developmental states. It starts from the puzzle that Asian financial crisis of 1997-98 caused severe devastation of South Korea's medium and small enterprise while those of Taiwan were relatively unscathed by the crisis. Conversely, financial devastation of 1997-98 harshly swept big business in Taiwan, compared with its punch on that of South Korea. The study argues that bureaucrat's policy autonomy influences government-business relations and thus the two countries evolve into different developmental states. To put it differently, bureaucrat's policy autonomy primarily influences East Asia's industry which has transitioned from embedded mercantilism into developmental liberalism. In recent years, the growing economic ties between China and Taiwan reshape Asia's industrial landscape. Both South Korea and Taiwan are highly industrialized countries, widely touted as archetype of successful East Asian developmental states while China emerges one of late but rapid developing nations. In this regard, South Korea, Taiwan, and China can be intriguing laboratory to rethink bureaucrat's policy autonomy within government and business relationship. The study conducts a comparative case study of industrial policy between South Korea and Chaiwan, the combination of China's big market and Taiwan's advanced technology.

I. INTRODUCTION

A. THE PUZZLE

Embedded mercantilism, once regarded as a conventional wisdom of industrial policy, recently witnesses a significant paradigm change. This study starts from the puzzle that the change of industrial policy in East Asia is heading for developmental liberalism, in lieu of neo-liberalism. Developmental liberalism is the essence theory of this study and is concerned with new industrial policy theory, a recent scholarly output by the western society (Noland and Pack 2003; Rodrik 2007). Of course, not all member countries in East Asia is consistently proceeding to developmental liberalism. Time lags and variations of contents

are found in a concrete policy level among countries in East Asia. Therefore, it is of great significance to analyze both the similarities and differences of industrial policies in East Asian countries.

A financial crisis in the year of 1997 and 1998 harshly devastated Asia's fast-grown economies, compared with the subprime financial crisis in 2008. Amid financial devastation across the region at the end of 1990s, a number of medium and small enterprises in South Korea were severely bankrupted while those of Taiwan were relatively unscathed by the crisis. Conversely, financial crisis of 1997-98 harshly swept big business in Taiwan, compared with its punch on that of South Korea. Such a phenomenon has often been explained by the different types of government-led industrial policy since the two countries. Concerning the title of my prospective research, I propose a newly coined term, Chaiwan, a combination of China's huge market on the globe and Taiwan's sophisticated technologies and advanced knowledge. A warm tie between the two countries was officially marked by historic trade agreement in 2010. achieved government-led economic development at a high speed. These two Asian developmental states, however, have shown different path dependency in their implementation of industrial policy. Of course there may some arguments that South Korea has historically fostered the big business while Taiwan has long concentrated on the investment of small and medium enterprises. Notwithstanding this general argument, I plan to focus on 'bureaucrats' who actually substantiated the policy ideas and implement measures in its relations with business sector. Based on different bureaucrat's capabilities, Asian fast-grown economies transitioned into a developmental liberalism in a different degree by getting through both Asian financial crisis in 1997-98 and subprime financial crisis in 2008.

I plan to conduct a comparative analysis of bureaucratic autonomy witnessed in the government-business relations both in South Korea, Taiwan, and China. Before proceeding, why do we need to

rethink government-business relationship in East Asia? In a nutshell, East Asia's striking high economic performance is based on its policy networks linking government and industry. Then, how powerful is bureaucracy in government-business relations? To what extent does bureaucracy's policy autonomy shape East Asian developmental states model? How do the divergence and convergence of Asian bureaucracy influence within the government and private industrial sector? To what extent do bureaucrats mirror the interests of private business sector? My prospective study is of great significance both theoretically and practically. Much of relevant works were previously done by focusing on the case of Japanese developmental business system (Berger and Dore 1996; Dore 2000; Streeck and Tamamura 2001; Anghodoguy 2005; Vogel 2006; Westney 2006; Witt 2006; Aoki et al. 2007; Lechevalier 2007; Sako 2008). Recent years have seen some efforts seeking to expand the boundaries of research of Asian economic developments including China, Korea, and other Southeast Asian countries (Weiss 1995; Loveridge 2006; Huang 2008; Andriessse and van Westen 2009; Heugens et al. 2009; Ritchie 2009; Steier 2009; Tipton 2009; Robins 2010; Pascha et al. 2011; Storz and Schafer 2011; Boyer et al 2012; Witt and Redding 2013). Nonetheless, progress of previous studies has so far concentrated on the role of bureaucracy merely as a pilot agency. Aside from the role of central coordination, I plan to bring a concept of bureaucrat's policy autonomy within a setting of government-business relations since business indirectly contributes the policy outcome by setting parameters for policymakers (Falkner 2010 :114). The rapid economic growth of East Asian countries has led to a burgeoning interest in a debate on whether or not the developmental state model is still applicable in an era of trade liberalization. The robustness of bureaucratic society still remains in the process of state development in Asia. Moreover, the analysis of Asian developmental states bears directly upon the future of other developing countries in the region.

B. WHY DO VARIETIES OF DEVELOPMENTAL STATES MATTER?

Characteristic and Conventional Explanations of Developmental States

In the 1980s there was a heated debate on developmental state in East Asian political community. An active debate on the developmental states is the cornerstone of this study that tries to clarify the government business relations. Neoliberal economists from the U.S. and the U.K. have long been emphasized free trade and financial liberalization as a means to long-term economic development. They

argue that arms-length market transaction leads efficient capital flows in the market and financial liberalization provides developing countries with incentives to purchase goods with low costs. According to the neo-liberalists, state development would even enhance market conditions in developing countries by lessening inefficiency caused by bureaucrats and politicians. On the other hand, developmentalists concentrate on developing nations' difficulties that ensue in the catch-up process. They suggest that developing countries require some strategies to make use of deficient resources and to foster competitive-edge companies at the same time in order to narrow their gap with highly developed countries.

From the 1960s to 1990s, East Asian countries witnessed a dramatic economic growth at a high speed. Since Chalmers Johnson published his works in 1982, *MITI and the Japanese Miracle*, developmental states became the image of a typical rapid economic growth in East Asia. Johnson's developmental state model analyzed that East Asian economies grew at a fast speed, owing to several government-oriented factors such as economic developmental plan, industrial policy, and political insulation. In light with his perspective, many following literatures began to analyze the Asian economic miracle. Similar to Japan's developmental model, most of East Asian companies raised their funds from some closely-aligned banks (Woo 1999). In the pursuit of economic development like the western nations, economic nationalism was linked together by mercantilism in Asia. T. J. Pempel (1998; 2004) argues that embedded mercantilist policy was implemented to encourage Japan's macroeconomic success. According to him, domestic industrial protection and export-oriented industrial policy also resolved the political frictions in Japan after its defeat in 1945. In other words, conservative regime emerged in Japan in 1960s was not be found in other western industrial society.

The concept of embeddedness was introduced in the West in order to elucidate the advent of the welfare states whereas Asia used the term in clarifying the autonomy of developmental states. If the embeddedness is connected with autonomous developmental state, such embeddedness requires states to make an active role, compared with that of welfare states in the West. Peter Evans conceptualized an embedded autonomy by focusing on government's intimate relations with either companies or interest group. Embedded autonomy is a key factor that distinguishes East Asia's successful developmental states with Latin America's bureaucratic authoritarian state. Developmental states with embedded autonomy can enhance social structure and support the variety of interest groups in a society and thus foster the

domestic industry and trigger economic activities.

A Debate on the Validity of Developmental States around Asian Financial Crisis of 1997-98

Developmental states encountered difficulties in 1990s, albeit their persuasive explanation of unprecedented economic growth in East Asia from 1960s to 1980s. In particular, Asian financial crisis at the end of 1990s shattered illusions of economic miracle in East Asia. Even the model of developmental states became synonymous with moral hazard and crony capitalism in the region. Started from Thailand in 1997, financial crisis obliterated memories of successful developmental states. Some economists argued that the trend of managing the business in Asia should inevitably follow the dictates of neo-liberalism, immediately after the IMF financial crisis (Dore 2000). Such a view coincides with market-oriented convergence theory, the opposite view of developmental states model. Market-oriented convergence theory criticizes government's protectionist policy toward domestic industry and embedded mercantilism which pursues manipulated industrial policy (Krugman 1994, 1995). The same applies to the argument that there are no correlation between trade liberalization and government spending (Down 2007; Kim 2007).

Isn't the compromise between open markets and domestic compensations valid any longer even in recent days with high factor mobility? Broadly speaking, does an active role of the government's guidance have to be eradicated in the process of bringing national wealth? Bureaucracy in East Asia has long been a driving force behind its rapid economic growth in line with a transition to democracy. The academic community conversely asserted that East Asian industrialized states were not the archetype of successful development any longer in a response to Asian financial crisis in 1997 since the crisis undermined the state autonomy in Asia. Nevertheless, the IMF crisis can be understood in an extension of developmental states debates in that the government failed to link household savings and investment of company. Bureaucrats who assign financial allocation to business through bank were the main culprit of state crisis, even conceding the fact that capital market in Asia suddenly opened with a trend of deregulation of the financial sector.

C. RESEARCH STRATEGY

Argument, Methods, Evidence

I plan to analyze the bureaucratic autonomy over private business sector in an effort to explore the varieties of East Asian Developmental States. The study is to provide a systematic account of the transition from embedded mercantilism to developmental liberalism in East Asia and eventually to generate some policy

implications as well as guide actions for the future of other developing countries. The study is essentially based on a comparative analysis of case study in industrial policy in South Korea and Taiwan.

I will mainly use a process tracing with elite interviews as a major research method. I approach this issue both quantitatively and qualitatively, if necessary. For instance, I try to answer my prospective research questions by building upon different degrees of policy autonomy dimensions. I also have a plan to conduct a field study to East Asia during my journey to write a dissertation.

A financial crisis both in 1997-98 and 2008 can be explained by bureaucrat's policy autonomy within a developmental states model. Similarly, it is an also intriguing example to analyze the transition of industrial policy in the region in a response to bureaucrat's policy autonomy. As such, a comparative study on the government-business relations by measuring policy autonomy will provide a comprehensive and precise overview of Asian developmental states' transition from embedded mercantilism to developmental liberalism. Such a research question is of great significance to prevent other developing nations to remain either authoritarian sectorialism or sectoral cronyism.

Dependent Variables: Varieties of East Asian Developmental States

In defining the dependent variable, I focus on the variation in the process of the state development after the rapid economic growth in 1980s, particularly in South Korea, Taiwan, and China. I plan to examine how the industry in these countries has transitioned, respectively. Most notably, this study presumes that the majority of industrialized nations in Asia transition from embedded mercantilism to developmental liberalism, instead of neo-liberalism.

Independent Variable: Bureaucrat's Policy Autonomy within Government-Business Relations

A notion of policy autonomy is used frequently in studies of social science. In the public administration, the term of administrative capacity is found as a close meaning of policy autonomy in political science. Depending on the adjective chosen, there are various versions of autonomy, such as state autonomy and bureaucratic autonomy. Even though many types of autonomy are being used in a comprehensive way, the notion of autonomy remains ambiguous. Concerning the definition of bureaucratic autonomy, there is an argument that bureaucracy is considered to be autonomous when bureaucracy does not comply with what political leaders would want them to do (Kim, 2008: 35). Nevertheless, this study will focus mainly on policy autonomy per se. Then how do we define the notion of policy autonomy?

Policy autonomy can be defined when agency director has capabilities of implementing a policy without being reversed by the both the president and congress (Hammond et al., 1996: 144). There are two major definitions of autonomy: a competency in the process of decision-making and an exemption of constraints in the process of setting a policy (Verhoest et al., 2004: 104).

According to previous literature, there are two dominant streams that elucidate the notion of autonomy: the principal-agent approach and the preference approach. First, there are principal-agent definitions of autonomy between the bureaucratic agencies and political principals. In light of principal – agent approach, a chief agent’s autonomy is defined as a degree of policy implementation without being hindered by ex ante or punished ex post. Despite these theoretical hypotheses, the principal-agent approach exposes some limitations since it takes an assumption that the hierarchy is found in a relation between bureaucrats and political principals. Moreover, policy discretion is hardly recognized between the two entities.

Second, the notion of autonomy is understood as the shape of preference of bureaucrats. Carpenter (2001)’s study suggests that the premise of bureaucrat’s autonomy is seen in a case of

“politically differentiated agencies take sustained patterns of action consistent with their own wishes, patterns that will not be checked or reversed by elected authorities, organized interests, or courts (Carpenter 2001, 14).” In this approach, three conditions are essential for bureaucrats to have their own policy autonomy: that is policy differentiation, unique organizational capacities, and policy legitimacy. Among these three, political differentiation indicates that there should be a difference between agency’s preferences and those of political actors.

I focus on the variation of bureaucratic autonomy in its relations with private business sector. In order to capture the wide variance of bureaucratic autonomy in the process of policymaking, some indicators are required to determine the degree of policy autonomy. Building upon Christensen (1999) and Verhoest et al. (2004), I systemically construct three levels of approach that the government of agency controls to analyze the bureaucrat’s policy autonomy in its relations with private business sector: (1) process; (2) policy instruments and actual outcomes; and (3) policy objectives and effects.

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