Chapter 1

Developmental Regimes

Japan, Korea, and Taiwan

The stunning economic transformations of Japan, Korea, and Taiwan constituted the first waves in the subsequent tsunami of national economic successes that swept across East Asia. Each of the three overcame daunting barriers left from World War II (and for Korea, the conflict of 1950–53) to deliver decades of sequential GDP growth rates that were roughly double that of the industrialized world. Each accumulated capital, invested heavily in domestic production facilities and national infrastructure, and created forward and backward linkages among sophisticated corporations and sectors, laying strong foundations for ongoing product innovation and industrial deepening. In the process, each also gained steadily larger shares of world exports, stronger currencies, and ballooning foreign reserves.

Increased economic sophistication brought broad-scale citizen inclusion and patterns of income distribution that, by international standards, were quite egalitarian. Of critical significance, heavy reliance on indigenous capital and national ownership ensured that the bulk of the benefits from increased productivity would redound predominantly to locals rather than escaping to foreign coffers.

This chapter argues that such economic achievements arose in tandem with a specific type of regime in Japan, Korea, and Taiwan, and a particular economic paradigm. The three national experiences, though not identical, were sufficiently analogous in a number of fundamentals to treat them as a group.[1] They provide empirical manifestations of what I label "developmental regimes."

All three had strong and cohesive state institutions; each had concentrated and dominant progrowth socioeconomic coalitions; all received extensive security and economic support from the United States and enjoyed the benefits of global financial and trade institutions. Each regime bonded around what Slater has labelled "protection pacts." Driven by a shared sense of existential threat, foreign and domestic elites joined together to advance an economic policy paradigm that I label "embedded mercantilism." Core components included industrial policy, undervalued currencies, export expansion, and rapid industrialization, all advancing behind institutional bulwarks against the perceived threats.[2]

As their national economies took flight, growth provided positive feedback that reinforced cohesion among key regime components while marginalizing potential regime opponents and alternative economic paradigms. Each regime gained greater internal cohesion, legitimacy, and institutional enmeshment. Stronger regimes, in turn, reinforced the economic paradigm, the two continuously buttressing one another in a "virtuous cycle."

Considerable analysis has stressed the centrality of state institutions, particularly the civil service, in the economic transformations of Japan, Korea, and Taiwan. Strong and coherent state institutions were undoubtedly necessary for that transformation, yet state institutional strength alone was by no means sufficient. Equally critical was the nature of two other key regime components, notably cohesive progrowth socioeconomic coalitions and consistent and powerful external backing. All three cohered to form what I categorize as "developmental regimes" that in turn steadily advanced transformative national economic paradigms. The result was radical and rapid industrial transformation.

State Institutions

Although many states might have the intention to achieve economic development, far fewer show a capacity to do so. An exchange in Shakespeare's *Henry IV* captures the distinction. Glendower, touting his alleged powers, announces, "I can call spirits from the vasty deep." The response from Hotspur punctures such arrogance, "Why, so can I, or so can any man, but will they come when you do call for them?"[3]

To forge and implement an economic policy paradigm capable of calling forth the spirits critical for development, cohesive state institutions designed for decisiveness are an invaluable asset. Unlike the more fragmented state structures found in much of Latin America, Africa, and the Middle East,[4] Japan, Korea, and Taiwan had state institutions designed for decisive action rather than for minority voice, extensive representation, and compromise. State authorities could focus with unblinking eyes on the lodestar of economic catch-up so that it became what Linda Weiss categorized as the nation's "transformative project"[5] and Bob Jessop branded its "hegemonic project."[6]

Strong and cohesive state institutions had deep historical roots in Japan, Korea, and Taiwan.[7] In the late nineteenth century, the Japanese ruling elite, anxious to escape the colonial depredations forced on most of the nonwhite world, took a constitutional leaf from Bismarck's Germany to configure governmental structures that concentrated, rather than dispersed, political

power.[8] Citizen duties were extensive; their rights were few. Unsurprisingly, political parties and Parliament had to cope with elaborately constructed barriers denying them the influence many of their counterparts enjoyed in parts of Western Europe, Latin America, and the United States.

Without gainsaying the imbalance in power between colonizer and colonized, decades under Japanese imperial rule bequeathed state institutions to Korea and Taiwan that replicated those of their colonizer; trained and talented indigenous officials became the norm in all three countries.[9] The postwar governmental structures of all three continued the predisposition toward state institutional strength.

A substantial body of scholarship on Japan, Korea, and Taiwan privileges state institutions as the key to their economic success. Under the collective label of developmental states, these three each had a "pilot agency," composed of technically competent civil servants chosen through meritocratic processes who oversaw extensive mechanisms of control.[10] They used those institutional tools with cohesion, capacity, and disposition to advance a consistent agenda.[11]

Yet state bureaucrats were hardly autonomous operatives.[12] No matter their talents, they did not operate in a political vacuum; rather, they were at most valuable flywheels in a more extensive machinery of state institutions, rarely free to generate their own policy agendas. Nor were the goals they pursued self-evident.[13] Indeed, as Weber's analysis of bureaucracy makes clear, the rules by which bureaucrats operate are not self-generated but emanate from outside the bureaucrat cubicles.

At the apex of all three state systems was a more extensive and cohesive executive authority. In Japan's case, that ultimate authority controlling state institutions was the electorally dominant Liberal Democratic Party (LDP).

Japan, unlike Taiwan and Korea, began the postwar years as a constitutional democracy with a panoply of guarantees concerning citizen sovereignty, parliamentary power, and competitive elections together with press freedom and citizen rights.[14] For the first decade or so following World War II, Japanese state institutions struggled for direction amid brutal street battles and wide-ranging social and political uncertainties. A succession of coalition governments rotated into and out of Parliament and the prime minister's office, focused far more on geopolitical and security issues than on economic transformation.[15]

Finally, in 1955, several previously separate conservative parties, under strong pressure from the powerful business sector as well as the US government, combined forces to form the Liberal Democratic Party. Over the next four decades, the LDP consistently secured twice as many parliamentary seats as the second largest party. Electoral supremacy, in turn, gave the party sole control of all cabinet posts until 1993, marking Japan as one of a limited number of democracies manifesting one-party dominance.[16]

As a result, although Japanese economic bureaucrats enjoyed considerable tactical flexibility, they remained subject to strategic direction from the LDP.[17] The LDP retained that institutional superiority only by consistent victories at the ballot box. Consequently, the LDP was not free from constraints in advancing the country's policy paradigm; it also had to be an effective vote-mobilizing machine. Electoral effectiveness was essential if the LDP was to control the state apparatus for long enough periods to orchestrate a full-fledged economic transformation. Indeed, the long-ruling LDP was primarily a political machine organized to win elections and less one to govern the country. The LDP consequently off-loaded far more details of governance to the national bureaucracy than was true in the other two developmental regimes.

Neither the KMT (Kuomintang) nor the Korean military junta faced such electoral constraints. Instead, for the first decades of their economic transformations both Korea and Taiwan were under tight military control, authoritarian regulations, and extensive citizen surveillance. In Taiwan, a pervasive and powerful KMT bolstered bureaucratic actions while in Korea the personal support parties of successive autocratic presidents did the same.[18]

In Korea, state institutional cohesion became consolidated following the 1961 coup that brought Park Chung-hee and his military junta to power. For the next three decades, there was little doubt about the strength and cohesion of Korean state institutions. The military chain of command, combined with extensive constitutional powers afforded the president, ensured pointed and hierarchical cohesion across state institutions. Furthermore, the KCIA (Korean Central Intelligence Agency) and a shadow cabinet bolstered both state cohesion and citizen control.

Soon after he took power in May 1961, Park made it clear that the military would play the lead role in the regime. Only the military, he argued, had the organizational cohesion and hierarchical clarity to purge the country of what he saw as its two major problems—corruption and poverty. By arresting numerous leaders from the business community on corruption charges, Park established the unmistakable dominance of state over society, of politics over profits. Only after receiving business assurances of its willingness to cooperate with his political goals were chaebol leaders permitted to run their business operations with some measure of independence.[19] Until his assassination in 1979, Park exerted iron-fisted oversight of economic development policies, labeled "The Big Push." This combination of military and presidential power continued with only minimal challenge until the introduction of free elections in 1988.

Security concerns were hardly subservient to economic growth; however, Park and his followers concluded that national security necessitated economic transformation. Steel, shipbuilding, electronics, and infrastructure were essential for the production of weapons and the deterrence of aggressors, particularly the menacing regime to the North. The political leadership thus fused the two goals of military security and economic development, treating them not as trade-offs but as intimate partners, even though that intimacy resulted in major cuts to the military's share of the national budget.[20]

Economic bureaucrats remained subject to presidential commands. Park's inspiration was a logical outgrowth of his background: the top graduate in his class at a Japanese military academy; an officer trained at the Tokyo Military Academy; and subsequent service in Manchuria, where he participated in advancing economic development under Japanese military rule and industrial planning. In addition, Park had seen the ease with which North Korea in 1950 swept over the hapless Rhee Syngman government, as well as Rhee's reliance on a social coalition of absentee landowners and corrupt import-substituting industrialists, a point developed below.[21]

Korea's concentration of decision-making authority in hierarchical state institutions, along with the systematic suppression of opposition forces, continued into the late 1980s (and even after the military gave way to civilian rule, presidential predominance remained daunting). In Korea under Park, the president appointed roughly one-third of the Assembly members. Opposition politicians confronted legal bans on their political activity and a government-run media that impeded citizen support and funding for opposition parties. Between 1948 and the mid-1980s, one hundred or more political parties rose and fell. Most lacked money and influence, serving largely as transient entities cobbled together as the personal networks of prominent figures, rather than as cohesive, popularly anchored, and programmatic political parties.[22] Few played any meaningful part in checking state institutions, a situation that contrasted with both Japan and Taiwan.

In Taiwan following the takeover by Chiang Kai-shek's forces in 1949, state institutions centered on alignments among Chiang personally, his supportive KMT, and the military. From the time of his arrival on the island in 1949 until his death in 1975, "generalissimo" Chiang dominated the KMT, after which his son, Chiang Ching-kuo, exercised almost equal power. The civil service was talented but subordinate, particularly to the KMT. Replicating the CCP's (Chinese Communist Party) structures on the Communist mainland and continuing its own long-standing pattern, the KMT instituted parallel party and state structures to ensure the firm command of what Tun-jen Cheng identified as a "quasi-Leninist" party.[23] Despite their separate functions, the party and state marched largely in lockstep. The original KMT goal after taking control of Taiwan was the chimerical promise to reconquer the mainland. From the 1960s onward, however, economic growth gained enhanced justification as supporting, though not supplanting, retaking the mainland.[24]

KMT party components generated, or at least approved, all major policy decisions, including those integral to economic strategy. Local elections existed in Taiwan, as did national elections in Korea. Yet in both cases, authoritarian state structures prevented such elections from posing truly meaningful curbs. At the same time, elections in Taiwan provided state authorities with periodic feedback and an ability to scout for and recruit local talent into the KMT or into state institutions, thus developing a cadre of electorally savvy politicians who ultimately retained KMT goals following their respective democratizations.[25]

State institutions in Korea and Taiwan had one additional key component, namely, the professional military. The military ensured the maintenance of state authority and checked business autonomy and popular outbursts. Periods of martial law in both Taiwan and Korea enhanced state power, nascent elite cohesion, and policy coherence while suppressing potential opponents. Mandatory male conscription, strict regulation over assembly and free speech, and extensive citizen surveillance operations in both countries reinforced the power of political authorities. Even in democratic Japan, police and intelligence services carried out extensive monitoring of potential regime challengers.[26]

In all three cases, relations between top political and/or military officials and senior civil servants were hardly zero sum. More often, all allied to advance the shared hegemonic project of national economic growth. Such differences as arose were most often over tactics, instrumentalities, and degrees; rarely were they divisions over the policy paradigm itself. The KMT, the Park presidency, and the LDP, aided by talented and loyal administrative staffs, pursued consistent grand strategies. Political leaders in all three countries periodically undertook administrative reforms to enhance efficiency and cohesiveness in state institutions, largely in furtherance of economic goals.[27]

It is worth noting that not all state institutions radiated such coordinated commitment to economic development. For example, even as Korea's Park Chung-hee forged a highly efficient and technocratic set of state economic institutions, he prioritized patronage considerations in ministries dealing with public works, agriculture, and loan allocations.[28] The same was true in Japan as the LDP often used its control over top civil service appointments to ensure the steady provision of pork projects to favored constituencies and well-connected corporations, often in disregard of any potential contributions to rapid economic growth.[29]

A final note on state institutions concerns executive structures. Both Taiwan and Korea concentrated extensive authority in the office of the president. Each presidential office had sweeping authority over hierarchically structured state institutions and the policymaking process. Both regimes thus escaped the executive ambiguity that characterized the Japanese prime ministers' office during the country's developmental period. Japanese prime ministers consistently needed to balance their notional primacy against intra-LDP political machinations and the need for regular electoral validation. Japanese state institutions—clearly more cohesive than in many countries—thus still displayed less hierarchical cohesion and control than those in Korea or Taiwan.[30]

As subsequent analysis of other East Asian regimes will show, Japan, Korea, and Taiwan thus stand as striking contrasts to countries with more fragmented state institutions, often rife with ineptitude and patronage, or advancing policies antagonistic to economic transformation. In furthering their national economic policy paradigms, however, state institutions in each of the three developmental regimes benefited from the robust support of cohesive, pro-growth, socioeconomic coalitions. State institutions did not rule in pursuit of some abstract "national interest"; rather, those institutions defined the "national interest" in terms explicitly beneficial to a particular coalition of socioeconomic supporters.

Socioeconomic Forces

As competent, cohesive, and controlling as state institutions were, an exclusive focus on those institutions creates a thin politics that misses the ways state institutions in the developmental regimes depended on broader social support.[31] State institutions do, of course, determine the rules governing socioeconomic competition, and thus can bias its outcome.[32] Yet in return for critical support, state actions "reward the friendly, exclude the hostile, and disorganize the dangerous."[33] In short, the relationship between state institutions and socioeconomic forces is highly political. Which socioeconomic groups provide critical support for state institutions and the policies they advance, and what are the rewards for such support? In this regard, each of the three regimes included another key component, notably, a strong and cohesive pro-growth socioeconomic coalition.

All three of the developmental regimes included a fused collaboration between state institutions and socioeconomic forces. The latter added their own commitment and resources to the common economic project. The most central socioeconomic element in all three instances was big business with ancillary but essential contributions coming from agriculture and smaller businesses. The cumulative melding of these socioeconomic forces bolstered the regime and facilitated the advance of their jointly favored economic paradigm. Decades of joint political-socioeconomic collaboration allowed that alliance to surf successfully atop the waves of day-to-day political fluctuations and short-term setbacks.

Important to the dominance of that particular socioeconomic coalition in Japan, Korea, and Taiwan was the fortuitous absence of several lines of cleavage so often divisive in other countries, namely, high levels of ethnic, religious, linguistic, or racial cleavages. Such divisions militate against the psychological and emotional preconditions conducive to what Benedict Anderson called the "imagined community" that undergirds the modern nation-state.[34] Japan, South Korea, and Taiwan benefitted instead from rarely questioned national identities.[35]

Beyond the fact that both Korea and Taiwan existed as the partial residues of civil wars that left the original countries divided, territorial boundaries raised few driving questions within any of the three. In Japan and Korea, there was broad agreement on the bonds of nationhood. Taiwan, in partial contrast, confronted a cleavage between the indigenous population and the superimposed rulers from the mainland who began their rule lacking an endogenous socioeconomic power base and hence relied on greater levels of suppression of a distinctive ethnic minority.[36]

Initially, the KMT allowed the 15 percent of the population identified as "mainlanders" to ride roughshod over the fortunes of the remaining 85 percent identified as "Taiwanese."[37] Not surprisingly, top down state-KMT control confronted a restive civil society, a division that played out brutally in the February 28, 1947, incident when local Taiwanese rose up against mainlander controls.[38] The government responded with an indiscriminate killing of thousands of locals, thereby entrenching the deep fissure between locals and mainlanders that continues to the present. A subsequent KMT policy of Taiwanization softened the initial fracture, but this division continued to distinguish Taiwan in one important respect from the ethnically less fissiparous Japan or Korea. Nonetheless, social cleavages were sufficiently fuzzy or manageable in all three countries to minimize the ascriptive bases of socioeconomic alignments that so often prevail elsewhere.

Of special significance to socioeconomic relations in all three regimes was the early elimination of previously powerful large landowners. As noted in the introduction, landowning classes have historically resisted rapid industrialization as a threat to their profits and political influence. Industrial development transforms their lands into prime targets for taxes or expropriation; it also beckons local workers to flee their rural hustings for better-paying jobs in urban factories. In the process, previously responsive political powers shift their sensitive ears and their authority to the petitions of industrialists and entrepreneurs.

In the aftermath of World War II, major land reforms in all three countries eliminated such wealthy landowners as a cohesive and potentially anti-industrializing force. Prewar Japan had undergone some minor land reform measures; however, US Occupation authorities imposed a sweeping program that set strict limits on the size of all holdings. American actions decimated rich landowners as a socioeconomic force, thereby eliminating a potentially major opponent of industrial advances. At the same time, with agriculture still a powerful contributor to GDP, and farming families quite numerous, land reform simultaneously created what became an influential agricultural interest group composed of thousands of small holding farmers, knitted together through a powerful network of agricultural cooperatives.[39] Taking advantage of the green revolution and new technologies to enhance agricultural production, these small holders gained economic well-being for themselves while enabling the government to extract agricultural surpluses for industrial development.

Organized into cooperative structures and benefiting from an extensive government program of agricultural protection and price supports, small farmers became politically loyal supporters of the ruling LDP. Though costly in absolute terms, support for small-scale farmers became progressively less budgetarily draining since tax revenues from industrial transformation expanded and the number of farming families declined. Politically, the replacement of prewar absentee landowners with an owner-cultivator class was of great benefit to the LDP and the regime more broadly in that the cooperatives organizing small farmers were electorally invaluable in keeping the LDP in charge of state institutions.

In Taiwan, when the invading Nationalists took control, one-third of the island's GDP came from agriculture dominated by a numerically small but powerful proprietor class. The KMT had resisted land reform within mainland areas under its control due to the entrenched powers of regional warlords and the party's own land-holding members; however, such resistance had facilitated the Communist mobilization of impoverished peasants in the civil war. The lesson was not lost on the Nationalists when they fled to Taiwan. There they had few political constraints against extensive land reform since almost none of the incoming KMT members owned land on Taiwan, while most of the resident large landowners carried the stain of prewar collaboration with Japanese occupiers. Equally motiving was the successful, if draconian, land reform carried out across the straits.

In consequence, soon after fleeing the mainland, the KMT undertook an extensive rural reform program that freed the party from any incentive to protect landowners while simultaneously eviscerating a potential opponent to their takeover. Agricultural resources proved essential to the funding of industrialization. In addition, land reform and political inclusion generated valuable support among the farming population while reducing the likelihood of any peasant uprising against the KMT arrivistes.

Approximately one-quarter of Taiwan's territory underwent land reform with redistributed land going principally to entrepreneurial peasants.[40] The government then organized such peasants into some 340 KMT-controlled farmers associations that, like the cooperative in Japan, delivered a bevy of services from credit to technology to marketing and wove the small-holding farmers into an organization providing regime support.[41]

In South Korea, like Taiwan, about 70 per cent of all farmers were tenants in 1945. Absentee owners made up a small but wealthy and influential aristocracy that had great influence over early postwar governments.[42] As in Taiwan, that landed aristocracy had a long history of collaboration with, and profitability from, the Japanese occupation that left them, as it did their Taiwanese counterparts, with tarnished credentials as nationalists. Furthermore, just as Taiwan's political leaders saw its mainland counterparts advancing land redistribution, so South Korean leaders needed to look only across the 38th parallel for similar motivation.

Beginning in 1946–48, American authorities began pressing Korean land reform as a preemptive anti-Communist measure. In 1950, the government undertook policies designed to placate peasant restiveness during a period marked by intense ideological contestation and simmering regional conflicts.[43] Land controlled by owner-operators increased from 36 percent to 73 percent.[44]

Politically, such land reforms not only removed a potential roadblock to industrialization but also eliminated a major source of peasant grievance and incentivized newly enriched peasants to cooperate with conservative political forces. In these respects, all three regimes navigated socioeconomic conditions quite distinct from those prevailing in much of Latin America, the Philippines, South Asia, or Africa.[45]

In addition to eliminating a comprador class and including small farmers as regime supporters, the developmental regimes also benefited from a reduced capability for collective action by popular sectors, most notably organized labor. All three countries faced formidable labor demands in the penurious aftermath of World War II. Yet before labor gained much traction, Taiwan, South Korea, and Japan used all the tools available to state institutions, in conjunction with actions by business owners in their own spheres of control, to suppress organized labor and other mass movements. The fears of communism offered ideological legitimation to conservative politico-economic concords that further restricted leftist and labor groups.[46]

State repression combined with entrepreneurial paternalism had kept Japanese labor organization limited through the prewar period.[47] The American Occupation initially facilitated unionization, and union participation rates rocketed to 56 percent in 1949. The outbreak of the Cold War and shifts in US domestic politics, however, triggered a reverse course that included crackdowns on the nascent labor movement. The Americans banned numerous strikes, purged labor leaders, and eliminated collective bargaining by public sector workers. Once sovereignty returned, a sequence of Japanese governments followed suit, systematically breaking the most radical of the country's unions. Unionization rates plunged into the 30 percent range from the 1950s through the 1970s, after which they dropped steadily.

Within Japan's larger firms, the peculiarities of enterprise unions facilitated a fusion of worker interests more with their employer than with workers nationwide. Further reducing its collective power, organized labor divided its loyalties between two or three left-of-center parties, none of which ever gained more than one-third of the seats in Parliament. Until 1993 (with the exception of a six-month interregnum in 1947–48, when all government policies were subject to veto by the American Occupation), Japan stood alone among the industrialized democracies in never having had a labor-backed government.

If labor was politically weak in Japan, it was even less potent as a national force in Korea or Taiwan. Until as late as the early 1990s, state laws in both countries limited the benefits enjoyed by workers even as some of the larger SOEs (state-owned enterprises) and private firms in Taiwan began to offer benefits approaching those of their Japanese counterparts. Union membership stood at approximately 10 percent of the workforce in Korea; there were no minimum-wage standards, and Korean law banned strikes and closed shops. The labor movement was consistently subject to a range of state controls, such as limits on organization and strike activity, informal penetration, and government participation in the settlement of disputes. Those repressions increased under the government of Chun Doo-hwan in 1980.[48] Even political liberalization following 1987 did not prevent massive police interventions from breaking up strikes in the 1990s or the passage of new antilabor laws in 1996. Not until the election of Kim Dae-jung in 1997 did Korean labor gain an official presidential ally.

In Taiwan, the incoming nationalist government brought with it the repressive labor legislation enacted on the mainland.[49] As in Korea until 1987, strikes and collective bargaining were illegal, and unions remained subject to strong KMT controls, including veto power over leadership selection and all union activities.[50] Like Japan, some softening of oppressive conditions occurred via firm-level paternalism, but this was a long way from collective political influence.

Both Taiwan and Korea introduced state-led corporatist arrangements to strengthen political control over workers along with small businesses. Adopting many of the prewar Japanese patterns of state-led corporatist organization, the KMT in Taiwan wove farmers, labor organizations, religious bodies, small businesses, professional associations, and the like into hierarchical, noncompetitive, and exclusive networks subject to direct KMT control. These corporatist bodies received fixed quotas of seats in the National Assembly and the Legislative Yuan, both toothless bodies that existed mostly to legitimate the regime.[51] Taiwan proved a classic case of state-led economic corporatism.[52]

Similarly, in 1963, Korea introduced legislation requiring all unions to acquire legal recognition by the government and stipulating that they merge under a single union for each industrial sector, with state institutions given the power to intervene in their operations. In both countries, these corporatist union federations remained ineffectually quiescent and inactive.[53] Meanwhile, independent NGOs and influential citizens' groups remained limited in number and constricted in influence.

In contrast to sectors excluded from the developmental regimes, all wove in large domestic businesses and their organizations. Jointly fearful of existential threats in the form of military challenges on the one hand and labor and populist demands on the other, state institutions and powerful business groups cooperated on the hegemonic project of "catch-up economic transformation" as the joint objective motivating cooperation and shared commitment. State institutions set the rules structuring economic conditions and business incentives. In turn, key business groups and corporations provided corporate information essential to efficient state functioning. To prevent state institutions from garnering their assets, holders of capital and productive capacity had incentives to curry political favor. As David Kang argued for Korea, relatively tightly organized powerful firms and industrial groups nurtured their political connections as an important component of business strategy. At the same time, state actors labored to avoid capture by vested business interests.[54]

The boundaries between business and politics in all three regimes were consequently porous. Extensive networks of advisory committees, joint meetings, reciprocal favors, and easy access to one another's top power holders brought senior business leaders and government representatives into sustained and reciprocally influential contact. South Korea and Taiwan long relied on the peak associations of business—the Federation of Korean Industries (FKI) and the Chinese National Federation of Industries (CNFI). In Japan, the analogues were Keidanren and the Keizai Dôyûkai. In all three regimes, a latticework of informal channels of mutual access kept both political power holders and corporate power holders operating in harness to one another.[55] The networks for back-and-forth communication were many and well utilized, and often sector specific.[56] Money and favors flowed back and forth as the internal coherence and shared agenda of the state and the business sector prevented either from dictating events.

Richard Samuels captures the nature of the state–business relationship, labeling it one of "reciprocal consent."[57] In separate studies, Michael Young and Frank Upham emphasize the ongoing information exchanges between business and government as vital to their cooperation and to national economic success.[58] Meredith Jung-en Woo, examining the relationship between Korean state institutions under Park and the large business conglomerates (*chaebol*) underscores a similar interdependence.[59] In Taiwan, the KMT dominated the heights of the industrial economy, but in the 1960s took a major political risk and "created a business climate to stimulate private local and foreign investments" in an effort to integrate private sector businesses into a KMT-business alliance that would undergird economic development.[60]

The developmental regimes thus rested, not on blind dirigiste state power, but on a synergistic connection between state institutions and a mostly market system, the outputs of each becoming inputs for the other.[61] The collaboration mirrored what Migdal underscores as the mutual dependence of the "state in society," Linda Weiss views as "governed interdependence," Underhill and Zhang identify as a "state-market condominium,"[62] and Wade characterizes as state institutions that "govern the market."[63] During periods of high-speed national growth, all three of the developmental regimes valorized the broad interests of big domestic capital as congruent with long-term national interest. State and business entities pulled oars on opposite sides of the economic vessel, powering it forward stroke for stroke.

As state institutions and big businesses in all three countries carried out a combination of strategic repression and systematic exclusion of national organizations of labor and other popular sectors, a substantial openness to individual mobility counterbalanced collective restrictions. Thus, significant investments in human capital, job training, broad-scale public education, virtually universal male employment, relatively low levels of income inequality, and steady advances in GDP opened up individual opportunities that mitigated traditional class boundaries.[64] Vast numbers of citizens became "partners in growth" by virtue of such individual mobility.[65] Moreover, the constant enhancement of human skills provided the regimes with increasingly well-trained working populations to meet the demands of ever more sophisticated production.

In combination, state institutions and the progrowth coalition in the developmental regimes benefited from a global liberal trading order that welcomed their exports and a bipolar system that spurned communism and its economic ideology. Consequently, the combined forces also found affinity with the Cold War policies and economic predispositions of the United States. In return, the United States reciprocated by providing enormous external support to keep state institutions and their supporting socioeconomic coalitions together and

favorable to the United States. Such US assistance provided the third leg of the developmental regimes' tripod.

External Forces

A peculiar, and largely advantageous, combination of external conditions was integral to the developmental regimes of Japan, Korea, and Taiwan, and to their economic transformations. Most critical was the unstinting decades-long support provided by the Asia-Pacific's security and economic hegemon, the United States, which proved to be an essential third component of the developmental regimes.

Initial US strategy for the post–World War II order presumed great power cooperation with its other victorious allies—Britain, France, the USSR, and China. The outbreak of the Cold War and the Communist victory in China's civil war vaporized that vision and created a dynamic in which, as John Ikenberry put it, "America needed allies and allies needed America."[66] Following the logic advanced by George Kennan, the US National Security Council (NSC) responded in April 1950 with NSC-68,[67] the Truman Doctrine, and a grand strategy of Communist containment and the development of an alliance structure. The United States scrambled for reliable East Asian partners.[68]

The United States sought to ensure militarily secure and economically robust allies. What followed was the mobilization, empowerment, and defense of anti-Communist forces in Japan, Korea, and Taiwan. That Japan and Korea were under direct US military occupation facilitated this effort, and when the KMT retreated from the mainland to Taiwan, American naval protection rescued the Chiang forces from complete annihilation.

What followed was bountiful American support for anti-Communist political and socioeconomic forces and economic policies favoring stabilization and growth. Japan, Korea, and Taiwan became indispensable links in America's hub and spoke alliance structure in East Asia. US military forces occupied an extensive network of bases in all three countries, allowing all three to off-load portions of their defense costs and to redirect such monies to other policies, including economic development. Indeed, Patrick and Rosovsky estimate that Japan's economy would have been 30 percent smaller by 1976 had it shouldered its own defense expenses.[69]

The ostensible existential threats posed by neighboring Communist regimes and their domestic sympathizers magnified the attractiveness of strong state institutions and socioeconomic forces promising to propel economic growth. All three regimes advanced the common message that national security demanded unquestioned anti-Communism, cohesive regime support, American foreign policies, and the promises of rapid economic transformation.[70] Domestic proclivities dovetailed with the United States' grand strategy of treating security and economics as "two halves of the same walnut."[71] Japan, Korea, and

Taiwan became cornerstones in the American defense architecture while their eventual economic successes validated the America-led liberal global order.[72]

Economic aid, both overt and covert, military and civilian, was an essential American regime contribution.[73] Between 1948 and the early 1970s, Korea received some $13 billion in American assistance and Taiwan received about $5.6 billion ($600 per capita in Korea], $425 per capita in Taiwan).[74]

Meanwhile, more than two-thirds of Japan's imports in 1947 were dependent on US aid. Subsequently, the United States' wars in Korea and Vietnam generated military procurements that provided Japan, in particular, with a further economic boost; indeed, those two wars proved key catalysts to its subsequent and uninterrupted growth.[75]

To appreciate the dimensions of American infusions, comparative figures are helpful. The ROK's (Republic of Korea's) total of nearly $6 billion in US economic grants and loans between 1946 and 1978 compares to a total for all of Africa of $6.89 billion and for all of Latin America of $14.8 billion; only India, with a population seventeen times that of South Korea, received more ($9.6 billion). US military deliveries to Taiwan and the ROK in 1955–78 (i.e., excluding the Korean War) totaled $9.05 billion. All of Latin America and all of Africa received $3.2 billion; only Iran got more, and most of that came after 1972 (the figure is $10.01 billion). Soviet economic aid to all less developed countries in the years 1954–78 was $7.6 billion, that is, little more than American aid to the ROK alone. Total aid for developing countries from all socialist countries during the same period was $13.4 billion, about 25 percent greater than the total for Taiwan and the ROK. Soviet military deliveries to developing countries totaled $25.3 billion, about 280 percent of the total for Taiwan and the ROK alone.[76] Furthermore, during the war in Vietnam, Korean provision of troops redounded to the benefit of Korean exporters of cement, fertilizer, petroleum products, textiles, shoes, and plywood, earning over $2 billion as a result and representing about 19 percent of the country's total foreign exchange earnings during the period.[77] Beyond such direct American assistance, the US Export-Import Bank along with the World Bank provided liberal low interest rate loans further assisting growth.

Until the late 1970s or early 1980s, and in some respects with continuing remnants long after, the anti-Communist mantra proved sufficiently sweeping to smother organized labor and the political Left domestically, in many instances including democratic activists and independent NGOs (nongovernmental organization). Castigating opponents as existential threats to national security became second nature among political and economic elites. As Meredith Woo-Cumings deftly phrased it, the genius of the conservative state–societal alliance at the heart of the developmental regimes lay in "harnessing the very real fears of war and instability toward a remarkable developmental energy, which in turn could become a binding agent for growth."[78] Domestic ideological biases in Taiwan and Korea gained added force from the undeniable immediacy of the military threats each faced from the Communist-led

regimes controlling their "other halves," the PRC and the DPRK. For Japan, anti-Communism dovetailed with the country's long-standing geostrategic competition with the USSR/Russia.

Military and economic rationales reinforced one another within all three of America's allies. For example, Taiwan's KMT-state used the nearly perpetual state of national emergency from 1949 onward to justify a variety of luxury and special war taxes that kept the price of imported goods high.[79] Korean government–business cooperation used anti-Communism as the principal justification for heavy national industrialization projects in steel, chemicals, metal, machine building, plastics, shipbuilding, and electronics. Indeed, in 1972 Park Chung-hee declared, "steel equals national power."[80] Combining national security with industrial deepening generated increasingly sophisticated exports.[81] Japan adapted much of the transferred American military technology to commercial use. The braking system on Japan's super express trains came from the F-104 fighter jet. Fire truck hoses used the hydraulic technology of the F-86F. Japan Aviation Electronics Industry Ltd. adapted a gyroscope to bowling alley equipment, horse racing starting gates, and seismographs, while Nissan Motors used a version of the F-86F engine for shock resistance testing in autos and resistance measurement for skyscrapers.[82]

Equally significant, Japan, Korea, and Taiwan confronted relentless US pressure to shun economic transactions with Communist regimes, most critically to avoid trade or investments with the PRC. Such economic isolation from erstwhile enemies was integral to the broader US goal of containing communism not just through military force but also economically and ideologically. The United States had a strong stake in continued generous economic, political, and diplomatic support for its "democratic capitalist" allies; their economic success would project them as conspicuous non-Western economic successes, countering the appeals of communism across much of the developing world.

Had the United States prioritized its domestic and foreign policies differently, the success of the economic paradigms of Japan, Korea, and Taiwan would have been inconceivable.[83] Certainly, Taiwan's KMT benefited from the unflagging support of the US Seventh Fleet combined with help in avoiding capital flight. Similarly, as Carter Eckart phrased it, "Korea's nascent capitalist class, tainted by colonial collaboration, would in all likelihood have been severely purged or swept away in the politics of liberation, and the capitalist system itself would, at the very least, have been greatly modified."[84]

American support for Korea and Taiwan eventually gained supplementary injections from Japan as the latter achieved its own economic vitality.[85] The 1965 Treaty on Basic Relations between Japan and the ROK infused the latter with $800 million for economic cooperation that unleashed a wave of technical assistance, investment, and trade. Japan also provided critical dollops of ODA (official development assistance) to Taiwan, and for years served as Taiwan's second largest trading partner and the main source of its foreign capital and technology. Japan also provided critical injections of heavy industry as it off-loaded its outdated equipment to its two neighbors during their industrial start-up phase.[86]

One more major American contribution was crucial to the developmental regimes. Japanese, Korean, and Taiwanese export success depended heavily on the GATT (General Agreement on Tariffs and Trade) system of tariff reductions generally and the openness of the US market more specifically. During the period when the developmental regime was most dominant, Japan sent 30 to 35 percent of its exports to the United States. Its second largest export market rarely took more than 5 to 6 percent of its exports. In turn, Korea and Taiwan were even more dependent on the American market that took in 38 to 45 percent of both countries' exports with Japan typically taking an additional 12 to 20 percent.[87]

American goals remained consistent into at least the 1980s. Nor was that support unidirectional. As economic growth advanced within the developmental regimes, each created its own market for US intermediate goods, provided cheaper products for American consumers, and enhanced the global order fostered by, and favoring, the United States.[88] The early regional appeals of communism and anticapitalism dimmed as well. In short, the United States was an integral contributor to, and beneficiary of, the three developmental regimes.

Economic Policy Paradigm

The developmental regimes underwent phenomenal economic transformations. Leaps in GDP were merely the headline beneath which unfolded three to four decades of structural transformations that enhanced their manufacturing sophistication and deepened their capacity for indigenous adaptation and innovation. Furthermore, continual improvements in human skills and organizational sophistication facilitated ongoing expansion into more knowledge-based sectors.[89]

In their respective quests for national economic catch-up, each of the three developmental regimes created a nexus of reinforcing policies that elsewhere I have labeled embedded mercantilism. The term emphasizes both the domestic economic focus and the reinforcing state institutional structures that bolstered it.

Embedded mercantilism rested on four pillars. First. industrial policies restructured and upgraded specific firms and selected sectors deemed vital for long-term national growth. Second, upgrading advanced through the mobilization of vast amounts of closely targeted capital. Third, firms in key industries received domestic market protection. Fourth, the products of restructured firms competed successfully in overseas markets from which they generated foreign reserves. All four in combination were vital to the economic paradigm allowing each country to scale the technological ladder.

Embedded mercantilism defied neoliberal economic doctrines encouraging countries to develop by building on their comparative global advantage. Comparative advantage presumes that any region or country has discrete natural endowments making it logical to produce certain goods rather than others. Foreign imports allow the easy acquisition of goods in which it has less advantage. If large numbers of economies operate through a system of unencumbered free trade, all will benefit, given the diversity of the commodities each produces.[90] National efforts to resist will result in an inefficient use of scarce capital and prove counterproductive. Implicit in this logic is the assumption that late developing countries should be content with, and make the most of, their existing assets. Most frequently, these are land and labor, thus propelling them into agriculture and light industry.

Political and economic elites in Japan, Taiwan, and Korea initially accepted that logic, opting for periods of import substitution industrialization (ISI) protected behind high tariff walls designed to afford infant industries sufficient time and domestic profitability to modernize, expand the scale of their production, and gain valuable experience inside protected domestic economic greenhouses. Yet firms benefiting under ISI tend to be oligopolies characterized by excess capacity, inefficiency, high mark-up, and low-quality output.[91] Consequently, most resist foreign challenges to their profitable positions, instead demanding that state institutions provide them "just a bit more time" behind walls of state protection. Too often, graduation to globally competitive production remains perpetually "just around the corner."

The path of slow and gradual, albeit "low-risk," advances under ISI was soon rejected by all three developmental regimes as likely to confine their respective countries to permanently inferior global positions within sophisticated, capital-intensive, and high payoff industries, such as steel, shipbuilding, electronics, banking, and the like. State policymakers and corporate leaders in all three regimes saw little benefit in contributing to global economic efficiency at the expense of advancing their own national economies. Thus, after dabbling for periods in ISI (Korea until 1964; Taiwan until 1960), all three opted for policies aimed at creating competitive advantage rather than accepting the limitations of comparative advantage.

Gaining competitive advantage necessitated a focus on generating long-term dynamic efficiency rather than static efficiency. This meant directing scarce capital resources to industries promising multiple forward and backward linkages that would trigger ongoing technological improvements, long-term advances, higher productivity per capita, and sustainable capital returns. It also meant boosting global market shares for domestic industries while rejecting most foreign entry into home markets. Foreign competition in domestic markets was seen less a spur to the efficiency of indigenous firms and more an impediment to enhanced global competitiveness by local corporations. The benefits of competition could advance instead by restricting corporate rivalry to oligopolistic competition among domestic giants.[92] All three regimes thus permitted market coordination among domestic firms to reduce transaction costs, provide some degree of competitive market incentives, and ensure long-term economic transformation.[93]

The unwavering goal was advancing domestically owned and domestically operated industries in increasingly knowledge-based and skill-intensive industries. As such, profits and market shares for domestic firms took priority over lower prices and expanded choice for domestic consumers. Ultimately, improvements in citizen well-being might follow, but only as a second order consequence of rapid growth. Protecting domestic markets was key.

A series of multiyear economic plans laid out frameworks for transformations from agriculture, light industry, and labor-intensive industries into more sophisticated industrial exporters at the intersection of upstream and downstream connections that would be able to gain enhanced global market shares. Central to that transition was access to critical technologies and processes in such sectors as synthetic fibers, electronics, petrochemicals, earth-moving equipment, and steel furnaces. An amalgam of licensing, buying, borrowing, forced joint ventures, reverse engineering, and intellectual property theft provided the desired infusions. In addition, state institutions devoted extensive public resources to research and development in targeted sectors. In Taiwan, national research centers, strategic hubs, and technology parks spawned extensive, non-firm-specific research, development, and cross-fertilization.[94] A typical requirement was that several domestic firms share acquired technologies to foster national advances while still ensuring a measure of intrafirm competition.

Critical to such industrial restructuring was a second component, namely, the mobilization and selective allocation of vast amounts of indigenously controlled capital. That hinged on intimate ties among state institutions, finance, and business. Finance was the coupling hinge binding the state to industrialists; finance represented the nerves of the state.[95] Bank lending rather than equity markets provided the primary source of capital for business borrowers. Such lending flowed in accord with direction from state institutions. Such directed capital went into the beckoning hands of companies anxious to acquire the financing needed to expand production, gobble up market shares, and work with the state to advance development.[96]

The particular techniques used to generate the needed capital differed among the three regimes. In Japan, the majority of banks were private with long-standing and intimate relations to one or another of the country's large industrial groups; however, the keystone of the entire financial system, the Bank of Japan, remained under direct control of the Ministry of Finance. In addition, the national postal system recycled vast sums of citizen savings into a second budget that channeled funds into politically privileged infrastructure and public works projects.[97] Available domestic capital allowed the state to limit borrowing from abroad that might compromise domestic retention of corporate profits.

In Taiwan, the ruling KMT had multiple financial anxieties, most of them stemming from attendant political risks, including the dangers of inflation, foreign dominance of capital and monetary markets, and countervailing business pressures, any of which might limit KMT authority. Fearful that any overconcentration of capital in the hands of indigenous forces could lead to state capture by regime opponents, the KMT limited the amounts of capital controlled by local Taiwanese bankers in favor of ex-mainlander dominance. Finance and industry remained in separate spheres, further constricting corporate muscularity. In addition, the state monopolized the banking sector through the institutions it brought from the mainland and the majority shares confiscated from Japanese partners in private local banks. Bankers in Taiwan were thus state employees ensuring that financial actions adhered closely to state policies.[98] At the same time, high domestic interest rates, designed to check inflation, stimulated high personal savings that in turn afforded the government substantial available capital. As in Japan, foreign borrowing remained minimal.

Minimal social safety nets in all three regimes led to domestic savings rates being uniformly high and thus providing vital sources of capital in all three regimes. In Taiwan, these increased from about 5 percent in the 1950s to over 30 percent in the late 1970s, one of the highest in the world. Japan at 25 percent and Korea at 17.5 percent were not far behind.[99] Such penury contrasted with gross domestic savings below 10 percent in South Asia and Sub-Saharan Africa.[100]

Corporate access to capital in Taiwan was contingent on exporting the resultant products. Large exporters gained substantial concessionary loans through the bigger banks, but small- and medium-sized firms, in contrast, could rarely borrow more than trifling sums requiring them to turn to several banks at once or to family and friends, thus constraining smaller domestic firm size. The result was a much lower debt–equity ratio in Taiwan than in Korea and small and equity-based enterprises were more significant than in Japan or Korea. Yet Taiwan still had forty or so extremely large conglomerates, either state-owned or KMT-controlled, and a "tripartite economy of upstream state- and party-owned enterprises, midstream family-owned diversified business groups, and downstream private small- and medium-sized firms."[101]

In all three cases, however, state institutions or their loyal surrogates exerted considerable influence over the taps through which scarce capital needed to flow, ensuring that targeted industries would acquire essential resources at low cost, ideally generating exportable products. State capital investments additionally acquired the aura of an official imprimatur of promised success for particular firms or sectors that often spurred further private investment.

In both Japan and Korea, the major beneficiaries of industrial policy and capital allocation were the large conglomerates, Japanese keiretsu and Korean chaebol. The huge Japanese groups borrowed heavily, rolling over loans systematically. In Korea, no comparable banks provided such a steady injection of funds, leaving the Korean chaebol and their component companies more dependent on overseas borrowing and more highly leveraged by debt.[102] Yet as in Japan, Korean state institutional oversight was integral in channeling the incoming monies to governmentally favored sectors.[103] Japanese companies were also debt driven in the 1960s and 1970s, leaving them vulnerable to manipulation by financial officials. By the 1980s, however, Japanese companies, then largely profitable, began to self-fund through retained earnings and equity financing, giving them far more autonomy from state and bank controls.

The third key element in the mix of embedded mercantilism was protection of domestic markets, particularly in advanced manufacturing. In much of Europe and Latin America during the early years after World War II, US multinationals invested heavily in key sectors and capital markets were substantially internationalized. In contrast, Japan, Korea, and Taiwan retained far greater national control over incoming and domestic investment capital. Since the nineteenth century, Japan had long eschewed foreign investment and foreign borrowing; it hardly threw out the welcome mat in the postwar years.[104] Sharing a similar skepticism about foreign firms, Korean state policymakers and corporate elites restricted such entry, thus creating safe spaces for the domestic expansion of the chaebol.

At least until the Cold War began winding down, US strategic and economic interests led to tolerance of such domestic favoritism by its East Asian allies. Transnational corporations entered Korea and Taiwan only in the mid-1960s, by which time worldwide norms governing relations between less developed countries and those transnationals were quite different from what they had been when US firms entered Latin America.[105] As a result, Korea and Taiwan avoided many of the most baleful effects associated with transnational corporations.

In the Japanese case, domestic protection took multiple forms. Like the currencies in Taiwan and Korea, the yen–dollar exchange rate created an undervalued and export-enhancing yen, initially at the rate of ¥360 to the dollar. The Foreign Exchange and Control Law of 1949 provided the legal basis for keeping out foreign companies if they wished to repatriate profits in dollars (as most did). The law also allowed the Japanese government to reward or punish domestically based exporters by granting permission to access foreign currencies. When GATT-driven liberalization posed a challenge in the mid-1960s, Japanese companies received permission from state institutions to circumvent antimonopoly regulations and to engage in extensive cross holding of one another's stocks as a way to prevent hostile foreign buyouts. Like many other policy components, this one required close coordination between state institutions and segments of the business community, reinforcing their interdependence.[106]

Meanwhile, in contrast to the high interest rates paid in Taiwan, insulation of Japan's capital markets kept interest rates low for savers who thus underwrote the exceptionally low borrowing rates for favored users of capital. Within this context, the Bank of Japan systematically offered over-loans and window guidance aimed at encouraging industrial expansion and exports.[107]

Security dependence on the United States gave firms in all three countries access to loan capital on favorable terms; to a lesser extent, Korea and Taiwan gained similar access to Japanese capital markets.[108] In Korea, the Economic Planning Board (EPB) controlled access to and usage of these foreign funds. The EPB also had veto power over all proposals for foreign direct investment and technology transfer agreements, which was used initially to protect infant industries and later to fund heavy and chemical industries, all the while restricting Korean citizens from purchasing foreign consumer goods.

In Taiwan, the KMT initially owned many of the most prominent firms, but responding to demands accompanying incoming US aid packages, large-scale divestment took place in the 1950s. Always more liberal than Japan or South Korea, Taiwan became an early advocate of the export-free zone, setting up East Asia's first such configuration at Kaohsiung in 1965. Such parks allowed select foreign firms to use Taiwan's low-cost labor for assembly and packaging their products but only for subsequent export; foreign firms were restricted from selling in Taiwan. Taiwan also had local content requirements for a limited range of goods that enabled it to make successful demands for local sourcing.[109]

Taiwan was thus more "semi-international" than were its two counterparts, particularly regarding information technologies where Taiwan created internationally competitive local firms though alliances with technology-rich multinationals.[110] Such alliances generated local jobs and transferred midlevel skills that ultimately allowed many Taiwanese entrepreneurs to develop their own firms. Taiwan's Investment Commission controlled joint ventures and, like Japan's MITI (Ministry of International Trade and Industry) during much of the 1950s and 1960s, often put a heavy state thumb on the economic scales to favor national businesses.[111]

State control over foreign direct investment by South Korea and Taiwan complemented diplomacy. For Taiwan in particular, the threat of international isolation became more acute after most countries transferred their diplomatic recognition to the PRC. Yet by opening up various investment opportunities to select multinational companies from major North American and European corporations, the Taiwanese government created economic hostages that provided the otherwise isolated government with valuable foreign allies. South Korea followed much the same strategy after President Carter in 1977 raised the specter of withdrawing US troops from the peninsula.

Boosting exports, the fourth component of developmental regime strategy, centered on incentivizing domestic producers to create products that would appeal beyond the tastes of domestic buyers and find favor in the discriminating global marketplace. Engagement with global trade was bifurcated, however. While all three restricted imports that might compete with domestic products, their firms took advantage of reduced global tariffs resulting from GATT negotiations to sell domestically manufactured goods abroad. In the mid-1970s, 95 percent of Japan's exports were manufactured goods, compared with only 31 percent of its imports. In contrast, manufacturing made up 50 to 68 percent of other industrialized economies' imports.[112]

Encouragement of exports led the three regimes to pursue a deliberate strategy of what Alice Amsden famously called "getting the prices wrong." Domestic consumers paid higher prices than might have been the result of open markets, thus creating profitable home market havens for domestic corporations that further enhanced their competitiveness abroad.[113] Common to all three regimes was a sequence in which firms developed products first for the protected domestic market and sold them indigenously at relatively high prices, and only after products were relatively bug free would they export, often at lower prices, to the larger world. Japanese companies benefited further by the large size of the domestic market. Taiwan and Korea protected their domestic markets, but since their home markets were smaller, they had even stronger incentives to advance their exports.

Exporters, however, faced pressures from both domestic and overseas competitors. Garnering larger global market shares demanded that exporting corporations continue to drive costs down and quality up. In this, many proved greatly successful. Thus, whereas exports accounted for only 20 percent of Japanese car production in 1970, by 1980 that figure was 54 percent, with half of those export sales going to North America.[114]

By the early 1990s, Japan accounted for 14 percent of the world's manufactured exports, while Taiwan and Korea together accounted for another 8 percent. Mexico, by way of contrast, accounted for only 0.4 percent. Taiwan and Korea, along with Hong Kong, accounted for more manufactured exports than did all of Latin America combined.[115] Export-oriented development became so linked in the public mind with the hypergrowth of Japan, Korea, and Taiwan that it acquired the aura of a new development orthodoxy.[116]

An important political and economic offset to the anticonsumerist biases built into macroeconomic policies was the consistent state and corporate emphasis on improving human skill levels. Skilled workers were essential for continued advances into higher-quality and more knowledge-intensive industries. Universal public education, along with widespread skills training within corporations, created increasingly sophisticated workforces. As human skills improved, industry benefited, but so did the assets and employment opportunities of individuals, thereby generating higher levels of socioeconomic well-being and, over time, substantial middle classes.

The resultant low levels of income inequality distinguished Japan, Taiwan, and Korea from most other countries at similar stages of economic development, as well as most industrialized economies. It put them on a par with the social democratic regimes of Scandinavia.[117] All exemplified conservative-led growth with equity, a critical by-product of which was the gradual reduction in the incentives for radical populism and class-driven opposition to the national economic policy paradigm. Notably, all three regimes achieved high levels of per capita income and low levels of inequality largely by avoiding pressures

to become social welfare states.[118] This latter was largely the consequence of avoiding the political inclusion of organized labor in one or another form of societal corporatism.[119] Until the late 1980s, none showed more than limited inclinations toward socioeconomic pluralism and the state provision of an extensive safety net.

Embedded mercantilism, in summary, meant robust state institutional gatekeepers determining what came into and what left each country through an interlaced mixture of tariffs, corporate collaboration, oligopolization, state regulatory discretion, rigid restriction over foreign ownership, and strict limitations on imports. The result was three greenhouse economies within which domestic finance and manufacturing firms took root and flourished, largely insulated from the chilling winds of international competition swirling outside. An invaluable by-product of such economic policy paradigms was that indigenous firms and local citizens retained the vast bulk of the gains from sustained economic transformation; those benefits did not flow out to foreign financiers or multinational corporations.

This chapter has argued that the stunning economic transformations in all three regimes was the consequence of the interweaving of the interests and resources of several discrete political and socioeconomic forces. Domestic political and socioeconomic components of these developmental regimes cooperated to their mutual benefit in a host of ways, with successive successes reinforcing those bonds. Both in turn benefited from sustained and robust assistance from beyond their national borders, most notably from the United States, while their domestic cooperation advanced US strategic goals. These three legs of these developmental regimes, in turn, fostered an economic policy paradigm benefiting all three and resulting in transformative national economic projects.

The mutually reinforcing nature of each regime's components is critical. Uninterrupted cohesion and control by state institutions depended on a positive relationship with a progrowth socioeconomic coalition. That coalition, in turn, relied on state authorities to generate policies that would protect and enhance their own resources. Yet this domestic fusion of economic and political forces alone would have been insufficient without the added support stemming from the United States' unstinting security commitments, economic infusions, and open markets.

A major corollary of this reinforcing fusion was, of course, the economic paradigm and its successes that fed back to reinforce the interdependence among all three regime components and the regime's broader legitimacy and strategies, and over time, marginalized regime challenges lost their existential aura. Each of the three developmental regimes consequently thrived for relatively long periods, its component parts humming in tandem. In these ways, the regime whole was greater than the sum of its constituent parts.

All three regimes succeeded, not only in catch-up, but also in creating dynamic competitive advantage. While planners in Japan, Korea, and Taiwan originally viewed the more sophisticated economies of North America and Western Europe as distant targets for emulation, ultimately, many became vanishing objects in their rearview mirrors.

Yet the atypical configuration behind these three cases was the product of an unusual set of fortuitous global and domestic circumstances. The peculiar combination of factors that came together to form and sustain these developmental regimes and to support their transformative economic paradigms makes it almost certain that such experiences depended on a particular time and geography. Potential emulators of the developmental regimes in Japan, Korea, and Taiwan face enormous hurdles impeding any facile replication of such a fortuitous combination, particularly under radically different global circumstances. Indeed, as chapter 4 demonstrates, it was impossible even for these three to sustain the regime coherence and economic paradigms they enjoyed for so long.

Chapter 2

Ersatz Developmental Regimes

Malaysia, Indonesia, and Thailand

From roughly the mid-1960s until the 1997–98 Asian financial crisis (AFC), the period marking their greatest economic transformations, Malaysia, Indonesia, and Thailand (MIT) operated with regimes that shared a number of traits with one another. Their respective economic paradigms resonated as well. This chapter analyzes these similarities and demonstrates how their combination of regime plus paradigm distinguished them from the three developmental regimes.

Masking these deep differences, however, were the similarly rapid GDP growth rates and expanded export markets experienced by all six countries. Thus, for a full thirty years, starting in the mid-1960s, Thailand's GDP rose an average of 7.8 percent per year.[1] Malaysia and Indonesia did not lag far behind. From 1965 to 1980, Malaysia's annual GDP growth averaged 7.3 percent, while that of Indonesia was 7.0 percent; for 1980–90, those figures were 5.4 percent for Malaysia and 6.1 percent for Indonesia; for the 1990s, they were 8.7 percent and 7.6 percent, respectively.[2]

During these economic runs, all three countries diversified, industrialized, and became more externally oriented. Manufacturing locations, the range of goods produced, and the diversity and volume of exported products all soared. Such performances give the MIT regimes a surface-level similarity to the developmental regimes of Japan, Korea, and Taiwan and this is the usual basis for grouping all six together. Yet the MIT regimes diverged in critical ways from key elements common to the developmental regimes to their north. Regimes in all three countries were the result of a fundamentally different mixture of state institutions, socioeconomics, and international forces that in turn generated a quite different economic paradigm. Politically, state institutions were never as coherent or controlling as were those in the developmental regimes. They were socioeconomically more fragmented making the creation of a pro-growth coalition more problematic. Nor did these three countries enjoy the