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**State, Civil Society and Democracy:  
The Case of South Korea and Taiwan**


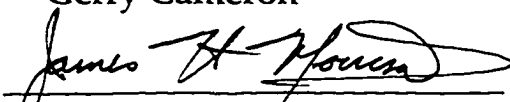
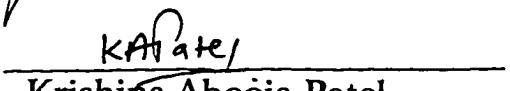
by

**Akiyo Mukai**

**Submitted in partial fulfilment of the requirements  
for the degree of Master of Arts  
in International Development Studies  
at Saint Mary's University  
Halifax, Nova Scotia, Canada**

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November 12, 1997

Supervisor	 Gerry Cameron
Reader	 James Morrison
Reader	 Krishna Ahojja-Patel



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Akiyo Mukai  
Halifax, Nova Scotia  
November 12, 1997



## ABSTRACT

### *STATE, CIVIL SOCIETY AND DEMOCRACY: THE CASE OF SOUTH KOREA AND TAIWAN*

This thesis analyses the key elements of remarkable economic growth in South Korea and Taiwan where both have taken similar economic development strategies during the postwar era. Contrary to the neoclassical interpretation, which emphasizes the function of market and liberalization, evidence in Korea and Taiwan shows the important role of the state for the early-stage development. On the other hand, beyond the former debates - market versus state-, the study also sheds light on the dark side of rapid industrialization. Ample evidence demonstrates that the achievement of 'miracle' growth has been brought by extremely low labour wages, especially for women in Korea, and by intensive industrialization policies which have destroyed the environment of the island of Taiwan. This argument presents that concerns have never been directed to the fact that the life of people has always been marginalized in the name of economic growth, both in theory and in practice. The work in the thesis offers the necessity of the strong leadership of the state in the particular stage of development process. However, at the same time, it is claimed that people in civil society should influence the process of development, as well. The thesis concludes, firstly, that there is no sole alternative path of development which belongs to one paradigm and thus each country has the right to pursue its own path for development. In addition, it is admitted that present development theories and policies lack an understanding of civil society. In order to empower civil society, the thesis concludes, secondly, that the function of participatory democracy is required, where people do not yield to the dominant power of the state and economic pressures of productivity improvement imposed by the market.

Akiyo Mukai  
November 12, 1997  
Halifax, Nova Scotia

# ***STATE, CIVIL SOCIETY AND DEMOCRACY: THE CASE OF SOUTH KOREA AND TAIWAN***

## **INTRODUCTION**

### **1. THE ARGUMENT**

Although it is a very conventional phrase to say, I dare to use it. Economies in Asian NICs (Newly Industrializing Countries)<sup>1</sup> during the postwar era have experienced astonishing high-growth and rapid industrialization at rates faster than any other developing countries. The end of World War II (WWII) and the fall of Japanese colonial rule brought the destruction and confusion of

---

<sup>1</sup>

The term ‘NICs’ was used first in an OECD’s report in 1978. According to OECD’s definition, NICs includes, South Korea, Taiwan, Hong Kong, Singapore, Brazil, Mexico, Spain, Portugal, Greece, Turkey, and Yugoslavia. Thus, in this thesis Asian NICs identifies as South Korea, Taiwan, Hong Kong, and Singapore, so-called ‘The Four Tigers’.

nations<sup>2</sup> in Asian NICs. In addition, the split of territory by the Korean War and ethnic conflicts among the mainlanders and the indigenous people in Taiwan<sup>3</sup> forced South Korea (afterwards Korea) and Taiwan to revive from insignificance. At that time, who could have predicted the present economic prosperity in this region? Notwithstanding, Korea and Taiwan have transformed rapidly from two of the poorest countries to newly industrialized countries. The ranking of GNP per capita shows both countries had doubled from 1962 to 1986<sup>4</sup>, which other NICs could not accomplish.

It may be inevitable that the amazing but undeniable Asian NICs experiences have attracted a number of economists who attempt to find the Asian NICs model. Consequently, mainstream neoclassical economists persist in their understanding that the decisive factor of the economic miracle lies in the function of free market and liberalization. However, deeper investigation shows clearly that the activist state in Asian NICs (except Hong Kong) has worked well beyond the principles of neoclassical orthodoxy. As this thesis articulates, the role of

---

2

In this thesis, I utilize the term of the 'nation' as larger definition than the 'state'; a nation includes the common culture, language, history, race, etc. under the same government. On the other hand, a 'state' or a 'government' implies mainly the administrative organization in the nation.

3

The Nationalist party (the Kuomintang) retreated to Taiwan and in 1949 set its rule in the island of Taiwan.

4

According to Wade (1990a: 35), Korea leaped from 99 to 44, Taiwan did from 85 to 38.

strong state had been significantly related to the remarkable economic growth in Asian NICs, especially in the era of 1960s and 1970s. Nevertheless, the mainstream economists who underestimate the role of the state in Asian NICs have never admitted their misinterpretations, while prescribing their market-centred doctrine to the Third World, through the international economic forces such as International Monetary Fund (IMF) and the World Bank.

What the orthodox view overlooks is that in order for a nation to develop from insignificance, strong leadership is essential. More importantly, it should not be dictatorial authority aimed at exercising inclusive and directive power over society and market, but it should be a reasonable and competent authority with a strong commitment to economic growth. East Asia, especially Korea, Taiwan, and Japan, has demonstrated its own national models for economic policies vis-a-vis the orthodoxy; a model in which the coercive but capable state has led the national economy through the government's policies in collaboration with the market and private sector.

However, as a consequence of intellectuals' overemphasis on the phase of economic success in Asian NICs, their concerns have never been directed to the realm of civil society. In fact, the achievement of miracle growth was not brought about merely by the state and its leadership. It is partly because of controlled labour wages kept at a low level, especially for female workers despite the high rise

of productivity, economic policies that ignore ecology, industrial-centred policies without respect for the agricultural sector, and repression of social groups. At the theoretical and practical level, people and society have always been marginalized in the name of national development. At the policy level, there is no doubt that development equals 'economic' development without consideration about betterment of quality of life for people at the micro level. Of course, economic growth is requisite for the national development. Certainly, a nation would not escape from poverty without monetary wealth. Yet, present problems lie in the fact that most countries do not take into account an equitable distribution of the benefits resulting from the nation's economic growth. The genuine meaning of 'development' should include strategies not only for creation of nation's wealth but also for its equitable distribution to people. Even though the nation attains high a GNP growth rate (a representation of how much the production and exchange of commodities increase) without improvement of people's daily lives, or even worse, with a deterioration in the quality of life, this phenomenon only implies the attainment of one side of development. It is needed balanced strategies for development. More problematic is that development paradigms implicitly ignore the fact that economic progress often destroys and threatens the life of people. This thesis claims that it should be shed light on the other side of development, in other words, the concept of 'social' development and 'human'

development.

The world consists of complex interrelations among states, economies and civil society<sup>5</sup>. These three actors affect each other in many ways. However, in practice, due to the concept that economic growth brings prosperity to a nation, economic activity is privileged and the state is strongly tied to its economy. Thus, the relation between the state and economy has attracted great attention, while on the other hand, the influence from them on civil society largely has been disregarded. I shall argue in this thesis that the only way to give priority to civil society is through a democratic system. I consider democracy as 'participatory democracy' where people can take part in politics more actively and directly than present systems. Participatory democracy encourages respect of minority opinions and the negotiation between civil society and the state. It is not until people in civil society obtain influence and power relative to the state, that they are allowed to be involved in the process of development by showing their marginalization economically and politically. In short, the most important and essential theories and policies for economic and social development should be found in mutual respect between state and civil society.

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5

It is difficult to grasp the common meaning of civil society, as Keane notes that 'it has no single or eventually, fixed form. It has a vital additional meanings' (1988: 14). In this thesis, I conceptualize civil society where people are engaging in private activities that are guaranteed by the state.

## 2.THESIS STATEMENT

The thesis statement is twofold. Firstly, developing countries should practice development strategies of their own and be free from present strategies which are biased by the First World' ideas. The experiences of Korea and Taiwan suggest that it is not the neoclassical, but different type of doctrine which is more appropriate for the national development of the country where its economy has not been bred strongly enough, such as an economy in the early stages of development. As chapter II discusses, the success of rapid growth in Korea and Taiwan does not so much arise from conformity to the neoclassical prescription, which stresses the market and liberalization, as from the strong role of the state. Therefore, I doubt that the mainstream neoclassical assumption can fully explain the success story in East Asia. As the statist argue, the vital role of the state in economic development should be accepted. In other words, economists should not be content to trumpet the neoclassical paradigm. Developing countries should hold the priority for national development strategies in their own hands, and they themselves should decide their own path for development.

However, this alternative, vis-a-vis neoclassical orthodoxy, is still not adequate because it is biased by economic activities and its lack of social dimension<sup>6</sup>. Economic development is not a sufficient but a necessary condition.

---

<sup>6</sup>

In this thesis, I identify 'social' sphere as the arena where people engage in both economic

As discussed in chapter III and IV, rapid economic success and its strategies simultaneously have produced a serious erosion of public life, wherein the state has committed too much to the economic sphere and has been blind to the fact that economic expansion militates against civil society. Hence, the second thesis statement is that the alternative path for development should emphasize a social phase as well as the role of the state. Civil society should be more empowered politically and exercise civil power equal to the power of the state, where 'true' democracy is functioning.

The thesis does not aim to admire the remarkable economic growth and the economic strategies in Korea and Taiwan, nor the strong state. Rather, the thesis attempts to find an alternative path to mainstream development paradigms which must include economic growth as well as qualitative evolution of civil life. Consequently, the experience in Korea and Taiwan explicitly tells us the necessity for further development of the Third World which is neither market-led orthodox nor state-centred prescription, but a democratic approach.

### 3. RESEARCH METHODOLOGY

This thesis relies secondary data sources. Due to constraints of budget and

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and non-economic activities vis-a-vis the administrative organization, that is, the state. As a case study, I pick up particularly two different social problematic phenomenon in the thesis; subordination of female workers in Korean labour market and serious deterioration of environment in Taiwan caused by rapid industrialization.



time, I have had no opportunity for local research in Korea and Taiwan. Accordingly, research was conducted in Halifax. Methods of data collection are mainly library research in Canada and overseas. Inasmuch as possible I have made efforts to collect information from local intellectuals' books and articles. However, the biggest difficulty with regard to data collection was that since Taiwan is not a member of international organizations such as the UN, the IMF, and the World Bank<sup>7</sup>, data of Taiwan is not included in many standard international statistical sources published by such bodies. I thus used data of Taiwan mostly from secondary sources such as books, journals and newspaper articles<sup>8</sup>.

#### 4. STRUCTURE OF THE THESIS

This thesis is divided into five chapters. Chapter I involves theoretical issues and paradigmatic debates. It reviews and defines some theoretical concepts which namely relate to development economics and democracy theories. The first part of this chapter examines critically the weaknesses of development economic

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<sup>7</sup>For instance, the World Bank does not publish post-1980 data for Taiwan.

<sup>8</sup>

In Canada, since it was also difficult to get direct official data for long periods which is released from Taiwanese government such as *Taiwan Statistical Data Book* and *Statistical Yearbook of the Republic of China*, I used secondary official data which other authors used in their books or articles.

theories and points out the lack of social dimensions. The last part provides the review of the liberal and Marxist theories, since both argue the importance of social participation.

Chapter II presents a brief overview of industrialization in Korea and Taiwan after the postwar era until the beginning of 1980s when capital-intensive industries started intensively. It reviews the neoclassical explanation of economic success in Korea and Taiwan, which I criticize because of its inappropriate interpretation. Hence, I propose the statist view, and examine a key role of the state for economic development.

As economic growth, on the other hand, has produced the decline of quality of life, it seems appropriate to examine the negative effects on society caused by rapid growth strategies. Chapter III focuses on gender inequality in labour market of Korea which stems from oppressive pressure from the Korean government. Evidence in Korea demonstrates that the present assumption - industrialization brings the improvement of women's economic position and then overcoming of women's subjugation- is not true. Rather, the process and attainment of economic growth, along with the dominant power of the state, is associated with a further crisis for women. I conclude that, in order for the improvement of women's subordination which is usually sustained by the state, it is important to exercise women's collective power against the state.

Chapter IV reviews the serious environmental degradation in Taiwan which is generated by the intensive industrialization policies of the Taiwanese government. In the same manner as Korean women, economic expansion has led to a serious threat to people and ecology. I determine that the state and economists rely too much on the economic approaches to environmental solutions. I conclude that, here again, exercising of collective power from the bottom against the state strategy can find the path to a solution of national and global environmental decay.

After the serious tension between economic growth and social life is reviewed in the preceding two chapters, chapter V discusses the interlinkage among state, civil society, and economy. It concludes that development strategies in developing countries should not submit to the single model of the neoclassical nor models of strong state theory, but that a country must have its own path for development, where there is interreliance among the state, civil society, and economy. I thus reconfirm the importance of democracy in order to empower civilians to exercise civil power relative to that of the state.

## Chapter I

### **THEORETICAL FRAMEWORK: STATE, ECONOMY, AND CIVIL SOCIETY**

Before the move towards the discussion of Korea and Taiwan, I will examine the theoretical nature and relationship between state, economy, and civil society. The greatest concern for development economists is the attainment of material progress, which consequently excludes people in civil society from their theories. In practice, however, the world is working with complex interrelations among the state, economy, and civil society. Therefore, the social sphere must

not be neglected.

To begin with, I look at the school of classical political economics as the basic and decisive concept of later schools. Then, the examination will proceed to the neoclassical and the statist schools, since both have been preoccupied with the examination of economic success in East Asia. However, the common failure of both schools is the lack of account of the social realm in their theories. Therefore, I look at the liberal and Marxist theories which make an effort to capture the complex relations between state and civil society and to include the involvement of social phase into their theories.

## 1. LEGACY OF THE CLASSICS: THE LIBERAL TRADITION

In order to consider liberal and neoclassical paradigm, the legacy of classical political economics must be considered. The school of classical political economics arose in the 17th and 18th centuries and was associated with the works such as Adam Smith, Malthus, T. R., Ricardo, D., and J. S. Mill<sup>9</sup>. Although the nature of the state in response to civil society has been captured by many intellectuals since the time of Plato, this school challenged the

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<sup>9</sup>

See Adam Smith, 1776, *Wealth of Nations* (Pelican Books, 1974), Malthus, T. R., 1798, *An Essay on the Principle of Population* (Ward Lock, 1890), Ricardo, D., 1817, *The Principles of Political Economy and Taxation* (Dent, 1911), and J. S. Mill, 1848, *Principles of Political Economy* (Parker, 1852; Third edition)

reestablishment of conception and definition of state and civil society. The industrial revolution in Britain brought about the belief that all humanity had the right to liberty and equality and that the world was regulated not by God, but by the universal law of nature. The classical political economists applied this innovative notion to the phenomenon of society and presumed that human societies were propelled by natural laws. They believed the duty of social science was to discover these laws and to analyse and predict the design of future societies which guided the further evolution of the society. The classical political economists regard the society as the place where people produce, exchange, and distribute goods. The social surplus of these economic activities enhances the transition of the society from primitive to advanced. According to Adam Smith, individuals in the society who attempted to satisfy their interests cause the evolution of society, because the pursuit of self-interest encourages the division of labour and productivity. Here, there is no conflict between the individual and the society, since the satisfaction of individual interests also fulfills the interests of others and people realize their own interests in harmony with others. In this view, the rational pursuit of self-interest promotes not only the welfare of each individual but also of society as a whole. In other words, civil society is the arena of economic transactions of individuals and a source of social progress.

The classical political economists assume that society evolves through the

laws and behaviour of individuals pursuing their self-interests. Therefore, it was claimed that there was no need for intervention by the state since individuals could benefit in a self-regulating society. Adam Smith claims that the state's role should be restricted to the minimal, and that its main duty is protection of the people's life, liberty, and property, since individuals will improve themselves through their profit-seeking behaviour led by the 'invisible hand'. The state thus should guarantee civil society the sphere of rights and the rule of law in order to maintain individuals' activities in society. In other words, civil society requires state support to secure individual rights and freedoms. This school views civil society as 'the conceptual opposite of the state of nature' rather as 'a contrast to oriental and occidental despotisms, and to feudalism' (Chandhoke, 1995: 91). The concept of the privileged civil society and of the restricted state's role in the classical school was incorporated into the liberal school of thought as its core principles.

In terms of the market, Adam Smith argued that the market is the only place capable of mediating the various interests of individuals, and of creating networks and cooperation through activities such as the exchange of goods and the balance of demand and supply; thus it should be left free from any kind of intervention. The classical school, on the other hand, argues that the market merely provides a place for individuals to exchange commodities and labour

power, where anyone who wants to join the economic activities can participate. In other words, this paradigm insists on the privilege of the individuals in society who are satisfying their needs in the market. The market itself therefore is just an impersonal economic institution to allocate resources and rewards.

The theoretical tradition of the classical school is appropriated by the neoclassical paradigm as well as the liberal school. However, the neoclassical economists identify civil society merely with economic organization. Therefore, they are less sensitive to the fact that the market is a space only for the people who have something to exchange, and that those who do not have anything to sell, or those who do but whose products are not in demand, are left behind. The neoclassical economics school puts so much emphasis on the role of markets that it cannot be aware of people who should have been behind the 'invisible hand' any more;

'neo-classical economics substantially reduced the comprehensive vision that classical political economy had of civil society. Civil society was pushed out of the vocabulary of economics and the market took its place. The normative preoccupations of the school were thus dispensed with, and the concept of civil society was submerged in a general focus on equilibrium' (Chandhoke, 1995: 106-107).

Furthermore, the materialist view of this school, that progress and advancement of society is led by the enhancement of the social surplus by the division of labour and productivity, has had a decisive influence on the succeeding



theorists. Most of the later social scientists have argued their theories under the classical belief that development in the material sphere is essential for the evolution of the social, cultural, and civilizational spheres, as well. On the contrary, however, the materialist conception, in theory, could force the life of a human being into a corner, as identified either as producer or consumer.

## 2. THE NEOCLASSICAL PARADIGM

The mainstream of neoclassical theory succeeds to theoretical assumptions from the school of classical political economy that the market should be left free from intervention by the state. In the neoclassical view, development can only be achieved by efficient allocation of resources through the operation of the free market, where the value of goods and services is maximised. Since the neoclassical school argues that only the price mechanism of the market can serve to allocate resources efficiently, the basic policy prescription is the need to 'get prices right'. In order to achieve this end, the neoclassical advocates strongly assert the removal of market distortions. They view the state as the main distorter; the neoclassical theory presumes a minimalist state. As Lal notes,

'most of the serious distortions in the current working of the price mechanism in third world countries are due not to the inherent imperfections of the market but to irrational government interventions...' (Lal, 1983 quoted by Asian Development Bank, 1993: 4)

Hence, neoclassical economists prescribe that state intervention is allowed only in the case of market failures in which the market system produces inefficient resource allocation. Thus, involvement by the state is strictly limited to certain areas related to market failures such as provision of infrastructure, macroeconomic stability, public goods such as education, and scientific and technological research. Meanwhile, neoclassicalists tend to be enthusiastic about governmental activities which lead market liberalization; for instance, policies for moving from import substitution to export orientation. The neoclassical trade theory is based on the Hecksher-Ohlin model of comparative advantage<sup>10</sup>, and it asserts that efficient resource allocations arise from the liberalization of international trade by the removal of trade controls from governments. Therefore, in this view, outward-oriented development strategies contribute to economic growth, whereas inward-oriented policies bring economic difficulties (Little, Scitovsky and Scott, 1970; Krueger, 1980; Balassa, 1981). Consequently, as I will discuss in chapter II, neoclassicalists have not been interested in the role of the state nor in the relation between state and society in Korea and Taiwan, although the governments in these countries have acted powerfully in their

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<sup>10</sup>

Contrary to the classical free trade theory of comparative advantage which is based on a one factor, labour cost, Eli Hecksher and Bertil Ohlin argued that the factor endowment in a country (mainly land, labour, and capital) decides trade patterns. See Todaro, 1989: 378-383.

societies and economies. Rather, neoclassical scholars claim that the outward orientation strategies in both countries were key factors for their economic success.

### 3. THE STATIST

The economic success in East Asia has bred a new type of paradigm which is called statist. The neoclassical approach has attributed the success of East Asia to free markets with limited control by the government and liberalization of a foreign trade regime. On the other hand, the statist paradigm has challenged the neoclassical orthodoxy with regard to its lack of factual validity. It includes more political factors, and emphasizes the role of the state in its analysis.

The statist attempt to understand the role of the state in East Asia in two ways; capacity and autonomy of the state. Firstly, this paradigm believes that the success of strategic intervention by government has ensured that bureaucracy is cohesive and capable of formulating holistic and long-term strategies coherently, which is characterized by Weberian bureaucracy<sup>11</sup>. In addition, bureaucrats are rational and competent enough to be insulated from political and

---

<sup>11</sup>

Weber emphasizes the connection between capitalism and bureaucracy. According to him, bureaucracy has capability to pursue the collective goals of the organization. See Weber, M., 1968 (1904-1911), *Economy and Society*, Roth, G. And Wittich, C. (eds.) (NY: Bedminister Press).

social pressures in terms of economic policymaking and implementation. Secondly, the state has a high degree of autonomy and its actions influence the society and economy substantially. Indeed, evidence in East Asia shows that the governments have exercised their authority in the pursuit of their economic goals. Here, state intervention works as 'administrative guidance' (Johnson, 1982), disciplining through reward and punishment (Amsden, 1989), strategic allocation in investment resources (Wade, 1990), and authoritative allocative decisions (Haggard, 1990). The statist agree that the East Asian states have had enough capacity and autonomy to control, manipulate, and regulate markets, and society through various policy instruments. However, since the statist perspective emphasizes emphatically the autonomy of the state over the society, it has 'no consideration of the complex interplay of state-society relations' (Chandhoke, 1995: 57).

The statist view the state as an authority to control society and economy. The theory of the statist therefore disregards the inhabitants in society. Peter Evans (1995) claims that a key factor of successful industrial transformation in East Asia lies in the state's autonomy and solid relationship between the state and the society. Yet, despite the advantage of Evans's deeper insight into the relations of both state and social actors, his approach is still narrow in scope, because in his argument the social arena consists of only economic interest groups, firms, and

entrepreneurs who are interested in direct economic benefit from promoting economic growth. In Evans's analysis, there are no other organizations and institutions in society whose activities are far from profit-seeking. In fact, Evans himself admits the weakness of his analysis and notes that

‘the embeddedness of the developmental state was narrow, connecting the state to a relatively small set of entrepreneurs. Relations with the rest of society were characterized by repression and exclusion rather than connectedness’ (Ibid., 1996: 277).

The problem of his approach lies in the fact that the state-society linkage is mainly limited to the relation between the government and a specific area of organization in society, that is, business groups. If Evans believes that development is the achievement of better welfare in a civil society, he needs a broader sense of definition for society. Evans's approach may be required to redefine his social level ‘at both the micro and the macro level -the former involving individual and small groups in civil society; the latter including larger groups and more encompassing institutions which usually are profit-centred organizations’ (Valdes-Ugalde, 1996: 304).

Skocpol (1985) argues that the state is an ‘autonomous organizational actor’ which influences all groups and classes in society in order to maintain control and order. Hence, she rejects the society-centred theory on the basis of pluralist, structuralist-functionalist, and Marxist accounts of the state, because,

according to her, these approaches regard the state as an instrument of economic interest groups or classes to make public policy decisions whose benefits are allocated among the demanding groups. She thus criticises that there is no understanding of autonomy and independence of the state in the society-centred perspective. However, in the same manner as Evans, Skocpol's model also marginalizes civil society. Her viewpoint notes the state as

‘from commanding heights, at state headquarters where goals are formulated and strategic decisions made, not in the calculus of individuals and groups in the streets, fields, factories, or bedrooms nor in the institutional contradictions between capitalism, democracy, family, and state’ (Friedland and Alford, 1991: 238).

In this manner, the statist as well as the neoclassicalists view civil society as ‘non-resistant, inactive and submissive’ (Chandhoke, 1995: 56), and the state as the autonomous actor for not only politics but also society, despite the fact that the ‘state can become irrelevant as the colonial state became irrelevant, or the states in East Europe and the Soviet Union became irrelevant, because society wrested political initiative from the state’ (Ibid., 1995: 56-57). In other words, the statist perspective has a lack of consideration of state-society relations, and thus it is a ‘one-way traffic zone, with the state possessing the initiative in all the moves’ (Ibid., 1995: 57). As long as the statist is blind to the pressure of empowerment and transformation from the society, his/her theory is partial and incomplete.

The statist paradigm has emerged as an innovative theoretical alternative by connecting the work of political institution and economic performance, which previous studies, mainly the neoclassical paradigm, have neglected. With empirical studies and powerful analyses, the statist demonstrates that, as opposed to the neoclassical view, strategic intervention by the government does not necessarily lead to failures, and that their role of the state, especially in developing countries, is crucial, as long as the state recognizes its proper role for the promotion of industrialization. Yet, the statist paradigm cannot go beyond the belief of the primacy of the state in relation to economic strategy. It focuses too much on the power of the state to see the social linkages with state and economy. Consequently, although most of the statist studies engage in examining East Asian development, they tend to focus on only the attainment of rapid economic growth in this area with the approach which reveals a lack of critical analysis of the social and economic costs caused by rapid development. The statist perspective, as well as the neoclassical, is still a one-sided approach which aims at evolution in the material but not social sphere. Therefore, what is required is a balanced analysis of both economic and social aspects in relation to the state. After all, it is necessary to achieve a greater involvement of civil society to equal that of the state and market, and only democracy enables the full participation of civil society.

In order to present an integrated theory with the involvement of the social phenomenon, it is now evident that it is needed to consider democracy. Both the liberal and the Marxist paradigms are eager to conceptualize the relationship between state and society in their theories. Despite both having different approaches, they argue how to overcome the supreme power of the state and the necessity of the autonomy of the civil society. The next section of this thesis looks at the conception of civil society and state from both the liberal and Marxist perspectives.

#### **4. THE LIBERAL DEMOCRATIC THEORY**

The school of classical political economics in the 17th and 18th centuries was concerned that individual freedom and liberty should be secured by the state and that the state should not be the main autonomous actor over civil society. The liberal theory basically succeeded the concept of this classical school. The early liberals engaged in the search for the state of a desirable degree of power under the acceptance that the state is powerful and autonomous over civil society. Meanwhile, later liberalists perceived the phenomenon of the violative and tyrannical state, and they assumed a greater threat of the modern state to individual freedom and liberty than the early liberalists did. Hence, the later liberalists were concerned with primarily how to restrict the power of the state.



The later liberalists, De Tocqueville thought that every democratic nation had great central power, that is to say, the state. The role of the state is to hold granted legitimacy, to manage foreign affairs, and to engage in public businesses which private interests do not deal with. However, the state acquires power over the society through its normal tasks such as 'a regulator, inspector, adviser, educator and publisher of social life' (Keane, 1988: 49). As a result, despite elections, the political institution tyrannizes civil society, and 'democracy breeds its own forms of despotism' (Chandhoke, 1995: 107).

'A government can no more be competent to keep alive and to renew the circulation of opinions and feelings among a great people than to manage all the speculations of productive industry. No sooner does a government attempt to go beyond its political sphere and to enter upon this new track, than it exercises, even unintentionally, an insupportable tyranny' (De Tocqueville, 1947: 322).

De Tocqueville asserted that 'governments, therefore, should not be the only one active power'. He then argued that forms of civil association could be crucial means for civil society to limit state power. Social associations consist of not only commercial groups and companies but thousands of other organizations such as religious organizations, schools, inns, publishers, writers, and hospitals. The social associations collect the power of individuals with their common interests and desires. There is no doubt that the plurality of interacting associations, in his words, 'the independent eye of society', is the basic condition

of democracy. Only the plurality of association can guarantee against the supreme power. On the other hand, since the social associations are connected to individuals at a personal level, they can engage in 'small affairs' at a micro level. In other words, the association brings concerns about the broader aspects of society from each individual. This is in contrast to other involvements in the political sphere such as elections and jury systems, which merely engenders the general participation of civil society. Consequently, as De Tocqueville notes, 'it is only by association that the resistance of the people to the government can ever display itself' (Ibid., 1947: 483). He conceptualized the realm of society into three categories; the state, the economy, and civil society where a plurality of associations bring individuals. He then argued that the establishment of the autonomy of civil society can be a buffer for individuals from the supreme power of the state. In short, the late liberalists like De Tocqueville believed democracy could be realized by using collective power of individuals as the means to a political discourse between the state and individuals.

## **5. MARXISM AND DEMOCRACY**

In the liberal thought, it is highlighted that the distance between the state and civil society is imperative for the maintenance of a democratic nation, since civil society provides a buffer between the individual and the state. Contrary to

this, Marxist theorists view civil society not as conformity to eternal laws of nature, not as the position standing apart from the state, but as 'a contingent historical phenomenon; historically determinate entities characterized by economic, political, or ideological structures such as productive forms and class relations, which Marx called the base superstructure (Keane, 1988). Marx identified the base-superstructure distinction as the sphere that constitutes the 'motor' of social, economic, and political development.

According to Marx, this dichotomy of economic, political and social structure, is determined by economic aspects in terms of forms and relations of production. Marx notes,

'the totality of these relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness' (Marx and Engels, 1988: 135 noted by Chandhoke, 1995).

In other words, civil society was viewed as an economic phenomenon rather than political. Individuals are living in a world in which exist, in Marx's words, 'definite relations that are indispensable and independent of their will, relations of production which correspond to a definite state of development of their material productive forces' (quoted by Tucker, 1978: 4). Consequently, the relation of production are the definitive factor of the economic structure of society which constitutes the political and ideological sphere.

Adam Smith explained that productive resource use and exchange in society happened in response to market forces. According to Smith, the pursuit of self-interest by individuals enhances productivity and leads to the promotion of society. Each individual makes decisions how and how much to produce in accordance with maximization of his/her profit, yet the outcome depends on the combined effect of all individuals' decisions. As a result, the decision of resource allocation in the market affects the balance between supply and demand of all individuals. Smith insisted that individual decisions were efficiently coordinated in the market but it happened under the blindness of each individual. Thus, he viewed the process as a so-called invisible hand.

Marx succeeded the notion of the Smith's coordinating function of market forces, while he criticised exploitation under capitalism. In Marx's view, capitalism is represented by three principles; atomized decision-making, the coexistence of private property, and private appropriation of the surplus (Devine, 1988). He argued that private ownership generated exploitation by bourgeoisie, since the surplus produced by proletariat was apt to be appropriated. Even though the surplus would exchange in the market, the capitalist mode of atomized decision-making excludes the proletariat from the capitalist system. Contrary to most socialists, Marx did recognize that the markets cut the ties of personal dependency characteristic of feudalism and that they facilitate the

individuals' satisfaction of needs, while Marx also stressed that the markets exercise a power which he called the 'fetishism of commodities' over individuals (Elson, 1988: 12). Accordingly, Marx and the traditional Marxists claim the necessity of socialism, that is to say, the abolition of private ownership and its replacement by social ownership, on the other hand, they reject the markets.

The Marxist theory is not preoccupied with the distinction between the state and civil society, but the connectedness of the two spheres. According to the Marxist view, when the proletariat in modern civil society, which resists exploitation by the bourgeoisie, succeeds in struggle between social classes, civil society assimilates with the state and it is freed from bourgeoisie domination, when the means of production will return to the control of producers. Marx thus believed that the abolition of the division between civil society and the state, and the self-governing of civil society by the proletariat, were desirable phenomenon, that is to say, a communist society.

In the liberal view such as De Tocqueville's a plurality of associations in civil society could be a buffer against the state autonomy. On the other hand, the Marxist school argues that the absorption of the proletariat into state institutions, caused by victories of social struggles, enables civil society to organize its self-governing power, where in fact there is no power relationship any more and thus power would disappear from communist society. Marx's formulation -a critique

of division between the state and civil society and the unity of both phases- seems to have a different vision from the theory of liberal democracy which requires the distance between the state and civil society and the limit of state power. However, both Marxist and liberal theories are concerned to share common goals; the primacy of civil society and the restricted state power. In a sense, both schools attempted to find the means of how a civil society can gain its autonomy from different perspectives; one by the democratic potential of citizen's associations, and the other through the realization of socialism.

At the end of this chapter, I introduce the project by Devine (1988, 1991), since his model aims to go beyond the theoretical framework which I have discussed, namely it seems to unite both socialism and liberalism. To achieve social control over the state and the economy, Devine argues that participatory democracy is vital through its constituting of self-governing associations by civilians. A self-governing group is the arena for people to share a common concern and decide to act collectively in relation to their common interest. A participatory democracy consists of three different dimensions; elected representative, the administrative structures of the state, and self-governing groups in civil society. The state has no authority for policy determination and implementation, but they involve negotiation with the self-governing groups who cooperate with elected representatives.

As discussed, the Marxists believe that the abolition of private ownership ends exploitation; the allocation of productive resources in society should be planned. Contrary to Marxists, Devine believes that the collapse of socialist countries like the Soviet Union and Eastern Europe, where they had followed the Marxist view of the economics of socialism, was caused by the state's command planning system. Now it is certain that the socialist countries had put too much responsibility on the state in terms of politics as well as the economy. In these countries, the state was responsible for all economic activities and resource allocation. The state held central control over all investment and production of firms through its command planning system. Thus, Devine asserts 'economic democracy' where self-governing groups participate in decision making for resource allocation and resource use.

More importantly, however, in his model, the allocation of productive resources between different uses does not arise from the operation of market forces, because, Devine claims, market forces tend to exercise the coercive pressure on people through the firms' economic autonomy, where under the operation of market forces firms are desperate to increase the private property of themselves. In this manner, Devine agrees with the Marxist theory. Therefore, in his model, even decisions on investment in firms are made not by firms themselves, not by market forces, not by the state, but by a negotiation-based

institution between the administrative state and self-governing groups.

Devine's model has mixed the different elements from the liberal type of democracy with involvement of individuals poetically and economically by organizing the associations of civil society, and the socialist concept of the economic planning without the operation of market forces<sup>12</sup> where, however in contrast to socialists who claim the total control by the state, negotiation is coordinated between the state's representatives and social groups. Simultaneously, he also calls for the principal role for the state for two reasons. First, since the self-governing groups consist of various kinds of interests, agreement might not be reached through negotiation easily. When negotiation fails, it is important for the state to mediate these conflicts. Second, political parties can play an important part of a fully democratic society, because, contrary to self-governing groups which are concerned only with activities that affecting their lives most directly, political parties offer alternative perspectives on the distribution of resources, rights and responsibilities which determine the characteristics of the society as a whole. Therefore, the state plays an important role to promote participation of political parties. However, most importantly,

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Devine respects the operation of exchange in the market, since market exchange provides information about relative costs and about effective production for producers. On the other hand, he maintains that the operation of market forces coerces people when they redistribute capital and labour (1991: 210).



Devine also emphasizes that the state has to be subject to control by the self-governing groups of civil society;

‘If self-government consists of direct social control by self-governing groups and indirect social control through the agency of a state itself controlled by self-governing groups, the balance between the two is likely to make all the difference to how people perceive their relation ship to society as a whole -whether they see themselves as passive objects whose lines are shaped by alien forces beyond their control, or as self-activating subjects co-operating together on a basis of quality and mutual respect’ (1991: 214-215).

Devine shows the alternative to both the liberal and the Marxist theories.

I agree with Devine’s concept of participatory democracy where self-governing groups in civil society has authority for decision making of politics and economy, negotiating with the administrative structure of the state. However, the weakness of his approach lies in that he rejects the function of the market. It is true that the market has impersonal characteristics, and thus it tends to exercise coercive power over people in civil society. But it is also true that the market corrects the partial distribution of resources between demand and supply in complex economies and it provides individual freedoms for pursuing these interests. Therefore, Devine as well as Marxists should not deny but take advantage of the market.

I have presented economic development theories which view progress as material evolution, and consequently excludes civil society from its theory. I have

also discussed the nature and relation between the state and civil society from the viewpoint of democracy. Although each theory has a different approach, liberalists, Marxists, and Devine agree on the primacy of civil society and are concerned with how to embrace the realm of civil society. However, in practice, policy issues emphasize economic development, but little attention is paid to social development. Chapter II, III and IV shall demonstrate the fact that the development strategy is economic-centred, and blind to the social sphere.

## **Chapter II**

# **ECONOMIC SUCCESS AND THE ROLE OF THE STATE IN KOREA AND TAIWAN**

The discussion of the remarkable economic success in Asian NICs has been very heated for three decades: why have they attained such rapid economic growth? Is there an East Asian model? If there is, how does the model apply to other developing countries? The mainstream neoclassical economists attempt to explain that the success was because the governments' practices followed neoclassical prescription such as 'getting prices right' or the 'free trade regime'.

The neoclassical economists, who have been confident of their theory of economic success in East Asia, compel other developing countries to adopt these prescriptions. However, they have been so preoccupied with explaining the economic success story in East Asia with neoclassical hypotheses so that they cannot perceive the important characteristic of East Asia, which is the strong state. The government has substantially contributed to economic development by means of control over the market through a variety of economic policies. Nonetheless, it should be noted that the authoritarian state in East Asian has not been so 'hard' to hinder the markets and economic activities. Contrary to the neoclassical interpretation, as the statist school asserts, the state with an appropriate scale of autonomy has led the strong economic growth in Korea and Taiwan. Thus, I agree with the statist view to explain the rapid growth in Korea and Taiwan, however, I strongly note that the strong state-led strategy is effective only for a specific stage of the development process. For instance, the strong state has held leadership of the economic transition of Korea and Taiwan especially in the era of the 1960s and 1970s. However, after the 1980s when both countries had attained the certain level of economic development, the economic strategies have come to rely on the market and liberalization to a higher degree. Hence, I mainly focus on the economic experience of Korea and Taiwan after WWII up to the 1980s. It is also important to note that the statist protestation is a state- and

economic-centred view, so that the statist bypasses the people in civil society. In this chapter, I focus on the economic phase and discuss the argument of economic success in Korea and Taiwan with the statist viewpoint beyond the neoclassical doctrine, where the significant contribution by the state is affirmed.

First of all, it is addressed that the industrial transformation experience in Korea and Taiwan is divided into three main phases. Second, I compare the interpretation of economic success from the neoclassical view with that from the new debate of the statist. Finally, it is concluded that the key to success in Korea and Taiwan lies in three principal elements; the rational and competent state, appropriate autonomy of the state, and the intimate network between the state and business groups. Notwithstanding, because of the strong commitment of economic success, the contribution of people has been neglected by the government, which will be discussed in subsequent chapters.

## **I. EXPERIENCE**

This section will discuss the industrializing experience in Korea and Taiwan which is divided into three periods; (1) during World War II and post-war, when the government in both countries aimed at reconstruction after the war and started import substitution strategies, (2) the first outward orientation period (1958-1972), when the government transformed the export promotion regime

which focused on light labour-intensive industries, and (3) the second outward orientation period (1973-1980), when the government attempted to shift to heavy capital-intensive industries.

### **(1) Reconstruction and Import Substitution (The End of WWII - 1950s)**

Since both Korea and Taiwan were under Japan's colonial rule until the end of WWII, the pre-war economies in both countries were largely designed to satisfy Japanese economic needs. Although the colonial rule was cruel, it nonetheless contributed to building the basic infrastructure for industrial development. In Korea, the hydropower supply was mostly located in the present North Korea. Therefore, most parts of heavy industries were kept in the north, whereas light industries such as food processing, light consumer goods and agriculture were in the South (Dutt and Kim, 1994). The loss of Japanese markets and investment for its primary exports, and the scarcity of natural resources forced Korea to an intensive import-substitution strategy. The government intensified the promotion of import substitution on non-durable consumer and intermediate goods with high protection of tariffs and quotas.

The Second World War destroyed Japan's investments and infrastructure development in Taiwan as well. The immediate task after the War in Taiwan was reconstruction with repairs to infrastructures and factories and to increase

agricultural production to provide raw materials for exports and earn foreign exchange to fund imports. In the same manner as Korea, the Chinese Nationalists (KMT), which took over in 1949, initially promoted import substitution. The government applied light industries such as textiles, apparel, woods, leather products, etc. (World Bank, 1993: 131) by protection, import restriction, and high tariff rates<sup>13</sup>.

## **(2) Outward Orientation I:**

### **Export Promotion for Labour-intensive Industries (1958-1972)**

In Korea, when Park Chung Hee was installed in power in 1961, he realized the importance of exports in order to overcome a small domestic market in Korea. According to the principle of comparative advantage, the country could benefit from free trade engaging in those activities for which the country is suited in terms of resource endowment. With small natural resources and high population densities, Korea was a labour-abundant country, which had a

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Simultaneously, it is also necessary to note that the Cold War regime brought substantial U. S. Aid on which Korea and Taiwan were almost entirely dependent during this period. The massive financial support from U. S., which aimed to build up frontline against communism, played an important role on their economic growth. There is little doubt that U. S. aid contributed to reconstruction and economic growth in Korea and Taiwan in the 1950s (Kim, 1995; Bell and Rosenfeld, 1990). Moreover, the U. S. Military regime initiated land reform, which 'contributed to greater equity in the distribution of income and cleared the field for strong centralized state power' (Amsden, 1989: 37).

comparative advantage in labour-intensive goods. Hence, the Park government started export promotion policies with a variety of incentives to encourage labour-intensive manufacturing industries such as textiles, garments, footwear, and simple electronics (Kim, 1995: 94). In the pursuit of export expansion, as I discuss later, the state intervened and controlled substantially the areas of trade and industrial policies, as well as exchange and financial decision-making. The Korean government selected strategic industries which sought to be internationally competitive and provided different sets of incentives to support these sectors, which the statist regards as one of the key elements of economic success in Korea. Trade and industrial policies were implemented through a variety of direct and indirect methods such as tax exemptions (reductions in corporate and private income taxes, tax rebates on materials imported for export production, business tax exemptions), tariff exemptions for increased export production, tariffs and import licenses and credit subsidies.

Similar to Korea, the government in Taiwan shifted to an outward orientation aiming at promoting exports beginning at 1958, somewhat earlier than Korea. The adopted measures were, though not as compulsive as those in Korea, similar to schemes of Korea. The Bank of Taiwan offered low interest loans to exports. To take advantage of cheaper and abundant labour, the KMT government promoted labour-intensive light industries such as apparel, plastic



electronic components, watches, and clocks. Thus, it is obvious that along with the intensive control by the government, aggressive export orientation strategies in Korea and Taiwan had been exercised<sup>14</sup>.

Yet, the economic strategies in Korea were not merely outward-orientation. Strategic policies for targeted industries were directed not only for export-orientation but also for import-substitution. While exports was emphasized, protection of selective domestic industries for import substitution, particularly for intermediate and capital goods sector, was substantial. After all, even after the Korean government adopted an export-led strategy, it continued with import restrictions such as an import quota system, foreign exchange allocation, and import legislation to discourage consumer goods inputs, and the protection of a variety of import competing sectors. Importantly, the import substitution was not, contrary to the neoclassical theory, a negligible scheme for the Korean economy. In sum, the economic development strategy in Korea is characterized by the dualistic trade policy based both on export orientation and import substitution which was led by heavy control of industries by the government.

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However, it is important to address that the success of export orientation was also dependent on the political economy factors from outside (Bell and Rosenfeld, 1990). The world economy expanded rapidly in the 1960s and early 1970s, which enlarged trading opportunities with the markets in both developing and industrialized countries. A liberal international trading order also enabled the Asian NICs to exploit their areas of comparative advantage. As a result, Asian NICs were able to expand their markets to export, by the same token, industrialized countries accepted the highly protective policies of Korea and Taiwan.

### **(3) Outward Orientation II: Industrial Upgrading (1973-1980)**

As the Korean economy gradually evolved, the policies shifted from relatively labour-intensive light industries to heavy and chemical industries. Korea had engaged in light manufacturing in 1960s because of its comparative advantage in cheap and plenty labour. However, as the domestic wage rate rose and more capital was accumulated, it appeared more advantageous for Korea to move into more capital-intensive sectors. The Korean government quickly shifted the promotional policy to heavy and chemical industries. Above all, six strategic industries including steel, petrochemicals, nonferrous metals, shipbuilding, electronics, and machinery (World Bank, 1993: 129) were targeted and provided the great support and incentive for export promotion of these industries.

From the early 1970s, the shift of international competition and technological change also entailed Taiwan to pursue the promotion of capital-intensive industries. Light manufacturing industries in Taiwan had to face pressure from lower-wage labour abroad, when it appeared that Taiwan's economy needed industrial upgrading. With the advice of American experts, the Taiwanese government also started to focus on the promotion of capital-intensive, heavy industries such as chemicals, wood pulp, petrochemical and steel industries (Wade, 1990b: 240)

## 2. THE OLD DEBATE AND BEYOND THE NEOCLASSICAL VIEW

The economic success in Asian NICs has attracted a number of academic professions related to development. Although there are many different debates to explain the economic growth in Asian NICs, the central issue has been free-trade export-orientation versus import substitution. The neoclassical orthodoxy, arising from the international lending institution such as IMF and the World Bank, attempts to focus on the Asian NICs' export-oriented policies. It argues that export orientation is a more efficient system than import substitution industrialization in the context of economic liberalization and a free market. It asserts that Asian NICs have followed a trade strategy of export-oriented liberalization, which eventually led to the economic growth to Asian NICs.

However, the statist argue the importance of considering the role of the state in East Asia, especially in Korea, Taiwan, and Japan. According to the statist view, the experience of Korea and Taiwan demonstrates that the governments manipulated the markets through economic policies and that even export-led growth which was, as the neoclassical claims, entailed by an economic liberalization of both countries, was accompanied by extensive and decisive intervention by the government.

In this section, first of all, the principle of the neoclassical economic theory is examined, secondly, the neoclassical doctrine is expanded to the trade theory

of import substitution and export promotion. Thirdly, I examine how economic success in East Asia is illustrated by the neoclassical advocates, contrary to the evidence, which shows that Korea and Taiwan had not necessarily followed the neoclassical prescription for the pursuit of economic growth.

### **Theoretical Arguments by Neoclassical Principle**

In the beginning, I discuss the basic idea in the neoclassical economic theory. The main focus of the neoclassical economic doctrine is to maximize efficiency of resource allocation in the short-run as the primary source of growth. In this view, long-run growth will emerge from the attainment of short-run allocative efficiency, and efficient resource use will be generated from getting prices 'right' and undistorted competitive markets. Hence, free market mechanisms determine the optimal allocation of resources among various productive uses and the distribution of goods and services among consumers.

The free market principle applies to international trade theory as the notion of comparative advantage is based on the Heckscher-Ohlin model. This theory illustrates that any two nations will be better off if they concentrate on those economies for which their costs are relatively, not necessarily absolutely, cheaper, in effect concentrating on producing goods with resources which are domestically abundant. Then, resources will be allocated efficiently, provided

that international markets are allowed to determine the relative prices of internationally tradable goods in the domestic economy. For instance, in a labour-abundant economy, exports of labour-intensive products will generate beneficial effects to promote growth under the circumstances of free trade. High impediments to trade by government intervention might be harmful to economic growth, since the country could end up producing goods in which it has no comparative advantage. A strategy of growth with comparative advantage and intensive production in relatively abundant factors could be achieved by getting distorted prices right by liberalizing the economy, including removing trade barriers and credit subsidies, and instituting export incentives and realistic exchange rates. Next, in a broader sense, these assumptions can be better evaluated within the context of the debate between import substitution and export promotion strategies.

### **Import Substitution vs. Export promotion Policies**

The neoclassical school therefore advocates an export-oriented free-trade regime characterized by low or no impediments to imports and relatively neutral incentives, -'neutral' meaning that policies should not selectively discriminate- to produce for export and the domestic markets, whereas inward orientation implies a bias against exports. Thus, in the neoclassical view, export orientation

contributes to economic growth directly through increased exports and additional foreign exchange earnings. Furthermore, it also gains indirectly by exploiting competition in terms of comparative advantage, substituting large world markets for narrow domestic markets, and increasing the efficiency resulting from free trade<sup>15</sup>.

First of all, exports contribute to efficient resource allocation due to comparative advantage. Firms are subject to much greater competitive pressures when producing for export markets, leading to increased efficiency and inducements to technological change. Monopoly positions arise less frequently under export promotion, because of competition with international as well as domestic markets. On the other hand, import substitution prevents competition among domestic firms and their cost-minimizing performance. Moreover, because of a distorted system, import substitution does not promote development of new industries, and governments tend to focus on foreign exchange saving (Krueger, 1980). Secondly, through exports a country overcomes the limitations of domestic markets in exploiting economies of scale and ensuring full capacity utilization. Since domestic markets are extremely small in most developing countries, increase in economies of scale provide satisfactory growth. Export

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Neoclassical theory also stresses that quantitative restrictions are more costly than tariffs, because tariffs leave some scope for imports even if they raise prices.

promotion permits firms to base their plans on whatever size plant seems appropriate without constraint of size of the domestic market. By contrast, import substitution attempts to replace imports with the construction of plants of less-than-efficient minimum size under the domestic markets (Balassa, 1983; Krueger, 1980). Thirdly, under import substitution, domestic producers have to buy inputs at above world markets prices. Also, import substitution imposes any system of licensing or controls which would entail delays and other costs, inconsistent with the export promotion strategy. These costs are disregardable. Thus, according to this view, export promotion is more efficient.

As a result, the neoclassical advocates conclude

‘that countries applying outward oriented development strategies had a superior performance in terms of exploits whereas countries with continued inward orientation encountered increasing difficulties’ (Balassa, 1988: 280).

The argument examines how the neoclassical advocates apply their theory to explain the success stories in East Asia. The neoclassical view strongly claims that in the early 1960s the successful transition of Korea and Taiwan from import-substituting to export-led growth strategies was the key factor of their economic growth. In Krueger’s (1980: 289) words, “there is little doubt about the link between export performance and growth rate”. Also, the World Bank’s

*World Development Report 1987* classifies the East Asian economies<sup>16</sup> as 'strongly outward oriented' while Latin America ranges from 'moderately outward oriented' (Brazil) to 'strongly inward oriented' (Argentina and Peru) (World Bank, 1987: 83).

However, it must be stressed that the successful East Asian countries had also pursued import-substitution policies and continued high protection simultaneously in certain targeted industries (Stein, 1995; Wade, 1990a). There is no doubt that both Korea and Taiwan attained rapid export-led growth through the last two decades, but it is also true that these countries had continued to protect a variety of import competing sectors. Opposed to the neoclassical view,

'there is considerable evidence that import substitution has not been abandoned in the East Asian countries that have supposedly become more export-oriented' (Stein, 1995: 40).

### **Evidence Against the Neoclassical Advocate**

There is a large amount of evidence that shows Korea and Taiwan had adopted economic strategies of both export-orientation and import-substitution, which contradicts the neoclassical claims. By the late 1950s in Korea, the initial domestic demand for substitutable goods had been satisfied, and the heavily protected local manufactures became too inefficient to compete in the world

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<sup>16</sup>Taiwan is excluded from the list in the table published by the World Bank.



market (Kim, 1995: 96). In the early 1960s the Park Chung Hee regime began the outward-oriented alternative based on the production of exports. However, in Korea until 1967, domestic industries such as essential raw materials, energy, capital and intermediate goods to develop export industries at home were protected by direct import controls. Imports were permitted on the basis of the 'positive list' system, by which only the items enumerated would be allowed for import. Even after 1967, despite international pressure for trade liberalization, the government continued to impose a wide range of import restrictions, tariff protection, quantitative restrictions like import quotas, foreign exchange allocation, and import legislation to discourage imports (Kim, 1995). While the number of items on the negative lists was reduced from 118 in 1967 to 50 in 1978, the restricted list increased from 402 to 602 items and the range of products granted automatic approval was cut by 25 per cent (Asian Development Bank, 1993). Like Korea, high and variable tariff protections, quantitative restrictions and administrative allocation in Taiwan had protected certain domestic industries (Brautigam, 1995: 165), while exports were promoted.

A study by Bela Balassa (1982), which compares the extent of the liberal trade regime in six countries, shows that Korea and Taiwan had much lower average effective protection for manufacturing than three of the other countries (Israel, Argentina, and Colombia). He suggests that the results are evidence that

Korea and Taiwan have had relatively low levels of protection and have been in a 'neutral' trade policy regime in the sense of approximately equal incentives for exports and imports. But as Wade (1990a) criticizes, the careful investigation of this study finds that different manufacturing industries had different net incentives for export sale and for domestic sale. In terms of import-competing<sup>17</sup> industries, the averages of effective protection rate (EPR) and effective subsidy rate (ESR) (Wade, 1990a: 56)<sup>18</sup> in the two East Asian countries are higher than those in the two Latin American countries. Moreover, EPR and ESR in Korea are higher than those in Argentina which is regarded as 'strongly inward oriented' by the World Bank study. In other words, with regard to the import-competing industries, Korea and Taiwan had substantial net incentives to sell on the domestic market. Jenkins (1991) also reaches the same analysis that 'certain sectors in the East Asian NICs have enjoyed levels of effective protection which are considerable by any standards and not that different from those found in Latin American countries'. According to Jenkins, industries which are most

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According to Balassa's (1982) definition of import-competing industries, in those industries, less than 10 per cent of domestic production is exported, and imports account for more than 10 per cent of domestic consumption.

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Effective protection measures the extent to which tariffs quantitative trade restriction increase the domestic value-added price over the world market value-added price. Effective subsidy includes not only the effects of tariffs and quantitative restriction, but also the effects of taxes and subsidies (Wade, 1990a).

subject to import competition received levels of protection in Korea and Taiwan that were higher than in Colombia and Mexico, and not that different from the 'strongly inward-oriented' country, Argentina, by the World Bank. Therefore, the governments promoted both export and import substitution (even if import substitution discriminates against exports in those industries), despite both countries being classified as a 'moderately outward-oriented' countries in the World Bank study. In short, owing to the continued import restrictions, and the provision of other incentives, the trade policies in Korea and Taiwan were not fully 'outward oriented' which is different from the neoclassicals. Significant is the fact that the government had provided incentives not only to exports but also to domestic sales in those industries, and that incentives to import-competing industries had been as strict and important as those to export industries.

Thus, Korea and Taiwan had adopted inward-bias policies for certain targeted industries, despite having an outward policy regime. Therefore, the East Asian trade policy, which is based on the dualistic approach of pushing for exports while advancing with import substitution, is contradictory to the neoclassical trade prescription, which asserts that export orientation is more conducive to rapid growth than import substitution. The argument of export promotion versus import substitution is not appropriate for explaining economic growth in Korea and Taiwan. In fact, contrary to the neoclassical advocates, trade policy per se is

not the central issue, since a protectionist trade policy did not hinder the export-led growth in Korea and Taiwan. After all, the experience of both countries explicates that it should not maintain a simple dichotomy between export-oriented strategies and import-substituted strategies in line with the neoclassical paradigm. Certainly, it is doubtful that the dominant neoclassical theory produced in Europe three hundred years ago can conform to the present circumstances in developing countries in South. As Chang (1994) has noted:

The neoclassical assumption in East Asian trade regime is problematic even though the present mainstream in economics has been the neoclassical paradigm. According to Hirschman (1981: 20), it is "monoeconomics" which views that there is only one economics just as there is only one physics. However, development experiences in Korea and Taiwan deny the triumph of neoclassical theory... It means that developing countries are different from developed countries, where advanced markets are working smoothly, and require different theories and policies to promote development.

### 3. THE NEW DEBATE: THE ROLE OF THE STATE

Although the governments in Korea and Taiwan adopted and maintained policies of import substitution, despite the claims of the neoclassical orthodoxy, the question remains why both economies have enjoyed high growth rates, relative to other developing countries which followed similar policies without generating the same sustained rates of growth, and how both countries have offset the harmful effects of protection on exports. The new debate should go on to discuss the role of the state. As the statist argue, the evidence demonstrates,

though it is controversial, that the Korean and Taiwanese governments have prominently intervened to affect the resource allocation among industries, and that government control led the rapid economic growth for both countries. This section discusses strategic industrial policy which, as the statist claim, was the key instrument of the state's intervention.

### **Selective Industrial Policy**

The state in Korea and Taiwan places first priority of economic development on the pursuit and attainment of comparative advantage, export expansion, and rapid economic growth. In order to attain these goals, it is obvious that the governments had exercised a substantial amount of leadership in Korea and Taiwan through their economic policies. Indeed, the economic record in both countries cannot be explained without reference to the variety of policies pursued by the governments. Therefore, the government's role in managing economic policies needs to be investigated as a key to success in both countries. Especially, a selective industrial policy had substantially contributed to the economic growth in Korea and Taiwan.

In Korea and Taiwan, the government has selectively intervened among industrial activities. The evidence in Korea and Taiwan demonstrates that the government intervened in certain targeted industries intensively and provided

them various kinds of incentives for the sake of industrialization (Amsden, 1989; Wade, 1990; Westphal, 1990; Chang, 1994; Kim, 1995; Sridharam, 1995). By means of government policies, the government selected targeted sectors and protected them with higher levels of protection and more varieties of protection than the neoclassical theory considers. In Wade's words, the governments of Korea, Taiwan and Japan

'have made them (picked winners) by creating a large environment conducive to the viability of new industries -especially by shaping the social structure of investment so as to encourage productive investment and discourage unproductive investment, and by controlling key parameters on investment decision so as to make for greater predictability' (1990: 334).

The selective industrial policy promoted two objectives: encouraging exports and promoting infant industries (Westphal, 1990). The government used industrial policies to build a comparative advantage in the former industries while using it to exploit the comparative advantage in the latter industries. The government discriminated in its treatment between already established, internationally competitive industries and new, infant industries which were regarded as worthy of promotion (Pack and Westphal, 1986: 94).

For the purpose of export-led industrialization, the government has been encouraging and fostering export industries which had already been well established and had an international comparative advantage. The government

ensured that the sectors were able to exploit their competitive position in the international market and that production for export would be more profitable than production for the domestic market. Once the government believed that the sectors had enough potential to expand exports, it promoted and encouraged them with its economic policies of government control. Meanwhile, infant industries had 'been expected to begin exporting very soon if not immediately after they began production' (Pack and Westphal, 1986: 100). Hence, for almost three decades, the government in Korea and Taiwan selectively intervened to promote targeted infant industries. The government predicted industries which were going to be important for industrialization. The government attempted to anticipate and also create a comparative advantage in the world market for future competitiveness (Johnson, 1987).

It should be noted that in order to foster certain targeted industries the government promoted and protected them through different sets of policies including financing and credit, trade, foreign investment, business, and sector policies 'in any way possible using any available instrument' (Sridharam, 1996: 71). Also, different incentives were given to different industries under a policy called 'industry bias'. Industry biases operated at the segmental level in favour of protecting up-and-coming products while de-protecting internationally competitive products (Sridhara., 1996: 70). For the pursuit of export, expansion

exports were promoted in some sectors, whereas other sectors, namely domestic production, were heavily protected. The evidence suggests that the economic success does not lie in one industrial policy (export-orientation) but in different policies with industry bias. Importantly, these biases changed flexibly in accordance with growing competitiveness.

In other words, the government has made great contributions to economic growth by distorting incentives in order to build comparative advantage in targeted industrial sectors. As Amsden quotes,

‘economic expansion depends on state interception to create price distortions that direct economic activity toward greater investment. State intervention is necessary even in the most plausible cases of comparative advantage, because the chief asset of backwardness - low wages- is counterbalanced by heavy liabilities’ (1989: 14).

As discussed, targeted industries had been promoted using various sets of incentives. Thus, it is important to consider these different kinds of policy instruments to direct incentives towards selected industries. I focus here on three phases of policy instruments by the government; first, banking policy; second, technological policy; third, business policy.

Firstly, the state control over the banking system was a critical instrument to the success of selective industrial policy. The government had used the



banking system, which it controlled directly or indirectly<sup>19</sup>, as an incentive to provide a significant share of investment in targeted industry as well as foreign investment towards selected industries. In Taiwan, concessional credit for export production was an important instrument of finance up to mid-1970s<sup>20</sup> (Wade, 1990a: 142). The export credit was lower interest, short-term loans with a nominal rate of less than 12 per cent, compared with normal loans at a bank rate of 20 per cent (Brautigam, 1995: 167). According to the previous year's export performance and the plan of exports for the current year, a firm was entitled to concessional credit. In addition, the government sets targets for the state-owned banks to meet in directing finance to particular infant industries and subsectors (Ibid., 1995: 162). The banks received lists specifying a limited number of industries to which priority attention should be given. The loan preference list had a great impact on guiding the infant industries toward the development as the government planned.

In Korea, the state-controlled banking system had been a more direct and important instrument of industrial coordination than that of Taiwan (Wade, 1990a; Asian Development Bank, 1993). In the same manner as Taiwan, export

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The government in both had owned and controlled all commercial banks. Despite pressure to liberalize in the 1980s, it maintained its control over the banking system.

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According to Wade (1990a), the government cut back the volume of export credit accordingly.

credit as subsidized interest rates was used as a crucial measure. To encourage firms to export, exporters and related sectors were charged at preferential interest rates which were normally 40 to 60 per cent of the commercial levels occasionally dropping as low as 25 per cent (Kim, 1995: 97-98). Moreover, the Korean government had provided credit with subsidized interest and more industry-specific guarantees. A special form of financing called 'policy loans' was provided to selected industries and subsectors with exceptionally low interest rates and lenient repayment terms, which were carried out obviously for the purpose of supporting key industries. In 1972, the ratio of total interest subsidy associated with loans in manufacturing to the total fixed capital in that sector exceeded 25 per cent. The average annual increase in export credit reached as much as 40 per cent of the increase in money supply between 1970 and 1976 (Ibid., 1995: 108).

Secondly, the government exercised considerable leadership and support for technological development. In general, most developing countries are reluctant to adopt industrial technology for national industrialization. According to Lall (1993), firms tend to import technologies that are not appropriate to their countries' endowment of labour or skills, or to their scales of production. Second, they cannot fully assimilate the technologies they have imported. Third, individual firms have such wide relative-efficiencies that diffusion of knowledge at the national level is more limited. Finally, they cannot upgrade the

technologies they have mastered, or diversify into new technologies as conditions change (Ibid., 1993: 719-20). Yet, the government in Korea and Taiwan has greatly supported the intensification of technological development in industries by means of building government laboratories, including industrial assistance organizations and technical education facilities, creating special funds for these institutions in select areas, and developing domestic R&D<sup>21</sup> (Wade, 1990a: 150). The government in Taiwan established a National Science Council in 1967 to support basic scientific research and in 1973 the Industrial Technology Research Institute (ITRI) as a national R&D centre. Although similar institutions had been established in Korea, R&D activity in private institutions, especially an R&D laboratory of the big *Chaebol*<sup>22</sup> in their major industries had played a principal role. However, since the *Chaebol* was controlled by the government with incentives to trace its selective industrial policies, in this sense, even the private R&D in Korea was directed to create international competitiveness in export and infant industries. The government also exercised strong control over inflows of

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Lall (1992) shows total spending on R&D is relative to GNP. Korea, with 2.3 per cent in 1978, is well ahead of the other NICs, and planning to reach 5 per cent by the year 2000. Taiwan, with around 1 per cent, is Korea's nearest rival, followed by Singapore and Thailand (Lall, S., 1992, "Technological Capabilities and Industrialization", World Development 20(2), pp165-186)

<sup>22</sup>

The *Chaebol* is large, conglomerate business groups in Korea, which, as I discuss later, played important role as contributor of economic growth in Korea.

foreign investment to select among the potential entrants and to affect the detailed outline of the initiation of the venture (Wetphal, 1990), because infant industries have been heavily dependent on such inflows and the government detested technological industries dominated by multinationals.

Thirdly, the success of selective industrial policy owes much to government control over business in Korea and Taiwan. On behalf of national development, the Korean government used its relationship to business groups, especially to the *Chaebol*, which are extremely large, conglomerate business groups. Their activities encourage all sectors but are concentrated in manufacturing. Since the mid-1970s the government, through legislation, sanctioned the consolidation of the *Chaebol* with trading companies, the Korean government took advantage of the *Chaebol* as its vehicle for the administration of export incentives. The *Chaebol* dealt in the range of commodities and the volume of sales and purchases. The *Chaebol* also had global information and marketing networks (Sridharam, 1996: 61). These merits made it possible for the *Chaebol* to overcome the limited size of the domestic market and enjoy the economics of scale which were arising from the high fixed costs. The Korean government utilized the *Chaebol* for the pursuit of export expansion. Instead of using the advantage of the *Chaebol*, the government provided them easy access to financing in an effort to promote exports.

The relationship between the government and the *Chaebol* was very close

and intense. For instance, monthly meetings were held to share information and make decisions about financial support toward exporters, large and small, where annual export targets were set by The Ministry of Commerce and Industry of Korea<sup>23</sup>. If targets were fulfilled, the export producers were provided additional government assistance, if not, they were improved to strengthen existing exporting process and innovated new subsidy measures.

The *Chaebol* were also the key agents to implement the development of the heavy and chemical industries during the 1970s, because such sectors required large-scale investment and production under economic logic. While the government provided them with easy access to bank-lending and licensing of both capital and technology inflows, it forced some major restructuring of production and sometimes even intervened in their decisions for management (Park and Wetphal, 1986: 96).

Since the Korean government had expected large firms with scale-economies and cost-efficiency to bring Korea to industrialization, it continued to support the *Chaebol*. On the other hand, with the government intervention, the *Chaebol* were willing and able to undertake risks. Thus, there is little doubt that the Korean government had exercised a large degree of selective intervention into

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The monthly meetings were chaired by the President and in which major industrialists, bank managers and government officials participated (Asian Development Bank, 1993).

business groups in encouraging export and infant industries.

Business groups in Taiwan, in contrast to in Korea, are characterized by the predominance of small and medium-sized family businesses. These business groups hold more authority of their own than the *Chaebol* in Korea. However, the relationship between the government and small private firms was also intense and intimate. The government got information about the production capacity from individual firms and provided administrative guidance. The guidance mostly took place in bilateral negotiation between government officials and individual firms (Wade, 1990a: 295). Simultaneously, I should not neglect the fact that the Taiwanese government possesses some public enterprises which are large and operate in a wide range of economic areas (Gereffi, 1990: 98). Relations between central economic officials and public enterprise officials were also close (Wade, 1990a: 275). Thus, industrial policies tend to be carried out easily in the public sector as well. Moreover, since public enterprises are assigned a leadership role in research, the role to provide information and advice to the policy-makers was also important for implementation of industrial policy by the government.

In short, the industrial policies exercised in Korea and Taiwan, contrary to the neoclassical advocacy, were selective and targeted for promotion of exports and infant industries. By using these different dimensions of instruments, the government brought the success of the selective industrial policies. In fact, the

export record and the smooth transition from labour-intensive light industries to capital-intensive heavy industries was caused by the success of the industrial policies which had aimed and achieved international competitiveness in industries in accordance with the existing world market.

### **A Key to the Success of the Selective Industrial Policy and The Role of the State for Economic Growth**

I have discussed that selective industrial policies in Korea and Taiwan were exercised along with various sets of incentives in different sectors. As a result, the success of the selective industrial policy was the main reason of rapid and remarkable economic growth in both countries. As Kim quotes, the evolution of industrial development in Korea and Taiwan does not cause 'factor endowment condition, rather policy measures' (Kim, 1995). In other words, the governments of both countries had the ability to orchestrate policy implementation smoothly. In the final section, I focus on the role of the state in Korea and Taiwan with regard to economic development. And it will be concluded that the state had played an influential role in economic success in Korea and Taiwan. I determine that the key factor of success is the interaction among (1) the capability of the government to decide appropriate policies, (2) the close network between the state and business groups, and (3) the autonomy of the government to

manipulate economic development in the nation:

(1) The bureaucrats in Korea and Taiwan have had enough capability to formulate and implement policy (Evans, 1995; Kim, 1995; Wade, 1990a,b). They have been careful to observe and analyse how other countries have evolved their industrial structure (ABD, 1993: 22; Wade, 1990a: 334), especially the case of Japan which 'has been their textbook'. Taking advantage of the late industrialized countries, they copy policies from the 'textbook' countries in detail. The government has also paid careful attention both to world markets and domestic conditions. It has kept watching over the relationship between domestic and international prices, and also closely monitored domestically the magnitude of incentives and indicators of product quality (Westphal, 1990). Besides, the implementation of the policies has been consistent and flexible. Once a development project was approved, government support would be continuous from the beginning until the end (Kim, 1995: 135). However, if the government realized that the policy implementation was unsuitable to changing circumstances, it modified its strategies or implementation processes quickly. In sum, there was a constant evaluation of industrial performance through the careful monitoring and acute investigation of industrial dynamics in response to the world market, which entailed the government the flexibility to reflect the sequences of industrial development. As Kim quotes,



‘structural transformation of the economy will not come automatically by market forces. It calls for the conscious, long-term strategy for industrial restructuring in order to create comparative advantage in high value-added industries with potentials in markets and scale-economies’ (1995: 134).

In Korea and Taiwan the government has fulfilled this role instead of markets. Development strategy is the establishment of long-term targets for growth and structural change rather than the static competition of an export-led strategy relying on exports of labour-intensive products for growth (Chang, 1994). In order to make appropriate decisions, the government has been exploring carefully every possibility of international competitiveness and creating the potential for future competition.

(2) In Korea and Taiwan, there have been strong relationship between the government and the dominant economic groups including the private business group, the state-owned banks, and public enterprises. Importantly, despite the autonomy of the state, the government has benign authority over business groups (Sridharan, 1996; Evans, 1995; Johnson, 1987). In the Sridharan’s sense, an important characteristic of the government’s role in Korea was ‘openness’ which means ‘the willingness to listen to a range of opinions (other than labour/left parties) without granting real or even formal decision-making power or even consultative status (1996: 71). Since the bureaucrats are not experts in production but in policy-making, government officials have attempted to make

an intimate network with business people who have enough sources of information about the operating levels of particular industries. They are always paying attention to productivity in targeted industries. With negotiation between government and industry and performance, the policymaker decides the new targets and other incentives.

(3) It is true that the government has maintained a relationship with private firms through negotiations, but it has sometimes held strong leadership that has significant effects on the economy and controls the direction of the effects (Evans, 1995; Kim, 1995; Chang, 1994; Haggard, 1990; Wade, 1990a; Amsden, 1989). By insulating itself from social pressures, the government enjoys a higher degree of autonomy from the society. For instance, in Korea, violators of restrictions (such as entry restrictions and regulations on capacity expansion in the sectors) could be heavily punished with the revocation of licenses, fines, and in some serious cases, prison sentences. Also, all firms in export-promoted industries were required to report not just on their export performance but also on their performance in other areas. Failure to report regularly or false reporting could result in the imposition of fines and prison sentences (Chang, 1994: 114). In the pursuit of export-led growth, the government had strongly controlled the social groups by means of policy implementation. However, attention should be paid to the fact that the government was not too 'hard' authoritarian to hinder

the economic activities. Rather, the government's strong commitment to economic development has provided the formation of a rational incentive systems to the markets, which the government's capacity and information from business groups have made possible. In other words, the degree of the state's authority in Korea and Taiwan has been at an appropriate level compared with other authoritarian states in Latin America and Africa. According to Evans (1995), why East Asian governments have been benign authoritarian actors despite their autonomy, rather than predatory actors such as Zaire, because the promotion of industrial transformation in East Asia has been the combination of the institutional state structure, that is , the political capacity to make decision, and the state's relationship to society, which he calls 'embedded autonomy'. Evans claims that a key element to avoid predatory states in Korea, Taiwan, and Japan lies between state's autonomy by rational bureaucracy and embeddedness of relations to society;

'Developmental states must be immersed in a dense network of ties that bind them to societal allies with transformational goals. Embedded autonomy, not just autonomy, gives the developmental state its efficacy' (Evans, 1995: 248).

Evans claims what type of state-society relation a developing country should have, would decided whether the country will either foster or hinder its development.

Now, it is clear that a key of economic success in Korea and Taiwan lies in

the rational and capable state, appropriate autonomy of the state, and the dense network between the state and business groups in the name of economic development, not in the dichotomy of outward and inward orientation or of liberalist and interventionist regimes. In other words, Korea and Taiwan have not followed the neoclassical prescriptions, but have adapted their original strategies by placing priority on their rational policies. Contrary to the neoclassical theory, the state has had comparatively powerful autonomy with regard to economic policies. Moreover, importantly, the strong leadership of the state was exercised mainly in the early stage of development process.

I have so far discussed only the economic aspects of development in Korea and Taiwan from the statist view. However, this discussion was economic-biased and did not consider other aspects. A broader analysis of development in Korea and Taiwan should be discussed. Most studies tend to focus on the economic side of East Asian development which had been very successful under the control of the strong and capable government. However, the problem lies in the government's strong commitment to economic development, which has ignored the quality of life and marginalized people in the civil society. 'Economic development' is merely a one-sided concept which usually highlights economic interest groups, and it neglects the rest of the people in society. If we pursue 'development' in the genuine sense, we should look at people, because

‘development’ implies evolution not only for material aspects but also for people and society as a whole. Yet, the evidence in actuality demonstrates that the state in Korea and Taiwan, as well as other developing countries, has put aside the people. The next chapter illustrates that although the government in Korea and Taiwan is a key to remarkable economic success, its policies in Korea have oppressed the female workers. And, chapter IV determines that the economic growth in Taiwan has caused severe destruction of the environment as a result of industrial pollution.

## **Chapter III**

### **WOMEN AND THE STATE: LABOUR CONTROL IN KOREA**

In the previous chapter, it was argued that the rational government, its appropriate authority for the purpose of industrialization, and the intimate relation between the government and economic interest groups has contributed to the economic success in Korea and Taiwan. In other words, the government's strong commitment to economic development has guided these successful factors. Consequently, the efforts of the government for economic development had

obtained good results in the rapid growth in Korea and Taiwan. Yet, on the other hand, it is also true that Korea has produced gender inequalities and the subordination of women. Women have played a significant role to forward economic growth, as have men, albeit the impact on gender relations caused by the economic policies in Korea's industrialization has always been ignored. Thus, it is doubtful that the export expansion strategy has contributed to gender equity in the labour market in Korea. Rather, it appears that government strategies have produced a discriminatory situation for Korean female workers because the government has concentrated too much on the economic phase, and hence has neglected women's contribution to economic successes.

This chapter examines firstly how the Korean government controlled the labour markets in general to maintain the comparative advantage in labour-intensive industry. Secondly, the evidence demonstrates that Korean female workers have experienced a greater negative effect than male workers through the labour controls of the government. Thirdly, it is discussed that the state exercises its power on women and contributes to perpetuate the notion of women's subordination. And finally, to resist state power and to enhance their status in society, it is concluded that women should practice their collective power through grassroots group activity. After all, the relation between the state and women should be equal and not be a one-way power relationship.

## 1. STATE CONTROL OVER LABOUR

As discussed in the previous chapter, Korea adopted an export-led industrialization strategy. The success in economic strategy was partly caused by the supply of cheap and skilled labour especially in export sectors (Koo, 1984; Kim, 1995). In order to maintain a comparative advantage of labour-intensive exports in world markets, it was necessary to keep wage rates comparatively low. Accordingly, the Korean government controlled labour market intensively with government policies to manage the changing labour market conditions which push labour wages upward due to excess labour demand. The labour policies in Korea can mainly be divided by two principal objectives: (1) to keep real wages below productivity and (2) control of labour union to weaken workers' collective power which claims wage increases.

It is normal that rapid growth in industry sectors exerts upward pressure on industrial labour wages. Nonetheless, since export-led strategies began in the 1960s, real wages for Korean labour tended to lag behind productivity increases. A different comparison between the rates of increase in wages and productivity is shown by the data in Table 1. It illustrates that in Korea the rate of wage increase had lagged behind that of productivity increase<sup>24</sup>. One of the reasons for

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In the mid 1970s, as the worker's resistance to class inequity started to threaten the social and political stability, the government improved the working condition of workers. The result finds noticeable improvement of wage increase between 1976 and 1978 in Table 1.



the slower growth in real wages relative to that in productivity lies in labour's declining share in output. Wage earnings as a percentage of either gross output or value added in manufacturing steadily decline in the period from 1958 to

**Table 1. Rate of Wage Increase and Labour Productivity Increase (1971-1980)**

(%)	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
<b>Real Wage Increase</b>	1.7	5.2	8.0	6.1	3.3	17.5	19.9	18.4	8.4	-4.1
<b>Labour Productivity Increase</b>	8.9	7.7	8.3	10.1	11.0	6.8	10.2	11.5	15.5	10.4

Source: Koo, 1984

1976 (Kim, 1995: 117). The other factor is related to the long work hours (Kim, 1995; Amsden, 1989). Up until the early 1990s, the Korean worker on average worked over 50 hours per week (Table 2), which exceeded the averages in other Asian NICs.

The Korean government, which was threatened with the deterioration of its competitive advantage in labour-intensive exports in the early 1970s, began to suppress the labour movement through legal controls. Although the first labour legislation, enacted in 1953, guaranteed freedom of association, collective action, and collective bargaining<sup>25</sup> (Nam, 1994), the state revised labour laws several times to restrict labour's right to form unions, as labour-intensive exports grew.

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<sup>25</sup>However, it prohibited a national-scale labour dispute.

The predominant legal instruments to curtail the power of the union were the Labour Union Law<sup>26</sup> and the Labour Disputes Adjustments Law<sup>27</sup> (Bello and Rosenfeld, 1990: 30-31). Through these measures, the government attempted to restrain the collective power of labour which asked for increases in wage rates.

**Table 2. Comparison of Working Hours in Manufacturing Industries**  
(hours per week)

	1965	1970	1975	1980	1985	1990	Average
<b>Korea</b>	57.0	52.3	50.5	53.1	53.8	49.8	52.8
<b>Japan</b>	44.3	43.3	38.8	41.2	41.5	40.8	41.7
<b>Singapore</b>	47.2	48.7	48.4	48.6	47.0	48.5	48.1
<b>Hong Kong</b>	-	-	-	49.1	44.8	44.0	46.0

Source: *Year Book of Labour Statistics* (Geneva; ILO) in various years

It is obvious that despite their substantial contribution to export expansion the Korean government had suppressed the rights of labour. Korean labour had worked as if they were slaves of the government or firms with small rewards and rights. Yet, the labour conditions for women had been worse than that for men.

<sup>26</sup>

This law required labour unions to be officially certified and allowed the government to disband unions and replace their officials (Nam, 1994).

<sup>27</sup>

By this law, a strike could not take place until three months after a dispute occurred and the appropriate investigations, appeals, and counter appeals had taken place. Also, the government could intervene and impose compulsory arbitration in disputes occurring in export industries and all other targeted industries (Bell and Rosenfeld, 1990).

The next section addresses the subordinated condition of Korean female labour.

## 2. THE IMPACTS ON FEMALE LABOUR IN KOREA

Certainly, the export-led development strategy had created more opportunities for the industrial employment of women than before. Table 3 gives the labour force participation rates for women and men for the period 1960 to 1990. It shows that the rate of growth of women's employment has steadily increase since 1960, whereas men's employment has kept the same level. However, more careful investigation clearly shows that there has been segregation between women and men by industrial sectors. Female employment industries was greatly concentrated and biased in the manufacturing sector, where, in fact, the average wage was extremely low.

**Table 3. Labour Force Participation Rates**

(In 1,000 persons; %)

	1960	1966	1970	1975	1980	1985	1990
<b>Female</b>	26.8	31.5	37.7	45.7	38.6	40.6	47.2
<b>Increase Percent</b>	-	118.5	140.7	170.5	144.0	151.5	176.1
<b>Male</b>	73.5	78.6	72.5	77.8	72.4	69.6	73.9
<b>Increase Percent</b>	-	106.9	98.6	105.9	98.5	94.7	100.5

Source: Korean Women's Development Institute (Korea; 1991)

Increase rates are author's calculation. Increase rate is based on the year of 1960.

Data are from KWDI. It is considered that the decline in the late 1970s is caused by the economic recession in the wake of the oil crisis.

The Korean government attempted to keep real wages low, especially in manufacturing sector of industries which focused on export promotion. Koo (1984) presents that the average wage in manufacturing, where more than 90 per cent of Korean exports were produced, had been the lowest of any other industries<sup>28</sup>. As Table 4 shows, manufacturing industries had a wider wage gap

**Table 4. Rate of Female Wage as Percentage of Male  
in Selected Manufacturing and Other Sectors in Korea (%)**

	1977	1980	1983	1986	1989	1992
<b>Textiles</b>	31.1	31.6	32.0	33.4	34.6	35.0
<b>Wearing Apparel</b>	32.7	32.9	34.2	36.4	37.2	37.5
<b>Machinery</b>	36.5	33.1	34.3	35.1	35.0	36.1
<b>Electronics</b>	32.2	30.9	32.0	33.6	32.1	36.1
<b>Agriculture</b>	41.9	-	43.0	41.7	51.2	-
<b>Transp. Comm.</b>	-	36.7	36.4	41.2	43.3	44.4

Source: Author's calculation. Data are from *Year Book of Labour Statistics* (Geneva; ILO) in various years.

It is evident that it was into this discriminately lower wage industries that women's employment was mainly absorbed. Table 5 demonstrates that the manufacturing sector was occupied by a substantial rate of female workers

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For instance, in 1981 the average monthly wage in manufacturing was about 83 per cent of the average wage in all industries, and only 49 per cent of the average wage in the electricity and gas and water industries (Koo, 1984: 1033).

compared to other sectors, and that women's share of manufacturing employment had even risen from 33.6 per cent in 1970 to 42.3 per cent in 1990. Female employment in manufacturing industries has mainly been concentrated in export industries such as textiles, apparel, electronics, and footwear which provided over half of all export earnings in the early 1970s.

**Table 5. Rate of Female Worker Population  
in Selected Industries in Korea**

	1970	1975	1980	1985	1990
<b>Manufacturing</b>	33.6	34.2	39.3	38.7	42.3
<b>Electricity &amp; Gas</b>	-	2.9	11.6	7.5	12.7
<b>Construction</b>	2.8	4.9	8.6	7.2	10.1
<b>Transp. Comm.</b>	-	9.4	9.0	8.7	8.7

Source: Author's calculation. Data are from *Year Book of Labour Statistics* (Geneva; ILO) in various years.

Evidence from Korea demonstrates that women have been segregated from men in the labour market, and that the female-dominated sectors have been more discriminated against in terms of wages, than the male-dominated ones. After all, women have always paid the economic costs and have benefited the least from the fruits of economic growth, although women have contributed more to Korean industrialization. In other words, Korea has neglected the equitable distribution of national wealth which the nation has attained as the result of its economic

growth.

Furthermore, the evidence in Korea demonstrates that state control of labour unions was particularly severe in export-promotion industries. In the early 1970s, the Korean government issued the Temporary Special Law on Labour Unions and Labour Disputes in Foreign-Invested Enterprises<sup>29</sup> to attract foreign capital to Korea. The law was designed to prohibit the establishment of labour unions in foreign-invested corporations and to prevent serious strikes and labour disputes (Nam, 1994, 1996). In other words, workers were prohibited to assert improvement of terribly low wages and discriminatory working conditions. As discussed, a larger proportion of female workers were employed in the export-oriented industries which were mostly joint ventures with multinational corporations. Thus, despite the serious need for better working conditions in lower-wage female employment, the influence of the government's labour control over union activities was greater on women than on men.

Through the maintenance of lower real wage policies and the enforcement of repressive labour laws, the Korean government attempted to keep the comparative advantage in labour-intensive industries which led export expansion and contributed to economic success in Korea. However, under strict labour policies, Korean workers, especially female workers and despite their tremendous

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<sup>29</sup>This law was abolished in 1986.

contribution to industrialization, have been marginalized by extremely low wages and oppressed labour rights. It is true that female employment had largely increased during the 1960s and the 1970s, since the government exercised a labour-intensive export-led industrial strategy. But women workers have always constituted the 'floating' or 'peripheral' labour force in the Korean labour market (Phongpaichit, 1988). Even in a more capital- and skill-intensive phase that started in the mid-1970s, women still formed a peripheral workforce. In short, women have been utilized as the marginalized workers in the labour market only under special circumstances, where there was an especially strong demand for labour, or where there was a tight labour market situation in terms of government strategy. To make matters worse, the subordinate position of Korean women is not merely seen in export-manufacturing sector. Even highly educated women have been discriminated in their positions such as receiving lower wages than men and less possibility of promotion. Consequently, despite the remarkable and rapid growth of industrialization, Korean women have played only a secondary role in any kind of employment circumstances. By using the women's subordinate status in Korean society which derives from the male-dominant Confucian ethic, the government keeps them as a peripheral workforce with disadvantaged conditions such as long hours of work, lower pay than men, easy retrenchment and prohibition of labour unions. Furthermore, it also neglects the role of women

in households; feeding meals, raising children, and taking care of elder people, since the government policies in general tend to be usually gender-blind (Moser, C. O. N., 1993) and focus only on the economic dimension, that is to say, the promotion of economic growth. Needless to say, the Korean government has had no provision of childcare support, welfare for women who are having the families, nor opportunities to upgrade skills on education for female workers.

As a result of the discrimination of women in the labour market, they are in a situation where women are economically weaker than men. This also means that women in economically weaker positions tend to yield to the political power of the state even in a democracy. Consequently, the state's power maintains the subordinated status of women, who have lost their voice in economy and politics in society. The next section discusses the relationship between women and the state in the Third World. I look at some feminists' concepts of women and the state, and how the state exercises its power on women. Finally, it is concluded that in order to resist against state power and to enhance women's position in society, their collective power as a pluralistic advantage is essential.

### **3. WOMEN AND THE STATE**

As discussed, it is true that the state affects women in society to a high degree. Thus, this section examines the relations between women and the state.



In the beginning, I review feminist appraisals of the liberal state, the welfare state, and the patriarchal state. Then I discuss the three dimensions for the state to exercise its influence on women; through bureaucracies, policies, and ideologies. Finally, it is concluded that in order to overcome women's subordination, women should influence the state by means of women's great participation in politics and turn their potential collective power in grassroots movements to a pluralistic advantage.

### **Theoretical Argument: The Relation of Women and The State**

The basic ideology of the liberals consists of the belief that all men are free and equal, and that only the law decides the whole system in the world. Thus, liberal feminists view the state as a neutral authority and legitimate power (Afsher, 1987b). They believe that achievement of equality and disappearance of discrimination by the law lead to a chance of betterment of women's status in society. Therefore, the state could play an important role on behalf of gender equality. However, there is a contradictory argument of liberal feminism with regard to 'the ambivalent role of the state' (MacKinnon, 1989). Since the state attempts to serve the interest of the powerful groups in society (Stetson and Mazur, 1995), as long as bureaucratic-legal systems perpetuate women's subordination, the state sustains male dominance, no matter how many women

hold public sphere or how many gender-equal laws are passed (Ferguson, 1984).

On the other hand, Hernes (1987) and Sassoon (1987), so-called social welfarists, emphasizes the mutual dependency of women and the state, citing an example of the Scandinavian State. In Hernes's analysis, women in these countries have three statuses as citizens, clients and employees of the state. First, women are citizens with political rights. Second, at the same time they are clients and consumers of welfare services. Especially biological reproduction has been affected and controlled by social and family policies. Thirdly, women are also employees of the state in the public sector. For instance, the state provides a large proportion of the paid work for women in the social, health and educational sector. This triple status leads to the fact that women are more dependent and affected by government policies than men. Therefore, the welfarist feminists claim that the duty of the state is to secure and protect women's rights to a fair share of resource allocation.

Patriarchal scholars maintain that women are not central to state power, and that they never benefit from the state (Agarwal, 1988; Studt, 1990; Chow and Berheide, 1994).

'The ideology of gender -especially the assumption that women are (or should be) primarily housewives and mothers and secondarily workers- permeates most policies of the modern state and affect women's material situation in justifying a discriminatory wage structures, a double burden of work' (Agarwal, 1988: 288).

'The economic forces of industrialization and world capitalist

accumulation interact with existing patriarchal systems in families and states in ways that often increase gender (as well as class and racial) inequality' (Chow and Berheide, 1994: 268).

In the view of the patriarchal state, the government maintains women's subordination in society through its development policies or programs which reflect mainly the interests of men and the rich. The state creates and perpetuates structures of patriarchy, and this patriarchal state produces ideologies and policies that reinforce patriarchal structures on all levels, which leads to the neglect of negative consequences for the weak. As Staudt notes, 'women are governed by the public framework but are not official actors in that framework or direct beneficiaries thereof' (1990: 10). In the patriarchal feminist view it is inevitable that bureaucratic outcomes, which bureaucracies produce, provide, and control, are gender-biased and as a consequence they construct the notion of privileged men and subordinate women (Agarwal, 1988).

Three feminist theories have different concepts of the relation between women and the state. However, these studies give us the common argument that the state has various effects on women through economic, political, and social control, and that the power relation is always in a one-way direction from the state to women, where there is no mutual respect for each other.

### **Three Dimensions of the Impact of the State on Women**

How does the state exercise its influence on women? In the general view of feminists, the impact on women by the state is constituted through three phases; state leaders, policies, and ideologies (Charlton et al., 1989). The first is state bureaucracies who occupy the decision-making position of the nation. The second is state policies which give (either positive or negative) influence on women in economic, political, and social spheres. The third, the most critical for women, are ideologies that shape the definition of policies. As Charlton notes, ideology is very significant since it is dominant and so pervasive that it passes for the natural order of things (Ibid., 1989). For instance, Afshar (19987a) shows how the government in Iran perpetuates the ideology of women's subordination. Islamic ideology, which fears women's sexuality and regards women as evil, leads to women's seclusion from the society through the legal system and laws. In Iran, the ideology of women's subordination is embodied in the law which maintains women's inequalities in Islamic society. The Iranian case illustrates that it is possible for the state to push forward a particular ideology for legitimising its policies, or to mediate between prevailing ideology (Agarwal, 1988). In other words, the state can intentionally produce, promote and perpetuate gender ideology, where women are assigned the roles of secondary workers in society. The state has immense power that manipulates certain gender ideologies for

empowering men at the expense of women.

In the next section, it is considered what women can do in order to alter this existing subordination, in other words, how women can resist the supreme power from the state.

### **Improvement of Women's Status**

As discussed, the state possesses the vast powers to exclude women from political and economic decision making. Then, how can women oppose the state power for the improvement of their status in society? I propose that raising consciousness of women's subordination, further participation of women in decision making and politics, and the collective power of women through grassroots activities are required. Through these efforts, it is possible for women to obtain stronger power in order to resist the state.

First of all, it is necessary to raise consciousness to recognize women's oppression, which ranges from wage gaps and unequal legislation to sexual division of labour and violence in the home. Modern media like TV, radio newspapers and the measures of modern technological communication may give the latest knowledge and situations. Of course, the traditional measures such as literature and education also contribute to broaden people's way of thinking. However, I doubt that education can encourage the awareness of gender

inequalities in society. Table 6.A gives a comparison of the female rate of educational participation, and Table 6.B shows the wage gap between women and men. From these data, higher enrolment of education is not necessarily related to the reduction of the wage gap. Japan has a higher rate of female enrollment than Korea has, especially in higher levels of education. Nevertheless, the rate of female wages in Japan is considerably lower than other developed countries. This is not saying that education does not help to eliminate the discrimination of women, but it should be emphasized that public education is always under the control of the government. As long as the core of the state, that is policy makers or bureaucracies, is male-dominated, its education is always male-biased. In addition, journalism is largely regarded as a male domain. Media production is also dominated by men, and women are assigned specific areas such as cultural, educational, or family programs.

**Table 6.A Rate of Female Enrollment**

(%)	First Level		Second Level			Third Level	
	1970	1985/87	1970	1985/87	1990	1985/87	1990
<b>Japan</b>	97	95	98	97	97	56	63
<b>Korea</b>	92	94	61	88	92	43	46

Source: United Nations, 1991

First level education is including primary schools, second level is secondary school, and third level is universities and colleges.

**Table 6.B Female Rate of Wage in Manufacturing**

(%)	1975	1980	1985	1990
<b>Japan</b>	32.4	30.4	29.6	29.2
<b>Korea</b>	32.2	31.1	31.9	33.5
<b>France</b>	43.3	43.5	44.2	44.1
<b>U. K.</b>	39.9	40.8	40.6	40.6

Source: United Nations, 1991

Second, women's political mobilization is essential to change the present relationship between women and the state. Indeed, public official who have authority for political decision-making decide and create the future of the state, because they are, as it were, the core of the state policy. Therefore, when a substantial number of women integrate into state structures as policy makers, they can alter policies with equal impact on women and men; they also may demonstrate the benefit of the innovative policies for national development. However, when I look at the reality, it is obvious that the government neglects to increase women's participation in political decision-making. Table 7.A and 7.B illustrates the situation of Korean women's participation in politics and decision-making, which shows that women rarely engage in politics.

**Table 7.A**  
**Female Rate of Legislators in National Assembly in Korea**

(%)	1948	1950	1954	1958	1960	1963	1967	1971	1973	1978	1981	1985	1988
	0.5	0.9	0.5	1.3	0.4	1.1	1.7	2.5	5.5	3.5	3.3	2.9	2.0

Source: Korean Women's Development Institute (Soul, 1991)

**Table 7.B**  
**Female Rate in Decision-making Position in Korean Government (1991)**

(%)	1st grade	2	3	4	5	6	7	8	9
	-	-	2.6	1.8	1.3	4.3	13.1	14.2	15.3

Source: Korean Women's Development Institute (Soul, 1991)

After all, the third challenge that women exercise their collective power through grassroots activities is the most important for women's empowerment as opposed to the state power. Gathering of women's power is spontaneous, because it is frequently based on their own experiences of discrimination, which is different from the first two points I have discussed. Therefore, it is grassroots action that becomes the beginning for the mobilisation to change existing circumstances. By means of collective forms of resistance as a pluralistic advantage, women can demonstrate a considerable degree of empowerment as women's groups, and also can appeal their claims for improvement of women's situations. Agarwal notes that grassroots resistance can embody 'a strong critique of and protest against ongoing economic and political programs, and underlines



the need for an alternative, more holistic and egalitarian approach to social and economic change' (1988: 24). As a result, the grassroots activities may affect state policies and eventually lead to policy changes, and it also may bring about a growing female participation rate in politics. Women's groups at the grassroots level act as the breakthrough consciousness raising for women and at last women's movements bring the constitutional innovation in politics while encouraging women's participation in decision making.

There is a good example in Korea where women broke the assumption of the government and employers that women are always passive, powerless, and voiceless and they played an active role in the labour union movement. Despite severe control over labour unions a number of female workers who could not endure their working conditions any more had organized labour unions and an active labour movements. Nam (1996) shows that from the mid-1970s to the mid-1980s a greater proportion of women workers had participated in labour unions than male workers<sup>30</sup>. Korean women's participation in labour unions started at the grassroots level and, in some cases, enterprises accepted the improvement of working condition. On the other hand, women worker's movement throughout 1970s brought more strict control over labour union

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The female member's rate in unions represents 23.9% (male, 21.4) in 1974, 27.1% (21.7) in 1976, 26.8% (22.8) in 1978, 23.6% (18.5) in 1980, 20.1% (18.6) in 1982, 17.2% (16.6) in 1984. (Nam, 1996: 333).

activities by the Korean government in the 1980s. Korean evidence supports the fact that collective power can resist the oppressive power and change the situation, and also that the strong Korean government sustained the oppression of women through its power. This evidence reveals that the conventional hypothesis of women's subordination and incapability is completely wrong and that, in fact, it was produced by the male-dominated society.

It is also meaningful to consider that the fourth phase, the role of international organizations, is a powerful motivation for women's improvement. International organizations have had a great influence on the improvement of women's status. They provide the worldwide view and the international impetus which helps to raise reduction of gender inequities. A better understanding of the world is crucial for awareness of our own situation, because the cross-cultural comparison can facilitate the realization of how and how much women are in a disadvantaged situation in their societies. Besides, as international organizations support grassroots activities like NGOs, they provide the chances of international interaction between local groups<sup>31</sup>.

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The UN has especially played an important role in improving women's status in the world. Above all, the Convention on the Elimination of All Forms of Discrimination against Women (It was enacted in 1980 and aimed at outlawing discrimination against women in all forms.) is one of the crucial footholds. The Korean government signed this first comprehensive treaty on women's rights in 1983 and ratified in 1984. This came as an enormous surprise to the people who knew the actual conditions for Korean women, for there was so many forms of discrimination against women in this country. Despite a huge gap

## Relation Between Women and the State

It seems clear that the collective power of women is the key element for resistance against the state power and improvement of their marginalized status. However, it is also true that without the government's support, the effect of these efforts to ameliorate women's status will be minimized, because the state itself has responsibility for implementation of policies in favour of women. Therefore, as Hernes (1987) considers, the state and women should not conflict each other. Both should be interdependent with similar influence and not be in a one-sided power relation. After all, it is necessary that the state perceive the importance of women's equal status which benefit national development. For instance, when the Korean government aims to transform into more capital-intensive and sophisticated industrial formation, much higher-level labour is required. The government thus needs to invest in upgrading the productivity of labour force regardless of gender, because the increasing economical surplus in Korean families enables more women to participate in education, especially at a higher level,

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between constitutional rights and reality in Korea, the government paid only lip service to the UN. Presently, since the UN is a voluntary association of member governments, it has no authority to compel its member governments to accept its decisions (Galey, M. E., 1994). However, the UN should have greater authority to implement its decision on women's rights. This is not to mean that the UN should have bigger power, but that governments which persuade and accept the UN's decision should take their responsibilities to carry out accepting decisions. Since the state may have no courage for reestablishing state structures to improve the status of women, external pressure to reform is essential. For more detail for the UN's activities for women status is addressed in chapter 4 in Phoodie, E. M. (ed.).

where women's potential is rising. In addition, evolving technology capacity makes lower-level work easier. It is certain that these efforts enable the upgrading of Korean industrialization.

After all, interplay between the state and women is crucial. Women should control government policy making and implementation through political involvement and collective power of grassroots women's groups. On the other hand, the state should carry out its responsibility for implementation of policies. However, most importantly, both should affect each other very strongly with the same degree of power relations. Accordingly, it is in the democratic system that women can have their equal rights, where there is a mutual relation between the state and the civil society, including women.

Unfortunately, at the present time, the state tends to embed gender issues in national policy agendas and propel the women's inferior and peripheral position in society by means of state policies and laws. The Korean case is merely a small part of the iceberg. It is true that the strong government control with adequate policies over industries has led to its economic growth. But, simultaneously, women are always sacrificed to the national goals of economic growth and industrialization, because development strategy in Korea has engaged not in the social but rather the economic sphere for the pursuit of economic success. Therefore, Korea has missed the actual actors who contributed to its

success. Who creates the state? For whom is development? The next chapter demonstrates that Taiwan has made the same mistake which has ignored people and their lives in terms of the deterioration of the environment. Next, I shall discuss the lack of an environmental aspect in the economic development of Taiwan.

## **Chapter IV**

# **ECONOMIC GROWTH VERSUS ENVIRONMENT IN TAIWAN**

As discussed in chapter II, Taiwan has attained rapid economic growth, because the strong, but not extreme, authoritarian government had made rational decisions together with the network of business groups. But in the same manner as Korea, it is also true that the economic growth has contributed to serious environmental degradation in Taiwan. Or it is possible to say that Taiwan has achieved economic success, partly because its development strategies for

industrialization have come at the expense of the environment. Although environment economists assert that economic growth is compatible with environmental protection, in reality it is not easy to manage the contradiction between continued economic growth and the nature of the earth's ecosystem. Consequently, the state itself is not enabled to manage environmental problems since the state easily yields to economic pressures. Hence, only the challenge from people in society can alter the state's action in favour of ecology; a mobilization of collective power.

Following the discussion of the serious environmental degradation in Taiwan, I consider the environmental economists' assertion that believes 'sustainable development' is feasible through the operation of market mechanisms. Then, beyond an economic sense it is discussed that the state can impede sustainable development. Thus, it is concluded that a democratic state against economic-centred state through empowerment of civil society is the only solution for global environmental decay.

## **1. THE ENVIRONMENTAL REALITY IN TAIWAN**

In Taiwan, environmental problems encompass 'almost possible forms of environment degradation' (Chi, 1994: 26) with air pollution, water pollution, soil contamination, noise pollution, nuclear problems, deforestation, and wildlife

degeneration. The key factors of the deterioration of environmental quality in Taiwan are population, vehicle densities, and highly significantly, wastes from the society. In the beginning, I briefly look at those three factors.

From 1952 to 1996, the population in Taiwan more than doubled from 8 to 21 million people. The population density, 596 persons per square kilometre, is the highest in the world except for Bangladesh. Compared to the Netherlands (Table 8), which has comparable size of land with Taiwan, it is obvious that population in Taiwan imposes heavy pressures on people and the environment. In addition, Taiwan is covered mostly by mountains, with 27.1

**Table 8 Comparison of Population and Land (1996)**

	<b>Taiwan</b>	<b>Netherlands</b>
<b>Population</b>	21,465,881	15,568,034
<b>Total Land (km<sup>2</sup>)</b>	35,980	40,844
<b>Population Density (/km<sup>2</sup>)</b>	596	381
<b>Total Arable Land (km<sup>2</sup>)</b>	8,875	24,000
<b>Pop/Arable Land</b>	2,419	649

Source: *The World Almanac and Book of Facts 1997*, 1996 (NJ: World Almanac Books) and Chi, 1994

per cent of sloped land (between 100 and 1,000 metres) and 46.6 per cent of highland (between 1,000 and 4,000 metres). Most of the people are concentrated in lowlands (below 100 metres), which is only 26.3 per cent of the total land area



(Chi, 1994: 26). As a consequence of highly intensive land use in Taiwan, agricultural production, human activity and industrial production have to be condensed in a limited land area. Three factories per square kilometre in Taiwan is 75 times the density of the U. S. (Bello and Rosenfeld, 1990: 201). The high concentration of human activity in a small area places a big burden on the air, water, and soil.

Moter vehicles also contribute greatly to environmental degradation, which especially cause serious air pollution. The number of cars and motorcycles has rapidly increased over the past three decades. There were 3 million cars and 8.6 million motor cycle sin 1991, and from 1989 to 1990, the increase in the number of cars was 420,000 and of motorcycles 840,000 (Chan, 1993: 36). Because of the lack of an underground transportation system and no policy to limit the number of automobiles, air pollution in Taiwan was constantly worsened over the past four decades (Chi, 1994: 28).

A major component of the environmental crisis in any country is the problems of disposing of the wastes produced by human society (Williams, 1992: 188). Taiwan is of course no exception. Waste has caused many environmental problems. Water pollution in Taiwan is caused mainly from domestic sewage, industrial waste water, and livestock waste water. According to the government study in 1991, one-third of Taiwan's 21 major rivers and 26 secondary streams

are considered to be polluted, with 10.3 per cent of all of these regarded as seriously polluted, 14.8 per cent moderately polluted, and 8 per cent slightly polluted (Chan, 1993: 37). In Taipei, the capital city of Taiwan, only 13 per cent of the total household waste water is treated. Outside Taipei, except in the capital of Taiwan province, there is no sewage treatment systems (Chi, 1994: 30). Before 1987, when the Taiwan government set up an environmental agency, very few industrial wastes were treated. The polluted water has seriously damaged crops and fisheries.

Wastes have brought about not only polluted water. Soil contamination also results from hazardous wastes produces by households, agriculture, and industry. In 1990, households produced 18,000 metric tons of garbage every day and this is 380 per cent higher than in 1975 (Chan, 1993: 37), which contributes to the increase of unrecycled aluminum cans and plastic containers. High rates of agricultural production in Taiwan is in fact dependent heavily on the use of chemical fertilizers and pesticides. The use of fertilizer increased threefold between 1952 to 1980, from 0.46 to 1,366 million metric tons (Table 9). This makes Taiwan one of the top users of chemical fertilizers per unit of agricultural land (Bello and Rosenfeld, 1990: 197). Moreover, Taiwan is also among the top users of pesticides in the world. Table 10 shows that the pesticides application per unit is almost twice as high as in Japan and Netherlands and is seven times

higher than France.

**Table 9 Fertilizer Use in Taiwan**

	1952	1955	1960	1965	1970	1975	1980
<b>Metric Tons</b>	158.37	562.56	644.87	797.45	678.58	1240.83	1359.81
<b>Rates of Increase</b>	-	22.7	18.2	19.9	-14.9	82.9	9.6

Source: Bello and Rosenfeld, 1990: 198<sup>32</sup>

**Table 10 Pesticide Use in Late 1980s**

	Taiwan	Japan	France	Netherlands
<b>Use (ton)</b>	29,850	83,056	85,922	17,093
<b>Total farm land</b>	8,875	47,320	192,810	9,050
<b>Use/km<sup>2</sup></b>	3.36	1.78	0.45	1.89

Source: Chi, 1994: 32<sup>33</sup>

Toxic wastes from factories are also serious causes of soil degradation (destroying farmlands) in Taiwan. Many plants generate daily serious hazardous wastes such as heavy metal (lead, copper, zinc, mercury, etc.) In large volume by various industries. These hazardous wastes are the most life-threatening wastes,

<sup>32</sup>

Original source: Martellaro, J., 1983, "The Post-War Development of Taiwanese Agriculture" *Asian Economies*, 45, p31

<sup>33</sup>

Original source: Environmental Protection Administration (EPA), Government of the Republic of China, *International Environmental Statistics 1990* (Taipei, 1990)  
OECD, *OECD Environmental Data Compendium 1989* (Paris, 1989)

although the threat is often hidden and long-term (Williams, 1992: 190).

It seems evident that all of these environmental problems are related to industrial production. Industrial wastes are almost freely released into air, waterways, and land in Taiwan. Furthermore, the early development strategy in Taiwan makes the environmental degradation scattered all over the island. The policy was aimed at balanced regional development and provision of employment to rural people. However, as a consequence of this strategy, factories were encouraged to build not only in urban areas but in rural areas, which have the negative effect of spreading pollution more widely over the country (Chi, 1994; Williams, 1992). As a result, the main problem of Taiwan lies in the government's pursuit of economic growth, which contradictorily, produces serious environmental degradation. As Chi (1994) claims, the fruit of economic growth has not been used properly for improvement of people's quality of life, because economic growth in itself becomes an end, rather than a means to achieve a better quality of life for people in Taiwan. This contradiction between industrialization and environmental degradation is the biggest obstacle for developing countries as well as developed countries. It may be inevitable that developing countries which are struggling with poverty tend to make the first priority to economic growth, and that they believe pollution has

'been part of the price paid for 'success' in development, or at least part of the price of the right to enter the development race' (Admas,

1990: 115).

Then, is it impossible to achieve the success of industrialization as well as environmental protection? Economists prove by economic theories that economic growth is compatible with environmental solutions, and they assert the possibility of so-called 'sustainable development'. In the next section, I examine how economists analyse the environmental problems in an economic sense, and how the state can overcome the contradiction between economic growth and the environmental problems associated with high levels at growth.

## 2. SUSTAINABLE DEVELOPMENT BY ENVIRONMENT ECONOMICS

Economists attempt to analyse the process of environmental decay and the policy of changing human behaviour in favour of ecology by means of economic theory and policies. Traditional economic literature views environmental effects as externalities whose costs and benefits are not fully reflected in market mechanisms. Thus, economists regard environmental effects as a market failure. Economic literature focuses on market failures and their theoretical solutions. Above all, Pigou's work is famous as the standard economic approach to externalities. Pigou (1920)<sup>34</sup> formulates that externalities can be corrected by

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Pigou, A. C., 1920, *The Economics of Welfare* (London: MacMillan, 1952), quoted by Helm and Pearce (1990)

imposing changes on pollution taxes and subsidies as social costs. A tax is placed on the polluter to bring his/her cost function in line with the true social costs of production which reflect the cost of environmental damage. Therefore, the polluters have to reduce their output to the socially optimal level. Conversely, a subsidy is paid to the polluter to compensate for the environment damage.

The Pigou's internalization method of environmental effects has been elaborated by the late neoclassical schools in various ways. There are a number of different approaches to market failures with regard to environment. A major solution to market failures is to alter the incentives and costs. As Pigou shows, a tax is one of practical policy suggestions. The later economists propose various types of taxation systems which reflect the costs of pollution at the margin. For instance, the deposit-refund system functions as follows; a company is required to post an insurance bond equal to the current best estimate of the largest potential future environmental damages (Costanza, 1991: 88). This system will shift the burden from the public to the resource-user (usually, firms and factories) and provide an incentive to develop cost-effective pollution control technology.

In addition to grants, subsidies such as soft loans and tax allowances could be offered to firms as incentives for altering their polluting behaviour (Dietz and Straaten, 1992). The other way to overcome environmental market failures is the creation or extension of the market by property rights. For instance, polluters

receives permits allowing the emission according to their emissions at a fixed date, and then he can trade the permits freely with a market price (Helm and Pearce, 1990). This pollution right aims to create markets artificially to be used for actual or potential pollution. Unused pollution rights may be sold for the higher bid in a market.

In short, the environmental settlement which the orthodox environmental economics advocate is strongly in favour of a market-based approach which utilize or leaves the price mechanism to reflect the real costs of environmental damage rather than government intervention. This basically follows the neoclassical doctrine. According to this viewpoint, the state's role is merely to regulate through command and control procedures, in accordance with the market mechanism (Helm and Pearce, 1990). Although the governments are responsible to implement policies for correcting market failures, the policies are based on the price system which reflects the scarcity of resources in markets. After all, the orthodox environment economists claim that the environmental decay comes from the fact that there is no market for the environment, nor for resources such as air, thus prices cannot reflect the adverse effects of polluters. The solution for internalization of the environment to enforce markets existed by means of government policies. Hence, an important role of the state in the orthodox view is to support market mechanisms by policies such as ensuring the proper valuation

of environmental goods (resources), guaranteeing the distribution of property rights among individuals and groups and securing the enforcement of environmental legislation (World Bank, 1992).

Consequently, environmental economics locates the causes of environmental degradation in externalities and sees the promise of environmental solution in the internalization of the environmental phase into the market through policy implementation. Therefore, it is believed that as long as the state adopts proper economic policies to deal with the efficient allocation of scarce resources in the market, economic growth of the nation is possible. In other words, economists prove theoretically that industrialization is compatible with environmental protection, that is to say, 'sustainable development' is feasible.

In *Our Common Future*, 'sustainable development' is defined as:

'development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (Brundtland, 1987: 43).

In Brundtland's view, the environmental limits are not those set by the environment per se, but by other influences like technology and social organization. Thus, the future quantity and quality of the resources available depends on 'a rigid social and political setting'. Accordingly, physical sustainability could be pursued by appropriate environmental policy which aims at internalization of environmental policies into the market. In other words, the



motion of 'sustainable development' is heavily dependent on a market-centred economic school of thought. The notion of 'sustainable development' does not, in fact, seriously face the ultimate scarcity of natural resources or long-term effect for pollution. But rather, it is only a short-term remedy for environmental problems by manipulating markets. Namely the notable concept of 'sustainable development' embodies environmental problems and prescriptions in the manner of market-dominated economic doctrine.

However, it is doubtful whether 'meeting the needs of the present generation without compromising the needs of future generations' (Brundtland, 1987) can be attained by pricing environment and distributing resources through markets. In practice, contrary to positive implication by environment economists, most governments in both developing and developed countries are still struggling with the dilemma of balancing economic growth and environmental care. The solutions should not be limited only in the economic sense. It is needed a much broader framework of settlement of environmental problems, because problems are not situated only in an economic aspect but also in a wider sphere such as the way of thinking and behaviour of people. Economics tends to 'mainly focus on the economic implications even when it takes other aspects into consideration' (Jongeneel, 1992: 224). However, problems may be found at a much deeper level;

'room is needed for ethical judgements concerning the quantity and quality of natural resources we would like to leave behind for future

generations' (Dietz and Straaten, 1992: 44).

The next section examines, from a broader view, the role of the state in the settlement of environmental threats. In conclusion, because of the necessity for environmental resolutions in the global sense and the inability of the state to solve environmental problems, democratic systems, through the empowerment of people in civil society who are affected the most by environmental degradation, are the most important for the achievement of sustainable development.

### **3. THE ROLE OF THE STATE FOR SUSTAINABLE DEVELOPMENT**

Environment economics deal with solving environmental problems in an isolated aspect, while political scientists and environmentalists challenge those issues beyond an economic sense. Hence, they have different views of the state's role in environmental issues from economists. Many political scientists and environmentalists regard the state as the impediment of sustainable development, and they criticise the ability of the state to treat global environmental degradation. According to this view, the state is

'Both too big and too small for dealing with (environmental) challenges: too big for the task of devising viable strategies of sustainable development which can only be developed from the bottom up; and too small for the effective management of global problems such as combatting global climate change or protecting biodiversity which by their nature demand increasingly wide-ranging forms of international cooperation' (Hurrell, 1994: 146).

In this section, I discuss the two different perspectives; both 'too-big' and 'too-small' state arguments. Then it is concluded that if the state is capable of environmental management, an impulse from the bottom plays an important role in solving environmental problems. In other words, it is important to pay more attention to the power of people through environmental grassroots groups like NGOs for the purpose of environmental management.

### **Argument of 'Too-Big' and 'Too-Small' State**

Using its great degree of power over society through the control of economic, political, and social processes, the state enjoys authority in many manners from benign to more coercive forms. The state thus tends to be insensitive to individuals' activities which may be abusing the environment. In this view, power of the state is too big to deal with the actual dynamics of environmental degradation (Wapner, 1995b), which may distort the state's capabilities for policy reforms in favour of ecology.

During the last two decades, the environmental consciousness of people has shifted from issues about the impact of localized pollution in the 1970s, to the notion of global environmental change on the limited capacity of the planet.

The emergence of a global consciousness has led the notion that the state is too

small, rather than too big, to provide localized order and an adequate degree of environmental management within their own borders any more because human is facing global-scale ecological problems which are beyond the capacity for a single country to solve. By the same token, the state is too small to address universal perspectives and worldwide coordinated efforts related to global environmental protection. Unless the state is concerned with the well-being of the human species as a whole, or with planetary consciousness, it is incapable of an adequate solution to global ecological problems.

The common argument of both views is an inability of the state to respond to global environmental decay. Moreover, the state usually, as the Taiwanese case shows, tends to place a higher priority on its short-term interest in economic growth than and environmental protection. As Hurrell quotes that

‘states may no longer possess the power to manage the international order because of the extent to which ‘power’ has been diffused away from states and towards both markets and the players that dominate those markets’ (Hurrell, 1994: 154).

The state actively adopts industrial, trade, and technological strategies because these are directly connected to economic growth in the short run. In addition, the external pressure of industrial competitiveness from foreign countries to the government which is afraid to lose the comparative advantage in the world market is also implicated in the outcome of the generation and enlargement of the serious

environmental problems. Consequently, the lack of the state's consciousness and ability to deal with global environmental issues, as well as the state's strong commitment to higher economic growth push environmental concerns aside from government strategy.

The state has to face the contradiction of both economic management for economic development and environmental management for the survival of humanity; in Walker's words, 'the state's roles as developer and as protector' (Walker, 1992: 32). However, the distributional conflicts in reality are much more serious for the state, especially for developing countries, than the rhetoric of 'sustainable development' explains. As a result, due to the industrialized pressure for continued economic growth, the state performs as 'developer' more actively than as 'protector'. After all the state tends to encourage enormous environmental degradation. Thus due to the state's inability of environmental management, the state lies behind environmental issues within conflicts over the notion of economic development, environment, and sustainability. Furthermore, the argument of the state's inability leads to more radical thought that the state is viewed as the central problem. An environmentalist argues that 'because the present (government) structures have given us the disease, is it then logical that they should also provide the cure?' (Curt, 1990: 118)<sup>35</sup>.

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<sup>35</sup>It is quoted by Anupam Mishra, an environmentalist in India.

Then, is it impossible that the state resolve environmental problems? Are the environmental problems already beyond the capacity of the state? Certainly, the state forms a central part of environmental problems, but is it also true that the state can serve as the vehicle for effective environment management by means of its significant political force? The government can deal with environmental management effectively such as attainment of a higher technological capacity in favour of ecology, the reform of environmental-friendly policy and legislation, and the achievement of better ecological understanding and attitude of people. The state is not incapable, but, as discussed, the state easily yields to economic pressure. Therefore, more important is the strong impulse from people in civil society that drives the state to become actively involved in the solution of serious environmental decay.

### **The Role of Civic Power**

Hence, the argument moves to civil society. Now I should consider the importance of people in society. Substantial evidence shows that the government needs the pressure from the bottom to force it to deal with environmental issues more effectively. Now, I examine the environmental movement in Taiwan, where public protest against the government and industrial firms forced them to change their plans.

Growing public movements in Taiwan have been important in environmental protection. A key incident that catalysed public environmental consciousness in Taiwan was the government's announcement of plans for a fourth nuclear power plant in 1985. The protest movement against the plans was organized by local people, academics, nuclear power experts, journalists, and even government officials<sup>36</sup>. Another of the more famous cases was the cancellation of Du Pont's plant in Changhua Country, where local residents opposed the building of a titanium dioxide plant because of the danger of water pollution and thus damage to the fishing industry (Bello and Rosenfeld, 1990). The success of protests spurred the growing environmental movement among the Taiwanese people and in 1987-88 the number of protests for environmental protection reached over one per day. At last, public demands for the government's environmental action led to the elevation of the Environment Protection Administration (EPA) to a cabinet-level agency in August 1987 (Cohen, 1988: 103).

Thus, it has come to be realized that it is through direct challenge to supreme power that the collective power of people and grassroots activism can play the influential role in the transition of strategy towards a more

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In the end, Taiwan Power abandoned to build the forth plant. However, instead, it made plans to build new coal power plants (Chan, 1993).

environmental-friendly manner. The grassroots movements can not only protest the environmental failures of the government but also empower individuals and communities by working to improve people's ordinary economic lives in ecologically sustainable ways. In addition, present day, transnational environment groups such as Greenpeace and Amnesty International have also had powerful influence on environmental issues. Wapner notes that 'activist organizations are not simply transnational pressure groups, but rather political actors in their own right', which is in his concept of 'world civic politics'. Those groups 'work through transnational networks associated with culture, social, and economic life' and 'they are exercising civic power across national boundaries' (Wapner, 1995a). As Wapner asserts, it is certainly true that world-wide collective power of the people is playing a central role in improvement of global environmental decay.

### **Relation Between Civil Society and the State**

It is true that the state has a vital role in resolving environmental problems effectively and efficiently because it has the responsibility for the implementation of policies and also has influence on changing ecological attitudes of people through education and technological innovation in favour of the environment. Yet, since the state tends to yield to economic pressures from the strong



commitment to higher economic growth, it is necessary that civil society monitors whether the state acts in an environmental-friendly manner. Here again, empowerment of the society and interdependence between the state and civil society are important. Indeed, as discussed, the growing potential of grassroots social movements has changed state laws and policies as well as political institutions and processes. In other words, this phenomenon turns out to call for a more democratic state. It is not until the government realizes the importance of empowering people in society, that the relation between the state and the civil society can be equal, where finally the nation can overcome environmental problems. As Rich notes,

‘The societies that will succeed will be the ones where the state and civil society recognize their interdependence and their mutual roles as evolving, learning, coadapting, processed in a larger system, one in which human society and nature are inextricably intertwined in and embrace of life -or death’ (1994: 297).

The following final chapter considers the relation among state, markets, and civil society. It is concluded that although hitherto civil society has been left behind, it should be encompassed as one of the vital actors within a democratic system, and that all three actors need to affect each other for the purpose of national development.

## **Chapter V**

### **CONCLUSION: ALTERNATIVE PATH FOR DEVELOPMENT**

Korea and Taiwan's experiences of economic development in the postwar era demonstrate that a state which is characterized as coercive and comprehensive, leads industrialization and economic growth. Contrary to private economic sectors and civil groups which merely pursue the interests that affect them directly, the state has the responsibility to observe the economy as a whole from broader perspectives. The governments in Korea and Taiwan made

economic policy decisions to lead economic growth in accordance with their insights of the transition to international competition and domestic productivity in industry. In Korea and Taiwan, once the government believes that certain decisions will encourage the establishment of international competitiveness in industry, it utilizes the policies excessively in order to control the markets, private sectors, and industries. Obviously, the government interventions exceed the sanction of government activities which are recommended by neoclassical paradigm. However, being different from socialist countries and other developing countries, autonomy of the government is mainly directed to capital accumulation based on a strong commitment to national economic growth. As chapter II argued, the government in Korea and Taiwan has not been the sole authority.<sup>37</sup> Attention has to be paid to activities of firms and maintenance of the dense network between them. Both the government and business groups are affecting each other for the common purpose of economic development.

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In terms of political system, Korea had had military-dominated and restrictive authoritarian politics until a breakthrough of democracy in the late 1980s. As similar to Korea, Taiwan was a dominant-party system until the political liberalization of the mid-1980s. However, as UNCTAD comes to the conclusion, there is an important difference of authoritarian regimes in Korea and Taiwan from a number of other countries which exercise authoritarian rules. UNCTAD's argument, which is similar to mine, is that as a result of powerful economic interests, both governments have had the relationship between politicians, bureaucrats and relevant groups. Therefore, even during periods of authoritarian rule in Korea and Taiwan, the authority of both governments was not in a predatory fashion. (UNCTAD, 1996: 4-6).

Achievement of rapid economic growth with high rates in Korea and Taiwan has captured the interest of a number of intellectuals. They are eager to analyse development strategies with regard to economic success in both countries and elaborate on the East Asian industrialization models. Yet, there is the inescapable reality that the lives of civilians have been peripheral to the remarkable economic growth. Nevertheless, economists are fascinated by the outstanding economic records of Korea and Taiwan, but they are not interested in the fact that growth strategy is based on the repression of workers and the abuse of the environment. The governments seem to be proud of the achievement of high and stable economic growth represented by GNP, a yardstick that measures how much commodity production, but does not measure how much the quality of life ameliorates or deteriorates in a society. Indeed, workers, especially female workers, suffer extremely low wages and terrible harsh working conditions, and people are living with worries of cancer caused by polluted air, water, food, and soil. This has happened not only in Korea and Taiwan but also in a large number of other countries. They may have attained economic development in a material phase, as it is obvious that people are now surrounded by a greater number of commodities compared to their lives thirty years ago. But economic development is only one side of the phenomenon of development, in other words, it focuses on material living standards but neglects the quality of life

of people. For this reason, it is imperative to focus on the aspects of development which concern itself with the social well-being of civil society.

Some may criticize that without economic growth and stability how is it possible for a country to evolve. Certainly, in the capitalist world, it is not until 'something'<sup>38</sup> is produced and exchanged that the nation can progress economically. Hence, it is understandable that developing countries claim the right to give priority to economic activities for the purpose of economic independence and stability of the nation, rather than the improvement of the life of the people; for many in these countries are living desperately from hand to mouth, similar to Korea and Taiwan of thirty years ago or Japan just after the WWII. Evidence in Korea and Taiwan demonstrates that it is only the state that can lead and push its economy out of the confusion of poverty. In this manner, the growth models of Korea and Taiwan stand detached from the neoclassical advocates. Attention must be paid to the point that this state-led model should be implemented only to countries in the very early stages of economic development. These countries require the great support from the state in order to push forward their economies from the immature to more advanced stage. Therefore, the imposition of free market mechanisms on every developing country

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This means commodities and services which are only possible to exchange in the market. Therefore others, -the environment and female work in the household etc.- are not included.

is not appropriate as an economic development strategy. In reality, however, developing countries have to conform to the mono-theory of neoclassicism provided by the First World. This theory was created by the North in the eighteenth century when the industrial revolution began in England. Thus, this Anglo-Saxon-made theory may be reasonable to explain industrialization in Europe and North America, but it is not always adaptable to 'late'-industrialized countries which have different cultures, histories, religions, and experiences such as colonization. This mono-theory for development should be swept out, and particular national circumstances respected. Despite the UN's declaration on the nation's right to development<sup>39</sup>, in practice, developed countries substantially interfere in the paths for development of powerless developing countries, using dominant power from North to South. But in fact, it is the country by itself, not other countries nor organizations, that should have the right to decide the path along while the nation can progress with the consent satisfaction of the civilians.

This thesis discusses the argument that powerless people in civil society have always been excluded in economic development policies. I believe that participatory democracy is the only means to incorporate civil society into

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The UN declares that 'States have the primary responsibility for the creation of national and international conditions favourable to the realization of the right to development' (NY: United Nations, Department of Public Information, 1995a:3). This implies that any country has the right to create and follow their own paths for national development.

economic development strategies in which there exists a strong tie between state and economy. As discussed in chapter I, democratic theories address the necessity for the collective power of people in civil society. In practice though, while small civil organizations like NGOs and grassroots groups have indeed played an influential role in protecting people's lives and transforming state policies, their successes have been limited in relation to the importance of their struggle. These organizations consist of groups which have extensive and committed interests in areas such as race, native people, ecology, feminism, ethnicity, religion, minority, peace, and community. It is the plurality of these social organizations that can exercise civil power against the state, since there exists no other power of institutional relations constraining the structure of the state. Thus, through the constitution of a number of civil groups, civil society can appeal to the subordinate situations of people, their pain and their needs, because only civil groups can collect the voice of powerless individuals. Furthermore, by organizing civil groups, civil society is able to limit, monitor, and regulate activities of the state in order to dilute the dominant power and control of the state over society.

This is not to mean that the function of the state is denied, since in some sense the importance of continuing state influence should be accepted. Firstly, the role of the state is to take care of the public arena where the private sector

cannot or would not become involved. For instance, the state is responsible for policy implementation, provision of public services, legislation, and stabilization of society. Secondly, the state can be a representative body of the nation with regard to international relationships. Thirdly, the state, especially in countries which has engaged in early levels of industrialization, plays an important role to lead, organize, and support its economy which is not mature enough to depend on the market mechanisms fully, as the experience in Korea and Taiwan demonstrated. Fourthly, the vital role of the state is to manipulate or structure the market in favour of civil society. Since the market is dominated by the material sphere, that is to say, production and exchange of commodities for profit, it is impersonal and blind to the practical needs of people. Thus, the market does not take into account the social costs to people who are living far from the activities of commodity production. The problem here is that development favouring economic growth through market mechanism fails to involve social-cultural consideration and activities such as women's reproduction in the household, the wealth of the environment, and cultural property. Therefore, the state should take leadership in order to manipulate or structure the market through policies that favour the people. And finally, most important, these activities of the state have to be approved or restricted by civil society in a climate of mutual cooperation and interdependence between the state and its civilians.



Consequently, in order to empower civil society, the existence of 'true' democracy is required, which involves more than simply the direct election of political representatives. The existing system represses minor opinions which are not connected with the state's interest. Contrary to this present democracy, in participatory democratic system, representative of each civil groups acquire the right of political participation, so that decisions reflect the view of civil society more directly.

I have argued that developing countries should not follow the dominant paradigm which has a greatly biased view from the industrialized countries in the North. Like Korea and Taiwan, despite the academic argument of state-centred versus market-centred development, the state and the market in fact had never repelled each other, but in fact supplemented each others deficiencies. Where there are indigenous growth models, these countries have put the national priority first and have not yielded to interference from the North. I have also argued that development strategies should not neglect the people. A nation has to evolve with the concomitant expansion of the discourse between the state and the civil society, where there is the abolition of state domination and empowerment of the citizenry. After all, democratization is an important precondition for development of a nation.

Then, what is the alternative path to the mainstream neoclassical

paradigm? It is not socialist models which deny market mechanisms as a whole, nor East Asian models characterised by a temporary strong-state. The answer is that there is no specific and sole alternative. Each country should have its own way for development, because each country has different historical experiences which affect its culture, traditional behaviour, and values of the society, like each individual has different characteristics derived from his/her various experiences. Thus, some countries might need the strong state, on the other hand, some might require the operation of free markets. Simultaneously, any country should put the first priority on its people. In sum, 'development' means that every nation pursues its progress along an original path which, of course, is decided by people in the society.

After the collapse of the socialist economies, the world trend has been directed to the pursuit of free market economies. However, the dominant thought of capital accumulation, that is to say, increase of productivity, generation of more profits, and more acute faith in materialism, has worsened the lives of people and our environment steadily. In practice, economic activities for capital accumulation alienate those groups without linkages to production from the benefit of economic activities. Moreover, these marginalized groups which have been excluded from the process of capitalism, are also excluded. This recognizes that while both capitalism and democracy are widely believed to be in

harmony, they are in fact in discord. What must be done is, firstly, to realize that the western-made capitalist system does not deliver a guaranteed panacea, and secondly, to search for the new system which can empower the marginalized groups caused by capitalist economies. Further studies need to discuss the beyond-capitalism approach; and the ways in while a 'true' democracy support and confirm this approach within the content of a particular countries experiences.

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