UNITED NATIONS UNIVERSITY
UNU-WIDER

WIDER Working Paper 2018/101

Escaping the periphery

The East Asian 'mystery' solved

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September 2018

Abstract: Few non-western countries have reached the general prosperity of Western Europe and North America in the *past two centuries*. The core–periphery structure of the world economy created in the early decades of the Industrial Revolution has proved robust, even after seven decades of self-conscious 'development' following the Second World War. Just about all the countries which were in the periphery in 1960 remain in the periphery today. The clearest exceptions are in capitalist Northeast Asia, namely, Japan, Taiwan, and South Korea; to which the island states of Singapore and Hong Kong might be added. How did they escape?

Keywords: centre, periphery, state capacity, US empire

Acknowledgements: Deepak Nayyar, Ana Celia Castro, Fanny Alcocer, Jakob Vestergaard

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This study has been prepared within the UNU-WIDER project on 'Asian Transformations: An Inquiry into the Development of Nations'.

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ISSN 1798-7237 ISBN 978-92-9256-543-5

Typescript prepared by Lesley Ellen.

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The Institute is funded through income from an endowment fund with additional contributions to its work programme from Finland, Sweden, and the United Kingdom as well as earmarked contributions for specific projects from a variety of donors.

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> The fast growth of developing countries which used a lot of import protection and other forms of dirigisme 'had a lot of *mystery* for me [and for all of us] who advocate hands-off markets.' (William Easterly (2002), emphasis added)
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> '[A] nation that opens its economy and keeps government's role to a minimum invariably experiences more rapid economic growth and rising incomes.' (Louis Uchitelle (2002), reporting on the consensus among business executives and government leaders at the World Economic Forum meeting in 2002)
>
> 'The most important thing in life is to have a goal, and the determination to achieve it.' (In English and Chinese, on plaque in entrance to Industrial Development Bureau, Taipei, reported in Weiss and Thurbon (2004))

1 Introduction

When historians look back on the second half of the twentieth century they will likely see the economic renaissance of East Asia as one of the seminal events. Starting with Japan in the 1950s, it rolled on to Taiwan, South Korea, Hong Kong, and Singapore in the 1960s and 1970s; later (but less) to Southeast Asia; and into China in the 1990s. It represents the first major challenge to the global hierarchy of military, economic, and cultural power created by the British Empire and its European counterparts in the eighteenth and nineteenth centuries, then led by the United States, since the Second World War. It has begun to restore the region to the forefront of world development which it earlier occupied for more than a thousand years before being eclipsed in the new western-centric world order (Arrighi 2007).

Our focus is on the world order of Northeast Asia, created by Japan in the late nineteenth and early twentieth centuries and then integrated into the emerging American empire after the Second World War. Myrdal's (1968) *Asian Drama* said little about Northeast Asia, focused as it was on South Asia and secondarily on Southeast Asia.

Section 2 of this paper sets out evidence on the exceptional economic performance of Northeast Asia. Section 3 summarizes the mainstream or neoliberal understanding of the causes of this exceptional performance. Section 4 outlines a partial alternative explanation, focused on the conditions of location, endowments, and timing which predisposed political leaders in Northeast Asia to create 'developmental states' and sustain them over decades. Section 5 elaborates the characteristics of these states, in contrast to the regulatory state favoured in the neoliberal paradigm. Section 6 is about Singapore and Hong Kong. Section 7 concludes.

2 Exceptional economic performance in Northeast Asia

Today we see that the Northeast Asian countries remain among a small set of non-western economies to have escaped the typical structural constraints on developing countries. But instead of 'developing countries' or 'emerging economies' we should speak of 'peripheries' in the core–periphery structure of the world economy. The core emits impulses; the periphery receives impulses and supplies the core with inputs that sustain the core's technological, economic, financial, and military dominance—including supplies of skilled people (Fischer 2015).

Furthermore, the Northeast Asian countries remain among a still smaller set of non-western countries which have developed *mostly indigenously owned firms* across a broad range of major global industries, able to act as first-tier suppliers to (western or Japanese) multinationals (MNCs) and even compete head-to-head with them. The range includes chemicals, petrochemicals, electronics, steel, shipbuilding, cars, and car parts, and more recently, biotech, advanced semi-conductors, nanotechnology, and space exploration. This achievement reflects their development of an *indigenous capacity for technological innovation-on-the-world-frontier*. Yet they are located some 9,000 kilometres across the Pacific from the world's biggest and most innovative market, while next-door Mexico has languished.

Just how exceptional is the economic performance of Northeast Asia is clear from the answer to the question: how many non-western countries have reached the general level of prosperity of Western Europe and North America in the past two centuries? Fewer than ten. The small number of catch-ups makes the point that the main long-term growth pattern in the world economy has been: 'divergence, big time' (Pritchett 1997).

A World Bank (2013) study confirms this conclusion. It identified 101 countries in 1960 as 'middle-income' and found that of those, only 13 reached 'high-income' almost five decades later, by 2008.

Table 1 shows, for 1970 and 2010, the average income of several East Asian countries as a percentage of US average income, plus India and Brazil. Taiwan and Korea, together with China, stand out for the magnitude of their catch-up. Most of the rest of the world looks more like Indonesia, India, and Brazil.

Table 1: Country average income as % of US real average income, 1970 and 2010

	Japan	Taiwan	S Korea	Malaysia	Indonesia	China	India	Brazil
1970	50	20	10	15	5	5	5	15
2010	70	80	70	45	20	25	10	30

Note: Penn World tables 9.0, based on 2011 purchasing power parity (PPP) numbers, rounded to nearest ventile.

Source: Author's update from Cherif and Hasanov (2015).

Taiwan held the world record for the number of years of continuous 6 per cent or more growth until 2010, at 32 years (from 1962 to 1994). Korea came second, at 29 years (1962 to 1991). China broke Taiwan's record in 2010; by then it had grown continuously at more than 6 per cent for 33 years, if its growth statistics can be trusted (Pritchett and Summers 2014).

Investment rates underpinning these growth performances are shown in Table 2 for blocs of countries plus China. By way of comparison, the UK figure for 1990 was 19 per cent and the US figure was 17 per cent.

Table 2: Gross capital formation/GDP, selected entities (%)

	1970	1990	2012	1980–2014
China	33	36	47	40
East Asia & Pacific minus China	23	32	30	28
LICs & MICs minus East Asia	22	22	25	23

Note: LICs = low-income countries, MICs = middle-income countries.

Source: World Development Indicators, 12/22/2015.

We have to keep in mind that most of the non-western countries which 'made it' into developed country status have small populations (future China aside).

The *rarity* of income and production catch-up on the scale of Northeast Asia, and the relatively small 'demographic mass' involved, suggests that the world economy contains a segmentation analogous to a 'glass ceiling' or 'middle-income trap'. The idea is at odds with neoclassical development theory, which presumes the world economy is an open-ended system with no overall structure of a core–periphery kind, analogous to a marathon race in which the position of each runner is a function of internal fitness.

The next section discusses the causes proposed by analysts writing in the mainstream economics paradigm, often called neoliberalism. Their interpretation—emphasizing market liberalization in Northeast Asia—has been the most influential in the more general debate about economic development, including in the World Bank. I suggest that its influence stems less from the power of confirming evidence than the combination of sheer simplicity (Occam's Razor) and fits with a pro-western capital ideological story driven by other causes.

3 Northeast Asia's rise in the neoliberal paradigm

By the 1980s, when Northeast Asia's rise began to attract sustained attention from western policy analysts, most economists and the western-controlled multilateral development organizations (including the World Bank, the IMF, the OECD and its Development Centre) viewed their subject through the lens of neoliberalism—the newly resurgent economic faith in the West, including in development economics.

Neoliberal philosophy says that 'the market' is the best institution for both economic growth and liberty. Even where unambiguous 'market failures' are identified, they are generally best left untreated, because the societal costs of correcting them through 'state intervention' are likely to be higher than the societal gains. The optimum degree of openness to the international economy is close to maximum openness, because global integration raises competitive pressure on all domestic producers and thereby makes national economies more flexible and channels resources to their most efficient uses. The idea that governments should curb competition in the interests of helping some firms and industries reap economies of scale, and curb global integration in the interests of national social cohesion and national employment, has little value in this way of seeing (Wade 1992a, 2017a, 2017b).

The World Bank's (1993) book, *The East Asian Miracle*, is a relatively sophisticated case in point. It examined the causes of success in eight 'high-performing Asian economies': Japan, the three first-generation newly industrialized economies of South Korea, Taiwan, and Singapore, and three second-generation Southeast Asian economies of Thailand, Malaysia, and Indonesia, plus Hong Kong.

The book argues that the states made important contributions to the fast growth of these countries by ensuring 'the fundamentals': low inflation and competitive exchange rates; human capital; effective and secure financial systems; low price distortions; easy access to foreign technology; and low bias against agriculture.

In other words, the states implemented effective 'horizontal' policies, applied across all sectors. But 'strategic' interventions—sector-specific policies to promote specific industries or even specific firms—'generally did not work' (World Bank 1993: 354, emphasis added; Wade 1996).

The take-away message: 'openness to international trade, based on largely neutral incentives, was the critical factor in East Asia's rapid growth' (World Bank 1993: 292).

This argument makes Northeast Asia a powerful confirmation of the neoliberal answer to Adam Smith's question: how does market capitalism generate human welfare? The answer is market liberalization—and in a global context, global integration, or moving towards 'the world as one economic country', having no more restrictions on economic flows or ownership claims across borders than US states have across theirs. It is an argument not just for free trade but also for free capital movement; conversely, it downplays the value of both national sovereignty and democracy.

In short, the World Bank concluded that, contrary to William Easterly in epigraph one, East Asia's rise was no mystery. The main causes are identified in epigraph two, the pro-western capital argument from the World Economic Forum.

4 The rise of the developmental state

We can give a more interesting answer by asking: what conditions enabled Myrdalian cumulative causation between rising state capacity, rising internal peacefulness, and rising incomes. Put the other way, what conditions enabled Japan, Taiwan, and Korea to avoid the common fate of the periphery—the 'weak state', with a well-entrenched ruling group fighting internal enemies, supplying narrowly focused public goods to favour its own supporters, and loosely enforcing the rule of law? What conditions enabled them to begin with the 'special-interest state' (a well-entrenched ruling group able to maintain internal stability, tending to favour its own supporters in order to fortify its grip on power but also focusing over time on long-term national goals), and then transition towards the 'common-interest state' providing broadly based public goods, thereby helping to raise incomes and reduce discontent (Besley and Persson 2011).

We need to keep in mind the point made by Francis Fukuyama: 'Holding on to a certain structure of political power is often a life-and-death issue for leaders of poor countries' (Fukuyama 2004: 49). This holding on to power often results in low state capacity and low commitment to national development goals, even to the point of the rulers creating antagonistic relations between government ministries in case rival groups benefit from the new economic opportunities created by a national development project and use their new wealth to try to replace the incumbents, perhaps by investing in violence.

It turns out that the answer to how Northeast Asia sustained the cumulative causation between rising state capacity, rising incomes, and rising internal peacefulness is closely related to the geopolitics of Northeast Asia and the United States, and the resulting structure of the regional economy. The rise of Northeast Asia is far from a story of a small group of marathon runners forging ahead in an open race.

4.1 The 'luck' of location, endowments, and timing

The historian Bruce Cumings reminds us: 'If there has been an economic miracle in East Asia, it has not occurred just since 1960; it would be profoundly ahistorical to think that it did' (Cumings 1984: 3). In a longer treatment we would begin with causes of East Asia's economic pre-eminence up to the seventeenth century. Cutting short this *longue duree*, I begin in the late nineteenth century and the three 'orders' in East Asia at that time (Woo 2016).

The first was the world of state-capitalist Northeast Asia, created by Japan with its late nineteenth century colonization of Korea and Taiwan, followed in the 1930s and first half of the 1940s by colonization of Manchuria and down the east coast of China. The Japanese colonial government treated Korea and Taiwan as offshore farms, mines, and industries, closely integrated to the core. It replicated similar economic and political institutions and policies as earlier in Japan—nationalistic, insular, militaristic, state-permeated, focused on raising productivity in agriculture, mining, and early manufacturing, and committed to providing mass elementary school education. By 1940 somewhere between 50 and 70 per cent of Korean and Taiwan children were in elementary school. All three countries were more homogeneous in terms of ethnicity and religion than most other countries.

The second world order, created by western colonialists, comprised Hong Kong and Southeast Asia. The colonialists transformed the economy (entrepôt Hong Kong apart) into commodity production for western markets, mainly in the form of plantations, empowering big landlords. But outside the extractive sectors, colonial governance was more passive, more accepting of incumbent landed elites than in Japan's empire. By 1940 only about 2 per cent of children were in elementary school in the French colony of Vietnam. Also, the host societies were ethnically and religiously much more diverse than in Northeast Asia.

The third world was China, which later, in the post-Second World War decades, came to be seen as an enemy of the new US-shaped order in capitalist Northeast Asia.

Our interest is the Japanese–centred world of Northeast Asia, starting with Japan's forced opening in the mid-nineteenth century. For some 250 years before the mid-nineteenth century Japanese rulers isolated the country. In 1853 Commodore Perry of the US navy sailed into Edo (now Tokyo) harbour with a fleet of warships and demanded that Japan open up to American commerce. His visit sent shockwaves through the country's leaders, who feared that America might take Japan as a colony as it strove for dominance across the Pacific. News had already reached Japan of European states gobbling up chunks of China through what later came to be known as the Unequal Treaties, from 1839 to 1849, by which European states imposed European laws on foreigners in China and set tariffs on goods imported through the treaty ports. Would Japan be next?

The Japanese government responded with wholesale reforms to create a centralized state and national identity as the basis for a strong military. The guiding spirit was expressed by a Japanese leader in the wake of Perry's visit: 'If we take the initiative, we can dominate; if we do not, we will be dominated'.

The Meiji restoration of 1868 launched a frenzy of industrialization and militarization lasting several decades, guided by the developmental mindset that emerged from the brutal collective choice of 'sink or swim'. The government undertook a Big Push in state capacity, including fiscal, legal, and public goods. It sent teams of officials around the western world to investigate ways to organize a modern society, such as a tax system, a post office, a railroad, an army, a state constitution, a parliament, a judiciary, and the like, and then implemented the best models at home.

Japan militarized so fast and effectively that in 1894–95 its navy defeated China's and a decade later defeated Russia's. The latter sent a shockwave through western governments, as the first time in the modern era that an Asian state had defeated a European state. Japan went on to become the first non-western country to catch up with the West in broad measures of production structure, military strength, and mass living conditions.

At the same time a powerful group of chauvinist ideologues began to advocate for a new pan-Asian order led by Japan, to fend off western empires. This group paved the way for Japan to take

Korea and Taiwan as colonies in the late nineteenth and early twentieth centuries, and later, large parts of mainland China.[1]

Following Japan's defeat in World War Two, Korea reverted to the unified kingdom it had been for a thousand years before it became a Japanese colony—now with a president rather than a king or emperor. Taiwan reverted to a neglected province of the Chinese polity, as before it became a Japanese colony in 1895.

After the war, Japan continued to be ruled by the developmental mindset institutionalized during the Meiji restoration and fortified in the 1930s in the build up to war. A similar mindset began to be institutionalized in national elites of independent Korea and Taiwan, building on the developmental legacy of Japanese colonialism. Having emerged in Japan in response to the external threat of the United States, it re-emerged in Japan and was created anew in Korea and Taiwan in response to another external threat, from close-by communist states of mainland China, North Korea, and Russia. More broadly, the developmental mindset emerged from the combination of:

- lack of natural resources, above all, land and energy, which allowed the countries to escape 'the natural resource curse' (overvalued exchange rate hindering manufactured exports, and government based on control of natural resource enclaves, ignoring the rest of the population), and on the other hand, abundance of people, with a long history of mass literacy and elementary education, which made them outliers for countries at their income levels;[2]
- huge post-war challenges to reconstruct (as distinct from create *de novo*) physical and organizational infrastructure;
- imperative of building up industry to escape low value-added activities and grow the exports needed to pay for industrialization and military imports; and
- perception of immanent and existential threat from nearby communist countries, which necessitated a strong military, US protection, and high-speed industrialization, while at the same time allowing mass consumption and living conditions to improve by enough to limit domestic unrest—which enemy neighbours could exploit.

Early post-war Taiwan, with a population of six million, received a turbulent influx of between one and two million in 1949 as the Nationalist (Kuomintang) army and government lost the long-running civil war with the Red Army and Chinese Communist Party, and its leaders, officials,

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1 Following its victory in the Sino–Japan war of 1894–95, Japan formally annexed Taiwan into the Japanese Empire in 1895, as the first (formal) step in implementing the Southern Expansion Doctrine. The annexation lasted till Japan's Second World War defeat in 1945. Japan began creeping colonial rule in Korea in the 1870s and made Korea a 'Protectorate' in 1905 and a full-fledged colony in 1910. Japanese rule broke the pre-colonial Yangban's (landed elite's) hold on the state. Senior positions in the state were filled with Japanese bureaucrats, who applied economic development lessons from the Meiji Restoration (1868-1912) to Korea. They encouraged Korea-based Japanese business groups, similar to the zaibatsu at home, with state-financed credit, cheap electricity, and other benefits. It is widely believed in Korea that Japanese colonialism heavily damaged the economy's growth potential. We should qualify this belief with the fact that factories left behind at the end of the war fairly quickly regained pre-war levels of production, thanks to the know-how in the heads of Koreans who had worked as middle managers in Japanese-owned companies. Also, the pre-war experience of Japanese zaibatsu made it easier for President Park Chung Hee and his government to nurture Korean equivalents, the chaebol, in a similar relationship to the state. Other favourable long-term causes include ethnic homogeneity, cultural propensity to take organizational goals as one's own personal goals up and down the hierarchy, and more. On organizational incentives in Korean and Indian bureaucracy, see Wade (1982a, 1982b, 1985, 1992b).

2 Irma Adelman and Cynthia Morris compiled 1961 data for 74 developing countries. Taiwan was 44th in per capita income, 12th by 'socio-political' development, and 4th by 'development potential' (Wade 1990/2004: 109).

military, and sympathizers fled to Taiwan, 150 kilometres from the mainland. The incomers, under Chiang Kai-shek, claimed to still constitute the rightful ruling regime of China; so they planned merely to regroup in Taiwan for later resumption of the civil war on the mainland. The native Taiwanese, most of whose ancestors had come from the mainland two and more centuries before and had experienced fifty years of total separation from the mainland under Japanese rule, saw the incomers as foreign, and vice versa. With little need for support from the local elite, the Nationalists implemented a disciplined one-party state on Taiwan, applying lessons from their disintegration on the mainland, and discriminating economically and politically in favour of themselves. They constantly invoked the threat of communist invasion or subversion to justify authoritarian rule. The threat was real. For example, the Red Army bombarded Nationalist-held small islands close to the mainland in 1954 and 1958.

In short, Taiwan at this time was a 'special-interest' state, but the well-entrenched (and semi-foreign) ruling group was disciplined to provide broader (rather than narrower) public goods both by the external threat and by the US government.

The Korean War of 1950 to 1953 pitted communist North Korea backed by China and the Soviet Union against South Korea backed by the US and a coalition of US allies. The numbers 'killed and missing' were: South Koreans—210,000 from the military and one million civilians; North Koreans—406,000 from the military and 600,000 civilians; Chinese—600,000 from the military; and American theatre deaths—37,000. The war ended with an armistice but no peace treaty, the peninsula divided into North and South. The two sides are technically still 'at war'. From the end of the war till today the North Korean regime has undertaken sustained provocation and terror in the South. At the time of my fieldwork in South Korea in 1979, every metre of beach on the country's long coastline was raked at sunset and inspected at dawn in the hunt for footprints of North Korean sabateurs.

As in Taiwan, South Korea's rulers—following the military coup led by Park Chung-hee in 1961—implemented a tightly disciplined military dictatorship, using the external threat as its justification. Park had been educated in a Japanese military academy and served in the Japanese army in Manchuria, when he studied the history of the Meiji Restoration and the role of the state in Japan's industrialization. He was chief architect and driving force of Korea's developmental state from 1961 till his assassination in 1979. Following the spirit of the Japanese pre-war military, his core belief was 'we can do anything if we try', as though all problems could be overcome by sheer willpower. Soon after taking power, he arrested leading businessmen and threatened them with jail (for 'corruption') unless they left for the United States and returned with export orders; he expropriated houses of senior military (clustered in one part of Seoul), on grounds that their salaries could not possibly have afforded such houses, and handed the area to the diplomatic colony; and he closed down the golf course in the heart of Seoul built as a facility for American troops and the Korean elite.

Korea and Taiwan transitioned to a democratic regime as late as the second half of the 1980s, well after they had passed through the demographic transition. Even Japan was almost a one-party state; the Liberal-Democratic party was the majority party in nearly every government from 1955 to the present. The dominant political philosophies of these countries emphasized 'order' and 'nationalism' more than 'liberty' and 'free enterprise', in contrast to neoliberal philosophy, despite western media presenting them as lovers of liberty and free enterprise and the American way of life, the better to justify aid against communists.

4.2 The US role in Northeast and Southeast Asia

Before the Second World War the United States had little presence in Northeast Asia. It entered in force as part of its larger dominance or hegemony strategy. In East Asia and in western Europe it saw severe and persisting communist state enemies. So 'containment of communism' became the top US foreign policy priority in both East Asia and western Europe (Lee 2017).

After several decades of close ties to Chiang and the Nationalists, including the Second World War alliance, the United States after 1949 plunged into Cold War with communist China and then into hot war in Korea. The US saw communist China and communist North Korea—with communist Russia close by—as a severe threat to its emerging 'Pacific sphere of influence'. But despite powerful voices in Washington wanting the US to help Chiang re-start the civil war on the mainland, Secretary of State Dean Acheson prevailed in his call for 'strategic restraint' and a less aggressive policy of building 'a great crescent' of containment around China.

The US poured in assistance to its three Northeast Asian allies—troops, economic advisors, political advisors, teachers, accompanied by large financial transfers. Drawing on New Dealers' experience of trying to foster pro-development governments in Latin America before the war, US advisors helped construct centralized, top-level agencies to plan the use of very scarce capital and helped construct an effective civil service, police, judiciary, and education system. During the American Occupation of Japan (from 1945 to 1952) the Japanese government instituted 'the most restrictive foreign-trade and foreign exchange control system ever devised by a major free nation', with American blessing (Hollerman 1979). The country's renaissance was much helped by the Korean War, 1950 to 1953, because it made Japan the main source of American procurements. The Prime Minister at the time, Shiguru Yoshida, later declared, the war was a 'gift of the gods'.

The US government gave strong backing for expropriative land redistribution in all three countries. The land reforms helped establish political order and support for industrialization by curbing the landed classes and strengthening peasant support for the state—making the rural population a less fertile site for communist subversion. They created a small farmer agrarian structure receptive to intense state efforts to raise agricultural productivity as a condition for fast industrialization (Dore 1965; Wade 1982a).

The US government made clear that assistance would not be sustained indefinitely. It gave assistance in the spirit of raising the capacity of the state to finance and man its own bureaucracy and military, so that US resources and personnel could be scaled back without danger to Cold War containment. The periods of intense US involvement in helping to create the developmental state and ward off military attack were: Japan 1948 to 1964; Taiwan 1950 to 1965; and South Korea 1945 to 1965.

Note that the ending of intense US involvement came as the US and allies geared up military efforts on behalf of South Vietnam, fearing that 'communism' might triumph in Indochina after it had semi-failed in Korea. Korea sent 320,000 troops to fight alongside South Vietnamese and American troops and received in return tens of billions of dollars in grants, loans, tech transfer, and preferential markets from the Johnson and Nixon governments.

In short, thanks to the threat of communist state expansion in a region the US sought to make its sphere of influence (having been attacked from the western Pacific at Pearl Harbour), the US transferred huge resources to the East Asian three. It raised their foreign exchange reserves (allowing them to run sustained current account deficits), boosted their investment ratios to unusually high levels, and helped to *discipline the use of investable funds* by strengthening the commitment of national elites to transform the production structure towards manufacturing and away from agriculture and commodities, and create appropriate planning and implementation organizations. Also, it gave the aid and loans *in a form that did not dilute national ownership of the industrial sector,* in contrast to Latin America's reliance on US firms to establish subsidiaries. And it gave Northeast Asian countries privileged access to its giant high-income market for manufactured goods.

In the case of Taiwan, the US financial transfers averaged about US$600 million a year from 1951 to 1965 (2016 dollars), the biggest US aid transfers per capita in the world through that period. The US civilian and military aid officials were particularly attentive to ensuring the appropriate use of the resources they transferred to the Nationalist government, well aware of the history of wanton corruption during the Nationalist Party's decades of mis-rule on the Chinese mainland before retreating to Taiwan in 1949. US resources went directly to firms in the fertiliser, shipping, cement, aluminium, paper, glass, sugar, chemical, synthetic fibre, and pharmaceutical industries. US officials helped draw up regulations for property rights, investment, export-processing zones, and the like. They consistently opposed the many senior people in the Nationalist government committed to establishing new enterprises as *public* rather than private enterprises. They put their weight behind those wanting *strong state leadership of a largely private sector economy*.

In 1959 the director of the US aid mission to Taiwan proposed an eight-point economic reform programme, which included unification of the exchange rate, liberalization of controls on foreign exchange, and privatization of state-owned enterprises. Based on this proposal, the government launched its Nineteen-Point Program of Reform in early 1960, which amounted to a cautious, controlled sequence of promoting exports, opening the economy, replacing some imports in line with an industrial strategy, privatizing a few state-owned enterprises (leaving the commanding heights—the upstream input supplying firms—in public ownership, contrary to American wishes), plus creating or strengthening several agencies to pilot the programme. The US offered a large loan conditional on fulfilling certain goals of the programme.

James Lee (2017) sums up: 'By the end of the official aid program in 1965, Taiwan had acquired a developmental state, in which the instruments of state guidance remained but the basis of development was private industry'. The US sponsored similar reforms in Japan and South Korea.

Compare US strategy in its former colony, the Philippines, where the US saw no existential threat.[3] In response to a communist-led insurgency in parts of the countryside, the government and the US relied on a counterinsurgency strategy—and did not try land reform, which would have upset the existing landlord–government complex. The US did not provide anything close to its Northeast Asia level of assistance for the Philippines' own attempt at indigenous industrialization, or encourage effective state planning. It remained relaxed as aid resources fed into existing landlord-dominated patronage networks, as it was not relaxed further north.

The US supported the Filipino government's emphasis on intensification of agricultural goods and raw materials, not industrial goods (Lee 2017; Rock 2017). Why? The US saw the Philippines as a periphery of the regional economy focused on threatened Northeast Asia. The top American priority was to industrialize Japan, Taiwan, and South Korea, so as to give them the ability to stand up to their enemies and provide front-line defence of the United States. Filipino commodities

[3] The Philippines was under Spanish rule for centuries before the US took it as a colony in 1898. US rule lasted till 1941. The US colonial administration was much less dense than the Japanese administration in Korea and Taiwan, and ruled through landed elites.

exported to these countries would provide cheap inputs for people and industry, and help their industrialization while also removing their temptation to import commodities from communists.

So the Philippines 'suffered' from not having a communist enemy able to threaten the survival of its pro-American state. Neither its own elite nor the US government pushed for a 'production transformation' coalition. The Philippines remains a periphery in the wider East Asian economy to this day.

Three broader points about the geopolitics and timing should be made. First, in the US and Japanese vision, Japan was to be tied to the United States by economic, political, and ideological means, and was itself to be the restored core of the Northeast Asian regional economy. Taiwan and South Korea were to be lower-cost semi-peripheries (though this terminology was not used). All three were to receive easy access to the US market, and favoured for public procurement, on account of their security importance to the United States. Encouraged by their governments' commitment to the vitality of these economies, US and Japanese firms took their first steps of importing cheap-labour manufactures from domestic producers or from their own operations there (not from next-door Mexico).

Second, timing mattered. The Big Push development efforts in Northeast Asia coincided with the US leading a big multilateral trade and investment liberalization project through the General Agreement on Tariffs and Trade (GATT), which placed more pressure on developed countries to open their markets than on developing countries to open theirs. Northeast Asian firms, and branches of western multinational corporations, were the 'first movers' to take advantage of the new export opportunities, using western demand to compensate for relatively low domestic demand out of low incomes and small populations. In particular, they rode the wave of post-war mass consumption of oil-automobile-mass production products of the fourth great technological revolution, and then, from the 1970s, the wave of emerging demand for the information and telecommunication products of the fifth revolution. With their head start, they were well established and moving up value chains and down cost curves by the time producers in other developing countries came into the game.

The regional economy developed a pattern of integration famously known as the 'flying geese' model. As industries in Japan became uncompetitive, they moved offshore to Taiwan or Korea (or switched supply to local producers); as costs rose in Taiwan and Korea, the process repeated to cheaper sites in Southeast Asia and Indochina—and over the 1990s, China. But an often overlooked qualification to the flying geese model is that whole industries generally did not move; the high value-added parts remained at home and the lower value-added activities were offshored. Rather, Northeast Asia saw an early development of what would later be called 'global value chains' and should more accurately be called 'regional value chains'.

Here is an example. In the 1970s Japanese electronics firms like Cassio, Canon, and Sharp began to offshore the assembly of low-end calculators to Taiwan firms in the role of 'original equipment manufacturers'. The production equipment and key components (such as liquid crystal displays) came from Japan, and the calculators were branded as Japanese. One of the main Taiwanese companies was Jinbao Electronics. In 1990, after extensive consultation with Sharp, Jinbao decided to open its own factory in Thailand and sell calculators (and related) mainly to Sharp. The key components and production equipment in Thailand came from Japan; the procurement and administration came from Taipei; the management in Thailand was Taiwanese; and Thailand provided the lower skilled labour force and the land. All the production was exported. The production appeared in international trade statistics as Thai; the investment in Thailand appeared in international investment statistics as Taiwanese; Japanese firms got most of the profit; and the customers thought the product was Japanese (Bernard and Ravenhill 1995).

The third contextual point is that high levels of US support enabled the East Asian three to run sustained *external payments deficits* during their stage of fast industrialization and urbanization—financed by US assistance. Even as they used substantial and strategic levels of *protection* to foster import replacement, they sucked in huge volumes of imports *in selected sectors*. In contrast, most developing countries, lacking large-scale external assistance, could not sustain the external payments deficits that would have been necessary for fast industrialization and urbanization—unless financed by loans from the multilateral development banks, which have carried mostly neoliberal conditionalities since the 1980s, unlike US conditions in its assistance to the East Asian three.

I now turn to the role of the state and the arrangement of power in Northeast Asia, comparing it to the model of the neoliberal regulatory state.

5 Characteristics of the Northeast Asian developmental state

'Developmental state' was coined by Chalmers Johnson (1982) in his study of Japan's rise, *MITI and the Japanese Miracle*.[4] He used the phrase to refer to a 'plan-rational state', in contrast to 'market-rational state', two broad types of capitalism. The market-rational state concentrates on 'horizontal' policies to improve productivity across the economy, including market regulation, transport infrastructure, education, as typified by the United States (he said, wrongly (Wade 2017b)). The plan-rational state carries out these same horizontal policies but also uses more 'vertical' (sectorally selective) policies to steer the production structure towards state-set goals (mostly by influencing market allocations, in contrast to communist states which relied on plan-allocation more than market-allocation). Johnson took Japan as his case study of the developmental state in action, focusing briefly on the decades after the country's forced opening in the mid-nineteenth century and then at length on the post-war fast-growth decades.[5]

Since Johnson's book on Japan, a sizable literature has applied the idea of the developmental state to other cases, as a way to understand relative long-run economic performance. This literature emphasizes: (1) the 'developmental mindset' of the key state actors—the normative and cognitive models with which they conceive and implement the idea of a state-led national development project, in contrast to the basic idea of neoliberal economics that states are inherently inefficient and predatory as compared to markets; (2) the remaking of power relations so as to secure the dominance of state actors with a developmental mindset; and (3) institutions, strategies, and policies supporting the developmental mindset (Haggard 1990; Wade 1990; Ravenhill 1993; Weiss 1998; Amsden 2001; Haggard 2018; Thurbon 2016; Khan forthcoming, 2018).

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[4] For a succinct account of the history of the idea see Haggard (2018) and Woo-Cumings (1999).

[5] Myrdal's idea of the 'hard state', in contrast to 'soft state', is an obvious precursor. Myrdal defined 'soft state' to mean the societal 'indiscipline' prevalent in South Asia and by extension much of the developing world, as compared to the states which had emerged in western Europe. 'Indiscipline' referred to, in his words, 'deficiencies in legislation, … law observance and enforcement, widespread disobedience by public officials and, often, their collusion with powerful persons and groups … whose conduct they should regulate' (Myrdal 1970: 208).

5.1 The developmental mindset

The developmental mindset, as it emerged in the threatening environment of Northeast Asia, included elite agreement on the following:

- High and sustained economic growth rates, so as to catch up with developed countries 'quickly' (within a few decades);
- High rates of investment to gross domestic product (GDP) so as to achieve rapid movement of the production structure into more productive sectors;
- The state to coordinate the catch-up strategy and promote some sectors and functions ahead of others, whether through public enterprises or through steering private actors into sectors they would otherwise not enter;
- The state to curb the growth of consumption by the urban labour force and farmers, so as to free up more resources for investment;
- The state to promote exports intensively, so that the high investment could be profitable despite restrained growth of consumption at home; but at the same time, state industrial policy must target feasible replacement of imports and concentrate foreign exchange on imports of capital goods, intermediate goods, and raw materials (not consumer goods) by means of a managed trade policy, not free trade and not 'neutral incentives' between export promotion and import substitution;
- The state to invest heavily in education (people being the primary endowment, not natural resources), especially engineering, including sending students to the West for university education and putting them under obligation to return; and
- The state to boost the take-up of western technology, including by establishing public R&D centres able to 'domesticate' technologies purchased or imitated from abroad or brought in by branches of Japanese or western companies.

Underpinning this elite consensus was recognition that investment resources were very scarce and had to be carefully husbanded. The elite had no commitment to the idea that 'free markets' or unstrategic integration into the world economy would produce a catch-up production structure over time, nor did American advisors push this agenda, in contrast to their later counterparts in other parts of the world and the World Bank.

The content of the production structure to be aimed at was influenced by popular metaphors of economic development, like descending a river or flying in a V-shaped formation of geese. Officials in South Korea and Taiwan saw their economies descending the same stretch of river, or flying in the same V-formation, as Japan some ten to twenty years before. They could look to Japan's past production structure for a *tangible* guide to what they should be investing in (qualified, of course, by knowledge of current developments in technology and markets, especially in Japan and the USA). The neoliberal model deliberately has no such compass.

Northeast Asian officials recognized, more implicitly than explicitly, that *a unit of GDP from some sectors gives a larger boost to longer-run growth than a unit from other sectors*. Sectors which are more closely linked to others with higher value-added potential (in manufacturing) have a higher impact on growth than less connected ones (in agriculture, fisheries, and the like). They recognized, second, that in the early stages in most sectors, few domestic firms have the ability to compete internationally without subsidies or protection, or if they do, it is as subordinate producers in low value-added portions of global or regional value chains, exposed to pressure from the lead firms (mostly western or Japanese) 'to run faster to stay in the same place'. In sectors with high potential to boost longer-run growth, they saw that the question was not *whether* to give state support in order to help reap economies of scale and provide 'externalities' to other firms and sectors (beneficial but unpaid for spillovers), but *how*.

Officials recognized, third, that import replacement in sectors vital to industrial transformation required high levels of imports of raw materials, capital equipment, and technology; and therefore fast growth of export earnings. Business people learnt that export performance was one of the main criteria by which government responded to them across the board. If their export performance was good, government would help when they faced unexpected injury in whatever context. In all three countries, the government created an export 'culture', in the sense that exporting became a 'focal point' for decisions in wider government–business relations.

5.2 State capacity and bureaucracy–business institutions

Neoliberal economics has a 'good governance' model which emphasizes checks and balances between the various government ministries concerned with economic policy, so at central government level, authority should be horizontally decentralized, without a strong coordinating centre. And it emphasizes arms-length relations between government agencies and business, to avoid the ever-present danger of business capturing government, given the propensity for government officials to behave 'opportunistically'.

The developmental state model emphasizes the likely need to remake power relations so as to make them support the developmental mindset and the institutions and interventions through which the state tries to accelerate production transformation. In Northeast Asia the land reforms were crucial in removing a potential blockage to industrial development in the form of a landlord–state alliance (as in the Philippines). Also, all three governments in the post-war decades were able to wield a big stick over business. Taiwan and Korea were a mix of one-party states and military dictatorships until the late 1980s.

In the developmental state model the state gains high 'capacity' in economic governance not only from its fiscal and legal capacity but also from its institutional arrangements of 'embedded autonomy', to use Peter Evans' apparently oxymoronic phrase (Evans 1995). The state and its officials have a close working relationship with capitalists, plus the capacity to discipline capitalists and capital. They have the autonomy needed to formulate and implement a strategic vision for the economy's future growth and to discipline the owners and managers of capital in line with that vision (not be captured by specific groups of them to work in their own interest at cost to the larger project). They also maintain close enough relationships with these owners and managers of capital to get information feedback and corporate buy-in to the national project. In Taiwan, when there were more than five firms in an industry the government required them to form an industry association (hence, a Taiwan Feather Exporters' Association). The firms elected the officials—but the government or Kuomintang (KMT) party appointed the secretary.

The 'embedded' part of embedded autonomy did not include much input from labour unions, especially in South Korea and Taiwan before the late 1980s. Labour repression, political marginalization of the working class, was part of the model, to keep down labour costs, prevent consumption demand from eating into the cycle of investment-profits-reinvestment, and keep the state-business vision of future transformation on track (Kohli 2004). Also, non-governmental organizations were tightly constrained.

Comparing public infrastructure bureaucracies in Korea and India, my research found that the Korean agency gave multiple incentives, individual and collective, for staff to act in line with the agency's objectives, while the Indian counterpart had virtually none—its incentives inclined the operational staff to threaten poor service so that clients would pay them under the table to receive normal service (Wade 1982b, 1985). The bureaucracies of Taiwan and Korea were certainly not 'squeaky clean'; corruption was well institutionalized in certain parts of the state, with the exception of the pilot agencies, the central bank, and a few others. But Korean corruption functioned more as a tax or profit-sharing mechanism than as a price. Bidders on civil works contracts knew the conventions about how much had to be kicked-back to officials, who, since the kick-back was much the same between different bids, were more inclined to allocate according to 'merit'. In India, by contrast, bidders would offer different amounts of kick-back, and officials allocated more in line with who offered the most.

5.3 The policy level

Chalmers Johnson summarized the array of instruments for influencing industry in Japan's post-war decades through the 1960s:

> control over all foreign exchange and imports of technology, which gave them [MITI officials, and US aid officials] the power to choose industries for development; the ability to dispense preferential financing, tax breaks, and protection from foreign competition, which gave them the power to lower the costs of the chosen industries; and the authority to order the creation of cartels and bank-based industrial conglomerates … which gave them the power to supervise competition. (Johnson 1982: 199)

Johnson argues that bureaucratic dirigisme or administrative guidance played a central role in industrial structure policies into the 1970s and was even significant in Japan's move into more-technology-intensive industries later on.

Japan's methods for shaping the industrial structure provided models for the governments of Taiwan and South Korea. They deployed a wide range of instruments, including directed credit, fiscal investment incentives (such as tax rebates on production of products currently on the country's technology frontier), trade protection (combined with a tariff-rebate system so that producers could get tariff-free import of inputs which went into their exports while they paid the tariffs on what they sold on the domestic market), and hard bargaining with multinationals intending to make foreign direct investments within the national territory (such as local content requirements on a proposed ethylene plant or chip plant) (Wade 1990/2004, 1991). Richard Luedde-Neurath (1988) documents the elaborate and often covert trade and investment controls used by the Korean government at the same time as it boasted to the world of its waves of market liberalization (see also Wade 1993, for Korea and Taiwan).

In contrast to many other governments which used broadly similar instruments from time to time, the developmental states in Northeast Asia normally imposed *performance conditions* of one kind or another to accompany state assistance (Wade 1990/2004; Amsden 2001). The conditions might relate to closing the price and quality gap between imports and domestic substitutes within a fixed time, or to pushing out the technological frontiers of domestic production (for example, tax incentives for the first few producers to make electrical transformers above a certain capacity).

The key point is that trade protection did not insulate producers from international competitive pressure. It *buffered* producers from international competitive pressure until such time as the producers succeeded in (almost) matching the price and quality of competing imports, or failed to do so (Wade 1990/2004, 1993). Howard Pack is right to criticize the common use of a 'a generalized, blunderbuss industrial policy where you say, "Let's protect an entire industry"', but wrong to imply that it is the only way to give trade protection (Pack 2012).

Korea and Taiwan both instituted technology development programmes as US aid came to an end in the mid-1960s. For example, the Korean government established the Science and Technology Agency as a department of the Prime Minister's Office in 1967. As well as this central location in the state, it had freedom to hire top-level staff *outside of civil service rules*. Separately, the government established a network of government research institutes (GRIs), such as the Korea Institute for Science and Technology and Korean Advanced Institute of Science, both in the late 1960s. They had strong links direct to President Park and the top levels of the military; and received ample assistance from the US. The GRIs took 'localizing foreign knowledge' as a core objective, meaning above all, getting this knowledge into the heads of locals, in the spirit of the Korean motto, 'We never learn anything twice'.

Taiwan created the Industrial Development Bureau within the Ministry of Economic Affairs, to operate as an industrial extension service parallel to the agricultural extension service (with a staff of about 150 by the early 1980s, mostly engineers). For decade after decade its engineers, divided into sectoral teams, travelled the length and breadth of the country (their job contracts required them to be out of the office so many days per month), visiting factories, giving advice, listening to problems, and feeding back into policy discussions. See epigraph 3.

The government began to institutionalize a 'Science and Technology' complex of organizations at about the same time as Korea. The two countries watched each other closely and sent teams to learn from each other. Both countries sent large numbers of students to study science and engineering in the United States, with inducements to return. The Taiwan government established a special office dedicated to organizing the diaspora: contacting Taiwanese working in US firms in sectors of high priority in Taiwan (for example, IBM), offering them expense-paid trips back to Taiwan for conferences and networking, and facilitating full-time repatriation to Taiwan. Taiwan also established a Science and Technology Advisory Group (STAG), comprised of the Minister of Science and Technology plus between seven and ten0 *foreign* experts, and a local secretariat. The group met for several days at a time, twice a year, to review investment proposals and to draw in knowledge about technology developments in the rest of the world.

It bears repeating that in class terms, the state dominated in state–capital relations, and the state helped capital to dominate in capital–labour relations.

6 Singapore and Hong Kong

Singapore was a British colony from 1830 till 1963 (with a brutal Japanese interregnum from 1942 to 1945). It became a sovereign state as recently as 1965. Its development story is similar to that of the Northeast Asian three in that it had no significant natural resources beyond people, and location on one of the world's main east–west communication routes. Starting in the 1950s, it underwent a fast production transformation and integration into the world economy, led by manufacturing. And it experienced a super-fast rise in the world income hierarchy, from about 15 per cent of US average income in 1965 to nearly 70 per cent by the mid-1990s. Like the others, it had a developmental state of strongly authoritarian character. (Regular parliamentary elections were held from 1959, but virtually all seats were won by the People's Action Party (PAP).) The state 'intervened' in labour markets to keep wage levels well below productivity levels. It engineered forced savings through government-controlled vehicles. It owned the land and ensured that a high and rising portion of the population lived in publicly owned housing, rented out on long leases: by the mid-1970s, half of the population lived in this accommodation (owned by the Housing and Development Board (HDB)), today, 95 per cent. It covered all Singapore citizens by a public health system, which today combines a very low percentage of GDP spent on health care and exceptionally high health indicators.

But the story also differs from that of the other three. Singapore had no significant agriculture population. It relied heavily on foreign firms establishing mostly wholly owned operations—together with state-owned enterprises. Missing in action was a local capitalist class, for the PAP sought to avoid the possibility of state capture by local capitalists. Also, the authoritarian regime has remained resilient throughout, from the late 1950s till today. Pressure from the population for political liberalization has been conspicuously lacking, in contrast to Taiwan and South Korea through the 1980s (Barth 2017). The state has avoided demands for democratization by: overseeing a high growth economy; being responsive to demands for social protection; ruling loosely enough that Singaporeans are often able to sidestep some state constraints in everyday life; and maintaining a highly meritocratic and squeaky clean civil service—keeping public sector senior salaries closely in line with private sector equivalents, and inverting the normal rule of law, 'innocent till proven guilty', to make civil servants subject to 'guilty [of corruption] till proven innocent'.

As for Hong Kong, mainstream economists like to cite its economic success to affirm that any non-neoclassical explanation of Northeast Asia's success is doomed, because, according to John Williamson, Hong Kong practised 'the most laissez-fare development strategy of any economy in history' (Williamson 1999), and the causes of the others' success must be similar to those of Hong Kong. The second part of Williamson's argument is impure nonsense (impure in that it contains a grain of truth).

Hong Kong was a British colony from 1842 until 1997. Britain took it as 'spoils of war' when the British military defeated the Chinese military and forced the economic opening of China in the First Opium War. Like Singapore, it developed as a service centre for a vast hinterland. The economy flourished on the back of entrepôt trade, as a base for British–India exports of opium into China and for coastal China trade, and for the vast emigration from the mainland to the rest of the world. By 1900 tiny Hong Kong handled 40 per cent of giant China's exports and 42 per cent of its imports (Haggard 1990: 116). In the late 1940s it 'imported' an entrepreneurial light-industrial class already formed on the mainland under Nationalist (KMT) auspices when Shanghai textile capitalists and their modern machinery fled there with the prospect of communist victory in the civil war.

For the entire period to 1997 (the brutal Japanese interregnum from 1941 to 1945 aside), it was governed largely by British businesses and senior civil servants. Virtually all the land belonged to the British Crown, which auctioned long-term leases—and kept taxes low on the proceeds; taxes were also low because the social security system was minimal. Functions which in the other cases were carried out by state agencies were performed in Hong Kong by well-institutionalized commercial and banking enterprises drawing personnel and organizational culture from Britain. But the Hong Kong state did intervene to provide a range of public goods for industry: it initiated the Federation of Hong Kong Industries in the 1950s, and established a Trade Development Council in 1967 to promote exports, a Productivity Council and Centre in 1967 to provide training and consultancy, and an Export Credit Insurance Company in 1966 for risks not commercially insurable.

Stephan Haggard summarizes similarities and differences with the others: 'although Hong Kong's *economic policy* may constitute an anomaly [close to laissez faire], its *political structure* shows surprising parallels to the East Asian pattern: a highly insulated state; limited representation [especially of "labour"]; and a concentrated and internally cohesive economic decision-making structure' (Haggard 1990: 115).

7 Conclusion

Northeast Asia undoubtedly benefited from capitalism (private profit-driven production), and from access to the world market. To this extent the mainstream is correct. But five qualifications have to be made.

First, for the first several decades the Northeast economies relied not so much on 'the world market' as on 'empire preference' to the US market—and to US technologies, US capital, US military and civilian aid, and US public procurement—thanks to their role in the US's geopolitical strategy to contain communism and show the world that 'capitalism' was superior to 'communism'.

Second, the US's threat perception, its commitment to getting front-line allies economically strong enough to be a credible defence against communism, and its intense involvement in national economic policy-making and institution building, kept the national elites relatively unified and not at each other's throats. So on the spectrum of 'weak state/special interest state/common interest state' these were special interest states moving towards—with a lot of American help in the first decades— common interest states.

Third, steered by a developmental mindset, the developmental state was organized differently than the model neoliberal state. The latter has no strong centre of coordination (because markets played by private capitalists, not states, are the resource coordinating institution), and has arms-length relations between the various ministries and between ministries and business. The developmental state has one or a few powerful centres of coordination and market leadership, a limited role for the legislature in matters of economic, financial, and security policy, and well-developed mechanisms of consultation and coordination with private capitalists, in the spirit of 'embedded autonomy'.

Fourth, these governments made intensive use of policies and institutions frowned upon in the neoliberal playbook—such as managed trade, sectoral industrial policy ('making, not picking, willing winners'), targeted concessional credit, and capital controls. These instruments were intended to buffer (not insulate) producers in selected sectors from international competitive pressure and volatility—so profit-raising protection and subsidies came with performance conditions, which were enforced. The whole complex would have scored poorly by Washington Consensus criteria. For example, Taiwan's financial system was and remains the despair of visiting western economists. That being said, there is no knock-out evidence on the effects of these 'government interventions'. The causality is too difficult to disentangle rigorously.

Fifth, from early on they undertook to develop domestic technological capacity, such as engineering faculties at universities and public laboratories, to aggressively seek out western technologies and domesticate them for deploying in national firms, and much later to undertake world-standard innovation and attract back a high proportion of overseas graduate students—this, rather than rely, as in much of Latin America, on incoming western multinational companies. Singapore, as noted, did rely on western multinationals—which were left in no doubt as to who called the shots.

These points help to understand how Northeast Asian countries overcame two logics of power which keep most of the periphery as a periphery, and which intertwine like a double-helix to produce the result we know as the glass ceiling or the middle-income or middle-capability trap: the centrifugal pressures emanating from the western core, and the drive to hold on to a certain structure of political power on the part of leaders of poor countries, even at cost to national development, in case rival groups benefit from new opportunities created by diversified economic development and use their new wealth to usurp power.

The full-fledged East Asian developmental states were self-limiting, in the sense that the package of (1) elite consensus around the national development project, (2) bureaucracy of industrial planning, (3) array of industrial steerage instruments, and (4) repression of labour, came out of shared elite conviction of the imperative of high rates of investment to upgrade the production structure quickly, raise mass living conditions, inhibit domestic revolt, and support a strong military, coupled with knowledge that many domestic firms could not compete 'on a level playing field' with firms in developed countries.

Some analysts say that, as of today, the Northeast Asian developmental state has eroded to the point that 'the developmental state is dead' (Pirie 2017). It is true that as the economies achieved 'high income' they moved in a neoliberal direction, both for structural reasons and also to bolster their alliances with the West. Structurally, they faced the problem common to developed countries: they became less able to generate enough profitable investment opportunities to absorb domestic savings (especially given the various policies in place to restrain consumption). Far from a severe shortage of capital, they began to experience an abundance. At the same time, the general level of productivity became high enough for most firms not to need subsidies or protection in order to compete domestically or abroad. The state has withdrawn from the labour–capital relation (withdrawn from negotiations about wages and working conditions), and relied on the 'discipline of the market'—the threat of unemployment and the threat of bankruptcy—to keep labour under capital's control. The state has also substantially withdrawn from the allocation of credit, as seen in the now 'independent' central banks and in the large majority of lending having no link to the creation of new productive capacity. So, in both Taiwan and Korea the capital–labour relation and the allocation of capital have been marketized; the state is mostly out.

These neoliberal trends have been all the easier because during their history as developmental states the state resisted moves in a social democratic direction to build up social protections. Today, public welfare is still underdeveloped and legal obstacles block collective action among the working class. Public social spending as a share of GDP remains far below the OECD average, and the share of the labour force in independent trade unions also falls far short of the OECD average. The governments have allowed the share of wages in national income to keep falling. Income inequality has steadily risen since the 1980s. The growth model relies on rising household debt plus foreign demand—exports—to close the demand gap, and both are sources of vulnerability. Both countries have become highly exposed to an economic crisis in China, or forms of arm-twisting.

At the same time, the Northeast Asian states (including Singapore) are still characterized by a developmental mindset driving the state to keep pushing for production transformation. The developmental state has not so much 'declined' or 'disappeared' in East Asia in favour of the neoliberal state, as Iain Pirie (2017) claims; it has 'evolved' in response to changing parameters. In Christopher Dent's words: 'while the policy tools and means may have changed, developmental states still preside over various adaptive-cum-transformative economic projects that increasingly involve a partnering with transnationalized capital' (Dent 2007: 227).

Much of the state's leadership takes the form of overarching 'societal missions' driven by a varying mix of economic and national security objectives. Over the past several decades, all the Northeast Asian (capitalist) cases have experienced a dizzying number of organizational restructurings in the pursuit of national innovation objectives. Standing back, one can see, first, a fairly steady movement from state-led efforts to domesticate foreign innovations and deploy them in the domestic economy (mitigating risks for adopters), to managing uncertainties of innovating on the global techno-economic frontier. Second, one can see a zig-zagging path over time, often coinciding with changes of government: from fairly centralized, top-down control (using methods of formulating, legitimating, and implementing innovation policies drawn from the principles of the old developmental state), to more decentralized, 'peripheral islands' of innovation agencies (drawing on the approach of states like the US and UK), and back to more central control, drawing on an updated version of the developmental mindset (Karo 2018).

In short, we should talk not of the death of the developmental state in Northeast Asia and rise of the neoliberal or the post-developmental state, but of the transformation of the developmental state from 1.0 to 2.0.

Beyond Northeast Asia, the North Atlantic financial crash of 2008 and ensuing long recession has somewhat weakened credence in the neoliberal development consensus, reawakening interest in 'respectable' circles in industrial policy and the developmental state. The evidence is clear that economic development fast enough to reduce gaps with developed countries is really difficult. It requires, above all, that a powerful coalition within a country embraces a 'developmental mindset' and sustains an institutional process for eliciting information from the private sector about investment opportunities and obstacles, for nudging private firms to upgrade and diversify, for sponsoring investment initiatives in promising directions that the private sector would not otherwise undertake, and for pushing education in engineering and science. All this does not require replication of the developmental state *in toto*. It can be done at the sub-national regional level and at sector level. It can be done partially, as with equivalents to Taiwan's Industrial Development Bureau and its Science and Technology Advisory Group (described earlier), provided they have top-level political support. But the first step is to accept that the Washington Consensus policy agenda is a recipe for not catching up.

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