



FULBRIGHT  
UNIVERSITY  
VIETNAM

FULBRIGHT SCHOOL OF  
PUBLIC POLICY AND MANAGEMENT

# DEVELOPMENT POLICY

SESSION 5

State-led Development (1)





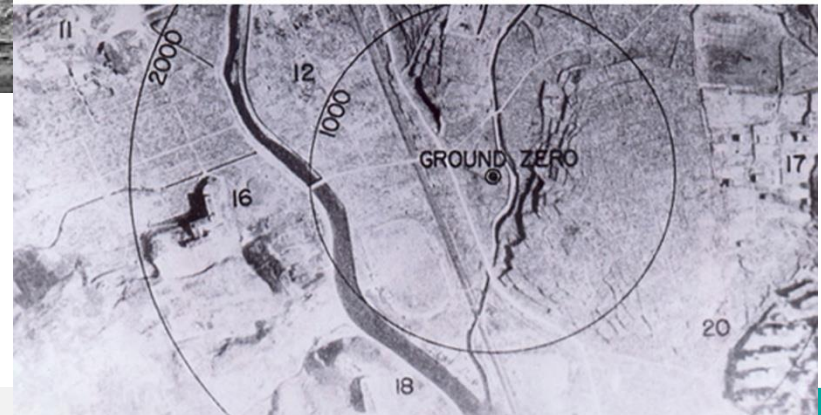
# Session 5

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- Explore State-led Development
- Market Perspective (Neoclassical) on East Asian Development
- “Developmental State”
- Japan & South Korean examples



# After Wars...



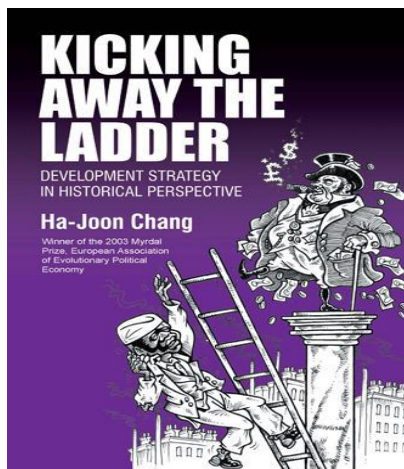


# But now,...

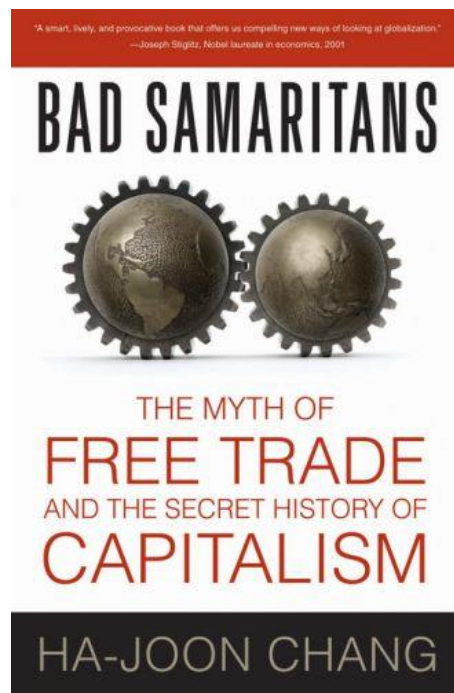




# Ha-Joon Chang's Work



Major industrialized societies were not advocates of free trade and market economy – they used “interventionist” strategies as well.



“Only unfettered capitalism and wide-open international trade can lift struggling nations out of poverty” is a myth - U.S., U.K. and even South Korea attained prosperity by shameless protectionism and government intervention in industry.

*His books raised serious challenges to Western-based “free-market” argument – related to development*



# East Asia NICs

- East Asian Miracle: Most successful development in postwar history (NICs, newly industrialized countries)
- Rapid economic growth in the last forty years: Industrialization, GNP, Per Capita Income, etc. – “true wonders of developing countries”
- South Korea, Taiwan, Hong Kong and Singapore
- **Robert Wade** (1992) – South Korea was successful (1. Income growth, 2. Trade Performance, 3. Industrial Transformation, 4. Elimination of poverty and Expansion of Rights)

# Concepts: “Rapid Growth”

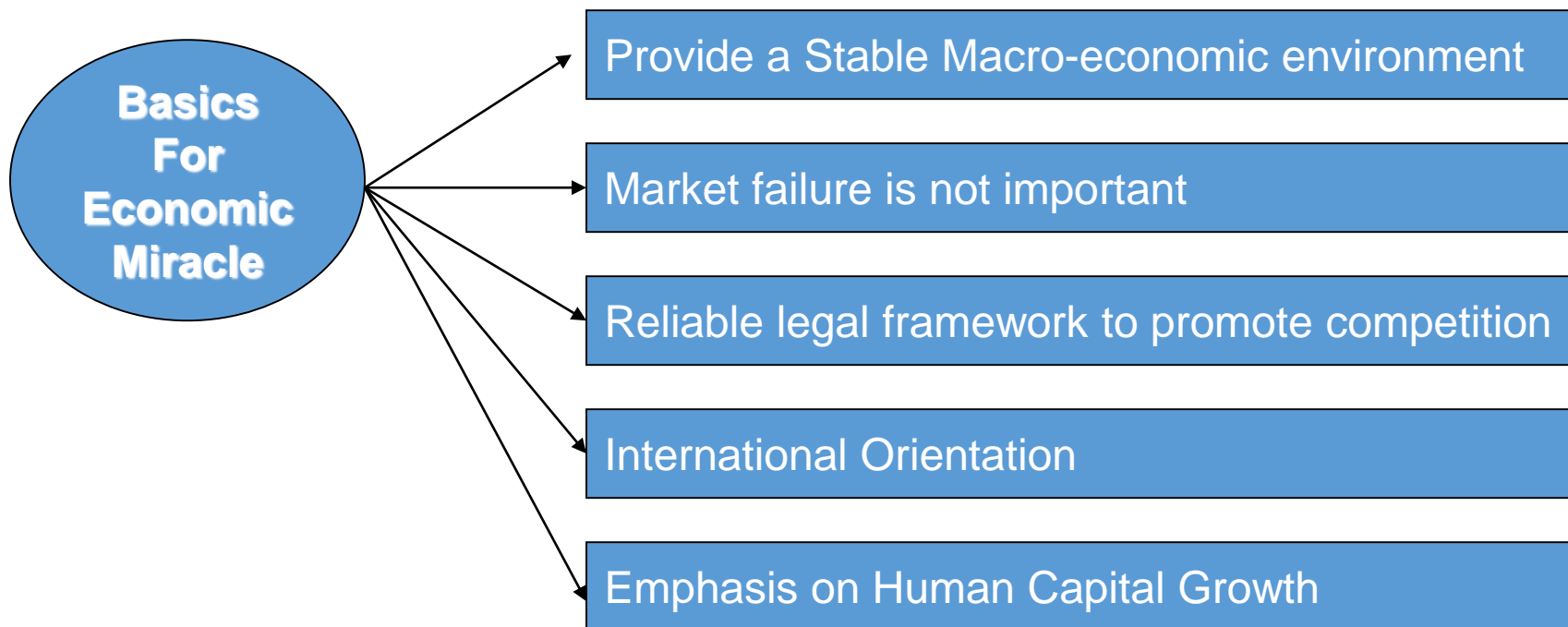


- **Rapid growth**: “between 1960-1985, real income per capital increased more than 4 times in Japan and four tigers and more than doubled in the Southeast Asian NIEs. If growth were randomly distributed, there is roughly one chance in 10,000 that success would have been so regionally concentrated.” (World Bank, 1993).
- **Core Questions**:
  - How do the countries in East Asia achieved?
  - How similar and different from Western countries?
  - How is this growth related to their political systems?
  - Why did the countries face economic crisis?



# Different Perspectives

- Contrasting perspectives on East Asian Miracle
- Neoclassical Perspective: “Getting basics (the Prices) Right”







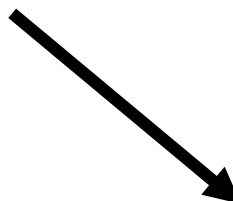
# Revisionists

- Industrial Policy and Selective Intervention are inconsistent with the neoclassical view

East Asian  
Miracles are  
state-led  
Development

Market Failure  
Prohibited  
Investment in  
Growth  
enhancing  
industries

Altering  
Incentive structure  
To boost  
industries



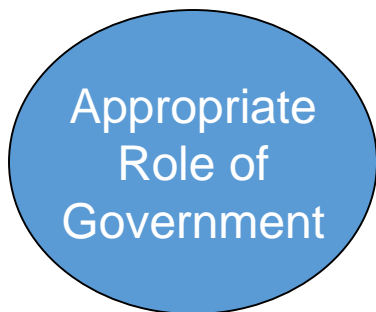
Challenge to  
Neoclassical perspective

***Developmental State Theory***



# Neoclassical Response

- World Bank's 1991 Report: expands on the neoclassical view while clarifying the role of effective but limited government activism in rapid growth



To ensure adequate investment in people  
Provide a competitive climate for private  
Enterprises  
Keep the economy open to international  
trade, and maintain a stable economy

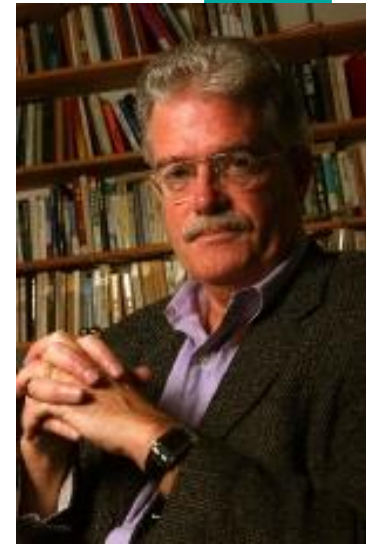
**Beyond these roles, governments are more likely to do more harm than good unless the intervention is market friendly**



# Core of 'East Asian Miracle'

- Summarized Explanation from the Revisionists on East Asian Miracle
- Core of East Asian Miracle
  1. Colonialism
  2. The Public Bureaucracy
  3. State's Economic Policies
  4. Relationship with the United States
  5. Geopolitical consideration and international political economy
  6. Culture
  7. Type of Regime
  8. Types of production organizations (business)

# 1. Colonialism



- Why Colonialism?
  - a. Bruce Cummings and many other scholars
  - b. “ The Threat of Western Power ” (fear of colonial subjugation) – awoke Japanese leaders first in the 19<sup>th</sup> Century
  - c. Learning from Western political /economic practices
  - d. Korean case: during the period of Japanese rule, the Japanese system (experience) were forcefully implanted
  - e. Bruce Cummings, “colonial period provided Korea with an institutional template” – *revisionist view*



## 2. Bureaucracy

- The Public Bureaucracy\*\*\*
  - a. Japan: Who Governs? = Bureaucracy (Johnson, 1982)
  - b. Recruitment: from the Best and the Brightest
  - c. Initiative in drafting bills and policies
  - d. Through what? **Highly Competitive Exams**  
(Johnson, 1982)

Administrations	Seoul Nat'l Univ.	Korea University	Yonsei University	Other Universities
Young Sam Kim (1993-1998)	58%	10%	3%	29%
Dae Jung Kim (1998-2003)	57%	12%	6%	25%



# 3. State's Economic Policies

- State's Economic Policies

- a. Financial and Economic planning: The nerves of the

- 'developmental state' theory – provided **incentives to selected industries**

- b. Controlling Interest and Exchange rates through Centralized Banking System

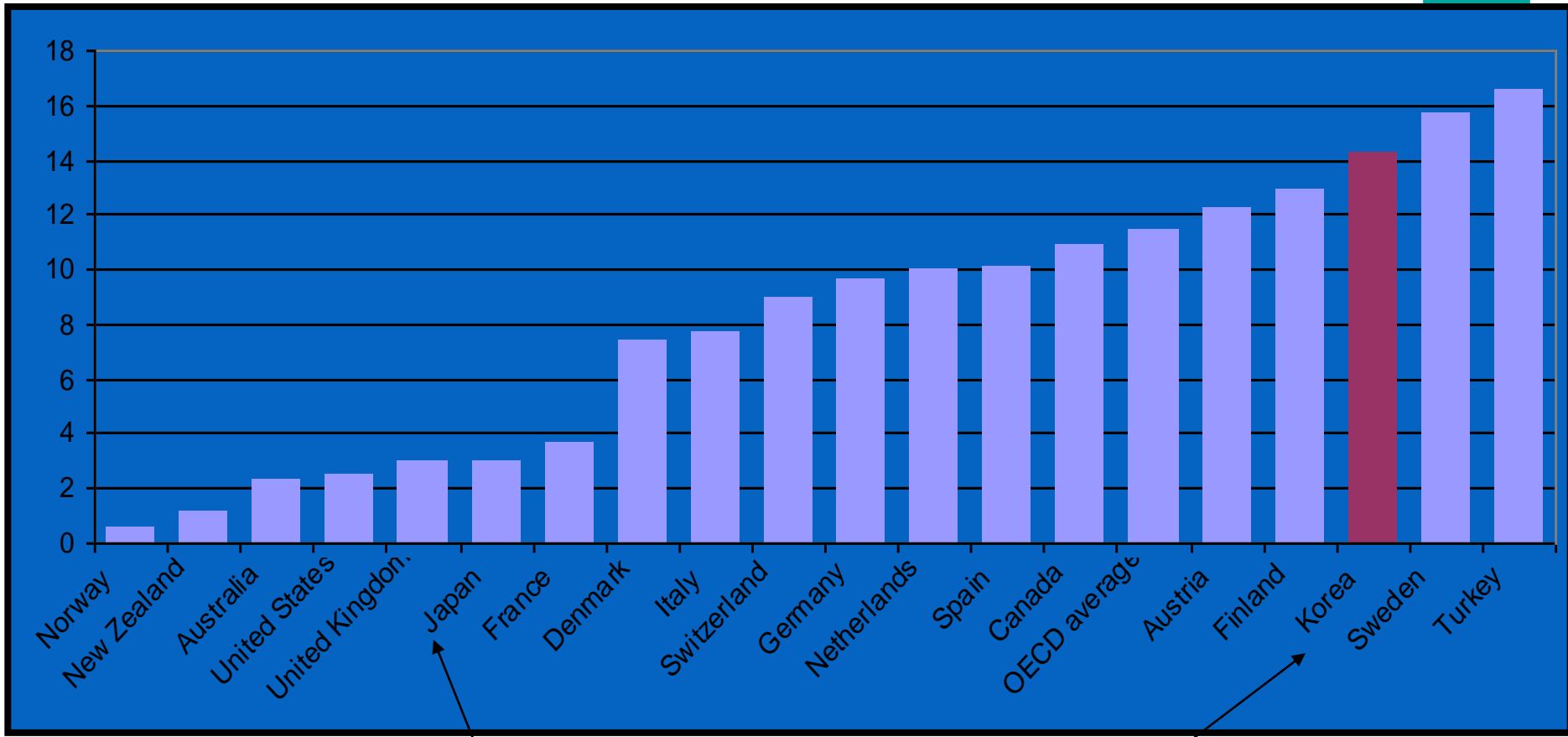
- c. High-level of saving rates

- d. Industrial policies

- Subsidies

- Dual regime (Export / Import) – protect domestic industries

- Export-oriented policies



Trade to GDP in 2004

# 4. Relationship with the U.S.



**USAID**  
FROM THE AMERICAN PEOPLE

- Relationship with the United States

- a. U.S. Aid

- Previous Example (Marshall Plan in Europe)

- Geopolitics of the Cold War

- Both military and economic aids →

- About **60%** of total US foreign aid → East Asia (**75%** of total imports in S. Korea in 1953-1960)

- Possibility of alliance with foreign capital and production technology (example)



# Continued...



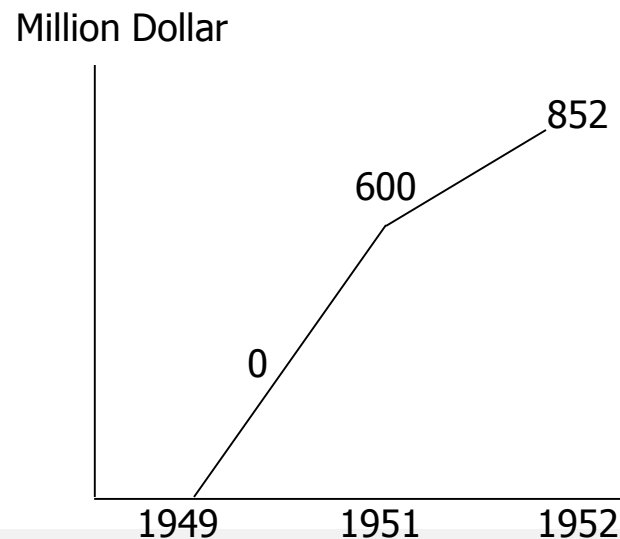
- Relationship with the United States...continued
  - b. Accessibility to the U.S. Market
    - Japan, Korea, and Taiwan – were given broad one-way access to U.S. market - Part of U.S. foreign policy in the age of the Cold War
    - With preferential tariff
    - Growth of low wage, labor intensive, low quality goods



# 5. Geopolitics and Global Economy



- Geopolitics and the Dynamics of the Global Economic System
  - a. Two Wars
    - Korean War (for Japan) / Vietnam War (for Korea)
    - U.S. military's purchase from JAP: Revival of economy
    - War economy expand exports (JAP: \$510M – \$1.6B)
      - Vietnam War: Korea Received about \$ 50M per year for 10 years
      - Korean companies participated in construction works in S. Asia





# Continued...

- Geopolitics and the Dynamics of the Global Economic System

- b. Global capitalism:

- World economic crisis since 1970s – labor shortage, high wages, environmental pollution, etc.
    - Finding new market: East Asia (Korea, Taiwan), *repressive labor market, low-waged, disciplined and well-educated*
    - Global construction market in the Middle East (remittance from the labor migrations: substantial economic effect on Korean economy in 1980s.





# 6. Culture

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- Culture
  - a. Confucian ethics?
  - b. Culture of frugality
  - c. Aspiration for education
  - d. Japan – Moral Suasion (foundation for modernity):  
Sheldon Garon (1997)
  - e. Strong nationalism



## Koreans' average work hours still second-longest in OECD

2015-11-02 18:59

South Koreans work the second-longest hours among OECD countries, but with relatively low labor productivity, recent data showed.

Statistics compiled by the Paris-based club of advanced economies show that the average South Korean -- including salaried employees, self-employed and part-timers -- worked 2,124 hours in 2014, up 45 hours from the previous year.

This marks 1.2 times, or 354 hours, more than the average for the 34 Organization of Economic Cooperation and Development member countries, which stands at 1,770 hours per year.



(Yonhap)

Mexico was the only country ahead of Korea with 2,228 hours. South Korea was the most



# 7. Types of Regime / Business

- Type of Regime
  - a. 'Developmental' Regime
  - b. Authoritarian or conservative regime
  - c. Interventionist Regime
- Production Organization
  - a. Strategic firms: benefit from the state
  - b. Factory Despotism: protection from the state
  - c. Big business organizations:  
Japan (*zaibatsu*, *keiretsu*) Korea (*chaebol*)



# Q&A



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