

Starting from the late 1980s, the developmental state in East Asia faced the significant challenges of managing the greater desire for democracy and welfare from domestic interest groups and social movements. East Asian economies began to adjust and adapt to a new political economy in which the state could no longer wield autonomous power in governing the market and directing the growth trajectories of national firms. In this issue, we look at the implications from a comparative study of the experiences of South Korea, Taiwan, and Singapore.

The political economy of state transformation in East Asia*

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By the late 1990s, the developmental state had become more than a theory of industrial transformation. Its wide circulation and acceptance in development studies and policy circles had produced an unintended consequence that the state in East Asian economies was reified as a permanent fixture in the political economy of development. The centrality of the developmental state in steering these economies in their earlier phase of industrialization was not only celebrated, but also assumed to endure and remain so in the next phase of their developmental pathways.

As a blunt policy instrument of “picking winners”, state-led industrial policy was widely practiced in Japan and the three East Asian economies against the then prevailing economic orthodoxy of market liberalization. If anything, the developmental state deliberately practiced “getting the prices wrong” by offering cheap credits and other subsidies and incentives in order to induce private entrepreneurs to participate in the state-led industrialization program. In return, these entrepreneurs were subject to very stringent performance and standards monitoring by state agencies. In *Asia's Next Giant* (Oxford University Press), Amsden (1989: 94) argues strongly that “What lay

behind successful post-war industrialization was a monitored system of controls on subsidies. Neither import substitution nor export-led growth was a free-for-all. In many cases, especially that of Korea and Taiwan, exporting was made a condition for domestic protection”. If these entrepreneurs were not forthcoming or capable enough, the state took on the role of entrepreneurs and readily stepped in with the establishment of state-owned enterprises that socialized the market or the industry in the hands of the public sector. This direct state involvement in the domestic economy was most significant in Taiwan during the 1950s and in Singapore during the 1960s. If necessary, and urgently so in the case of Singapore, the state also opened its arms to embrace foreign capital to industrialize the nation. By the late 1960s and the early 1970s, all three developmental states had begun actively pursuing sectoral industrial policies to promote export-oriented industrialization.

Among the three East Asian economies, this developmental state model of active industrial policy arguably had the most dramatic effects on domestic firms in South Korea. Amsden's (1989) work shows clearly that without the active state policy, Hyundai Heavy Industries and Pohang Iron and Steel Company (POSCO) would not have emerged respectively as one of the world's largest shipbuilders and steel works by the late 1980s. Behind this incredible achievement was the strenuous role of the state's disciplinary power over these large business firms. This disciplinary power is evident in the state's control of finance and elite bureaucracy. Many innovative policy instruments were deployed by the developmental state to this effect. Instead of pursuing a market-based price mechanism, the developmental state had intentionally distorted the market through its highly selective industrial and financial policies.

Since the 1990s, changing global and national contexts have called for a reconsideration of the role and efficacy of the developmental state in industrial transformation. Indeed, even the strongest developmental

state in South Korea has been out-grown by its national champions, the *chaebol*. Meanwhile, the reconfiguration of global and regional production networks in East Asia has compelled scholars of economic development to go beyond the political-economic dynamics and alliances within individual economies. These cross-border networks provide an unprecedented opportunity for “compressed development” that may otherwise take a long time to occur or may not occur at all. More recent works on the developmental state also offer different interpretations of the changing role and capacity of the developmental state in guiding innovative high-tech industries in today’s East Asian economies. The decentralization of functional expertise within the state has seriously weakened the leadership role of the state. The increasing complexity and uncertainties associated with globalized high-tech industries mean that the state and its bureaucracy are simply unable to cope with the challenge.

My empirical analysis has shown significant transformation of state roles in these East Asian economies since the late 1980s. Successful industrial transformation in the preceding decades did change the basis of subsequent state involvement. In South Korea, the developmental state had started to crumble by the early 1980s and was reconstituted since then as a regulatory state, with a “developmental mindset”. The deregulation and liberalization of the domestic economy in successive political regimes gave the *chaebol* an unprecedented opportunity to increase their dominance in the domestic market and to venture rapidly into the global economy. The state’s elite agencies were dismantled and reorganized into different and even competing loci of policy making. The 1997/1998 financial crisis served only as a temporary brake on the *chaebol*’s globalization momentum that was fully resumed in the early 2000s. In Taiwan, the state was more fragmented during the late 1980s and the 1990s. While the state’s industrial policy in high tech development was relatively more cohesive and developed during the 1980s, its effectiveness was critically dependent on the emergent capabilities of private sector firms and new technopreneurs who willingly took on these projects. Political upheavals in the late

1990s and throughout the 2000s created further instability in state bureaucracy. Electoral politics came to trump sound economic policies as the principal concern of different political parties and weakened state agencies.

Of the three economies, only the state in Singapore was able to weather the relative decline in its institutional capacity in an era of globalization and liberalization. The Singapore state maintained its developmental posture through its domination in domestic politics, its continual renewal of political leadership, and the bureaucratic rationality in its elite pilot agencies that remained in control of industrial and economic policies. Since the late 1990s, even the state has begun to concede more to demands from domestic capital and social groups. New national strategic plans have been developed and implemented to foster technological development, to nurture domestic firms, and to expand its national economy through direct investment abroad.

As the developmental state in these three East Asian economies experienced different degrees of decline and fragmentation between the late 1980s and the 2000s, one might question how its embedded relationships with capitalist firms will evolve and change such that the dependency of these national firms on the state will decline as well. Future studies need to consider these evolutionary dynamics in the state-firm-market assemblage, and explain the processes through which domestic firms become increasingly disembedded from their home states in search of better developmental opportunities in a world of global production networks.

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