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CENTER FOR NORTHEAST ASIAN POLICY STUDIES

**THE LEGACY OF DEVELOPMENTAL STATES:
INDUSTRIAL POLICY IN KOREA AND TAIWAN***

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PROCEEDINGS

KEVIN SCOTT: Shall we get started? Good morning. Thank you for coming out this Thanksgiving week to listen to the sixth and final CNAPS Visiting Fellow fall presentation. Today's presenter is Professor Haeran Lim, who will talk to us about the "Legacy of Developmental States: Industrial Policy in Korea and Taiwan."

Professor Lim is associate professor and chair of the political science department at Seoul National University. She has also taught at the Catholic University of Korea. She earned her Ph.D. in political science from the University of California at Davis. She's published many papers on governance, trade, and the relationship between the two, or political economy.

She has published a book, *Korea's Growth and Industrial Transformation*, published by McMillan Press. And I think today she will update us a little bit on that book, focusing on industrial policy in Korea in the wake of the 1997-98 Asian financial crisis. She will offer a comparison of Korea's trajectory with Taiwan's, which should be pretty interesting because I think Taiwan was relatively unharmed by the financial crisis, but Korea and Taiwan may be going in opposite directions afterward.

HAERAN LIM: Good morning, everyone. I'm really honored to be here to present my paper, "The Legacy of the Developmental State: Industrial Policy in Korea and Taiwan."

Before I begin my presentation, I would like to thank all of you who came here for my presentation this morning. This must be one of the busiest times of the year just before the Thanksgiving holiday, and when I was driving to the office today, I found that not many cars were on the road. That means many of them are already gone for the holidays, and so I really appreciate your attendance this morning. So I would like to do my best in my presentation to make this worthwhile for you.

Let me start by talking about the present—the background of this study and the East Asian region. East Asian countries used to be an engine of growth in the world economy, since 1950s up until now.

Recently, China began to rise and show high competitiveness in the economy, as did India and Vietnam. East Asian countries were suddenly hit by the Asian financial crisis in 1997, so Asian countries were faced with internal as well as external pressures for reform and change after the crisis.

And also there is a megatrend phenomenon that presents challenges for us. As you can see, we are living in a globalized world in the 21st century. The globalization, democratization, and informatization have made the state-centric approach inappropriate

due to the rising roles of diverse sectors, such as multinational corporations, NGOs, and others.

So we need a new development model to emphasize coordination among various actors. That is one of the megatrends we are facing as challenges.

After that megatrend, some scholars may argue that we could see the decline and eclipse of the state. The role of the state became weak in the economy and in society as well. After that new phenomenon, there have been several debates. The first debate is about the convergence versus divergence of countries. We could raise a question such as the following: Are developmental states declining and transforming into regulatory states? This is a version of the convergence theory, convergent approach.

According to this perspective, capitalist societies are moving in the same direction, reforming into regulatory states. But there is not yet a new model to replace the Asian model, which means divergent path of capitalist nations even right now. So this is the debate between convergent versus divergent transformation.

And then another debate is about the future of developmental states. Bad versus good. The Asian crisis just shows all the problems of the Asian developmental model and the model should be thrown away. That is the negative view of the developmental state model.

However, rise of China as a late, late developer shows another possibility of the Asian developmental model and may indicate that the model should be examined in a new respect.

So the questions that I would like to raise are like the following:

The first question is, in which direction are the old developmental states moving forward after the Asian crisis? Are they restructuring and really transforming into Anglo-American-style and neo-liberal-regulatory-states? That is one of the questions that I would like to explore.

And the second question is, why are the old Asian developmental states, such as Korea and Taiwan, struggling in the recent period of time? Why are the new ones, such as China and India, rising in international economy and politics?

And also we could see whether China's model is a mutation which is totally different from the old developmental model. These are the questions that I would like to explore in my presentation.

So the purpose of this presentation is to explore the empirical path of the post-developmental state by focusing on the changes and transformation of industrial policy to promote informatization and IT industry in Korea and Taiwan after the crisis. And by doing this, we can drive some implication for a new developmental model.

And also it tries to explain how the legacy of the developmental state led to a coordination failure unlike in the past, and what new device of coordination is needed. That is the purpose of this presentation.

And so the frame of our presentation: First, I would like to introduce some common features of the developmental state and then show why two countries were shocked by the Asian crisis, and how industrial policy was anticipated to transform and change in a new environment; Finally, I will examine the transformation process of developmental states by comparing industrial policies to promote the IT industries and explain whether legacies of developmental states remains or not.

First of all, let me explain common characteristics of the developmental state. As you may notice, East Asian countries have grown fast compared to countries in other regions. Let me tell you the empirical evidence.

The average annual growth rate of Korea and Taiwan was nine percent for 30 years before the crisis. We could find out a similar case for China until recently.

But among Third World countries, Nigeria and Ghana for example, in the African region, the average annual growth rate is near zero or negative percent. Mexico and Brazil in Latin America are around three percent each, so they are very slow in terms of economic development as well as political development.

Why are there such huge discrepancies? The elements of the developmental model are the existence of the smart industrial policy. While some scholars may add more elements—for instance, financial control by the government and repressive labor regimes in Korea and Taiwan, and bureaucratic autonomy in implementing industrial policy—the most important is a triple alliance among the state, business, and the bank sector.

So the key of the developmental model is the triangular cooperative structure among these three areas through the industrial policy. So the key argument is that Asian states actively intervene in the market by means of a smart industrial policy.

In African and Latin American countries, the state is also involved in the economy by means of collusive relationships between firms and various sectors of bureaucrats and politicians, but they turn into a predatory state instead of a developmental state. We have to compare why East Asian countries have grown successfully.

So the developmental model is seen as a state-centric explanation for the rapid economic growth. Actually, there are competing perspectives and explanations to explain East Asia's economic growth.

The first competing explanation is the external perspective. According to this perspective, the East Asian region was regarded as a strategically important region for the United States during the Cold War period. So the United States has provided various assistance to the East Asian countries, such as economic assistance in the 1960s, and access to the United States market for the export products in the 1970s, when East Asian countries pursued export-oriented policies. So without geopolitical consideration and a benign and favorable trade environment in East Asia during that period of time, rapid economic growth wouldn't be possible. That is the main argument of the first explanation. That might be sensible in some ways.

The second competing explanation is the market-driven explanation. According to the neoliberal, neoclassical market-centric explanation, East Asian countries have grown fast because they were pursuing policies that conformed to the liberal market, such as export-oriented policies. They were open to the international competition. They didn't focus on the protectionism or import substitution industrialization like as Latin American countries have pursued in the same period of time. So the market-driven explanation was in some ways also persuasive. But there's no doubt that the East Asian states have heavily intervened in the market by means of industrial policy. So you may have to really judge which argument might be more sensible.

And the third argument is the cultural explanation. East Asian countries are influenced by Confucianism, which emphasizes the value of education and hard work. Also East Asian society is a network-based society; as you can see, the people within networks are based on blood, school ties, and region. The level of trust within networks is high. On one hand, network society can reduce the transaction costs for their economic activities in their economic development. On the other hand, this network society can have negative effects such as collusive coalitions among key politicians and business sectors, which was one of the seeds of the moral hazard of crony capitalism in East Asia. So the cultural explanation is a really contentious argument.

The fourth explanation is an institutional perspective which emphasizes the historical interaction between the state and the market and the concept of "embedded autonomy." The previous perspectives seem to be very simplistic: the state-centered approach focused on the role of the state and export-oriented policy, and the market-centered approach usually focuses on the role of the markets—so it's a dichotomous understanding of the relationship between the state and the economy. So the institutional approach is trying to overcome the weaknesses of these previous perspectives and to suggest a more historical approach. According to this perspective, the more important

question to be asked is not whether states intervened in the market, but how and when. How much have states been involved in the economy? That is the more important question. And the type and the degree of intervention of the state in the market might vary across region, country, and sectors. However, most countries have been involved in leading and directing their economic development regardless of the forms of political regime. And also what the institutional approach is trying to do is to emphasize the interactive understanding between the state and the society. Usually the state-centered approach heavily emphasizes the role of the state as an autonomous, unanimous entity. However, as you can see, the real process of policy choice and implementation has a whole different story such as clashes of interest and tensions among business, ministries, bureaucrats, politicians, and so on and so forth. So the government is not a black box. You have to look inside the government as to how power has been shifted from one ministry to another. We have to look at the embedded autonomy. The state should be autonomous in order to not be captured by societal groups, and should be embedded into the dense societal network to get societal cooperation.

The final perspective is IPE, international political economy. They are looking at why Korea and Taiwan were invited and chosen from the international division of labor in the world production system. Countries from Latin America and the African region were not invited, but only Korea and Taiwan. Analysts in IPE think that a broader, macro level of explanation might be necessary to understand the development of Northeast Asian countries.

The next issue I'd like to address is the Asian crisis. Due to the constraint of time I am not going to go over in detail the process of the Asian crisis. But I would like to mention some of the causes of the Asian crisis. Right after the crisis, many people believed that domestic factors were the main causes; especially many politicians and scholars in Korea believed that.

The internal cause is the moral hazard of crony capitalism. But even in this explanation, there were two different arguments: that the crisis had to do with either too much government intervention or too little intervention. The government used to intervene heavily in the Korean economy, but since the 1980s, the state began to push for financial liberalization. And so there were two contrasting arguments within the school that believed the crisis was caused by internal factors. But anyway, the purpose of reform for the Asian countries, especially for Korea, is to increase transparency. Korea should move toward a regulatory state, according to this argument.

But once the Asian crisis became stabilized, many people began to think about other factors, such as external causes of the crisis, global financial instability, and the immoral behavior of international investors since the rapid financial globalization in the 1980s. Analysts from this perspective believed that reform should be focused on institutional building for regional financial cooperation, such as the Asian Monetary Fund that was proposed by Japan right after the East Asian crisis.

And also there are other arguments for emphasizing the interaction between internal and external causes, which might be helpful to completely understand this Asian crisis, but sometimes we may have to emphasize one element over the other. When we look at the response from both Korea and Taiwan around 1997, we found some very interesting contrasting differences between those two countries.

Korea and Taiwan responded differently to the similar international pressure of liberalization before the crisis. While most people might think these two cases as similar, when we look inside the story of Korea and Taiwan however, salient differences are more predominant.

And then Korea was suddenly hit by the crisis, whereas Taiwan escaped from it. Many scholars were concerned about why there existed huge differences in terms of the intensity and severity of the crisis among countries, especially between Korea and Taiwan.

There are other examples of differences and similarities between Korea and Taiwan. Both have been transformed into powerful IT nations within a short period of time. As you may know, the Taiwanese government may be ranked as number one, in terms of e-government. And also Korea was ranked— as one of the leading nations in terms of IT development and IT accessibility.

However, their transformation process has been somewhat different from each other. So in this sense, the internal difference must be underscored. So I'll try to explain why these two countries have similarities as well as differences.

After the Asian crisis, we could expect the transformation of industrial policy like the following: First of all, the developmental model has been heavily criticized as a cause for the crisis. The state-centered development reflects the seeds of corruption and inefficiency. So the Korean government was supposed to change from a state-centric to a more coordinated style of governance; From vertical decision-making process to more horizontal coordination; and from being monolithic to being more interactive with various sectors.

Also when it came to adaptability to a newly changing environment, the Korean society had to change from being rigid to being more flexible. And also, we could expect the convergence between Korea and Taiwan. For Taiwan reflects the characteristics of flexibility in the structure of economy and the relations between state and economy.

When Korea was hit by the crisis, most people blamed the existence of chaebol, large enterprises, as the major cause for the crisis. So the Korean society and the government began to push for the promotion of small- and medium-enterprises in order

to balance the industrial structure. There have been many measures for supporting SMEs, small-medium enterprises, in Korea. However, most SME promotion policies resulted in a failure.

Also, Taiwan is characterized as a small-medium enterprise industrial structure and during the IT period and for IT promotion, Taiwan needed some sort of big enterprises to invest. So the Taiwanese government and the Taiwanese society began to move toward the rise of the powerful large enterprises, so that some people were expecting that the two countries may be converging in terms of the industrial structure and in the direction of reform after the Asian crisis.

But I would like to show whether that is the case. Let me address the transformation of industrial policy in both Korea and Taiwan and whether they are in fact moving toward the same direction or not.

First of all, let me focus on the case of Korea. Industrial policies in Korea have been transformed from targeting policies, such as from light manufacturing in the 1960s, to HCIs (heavy chemical industries) in the 1970s, to neutral policies in the 1980s, and to market-conforming industrial policies since 1995. So we could divide the period into three phases. Let me explain in detail.

The first period is the targeting industrial policy, which is one of the successful periods of a developmental state. During this period, the government promoted an export-oriented policy by focusing on light manufacturing in the 1960s, and shifted the favorite sector from light manufacturing to HCIs in the 1970s. And government promoted heavy chemical industries by subsidizing cheap loans and guaranteeing market entry.

But actually the intervention of the government in the 1970s resulted both in rapid growth and some distortion, in terms of resource distribution by over investment and overproduction of HCIs. So since 1980, the government began to shift its previous industrial policy toward a more neutral and functional approach based on R&D criteria. And also the targeting policy or subsidies are prohibited by international trade norms since the 1980s.

One interesting thing is that, during this period, 1960 to 1980, there were subsidies as well as standards for economic performance. It means that the government provided huge economic assistance only to firms that met the high standard of efficiency so they could prevent Korea from becoming a more predatory state in the economy.

The second period is the period of functional approach. As I already mentioned, targeting policy or a subsidy is prohibited by the global standard. So industrial policy is implemented based on more general and neutral standards— assistance to R&D, human development, labor training, and environmental assistance. So

the second period is more or less neutral. However, the government still tries to target the high-tech sectors so policy toward this sector is in effect non-neutral. Since the 1980s, the Korean government actually has been unable to move toward the direction they have to go.

The shift of the industrial policy in the 1980s seems to signal the twilight of the state's role in economy. However, the high tech industry does not preclude effective state involvement. Even in the advanced countries, states have been actively involved in shaping the development of the IT industry. The industrial policy in the 1980s has been functionally non-neutral with respect to the high tech industries. .

However, I think that since the 1980s, there has been confusion about the appropriate role of the government in leading the economy. This uncertainty continues to be predominant after the Asian crisis, furthermore. The industrial policy was blamed as the seeds of the moral hazard, the collusive relations between the chaebol and the state. That might be one of the reasons why the Korean economy has been held back recently, and we'll talk about the case of Taiwan later on.

Since 1995, the government has been trying to show us the new industrial policy as the official goal. What are the characteristics of the transformation? From an unbalanced growth strategy to a balanced development based on sector, region, and production. For achieving the goal of balanced development, the government tried to build various IT clusters across region. The second nature of the new industrial policy was a change from quantitative to qualitative development. It emphasizes the aspect of job-creation based on quality, not output and exports of quantity. And then the third element was a change from input-driven growth to innovative-driven growth—the IT knowledge economy.

So these are the three goals of the government to change the industrial policy and its direction. And the nature of the new industrial policy is as follows:

First, as I already mentioned, after the crisis, the Korean government began to put more emphasis on the small-medium enterprises. Sometimes people think that it was a lip service for the election. But still, they are trying to show that the government cares about the importance of SMEs in Korea. It means there are many actors with which the government should deal. And especially in nurturing IT clusters, the government should deal with many various actors, such as research institutes, local governments, universities, and domestic as well as multinational firms. So the environment is totally different from that in the past. In the past, the government could only deal with a few large enterprises to monitor and control them. However, in the recent period of time, government should deal with so many different important actors in nurturing and steering economic development in Korea. So the aspect of coordination became a very important job for the government to accomplish its goal.

And the second aspect is a more space-centered industrial policy. The government began to put priority on regional development and balanced development, so that the industrial policy is not static but more dynamic.

The third one is the change from a hierarchical to a horizontal nature of policy choice and implementation: Industrial policy in the past has been characterized as a top-down decision-making process. However, since the IT development, the government began to look at the outreach of the preferences and demands of the grassroots based on region. Therefore it's a bottom-up decision-making process, but in reality it was hard for the government to accomplish this goal.

The final element emphasizes the importance of a voluntary coordination among actors which is a good governance mechanism. But the Korean government hasn't established the mechanism of good governance in a new environment yet.

One of the problems in industrial policy choice and implementation, especially in the IT industry sector, is the lack of a coordination mechanism in cases where various ministries are involved and clashed with each other. For instance, the Ministry of Information and Communications, MIC, was encroaching on the territory of the Ministry of Commerce, Industry, and Energy, MCIE, which used to be the powerful and major agent for industrial policy. There was an increasing degree of tension and clashes of interest between these two ministries. Also there are cases of conflict among the Ministry of Finance and Economy, MIC, and MCIE. So there actually isn't any major powerful ministry implementing the industrial policy anymore and there is a lack of good governance mechanism for coordination among ministries. So that could be one of the problems.

Also, there's a failure of coordination between government and societal actors in various sectors. We could see the recent failure of balanced regional cluster promoting policies in Korea. And in the past, the top-down nature of decision-making worked well in establishing a cooperative structure, but now the top-down nature does not function well in a different environment, where various actors exist in the coordination process. In conclusion, since 1995, the Korean government tried to pursue a new industrial policy, by emphasizing innovation-driven growth, balanced development, and a bottom-up decision-making process in industrial policy choice and implementation. To achieve these goals, the government should have established a good governance mechanism to coordinate within the government as well as outside of the government with societal actors. However, the government hasn't established a sound mechanism of governance yet.

So let's move on to Taiwan. The Korea and Taiwan comparison used to be one of my favorite avenues for research, because these two countries are so similar and at the same time so different. Probably many people believe that these two cases are very much in similar in terms of their industrial structure, political development and

economic growth. However, when you look inside the story of both countries, we found out that there are huge differences in their industrial structures, the nature of industrial policy, and the relationship between the government and business, and the content of financial policy. So the whole story became really different.

Some might criticize the idea of categorizing Taiwan as a developmental state model because Taiwan is in some ways very different from Korea in terms of the role of the state in the economy. I have visited Taiwan and asked some questions to businessmen there. I would ask, “What was the role of the state in your business?” and then they would say, “Well, government didn’t do anything. We just prospered by ourselves.” That’s what they are saying. So well, then why do we put Taiwan in the category of developmental state?

We could find some common elements among developmental states including the case of Taiwan. Otherwise, the developmental state model could be abolished. Targeting policy toward a specific sector was not so manifested as in Korea. Usually the government tried to do something to improve the business environment. Tax favors were emphasized and sector-specific policy was relatively light by Korean standards. The indirect, neutral, and diverse nature of policy has to do with the SME-centered industrial structure. It is difficult to target many numbers of firms, instead use neutral and diverse nature of policies.

And so Taiwan used public enterprise as a big push in HCI [heavy chemical industries]. Korea used private enterprises as a big push for HCI promotion. So that is the big difference. Such nature of policy has to do with the small SME-centered industrial structure.

Well, there are some differences. But one of the common elements is the export-oriented policy Taiwan had pursued. Taiwan also had an effective system of exporter credit subsidies as an instrument of industrial policy. However, we could find out some differences such as the arms-length relationship between government and business relationship, and a financial policy that was more conservative than in Korea.

In Taiwan most firms rely on private sources of loans rather than bank loans, due to the policy priority on macroeconomic stability. Probably you may know the story about Taiwan better than I do, but why did Taiwan emphasize macroeconomic stability? Due to the KMT defeat in 1946-1947, the hyperinflation and currency crisis in those periods prevented the Taiwanese government, the Kuomintang government, from using expansionary measures in the financial sectors and the banking sectors, too. Taiwan has maintained minimum public-sector foreign debt, a small fiscal deficit, a rigorous regulatory regime over financial institutions, and a conservative ethos that permeated the entire banking sector.

And also the politicians were afraid of the rise of private enterprises like chaebol in Korea, considering them as a big threat to their political survival. Therefore there was a division of labor between mainlanders for politics and Taiwanese for the economy. But since democratization, this division became blurry. So let's continue with the basic nature of industrial policy and the new industrial policy in the IT period.

In the 1990s, Taiwan also faced various challenges from the outside world. Although Taiwan could escape from the Asian financial crisis, they had to face the international pressure of getting rid of some instruments of industrial policy such as protectionist measures, market regulation, and export subsidies and giving up unfair trade practices.

So now, there is a new IT industrial policy in Taiwan. Let me briefly explain some of the characteristics. Taiwan tried to promote a cluster policy. Hsinchu Science Park is one of the successful cases for an IT innovation center. The government focused on administrative support such as one-stop service system, establishment of an enabling environment for investment, inducement of collaborative investment among research institutes, firms, and universities, et cetera.

And also government focused on the creation of networks in the IT community. For instance, mobilization of networks among Chinese businesses and overseas Chinese science and engineering community by sponsoring the creation of the North American Chinese Engineering Association.. Another thing that the Taiwanese government tried to promote in the IT industry in this area is to create infrastructure, financial support, and an investment encouraging policy. Finally, the government introduced more flexible mechanisms to enhance intra-state policy coordination for promoting high-tech industries, such as a Council Economic Planning and Development (CEPD), and a National Information Infrastructure (NII) steering committee.

The government may be more proactive in promoting IT industries in Taiwan compared to the past. But still, we could find some legacies of past policies. The arms-length relationship between government and firms, which is a reflection of previous party-dependent nature, still exists. New obstacles are related with the effect of democratization of the Taiwanese system on the reform process. The democratization in Taiwan increased the costs of election being held regularly, which led politicians to ally with domestic bank sectors. In the past there was a kind of separation between politics and business, but recently, the influence of political parties on business and vice versa has increased and coordination has grown difficult. Lastly, politics trumps economics in Taiwan. The short-term effect, the negative effect of democratization is the close interaction between politics and economics, which could be an obstacle for political consolidation and economic reform for sustainable development

The conclusion: As I expected from the transformation of the industrial policy after the crisis, unlike the prediction or prognosis, both countries' transformation

was not path-breaking, but path-dependent. They still tried to hold their previous institutional legacies of the developmental state. Korea still reflects the institutional legacy of developmental states, such as hierarchical nature of the decision making process in industrial policy choice and implementation under the newly changed environment. The MCIE, the previous major ministries of industrial policy, became weakened vis-à-vis other ministries. The government has been drifting without any direction and vision. The government is not taking charge in leading the economy, which reflects the declining power of politics. Korea still retains the vertical nature of policy choice and implementation in IT promotion policy.

The Taiwanese government has successfully transformed its adaptive capacity for a new environment, in promoting IT industry. However, the Taiwanese government still maintains the previous legacy of institutions, arms-length relation with firms. Taiwan also continues the previous characteristics of horizontal and indirect nature of policy support in IT promotion policy. So it's a path-dependent development for both countries.

Are they converging toward each other? Not really. Still Korea has a nature of direct and vertical characteristics. Taiwan still tries to maintain the indirect and horizontal nature of coordination.

What are the implications of this presentation, this study? Well, in Korea, despite the rising power of various sectors, there was a tendency to sustain vertical and hierarchical structures. The democratization decreased the state autonomy and the ability of implementing policies. Instead of building and increasing coordinating capacity, the Korean government still tries to hold the institutional legacy of developmental states, vertical nature of process to implement the newly changed tasks, such as building regional innovation cluster etc. The structure has a difficulty in spurring a voluntary coordination. It reflects coordination failure with the declining power of the government

As I already mentioned, democratization in Korea diffused the concentrated power into many actors and many ministries. So there were tensions and conflict among ministries in terms of increasing their own power so that industrial policy had lost its direction for moving forward.

And then in the case of Taiwan, the interaction between politics and business has increased due to democratization. Since democratization, Taiwanese society has held regular elections which require a bunch of money for politicians so that there were kind of collusive relationships between the politicians and banking sectors. And so it became very difficult for politicians to reform the banking sector.

Lately Taiwanese politicians try to get more political support by raising sensitive political issues, such as ethnicity or identity issues, sovereignty of Taiwan

international relations The practical issues such as economic growth, welfare became secondary issues.

So what are the implications? Is China a new rising developmental state? Some may say that China tries to go on its own trajectory, which no country has ever taken before. There exist no serious problems yet in coordination due to the strong power of the government. However, it is expected that China will face similar challenges as China becomes democratized.

The final conclusion I would like to make is, what the reasons are behind the path-dependence of Korea and Taiwan's development? What factors influence the path despite such huge shocks as the megatrend Asian crisis? What factors influence the path of these two countries? Is it the role of the politics or institutions or governance? The previous choice could influence the future choice. The institution could also matter, for it structurally constrains us from choosing certain behavior.

We could extend this case to the other sectors such as the financial reform process. Korea was hit by the crisis heavily, but Taiwan escaped so that they have a different path -- in the past, which will influence the future choices. Korea and Taiwan have taken different paths for financial liberalization and reform in terms of speed and order. The different path they had taken, affected differently the intensity of financial crisis. Both responded differently to the financial crisis, which determined the process of post-crisis reform in the financial and banking sectors. So that's what the path-dependency explanation is all about. And the final one was extension to other countries, et cetera, but I'll just stop here. Thank you for listening to my presentation. Thank you.

(Applause)

MR. SCOTT: Thank you, Professor Lim, for that interesting and informative presentation. We'll do some questions from the audience now. If I could just ask you to wait for the microphone to be delivered to you and identify yourself before you ask your question. I'll ask Professor Lim to call on the questioners.

DR. LIM: Thank you.

QUESTION: I'm Jacob Chang from the KMT office here in Washington, D.C. I think I'm the only few people from Taiwan, so I will ask some questions. First piece, forgive me. I'm not an economist or a political science major. I'm only a lawyer. But when I did my research about 30 years ago on the World Bank, at that time we talked about the developing countries. Today you use developmental state. Does this have a special meaning?

Second, in comparing the experience of Taiwan and Korea, I would say you mention the science park in Hsinchu, which I think is very successful but that's not the only place. There are different science parks in the south and in the north.

Third, I want to ask you about the influence of students, because Taiwan at one time was the largest source of foreign students in the United States. Today, I think it is either China or Korea who has the most students. Do Korean students go back to Korea to help the economic development?

Finally, the result: Now you compare Taiwan and South Korea in developmental success, but here you only see Korean products, from Samsung, Hyundai. You still don't see any products made in Taiwan. Maybe only Acer computers. Could you tell us why there is such a difference? Thank you.

DR. LIM: Thank you for your questions. The first question is whether there's a special meaning to developmental state? Yes, I already mentioned there are special meanings: There are contentious debates whether the concept of developmental state is worthwhile for us to use, because NICs, newly industrializing countries, are the typical examples of developmental states in East Asia. And the NICS are Korea, Taiwan, Singapore and Hong Kong. But Hong Kong is a different case, of course. It's a market-driven nation.

And then Singapore is also very much different. Only Korea and Taiwan seem to share some common elements, such as the strong state in the economy, repressive authoritarian regimes by controlling and monopolizing the banks and financial sectors. So that's why they could use the smart industrial policy to target certain industrial sectors to promote their industrialization. So there is a certain meaning of the term developmental state. However, there still exist huge differences between the two nations when it comes to the level of comparisons.

And the second question was about the science park. Yes, I've been to the Hsinchu Science Park, but I didn't go to the other park in the southern area, which should be also very much in success. But I heard the Hsinchu Science Park must be one of the successful cases for the IT-nurturing industries and policy.

And the third was the role of the students. Yes, it may be the case that Korean students got a Ph.D., especially in economics, and then went back to Korea to serve in the government and then sometimes become neoliberal bureaucrats in the government. However, I found out that there are many Taiwanese students in the United States, and especially in the engineering sector. I heard that they go back to Taiwan, especially to Hsinchu Science Park. They were recruiting engineers who graduate from the United States. So they played some role in each side.

And the fourth one, about Samsung, Hyundai: The competitiveness of Korea and Taiwan may be similar in the world market. However, what they are producing is different from each other. Since Korea is a large company-centered, chaebol industrial structure, they ended up producing final products such as cars and, you know, the IT, cellphones, et cetera. But Taiwan has a more or less small-medium enterprise industrial structure, which has a special niche market in international products.

So most of them are really producers of parts and components in the IT area. So that's why you can't hear any brand names from Taiwanese products. Whereas, there are many in Korean products.

QUESTION: Yes, thank you very much, Dr. Lim. I wonder if you could talk a little bit about the impact of Taiwan's close economic linkages with mainland China on the political economy of both Taiwan and Korea? How does that impact?

DR. LIM: That is a really important question these days. About one week ago, I read a newspaper article regarding the ranking of Korea and Taiwan in terms of the nations' competitiveness. And Taiwan used to be ahead of Korea for many years, but lately Korea moved ahead of Taiwan and surpassed it in the ranking.

And then the Taiwanese people tried to explain why it happens. It's because of China. Korea tried to be close with China in terms of trade and everything. However, the Taiwanese people were a little bit more concerned about the effects of the closeness of the economy with China. I know that many Taiwanese people were investing in China. However, they were still unsure whether this closeness or interdependence will negatively affect the position of Taiwan in terms of sovereignty and independence and unification issues, et cetera. So, yes, in the northeast Asian region or the Asian region in the past it was flying-geese model led by Japan, followed by Korea and Taiwan, then China and Southeast Asian countries. It was like the flying geese model. But these days, the first runner is China, followed by Japan, Korea, and Taiwan then the other Southeast Asian countries.

So this is a really critical moment for East Asian countries to see how their political economy and their economic interdependence are affecting in their future direction. That is really critical moment I think.

QUESTION: Dr. Lim, very interesting methodology of your analysis. I'm also from Taiwan, from the TECRO trade office in Washington, D.C. People said Taiwan has made success in developing small-medium size enterprises of the industrial structure. And Korea also was very successful previously in relying on the industrial structure featuring major large companies in the world. Those are different development strategies. The different structure when facing the threat of the crisis, like the financial crisis, or any threats from the changes of the world. What were their differences in

coping with those problems? Can you talk about their differences in strategies? Thank you.

DR. LIM: That is a really good question also. When Korea was hit by the Asian crisis, most people were blaming the moral hazard, which was done by chaebol and the government. There was a collusive relationship among three parties: the big chaebol, the banking sector, and the government. So right after the crisis, I began to write a paper about why both countries have diverged in the period of crisis. I tried to argue that it may have had something to do with the industrial structure as well as the industrial policy, and the role of the government.

It seems to me that each industrial structure has strengths as well as weaknesses. Small-medium enterprise in Taiwan has advantages and strengths in terms of coping with a newly changing environment. Since their size is small, they could shift from a previous one to a new innovative industrial sector.

So I thought the Taiwanese may be doing better in coping with the new environment compared to Korea.

The large enterprises have strengths in terms of investing large scale of the economy, especially in the IT industries. It's really good for us to invest in high tech, high value added products. However, during an economic crisis, the domestic structure is too rigid to change and adapt to a new changing environment. It's one of the weaknesses of our industrial structure.

So should we change into a small-medium enterprise economy? No, that may not be the answer. It is not easy to change the industrial structure due to the stickiness of institutions and the interest of private sectors. Also, each society has its own strengths and weaknesses in its industrial structure. They have to cope with the changing environment.

QUESTION: Dr. Lim, thank you very much for a very interesting presentation. And I think that your analysis of the change of models for South Korea before the crisis and after the crisis is very interesting. The classical model is built, of course, before middle of the 1990s. And I would also mention the foreign capital as a major factor behind the growth and broad technologies.

My first question is: how is this model still relevant to other countries and less-developed countries? I think that for Korea, it's very important. Can it be copied or taken in example by North Korea? That's my first question.

And the second question is: How do you see the growth factors in the future for the Korean economy? I believe that Korea is moving from an industrial economy to a post-industrial economy. You see more and more production facilities, and

production is being transferred to other countries, including China and Vietnam. And Korean products are actually less and less competitive because of the high wages and other factors, such as the high won. So how would you predict the future course of the Korean economy? What will be the growth factors in the next 10-15 years? Thanks.

DR. LIM: Thank you. So the first question is whether the developmental state model can be copied in other cases, especially North Korea, right? Well, this question is really difficult to answer. I don't think that any specific developmental model can be exactly copied in the same way as other countries have followed.

For instance, as I already mentioned, there were various kinds of explanations for this rapid growth. During the 1960s until the 1990s, especially 1960s until 1980s, it was the Cold War era so there were favorable trade regimes among the East Asian countries. And United States had a unilateral provision of market and economic assistance to Korea and Taiwan. Unless we consider these variables together, applying the developmental state model to the other case might be really difficult.

However, we could draw some implications by comparing Korea and Taiwan's developmental model. By looking at the way they have taken their path, we could get some implications as to how the previous policies affected the next policy choice and how they could get out of the crisis to sustain economic development and so forth.

In terms of North Korea, since North Korea and South Korea are actually the same nation, we could apply some important elements of the development states, such as role of the government or role of the industrial policy in steering economic development. Also, others like Vietnam or late developers that are pretty much authoritarian in the political sphere, could get some lessons from the cases of East Asian developmental states.

And then next question is what will be the future of the Korean economy as well as Taiwanese economy? Well, Korea and Taiwan are facing various challenges within the inside as well as the outside world. Both countries are surrounded by and get security pressure from North Korea, China, et cetera. So unless we solve the security problems, we will still have huge challenges ahead in terms of sustaining economic development. And also the new phenomena, such as democratic consolidation in both countries, will have a positive as well as negative effect on the further economic development.

In the short-term, democratization will have a devastating or negative role in both countries. However, in the long run, as long as we are pursuing democratic consolidation and continuing to do this job, we'll have more positive effect from the democratization upon the economic reform process. Also the Korean government should find a new engine of growth for sustainable development.

QUESTION: Hi. Haeran, a very interesting presentation. I'd like to follow up on the earlier questions about China's role in Korean and Taiwan's development, especially after the financial crisis. As you know, everybody knows now that China is becoming the largest exporting market for Korea and also for Taiwan, which shows both places have some kind of dependency on China.

So I'd like to ask you first, what is the Korean government's policy in terms of investing in China? Taiwan has a restrictive policy, especially for big companies. You cannot invest over 40 percent of your assets in the mainland, but the government cannot really stop it. Companies find various ways to go to the mainland.

So how about in Korea? Does the government have any restrictive policy or promotional policy? How does a company behave when they go to the China market to invest and move the production there? This is the first. You can compare the two places.

Second, since they both have some dependency on China, how does that affect their economic competitiveness? As you showed in your presentation, you say the Koreans seem to be doing better now, especially with the IT industries becoming more competitive.

How about other sectors, besides IT? How does their China production or China investment affect their competitiveness? In theory, you can take advantage of the China market and move some obsolete production into China and upgrade your own production. And Taiwan did that. I'm sure Korea did that. So in that sense how is China as a place to move production and upgrade your own competitiveness? Thank you.

DR. LIM: Yes, this is also a very huge question. Since the 1980s, I believe that many small-medium enterprises as well as large enterprises began to go to China by moving their production sites from Korea to China. So there has been a huge transfer of technology and employees and management know-how from Korea to China. So Korea could maintain its competitiveness by adapting to this new environment. But that's just one side of the coin. As we move to China, China began to rise as a new competitor in low as well as high value-added products.

So the investment policy is really a double-edged sword. Korean businesses try to go anywhere they want, if they want to survive. But lately, Korean competitiveness in IT, even in the HCI, heavy chemical industries, like the steel industry, have suffered as the Chinese began to rise as a major competitor in the world market. So Korea is in a very difficult situation to maintain its competitiveness.

But Taiwan has also been struggling, as we did in terms of maintaining competitiveness and upgrading technological capability, so we'll see how the major companies in Korea will cope with these tasks.

The second question is about dependence on China. Well, this also relates to the first question. Korea will have a flexible policy towards China as well as Japan and the United States. China became a really big country in East Asia and Korea doesn't want to lose an important partner, China, in the 21st century. So we'll see how China will be competing with us in terms of collaboration with many countries.

QUESTION: Thank you. I'm not an economist so I'd like to set your discussion in a wider context of comparative studies. I love the path-dependency approach, but I think if you compare just the two states, the path-dependent approach doesn't make sense. But if you invite many countries, many countries I worry a little a bit about how the path dependence approach holds together. This is because every country has every different path. Therefore, how do you reconcile these comparisons of these different paths, different approaches within a general picture? This is the first question in a theoretical sense.

The second question on your background of comparable studies, why did you choose Taiwan and South Korea? I think it's understandable. This is because both countries have similar paths, also authoritarian regimes with the developing approaches and then the 1980s both countries faced democratization.

I think it is reasonable. But if you think about it, so why did you chose next target Japan or India? I think Japan and India had completely different paths from the period. So this is the first question. And if so, why do you not invite Southeast Asian countries? Some countries have a similar path to Korea and Taiwan.

And the last question. If you invite China to your picture. So China was not an authoritarian regime. It was a communist regime. So don't you think of the difference between the authoritarian regime and a communist regime? I think it's very important to different path approaches. Thank you.

DR. LIM: Thank you for your question. It's a huge question. If I emphasize too much on the path-dependent explanation when comparing Korea and Taiwan or even other countries, probably I may be criticized by social scientist scholars on what the general implications are for doing a comparative research on these countries. That's true. Historians are not like general social scientists. According to historians, each incident could be explained by the specific particular combination of stories, right? So there could be no general application for understanding.

However, as a social scientist, I will try to balance between the general approach and the research based on more specific cases. Korea and Taiwan could be very

good cases for comparison since both have similarities as well as differences. So that is the reason why I have been comparing both cases.

But whenever I compare, I found out that there are huge differences between the two countries. So we shouldn't neglect some of the important differences just by generalizing. So I'm trying to balance things out between the social science as the main obligation and, you know, like mid range theory driven research. So I'm kind of trying to do my job. I don't know whether I'm succeeding doing that.

As you mentioned, inviting other countries such as China or North Korea, Vietnam, or some Southeast Asian countries might be really different or will bring some different pictures to us.

But it may be interesting for us to see what lessons we could get from this comparison between Korea and Taiwan and see how China or other countries, late developers, are going to rise as major competitors in East Asia. Also I was not really trying to compare Korea and Taiwan with Japan, because they are too different, as you have already mentioned. Japan is an early developer whereas Korea and Taiwan are late developing countries. So I tried to look at the stage, and timing of development as a starting point for choosing which countries I'm going to compare. So that's why I focused on these cases.

QUESTION: You mentioned that when you visited Taiwan, some business people told you that the government didn't do anything. They just help themselves. So I tried to explain why is a –

DR. LIM: Is that true?

QUESTION: Well, I wouldn't say that is true, but traditionally in Taiwan, people don't trust the government. But the government actually plays an important role in the development of high tech or the other industry.

But people don't trust the government because we have a very special historical background: the Qing dynasty or the Japanese colonial rule or even the KMT from China. The Taiwan people just feel that all these rulers or the governors came from the outside and only two monopolies owned the resources of this island. The Taiwanese people think if you can take some money from the government, that is a good behavior. So they don't think -- you know, some business people they want to pay the tax and based on the law and so, you know, they have different kinds of accounts books; right? You know what I mean? Okay.

So only one of them is correct. And so this is a very special background of Taiwanese society. But actually, of course, the government did many things and played an important role in the development of industry.

DR. LIM: Yes. Thank you.

MR. SCOTT: We're out of time, but I have one last question, and that is just to ask you to expand a little bit on the role of party politics in Korea's transformation. It was interesting that you noted that the power of politics in Taiwan seems to be growing, but I think you said it's declining in Korea.

DR. LIM: In a different meaning. Yes, in a different sense.

MR. SCOTT: And also a lot of the changes that you detailed after the financial crisis seemed to be more bureaucratic and less political. So I'm just wondering if you can talk a little bit about the role of party politics in Korea and how it may have changed in the last 10 or especially five years? Thanks.

DR. LIM: Thank you for the question. Well, in Taiwanese society, many people are concerned about the fact that politicians are manipulating and politicizing the issues of important campaigns, election campaigns, by raising some important sensitive issues such as independence and, you know, identity issues and things like that, so party politics seems to be very influential in steering or leading the Taiwanese society nowadays.

So it may be said that politics trumps economics in Taiwan. How about Korea? Party politics also had a negative impact on the economic reform and sustaining economic development in Korea. Let's take a look at the recent Korean election. We only have a month or less than a month left for the presidential election. Still, we don't know who will win. It's unpredictable. And the politicians, party politics are not dealing with the issues which could be important for voters anymore. They are dealing with some trivial negative campaigns to get more political support from the Korean people. So I thought that in Korea and Taiwan, the party politics had a really negative impact on the economic reform as well as the political reform.

But when I was talking about the decreasing power of politics in Korea, it has to do with the power of the bureaucratic-- or the role of the state. The state has lost its identity or vision of the industrial policy in the economy. So that's why we are losing our impetus for sustainable economic development in Korea. The next president should focus on economic reform for finding new engines of growth, and political reform for democratic consolidation in Korea.

Thank you for attending this meeting. And Happy Thanksgiving.

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