NICs over the past three decades is seen to be the result of an evolutionary process of industrially induced modernization and socioeconomic structural transformation which the remainder of the South could replicate by adopting similar policies. Successful emulation of the NIC experience is thought especially to depend on locating an appropriate development niche within the global capitalist economy, which may be exploited by implementing sound development policies based on conventional neoclassical economic principles. Growth and development in the NICs are viewed as natural, inherent properties of their open capitalist economies, in which market forces have been allowed to operate freely with little state interference. According to Riedel (1988: 1), the NIC experience confirms a basic insight into development made by the classical liberal economist Adam Smith some two hundred years ago:

> . . . little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and tolerable administration of justice; all the rest being brought about by the natural course of things. (Smith 1880)

Neoliberal Policy Lessons Derived from the Asian NICs

Accordingly, neoliberals stress general policy lessons that can be derived from the supposedly laissez-faire elements of NIC policies. Other Third World countries are called upon to drop their obsolete 'dirigiste' or state-centered development strategies in favor of a new neoliberal development program based on policies that supposedly reflect the successful market-led development experience of the Asian NICs. These policies include: the virtual elimination of restrictions on international trade, removal of controls on exchange rates, overall deregulation and internationalization of the financial sector, privatization of state enterprises, de-unionization and the creation of an unregulated labor market, specialization according to 'comparative advantage,' market-driven resource allocations by 'getting the prices right,' elimination of various regulatory mechanisms, and defining a generally 'minimalist' role for the state in development (e.g., Balassa 1981, 1991; Bhagwati 1986; Krueger 1986; Lal 1983).

Policies derived from the common NIC experience are given further coherence by their common theoretical focus on neoliberal and, by extension, neoclassical economic principles:

> . . . neoclassical economic principles are alive and well, and working particularly effectively in the East Asian countries. Once public goods are provided for and the most obvious distortions corrected, markets seem to do the job of allocating resources reasonably well, and certainly better than centralized decision-making. That is evident in East Asia, and in most other parts of the developing and industrial world, and is after all the main tenet of neoclassical economics. (Riedel 1988: 38)

According to the neoliberal literature, adherence to basic neoclassical economic principles by the Asian NICs has especially been responsible for accelerating development resulting from increased economic integration into global capitalist markets. This was supposedly accomplished by policy changes that hastened movement toward the adoption of an open, market-led economic regime of export-oriented industrialization (EOI) based on trade liberalization, direct foreign investment, and the export of goods for the world market. Banuri (1991: 7–8) has examined in some detail the neoliberal version of market-led, outward-oriented growth in the NICs. In the early years of the neoliberal counterrevolution, the title 'export promotion' was commonly affixed to NIC development policies. Neoliberal prescriptions for import liberalization and currency devaluation within structural adjustment packages routinely contrasted the faster growth promised by new policies of export promotion (based on NIC performance) with the slower growth resulting from strategies of import substitution (characteristic of Latin American and many other Third World economies). Later, neoliberals invented the new title of 'outward-oriented policies' to describe a broader range of measures that, in addition to trade liberalization, also included financial liberalization and the removal of capital controls. From this 'outward orientation' it was only a short step to the more recent and still broader neoliberal notion of 'economic liberalization,' which calls for additional laissez-faire policies promoting privatization, deregulation, and de-unionization. Neoliberals currently use economic liberalization to mean the removal of controls in all markets including markets for foreign exchange (both current and capital account transactions), financial markets, labor markets, and markets for agricultural goods and other commodities.

Juxtaposition of the Asian NICs with Latin America by Neoliberals

Economic liberalization has frequently been linked in the neoliberal literature to the (successful) export-oriented growth strategies of the Asian NICs. By contrast, excessive state intervention is said to have characterized the (failed) import-substitution strategies followed by many Latin American countries. On the one hand, the export-led growth strategies of the NICs have supposedly been facilitated by realistic laissez-faire policies (e.g., on wage, exchange, and interest rates) and a reduced role for the state, which have allowed the NICs to 'get the prices right' and let their markets work. On the other hand, the import-substitution strategies of the Latin

American countries have supposedly depended on a larger role for the state and greater market intervention, resulting in distorted prices and severe macroeconomic imbalances. Neoliberals contend that while the Asian NICs were creating the conditions for sustained export-led growth based on stable prices and enhanced international competitiveness, Latin American countries were attempting to sustain flagging domestic growth through expanded international borrowing and increased state intervention to prop up an obsolete inwardly-oriented development model.

This divergence in development strategies is essentially believed to explain the contrast between the high growth rates and rising per capita real incomes enjoyed by the Asian NICs over the last two decades and the vicious circle of indebtedness, inflationary pressures, stagnant economic growth, and declining standards of living that Latin America has suffered during the same time period (e.g., Balassa 1991; C. Lin 1988, 1989; World Bank 1983, 1985, 1987). Therefore, the neoliberals contend that, if the Latin America countries (as well as much of the rest of the Third World) are to overcome their current economic malaise, they should drop their outmoded state-centered, inward-oriented development strategies in favor of a market-led, outward-oriented model that reflects the successful experience of the Asian NICs.

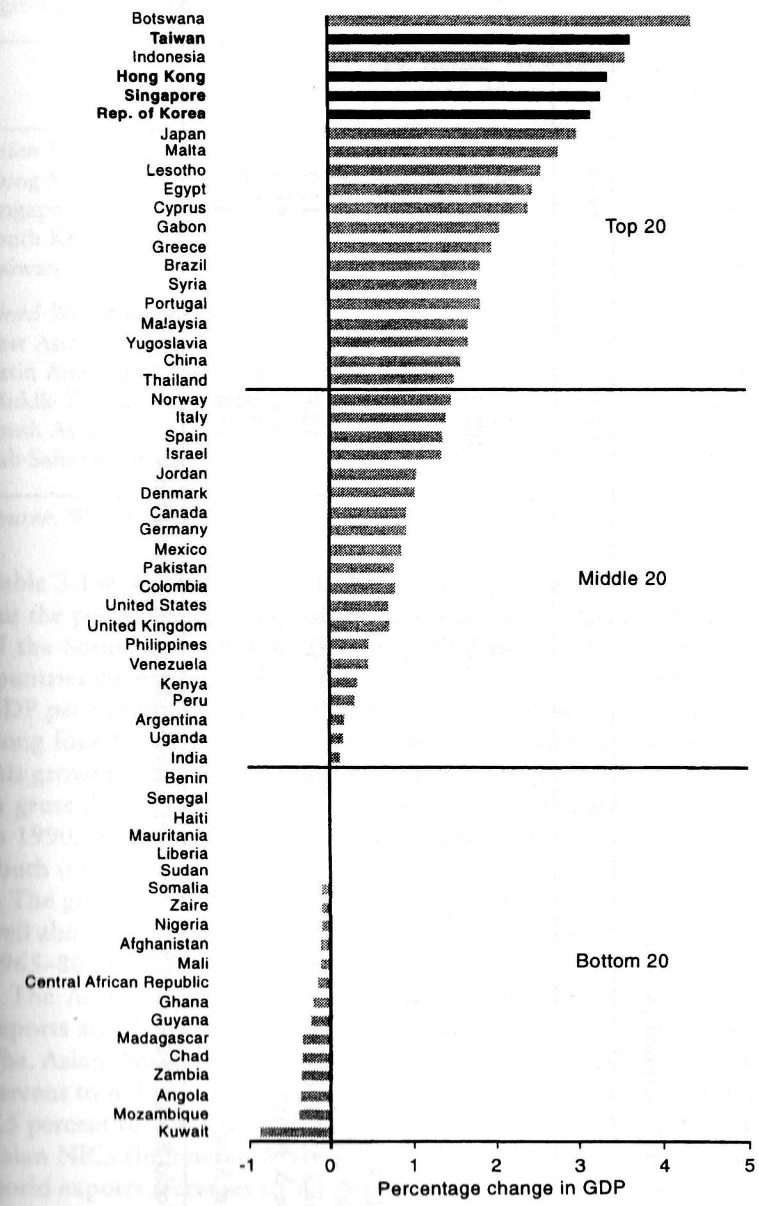
The Macroeconomic Development Record of the Asian NICs

The development performance of the Asian NICs has been spectacular.

Table 3.1 GDP growth rates in the Asian NICs and major Third World regions, 1960–1990 (% per year)

	1960–70	*1970–80*	*1980–90*
Asian NICs			
Hong Kong	10.0	9.2	7.1
Singapore	8.8	8.3	6.4
South Korea	8.6	9.6	9.7
Taiwan			
Third World Regions			
East Asia & Pacific	5.9	6.7	7.6
Latin America & Caribbean	5.3	5.4	1.7
Middle East & North Africa	n.a.	4.6	0.2
South Asia	3.9	3.5	5.6
Sub-Saharan Africa	4.2	3.6	1.7

Sources: World Bank (1982, 1992 and 1993a); Personal correspondence with World Bank



Source: Summers and Heston (1988), in World Bank (1993b) figure 1, p. 3

Figure 3.1 Change in GDP per capita for the Asian NICs and other selected countries, 1960–1985

Table 3.2 Share of exports in GDP (%)

	1960	1970	1980	1990
Asian NICs				
Hong Kong	70.9	92.2	88.0	133.9
Singapore	163.1	102.1	207.2	189.0
South Korea	3.4	14.1	34.0	31.0
Taiwan				
Third World Regions				
East Asia & Pacific	6.4	6.1	19.1	25.1
Latin America & Caribbean	14.8	12.6	16.0	16.8
Middle East & North Africa	n.a.	n.a.	42.2	31.5
South Asia	6.8	5.4	7.7	9.3
Sub-Saharan Africa	23.6	20.6	30.4	28.3

Sources: World Bank (1982 and 1992); Personal correspondence with World Bank

Table 3.3 Growth rate of exports in the Asian NICs and major Third World regions, 1965–1990

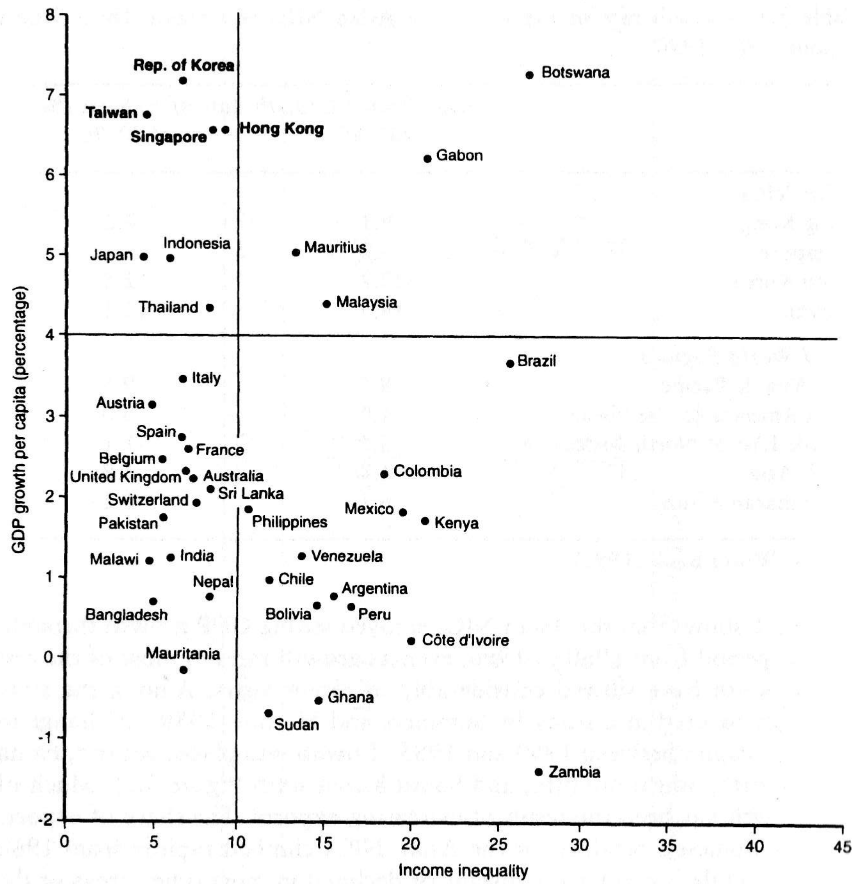
	Avg. Annual Growth Rate of Exports (%) 1965–80	1980–90
Asian NICs		
Hong Kong	9.1	6.2
Singapore	4.7	8.6
South Korea	27.2	12.8
Taiwan	18.9	12.1
Third World Regions		
East Asia & Pacific	8.5	9.8
Latin America & Caribbean	−1.0	3.0
Middle East & North Africa	5.7	−1.1
South Asia	1.8	6.8
Sub-Saharan Africa	6.1	0.2

Source: World Bank (1992)

Table 3.1 shows that the Asian NICs enjoyed strong GDP growth throughout the period from 1960 to 1990, even as growth rates in most of the rest of the South have slowed considerably in recent years. Among the sixty countries covered in a study by Summers and Heston (1988) of change in GDP per capita between 1960 and 1985, Taiwan was placed second, Hong Kong fourth, Singapore fifth, and South Korea sixth (figure 3.1). Much of this growth has been the result of increasing exports. The share of exports in gross domestic product for the Asian NICs climbed rapidly from 1960 to 1990, while it remained constant or declined in most other areas of the South (table 3.2).

The growth rate of exports in the Asian NICs has consistently remained well above the average in all of the South's major regions in both the periods 1965–80 and 1980–90 (table 3.3).

The Asian NICs have also greatly increased their share of total world exports and Third World exports, particularly of manufactures (table 3.4). The Asian NICs increased their share of total world exports from 1.5 percent to 6.7 percent and their share of total manufacturing exports from 1.5 percent to 7.9 percent during the 1965–90 period. If the New Southeast Asian NICs (Indonesia, Malaysia, and Thailand) are included, the share of world exports increases to 9.1 percent and of manufacturing exports to 9.4 percent in 1990. NIC growth in terms of share of Third World exports has been even more spectacular. The Asian NICs increased their share of total Third World exports from 6.0 percent to 33.9 percent and of Third World manufacturing exports from 13.2 percent to 61.5 percent between 1965



Note: Income inequality is measured by the ratio of the income shares of the richest 20 per cent and the poorest 20 per cent of the population.

Source: World Bank (1993b) figure 1.3, p. 31

Figure 3.2 Income inequality and growth of GDP for the Asian NICs and other selected countries, 1965–1989

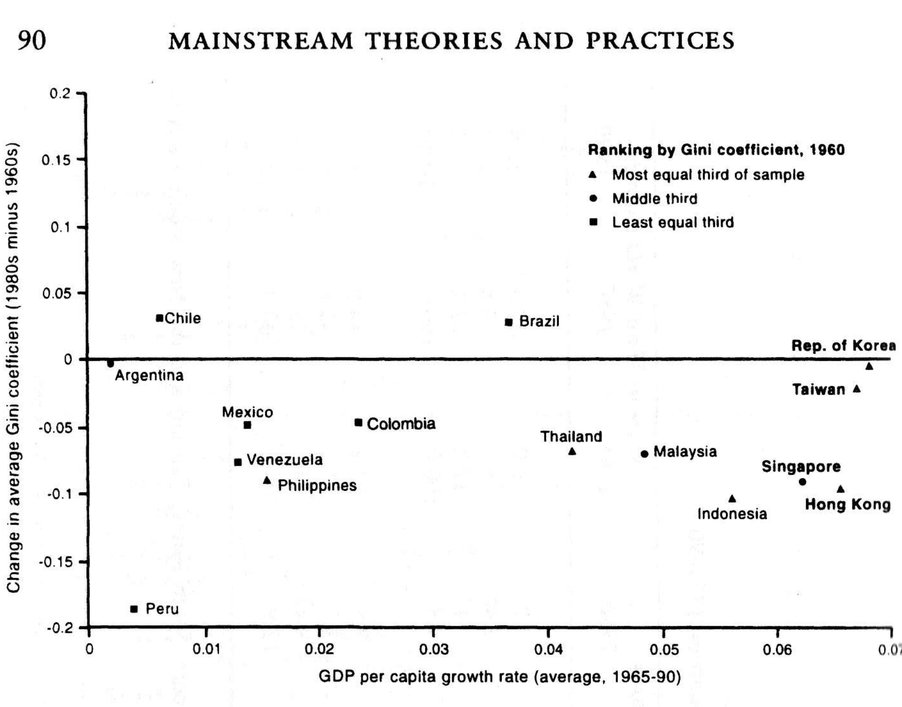
and 1990. With the Southeast Asian NICs included, the share of Third World exports climbs to 46.3 percent and of Third World manufacturing exports to 73.5 percent in 1990. If the four original Asian NICs are considered collectively, they now rival the world's leading exporters of manufactures (table 3.5). By 1990, their share of global manufacturing exports was 9.6 percent, which compares favorably with Great Britain (6.0 percent) and France (6.6 percent) and is not far behind the world

Table 3.4 Export penetration of the Asian NICs and Third World countries, 1965–90

	Share in World Exports			*Share in Third World Exports*		
	1965	*1980*	*1990*	*1965*	*1980*	*1990*
Total Exports						
Asian NICs	1.5	3.8	6.7	6.0	13.3	33.9
New S.E. Asian NICs[1]	1.5	2.2	2.4	6.2	7.8	12.4
Total Asian NICs[2]	3.0	6.0	9.1	12.2	22.1	46.3
All Third World	24.2	28.7	19.8	100.0	100.0	100.0
Exports of Manufactures						
Asian NICs	1.5	5.3	7.9	13.2	44.9	61.5
New S.E. Asian NICs[1]	0.1	0.4	1.5	1.1	3.8	12.0
Total Asian NICs[2]	1.6	5.7	9.4	14.3	48.7	73.5
All Third World	11.1	11.8	12.9	100.0	100.0	100.0

1 New Southeast Asian NICs are Indonesia, Malaysia, and Thailand.
2 Total Asian NICs are the original Asian NICs (Hong Kong, Singapore, South Korea, Taiwan) and the New Southeast Asian NICs.

Source: World Bank (1993b) table 1.5, p. 38



Note: Figure 3.3 plots the relationship between average per capita income growth and changes in the decade average of the Gini coefficient from the 1960s to the 1980s; a negative number indicates that income became less concentrated. The decade average is used because data are available for different years in different economies; the decade average for 1960s begins with data from 1965.

Source: World Bank (1993b) figure 3, p. 4

Figure 3.3 Change in inequity and the GDP per capita growth rate for the Asian NICs and other selected Third World countries, 1965–1990

leaders of Germany (14.5 percent), the US (11.9 percent), and Japan (11.2 percent).[2]

A relatively egalitarian income distribution has also accompanied rapid export-led growth among the NICs. Figure 3.2 measures income inequality and GDP growth during the 1965–89 period. Among the 39 countries considered in the graph, the four Asian NICs are clustered together in the upper-left quartile, which indicates the highest GDP growth and lowest income inequality. Moreover, rapid growth from the 1960s through to the 1980s has not increased income inequalities in any of the NICs. Along

2 It should be noted that, because they are taken from different sources, the figures for share of global manufacturing exports differ somewhat between tables 3.4 and 3.5. However, this does not alter the conclusions that can be drawn from the data because the trends are unmistakable.

Table 3.5 Leading exporters of manufactures, 1973–90 (% share of world)

	1973	*1980*	*1990*
Germany	17.0	14.8	14.5
United States	12.6	13.0	11.9
Japan	10.0	11.2	11.2
France	7.3	7.4	6.6
Great Britain	7.0	7.4	6.0
Hong Kong	1.3	1.6	3.1
Singapore	0.5	0.7	1.5
South Korea	0.8	1.4	2.5
Taiwan	1.1	1.6	2.5
Total Asian NICs	3.7	5.3	9.6

Source: GATT (1985–1986 and 1990–1991)

with the GDP per capita growth rate, figure 3.3 measures changes in the decade average of income inequality (Gini coefficient) from the 1960s to the 1980s. Although income inequality was reduced somewhat more in Hong Kong and Singapore than in South Korea and Taiwan during this period, all of the NICs show an improved income distribution. While it should be remembered that such aggregate figures may mask growing inequalities between specific groups within a society, the NIC record of generating strong growth with relative equity, especially when compared with other Third World countries during the same period, must be seen as remarkable.

Objections to Neoliberal Interpretations

Given this spectacular export-led development performance, it should come as no surprise that neoliberals have attempted to buttress their arguments for a new outward-oriented, market-driven development model by contrasting the recent accomplishments of the Asian NICs with the inferior performance of other Third World areas such as Latin America. However, in recent years a number of objections have been raised to the 'spin' that the neoliberals have given to the development performances of these two Third World areas. Banuri (1991: 9) states: 'The identification of "successful" Asia with openness and "successless" Latin America with illiberalism is little better than a crude caricature.' Fishlow (1991) contends that the selectivity of neoliberal comparisons which contrast all of Latin America with only the best Asian performers has exaggerated differences between the development performances of the two regions. He claims that a larger sample of countries portrays no significant correlation between economic growth and outward-oriented development strategies. Moreover, the direction of causality between exports and growth has not been firmly established. This means that no positive correlation can confidently be made between export levels and growth rates. Many intervening factors which have not generally been considered in neoliberal analyses may have contributed to both exports and overall growth. Ocampo (1990) adds that the neoliberal notion of a uniform Latin American development model of inward-oriented state interventionism is false. In reality, postwar development strategies differed substantially throughout the region – many small- and medium-sized countries followed traditional agroexport strategies of *desarrollo hacia afuera* (outward-oriented development), while many larger countries adopted industrially based strategies of *desarrollo hacia dentro* (inward-oriented development). By the end of the 1960s, however, both of these older development strategies had shown clear signs of exhaustion and many countries began turning to a 'mixed model' that incorporated elements of both an outward and inward orientation.

Moreover, it is also claimed that the strategies followed by many of the Asian NICs diverged substantially from the neoliberal ideal of laissez faire (e.g., Appelbaum and Henderson 1992; Bradford 1987; Eshag 1991; Vogel 1991; Wade 1992, 1993), while outward-oriented policies that have increased financial openness and deepened dependence on global financial and commodity markets have aggravated many of Latin America's macroeconomic problems. It is argued that this relatively high degree of financial openness and external dependency made Latin American economies particularly vulnerable to fluctuations in global markets (especially for primary commodities) and to capital market shocks (i.e., interest-rate escalation, capital flight, debt strangulation), both of which have recently contributed to macroeconomic imbalances (e.g., Dietz 1992; Hughes and Singh 1991). At the same time, the Asian NICs established strict controls over their external sectors to maximize benefits from trade and reduce their vulnerability to fluctuations in global financial and commodity markets.

It is further pointed out that particularities in Latin American socioeconomic and political structures have also made it difficult to replicate the East Asian model of export-oriented industrialization (EOI) based on labor-intensive manufactures. While primary-export development has historically been largely insignificant to the Asian NICs, much of Latin America was inserted into the world economy as exporters of agricultural goods and other primary commodities. A class alliance tied to the agroexport model has traditionally commanded the majority of the productive base, consumption share, and political apparatus of many Latin American countries. In some of the larger countries this dominant class alliance, which is commonly linked to powerful transnational capitals, has recently also diversified into import-substitution industrialization (ISI). A shift in development away from either the agroexport model or ISI toward an East Asian-style EOI strategy would have substantially shifted economic and political power in many Latin American countries and was therefore rejected by the dominant class alliance (Wade 1992).

A considerable income sacrifice would have also been required, at least initially, from many classes to achieve the low wage levels that would have been required to compete with East Asian industrial exporters (Mahon 1992). Because most Latin American countries have had a relatively long and successful history of labor mobilization, policies designed to support EOI by reducing real wages and standards of living would have encountered extensive opposition from well-organized and politically powerful labor organizations (Amadeo and Banuri 1991). By contrast, wage levels during the initial stages of East Asian industrialization were already at levels low enough to derive a comparative advantage on world markets. Moreover, labor mobilization in most of East Asia has had a relatively shorter history and labor organizations have commonly been too weak and fragmented to exert much political influence. These types of historical variations mean that elements of development models are only rarely directly transferable from one Third World region to another. The appropriateness and viability of specific development policies for individual countries depends in large part on the historical experience of those countries and the complex web of sociocultural, political, and economic structures that condition development in them.

Role of the State in NIC Development

As was indicated previously, many neoliberals contend that Asian NIC development has largely been based on the successful implementation of a laissez-faire growth strategy that has permitted the efficient operation of free markets. Indeed, the free-market and outward-oriented policy recommendations of structural adjustment programs are often supported by reference to the example of the Asian NICs. High growth rates among these NICs are attributed to the supposed absence of state economic intervention and the ability of key markets (e.g., external sector, labor, capital markets) to operate smoothly without undue regulation (e.g., Balassa 1988, 1991; Hughes 1988; Riedel 1988). However, this free-market explanation of NIC development has recently been subjected to increasing criticism, especially from specialists in the development of Taiwan and South Korea (e.g., Appelbaum and Henderson 1992; Haggard 1986; Hughes 1988; Kearney 1990; Vogel 1991; Wade 1990, 1992, 1993). Many analysts contend that neoliberals, in their haste to fit NIC development into an ideologically driven model of free-market growth, have ignored considerable evidence that contradicts their argument.[3] Wade (1992: 283–4), for example, states:

> My own evidence . . . suggests that neoliberal economists have been pioneering a whole new principle of causal inference – that to explain superior economic performance one may either simply ignore everything that is not in line with neoliberal prescriptions or assert that it hindered what would otherwise have been an even better performance . . . the result is an aversion to serious investigation of the role of the state in economic development.

Criticism of the Neoliberal Version of Events

Kearney (1990: 209) notes that, although there have been some variations, NIC development has generally been 'more characterized by the Long Arm of state intervention than . . . the Invisible Hand of the free market.' Because of this, Vogel (1991: 111) contends that the neoliberal explanation of rapid NIC growth 'is fraying at the edges . . . there are signs that the kinds of cooperation and strategy coming out of East Asia are rapidly overtaking Westerners who believe that decisions should be made entirely by the market and the quarterly balance sheet.' Among the NICs, only Hong Kong could be said to have followed a laissez-faire type of development strategy – and even there, the government's 'positive non-intervention' policies are heavily involved in a broad range of activities (e.g., public housing, public services and social welfare, export promotion, economic diversification and technological change). Beyond Hong Kong, state intervention in the other NICs has played a key role in stimulating growth and facilitating structural change to an advanced industrial society. In both South Korea and Taiwan the state has used its ownership of all major commercial banks and a comprehensive system of trade controls and industrial licencing to shape decisions concerning investment and production. In Taiwan some analysts claim that about half of all assets are either directly owned by the state or

3 Given evidence of extensive state intervention into many aspects of NIC development, neoliberals have responded with two arguments. The first may be termed the theory of the 'virtual free trade regime,' which argues that various measures of state intervention canceled one another out to produce a neutral, market-led incentive structure (e.g., Lal 1983, World Bank 1987). The second is the theory of 'prescriptive state intervention,' which contends that state intervention did not hinder growth because it left room for 'private initiatives' (e.g., Bhagwati 1988). A recent World Bank (1993b) report on NIC development contains major elements of both of these theories. In effect, it is argued that, whatever state intervention there may have been, it did not affect the workings of the market mechanism because it was either self-canceling (virtual free trade) or porous (prescriptive state intervention) (see Chang 1993: 134). Therefore, despite evidence of substantial state intervention in NIC development, neoliberals continue to argue that such development conformed to laissez-faire principles.

controlled by the ruling Kuomintang political party (Bello and Rosenfeld 1990). In Singapore the state is deeply involved in public monopolies and parastatals (Grice and Drakakis-Smith 1985, Rodan 1989), and in South Korea the state has encouraged the growth of huge family-owned conglomerates (chaebol) *vis-à-vis* foreign-owned industries (Liang 1992).

If anything stands out about state economic intervention in the NICs, it is probably the highly selective and strategic nature of such intervention (Hughes 1988; World Bank 1993b). Governments have been very careful both in selecting specific areas for intervention and in carrying out their policies efficiently. The results of interventionist policies have been monitored closely and, if changes were needed, they were generally accomplished quickly and effectively. Moreover, state economic interventions, especially in areas related to export promotion and protection of infant industries, have largely been proactive and future-oriented rather than reactive and tradition-bound. In close consultation with leading capitals, labor organizations, and development scholars, governments have set policies designed to exploit promising niches within dynamic world markets rather than to prop up failing industries, as is so often the case in other countries. Governments have also taken great pains to make the scope and types of economic interventions appropriate to their particular institutional frameworks which, in turn, are dependent on a complex web of sociopolitical factors in each country (Eshag 1991). An important lesson of this experience is that neoliberal and other general theoretical arguments are of little value in indicating the role that a particular government can play in promoting economic growth and development.

Given differences in institutional frameworks and state–society relations, forms of state intervention that may have succeeded in the context of a particular time and place may be quite inappropriate to the historical conditions found in other countries.

Late Industrialization and Economic Nationalism in the NICs

Nevertheless, the experience of the Asian NICs offers strong support to those who claim that an activist state may spur growth and development, particularly for many Third World 'late industrializers.' The conventional neoliberal view of NIC export-led growth derived from open economies with competitive market prices responding to global demand is not supported by the evidence. Instead, the evidence points to a 'supply-push' development model in which the state has played a key role in stimulating capital formation and accelerating structural change (Bradford 1987: 314). Rather than laissez faire, the Asian NICs provide examples of 'guided market economies' in which state intervention is focused on 'strategic industries' based on criteria such as their high demand elasticity in world markets and their potential for technological progress and labor productivity growth (Chang 1993; Oman and Wignaraja 1991; Onis 1991). While states in the NICs have not pursued policies of generalized import protection, they have frequently implemented policies designed to protect strategic industrial sectors, especially infant industries associated with substantial learning economies.[4] However, protectionist measures have often lasted for a limited time, after which these industries are expected to become internationally competitive. This strategy seeks to ensure the initial survival of strategic industrial sectors without either forfeiting the overall gains from trade, or subsidizing for prolonged periods industries that cannot compete on world markets.

Rather than fitting into the neoliberal orthodoxy of free trade and laissez faire, the development strategies followed by the Asian NICs seem to conform more closely to classical Listian mercantilism (Burmeister 1990; Hoogvelt 1990; White 1988). Arguing against liberal economists such as David Ricardo, the nineteenth-century German economist Friedrich List (1844) claimed that the theory of comparative advantage represented a doctrine of the dominant; the dominated could expect to derive little advantage from it. Instead of allowing their markets to be dominated by established industrial powers through free-trade policies, List counseled late industrializing countries to protect strategic infant industries in order to strengthen and deepen their productive forces for future development. In fact, a detailed examination of the early period of European industrialization reveals that most countries pursued Listian policies of economic nationalism rather than neoclassical strategies of free trade (Senghaas 1984). The European experience shows that, during the initial stages of industrialization, free trade was a luxury that only the first and leading developer, Britain, could afford. Other countries followed policies of economic nationalism which have striking parallels to the contemporary strategies of the Asian NICs, including strong state economic intervention, protection for infant industries, and 'temporary dissociation' of their economies from international competition during the initial industrialization phase (Hoogvelt 1990: 354–5).

4 Oman and Wignaraja (1991: 86–7) provide a theoretical justification for state intervention to support infant industries and other domestic firms in international markets. Subsidies, import protection, and other forms of state intervention can tilt the terms of oligopolistic competition in many global industrial sectors so as to shift monopolistic rents or the benefits of positive externalities (e.g., moving rapidly down the 'learning curve') from foreign to domestic firms. State intervention can, under certain circumstances, play a role analogous to strategic moves by oligopolistic firms to increase market share or capture future markets (e.g., investment in excess capacity, research and development into new product lines). Moves which sometimes may appear inefficient from a short-term static point of view may make good sense from a longer-term dynamic perspective.

Policies of economic nationalism in the Asian NICs strongly resemble interventionist strategies to support early industrialization not only in most European countries but also in Japan. During the early postwar period, the Japanese state created the powerful Ministry of International Trade and Industry (MITI) to coordinate industrial development and protect strategic sectors (e.g., steel, oil refining and petrochemicals, automobiles, industrial machinery, electronics) from foreign competition during their infancy. Pervasive state intervention in early industrialization enabled Japan to rapidly escape the trap of static comparative advantage and to incorporate itself into the global markets for more technologically advanced products. In effect, the MITI and other arms of the Japanese state deliberately created comparative advantages for certain industrial sectors. Sectors selected by the state for interventionist measures typically enjoyed elastic foreign demand and offered opportunities for gains in labor productivity and technological advance (Lawrence 1993) – the same characteristics of industrial sectors that became the focus of state intervention later among the Asian NICs. It is now widely acknowledged that this Japanese model served as an example for later state-directed industrialization drives among the Asian NICs. As Abegglen (1980: 11) notes:

> This 'Gang of Four' . . . [presents] evidence of Japan's revolutionary impact . . . Japan serves as a model . . . [and] is a basic source of training for the leaders of many of these countries . . . The NICs use government even more explicitly than does Japan in economic planning and guidance. One would have to say that all except Hong Kong have a more centrally directed pattern of economic growth than Japan, although they would tend to see themselves as basically market, rather than planned, economies.

State Intervention in the NICs

In order to achieve their goals of rapid industrialization and economic diversification, the states in the NICs used a broad range of policy instruments. Use of these policy instruments, which, taken as a whole, represents a widespread interference in the operation of market forces, was especially intended to provide profit incentives for strategic sectors in order to meet production, trade, and other targets set out in state economic plans. Policy instruments ranged from direct controls over investments, imports, wages, and some product prices to indirect regulation of investment, production, and trade through measures such as subsidies, tariffs, and tax rebates (Eshag 1991: 629). State economic interventions focused on both organizational and financial aspects of industrial development (Irwan 1987: 396). Organizational interventions were intended to organize and coordinate financial and industrial capital under the guidance of the state. In effect, large private capitals were 'disciplined' by the state to pursue national economic goals. In addition, financial interventions provided favorable conditions for increased private investment in strategic sectors. Common areas of financial intervention among the NICs have included credit allocations, interest-rate subsidies, and export financing in South Korea; credit allocations, fiscal subsidies, and exchange-rate adjustments in Taiwan; and fiscal subsidies, tax concessions, and regulatory incentives in Singapore (Gibson and Ward 1992; Lewis and Kallab 1986; Rodan 1989; Tak-wing 1993; Wade 1993; World Bank 1993b).

Various forms of state financial intervention in the NICs have deliberately distorted relative prices to attain desired levels of private investment in strategic industrial sectors. The systematic 'underpricing' of investment goods relative to private and public consumption goods encouraged capital formation and investment (Bradford 1987). Some interventions took the form of domestic monetary policies affecting interest rates and credit allocations to industrial investors. Others took the form of direct subsidies affecting the price of domestically produced investment goods. These monetary and fiscal policies acted to increase the supply and demand of investment goods, which, in turn, facilitated capital accumulation, industrialization, and structural change. Moreover, strong measures to promote macroeconomic stability (e.g., strict curbs on fiscal deficits, restrictions on the growth of money supply, exchange-rate controls) encouraged a positive overall investment climate. Taken together, these policies allowed the states in the NICs to generate industrial structures that were radically different than those that unguided private capitals would have produced. Much higher levels of investment and growth in key industries were obtained than would have occurred in the absence of state intervention (Onis 1991; Wade 1992).

These policy instruments have allowed the state to 'guide' or 'govern' the process of resource allocation in order to produce an investment and production profile that serves national development goals and differs substantially from that which would have resulted under a free market system. Political, institutional, and organizational arrangements were put in place to coordinate the economic activities of the state apparatus and large private capitals as well as their mutual interaction. Various incentives, controls, and mechanisms were established to increase the profitability of strategic sectors and spread the risks of investment in those sectors. In effect, state policies have acted to 'socialize' many of the investment risks associated with new industrial ventures. This has allowed domestic capitals to 'externalize' such risks, much as the early industrial capitalists did in the developed world (Petras and Hui 1991: 185–6). However, in return for socializing investment risks, state policies have also acted to 'discipline' the behavior of domestic capitals in strategic sectors. Investment incentives and subsidies have been closely tied to stringent performance requirements. Those firms meeting performance targets were rewarded, while support was quickly withdrawn from those that performed poorly. Typically, the state refrained from bailing out badly managed firms in otherwise profitable industrial sectors. This allowed the state in the NICs to avoid much of the resource waste that has often characterized efforts by other middle-income states to prop up declining industries or firms experiencing protracted financial difficulties (Onis 1991).

'Disciplining' Capital to Serve Development

State policies in the NICs have attempted to discipline the behavior of not only domestic capitals but also foreign capitals involved in strategic industrial sectors.

Policies concerning outside investment were designed to attract foreign capitals only on terms and conditions that would permit their activities to be integrated with national development goals. State intervention limited and directed the impact of foreign capitals on local economies and regulated external sectors in terms of both trade and capital flows. Strict controls were commonly established over foreign loans and direct investments, exchange rates, and financial flows. Domestic industries were typically encouraged to compete in external markets and were protected, at least in their infancy, from foreign competition in internal markets. The ability of the strong states of the NICs to subordinate the behavior of foreign capitals to a strategic industrial strategy may be contrasted with the dependent relationships that have allowed transnationals to dominate industrialization in many other Third World countries. In much of Latin America, for example, relatively weak states have allowed the industrialization process to be shaped in the interests of powerful transnational capitals rather than national development goals (Dietz 1992; Ellison and Gereffi 1990; Stallings 1990). The industrialization experiences of the Asian NICs and Latin America, then, give strong support to the view that directive state intervention is necessary if foreign capital is to play a constructive role in national development.

Empirical evidence from the NICs demonstrates that foreign capitals, in fact, played a relatively minor role in industrialization and economic growth. A study by Jenkins (1991) shows that between 1951 and 1967 direct foreign investment as a percentage of total long-term foreign capital flows was only 1 percent in South Korea and 8 percent in Taiwan, whereas official transfers (bilateral and multilateral aid and loans) represented 86 percent and 74 percent, respectively.[5] Further research on all of the Asian NICs indicates that, apart from Singapore, foreign direct investment contributed little to domestic economic growth (Petras and Hui 1991: tables 2 and 3).[6] In fact, rather than being destinations for foreign investment, many of the NICs in recent years have actually become sources of investment for other less developed countries, especially in Asia.

Importance of the Institutional Framework

The ability of the NICs to discipline the behavior of domestic and foreign capitals to serve national development objectives is closely tied to institutional and organizational changes that the strong states of these countries have orchestrated. Changes within the state apparatus itself and in state–society relations have been sensitive to the initial conditions prevailing in NIC societies and have focused on creating mechanisms for public–private cooperation to further national interests under the guidance of the state (Ranis 1989). Institutional/organizational changes have been particularly important in four areas. First, changes in the fiscal, monetary, and taxation systems have provided incentives for private investment in strategic industrial sectors. Direct state ownership has been of secondary importance in industrialization relative to the institutional capability of the state to manage and direct industrial capitals. Second, institutional changes in the educational system and other key elements of social infrastructure have facilitated economic restructuring by providing education, training, and research. In South Korea and Taiwan, infrastructural change was complemented by an agrarian reform which further broadened economic participation. Third, the state has performed a central role in the promotion of cooperative labor–management relations. In particular, the activities of trade unions have been strictly controlled and wage rates have been allowed to rise only at rates lower than productivity growth so that international competitiveness is not adversely affected. Fourth, and probably most significant, the state has established an institutional framework that allows it to create comparative advantages via economic restructuring. The state has systematically managed the market as a means to create the conditions for long-term economic transformation and sustained growth.

Significantly, the NICs have practiced a highly selective form of state intervention that requires neither a large public sector nor a large public-enterprise sector. The effectiveness of state intervention has been based on the existence of a coherent institutional framework that has strengthened administrative capacities and created opportunities for public–private cooperation in national development planning. As Onis (1991: 124) notes, the state apparatus in the NICs is characterized by 'tightly organized, relatively small-scale bureaucratic structures with the Weberian characteristics of highly selective, meritocratic recruitment patterns and long-term career rewards, which enhance the solidarity and the corporate identity of the bureaucratic elite.' Successful state intervention has been based not on the absolute size but on the coherence of the state's institutional framework; it has been based not on the quantity but on the quality and selectiveness of interventionist policies. Sector-specific forms of indicative planning have been a key component of state-directed, but market-oriented development. Relatively small but powerful state agencies, such as the EPB in South Korea (which is patterned on the MITI in Japan), have avoided much of the unwieldiness of larger bureaucratic structures and have permitted a highly trained, select group of experts to provide timely and imaginative strategic guidance to key economic sectors. Because of their cohesiveness and potency, these state agencies have been able to act, sometimes in the face of opposition from special interests, with the persistence and forcefulness necessary to maintain a stable environment of policy continuity. At the same time, however, their relatively small size and high quality has permitted them to exhibit the type of flexibility, pragmatism, and quick responsiveness that rapidly changing economic conditions and development priorities often require (Dietz, 1992).

Relative State Autonomy and Public–Private Cooperation

Underlying the institutional framework that has supported effective state intervention in the NICs are two important conditions often associated with 'developmental' states: a high degree of state-relative autonomy coupled with close public–private cooperation (Douglass 1993; Jenkins 1991; Onis 1991). These two conditions have allowed key state agencies to develop independent national goals and to translate these goals, within the broader polity, into effective policy action. Moreover, the coexistence of these conditions is critical; each of them is necessary for developmental states to operate effectively. States with a high degree of relative autonomy are able to pursue

[5] These proportions are often reversed for countries in other areas of the South such as Latin America. During the same period, offical transfers of long-term capital flows comprised 11 percent in Argentina, 31 percent in Brazil, and 8 percent in Mexico, while direct foreign investment was 53 percent, 51 percent, and 57 percent, respectively (Jenkins 1991).

[6] According to Petras and Hui, annual foreign direct investment as a share of gross domestic capital formation fluctuated between: 0.8 and 4.3 percent in Hong Kong from 1972 to 1978; 0.4 and 2.8 percent in South Korea from 1966 to 1980, 0.5 and 2.8 percent in Taiwan from 1960 to 1978; and 1.6 and 23.2 percent in Singapore from 1965 to 1976. The share of foreign-invested firms' exports in total exports was 11 percent in 1974 and 17.8 percent in 1984 in Hong Kong; 31.4 percent in 1974 and 18.3 percent in 1978 in South Korea; 30 percent in 1975 in Taiwan; and 66.5 percent in 1970 and 92.9 percent in 1980 in Singapore.

policies that conform to broad national interests, even if they sometimes conflict with the interests of powerful fractions of capital. Mechanisms facilitating public–private cooperation enhance the ability of the state to generate consensual support for its development goals and to carry out its policies more effectively within the larger society. Conversely, states that lack relative autonomy often find their development goals reduced to narrow special interests, while states without adequate mechanisms of public–private cooperation commonly cannot carry out their development policies effectively within broader society.

Although states may take concrete actions to increase their relative autonomy and improve public–private cooperation, these conditions are also historically determined by many factors outside of immediate state control. This means that general theoretical arguments concerning the role that a particular state should play in promoting development are of little value. Policies that succeed in the NICs may prove unsuitable for states in other Third World countries under different historically determined conditions.[7] Development strategies therefore need to take account of the complex and historically changing web of internal and external factors that act to structure state–society relations in each country. Within the NICs, for example, state-relative autonomy has been furthered both by their specific histories of class formation and class struggle and by the international (especially geopolitical) context of postwar East Asia (Jenkins 1991). The fragmentation and disorganization of the working class meant that NIC economic policies could ignore short-term labor interests to prioritize investment over consumption expenditures much more than might have been possible in other countries with stronger traditions of working-class militancy. In addition, geopolitical factors in East Asia led to a massive influx of US aid and permitted the NICs to implement policies that the US and other Western powers would probably have vigorously opposed in other less strategically important countries.

This particular mix of internal and external conditions, many of which are missing in most Third World areas, made it possible for the NICs to strengthen the state apparatus, increase state autonomy, and improve public–private cooperation under the auspices of a strong state. Given these initial advantages, the state was able to unite the bureaucratic and business elites behind a coherent, nationalist development strategy which adhered to the popular consensus that economic growth was paramount.

7 Indeed, there is considerable variation among the NICs themselves in the institutional mechanisms that have been created to foster public–private cooperation and guide development. Douglass (1993: 154) reports that the state in South Korea and Singapore has promoted the rise of large-scale domestic enterprises, whereas in Hong Kong and Taiwan it has fostered a process of international subcontracting by indigenous, small-scale firms.

Even though this consensus never included all social groups and classes and has recently shown signs of fragmentation, especially in South Korea and Taiwan, it did provide the states of the NICs with a unique opportunity to pursue broadly based nationalist interests. This is undoubtedly one of the most striking features of the NICs, contrasting them with most other developing countries, in which the ruling elites are culturally, ideologically, and institutionally fragmented and integrated into the international bourgeoisie (Bienefeld 1988: 24). In much of Latin America, for example, systems of public–private cooperation have arisen within the neocolonial context of weak, dependent states that lack autonomy either from international capitals or from powerful fractions of the domestic elite (Dietz 1992; Jenkins 1991; Stallings 1990). Under such conditions, public–private cooperation has often degenerated to the point that state goals, rather than reflecting any real popular consensus, are directly reducible to the narrow interests of dominant classes and social groups.

By contrast, the widely shared perception of a severe external threat coupled with the cohesive internal structure of state–society relations in the NICs encouraged a sense of collective social responsiblity. This, in turn, provided the basis for a long-term, nationalist strategy of economic growth that required relatively few concessions to the demands of special interest groups. Under state direction, strong nationalist sentiments were transformed into the single-minded pursuit of industrially based growth at the expense of other objectives. A consensus was created in favor of rapid industrialization as the best means to achieve national economic independence and eradicate poverty – goals that have eluded almost all other developing countries. However, as Wade (1992: 314) notes, what emerged in the NICs was an 'unattractive kind of regime' that suppressed individual freedoms and promoted a type of 'puritanical nationalism' enforced by authoritarian rule. The transferability of this type of political system to other Third World countries under different historical conditions is highly questionable. In particular, the unusual degree of state autonomy in the NICs is closely related to their geostrategic position and the relative weakness of their internal organizations representing both capital and labor – conditions that are rare in other countries. Moreover, attempts to sustain both state autonomy and public–private cooperation over the long term may ultimately prove contradictory, as is evidenced by the growing power and autonomy of large-scale capitals in many of the NICs (e.g., the Chaebol in South Korea). And finally, state autonomy and authoritarianism are not particularly compatible with broadening political participation. Growing social unrest and demands for greater democratization in many NICs call into question whether their type of political economy can coexist with more liberal and democratic polities.

The Influence of Internal Conditions on NIC Development

There are a number of recent studies that stress how historically determined factors within NIC societies have shaped development, especially the role that the state has played in generating growth (e.g., Amsden 1989; Chang 1993; Lie 1991; Petras and Hui 1991; Winckler and Greenhalgh 1988). These studies caution against overly hasty generalizations and the uncritical acceptance of any formalistic theory, especially one derived simply from abstract economic principles, to explain NIC development. An understanding of the recent development experience of the NICs cannot be gained by simply reading off from theory, no matter how elegant or comprehensive that theory may seem. As in all countries, development in the NICs has unfolded within a specific historical and sociocultural context which is too involved to be addressed by general economic models and abstract principles.

Explanations of NIC development point to the messier realm of interdisciplinary research in which sociocultural and historical factors are interwoven with the political economy. Moreover, attempts to reduce the NIC development experience to generalized economic principles which can be applied to other Third World countries are dangerously ahistorical. Given the tremendous diversity of the South, no approach to development can successfully claim universal validity. In the end, each country must devise strategies that are appropriate to its own historically changing conditions.

As we saw in the last section, state-centered studies of NIC development have largely succeeded in debunking neoliberal analyses that seek to link the successful economic performance of the NICs to market-led growth with little state intervention. However, these state-centered approaches are also partial and incomplete because they have generally ignored the realm of state–society relations. The social composition of the state strongly influences both the content of state policies and the manner in which those policies are carried out. As Petras and Hui (1991: 191) note, state-centered approaches typically treat the state as a 'black box' structure and neglect the matrix of class and other social relations in which the 'box' is inserted. In order to explain the efficacy of state institutions and policies in the NICs, studies need to theorize the state within its broader context of social relations and structures. In particular, the rise of specific state forms and actions in the NICs is closely interrelated with the historical course of processes of capital accumulation and social reproduction in those societies.

Both capital accumulation and social reproduction also necessarily involve classes and social groups in complex processes of conflict and accommodation. These, in turn, are related to the broader social structures and have evolved under particular historical conditions in each of the NICs.

The Colonial Legacy

Japanese occupation and colonialism heavily affected the early twentieth-century development of both South Korea and Taiwan. Japanese colonial rule led to the rise of modern state and industrial structures, Japanese foreign investment and technology supported early industrialization, and Japanese marketing firms managed most exports (Bello and Rosenfeld 1990). In addition, the Japanese carried out extensive agrarian reforms in both countries, creating relatively egalitarian rural structures and permitting a more broadly based and internally articulated pattern of growth to arise which spurred domestic demand and supported early industrialization (e.g., Lin 1989; Nolan 1990).[8] Externally imposed agrarian reforms also effectively destroyed the feudal rural oligarchy as a dominant class, thereby removing a potential obstacle to urban-based industrialization. By contrast, the prolonged domination of economic and political structures by the traditional rural oligarchy in much of Latin America significantly delayed industrialization and other economic diversification (Bagchi 1990; de Janvry 1981; Jenkins 1991).

Agrarian reforms in South Korea and Taiwan also generated a rapidly expanding agricultural surplus that the state could utilize to promote industrial growth. In South Korea the state extracted surplus from the peasantry by means of mandatory grain payments for rents and loans, as well as the occasional extension of a legislated state monopoly over grain purchases (Petras and Hui 1991: 186). Agricultural prices were also kept below world levels, thus lowering the costs of living and wage demands of industrial workers, by permitting abundant imports of grain and other agricultural products from the US. In Taiwan the state extracted agricultural surplus by means of land taxes, compulsory state purchases of rice at below-market prices, and a rice-fertilizer barter scheme (ibid.: 186). Rapidly rising agricultural productivity allowed the state to extract a share of rising peasant incomes to finance provisions of social infrastructure and the development of strategic industrial sectors. It is estimated that net capital outflow from agriculture during early Taiwanese industrialization financed approximately 34 percent of gross domestic investment (Grabowski 1988: 63).

Like South Korea and Taiwan, the development of Hong Kong and

8 It is notable that an extensive agrarian reform was also implemented in Japan itself by the Meiji administration during the nineteenth century that facilitated modernization by breaking the power of the feudal oligarchy and promoting more egalitarian rural structures.

Singapore has also been influenced by colonialism, albeit of a British rather than a Japanese variety. Because both Hong Kong and Singapore are essentially city-states, neither agriculture nor agrarian reforms have been important to their development. However, as important outposts in the British Empire, they rapidly established themselves as significant regional centers of entrepôt trade and were able to dominate development in their respective hinterlands (Kearney 1990; Nolan 1990). Under British colonialism, modern state institutions were established that could play an active role in directing and managing economic growth. The creation of advanced industrial, financial, and administrative/managerial structures provided important advantages to attract capitals seeking investment opportunities in East and Southeast Asia. The construction of a highly efficient transportation and communications infrastructure further distinguished these centers from most other large Asian cities. Provisions of basic social infrastructure created a relatively healthy and well-educated population, supplying an important base of human capital for industrially oriented growth. Taken together, these supply-side conditions offered Hong Kong and Singapore important advantages to pursue opportunities in global markets that have eluded many other Third World countries which inherited quite different conditions from their colonial legacies.

The Weakness of Capitalist and Working-Class Organization

The historical weakness and disorganization of both the working class and domestic capitals in the Asian NICs has also strengthened state autonomy to direct a strategy of rapid industrially-based growth. A variety of reasons have been offered for this weakness, including the relative lateness of industrialization and high degrees of cultural and ethnic heterogeneity in some of the NICs, especially Taiwan and Singapore (Banuri 1991: 191). In addition, a series of internal and/or international conflicts (e.g., Japanese occupation for varying lengths of time of all of the NICs; the Korean War and subsequent US military presence; the seizure of Taiwan by the Kuomintang) effectively destroyed many labor organizations and domestic capitals. Authoritarian state structures, which in many NICs were strengthened as a result of conflict and external threats, were also used to place strict controls on the actions of both labor and capital. State-corporatist institutions were established and laws (in some cases, emergency decrees) were enacted that are only quite recently beginning to be challenged in many of the NICs. Highly centralized state structures monopolized political and economic power, thereby preventing alternative organizations and movements from acquiring the type of political strength and national identity that they possess in many other Third World countries. Jenkins (1991), for example, contrasts this situation in the Asian NICs with the difficult position

faced by many Latin American states due to the historical militancy of labor organizations and the hegemonic control exerted by powerful domestic and international capitals in the region. Because they enjoyed a high degree of autonomy, the states in the Asian NICs were able to direct structural economic change away from ISI (import-substitution industrialization) toward EOI (export-oriented industrialization) with relative ease. By contrast, the powerful entrenched interests of both the industrial bourgeoisie and organized labor in many Latin American countries have strongly opposed state attempts to de-emphasize ISI relative to EOI. While the autonomous states of the NICs have been able to largely ignore the special interests of capital and labor organizations in formulating and implementing economic policies, this has seldom been the case in other Third World areas such as Latin America. Critical differences in the historical evolution of key societal structures often present Third World countries with conditions that restrict possibilities for state autonomy.

Confucianism and other Sociocultural Factors

The early postwar consolidation in the Asian NICs of structural conditions that fostered state autonomy and rapid industrially-based economic growth was also facilitated by large-scale migrations of Mainland Chinese, especially to Hong Kong, Singapore, and Taiwan. Many of these migrants were well educated and possessed considerable entrepreneurial expertise and other skills important to industrialization. In addition, they brought with them traditional Confucian values and ideological beliefs which have been at the core of Chinese society for the last two thousand years. Until recently, many development theorists, especially those in the modernization camp familiar with Weber's (1951) classic work on *The Religion of China*, regarded Confucianism as an archaic religion inappropriate to the sociocultural and ideological requirements of industrial capitalism (e.g., individualism, social utilitarianism, liberal democratic principles). It was believed that Confucian traditions in China and other Asian societies would delay the adoption of modern, Western-style sociocultural attributes necessary for industrialization. However, since 1980s a number of scholars have turned this hypothesis on its head – they contend that instead of being hindered, the Asian drive to industrialize has been helped along by values, mores, and beliefs rooted in Confucian traditions (e.g., Gray 1988; Kuah 1990; Leung 1987; Morishima 1982; Nolan 1990).

Among these scholars, Morishima (1982) first related rapid postwar economic growth in Japan to an ethical value system rooted in Confucianism and related religions. From their two major religions (Confucianism and Taoism turned into Shintoism), the Japanese acquired 'an ideological driving force for solving problems which their society had confronted' (ibid.: 19).

Rather than focusing on individual achievements and rewards, the Japanese 'ethos' tended to stress the group effort needed to achieve collective economic development and social mobility. Likewise, a number of analysts have linked the more recent process of state-directed economic growth in the Asian NICs to the strong presence of neo-Confucian values in these societies. These values include the importance of social harmony based on familial and community obligations, a de-emphasis on self in favor of group cooperation, dedication to work and the need for achievement, the preeminence of education, and respect for authority (e.g., Gray 1988; Leung 1987; Kuah 1990). The Confucian 'work ethic,' loyalty to organization, and appreciation for the value of education are regarded as particularly important to rising industrial productivity and the lack of labor militancy in the NICs. Moreover, it is believed that Confucian respect for authority and social harmony have helped to legitimize highly centralized and authoritarian systems of governance. This, in turn, has facilitated 'social engineering' efforts by the 'strong' states in the region designed to hasten structural economic changes needed to spur industrially based growth.

Analyses which link Confucian traditions to the successful performance of state-directed industrialization strategies in the NICs underscore the important role that sociocultural factors can play in economic and political development. Confucian values facilitated the creation of human capital needed for industrialization and provided consensual support for a development strategy that subsumed the immediate interests of specific classes and social groups to long-term goals set by an authoritarian state to meet broad national development objectives. The sociocultural makeup of NIC societies proved to be particularly compatible with state efforts to mount this type of development strategy. However, it should be noted that a similar strategy might prove quite incompatible for other societies with different histories, cultural traditions, and social structures. Key elements of the NIC development strategy (e.g., state autonomy, authoritarianism, private–public cooperation, EOI) might, at least in similar form, produce disastrous results in other Third World countries. It follows that internal factors based on the histories and sociocultural traditions of individual countries ought to be given careful attention alongside economic and political factors in any considerations regarding the transferability of development strategies.

Internal Growth

Neoliberals commonly juxtapose the (successful) performance of outward-oriented growth strategies in the Asian NICs to the (failed) history of

inward-oriented strategies in many other Third World areas. A uniform model of market-led, export-oriented industrialization is constructed for the NICs that is then contrasted to the strategy of state intervention and import-substitution industrialization which is said to characterize development in much of the rest of the South, particularly Latin America. However, just as it is false that state-directed ISI dominated postwar development in all Latin American countries to the exclusion of outward-oriented strategies, so too is it incorrect that internally oriented growth did not play a significant role in NIC development. No one denies that exports have provided an important stimulus to growth in the NICs; but rising domestic demand and the creation of internal linkages between key economic sectors and social groups also played a crucial role in their development (e.g., Bradford 1986; Gereffi and Wyman 1990; Gibson and Ward 1992; Irwan 1987; Liang 1992).

The NIC development performance demonstrates that selective policies supporting ISI and other domestically oriented sectors may not necessarily be incompatible with export promotion and other outward-oriented policies. Characteristically, state economic intervention in the NICs promoted selective market opening in competitive sectors (i.e., those in which domestic firms were expected to compete internationally), while protecting local markets for ISI and other non-competitive sectors. The parallel and interwoven existence of these two strategies may well become a trend for developing countries in the future (Dinh 1993). It enables them to make use of the rational core of the theory of comparative advantage to enlarge their participation in international markets, while simultaneously providing conditions for a more participatory, internally articulated form of development which can utilize a broader range of domestic resources.

The development of internal linkages proved especially important to the early stages of industrialization in many of the NICs, providing both domestic demand and supply-side conditions (e.g., technology, skills, human and physical capital) to foster economic diversification and the subsequent construction of an export platform. Moreover, even after the achievement of a more mature, specialized stage of industrialization, a complementary mix of inward- and outward-oriented policies was followed in order to broaden economic participation and provide for more socially, sectorally, and spatially balanced growth (Burmeister 1990; Luedde-Neurath 1986).[9] State policies were used to direct investment to strategic industries that not only showed a high growth potential but also had good possibilities for producing 'demonstration effects' (e.g., technological change, human skills development) and for developing forward/backward linkages with related

[9] In fact, Douglass (1993: 163) argues that, following the experience of Japan, South Korea may now try to lessen its export dependence in favor of a more inward orientation that stresses domestic market growth as a key basis of accumulation.

local industries (Irwan 1987; Schive and Majumdar 1990).

Rural Development and Agricultural–Industrial Linkages

State policies were also instrumental in linking industrialization with rural development in a mutually complementary manner, especially during the early stages of growth immediately following the Second World War. In Taiwan, for example, the state encouraged rural industrialization by a comprehensive rural electrification program, the charging of equal energy rates in rural and urban areas, and the early establishment of rural industrial estates, export processing zones, and bonded factories (Ranis and Stewart 1993: 91). Such policies helped to alleviate the urban bias that has marked the initial phase of import-substitution industrialization in many Third World countries. Rural industries also contributed significantly to the rapid expansion of non-traditional exports (e.g., canned mushrooms, asparagus) in Taiwan. Much of the growth in both import-substitution and export industrialization that took place in rural areas was concentrated in relatively small industries and led to significant job provisions. As a result, the percentage of Taiwanese rural workers engaged in non-agricultural activities increased from 29.1 percent in 1956 to 47.0 percent in 1966 to 66.9 percent in 1980 (ibid.: 93). The increasing non-agricultural jobs in rural areas promoted a more egalitarian income distribution in socioeconomic and spatial terms; this helped to slow the tide of rural–urban migration and fostered rural development by providing farm families with needed additional income.

In all of the NICs, state policies were designed to spread income distribution and increase economic participation by different social sectors, raise domestic demand for ISI and other internally oriented sectors, and legitimate the overall role of the state in directing economic growth to serve the 'common good.' De Janvry (1981) provides a useful analysis of the role that domestic market expansion (for wage-goods) and broadened economic participation may play in creating more internally linked and 'articulated' patterns of growth in Third World countries. He argues that a 'market-widening' process frequently accompanies economic growth in the capitalist periphery, but that a 'market-deepening' process seldom occurs. The market-widening process results from the expansion of capitalist relations and structural economic transformation which, in many highly polarized countries, have undermined traditional local economies and converted peasants, artisans, and others into an impoverished working class. Within such economies, domestic demand is focused on luxury goods for the elite rather than wage-goods for the popular sectors, thereby providing incentives for luxury imports and disincentives for local wage-good production. By contrast, the market-deepening process results

from real wage increases and more egalitarian income distribution, which gradually increases domestic demand for a continually expanding array of wage-goods, especially more technologically demanding durable goods produced by import-substitution industries. This leads away from the type of polarized development that dominates so much of the South to a broader, more participatory form of development in which social classes, economic sectors, and regions interact in a mutually reinforcing manner. In a study of South Korea, Irwan (1987) finds that, in contrast to most Third World countries, the process of market-widening was accompanied by market-deepening, enabling a relatively large proportion of the population to share in the benefits of rapid economic growth. His findings for South Korea are equally applicable to the other Asian NICs, all of which have managed to avoid widening inequalities by implementing policies which linked economic growth with rising real incomes.[10]

In the NICs that contain a substantial rural sector (South Korea, Taiwan), state policies directed toward agricultural and agroindustrial development were especially important in promoting broader economic participation and more egalitarian income distribution (e.g., Burmeister 1990; Lie 1991; Ranis 1992; Ranis and Stewart 1993; World Bank 1993b). State policies helped to incorporate the rural sector into the national economy in a way that simultaneously accelerated agricultural and industrial production, while generating widely distributed increases in income for both rural and urban households. This helped to avoid the problems of massive rural marginalization that have accompanied industrialization in other Third World countries such as Brazil and Mexico (Senghaas 1984).

Particularly in South Korea, the state designed a development strategy that articulated agricultural policies related to wage-goods linkages, agroinput industrial linkages, rural consumption linkages, and human-

10 However, following several decades of rising real incomes and diminishing inequalities, at least some of the NICs may be entering into a period of widening income inequalities. In his study of South Korea, for example, Irwan (1987) notes that real wages declined in the early 1980s as a result of the global economic recession and growing economic concentration by a few giant, family-owned conglomerates (chaebol). He comments that future income distribution will depend on economic and political struggles between the state, domestic firms, and foreign capital, on one side, and workers, students, and others working for the democratization of the state, on the other side. Irwan also contends that state policies appear to be producing differential effects on income distribution among the next tier of Asian NICs. In Thailand, policy changes designed to shift the Thai economy to a more outward orientation have been implemented in a gradual and timely manner in order to minimize harm to domestic sectors, maintain stable macroeconomic conditions, and prevent increasing inequalities in income distribution. In Indonesia, however, internally oriented economic sectors have not been well supported, the income share of the bottom 80 percent of the population has stagnated, and real per capita income has increased much more slowly than it did during a comparable period of early industrialization in, for example, South Korea.

capital investment linkages (Burmeister 1990). The state guaranteed producer markets and consumer distribution channels by creating parastatals. State intervention provided critical support for agroinput markets, such as the import-substitution fertilizer industry. State programs helped to provide human capital in some key sectors (e.g., engineers for the entire petrochemical industry via the state-supported fertilizer industry). State policies supported agricultural mechanization for both small/medium and large producers, thereby raising yields and output and spreading rural income distribution. Broadened income distribution also allowed rural households to allocate more disposable income to finance the education of their children beyond primary school. This enabled rural households to release an employable (i.e., literate and disciplined) pool of surplus labor for the industrial sector, while yield increases continued to raise agricultural output.

As was mentioned in the previous section, land reforms in both South Korea and Taiwan during the period of Japanese occupation also produced structural and organizational changes that promoted broadly based economic growth. These land reforms generated important economic fallout effects by raising rural productivity, redistributing income and stimulating domestic demand, increasing food production for urban areas, and releasing skilled and highly employable labor for industrialization (e.g., Eshag 1991; Lie 1991; Ranis 1989).[11] In addition, the reforms created decentralized farmers' organizations that provided a useful network for the allocation of rural credit, the diffusion of both agricultural and non-agricultural technology, the pooling of small savings, and the development of irrigation and other rural infrastructure (Ranis and Stewart 1993).

However, while the land reforms established initial conditions that facilitated the integration of the rural sector into an expanding national economy, subsequent state policies reinforced and extended these conditions. Strategies of rural development typically combined elements from both a 'development from above' approach, which stressed active intervention by the centralized state, and a 'development from below' approach, which emphasized local participation (Boyer and Ahn 1991). A large population of relatively well-off farmers was thereby created that made a significant contribution to the dynamic expansion of the domestic economy and provided critical support for the early industrialization process. Especially important to income and wealth distribution in rural areas were state programs aimed at raising productivity by accelerating and broadening

11 Khan (1987: 98) states that South Korea and Taiwan were also characterized by a highly egalitarian distribution of 'operational holdings' (i.e., actually working farms as opposed to ownership units) before the land reforms implemented by the Japanese. Because of this, he contends that the subsequent redistribution of land via the reforms created relatively little disorganization and met with only sparse resistance.

technological diffusion to all rural social sectors. In South Korea, this was largely accomplished by way of a 'Korean version of the Green Revolution' (Burmeister 1990; Lie 1991). In contrast to the widening inequalities that have accompanied the spread of Green Revolution technologies in most other Third World countries, the Korean Green Revolution succeeded in fostering equity with growth because it was largely scale neutral. Relatively equal access was created to many of the key factors required for the technological transformation of agriculture, including rural credit, farm inputs (especially machinery, chemical fertilizers, improved seeds), basic education, and specialized technical assistance programs.

Infrastructure Provision and the Stress on Human Resources

State programs to speed the process of technological advance and structural change in NIC societies were also complemented by generous provisions of basic economic and social infrastructure. The construction of transportation networks, communication systems, electrical power grids, irrigation systems, and other aspects of basic physical and economic infrastructure provided major 'preconditions' for the process of structural transformation to a modern industrial society. Equally important was the provision of a basic social infrastructure. Among others, Behrman (1990), Kuznets (1965), and Lebeau and Salomon (1990) have stressed vital interconnections between a country's ability to undergo structural economic change and the capacity of its institutions to support human-resource development. The quality of a country's human resources especially influences the ways in which it can absorb, adapt, and disseminate new technologies associated with structural change. The experience of the Asian NICs demonstrates that future Third World growth may be based not just in natural resources but on the development of 'created' comparative advantages through investments in human capital and social technology (Patel 1992; Sengupta 1993).[12] The growing importance of these determinants of long-term, sustained growth – not just for the North, but for the South also – were foreseen by Bernal (1965: 17) several decades ago: 'The real source of wealth lies no longer in raw materials, the labor force or machines, but in having a scientific,

12 The concept of social technology is explained by Patel (1992: 1872–3): '[It] refers to all advances in skills acquired by people individually and collectively . . . Social technology encompasses not only the individual's skills employed in carrying out his or her own economic activity. The collective influence of the working together of all components of society, including policies pursued by governments, and economic, social and political institutions, must also be included in social technology . . . Social technology has a dual character. It is needed as a means to raise the level of output of goods and services. But it is also by itself a goal, an end of development. For instance, better education, greater health, wider spread of social welfare facilities help not only raise productive capabilities but also satisfy basic needs and urges of the people.'

educated, technological manpower base. Education has become the real wealth of the new age.'

The states in the NICs have demonstrated a deep commitment to enhancing human resources, particularly via the expansion of education at the primary and secondary levels (Kearney 1990, World Bank 1993b),[13] but also through programs to develop scientific, engineering, and technical expertise needed to permit diversification into new high-technology growth sectors (Hon 1992; Kim et al. 1992; Yoon 1992). Strong cultural traditions in NIC societies that place a high value on education and achievement have facilitated state efforts to broaden both specialized technical expertise and general levels of education among the masses. As in Japan previously, the land-poor NICs stressed the role of humans as their greatest resource to propel modernization and development – as an 'ever-increasing basic resource' that should be nurtured by the state for the common good (Somjee 1991: 63). This placed an enormous emphasis on education, the spread of information, the learning of new skills, and, above all, on the enhancement of human capacities to participate in the structural changes needed to create a new technologically advanced, industrially based society. Because of this, public expenditures on education and other basic social infrastructure met with little resistance. As a result, the NICs are among the few Third World countries that have invested properly in human-resource development.

The Influence of External Factors on NIC Development

In addition to being shaped by internal conditions, the development performance of the NICs was also influenced by a series of external factors related to their geographical location and the historical period in which their export-led industrialization drives were carried out. Situating NIC development within two broader contexts helps to gain a better understanding of these external factors. The first concerns the geostrategic locations occupied by the NICs on the periphery of the Eurasian landmass, and American-led efforts to contain the spread of Communism in the Cold War era (Jenkins 1991; Petras and Hui 1991). The second is related to development opportunities afforded to the NICs by their advantageous position within the New

13 Kearney (1990) notes that the NICs focused on primary and secondary education in order to enhance the ability of all classes and social sectors to participate in the national development project. By contrast, the focus for education in many other Third World countries (especially in Latin America) has been on post-secondary education, which has created a well-educated elite but has not permitted the masses to acquire the type of practical literacy and other basic skills needed to broaden their economic participation. Chakravarty (1990) contends that this was also a problem that was not effectively grasped by development planners in India.

International Division of Labor during an unprecedented period of global economic growth (Browett 1985; Douglass 1993; Gereffi and Wyman 1990). Both of these considerations call into question the transferability of the NIC model to other Third World countries that are not presented with such fortuitous external conditions.

A number of authors contend that the integration of the Asian NICs into the global economy occurred in a 'moment of opportunity' in the structure of the world system, which was distinguished by the strategic concerns of OECD countries (led by the US) in containing the spread of Communism and by the interests of core capitalist countries (especially the US and Japan) in extending their economic influence in East and Southeast Asia (e.g., Irwan 1987; Petras and Hui 1991; Robison 1989). These authors claim that both neoliberals on the Right and dependency theorists on the Left have paid insufficient attention to the influence of empire and international security alliances on NIC development. NIC growth strategies were profoundly influenced by global geopolitical relationships and the transnational networks that they produce – from British and Japanese colonialism to the postwar system of US alliances.

The Cold War and Geostrategic Concerns

Geostrategic concerns during the Cold War era were critically important in influencing relationships between the US and the Asian NICs – particularly, but not exclusively, South Korea and Taiwan. Geostrategic interests conferred special advantages on the NICs (e.g., in terms of trade, exchange rates, state-to-state loans and aid, military expenditures, technology transfers) that few other developing countries have enjoyed (Gulati 1992). The US permitted the NICs to establish 'mercantilist' trading relations which coupled protectionist measures of import substitution with expansionary policies of export promotion aimed largely at American markets.[14]

The US also allowed the NICs to systematically undervalue their currencies *vis-à-vis* the dollar in order to facilitate access to American markets.[15] In addition, US state-to-state loans, aid, military expenditures, and other

14 Leamer (1990: 365) estimates that exports from Hong Kong, South Korea, and Taiwan were on average suppressed by trade barriers of 12–15 percent, which is substantially lower than for most Latin American countries.

15 Tang (1988) notes that similar policies were previously followed by the US to build up Japan as an East Asian bulwark to communist expansionism. The US occupation authorities created the MITI and put Japan on the firm footing of a mercantilist trade regime of import substitution and export promotion. The US also allowed Japan to fix its exchange rate at 360 yen to the dollar – a rate that stood for more than 20 years. Moreover, the US pressured its labor organizations (especially through George Meany at the AFL-CIO) to cooperate in the opening of American markets to the products of Japan's budding industries.

forms of largesse transferred large amounts of capital to the NICs on quite favorable terms. Between 1952 and 1962 (during the key initial phase of import substitution in the NICs), US loans and aid to South Korea and Taiwan funded 70 percent and 85 percent of imports and 80 percent and 38 percent of domestic capital formation, respectively (Robison 1989: 373). US military expenditures and the stationing of large numbers of American troops in these countries also brought capital and other benefits that proved especially important to state development.

As a result of this special relationship with the US, the NICs were able to increase their state autonomy, strengthen state institutions and mechanisms for public–private cooperation, and accelerate the progress of their state-directed development projects. US aid helped to increase levels of public and private consumption without the usually associated fiscal and monetary problems. Moreover, US aid allowed the state to create conditions for real wages in the industrial sector to rise by giving the NICs, particularly South Korea and Taiwan, the advantage of not having to encourage direct foreign investment to initiate labor-intensive industrialization. In contrast to the massive US aid effort in the NICs, the main source of capital inflows to most other developing countries has been via direct foreign investment by TNCs – which tends to reduce rather than increase state autonomy and limits the ability of the state to direct development strategies to serve broadly based national interests (Jenkins 1991: 212–13). Commenting on the relationship between US geostrategic interests and accelerated NIC development, Hamilton (1983: 53–4) concludes:

> For the larger part of the '50s and early '60s fully one half of Korean Government revenue came from the USA . . . Over the 1951–65 period US aid to Taiwan contributed about 34% of total gross investment . . . [Aid] more than doubled the annual rate of growth of GNP [in Taiwan], quadrupled per capita GNP and cut 30 years from the time needed to attain 1964 living standards.

Geographical Location and the Asian Regional Division of Labor

The geographic location of the NICs in East and Southeast Asia also gave them special development advantages beyond those gained from geostrategic concerns. Hong Kong occupies a pivotal position astride trading routes between Northeast and Southeast Asia. It has also benefited enormously as the main link to the outside world for its surrounding region of southeast China. Singapore continued to act as the principal port for Malaysia after independence and is strategically situated at the southern end of the Strait of Malacca which funnels trade flows between the Pacific and Indian Oceans. Singapore is also centrally located relative

to the rest of Southeast Asia, facilitating its rise as a financial, commercial, and administrative/managerial center for the region (Parsonage 1992). Moreover, all of the NICs (but especially South Korea and Taiwan) are ideally located to take advantage of growing trade and other ties with Japan. There are important complementary factors between the economies of Japan, the NICs, and other surrounding Asian countries that have fostered a regional division of labor that has been profitable, up to now at least, for all concerned (Emmerij 1987; Kim 1993). In many ways the NICs have followed in the footsteps of postwar Japanese growth. The NICs have consciously emulated many aspects of the Japanese development model (e.g., mercantilism, export-led industrialization, strong state autonomy). Japan has also acted as a major regional 'growth pole' for the NICs, providing them with important benefits such as favored trading relations, direct investment and other capital inflows, subcontracting by Japanese capital, and technology transfers (Edgington 1993).

In recent years, as their industrialization processes have matured, the NICs have begun to occupy a more intermediate position in the regional division of labor between Japan and other less developed countries in East and Southeast Asia. Asian economic growth is sometimes described as the 'flying geese pattern' of development, with Japan at the head followed by the NICs and then the new NICs of Southeast Asia (Kim 1993: 29). The evolution of this regional division of labor has increased opportunities for some of the NICs, especially Hong Kong and Singapore, to develop as mid-level centers for administrative/managerial, financial, and commercial functions. In some cases, NIC domestic capitals have recently opened up branch plants in surrounding Asian countries with lower labor costs – presenting new capital accumulation opportunities, but also posing new challenges to the NICs to develop ever more sophisticated economic sectors to employ their own workers at higher wage levels. In other cases, the NICS have begun to play the role of regional 'command and control' centers for foreign capitals with production facilities in neighboring lower-wage countries. Singapore, for example, has supported the creation of a 'Golden Triangle' of regional economic cooperation, in which it acts as the administrative and financial center for TNCs that have set up branch plants in low-wage areas of the adjacent states of Johor in Malaysia and Riau in Indonesia (Parsonage 1992). Likewise, Hong Kong has developed as the major center through which productive investments by TNCs in the New Economic Zones of Kuangdung and other provinces in southeast China are managed.

NIC Integration into the Global Economy

Over and above the development advantages of their geographical location, the NICs' rise from peripheral to semiperipheral status within the world economy was also facilitated by broader global conditions that may be fast disappearing. Typically, a large part of any country's development story can be attributed to external circumstances and events beyond its control. This was true of Western Europe during the Industrial Revolution, the New World during the nineteenth and twentieth centuries, and the NICs in the 1960s and 1970s (Kearney 1990: 198). Rapid NIC development based on export-led industrialization was encouraged during this period by a number of fortuitous external circumstances: dramatic reductions in transport costs and trade barriers for many industrial products entering the US market; intensified competition within many industrial sectors in the US market; unparalleled growth in the world economy, particularly in the US and other OECD countries; and enhanced comparative advantages for labor-intensive products in the NICs relative to the capitalist core. These factors combined to prompt global capital to initiate an unprecedented horizontal expansion into Third World areas that offered good accumulation opportunities based on lower production costs.

The growing concentration and centralization of capital at an international scale, the restructuring of labor-intensive production processes, the emergence of globally efficient transportation and communications networks, and the rise of international financial circuits, combined under the broad stimulus of rapid global economic growth to produce a 'New International Division of Labor' (see, e.g., Fröbel et al. 1980; Palloix 1977). The rise of this NIDL was closely linked to the internationalization of productive capital in search of global accumulation opportunities under the more flexible labor-supply conditions offered by some developing countries which had relatively productive, inexpensive and less militant labor forces (Browett 1985).

The Changing Global Conditions Facing Aspiring NICs

For a number of authors, however, a series of new conditions confronting Third World manufacturers underscore the fragility of much of the South's outward-oriented industrialization and the difficulty that new industrializers will face trying to replicate the NICs' development experience (e.g., Gereffi and Wyman 1990; Harris 1986; Wade 1992). These new conditions include: the collapse of global financial circuits as a result of rising Third World indebtedness in the 1980s; increasing contradictions and crises within the market-widening strategies of many countries; the rise of new productive technologies permitting the return of some previously exported manufacturing to First World countries; the global economic slowdown and the increasing unevenness of growth, both within and between countries; and the spread of protectionist sentiments, especially within the capitalist core, versus Third World products. For Bello and

Rosenfeld (1990: 57), these new conditions mean that the NIC model of export-led growth may be running out of steam just as neoliberals have enshrined it as the new development orthodoxy: 'The troublesome truth is that the external conditions that made the NICs' export successes possible are fast disappearing, while the long-suppressed costs of high-speed growth are catching up with these economies.'

Just as in Japan previously (Tang 1988), ready access to an expanding US market supplied much of the demand for the export-led industrialization drive of the NICs. By 1964 the US market was absorbing about one-half of the manufactured exports of the largest NIC exporters (Alger 1991: 885).[16] By 1984 this percentage had risen to more than two-thirds, representing approximately one-third of the total manufacturing output of these NICs (Harris 1991: 120). By comparison, about two-fifths of manufactured exports from all developing countries in 1984 were destined for the US (Alger 1991: 885). This underscores the necessity for other Third World countries seeking to replicate the export-led growth strategies of the NICs to find ways to penetrate the US market (or some other equivalent).

However, the protracted slowdown of growth in the US and other OECD countries, the rise of neoprotectionist trade policies in much of the North, and the division of the world into regional trading blocs (e.g., the EEC, NAFTA) all present formidable demand-side limitations to new industrial exporters seeking to mimic the NIC model. Recent studies by Bhagwati (1991) and the Commonwealth Secretariat (1990) show that protectionism among Northern countries is growing and that bilateral agreements and rising use of non-tariff measures are steadily undermining the GATT system of fixed, universal trading rules. Many analysts contend that the erection of non-tariff barriers (e.g., anti-dumping duties, import licencing, technical specifications, voluntary export restraints) by Northern countries has become one of the most serious obstacles to Third World exports (e.g., Roarty 1993; Watkins 1992). Whereas the GATT has enjoyed some success in reducing overt tariffs between countries, less conspicuous non-tariff barriers have proliferated and have become a major impediment to freer trade. Moreover, a disproportionate share of these non-tariff barriers in Northern countries have been aimed at Southern products. According to the World Bank, some 31 percent of the South's manufacturing exports are subject to non-tariff barriers, compared with the North's 18 percent (Watkins 1992: 35). Given rising protectionism in the US and other Northern countries against Southern exports, it may be that the 'moment of opportunity' in the global economic system that the NICs exploited so successfully in the 1960s and 1970s has largely passed for other countries.

In addition to demand-side constraints, new Third World industrial

16 Alger's figures include Brazil and Mexico, as well as the four Asian NICS.

exporters are also facing difficult supply-side conditions associated with increased competition from the existing NICs, aspiring NICs seeking to export similar products, and older industrialized countries trying to maintain their manufacturing base in order to limit rising unemployment and restore trade balance. The original NICs were able to benefit from the relative lack of concern in OECD countries for protecting their manufacturing sectors during a period of rapid growth and job creation, as well as from the lack of other Third World competitors, many of whom were still pursuing ISI and other inward-looking strategies. However, it is apparent that both of these conditions have largely passed. While the capitalist core has become preoccupied by rising unemployment resulting from industrial restructuring, scores of peripheral countries are turning to outward-oriented strategies (often under the aegis of structural adjustment programs, or SAPs) to supply the motor for future growth. Fierce competition from a multitude of aspiring NICs is crowding many export sectors at the same time that many developed countries, given their own economic woes, are proving unable and unwilling to absorb increasing imports from the South.

There is also growing evidence that the development of new production technologies and marketing techniques is beginning to allow the re-importation of some industries to the capitalist core that had previously been located in peripheral areas (see, e.g., Ariff and Hill 1986; Jenkins 1985; Harris 1991). In the productive sphere, the rise of labor-displacing microelectronics technologies (e.g., computer-aided process controls) is altering factor proportions in some activities, which disadvantages labor-abundant and capital-poor Third World locations. Something of this sort is occurring, for example, in one of the most notoriously mobile sectors of manufacturing, the textile and garment industry (Griffith 1987; Harris 1991). American-based firms have recently introduced automated fabric-cutting processes that are cheaper per unit of output than the labor-intensive alternatives.[17] In many industries, new organizational and marketing techniques (e.g., 'just-in-time' inventories) have also been altering locational requirements. Many of these new techniques require high quality control, increased flexibility within production processes, and rapid decision-making to respond to sudden market changes – all of which enhance the locational advantages of First World rather than Third World sites. As technological change has gradually eroded the low-wage comparative advantage of many NIC export sectors, possibilities have increased for mutually destructive bidding wars among Third World countries desperate to attract capital

17 This has created a new pattern of global specialization within the garment industry in which fabric cutting is shifting to the US and sewing remains in Third World areas such as East and Southeast Asia. The paradoxical result is that, among categories of goods imported to the US, garments now have one of the highest proprotions of value added produced in the US itself (Harris 1991: 118).

to the reduced range of sectors in which they remain globally competitive (Alger 1991).

Many new Third World exporters are thus faced with stiff competition within limited markets from both aspiring and already established NICs in a fiercely contested succession process (Athukorala 1989). The ability of aspiring NICs to take the place of the original NICs especially depends on the capacity of the latter to shift production into higher-value, more technologically advanced sectors, thereby leaving the more labor-intensive sectors at the lower end of the export market to the new arrivals. There is some evidence that concerted efforts by the NICs to shift export production toward more technology- and skill-intensive goods has shown some success (Ranis 1992; Sengupta 1993; World Bank 1993b). Table 3.6 shows that by 1986, Hong Kong, South Korea, and Taiwan had shifted almost 30 percent and Singapore some 78 percent of exports to the US into more sophisticated industrial sectors. Nevertheless, traditional less sophisticated products still composed 62.2 percent in Hong Kong, 52.7 percent in South Korea, 49.1 percent in Taiwan, and 13.9 percent in Singapore of all exports to the US.

It has been noted that technologically sophisticated industrial sectors are particularly dominated by well-established transnational intra-firm trade (Helleiner 1979: 306). This means that if the original NICs are to continue to broaden their process of technological transformation into more advanced sectors, they will need to penetrate export categories currently dominated by transnational corporations (TNCs) based in the capitalist core. In recent years, efforts by NIC capitals to break into more sophisticated industrial sectors have been limited by factors such as insufficiently developed research and development infrastructures, dependence on special licencing arrangements with established TNCs, the reluctance of these TNCs to share advanced technologies, and selective trade barriers and other forms of market control by OECD countries designed to protect their high-technology sectors from outside competition (Lin 1989).

In effect, this has subjected the NICs to a 'structural squeeze' in which they are able to graduate into only a limited number of more advanced capital-intensive sectors and are priced out of their older labor-intensive sectors by rising wage levels (Bello and Rosenfeld 1990; Clark and Kim 1993). The succession process by which Third World countries are supposed to gain upward mobility has largely been blocked. One of the principal constraints to the succession process has been the increasing use of new forms of monopolistic market control by TNCs and their political allies in core capitalist countries. While the original NICs have been struggling, against mounting odds, to break into more sophisticated export sectors, very few other developing countries have been able to make the initial transition from basic primary exports to labor-intensive industrial sectors (Tan 1993). Because they are effectively excluded from

Table 3.6 Percentage distribution of NIC exports to the US of selected product groups, 1966 and 1986

Product Groups	Hong Kong 1966	1986	South Korea 1966	1986	Taiwan 1966	1986	Singapore 1966	1986
Traditional	67.9	62.2	56.5	52.7	44.6	49.1	73.6	13.9
R&D intensive (general)	9.8	23.8	2.0	19.2	15.8	22.3	0.0	58.2
R&D intensive (sophisticateds)	17.5	29.5	3.9	29.6	20.3	29.2	0.2	78.1

Among the product groups, traditional represents low-range goods made using cheap, unskilled labor with little research and development; R&D intensive (general) represents mid-range goods made using semi-skilled labor and globally generalized research and development procedures; and R&D intensive (more sophisticateds) represents high-range goods made using highly skilled labor, technologically sophisticated production processes, and specialized research and development procedures that have not been globally generalized.

Source: Kellman and Chow (1989) table 5, p. 271

participating in more capital-intensive, high value-added sectors, developing countries find themselves locked in a desperate and mutually destructive struggle with other Third World exporters similarly confined to traditional, low value-added sectors within a rigid international division of labor.

Consequences of the NIC Model of Development

While most studies of the NICs have concentrated on explaining the causes of their growth, the broader consequences of NIC development also deserve serious scrutiny – especially in debates over the appropriateness of the NIC model for other Third World countries. Among areas deserving more attention are: the democratization process, respect for personal liberties and basic human rights, freedom of association, distribution of income and wealth, equality of opportunity among classes and social groups, working and living conditions, and environmental sustainability. A growing number of authors (e.g., Amirahmadi 1989; Amsden 1989; Bello and Rosenfeld 1990; Douglass 1993; Ogle 1990; Petras and Hui 1991) claim that the NICs, despite their rapid growth, have serious shortcomings in many of these areas that may detract from their usefulness as models of development for the rest of the South. It is asserted that progress in these areas, all of which must be included in any broadly based definition of development, has been sacrificed by the NICs in their all-out pursuit of rapid export-oriented growth. This calls into question the appropriateness of constructing a new development orthodoxy on the basis of a model that many analysts contend gives precedence to exports over domestic needs, economic growth over environmental sustainability, and the accumulation interests of a few over the basic human rights and democratic interests of the many.

Authoritarianism and Repression in the NICs

The role that the state has played in directing NIC development has not been confined to direct economic planning or exerting strict controls over economic institutions. Authoritarianism, repression, the exercise of strict social control, and the disciplining of the working class and other popular sectors to serve the accumulation interests of capital have also been central elements of the national development projects of the NICs. Although some variation exists, none of the NICs have made much progress in creating democratic structures that would facilitate meaningful political participation by the majority. South Korea and Taiwan spent much of the postwar period under military and/or one-party rule. Only recently have there been some signs of a halting democratization process beginning to emerge in either of these countries (A. Lee 1993; S. Lee 1993; Tak-wing 1993). Moreover, any tendencies toward democratization continue to be strictly circumscribed by the authoritarian nature of broader state structures.[18]

Hong Kong and Singapore hold multi-party elections and appear, on the surface at least, to enjoy many elements of a functioning democracy. However, closer scrutiny of their political systems reveals a pervasive authoritarianism and frequent use of coercion by the state to limit and direct political participation. In some respects, democratic rights among the NICs have been most restricted in Singapore, despite its holding of regular elections, by the ubiquitous presence of the state engaged in massive social control and social engineering (Bello and Rosenfeld 1990). Singapore is effectively controlled by a tightly knit ruling elite of civil service technocrats and politicians from the dominant People's Action Party (PAP), aligned with powerful domestic and transnational capitals. Williams (1992) describes the ideology of the PAP as an 'ideology of survival' in which all considerations are subservient to economic and political survival. He notes that the 'effect of this ideology [is] to legitimate the existing social order, justifying questions of social control and the distribution of resources on rational and scientific grounds (p. 368). Paul (1993: 298) also draws links between the imposition of authoritarian social control in Singapore and the ideology of its ruling elite:

> The political culture of Singapore's ruling elite is authoritarian in character and includes ideological elements familiar to the totalitarian ethos of the right. There is the strong belief in the genetic differentiation of society into the have and the have-not. This is reflected in their preference of a hierarchically organized and patriarchally led society as the most successful model of political territorial organization . . . They also argue that democracy is not suitable for the country and leads to moral decadence and the economic impoverishment of society; and that the world at large is a jungle where only the morally and militarily strong survive.

In order to restrict dissent and ensure strict compliance from all social sectors to state-directed development goals, all of the NICs have created

18 Petras and Morley (1992) offer a useful analysis, based on the experience of Chile and other Latin American countries, of the limited nature of the so-called democratization processes taking place in much of the Third World. In this study, they make the important distinction between state and regime. While offering a formalistic democratic facade, many recently elected regimes operate only within the strict authoritarian parameters set by longstanding state structures.

large police forces and internal security apparatuses. But it is in South Korea and Taiwan that concern for security has become most extreme. From 1961 to 1987 South Korea was ruled almost continuously by a military dictatorship, while Taiwan endured one of the longest periods (from 1949 to 1987) of martial law in modern history. During the 1950s, South Korea and Taiwan had among the highest military/civilian ratios in the world – with about 600,000 soldiers in each army (Petras and Hui 1991: 187). For much of the postwar era, both of these countries achieved international notoriety for the extreme repression carried out by their internal security forces against labor, farmers, students, and other popular organizations.

In Taiwan, the omnipresence of its highly-developed secret police force has, until quite recently, stifled any meaningful dissent against the dictates of the Nationalist regime (Petras and Hui 1991). Kuomintang (KMT) party organizations were established to represent virtually every sector of society, including labor, farmers, commerce and industry, occupational and professional groups, schools and universities, women, and Buddhist religious associations (Tak-wing 1993: 5). Until the 1980s, competing organizations outside of KMT control were banned. The first opposition party, the Democratic Progressive Party (DPP), was inaugurated only in 1986. In South Korea, the creation of an enormous paramilitary police force (estimated to number some 150,000 men) and the all-pervasive Korean Central Intelligence Agency (KCIA) has allowed the state to extend its control into virtually every arena of Korean economic and social life (Amsden 1989; Ogle 1990; Petras and Hui 1991). For most of the postwar period, the KCIA and the police, often aided by company 'goon squads,' have intimidated and harassed union organizers and labor leaders (Choi 1989).

Although restrictions on union organization have been relaxed somewhat in recent years, the violent repression of a strike at the Hyundai shipyard in 1990 by thousands of riot police shows that coercive labor control is not entirely a phenomenon of the past (Douglass 1993: 162). As in Taiwan, independent social movements have only become a legitimate force in Korean society within the last few years. S. Lee (1993) reports that many of these social movements arose following a nationwide popular uprising against the Chun regime in 1987 and have drawn large numbers of urban professionals (the 'new middle strata') into their ranks alongside traditionally more militant sectors of Korean society, such as students and organized labor.

The Mixed Record on Distributional Issues

While the record of the NICs concerning respect for personal liberties, basic human rights, and democratization has generally been unfavorable, their record is more mixed in areas such as employment, poverty reduction, wage and income levels, and working conditions. There is little doubt that the majority of workers in the NICs have benefited greatly from the improved job prospects that have accompanied export-led industrialization. Poverty has been significantly reduced and real wage and aggregate income levels have risen dramatically (see Addison and Demery 1988; Chakravarty 1990; Wade 1992). The Asian NICs, especially South Korea and Taiwan, stand out among virtually all other Third World countries for having reduced the income gap with the core capitalist countries of Western Europe and North America over the past two decades.

For the most part, the NICs have also succeeded in improving income distribution. Not only have aggregate income levels risen, but the benefits of NIC growth have been much more equally distributed in comparison with other prominent Third World industrializers such as Brazil and Mexico (e.g., Eshag 1991; Irwan 1987; Wade 1992). In the two NICs with a significant rural population (South Korea and Taiwan) state programs have created forward/backward linkages between rural producers and agroindustries that have fostered the rise of middle-class farmers and a more egalitarian rural income distribution. Based on escalating real wage and income levels, the rise of a substantial urban middle class has also formed a key element of NIC development. In recent years, the urban middle class has not only begun to shape the dominant pattern of domestic consumption and urban lifestyles, but it has also begun to make political demands (Koo 1991). In both South Korea and Taiwan, for example, the growing politicization of the urban middle class has been a critical element in the recent transition from dictatorship to limited democracy (S. Lee 1993; Tak-wing 1993).

However, the generally positive performance of the NICs in the areas of employment, poverty, real wage and income levels, and income distribution is somewhat offset by their poorer record concerning unionization and freedom of association, working conditions, and the disproportionate costs that some social sectors, particularly young women, have paid to fuel economic growth. Notwithstanding the benefits that NIC development has conferred on workers, they have also had to pay a high price for the export success of the NICs. State policies in the NICs have been designed to heighten capital accumulation opportunities in key sectors by ensuring corporations the cheapest, most productive, and least militant workers possible. The state has played an active role in disciplining the working class to accept these conditions via a number of means, including state control of labor organizations, restrictions on freedom of association and other repressive labor laws, state-directed violence against labor activists, and weak or non-enforced legislation concerning work hours and workplace

conditions (Addison and Demery 1988; Amsden 1989; Bello and Rosenfeld 1990; Ogle 1990).

In many NIC export sectors, hazardous and unhealthy working conditions and extremely long work hours, often compounded by shift work, extract particularly high costs from the workers. Despite relatively high wages in these sectors, rates of labor turnover are especially high as workers quickly 'burn out'.[19] Up to now, these workers have been relatively well compensated because increasingly tight labor markets in the NICs have produced real wage growth. However, if the global markets upon which the NICs depend take a turn for the worse, as they did in the early 1980s, workers may be left on their own to cope with the ensuing austerity. It is in such times that basic labor rights such as freedom of association and collective bargaining become critical. It remains to be seen if denial of basic labor rights will remain a permanent feature of NIC industrialization or will gradually disappear as the NICs assume more economic maturity and the working class struggles to become more organized and assertive.

The Disproportionate Burden of Female Workers

Although other social groups have also been systematically exploited,[20] it appears that young women in particular have borne a disproportionate burden to accelerate export-led growth in the NICs. Much of the labor-force in export-oriented industrial sectors has been composed of a youthful female 'temporary' proletariat that work during the transition between school and marriage (Lin 1989; Park 1993). These women usually either commute from nearby homes, in which they live with their parents, or are housed in barrack-like dormitories in large factory compounds. They tend to be concentrated in entry-level, shop-floor jobs in industrial sectors with low pay and long hours – jobs that are left vacant

19 Worker burn-out from excessive work hours, shift work, and unhealthy working conditions seems to have become a generalized problem for export-oriented industrial sectors throughout the South. Evidence shows that free trade zones and other export-oriented industrial concentrations are experiencing especially high rates of labor turnover and that most workers cite burn-out as their reason for leaving.

20 Bello and Rosenfeld (1990), for example, report that South Korean and Taiwanese farmers are increasingly being driven into debt and squeezed off their land by low producer prices and rising imports of US agricultural goods. It seems that farmers, after making a significant contribution to the initial 'take-off' stage of growth in these countries, are now being sacrificed. Bello and Rosenfeld also note a growing tendency to use foreign workers for unskilled jobs in some of the NICs, especially Singapore. These workers (e.g., from Bangladesh, India, Indonesia, Philippines, Sri Lanka) are strictly controlled and heavily exploited. They tend to occupy jobs that most nationals will no longer take. In Singapore foreign workers now represent about 12.5 percent of the overall workforce and 25 percent of manufacturing labor.

by older workers because the wages are too low to support an entire household.[21]

In Taiwan, women comprised 59 percent of the workers in the food-processing industry, 79 percent in the textile industry, 85 percent in the apparel industry, and 65 percent in the electrical equipment and supplies industry in 1978 (Kung 1984: 109). Most were young and often had been recruited directly out of rural schools by factory representatives. In South Korea, the number of women workers increased fourteen times between 1963 and 1980. 'Female manufacturing industries' (e.g., textiles and clothing, rubber and plastics, electronic goods, shoes, china and pottery), in which women account for more than half of all workers, were responsible for 70 percent of total national export earnings in 1975 (Park 1993: 132). Women in these industries typically work extremely long hours for relatively low wages. According to data from the South Korean ministry of labor, the ratio of female to male wages was only 52.8 percent in 1989. Manufacturing, in which the majority of women are employed, had the lowest wage level among all industries and was the only sector in which wages had always been below the average (ibid.: 133). Moreover, in 1988 South Korea was the only country in which women's working hours were longer than men's among the fifteen countries that released data to the International Labor Organization (ILO). In manufacturing, women worked for an average of 245 hours per month, or 9.7 hours a day, in 1984 (ibid.: 134).

The economic rationale behind the use of 'temporary' young women in export manufacturing is readily apparent – because the workforce is female, transitional between generations, and does not generally have to support a family, a true 'living wage' does not have to be paid that would be commensurate with familial social reproduction requirements (Lin 1989). In many cases, the social reproduction of the families of these young female workers rests on the mobilization of all members of extended families. However, traditional patriarchal structures often lead to the creation of an intra-familial sexual hierarchy in which parents have different expectations of their daughters *vis-à-vis* their sons. While sons are normally educated to enter into higher-status occupations to eventually become the principal breadwinners for their families, daughters are often asked to sacrifice their education to take up dead-end, low-paying jobs until they get married and assume the household reproductive tasks for their own families.

For Greenhalgh (1985: 303–4) this situation illustrates the interlocking

21 A similar pattern of female employment exists in many of the export-oriented industrial concentrations of Third World countries such as Bangladesh, Brazil, India, Mexico, Sri Lanka, and Thailand. Moreover, many of the mill-towns of the nineteenth and early twentieth centuries in countries such as Great Britain and the US were also characterized by extensive use of this type of female labor.

and mutually supportive nature of capitalist industrial institutions and traditional patriarchal structures in the NICs. Industrial capitalism and the state provided new means (jobs and education) for parents to use old tools (sexually differentiated inter-generational expectations) to recreate and extend traditional hierarchies (sexual inequalities). Industrial capitalism, in turn, took advantage of the sexual hierarchies created within families by using women's lower skill levels, familial obligations, greater docility, and temporary laborforce status to offer them dead-end, low-paying jobs that no other social group would fill. These discriminatory features of the industrial labor market also acted to reinforce the subordinate status of women in the family, providing justification for parents to continue treating their daughters as tools for the advancement of others, particularly sons.

While the structures of capitalism and patriarchy were interlocked and served to reinforce one another, capitalism by itself cannot be held responsible for creating these sexual hierarchies – it simply used and extended gender differences which have been rooted in traditional Asian societies (as well as many others) for generations (ibid.: 304). Nevertheless, as Park (1993: 142) notes, 'both the domestic and international capitalist systems [were] structured to maximize profit by using the culturally marginal members of a society, thus making them also economically and politically marginal.' As a result, the role of women in NIC development has been neither recognized nor rewarded in any way commensurate with their actual contribution. While in material terms the situation of some women may have improved, in relative terms it generally has not. Indeed, gender discrimination has allowed the NICs to join the ranks of the industrialized world much more quickly than would have otherwise been possible. From this perspective, rapid export-led growth in the NICs has been made possible only by the unfair use of female labor, i.e., exploitation (Pettman 1992: 53).

Widespread Environmental Degradation

A further consequence of NIC development has been widespread environmental damage. Although this problem is by no means unique to the NICs, their single-minded pursuit of rapid economic growth at all costs has caused particularly severe environmental consequences that, given the increasing wealth of the NICs, could have been largely avoided by giving more priority to goals of more balanced and sustainable development. All-out growth has left much of the countryside in both South Korea and Taiwan severely and perhaps irreparably damaged. South Korean rural areas suffer from extensive deforestation, which has also caused associated problems of soil erosion and flooding. In many areas, there is evidence of serious chemical contamination of groundwater, rice fields, and rice crops from excessive levels of chemical fertilizer applications (Wade 1992). Similarly, many rural areas in Taiwan have suffered severe environmental damage; industrial waste water has polluted approximately 20 percent of all farmland and 30 percent of the annual rice crop is contaminated with heavy metals (Bello and Rosenfeld 1990). In addition, both South Korea and Taiwan have become heavily committed to nuclear power generation. Storage problems for nuclear waste and poor quality-control in the components and construction of nuclear power plants raise the possibility of a major disaster in the making (ibid.).

Although Singapore enjoys a somewhat better record, the other NICs are also confronting massive environmental problems in their major urban areas. Rapidly rising urban congestion coupled with the lack of enforcement of environmental regulations have produced escalating costs in terms of severe air and water pollution. Air pollution and acid rain have become major health hazards for those living in urban areas. The air over Seoul, for example, has one of the highest concentrations of sulfur dioxide in the world. Ranis (1992: 239) reports that 'traffic jams and accompanying problems such as noise and air pollution have made [Taipei] one of the worst places to live in the world.' Much of the urban tap water in the NICs is said to be unfit for drinking as a result a worsening water pollution (Wade 1992).

Rising environmental costs in both urban and rural areas in the NICs are materializing in poor health, physical damage, loss of amenities, and other problems that will call for extensive remedial spending in the near future (Winpenny 1991). This will show up in future NIC development as the negative counterpart of earlier growth-first strategies that failed to properly consider environmental consequences. In order to stimulate rapid growth, the NICs have used up significant environmental capital that can only be restored, if at all, at considerable cost to future generations.

As these consequences of the NIC development model become more apparent, they may prompt many neoliberals and other development analysts to reconsider their image of the NICs as paragons of Third World development. While it is undoubtedly true that the NICs have made great strides in some areas of development that are the envy of much of the rest of the South, there are also serious shortcomings to their development model that ought to be given attention alongside its successes. In any case, given the important role that geographical and historical particularities have played in NIC development, analysts should carefully assess the applicability of many elements of the NIC development model for other Third World countries. To neglect these issues would be to risk replicating many of the problems of formalism and universalism that have accompanied the imposition of inappropriate development models on Third World countries.

Such models, from modernization to structural adjustment, have not only produced an intellectual impasse in mainstream development theory, but have also extracted particularly high costs from those in Third World countries who can least afford them.