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3 Market, State, and Society in Asian Development¹

Cal Clark and Steve Chan

Since the mid-1980s, there has been keen debate in development studies and international political economy over whether the state or the market is the key factor in explaining the undeniable economic growth and industrial transformation that have occurred recently in a few places in the developing world, most particularly East Asia. On the one hand, scholars working in this new tradition argue that the state must almost inevitably play a leading role in promoting industrialization in “late developing” nations and that the East Asian “economic miracles” vindicate strong state intervention and leadership in the economy (Amsden, 1989; Evans *et al.*, 1985; Wade, 1990). In contrast, these assertions are strongly challenged by advocates of neoclassical economics who argue that the best-performing Third-World economies are those that have opened their markets and pursued their comparative advantage in the global economy (Balassa *et al.*, 1986).

This chapter examines a variety of Asian political economies to advance the argument for “moving beyond the developmental state” by “bringing society back in” to development studies. We consider cases with widely varying economic performance, political regimes, and indigenous societies and cultures. Two substantive sections provide data indicating the limits of both statist and neoclassical theories for explaining economic outcomes in Asia. They are based on a series of comparisons between political economies in which opposite characteristics seemingly have the same economic consequence or the same characteristic is associated with very different economic outcomes. The first set of case studies correlates the state’s role with aggregate economic growth; and the second places the relationship between the state’s role and growth performance within its broader socio-cultural environment. Finally, the conclusion argues that “social institutions” linked to a nation’s political culture provide a feasible way of resolving the anomalies found in the preceding analysis.

STATE VERSUS MARKET IN ECONOMIC DEVELOPMENT

This section undertakes a series of "paired comparisons" to address the competing claims of statist, dependency, and neoclassical theories regarding how states and markets can and should influence economic performance.

Hong Kong and Singapore: Both State and Market Can Lead to Gold

Hong Kong and Singapore have many historical and cultural similarities. Both are essentially cities with long histories as *entrepôts*; both are predominantly Chinese societies and were British colonies. Yet, their political economies are profoundly different. The British authorities in Hong Kong ran a minimalist state and perhaps the closest approximation to *laissez-faire* capitalism on the planet (Rabushka, 1979), while Lee Kuan Yew established a strongly statist and patriarchal regime in Singapore in the late 1960s (Mirza, 1986; Rodan, 1989). However, while one society put its money on the state and the other put its money on the market, both hit the jackpot. Both have achieved high growth and savings rates and high levels of quality of life.

Moreover, the economic success of these two "Little Dragons" indicates that the tradeoff between growth and equity, predicted by neoclassical theory for transitional economies, is far from inevitable. Both invested heavily in human capital, which resulted in skilled workforces that have enhanced international competitiveness. Their experience also suggests that some types of social spending may actually act as subsidies to business, rather than as diversions of funds from productive employment. For example, state-subsidized housing in both city-states permits the payment of lower wages which, in turn, enhances the cost competitiveness of goods produced there (Castells *et al.*, 1990).

This simple comparison certainly implies the need to look beyond the dichotomy between state and market for constructing models of development. For these two political economies, both state and market produced feasible routes to rapid socio-economic development. The many failures of development throughout the Third World, however, show conclusively that most streets are not paved with gold. Thus, while either state or market can be sufficient for development, they are not necessary conditions in and of themselves. Furthermore, the many similarities between the cultures and societies in Hong Kong and Singapore imply that the nature of society may be more important in shaping developmental outcomes than the specific state or market mechanisms which are used to pursue development.

Hong Kong, the Philippines, and Australia: Weak States Don't Necessarily Produce "The Magic of Marketplace"

Both neoclassicists and statisticians could take heart from the first comparison because it was based on an example of both state and market working well. A comparison of Hong Kong with several other "weak" states in Asia, however, is more disconcerting to neoclassical theory since these other weak states are associated with rather poor economic performance. The basic problem seems not to be the adherence to the market logic, but the use of political power to suppress it.

Australia (a similar argument could be made for New Zealand) was long called "the lucky country" because of its natural riches and high standard of living. But its lagging economic position in Asia in the mid-1980s has led to a cabinet member calling his country a "fledgling banana republic" (Higgott, 1987). Entrenched domestic interests appear to have contributed to this situation. Well-placed economic groups become "distributional coalitions" (Olson, 1982), which use their ability to influence the state to prevent needed change and to extract "monopoly rents" from the economy.

In the Philippines, the conditions are obviously much worse since the problem is not one of losing economic momentum, but one of starting to climb the economic ladder in the first place. The Philippines has long had a tradition of domination by powerful economic figures (e.g., landlords, businessmen) who act to maximize their interests far more crudely than in the Australian case. Thus, "crony capitalism" was not just the passing fancy of an individual dictator with a "shoe fetish" wife, but represents the structural consequence of a "society-dominated" polity in which society, in turn, is dominated by a narrow elite – witness the lack of socio-economic reform and progress under the Aquino government (Hawes, 1987; Yoshihara, 1985).

The absence of a strong government, hence, does not necessarily lead to *laissez-faire* economics. In fact, just the opposite may occur because weak governments present an inviting opportunity for powerful groups to manipulate the economy. Again, what seems important is the nature of society and how this factor affects the operations of the economy and the government. Interestingly, both Australia's "modern" Westernized culture and the Philippines' "traditional" culture produce similar results of "political perversions" that create "economic distortions."

South Korea and India: Grossly Differential Results from Two Developmental States

The success of Singapore and several other strong states (e.g., Japan, South Korea) should not be taken to mean that the Asian experience

invariably supports statist theory. Quite to the contrary, there are many examples of failed state policies ostensibly aimed at promoting development. Korea and India (before its 1991 market reforms) provide a useful contrast (Evans, 1995).

Based on a heritage of Gandhian ideas and socialism, the Indian state took a large role in the economy with the explicit goals of promoting industrialization and alleviating poverty. While India did develop a considerable industrial base and a highly educated middle class, the nation continues to suffer from industrial inefficiency, massive poverty, and rural inequality. Perhaps even more strikingly, socialist India does not match the record of capitalist Korea on most quality-of-life indicators, even after South Korea's much higher level of affluence has been taken into account (Clark and Roy, 1996).

As a glaring example of statist differences, state entrepreneurship fared quite differently in the two nations. India fits the neoclassical stereotype of the inefficiency of government-operated industry quite nicely (Clark and Roy, 1996). Before one dismisses state entrepreneurship on philosophical or ideological grounds, though, the story of the Pohang Integrated Iron and Steel Works in South Korea is worthy of consideration. It was initiated in the late 1960s by the state, despite being turned down for support by the World Bank which did not like state corporations nor believe that Korea had a "comparative advantage" in steel. Twenty years later a World Bank report, presumably without a trace of irony, called Pohang "arguably the most efficient producer of steel in the world" (Amsden, 1989; Wade, 1990).

The tremendous disparity between the developmental states in India and Korea should again make us extremely wary of making universal generalizations about the results of either state or market. Unlike what appeared to be a developmental state in the Philippines that fell afoul of Marcos's "crony capitalism," there can be little doubt that the post-colonial Indian government was strongly committed to using its powers to promote industrialization not just for itself, but also to meet the basic human needs of the Indian people. That it has fared rather poorly in this attempt should again turn our attention to the broader social environment in which state and market must operate.

Multinational Corporations in Asian Political Economies: A Fly in Everybody's Ointment

The role of foreign capital in developing economies is at the center of many theories of development. Dependency theory sees multinational corporations (MNCs) as exploiting weak Third-World nations (Bornschieer

and Chase-Dunn, 1985); the neoclassical approach assumes that their activities promote growth by introducing valuable capital and technology into poor economies; and statist argue that government regulatory initiatives are the prime determinant of whether MNCs will operate in a positive or negative manner for a local economy. Asia provides many cases that mock all these perspectives, thereby suggesting that we need to look further than just state and market in understanding developmental dynamics (Chan and Clark, 1995a).

The Philippines stands as an initial case that is quite compatible with the dependency approach. It has generally been fairly open to foreign capital which aligned itself with reactionary and predatory elites. Consequently, its woeful economic record is just what *dependentistas* would predict (Doner, 1991; Hawes, 1987; Yoshihara, 1985). However, just as for overall growth, Hong Kong presents a stunning contrast – an economy that has been even more open to multinationals and that has seemingly prospered by following neoclassical prescriptions (Rabushka, 1979). Australia's experience further questions the postulates of neoclassical and dependency theories. Here, a developed political economy has seen its manufacturing sector become fairly dependent upon foreign capital. Foreign investment, however, has not stimulated increased productivity and competitiveness. Rather, the MNCs have evidently been attracted by the protected domestic market and have not challenged the complacency of the system (Higgott, 1987).

The Asian cases also raise doubts about statist claims concerning the effects of MNCs on the domestic economy. Strong states have followed quite different strategies towards foreign capital; and similar strategies of controlling the MNCs have produced widely divergent results. Thus, a strong and autonomous state is in itself not a master variable which determines the foreign capital's impact on the national development project.

Singapore, Japan, and South Korea have all sought strong regulation of MNCs, but with very different strategies. Singapore has pursued a strategy of what might be called "growth by invitation to MNCs" in which a sophisticated economy was constructed on the basis of a partnership of foreign firms and state corporations (Deyo, 1981; Mirza, 1986; Rodan, 1989). In contrast, Japan and South Korea limited the entry of foreign capital much more stringently as a conscious strategy of allowing their own "national champions" to emerge. This was carried to an extreme in Korea, which built several domestic industries via the direct exercise of state power over foreign multinationals (Amsden, 1989; Mardon, 1990; Woo, 1991). Adding India to the comparison brings out another important

point: control of foreign capital is not necessarily the key to economic progress. India, reacting to the problems of the colonial era, adopted an even more restrictive regime towards the MNCs than Korea. Unlike Korea, though, the exclusion of foreign capital was not used to promote the international competitiveness of "national champions." Rather, it simply became a shield which allowed domestic producers, in many instances state corporations, to remain highly inefficient and monopolistic (Encarnation, 1989; Evans, 1995; Grieco, 1984).

Again, the role of foreign capital in these different economies indicates that there is more at work than just state and market. There appears to be a "business culture," probably representing "society" more than the "state," which exercises a powerful influence on how a market operates, irrespective of the relative presence or absence of MNCs. Thus, any firm (whether indigenous or foreign) has to be extremely efficient to stay in business in hyper-competitive Hong Kong, but MNCs were content to reap the rents offered by protectionism in Australia and crony capitalism in the Philippines. Likewise, Japanese and Korean firms took advantage of the exclusion of foreign competitors to build up their efficiency and competitiveness, while Indian firms were content to stagnate.

The argument that "society" is important in shaping the contribution of MNCs to national development is well illustrated by the case of Taiwan. Taiwan's government did not follow the general exclusionary approach of Japan and South Korea, but did regulate MNCs by limiting foreign investment to certain sectors, most particularly key export sectors such as electronics and chemicals. Initially, in the 1960s and early 1970s, MNCs dominated these important industries in Taiwan. However, local firms were able to enter these sectors over time, and some became quite competitive internationally. Many of the indigenous firms were started by former employees of the MNCs who learned the business and then struck out on their own. The key factor stimulating such spin-offs, in turn, clearly was not any state policy but was the culture promoting entrepreneurship in Taiwan's Chinese society (Haggard and Cheng, 1987; Kuo, 1995; Lam, 1992; Schive, 1990).

STATE AND MARKET IN A BROADER SOCIAL ENVIRONMENT

The four sets of paired comparisons in the previous section suggest that neither state nor market (in the absence of state) by themselves can adequately explain the great variations in economic performance among the countries examined. This section applies the logic of the emerging

critique that statism ignores "society" by presenting three more sets of comparisons to bring out the central variables adduced. The first contrasts the industrial structure of Hong Kong and Taiwan with that of Japan and South Korea, arguing that these differences can be traced to their distinctive variants of Confucian culture. The second seeks to explain the better economic performance of Thailand compared to Malaysia, and especially to the Philippines, by the nature of their state-society relations. The final case study compares Sri Lanka's social and economic performance with that of China and Taiwan to suggest that even politically antithetical regimes may have socio-cultural similarities that condition economic outcomes.

Hong Kong, Taiwan, Japan, and South Korea: A Stark Difference in Firm Size and Competitive Strategy

Outside of East Asian studies, there is an impression of an East Asian developmental model representing the successful Confucian capitalism of Japan and the four Little Dragons. The preceding discussion certainly suggests that any such model must not be monolithic, given the tremendous variations among some of these political economies in the role of the state and foreign capital. Furthermore, even in strong states having a vigorous domestic private sector (i.e., Japan, South Korea, Taiwan), there are substantial differences in firm and industrial organization that have important consequences for the overall economic structure.

In Hong Kong and Taiwan, the most dynamic parts of the economy are small and medium enterprises (SMEs) which, for example, produced over 60 per cent of Taiwan's exports during the 1980s. These firms pursue highly entrepreneurial strategies termed "guerrilla capitalism" by Danny Lam. Guerrilla capitalism includes extreme flexibility in rapidly filling even small orders, attention to quality and design, audacious bidding, participation in complex networks of subcontracting, and only partial observation at best of government regulations and international laws such as those regarding intellectual property rights (Fields, 1995; Hong, 1992; Kuo, 1995; Lam, 1992; Lam and Lee, 1992; Myers, 1984).

In South Korea and Japan, conversely, the economy is dominated by large integrated organizations called *chaebol* in the former (Amsden, 1989; Fields, 1995; Haggard and Moon, 1983; Hong, 1992; Jones and Sakong, 1980) and somewhat looser conglomerates called *keiretsu* in the latter (Gerlach, 1992; Okimoto, 1989). These have much different strategies from guerrilla capitalism, focusing upon generally more sophisticated and higher value-added products, economies of scale, mutual aid among

conglomerate members, and the negotiation of specific industrial policies with the government. Thus, Japan and South Korea have a much greater capability to make "big pushes" into such areas as the heavy and chemical industries. This has some advantages, but it also makes these countries more vulnerable to policy mistakes, which can have much greater repercussions than in more decentralized economies. For example, Korea's campaign to jump ahead in heavy industry in the 1970s resulted in several severe strains for the overall political economy, at least in the short term (Haggard and Moon, 1990; Moon, 1988).

This comparison has two major implications. First, it again confirms that there are multiple paths to development (since all concerned have had rapid growth and good social outcomes), even within what may be considered the fairly exotic branch of "Confucian capitalism." Second, the centrality of "bringing society back in" emerges once more. While deliberate government policy is probably at least partially responsible for this difference in economic structure (see the following discussion on finance), the fundamental reason probably lies in these nations' political cultures. The Chinese strand of Confucianism promotes strong loyalty within the family, but suspicion of those with whom one does not have a kinship or some other very strong bonds. This proclivity supports small enterprises, especially family-operated ones, which are predominant in Hong Kong and Taiwan. The feudal histories of Japan and Korea, in contrast, forged loyalties to organizations outside the family on top of basic Confucian norms – a feature which makes large corporate organizations much more viable (Pye, 1985).

Thailand, the Philippines, and Malaysia: the Importance of State–Society Linkages

If the case of the Philippines suggests (as argued above) that reducing state power does not necessarily create the magic of the marketplace, it can also be used to critique the statist premise that strong and autonomous developmental states are necessary for optimal economic performance. In fact, as Kuo (1995) points out, the Philippines has had a strong developmental state – at least on paper. Its top officials were a well-educated technocratic elite; and Marcos's coup gave the state considerable power over the economy. Unfortunately, this power was exercised by politicians for patronage and pocket-lining purposes rather than by technocrats pursuing a developmental plan.

There is more here, however, than simply deciding whether a state/regime is "developmental" or "predatory" (Evans, 1995). This can

be seen in Richard Doner's (1991) comparative study of the automobile industry among members of the Association of Southeast Asian Nations (ASEAN). Not surprisingly, the domestic industry's performance was worst in the Philippines due to a combination of inefficient management, political corruption, and manipulation by foreign MNCs. What is interesting, though, is Doner's conclusion that Thailand had the best record because it had the best cooperation between local businesses who possessed industry expertise and government officials who could use the power of sovereignty to negotiate with foreign companies.

Malaysia constituted an intermediate case where government–business cooperation occurred but was limited by the state's attempts to use foreign corporations as a counterweight to the local Chinese business community (Bowie, 1991; Doner, 1991). From this perspective (echoing the neoclassical critique of government industrial policy), an autonomous state is a hindrance to effective policy. Rather, what is needed is business–government cooperation whose possibility is determined by the nature of state–society relations which, in turn, is a function of local culture and history (e.g., the very different treatment of the overseas Chinese business community in Thailand and Malaysia).

Sri Lanka, Taiwan, and China: the Absence of Necessary Tradeoffs between Economic Growth and Basic Needs

Development studies are increasingly concerned with basic human needs, both because they are seen as normatively desirable in their own right and because human capital can make a significant contribution to growth (Moon, 1991). This calls attention to some developing countries, such as Sri Lanka, which have long-standing records as overachievers in terms of the education and health of their people. Sri Lanka's excellent record on such social indicators doubtlessly came from the broad-ranging social welfare programs that were established in the 1950s and 1960s, reflecting a political consensus among the major parties and interest groups. This consensus was strained by declining economic performance during the 1970s; and the victory of the more conservative party in 1977 led to a programmatic revolution cutting the role of government and liberalizing the economy (Bruton, 1992). This rendition of Sri Lanka's story sounds well in tune with neoclassical orthodoxy. A country made a decision to promote social equity, but the social programs gradually undermined the productive capacities that generated the revenues to pay for them. This conundrum was solved by drastically cutting back the redistributive programs and casting the nation's fate to the tides of the international

economy in the belief that the resulting growth would trickle down to the masses. Such an interpretation of Sri Lanka's political economy does not stand the test of comparative analysis, however. First, Taiwan has had a stellar record on basic human needs without creating large welfare programs, showing that basic human needs can be met in more than one way. This enviable record of "growth with equity" resulted from a combination of factors – initially land reform and universal education did much to reduce inequality in the countryside, later the dynamic export sector produced full employment and rising real wages, and finally the emergence of many competitive small firms limited huge concentrations of capital (Chan and Clark, 1992).

Second (and more importantly for the line of argument being drawn here), Sri Lanka's switch in economic strategy had somewhat disappointing results, since during the 1980s its growth rate was only average compared to its statist neighbors in South Asia and well below the dynamic economies in East Asia and Southeast Asia. The primary reason for this probably was that liberalization brought about an intensification of speculative activities which benefitted only the rich, rather than an expansion of productive capacities which might have generated "trickle down" (Bruton, 1992).

A comparison with the market reforms in China, undertaken at about the same time, is quite instructive. There, despite the problems of inflation, inequality, corruption, and repression, economic growth skyrocketed, precisely because so much entrepreneurship was directed into productive activities – an emphasis on small-holder agriculture, a dynamic sector of small firms in commerce and services, and ultimately light industrial exports stimulated by foreign assembly operations (Harding, 1987; Lardy, 1992; Wu, 1994). The implications of this comparison are far from salutary for both neoclassicists and statist. The former see reforms fail under the type of regime they advocate and succeed in many ways under a regime they abhor. The latter see a strong state succeed, but only because "society" could find ways to escape the political obstacles erected by the "state." Thus, neither market nor state can explain the differences between China and Sri Lanka by themselves.

Instead, one is again led to "bringing society back in" in the search for why one system worked so much better than the other; in this case why entrepreneurial activities were devoted to speculation in Sri Lanka but more productive concerns in China. Here, Deng's reforms – building upon previous investment in human capital and creating an environment in which small entrepreneurs can flourish – may be viewed as following something of a "Taiwan model," albeit presumably not from explicit

design. Such an observation, then, implies a rather ironic conclusion in view of the ideological antithesis that exists between Beijing and Taipei. This is that rapid growth in Taiwan during the 1960s and 1970s and in China during the 1980s and 1990s rested upon a common cultural foundation which, in the absence of stultifying state controls, is most conducive to a very dynamic form of "guerrilla capitalism."

BEYOND THE DEVELOPMENTAL STATE

Taken collectively, the seven cases discussed above indicate that neither state nor market by themselves can explain developmental outcomes. While Hong Kong constitutes an example of *laissez-faire* success and India shows the degeneration that can occur in a highly statist economy, too many strong and interventionist states succeeded to gainsay the idea that economic competitiveness can be manipulated. However, the statist faith in strong and autonomous developmental states does not fare very well either. Strong states failed as well as succeeded. In fact, the strongest and most autonomous states may well be in the greatest danger of degeneration because they can resist pressures for change and can use their power to become a "predator" over society. In addition, the above discussion suggests that the nature of society is an important variable in determining how well a political economy operates. The case for "bringing society back in" appears to be a strong one. This should not be viewed so much as a rejection of the developmental state model, but as an attempt to expand it by the suggestion that other factors can play a key role in determining how well or ill a given political economy functions.

An emphasis on society immediately suggests a recourse to the *political culture approach* which assumes that political and economic institutions will probably work differently in different cultural contexts. Lucian Pye's (1985) typology of Asian culture – Confucian feudal societies (Japan and Korea), Confucian patriarchal societies (China, Hong Kong, Singapore, and Taiwan), clientelistic societies (most of Southeast Asia), and caste societies (India and South Asia) – provides a useful base.

Table 3.1 ranks the various cases in terms of their economic and social performances, the balance of power in state-society relations, and Pye's conception of political culture (adding a category called "Anglo individualism" for Australia). It is clear that state strength by itself has little correlation with economic and social performance. When combined with political culture, though, some general patterns emerge, although

Table 3.1 Summary rankings of Asian political economies

	Economic performance	Social performance	State-society balance	Political culture
Developed nations				
Australia	Low	High	Society-dominant Balance	Anglo individualistic
Japan	High	High	Balance	Confucian feudal
East Asian NICs				
Hong Kong	High	High	Society-dominant	Confucian patriarchal
Singapore	High	High	State-dominant	Confucian patriarchal
South Korea	High	High	State-dominant	Confucian feudal
Taiwan	High	High	Balance	Confucian patriarchal
East Asian Communist				
China (Maoist)	Medium	High	State-dominant	Confucian patriarchal
China (Dengist)	High	Medium	Balance	Confucian patriarchal
Southeast Asia				
Malaysia	Medium	Medium	State-dominant	Client paternalistic
Philippines	Low	High	Society-dominant	Client pathological
Thailand	Medium	Medium	Balance	Client paternalistic
South Asia				
India	Low	Low	State-dominant	Caste amoral bureaucratic
Sri Lanka (welfare)	Low	High	Balance	Caste amoral bureaucratic
Sri Lanka (economic)	Low	Medium	Society-dominant	Caste amoral bureaucratic

admittedly not perfectly. Confucian feudal societies work well with strong states and large corporations, but Confucian patriarchal societies need weaker states because the problems of extending loyalty beyond kinship groups suggest that guerrilla capitalism is the most viable economic strategy. Anglo-individualism and India's caste system seem ill-suited for promoting development for contrasting reasons. The former tends towards creating a weak state that can be captured by special economic interests, while the latter is associated with a large but inefficient state based on norms of what might be called "moralistic bureaucratism" – the separation of the religious and the secular in the caste system creates a "hardball" brand of patronage politics that is covered up by talking in terms of moralistic grand designs. Finally, paternal clientelism seems to fall somewhere in the middle, whereas "pathological clientelism" (e.g., in Burma, the Philippines) appears particularly unfavorable to socio-economic development (see Clark and Chan, 1995, for more detail).

It must be emphasized, however, that culture is not destiny. For instance, Britain and the US became world leaders with the Anglo-individualistic cultures; and the success of the Confucian capitalists of today can be contrasted with such an extremely "odd couple" of Confucian patriarchal failures as the late Qing Dynasty and Mao's regime of "redness over expertise." After all, it was not so long ago when Weber's (1951) arguments that Confucianism prevented economic development were taken as received wisdom. Thus, there are probably parts of most (if not all) cultures that are conducive to development, while other parts can be stultifying. What is necessary is to search for the conditions that make different aspects of a culture operative in affecting a political economy (Clark, 1989; Wong, 1986). Future research should seek to understand the cultural and social basis of political and economic institutions and their joint influence on national performance.

Note

1. An earlier version of this chapter was published in *Governance*, 7 (1994), pp. 332–59. It has been revised and condensed for publication here with the permission of Basil Blackwell.