

past regime forms and to understand the prospects for future change. This analysis shows how current institutions and past legacies can limit the range of possible evolutionary paths. Thus, the future development possibilities of states in these countries are shaped in important ways by their respective histories.

None of the essays in this collection would deny that state leadership and policy are relevant to East Asia's developmental history. Indeed, they all acknowledge that these factors have made a contribution to this development. However, East Asia's economic successes involve far more than state attributes or activities. The nature of society, culture, market, and evolving international economy is also important. Monocausal explanations stressing the role of the developmental state alone are suspect. Moreover, while the statist perspective offers some useful insights about the initial drive to industrialize, we need to come to grips with the ongoing processes as well as new challenges that will reshape the role and status of the state as East Asia's economies become more mature and as its civil societies become more assertive. In both of the above senses, this volume points to the need to look "beyond the developmental state" if we are to understand the evolving political economies of this important region.

2 Networks, Politics, and Institutions¹

Chung-in Moon and Rashemi Prasad

East Asia's remarkable economic success over the past three decades has bred a powerful new paradigm in the field of development economics and comparative political economy, centering around the concept of the developmental state. This paradigm attributes impressive economic performance by Japan and the East Asian newly industrializing countries (NICs), especially South Korea and Taiwan, to the choice of efficient, coherent, and flexible economic policies and their effective implementation.

The developmental state paradigm is composed of a collection of theories, descriptions, and assertions which relate economic performance to institutional arrangements centered on the state. In the simplest terms, the paradigm is woven around three interrelated observations. First, the East Asian states place top priority on economic development operationalized in terms of growth, productivity, and competitiveness. Second, in order to achieve these broadly defined goals and preferences, the state actively intervenes in the market to guide, discipline, and coordinate the private sector through the strategic allocation of resources and the use of diverse policy instruments. Finally, strategic intervention by the state and its success are ensured by rational and competent bureaucrats who are insulated from political and social pressures. Contrary to neoclassical projections, the insulated, interventionist states have been relatively free from predation and rent-seeking. Trust and close cooperation between the state and the private sector, and the prevailing consensus on corporate goals, both of which result from a homogeneous social fabric and the Confucian culture, have minimized the risk of opportunism by individual utility-maximizing actors (Amsden, 1989; Evans, 1995; Haggard, 1990; Johnson 1982, 1987; Onis, 1991; Wade, 1990; White, 1988).

The developmental state paradigm has emerged as an innovative theoretical alternative by elucidating the casual nexus between political institutions and economic performance, which has been neglected in previous studies of economic growth and development. Indeed, the paradigm bears rich and polemical implications for the study of comparative political

economy. First, it offers powerful analytical and empirical grounds to challenge the pre-eminent position of the neoclassical account of economic development and growth by demonstrating that correcting market failures is not enough. Strategic intervention by the government does not necessarily lead to failure. "Getting the prices wrong," it is claimed, can promote greater industrial sophistication and depth. Second, the developmental state paradigm has provided a solid empirical foundation for refuting the fatalism of the *dependencia* school. Integration into the international capitalist division of labor does not always produce a structure of dependency sustaining the development of underdevelopment. Depending on state structure and state strategies, there can be several "pathways from the periphery" (Haggard, 1990). Finally, the paradigm has facilitated the revival of theoretical and empirical interest in institutionalist thought. By releasing the analysis of economic performance from the monopolistic grip of economists, it has restored the importance and relevance of political institutions (Doner, 1992; Hall, 1986; Katzenstein, 1985; Steinmo *et al.*, 1992).

However, recent analyses have begun to reveal some cracks in and limitations of the developmental state paradigm. Criticisms focus on a reductionist assumption of the state, incomplete and even misleading elucidation of state-society links, and growing doubts about the positive correlation between the state and economic performance (Calder, 1988; Cheng, 1990; Doner, 1992; Haggard and Moon, 1990; Kernell, 1991; Moon, 1988, 1990, 1994; Muramatsu and Krauss, 1987; Samuels, 1987).

Against this backdrop, the chapter is designed to explore new theoretical and empirical polemics surrounding the developmental state paradigm and to suggest analytical alternatives to go beyond it. The first section seeks to deconstruct the paradigm by delineating its limitations, pitfalls, and weaknesses. The second introduces a network approach as an extended modification of the developmental state paradigm and examines its strengths and weaknesses. Finally, recognizing the limitations of both developmental and network approaches, the essay suggests new directions for the study of the East Asian political economy, focusing on institutions, politics, and strategic choice.

DECONSTRUCTING THE DEVELOPMENTAL STATE: THEORETICAL AND EMPIRICAL LIMITS

An in-depth consideration of the developmental state model reveals serious shortcomings. The conceptualization of the state itself appears

overly simplistic. The model fails to uncover the complex and dynamic internal workings of the state structure by depicting the state as an internally cohesive, unitary actor; and it also commits the fallacy of reductionism by equating the state with bureaucrats. State structure is not an internally coherent, unitary entity, but is composed of several distinguishable dimensions: executive leadership, executive-bureaucratic nexus, intra-bureaucratic dynamics, and bureaucratic constituents (Cho, 1992; Cho and Moon, 1991). The cohesion, unity, and dominance of state structure depend on the combination of these dimensions.

As to executive leadership, it is unrealistic to assume that political leaders including the chief executive simply reign by creating space for bureaucratic maneuvers and playing the role of safety valve. They not only reign, but also rule. Ruling or reigning depends on leadership style, political calculation, and institutional constraints. In South Korea, Park Chung Hee subjugated bureaucrats under his grip and dictated virtually every policy detail, while Chun Do Hwan delegated power to bureaucrats. In Japan, strong prime ministers such as Yoshida, Sato, and Tanaka practiced both reigning and ruling, but weak prime ministers (e.g., Hatoyama, Kishi, Miki) delegated the ruling function largely to bureaucrats (Horomito, 1987). Executive dominance also varies over time and across countries and regimes. In Japan, factional politics in the Liberal Democratic Party (LDP), electoral cycles, and the limited but relatively active legislative branch have all constrained the nature and scope of executive dominance. It is worth noting that the powerful influence of the LDP's Policy Affairs Research Council and the increasing power of policy tribes (*Zoku*) have consistently undermined executive leadership and dominance (Inoguchi, 1987; Kernell, 1991, p. 369). In the case of South Korea, policy initiatives by the executive branch have often been impeded by the Party-Executive Consultative Council (*Dangjung Hyupuihoi*), which is designed to coordinate policy differences between the government and the ruling party (Moon, 1990).

Public bureaucracy constitutes the most important agent of state structure; and bureaucrats in the East Asian developmental states are technically competent and highly convergent in their goal orientations. They are not, however, an exception to the generalized "bureaucratic politics" phenomenon. Despite similar cultural traits, close school ties, and congruence with national goals, bureaucratic agencies in the developmental states are not unitary, but reflect organizational complexities with diverse and often conflicting ideologies, preferences, and interests. Inter-agency rivalries, compartmentalization, and sectionalism are the rule, not the exception. In Japan where the executive-bureaucratic nexus is relatively diffuse,

bureaucratic fragmentation is much deeper, requiring careful, time-consuming negotiation processes (Murakami, 1987; Muramatsu, 1982). By contrast, the vertical executive-bureaucratic nexus, shaped by both the presidential system and bureaucratic vulnerability, dilutes bureaucratic infighting in South Korea. Within these constraints, however, bureaucratic sectionalism, compartmentalization, and inter-agency rivalries have also been prevalent (Kim, 1991). The long-standing rivalry among the Economic Planning Board, the Ministry of Commerce, and the Ministry of Finance exemplifies this trend. Noble (1987) observes a similar pattern of bureaucratic divisiveness in Taiwan.

Failure to elucidate the internal organizations and interactions of state structure has led to an incomplete conceptualization of state-society relations. Anchored in the rigid dichotomy of the state and society, the developmental state model postulates that the state is relatively autonomous from civil society. This dualistic conceptualization of state-society relations has invited an extensive array of critiques about the analytical wisdom of dichotomizing the state and society (Doner, 1992; Haggard, 1994; Samuels, 1987). In particular, bureaucrats in the East Asian developmental states have not been insulated from social constituents either, but have been intricately interwoven through formal and informal channels. Bureaucratic agencies are not organizational islands, but are beholden to corresponding social groups and obliged to protect their interests and solicit their support. The East Asian developmental states, moreover, do not show uniform patterns of interactions and interconnections with the private sector. While bureaucrat-constituent ties have been vertical, selective, and exclusionary in South Korea, Japan has demonstrated horizontal, consultative, and organic ties (Okimoto, 1989). Taiwan stands between these two cases, but with much more diffuse interconnections (Chu 1989, 1994; Noble, 1987). Thus, the divergent configurations of bureaucrat-constituent links in East Asia offer an important empirical foundation for refuting the "insulation and command" thesis.

The proliferation of revisionist interpretations of Japan, such as patterned pluralism (Muramatsu and Krauss, 1987), bureaucrat-led massive inclusive pluralism (Inoguchi, 1983), compartmentalized competition (Murakami, 1987), and the idea of the elusive state (van Wolferen, 1990), is a testimonial to the limits of the insulation thesis. A common thread linking these alternative interpretations is "pluralism," which challenges the analytical foundation of insulation and autonomy. Even in South Korea where the state has been regarded as being "invincible," *chaebol* and peak business organizations have often influenced economic policy-making and dictated policy outcomes in certain sectors (Cheng, 1990;

Doner, 1992; Kim, 1994; Moon 1990, 1994; Shafer 1990). Recent works have also documented the limited state control over the private sector in Taiwan (Chu, 1994; Lam and Lee, 1992).

The developmental state paradigm's efforts to trace the causal linkages between institutions and economic performance seem problematic too. Several basic assumptions underlying the argument that developmental states promote superior economic performance are easy to challenge. These include the premises that: (1) insulated bureaucrats create rational policies in the "national interest"; (2) state policies are highly competent and effective; and (3) state policies provide the major determinant of economic performance and outcomes.

The view of rational policy-making is easy to debunk. Calder's (1988) recent study of Japanese public policy offers telling counter-evidence. Beneath productive investment and impressive growth lies "a tale of conspicuous waste" characterized by "rice prices at eight times world levels, distribution systems with one-tenth sales per employee of the United States, small towns clogged with every sort of cultural centers..." (Calder, 1988, p. 465). Japanese agricultural, regional, small business, and land-use policies, which are all related to productive investment, have been far short of rational. They have been dictated by the political rationality of crisis and compensation designed to accommodate social pressures, a rationale which has in turn routinized the tradeoff between efficiency and stability. Even in South Korea, economic policies have been politicized. While electoral cycles have been responsible for the fluctuating patterns of both fiscal and monetary policies, sectoral policies have been to a great extent subjected to the political calculus of legitimacy building, power consolidation, and regime survival (Haggard and Moon, 1990; Moon, 1988, 1990, 1994). Likewise, many economic policies in the East Asian developmental states have been highly politicized, thereby constraining rational bureaucratic decision-making (Kernell, 1991).

It is also easy to find many counter-examples to developmental states formulating and implementing efficient, coherent, and consistent policies. A careful examination of sector-specific policies reveals that outcomes have not always been positive. Episodes of failures abound (Biggs and Levy, 1991). In South Korea, government policies in the heavy-chemical industry resulted in short-term disaster, but set the foundation for subsequent industrial upgrading. In contrast, strategic intervention in the overseas construction and shipping sectors brought about a short-term success, but long-term catastrophe (Haggard and Moon, 1983; Moon, 1990; Westphal, 1990). Japan's MITI (Ministry of International Trade and Industry) also proved its fallibility. As the episode on the standardization

of consumer video-cassette recorders illustrates, MITI can make mistakes (Noble, 1987). And despite the lack of MITI's blessing, Honda has become a Cinderella story. The Taiwanese government's dismal performance in strategic industrial policies concerning automobiles, steel, ship-building, and petrochemicals illustrates another case of the "fallibility" of a state supposedly staffed with rational, competent bureaucrats (Arnold, 1989; Islam, 1992; Wu, 1991).

Nor have the developmental states always pursued internally coherent policies. Contradictions between trade and industrial policies have been a consistent theme of economic policy regimes in East Asia. Macroeconomic policies have not always been coherently aligned with assertive industrial policies designed for export promotion and economic growth. Policy stability has been questionable too. Macroeconomic and sector-specific policies in Japan, South Korea, and Taiwan have all shown fluctuating patterns of policy stability. However, variations in policy stability can also be interpreted as signs of policy flexibility; it is unfortunately difficult to determine the tradeoff between stability and flexibility.

The central theme of the developmental state paradigm asserts that state policy enhances economic performance. This thesis appears controversial, however. Johnson (1987, p. 146) recognizes the methodological problems in using intentional government intervention as the central explanatory factor for economic growth, such as those pertaining to the role played by causal factors other than government policy, the failure to recognize long-term trends, and the possibility of mistaking random fluctuations for intentional results. Yet, he argues that nonpolitical theories, which "filter out the factors of politics, strategy, and leadership," are more seriously defective. This is tantamount to admitting that the developmental state paradigm, like the neoclassical perspective, is a second-best theory.

Recent works on international competitiveness suggest why this is so. Economic performance is a function of actions undertaken by agents of economic activities, most importantly private firms. Private firms' performance can be best measured by competitive advantage, as opposed to comparative advantage (Porter, 1990). Porter argues that the competitive advantage of a nation is a function of multiple factors: supply-side factors, demand-side conditions, corporate structure and strategy, the nature of related industries, luck, and the role of the government. Government can certainly shape many of these, but just enumerating them should indicate the importance of economic and even social factors in shaping national competitiveness. Thus, inferring direct causal relation-

ships between intentional government intervention and economic performance over time could be a risky and presumptuous undertaking.

In sum, the developmental state is a dynamic entity of amorphous configuration varying across time, sectors, and countries. It is not a fixed template from which a Weberian ideal type can be derived, or institutional designs for other countries modeled. Formulating a set of generalizations on the developmental state from the East Asian sample is not easy, not only because of differences and diversities among them, but also because of variations of state strength and autonomy over time and across sectors within each country. Nor has the mode of strategic intervention been constant. Changes in political landscape, societal parameters, economic structure, industrial organization, and technical complexity, some of which are the product of state action, have fostered substantial variations. Likewise, the developmental state is fraught with contradictions, limitations, and unresolved anomalies, all of which hamper the construction of an elegant theory (Koo and Kim, 1992; Moon, 1988, 1990, 1994).

SAVING THE DEVELOPMENTAL STATE: EMBEDDED AUTONOMY, POLICY NETWORKS, AND THE ECONOMICS OF ORGANIZATION

Major weaknesses of the developmental state paradigm have been identified as the failure to account for internal organizational dynamics of the state, a rigid binary demarcation of state-society relations through the "dominance/insulation" hypothesis, and incomplete causal links between state structure and economic performance. Various scholars have tried to make up for these shortcomings by locating state-society relations as central to an understanding of the workings and performance of East Asian economies. Among these are the theory of "embedded autonomy" (Evans, 1995), studies of industrial policy networks (Okimoto, 1989; Yeom, 1989), and a theory claiming that state-business relations conform to the logic of internal organization (Lee, 1992; Lee and Naya, 1988). These perspectives have divergent implications for the developmental state paradigm; however, they all owe a conceptual debt to network theory, even though Lee's works take equal inspiration from institutional economics.

Network theory concerns primarily "how behavior and institutions are affected by social relations" (Granovetter, 1985, p. 481) based on the assumption that ongoing social relations affect the actions of individuals which, in turn, affect the functioning of institutions. People interact,

transact, and generally behave differently with those who belong to their networks than with those who do not. A crucial tenet of network theory argues that the interests and belief systems of members of a richly connected network tend to converge. A network is richly connected if members interact frequently and are joined by a variety of ties. If state and social actors interact regularly (e.g., in a policy domain or an apex body), maintain the interaction for a long period of time, and are connected by other ties (school, region, ethno-linguistic), then it would be reasonable to expect that the boundary between state and society would become blurred.

Peter Evans (1995) applies a network framework to answer a basic puzzle: Why should the state, given its autonomy, strength, and capacity, choose a "benign" or "developmental" rather than "predatory" course of action? States such as Zaire leverage their strength to rob their society. Why are South Korea and Taiwan not motivated to do the same? Why do they confound neo-utilitarian expectations? The answer, according to Evans, is that the East Asian developmental states have functional links to their societies. They are "embedded" in their societies, something not characteristic of the Zairian state. Moreover, argues Evans, the developmental states manage the feat of being embedded, but not captured. Among the East Asian developmental states, state-society relations are vertical in that the state has legal authority and institutional capacity to dictate to civil society. However, the vertical nexus is complemented by horizontal ties formed through formal (e.g., examination council) and informal organic (e.g., family, school, local) networks. Vertical command and discipline are matched with horizontal consultation and consensus through shared corporate goals, producing harmonious relations between the state and the private sector and enhancing the exchange of knowledge essential for economic performance.

By introducing the concept of "embedded autonomy," Evans overcomes the analytical dilemma of the insulation thesis, which results from the rigid dichotomy of the state and society. However, he is rather weak in presenting empirical evidence on how such organic networks between state and societal actors produce organizational and performance efficiency. More importantly, the Weberian ideal type of rational and competent bureaucrats still remains as the central actor in the success drama of East Asia. Evans's attempt to save the developmental state, then, appears to be somewhat incomplete.

Recent works by Okimoto (1989) and Yeom (1989) go further by proposing the idea of policy networks. They refute the axiom that the states in Japan and South Korea devise a master-design, plan-rational

policy which is subsequently implemented in its entirety. Policies are not elaborately pre-planned. On the contrary, they emerge from the interactions of private firms and bureaucratic agencies, in which intermediate organizations play an essential role. In view of this, policy-making is of the "emergent," not "designed," variety (Mintzberg, 1990). These scholars argue that a multitude of intermediate organizations link government agencies and the private sector, including advisory councils, apex business associations, industry associations, varied public enterprises such as research associations and public finance institutions, as well as informal associations such as alumni societies and social clubs. It is through this vast substratum of intermediate organizations that a dense and multiple network of affiliations emerges, shaping industrial policies. The "thickening web of affiliation," therefore, cultivates trust among actors, facilitates the collective move to consensus on ends and means, and fosters an exchange of information, even of a proprietary nature (Okimoto, 1989, p. 156).

Thus, the negotiation of industrial policy brings the private sector into relations of interdependence with the state. This provides agencies of the state with a means of maintaining instruments of power and counteracts a pre-Meiji tendency in the Japanese polity toward the extreme diffusion of power into fragmented centers. While policy networks help the state consolidate its power, the factor influencing economic performance is not state dominance or bureaucratic competence, but continual interactions between public and private organizations, which in turn reduce risks and uncertainties for business. Though different in form and content, South Korea and Taiwan have also manifested a similar type of policy network structure.

The idea of policy networks supplements the weakness of Evans's approach by illustrating concrete processes of interactions, negotiations, and information transmissions between the state and the private sector. However, it undermines the theoretical foundation of the developmental state paradigm by demystifying the notion that the East Asian state is an ideal-typical Weberian bureaucracy, capable of producing master policy-designs. Furthermore, the elucidation of the structures of policy networks is more conducive to capturing the substance of emerging policies than vaguely specified institutional structures.

Lee and Naya (1988) and Lee (1992) go beyond the social and policy network theses by proposing a concept of quasi-internal organization. They argue that the state and the private sector in East Asia are not simply interconnected through inter-organizational networks, but are merged into an internal organization. Following the analytical lead of Williamson

(1985), they postulate that the East Asian developmental state can be seen as a network state or a quasi-internal organization composed of the government and private enterprises. State-business relations in the developmental state operate like the corporate headquarters and business units of an M-form hierarchy. This internal organization reduces transaction costs through "extended bounded rationality, reduced opportunism and uncertainty, reduced small-number indeterminacies, better information, and a group-oriented atmosphere" (Lee, 1992, p. 193).

An interesting pattern of convergence and divergence emerges here. While all these approaches employ networks as the central organizing concept in elucidating the dynamics of state-society links and accounting for the determinants of organizational efficiency and economic performance, they differ in endorsing the idea of the developmental state. Both the embedded autonomy and quasi-internal organization models strengthen the idea of the developmental state through the network concept, but the policy network school attempts to debunk the developmental state. Whether they endorse the developmental state thesis or not, relying on network as an analytical concept raises several theoretical and empirical questions.

Social and policy networks are not perpetual. The organic ties which reinforce relations between persons and organizations across sectors are overlain on the fault lines of political alliances. When the political and other interests of social groups converge, such networks are reinforced and strengthened. When these interests diverge, networks are broken, no matter how strong the organic bonds. As the state is embedded in networks, networks are also embedded in the shifting calculus of political and corporate interests. Shifting patterns of state-business networks in South Korea reveal this point well (Moon, 1994). The dissolution of the Kukje Group, the sixth largest *chaebol* in South Korea, and the erratic behavior of the Hyundai Group, the largest *chaebol*, among others, present a vivid testimonial to the political limits of the network concept. Abrupt alignment and realignment are not limited to South Korea, but also extend to Japan where close ties between the state or the LDP and business firms were often broken in the wake of major political scandals and other crises.

In addition, while these models successfully treat two salient dimensions of networks, namely "boundary penetration" and "information transmission," they fail to address the important problems resulting from "resource exchange." The maturing of a network structure routinizes such reciprocal exchanges between political and economic elites, expanding spaces for predation on the part of politicians and bureaucrats and rent-

seeking on the part of the private sector. This type of structural corruption has been pervasive in Japan, South Korea, and Taiwan. To cite a few examples, Japan has long suffered from the practice of *Dango* (bid-rigging) in the Japanese construction industry (McMillan, 1991) and other forms of structural corruption (Johnson, 1982, p. 68). South Korea and Taiwan have recently been identified as two of the most corrupt countries in the Asia-Pacific region (*Hankuk Ilbo*, 1993).

Finally, the network approach raises an interesting puzzle. Why are social and policy networks in East Asia efficacious and benign, while those in other settings dysfunctional and malignant? Dense informal networks and trust are prominent features of Arab society, but they have not been turned into an instrument of development. Public-private networks are also pervasive in the American setting, but they are often associated with favoritism and corruption. Why is this? Are the Islamic ethos and Protestant ethic less developmental than and inferior to the Confucian ethos? This puzzle is still unanswered.

BEYOND THE DEVELOPMENTAL STATE: NEW RESEARCH DIRECTIONS

Before charting new directions for research, we must realign the ontological foundation of the East Asian political economy. Being preoccupied with the explanation of "successful" outcomes, both the statist and network perspectives have produced an incomplete portrayal of the East Asian political economic landscape. The economic trajectories of East Asian states are littered with rent-seeking, policy failure, unintended policy consequences, and conjunctures. Beneath impeccable macro-performance lies a myriad of micro-failures. No longer should analysis be confined to success. The ontological horizon should be expanded to include both successes and failures, ups and downs, and developmental and predatory (or rent-seeking) behavior. The scope of analysis should cover not only successful industrial policies, but also failed and aborted ones, as well as other public policy arenas such as welfare, environment, and distributional policies.

Furthermore, a snapshot approach, which slices out the period of success and growth and deduces a set of generalizations therefrom, should be avoided. Once a cross-section of empirical reality is sliced out, it becomes static and sterile. Sequential dynamics evaporates, and stability replaces change, crippling generalizations. Policy and performance should be seen as being contingent, not inevitable, a product of the

interactions of factors in possibly unpredictable ways. This view encourages us to be more sensitive to human intervention in a longer historical trajectory. This should not be taken to imply, however, that the developmental state paradigm has ignored the historical context of change and continuity. In fact, the thesis of historical continuity dating back to the Japanese imperial period has been its dominant theme. While preoccupied with historical continuity, however, it has neglected to pay attention to variations in institutional configuration and economic performance over time.

The realignment of theoretical and empirical horizons directs us to politics as a new research agenda. By anchoring its analytical cues in the state as a unitary actor and the assumption of political reality wrapped in harmony and stability, the literature on the developmental state and networks commits the fallacy of the second-order causation by directly linking institutions (i.e., strong state and policy network) to performance. There is no analytical and empirical space for real politics. Or, in the words of Wade (1992), "thin politics" permeates their analysis at best. Political life in East Asia, as in other parts of the world, however, is fraught with conflict. East Asian states are not necessarily unitary actors; and networks between the state and society are, more often than not, governed by the politics of conflict, disharmony, and friction. Policy choice and performance are dictated primarily by the politics of competition and conflict. The state is also a political arena, which is composed of several competing and often conflictual entities, as dictated by their own constituent interests. Furthermore, the internal organizations of the state and their interactions with social groups are not fixed. The very dynamics of industrial change animates political forces and crafts the new landscape of political coalitions, producing a set of new constraints and opportunities for rulers and bureaucrats and precipitating policy changes.

In view of this, political leadership cannot be taken for granted. Policy choice and performance are closely tied to the rulers' political entrepreneurship, since they choose and realign economic policies not solely by "developmental" ideology, but also by political rationality. As Liddle (1992b, p. 798) epitomizes, rulers are "political animals, evaluating alternative policies in the light of their political survival needs." Policy choice and implementation cannot be separated from the rulers' strategies to enhance legitimacy, to consolidate power, and to ensure regime survival. For this reason, their motivations, calculations, and coalition strategies offer key clues to policy changes and subsequently to performance.

Bureaucratic politics also needs a closer re-examination. Bureaucrats are not neutral and technical agents of policy-making and implementation.

They have their own interests, agenda, and political logic, which shape the pattern of their interactions with rulers, rival agencies, and their own constituents (firms, trade associations, farmers, etc.). The dynamics of policy changes, effectiveness, and performance cannot be captured without elucidating changing patterns of vertical ties between chief executives and bureaucrats, the horizontal rivalry and compartmentalization of bureaucratic agencies, and the evolving nature of representation, organization, and mobilization of their constituents.

Finally, civil society, especially business and labor, should not be treated as residual and passive agents subservient to the state. Depending on the calculation of interests and on resource availability, business and labor can pursue diverse strategies involving compliance, lobbying, protest, and even blackmail in order to alter policy choice. Their cooperation or non-cooperation with the state can also directly influence economic performance. In this regard, the ideology, interests, resources, and strategies of peak and intermediate organizations representing civil society deserve increased research attention.

The scope of political struggle is conditioned by those institutions which help give form to economic and political life. Our use of the term "institution" differs from its customary conceptualization. Institutions are not simply concrete units of social and political organization (i.e., families, firms, government agencies). They are rules and guides, tacit and explicit, which shape, for instance, the authority structure of the family or business firm, the arrangements governing economic activity in an industry, or the means and avenues open to interest groups in interacting with bureaucrats. Sources of institutional rules may be found, for example, in legal codes such as property rights laws or in the informal social norms and sanctions we associate with "culture." Broadly speaking, the state, networks, and politics can be said to be embedded in the larger institutional context (Doner, 1992).

The study of institutions helps us uncover the deeper context from which economic policies and practices emerge, and by which economic performance is conditioned. Micro-economic institutions involving property ownership, industrial organization (e.g., contracting, competition, firm structure) and other types of regulation not only set rules of economic exchange, but also condition economic performance by shaping the nature of economic exchange relations and thereby affecting transaction costs (Gourevitch, 1993; North, 1990). Strategic allocation of resources to targeted sectors in Japan and South Korea could not have ensured successful performance without the corresponding micro-economic institutions such as lax anti-trust regulations that permit concentrated market structure,

extensive vertical connections, and formal and tacit coordination among firms (Hart, 1992; Okimoto, 1989).

Economic institutions are a necessary, but insufficient, condition for the explanation of policy choice and performance. Between micro-economic institutions, policy choice, and performance lies real politics. It is through politics that economic institutions are altered, specific policy choices are made, and performance is subsequently affected. For example, the institutional arrangement involving executive-legislative relationships (parliamentary, presidential, or mix) can shape the internal workings of the state, policy choices, and their effectiveness, as the significant difference between Japan and South Korea indicates. While the presidential system in South Korea has facilitated executive dominance, vertical executive-bureaucratic ties, and relatively less intense intra-bureaucratic feuds, the parliamentary system in Japan has weakened executive dominance, bred horizontal ties between prime minister and bureaucratic agencies, and fostered greater bureaucratic compartmentalization (Cho, 1992). Thus, political institutions and regime type matter.

Institutions shape not only political and economic behavior, but also human cognition. As Berger and Luckman (1967) argue, institutions represent the social construction of reality, which informs and circumscribes the schemes and legitimate beliefs of people. People derive meaning from and interpret reality based on the institutions in which they are embedded. Thus, cultural elements and ideology impact economic and political institutions. Examples of this sort of influence are the weaving of elements of the Confucian tradition through the social, economic and political institutions of East Asia (Pye, 1985); or, more specifically, the ideology of "*fukoku kyohei*" ("rich nation and strong army") and the formation of mercantilist institutions in Japan (Samuels, 1994).

In short, institutions, institutional change, politics and choice are all intimately intertwined. The manner of their mutual influence unfolds over time in a path-dependent manner. Inasmuch as institutions and social pressure shape specific policies and performance, policies and performance also trigger political feedbacks, altering the political motivations of rulers, reshuffling alliance patterns, and ultimately inducing new institutional design and choice (Liddle, 1992b; Pierson, 1993; Steinmo *et al.*, 1992). The manner in which such a sequence of events unfolds, yielding outcomes of policy choice, performance, and regime consolidation depends greatly on those factors, specific to different cases, which influence the outcomes of critical historical junctures. Thus, it becomes essential to examine critical junctures of institutional change and leadership choice.

THE LIMITS OF STATISM

The developmental state paradigm has emerged as a powerful alternative to neoclassical and dependency accounts of the political economy of growth. Careful examination, however, reveals some serious drawbacks, such as a failure to explore the internal dynamics of the state, an inability to capture the dynamics of state-society linkages, and a poor construction of causal relations involving institutional configuration, policy choice and implementation, and economic performance. A variety of recent network approaches has attempted to overcome these weaknesses, but these efforts have not been able to save the paradigm from its theoretical and empirical failings.

In order to capture the dynamics of East Asian political economy, we must go beyond the developmental state and network approaches. In so doing, we can propose alternative research directions but not a substitute "master" independent variable capable of explaining performance outcomes. The developmental state approach provided an "answer" but did not ask the right questions. Gourevitch (1993) has concluded that no one combination of political and economic arrangements provides exclusive access to successful outcomes. Varied arrangements provide multiple instances of success and failure. Moreover, an arrangement's effectiveness is ephemeral. We should abandon the myopic centering of analysis around success. Rather, we should study larger political economic dynamics and take note of how performance outcomes create strains in existing political regimes, altering the motivations of dominant actors and creating the conditions for institutional change. Thus, research should proceed in the form of historically sensitive case studies which explain the interrelations among politics, institutions, and choice. Politics is structured by institutions, but institutions can also be redesigned by political struggles and the strategic choices of leaders. An essential task for students of the East Asian political economy is to uncover the many ways in which these combine and mutually influence one another.

Note

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3 Market, State, and Society in Asian Development¹

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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.