

BOOK REVIEWS

Enterprise and the State in Korea and Taiwan by Karl J. Fields, Ithaca, Cornell University Press, 1995, xv + 269 pp.

The task of abstracting lessons from the economic development of the Republic of Korea and Taiwan has been underway for some time. But fierce debate continues on the question of what the mechanisms of the economic development in the two countries were. One group emphasizes the role of the market, comprising institutions like the World Bank and the IMF, while the other, a group of political economists who have been referred to in recent years as “revisionists,” emphasize the role of the state.

The two groups have taken up positions at opposite ends of the state-market axis, but are similar in the way they lump Korea and Taiwan together. In other words, the former group looks at economic development in both Korea and Taiwan in relation to market mechanisms, while the latter, the revisionists, emphasize the intervention of the state in the two countries’ economic growth. Differences between the two countries have been largely sloughed off by both groups as being of only secondary importance.

The present work stands apart from previous studies in that, while the main currents of political economy, it focuses on the differences between Korea and Taiwan. It is particularly concerned with the points of difference in the enterprises and business groupings of the two countries. Namely, though Korea and Taiwan share the fact that their economic development was achieved through export-oriented industrialization, the driving force in Korea was the formation of the huge business conglomerates called *chaebol*, while in Taiwan the crucial factor was the formation of business groups, the *guanxiqiye* (related enterprises), on a much smaller scale. This work posits as factors that gave rise to the differences in these countries, both of which have capable and strong states, the proactive nurturing on the part of the Korean state of the *chaebol* as the key institution of economic development, and the Taiwanese state’s suppression of the expansion of the business groups.

The book consists of eight chapters. The first serves as the introduction, and the last as the conclusion. The six central chapters cover three themes, with two chapters allotted to each theme. First, the main features of the two types of business group are presented—the Korean *chaebol* in Chapter 2, the Taiwanese *guanxiqiye* in Chapter 3. Korea and Taiwan are compared with respect to financing in Chapters 4 and 5 and trading companies in Chapters 6 and 7, respectively.

In the first chapter Fields presents a critique of the existing research in the field and lays out the methodology employed in the present work, which is expressed in the concept of “embedded enterprise.” Fields’s approach is to explain the differences in the business groups in Korea and Taiwan in terms of differing political and cultural factors at work in the two countries. However, with the exception of Chapter 1, most of the chapters in the book examines political factors, and there are few explanations of cultural factors.

The features of the Korean business groups are outlined in Chapter 2. In terms of the main theme of the work, the relationship between the state and business groups, Fields shows how the Park Chung Hee regime, after it had given state-linked business groups a position of absolute advantage through the Illicit Wealth Accumulation Law, used the *chaebol* to power the country's economic development. As they grew, however, the *chaebol* became increasingly independent throughout the 1980s, and with advances in democratization from the latter half of that decade, the influence of the state has gradually declined. Chapter 3, on the other hand, shows how in Taiwan the development of *guanxiqiye* was suppressed by the strong state. As reasons for this policy Fields cites Nationalist Party (Kuomintang) ideology ("Three Principles of the People"), a cautious attitude toward state financing based on the party's experience of inflation on the mainland, and the fear on the part of the Nationalist Party, as outsiders, of an increase in political leverage by the indigenous business groups.

Chapters 4 and 5 compare the systems of financing in the two countries. Fields considers financing to be the state's chief means of control over enterprises. Both Korea and Taiwan are identical in that the state exercises control over in the system of finance. But while the Korean state proactively used low-interest financing to promote economic development, specifically development of the heavy and chemical industries, resulting in the growth of the *chaebol*, in Taiwan huge conglomerates did not form because of the state's cautious subsidized financing. The informal sectors in both countries are also discussed in depth and their relationships with the formal sectors under state control compared. And at the end of these chapters the breakups of the Kukje group in Korea and the Cathay Trust group in Taiwan, respectively, are analyzed.

The general trading companies in Korea and Taiwan are examined in Chapters 6 and 7. Both countries adopted policies in the 1970s to foster large trading companies modeled after the Japanese *sogo shosha*, but although general trading companies linked to the *chaebol* developed in Korea, large trading companies (*damaoyishang*) failed to develop in Taiwan. The main reason for this difference was that while Korean efforts were geared to enhancing export performance and involved generous assistance, Taiwan policy goals were never clear and support was weak. Chapter 8 lays out the above-mentioned conclusions on the basis of an analysis of what has gone before.

This work presents a wealth of information on the differences between Korea and Taiwan and demonstratively discusses the reasons for these differences. Fields has put tremendous effort into organizing the vast body of information collected here on the basis of very clear logic. On two points in particular, its contrasting depiction of the breakup of the Korean Kukje group and that of the Taiwanese Cathay Trust group, and its comparative analysis of the nurturing of general trading companies by the two countries' states, this book offers a fresh and interesting approach.

As mentioned above, in its focus on the differences between Korea and Taiwan, the present work goes a step farther than previous studies. However, the very ambitiousness of the endeavor also leaves considerable room for debate. And it is in the hope of stimulating further research in East Asian studies that I put forward the following few points of argument.

In Chapter 1 Fields criticizes a tendency in the existing political economy approach,

stemming from its assumption of strong states, to seek various causes in the state. My own comment would be, however, that the present work itself has not adequately overcome this problem. Specifically, I would suggest that by positing the strong state in the cases of Korea and Taiwan, Fields has not been able to integrally explain the points of difference in state policies and business groups and the common feature of high economic growth. I would like to go more deeply into this point.

A key conclusion of this book is the assertion, first, of the existence of a decisive difference, particularly with regard to scale, between business groups in Korea and Taiwan. Second is the assertion that this difference derives from the differences in the two states' views of their business groups and the resultant policy measures they pursued. In line with this then, one sees the Korean state pursuing state-led economic development with the *chaebol* as the driving force of every undertaking. On the other hand, the state in Taiwan, fearful of the growth of private business groups, has tended to suppress their development.

This is a very neat conclusion. The economic development policies of the two countries were different, but nevertheless they were able to achieve the common result of sustained long-term high economic growth. Why? This question is particularly troublesome in the case of Taiwan. Why was economic growth possible in spite of the suppression of private business groups?

Questions of this sort cannot simply be ignored. Much of the motivation for studies into the economic development of Korea and Taiwan stems from a desire to draw lessons from their experiences, particularly in terms of policy implications. In fact, this issue is put forth in the preface of the book. However, there is no clear answer to this question in this work. The conclusion appears to be that the differing policies brought differences in scale of the two types of business groups, but since in both cases high growth was achieved, it does not really matter which policy is chosen. But is this really the case?

In my opinion, the missing factor which accounts for the present work's failure to account for Taiwan's economic development is chiefly supplied by the country's small and medium-size enterprises. The development of small and medium-size enterprises progressed spontaneously in Taiwanese society, without any direct connection to the state. This has become increasingly clear through recent fieldwork carried out by Taiwanese sociologists.

In other words, the chief factor behind Taiwan's economic development is not to be found in the state. I agree that the Nationalist Party's government was strong with regard to its suppression of development of the private business groups into huge groups. But I have my doubts as to whether it had the ability to lead economic development. As this work acknowledges, there was a deep gap between the Nationalist Party, who were outsiders, and the indigenous Taiwanese society. In these circumstances it was difficult for the state to take an active lead in economic development. In fact, the state's mobilization of private financing for its policy of promoting heavy and chemical industrialization in the 1970s did not go well. Compared with the Korean state's leadership of development, it was not so much that the Taiwanese state lacked the will, but rather that it lacked the ability.

In terms of the policy implications, in the case of a country with conditions like Taiwan—that is, when there are limitations to state leadership on the one hand and a private sector with autonomous development potential on the other—state-driven economic devel-

opment like in Korea is difficult and in fact is not even necessary. In other words, policy choices differ with the political and social conditions of the country, and the conditions of enterprise groups varies as a compound result.

The problem with the present work is that, following the tradition of the political economy approach, Fields assumes a strong state not only in Korea but in Taiwan as well, and as a result fails to mention the role of small and medium-size enterprises. As I have said, the political economy approach, which generally tends to concentrate on state and to overrate state capacities, loses sight of the process of economic development taking place in society unconnected to the state and excludes the possibility that at least part of the reason for a given phenomenon lies not with the state but with the autonomous activities of other social actors such as enterprises or industrialists, workers, etc. The present work does not sufficiently extricate itself from the fetters of the political economy approach that it criticizes.

Nevertheless, in its approach of focusing on the differences between Korea and Taiwan, the present work is without doubt an opportunity to go beyond conventional studies. I hope that my comments will help in this. (Yukihito Satō)

Industrialization and the State: The Korean Heavy and Chemical Industry Drive by Joseph J. Stern, Ji-hong Kim, Dwight H. Perkins, and Jung-ho Yoo, Cambridge, Mass., Harvard Institute for International Development, 1995, xi + 206pp.

Evaluation of Republic of Korea's industrialization policy for promoting heavy and chemical industries during the 1970s has produced a great deal of debate within the field of developmental economics. Among neoclassical economists who see Korea's economic development as a result of the promotion of economic liberalization, the policy is viewed as nothing more than a deviation along the country's path to successful industrialization. For them this is exemplified by the low efficiency of the heavy and chemical sectors in the 1970s, and they look upon the recession at the start of the 1980s as a result of this mistaken policy. On the other hand, those who see the government as having an important role in economic development and who emphasize the efficacy of industrial policy have been positive in their evaluation of Korea's heavy and chemical industrialization policy. They have stressed the importance of long-term over short-term efficiency and look upon the concentration of investment in the heavy and chemical sectors during the 1970s as preparation for the high growth of the late 1980s. This new book delves in a very straightforward way into this ongoing debate.

In the Introduction the authors comprehend the problem of evaluating Korea's heavy and chemical industrialization policy as a matter of gauging the success or failure of selective industrial policy by government. They employ the technique of project appraisal, and provide a definition and evaluation of industrial targeting. In effect they estimate shadow price and calculate a project's *ex ante* economic rate of return. Projects where this exceeds the