Governed Interdependence:

Rethinking the Government-Business Relationship In East Asia

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Introduction

The rise of high-performance market economies in East Asia - specifically Taiwan, Korea, and Japan - has attracted strong interest from economists and political scientists alike. Economists have generally represented the East Asian experience as a vindication of neo-classical theory. But the 'market-led' version of East Asian success has failed to withstand the test of carefully marshalled counter-evidence (see, for example, Luedde-Neurath 1986; Wade 1990; Alam 1989). Moreover, the revealed discrepancies between abstract economic model and empirical reality have not been uniformly ignored. In recent years, one can discern within the neo-classical literature itself a number of shifts, inconsistencies and ambiguities, particularly in research reports sponsored by the World Bank. These 'deviations' from economic orthodoxy suggest not so much a sea change as a growing unease towards the market-led paradigm, experienced by certain members of the neo-classical community. A number of economists have thus begun to document not the 'absence' or 'failure' of intervention in East Asian economies, but its 'effectiveness'. Accordingly, they have begun to highlight the importance of 'institutions', 'insulated technocracies', and 'bureaucratic capacities' (World Bank 1993a, 1993b: esp. 157-90). By rejecting the notion of 'neutral' or 'intervention-free' trade regimes, yet still retaining the idea of prudential macroeconomic management, these economists can be seen to share common ground with the institutional analysis of the so-called 'new political economy'.

'New political economy' refers to a body of work, loosely rather than rigorously unified by an explicit emphasis on strategic policies and, more or less implicit, on government capacities and institutions as a major component of East Asia's strong economic performance (Wade 1990; Amsden 1989; Johnson 1982, 1985; Evans 1989, 1992). Much of the region's analytic appeal stems from this unanticipated combination of impressive administrative ability with strong market performance. Such a combination tends to defy Western expectations and deserves perhaps a distinctive label. We might call them 'coordinated market economies' in the manner Soskice (1990) has done for certain economies of Continental Europe. Whether to establish new industries and create new products, or to upgrade quality, technologies and skills, the East Asian experience has emphasized the advantages of a publicly coordinated approach to industrial innovation.

Three major issues have emerged from this research into East Asian development. The first concerns the role of government; the second relates to why intervention has worked relatively well; and the third touches on the relationship between government and business.

Debate on the first issue has more or less run its course and this paper takes as its premise the outcome of that debate: that active governments pursuing strategic trade and industrial policies have constituted an important component of East Asia's high-performance economies. This proposition is not defended here. But we refer the reader to the considerable body of supporting evidence marshalled elsewhere (e.g. Luedde-Neurath 1986; Wade 1990; Alam 1989; Schiffer 1991; Rodan 1989; Matthews & Ravenhill 1993; Weiss & Hobson 1995). In particular, we would also draw attention to the shifting stance of that august neoclassical body, the World Bank, whose Vice President recently complained of the Bank's inadequate understanding of the East Asian economies, commenting that

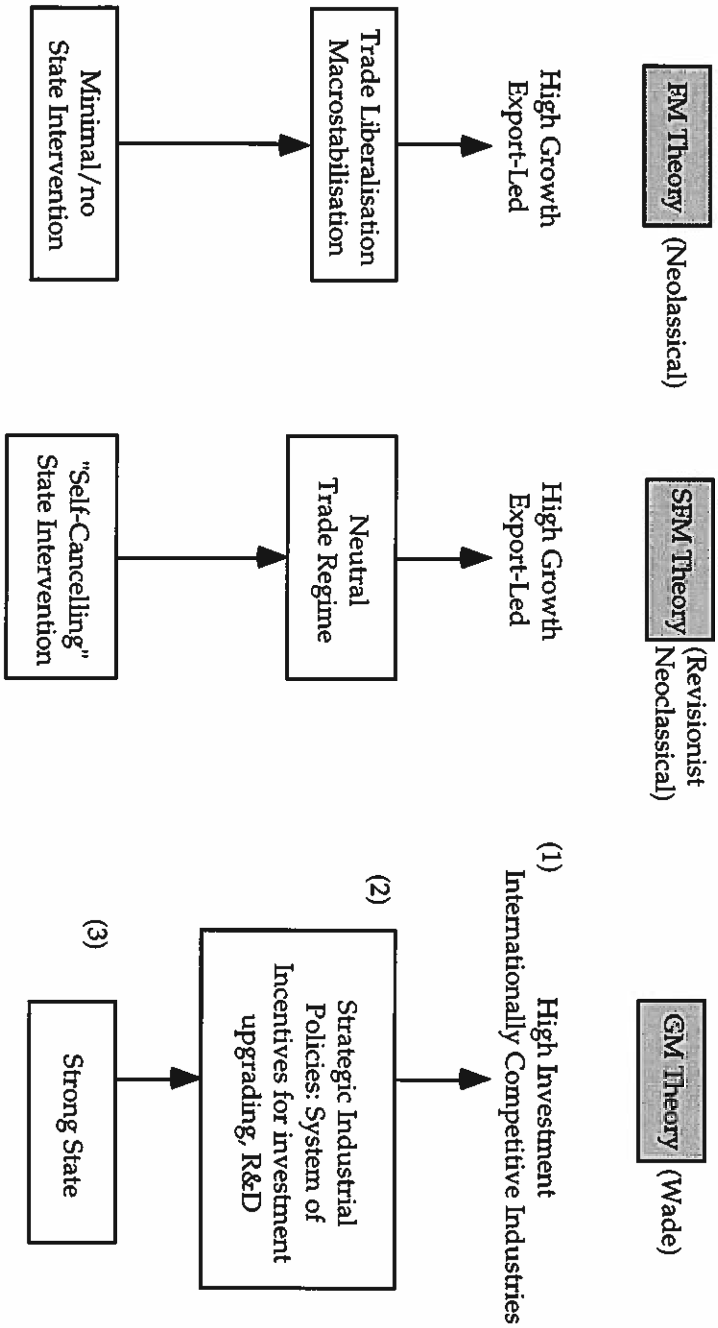
The East Asian NICs and their successful emulators are a powerful argument that a more activist, positive governmental role can be a decisive factor in rapid industrial growth.[1]

[1] Attila Karaosmanoglu, Vice President, World Bank, "Asia and the New Balance in Development Strategies", Address to the World Institute for Development Economics Research, Helsinki, 16 September 1991.

As if to reflect that shortcoming, the most recent wave of World Bank reports represent a substantially toned-down version of free-market orthodoxy. A number of titles in the 'Lessons of East Asia' series are explicit about the leading role of government; whereas the more widely cited *East Asian Miracle* goes so far as to include an entire chapter on the developmental role of governmental institutions, in which a series of market failures are shown to raise 'the problem of coordination'. The point is that even World Bank authorities now concede it is no longer possible to ignore the importance of state activism in East Asian dynamism.

This paper therefore takes as demonstrated the important role of the state in coordinating economic transformation. Its purpose instead is to advance two propositions. The first has a distinguished pedigree but has not been adequately elaborated for the East Asian experience. This is the proposition that the East Asian capacity for coordination has an institutional basis. A number of writers have propounded this idea, notably Chalmers Johnson (1982) who first presented the evidence for Japan in his famous study of MITI; Robert Wade (1990) who extended this idea to the newly industrialized countries (NICs) in his pioneering account of Taiwanese industrialization; and Peter Evans (1989) who followed up these accounts with an innovative attempt to highlight third-world differences in state capacity. Wade's work was particularly important for making explicit the proposition - the third in his 'governed market theory' - that effective coordination was not simply a matter of choosing the right industrial policies, but rather depended on certain institutional arrangements (see Figure 1), a point to which we shall return.

Figure 1: Theories of east Asian Development:



The second proposition advanced in this paper is novel. It is proposed that the institutional arrangements in question result in a distinctive kind of government-business relationship, referred to here as 'governed interdependence'. In this relationship, coordination and cooperation go hand-in hand. Economic projects are advanced by public-private cooperation, but their adoption and implementation are disciplined and monitored by the state. The claim is not that existing accounts ignore the existence of 'cooperation' in East Asian government-business relations (see, for example, Johnson 1982, 1984; Samuels 1987; Doner 1992).[2] Rather, the problem is that they are unable to integrate the reality and idea of public-private cooperation into a theory of state capacity. In their haste to dispute the 'developmental state' idea - to knock down the notion that the East Asian state is in some sense 'strong' or distinctive - many recent studies fail to pay sufficient attention to the possible importance of cooperation to a theory of state capacity. Cooperation is usually seen as a sign of the *diminution* or dilution of state power; its absence as a sign of the state calling the shots. Consequently, much analysis has lined up under either state-led or society-led approaches, where each admonishes the other to take either the state or capital seriously. The danger is that in trying to bring capital back in, the state is being marginalised or diminished, in a negative-sum manner.

So what would a theory look like in which both state and capital are taken seriously; where both strong states and strong industry go hand-in-hand? Such a theory, it is contended, would approximate a theory of governed interdependence (see Figure 2). The following analysis seeks to provide the substantive building blocks of such a theory in two ways. First, with the aid of interview material, it analyses institutional arrangements in the Asian Three and complements and extends upon the work of Johnson, Wade and Evans. Second, the paper distinguishes different types of state-industry interaction - some apparently

[2] For all the 'strong state' readings of his 'developmental state' concept, Chalmers Johnson was in fact among the first to highlight the cooperative basis of industrial policy in Japan (e.g. Johnson 1982: 311; Johnson 1984: 9-10). In this light, attempts to challenge the developmental state concept by highlighting the existence of government-business cooperation in the region, does seem somewhat tenuous (see, for example, Samuels 1987; Doner 1992: 398-431). For all their analytical insights, such accounts tend to overplay the importance of state 'domination' in the developmental state concept, which serves as counterpoint for their own position.

'state-led', others apparently 'business-led' - all of which can be accommodated in a theory of governed interdependence.

Institutions and Economic Performance

(1) Governed Market Theory

Most analyses of the East Asian experience are heavily indebted to the pioneering studies of Chalmers Johnson and Robert Wade for advancing empirical and theoretical understanding of East Asian development. The present study is no exception, notwithstanding important differences as we shall see.

Wade's work, like that of Johnson's before him, is important not merely for demolishing market-led accounts of East Asian success, but for building a new view of that experience in which active governments and strategic industrial policy play a central part. But Wade, like Johnson, goes further than this to draw attention to the importance of institutional arrangements that make such a strategic approach possible. The result is what Wade has called 'governed market theory' (GMT).

GMT advances three main propositions (see Figure 1). First, the superior performance of Japan and the NICs is the result of heavy investment in internationally competitive, high-growth industries. Moreover, the patterning and level of investment are different from what would have been the case if market mechanisms alone had operated. Second, the exceptional levels of investment in increasingly high-technology sectors is the deliberate outcome of a set of 'strategic industrial policies'. Third, at a deeper level of causality, these policies were pursued with more consistency, and were relatively more effective than in other developing countries, because of a particular set of institutional arrangements, in this case a strong 'autonomous' state.

The point of Wade's argument is not that industrial policies are the whole story, but rather that in the absence of some form of *coordination*, there is no guarantee that savings and investment will be channeled towards productive rather than speculative activities, or that technological upgrading rather than cost-cutting strategies will prevail. Though it uses different language, governed market theory highlights this aspect of the state's coordinating role in the region. Industrial strategies seek to ensure the survival of industries essential to the nation's long-run welfare, rather than merely reward short-term consumption. Such policies entail flexibility and therefore generally involve three arms, an investment banking arm for promoting exports and/or particular sectors; a restructuring arm for streamlining or upgrading sectors in decline; and an R&D arm for developing and disseminating new products and technologies. All three are interconnected, but the importance of each will vary according to different phases in the development process. Thus, for example, in the 1990s, Korea, Japan and Taiwan give much more prominence to the R&D arm (promotion and diffusion of technologies) than to that of investment banking (export and sectoral promotion).

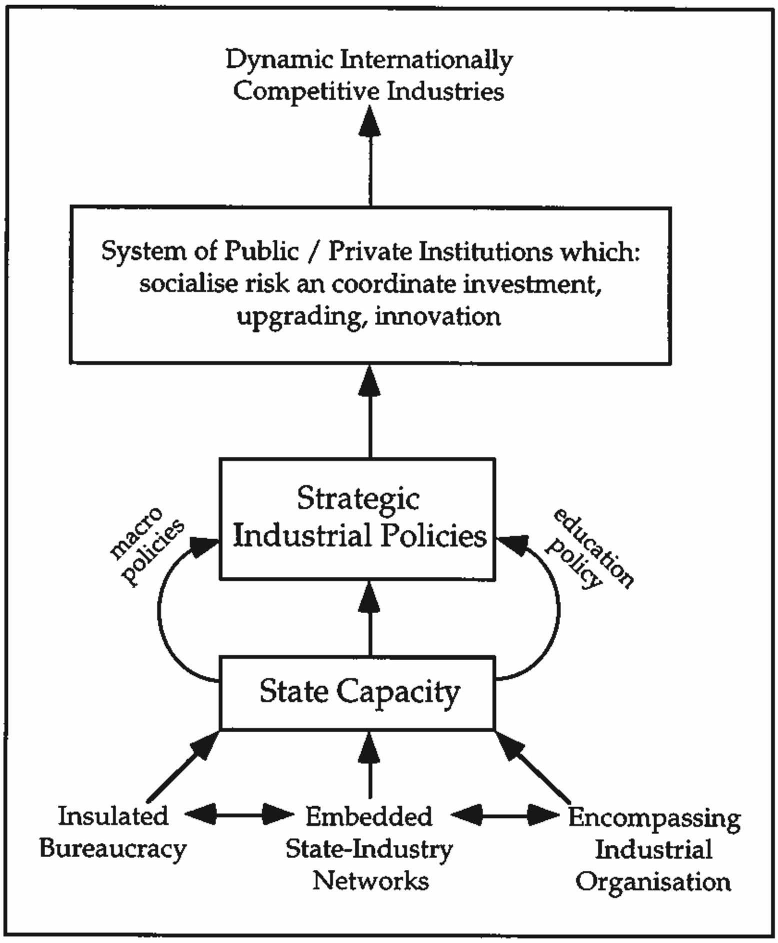
(2) Governed Interdependence Theory

The approach taken in this paper differs from GMT in two key respects, as can be seen in Figure 2. The first difference to note concerns the larger 'system' nurtured by public policies, which institutionalizes a dynamic response from industry. The proposition is that the ability of East Asian firms and industry more generally to adapt quickly to economic change is based on a system that socializes risk and thereby coordinates change across a broad array of organizations - both public and private.

In this system, firms are relieved from bearing the entire burden of four major 'risks': a) raising capital; b) developing new products and technologies; c) finding new markets; and d) training skilled engineers and workers. A significant proportion of the costs of upgrading technology, new product development, industrial training, market expansion, and so forth, are shared by, or embedded in, a thick network of state-informed (i.e. public-private) institutions.

This system is perhaps the most tangible by-product of the state's strategic industrial policies (the latter being the focus of Wade's analysis). But beneath that system, what makes the policies so effective is a particular kind of state structure and a particular kind of relationship between the state and industry. I call this institutional arrangement 'governed interdependence' (discussed in more detail below). It describes a system of central coordination based on the cooperation of government and industry. Policies for this or that industry, sector, or technology are not simply *imposed* by bureaucrats or politicians. They are the result of regular and extensive consultation and coordination with the private sector. Government's developmental project does not lose out to clientelistic or sectional interests because of insulated policymaking; business does not lose out to remote and bumbling bureaucrats because of institutional connectedness.

Figure 2: Governed Interdependence Theory



It is this institutional level of analysis (discussed at length in section 2) that remains the least developed aspect of Wade's governed market theory. In its present form it does not offer a convincing explanation of the capacity for coordinating industrial change, or what Wade and others refer to as 'strategic industrial policy'. Why have the Taiwanese, Koreans, and Japanese been able to pursue 'their' developmental projects so effectively? Wade, like many other analysts, appears to rely on the idea of a relatively 'hard' state, able and willing to *impose* its own objectives and decisions, regardless of private opposition. He is therefore led to emphasize the authoritarian corporatist character of the East Asian state, especially with regard to the NICs.

But the notion that the state's ability to 'impose' its decisions is central to its effectiveness is contradicted by many historical instances. Unilateralism is more likely to be a developmental minus than a plus. It implies the capacity to act, but not necessarily to act effectively. What really matters is whether the state is able to use its autonomy to consult and to elicit consensus and cooperation from the private sector. This is not the kind of power 'over' society that one associates with authoritarian government; it is power 'through' society, which is much more potent in developmental terms (see below) (Mann 1988).

Governed interdependence encompasses both the coordinated and cooperative quality of that power. As we shall see later through an examination of particular policy measures, governed interdependence can take a variety of forms, sometimes appearing more 'top-down' in character, yet at other times (especially in recent years) involving more private-sector initiative.

Institutional Capacities for Industrial Coordination

So how did Japan and the NICs do what they did so well? What helped to make active industrial policies relatively effective in the region, especially in the light of neo-classical predictions about rent-seeking and information gaps?

The general argument highlights key features of the organization and interaction of government and business, which make effective coordination of the market a more likely outcome in the East Asian Three. As we shall see, there is no monolithic 'East Asian model', but different ways of achieving a coordinated outcome.

(1) Bureaucratic Structures of Coordination

Peter Evans has paved the way for a nuanced understanding of the whole issue, concentrating on the notion of 'embedded autonomy'. On the features contributing to state autonomy, however, Evans' account seems too narrow. He stresses bureaucratic coherence (through meritocracy and personal networks) as the key to the state's insulation (Evans 1992: 163). But such a state would constantly run the danger of being under-insulated and over-embedded. If we are to grasp the makings of state capacity and government-business relations in the region, we need to add to Evans' 'coherence'.

A number of conditions are essential if a state's policies are to be consistent with developmental and growth-oriented goals. One is that the bureaucracy be competent and committed to organizational objectives. The other is that the state's key policymaking agencies be sufficiently insulated against special interest groups and clientelistic pressures generally. Though Evans tends to treat these together, the conditions for each are not identical.

Three main features of the East Asian state's internal organization are relevant in this regard: the quality and prestige of the economic bureaucrats (the main focus of Evans' analysis); a strong in-house capacity for information gathering; and the appointment of a key agency charged with the task of policy coordination. These conditions are significant in so far as they contribute to the *insulation* or autonomy of the bureaucracy, thereby preserving policymaking from domination by special interests and other growth-retarding pressures.

1.1 High-quality bureaucrats.

As many writers have noted, in East Asia, government service has traditionally conferred high status. Merit-based recruitment and promotion of officials, rather than political appointment, has tended to minimize political manipulation of the bureaucracy. Consequently, governments have been able to attract highly qualified individuals. The combination of talent and prestige has made for a highly motivated, competent and cohesive bureaucracy which has internalized national objectives. In matters of trade and industry, bureaucratic expertise is also enhanced by a tendency to appoint engineers rather than economists. Bureaucrats are thus able to communicate easily with companies and do so with great frequency.[3]

1.2 In-house expertise.

The second, related feature of the core economic ministries is their powerful capacity for marshaling and analyzing economic

[3] Interviews conducted with the Ministry of Trade, Industry and Energy, Technology Policy division, Industrial Technology Bureau (Seoul, 1994); and the Ministry of Economic Affairs, Industry Development Bureau, Second Division (Taipei, 1994).

information in-house. In Japan, MITI's dedicated research institute yields much of the data, analysis, and conceptual equipment that make possible the Ministry's powerful 'think-tank' role (Johnson 1985). Striking parallels can be found in Korea and Taiwan. The Economic Planning Board's capacities are outstanding in this regard. More generally, Korea's key economic ministries each maintain an efficient information network of their own - from the research institutes attached to particular ministries, like KIET (the Korean Institute for Economics and Technology) which serves the Ministry for Trade, Industry and Energy, to state agencies like KOTRA (Korean Trade Promotion Corporation) whose role has been crucial to the export drive of Korean firms. Indeed, in its knowledge of product demand, quality standards, and foreign market trends generally, KOTRA has often been better informed than the private sector (Jones & Sakong 1980).[4]

A key aspect of the information-gathering network in Korea has been the establishment of a mandatory reporting system. This allowed the bureaucracy to keep close track of priority industries throughout the high-growth period. In return for significant state support, these industries were required regularly to report on their export performance and on other areas of business activity. Failure to do so would incur sanctions ranging from fines and withdrawal of support to bankruptcy or even prison sentences. The important point is that through this monitoring system, the state gained access to up-to-date knowledge of production conditions in priority sectors (Chang 1994: 142).

Similarly, in Taiwan, the web of public research agencies that surround the state sector provide both firms and individual ministries with a range of vital information that feeds into both private production and public policy. The public research institutes like ITRI (Industrial Technology Research Institute), for instance, are the vitally important implementation arms of the Industrial Development Bureau within the Ministry of Economic Affairs. ITRI, which houses the highly innovative and industry-dedicated laboratories such as ERSO (for electronics) and CCL (for computing and communications), mediates between industry and bureaucracy, monitors the new technologies, products and production processes of international competitors, organizes technology transfers, and coordinates new projects in alliance

[4] The early history of KOTRA's activities and interaction with emerging exporters in Korea's high-growth period reinforces this point (Interviews with KOTRA, Seoul, 1994).

with local firms. Hence, in addition to 'implementation' - carrying out R&D and diffusing the practical results to the private sector - these agencies form part of the policy-making process itself. The highly successful 'technology alliances' - joint public-private projects coordinated by ERSO and CCL, discussed in more detail below - are among the most recent policy outcomes of this information-saturated public sector.[5]

The contrasting case is where the public sector 'contracts out' most or a large part of its research and information requirements, as occurs in the Australian and American settings. (In Australia, for instance, it appears that even the definition of national 'visions' is something better entrusted to a commercial consultancy firm like McKinseys!]. The significance of these differences can be seen in the differential impact on state capacity.

Two important consequences follow from the development of an in-house information-oriented capacity. One is that it gives state agencies a formidable *competence* in areas normally left to the private sector. The other is that it nurtures bureaucratic *independence* vis-a-vis sectoral interests within the business community. As is well known, none of the Anglo-American economies can boast similar attributes.

1.3 Insulated pilot agencies and policy coordination

The third main condition for effective policymaking in the region is the existence of what Chalmers Johnson has referred to as 'pilot agencies' charged with the task of coordinating economic change. MITI's horizontal bureaus, Korea's Economic Planning Board (EPB), and the Council for Economic Planning and Development (CEPAD) in Taiwan can all be seen in this light. While structurally quite different, they can be viewed as functional equivalents of the idea of a superministry in the economic policymaking apparatus. The key feature in common is that each agency engages in the task of policy coordination, and each is removed from direct contact with special economic constituencies.

The EPB is perhaps the most famous of the three for its broad mandate which combines planning, budgetary, and economic management functions. One reason for the EPB's ability to

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[5] Based on interviews conducted in Taiwan in September 1994 with the Ministry of Economic Affairs, Industry Development Bureau, 2nd Division; the Electronics Research & Service Organization (ERSO) within ITRI at Hsinchu Science Park; and the Taiwan Electrical Appliance Manufacturers' Association (TEAMA).

provide such a strong coordinating role is the way it is organized. Standing outside and astride the individual ministries, the EPB has no *direct* relationship with the private sector. Before seeking to initiate major policy proposals, individual economic ministers are required to consult with the head of the EPB, who is the Deputy Prime Minister. For its part, the EPB seeks to protect its institutional 'insulation', and thus its broad political mandate, by resisting close identification with any particular sector or group. It is therefore more likely to uphold generalized initiatives against parochial interests. As one of the leading students of Korean bureaucracy explains, this relatively greater insulation gives the EPB a broader economic policy perspective, more objective analysis, less likelihood of 'capture' by special interest groups, and thus more encompassing initiatives that serve President and nation rather than partisan or group interests (Choi 1991: 7-8).

Taiwan's institutional 'equivalent' to the EPB is the Council for Economic Planning and Development (CEPAD). Like its predecessor, the Economic Stabilization Board of the 1950s, CEPAD operates independently of the ministerial bureaucracy, having its own planning and budgetary functions. At the same time, however, CEPAD integrates the leadership of the individual ministries, who are thereby inclined to act as a unit rather than represent client interests. In this respect, CEPAD has assumed an 'encompassing' character similar to that of Korea's EPB. Consequently, CEPAD is much more insulated from special interests and accordingly well placed to fulfill a coordinating role. One should be careful, however, not to overstate the power of these two pilot agencies for in spite of their continuing importance as centers of economic decisionmaking, their power relative to that of particular ministries has varied over time and across issue areas.[6]

Though much more has been written on the Japanese bureaucracy, it is perhaps not widely appreciated that MITI's so-called 'horizontal' agencies are functionally, if not organizationally, quite similar to the Korean and Taiwanese pilot agencies. MITI's horizontal agencies have the task of integrating policies advocated by all vertical divisions (which represent specific industries), and balancing the needs of one industry against those

[6]In Korea, interministerial conflicts have increased as ministries have jockeyed for policy leadership; jurisdictional conflicts between the EPB and individual ministries have also mounted in recent years in conjunction with the EPB's efforts to quicken liberalization in the financial sector and in imports.

of others. As in the case of the Korean EPB, this structure provides a degree of insulation - or 'built-in safeguards' - against the tendency (very noticeable in Anglo-American economies) to respond politically to particular business demands that so frequently have harmful effects for long-term growth.

Perhaps a further advantage of this organization of the central economic bureaucracy is that it enables much greater attention to be focused on policies aimed at industrial investment, rather than being confined to macroeconomic fine-tuning. The capacity for coordination makes it more likely that public policy will be more production-oriented and developmental, more geared to the permanent upgrading of the nation's industry, and therefore less dominated by monetary concerns or by a 'Treasury view' divorced from manufacturing issues. The clear contrasting case is Britain, as Stephen Wilks (1990) has shown most perceptively.

From what has been said thus far, we can therefore conclude that the Asian countries in question have an institutional advantage at governmental level: in the existence of a talented, technically able, and prestigious public service, which is charged with a broad institutional mission and relatively insulated from special interests, and which has developed an impressive in-house capacity for acquiring and managing production-relevant information. This situation contrasts not only with the porous bureaucracies of developing countries, such as the Latin American NICs, but also with the low status and narrow competence of public administration in the more mature industrial economies such as the USA.

(2) State-Industry Linkages: Insulation but not Insularity

Bureaucratic 'autonomy' or insulation is hardly a sufficient explanation for the state's coordinating capacity in the Asian Three. History is strewn with examples of autonomous states which have proved either inept or diffident (or both) in matters of industrial management. Tsarist Russia and twentieth-century Britain offer two such examples at different points on the developmental spectrum. One important feature lacking in such cases of 'autonomy without capacity' can be described as industrial 'connectedness' or what others, like Peter Evans, have referred to as 'embeddedness'. In practical terms, embedded autonomy implies the existence of 'policy networks' linking government and industry.

In all three countries, various state agencies have established an elaborate set of linkages to the private sector. These linkages can be thought of in terms of policy networks since they provide a vital mechanism for acquiring adequate information and for coordinating agreement with the private sector. Somewhat surprisingly, the East Asian Three provide many more venues and networks for joint decisionmaking than one would expect in relatively 'youthful' democracies. (And rather more than compared with the older democracies.)

Japan boasts the most extensive set of institutional arrangements for reaching agreement between government and industry. MITI can count on some 250 or so deliberating councils - forums for public-private consultation on key policy issues - which give government the power of consultation and coordination with the private sector that is relatively smooth and rich in vital industry-related information (Johnson 1985).

Taiwan has instituted joint 'industry task forces' which meet at two-monthly intervals. These have flourished especially since the Economic Innovation Commission (composed of government, business, and academic leaders) was set up in 1985 as a provisional advisory organ to help draft industrial and economic policies to deal with Taiwan's international economic difficulties.

Korean policy linkages have functioned most effectively in the famous monthly meetings held at the Presidential Blue House to propel the export drive. But in an era when export success has made such meetings irrelevant, the Korean bureaucracy is seeking to revive the 'private councils for industrial development' as a means of encouraging more intra-industry coordination and private initiative.

Why are such institutional linkages important? In a nutshell, because it is about the state doing things not in isolation from the private sector, but in concertation with industry. In so far as public and private decision-makers get together to exchange information and to coordinate actions, information gaps are minimized and each generally ends up making better decisions than if trapped in isolation. Rather than engaging in purely top-down decision-making, abstracted from the real conditions of production, the economic bureaucracy therefore has a vital mechanism for acquiring production-related information and for coordinating agreement with the private sector in order to better design and implement policies. Moreover, decisions are more open to public scrutiny, thus reducing the risks of corruption or political favoritism. Being 'in daily contact' with industry experts, having formal meetings on a regular basis with industry representatives, establishing performance monitoring systems that provide constant feedback to enable policy adjustments (as in the case of Taiwan's PC-notebook 'technology alliance' led by ERSO) - these are among the more tangible features of institutionalized public-private cooperation, which make for an effective policy apparatus. It is important to note that the organization of industry itself is by no means incidental to this outcome, as we shall see shortly.

Okimoto, another astute observer of the Japanese system, has put the case concisely in his account of industrial policy instruments for high technology. He shows that through its extensive network of contacts with the private sector, MITI can regularly tap into a vast system of up-to-date information. Rigorous discussions with 'people in the know' - industry leaders, researchers, financial analysts, engineers - put MITI in a strong position

...to find out where technology is headed, and where the most promising commercial opportunities lie. The information it collects and processes is about as thorough as could be obtained. National research projects thus emerge from an ongoing process of national consensus building based on extensive give-and-take between government and the private sector (Okimoto 1989: 73).

This section has made two points that are important to the argument. First, on a general note, in addition to being *insulated* in certain areas, other parts of the bureaucracy need to be closely *connected* with organized industry. Both insulation and connectedness are important conditions of coordinating capacity. Second, public-private *cooperation* is much more *institutionalized* in the East Asian Three than in most other countries. One major consequence of these institutional capacities is the enhancement of policy effectiveness.

(3) Industrial Organization: The Role of Encompassing Institutions

The final condition of coordinating capacity is essentially a means of facilitating the linkages between state and industry. This third feature turns on the organization of industry itself. Business structures in East Asia are very diverse. They range from the giant diversified groups of Korea and the more specialized industrial corporations of Japan, to the thriving small and medium-sized firms of Taiwan. But beyond this diversity at the enterprise level, the organization of industry exhibits a number of common features which facilitate its relationships with government.

One organizational feature, in particular, that merits sustained attention is the *encompassing* rather than fragmented nature of business representation in the region, which is a legacy of statism. Industry or trade associations tend to be highly centralized and increasingly active in the design and implementation of policy. This participation has long been true across industry as a whole for Japan where the *gyokai*, or industry-specific manufacturing trade associations, provide the basic level for execution of policy (Sone 1993: 300-3). It has also been the case in specific sectors for Taiwan, notably the powerful Textile Federation which, since 1974, has overseen quota management in one of the country's top two export industries. Traditionally much weaker in Korea, trade associations have only recently begun to acquire greater significance in the policy community. But here, as we shall see, they encounter a significant obstacle. We turn to an elaboration of these points in the Korean and Taiwanese settings.

3.1 Korea

As a means of coordinating Korea's developmental drive in the 1960s, the central authorities set up a Japanese-style system of industrial organizations. These included national organizations like the Federation of Korean Industries, the Korean Chamber of Commerce and Industry, the Central Association of Small Business Cooperative Associations, and numerous sector-level organizations representing producer interests.

As in Japan, these organizations represented their industries and coordinated interests within their sectors. But as subsidies nurtured the growth of large groups in the 1960s, the bureaucracy relied more and more on big business groups for policy implementation. Industry associations took on an increasingly passive role, especially from the 1970s onward. Since the chaebol organized so much economic activity in the Korean setting, they operated as functional equivalents to the encompassing trade associations whose growth was stifled.

Over the past decade or so, the Korean government has introduced a series of measures designed to alter this balance, by streamlining the unwieldy activities of industrial groups and encouraging more organized industry initiative in development planning. Since 1983, government policy has been shifting emphasis to the promotion of smaller industry and to enhancing the role of organized industry in economic management. The aim is to maintain a coordinated approach to industrial affairs, for which the chaebol, having left behind their adolescent dependence on government nurturing and having become so diversified, are proving increasingly difficult 'partners'.

If compared with past experience, the role of trade associations in this newly emerging policy community is indeed becoming stronger. But the obstacles should not be underplayed. A key test for sustaining Korean competitiveness is whether the conglomerates can be sufficiently 'streamlined' and the trade associations sufficiently strengthened in order to prevent the collapse of public policy into private interest politics. The Korean case may therefore be seen as pushing at the limits within which governed interdependence remains possible in an economy which is not only highly concentrated, but whose business structures are highly diversified.

3.2 Taiwan

In Taiwan, government mandated the establishment of a number of trade associations at an early stage of industrial development. Generally speaking, these bodies have occupied a less prominent position in the policymaking community than in Japan. Nonetheless, the significant exceptions to this statement reaffirm rather than deny the importance of cooperative coordination in the Taiwanese political economy.

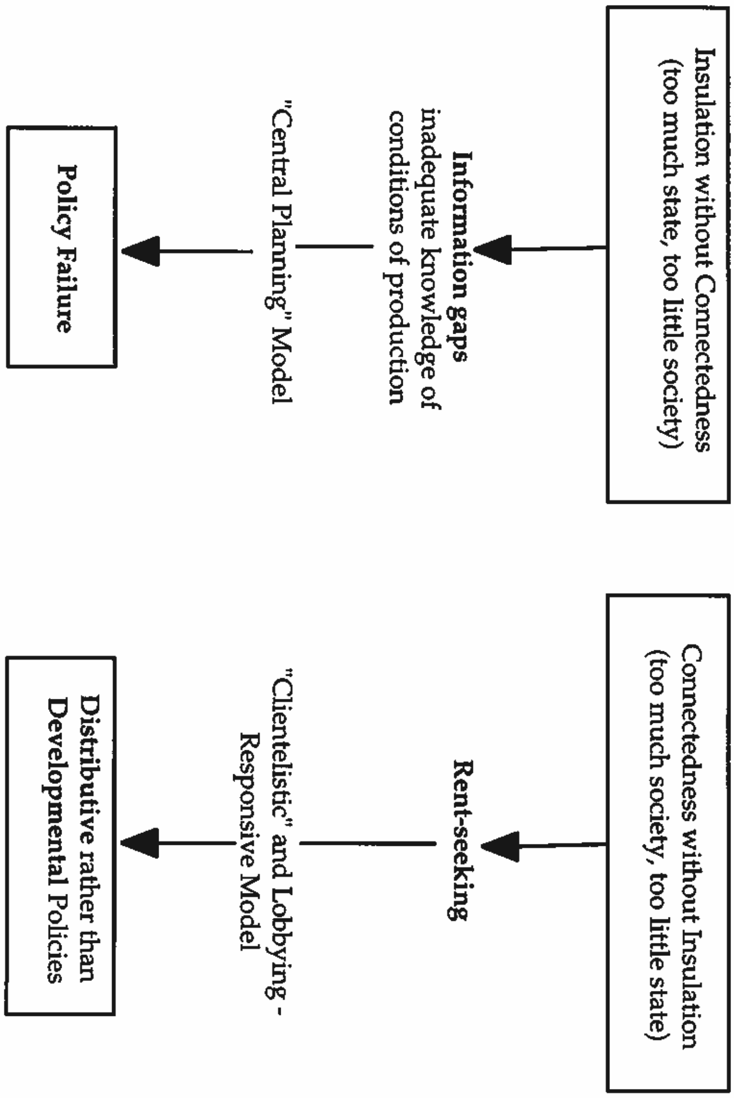
Representing Taiwan's two major export industries, the two larger organizations such as the Taiwan Textile Federation (TTF) and the Taiwan Electrical Appliances Manufacturer Association (TEAMA), which encompasses electronics, have played major roles in interfacing with government, collecting and publishing data, and implementing policy. Indeed, due to Taiwan's peculiar geopolitical and diplomatic situation, the role of TTF has for the past two decades been that of a quasi government agency. Taiwan's vigorous textile trade made it the subject of American and European quotas in the 1970s. This has meant the deputizing of TTF to engage in direct trade negotiations with foreign governments, and its authorization to administer export quotas for the industry at home. TTF's competence in representing the industry together with its confidence in undertaking tasks in the 'national' interest have made the textile association particularly active in the policymaking community. In particular, TTF has convinced the government of the advantages of upgrading rather than bypassing a traditional industry beset by low-cost competitors.

A key condition for this participation in policy is of course a relatively strong trade association. It was precisely with that aim in mind that the Economic Innovation Commission in 1985 proposed that Taiwan learn from Japan and West Germany by strengthening its commercial and industrial associations. Here the trend, then, is much clearer than in Korea. Government is embedding its autonomy in a wider array of industry-related institutions, and industry is developing a capacity for policy input that strong organizational coordination makes possible. In this respect, Taiwan is following the path of Japan more closely than that of Korea.

One further, common organizational feature can be noted in passing. This is the extent to which industry is locally owned. Trade associations are undoubtedly more robust in contexts where industry is primarily under domestic rather than foreign ownership. To this extent, firms have a stronger stake in the overall industrial strength of their nation-state, and in the coordination afforded by their national governments, a point which has not been lost on MITI.

In this section we have discussed the significance of industrial organization, both in principle and as it is instituted in the East Asian setting. The central point is that cooperative coordination between state and industry is easier if industry is represented by encompassing organizations like trade associations, rather than partially organized or fragmented among several competing bodies. Where the latter situation prevails, as in Australia, Britain and the United States, intra-industry consensus has been far more difficult to construct and individualized lobbying has tended to override a more collective approach to an industry's problems. A similar situation can also occur if too much economic activity is organized by a handful of giant groups. This, as we saw, is the present danger faced by Korea.

Figure 3: The importance of Embedded Autonomy (Insulation *and* Connectedness)



The more general point that emerges from this analysis is that close ties between government and industry are not, in themselves, an explanation for the state's effectiveness. In some contexts, such ties are more likely to invite rent-seeking than commitment to competitive behavior. The Latin American case is often cited in this regard. Cooperation seems to work well only if the state is sufficiently insulated, as discussed earlier. Governed interdependence requires a state that is paradoxically both distant and close. As illustrated in figure 3, connectedness without insulation breeds *rent seeking* and distributive policies that can smother development. By contrast, insulation without connectedness widens *information gaps* that encourage policy failure. But states which combine both insulation and connectedness by embedding their autonomy are equipped with greater institutional capacities for minimizing these dangers and for achieving policy success.

Results: Governed Interdependence

In the previous section, we outlined three institutional features that facilitate what I have called 'governed interdependence'. The latter refers to a cooperative relationship with industry that does not entail government's subservience, but rather a definite capacity to set broad goals and to coordinate policies and resources to that end. Governed interdependence is a way of capturing a set of relationships between government and industry that help to explain why some states are more effective than others at coordinating economic change. That relationship may be enhanced by long-standing *cultural* traditions (as is sometimes suggested for Japan), but first and foremost it has an *institutional* underpinning.

The key issue raised by most analyses of state 'intervention' and industrial policy in the East Asian setting is how to make sense of the government-business relationship. The literature is generally disappointing on this issue. On one hand, it is hard to imagine a serious scholar of Taiwan, Korea, or Japan who would deny the *distinctive* nature of the government-business relationship in these countries, especially in comparison with the West (though, ironically, this is the effect of analyses which reject the notion of a 'developmental state', a concept whose original contrastive rationale has long been buried in the ensuing debate; see Johnson 1995). On the other hand, with few exceptions, the categories for analyzing that relationship have been *garden-variety*. Most writers veer between two alternatives: either government dominates or 'leads' business (the two terms usually being used interchangeably, as if self-evidently identical); or else business dominates the state, a view which has gained favor in the most recent round of scholarship on Japan.

Kent Calder's recent study (1993) is a case in point. In spite of the author's obviously impressive credentials, it is hard to ignore these same shortcomings. Calder takes issue with the 'development state' view of Japan, arguing that Japanese development is 'private-sector-dominated'. This thesis depends largely on case studies of two or three industries in which business appears either to dissent from or to manipulate bureaucratically-defined goals. The problem is that there is no space in Calder's analysis for a networking state: the state *either* succeeds in imposing a course of action, *or* else it meets resistance in one form or another. If one agrees with Calder's strong statist definition of 'developmental state', then he is correct to argue that state *domination* is not a central feature of Japanese political economy. But this is not the way the concept was originally employed in Johnson's work (1995). Moreover, why assume that the only alternative to a dominating (read 'developmental') state is one dominated by the private sector? A major problem with this kind of analysis is the implication that Japanese government-business relations have changed to something approximating the Anglo-American variety. But no attempt is made to theorize that *change* or to indicate how it is supposed to relate to Japan's *continuing* industrial strength.

One potentially fruitful alternative has been to see bureaucracy and business in roughly equal partnership, as in the notion of 'reciprocal consent' (Samuels 1987). But even in this case, the underlying thrust of analysis leans towards the business domination view, as embeddedness gets the better of autonomy.

The problem with most such analyses is that they are either static or narrowly selective in scope. Typically, the presentation of conclusions is based on a snapshot view of the government-industry relationship, hence frozen in time. Usually this is combined with a narrow selection of case material to illustrate a favored hypothesis. Consequently, most general statements about state-economy relations in East Asia posit stark transformations (e.g. from domination to subordination) that are untheorized and poorly evidenced. None appear able to encompass a broad spectrum of cases - ranging from tight state-industry cooperation to private-sector initiative to apparent top-down coordination - and their changing importance over time.

A more convincing account of government-business relations and of the industrial policy process in East Asia must be able to make sense of the dynamic picture. In doing so, it has to distinguish between prevailing and marginal tendencies, and between those which bolster, as opposed to those which compromise, economic performance. It has been shown in a different context that government-business relations in East Asia have either changed (Japan), or are undergoing a process of transformation (Korea and Taiwan). The change is one from a situation in which government (the economic bureaucracy) was largely making the big decisions - usually out of necessity, due to a destabilized or underdeveloped business sector - to a situation in which the private sector is being increasingly invited to take more initiatives (Weiss 1994).

The important point to stress is that it is a mistake to see this shift as automatically increasing business domination of the policy agenda and the loss of government direction. This *may* eventually happen, particularly in Korea, but those who take this line more generally have not produced convincing evidence. It is the contention of this paper that the notion of governed interdependence is a more fruitful one for capturing the variety and subtleties of the government-business relationship in East Asia than either of the domination/partnership categories offered in the existing literature.

Governed interdependence, as already intimated earlier, refers to a process over time whereby the state exploits and converts its autonomy into increasing coordinating capacity by entering into cooperative relationships with the private sector in order thereby to enhance the effectiveness of its economic and industrial policies. If the state begins from a position of institutional insulation, this makes it more likely that cooperation over public policy will not degenerate into clientelism or be reduced to private sectional interest; rather, it will be subject to rules laid down by state agencies (see below). The issue is not whether instances of clientelism or interest-group politics are absolutely ruled out; but rather whether such instances are isolated rather than the rule, especially in the sector of value-added tradeables where national competitiveness is most at stake.

In the brief space that remains, I shall try to illustrate the fruitfulness of this approach by outlining four main forms of governed interdependence that can be readily identified in the East Asian political economies.

Forms of Governed Interdependence

It is important to note that examples of cooperative coordination under state guidance, as manifested in the following forms, can also be found in other settings. The distinctiveness of the East Asian case should be seen in the extent and regularity of their occurrence.

(1) Disciplined Support

The first type of governed interdependence, referred to here as 'disciplined support', exists where performance conditions (outcomes) apply in exchange for support. This type tends to be strongly associated with the establishment of new industries, and the reorientation of production from domestic to export markets. Here, economic change is *initially* driven by the public sector; private cooperation with public goals is rewarded with generous subsidies; and clear performance conditions, in turn, are attached to public support. For the key problem in allocating state subsidies is how to ensure that the recipients actually do what is expected of them, rather than seek rents. Disciplined support is not simply a guard against rent-seeking behavior; it is also a way of monitoring and measuring attainment of policy goals and of establishing public accountability.

In Korea and Japan, especially, where at various times subsidies have played a vital role in driving investment and export behavior, disciplined support has predominated. During the period of Korea's intensive export drive, for example, the Park administration was famous for the setting of monthly export targets (measured in dollar values), as well as stipulating minimum export items and destinations. Policy loans, trade licenses and other generous benefits were always conditional on export performance. Systematic monitoring, through mandatory reporting and regular meetings with the companies involved, accompanied by tough penalties for persistent failure, did much to encourage beneficiary firms to meet policy expectations.

Similarly, with regard to protection against imports, East Asian governments have generally made protection conditional, either by specifying limited-duration tariffs and quotas to hasten upgrading and innovation, or by tying protective measures to export obligations. Both Korea and Taiwan pursued such schemes throughout their high-growth era (Amsden 1989; Woo 1991: 165; Chu 1994: 790-1; Wade 1993: 434). Japan has also used protection as a creative discipline. In the important electronics industry companies had to work feverishly to improve productivity and develop technology to meet liberalization schedules. According to JETRO (1993: 139), the government 'always refused to extend liberalization periods, with the specific intention of exhorting domestic manufacturers to pull out all the stops to meet the deadlines'.

Upgrading quality standards has been another aim of disciplined support. In Taiwan's early phase of export development, for example, the economic bureaucracy sought to enforce quality standards by making receipt of official subsidies and licensing of new enterprise conditional upon their fulfillment (Yin 1954). In the mid-1950s, as the Taiwanese government lifted the bans on entry of new firms in ten core industries, it simultaneously applied strict performance conditions to the new plants which were required to reach minimum standards relating to size and product quality. More recent cases of disciplined support focus on innovation and upgrading rather than exports, as in the case of new product development in Taiwan's electronics industry.

This first type of governed interdependence has tended to predominate in the earlier, most 'authoritarian' phase of post-war industrialization. In this phase, industrial enterprise and the private sector are only weakly established; subsidies accordingly feature as major inducements to entrepreneurship; and control of the financial system is stressed. The establishment of a culture of performance in this initial developmental phase is a means of reducing rent-seeking behavior in the private sector and enhancing accountability in the public arena.

It is this kind of 'top-down' or centrally-driven activity that previous accounts have generally had in mind when evaluating whether or not the state 'led' development. By this they invariably mean that the state was able to *impose* its own direction on the developmental process, *regardless* of private interests. If the argument of this paper is correct, however, then we need to rethink the nature of the government-business relationship in the settings in question. For the approach taken here implies that 'disciplined support' is inextricably a *cooperative* undertaking. It also means that public resources are used to achieve the most productive outcome, whether to upgrade products, lower prices, or expand exports. The relevant contrast is with the Anglo-American version of industrial policy. In this case, the prevailing emphasis on procedures (eligibility) rather than results (performance) means that cooperative coordination is not only absent but unnecessary.[7]

(2) Public Risk Absorption

The second major type of governed interdependence involves public initiatives - usually to establish new or emerging industries - which require the cooperation of the private sector for their success, but which emphasize less the exercise of discipline than the minimization of risk. To solicit the cooperation of the producers involved, the public sector absorbs most or all of the risk, often mediating between producers and end-users in the domestic market. The cases of robotics in Japan and textiles in Taiwan are instructive.

In the Japanese case, MITI's aim was to quicken the introduction of robots into the production process. To this end, it mediated between producers and potential end-users. To encourage end-users, MITI together with the Japan Development Bank organized a leasing company that would enable domestic firms to lease robots under short-term arrangements, and to return them without expense if dissatisfied with their performance. Since this significantly minimized investment risk, firms were increasingly willing to employ robots. And since this, in turn, effectively guaranteed a rapidly expanding market for the producers of robots, the result was a socialization of risk and the establishment of a new industry (Thurow 1985: 238).

The establishment of a textile industry in Taiwan followed a similar process in the early 1950s, providing state-guaranteed markets in order to encourage the spinning and weaving of yarn rather than the importing of finished cloth. In both cases, the core process is government-initiated, but the success of the strategy depends on mutually beneficial exchange.

(3) Private-Sector Initiative in Public Policies

The third type is marked by the prevalence of private initiative in policymaking, and can be seen as a form of 'private-interest governance'. Typically, the sector in question is in a state of depression or decline, such as steel, shipbuilding, and textiles,

[7] If firms are eligible for a given form of assistance, they become beneficiaries of state support regardless of whether or not they achieve the outcomes for which the measure was intended. For this reason, what passes for industrial policy in Anglo-American settings is often described as 'handouts'. The World Bank (1993b: 167) makes a similar point in contrasting the policies of East Asia with the 'porkbarrel subsidies' of less successful industrializing countries.

and encouraged to coordinate a strategy for survival. These initiatives are often taken at face value as evidence of state weakness and business domination (i.e., the state succumbing to pressure for assistance). Such an assumption, however, misses the point that, generally speaking, such initiatives are either directly or indirectly solicited by the state and are ultimately dependent upon the extent to which they meet publicly-defined criteria.

Frequently, the initiatives in question may be privately coordinated, as in cartels for regulating production or promoting export, a prominent feature of all the East Asian economies throughout their fast-growth period. Nowadays, such initiatives tend to be prominent in sectors which are troubled or in decline and in need of restructuring. Whichever the case, the overall context is defined by the publicly sanctioned expectation that the sector should internally coordinate a strategy for its future and seek to link that strategy with the larger goals of public policy. In such cases, government has authorized industry to come up with its own plan for survival and, as indicated earlier, this will be more or less difficult, depending upon the degree of sectoral cohesion. (Some sectors, such as consumer electronics, where internal competition is especially intense, pose major difficulties in this regard.)

The case of the textile industry in Taiwan typifies this third type of relationship. Once Taiwan's premier exporter, but now declining due to price-competition from second-generation NICs, it was the textile industry itself that proposed a strategy to upgrade the sector. The IDB responded positively not because of 'special favors' or crafty lobbying, but because the TTF's proposal could meet the criteria for assistance, and share in the financing of that proposal. In this case, the clinching factor was a (design-intensive) strategy which would increase the value-added component of textile exports.[8]

The Taiwanese machine-tool industry similarly proposed to upgrade its technology by acquiring ailing American companies. The IDB agreed to support the acquisition proposal in return for meeting larger policy goals, which in this case meant that the industry would reinvest a given share of its sales in R&D and environmental protection.

Private initiatives can also fail, as occurred in the case of Korea's petrochemical sector in the mid-1980s. In this case, government encouraged the industry to coordinate a plan for its

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[8] Based on interviews with the Taiwan Textile Federation (Taipei, 1994).

future and thus avoid the problem of overcapacity. But the industry failed to reach agreement over new investment, output, and quotas. The result was a serious crisis of surplus capacity in the late 1980s. It is in such cases that state intervention often becomes necessary to correct business failure. We can see in this case the destabilizing effects of the *absence* of governed interdependence.

(4) Public-Private Innovation Alliances

The final type of cooperative coordination is increasingly associated with policies for acquiring, developing, upgrading and diffusing technology. The importance of a coordinated approach to technology has become especially marked in Taiwan's relatively decentralized industrial structure, and as innovation becomes the major source of further growth (Lau 1994: 96, 106). The proliferation of innovation or 'technology alliances' in Taiwan offers a neat illustration.

Led by the state agency, ITRI, these alliances strongly attest to the strengthening of public-private cooperation in the crucial area of technology policy. As of October 1994, ITRI counted 18 such alliances (usually averaging 20-30 firms each) for high-technology projects ranging from High-Definition TV to Power PCs. Technology alliances combine both disciplined support and risk sharing. Participation is entirely voluntary, but companies do not get a free ride once they join the network, for each is required to contribute a significant share of resources (including capital and costs-in-kind such as the support of senior engineers). To this extent, such ventures create genuine public-private partnerships, even though they are initiated and coordinated by state agencies in conjunction with the IDB as part of its programme for technology diffusion. Finally, these partnerships provide a discipline through the sharing of risks, and an encouragement to participate through access to new technology and new product development (Weiss & Mathews 1994).

As these various forms of governed interdependence indicate so-called 'intervention' has worked more often than not in East Asia because of the intersection of a number of disciplinary mechanisms, which we can summarize as state, market, and networks. First, governments have acted to set the larger goals concerning which industries and technologies should be promoted, but they have done this increasingly in conjunction with industry and business organizations, and have left the major operating details to firms. Second, once these issues have been settled, firms are expected and encouraged to prepare for intense competition, whether with local firms or in export markets. Finally, public-private networks discipline capital and build in public accountability through performance conditions set by the state.

Conclusion: State 'Power' In East Asia

This paper has sought to incorporate the notion of government-business cooperation into a theory of state capacity. It has advanced the proposition that a capable state is a key component of international competitiveness. In this new era of international, innovation-driven competition, East Asia's advantage resides in institutions that have enabled and encouraged a coordinated and cooperative approach to economic change. The major theoretical point in this context regards the nature of state power.

Most writers take for granted the assumption that effective states are essentially 'strong' states; such states are able to coerce or impose, and generally have their own way regardless of the will of others. This view is one that so-called statist writers share with their critics. The logic behind that view is such that any contrary instance - e.g., the private sector initiating certain measures, or the bureaucracy and business cooperating on policy - is taken as evidence of state 'weakness' or the *lack* of capacity. Consequently, although they disagree about many things, statists and anti-statists alike are united in their view of state capacity as something with a quasi-authoritarian or 'despotic' edge to it: the capable or strong state is ultimately a bossy state.

But if the preceding analysis is accepted, a very different view of state power emerges. In order to appreciate why some countries - e.g,. Australia, Britain and the United States - appear to have so little domestic state capacity to coordinate industrial change and why East Asian states have so much, we need to distinguish between two notions of state power, 'despotic' and 'infrastructural'.[9] East Asian capacity for coordinating change rests not on greater despotic, or *arbitrary*, power (i.e. the capacity of A to impose her or his own wishes over B regardless of B's desires); it rests above all on greater infrastructural, or *negotiated*, powers (the capacity of A to *cooperate* with B *from a position of*

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[9] See Michael Mann (1988) for the original exposition. See also John A. Hall's creative application of these concepts (1985).

organizational autonomy and to coordinate responses to achieve outcomes).

East Asian bureaucracies have on the whole been effective coordinators because they have used their insulation from special-interest constituencies to develop more encompassing networks. Through these linkages to the industrial sector, they have encouraged cooperative responses to economic change and thereby converted their autonomy into organizational capacity.

In practical terms, Japan is the country where such capacities have been developed to the highest degree. Contrary to expectations, Taiwan is looking rather more like Japan than is Korea, thus disproving the idea that an industrial structure based largely on small and medium-sized firms is incompatible with coordination. Somewhat in contrast, Korea appears the least stable of the three cases. Coordination has recently become more difficult to sustain not so much because of the lack of 'policy instruments', as is sometimes claimed, but because of the peculiar features of Korea's industrial organization and structure. Public-private cooperation has taken place largely through the chaebol, which worked well for a time. It is not simply that Korean groups are now financially independent enough to thumb their noses at the state which made them strong (a highly debatable point in itself). This is a popular, if crude, understanding of the problem, and one which is not clearly reflected in government's efforts to deal with the situation. The problem is fundamentally structural rather than political. Extraordinary levels of diversification have begun to hamper coordination so that government is now working to streamline chaebol operations through a variety of measures, and to stimulate business and organizational initiatives outside the chaebol structures.[10] To the extent that these initiatives succeed, Korea in particular and the region more generally will see the strengthening rather than diminution of governed interdependence in the future.

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[10] Interview with Secretary to the President for Trade, Industry, Energy and Communications Affairs, Office of the President, ROK (Seoul, 1994). The relevant measures include incentives and disincentives to encourage the chaebol to divest themselves of certain subsidiaries and to concentrate on core activities; the promotion of small industry; and an emphasis on industry representation in policy deliberation councils.

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