

Lund University

Faculty of Social Sciences



LUNDS
UNIVERSITET

**Transformation of the Developmental State:
A Comparative Case Study on South Korea and Taiwan**

Changle Wang

SIMV 07

Master Thesis 30 Credits

Supervisor Oriol Sabaté Domingo

Abstract: This thesis has attempted to show the process of transformation from the developmental state in South Korea and Taiwan since the 1990s on the perspective of the four main elements of the developmental state in strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy. Based on these four dimensions, the thesis investigated the evolved process from the developmental state model by tracing the exogenous and endogenous pressures, process of transformation and economic performance. After the transformation, South Korea and Taiwan formed the two different development mechanisms and models. In South Korea, the development model could be described as ‘the chaebol-led system’ with the four characteristics of democratic civilian system, crony capitalism, chaebol leading the government, and coordinated approach. And in Taiwan, the development model could be regarded as ‘the government-led with party polarization system’ with the characteristics of polarized bipartisan system, Bandwagoning politics, divided coalition between KMT-large Enterprises and DPP-SMEs, and resource-allocated approach after transformation. At the same time, the thesis also analysis the three prospects and possibilities about the developmental state, and explore the main reasons for the different models in South Korea and Taiwan in the process of transformation.

Key Words: The Developmental State, Transformation, South Korea, Taiwan

Content

Introduction	6
Background	6
Literature Review	7
Research Question and Significance	9
Chapter 1 Theoretical Framework and Methodology	11
1.1 The Developmental State Model	11
1.1.1 Strong Capacity of State	12
1.1.2 Coherent Bureaucracy	13
1.1.3 Government-business Coalition	14
1.1.4 Industrial Policy	15
1.1.5 Interactions on Four Characteristics of the Developmental State Model	16
1.2 Research Design and Methodology	17
Chapter 2 Historical Background: East Asian Miracle and Developmental State	21
2.1 Guiding Resource Allocation	22
2.2 Disciplining Private Sector	24
2.3 Formulating Development Strategy	25
Chapter 3 The Process of Transformation in South Korea and Taiwan	27
3.1 Conditions of Transformation: Exogenous and Endogenous Pressures	27
3.1.1 Exogenous Economic Pressures	27
3.1.2 Endogenous Pressures	29
3.2 Process of Transformation Compared South Korea and Taiwan	31
3.2.1 Strong capacity of state: From One Dominance to Bipartisan System	31
3.2.2 Coherent Bureaucracy: Power Transition in Policymaking	34
3.2.3 Government-business Coalition: The Rising of Business Groups	36
3.2.4 Industrial Policy: Coordinated or Resource-allocated Approach	40
3.3 The Economic Performance for Transformation	43

Chapter 4 The Variety of Capitalisms in South Korea and Taiwan.....	46
4.1 The Variety of Capitalisms and Transformation	46
4.2 The Reasons for the different capitalism in South Korea and Taiwan.....	47
Conclusions	51
References	53

List of Tables and Figures

Table 1. Characteristics or Elements of the Developmental State.....	12
Table 2. Improvement in the standards of living in South Korea (1960-1990).....	21
Table 3. Improvement in the standards of living in Taiwan (1960-1990)	21
Table 4. The Comparison of four Characteristics in the Process of Transformation.....	43
Fig. 1. The Interactive Network of the Developmental State Model.....	16
Fig. 2. Mill's Method Design.....	18
Fig. 3. Total GDP and Growth Rates in South Korea and Taiwan (1971-2017).....	44
Fig. 4. Per Capita in South Korea and Taiwan (1971-2017)	44
Fig. 5. Development Mechanism and Model South Korea and Taiwan	51

Introduction

Background

In 1993, the World Bank published the report of 'The East Asian Miracle: Economic Growth and Public Policy', which described eight high performing Asian economies with remarkable economic growth including Japan, South Korea, Taiwan, Singapore, Hongkong, Thailand, Malaysia and Indonesia (World Bank, 1993). From the 1960s to the 1990s, these East Asian economies leading with Japan and other East Asian tigers showed extremely high economic growth rates and rapid process of industrialization. As a whole region, the economic growth rate was more than 10 percent per year, and South Korea and Taiwan maintain the records in an economic growth rate of more than 6% for 30 years continuously (Wade, 2018:523). The trajectory of these East Asian economies showed some similar characteristics and factors, especially that the government played a leading role in the economic development, but the policies of government were neither socialism in planning completely nor unfettered marketed capitalism. At the same time, the East Asian in industrialization demonstrated the new development model and pattern, which was different from the experience in the Latin American region of leading on 'dependency theory' and the Central Eastern Europe of transition by 'the Washington Consensus'. Since the pioneering work by scholars, these Asian economies formed gradually 'the East Asian Model' to analyses the economic success of East Asia and the model of economic development. Then, based on the typical economies in east Asia, scholars developed theories 'the developmental state'.

However, with the end of the Cold War, these East Asian economies including Japan, South Korea and Taiwan came into the road of transformation under the East Asian Model in face of the endogenous and exogenous pressures such as the global production networks, the global money flows freely and the wave of democratic movements. In the process, the 1997 Asian Financial Crisis as a turning point cracked the illusion of miracle, and these economies had suffered not only from the damage of industry, the decline of economic growth and disorder of domestic finance, but also from the doubts and criticism to the East Asia Model.

As the typical developmental states, South Korea and Taiwan had begun to adapt and recall these challenges. More importantly, the specific the state-led paradigm was having to be reconsidered and reconstructed. Eventually, the East Asian economies were transformed to the new and diverse economic development patterns or capitalisms and lead to the different economic performances. This thesis would do further research on the adaption of the 'the developmental state' in the era of globalization, by focusing on south Korea and Taiwan. In theoretical framework, the thesis will use Developmental State Model as the main theory, which can be

constructed by four main characteristics or elements of strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy. At the same time, the varieties of capitalism (VOC) approach will be used for analyzing the different types of developmental model or capitalism after the transformation in South Korea and Taiwan. From the comparative case study, the thesis tried to construct the new model in South Korea and Taiwan to explain the economic development patterns in the post-developmental state. At the same time, it is also to investigate the interaction between new models and economic performance in these two economies based on the most similar system design.

Literature Review

The concept of ‘developmental state’ originated from the book of MITI and the Japanese Miracle on Japan’s stunning economic growth after the Second World War by Chalmers Johnson in 1982. In this book, the role of elite bureaucracy such as MITI (the Ministry of International Trade and Industry) in Japan was regarded to make the main contributions in macroeconomic management, promoting domestic and international trade by industrial policies (Johnson, 1982). During this time, Alice Amsden and Robert Wade published the book of Asia’s Next Giant: South Korea and Late Industrialization in 1989 and Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization in 1990 to analyzes the cases of South Korea and Taiwan, and explain the government leading role in promoting economic growth by capital accumulation, credit systems and protect specific infant industries (Amsden,1989; Wade,1990). These three books on the cases of rapid economic growth in Japan, South Korea, and Taiwan are regarded as the fundamental researches for ‘the East Asian Model’ and ‘the Developmental State’.

At the same time, due to the outstanding economic performance of East Asia, the researches on the developmental state reached its peak from the late 1980s to the early 1990s. ¹Garry Rodan and Meredith Jung-En Woo (also called ‘Meredith Woo-Cummings’) emphasized the role of the government in the process of industrialization in Singapore and South Korea (Rodan, 1989; Woo-Cummings, 1991), and Stephan Haggard made a more in-depth analysis of the state-led

¹ Representative researches on the developmental state from the late 1980s to the early 1990s including: Deyo, F.C.(ed)(1987), *The Political Economy of the New Asian Industrialism*, Ithaca, NY: Cornell University Press; Gold, T.B.(1986), *State and Society in the Taiwan Miracle*, New York: Sharpe; Haggard, S and Moon (1983), *The South Korean State in the International Economy: Liberal, Dependent or Mercantilist*, in J. G. Ruggie (ed.) and *The Antinomies of Interdependence*, New York: Columbia University Press, pp.131–90; Koo, H. (1984), *The Political Economy of Income Distribution in South Korea: the Impact of the State’s Industrial Policy*, *World Development* 12 (10): 1029–37; Lim, L.Y. C. (1983), *Singapore’s Economy: the Myth of the Free Market Economy*, *Asian Survey* 23(6): 752–64; Rodan, G.(1989), *The Political Economy of Singapore’s Industrialization: National State and International Capital*, Basingstoke: Macmillan.

transformation from import-substitution to export-oriented strategy in South Korea, Singapore, Hong Kong and Taiwan by domestic political mobilization and strong guidance(Haggard, 1990). In this period, the researches on ‘Developmental State’ focused on a single case and analyze the various explanations and developmental mechanisms of the rapid economic growth in a certain region by the perspective of historical research.

With the end of the Cold War, researches on the developmental state had evolved from the case studies to the general political and economic theories, among which the most representative theories are the conception of ‘Governed Interdependence’ by Linda Weiss and ‘Embedded Autonomy’ by Peter Evans in 1995. Governed interdependence described the competitive and cooperative relationship between the state and industry to promote economic development by an institutionalized network (Weiss, 1995), while embedded autonomy is to explain the state-led interventions by constructing an embedded relationship between the state and society (Evans, 1995). In addition, the books and publicans on the developmental state paid more attention from specific cases to interactions between the state, the enterprise, the society and the market (Amsden, 2001; Kohli, 2004). In the meantime, the theory of ‘developmental state’ had gradually formed in academic research, which was believed to a representative of development theory or model that was different from ‘the Washington Consensus’ and ‘the Dependency Theory’.

These tremendous researches formed a mature explanation to economic development in this region gradually, which was called ‘the East Asian Model’ or ‘the Theory of Developmental State’. However, with the crack of the 1997 Asian Financial Crisis, the scholars begin to rethink the Developmental State Model. Some scholars argue that this model is no longer a viable and feasible option in deepening globalization (Pirie, 2017), and other scholars believe that the DS model is still an effective strategy in the post-Cold War for the developing countries (Hayashi, 2010; Yeung, 2017). The World Bank had published *The State in A Changing World* in 1997 and *Rethinking the East Asian Miracle* in 2001 to review the East Asian Model for the new changes in these economies since the 1990s. The research from the World Bank emphasized the role of the government in economic development and paid the more attention to the potential risks including cronyism, rent seeking and corruption, limitations on industrial policy and the impact from regional integration and globalization. The representative research in these articles of the World Bank was the discussion about industrial policy from the economists, especially breaking the hypothesis of ‘complete information’ in Economics from Joseph Stiglitz and formulating the theory of ‘market-enhancing government’ from Aoki Masahiko (World Bank, 1997; 2001). These studies further explain the rationality and legitimacy of government intervention from the theoretical view, and effectively defend the developmental state model.

For most of the scholars in researching on the Developmental States and this

model, they do believe that these states are suffering an evolution or transformation in the face of exogenous and endogenous pressures (Wong, 2004; Stubbs, 2009; Haggard, 2013). For the impact on the exogenous factors, some scholars pointed out that the dependence of multinational corporations on the government was weakened with the development of global production networks (Yeung, 2017). Furthermore, the studies also investigated the impact of globalization on the government power by the topics of free flow in capital, international organization and economic crisis (Hayashi, 2010). As the endogenous pressures, the scholars paid more attention to the industrial policy and government-business relations, especially the cronyism in East Asian economies and the transformation in specific industry such as biopharmaceutical industry (Kang, 2003; Wang et al., 2012). At the same time, with the rapid economic growth in mainland China and Southeast Asia, there are more and more discussions on whether these economies are 'developmental states. From the varieties of capitalism approach, there are three types of capitalisms to describe the new models in East Asia after the transformation on state capitalism, coordinated market capitalism and liberal market capitalism (Walter and Zhang, 2012; Naughton and Tsai, 2015;). These studies are deepening the understanding on East Asian economies after the transformation from the simplified theory.

For the comparative case of South Korea and Taiwan, some scholars believe that the political and social factors lead to the different development mechanisms of government-led on South Korea and market-led on Taiwan (Hattori and Sato, 1997), while the most of scholars paid attention to the common factors on two economies including the common threats from the outside, the political elite consensus, the centralized institutional arrangements and capacity to discipline of society (Wade, 2018; Hayashi, 2010; Yeung, 2017). These researches on South Korea and Taiwan provide us with the different perspectives and materials to have a deep understanding on developmental state in East Asian economies after the transformation.

Research Question and Significance

As we have seen in previous research, most of them focus on the common factors on East Asian economies such as South Korea and Taiwan to explain the success of the 'East Asian Miracle' before the turning point of the 1997 Asian Financial Crisis, and some of them observed the pressures and challenges in face of globalization and democratic movement. However, the researches on developmental state were observed by single dimension or case, which are lack of the systematic and comparative study. Furthermore, the previous research paid more attention to demonstrate the changes and facts in East Asian economies after transformation, and the connections between changes and developmental model was rarely researched by scholars. For this purpose, the **research question** of this

thesis is:

How have the developmental states evolved since the 1990s by tracing the transformation process in South Korea and Taiwan? Based on the developmental state model, this thesis simplified the four main elements of the developmental state in strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy, which would be regarded as four main dimensions to observe the transformation in South Korea and Taiwan. At the same time, this thesis will also investigate what kind of model or capitalism has been formed from the developmental state in the process of transformation by the comparative study of South Korea and Taiwan.

For the present research, our aim of this thesis is to explore the interdependence of four characteristics or elements in the impact of exogenous and endogenous pressures based on the Developmental State Model and investigated the development mechanisms of new capitalisms in East Asia by the comparative case of South Korea and Taiwan. At the same time, as one of the rare regions to achieve outstanding economic development and industrialization after the Second World War, the East Asia and the Developmental State Model provide the strategy and prescription to a large number of developing countries that still have continued to struggle with underdevelopment. After the ‘East Asia Miracle’, we ought to reconsider the lessons and experiences of the DS Model and inject new vitality and impetus into this model in the global context.

For the structure, this thesis will be divided into three main parts to analyze the transformation in East Asia since the 1990s. In the part of historical background, the process of ‘the East Asian Miracle’ in the 1960s to 1990s in South Korea and Taiwan will be described, and this part tried to explain how developmental state model created the rapid economic growth in East Asia. Furthermore, the exogenous and endogenous factors to transformation including the economic and financial liberalization, global production networks and the democratic movement will be discussed as in the second part. In the main third part, the process transformation will be paid attention in four main areas of strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy in these two economies. And we will investigate the connections between the development mechanisms for new capitalisms and the economic performance in this chapter. In the part of conclusion, the brief summary will be included.

Chapter 1 Theoretical Framework and Methodology

1.1 The Developmental State Model

The concept of the ‘Developmental State’ was first set out in detail by Chalmers Johnson in his book *MITI and the Japanese Miracle* in 1982. After that, the early proponents and analyses on developmental state still included research on South Korea by Alice Amsden in 1989, Singapore by Garry Rodan in 1989, Taiwan by Robert Wade in 1990, Stephan Haggard, Meredith Woo-Cummings and Peter Evans. These researches on Asian economies formed gradually a theory of ‘the Developmental State’ or ‘The Developmental State Model’.

Meredith Woo-Cummings defines the developmental state (DS) as ‘a shorthand for the seamless web of political, bureaucratic, and moneyed influences that structure economic life in capitalist Northeast Asia (Woo-Cummings, 1999).’ Some scholars argue that the DS is a cohesive set of institutions with a relatively autonomous capacity to implement a planned strategy for capitalist economic growth (Johnson, 1982). And some definitions emphasize that a ‘state is developmental when it establishes as its principle of legitimacy and its ability to promote and sustain development (Castelle, 1992).’ Although there is no consensus around a particular definition, the scholar still believes that the essence of the Developmental State Model is state-led paradigm, in which the state, not the market, assumes a central role in mobilizing economic resources and initiating industrialization. And the essence of the Developmental State Model Approach is the institutions that could help solve these signaling, credible commitment and monitoring problems between the state and the private sector (Haggard, 2013).

As an ideal type, the Developmental State has distinctive characteristics or elements compared with the model of American System of Market-Oriented Capitalism and the German System of Social-Market Capitalism. Chalmers Johnson described the four factors of DS as (1) the existence of a small, inexpensive, but elite state bureaucracy staffed by the best managerial talent available, (2) a political system in which the bureaucracy is given sufficient scope to take initiative and operate effectively, (3) the perfection of market-conforming methods of state intervention in the economy, and (4) a pilot organization like MITI that controls industrial policy (Johnson, 1982:314–20). Stephan Haggard emphasized that strong or ‘insulated’ states, coherent bureaucracies, and institutionalized business-government relations that checked rent-seeking and made government support conditional on private sector performance (Haggard, 2013). And Wade concludes the package of DS as (1) elite consensus around the national development project, (2) bureaucracy of industrial planning, (3) array of industrial steering instruments, and (4) repression of labor (Robert Wade, 2018). Except that, Meredith Woo-Cummings, Atul Kohli and Yao Chen also described the representative elements on

DS Model (Woo-Cumings, 1999; Kohli, 2004; Chen,2006).

From the six representative authors on characteristics or elements of the developmental state (Table 1), there are eight characteristics or elements to explain the developmental state in three dimensions on the state, the society and the market. From these elements, four characteristics or elements are emphasized remarkably by more than four authors, which are **strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy**. These four elements are also represented and separated in the state-society-market dimensions, which can give us the sign to recognize the developmental state model. Meanwhile, it does not mean that other elements such as elite consensus, control of labor and peasants, effective penetration and mobilization and pilot organization are not significant for this model. We just define these four elements as main characteristics or elements to simplify this ideal model to be helpful for doing the deeper and focused research.

Table 1 Characteristics or Elements of the Developmental State

Authors Elements	Chalmers Johnson	Meredith Woo- Cumings	Atul Kohli	Yao Chen	Stephan Haggard	Robert Wade
State:						
1.Strong capacity of state	✓	✓		✓	✓	
2.Elite consensus		✓	✓			✓
3.Coherent bureaucracy	✓	✓	✓	✓	✓	✓
Society:						
4.Government-business coalition		✓	✓	✓	✓	
5.Control of labor and peasants			✓			✓
6.Effective penetration mobilization			✓			
Market:						
7.Industrial Policy	✓			✓	✓	✓
8.Pilot organization	✓					

Source: Prepared by the author.

1.1.1 Strong Capacity of State

The most distinctive characteristic of developmental state model is strong capacity of state, which is playing a leading role in economic development. Under

the experience on the East Asian Economies, the state was dominated by a single uncontested power for a long time such as the Liberal Democratic Party (LDP) in Japan, junta group in South Korea and the Kuomintang (KMT) in Taiwan. The strong capacity of state was leading the economic development in three aspects by guiding resource allocation, disciplining the private sector and formulating the development strategy. Firstly, for the economies in the catch-up period, the most important thing is how to guide the scarce and limited resources such as natural resources, capitals, cheap labors and technology into the production chain in the primary stage of industrialization. The strong capacity of state can curb the surplus of agricultural sector to the industrial sector for primitive capital accumulation in investment. Secondly, the relatively anonymous state can be steering private actors into sectors they would otherwise not enter (Wade, 2018:525). At the same time, the state would make the most use of the comparative advantaged factor such as the cheaper labor by the lower wages and strict disciplining system. Thirdly, the state needs to have strong capacity to adapt the import substitution and export-oriented strategies at different stages of industrialization and formulate the industrial policies to restrain the domestic consumption for accelerating foreign exchange.

In fact, there are so many authoritarian regimes dominated by junta group or single ruling party, the puzzle is that why the authoritarian regimes represented by developmental state model promoting economic development, rather than a predatory state or collusive state which relies on rent-seeking. From the perspective of game theory, Masahiko Aoki pointed out that the state can make the enterprises in the specific industrial sector fully competitive through ‘the contingent governance of teams’, and the possibility of collusion between enterprises can be effectively stopped, so as to avoid inefficiency of enterprises after accepting the subsidy from the state (Aoki, 1994). However, the question is that why the state is willing to subsidize the agricultural sector by using the industrial income rather than rent-seeking. The direct reason is to maintain the authoritarian regime, but the deeper reason is against the spread of Asian communism under the Cold War for East Asian economies (Perkins, 2013). The threats in the international and regional security environment enables the state to focus on long-term economic development instead of rent-seeking on short-term and avoid the collusion between state and enterprise.

1.1.2 Coherent Bureaucracy

The second characteristic of the developmental state model is to construct a coherent bureaucracy within the state including the institutional arrangements and highly capable technocrats in making, monitoring and implementing economic policy. The pilot organization and the bureaucratic elites were helpful to making the long-term economic strategy by fostering consensus.

For the institutional arrangements, a core bureaucratic agency called pilot organization would be drove the growth process to centralize and organize the whole agencies in the government such as the Ministry of International Trade and Industry (MITI) in Japan, the Economic Planning Board (EPB) in South Korea and Council for Economic Planning And Development in Taiwan. Relying on the strong capacity of state, the central institutions can concentrate the vertical agencies in different local organizations and the horizontal line within governmental ministries. As a result, the pilot organization is able to foster the economic consensus and facilitate the cooperation in the relations of different central ministries and central-local agencies, so as to improve the policymaking efficiency and formulate economic strategies for industrialization with minimal concerns about redistribution. For the bureaucratic elites, the ‘Weberianness’ of the bureaucracy and technocrats were recruited in the top universities and supposed to have the advanced ideas about economic development. By using competitive salary and long-term career path, the bureaucratic elites within the developmental state were not easy to be manipulated by the private and political actors in making the economic policy. At the same time, the top political leaders usually gave these bureaucrats freely economic autonomy in policymaking and avoid them being control by the social forces.

1.1.3 Government-business Coalition

The relationship between the state and the private sector is believed to the heart of the developmental state approach (Haggard, 2013), which is also the third main characteristic of the developmental state. After the factors of production and economic strategies formulated by the bureaucratic elites prepared, the business groups who are implementing these economic strategies will be more critical, especially entrepreneurs who can engage in effective management and the domestic leading firms emerging in the global competition.

Within the developmental state, the core of business-government relations is described as ‘embedded autonomy’, which means the state and its officials have a close working relationship with capitalists, but also the capacity to discipline capitalists and capital (Evans, 1995; Wade, 2018). For the capitalists in business groups, they are the responsible role in accepting the signaling, credible commitment and monitoring problems to connect the domestic and international market, and the productions from these firms are also taking risks in the fierce international competition in the primary stage of industrialization. Moreover, they will be the main actor to implement the strategic and nonprofit industries recommended by the government, and the government will provide them with industrial subsidies and preferential policies in return. For the government, they are able to guide these business groups by controlling the capitals and the cheap labors.

To ensure that the flow of capitals is in line with the industrial strategies, the government will make the most use of advantages in financial institutions to strictly control the credit system, while international capital entering the domestic market requires the strict approval and guarantee by the government. On the other hand, the government provides cheap labors to the leading industrial sectors as the comparative advantage by labor repression and nationalistic mobilization, which is an effective approach to keep down labor costs, reduce domestic consumption for the cycle of investment-profits-reinvestment, and sustain the state-business relation in future transformation on track (Deyo, 1987). For delivering the economic signals to the businesses, the leadership will also develop the personal relations by regular meals or rewarding entrepreneurs who have achieved economic goals as ‘national heroes’.

In this reciprocal coalition between the government and the business, the leading firms are the protagonists in international competition, and the governments play the role as ‘midwifery’ and ‘husbandry’. However, it is generally believed that the strong capacity of state is insulated from social pressures and private actors (Haggard, 2013), which means the government always has the upper hand in this relationship under the developmental state model.

1.1.4 Industrial Policy

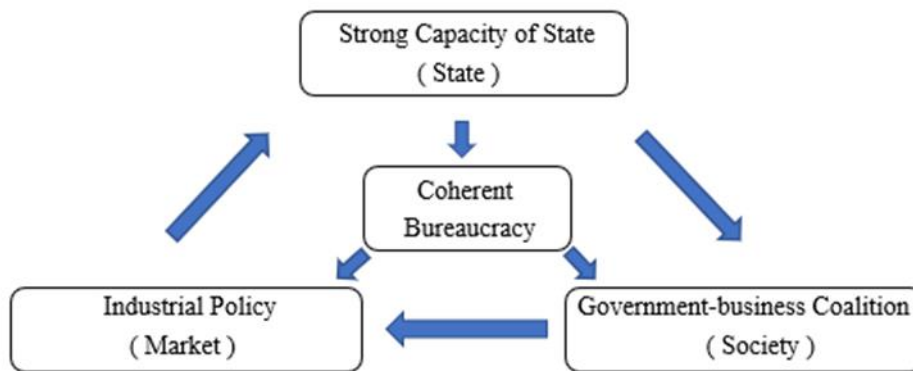
Industrial policy is the fourth main characteristic of the developmental state model, which means the developmental state is to use public policy instruments rather than relying solely on the market in implementing the economic strategy. Industrial policy is to come together with shaping economic actors, market mechanisms and rules through government intervention, and aim to specific industries (and firms as their components) to achieve outcomes that are perceived by the state to be efficient for the economy as a whole (Tucker, 2019:12).

For the industrial policy in developmental state, two instruments will be initiated by the government to make intervention on the market. The first main instrument is to control entry with the intent of promoting a specific industry or firm, which also called ‘picking winners’ by some scholars. By using the ‘advantages of economic backwardness’, the state was to induce private business to participate in the strategic industrial program on which productive resources were scarce and the specific technology were only introduced from foreign countries in different stage of industrialization. The other main instrument of industrial policy is to reorganize the capacity of encouraging M&A, cartels and specialization among existing firms by tax exemption, low-interest rates and subsidies by the government, which is called ‘getting the prices wrong’ (Eun and Lee, 2002:2-3; Amsden,1989). Instead of market-led price mechanism, the developmental state has intentionally distorted the market through government intervention by tariff barriers, the subsidization of

R&D, export incentives and centralized control in financial system (Wong, 2004). At the same time, the leading firms will be selected to implement the industrial policies, and these enterprises were chosen to the large and close relationship with government, the Chaebol in South Korea and the state-owned enterprises in Taiwan.

1.1.5 Interactions on Four Characteristics of the Developmental State Model

Fig. 1. The Interactive Network of the Developmental State Model



Source: Prepared by the author.

From the above analysis and summary on the developmental states from the studies, the most representative characteristics or elements of the developmental state are strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy, which was formulating the interactive network of a developmental state model (Fig. 1.). The developmental state model is a simplified theory to analysis the rapid economic growth in East Asia from the 1960s to 1990s in the process of industrialization. In this process, the state with strong capacity was playing a fundamental role in mobilizing and collecting the production factors including the capital, the cheap labor and land, advanced technology and other scarce resources. In the next step, the government-business coalition could guarantee the production process from the resources to industrial products with enterprise and entrepreneurs, which was accompanied by the interaction of complicated social forces including the movement of labors and students, land reform related to peasant and rent-seeking of business groups. Furthermore, the industrial policy as the last step could make the most use of advantage to exports in the international market, which can be transformed from the industrial products to capitals and others production factors. In this process of productive cycle, coherent bureaucracy has two important functions under the developmental state model. The pilot organization is able to foster the economic consensus and facilitate the cooperation on the upper direction. On the other hand, this bureaucratic system

could be making, monitoring and implementing industrial policy based on the economic consensus, and delivering the signals to the market and business groups on the lower direction. This interactive network of the developmental state model can provide us with an explanation under the state–society–market equilibrium in the process of industrialization of East Asia.

In sum, the developmental state was characterized by these four main elements with state-led paradigm, and it was used by governing the market in intervening policy. In the meantime, the developmental state was also a product of a historical background and internal institutional arrangements in terms of the bureaucratic elites and the government-business coalition. However, the developmental state was also threatened by some crises such as crony capitalism, limited social insurance, corruptions and renting, inefficiency in innovation and industrial upgrading. Once the dynamics of the state–society–market equilibrium was broken, the developmental state will be transformed and adapted the new circumstances.

1.2 Research Design and Methodology

For a comparative case study, there are two strategies to case comparisons. The first strategy is ‘the most-different-systems design’ (also called ‘the least similar cases comparisons’), of which the investigator looks for the potentially causal antecedent conditions that are the same between two cases led to same outcome. And the second strategy is ‘the most-similar-systems design’, of which the investigator would look for antecedent conditions that differ between two cases that have different outcomes (Bennett, 2004:30-31). For the thesis, some scholars believed that Taiwan has been transformed from a state-led paradigm to a ‘co-governed mode of capitalism’, and the state in South Korea has retreated and corporation have become more powerful (Walter and Zhang, 2012). After the transformation from the developmental state model, South Korea and Taiwan formed the different mechanisms, capitalisms and economic performance (Walter and Zhang, 2012; Baumol et.al, 2007; Gu, 2014), which is in line with the ‘different outcomes’ of the most-similar-systems design. For the different outcomes, this thesis chooses to implicitly apply the most-similar-systems design (MSSD) based on the similar development conditions and trajectory of South Korea and Taiwan as the developmental state in the 1960s to 1990s, which focus on states that are very similar, on the grounds that characteristics they share can thus be held constant. Then, if the states differ in some other traits, we can eliminate the shared characteristics as explanations for the variation (Bennett, 2004).

The most-similar-system design is formulated to discover the relevant independent variables. On the other hand, when making use of MSSD, the aim is to test the effect of independent variables on the dependent variable, while keeping extraneous variance constant (Carsten, 2008:391). For Mill’s method design, this

thesis hypothesizes the different variable A of case 1 and $\sim A$ of case 2 is the main cause of the different outcomes (Fig.2.). For variables, South Korea and Taiwan had the similar characteristic features distinguished from the other economies in developmental states. Firstly, both of economies shared the similar background in geography, culture, economic output and industrial structure. Secondly, South Korea and Taiwan witnessed the similar development pattern in economic growth. As the export-led economies, they achieved the high-level economic growth from the 1960s to 1990s with reliance on the growth of the manufacturing sector, foreign trade and similar trading partners with the United States and Japan (Hattori and Sato, 1997). Finally, they experienced the similar process of industrialization and democratization. Both of economies had achieved the stages of industrialization from labor-intensive industry to capital-intensive and technology-intensive industry evolved. And they also experienced the similar democratic movements in the 1980s to 1990s. At the same time, the trade balance, TFP growth, sizes of enterprises and business groups and the development process of the three industries in synthetic fiber, machine tools and electronics are the different foundations in South Korea and Taiwan (Hattori and Sato, 1997:351), which could support the hypothesis as the independent variables. For the outcomes after transformation, South Korea and Taiwan had been evolved into the different development models and mechanisms since the 1990s and led to the different economic performance (See the section of 3.3). But for this thesis, it is to explore the interaction between the four characteristics or elements of strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy as the intervening variables, which caused to the different outcomes after the transformation in South Korea and Taiwan.

Fig. 2. Mill’s Method Design

	Variables					Outcomes
Case 1	A	B	C	D	E	F
Case 2	$\sim A$	B	C	D	E	$\sim F$

Sources: Andrew Bennett (2004), *Models, Numbers, and Cases: Methods for Studying International Relations*, Ann Arbor: University of Michigan Press.

There are two normal problems for the most-similar-system design, the one is the keep the all ‘background variables’ constant, which is very hard to find these comparative cases given the limited number of countries and economies in social sciences. As we have seen, in practice, this requirement can be remedied by using countries which are geographically and culturally close to each other (Carsten, 2008:393). For our research, we tried to choose the comparative cases of South Korea and Taiwan, which are implicitly similar in culture, geography, development models and other background variables among the cases of high performing Asian

economies in developmental states. The second question is to confront the problem of multicollinearity at the systemic level. As the part the characteristics or elements of the developmental state model showed (Table 1), there are eight elements by three dimensions of the state, the society and the market in developmental state model, which have connected each other in the development model. For the thesis, we tried to choose the elements of the developmental state in broad and diversity, and the four elements of strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy are separated in the state-society-market dimension to keep the different perspectives in the process of transformation.

For our research question, this thesis aims to map out how the four elements of the developmental state have changed since the 1990s and what type of capitalist system emerged in South Korea and Taiwan, and it focuses on the intervening variables instead of independent and dependent variables. For that reason, the purpose of this thesis is to study the process of change in the four elements of the developmental state, and identify how the exogenous and endogenous pressures associated with the era of globalization played a more important role in this process. In this sense, **process tracing** would help us to trace the process of transformation of these four elements. Process tracing focuses on identify the intervening causal process including the causal chain and causal mechanism between an independent variable (or variables) and the outcome of the dependent variable (Bennett and Checkel, 2014:6). For this research, it tried to use process tracing to investigate the interactions of four elements in the developmental state in the process of transformation. And these four elements of strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy as the main intervening variables to connect the similar and different fundamentals as independent variables and the different outcomes as the dependent variables in South Korea and Taiwan. In the theoretical part, it explains the reason why these four elements could be regarded as the main characteristics of the developmental state model and interactions on these elements. From the changes of these four elements, we could have the specific variables to understand the evolving process of transformation in South Korea and Taiwan, which would be also helpful for using the method of process tracing.

This approach is distinctive in three ways on causal-process observations, description and sequence (Collier, 2011:823). For the applicability of process tracing, it has been one of the most useful methodological tools for main causal inferences in the social sciences, which is described the question of ‘if causal mechanism M exists, what observables would it leave in a case’ (Beach, 2017:4). For our present thesis, we hope to investigate how characteristics or elements of developmental state transformed to lead the different development model and the economic performance since the 1990s in South Korea and Taiwan. Furthermore,

Careful description is a foundation of process tracing. This thesis tried to characterize key elements and steps in the process of transformation in the impact of the exogenous and endogenous pressures in the cases, especially a series of specific moments. For the third requirement of the process tracing is the sequences of variables. In practice, the thesis sets the period of the 1960s-1990s in South Korea and Taiwan as typical period with the developmental state, and the new model will be observed since the 1990s, especially the 1997 Asian Financial Crisis.

In the process of tracing, the empirical materials in South Korea and Taiwan will be used including the basic statistics of trade and GDP from UNCTAD, changes of industrial structure from 1960s to 2010s, proportion of public and private enterprise in GDP, total import and export volume and manufacturing data. For government-business relations in South Korea and Taiwan, bureaucratic apparatus and election funds and financial system in data will be applied in the thesis. And some statistics in firms for industrial policy will also be used in trade dependence, invention patent and net profit rate.

Chapter 2 Historical Background: East Asian Miracle and Developmental State

During the 1960s to the 1990s, the East Asian economies leading with Japan and other East Asian tigers showed extremely high economic growth rates and rapid process of industrialization, which was so-called ‘the East Asian Miracle’ by the World Bank in 1993 (World Bank, 1993). Compared with the other developing counterparts in Africa and Latin America, the East Asian economies as a region was at the economic grow rate in 10 percent per year collectively (Wong, 2004:3489), and they are also one of the rare economies to achieve the industrialization with a regional network. As the representative economies in East Asia, South Korea and Taiwan had demonstrated the typical features and stunning development in economy and improvement in the standards of living among these economies (Table 2. And Table 3.).

Table 2. Improvement in the standards of living in South Korea (1960-1990)

Year	Real GDP (Millions of 2011 US\$)	Per capita (Real 2011 US \$)	Life expectancy at birth (years)	Mortality rate (adult males per 1000)	Industry value added (% of GDP)
1960	38433	1537	55.4	112.2	17.1
1970	86121	2671	62.2	61.2	24.5
1980	203155	5329	66.0	35.8	31.5
1990	513774	11985	71.6	15.4	35.8

Source: Real GDP and Per capita from Federal Reserve Economic Data, Life expectancy at birth (years), Mortality rate (adult males per 1000) and Manufacturing (Indices 2011 = 100) from World Development Indicators from World Bank (2020).

Table 3. Improvement in the standards of living in Taiwan (1960-1990)

Year	Real GDP (Millions of 2011 US\$)	Per capita (PPP Converted US \$)	Life expectancy at birth (years)	Mortality rate (adult males per 1000)	Manufacturing (Indices 2011 = 100)
1960	22085	1861	63.76	53.549	1.07
1970	54176	3538	67.88	30.026	5.21
1980	137005	7423	71.32	10.075	18.81
1990	299832	13637	73.78	5.715	35.22

Source: Real GDP and Per capita from Federal Reserve Economic Data, Life expectancy at birth (years) and Mortality rate (adult males per 1000) from Macrotrends, Manufacturing (Indices 2011 = 100) from Taiwan Statistical Data Book 2016.

In the economic growth, South Korea and Taiwan in the real GDP growth rate annually reached 9.2% and 9.26% from 1960 to 1990 (Tan, 1995:20), and these two economies maintained the records in economic growth rate of more than 6% for 30

years continuously (Wade, 2018:523). For per capita, South Korea and Taiwan had a huge improvement from 80 and 159 in 1960 to 10550 and 11597 in the 1990s, which was far higher than the world's average per capita of 6330 in 1997. On the other hand, they also achieved the industrialization rapidly and improved the standards of living. The proportion of industry in GDP on South Korea and Taiwan was transformed to 45 and 39 in 1990, and the industry had been the pillar sector of the economy (Tan, 1995:59). In addition, the living standard in life expectancy at birth and the literacy rate has been greatly improved during this time (Table 2. And Table 3.) The Gini coefficient of household income in South Korea and Taiwan in the 1960s is 0.344 and 0.358, and it still maintain the lower average of 0.357 and 0.308 in the 1980s with the rapid economic growth (Page, 1993). The Gini coefficient of Taiwan had decreased, which means that East Asian economies could obtain the support from the people through the equitable sharing of economic growth results. In the process of 'Economic Miracle', the developmental state in South Korea and Taiwan played the leading role in guiding the resource allocation, disciplining the private sector and formulating the development strategy.

2.1 Guiding Resource Allocation

For the economies in the primary stage of development, South Korea and Taiwan after the second world war was facing the problem that how to gain and guide the scarce and limited factors to production including the capital, land, natural resources, labor force and technology. The developmental state played the important role by the strong capacity of state during the 1960s to 1990s.

The urgent factor for most of developing economies is the capital accumulation , which can be gain by the approaches to foreign aid, exports by trade, investment and domestic agricultural surplus. Fortunately, South Korea and Taiwan received the economic assistance from the United States as the bridgehead of 'anti-communism' on the background of the Cold War in the 1950s to 1960s. During this period, the aid from the United States reached 10% of GNP, 70% of imports and 74% of total investment in South Korea, while the aid was equivalent to 6% of GNP, close to 40% of total investment in Taiwan in the 1950s (Mason, 1980:95). The precious economic assistance was helpful to reduce inflation, provide basic infrastructure and maintain social stability for the state in the primary economic stage. However, relying on economic assistance cannot be a long-term solution to the capital accumulation, especially the United States stopping the aid in the 1960s. Under this circumstance, the agricultural surplus became the most important source of the capital by the land reform. The government of South Korea guided by the military force in the United States carried out the determined land reform for being worried about the threat of land famine and the infiltration of communism. By 1955, the self-employed peasants had occupied nearly half of the land, while the rich

landlords only occupied 1% of the land (Pak, et al., 1966), and the government also mobilized peasants to increase productivity gains of basic food crops through the 'Saemaul Undong' in the 1970s. At the same time, the government led by Kuomintang also carried out land reform through the regulations of rent reduction and public land release to stimulate enthusiasm for peasants. By 1956, the proportion of self-employed peasants had reached 57.05% of land and occupied the dominant position in rural areas (Huang, 1991:2-4). From the land reform in the 1950s, the improvement of productivity in agriculture was transforming the capital to the industrial sector by using the crop price gap between the domestic and international market.

In addition to capital accumulation, the process of industrialization also requires the other important factors of labor force and technology. The natural resources in South Korea and Taiwan are limited and scarce, and the key to developing manufacturing is to make the most of the advantage in cheaper labor force. After Park Chung-Hee became president in 1961, South Korea adopted a top-down hierarchical system to mobilize and manage the labor, so that they were able to maintain the lower wage and higher working efficiency (Kohli, 2004). In the 1960s, the labor-intensive manufacturing such as textile and shoemaking industries in South Korea developed rapidly, which brought the manufacturing increased from \$55 million in 1962 to \$1.676 billion in 1972, accounting for 85% of the export volume (Vu, 2007:39-40). In Taiwan, Kuomintang strictly controlled labor union and banned strikes, which organized all separated unions of county into a united association that the officials were designated by the Kuomintang to prevent the labor movement from 1949 to 1984 (Wade, 1990). Furthermore, the rapid industrialization was also related to basic infrastructure and technological transfer from Japan. The colonization of Japan in South Korea and Taiwan had left it with mechanical equipment, advanced management experience and a relatively higher level of literacy, which provided the two economies with a better basic for development. In the 1980s, Japan had been providing 60% of technology licensing transfer and training a large number of senior managers, engineers and technicians for South Korea (Zhang, 1994). In this process, the state played an important role in technology transfer, especially improving diplomatic relations with Japan and coordinating the transfer of key technologies and industries. One example is that Park Chung-Hee administration developed the steel industry in exchange for contracting Seoul metro project to Mitsubishi Group that was one of the leading chaebols in Japan (Kim, 1990).

Under the strong capacity of state in South Korea and Taiwan, the two economies developed the labor-intensive industries transformed from agriculture-led economic sector to manufacturing-led structure by using the advantages of capital accumulation, cheaper labor, technological transfer from Japan as endowments and the special assistance and military needs from the United States during the Vietnam

War in the 1960s and 1970s. In this process of industrialization, the Park administration and Kuomintang led the allocation in guiding resources and endowments.

2.2 Disciplining Private Sector

Gaining the resources and endowments is the fundamental requirement for the industrialization, the more important issue is that how to transfer these precious resources and factors to the industrial products in the market with enterprise and entrepreneurs. In South Korea and Taiwan, the government led by cohesive leadership became the key role in disciplining the private sectors and business groups to economic development.

For the controlling the nomenclatura authority in bureaucratic system, the leadership in South Korea and Taiwan tended to appoint bureaucrat elites with the same background. After the military coup in 1961, most of the senior officials appointed by Park Chung-Hee were military colleagues, even most of them graduated from the same period of enlistment in the army and the same hometown of Gyeongsangnam-do district with Park (Paik, 1991). Similarly, Chiang kai-shek appointed most of officials from the mainland of China at all levels of the bureaucracy after the Kuomintang retreated to Taiwan. Until 1987, only 10% of core administrative bureaucrats in the government came from Taiwan, and only 7% the police chief was from the local Taiwan province (Wade, 1990). These core bureaucrats from the mainland of China with Chiang had more professional and well-educated background compared the local officials. According to the statistics of the core bureaucrats in Executive Yuan (administrative apartment in the government) from 1959 to 1975, 38.6% of the core bureaucrats had master's degree, and 63.2% of them had overseas study experiences(Li, 2011). The similar background within the leadership was helpful for the state to discipline the private sectors and business groups.

For the rapid industrialization, the government in South Korea selected and supported the large business groups to implement the specific industrial policies, and these groups were growing to be the chaebols in the following decades. In order to control these business groups, Park Chung-Hee administration stipulated that all enterprises must participate in the industrial federations established by the government, and even built up the specific trade association to help enterprises expand international market. At the same time, the government used financial institutions to strictly control the credit system, and the entry of international capital into the domestic market also required the strict approval and guarantee. In 1978, the South Korean government controlled 90% of the deposits of financial institutions, which flowed to the large business groups to ensure the funds of the strategic industry (Cole and Park, 1983). At the end of the 1970s, the top 10

chaebols accounted for nearly two-thirds of GNP in South Korea, and the average value of output on enterprises increased nine times during this period (Kearney, 1991). In Taiwan, the government led by Kuomintang implemented the large-scale infrastructure programs by the public enterprises such as the Ten Major Construction Projects during the 1970s, and Kuomintang also established the party branches to control the state-owned enterprises and some large private enterprises. On the one hand, the government provided the preferential credit and priority loans to the large private enterprises through government-led financial companies, even Kuomintang held some shares in these enterprises. On the other hand, the different policy in Taiwan from South Korea is that the government also supported the small and medium enterprises by regulations on investment incentives, credit preferences and establishing specific export zones, which laid the basic foundation for the rapid development of small and medium enterprises in Taiwan. Under the cohesive leadership and bureaucratic elites, the development state could discipline the private sectors and business groups to ensure the rapid industrialization.

2.3 Formulating Development Strategy

Disciplining the private sectors is a critical move to transfer the endowments to industrial products, and formulating the appropriate strategies to deal with the industrial products is the important to accumulate the capitals and update the industrial structure as well. Unlike the African and Latin American economies who had chosen the import-substitution strategy in the 1970s to 1980s, the economic growth in South Korea and Taiwan mainly relied on the export-oriented strategy and combined the import-substitution strategy in different period. At the same time, the government used the industrial policies such as ‘picking winners’ and ‘getting the prices wrong’ had realized the industrial updating from agriculture-led sector, labor-intensive manufacturing to technology-intensive and capital-intensive industry in the 1960s to 1990s.

As the Ministry of International Trade and Industry (MITI) to Japan after the second world war, the pilot organization of the Economic Planning Board (EPB) in South Korea and Council for Economic Planning and Development in Taiwan was leading the role in formulating and implementing the critical developmental policies by coordinating the agencies of government. This central organization was responsible for selecting the infant and promising industries to provide the preferential policies based on product life cycle and the advanced industries in developed economies. Meanwhile, the government would even send the supervision teams to check the companies in finance, management, technology and market operation to ensure the return on credit and investment, especially the enterprise of providing the large amount of loans and subsidies (Wade, 1994:225).

Guided by the pilot organization, South Korea and Taiwan was implementing the

strategies of industrialization combining import-substitution and export-oriented strategy in the 1960s to 1990s. In the early period after the Second World War, if the state did not have the ability to produce basic consumer goods, it would threaten the domestic stability. For South Korea and Taiwan, it was necessary and appropriate to implement the import substitution strategy for basic goods including food processing, textile industry and other industries by higher tariffs. After the first industrial structure upgrading, the export of the two economies had achieved rapid growth brought by export-oriented strategy to the labor-intensive products to the international market in the 1960s such as textile, rubber products, fibers and toys. By the 1970s, South Korea and Taiwan turned into the heavy industry by using the import-substitution strategy for another time to import the machinery and complete sets of equipment from Japan and the United States. In South Korea, textile industry and shipbuilding industry had been developed the advanced level of the world, and its electronic industry accounted for about one fifth of the international market in the end of the 1980s, which Taiwan had a total failure in steel and shipbuilding industry (Shen, 2004:76-78). The government swiftly moved into other high-added value industries including machinery, semiconductor, information and electronics to support, and established first ultra large integrated circuit factory called Taiwan Semiconductor Manufacturing Company (TSMC) in 1987. In the mid-1980s, the information industry occupied a leading position in the world and become a pillar industry in Taiwan (Wang, 2017:57).

By combining import-substitution and export-oriented strategy, South Korea and Taiwan had a rapid economic growth and industrial updating in the 1960s to 1990s. In this process, the pilot organization in the government played the leading role in formulating the appropriate policies by using the various policies including devaluation of currency, preferential credit, export quotas, tariffs and joint sales in internal and external markets. At the same time, the developmental state in South Korea and Taiwan made a significant contribution to the economic miracle by guiding the resource allocation and disciplining the private sector.

Chapter 3 The Process of Transformation in South Korea and Taiwan

With the rapid economic growth in the 1960s to 1990s, South Korea and Taiwan had become one of the most influential economies in the world, which made their industrial products and advanced technologies compete with developed economies in Europe and the United States. During the period of 1995 to 2000, South Korea had been the seventh largest economies by incremental nominal GDP, and the ranking of Taiwan was eleventh largest economies in the world (IMF, 2015). At the same time, the end of the Cold war was injecting the impetus into globalization and the democratic movement around the world. Under the changeable world, the developmental state was hard to sustain this development model with strong capacity of government, and South Korea and Taiwan also was facing the more and more exogenous and endogenous pressures including economic and financial liberalization, global production networks, democratic movement and inefficient industrial policy.

In this chapter, the thesis will investigate the evolved process from the developmental state model by tracing the exogenous and endogenous pressures, process of transformation, economic performance and the main reasons for the different outcomes in development mechanisms and models since the 1990s in South Korea and Taiwan.

3.1 Conditions of Transformation: Exogenous and Endogenous Pressures

3.1.1 Exogenous Economic Pressures

With the rise of neoliberalism since 1980s, the United States began to vigorously promote the economic liberalization in Reagan administration. To reduce the trade deficit, the United States determinately adjusted the international exchange rate in depreciating the U.S. dollar through the ‘Plaza Accord’ in 1985, which made economies in East Asia face the pressure in currency appreciation. Meanwhile, the pro-liberalism economists who received education in the United States came into the government in critical apartment of economy and finance in South Korea and Taiwan, and the developmental state also faced the pressures from the international organizations and foreign financial institutions. The domestic and international factors caused the grate pressures for the government in economic and financial liberalization.

In 1993, Kim Young-sam was elected the first president who was not have the military background since the 1960, and also showed the different and outstanding economic policies from former presidents. The Kim administration was carrying out the liberalization reform in the economic and financial system to participate in the Organization for Economic Cooperation and Development (OECD) for showing

off the economic achievement of South Korea. The financial reform mainly included four aspects in allowing non-financial institutions to expand their business, the entry threshold of private and foreign financial institutions, the reform of interest rate liberalization and easing the restrictions on banks and enterprises to loans from overseas (Liang, 2015:143). Financial liberalization had greatly reduced the restrictions on corporate loans and the overvalued exchange rate and lower cost credits from overseas, which caused the debt ratio of enterprises in chaebol was rapidly increasing (Park, 2014). From 1992 to 1997, the total foreign debt of South Korea increased from US \$42.8 billion to US \$120.8 billion, especially the short-term loans from enterprises (Kalinowski and Cho, 2009:89). Finally, the Asian Financial Crisis started in Thailand swiftly was spreading to South Korea. In 1997, the South-Korean Won depreciated sharply from 1 US dollar to 886 South-Korean Won in July to 1701 South-Korean Won in December of the same year, and the foreign exchange reserve of South Korea fell from 100 billion US dollars to only a few hundred million US dollars in the short period (Liang, 2015). In this case, South Korea had to accept the prompt assistance program and included the additional conditions in economic and financial liberalization proposed by International Monetary Fund (IMF).

In Taiwan, it had begun to promote economic reform in the direction of 'liberalization, internationalization and institutionalization' proposed by Yu Guohua who was the head of the administrative agency in the government (Sun, 2003:160). To participate in General Agreement on Tariffs and Trade (GATT), the government had successively carried out the major reforms including the liberalization of interest rates, the integration of financial services, the establishment of financial institutions and the privatization for public banking, and also took the measures to reduce tariffs and other non-tariff trade barriers.

With the rapid development in industrialization, the advantage of backwardness in South Korea and Taiwan was lost gradually in the low-cost labor, land price and imported technology from Japan, which also made the developmental state losing the hooks to dominating the large private business groups. In addition, these two economies were relying on the export-oriented strategy with limited domestic market and resources, which promoted the dependency on the international market and global production networks with the deepening trend in globalization.

With the rapid growing in scale and profitability, the large business groups were less dependent on the support from government, especially in capitals. In the early stage, the government monopolized the core financial institutions and used the surplus in agricultural sector to provide business groups with the scarce credits and loans. However, the private large business groups gained more approaches to have the funds from the overseas with the economic and financial liberalization in the 1990s. From 1980 to 1998, the total foreign investment overseas from Taiwan had reached 38 billion US dollars who was the sixteenth economies to investment

overseas (Liu, 2005:43). Furthermore, the domestic enterprises could be integrated the production factors including research and development (R&D), manufacture, sales and services into the global production networks, which could gradually get rid of the domestic constraints. the largest chaebol of Samsung in South Korea was laying out a global network in R&D in the 1990s, and Pohang Iron and Steel Company (POSCO) who is one of the world's largest steel manufacturing company by market value has 32 subsidiaries and 34 suppliers and distribution companies around the world where just 6 of them in local area. In Taiwan, it had been established 83 branches and offices overseas in 1986, and reached 266 subsidiaries overseas in 1998 (Deng and Yuan, 2011:51). Finally, the deepening globalization and financial liberalization was strengthening the influence on government in non-state actors including, especially international organizations and multinational corporations. For international organizations, Taiwan had been easing exchange rate control for participating GATT, and South Korea had a great compromise in financial liberalization in exchange of the financial assistance from IMF during the 1997 Asian Financial Crisis. For multinational corporations in South Korea, foreign-owned banks accounted for 38.6% of all domestic banking in 2003, compared with just 7% in Japan in the same period (Thurbon and Weiss, 2006). After the 1997 financial crisis, a large number of domestic enterprises were acquired by multinational corporations for debts, which caused a profound impact on controlling and reforming the chaebols for government.

3.1.2 Endogenous Pressures

The rapid growing in per capita income brought the changes in population structure in South Korea and Taiwan. In 1987, South Korean people in middle class accounted for about 38% of the adult population, and while Taiwan's population in middle class also accounted for 20%-30% of the total (Lin, 2009). The developmental state model, especially the strong capacity of state, was facing the tremendous challenges from the various forces in society including the labors, peasants, business groups, college students and people in middle class, which was leading a great democratization movement gradually in the 1980s to 1990s in South Korea and Taiwan.

Firstly, the rapid development in economy and industrialization had weakened the legitimacy of authoritarian system in positioning the economy as the priority issue. At the beginning of Park administration in 1970, public opinion survey in South Korea showed that the ranking of the most urgent demands for people were 'rapid economic growth', 'national security' and 'democratic system'. Until 1980s, in the survey of 'in the process of economic development, even if there are still some obstacles, democracy must be carried out', 79% of the people hold a positive attitude, while only 12% hold a negative attitude (Fang, 2011). The comparison of

two different answers demonstrated that the time when the people was sacrificing their well-being for economic growth was gone. In Taiwan, the legitimacy of Kuomintang in Taiwan was also facing crisis after the Republic of China lost its seat in the United Nations in replaced by the people's Republic of China in 1971, and Kuomintang lost the reasonable excuse of prohibiting any new parties for regain the mainland of China. Furthermore, the process of industrialization nurtured the relatively weak social forces such as labors and business groups compared with the strong government. After the assassination of Park Chung-Hee in 1979, the labor movement in South Korea against the military-led government was combined with the other social forces of college students and middle-class groups, which caused a significant impact on the military-led political system. In Taiwan, small and medium-sized enterprises(SMEs) accounted for 47.6% of total output value and 60% of total exports (Fang, 2015:277), the owners of SMEs in local areas were becoming the main group of middle-class population and provided the capital to support the growing in non- Kuomintang parties.

Finally, the tremendous movements in democratization was to reverse the authoritarian system and the strong capacity of state lost the leading role in economic development in South Korea and Taiwan. The political system in South Korea and Taiwan was transformed into the bipartisan system after the democratization. After the Gwangju Uprising in 1980, the June Democracy Movement in 1987 and a series of democratic movements, Kim Young-sam was elected the first civilian and no-military background president in 1993, which was a significant signal from the military junta-led system to democratic civilian system in South Korea. For Taiwan in 1987, the president Chiang Ching-kuo was lifted the Martial law in Taiwan since the May of 1949, and the Democratic Progressive Party (DPP) also founded in 1986 after the democratic movements of The Zhongli Incident in 1977, Kaohsiung Incident in 1979 and other movements. The political system in Taiwan was transformed from one-party state into the bipartisan system. Beyond the phase of 'economic catch-up' in East Asian economies since 1990s, South Korea and Taiwan gradually lost the advantage of backwardness that can be guided by advanced science and technology in developed countries, especially in making industrial policy. The scholars found that the effect of government intervention is gradually inefficient when the per capita over 10000 US dollars (Chen and Geng, 2017).

In 2000, the per capita of Taiwan and South Korea has reached 15397 US dollars and 11767 US dollars (UNCTAD, 2020), which means that the effect of industrial policy implemented by the government is gradually ineffective. This industrial policy made a great contribution to economic miracle and progress in specific industry by using the advantages in providing market information, supervision to enterprises and assessment in investing from the government under the developmental state model. However, based on the government-driven paradigm,

this central system from top to down as the core of government showed the disadvantages after the phase of ‘economic catch-up’. Too much government intervention not only distorts the market in protecting specific industry, but also gives enterprises wrong signals in industrial activities (Liu et al., 2017). At the same time, the government lost information advantage, which leads to being difficult to guide the priority industries and potential innovative activities.

3.2 Process of Transformation Compared South Korea and Taiwan

Leading with the developmental state model, South Korea and Taiwan created the stunning economic miracle from agriculture-led to manufacture-led sector in the 1960s to 1990s. However, with the exogenous and endogenous pressures, the East Asian economies were facing the transformation in development models under the trends of globalization and democratic movement in the post-Cold War. In this section, the thesis would be tracing the transformation process compared with South Korea and Taiwan based on strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy. From the tracing, the thesis tried to explore how transformation happened from the developmental state model and what kind of new development models evolved in South Korea and Taiwan.

3.2.1 Strong capacity of state: From One Dominance to Bipartisan System

In the developmental state model, the strong capacity of state was the dominate role in diverse actors of society with a single uncontested power. With the rapid economic growth and domestic democratic movements in the process of industrialization, the weak social forces in developmental state had been strengthening their power to challenge and erode the strong state-led and solid structure. In this process, the strong capacity of state was divided and organized into the new social structure after the transformation in South Korea and Taiwan since the 1990s, which formed a new foundation for economic development.

In South Korea, the junta and military group was leading the government and beyond others social forces to sustain the strong capacity of state in developmental state model. For this state-led system, the three social forces of the military junta-led government, the large business groups (chaebols) and the worker-peasant groups had been kept a ‘mutual hostages’ relationship, which the military junta-led government could beyond the other two social forces (Kang, 2002:183). Within this mutual hostage relationship, the government imposed by the military junta and political elites gained massive donations from the chaebol for loans and preferential credits in return. On the one hand, some political funds and donations were applied on organizing an extensive and expensive party apparatus and controlling the labor movements by the Park Chung-Hee, and the other part of funds need to supported

Park's constituents who were some of peasants in the southern and rural areas by Saemaul-Undong Movement launched by the 1970s to develop the rural development. On the other hand, the government had a leading power in financial and banking system, allocation the assistant funds from the United States, the surplus from the agricultural sector and other capital endowment, and the labor movements occasionally had to be suppressed by the military force. For that, the chaebols were urgent to get support from the government to gain the credits and sustaining the cheaper labors, and the peasants need the funds to develop the rural districts. By this 'mutual hostages' relationship, the military junta-led government was the dominated position compared to the social forces of chaebols and worker-peasant groups by advantages in funds and forces. In Taiwan, the Kuomintang (KMT) retreated from the mainland of China in 1949 as the outside group was facing the urging issue to build up the authority by relying on the Taiwan locals. By using the excuse of fighting against the regime in mainland of China, the Kuomintang-led government of the Republic of China regime was implementing the Martial law from 1949 to 1987 to political censorship, prohibition on the formation of new political parties and controlling the other social forces in enterprise and institution. On the other hand, the Kuomintang-led government relied on the local elites to mobilize and organize the peasants and other local groups by local election and providing the monopolized resources including provincial banks, agriculture and fishery associations, transportation companies and rural credit cooperatives. In addition, Kuomintang would take the strategy of divide-and-conquer to balance the different local factions in the same district for sustaining the central authority, which formed the 'patron-clientism system' between central authority and local elites (Ting, 1999:64).

With the continuous uprising of democratic movements since the 1980s, the government had to respond the demands from the labors, college students and middle-class groups in South Korea. The reorganized social structure imposed the real challenge to the military junta-led government and weakened the strong capacity of state, which cracked the social foundation of the developmental state. During the transformation of social forces, the strong state transformed from the military junta-led system to the democratic civilian system since the 1990s in South Korea. Firstly, Kim Young-sam as the first civilian president took some measures to shrink the power of government. Since the political reform in Kim Young-sam, Kim Dae-jung and Roh Moo-hyun administration, the power of president was constrained and balanced by the congress, the prime minister and the opposite parties. Meanwhile, the power of controlling the financial system and the monetary policy was also limited by IMF to get the assistance after the 1997 Asian Financial Crisis, which led to lose the financial approach to influence the chaebols. Secondly, democratization had increased demands for political payoffs under more parties competing the donations from the business groups. In the developmental state, the

military junta was the dominated position compared to business sectors in the mutual-hostages relationship. After the democratic transformation at the end of the 1980s, the political system in South Korea reconfigured from a single dominated force into the bipartisan political forces of conservatism and liberalism, which increased the political donation demands for competing elections by rent-seeking business. In 1992, the total cost of National Assembly and presidential election was estimated to be 5 trillion South-Korean won, which was equivalent to 16% the government's annual budget in this year (Yang, 1997:31). In 2003 presidential campaign, Roh Moo-hyun launched the 'piggy banks (saving boxes)' from voters to raise the funds. The final donation was 5 billion South-Korean won from constituent, of which the small amount of donation was only 760 million South-Korean won, while the donation from the chaebols even reached 12 billion South-Korean won (Fang, 2011). Thirdly, with the rapid development of globalization and democratization, the policymaking of government also constrained by international actors including international organizations and multinational corporations and domestic emerging actors including labor unions, NGOs and civil movements.

In Taiwan, the democratization transferred the power of Kuomintang into the president, which strengthened the power of government and led to the polarized bipartisan system since the 1990s. In the process of industrialization, the core of exporting was the diverse and tremendous small and medium enterprises (SMEs) in the economy, and this economic structure could reduce the disparity of income and guarantee a more balanced upward mobility for labors. Therefore, the democratic movements in Taiwan were imposed and concentrated the different identity in provincial-ethnic groups, especially local Taiwanese and immigrant Taiwanese from mainland, not the class confrontation compared to the democratization in South Korea. The process of democratization was pushed by the local force in Kuomintang and non-Kuomintang social forces. The president Lee Teng-hui as the first local Taiwanese was launched a step-by-step approach of six consecutive constitutional reforms from 1988 to 2000, which gradually strengthened the power of president in central personnel nomination, convening national security conference and dissolving the congress. After the democratization in Taiwan, the critical positions need to be direct elected including the president, provincial mayors and members of the legislative assembly in central and local. On the other hand, the non-Kuomintang social forces, especially the local Taiwanese parties supported by the owners of SMEs, had been developed into an important force to challenge a single dominated system. In 2000, Chen Shui-bian was elected the first president from the Democratic Progressive Party which ended the Kuomintang's 55 years of continuous rule in Taiwan. The democratization strengthened the power of the president, but the capacity of state is still hard to maintain and form the economic consensus with two main parties. For getting the support from the voters, the Democratic Progressive Party (DPP) and Kuomintang

(KMT) mobilized and manipulated the ‘local Taiwanese/mainlanders’ and ‘unification/independence’ issues for vote, which caused the identity confrontation and a polarized bipartisan system in the process of transformation. For almost critical issues since 2000, there is no consensus between these two parties and also caused a divided society in identity and other issues, and the degree of political polarization in Taiwan is beyond the other economies in East Asia (Fang, 2015:326).

In South Korea and Taiwan, the strong capacity of state was divided into the new social structure in the process of democratization. In South Korea, the military junta-led government was transferred into the democratic civilian system, while the Kuomintang-led government was also transferred into the polarized bipartisan system in Taiwan since the 1990s.

3.2.2 Coherent Bureaucracy: Power Transition in Policymaking

In the developmental state model, the bureaucratic system could foster the economic consensus and deliver the signals to the market and business groups, which was regarded to avoid being control by the social forces in policymaking. However, beyond the ‘economic catch-up’ period, the information in the market is being more and more complex, which makes it difficult to be line with diverse choices of economic strategies. And the decisions of bureaucrats are facing the pressures from divergence in parties, interest groups and movements in democratization and liberalization. In this process, the coherent bureaucracy in developmental state is transferred into crony capitalism and bandwagoning politics after transformation in South Korea and Taiwan since the 1990s.

With the economic and financial liberalization, the pilot organization of the Economic Planning Board (EPB) was abolished by Kim Young-sam administration, which was regarded to dismantle a critical element of the developmental state and also arose the divergence in different departments and bureaucrats in South Korea. In 1994, the Economic Planning Board was incorporated into the Ministry of Finance and established a new department of Ministry of Finance and Economy, and the Five-Year Economic and Social Development Plan also removed for market liberalization. After the 1997 Asian Financial Crisis, the economic functions in industrial policy and finance were further separated to the other two new departments of Ministry of Commerce, Industry and Energy and Financial Supervisory Commission. The reconfiguration and decentralization measures had intensified the conflict of interest in central ministries of policymaking. For regulating inward and outward investments, the Ministry of Finance and Economy was not interested in the industrial specificity of chaebol’s investment abroad, while the Ministry of Commerce, Industry and Energy was intending to increase the inward investment to specific industries for chaebols (Yeung, 2017:89). At the same time, with the dominating by neo-liberal economists in trained from the United

States, the divergence in financial sectors was further intensified between neo-liberals and developmental bureaucrats, which was one of the causes of the partial and delayed financial reform in 1990s (Lim, 2009:19).

At the same time, the cronyism between the bureaucratic system and chaebols is more common in the process of transformation, but the dominated position seems like to be transferred into chaebols. In the Roh Moo-hyun administration, the senior civil servants from Prime Minister's Office, Ministry of Unification, Financial Supervisory Commission and Ministry of Finance and Economy were sent into Samsung Human Resources Development Centre for training, and powerful chaebols built up the personal relationship by providing positions for employing retired government officials (Fang, 2011:151-153). On the other hand, the Federation of Korea Industries (FKI) founded in 1961 as South Korea's most powerful association consisted of major conglomerates and associated members was playing a leading role in connecting the bureaucracy and business groups. From regular meetings between the heads of chaebol and critical bureaucratic officials, the Federation of Korea Industries created another coherent situation of mutual hostage, but the powerful business group of chaebols is the domination over the bureaucratic system after transformation.

In Taiwan, the power in policymaking has been transferred from Kuomintang to the president after transformation, but the efficiency of bureaucracy is declining with the frequent replacement in core bureaucrats in central government. Under developmental state, the core team in economic policymaking consisted of professional bureaucrats and well-educated economists to foster economic strategies in development. These ideas would be discussed in weekly meeting on Standing Committee of the Central Committee of the Kuomintang that was presided over by Chiang kai-shek or Chiang Ching-kuo, and then the final formed economic strategy would be implemented by the Council for Economic Planning and Development (Wang, 2017:59). This policymaking mechanism could guarantee the economic development strategy in professionalism and efficiency, but the problem was non-division of the party and the state, especially the replaced functions from the government. In 2000, about 95% of the heads of departments were the Kuomintang members, while the lower level directors in government from Kuomintang was 70%, and the bureaucratic system was almost monopolized by the Kuomintang (Ngo, 2006:26). When the Democratic Progressive Party (DPP) won the presidency for the first time to end the Kuomintang's 55 years of continuous rule in Taiwan, the initial issue was to replace the government officials from Kuomintang to the Democratic Progressive Party members. From 2000 to 2018, the premier of the Executive Yuan headed by its president was replaced for 14 times compared only 7 times from 1950 to 1989 in developmental state model during almost 40 years. With the transfer of political power from a ruling party to an opposition party frequently, the stability of the bureaucracy is greatly declining after

the transformation and the conflict of interest between different parties are also increasing. And what's worse is that the bureaucrats are more and more inclined to party interests and win the direct elections for votes instead of the long-term economic development, and the positions in the government were becoming the award to gain more donations from the business group.

In the developmental state model, the cronyism showed the more positive impact to lower transaction costs by providing the better market information, more opportunities and longer time-horizons for side-payments and reciprocity, reducing monitoring costs, and making enforcement of agreements easier (North, 1984). With the improvement of the formal institutions and rules, the negative impacts on the cronyism was outweighing the benefits, especially the rent-seeking, corruption and official positions in the exchange of political donations. However, the bureaucratic system still played a different role in economic development in the process of transformation in South Korea and Taiwan. In the theoretical part, the coherent bureaucracy has two important functions under the developmental state model in fostering the economic consensus and delivering the signals to the market actors. For the first function, the bureaucracy with divergence was replaced by the more powerful chaebol to connect the government and the business group to build up the consensus in development in South Korea, while the empowered government in Taiwan with democratization still cannot gain enough power to leading the whole social forces. For the second function, the united business association and the large business groups are helpful for delivering the signals to the market in South Korea. From the study from David Kang, either too few or too many actors lead to bandwagoning politics that increases deadweight losses from corruption (Kang, 2002:3). In Taiwan, more than half of small and medium business groups never joined any business association in the 1980s (Kang, 2002:24), which makes it difficult for the government to transmit market signals.

In the process of democratization, the coherent bureaucracy was divided into divergence, and cronyism showed gradually more negative impacts. Under this circumstance, power transition in policymaking was transferred into different actors in South Korea and Taiwan. In South Korea, the chaebol replaced the role of bureaucracy in fostering economic consensus and delivering the signals, which led to the crony capitalism between the bureaucratic system and business groups after the transformation. And in Taiwan, the power transition in policymaking was transferred from the Kuomintang into the president, but bandwagoning politics after transformation formed because the government was lack of enough power to forester consensus, and enterprise organized in small and medium in business group.

3.2.3 Government-business Coalition: The Rising of Business Groups

Under the developmental state, the government always has the upper hand in the

government-business relationship by providing funds and preferential loans, transferring the agricultural surplus to industrial sector and suppressing the labor movements. However, with the political democratization and economic liberalization, the original strong state lost the leading power to control the other social forces and financial system. At the same time, business groups had a tremendous development and strengthened their influence in economy. The rising of business groups in South Korea and Taiwan reversed the position in government-business coalition after transformation.

In the 1970s, Park Chung-Hee administration was leading two strategic economic measures in promoting the development of heavy and chemical industry and establishing the larger and more comprehensive conglomerates. By launching 'the Heavy-Chemical Industry Drive' in the 1970s, Park decided to focus on several key industries including steel, petrochemicals, automobiles, machine tools, shipbuilding, and electronics to strengthen the industrial comprehensive capability. But the problem was the lack of compared advantages and leading enterprises, which made Park support the large business groups for this ambitious goal. After the 1973 Oil Crisis, Park realized the importance of shipbuilding industry for oil transportation for South Korea's export-oriented economy and hoped that Chung Ju-yung who was the founder of Hyundai Groups to implement this plan. Then making an on-the-spot investigation to Norway and Japan, he told the president Park that was not an easy thing. And the president replied, 'well, if you just want to do something easy, I see', which implied to cut off the funds and preferential policies from the government (Perkins, 2013). With no experience in shipbuilding, Chung created the Ulsan shipyard and completed the first vessel in three years. By the substantial support from government, shipbuilding of South Korea became one of the leading industries in the world, and Hyundai Groups eventually becoming South Korea's second Enterprise Group. From 1965 to 1997, the proportion of heavy industry of South Korea had increased from 31.4% to 77.2%, while large-scale comprehensive conglomerates led to a large number of small and medium-sized enterprises being merged during this time (Wang and Zeng, 2008). After these two economic strategies in the 1970s, the chaebol conglomerates had begun to dominate the economy in South Korea, but the government still sustained the dominated role in the relationship.

With financial liberalization and privatization, the government had to sell its shares in five national commercial banks in 1981-1983. The government banned the 26 largest chaebols participating in the bidding and limited the maximum shares to 8% for every bidder, but finally the 10 largest chaebols obtained 12% to 52% of these bank shares through its non-financial institutions or family members-owned enterprises (Zhang, 2017: 187). At the same time, as the domestic financial openness to foreign-owned banks, which made it more difficult to influence and control the business groups for the government by offering credits and loans. After

the 1997 Asian Financial Crisis, the government had to accept the financial reforms of IMF and reduced the excessive debts of chaebols including improving the transparency, canceling the debt guarantee between enterprises, further openness to foreign investment and other reforms of chaebols. One of the important reforms was to exchange the non-core industries between chaebols and focus on the more competitive and core industries, which made the lower debt ratio and improved the competitiveness in the international market. The reform strengthened the influence of leading chaebols in the whole economy further. In 2017, the revenue of the top six chaebols in South Korea accounted for 60% of the GDP in this year, and Samsung as the largest chaebols accounted for more than 20% of GDP (Li and Lin, 2017). After financial crisis, the chaebols laid off a large number of employees and replaced them with short-term employees, and increased the welfare of formal employees in making their wages far higher than those of small and medium-sized enterprises. As a result, the labor class was divided into the unemployed and the employed employees, the formal and the short-term employees, the employees of large enterprises and SMEs, which split up the labor class against the chaebols in social movements. On the other hand, the influence of chaebol had penetrated into almost all fields in South Korea, including politics, law, media, civil society, academia, education, culture and entertainment by controlling the advertising funds of the media, the foundation of academic research, the networks based on blood, hometown and education (Fang, 2011).

Taiwan had also turned into developing heavy industry in the 1970s, but the Kuomintang-led government was mainly dependent on the state-owned enterprises to implement the economic strategy instead of the large private enterprises. For driving the heavy industries, the government had chosen the import-substitution strategy by building up some large state-owned enterprises including China Petrochemical Development Corporation in 1969, China Petrochemical Development Corporation in 1969 and China Ship Building Corporation in 1973. In addition, the Ten Major Construction Projects as the most important national infrastructure projects during the 1970s had also driven by the state-owned enterprises. In 1977, the gross annual value of South Korean state-owned enterprises accounted for only 8% of GDP, while that of Taiwan in 1976 accounted for 22.1% of GDP in finance, electric power, oil, machinery manufacturing, shipbuilding and other critical sectors (Liu, 2010:38). However, these corporations were not as successful as the South Korean large private business groups in heavy industry, the government decided to turn into developing the electronic and information industry at the end of the 1970s. Industrial Technology Research Institute founded by the government was establishing the United Microelectronics Corporation in 1980 and Taiwan Semiconductor Manufacturing Company in 1987, which was leading the advantages in electronic and information industry in the next several decades for Taiwan. Unlike the South Korea in the developmental state, the

Kuomintang-led government took measures to restrain the large private enterprises and support the small and medium enterprises (SMEs). A large number of SMEs in Taiwan had several advantages in flexible family management, adaptability to market competition, non-institutionalized financing approach, relatively lower wages and higher demands of employees, which became the core of export-oriented strategy and economic growth in Taiwan. By 1997, the number of SMEs had reached 1.02 million, accounting for 78% of the total employment and 49% of the total exports, which was worthy of being called 'the invisible champion' in Taiwan (Liang, 2004:265).

In the developmental state of Taiwan, there was no division between the party and the state because of the Kuomintang as the sole legal ruling party, which made the Kuomintang accumulate enormous assets by the Kuomintang party-owned enterprises (POEs). With the Taiwan's political democratization, the Kuomintang had to come up with measures to justify the existence of businesses belonging to the ruling party. On the one hand, the Kuomintang established a Business Management Committee (BMC) and the seven affiliated holding companies within the party inside to operate the massive party assets in 1993. Two of the seven holding companies, the Central Investment Company and the Guanghai Investment Company had also reinvested 94 companies covering almost all sectors including finance, investment dealers, oil, chemistry, electronic, electrical machinery, cement, steel and others (Xu, 1997:104). On the other hand, the Kuomintang privatized and renamed the original state-owned and party-owned enterprises, and the partners of POEs in the process of privatization were almost the large private business groups that ranked among the top Taiwanese companies by the joint ventures such as Formosa Plastics, Far Eastern, Shin Kong and China Trust (Matsumoto, 2002:367). And some of their main shares had fallen into the hands of the Central Investment Company in the Kuomintang. Through the Kuomintang party-owned enterprises, the Kuomintang built up a great network and close relations with the large private enterprises. In 1999, the total assets of the seven holding companies amounted to approximately NT\$170 billion (Tan, 2000). At the same time, the roaring development of small and medium enterprises (SMEs) was captured by the non-Kuomintang party forces. The similar characteristics in local Taiwanese and grassroots made a closer relationship between the SMEs and democratic forces, especially the Democratic Progressive Party(DPP) as the one of two major parties in Taiwan in the 2000s. The main founder and core members in DPP were from the local Taiwanese entrepreneurs of SMEs such as the former chairman Huang Xinjie, secretary general Wu Nairen and core members Gu kuanmin and Ke Junxiong. After Chen Shui-bian from DPP was elected the first president ended the KMT continuous ruling in Taiwan, he established the Advisory Board consisted of numerous pro-DPP entrepreneurs from small and medium enterprises and further developed a close relationship with them by private reform.

With the rising business groups, the government and business still sustained a close coalition, but they formed the different power relations between them. In South Korea, the government dominated role was transferred into the ‘chaebol leading the government’ coalition. And the Kuomintang-led relation was transferred into a divided coalition of the ‘KMT-large Enterprises’ and ‘DPP-SMEs’ after transformation.

3.2.4 Industrial Policy: Coordinated or Resource-allocated Approach

In developmental state model, the resources were scarce and limited in the primary period of industrialization, so that it is necessary for the government with strong capacity to take the resource-allocated approach in industrial policy. From the two main instruments of ‘picking winners’ and ‘getting the prices wrong’ in industrial policy, the South Korea and Taiwan achieved a rapid economic growth and industrialization by the advantage of backwardness. However, the industrial policy was gradually ineffective and showed the more negative impact beyond the ‘catch-up economic period’. Since the 1990s, the rise of large-scale enterprises also changed the industrial policy from the government under the global production networks.

Beyond the ‘catch-up economic period’, it is not easy for the developing economies to obtain higher profits by introducing and imitating the advanced technology from the developed economies. Based on product life cycle, the profit margin will drop significantly if this technology is entering into mature period and learned by other similar developing economies. Furthermore, the developed economies demanded more and more products and after-sales services from single the original equipment manufacturer (OEM), known as ‘one-off purchase’. At the same time, the rise of global value chain was requiring more and more standardization for products. These changes in the era of globalization posed a challenge for the OEMs in South Korea and Taiwan, and also showed the more competitive for the large-scale enterprises in the global productive networks. For that, the chaebol in South Korea had the greater advantages compared with the small and medium enterprises in Taiwan in exporting.

Under the circumstances, the distributed structure of enterprise in Taiwan had changed from the SMEs taking dominated role in economic influence since the 2000s, and the large-scale enterprises had increased dramatically for the global value chains. In 2011, 79.6% of the gross annual value in export of manufacturing was from the large enterprises with more than 500 employees, and the gross annual value of Taiwan’s top ten manufacturing enterprises accounted for 13% in 2000 to 40% in 2012 in manufacturing. In terms of the gross annual value in export, SMEs accounted for 78% in 1987. And in 2010, the gross annual value in export of small and medium-sized enterprises accounted for only 18%, while the large enterprises

accounted for 82% (Li and Lin, 2017). With the relations between the Taiwan and mainland of China getting better, more business groups in original equipment manufacturer invested and established the factories in mainland by regaining the comparative advantages in cheaper labors and other preferential policies. These OEMs such as the World's largest contract electronics manufacturer of Hon Hai Precision Industry were growing rapidly, and gradually formed a 'triangle trade structure' by the approach of 'Taiwan receiving orders, mainland factory manufacturing and exporting to the West' (Amsden and Chu: 2003). In 2015, for the top ten enterprises by revenues of Taiwan, six of them were from OEMs in electronic manufacturing based on the mainland as the main production base. On the other hand, a large number of small and medium-sized enterprises called 'the invisible champion' in the developmental state lost the advantages in international market. The SMEs was depending on the differentiated and diverse products as the main advantage in exporting, which cannot be suitable the demands in large-scale economy emphasized standardization and specialization in the global production networks. The SMEs left in the island are mainly focused on four industries in bicycle, auto parts, equipment manufacturing and semiconductor. For example, the equipment manufacturing in the gross annual value of exporting had reached the fourth largest in the world, but no one manufacturer was among the top 50 of equipment manufacturing around the globe. But the SMEs in the island had much higher added value and net profit rate than the large enterprise groups. In 2011, SMEs in information industry accounted for 7.7% of the total revenue and 11.8% of the added value, while large enterprise groups with more than 500 employees accounted for 85.5% of the total revenue and just 62.2% in added value. For the first largest enterprises in South Korea and Taiwan, Samsung Group and Hon Hai Precision Industry were both accounting for 22% of GDP in 2013, but the net profit rate of Samsung reached 18% and Hon Hai just 2.4% (Li and Lin, 2017:356). In the face of increasingly fierce international competition and global value chain, the distributed structure of enterprise of Taiwan divided into the large-scale enterprises based on the mainland and SMEs left in the island. These large OEMs became the dominated role in economy with the lower added value and net profit rate, while the SMEs left in the island with high added value gradually lost the comparative advantages in the impact of globalization.

Beyond the 'catch-up economic period', the industrial upgrading and innovation was mainly driven by the large-scale business groups in South Korea, and the industrial policy from government was also transferred from resource-allocated to coordinated approach. The coordinated approach in industrial policy from the government was to coordinate the different enterprises within the same industry, provide the market information to reduce to risks of innovation and create the environment of laws and regulations to decline the transaction cost (Lin, 2012:138), which is different from the resource-allocated approach by picking winners in

industrial policy. In Taiwan, the industrial policy from government was still mainly used the resource-allocated approach for a large number of SMEs left in the island. For the research and patent, the government in South Korea and Taiwan established the Korea Institute of Science and Technology (KIST) in 1966 and Industrial Technology Research Institute (ITRI) in 1973 as the most important technology research and development institution in the developmental state, which played a crucial role in transforming industries from labor-intensive into innovation-driven. Since the 1990s, the KIST in South Korea had transferred into supporting the basic research and technology for SMEs. In 2010, Samsung Group invested 8.89 billion US dollars in R&D and patent which was 47 times of KIST, while the number of patents from Samsung reached 4551 which was more than 7 times of KIST. And the proportion in R&D expenditures funded by business groups of GDP in South Korea was the second largest in the world (Jiang, 2017:100), which showed the business group became the main force in innovation in South Korea. From 1980 to 1996, the ITRI in Taiwan accounted for about 46% of patent, which the KIST in South Korea was just 3.18% of patent. And the top four chaebols in South Korea (Samsung, LG, Hyundai, Daewoo) accounted for 90.6% of the total number of patents (Amsden and Chu, 2003). For the research and patent, the government in Taiwan still had a leading role by resource-allocated approach. On the other hand, the large-scale enterprises in South Korea and SMEs in Taiwan also had a different impact on the effect of industrial policy. In the 1980s, the government in both of South Korea and Taiwan had a high expectation in biopharmaceutical industry, which was believed to achieve a successful ‘winner industry’ like the electronic and information industry before, but the policy by investing and allocating resources from the government showed a total failure in biopharmaceutical industry (Wang et.al, 2012). From taking this lesson, the government turned into the coordinated approach including establishing relevant laws and regulations, institutional reform and enterprise leading the funds had a more positive effect in fostering the biopharmaceutical industry. In South Korea, the chaebols such as LG Life Science and SK Group could directly enter the market of the United States through alliance with Genesoft and Ortho-McNeil in local market, while the SMEs of Taiwan had to sell new patents to large international pharmaceutical companies for lack of the ability of testing and clinical trials (Wang et.al, 2012:493).

From tracing the transformation process compared with South Korea and Taiwan, the four characteristics of the developmental state model were abolished and transferred into different ways.

In the strong capacity of state, the military junta-led government in South Korea was transferred into the democratic civilian system, while the Kuomintang-led government was also transferred into the polarized bipartisan system in Taiwan since the 1990s. The coherent bureaucracy in developmental state is transferred into crony capitalism and bandwagoning politics after transformation in South Korea

and Taiwan. And in South Korea, the government dominated role was transferred into the ‘chaebol leading the government’ coalition, while the Kuomintang-led relation was transferred into a divided coalition of the ‘KMT-large Enterprises’ and ‘DPP-SMEs’ after transformation. At the same time, the government in South Korea was transferred into the coordinated approach, while the government in Taiwan used the resource-allocated approach for the SMEs left in the island in industrial policy (Table 4.).

Table 4.

The Comparison of four Characteristics in the Process of Transformation

Element	South Korea	Taiwan
Economy		
Strong capacity of state	Democratic civilian system	Polarized bipartisan system
Coherent bureaucracy	Crony capitalism	Bandwagoning politics
Government-business coalition	Chaebol leading the government	‘KMT-large Enterprises’ VS ‘DPP-SMEs’
Industrial policy	Coordinated approach	Resource-allocated approach

Source: Prepared by the author.

3.3 The Economic Performance for Transformation

The 1997 Asian Financial Crisis had exploded the myth of the ‘Asian Miracle’ and the rapid economic growth in East Asian economies. With facing of more and more exogenous and endogenous pressures, the developmental state needs to be transferred and adapted the changes in globalization and democratization. The government of South Korea adopted a radical approach to the financial liberalization compared the incremental approach in Taiwan, which made South Korea suffer a more serious shock than Taiwan (Liang, 2015). However, the South Korea had a quick recovery and showed a better economic performance since the 2000s in the process of transformation.

At the end of the financial crisis in 1998, the GDP of South Korea was only 1.3 times that of Taiwan, while the total economic volume in GDP of South Korea had already reached 2.7 times than Taiwan in 2018. The gap in economic scale of South Korea (US \$1619.9 billion) and Taiwan (US \$587.4 billion) in 2018 had expanded to about US \$100 million, and the economic growth rate of Taiwan since 2000 was slightly lower than that of South Korea (Fig.3.). In terms of per capita, Taiwan had been higher than South Korea since 1970, but the turning point was in the year of 2004. In this year, South Korea’s per capita has surpassed Taiwan and gradually

widened the gap, and the gap between the two economies has exceeded about 6000 US dollars in 2017 (Fig.4.).

Fig.3. Total GDP and Growth Rates in South Korea and Taiwan (1971-2017)

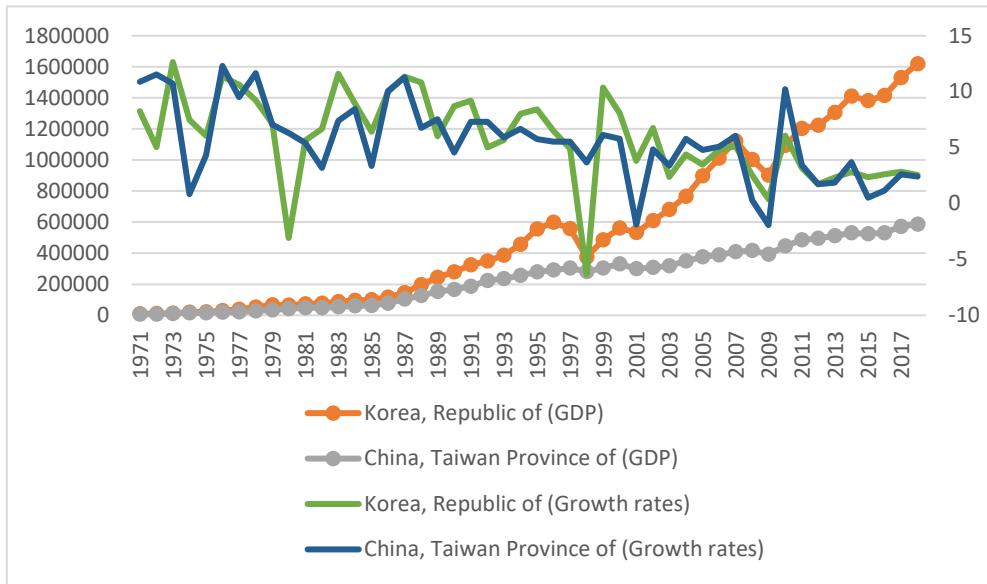
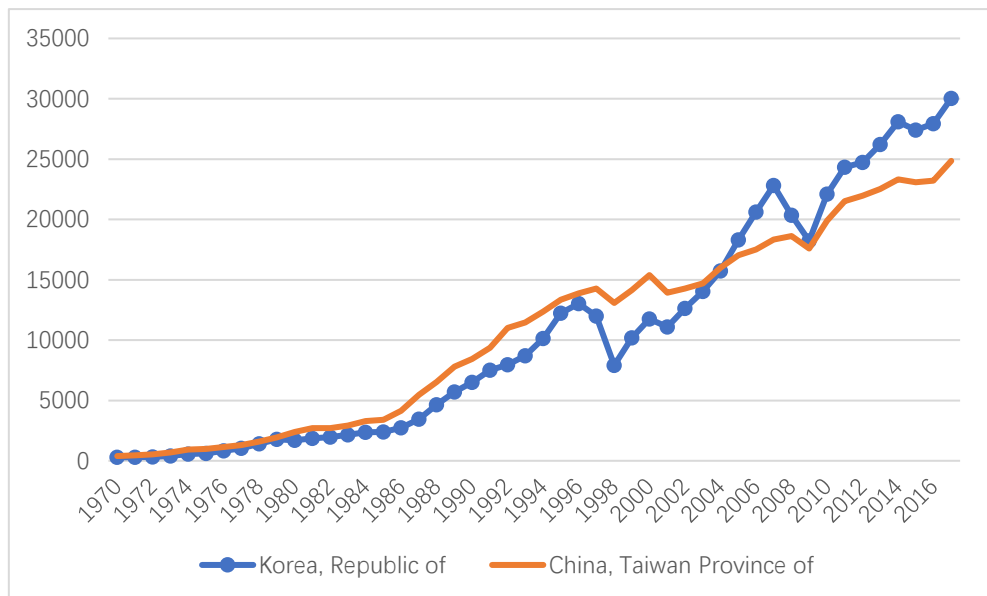


Fig.4. Per Capita in South Korea and Taiwan (1971-2017)



Source: Data Center of United Nations Conference on Trade and Development

For industrial upgrading, the export similarity index between South Korea and Taiwan was close to 60% in 2000. But with strengthening the advantages and improving the technology in automobile, steel, plasticization and electronic machinery for South Korea, the export similarity index between South Korea and

Taiwan was less than 50%. And Taiwan's main competitors in exporting have changed from South Korea to the Philippines and Mainland of China with 69.8% and 66.2% overlapping similar products respectively (Yu and Wen, 2012:40-41). At the same time, the terms of trade Taiwan (export price index / import price index) had decreased from 129.6 in 2001 to 78.3 in 2011 (Luo, 2014:122), which showed the trends of polarization in industrial structure and lack of competitiveness in the international market.

Since the 2000s, the South Korea seems to show a better economic performance than Taiwan in total GDP, per capita, industrial upgrading and competitiveness of exporting in the international market in the process of transformation.

Chapter 4 The Variety of Capitalisms in South Korea and Taiwan

In this final chapter, the thesis analysis the three prospects and possibilities about the developmental state, and explore the main reasons for the different models in South Korea and Taiwan in the process of transformation. From VOC approach, South Korea can be classified ‘the chaebol-led system’ after transformation, while Taiwan can be described the capitalism as ‘the government-led with party polarization system’. And The three main reasons for the differences in the authoritarian regime, disturbed structure of enterprise and the regional economic integration between South Korea and Taiwan could provide the explanation for the different capitalisms after the transformation.

4.1 The Variety of Capitalisms and Transformation

With the exogenous and endogenous pressures, more and more scholars observed the transformation about the developmental state in the East Asian economies. About the future of transformation, there are three prospects and possibilities about the developmental states. The first possibility is to transfer into Neo-liberalism state from the developmental state, which is believed that the liberal market such as the United States is the only future for these East Asian economies. The second possibility is to sustain the developmentalism or the post-developmental state. They believed that the government continues to play a core role in economic development, but the agenda has changed from the rationality of government and bureaucracy into the embedded between the government and other social forces. And most of scholars hold the third possibility is the varieties of capitalism(VOC) approach, which emphasized to research the variety of capitalism about transformation in East Asia (Gu, 2014:7-10).

The varieties of capitalism (VOC) approach emphasized the several types of capitalism in the world economy (Amable, 2003) from the comparative capitalism research agenda. This approach can be traced back to the observation to development patterns in later-developing economies in England in the eighteenth century and the process of industrialization in the United States and Soviet Union. From the diversity of capitalisms, there are three broad types of capitalisms: state capitalism, coordinated market capitalism and liberal market capitalism. The VOC approach focused on how larger institutional constrains shape the strategic interaction of firms to resolve coordination problems. To a great extent, the developmental state model is a type of state capitalism, which is regarded as a system in which the state functions as the leading economic actor and uses markets primarily for political gain (Naughton and Tsai, 2015). The liberal market capitalism such as the United States emphasis the firms coordinate activities through internal hierarchies, competitive market and radical innovation. And the

coordinated market capitalism depends on nonmarket contracting relationships, which was in the middle between the state capitalism and liberal market capitalism.

For the development states after the transformation since the 1990s, some scholars believed that Taiwan has been transformed from a state-led paradigm to a ‘co-governed mode of capitalism’, which marked by the growing economic clout and political influence of private business group and close collaboration between an adaptive state and private capital in fostering innovation (Walter and Zhang, 2012:48). And the state in South Korea has retreated and corporation have become more powerful (Walter and Zhang, 2012). But some scholars hold the view that South Korea and Taiwan have been transformed the similar models of ‘innovation-led capitalism’ (Boyer et al., 2012). And the scholar tried to classify the economies of the different capitalist countries in four categories in state-guided capitalism, oligarchic capitalism, big-firm capitalism and entrepreneurial capitalism (Baumol et.al, 2007:60-61). Although there is still no consensus about the capitalisms about East Asian economies in the post-developmental state era, the varieties of capitalism (VOC) approach still can provide the special perspective to classify that what kind of model or capitalism has been formed from the Developmental State Model in South Korea and Taiwan since the 1990s.

From the above the analysis of the process of transformation in South Korea and Taiwan, these two economies in East Asia seems to form the different type of capitalism from the developmental state after transformation. For South Korea, the military junta-led government in South Korea was transferred into the democratic civilian system and the chaebol had a dominated role in the government-business coalition. In the bureaucracy and industrial policy, the chaebol was also the core to connect the government and the market, and played a leading in industrial upgrading and innovation. From the VOC approach, the corporations have become more powerful than other social forces, which this capitalism in South Korea after transformation can be classified ‘**the chaebol-led system**’. For Taiwan, the democratization had ended up the Kuomintang-led system and transferred the power from the Kuomintang into the president, and the government still had an important role in industrial policy. But the polarized bipartisan system also caused the convergence between the ‘Kuomintang(KMT)-large Enterprises’ and ‘Democratic Progressive Party(DPP)-small and medium enterprises’ in the government-business coalition, which can be described the capitalism as ‘**the government-led with party polarization system**’ in Taiwan after transformation.

4.2 The Reasons for the different capitalism in South Korea and Taiwan

After the transformation since the 1990s, South Korea and Taiwan have been forming the different types of capitalism. In this part, I have come up with three explanatory reasons for the differences by the process of transformation.

Firstly, South Korea and Taiwan in the developmental state model relied on the different types of authoritarian regimes to sustain the strong capacity of state. In South Korea, the junta and military group was leading role beyond others social forces, while Kuomintang as the single ruling party was the core of regime in Taiwan from the 1960s to 1990s. The different types of authoritarian regimes led to the different process in the democratization, which caused the difference in bureaucracy and industrial policy after transformation.

With the rapid economic growth, the weak social forces including the labor forces, middle class groups and small-and-medium business groups were rising and led to the strong social forces to shake the strong capacity of the state, which caused the vigorous democratic movements in South Korea and Taiwan. In this process, the junta and military-led government reconfigured from a single dominated force into the bipartisan political forces of conservatism and liberalism in South Korea, but the chaebol gained the power with political donations beyond the bipartisan parties to sustain the functions of coherent bureaucracy. In Taiwan, the process of democratization provided a precious opportunity to strengthen the power of president, and the Kuomintang had transferred the power into the government. For pilot organization in developmental state as an example, the Economic Planning Board in South Korea was abolished and incorporated into the Ministry of Finance in 1994, and then separated its economic functions in industrial policy and finance into other two ministries within the central government after the 1997 Asian Financial Crisis. While in Taiwan, the Council for Economic Planning and Development as pilot organization still sustained the core position of economic policymaking in the government. But the strengthened government cannot play the leading role in fostering the stable economic consensus in the long term because of the party polarization between the Kuomintang(KMT) and Democratic Progressive Party(DPP). Under this circumstance, the industrial policy after transformation was the coordinated approach. The government played a service role in to coordinate the different enterprises, provide the market information and create the environment of laws and regulations, while the chaebol was becoming the core role in investment of industrial upgrading and innovation. On the contrary, the strengthened government in Taiwan had to use the resource-allocated approach to support a large number of SMEs left in the island.

The different types of authoritarian regimes and the process of democratization caused the difference in the bureaucracy and industrial policy after transformation. In South Korea, the junta and military group as the leading role in the developmental state was transferred into the bipartisan political system, but the chaebol gained the power beyond the other social forces to sustain the functions of coherent bureaucracy. While in Taiwan, the government regained the power from the Kuomintang, but the party polarization made no social forces form the economic consensus in the long run.

Secondly, there was a different disturbed structure of enterprise in the developmental state, which led to the difference in the bureaucracy and government-business coalition after transformation. Since the 1960s to 1990s, South Korea relied on the large private enterprises to implement the economic policy, and these large enterprises were growing gradually into the chaebols after the 1970s. And the economic functions of strong state were replaced by chaebol in the process of transformation. In Taiwan, the state-owned and public-owned enterprises were the leading role in implementing the economic policy and a large number of small and medium enterprises become the main actor in exporting, which led to the divided coalition in government-business since the 1990s.

With the economic liberalization and democratization, the weakened government could provide the much less support to the business groups in finance, labor suppression, credits and loans. By contrary, the bipartisan political forces of conservatism and liberalism in South Korea had more dependent on the chaebols for political donations, and the power of the government and bureaucracy had divided and weakened. The cohesive chaebol filled the power vacuum beyond the other social forces to sustain the government-business coalition, but the chaebol had already been the upper hand than the government. In Taiwan, the Kuomintang-led government relied the state-owned enterprise to implement economic stratagem instead of the large private enterprise. On the other hand, the social networks in Taiwan are horizontal, open and flexible, which makes the resources of human, market and materials efficiently allocated for SMEs even if the government does not too much intervene in the economy (Hattori and Sato, 1997:353). In 1984, the gross annual value of small and medium-sized enterprises accounted for 47.6% in Taiwan and 60% of Taiwan's total value in exporting (Fang, 2015:277). The similar characteristics in local Taiwanese and grassroots made a closer relationship between the SMEs and non-Kuomintang social forces, especially the Democratic Progressive Party(DPP), which led the divided government-business coalition after transformation. On the other hand, a large number of SMEs left in the island are lack of enough influence in the fierce international competition if face of the global value chains. For that, these SMEs are need more support from the government, and the industrial policy in Taiwan is the resource-allocated approach.

The difference in disturbed structure of enterprise led to the different government-business coalition and economic performance. The chaebol as the coherent large business groups played the leading role in fostering the economic consensus and delivering the market singles, and bridged the convergence within the divided bureaucracy in South Korea. But for Taiwan, the divided government-business coalition broadened the gap of economic consensus in different social forces, which had a negative impact on economic performance in the long run.

The third explanatory reason is the difference in the regional economic integration for South Korea and Taiwan since the 1990s, especially the relations

with the mainland of China. With the lack of comparative advantages in cheaper labors and land, the economy in the East Asia had to consider integrating into the global value chains for regaining the competitiveness in the international market.

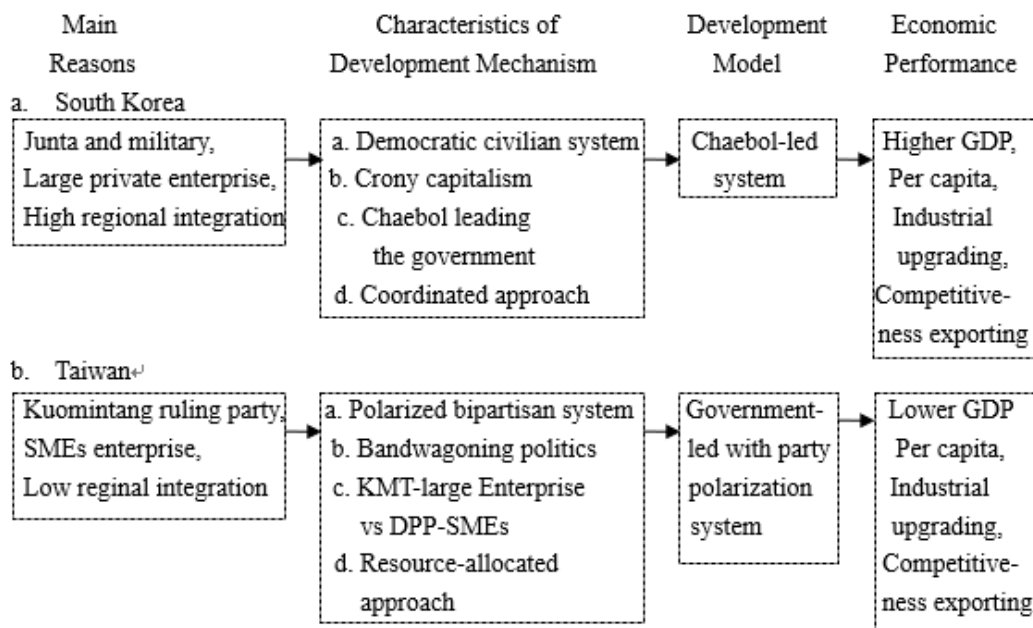
In face of lacking advantages, there are two development strategies for original equipment manufacturer (OMEs) the economies in the globalization. The first strategy is the industrial transfer into other developing economies in making use of the cheaper resources, while the second strategy is the transfer the original equipment manufacturer (OMEs) to high level value chains in original design manufacturers (ODMs) and original brand manufacturer (OBMs) to gain the higher added values. For South Korea, the large-scale business groups had the more competitive in coordinating the materials, capitals, labors and technologies by the vertical organization. On the one hand, they transferred the factories of OMEs to the developing economies that have more cheaper resources and market such as the mainland of China, Vietnam and other South East Asian economies. On the other hand, the domestic bases within the enterprise could provide the advanced technologies to OMEs in the global value chains. But for Taiwan, the special relations and the same background in language and culture made a large number OMEs transfer the factories and bases to the mainland of China, and these OMEs had been growing into the large enterprises. But the net profit rate and the added values were so much lower than the chaebols in South Korea. On the other hand, the small and medium enterprise left in the island had the higher net profit rate, but they were limited the economies of scale in the fierce international competition. Furthermore, South Korea had a better performance in the regional integration. In terms of free trade agreement (FTA), South Korea has signed FTA with its major trading partners such as the United States, China, the European Union and ASEAN until 2019, and the negotiation in the ROK-China-Japan FTA is stepping up. At the same time, Taiwan only signed free trade agreements with central and South America, Singapore and New Zealand as 'The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu' limited by the diplomatic recognition and cross-strait relations. And the Cross-Strait Service Trade Agreement between the Taiwan region and the mainland of China was never ratified by the Taiwanese legislature because of the Sunflower Student Movement in 2014, which led to a much slower process in FTAs.

These three main reasons for the differences in the authoritarian regime, disturbed structure of enterprise and the regional economic integration between South Korea and Taiwan could provide the explanation for the different capitalisms after the transformation.

Conclusions

In the present paper, this thesis has attempted to show the process of transformation from the developmental state in South Korea and Taiwan since the 1990s based on the four main elements of the developmental state in strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy. According to the form outlined in Figure.5. depicts the development mechanisms and models of South Korea and Taiwan after the transformation.

Fig.5. Development Mechanism and Model South Korea and Taiwan



Source: Prepared by the author.

In the historical background, the developmental state played the most important role in the process of industrialization by guiding the resource allocation, disciplining the private sector and formulating the development strategy, which created the ‘East Asian Miracle’ in rapid economic growth. Furthermore, the thesis investigated the evolved process from the developmental state model by tracing the exogenous and endogenous pressures, process of transformation, economic performance and the main reasons for the different outcomes in development mechanisms and models since the 1990s in South Korea and Taiwan. These two East Asian economies had been evolving from the developmental state in facing of the economic and financial liberalization, global production networks, democratic movement and inefficient industrial policy. By tracing the process of transformation in four dimensions in strong capacity of state, coherent bureaucracy, government-business coalition and industrial policy, South Korea and Taiwan formed the two different development models or capitalisms. In South Korea, the development model could classify ‘the chaebol-led system’ with the four characteristics of

democratic civilian system, crony capitalism, chaebol leading the government and coordinated approach. And in Taiwan, the development model could be regarded as ‘the government-led with party polarization system’ with the four characteristics of polarized bipartisan system, Bandwagoning politics, divided coalition between KMT-large Enterprises and DPP-SMEs and resource-allocated approach after transformation. In the final part, the thesis analysis the three prospects and possibilities about the developmental state, and explore the main reasons for the different models in South Korea and Taiwan in the process of transformation.

From the above analysis for transformation of South Korea and Taiwan, this thesis could have the findings in (1) the leading force in fostering the economic consensus, the junta and military group in South Korea as the leading role in the developmental state was transferred into the bipartisan political system, but the chaebol gained the power beyond the other social forces to sustain the functions of coherent bureaucracy. While in Taiwan, the government regained the power from the Kuomintang, but the party polarization made no social forces form the economic consensus in the long run. And the economic consensus beyond different forces is the critical role in the economic development for the developing economies; (2) the necessity and multistage of government intervention, the success of the developmental state model proved the necessity of government intervention for developing economies in the ‘catch-up economic period’ in the process of industrialization. But beyond the advantage of backwardness such as South Korea, the role of government could transfer from the resource-allocated approach into the coordinated approach, which will be helpful to foster the industrial upgrading of enterprises; (3) the dynamics of the state–society–market equilibrium as the core of different models or capitalisms, once the dynamics of the state–society–market equilibrium was broken, the development models will be transformed and adapted the new circumstances. From the experiences of South Korea and Taiwan in transformation, the original weakened social forces shoulder the main actors to transfer from the developmental state including the business groups, the labor, small and medium enterprises and non-ruling party movements.

As one of the rare regions to achieve outstanding economic development and industrialization after the Second World War, the East Asia and the Developmental State Model provide the strategy and prescription to a large number of developing economies that still have continued to struggle with underdevelopment. With the new challenges in globalization and democratic movements, this thesis could provide these economies with some experiences and enlightenments in achieving the economic development by the transformation in South Korea and Taiwan.

References

- Amable, B., (2003), *The Diversity of Modern Capitalism*, New York: Oxford University Press.
- Amsden, A. H. (1989), *Asia's Next Giant: South Korea and Late Industrialization*, NY: Oxford University Press.
- Amsden, A. H. (2001), *The Rise of 'The Rest': Challenges to the West from Late-Industrializing Economies*, New York, NY: Oxford University Press.
- Amsden, A. H. and Chu Wan-wen (2003), *Beyond Late Development Taiwan's Upgrading Policies*, Cambridge: MIT Press.
- Aoki, M. (1994), The Contingent Governance of Teams: Analysis of Institutional Complementarity, *International Economic Review*, 35(3), 657-676. doi:10.2307/2527079.
- Baumol, W. J. and Litan, R. E. and Schramm, C. J (2007), *Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity*, Available at SSRN: <https://ssrn.com/abstract=985843> or <http://dx.doi.org/10.2139/ssrn.985843>.
- Beach, D. (2017), Process-Tracing Methods in Social Science, Qualitative Political Methodology, *Oxford Research encyclopedias*, Online Publication Date: Jan 2017, DOI: 10.1093/acrefore/9780190228637.013.176.
- Bennett, A (2004), *Models, Numbers, and Cases: Methods for Studying International Relations*, Ann Arbor: University of Michigan Press.
- Bennett, A., and Checkel, J. (2014), *Process Tracing: From Metaphor to Analytic Tool (Strategies for Social Inquiry)*, Cambridge: Cambridge University Press. doi:10.1017/CBO9781139858472.
- Boyer, R. (Ed.), Uemura, H. (Ed.), Isogai, A. (Ed.). (2012), *Diversity and Transformations of Asian Capitalisms*, London: Routledge.
- Carsten, A. (2008), On the Applicability of the Most Similar Systems Design and the Most Different Systems Design in Comparative Research, *International Journal of Social Research Methodology*, 11:5, 389-401.
- Castells, M. (1992), Four Asian tigers with a dragon head: a comparative analysis of the state, economy and society in the Asian Pacific Rim, in R. P. Appelbaum and J. Henderson (eds) *States and Development in the Asian Pacific Rim*, Newbury Park, CA: Sage, pp. 33–70.
- Chen Wei and Geng Shu (2017), Developmental State and the Stages of Development: A Neo-Institutional Analysis of the Strategies of Economic Development, *Journal of Political Science*, No.6. [My translation]
- Cole, D.C. and Park, Yung Chul (1983), *Financial Development in Korea 1945-1978*, Cambridge, MA: Harvard University Press.
- Collier, D. (2011). Understanding Process Tracing. *PS: Political Science & Politics*, 44(4), 823-830. doi:10.1017/S1049096511001429.
- Deng Lijuan and Yuan Ze (2011), The Impact of the Transformation and Development of Taiwan Group Enterprises on Economic Transformation, *Taiwan Studies Collection*, Volume 5. [My translation]
- Deyo, F. (1987), *The Political Economy of the New Asian Industrialization*, Ithaca, NY: Cornell

- University Press.
- Eun, J., & Lee, K. (2002), Is an Industrial Policy Possible in China?: The Case of the Automobile Industry. *Journal of International and Area Studies*, 9(2), 1-21. Retrieved from www.jstor.org/stable/43107062.
- Evans, P. (1995), *Embedded Autonomy: States and Industrial Transformation*, Princeton, NJ: Princeton University Press.
- Fang Ning (2011), *liberty, Pluralism and Diversity: A Report on Political Development in East Asia*, Beijing: Social Science Literature Press. [My translation]
- Fang Ning (2015), *Democracy and Development: Democratic Politics in the Age of Industrialization in Asia*, Beijing: Social Science Literature Press. [My translation]
- Gu Xin (2014), The Adaption and Transformation of the Government-led Development Model, *Dong Yue Tribune*, Vol.35, No.10. [My translation]
- Haggard, S. (1990), *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*, Ithaca, NY: Cornell University Press.
- Haggard, Stephan M. (2013), The Developmental State is Dead: Long Live the Developmental State, *Annual Meeting of the American Political Science Association*, Forthcoming. Available at SSRN: <https://ssrn.com/abstract=2312104> or <http://dx.doi.org/10.2139/ssrn.2312104>.
- Hattori Tamio and Sato Yukihiro (1997), A Comparative Study of Development Mechanisms in Korea and Taiwan: Introductory Analysis, *The Developing Economies*, vol. 35, issue 4, p.341-357, DOI: <https://doi.org/10.1111/j.1746-1049.1997.tb00851.x>.
- Hayashi, Shigeko (2010), The developmental state in the era of globalization: beyond the Northeast Asian model of political economy, *The Pacific Review*, 23:1, 45-69, DOI: 10.1080/09512740903398330.
- Huang Jun jie (1991), *Compilation of Historical Materials of China Rural Rejuvenation Joint Commission*, Taipei: Sanmin Bookstore Press. [My translation]
- Howell, C. (2003), Varieties of Capitalism: And Then There Was One, *Comparative Politics* 36: 103-124.
- International Monetary Fund (2015), *World Economic Outlook Database*, Retrieved from <https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspx>.
- Jiang Xuan (2017), Institution, Policies and the Building of National Innovation System: South Korea's Government-led Development Model, *Chinese Public Administration Review*, Issue.6. [My translation]
- Johnson, C. (1982), *MITI and the Japanese Economic Miracle: The Growth of Industrial Policy, 1925– 1975*, Stanford, CA: Stanford University Press.
- Kalinowski, T., & Cho, H. (2009), The Political Economy of Financial Liberalization in South Korea: State, Big Business, and Foreign Investors, *Asian Survey*, 49(2), 221-242. doi:10.1525/as.2009.49.2.221.
- Kang, D. (2002), Bad Loans to Good Friends: Money Politics and the Developmental State in South Korea, *International Organization*, 56(1).
- Kang, D. (2003), Transaction Costs and Crony Capitalism in East Asia, *Comparative Politics*, 35(4).

- Kearney, R. P. (1991), *The Warrior Worker: The Challenge of the Korean Way of Working*, New York: Henry Holt.
- Kim, J. (1990), *Korean industrial policy in the 1970s*, Seoul: Korea Development Institute.
- Kohli, A. (2004), *State-Directed Development: Political Power and Industrialization in the Global Periphery*, Cambridge: Cambridge University Press.
- Liang Fengyi (2015), *Disordered Capital: Rebuilding a New Asian Financial Order*, Beijing: Tsinghua University Press. [My translation]
- Liang Zhiming (2004), *Historical Changes and Re-emergence: A Study of the Process of Modernization in East Asia*, Hong Kong: Social Sciences Press Co. Ltd. [My translation]
- Li Gongqin (2011), *A Hundred Years of Great Cause: The Development History of the Republic of China*, Taipei: Youshi Cultural Enterprise. [My translation]
- Lim, H. (2009), Democratization and the Transformation Process in East Asia Developmental States: Financial Reform in Korea and Taiwan, *Asian Perspective*, 33(1).
- Lin Yifu (2012), *The Quest for Prosperity: How Developing Economies Can Take Off*, Beijing: Peking University Press. [My translation]
- Lin Zhen (2009), Comparative Research on Democratization in East Asia: Taking Taiwan and South Korea as Examples, *Journal of Dongguan University of Technology*, Vol. 16, No. 2. [My translation]
- Liu Xiangping (2005), On the Change of Taiwan's Status in the Modern World Economic System, *Taiwan Studies*, Volume.1. [My translation]
- Liu Xiaochang (2010), The Different Development Paths in South Korea and Taiwan, *Contemporary Korea*, Fall. [My translation]
- Liu Xielin, Sylvia Schwaag Serger, Ulrike Tagscherer, Amber Y. Chang (2017), Beyond Catch-up: Can a New Innovation Policy Help China Overcome the Middle-Income Trap, *Science and Public Policy*, Volume 44, Issue 5, <https://doi.org/10.1093/scipol/scw092>.
- Li Zongrong and Lin Zonghong (2017), *Unfinished Miracle: Taiwan's Economy and Society in Transition*, Taipei: Institute of Sociology. [My translation]
- Luo Jinyi (2014), *Post Economic Growth: Development Challenges in East Asia*, Hong Kong: City University of Hong Kong Press. [My translation]
- Mason, Edward, et al. (1980), *The Economic and Social Modernization of the Republic of Korea*, Cambridge: Harvard University Press.
- Matsumoto, M.(2002), Political Democratization and MKT Party-owned Enterprises in Taiwan, *The Developing Economies*, XL-3 (September): 359–80.
- National Development Council (2016), Taiwan Statistical Data Book 2016, Source: <https://www.roc-taiwan.org/uploads/sites/49/2016/11/Taiwan-Statistical-Data-Book-2016.pdf.pdf>.
- Naughton, Barry, and Kellee S. Tsai, eds. (2015) *State capitalism, institutional adaptation, and the Chinese miracle*. Cambridge University Press, Chapter one.
- Ngo Tak-Wing (2006), The Dilemma of Administrative Reform during Taiwan' Democratization, *China Public Administration Review*, Vol.5.
- North, D. (1984), Government and the Cost of Exchange in History, *Journal of Economic*

- History*, 44, No.2.
- Page, J. (1994), *The East Asian Miracle: Building a Basis for Growth, Finance and Development*, Vol. 31 No.1.
- Paik, Wan Ki (1991), *The Formation of the Governing Elites in Korean Society*, The Kumarian Press.
- Park Donghyun and Ramayandi Arief and Shin Kwanho (2014), Capital Flows During Quantitative Easing and Aftermath: Experiences of Asian Countries, *Asian Development Bank Economics Working Paper Series No. 409*, Available at SSRN: <https://ssrn.com/abstract=2511117> or <http://dx.doi.org/10.2139/ssrn.2511117>.
- Park, Ki Hyuk, et al. (1966), *A Study of Land Tenure System in Korea*, Seoul: Korea Land Economics Research Center.
- Perkins, D.H. (2013), *East Asian Development: Foundations and Strategies*, Cambridge, MA: Harvard University Press.
- Pirie, Iain. (2017), Korea and Taiwan: The Crisis of Investment-Led Growth and the End of the Developmental State, *Journal of Contemporary Asia*. 48. 1-26. DOI: 10.1080/00472336.2017.1375136.
- Rodan, G. (1989), *The Political Economy of Singapore's Industrialization: National State and International Capital*, Basingstoke: Macmillan.
- Shen Hongfang (2004), *Comparative Study on the Economic Development Models in East Asia*, 2nd Edition, Xiamen: Xiamen University Press. [My translation]
- Stubbs, Richard (2009), What ever happened to the East Asian Developmental State? The unfolding debate, *The Pacific Review*, 22:1, 1-22, DOI: 10.1080/09512740802650971.
- Sun Zhen (2003), *The History of Taiwan's Economic Liberalization*, Taipei: Sanmin Bookstore Press. [My translation]
- Tan Genald (1995), *The Newly Industrializing Countries of Asia*, Time Academic Press.
- Tan Shu-jean (2000), KMT Business Management Committee: Its method of calculation is not correct, *Zhongguo shibao*, January 24.
- Thurbon, E. and Weiss, L. (2006), Investing in openness: The evolution of FDI strategy in South Korea and Taiwan, *New Political Economy*, 11:1, 1-22, DOI: 10.1080/13563460500494784.
- Ting Jen-fang (1999), Corporatization, Semi-Clientelism, and the Transformation of Taiwan Local Factions, *Political Science Collection*, Issue 10.
- Tucker Todd (2019), *Industrial Policy and Planning: What It Is and How to Do It Better*, Roosevelt Institute.
- UNCTAD, Data Center of United Nations Conference on Trade and Development, <https://unctadstat.unctad.org/wds/ReportFolders/reportFolders.aspx>.
- Vu, T. (2007), State Formation and the Origins of Developmental States in South Korea and Indonesia, *Studies in Comparative International Development*, 41(4), 27-56, DOI: <https://doi.org/10.1007/bf02800470>.
- Wade H. Robert (2018), The Developmental State: Dead or Alive, *Development and Change*, *International Institute of Social Studies*, vol. 49(2), pages 518-546, March. DOI: 10.1111/dech.12381.

- Wade, R. (1990), *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton, NJ: Princeton University Press.
- Wang Chunxiao and Zeng Yi (2008), Comparative Study of Late Developed Economies: An Explanation for Korea and Taiwan's Financial Transition from the Perspective of Social Coalition Approach, *Journal of Jimei University* (Philosophy and Social Sciences), Vol.11, No.1.
- Walter Andrew and Zhang Xiao ke (2012), *East Asian Capitalism: Diversity, Continuity, and Change*, Published to Oxford Scholarship Online, Oxford: Oxford University Press.
- Wang Jenn hwan, Chen Tsung-Yuan and Tsai Ching-Jung (2012), In Search of an Innovative State: The Development of the Biopharmaceutical Industry in Taiwan, South Korea and China, Development and change, *International Institute of Social Studies*, The Hague, Volume 43, Issue 2.
- Wang Yingying (2017), Research on Macroeconomic Policies in the 1980s and 1990s during the Economic Transition in Taiwan, *Taiwan Studies*, Volume 6.
- Weiss, L. (1995), Governed interdependence: rethinking the government–business relationship in East Asia, *The Pacific Review* 8(4): 589–616.
- Wong, J. (2004), The Adaptive Developmental State in East Asia, *Journal of East Asian Studies*, 4(3), 345-362. doi:10.1017/S1598240800006007.
- Woo-Cumings, Meredith (1991), *Race to the Swift: State and the Finance in Korean industrialization*, New York: Columbia University Press.
- Woo-Cumings, M. J.-E. (1999), *The Developmental State*, Ithaca, NY: Cornell University Press.
- World Bank Policy Research Report, Authors by Birdsall, Nancy M.; Campos, Jose Edgardo L.; Kim, Chang-Shik; Corden, W. Max; MacDonald, Lawrence [editor]; Pack, Howard; Page, John; Sabor, Richard; Stiglitz, Joseph E. (1993), *The East Asian miracle : economic growth and public policy : Main report (English)*, New York : Oxford University Press. <http://documents.worldbank.org/curated/en/975081468244550798/Main-report>.
- World Development Report (1997), Authors by Chhibber, Ajay; Commander, Simon John; Evans, Alison Margaret; Fuhr, Harald L.; Kane, Cheikh T.; Leechor, Chad; Levy, Brian David; Pradhan, Sanjay; Weder, Beatrice Silvia, *The State in A Changing World*, World Development Report. Washington, DC : World Bank Group.
- World Bank (2001), Authors by Jomo, K. S.; Lawrence, Robert Z.; MCKINNON, RONALD I.; Pack, Howard; Perkins, Dwight H.; Urata, Shujiro; Stiglitz, Joseph E. [editor]; Ito, Takatoshi; Okazaki, Tetsuji; Weinstein, David E.; Woo-Cummings, Meredith; Yao, Yang; Yifu, Justin; Qian, Yingyi; Yusuf, Shahid [editor], *Rethinking the East Asian miracle (English)*. Washington, D.C.
- Xu Dianqing (1997), The KMT Party's Enterprises in Taiwan, *Modern Asian Studies*, Vol. 31, No. 2 (May): 399-413. [My translation]
- Yang Gi-Dae (1997), *Toduk konghwaguk* (Republic of Thieves), Seoul: Donga Ilbo.
- Yao Chen (2006), The Developmental State Model and its Transformation, *Journal of Jiangsu Social Sciences*, Volume 3, pp. 54-56. [My translation]
- Yeung, Henry Wai-chung (2017), State-led development reconsidered: the political economy

- of state transformation in East Asia since the 1990s, *Cambridge Journal of Regions, Economy and Society*, Volume 10, Issue 1, Pages 83–98, <https://doi.org/10.1093/cjres/rsw031>.
- Yu Shi and Wen Hui (2012), Should Taiwan Imitate South Korea, *The Strait in Technology and Industry*, Vol.10.
- Zhang Maogui (1994), *Social Movement and Political Transformation*, Taipei: Ye Qiang Press.
[My translation]
- Zhang Zhenhua (2017), Globalization, Financial Crisis, and the Transformation of the Developmental state in South Korea, *The journal of Contemporary World and Socialism*, No.5.