2020
March

社會科學院 FACULTY OF SOCIAL SCIENCES
香港浸會大學 HONG KONG BAPTIST UNIVERSITY

HKBU SOCIOLOGY
RESEARCH BRIEF
Issue 11

Democratization, globalization, and institutional adaptation: The developmental states of South Korea and Taiwan

CHU, Yin-wah

Key implications

1. The predominance of global production networks, growth of private enterprises, and democratization have placed developmental state institutions under pressure.
2. Given path dependency, South Korea and Taiwan differ in their success in launching new industries and facilitating defensive globalization. Due to this divergence, the two economies hold disparate positions in the global division of labor: lead firms in South Korea, contract manufacturers in Taiwan, and aspiring platform leaders in both cases.

Background

The miraculous economic development of South Korea, Taiwan, and other East Asia economies between the 1960s and 1980s has been attributed by many scholars to the "developmental states." The latter are often characterized by the possession of exceptional institutional capacity, the will to develop, and thought to exercise strategic leadership through the delineation of development plans, granting of bank loans, provision of tax concessions, and the like. With social and political changes, especially democratization and globalization, the question becomes whether the developmental state remains the strategic actor it used to be. The reasoning is as follows:

- Democratization: South Korea and Taiwan underwent democratization in the mid-1980s. If their exceptional institutional capacity was founded in part on their authoritarian domination, does it mean that democratization will undermine their capacity to lead?

- Globalization: Many South Korean and Taiwanese enterprises have grown in economic strength and become global entities. In 2017, Samsung and Hong Hai (i.e. Foxconn's parent company) ranked 15 and 27 in Fortune Global 500, respectively. At the same time, their operations become parts of global production networks, which give them resources and opportunities that are beyond the control of any national state. In other words, inexpensive bank loans and the national market, preexisting policy tools of the developmental states, have lessened in their appeals, resulting in a loss of the developmental state's leverage over private corporations. Do all these mean that the developmental states have lost their ability to lead?

Methods

This study relies on the historical-comparative method and supplements with in-depth interviews. Documents used for the historical-comparative analysis include policy statements, statistics, and organizational charts available from websites of various government ministries and public institutions of South Korea and Taiwan; statistics disseminated by various international organizations like the UNCTAD; statistics and research reports issued by individual ASEAN countries; financial statements of selected South Korean and Taiwanese corporations, as well as news reports on their activities. At the same time, in-depth interviews with government officials, researchers at public and private institutions, and employees of private corporations have been conducted in 2005, 2006, 2010, 2011, and 2012 in South Korea and Taiwan. Their viewpoints have been used to shed light on the documents and statistics mentioned above.

Key findings

1. The developmental state institutions have adapted rather than declined.

- Although pilot agencies like South Korea's Economic Planning Board has been abolished and Taiwan's Council for Economic Planning and Development has shifted its goals, new institutions such as the Ministry of Information and Communication in South Korea and the Ministry of Economic Affairs in Taiwan emerged to provide policy planning and coordination. At the same time, low-level institutions, like the National Information Society Agency in South Korea and the Industrial Technology Research Institute in Taiwan, continue to perform their development-related tasks regardless of regime transitions.

  - In addition to financial resources (e.g., bank loans, R&D funding, tax concessions), the 'reconfigured developmental states' also mobilize what might be called 'regulatory resources' to shape corporate actions and facilitate economic transformations. Regulatory resources stem from the national state's prerogative as the maker and enforcer of laws and regulations and, in the context of this study, refer to technological standards (e.g., those governing data-conveyance) and trade laws (e.g., multinational and bilateral free trade agreements).

- State elites in South Korea were in a position to continue to propose visions of development for the sake of "coordinating" corporate actions in part because democratic politics served as correctional mechanisms in the face of ideological divide. By contrast, Taiwan's inability to untangle social divisions related to sub-ethnic or mainland-Taiwan differences undermined the state's ability to launch new development strategies in the face of the neoliberal ideology's global spread.

2. The developmental states continue to work with private corporations in what I call "developmental alliances." The contours, as outlined below, also demonstrate considerable path dependency:

- In South Korea, state elites continue to provide leadership by identifying new growth engines and coordinating private enterprises' efforts through the deployment of financial and regulatory resources. Pressures to offer a larger share of state support to small-and-medium enterprises (SMEs) have facilitated the emergence of innovative start-ups; these in turn have made the state-chaebol symbiosis more dynamic, not eliminating it. Relying on their own initiatives, tapping into state resources, and working alongside SMEs, South Korea's conglomerates have continued to grow, developing brand-named consumer electronics and component parts, branching out to new sectors such as electric cars and pharmaceuticals, and weaving functionally diverse and geographically expansive global production networks to enhance competitiveness.

- In contrast, the highly politicized Taiwanese state has relied on existing developmental institutions and financial and regulatory resources, in addition to its networking skills, which enable the state to work with firms of all sizes to boost their technological strength. In turn, many information technology firms invest heavily in research and development (R&D), allowing them to excel in technological niches and compete at global frontiers. They move up global value chains by producing components, launching a few brand-named consumer electronics, but above all by providing original equipment manufacturing (OEM) and original design manufacturer (ODM) services for global lead firms. With innovation in organizational technology, achieved in part through experiments with outward direct investments (ODI) in Southeast Asia, Taiwan enterprises strove to become indispensable in the global division of labor by crafting regional production networks that involved mega-scale production facilities in some cases.

RELATED PUBLICATION

Chu, Yin-wah. "Democratization, globalization, and institutional adaptation: The developmental states of South Korea and Taiwan." Review of International Political Economy (2019): 1-22.

REQUEST FOR MORE DETAILS

Please contact Dr. Chu Yin-wah at ywchu@hkbu.edu.hk for more information about the project.

DEPARTMENT OF SOCIOLOGY, HKBU

website: http://socweb.hkbu.edu.hk