CATCH-UP INDUSTRIALIZATION
The Trajectory and Prospects of
East Asian Economies

Akira Suehiro
Translated by Tom Gill
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This book is a study of Asian Economy based on field studies I have conducted in Thailand and other East Asian countries over the past three decades. It is a much revised translation of the Japanese edition, Kyō-chi-appu gata Kōgyōka-ron: Ajia Keizai no Kiseki to Tenbō, published by Nagoya University Press in November 2000 to a surprisingly warm welcome from scholars and graduate students in Japan. It has become a selected text for courses in Asian Economy in over thirty universities in Japan, and won the Grand Prize at the Asia-Pacific Awards (sponsored by the Asian Affairs Research Council and Mainichi Newspapers) in 2001. In publishing this English version, I have included material on the latest debates on East Asian industrial development, updating statistical data, and adding discussion of new English and Japanese academic works published since 2000. Consequently, this English version is more like a new book than a simple translation.

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CHAPTER 5

Developmentalism and "Developmental Dictatorship"

In this chapter I look at the ideologies and political systems underpinning catch-up industrialization, specifically developmentalism and the "developmental dictatorship." I look at the domestic and international factors behind the emergence and entrenchment of developmentalist ideology in various East Asian countries. The key concepts dealt with here are the systematization of developmental policy, economic growth during the Cold War, a contest between rival systems (free economic system vs. planned economic system), the permeation of growth ideology, and nationalism as a unifying force. I also discuss the directions taken by developmentalist ideology after the Asian crisis of 1997.

1. What is Developmentalism?

As Gerschenkron accurately observed, any latecomer country aiming to achieve accelerated industrial development requires a powerful developmentalist ideology in order to spur the population to work for the cause of industrialization (Gerschenkron 1962: 86, 191; see also chapter 2 of the present work). In 19th century Germany and Meiji-era Japan, that ideology took on a strongly nationalistic, state-centric hue. However, this kind of nationalism started to change with the onset of the Cold War during the 1950s, resulting in what I call "developmentalism." Let me explain exactly what I mean by this term.

The first use of kaihatsushugi, the Japanese equivalent of "developmentalism," occurs in Murakami Yasusuke's great two-volume work of 1992, Hankoten no Seijiteisaitoku (Anti-classical Political Economy). In this work Murakami defines developmentalism as an economic system
that makes private property and market economy (in short, capitalism) its basic framework, but holds its ultimate goal to be industrialization (defined as sustained growth of per capita production) and tolerates government intervention in the market economy from a long-term perspective so long as it is seen as advantageous to attaining that goal (Murakami 1992 Volume 2: 5–6). Murakami argues that in contrast to first-wave industrializing economies, which are based on individuals and corporations, late-developing economies are “political-economic systems that clearly define the state as the basic unit” (ibid.). Murakami emphasizes that in order for these latecomers to catch up with the advanced industrial economics, it is not just acceptable but “rational” from a policy perspective for governments to temporarily intervene in the market, to strengthen the competitiveness of specific industries, and to promote technological progress.¹

The next major Japanese contribution to this debate was Hayami Yūjirō’s Kaishatsu Keizaiigaku: Shokokumin no Hinkon to Teni (Development Economics: From the Poverty to the Wealth of Nations), published in 1995 (English edition in 2001). In this book, Hayami defines “developmentalism” as “the ideology that, in developing economies aimed at catching-up with advanced economies, economic development produces a higher value than its material value, such as satisfaction of national prestige and security” (Hayami 1995: 232; 2001: 236).

Hayami draws a clear distinction between “old developmental market economies” and “new developmental market economies.” The former he defines as characterized by a system where the government promotes high capital accumulation by suppressing consumption through strong regulations and administrative guidance within the basic framework of market economies, as seen in prewar Germany and Japan (Hayami 2001: 247). The latter he characterizes in terms of export industry promotion and growth ideology, as seen in postwar Japan, in East Asian NIEs such as South Korea and Taiwan, and more recently in some of the ASEAN economies (ibid. 247–55).²

For my own part, I have previously defined developmentalism as follows: “a method of intensively mobilizing material and human resources that prioritizes the interests of state and nation rather than the individual, household or community, in order to realize state-defined goals, specifically the strengthening of the nation through economic growth attained by industrialization” (Suehiro 1998a: 18). In the same work I posited two fundamental conditions that support developmentalism: active government intervention in markets in order to promote top-down industrialization designed to enable latecomers to catch up with advanced industrial nations; and strong state crisis management (centralized political power and construction of a repressive political system) to deal with domestic and international political crises, particularly those arising after the appearance of the Cold War international order.

I would argue that only once these two requirements — the economic requirement for latecomer industrialization and the political requirement for a strong crisis management system — have been met can developmentalism become established. The mechanism linking these economic and political factors is illustrated in figure 5-1. At the left and right extremes of the diagram respectively are the economic and political requirements for developmentalism; alongside them are the various concepts standing in opposition to developmentalism. For example, the industrialization model of advanced industrial nations is placed in opposition to catch-up industrialization; and long-term conflict avoidance and management systems are placed in opposition to temporary crisis management. Again, in opposition to the growth-oriented economic system and repressive political system that define developmentalism, I have identified economic systems emphasizing income redistribution and welfare, and political systems emphasizing democracy and human rights. Readers should be aware that these are somewhat theoretical categories: I make no claim to be representing precisely the past experience or current actuality of the Euro-American or Asian nations.

2. Developmentalism and the Political System

Hitherto, discussion on the mutual relationship between developmentalism and the political system in developing countries has tended to concentrate exclusively on the elements on the right side of figure 5-1, namely, crisis management and repressive political systems (see figure 5-2). In the case of East Asian countries, there has been a much-noted tendency for the military or special-interest groups to seize power, justifying their actions by appealing to the threat posed by communist influence spreading to their nation, or the need to quell political chaos or anti-government movements.³ The individuals or groups that seize power then introduce economic development policies in order to concentrate, maintain, and strengthen their own authority. Their aim, in short, is to “justify seizure of power using the pledge of future economic growth” (Fujiwara 1992: 328).
Developmentalism and “Developmental Dictatorship”

However, this kind of highly centralized, planned management of development policy carries inherent weaknesses. Authority becomes concentrated in administrative organs that tend to swell into bloated bureaucracies, while the common people are increasingly excluded from the political process. In political terms, the net result is an extremely repressive regime, commonly referred to as a developmental dictatorship or “repressive developmentalist regime” (Suzuki 1988).

However, I cannot be wholly convinced by one-sided arguments that see developmentalism as being underpinned purely by brute secret police, by covert military actions against suspect members of the public and the other trappings of the politics of fear, or by authoritarian politics restrictive of freedom of speech, assembly, and association. Why? Because, as figure 5-3 shows, many of the East Asian administrations routinely described as developmental dictatorships or regimes managed to stay in power for 15 to 20 years or more and were, in fact, supported by many of the people over whom they ruled.

Specific examples are the Park Chung-hee government in South Korea (1961–79), the Chiang Kai-shek/Kuomintang government in
Taiwan (1949–88), the Thai military governments of Sarit Thanarat and Thanom Kittikachorn/Praptrap Charusathit (1958–73), the Singapore government of the People's Action Party (PAP) under Lee Kuan Yew (1965–90), the Suharto administration in Indonesia (1966–98), and the government of Mahathir bin Mohamad in Malaysia (1981–2003). To correctly understand these "dictatorships," some of them personal, some focused on dominant government ruling parties — such as the PAP in Singapore, the United Malays National Organization (UMNO) in Malaysia, and the Golkar Party in Indonesia (Fujiwara 1992) — it is not enough simply to dismiss them as repressive regimes that held power through the politics of fear. At the very least, any attempt to explain the longevity of these developmentalist administrations must pay fresh attention to the following two points.

First, we need to look at how each of these administrations went about organizing the laws, systems, and institutions required to implement their developmental policies (for instance, the establishment of Economic Development Agencies, the mode of intervention in labor-management relations, etc.). Second, we need to consider the popular reaction to these government policies that gave top priority to economic development, and to the developmentalist ideology underlying those policies. These two points are the key to understanding the long-term survival of these administrations. Without the systematization of developmental policy and the acceptance of growth ideology on the part of the general public, these so-called dictatorships of person or party would never have lasted as long as they did.

3. The Evolution and Systematization of Development Policy

Let us now examine how development policy was systematized by various developmentalist administrations in East Asian countries. I will start by examining the Sarit administration, which came to power in Thailand through a coup d'état in 1958, before moving on to look at the administrations of Park Chung-hee, Lee Kuan Yew, Ferdinand Marcos, and Suharto. I will focus on four main points, as outlined below.

First, let us consider the formation of state organs concerned with economic development. The template here is the Economic Planning Board, launched in 1961 by the South Korean government and discussed in chapter 3. Two organs — the Council for Economic Planning and

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*Note: (1) Italics indicate a ruling party or government-sponsored organization. (2) SLOC (Malaysia) Sdn Bhd is a wholly owned subsidiary of SOIC.*

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**Figure 5.3. Governments and Developmentalist Regimes in East Asian Countries**

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**Table:**

<table>
<thead>
<tr>
<th>Country</th>
<th>Government</th>
<th>Years</th>
<th>Ruling Party</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>Sarit</td>
<td>1958–73</td>
<td>PAP</td>
</tr>
<tr>
<td>South Korea</td>
<td>Park</td>
<td>1965–90</td>
<td>SLOC</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Mahathir</td>
<td>1981–2003</td>
<td>UMNO</td>
</tr>
<tr>
<td>Singapore</td>
<td>Lee Kuan</td>
<td>1965–90</td>
<td>Golkar</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Suharto</td>
<td>1966–98</td>
<td>UMNO</td>
</tr>
</tbody>
</table>

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*Source: Defined by the author on the basis of back ed. (1997) and Lewski (1998: 18).*
Development (CEPD) and the Industry Development Bureau (IDB)—are principally responsible for economic planning in Taiwan. Similar bodies exist in other Southeast Asian countries, notably in Thailand (the National Economic and Social Development Board, or NESDB, founded in 1959, and the Ministry of National Development, created by Sarit in 1963 out of a merger between 13 departments in various ministries, including those of roads, natural resources, and irrigation, with himself as minister in addition to his position as premier); in Singapore (the Economic Development Board, or EDB, launched in 1961 and given greatly expanded powers in 1968); and in the Philippines (the National Economic Development Agency, or NEDA, formed in 1972 from the merger and strengthening of existing agencies).  

It is worth noting that the officials who were drafted in to staff these state economic development bodies were generally elite technocrats who had received high levels of education, mostly in the United States. They had studied economics, public administration, and modern political science and had played important roles in the drafting and implementation of government policy. Back in the Meiji era, officials who had studied abroad played a major role in governing Japan. From the 1960s onward that pattern was repeated in the industrialization of other East Asian countries, with US-educated economic technocrats playing an even more important role. As well as playing their part in drafting and implementing economic development policy, they also brought back with them a vision of future prosperity, derived from their personal experience of the wealth of the United States. Thus, they had a second role as a medium for the diffusion of information and ideas. This is discussed in detail later.

The second key point in developmentalism is state control over currency, or more specifically the abolition of various foreign exchange systems and their replacement with what was in effect a fixed exchange rate or dollar peg. Control of foreign exchange rates is crucial to the successful implementation of development policy, because it has a direct bearing on repayment of loans from abroad, trends in domestic savings levels, and price competitiveness of export products.

To put it another way, maintaining a system of controls on foreign currency and exchange is one of the most important policy tools for any government seeking to attract the foreign investment necessary for industrialization and thereby to implement an effective domestic development policy. The level at which the currency is pegged will have a major influence on the current account balance in the international balance of payments and thereby on the stabilization of the macro-economy of the country in question.

A third key point is the direct or indirect intervention of the state in labor-management relations (Chew and Chew 1996: chapters 3–5). The experience of populist politics in the countries of Latin America, and of industrial harmony policies in Japan, bears eloquent testimony to the importance of stable labor relations to any country pursuing latecomer industrialization (see chapter 11). In the countries of East Asia there has been a widespread tendency to view industrial relations not as something for workers and management to negotiate among themselves, but as a legitimate area for direct government intervention. The aim has been to achieve stable industrial relations as a matter of government policy.

There has been some variation among East Asian countries in the way this policy has been pursued. In Thailand, for instance, when Field Marshal Sarit took power in the coup of 1958, he immediately issued a proclamation (Proclamation of the Revolutionary Party No. 19) denying workers the rights of organization, collective negotiation, and collective action—rights that had officially been granted them just two years earlier in the 1956 Labor Law. Sarit ordered the disbandment of all labor unions and banned strikes. It was not until 1972 that labor organizations of any kind were again to be permitted in Thailand, and then only under the title of "employee associations." A minimum wage was instituted in 1973, and unions as such were legalized only in 1975, through the Labor Relations Act passed that year (Suchiro and Higashi eds. 2000: chapter 6; Brown 2004: chapter 5).

In contrast, South Korea, the Philippines, and Singapore all provide examples of administrations that permitted union organization and collective bargaining even while professing developmentalism. In practice, however, workers' rights were severely circumscribed, with government bodies and government-affiliated labor organizations being used to keep the workers in line. Take, for example, the South Korean government's deliberate weakening of South Korea's Three Labor Laws at the end of 1963, and the Park government's institution of labor-management consultative councils under the "revolutionary system" of 1972; or the PAP's formation of the National Trades Union Congress in Singapore in 1961. This organization, reorganized in 1968, was a government
stoolge, as was the National Wages Council, set up by the PAP in 1972 (Rodan 1989: 69–72; Chew and Chew 1996: 137–48).

The fourth key element in developmentalism is to ensure that the fruits of that policy are enjoyed by the people in some visible, tangible form. That means a kind of social policy rather than the welfare systems introduced in Latin America under military rule, including some degree of income redistribution. Examples include the South Korean Saemaul movement, designed to improve the livelihoods of the peasantry; and the Sarit government policy in Thailand of improving infrastructure in provincial towns by building new road networks, clock towers, elementary schools with soccer pitches, health centers, small-scale irrigation projects, feeder roads, etc. In the Philippines, land reform to turn landless peasants into smallholders was an important policy theme of the Marcos administration.

In Singapore, a city-state with no rural districts to speak of, provision of public housing and other elements of lifestyle infrastructure for city residents was an important policy objective. In 1960 the government replaced its existing housing improvement association with the Housing Development Board (HDB), which took the central role in policies for constructing large numbers of public apartments as well as providing substantial government assistance to citizens seeking to purchase their own residence. No fewer than 53,000 new units of public housing were created under the first five-year plan, launched in 1961. This was more than double the 22,000 units built in Singapore in the 30 years from 1927 to 1957, including the end of the colonial period (Suehiro 1998: 38). The HDB’s five-year plans continued after that, and in the 27-year period from 1961 to 1987 a total of 650,000 housing units were provided. As a result, the proportion of the population living in HDB apartments climbed from 9 percent in 1960 to 50 percent in 1975, and further to 86 percent by 1987. The Lee government proclaimed a policy of universal home ownership to set alongside its policy of full employment, thereby seeking to persuade the people that its development policy was right (Tremewan 1998).

We have discussed four aspects of the evolution and systematization of development policy. Of them, probably the second and third (foreign exchange controls and intervention in industrial relations) are the most important. However, these two characteristic developmentalist policies began to lose their effectiveness with the financial and industrial liberalization that started to make itself felt from the mid-1980s, as political repression was gradually eased and labor movements and democratization movements started to gather steam. Eventually these tendencies would come to shake the very foundations of the developmentalist state itself, as discussed in section 6 of this chapter.

4. The Cold War Order and Economic Development

Another essential precondition to the establishment of developmentalism as a state system was a shared belief among the general population in the rightness of growth ideology. Incidentally, people tend to think of economic growth and economic development as having been fundamental themes of political economy since time immemorial, but not until surprisingly recently did they become enshrined in the global strategy of the United States. It was only in the late 1950s, when the United States became locked in systemic competition with the USSR, in a rivalry whose outcome was measured in terms of economic growth, that growth and development became the totemic terms that they are today.

In the US vision of how the world order was to be reconstructed in the wake of World War II, the economic development of developing countries did not occupy a particularly important position. It was the United Kingdom that called loudest for economic development, drawing up a plan for "colonial economic development" as early as 1945 (Ingham 1992). On the basis of this plan, the United Kingdom launched long-term economic plans in its African colonies such as Nigeria and Tanzania, followed by territories in North Africa and the Middle East. Then in the 1950s the United Kingdom launched the Colombo Plan, under which former British colonies in Asia were called upon to institute economic development plans in exchange for infusions of economic aid.

In contrast, the main US approach to supporting developing countries up to the early 1950s was an orthodox combination of expanded trade and direct investment. The Eisenhower administration had no wish to make developing countries install economic development plans, which were viewed as all too easily linkable to the Socialist-style planned economy, while the US Congress of the day was critical of any increase in aid to developing countries that would impose a heavier burden on the US taxpayer. The atmosphere in the United States changed dramatically around 1956, however. Khroustchev, who had succeeded Stalin following the latter's death in 1953, went on an "economic offensive abroad" against the liberal camp (Kaufman 1978). The USSR
overtook the United States in space development — famously illustrated by Yuri Gagarin's historic Sputnik space flight in October 1957 — and looked to be overtaking the United States in nuclear development too. Khrushchev also saw the rest of the world in a different light compared to Stalin and hurriedly started to step up economic aid to countries he perceived as having global strategic importance in expanding the Socialist bloc, such as Egypt, India, and Indonesia.10

In 1956 the USSR announced its sixth five-year plan, an ambitious document that featured a growth target for the national economy of 11 percent per annum. That figure was double the average growth rate for Western countries over the previous 80 years and triple the average US growth rate for the same period (Hoover 1957: 258–9). Suddenly the US media and academia were full of talk about the threat posed by the USSR, or a "collectivist, authoritarian economic system" (ibid. 268), and some of the more pessimistic analysts were even forecasting that the United States would suffer economic defeat at the hands of the USSR by the year 2000. As the debate unfolded, the rivalry between the United States and USSR developed from focusing simply on political ideology (freedom versus equality) and military supremacy, to embrace three new fields of competition: technological development, economic aid, and economic growth rates. It literally became a "contest between rival systems" (Suehiro 1998a: 25–7).

This systemic rivalry had a great influence on the political leadership of newly independent developing countries, and on US policy toward developing countries. This was because at this time the decision to follow the Socialist path was seen not just as a matter of political preference, but as a plausible choice of economic system to achieve higher rates of economic growth. This fact of life left the Eisenhower administration with no option but to greatly modify the way it dealt with developing countries, including Asian countries.

As the policy change came into being, Walt W. Rostow and Max F. Millikan's congressional policy document A Proposal: Key to an Effective Foreign Policy (Millikan and Rostow 1957) had considerable influence. The two authors were Soviet specialists working at the Massachusetts Institute of Technology, known for their work on takeoff theory. The report summarized their work and that of several other MIT researchers, such as the modernization theorist Lucian Pye. This report stressed that the threat to the "underdeveloped countries" ("developing countries" in this book) from the USSR was not limited to the risk of communist penetration from abroad: There was also an internal social threat, from anti-government movements inspired by communist ideology. The report strongly advocated US support for united national efforts toward economic development that would embrace every social class (thereby bringing about social evolution), and the installation of strong administrations to carry out development policies. This, the authors argued, was the only way to head off violent revolutions in the underdeveloped countries (ibid. 24–5). In short, this was a forceful argument for the United States to temporarily abandon its insistence on economic liberalism and democratic politics and instead tolerate the emergence of developmentalist governments that would intervene in their national economies. Here we find part of the explanation of the origins of developmental states.11

5. Nationalism and Growth Ideology

Given that the US change in policy toward developing countries was an important external factor permitting the establishment of developmentalism and growth ideology in East Asian countries, we should now ask ourselves what were the *domestic* conditions in those countries, especially those of Southeast Asia, that prompted them to follow that path. The key factor here is the top-down nationalism found in many of these countries after they achieved independence — for this was the ideology driving the selection of national goals in general, and national development in particular.

In discussing Southeast Asian nationalism, it is important to recognize that this is an ideology focused on the nation-state rather than on ethnic identity; and that it includes two very distinct strands. The first strand of nationalism is founded on the principle of self-help, designed to achieve a truly independent nation-state conceived in opposition to previous subjugation to the colonial powers. It is a form of nationalism that comes up from the grassroots of society, a nationalism of resistance, which can on occasion find expression in extreme voluntary self-sacrifice (Tsuciyha ed. 1994: 44–5).

The second strand is top-down nationalism, developed by the political leaders of newly independent former colonies as a tool in the construction of modern nation-states. This strand of nationalism emerged from the crisis management developed in response to domestic and international threats during the Cold War period. The key feature of this ideology is the conceptualization of a nation that goes beyond ethnic groups
(such as Malays or Thais), beyond social status (king, aristocracy, privileged religious orders, etc.), and beyond social class (workers, the old-style middle class defined in terms of property ownership, etc.). In a sharp conceptual dichotomy, people who follow the party line are defined as good citizens of the nation, while those who oppose the line are labeled communists (irrespective of what ideology they may actually claim to espouse) and treated as non-citizens (Suehiro 1994a: 218). This strain of nationalism may hence be called "top-down nationalism" or "unificatory nationalism." Sometimes it may result in hate campaigns against alleged communists, who may be wrongly imprisoned or executed on trumped-up charges. It is this top-down form of nationalism that has been most closely associated with developmentalism.

How, precisely, is unificatory nationalism linked to developmentalism and growth ideology?

The concept of economic development planning was introduced in Southeast Asian and South Asian nations by the 1950s, and indeed some of them already had five-year development programs in place under the United Kingdom's Colombo Plan. However, the predominant concern in those days was not so much with economic development as with economic nationalism (Golay et al. 1969). This was because one of the lessons of the colonial period had been that free market competition and free trade could easily lead to domination of the economy by the colonizing powers or by Chinese business interests, which have long been active in Southeast Asia and are a perennial bugbear of nationalist governments in the region. This perception led the governments of the Philippines, Indonesia, and even Thailand, which had been spared colonization, to expel foreign capital while seeking to construct an independent national economy centered on state-owned and other public enterprises during the 1950s (see chapter 7).

Unfortunately, these attempts at economic management by governments with very little in the way of capital, technology, or business know-how had disastrous results in most of the countries where they were tried. They brought rampant inflation, economic chaos, and industrial stagnation, along with persistent political corruption and scandal at the state-run enterprises. On top of that, in countries such as Thailand, Indonesia, and the Philippines, which tried to convert their political systems to Western-style parliamentary democracies, corrupt party politics and rigged elections came to be widely blamed for destroying the political order.

This led to a mounting sense of crisis among military and political leaders regarding the spread of communism abroad, the rise of anti-government movements at home, and the inability of existing political authorities to check these developments. It was just at this time (the late 1950s) that the United States made the big change in its overseas aid policy mentioned above, in the direction of accepting developing countries with development-oriented authoritarian governments as legitimate aid recipients. The conditions were now in place for the emergence — through coups or single-party elections — of a string of new governments in Southeast Asia, governments that rejected economic nationalism where it failed to generate visible results. These were the governments of Park in South Korea, Sarit in Thailand, Marcos in the Philippines, and Suharto in Indonesia. The justification offered by these dictators for seizing power was quite simple and can be summed up in two points: they would fight communism and they would promote rapid industrialization, often expressed as "national development." Note that this slogan of national development was generally accompanied by concrete national objectives, typically a figure for annual economic growth with which the people could identify. However, national development was not necessarily enough in itself to ensure a stable administration and regime over the medium to long term. Hence the need discussed in section 3 above for social policies, such as the Saemaul program in South Korea or the government housing project in Singapore, that would turn national development into a visible reality for the people, experienced through improved livelihoods.

A second factor in unifying nations in pursuit of development was the diffusion of growth ideology to turn it into a shared value of the people. In the era when these countries were struggling to liberate themselves from colonialism, a major weapon of "resistance nationalism" had been the creation of a national language — this in regions often characterized by rich linguistic diversity — via newspapers, magazines, and radio. The media would play a major role in the era of national development, too, though the center of influence shifted toward movies, newspaper advertising, and, later on, television. The media propagated images of the prosperous consumer lifestyle of the United States and other advanced industrial nations, helping to establish prosperity and convenience as central elements in popular lifestyle values.
In the case of Thailand, TV broadcasting commenced in 1953, but during the 1960s television was still not very widely established in Thai society. So the phenomenon seen in Japan during the high-growth era of US home dramas on television spreading the desire for consumer prosperity, was not reproduced on any significant scale in Thailand. Rather, the image of the fruits of future growth was held chiefly by a small elite: technocrats who had studied in the United States on Fulbright grants, etc., and the offspring of wealthy Chinese merchants who had gone to the United States for study in large numbers at a time when travel to the Chinese mainland was banned. When these people returned from the United States, they had tasted a wealthy consumer lifestyle and were determined to realize it back home. They would become crucial standard bearers of national development and lead the quest to catch up with the West in terms of living standards.

6. Developmentalism Wavers

Things changed greatly from the second half of the 1980s, as the factors sustaining developmentalism disappeared or underwent fundamental change.

First of all, the end of the Cold War, symbolized by the fall of the Berlin Wall, destroyed the main raison d'être for state crisis management. With the communist threat gone, dissatisfaction with political repression boiled up and found expression in increasingly dynamic democratization movements in South Korea, in Taiwan, and later in China and Southeast Asia. These movements prompted calls across a wide region, not just for political freedom and democratic government, but also for the development of civil society and for political systems that would allow the participation of local citizens. "National development" gave way to new slogans: for democratization and the realization of civil society.

Second, the spread of economic liberalization and globalization from the late 1980s deprived governments of their ability to use economic intervention as a policy tool, thereby undermining the very foundations of developmentalism. The trigger for economic liberalization was the prolonged global recession following the second oil shock at the end of the 1970s. Plagued by collapsing prices for primary products, falling exports, inflation, and snowballing government debt, the Philippines, Thailand, and Indonesia were all forced to apply to the IMF and World Bank for standby credit and Structural Adjustment Loans (SALs) between 1982 and 1984. In exchange, these countries were obliged to accede to demands from the international financial institutions for "structural reforms," which generally meant the easing or abolition of various government regulations seen as obstacles to free trade and the market economy. Government subsidies and policies to support prices of agricultural products were also frequently earmarked for abolition under structural reform programs (Chaipat 1992 on Thailand; Mihira and Sato eds. 1992 on Indonesia). Other countries, such as South Korea and Singapore, were not subject to this kind of pressure from international bodies, but they nonetheless set out from about the mid-1980s to study the privatization of state/public enterprises and to reduce public spending, both items seen as major causes of the growing strain on government funds (see chapter 7).

Moving into the late 1980s, a whole slew of interventionist policies by East Asian governments came to be reviewed and gradually liberalized. These included foreign exchange controls, regulations on capital transactions, restrictions on the establishment of new banks and finance companies (and the scope of the business they were permitted to engage in domestically), and licensing systems for industrial investment and for foreign direct investments (see also chapter 6). These liberalization policies were drafted partly in response to demands from the United States, the World Bank, etc., but they were also demanded by domestic private-sector industrialists whose businesses had shown sufficient growth for them to chafe at the various regulations imposed by governments seeking to control their expansion and diversification. In place of protection for particular groups of favored capitalists by military regimes, the call of domestic capital was now increasingly for greater freedom of entry to new industrial sectors.

The result of all this, as we saw in chapter 4, was that vast amounts of foreign investment capital came pouring into East Asian countries, while domestic industrial conglomerates pushed ahead with more and more new investment, depending mainly on loans from banks at home and abroad to finance it. This reflected the fact that it had become increasingly difficult for governments to control capital markets and influence the distribution of investment funds by the traditional means of regulating government-sponsored financial institutions. By the mid-1990s the only regulatory tools left to governments were the dollar peg to maintain stable foreign exchange markets, and the use of public
spending for industrial infrastructure. However, the currency crisis of 1997 provided a powerful new impetus for governments to shift to floating exchange rates, push ahead with economic deregulation, and open the door farther to foreign investors. Governments lost their role of controlling, concentrating, and distributing economic resources to promote national development; instead, they could do little more than passively accept the economic reforms foisted upon them by international bodies.

Inevitably, the parallel trends of democratization and liberalization had a great impact on catch-up industrialization as well as on developmentalism (Suchiro 1998a). The two trends forced governments to review the role of the centralized administrative bodies that had supported government intervention in the economy, prompting them to think in terms of administrative reform and decentralization in power. This conflicted with one of the main underlying principles of developmentalism and catch-up industrialization — that of treating the state, rather than individuals or communities, etc., as the fundamental unit of economic policy. In addition, the two trends triggered a change in the political and economic center of gravity, away from the nation-state and its national government toward independent individuals (citizens) and corporate enterprises. In place of national development, individual freedom and business prosperity became the main concerns.

Does all this signify the end of developmentalism? Does it mean that catch-up industrialization has gone as far as it can? So long as we accept that growth ideology is one of the main factors that have sustained developmentalism up to now, it is too early to write the obituaries. Neither the end of the Cold War, nor the spread of democratization and liberalism, have had any direct impact on growth ideology or the desire to enjoy the kind of prosperous lifestyle seen in advanced industrial countries. On the contrary, post-Cold War developments in the former Socialist countries such as China and Vietnam indicate that growth ideology is stronger than ever. So long as people continue to believe in growth ideology, developmentalism will also survive, albeit shorn of the more repressive crisis-management aspects that often characterized it in the days before the Berlin Wall came down.

CHAPTER 6

Import Substitution, Export Promotion, and Industrial Policy

In this chapter I examine the relationship between trade and industry — a relationship fundamental to catch-up industrialization — by tracing the development of government policy in this area. I start by introducing Hla Myint’s groundbreaking analysis of the issues involved, before moving on to show briefly how East Asian governments have moved through three stages: from exporting primary products, to import substitution, and then to promotion of manufactured exports. Along the way I outline the challenges confronting governments attempting an import substitution policy and show how responses to those challenges have fallen into two broad categories: “NAIC (Newly Agro-Industrializing Country) industrialization,” which seeks to gradually step up the degree of processing applied to agricultural and marine products; and “industrial upgrading policy,” which aims at developing heavy and chemical industries and the various industrial sectors supporting them. Finally, I discuss the fundamental rethink of industrialization strategies confronting East Asian countries in the wake of the 1997 financial crisis.

1. Myint’s Analysis

Hla Myint, born in Burma (today’s Myanmar) in 1920, was one of East Asia’s most influential economists. He was closely involved in the foundation of Rangoon University and became its president while still a young man in his 30s. However, he did not get along with the military regime that came to power in 1961, and he reluctantly abandoned his role in the industrialization of the newly independent Burma. He fled to the United Kingdom, where he lectured on development economics, first at Oxford and later at London University.