
The origins and development of the Northeast Asian political economy: industrial sectors, product cycles, and political consequences

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East Asia today is the center of world economic dynamism. Japan in 1980 became number two in the world in gross national product (GNP). Its achievement is complemented by the "gang of four," South Korea, Taiwan, Singapore, and Hong Kong. These four East Asian developing countries now account for almost twice the export totals of the entire remainder of the Third World, and their growth rates are usually the highest in the entire world. Singapore and Hong Kong are difficult to categorize: are they nations? industrial platforms? city-states? My concern in this article will be with the northeastern portion of the East Asian basin: Japan, Korea, and Taiwan.

These four nations (including the two Koreas) in 1978, before the second oil shock, accounted for a combined GNP of about \$1.06 trillion, a population of 190 million, an annual growth rate of 10 percent, and perhaps \$232 billion of world trade. This compared to a U.S. GNP in 1978 of about \$2 trillion, a population of 218 million, a growth rate of 4 percent, and world trade of \$326 billion. Apart from the United States, no other region had a higher GNP—the combined GNP of the European Economic Community in 1978 was \$1.95 trillion, less than double the Northeast Asian figure, and the average growth rate in the EEC was 2.9 percent. The Soviet Union had a larger population but a lower GNP, and a growth rate estimated at 3.1 percent.

Since the onset of export-led growth in the mid 1960s the GNPs of both Taiwan and South Korea have grown by an average of about 10 percent per year, with manufacturing expansion often doubling that figure. North Korea, according to official statistics, had the highest rate of agricultural growth in the entire world in the period 1970–78, and since the Korean War its industrial production has grown at the highest rate in the socialist world.¹ In the space

I would like to thank the following people for helpful comments: Peter Gourevitch, Albert Hirschman, Peter Katzenstein, Stephen Krasner, James Kurth, Jeffrey Paige, and Immanuel Wallerstein.

1. U.S. Central Intelligence Agency (CIA), *Handbook of Economic Statistics 1979* (Washington, D.C.: National Foreign Assessment Center, 1980).

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of one generation these countries have transformed their economic structures such that the agrarian sector, including upwards of 60 percent of the population in 1960, now accounts for less than 20 percent of GNP. It is little wonder that American developmentalists speak of miracles in Taiwan and South Korea, or that socialist economists like Joan Robinson speak of a miracle in North Korea. For reasons of space, however, I shall limit this analysis primarily to South Korea and Taiwan.

A glance back before World War II suggests that we may need a longer perspective to capture the true dimensions of this growth. Japan's interwar annual growth rate of 4.5 percent doubled the rates of interwar Europe; colonial manufacturing growth in Korea, 1910–1940, averaged 10 percent per annum, and overall GNP growth was also in the 4 percent range, as was Taiwan's. No nation's heavy-industrial growth rate was steeper than Japan's in the period 1931–1940; in the textile sector, Japan's automation was ahead of Europe's in 1930. Yet new research now suggests that both Korea and Taiwan experienced higher GDP growth rates than Japan between 1911 and 1938 (Japan, 3.36%; Korea, 3.57%; Taiwan, 3.80%).²

In the past century Japan, Korea, and Taiwan have also moved fluidly through a classic product-cycle industrialization pattern, Korea and Taiwan following in Japan's wake. Japan's industrialization has gone through three phases, the last of which is just beginning. The first phase began in the 1880s, with textiles the leading sector, and lasted through Japan's rise to world power. In the mid 1930s Japan began the second, heavy phase, based on steel, chemicals, armaments, and ultimately automobiles; it did not begin to end until the mid 1960s. The third phase emphasizes high-technology "knowledge" industries such as electronics, communications, computers, and silicon-chip microprocessors.

Within Japan each phase, in good product-cycle fashion, has been marked by strong state protection for nascent industries, adoption of foreign technologies, and comparative advantages deriving from cheap labor costs, technological innovation, and "lateness" in world time. Each phase involved a bursting forth into the world market that always struck foreign observers as abrupt and unexpected, thus inspiring fear and loathing, awe and admiration.

For Japan the product cycle has not been mere theory; it has melded with conscious practice to make Japan the preeminent example of upward mobility in the world system through successive waves of industrial competition. In the 1930s Kaname Akamatsu elaborated his famous "flying geese" model of industrial development in follower countries, predating Raymond Vernon's

2. G. C. Allen, *Japan's Economic Policy* (London: Macmillan, 1980), p. 1; see also Kazushi Ohkawa and Henry Rosovsky, *Japanese Economic Growth: Trend Acceleration in the Twentieth Century* (Stanford, Calif.: Stanford University Press, 1973), pp. 74, 82–83. For the comparisons of growth rates with Korea and Taiwan see Mataji Umemura and Toshiyuki Mizoguchi, eds., *Quantitative Studies on Economic History of Japan Empire [sic], 1890–1940* (Tokyo: Hitotsubashi University, 1981), p. 64.

work by several decades.³ Time-series curves for imports, import-substitution for the domestic market, and subsequent exports of given products tend to form a pattern like wild geese flying in ranks. The cycle in given industries—textiles, steel, automobiles, light electronics—of origin, rise, apogee, and decline has not simply been marked, but often mastered, in Japan; in each industrial life cycle there is also an appropriate jumping off place, that is, a point at which it pays to let others make the product or at least provide the labor. Taiwan and Korea have historically been receptacles for declining Japanese industries. Adding agriculture gives a pattern in which in the first quarter of this century Korea and Taiwan substituted for the diminishing Japanese agricultural sector, exporting rice and sugar in great amounts to the mother country (Taiwan was annexed in 1895, Korea in 1910). By the mid 1930s Japan had begun to export iron and steel, chemical, and electric-generation industries, although much more to Korea than to Taiwan. In the 1960s and 1970s, both smaller countries have received declining textile and consumer electronic industries from Japan (as well as from the United States), and in the 1980s some Japanese once again speak of sending steel and autos in the same direction.

Thus if there has been a miracle in East Asia, it has not occurred just since 1960; it would be profoundly ahistorical to think that it did. Furthermore, it is misleading to assess the industrialization pattern in any one of these countries: such an approach misses, through a fallacy of disaggregation, the fundamental unity and integrity of the regional effort in this century. Yet ahistorical disaggregation is the most common approach; it is reinforced by the many differences between the three countries, and by the dominant modernization school in U.S. academic circles, which has produced by far the greatest quantity of literature on East Asian development. The three countries speak different languages, have different histories, different cultures (albeit all traditionally influenced by China), and, in Korea and Japan, two highly homogeneous but quite different ethnic constituencies. Modernization theory and these basic differences have reinforced a tendency, at least since 1945, to view each country apart from the others and to examine single-country trajectories. Furthermore, critical and radical (or nonmodernization) developmentalists have tended to ignore East Asia, focusing instead on Latin America and Africa. Those that do study East Asia usually study the Chinese revolution, which produced many things but not stunning industrial development.

A country-by-country approach is incapable of accounting for the remarkably similar trajectories of Korea and Taiwan. Thus, specialists on Korea argue that its development success “is unique in world history”;⁴

3. Kiyoshi Kojima, *Japan and a New World Economic Order* (Boulder, Colo.: Westview, 1977), pp. 150–51.

4. L. L. Wade and B. S. Kim, *Economic Development of South Korea: The Political Economy of Success* (New York: Praeger, 1978), p. vi.

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Taiwan specialists make similar claims. Thus, Taiwan specialists cite the apparent “paradox” of Taiwanese development—that it developed in a fashion that contradicts the assumptions of dependency theorists—while not breathing a word about Korea.⁵ Both groups of specialists omit the essential Japanese context of Korean and Taiwanese development. Conventional neo-classical economists attribute growth in Taiwan or Korea to specific attributes of each nation: factor endowments, human capital in the form of a reasonably educated workforce, comparative advantage in labor cost, and so on. Modernization theorists offer a diffuse menu of explanations for Taiwan or Korea, ranging from the discipline or “rationality” of traditional Confucianism, through various cultural arguments, the passion for education, U.S. aid and advice, and the presumed “natural” workings of the product cycle, to the diffusion of advanced education, science, and technology.⁶ Political arguments about the alleged big power of small states, while addressing one facet of East Asian political development, beg the question why Korea and Taiwan but not Guatemala or Burma. Product-cycle arguments, unlike the others, do have the virtue of linking Japanese with Korean and Taiwanese development, but their proponents do not explain why the cycle has conformed to theory in Northeast Asia so much better than elsewhere.

This article asserts that an understanding of the Northeast Asian political economy can only emerge from an approach that posits the systemic interaction of each country with the others, and of the region with the world at large. Rapid upward mobility in the world economy has occurred, through the product cycle and other means, within the context of two hegemonic systems: the Japanese imperium to 1945, and intense, if diffuse, American hegemony since the late 1940s. Furthermore, only considerations of context can account for the similarities in the Taiwanese and South Korean political economies. Simultaneously, external hegemonic forces have interacted with different domestic societies in Korea and Taiwan to produce rather different political outcomes: this, too, has been characteristic throughout the century. Korea was more rebellious in 1910; it is more rebellious today. I seek, therefore, to explain both the similarities in economic development and the differences in political consequences in the three countries.

Some theoretical considerations

The concept of the product cycle offers a useful way to understand change and mobility within and among nations. This theory of the middle range

5. See Susan Greenhalgh, “Dependency, Distribution and the Taiwan ‘Paradox,’ ” and Denis Simon, “U.S. Assistance, Land Reform, and Taiwan’s Political Economy” (both papers presented at the Taiwan Political Economy Workshop, Columbia University, New York, 18–20 December 1980).

6. For a good example of this line of reasoning see chap. 2 in Edward S. Mason et al., *The Economic and Social Modernization of the Republic of Korea* (Cambridge: Harvard University Press, 1980).

has the virtue of being compatible with liberal, neomercantile, and Marxist or world system theories. That is, the neoclassical liberal can make the Ricardian assumption that a system of open exchange (free trade) provides the structure in which nations maximize their comparative advantages and thus create a world-ranging and mutually beneficial division of labor. The mercantilist can make the Listian assumption that free trade is the ideology of the early-arriving hegemonic nation, and that to catch up the follower nation needs not laissez-faire but a strong state, not open systems but protectionist barriers. For a world system analyst the product cycle is one among several means of upward and downward mobility; the core assumption is the existence of a capitalist world economy that, at least in our time, is the only world-ranging system. Thus, the core power pursues an imperialism of free trade, and rising powers use strong states, protectionist barriers, or a period of withdrawal and self-reliant development (the Stalinist or socialist option) as means to compete within the world system.⁷

All three theories assume that the product cycle is a middle-range explanation for the waxing and waning of industrial sectors, and that it is imbedded in some larger structure—an international division of labor or a world economy. All likewise assume intense competition—a race—for development; nations swim upstream, against the current, or are carried backward. Both Liberal and Marxist theory postulate a utopia to end the struggle: a world of free trade and the greatest good for the greatest number, or societies submitted to a rational plan under a world socialist government. Mercantilists are content to postulate a survival of the fittest, by whatever means necessary.

The world system perspective posits a tripartite division of the globe: core, semiperiphery, and periphery. A tripartite hierarchy appeals to many analysts: Aristotle was the first to note the social stability provided by a broad middle class, and Charles Kindleberger pointed out many years ago that in a hierarchy of top, middle, and low the middle functions “to discipline the third member in forms of behavior which he should adopt toward the first. The relations of the middle class to the wealthy and to the working classes may partake of this character. . . .”⁸

Immanuel Wallerstein, a sociologist by academic origin, casts onto the global system the classic role of the middle class in providing social stability,

7. For references, see David P. Calleo and Benjamin M. Rowland, *America and the World Political Economy* (Bloomington: Indiana University Press, 1973), and Jacob Viner, “Power versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries,” *World Politics* 1 (October 1948), on mercantilism and neomercantilism; Raymond Vernon, *Sovereignty at Bay: The Multinational Spread of U.S. Enterprises* (New York: Basic Books, 1971), on the product cycle and free trade; Immanuel Wallerstein, “The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis,” in Wallerstein, ed., *The Capitalist World-Economy* (New York: Cambridge University Press, 1979), for the world system approach.

8. Charles P. Kindleberger, “Group Behavior and International Trade,” *Journal of Political Economy*, February 1951, p. 42.

disciplining and mediating those below to serve the interests of those above, and being an agency of change, through class or individual social mobility.⁹ This is the role for the semiperiphery in the world; the means of upward mobility are wars, diplomacy, alliances, product cycles, and so on.¹⁰

What about the “world upper class,” or core? I use the term *hegemony* to refer to core-state behavior. By hegemony I do not mean the Gramscian notion of class ethos, nor a crude Marxist notion of ruling class or imperial domination, nor the diffuse contemporary Chinese usage, referring to big-power domination in all its manifestations. Nor do I use it in Robert Keohane and Joseph Nye’s sense “in which one state is able and willing to determine and maintain the essential rules by which relations among states are governed.”¹¹ I mean by hegemony the demarcation of outer limits in economics, politics, and international security relationships, the transgression of which carries grave risks for any nonhegemonic nation.

In the postwar American case, hegemony meant the demarcation of a “grand area.”¹² Within that area nations oriented themselves toward Washington rather than Moscow; nations were enmeshed in a hierarchy of economic and political preferences whose ideal goal was free trade, open systems, and liberal democracy but which also encompassed neomercantile states and authoritarian politics; and nations were dealt with by the United States through methods ranging from classic negotiations and trade-offs (in regard to nations sharing Western traditions or approximating American levels of political and economic development) to wars and interventions (in the periphery or Third World), to assure continuing orientation toward Washington. The hegemonic ideology, shared by most Americans but by few in the rest of the world, was the Tocquevillean or Hartzian ethos of liberalism and internationalism, assuming a born-free country that never knew class conflict. Not a colonial or neocolonial imperialism, it was a new system of empire begun with Wilson and consummated by Roosevelt and Acheson. Its very breadth—its non-territoriality, its universalism, and its open systems (within the grand area)—

9. Wallerstein, “Rise and Future Demise.”

10. Like most interesting concepts, these categories of core, semiperiphery, and periphery have problems of definition and scope, but they are useful for locating nations in the world economy. A similar set of categories is Krasner’s tripartite distinction between makers, breakers, and takers among nations. See Stephen D. Krasner, “US Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness,” in Peter J. Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978), pp. 51–52.

11. See C. Fred Bergsten, Robert O. Keohane, and Joseph S. Nye Jr., “International Economics and International Politics: A Framework for Analysis,” in Bergsten and Lawrence B. Krause, eds., *World Politics and International Economics* (Washington, D.C.: Brookings, 1975), p. 14; also Keohane and Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977), pp. 42–46.

12. The “grand area” was a concept used in Council on Foreign Relations planning in the early 1940s for the postwar period. See Laurence H. Shoup and William Minter, *Imperial Brain Trust: The Council on Foreign Relations and U.S. Foreign Policy* (New York: Monthly Review Press, 1977), pp. 135–40.

made for a style of hegemony that was more open than previous imperialisms to competition from below. Indeed, we may eventually conclude that this was its undoing.

This form of hegemony establishes a hierarchy of nations, therefore, but not one that is frozen: it may render obsolescent the development of underdevelopment. Instead, far more than the German hegemony in Eastern Europe that Albert Hirschman analyzed or the Japanese unilateral, colonial hegemony, it is open to rising talent from below and particularly to disparities of attention (what Burke, speaking of England and the American colonial revolution, called “wise and salutary neglect”) that give leverage and room for maneuver to dependencies. As Hirschman put it more recently, the dependent country “is likely to pursue its escape from domination more actively and energetically than the dominant country will work on preventing this escape.”¹³ Finally, this form of hegemony also fused security and economic considerations so inextricably that the United States has never been sure whether economic competition from its allies is good or bad for grand-area security. As a result, inattention often becomes catatonia (witness U.S. policy toward Japan in the past decade). A diffuse hegemony, then, it perhaps merits a diffuse definition: we know it in the doing, and we mark it more in retrospect. American postwar hegemony grew less out of specific human design (although Dean Acheson as architect would come close) than out of the long-term reaction of hegemonic interests to the flow of events.

These various terms and concepts are applicable to the international system. But Kindleberger notes in a seminal paper that foreign-policy actions and reactions are imbedded “deep in the structure of society.” In one nation (e.g., Germany) class may be important in understanding foreign economic policy; in another (e.g., Britain) it may not.¹⁴ Likewise, in nations the state may be strong or weak, and empirical investigation suggests that this bears little relationship to Wallerstein’s strained argument that state power recedes as one climbs down the hierarchy from core to periphery. In Japan, Taiwan, and Korea, much of their success and their variance from one another may be explained by reference to state and society. For the strength of states, we can use Alexander Gerschenkron’s sequencing argument and Stephen Krasner’s simple scheme: strong states can formulate policy goals independently of particular groups, they can change group or class behavior, and they can change the structure of society.¹⁵ (After all the inflated verbiage, this is fundamentally what Nicos Poulantzas had in mind when he referred

13. Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (1945; rpt. Berkeley: University of California Press, 1980), pp. ix–x; Burke is quoted in Hirschman.

14. Kindleberger, “Group Behavior,” pp. 43–44, 46. The *locus classicus* for such reasoning is now James R. Kurth, “The Political Consequences of the Product Cycle: Industrial History and Political Outcomes,” *International Organization* 33 (Winter 1979), pp. 1–34.

15. Krasner, “US Commercial and Monetary Policy,” p. 60; Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1962).

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to the “relative autonomy” of capitalist states.)¹⁶ Japan, as Krasner notes, rates as very strong on this scale; so, in the later periods, do South Korea and Taiwan. Indeed, these three strong states go far toward explaining their product-cycle virtuosity.

Finally, there is society, by which I mean both the conventional notion of a system structured by groups and classes and Karl Polanyi’s sense of society being the human web that reacts to market penetration, capitalist relations, and industrialization in varying but always critical ways around the globe.¹⁷ Attention to society and its reactions can avoid the reductionism of some Wallersteinians who place inordinate emphasis on the structuring effect of the world system on national societies, as if they are putty to be shaped and molded. In fact, in the Northeast Asian case the three different societies deeply affect the development of the national and regional political economies.

The origin of the Northeast Asian political economy, 1900–1945

However much it may pain the majority of Korean nationalists and the minority of Taiwanese nationalists, the place to begin in comprehending the region’s economic dynamism is with the advent of Japanese imperialism. Japan’s imperial experience differed from the West’s in several fundamental respects.¹⁸ It involved the colonization of contiguous territory; it involved the location of industry and an infrastructure of communications and transportation in the colonies, bringing industry to the labor and raw materials rather than vice versa; and it was accomplished by a country that always saw itself as *disadvantaged* and threatened by more advanced countries—Japan was “weak and puny,” Professor Etō Shinkichi has written, and this perception affected the entire colonial enterprise. All of these characteristics made themselves felt most strongly in Korea, the closest and always the most important of Japan’s possessions.

Japan entered upon colonization late, in a world with hundreds of years of colonial experience and where, as King Leopold of Belgium said three years before the Meiji Restoration, “the world has been pretty well pillaged already.” Most of the good colonial territories were already spoken for; indeed, for several decades Japan faced the possibility of becoming a dependency, perhaps even a colony, of one of the Western powers. With imperial attention mostly focused on China and its putative vast market, however, Japan got

16. Nicos Poulantzas, *Political Power and Social Classes* (London: NLB, 1975), part 4.

17. Karl Polanyi, *The Great Transformation* (New York: Farrar & Rinehart, 1944).

18. See Bruce Cumings, *The Origins of the Korean War: Liberation and the Emergence of Separate Regimes* (Princeton: Princeton University Press, 1981), chap. 1. On Taiwan see Samuel Ho, *The Economic Development of Taiwan 1860–1970* (New Haven: Yale University Press, 1978), pp. 26, 32; he puts a similar emphasis on the role of the colonial state in Taiwan.

what E. H. Norman called a “breathing space” in which to mobilize its resources and resist the West. Its success was manifest in victories over China and Russia within the decade 1895 to 1905, but that should blind us neither to Japan’s perception of its position as poised between autonomy and dependency in a highly competitive world system nor to the very real threats posed by the West. While the British and the Americans marveled at Japanese industrial and military prowess at the turn of the century, the Kaiser sent his famous “yellow peril” mural to the Tsar and the French worried about Japanese skills being tied to a vast pool of Chinese labor, posing a dire threat to the West. In such circumstances the Japanese were hardly prone to worry about the sensitivities of Taiwanese or Koreans but rather to see them as resources to be deployed in a global struggle; and, of course, Japan never lacked for Westerners (including socialists like Sydney and Beatrice Webb, and hardy Americans like Theodore Roosevelt) who were quick to justify Japanese aggression.¹⁹

The relative lateness of the endeavor imparted several additional characteristics: first, a posthaste, anticipatory quality in colonial planning; second, an extraordinary interest in and mimicking of previous colonial experience; third, a rather quick anachronism to the whole enterprise; last, little choice but to colonize contiguous neighbors.

Many have spoken of Japan’s defensive reform and industrialization after 1868; and so it was with Japan’s colonial expansion—offensive to Taiwanese and Koreans, it looked defensive to Japanese planners in a predatory world. And, much like reform at home, the colonial effort had an anticipatory, preconceived, planned aspect. The characteristic figure in this architectonic endeavor was therefore not an adventurous Cecil Rhodes type but an administrator and planner like Gōto Shimpei, who played the architect in the Taiwan colony.

Like MITI in the Japanese economy today, the colonizers exercised sharp “administrative guidance” in shaping colonial society. These planners would both mimic the West and seek to avoid its errors. Thus, Itō Hirobumi discovered the secret of the German state, colonial administrators studied French policies of assimilation, architects designed railroad stations in the classic style for Seoul and Taipei. When Europeans witnessed Japanese behavior, they were looking into a mirror of their own behavior.

There was also something anachronistic about Japanese imperialism, perhaps not in the seizure of Taiwan but certainly by 1910 with Korea, and a fortiori 1931 with Manchuria. Japan since the 1880s has always seemed in some vague way to be about twenty years behind European and American developments, and therefore to be persisting in the lathered pursuit of things

19. Jean-Pierre Lehmann, *The Image of Japan: From Feudal Isolation to World Power, 1850–1905* (London: Allen & Unwin, 1978), p. 178; J. M. Winter, “The Webbs and the Non-White World: A Case of Socialist Racialism,” *Journal of Contemporary History* 9 (January 1974), pp. 181–92.

the West was tiring of; today, for example, an automobile boom runs in Japan some two decades after the boom began ending in the United States. By 1910 strong anti-imperialist movements had developed in England and the United States, and shortly thereafter Woodrow Wilson was not only calling for self-determination in colonies but pursuing an American neo-imperialism that envisioned organizing great spaces in the world for free trade and competition, thereby branding the exclusive possession of colonial territory as outmoded or immoral, or both. Another great power, Russia, emerged from World War I with an equally potent idea: self-determination and national revolution for colonial peoples. Wilson and Lenin both changed the rules of the game for latecomers like Japan. The swashbuckling, sword-carrying colonist suddenly looked like a museum exhibit to the modern world that Japan took as its constant reference after 1868. Thus, seeking to anticipate every eventuality, Japan met an unanticipated consequence: progressives proclaimed Japan to be a backward exemplar of 19th century ideas.

In order to acquire colonies in the first place, Japan had to maximize its comparative advantages by seeking territory close to home. The West, always stretched in East Asia, could in judo-like fashion be dispatched in the near reaches of Japan. Thus, unlike most colonial powers Japan colonized neighboring countries, making feasible a close, tight integration of colony to metropole. Contiguity also facilitated the settling of colonial migrants, especially from among an insular, homogeneous people who abhor distance from the native source, and could raise the potential of extraordinarily rapid exchange-time in market relations. Japan quickly enhanced this potential through laying railroads, opening ports, and making heavy investments in communications.

Lateral expansion also meant that Japan preferred the military, in the form of a land army resident in the colony, as its coercive force—not a navy or a tiny cadre of colonial ministers, *à la* Britain. As Hannah Arendt once suggested, lateral imperialism is usually more repressive, and this was true of Japanese colonialism.

In Korea and Taiwan the colonial power emphasized not only military and police forms of control but also development under strong state auspices. This was particularly true after the Depression, when Japan used a “mighty trio” of state organization, central banking, and *zaibatsu* conglomerates to industrialize Korea and parts of Manchuria. Although strong in both colonies, the state in Korea bulked even larger in the economy than in Taiwan, as figures on government capital formation show.²⁰ Much like its role in the decades after the Meiji Restoration, the state substituted for an absent or at most incipient entrepreneurial class. As David Landes writes of Japan,

It was the State that conceived modernization as a goal and industrialization as a means, that gave birth to the new economy in haste and

20. Umemura and Mizoguchi, *Quantitative Studies*, pp. 70–77.

pushed it unrelentingly as an ambitious mother her child prodigy. And though the child grew and developed its own resources, it never overcame the deformity imposed by this forced nurture.²¹

The deformations were even more marked in Korea and Taiwan, where the colonial state stood above and apart from societies that had not yet reached Japan's level of social, political, and economic development. Thus, a highly articulated, disciplined, penetrating colonial bureaucracy substituted both for the traditional regimes and for indigenous groups and classes that under "normal" conditions would have accomplished development themselves. The colonial state replaced an old weak state, holding society at bay so to speak; this experience goes a long way toward explaining the subsequent (post 1945) pronounced centralization of Taiwan and both Koreas, and has provided a model for state-directed development in all three.

Japan's administrative and coercive colonialism took two quite different societies and political economies, and molded them into look-alikes.²² The first act was a major cadastral survey and land reform: 1898–1906 in Taiwan, 1910–18 in Korea. North-South trunk railroad lines were laid. Ports were opened. In Taiwan, cane sugar and to a lesser extent rice were promoted; by 1938 Taiwan was second only to Cuba in sugar exports. Korean rice exports expanded by leaps and bounds in the 1920s. Yet agricultural growth was stronger in Taiwan than in Korea; colonial administrators remarked that what could be done with economic incentives in Taiwan required coercion in Korea.

Here we have our first important societal reaction to hegemonic penetration. Whereas Taiwan had for the most part only an aboriginal population until the 18th century, and a small class of Chinese absentee landlords by the end of the 19th century (the *ta-tsu-hu*), Korea had a powerful landed class of centuries' duration, in which property holding and aristocratic privilege were potently mixed.²³ The Japanese found it expedient to root landlords more firmly to the ground, as a means of disciplining peasants and extracting rice for the export market. The landlord class therefore persisted through to 1945, although by then it was tainted by association with imperial rule. In Taiwan, by contrast, land reform at the turn of the century eliminated absentee lords and fostered a class of entrepreneurial landowners, emerging "from below" as they had in Japan. By 1945 most Taiwan landowners held less land than their Korean counterparts and were far more productive. Whereas tenancy

21. David S. Landes, "Japan and Europe: Contrasts in Industrialization," in William W. Lockwood, ed., *The State and Economic Enterprise in Japan* (Princeton: Princeton University Press, 1965), p. 182.

22. Cumings, *Origins*, chaps. 1 and 2; Ho, *Economic Development*, pp. 28–57; also Ching-yuan Lin, *Industrialization in Taiwan, 1946–1972: Trade and Import-Substitute Policies for Developing Countries* (New York: Praeger, 1973), pp. 13–28.

23. James B. Palais, *Politics and Policy in Traditional Korea* (Cambridge: Harvard University Press, 1975), pp. 1–19.

increased markedly in Korea, it actually decreased in Taiwan between 1910 and 1941. Samuel Ho has concluded that by 1945 agriculture in Taiwan was quite scientific, and change had occurred “without disrupting the traditional system of peasant cultivation.”²⁴ Korea, on the other hand, had frequent peasant protests and rebellions, guerrilla movements in the border region, and above all a huge population movement off the land that severely disrupted the agrarian political economy.²⁵ In other words, Korea betrayed most of the features associated with colonial underdevelopment, Taiwan did not. It may be that the very existence of Korea, and subsequently Manchukuo, gave Taiwan its own “breathing space” within the regional imperium. In any case, its experience did not conform to the predictions of dependency theorists. And, of course, Taiwan produced a weak nationalist impulse, Korea an extraordinarily strong one.

In the 1930s Japan largely withdrew from the world system and pursued, with its colonies, a self-reliant, go-it-alone path to development that not only generated remarkably high industrial growth rates but changed the face of Northeast Asia. In this decade what we might call the “natural economy” of the region was created; although it was not natural, its rational division of labor and set of possibilities have skewed East Asian development ever since. Furthermore, during this period, Japan elaborated many of the features of the neomercantile state still seen today. One prescient writer in the mid 1930s speculated that Japan’s heavy industrialization spurt was so impressive that “if world trade were not restricted by tariff walls and import quotas . . . Japan might become the largest exporter in the world—and in a very short time.” Guenther Stein saw in this spurt “the beginning of a new epoch in the industrialization of the world.”²⁶ He was right on both counts. (This is not the usual dating: the watershed years of 1945–50 are presumed to have remade Japan, but, as we shall see, they did not.)

The definitive work by Kazushi Ohkawa and Henry Rosovsky sees two “long swings” of Japanese industrial growth in this century, one in the 1930s and the other in the post 1955 period; the first was only marginally less successful. The 1930s’ development rested on the “two sturdy legs” of cheap labor and “a great inflow of technology,” followed by massive state investments or subsidies to *zaibatsu* investors. Exports were still mostly “light,” mainly textiles; but iron and steel, chemicals, hydroelectric power, aluminum, and infrastructure (transport and communications) grew markedly in the imperium.²⁷ What is so often forgotten is that this spurt located industry in the colonies as well.

Japan is among the very few imperial powers to have located modern heavy industry in its colonies: steel, chemicals, hydroelectric facilities in

24. Ho, *Economic Development*, pp. 43, 57.

25. Cumings, *Origins*, chaps. 8–10.

26. Guenther Stein, *Made in Japan* (London: Methuen, 1935), pp. 181, 191.

27. Ohkawa and Rosovsky, *Japanese Economic Growth*, pp. 180–83, 197.

Korea and Manchuria, and automobile production for a time in the latter. Even today, China's industry remains skewed toward the Northeast, and North Korea has always had a relatively advanced industrial structure. Samuel Ho remarks that, by the end of the colonial period, Taiwan "had an industrial superstructure to provide a strong foundation for future industrialization"; the main industries were hydroelectric, metallurgy (especially aluminum), chemicals, and an advanced transport system. By 1941, factory employment, including mining, stood at 181,000 in Taiwan. Manufacturing grew at an annual average rate of about 8 percent during the 1930s.²⁸

Industrial development was much greater in Korea, perhaps because of the relative failure of agrarian growth compared to Taiwan but certainly because of Korea's closeness both to Japan and to the Chinese hinterland. By 1940, 213,000 Koreans were working in industry, excluding miners, and not counting the hundreds of thousands of Koreans who migrated to factory or mine work in Japan proper and in Manchuria. Net value of mining and manufacturing grew by 266 percent between 1929 and 1941.²⁹ By 1945 Korea had an industrial infrastructure that, although sharply skewed toward metropolitan interests, was among the best developed in the Third World. Furthermore, both Korea and Taiwan had begun to take on semiperipheral characteristics. Korea's developing periphery was Manchuria, where it sent workers, merchants, soldiers, and bureaucrats who occupied a middle position between Japanese overlords and Chinese peasants; as Korean rice was shipped to Japan, millet was imported from Manchuria to feed Korean peasants in a classic core-semiperiphery-periphery relationship. As for Taiwan, its geographic proximity to Southeast Asia and South China made it "a natural location for processing certain raw materials brought in from, and for producing some manufactured goods for export to, these areas."³⁰

The Japanese managed all this by combining a handful of *zaibatsu*, several big banks, and the colonial state structures. They also foisted upon Koreans and Taiwanese an ideology of incorporation emphasizing a structural family principle and an ethical filiality: the imperium was one (not-so) happy family with Emperor Hirohito as the father. Although the colonized peoples (especially Koreans) remember this period with intense loathing—the forced Emperor worship, the alien Shintō beliefs, the requirement to speak Japanese and take Japanese names—the fact remains that as Taiwan and Korea have industrialized in the postwar period they have fostered *zaibatsu*-like conglomerates, with extensive family interpenetration, and ideologies of familial hierarchy and filial loyalty (the "New Life" movement in Taiwan, the "New Spirit" movement in 1970s South Korea, a corporate familism in North Korea).³¹

28. Ho, *Economic Development*, pp. 70–90; Lin, *Industrialization in Taiwan*, pp. 19–22.

29. Mason et al., *Economic and Social Modernization*, pp. 76, 78.

30. Lin, *Industrialization in Taiwan*, p. 19.

31. Bruce Cumings, "Corporatism in North Korea," *Journal of Korean Studies* 4 (1983).

Although Taiwan seemed to emerge from the last phase of colonialism relatively unscathed, with few disruptions, Korea was profoundly transformed. The period from 1935 to 1945 was when Korea's industrial revolution began, with most of the usual characteristics: uprooting of peasants from the land, the emergence of a working class, widespread population mobility, and urbanization. Because the Japanese industrialized from above, however, social change accompanying this revolution was greatest in the lower reaches of society. The social and regional conflicts that racked Korea in the 1945–53 period have their origins in the immense population shifts, agrarian disruptions, and industrial dynamism of the final phase of the Japanese imperium. This was truly a decade-long pressure cooker; the lifting of the lid in 1945 deeply affected Korea.³² But Japan, too, was deeply changed by the experience. Japan was remade in this period.

The modern Japanese state, well described in its contemporary features elsewhere,³³ was initially the great work of the Meiji oligarchs. But it was in the 1930s that it took on many of the neomercantile features that persist today: its virtuosity in moving through the product cycle, from old to new industries; the extraordinary role for the bureaucracy and key agencies like MITI, exercising “administrative guidance” throughout the economy; the peculiar vehicles for credit, which account for much of the mobility in and out of industries; the role of large conglomerates; the systematic exclusion of labor from most important decision making; and the high rates of exploitation of poorly paid female labor.

The imperatives of late development in a predatory world shaped Japan more in the 1930s than in any other period, amid the general breakdown of the world system. Sharp competition precipitated remarkable unity at home. The militarist aggression and street politics of the young radicals blind us to the formidable coalition that came together within Japan during the decade. Chalmers Johnson argues that this period saw the emergence of three key features. The first was national planning and industrial strategy that extended to most major industries in Japan. Its only American counterparts are isolated experiences like the Manhattan Project or the space program. The second was the structural features of the MITI function in the years 1939–43 (even though MITI had not yet appeared), including key managerial personnel (“old cadres”) who persisted long into the postwar period. And the third was the role for the state and credit institutions that is by now the mark of the Japanese model.³⁴ G. C. Allen has argued that Japan owed industrial success in the 1930s to “structural adaptability” that

32. Cumings, *Origins*, chaps. 1 and 2.

33. T. J. Pempel, “Japanese Foreign Economic Policy: The Domestic Bases for International Behavior,” in Katzenstein, *Between Power and Plenty*, pp. 139–90.

34. Chalmers Johnson, “A Japanese Model?” (Paper presented at the Japan Seminar, University of Washington, School of International Studies, Seattle, May 1981); also Johnson, *MITI and the Japanese Miracle* (Stanford, Calif.: Stanford University Press, 1982), pp. 305–24.

came from systematic state subsidization and protection of new industries, and credit institutions that treated investment funds in very mobile fashion. Allen suggests that Japan's ability to centralize credit institutions and industry "under a single control" was a great comparative advantage at the time, although such concentration was also a measure of the immaturity of the Japanese economy: with capital weak and many producers still in traditional sectors, the state had to select and foster large industries and banks. Like Johnson, he finds "an identifiable thread of continuity" from this period to the contemporary era.³⁵ Ohkawa and Rosovsky also trace the practice of administrative guidance to the 1930s, with state planning agencies being central to the surveying of the foreign technology scene, the import of technology, licensing, allocation of foreign exchange to importers, and so on.³⁶ These early agencies, and their MITI successor, in effect were the directors of Japan's movement through the product cycle.

Behind everything in Japan there seems to have been a bank. In the 1930s the Big Four *zaibatsu* controlled four of the six biggest banks; their integrated financial power made it possible to mobilize and direct capital, achieving great and rapid adaptability. The banks, official and semi-official, along with the *zaibatsu*, "provided the chief means by which the government promoted industries of national importance."³⁷ Thus, the forerunners of MITI provided the goals, and the banks and corporations the means, for directing and riding the product cycle.

The prewar *zaibatsu* were family-interpenetrated conglomerates that used feudal-holdover ideologies to incorporate workers "as fellow clansmen who devote themselves to the services of their overlord." By the end of the 1930s, Mitsui, Mitsubishi, and Sumitomo controlled half the copper and coal production, half the total ship tonnage, 70 percent of flour milling, 90 percent of paper production, most of the aircraft industry, nearly all sugar refining, and, with some smaller and newer *zaibatsu*, nearly all of the colonial industrialization in Korea, Manchuria, and Taiwan.³⁸ The *zaibatsu* and the state combined to accomplish a thorough repression and incorporation of labor, leading in the 1940s to a forced military-style discipline in the factories that long left its mark on the working class. Women were particularly exploited: they received much lower wages than men for similar work, and predominated in the older textile sector. Finally, at the bottom were more than a million Korean laborers in Japan, men and women harshly regimented for the most difficult sorts of industrial work and subjected to invidious racial discrimination.

In the postwar period Japan was shorn of a few features of its 1930s political economy. But in Taiwan and, later, South Korea the 1930s model

35. Allen, *Japan's Economic Policy*, pp. 42–50, 119–20.

36. Ohkawa and Rosovsky, *Japanese Economic Growth*, pp. 221–23.

37. Allen, *Japan's Economic Policy*, pp. 50, 102, 128.

38. *Ibid.*, pp. 51–54.

reappeared, in nearly all its aspects, including militarization and harsh repression of labor.

The postwar settlement and the emergence of a new hegemony

In September 1945, as U.S. occupation forces filtered into Japan, an American officer walked into a Mitsui office in Tokyo and introduced himself. A man in the office pointed to a map of the Greater East Asian Coprosperity Sphere and said, "There it is. We tried. See what you can do with it!"³⁹ It was not until 1948 that the United States would seek to do much with it, however. In the period 1945–47 in Korea, Japan, and Taiwan, society reacted strongly against the effects of imperial militarism and industrial midwifery. American occupation in Japan led by a 19th century liberal also reacted strongly in the early years against the political economy of prewar Japan, seeking to destroy the Japanese Imperial Army, break up the *zaibatsu*, eliminate rural landlords, and bequeath to the world a reformed and chastened Japan that would never again mix aggression with economic prowess. Unions and leftist parties were unleashed and, with Occupation "New Dealers," mustered a challenge to the prewar system strong enough, at minimum, to establish the countervailing power that enables us to call postwar Japan a democracy. Although the main emphasis was on democratization and an end to militarism, narrower interests also asserted themselves. The first head of the Economic and Scientific Section of the Occupation, for example, was Robert C. Kramer, a textile industrialist; he and representatives of American textile, rayon, ceramics, and other industries threatened by Japanese competition opposed reviving Japan's economy, particularly in its potent prewar form.⁴⁰ American allies, especially the British, also urged that commitments to reform and reparations be carried through, thereby to weaken Japan's competitiveness in world markets.

From the early 1940s, however, one sector of American official opinion opposed a punitive occupation, for fear that this would play into the hands of the Soviets and make a reintegration of Japan with the world economy impossible. In essence, such people, who included a Japanophile faction in the State Department,⁴¹ wanted a Japan revived to *second-rank* economic status and enrolled in an American-managed free trade regime. Such recommendations remained in the background, however, while Japan's Ameri-

39. John Emmerson, *The Japanese Thread* (New York: Holt, Rinehart & Winston, 1978), p. 256. I am indebted to Michael Schaller for providing me with this quotation.

40. Jon Halliday, *A Political History of Japanese Capitalism* (New York: Pantheon, 1975), pp. 183–84.

41. Akira Iriye, "Continuities in U.S.-Japanese Relations, 1941–1949," in Yonosuke Nagai and Iriye, eds., *The Origins of the Cold War in Asia* (Tokyo: University of Tokyo Press, 1977), pp. 378–407.

can emperor, Gen. Douglas MacArthur, masterfully imposed a benevolent tutelage upon the Japanese people.

All this began sharply to change in late 1947, leading to what we might call the Kennan Restoration. George Kennan's policy of containment was always limited and parsimonious, based on the idea that four or five industrial structures existed in the world: the Soviets had one and the United States had four, and things should be kept that way. In Asia, only Japan held his interest. The rest were incontinent regimes, and how could one have containment with incontinence? Kennan and his Policy Planning Staff played the key role in pushing through the "reverse course" in Japan.

American policy in the mid 20th century resonated with Jacob Viner's description of British policy in the 18th: it was governed "by joint and harmonized considerations of power and economics."⁴² Security and economic considerations were inextricably mixed. A revived Japan was both a bulwark against the Soviets and a critical element in a reformed and revived world economy. What is surprising, in the multitude of formerly classified American documents now available on early postwar Asian policy, is how powerful were the economic voices. In particular, a cluster of bankers and free traders, now dubbed the "Japan Crowd," were instrumental in the ending of the postwar reforms in Japan and the revival of the regional political economy that persists today.⁴³ Economics bulked so large because, as Charles Maier points out, the defeated Axis powers (Japan and West Germany) were to become world centers of capital accumulation and growth, not of political or military power.⁴⁴ Thus Japan's economy was reinforced, while its political and military power (beyond its borders) was shorn. The result is that in the postwar world economy Japan resembles a sector as much as a nation-state. Until the 1970s it was a distinctly secondary sector when compared to the United States, that is, it was returned to semiperipherality as (it was hoped) a permanent second-rank economic power.

The coalition that brought the reverse course to Japan has been well detailed elsewhere. In brief it included, in addition to Kennan, Dean Acheson, Dean Rusk, Max Bishop and others within the government, several journalists, and a powerful lobby of American firms and individuals who had had large investments in prewar Japan: General Electric, Westinghouse, Goodrich, Owens-Libby, American Can, and others.⁴⁵ Percy Johnston, head of the pivotal Johnston Committee whose report in April 1948 was instrumental in the reverse course, was chairman of the Chemical Bank; the "Dodge Line" of fiscal austerity was run by a Detroit banker; many Wall Streeters, including

42. Viner, "Power versus Plenty," p. 91.

43. John G. Roberts, "The 'Japan Crowd' and the Zaibatsu Restoration," *Japan Interpreter* 12 (Summer 1979), pp. 384–415.

44. Charles S. Maier, "The Politics of Productivity: Foundations of American International Economic Policy after World War II," in Katzenstein, *Between Power and Plenty*, p. 45.

45. Halliday, *Political History*, p. 183.

the American maker of the Japan Peace Treaty, John Foster Dulles, supported a revival of Japan's economic prowess. As good free traders from the new hegemonic power, they had nothing to fear from Japan. The old hegemonic power, Great Britain, fought unsuccessfully against the changes.

As thinking about a revived Japan evolved in 1948–50, two problems emerged: first, how could Japan's vital but second-rate status be assured; second, how could a prewar political economy that got raw materials and labor from the Northeast Asian periphery survive in the postwar world without a hinterland? George Kennan raised these problems in a 1949 Policy Planning Staff meeting:

You have the terrific problem of how the Japanese are going to get along unless they again reopen some sort of empire toward the south. . . .

If we really in the Western world could work out controls . . . fool-proof enough and cleverly enough exercised really to have power over what Japan imports in the way of oil and other things . . . we could have veto power over what she does.⁴⁶

Thus, once the decision to revive Japan was made, two questions predominated: the hegemonic problem and the hinterland problem. The CIA in May 1948 suggested NE Asia as the new (old) hinterland:

As in the past, Japan for normal economic functioning on an industrial basis, must have access to the Northeast Asiatic areas—notably North China, Manchuria, and Korea—now under direct, indirect, or potential control of the USSR.⁴⁷

A high official in the Economic Cooperation Administration, a few months later, suggested the same hinterland, and a drastic method of recovering it. Without North China and Manchuria, he argued, Japan would have “no hope of achieving a viable economy”; it (and Korea) would be “doomed to military and industrial impotence except on Russian terms.” Therefore, “Our first concern must be the liberation of Manchuria and North China from communist domination.”⁴⁸ This rollback option, however, was delayed; the victory of Mao's forces throughout China and the possibility in 1949 that Washington might be able to split Moscow and Peking (Acheson's policy) combined to suggest a hinterland for Japan in Southeast Asia.

In July 1949, the CIA asserted that the United States had “an important interest” in “retaining access to Southeast Asia, for its own convenience and

46. See Kennan's remarks in “Transcript of Roundtable Discussion,” U.S. Department of State, 6, 7, and 8 October 1949, pp. 25, 47, in Carrollton Press *Declassified Documents Series*, 1977, 316B.

47. U.S. Central Intelligence Agency, ORE 43-48, 24 May 1948, in HST/PSF file, Memos 1945–49, box 255, Harry S. Truman Library, Independence, Missouri.

48. Economic Cooperation Administration, unsigned memorandum of 3 November 1948, in Dean Acheson Papers, box 27, Harry S. Truman Library.

because of the great economic importance of that area to Western Europe and Japan.” It argued that “the basic problem with respect to Japan is to recreate a viable economy. This in turn requires a stabilization of the situation in Southeast Asia and a *modus vivendi* with Communist China.” The latter requirement might be satisfied if China could be drawn away from “vassalage toward the USSR.”⁴⁹ Southeast Asia was the preferred candidate for Japan’s hinterland. It would provide markets for Japan’s textile and light industrial exports, in exchange for raw materials Japan badly needed. The problem was that France and Britain sought to hold the countries in the region exclusively, and nationalist movements resisted both the Europeans and a reintroduction of the Japanese. Thus, “Anglo-American consensus over Japan dissolved” as the United States played the hinterland option. Japan was a threat to sterling bloc trade and currency systems, and was “perforce in the dollar bloc”; the United States wanted Japan to earn dollars in the sterling bloc, which would have the dual virtue of supporting Japan’s revival while encouraging Britain’s retreat from empire.⁵⁰

The Occupation also rearranged Japan’s monetary and trade policies to support a revival of trade. The yen was fixed in 1949 at the rate of 360 to \$1.00, from which it did not depart until 1971; the rate was artificially low to aid Japanese exports. The Dodge Line pursued a strict policy of fiscal restraint. In the same year (1949) the Occupation removed price floors on Japanese exports, raising fears of “dumping” in Southeast Asia.

Particularly important is the *triangular* structure of this arrangement: United States (core), Japan (semiperiphery), and Southeast Asia (periphery). This structure was clearly articulated in the deliberations leading up to the adoption of NSC 48/1 in late December 1949, a document so important that it might be called the NSC 68 for Asia. (With this the United States made the decision to send aid to the Bao Dai regime in Vietnam, not after the Korean War began.) The first draft argued the virtues of a “triangular” trade between the United States, Japan, and Southeast Asia, giving “certain advantages in production costs of various commodities” — that is, comparative advantage in the product cycle. It also called for a positive policy toward Communist-held territory in East Asia: the goal was “to commence the roll-back of Soviet control and influence in the area.” The final document changed this phrase to read, “to contain and where feasible to reduce the power and influence of the USSR in Asia.”⁵¹ The roll-back contingency expressed both

49. Central Intelligence Agency, ORE 69-49, “Relative US Security Interest in the European-Mediterranean Area and the Far East,” 14 July 1949, in HST/PSF file, Memos 1945-49, box 249, Harry S. Truman Library.

50. Calleo and Rowland, *America and the World Political Economy*, pp. 198-202.

51. Draft paper, NSC 48, 26 October 1949, in NSC materials, box 207, Harry S. Truman Library. For a fuller elaboration see Bruce Cumings, “Introduction: The Course of American Policy toward Korea, 1945-53,” in Cumings, ed., *Child of Conflict: The Korean-American Relationship, 1945-1953* (Seattle: University of Washington Press, 1983).

the fear of continuing communist encroachment, what with the fall of China in 1949, and the search for a Japanese hinterland.

The Korean War effectively drew the lines of the “grand area” in East Asia. When the war broke out, the Seventh Fleet was interposed between Taiwan and the mainland, suggesting once again an integration of Taiwan with Japan and the world economy. South Korea was almost lost in the summer of 1950. Then, after the Inch'on landing, the course of the fighting opened the realm of feasibility suggested in NSC 48/1; the “contain and reduce” phraseology was used in the State Department to justify the march north and, in passing, to wrench North Korea’s industrial base away from the communists. Roll-back met several hundred thousand Chinese “volunteers,” however, and that debacle froze the situation. The geopolitical lines, or hegemonic outer limits, were thus fixed and they have survived. Taiwan and South Korea were in, North Korea and Manchuria were out. It remained only to reintroduce Japanese economic influence, which the Kennedy administration did in the early 1960s in both Taiwan and South Korea.

Acheson would remark in 1954 that “Korea came along and saved us,” and the *us* included Japan. The Korean War not only boosted the Japanese economy but provided MacArthur with justification for reviving police and military and for excluding labor and the left within Japan. The strategic lines of the new Northeast Asian political economy, however, brought the peculiar nature of American hegemony to the fore. There is a paradox at the heart of it: nonterritorial in contrast to Old World imperialism, organizing great spaces and knocking down barriers to trade, it has outer limits sufficient to keep countries *in* the system but not sufficient to protect the home economy against destructive competition, and not sufficient to maintain effective dependency relationships or a frozen hierarchy. The system permits upward mobility. The United States retrieved South Korea and Taiwan from oblivion in 1950, but invoking the threat of oblivion to keep them in line in later years was unthinkable. The United States keeps Japan on a food, oil, and security dependency, maintaining a light hold on the Japanese jugular; yet to squeeze would be disastrous. Outer limits are not enough to bring recalcitrant allies to heel. Furthermore, within those outer limits a dependent but strong state obtains leverage over the American “weak state,” weak in the sense of competing centers of power and economic interest that can be played off against one another.⁵² Thus, the postwar settlement simultaneously gave Japan, in particular, dependency and autonomous capability.⁵³

Japan is ultradependent on the United States, or on American firms, for oil and security, and significantly dependent on the United States for food.

52. Krasner, “US Commercial and Monetary Policy,” pp. 63–66; Hirschman, *National Power*, *passim*.

53. Jon Halliday, “Japan’s Changing Position in the Global Political Economy” (Paper presented at the annual meeting of the Association for Asian Studies, 1979, Los Angeles).

During the Occupation, the Petroleum Board that set policy was made up of members mostly drawn from American oil majors, and even in the mid 1970s Japan was receiving about 70 percent of its oil deliveries from the majors.⁵⁴ In the 1960s and 1970s the United States also supplied 60 to 70 percent of Japan's food imports, and in the 1950s used the PL480 program to sell grain in Japan, Taiwan, and South Korea. All three have been protected markets dependent upon American grain. And since 1945 Japan has had no military capability remotely commensurate with its economic power. Even today analysts cannot decide if Japan is a superstate or a puny dependency. When Ezra Vogel began a Harvard seminar on Japan by saying that "I am really very troubled when I think through the consequences of the rise of Japanese power," Samuel Huntington responded that Japan has "these really fundamental weaknesses—energy, food, and military security." It is, he thought, "an extraordinarily weak country."⁵⁵ The paradox of the postwar Northeast Asian settlement is that both are right.

Within Japan, after the reverse course took hold, was a formidable political economy for competition in world markets. The *zaibatsu* were less smashed than reformed, prospering again by the mid 1950s if in less concentrated form. More important, they were now under *state* influence and control, something that prewar bureaucrats had longed for; the role of the big banks was also enhanced.⁵⁶ With the *zaibatsu* weakened, the military smashed, and the landlords dispossessed, but with the bureaucracy untouched (the Occupation governed through the existing bureaucracy with few reforms or purges), the Japanese state had more relative autonomy than in the prewar period. Indeed, it was the great victor of the Occupation. Autonomy enabled Japan to pursue neomercantile policies of restricting entry to Japanese markets, resisting the intrusion of foreign capital, and providing various incentives and subsidies to restructure the industrial base in the 1950s, and conquer foreign markets in the 1960s and 1970s.

T. J. Pempel and Jon Halliday both note the low level of internationalization of the Japanese economy. Total foreign assets in Japan in the mid 1970s were only about 2 to 3 percent of total assets, few non-Japanese multinationals operated there, and the major markets for foreign imports remained food and oil. Halliday argues that Japan's "successful isolation" has precipitated greater elite unity than in countries like the United States: Japan does not have major conflicts between firms with national and those with international interests, therefore foreign interests cannot invoke much leverage in domestic

54. See *ibid.*; also Martha Caldwell, "Petroleum Politics in Japan: State and Industry in a Changing Policy Context" (Ph.D. diss., University of Wisconsin, 1980), chap. 2.

55. Ezra F. Vogel, "Growing Japanese Economic Capabilities and the U.S.-Japan Relationship" (Summary of the 1st meeting of the American Discussion Group on U.S. Policy toward Japan, Harvard University, 13 December 1979; hereafter cited as *Harvard Seminar 1979*).

56. Johnson, "A Japan Model?" Also Allen, *Japan's Economic Policy*, pp. 108–9.

Japanese politics. Moving out of declining into advanced sectors is much easier because powerful domestic business interests rarely clash, and a labor force lacking influence at the commanding heights can be eased out of old industries and retrained for new ones. Japan's monetary isolation lessens the influence of foreign lenders, while reliance on bank rather than share capital also promotes mobility and flexibility.⁵⁷ Finally, as in the prewar political economy, labor is corralled by docile unions, paternalism, and a large reservoir of workers in traditional sectors. Ohkawa and Rosovsky call Japan a businessman's "heaven on earth" in regard to labor, while Pempel says labor is "a fundamentally excluded sector"; they also note that women continue to bear inferior and exploited positions in the workforce, and that the state still does not spend significant amounts on social welfare.⁵⁸

Postwar Korea and Taiwan

The immediate postwar settlement in Taiwan and Korea fundamentally expressed the differences in the two *societies*. Taiwan "drifted aimlessly" in the late 1940s, having to reorient its trade away from Japan and toward China (until 1949); it sold sugar, cement, aluminum, and food to this now-enlarged periphery.⁵⁹ But it remained "an extremely well-ordered society," with "fewer signs of social disintegration" than any place on the Asian mainland.⁶⁰ Like Japan, the state emerged stronger after the inflow of the Kuomintang (KMT) and the China mainlanders in 1945–49. The potent colonial bureaucracy was preserved nearly intact; Japanese personnel in many cases stayed on well into 1946, training Taiwanese replacements, and native bureaucrats who had served in the colonial administration continued in office. When the mainlanders took over they added a powerful military component to give the state even more autonomy from society: the Kuomintang had finally found a part of China where its bureaucracy was not hamstrung by provincial warlords and landlords. Thus, for the first time, the Nationalists were able to accomplish a land reform; they could do so because none of them owned any land in Taiwan. The reform, in turn, aided the productivity of agriculture because redistributed land went primarily to entrepreneurial, productive, relatively rich peasants. Furthermore, a disproportionate number of experts, technicians, and well-educated professionals fled the mainland, adding to Taiwan's already significant human capital. The result, once the Seventh Fleet drew the outer limit in 1950, was a state with

57. Pempel, "Japanese Foreign Economic Policy," pp. 163–64; Halliday, "Japan's Changing Position"; Halliday, *Political History*, p. 283.

58. Ohkawa and Rosovsky, *Japanese Economic Growth*, pp. 118, 235–36; Pempel, "Japanese Foreign Economic Policy," pp. 149–55.

59. Ho, *Economic Development*, p. 103; Lin, *Taiwan's Industrialization*, pp. 27–28.

60. Ho, *Economic Development*, p. 104.

significant relative autonomy but now far more dependent on the United States than in any previous period of Nationalist rule.

Korea, of course, was divided in 1945. In the North a quick and efficient social and anticolonial revolution occurred under Soviet auspices, the ultimate (but also the predictable) societal response to nearly half a century of Japanese imperialism. The South, however, festered for five years through dissent, disorder, major rebellions in 1946 and 1948, and a significant guerrilla movement in 1948 and 1949. Southern landlords succeeded in recapturing the state in 1945 and 1946, under American auspices, and used it in traditional fashion to protect social privilege rather than to foster growth. They prevented major land reform until the Korean War began, and showed no interest in developing the economy. Instead, they ruled through draconian police and military organizations. As in Taiwan there was considerable continuity in the bureaucracy from the colonial period, but the Japanese officials had mostly fled when the war ended and those Korean functionaries who remained were largely unable to function, since they were often hated more than the Japanese overlords. The southern state entered a general crisis of legitimacy in the late 1940s: marked by the worst Japanese excesses but unable to carry forward colonial successes, the regime seemed doomed.

When civil war erupted in June 1950 the North had an easy time of it, sweeping the southern regime away until it met massive American intervention. But paradoxically, the three-month northern occupation of the south, which included a revolutionary land reform in several provinces, cleared the way to end landlord dominance in the countryside and to reform landholding on the Taiwan model once the war terminated in 1953. By 1953 South Korea further resembled Taiwan. Its colonial heavy industry had been amputated by Korea's division, most of it now in the north and beyond reach; like Taiwan, southern Korea was the home of light industry and the best rice-producing provinces. During the war many northerners had fled south, also disproportionately including the educated and professional classes. By the war's end the South had a standing army of about 600,000, compared with 75,000 in 1950, so it approximated the distended Nationalist Army. Finally, Syngman Rhee, like Chiang Kai-shek, had won an ironclad commitment of American defense from communism. So, to put it concisely, by 1953 Taiwan and South Korea once more resembled each other, but what was accomplished with ease in Taiwan required a war in Korea.

Import-substituting industrialization

With the underbrush of the early postwar period cleared away, Taiwan and South Korea (ROK) once again began marching in tandem. The Korean War gave Taiwan a head start on postcolonial industrialization on the typical import-substituting pattern, but by 1953 the ROK was doing the same. Both were enmeshed in a system of American hegemony that brought them eco-

conomic and military aid on an unheard-of scale, but Taiwan's low societal response and the KMT's high relative autonomy gave it more bargaining power with the United States. The Rhee regime, on the other hand, was penetrated from below by superannuated landlords who retained political influence and from above by a huge American political, economic, and military presence. In the years immediately succeeding the devastation of the war, society was quiet and Rhee ruled through a diffuse authoritarian system that was cruel in its domestic political consequences but incapable of mustering the autonomy to direct growth, and unable to withstand the social onslaught that came in 1960. The now-senile Rhee was toppled, the colonial-linked police and military came undone, and the way was clear for a dynamic authoritarian system.

Since 1945 South Korea has received some \$13 billion in American military and economic aid, and Taiwan some \$5.6 billion (\$600 per capita in the ROK, \$425 per capita in Taiwan).⁶¹ To gauge the true dimensions of this munificence comparative figures are helpful. The ROK's total of nearly \$6 billion in U.S. economic grants and loans, 1946–78, compares with a total for all of Africa of \$6.89 billion and for all of Latin America of \$14.8 billion; only India, with a population seventeen times that of South Korea, received more (\$9.6 billion). U.S. military deliveries to Taiwan and the ROK in 1955–78 (that is, excluding the Korean War) totaled \$9.05 billion. All of Latin America and all of Africa received \$3.2 billion; only Iran got more, and most of that was pumped in after 1972 (the figure is \$10.01 billion). Soviet economic aid to LDCs, 1954–78, was \$7.6 billion in drawn aid, that is, little more than American aid to the ROK alone. Total drawn aid for all LDCs from all socialist countries, 1954–78, was \$13.4 billion, about 25 percent greater than the total for Taiwan and the ROK since 1945. Soviet military deliveries to all LDCs, 1955–78, totaled \$25.3 billion, about 280 percent of the total for Taiwan and the ROK.⁶²

During the 1950s U.S. aid accounted for five-sixths of ROK imports. Aid was lavished on Japan as well, and special U.S. military procurements from Japan alone in the period 1952–56 totaled \$3.4 billion, one-fourth of American commodity imports at that time.⁶³ Samuel Ho estimates for Taiwan that foreign savings, much of which was U.S. aid, totaled 40 percent of gross domestic capital formation.⁶⁴ This significant figure is low when compared to the ROK; Taiwan's higher rate of domestic savings can be accounted for by less postwar disruption and the Kuomintang's having taken China's gold reserves to the island. Taiwan has also had an additional source of aid and investment unavailable to the ROK, overseas Chinese.

61. CIA, *Handbook 1979*; also Ho, *Economic Development*, pp. 108–11; also Mason et al., *Economic and Social Modernization*, p. 165.

62. CIA, *Handbook 1979*.

63. Allen, *Japan's Economic Policy*, p. 130.

64. Ho, *Economic Development*, p. 237.

The United States, of course, did not just give military and economic aid to Taiwan and the ROK but deeply influenced economic programs and the societies themselves. Often it was difficult to know if natives or Americans were writing the plans and policies; the aid missions pushed through land reform on Taiwan and forced it through in Korea; here, in short, was by far the best example in the world of what Wallerstein has called “development by invitation.” If the principle of upward mobility in this system is “many called, few chosen,” Taiwan and the ROK were clearly part of the chosen few.⁶⁵ Japan, too, was chosen, if at a higher level in the system: not only were aid totals high, but the United States allowed a “simultaneous technological infusion” in the 1950s that brought backward Japanese industries up to speed and started new ones.⁶⁶ American hegemony also had an element of indulgence in the halcyon years of the 1950s—U.S. officials tolerated import substitution in Taiwan and the ROK while chiding both for having the state too involved in the economy (i.e., the typical policy of Republican administrations). Thus, the three Northeast Asian political economies had in the 1950s a rare breathing space, an incubation period allowed to few other peoples in the world. The period set the stage for the breakthroughs of the 1960s, and it may be a capitalist analogue to the radical tonic of withdrawal and reorientation by socialist state machineries and societies.

Taiwan and Korea pushed remarkably similar import-substitution programs, although the Taiwan program was less fitful. The key industries were textiles, cement, flat glass, and so on, protected by and nurtured behind a wall of tariffs, overvalued exchange rates, and other obstacles to foreign entry.⁶⁷ In both countries capitalist parvenus, usually mainlanders in Taiwan and northerners in the ROK, interpenetrated the state, official monopolies, and banks, making windfall profits in import-substituting industries through such connections. Both the KMT and the Rhee regime, after all, grew out of agrarian-bureaucratic traditional systems and had pursued so-called “bureaucratic capitalism,” with its “total interpenetration of public and private interests.”⁶⁸ Favored capitalists took over formerly Japanese-held industries in Taiwan and the ROK, laying the basis for many of the conglomerates that would appear in the 1960s and 1970s (especially in Korea). The phase of “easy” import substitution started two or three years earlier in Taiwan and came a cropper in 1958–59; it did the same in the ROK in 1960–62. In both countries a new export-led industrialization began in the early 1960s.

65. Immanuel Wallerstein, “Dependence in an Interdependent World,” in Wallerstein, *Capitalist World-Economy*.

66. Ohkawa and Rosovsky, *Japanese Economic Development*, p. 92.

67. On Korea, see Mason et al., *Economic and Social Modernization*, pp. 7–8; also Paul W. Kuznets, *Economic Growth and Structure in the Republic of Korea* (New Haven: Yale University Press, 1977), pp. 48–71; on Taiwan see Lin, *Taiwan's Industrialization*, pp. 3–4, and Ho, *Economic Development*, p. 106.

68. Alice H. Amsden, “Taiwan's Economic History: A Case of Etatism and a Challenge to Dependency Theory,” *Modern China* 5 (July 1979), p. 362.

In the 1950s both regimes had absurdly swollen military machines—about 600,000 soldiers in each army, ranking among the highest military/civilian ratios in the world. The United States footed much of the tab in Korea, less so in Taiwan because Americans opposed Taiwan's pretensions to retake the mainland. Thus, Taiwanese defense spending ran at about 12 percent of GNP, Korean at about 4 percent. These large militaries served two important purposes: first, as a perimeter defense for the hegemonic "grand area." Without such military machines and expenditures Japan would have had to spend much more than its less than one percent of GNP on defense. As Paul B. Simpson said of the U.S. aid program to the ROK in the 1950s:

If we were to characterize the program simply, we would say that the Korean consumer has been subsidized by ICA and U.S. military expenditures in return for the maintenance of a large military establishment. The attitude one adopts toward this Korean military program very largely determines one's attitude toward the U.S. aid program in Korea.⁶⁹

Second, the military in both countries gave disciplined training and basic literacy to a mass of young people, while rearing officers and managers who later populated state bureaucracies and big corporations. Of course, both distended militaries have continually devastated democratic impulses.

In the Korean case the military also played a decisive role in the switch from import substitution to export-led growth. The downfall of Syngman Rhee carried the bureaucratic capitalists with it. After the military coup in 1961 those who had profited from import substitution were marched through the streets, carrying sandwich signs with slogans like "I was a parasite on the people." A transition that occurred with difficulty in several Latin American nations transpired quickly, if violently, in South Korea; managed from the top down, it cleared away social and political obstacles to the new program.

The export-led phase and the emergence of BAIRs

Readers who know Latin America and especially the work of Guillermo O'Donnell will have noticed that Taiwan and Korea went through industrialization in phases that resemble the sequence in Brazil, Argentina, and other states, even though the import-substituting phase was much shorter in East Asia. It would have continued longer had it not been for opposition by American aid officials (which demonstrates their superior influence in this region of overwhelming American hegemony). But this phase did not have the political characteristics it had in Brazil and elsewhere. Politics did not stretch to include workers, peasants, or plural competition for power.

69. Paul B. Simpson, "Report on the University of Oregon Advisory Mission," mimeo. (Eugene: University of Oregon, 1961), p. 49. I am indebted to Tony Michel for bringing this quotation to my attention.

The political sequence of inclusion followed by exclusion, as the “easy” phase ended and export-led development began, was absent.⁷⁰ Labor was excluded in the 1950s and remained excluded in the 1960s; nor did the squeezed middle class of bureaucrats and small businessmen achieve representation in either Taiwan or South Korea. It is possible to argue, however, that the Korean state was more penetrated by society in the 1950s, both because new capitalists gained some influence as the landlord interests receded and because the United States and a small stratum of Korean liberals insisted on a formal democratic structure that was occasionally implemented, if only through students massing in the streets. The democratic facade could occasionally be invoked. Taiwan, of course, has been ruled under martial law since 1947 in a single-party system; the KMT’s internal organization principles were on Leninist lines. Its politics could easily translate into the new state requisites for export-led development and deepening import substitution. In Korea, however, such a state had to be reinforced: bureaucratic, secret police, and party power needed to be strengthened.

In both countries the export-led program was decided by the United States. Edward Mason and his associates say that in Korea the United States “basically dictated” the reform programs; Ian Little says that in Taiwan A.I.D. pressure was one of the “clearest cases in economic history of cause and effect.”⁷¹ Therefore, early 1960s’ policies in Taiwan and the ROK tended to be very similar. Taiwan promulgated a nineteen-point reform package in 1960, containing extensive reforms of monetary, fiscal, taxation, and trade practices. Korea pursued the same package after Park Chung Hee’s coup in 1961. It involved downward revaluation of currencies to cheapen exports, drastic lowering of tariff barriers that had protected native industries, tax holidays, exemptions, and reductions across the board for firms willing to export, and state guarantees for foreign investment and foreign loans. Implemented by 1963 or 1964, the package was followed by accelerated depreciation schemes, discounts and subsidies for transportation costs, and monopoly rights for certain firms, usually linked explicitly to export performance.⁷² Taiwan established its big Free Export Zone (FEZ) at Kaohsiung in 1965, and Korea followed suit with its Masan FEZ. Both regimes developed

70. Guillermo A. O’Donnell, *Modernization and Bureaucratic-Authoritarianism in South American Politics* (Berkeley: University of California Institute for International Studies, 1973); see also the articles by O’Donnell, Fernando Henrique Cardoso, Robert Kaufman, James Kurth, Albert Hirschman, and Jose Serra in David Collier, ed., *The New Authoritarianism in Latin America* (Princeton: Princeton University Press, 1979). Serra, Hirschman, and, in part, Kaufman challenge the O’Donnell theses.

71. Mason et al., *Economic and Social Modernization*, p. 47; Ian M. D. Little, “An Economic Renaissance,” in Walter Galenson, ed., *Economic Growth and Structural Change in Taiwan* (Ithaca: Cornell University Press, 1979), p. 474. See also Ho, *Economic Development*, p. 195.

72. Mason et al., *Economic and Social Modernization*, pp. 96, 129–32; Kuznets, *Economic Growth*, pp. 73, 96–97; Lin, *Taiwan’s Industrialization*, pp. 83–93.

long-range planning agencies and multiyear plans; American experts continued riding herd on the planning function (a sort of transnational planning).

Both regimes pursued their comparative advantage in relatively well-educated and skilled, but low-paid, labor. Paul Kuznets notes that Korea's comparative advantage derived from these factors and that labor was "abundant and unorganized"; Wade and Kim estimate Korean labor productivity as higher than American in light industries such as textiles and electronics, at 20 percent the cost. In the FEZs, however, labor-cost savings for foreign firms may be substantially higher: one source puts Korean productivity at 2.5 times American at 10 percent of the cost, for a factor of 25 in cost savings.⁷³ One Taiwan analyst has argued for the virtues of "splitting up the production process" on a worldwide basis, since capital has much greater mobility than labor.⁷⁴ This is, of course, the point. The result of the early 1960s' reforms was that Taiwan and the ROK became suppliers of labor to an increasingly far-flung division of production; in the mid 1960s multinational corporations, the World Bank, and the IMF replaced U.S. aid missions as the conduits to the world economy. This pattern, most marked in East Asia, is well known and need not detain us. More important were the political consequences.

By the mid 1960s both Taiwan and South Korea possessed strong states that bear much comparison to the prewar Japanese model, and to the bureaucratic-authoritarian states in Latin America. Termed NICs (Newly Industrializing Countries) in much of the literature, the Taiwan and Korean variants deserve a more accurate acronym. I shall call them BAIRs, or Bureaucratic-Authoritarian Industrializing Regimes. These states are ubiquitous in economy and society: penetrating, comprehensive, highly articulated, and relatively autonomous of particular groups and classes. Furthermore, especially in Korea, state power accumulated considerably just as the ROK began a deepening industrialization program in steel, chemicals, ships, and automobiles. Taiwan has developed planning agencies and bureaucracies to go with its existing strong state, but with society weak the state has had neither the occasion nor the necessity to deepen or change its features: once strong for retaking the mainland and guaranteeing KMT power, it is today strong for economic development. The best Latin American analogy for Taiwan would be Mexico, where deepening industrialization occurred within the context of an established authoritarian system; Korea is closer to Argentina, where deepening required a much stronger state. In any case, by the mid 1960s Taiwan and South Korea had joined the world: we no longer need area-specific, idiosyncratic explanations for their politics. They now

73. Kuznets, *Economic Growth*, p. 103; Wade and Kim, *Economic Development*, p. 100; Suh Sang Chul, "Development of a New Industry through Exports: The Electronics Industry in Korea," in Wontack Hong and Anne O. Krueger, eds., *Trade and Development in Korea* (Seoul: Korea Development Institute, 1975).

74. Lin, *Taiwan's Industrialization*, p. 134.

have the politics that their economies—and powerful external forces—demand.

In the creation of the Korean BAIR, there was a poignant moment for American political scientists. Amid Kennedy administration pressure to go civilian and respect human rights, the ROK promulgated a new constitution in 1963. Harvard scholar Rupert Emerson journeyed to Seoul and advised Koreans, in classic American fashion, to disperse power through a strong legislature, a two-party system, and various checks and balances. Five years later Samuel Huntington published a book that cited the ROK for precisely the opposite: he applauded the regime for its accumulation of central power and its stability amid rapid economic and social change. Huntington's concern for order transcended liberal categories: the problem was not to hold elections but to create organizations.⁷⁵ Although his preferred vehicle was the party, the logic fitted a strong state power by whatever means necessary. The book was translated into Korean and is widely read there. Huntington's logic was possibly the first piece of political advice from an American that did not fall on deaf ears in Korea.

Shortly after the coup, Park and his allies organized the Democratic Republican Party (DRP) and the Korean Central Intelligence Agency (KCIA). During much of the 1960s the DRP was the designated vehicle for a stable politics; its internal structure mimicked the KMT with its democratic centralism. But when Park's power was shaken in the period 1969–71 (he nearly lost the 1971 election to Kim Dae Jung in spite of manipulation), the KCIA emerged as the preferred organization of order. An arm of the executive, it penetrated nearly every arena of Korean life, with agents in factories, central and local government offices, and university classrooms. Organized with the help of the U.S. CIA, and always working in close liaison with the Seoul CIA station, it was an example of transnational politics to go with the transnational economics. Unfortunately for Park Chung Hee, the KCIA became so strong that every director came to challenge his power (Lee Hu-rak, Kim Jae-gyu, Kim Hyong-uk) until finally its chief shot Park to death over dinner one evening in October 1979.

In the economic sphere the Koreans in the early 1960s set up an Economic Planning Board (EPB), which took on many of the functions of MITI. It took over from a previous ministry the entire budgeting function; it decides which industries and firms to promote, which to phase out; it closely supervises both the development and the implementation of planning; along with an official trade promotion agency (KOTRA) it surveys the world for needed markets, capital, and technology. The main difference from Japan is that the EPB brings in foreigners (Americans and Japanese) as “senior partners” in consultation and planning.⁷⁶ Many other state agencies are involved in

75. Samuel Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968), pp. 7, 25, 258–61.

76. Mason et al., *Economic and Social Modernization*, pp. 16–17.

export promotion, and in both Korea and Taiwan, the achievement of some export target is cause for patriotic hoopla and celebration (this has become the national pastime of these two BAIRs).

Until the mid 1970s, American analysts tended to deny that an authoritarian politics might have much to do with economic growth in Taiwan and the ROK. But more recent writing has discarded the previous assumptions of the modernization literature, that development could proceed amidst or would promote democracy. Kuznets, for example, argues that “because this [Korean] regime has been authoritarian and has no economic interest base, it could hold down wages and consumption, largely ignore rural interests, and concentrate on rapid development through industrialization.”⁷⁷ He errs only in suggesting that the state has no base. The state’s relative autonomy from particularistic economic interests, combined with the exclusion of workers and farmers, gives it the capacity to look after the whole in the interest of, but not necessarily at the behest of, certain of the parts. In this structural sense it resembles the relative autonomy of the Japanese state.

A Harvard project on the Korean economy also breaks with the assumption of inevitable democratic development. The authors find that “Korea, Inc.” is “undoubtedly a more apt description of the situation in Korea than is ‘Japan, Inc.’” The state is senior, the corporations lesser partners: “It is the government that is Chairman of the Board [of Korea, Inc.], with business holding a few directorships.”⁷⁸ The Korean *zaibatsu* (the Koreans pronounce it *chaebol*, but the term is the same) have grown up with the new BAIR. Ten of them now appear on *Fortune*’s international 500. Like prewar Japanese *zaibatsu*, there is great family interpenetration: the Harvard project found that of current *chaebol* chief executives, 61.4 percent are firm founders, 7.9 percent are direct descendants of founders, 12 percent are relatives of founders, and only 18.8 percent are unrelated to the founding family.⁷⁹ As a Gerschenkronian analysis would suggest, “feudal holdovers” have been an important aspect of late development in East Asia: in the case of prewar Japanese *zaibatsu*, Korean *chaebol*, and the Taiwanese state (the President being the son of Chiang Kai-shek), it is the traditional family structure that provides a basis for organizing industry. The power of this analysis is confirmed in the Northeast Asian socialist case, where the North Korean state is highly interpenetrated by Kim Il Sung’s family and where his son has been chosen as successor.

As in Japan, Korean and Taiwanese big firms exercise paternalistic sway over workers with company dormitories, recreation and hospital facilities, uniforms, and company songs. The different labor markets in Korea and Taiwan mean, however, that there is no permanent employment, working

77. Kuznets, *Economic Growth*, p. 85; see also pp. 105–7.

78. Mason et al., *Economic and Social Modernization*, pp. 16, 263, 485.

79. *Ibid.*, p. 277.

hours are much longer (52 hours per week in the big firms, longer in small firms), and wages are much lower in relation to living cost.

Yet there is no question but that the state is the maker and at times the breaker of the conglomerates. They prospered and grew as the economy grew, in close consort with state support. They do not have the credit power of the Japanese *zaibatsu*. At the core of the latter was always a bank, but in Korea and Taiwan it is the state that provides credit. This is one of its greatest weapons. State bureaucracies like the EPB control domestic credit and favor certain export-oriented firms, and they mediate foreign credit through licensing schemes. Thus, they have almost total control over access to investment capital; the *chaebol* are all structured with very low equity and huge debt components.⁸⁰ Most are in technical bankruptcy at any given time. Thus, when the Yolsan conglomerate added to Park Chung Hee's difficulties by (reportedly) flirting with the opposition leader Kim Dae Jung in 1979, the president pulled the plug and Yolsan collapsed, taking several small banks with it. Samuel Ho notes the same sort of autonomy for the state in Taiwan: it can move in and out of sectors, promote this or that industry, because it is "relatively neutral to sectoral or regional interest."⁸¹ It is this relative autonomy and promotion of sectoral mobility that makes these BAIRs resemble the Japanese model.

Another similarity with the Japanese model is the exclusion of labor, the exploitation of women, and the low state expenditures on social welfare—all three, of course, are bound to be more extreme in the periphery than in the core. Social spending is minimal in both countries. In 1973, expenditures on social insurance, public health, public assistance, welfare, and veterans' relief represented 0.97 percent of GNP in the ROK, 1.2 percent in Taiwan; this compares with 3 percent in Malaysia and 5.3 percent in Japan.⁸² Such figures capture the tradeoff between Japan and Korea and Taiwan: the latter two spend 4 to 10 percent of GNP on defense, and Japan can hold defense expenditures under one percent; but Japan, by virtue of its "New Deal" during the Occupation and its democratic system, must spend 5 percent on social programs (still low by world standards). In any case both the ROK and Japan until recently escaped with spending about 6 percent of GNP on defense and welfare combined. Korean and Taiwanese workers pay the cost in the periphery.

Exploitation of labor, particularly females, is so marked that it is foolish to deny it (even though many American specialists continue to do so). In both the Kaohsiung and the Masan FEZs 80 percent of the workforce is female, and teenage girls are about 60 percent of that total. Most of the work is unskilled assembly, done by girls recruited from peasant families. Their

80. *Ibid.*, pp. 19, 486.

81. Ho, *Economic Development*, p. 251.

82. Mason et al., *Economic and Social Modernization*, p. 22.

wage rates are at the bottom of the heap in world scales—one-third of Japan's level, one-fifth to one-tenth of the U.S. level, even one-half of the level in Hong Kong, where similar practices prevail. The state guarantees foreign firms not only various investment subsidies and profit remissions, but prohibition of union organization. In the Kaohsiung FEZ about 85 percent of the 150 or so firms are wholly or partially foreign-owned (including holdings by overseas Chinese).⁸³ FEZ products include light electronic assemblies (like calculators), textiles, and simple manufactured items like nuts and bolts. Thus these are basically platforms of world production located in countries that can provide cheap and controlled labor. In Korea and Taiwan strikes are usually prohibited (even though they may occur), and unions are company- or state-managed in good corporate fashion.

All in all the BAIR provides a potent mix, fusing state and economic power in pursuit of comparative advantage in world markets. To the extent that hegemonic outer limits are not invoked, relative autonomy is at any given time greater in Taiwan and Korea than it is in Japan or the United States. Thus both states sought in the early 1970s to use their autonomous power to upset transnational and free-trade interests by once again import substituting, this time in heavy industry. Both sought not simply to deepen their industrial structures but to deepen their self-reliance and independence vis-à-vis their hegemonic partners. One key enabling factor was the massive reentry of Japanese capital (loans and investments) into the ROK and Taiwan in the mid 1960s. Accomplished relatively easily in Taiwan, in Korea, as we would predict, society reacted strongly and the "normalization" had to be rammed down the throats of protesting students and legislators in 1964–65. But Japan's reentry gave both regimes a strong proxy to play off against American power and capital: a single hegemony began to turn into a dual hegemony.

Park Chung Hee declared in 1972 that "steel = national power," a pithy slogan that symbolizes the deepening industrialization of both countries. The Third Five-Year Plan, 1971–76, inaugurated this phase. During 1969 to 1971 domestic capital formation rose markedly in the ROK, to account for 26 to 30 percent of gross domestic product, compared to 17 to 18 percent in the United States and 36 to 40 percent in Japan during the same years; the manufacturing sector rose from 11 percent to 30 percent between the early 1960s and the mid 1970s. A similar and coterminous deepening occurred in Taiwan. Economist Anthony Michel has also noted that Korean economic nationalists were dominant in constructing the Third Five-Year Plan, bypassing the EPB, which is transnationally penetrated by Western economists with theories opposed to industrial deepening.⁸⁴ The ROK got a new integrated

83. Lin, *Taiwan's Industrialization*, pp. 139–44; Choe Boum Jong, "An Economic Study of the Masan Free Trade Zone," in Hong and Krueger, *Trade and Development*.

84. Kuznets, *Economic Growth*, p. 67; Mason et al., *Economic and Social Modernization*, p. 99; Greenhalgh, "Dependency, Distribution"; seminar paper by Anthony Michel, University of Washington, Seattle, 5 May 1983.

steel mill (developed and installed by Japanese technicians), supertanker shipbuilding capacity, heavy chemical factories and refineries, and an auto industry (with GM, Ford, and Japanese technology) that produced 38,000 cars by 1978. American planners and economists resisted these developments, arguing that heavy industry is unsuited to the factor endowments and small domestic markets of both countries; surplus, idle capacity would be the inevitable result.⁸⁵ In other words, Korea and Taiwan were violating a rational international division of labor.

The ROK and Taiwan were able to obtain needed financing and technology for these enterprises from the Japanese, in part because the new programs provided the structure necessary to receive declining Japanese heavy industry. This simultaneously increased Taiwanese and Korean autonomy in the world at large while deepening dependency on Japan. The United States was opposed and, indeed, during the same period the Nixon administration dealt the sharpest blows since 1949 to both countries by limiting shoe and textile imports, floating the dollar, recognizing People's China, and pulling a division of U.S. troops out of the ROK. This set the agenda of conflict for the present: would the Northeast Asian political economy continue as a joint hegemony or as an increasingly Japanese preserve?

By the early 1970s, Korea and Taiwan were both in transition between peripheral and semiperipheral status;⁸⁶ in a sense they had recovered their structural position of the last years of the Japanese empire. Vietnam was a periphery for both, as each sent construction teams and other industrial personnel, and Korea sent some 300,000 soldiers over a seven-year period (1966–73). The Vietnam War played for the ROK the role that the Korean War played for Japan; labeled “Korea’s El Dorado,” it accounted for as much as 20 percent of foreign exchange earnings in the late 1960s.⁸⁷ Procurements for the war were also important for Taiwan, and, by the 1970s, Taiwan was exporting capital goods, technicians, and foreign aid to several Southeast Asian nations.⁸⁸ Both countries sent construction teams to the Middle East to recycle petrodollars after the 1973 oil shock. By the late 1970s both nations were competing for an intermediate position in the world economy, continuing to export labor-intensive goods to advanced countries and capital-intensive goods to LDCs.⁸⁹ Firms in both countries sought to go multinational, looking for cheaper labor in Bangladesh, Mexico, and elsewhere, while continuing to supply construction to the Middle East. In these tactics Taiwan and the ROK have been more successful than other industrializing regimes

85. Kuznets, *Economic Growth*, p. 152; Lin, *Taiwan's Industrialization*, p. 137.

86. Daniel Chirot, *Social Change in the Twentieth Century* (New York: Harcourt Brace Jovanovich, 1977), pp. 218–20.

87. David C. Cole and Princeton N. Lyman, *Korean Development: The Interplay of Politics and Economics* (Cambridge: Harvard University Press, 1971), p. 135; also Kuznets, *Economic Growth*, p. 71.

88. Greenhalgh, “Dependency, Distribution.”

89. Lin, *Taiwan's Industrialization*, pp. 131–32.

such as Brazil and Argentina. Korea, however, had to bolster its state power and did so in dramatic fashion: the early 1970s were the period of the Yusin Constitution (*yusin* in Korean is *isin* in Japanese, the same characters used to refer to the post 1868 Meiji reforms), KCIA penetration of society, a clump of “emergency decrees,” and increasing use of vile tortures against dissidents.

Although Taiwan and Korea sought to escape dependency in the 1970s, what they succeeded in doing was exchanging one form of dependency for another, or enhancing one and reducing the other. The U.S. role has declined; experts no longer dictate to the regimes, as they did in the early 1960s, but “offer suggestions.” The direct dependency of the 1950s and early 1960s has changed into an indirect dependency, increasingly like Japan’s, within the U.S. hegemony. Both countries remain captive grain markets for the United States, both continue to get much of their oil shipped in and refined by U.S. multinationals, and both remain highly dependent on the United States for security (with Taiwan moving into a less determinate position after the U.S.-China normalization). In both countries direct aid ended in the mid 1960s, but PL480 grain and other supports continue to flow as a trade-off for “voluntary” textile export restraint. In the period 1951–74 Korea alone received \$8 billion in U.S. food shipments, most of it under PL480, and surplus American grain has been essential in keeping wages low in Korea and Taiwan.⁹⁰

Japan, by contrast, lacking a military or resource component to foster peripheral dependency, has pursued a trade hegemony that could be a textbook example of Hirschman’s schema for Germany in interwar Eastern Europe. Japan’s trading practices toward Taiwan and the ROK fit almost perfectly with his outline of techniques a dominant country uses to create an “influence effect” dependency: create groups with vested interest in trade, direct trade toward poorer countries, trade with countries with little mobility of resources, induce discrepancies between production for export and for the home market, and so on.⁹¹ Northeast Asia exemplifies Hirschman’s rule that dependency will emerge where country A takes a large percentage of trade from country B, but country B’s trade is a small part of country A’s total trade. He illustrates this by reference to Bulgaria’s trade with Germany: 52 percent of its imports came from and 59 percent of its exports went to Germany, but that trade only amounted to 1.5 percent of German imports and 1.1 percent of German exports.⁹² In the 1970s, Japan accounted for about 25 percent of ROK exports and 38 percent of its imports; Japan and the United States combined accounted for 70 percent of ROK imports and about two-thirds of its exports.⁹³ Direct Japanese investment in Korea bal-

90. Wade and Kim, *Economic Development*, p. 10; Kuznets, *Economic Growth*, p. 103.

91. Hirschman, *National Power*, pp. 34–35.

92. *Ibid.*, p. 30.

93. Mason et al., *Economic and Social Modernization*, pp. 138, 497; Kuznets, *Economic Growth*, p. 73.

looned after the 1965 normalization, which was itself accompanied by a munificent package of loans and credits totaling about \$300 million. Within a few years Japanese direct investment outstripped the American total; in the period 1972–76, for example, Japanese investment was more than four times the American total (\$396 million to \$88 million). Japan's ten largest trading firms handled as much as 50 percent of exports and 60 percent of imports to and from Korea between 1963 and 1972.

Taiwan's trade is similarly skewed; but Taiwan is less dependent on financing from Japan and the United States, whereas the ROK's dependence on Japanese financing since 1965 is, according to Kuznets, "characteristic of Korea's earlier satellite role within the Yen Bloc."⁹⁴ Both countries remain almost entirely dependent on American and Japanese multinationals for foreign markets and technology transfer.⁹⁵ Although an indirect dual dependency continues to exist, the Japanese are more aggressive than the Americans: as Ezra Vogel argues, the Japanese try "to induce as much technological dependence on Japan . . . as possible."⁹⁶ In Taiwan and Korea this takes the form, for example, of letting them assemble color television sets while jealously guarding the technology necessary to make a color picture tube.

Many are called but few are chosen: Korea's export-led trap

Export-led development on the Korean and Taiwan model places four critical obstacles in the way of upward mobility in the world system. First, LDCs need to break into the system of economic exchange at a point other than comparative advantage in labor, that is, in marketing, better technology, or better organization. Yet multinationals provide most of the markets and use "steady-state" or obsolescent technologies—as Lin puts it, technology "is stable in the product-cycle sense."⁹⁷ Second, limited factor endowments and the small domestic markets that characterize such offshore production inhibit second-stage industrialization and cause early problems of surplus capacity. Third, rising competition from poorer states means that there is a critical but a short and slim lead over competing LDCs. Multinationals, especially the smaller textile firms, may simply move production facilities to countries offering better labor costs. Finally, core-country protectionism will arise to the extent that declining sectors have representation in the polity. In the late 1970s, Taiwan and Korea met all these problems compounded by inflated oil prices.

In the event, Taiwan was chosen but the ROK was not. Taiwan is beginning to manufacture computers for export (Atari moved a big factory there in

94. Kuznets, *Economic Growth*, p. 85.

95. Lin, *Taiwan's Industrialization*, p. 173.

96. Vogel, *Harvard Seminar 1979*.

97. Lin, *Taiwan's Industrialization*, p. 134.

1983), while Korea suffered a loss of 6 percent of GNP in 1980, the first loss since the export-led program began. In 1978, the Korean threat to advanced country industries seemed so palpable that Japanese newspapers were filled with wary editorials about “the Korean challenge,” and a middle-level State Department official stated in my earshot that a prime goal of U.S. policy toward Korea was to “manage its articulation with the world economy so that we don’t get another Japan there.” According to some sources, the Carter administration put off its troop withdrawal plan both to maintain influence in Korea and to stave off ever-increasing Japanese dominance. In June 1979, Jimmy Carter visited Park Chung Hee and toasted him for his stable rule. Six months later Park was assassinated amidst a general political and economic crisis. The timing of the economic crisis may be explained by the second oil wave of early 1979, but the cause of the crisis lay deep in the structure of Korea’s economic activity. The late 1970s saw increasing protectionism, declining technology transfer, and a greater need to borrow to meet oil expenses and service previous debt. Furthermore, in dialectical fashion, the remedy that Korea had used to ride out the first oil wave—dispatching construction teams to the Middle East—caused a skilled labor shortage that bid up wages within Korea, thus jeopardizing the ROK’s comparative advantage. At the same time, an outward-turning People’s China began eating into Korean textile markets. The big steel, shipbuilding, and automobile factories met the very obstacle that free traders had predicted: when ships and cars could not be sold abroad, the small domestic market could not help out. Korean automobile production in late 1979 and 1980 came to a virtual standstill. Thus, as the economist Yung Chul Park stated, all these problems threatened to “bring the export-led industrialization to a rather abrupt end.”⁹⁸ Korean EPB planners stated publicly that the economy was “uncontrollable” and in a “quandary.”

The economic difficulties detonated a political crisis, beginning with vastly enhanced opposition power deployed around Kim Dae Jung. He in turn drew support from textile workers, small businesses and firms with national rather than international interests, and his native southwestern Cholla region, which, historically rebellious and leftist, had been left out of much of the growth of the previous fifteen years. Major urban insurrections occurred in the southeastern cities of Pusan and Masan in the autumn of 1979. Some 700 labor strikes were recorded in 1979–80, and in April 1980 miners took over a small town east of Seoul and held it for several days. In May, hundreds of thousands of students and common people flooded the streets of Seoul, leading to martial law, which in turn touched off a province-wide rebellion in South Cholla and the capture of the provincial capital by rebels who held

98. A good summary of the recent economic problems of the ROK’s export-led program can be found in Yung Chul Park, “Recent Economic Developments in Korea” (Paper presented to the Columbia University Seminar on Korea, 24 April 1981).

it for a week. Korea seemed to be on the verge of disintegrating as Iran had done, but unlike Iran the military did not fracture and a new general, Chun Doo Hwan, executed a multistage coup: within the military in December 1979, within the KCIA in April 1980, and throughout the state apparatus in summer 1980. Through withering repression the strong societal reaction was quieted, but at the cost of a deep radicalization of remaining protesters.

In the aftermath of this rebellious period, the Korean state intervened continuously to revive the economy's comparative advantage in the world system. The state sponsored the sectoral reorganization of several large conglomerates, on the principle of one *chaebol* for each industrial sector. For the first time the ROK publicly referred to the "organic" nature of its perimeter defense relationship with Japan, as justification for demanding at least \$6 billion in Japanese loans and aid. (In early 1983 Korea and Japan agreed upon a \$4 billion package of loans and credits, clearly marking Japan's increasing role as compared to that of the United States.) Finally, the state accomplished a thorough repression of labor in outlawing strikes and unions, closely watching any and all organizing activity, and driving down wages. Thus in 1981 labor productivity increased 16 percent while wages went down 5 percent in real terms. GNP growth of 6.4 percent recovered the loss of 1980.⁹⁹ Yet the period 1978–83 has seriously weakened the ROK in its struggle with Taiwan for advantageous position in the world economy.

In 1979, the World Bank reported that "the burden of external debt is being steadily reduced," and agreed with Korean planners that a growth rate for exports of 16 percent and for GNP of 9 to 10 percent per year could be sustained through the 1980s. It noted that "confidence in Korea's ability to meet its external debt service obligations is based on the continuation of rapid export growth."¹⁰⁰ Since the 1980 downturn the economy has grown only in the 5 to 6 percent range, debts have more than doubled since 1979 to a total external debt of \$42 billion (third largest in the world), and export growth has tumbled badly. Growing by double-digit rates throughout the 1970s, and by 17 percent in the bad year of 1980 (to \$17.2 billion), exports reached \$21 billion at the end of 1981 and by mid 1983 were no higher than \$22 billion on an annual basis. In other words, export growth has been flat since 1981. Taiwan's exports have not been booming, either, but its external debt is no more than \$7 billion and the slowing of export growth has had no apparent effect on internal politics.

Thus, in 1983 as in the rest of this century, Taiwan continues its smooth

99. See "South Korea's New Leader: Off and Running," *Far Eastern Economic Review*, 30 January–5 February 1981; *Christian Science Monitor*, 5 January 1982; *Tonga Ilbo* (East Asia Daily), 26 December 1981.

100. World Bank, *Korea: A World Bank Country Economic Report*, Parvez Hasan and D. C. Rao, coordinators (Baltimore: Johns Hopkins University Press, 1979), pp. 8–9, 47. This is also a good source on World Bank criticism of Korea's deepening industrialization strategy during the Third Five Year Plan.

development, in spite of losing major security guarantees and in spite of structural obstacles to its development. South Korea, on the contrary, plays out its history of economic dynamism mixed with spasmodic social reaction. Today, its development program hangs in the balance.

Conclusions

I have sought to demonstrate the shaping and conditioning effects of economic forces on three distinct societies, peoples, and cultures, and the effects of industrial product cycles on a regional political economy. Japan, Taiwan, and South Korea have come to have similar economic structures (although in different temporal sequences), and all three, with markedly different traditional polities, have adopted quite similar political models and roles for the state. The BAIR model—relative state autonomy, central coordination, bureaucratic short- and long-range planning, high flexibility in moving in and out of industrial sectors, private concentration in big conglomerates, exclusion of labor, exploitation of women, low expenditures on social welfare and, in prewar Japan and contemporary South Korea and Taiwan, militarization and authoritarian repression—is found in all three nations. When one is compared to another the differences will also be salient, but when all three are compared to the rest of the world the similarities are remarkable.

I have also argued that industrial development in Japan, Korea, and Taiwan cannot be considered as an individual country phenomenon; instead, it is a regional phenomenon in which a tripartite hierarchy of core, semiperiphery, and periphery was created in the first part of the 20th century and then slowly recreated after World War II. The smooth development of Taiwan has its counterpart in the spasmodic and troubled development of Korea, and neither can be understood apart from Japan. Not only was Taiwan's society less restive and its state less penetrated by societal constraint, but it also had breathing space occasioned by Japan's greater attention to Korea and Manchuria before 1945, and American "development by invitation" after 1950. In short, the developmental "successes" of Taiwan and Korea are historically and regionally specific, and therefore provide no readily adaptable models for other developing countries interested in emulation.

The evidence also strongly suggests that a hegemonic system is necessary for the functioning of this regional political economy: unilateral colonialism until 1945, U.S. hegemony since 1945. Today there is increasing competition between American and Japanese hegemony over semiperipheral Taiwan and South Korea, but as years pass there may well be sharper competition over a new hinterland, People's China. Will the United States or Japan, or both, organize Chinese labor in the world system? And as Chinese labor-intensive exports increase, whither Taiwan and South Korea? Past history suggests that a triangular structure works best, and so Taiwan and the ROK should

move into a middling position between China on the one hand and the United States and Japan on the other. The Chairman of the Korea Exchange Bank, Choon Taik Chung, said in 1981 that "within ten years, Korea will be the bridge . . . between mainland China and the United States." Already, some synthetic textiles made in South Korea are being shipped to China for finishing, taking advantage of cheaper labor cost; the finished product is then sold in American markets. Within Japan, there are voices arguing that Japan should slowly transfer its auto and steel industries to South Korea and Taiwan, placing emphasis instead on high-technology "knowledge industries."¹⁰¹ The continuing world competitiveness of Japanese auto and steel exports in the early 1980s seems to have slowed this transfer, but it will probably continue. Still, international politics and domestic social forces (especially in Korea) complicate the replication and deepening of this "natural" tripartite hierarchy.

The China connection comes to the heart of the problem. In a recent discussion Raymond Vernon said the Japanese capabilities for exploiting that opportunity are "some orders of magnitude greater than the capacity of the U.S." to deal with it. Jon Halliday argues that Japan is far better positioned than the United States to benefit from the economic opportunities of the 1980s in Northeast Asia.¹⁰² In a situation of stable U.S. hegemony, such as existed from 1951 to 1970 in the region, Japan and the United States could profit equally from such opportunities. Today, in an era of limits, this is not the case. The world system does not provide open access for all. It can tolerate only one or two hegemonies, and only one or two Japans. For the smaller and weaker countries, core-power rivalry spells trouble in the intermediate zone. For Japan, the coming period, like the interwar period, will test its ability both to be successful economically and to live at peace with the world around it: tragically, in the past its striving toward core-power status resembled less flying geese than a moth toward a flame.

Americans, as Vogel suggests, "haven't begun to think about the implications of living in a world where Japan is the most powerful industrial power."¹⁰³ They must also decide if they can live at peace with a formidable Japan. And they must contemplate the obvious fact that, in the late 20th century, the race is passing to those who are best organized for competition in a merciless world system. We see this reflected in a poignant observation by Raymond Vernon:

The concept of free access of every country to every market and the gradual reduction of trade barriers and the openness of capital markets, served us well, given our internal political and economic structure, and

101. Lecture by Norman Thorpe, Seoul correspondent for the *Asian Wall Street Journal*, Seattle, Wash., 8 January 1982; also John Marcom Jr., "Korea Dents Japanese Dominance in Steel," *Asian Wall Street Journal*, 28 December 1981.

102. Raymond Vernon, in *Harvard Seminar 1979*; Jon Halliday, "The Struggle for East Asia," *New Left Review* no. 124 (December 1980), pp. 3–24.

103. Vogel in *Harvard Seminar 1979*.

given our position in the world from 1945 on. All my preferences, all my values argue for retaining this system, for as long as one can. But one observes the way in which Japan has organized itself . . . with a certain unity of purpose, which can easily be exaggerated, but nonetheless at the same time should not be overlooked. One looks at the way in which state enterprises are being used somewhat—*somewhat* . . . by the other advanced industrial countries and now by the developing countries in very considerable degree. Observing these various forms of interference with the operation of market mechanisms, I find myself reluctantly pushed back constantly to the question whether we have to opt for a set of institutional relationships and principles that reflect a second best world from our point of view. We have to somehow organize ourselves. . . .¹⁰⁴

104. Vernon in *ibid.*