

Book Review

REVIEW OF “POST-INDUSTRIAL DEVELOPMENT IN EAST ASIA, TAIWAN AND SOUTH KOREA IN COMPARISON” BY MIN-HUA CHIANG, PALGRAVE MACMILLAN, 2018

Nurliana Binti Kamaruddin

Asia-Europe Institute, University of Malaya
50603 Kuala Lumpur

E-Mail: nurliana.k@um.edu.my

Abstract

There has been no shortage of books discussing the impressive economic development experience of East Asian countries in the past few decades. Thirty years since the publication of Chalmers Johnson’s seminal work “MITI and the Japanese Miracle: The Growth of Industrial Policy 1925-1975”, scholars have continued to examine and debate the circumstances that define and shape the economic success of East Asian countries. Today, much of the interest lies with China’s growth and dominance, however, South Korea’s and Taiwan’s development are also significant as they are the only other two non-city state countries that have achieved rapid economic growth since the end of the Second World War. For Malaysia, the recent change in government has brought about a re-emergence of the Look East Policy and renewed interest in learning from the countries in East Asia. Min-Hua Chiang’s book “Post-Industrial Development in East Asia, Taiwan and South Korea in Comparison” provides a detailed insight in the recent development progress of South Korea and Taiwan since the mid-1990s to the present. As South Korea and Taiwan are also major trading partners for Malaysia, the development experience of these countries can provide significant lessons that would benefit local policy makers and scholars alike.

Keywords: East Asia, developmental state, post-industrial development, Taiwan, South Korea

Introduction

The comparative study of South Korea and Taiwan have long been a popular topic for scholars of East Asian development, particularly in the 1980s and 1990s. Most importantly the reasons for the fast-paced economic development of these two countries, as well as their other East Asian counterparts, has been subjected to intense debate. Neoliberals have argued that the economic success of the East Asian countries have been the result of engagement in international free trade (World Bank 1993; IMF 2006), claiming that the East Asian development indeed proved that the market was the main driver of economic development.

The developmental state paradigm, on the other hand, emerged as a response to the shortcoming of the neoliberal ideas. Scholars of the developmental state approach argue that the role of the state was paramount in steering the development trajectories of these countries. Some of the seminal work analysing the development experience of South Korea and Taiwan include Alice Amsden’s book *Asia’s Next Giant: South Korea and Late Industrialization* (1989) and Robert Wade’s book *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (1990).

Therefore, this book fits well into the ongoing discussion of East Asian development, analysing the role of the state, businesses as well as changes in international factors in affecting the development of South Korea and Taiwan. The author assesses how South Korea and Taiwan have been affected by China's rapid development, the role of the small and medium enterprises (SMEs) in both countries, and the governments' policies towards industrial upgrading and promotion of trade. The author also looked at some of the contemporary challenges faced by both countries namely income inequality and an ageing population.

Summary of the book and main arguments

With the Asian Development Bank arguing that the 21st Century in the 'Asian Century', it is only natural to examine how the leaders of the Asian development experience has continued to grow in recent times (ADB 2011). The changing economic environment and the increasing trade interdependence demands that governments play a role in facilitating freer trade but at the same time provide the best means of growth and development for its people. This book takes a comparative perspective on South Korea and Taiwan's more recent economic development experience. As mentioned earlier, the author presented three main factors in the initial development experience of South Korea and Taiwan – the importance of the United States as a trade partner, the role of the state in terms of setting and implementing economic policies, and the effort of the private sector in driving growth.

The role of the United States, the most important trading partner for Taiwan and South Korea, have been replaced with China. China's changing economy also changed the dynamic of the business and trade of Taiwan and South Korea. Not only has Taiwan's and South Korea's investments and productions facilities in China have to adjust with China's economic growth but the production effort has also begun to focus on producing for Chinese local market as opposed to export. China's impact on manufacturing production was also discussed in the following chapter where "the relocation of labour-intensive manufacturing" meant that Taiwan and South Korea depended on China's considerably cheap labour (p.88). This changed as China continued to grow and both South Korea and Taiwan's manufacturing bases needed to relocate to different parts of China in order to continue benefiting from lower labour cost.

The book provides an important viewpoint on the impact that China has had on what was previously two of East Asia's faster-growing economies. In particular, Taiwan's complicated relations with China has also shaped its economic relationship with its much larger neighbour. Much of Taiwan's outward direct investments (ODI) has been in China despite policies discouraging investment (p.26). According to the author:

The "Southward Policy" was launched twice in the 1990s with an aim to divert Taiwan investors' interest from China to Southeast Asia. Despite the policy discouragement, Taiwan's investment in China continued to surge (p.26)

In the following chapter, the author also explored how China's economic rise also changed the environment for the small and medium industries of Taiwan and China. This is especially critical for Taiwan as Taiwanese SMEs were the main drivers of its export drive as opposed to South Korea's reliance on its large conglomerates (*chaebols*). The rise of China has resulted not only in increasing labour cost which most SMEs can no longer afford but China's industrial and technological catch-up has also created more competition for the manufacturing sectors of Taiwan and South Korea (p.89)

In the case of small and medium enterprises (SMEs), both Taiwanese and South Korean SMEs focused on their domestic market and despite their declining contribution to export, the SMEs from both countries continue to provide a high percentage of domestic employment. However,

unlike Taiwan's integration of SMEs with larger companies, the South Korean chaebols continue to crowd out SMEs particularly in the manufacturing sector (Chiang 2018, pp.57-58). One of the important lessons from the book is the impact of SMEs in the manufacturing and service sector in both Taiwan and South Korea. Although the service sector now makes up a larger portion of the employment opportunities in South Korea, the manufacturing sector continues to be the largest contributor.

However, the high need for increased research and development (R&D) which generally only large corporations can afford means that SMEs are increasingly losing space in the manufacturing sector. Conversely, SMEs in the service sector accounts for a high portion of the domestic employment (p.50). This means that although SMEs might not be the biggest economic growth contributor in Taiwan and South Korea, they are the biggest contributor to social and income security for a large part of the population.

The governments of both Taiwan and South Korea focuses much of the industrial upgrading effort on the manufacturing sector in order to improve export despite the growing service sector in both countries. A large part of this is because the service sector of both countries is too weak to stimulate economic growth (p.74). Competition from Chinese firms as well as the growing reliance on large corporations for research and innovation also contributes to the declining competitiveness of the SMEs (p.76 & 84).

The role played by the government in both countries have also changed particularly in the wake of increasing trade liberalization. In this case, the author focused on two roles that the government plays – efforts for industrial upgrading and the effort to further trade liberalisation through bilateral and multilateral trade agreements. As Taiwan and South Korea are strongly dependent on international trade in driving their economic growth, the emphasis has also been given to diversifying trade relationships. South Korea, in particular, has been much more successful than Taiwan in establishing free trade agreement as it doesn't face the same political constraints as Taiwan (pp.97-98).

The author also links these issues (China's growth, the manufacturing sector decline and SME competitiveness) among others, to the social economic challenges that Taiwan and South Korea face; namely the income gap. The author argues that although Taiwan and South Korea's Gini coefficient ratios are "not high by international standards", this is not adequate to explain the problem of income inequality (p.128). Taiwan's and South Korea's development and labour structure will also face severe challenges as both countries become ageing societies.

The author points to the governments' past population control measures as one of the root cause of the ageing society (pp.137-138). However, the author's claim that "both societies may not be fully aware of the significance of a shrinking youth population" is not quite true as the issue is extensively covered by local media and the issue regularly creates political pressure on the government. Still, the author rightly points out that policies to increase the fertility rate has not been successful (p.139).

This book provides an enlightening continuity to the development experience of South Korea and Taiwan by structuring her analysis based on the contributing factors that have been established in earlier academic discourse. In doing so, it presents readers with an opportunity to understand how the changing economic environment affects Taiwan and South Korea. Its abundant use of data provides a detailed analysis of the difference not only between the two countries but also the changing trends experience by Taiwan and South Korea individually. On the other hand, readers will also need to look elsewhere to find a richer discussion on the contemporary political, social and security issues that impact the economies of both countries.

For example, the author touches the political constraints that Taiwan faces in establishing trade agreements without a deeper examination of the security impact of its relation between China and the United States. The author also discusses South Korea's effort to leverage FTAs in order to strengthen its diplomatic relations, but the author stops short in the examination of why this is important for South Korea. Although it is understandable that the book focuses on the economic development of Taiwan and South Korea, more casual readers are less likely to understand the larger dynamics of intersecting factors that shape the economic environment of both countries.

Conclusion

This is certainly a book that students of East Asian development would benefit from. Its dense data comparison of Taiwan and South Korea provides readers with a comprehensive look at how both economies have changed since the late 1990s and it raises some interesting questions about how the government of both countries can rise to the challenge. More importantly, for Malaysian readers, this book provides some really important lessons for this country's own development.

Malaysia's own shrinking manufacturing sector relative to its service sector could face a similar need for better value-added upgrading. As China continues to grow, Taiwan and South Korea's southward pivot would also mean greater trade engagement with ASEAN countries which Malaysia, as one of the more developed ASEAN country, can strategically take advantage of. Overall, the book places itself well within the continuing discourse of the Asian economic development experience.

References

- Amsden, A.H. (1989). *Asia's Next Giant: South Korea and Late Industrialization*. New York: Oxford University Press.
- Asian Development Bank (ADB). (2011). *Asia 2050: Realizing the Asian Century*. Manila: Asian Development Bank.
- Chiang, M. (2018). *Post-industrial development in East Asia: Taiwan and South Korea in comparison*. Singapore: Palgrave Macmillan.
- International Monetary Fund (IMF). (2006). *World Economic Outlook: Financial Systems and Economic Cycles*. Washington D.C.: International Monetary Fund.
- Johnson, C. (1982). *MITI and the Japanese miracle*. Stanford, California: Stanford University Press.
- Wade, R. (1990). *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton & Oxford: Princeton University Press.
- World Bank. (1993). *The East Asian Miracle: Economic Growth and Public Policy*. New York: Oxford University Press