Robert Wade’s *Governing the Market* gains its force by challenging orthodoxy. Stripped of important nuances, the orthodoxy in question contended that East Asia’s success could be traced largely to a market-oriented development strategy, and one that placed particular emphasis on incentives to export (“export-led growth”).

*Governing the Market*, a case study of Taiwan with comparative references to Japan and Korea, confronts this existing wisdom in several steps. The first and most central is to document the pervasiveness of government intervention. As a purely empirical matter, Taiwan simply does not fit the free-market model. Making this point is the purpose of chapters 4-6 and it is hammered home throughout the book. Given that interventions and protection are generally associated with distortions, inefficiency, and rent-seeking, defenders of orthodoxy should explain why Taiwan succeeded in such spectacular fashion. As Wade writes, “the balance of presumption must be that government industrial policies, including sectoral ones, helped more than they hindered. To argue otherwise is to suggest that economic performance would have

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1 As Wade rightly argues at a number of points, there is confusion in the literature between policy and economic outcomes. By “export-led” or “export-oriented” growth, we should not mean simply that countries have a high export share, which might be caused by a number of factors (such as size). Rather, we should mean that they achieved that export share through policies—particularly trade and exchange-rate policies—that got the incentives between import-substituting, export, and non-tradable activities “right,” meaning in line with comparative advantage. A discussion of the ambiguities of these concepts, including the concept of comparative advantage itself, can be found on pp. 355-57. See also Robert Wade, “East Asia’s Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence,” *World Politics* 44, no. 2 (January 1992): 296-300; and Robert Wade, “Selective Industrial Policies in East Asia: Is The East Asian Miracle Right?” in *Miracle or Design? Lessons from the East Asian Experience*, ed. Albert Fishlow et al. (Washington, D.C.: Overseas Development Council, 1994), 55-80.
been still more exceptional with less intervention, which is simply less plausible than
the converse\(^2\) (pp. 305-6; see also p. 72).

The second analytic strategy is to show that sector-specific policies—not only broad, functional ones—were plausibly associated with the success of important industries. Moreover, such interventions were not simply the result of private-sector demands or interests (what Wade calls “followership”). If they were so, then—in Wade’s view—the stipulated investments would have taken place in any case and the role of the state would not have been demonstrated. Rather, he argues that state intervention put the evolution of the industrial structure on a different path than it would have otherwise taken and that this path was, with respect to growth outcomes, superior to the free-market counterfactual.

The third step in the argument is to treat policy itself as endogenous. Governing the Market offers not only an economic account of Taiwan’s growth but a political economy one as well; half of the core empirical chapters of the book (chapters 7-9) are devoted to political and institutional themes. It is important to recall that at the time Wade’s book appeared, the economics profession was largely silent on such questions. The dominant interpretation of East Asian growth argued that governments got policy “right,” but treated policy either as a deus ex machina or the result of idiosyncratic factors—such as wise (American!) counsel or the personal foresight of political leaders. Subsequently, economists have had much more to say about issues of political economy,\(^3\) and even the World Bank now pays substantial attention to the role of institutions. At the time, however, Wade’s book was the only account that offered both an alternative economic model of East Asia’s growth and a fully-developed political account.\(^4\)

\(^2\) As a matter of pure logic, this plausibility argument—which recurs throughout Governing the Market—is a classic example of a false dichotomy. Two possible effects of industrial policies are considered: that they have positive effects, and that they are a drag on growth. Since Taiwan grew rapidly, then their effects “must” be positive.


\(^4\) Of course, a number of political scientists offered political interpretations of East Asia’s growth. In general, however, these studies either did not develop the economic logic of the “developmental state” (see, for example, Chalmers Johnson, MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975, Stanford, Calif.: Stanford University Press, 1982), or relied on existing economic accounts to varying degrees (see, for example, Stephan Haggard, Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries, Ithaca, N.Y.: Cornell University Press, 1990).
As the purpose of this exchange is to spark a discussion, I should begin by emphasizing that *Governing the Market* is an important book. It outlines its case boldly, and pulls together a remarkable range of economic, institutional, and political detail. With the work of Chalmers Johnson\(^5\) and Alice Amsden,\(^6\) it set an important research agenda on the political economy of East Asia. Even more than those two books, *Governing the Market* moved this debate into the public sphere as well, generating useful controversies about the policies advocated by the international financial institutions.\(^7\) I should also underline that, Wade’s interpretation of my own work notwithstanding,\(^8\) I in fact share many of his substantive views. I believe that industrial policy, and state intervention more generally, were important for East Asia’s growth, and I have argued at length that political variables are central to understanding the region’s economic history.\(^9\)

That said, *Governing the Market* is an elusive book, or perhaps more generously, an eclectic one. Although Wade’s arguments appear to be stated simply and boldly, they are in fact quite complex, with numerous qualifications and confounding particularities introduced along the way. To a large extent, this is a function of the focus on a single country. As with the work of Chalmers Johnson and Alice Amsden, his model of East Asia is influenced heavily by his chosen case.\(^10\) As with Johnson and Amsden, the comparisons that Wade offers (in chapter 10 primarily) tend to serve the function of showing core similarities across cases (Japan and South Korea) rather than underlining differences.

The elusiveness of Wade’s work is, however, also the result of intellectual style, including the willingness to draw theoretical inspiration from a variety of different sources. In the remainder of this essay, I attempt a theoretical reconstruction of three main issues raised by *Governing the Market*. The first question the book addresses is the role of the state in economic growth. Wade’s theory emphasizes

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\(^5\) Johnson, *MITI and the Japanese Miracle*.


\(^7\) Wade, “Selective Industrial Policies in East Asia.”

\(^8\) Wade, “East Asia’s Economic Success.”

\(^9\) Haggard, *Pathways from the Periphery*.

\(^10\) Wade primarily focuses on Taiwan, Amsden on South Korea, and Johnson on Japan.
sheer capital accumulation as well as the role of the state in overcoming market failures. In the first section of this essay, I review these two arguments in somewhat greater detail, raise a question about their compatibility and relative significance, and conclude by suggesting that Wade’s understanding of Taiwan’s growth owes much more to neoclassical theory than he would have us think. Intervention worked in Taiwan, and in East Asia more generally, because of other supportive policies that served, among other things, a “disciplining” function with respect to the distribution of rents.

Clarifying these issues is critical to the second task the book takes on, which is uncovering the political foundations of Taiwan’s rapid growth. Wade’s comments on Chalmers Johnson’s work—and the concept of the developmental state more generally—are quite dismissive and at a number of points he summarizes empirical evidence that he believes is contrary to the developmental state approach. However, the main political economy arguments Wade advances are indistinguishable from those of other scholars working in the developmental state tradition. Where Wade departs from this approach, by drawing on the concept of corporatism, his arguments not only do not gain greater theoretical clarity but also mischaracterize Taiwan’s political economy in important respects. The standard interpretation of Taiwan is that business-government relations were quite distant until the political transition of the mid-1980s. The relative distance between business and government has important implications for understanding the politics of growth.

Finally, I briefly address the issues that Wade’s new introduction takes up concerning the Asian financial crisis and the scope for industrial policy in the current age of globalization and liberalization. Wade is associated with an explanation of the financial crisis that is overwhelmingly—even conspiratorially—international in focus; his core contribution on the issue highlights what he calls “the Wall Street-Treasury-IMF complex.” Yet in his new introduction, Wade concedes an important role for domestic political economy in the origins and unfolding of the crisis (xxix-xxxii). These factors are worth pondering because they are gradually revising our understanding of how the developmental state worked, particularly with respect to the

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11 Most notably on p. 26, where he says that the developmental state theory is “not much of a theory,” but see also xxii n. 19, pp. 253, 256.

concept of rent-seeking. They also suggest—to cite the title of one of Wade’s own essays—that “reports of the death of the national economy are greatly exaggerated.”

The Economics of Governing the Market

Wade outlines the core of the “governed market” or GM theory quite succinctly:

The GM theory … emphasizes capital accumulation as the principal general force for growth, and interprets superior East Asian performance as the result of a level and composition of investment different from what FM [free market] or SM [simulated free market] policies would have produced, and different, too, from what the “interventionist” economic policies pursued by many other LDCs [less-developed countries] would have produced (p. 29).

This pithy statement has many moving parts. First, in its emphasis on accumulation, the definition anticipates an important set of arguments that emerged in the mid-1990s that capital accumulation was at the core of the East Asian miracle. These arguments actually constituted a challenge to both the neoclassical and “governed market” perspectives, however. Neoclassical interpretations of East Asia’s growth—to the extent that they contained a serious theory of growth at all—argued that rapid development was driven by improvements in efficiency associated with policy reform, openness to trade, and induced technological innovation and growth in productivity. If the new growth-accounting evidence was correct, these factors played only a supplementary role in the development process. Yet if accumulation is the main driver of growth, then sector-specific policies are not likely to be that significant either. The significance of these policies would come not so much from the fact that they “led” the market or contributed to a superior path of structural change, but because they stimulated higher aggregate levels of investment.


15 For a biting critique, see Rodrik, “Getting Interventions Right.”
Sheer accumulation is, however, only part of Wade’s story and does not receive sustained emphasis. Continuing his theoretical discussion, Wade makes brief reference to the role of technology, arguing that “the resulting high level of investment generated fast turnover of machinery, and hence fast transfer of newer technology into actual production” (p. 29). Although this assertion appears in the core theoretical section of the book, and he returns periodically to technology policy, Wade clearly does not have his heart in this discussion. Unlike Alice Amsden—with whom Wade is also in my view wrongly associated,16 Wade does not give technology a central theoretical role in his analysis. By contrast, the transfer, adoption, and modification of technology is the centerpiece of Amsden’s analysis of both South Korea and late development more generally.17 As a result, Amsden pays much closer attention to the firm than does Wade, and certainly much more than do political scientists working on these questions.

The core of Wade’s theoretical argument appears rather to be about market failure (pp. 11-14). I say “appears to be” because these arguments are first tucked into a section on “The Proper Role of Government” almost as a digression and receive their most extended elaboration not at the beginning of the book but near its end (pp. 350-58). Wade makes an important bow to economic theory at the outset by arguing that selective intervention can be welfare-enhancing only under restrictive conditions—namely, that such intervention addresses well-defined market imperfections and externalities. Although market failures may take a variety of different forms, the underlying structure of the problem is typically a coordination problem that private actors cannot resolve efficiently through private contracting. At least three strands of theory and research have developed along these lines; they emphasize coordination problems in, respectively, the real sector, capital markets, and technology. Wade either drew on or anticipated a number of these threads, and it is worth briefly outlining their logic.

Wade’s dominant line of argument with respect to the early phases of Taiwan’s industrialization centers on coordination problems in the industrial sector

16 For a quite critical review of Amsden’s Asia’s Next Giant, see Wade, “East Asia’s Economic Success.”

17 Amsden, Asia’s Next Giant; and particularly Alice H. Amsden, The Rise of the “The Rest”: Challenges to the West from Late-Industrializing Economies (New York: Oxford University Press, 2001).
In the recent revival of “big push” models, efficient investment can be deterred by small market size and the absence of complementary suppliers or customers (p. 353). Current market prices will not adequately convey information about future growth, and countries thus forego investments that would lower production costs through larger plant size and learning effects. As Wade holds, “the forces that lie behind the orthodox assumption of rising cost curves are in many manufacturing processes overwhelmed by economies of scale and learning” (p. 352; also p. 355). “Big push”-like investments by the government and subsidies, protection, and other incentives to private firms can overcome these collective action problems. Such coordination problems are assumed to arise primarily in heavy intermediate sectors such as steel and petrochemicals, and Wade emphasizes the well-known secret that state-owned enterprises played a central role in a number of these sectors (pp. 175-82). Yet coordination problems also emerged among the private sector in other industries as well. For example, Thomas Gold first documented in detail the role of the government in coordinating complementary investments in different segments of the textile industry, such as between the spinning and weaving segments. Wade makes similar arguments along these lines.

A second theoretical rationale for intervention centers on failures in capital markets; Wade addresses these issues at the beginning of chapter 6 (pp. 159-72; also pp. 364-68). Hellman, Murdock, and Stiglitz have offered a neatly integrated theoretical framework of systems of “financial restraint” that formalizes previous insights about capital market failures. In their model, controls on deposit rates and limitations on entry create rents for financial intermediaries (“franchise value”). These rents provide incentives for banks not only to expand their deposit base, thereby contributing to financial deepening, but also to undertake socially profitable

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20 See also the excellent study by Cheng-Tian Kuo, Global Competitiveness and Industrial Growth in Taiwan and the Philippines (Pittsburgh: University of Pittsburgh Press, 1995).

projects that banks would not otherwise finance due to problems of adverse selection and moral hazard. Controls on lending rates create rents for firms in the real sector as well. These rents do not necessarily imply inefficiencies if banks are capable of monitoring firms, and if firms have incentives to increase their equity in a given project. In addition to general controls on deposit and lending rates, more direct government intervention in channeling credit to particular high-return sectors may still be justified by the divergence of private and social returns due to market failures. If not as explicit, Wade makes broadly similar arguments (for example, see pp. 31, 159-72).

How significant, however, was the financial sector in the conduct of either Taiwan’s industrial policy or in the country’s overall growth? Wade is less than completely clear on this point. In the section that deals with the financial sector (pp. 159-72), he sometimes underscores the significance of this sector in both mobilizing resources and channeling them to high-return activities. At other points, however, he emphasizes the differences between Taiwan and South Korea, where government-directed lending clearly played a central role in industrial policy, and pays greater attention to the informal sector and purely private mechanisms for securing credit such as post-dated checks. Although Wade hedges his bets in this way, I tend to side with the political analysis of Tun-jen Cheng that casts some doubt about the efficacy, let alone efficiency, of the financial sector. Cheng argues that the “commanding heights” of the banking sector were kept in government hands largely for political reasons: both to keep the financial sector out of the hands of local Taiwanese and to limit the concentration of financial and industrial power. The civil-service orientation of government-appointed bankers made them less than entrepreneurial, and most credit was channeled to state-owned enterprises, if not into party and other directly political purposes. Taiwan’s banking sector did avoid the extreme moral hazard problems visible in South Korea. This may, however, have been due to the fact that Taiwan avoided an external financial crisis. The continuing problems in the banking sector are, moreover, by no means trivial. Thus, the theory of market failure certainly makes room for a government role in directing finance through the banking system, and there is certainly some evidence of such steering in Taiwan (for example, through

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the Bank of Communications). Taiwan is, however, quite different from South Korea in this regard, where the political economy of finance is crucial.  

A third rationale for industrial policy centers on technology markets, which are subject to a variety of market failures. Firms lack full information on technological alternatives, function with imperfect information on the technologies they do acquire, and are subject to variable, unpredictable, and highly path-dependent learning processes. Actual innovation is even more difficult. Rationales for government intervention include incomplete appropriability that leads to underinvestment in research and development (R&D), coordination problems such as standards setting, and—above all—the externalities that arise from R&D activities. All governments in the region (including Hong Kong) have had some form of sector-specific technology policies. A sizable literature on the electronics industry in particular has documented how Taiwan as well as other countries in the region supported this high-growth sector; Wade makes similar points (see, for example, pp. 103-8).

So much for the theory; what about the evidence? A surprisingly common research design in the literature on industrial policy is to pick a successful (or unsuccessful) industry, demonstrate that policy support existed, and conclude that the case for the significance of industrial policy is made (or rejected). Wade is not alone in being guilty of this post hoc ergo propter hoc reasoning. Stern et al. have summarized the objections to this approach in some detail. A policy may appear to succeed, but in fact actually introduce other distortions into the economy that are a drag on growth. The apparent success of a policy might also be due to exogenous

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factors rather than government intent. Finally, a true test would have to show that announced policies were in fact implemented.  

Wade is certainly aware of these issues; *Governing the Market* is extraordinarily self-conscious about methodological questions (see, for example, pp. 29-33, 71-72, 109). Nonetheless, he tends to be dismissive of studies that examine industry-level data within a given country to determine if those that received policy support surpassed others on some metric, such as total factor productivity (TFP), export growth, or profitability (xx-xxi, pp. 30-32).  

Noland and Pack provide an overview of some of these efforts, although with very different theoretical priors. Wade’s new introduction treats the issue as unresolved and I tend to agree. What is intriguing about extant studies, however, is not simply their findings about whether targeting “worked” or not, but the more unremarked issue of the magnitude of the effects. Wade continually emphasizes the subtlety of policy, the nuanced, “below-the-radar” way in which the government pushed the private sector (xxi). Yet this nuanced “nudging” is presumed to have had huge effects on growth.

This lack of proportionality between the cause (industrial policy) and the effect (growth) suggests that we might be misunderstanding the mechanisms through which industrial policy operates on growth. Arguments by Wade and others about market failure may be less important than the political functions of industrial policy, namely to signal government commitment to the private sector and thus to elicit higher levels of investment than would have otherwise occurred (the crucial counterfactual). Recall that the postwar political environment in Taiwan was a highly uncertain one, and that the Kuomintang (KMT) was seeking a political *modus vivendi* with the local Taiwanese population. So, is the argument primarily about the level of investment or its composition? In addition, what are the magnitudes, the relative effects, of these two components of the story?

Were that question not difficult enough to answer, we have still not exhausted Wade’s theoretical toolkit. One point that struck me in re-reading *Governing the Market* is...
Market was the extent to which its arguments about the role of industrial policy are in fact made contingent on a number of other policies that are straight out of the Washington Consensus. This can be seen by taking a closer look at a pivotal chapter in the book, chapter 3 on “The Neoclassical Explanation.” I expected this chapter to outline the elements of the neoclassical case in order to set up Wade’s argument that many of the core presumptions of this case were false. This expectation was bolstered by other essays in which he was sharply critical of the idea that Taiwan and South Korea underwent a transition to export-led growth in the early 1960s as a result of liberalizing policy reforms.

However, my expectation proved only partly correct. Chapter 3 proves to be a virtual catalogue of various policies that Taiwan got “right.” Wade points out that “Taiwan’s currency after about 1960 was not seriously overvalued, and exporters could obtain most of their inputs at close to world market prices” (p. 55). Moreover, the exchange-rate regime was unusually stable for a developing country (pp. 60-61). The labor market in Taiwan was “as close to a textbook model of a competitive labor market as one is likely to find” (p. 55). In a bow to a crucial element of what might be called the “new neoclassical consensus,” Wade acknowledges that education policy was highly effective in spreading basic primary and secondary education before investments were made in tertiary education. Taiwan, we learn, “was one of the first, if not the first developing country, to adopt a high interest rate policy” (p. 58), and did so as early as the mid-1950s. Savings were high, in part because fiscal policy was highly conservative (pp. 59-60), one of many interesting differences between Taiwan and South Korea.

Wade could have treated this long list of factors as “background conditions,” albeit propitious ones. Yet he did not take that dodge, particularly given the centrality of these factors in neoclassical accounts (p. 72). Rather, he makes two supplementary arguments. The first is a historical, genetic, or path-dependent one. Yes, Wade argues, liberalizing reforms were in fact critical for Taiwan’s subsequent growth, but


30 For a more detailed examination of these and other early reforms, including a consideration of Wade’s analysis of them, see Stephan Haggard and Chien-kuo Pang, “The Transition to Export-led Growth in Taiwan,” in The Role of the State in Taiwan’s Economic Development, ed. Joel D. Aberbach, David Dollar, and Kenneth Sokoloff (Armonk, N.Y.: M.E. Sharpe, 1994), 47-89.
only because prior interventionist policies, some going back to the Japanese era, had laid the groundwork. Although he eschews these terms, import substitution was a prerequisite for export-led growth. As Wade explains, “at the time of the liberalizing reforms Taiwan already had high growth potential, due in part to actions of the colonial state and the Nationalist state to create markets and market agents and shape their operations. In such conditions … [a] liberalizing shift in economic policy may therefore induce a much stronger growth response than the same policy change would elicit at a lower level of development” (p. 109).

Yet in the next sentence, Wade makes a much stronger argument which is not historically contingent. “At most the liberalizing shift can be regarded as a necessary condition for the subsequent high growth rates. In the building of sufficient conditions the state had a critical role” (p. 109, emphasis added). Wade is arguing here that the success of industrial policy is in fact contingent on a variety of other (“necessary”) policy reforms.

This insight is an important one that is not further developed. We might speculate, however, that the complementarity between a successful industrial policy and other elements of the Washington Consensus is related to the importance of exercising control over the process of rent allocation. For example, maintaining relatively strong incentives to export through the exchange rate guarantees that firms are subjected to market discipline, not at home through trade liberalization—which Wade shows was highly gradual in Taiwan (pp. 126-39)—but through exposure to international competition in export markets. Conservative monetary and fiscal policy served to limit the ability of firms to overwhelm the state with demands for concessional finance and fiscal transfers that were unrelated to market failures or externalities. Such disciplining mechanisms were absent in many other developing countries, contributing to the excessive rents and distortions that Wade himself acknowledges as a risk.31

To summarize, Wade appears to offer a relatively simple economic theory in which the governed-market and free-market models are sharply juxtaposed. Wade also appears to argue that the neoclassical approach can be dismissed or discounted by

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31 Wade acknowledges this, for example, in the passage cited at the outset of this section on the “interventionist” economic policies pursued by many other LDCs.
the sheer weight of empirical evidence of pervasive government intervention. Yet on closer inspection, Wade’s argument has at least four distinct theoretical components:

1. Sheer capital accumulation was high and thus needs to be explained. In addition to political factors discussed in more detail below, industrial policy may have played a key signaling function in eliciting such investment.

2. Most distinctive to Wade, the government effectively and efficiently addressed a number of market failures through targeted, sector-specific interventions. I interpret this line of argument to be the core theoretical underpinning of the concept of government “leadership” or “governing the market,” and concur on the broad logic even if Wade and I disagree on some of its components such as the role of the financial sector.

3. The government simultaneously met—as a necessary condition for high growth—a broad range of other policy requirements that were in fact part of the neoclassical canon. Noteworthy among them were devaluation and a conservative fiscal and monetary policy. High growth would not have occurred without these policy reforms, which I among many others date to the late 1950s and early 1960s.

4. Simply meeting these “necessary” conditions was not enough; historical sequencing also mattered. Liberalizing reforms worked in Taiwan only because of a particular historical sequence in which the country developed certain indigenous capabilities prior to the liberalizing reforms.

The Politics of Governing the Market

_Governing the Market_ was the only study of its generation to attempt a unified political as well as economic account of East Asia’s growth. The political arguments in _Governing the Market_ did not, however, either generate the controversy or have the influence that Wade’s economic arguments did. This is probably related in the first instance to the fact that Wade’s challenge to economic orthodoxy had wide-ranging and immediate implications for policy, including the policies of the international financial institutions. Wade argues that other developing countries can learn from Taiwan’s experience, outlines his prescriptions clearly (chapter 11), and provides advice strongly at variance with the Washington Consensus. Political analysis, by contrast, does not carry the same immediate weight. It may be possible to tinker with “small” institutions, but only rarely—and at great risk—do external actors have the opportunity to fundamentally change “big” institutions such as constitutions or the structure of national bureaucracies. It is less than helpful to say that the route to rapid
growth is to have a one-party government; lose a revolutionary conflict; relocate hundreds of thousands of military, police, and civil servants to a small island; ruthlessly stamp out any opposition; and start afresh!

However, Wade’s political interpretation also proved less influential than his economic analysis because it is less novel and, where it is novel, less compelling. Piecing together Wade’s political account is not straightforward, in part because it is scattered and in part because of his rhetorical penchant for distancing himself from the positions of others even when he fundamentally agrees with them. In the core theoretical chapter of the book (chapter 1), for example, he devotes as much space to criticizing Chalmers Johnson as he does to outlining his own views. Yet when we read what he says about politics throughout the book, it is hard to figure out exactly where he parts company with the developmental state approach with which he is in fact identified. He argues that the “corporatist and authoritarian political arrangements of East Asia have provided the basis for market guidance” (p. 27), and that they did so by conferring “enough autonomy on a centralized bureaucracy for it to influence resource allocation in line with a long-term national interest—which sometimes conflicts with short-run profit maximizing” (p. 29). Later in the book, Wade talks about “hard states’’ able to resist private demands and provide overall direction to the economy (pp. 337 ff.). As he puts it most succinctly, “[state] effectiveness is therefore a function of the degree of insulation (or ‘autonomy’) from the surrounding social structure” (p. 375).

These are, in broad outlines, exactly the arguments made by Johnson, by myself, and by the many others identified with the developmental state approach. The core of that approach emphasizes the insulation of the East Asian state from interest groups—including not only labor and the left but the private sector as well—and the resulting capacity to formulate and implement policy effectively. Those adopting this approach placed different emphases on the policies actually adopted; I, for example, focused on the political economy of liberalizing reforms as well as the

32 Johnson, MITI and the Japanese Miracle.
33 Haggard, Pathways from the Periphery.
conduct of industrial policy (as I have argued Wade implicitly does as well). The underlying logic of the argument, however, is the same: that policy reform was facilitated by the concentration of political and bureaucratic power.

Wade’s affinity with the developmental state approach can also be seen in the empirical chapters devoted to questions of political economy. Wade begins his empirical analysis with the bureaucracy in chapter 7, suggesting his indebtedness to Johnson who emphasizes bureaucratic actors. His conclusions in that chapter—about the power of planning agencies and about the career paths of civil servants in Taiwan’s system—could have been lifted from *MITI and the Japanese Miracle*. If anything, he is probably too indebted to Johnson for the coherence he attributes to Taiwan’s economic bureaucracy.  

In his analysis of the broader political system in chapter 8, he again concurs with Johnson’s account with respect to the importance of a monopoly on political power as a precondition for bureaucratic power. His criticisms of Johnson (pp. 253-55) are not theoretical ones but empirical observations about the way Taiwan’s political system differs from Japan’s (for example, in being authoritarian). Johnson, of course, was perfectly cognizant of these differences and extended the logic of *MITI* to account for them. The one important analytic point Wade makes in chapter 8, and one that has been debated extensively in the political science literature, is the extent to which bureaucrats in fact enjoy autonomy from politicians. Wade rightly notes that in Taiwan’s authoritarian system, politicians were more clearly in command. It is not clear, however, that Wade is offering this as a more general analytic point—as Ramseyer and Rosenbluth and Noble do with respect to Japan—or whether his point is, again, primarily an empirical one.

Where Wade takes sharper issue with Johnson in particular, and the developmental state approach more generally, is in his discussion of the relationship

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38 Noble, *Collective Action in East Asia*. 
between the public and private sectors (chapter 9). At the beginning of this chapter, Wade raises an important, and in my view valid, criticism of the developmental state approach. Although certain organizational arrangements might be conducive to coherent policymaking and implementation, those arrangements do not explain the policy choices that leaders make. As Wade succinctly states, “circumstances do not make choices” (p. 257). The developmental state structure could, in principle, be turned to very different objectives such as income distribution. Why did the KMT leadership choose the particular mix of dirigiste and liberalizing policies that it did?

To answer this question, Wade initially turns to history and ideology (pp. 257-62), offering as an explanation: Sun Yat-sen’s economic philosophy and the experience of both the political leadership and the government bureaucracy on the mainland. This section of the book contains fascinating material, particularly on the operation of the National Resources Commission on the mainland (pp. 258-60). Theoretically, however, this line of attack is a dead end. Arguments of this sort are highly particular to Taiwan and cannot provide the broader comparative framework to which Wade’s book aspires.

Rather, Wade turns to the question on which the developmental state literature is most conflicted and confused: the relationship between the state and the private sector. He articulates two arguments that are subtly different from the standard analysis of the developmental state. The first is that the government in Taiwan (and presumably elsewhere in the region) did not simply restrict the activities of interest groups but also limited the opportunities for “unproductive” investment and rent-seeking (pp. 260-75). The KMT did this by, inter alia, redistributing land; restricting the activity of moneylenders, private financiers, and urban real estate developers; controlling rent-seeking within the state, most notably by the military; and encouraging industrial investment by small Taiwanese firms. As Wade rightly argues, “this line of argument invites formulation of a serious socioeconomic theory of investment” (p. 263), and that is precisely not only what Mushtaq Khan does in his fascinating discussion of the role of rents in the development process but also what

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that David Kang does in his study of the Korean case. Yet limits on unproductive investment is an outcome of politics and one that seems perfectly well explained by the fact that the state was autonomous from these various rent-seeking political forces. The state did not rely on these forces for votes, money, or other forms of political or material support.

The second twist that Wade adds goes back to his use of the concept of corporatism as a framing device. Wade makes much of the fact that private-sector organization was restricted, and that all organizations that were allowed to form required government imprimatur (for example, pp. 270-71). He then goes farther, however, and argues that the resulting “‘state corporatist’ power structure has facilitated the government’s efforts to pursue a ‘leadership’ role in important industries, rather than simply a ‘followership’ role” (p. 295). Yet his own characterization of business-government relations hews much closer to the developmental state model that emphasizes government insulation from private-sector interests, or what he calls the “cleavage” between the public and private sectors (pp. 276-80). Moreover, he provides very little evidence that corporatist arrangements had a substantial effect on policymaking; indeed, he devotes as much space to “covert” business-government relations (pp. 284-89) as he does to more institutionalized ones.

Cheng-Tian Kuo undertook one of the few studies that I know of that picks up on Wade’s effort to extend the concept of corporatism to the analysis of East Asian industrial policy. Kuo looks at three industries (textiles, plywood, and electronics) in two countries (Taiwan and the Philippines). He argues that sectors organized on corporatist lines with wide industry representation outperform those with “clientelist” business-government ties as well as sectors in which the state attempts independent action or simply leaves outcomes to the market. While Kuo’s findings would appear to support Wade’s advocacy of corporatism, I am not convinced that they do. The key question for Wade is economic growth. It is therefore not sufficient to know that corporatism works in a particular sector; we also have to know that such corporatist organization was widespread in Taiwan and therefore had significant effects.

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41 Kuo, *Global Competitiveness and Industrial Growth.*
Kuo notes that there is substantial variation across sectors in Taiwan in terms of the extent of corporatism. The dominant view that scholars of Taiwan share, however, is that the country did not have very extensive business-government organization, in part for the political reasons already noted, and in part because the fragmented nature of the industrial structure and the relatively small size of Taiwanese firms was not conducive to such organization. Greg Noble’s study of Japan and Taiwan—in my view, the best comparative study of the politics of industrial policy in East Asia—is worth quoting at length since it summarizes a broader consensus in such a pithy way:

The KMT’s stance toward putative collective action dilemmas was skeptical or even hostile. The party neither trusted business nor depended on its support. Collusion posed a potential threat to the integrity and autonomy of the party … when the government perceived genuine economic dilemmas, the presence of numerous state-owned enterprises made direct leadership, if not pre-emption of private firms, a more attractive option. The personalistic pattern of delegation served well to retain direct control over crucial issues but was ill-suited to the recurrent patterns of communication and coordination necessary to sustain collective action.

In sum, Wade’s claims to the contrary, the core political economy arguments advanced in Governing the Market conform broadly to the developmental state approach that emphasizes the effects of institutions on the capacity to formulate and implement policy. His criticisms of Chalmers Johnson tend to confuse a general, theoretical point (about the coordinating effect of institutions) with an empirical observation (that Taiwan does not look exactly like Japan). Wade opens a promising line of inquiry about the control of unproductive profit-seeking activities, but these policies are a consequence of—rather than an explanation for—some political structure. Wade’s use of the concept of corporatism does not provide any significant analytic leverage over the substance of Taiwan’s policy choices that I can see, nor is his conception an empirically accurate characterization of Taiwan, particularly when the country is viewed from a broader comparative perspective.

42 This point is developed explicitly in Yongpin Wu, “Rethinking the Taiwanese Developmental State,” The China Quarterly, no. 177 (March 2004): 91-114. See, however, the important new study on this question by Alice H. Amsden and Wan-wen Chu, Beyond Late Development: Taiwan’s Upgrading Policies (Cambridge, Mass.: MIT Press, 2003), which suggests that larger firms were in fact a more central driver of Taiwan’s growth, at least from the 1970s. However, Amsden and Chu do not suggest that this period was characterized by corporatist relations with the state.

43 Noble, Collective Action in East Asia, 36-37.
These criticisms aside, however, it is important to assign blame correctly. Some of the problems that I have noted with the political economy of *Governing the Market* are in fact endemic to the larger developmental state literature. In particular, Wade sees that insulation from political pressures does not guarantee that the government will pursue a particular strategy, and, as he notes later (pp. 376-77), may also have significant costs. Like the rest of the developmental state literature, *Governing the Market* does not address the key question of why authoritarian rule did not have the adverse effects it did in so many other developing countries. To answer this question, we would need a broader political economy approach than that developed by Wade. Such an approach would encompass more centrally the crucial role of the United States in Taiwan’s (and the region’s) development, and the surprising tolerance of the United States for the dirigisme that Wade and others describe. The domestic side of the theory would join the concept of relative autonomy with a more thorough political account of business-government relations. The KMT had a strong interest in securing Taiwanese (i.e., *benshengren*, 本省人) acquiescence to mainland (i.e., *waishengren*, 外省人) political dominance, and thus provided an overall context that was conducive to private accumulation (see pp. 246-48); this was certainly a very different circumstance than what occurred in the many developing countries where political elites were actively hostile toward business. However, at the same time—and this again is the autonomy point—the state was not captured by private interests and rent-seeking was controlled. This delicate balance—between a government with independence from the private sector yet not actively hostile to private accumulation—is a surprisingly distinctive feature of most of the successful East Asian economies.

In closing this discussion of Wade’s political analysis, a brief word should be said about the island’s transition to democratic rule. Wade’s book appeared just as Taiwan was undergoing a gradual—yet in hindsight quite fundamental—political transition. Although he takes note of these developments (pp. 248-53) and correctly emphasizes their “lateness,” he does not consider in any detail what their longer-term...

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44 On this point, see particularly Woo, *Race to the Swift*.

implications might be—either for the theory of the developmental state or for continued high growth. The hints that he does provide suggest an expectation that the corresponding erosion of political control may impinge on the coherence of policy and thus on growth. For example, one of his policy suggestions underlines the importance of building up corporatist institutions either before or as democratization occurs in order to maintain some degree of coherence in business-government relations as politics become more open (p. 375).

To what extent does this somewhat pessimistic expectation hold up? Gauging the effect of democracy on growth is extraordinarily difficult, since so many other things occurred during this crucial period in Taiwan’s history—e.g., major demographic changes, cross-Strait tensions, closer economic integration with the mainland, and greater economic openness. Yet while policy may not be as coherent as in the past, the loss of insulation did not appear to have any profound effect on economic growth in the short run. What democracy did influence quite substantially was the distributive aspects of public policy. On the one hand, business influence on politics has become pervasive as the KMT and other parties have scrambled for financial support. Business-government relations are now closer in Taiwan than they were during the era that Wade describes, and as I will argue in closing, this has contributed to greater continuity in policy than we might have expected. On the other hand, the government also had to contend with a wide variety of other social forces as well, and has, for example, dramatically increased its attention to social policy questions. These conflicting political forces may indeed slow growth, as might a host of other long-run forces. It is not a criticism, however, of Wade’s historical account to observe that a completely different framework of analysis is required in order both to answer this question and to understand current political economy questions in Taiwan.


47 See, for example, Christian Aspalter, Democratization and Welfare State Development in Taiwan (Aldershot: Ashgate, 2002).

48 My own reflections on these issues are contained in two case studies of policy change that emphasize formal institutional characteristics of Taiwan’s new democracy. See Tun-jen Cheng and Stephan Haggard, “Democracy and Deficits in Taiwan: The Politics of Fiscal Policy, 1986-1996,” and Stephan
Conclusion: Governing the Market and the Current Economic Scene

I close with brief consideration of two issues: Wade’s thinking about the Asian financial crisis, and the broader question of the relevance and replicability of the Asian model. With respect to the Asian financial crisis, it is useful to begin with the sociology of knowledge. Early analysis of the crisis put substantial emphasis on factors of political economy, including American pronouncements on the adverse effects of “crony capitalism.” This emphasis was quickly drowned out by attention to the risks of deregulation, the irrationalities of international capital markets, and the various errors of the International Monetary Fund (IMF)—in short, anything but the domestic political economy of the crisis.

This shift in emphasis back to the international system was certainly warranted. Taiwan largely escaped the Asian financial crisis primarily because the island was not a debtor; the presence of capital controls was, in my view, only secondary to this more fundamental macroeconomic fact (see Wade, xxxv-xxxvii). However, for a number of the other countries in the region—most notably South Korea, it is hard to argue that external “fundamentals” warranted the wrenching crisis to which these countries were subjected in 1998. Moreover, the proponents of the crony capitalist view have to answer a very simple question—and one central to Wade’s analysis: If Asian-style crony capitalism was so bad, how do you explain thirty years of unprecedented economic growth?

These are legitimate points, yet the line between what Wade calls the “external and internal factors in the buildup of the crisis” is not quite as clear-cut as he would have us believe. The decisions to liberalize the capital account, fix an exchange rate, and bail out connected firms, as well as the weakness of regulation as governments moved toward deeper financial market integration, were not solely the result of external actors; they were endogenous to some political process in which private-
sector actors had very large stakes. The weakness of institutions for regulating and overseeing the financial sector was not simply an accident of history, a sin of omission on the road to liberalization. These weaknesses were consistent with the evolution of political economies in which business influence over regulatory institutions and processes limited the ability of governments to check the socialization of risk and moral hazard. In short, crises were partly a result of the breakdown of the insulating mechanisms associated with the developmental state. In what I interpret as an important modification of his earlier views, Wade appears to admit as much (xxix-xxxii).

Wade and other critics of the international financial institutions tend to see the reform agenda in the region and elsewhere as an external imposition, a mix of ideological preoccupations and the interests of dominant countries and their firms in opening up previously closed economies. Yet viewed from the region, the politics of economic reform has other political dimensions that this “externalist” view misses. At the most general level, the push for greater transparency and for more democratic and competitive politics can be interpreted as a backlash against closed political systems that had shielded collusive business-government relations for decades. The victory of Corazon Aquino over the cronyism of the Marcos regime was an early example of this trend, but we see parallel developments: in the election of the Democrat Party in Thailand (1997) and of Kim Dae Jung (1997) and Roh Moo-hyun (2002) in South Korea; in the reform movement around Anwar and the new UMNO under Badawi in Malaysia; and in the social mobilization that led to the collapse of the Soeharto regime in Indonesia.

The Taiwan case is somewhat different, and for two reasons. First, such collusive political arrangements were much less significant during the authoritarian period. Second, until the recession of 2001, Taiwan did not experience the sort of deep economic crisis that generates radical reform proposals. Business-government relations did, however, change fundamentally as the economy democratized and the KMT remade itself as a party of business. As a result, there is now a vigorous reform politics in Taiwan that also seeks to draw attention to the issue of corruption and its effects on economic policy.  

51 See Chin, Heijin.
The substance of economic policy reform in East Asia also shows not simply a push toward liberalization of markets—the so-called Washington agenda—but the pressing need to reassert regulatory oversight of business. Examples include reform of laws on campaign contributions, corruption, corporate governance, and—perhaps above all—the financial sector, where the socialization of losses in the wake of the crisis was staggering in its dimensions. It is noteworthy that while escaping the severe losses associated with the region-wide financial crisis, Taiwan did not avoid very similar problems in its own financial sector.

What about the relevance of *Governing the Market* for other developing countries? Wade argues that the triumph of neoliberal ideology and the power of international financial institutions has substantially reduced the ability of countries to pursue the sort of unorthodox policy that Wade advocates. I agree that the last two decades have seen an increase in both economic and political pressures for governments to liberalize their economies. I close, however, with three notes of skepticism. First, the homogenization of the world economy that Wade fears (xlii-xlvi) is probably exaggerated; indeed, in one of my favorite essays of his, Wade makes just that point. We should not confuse (what are essentially ideological) pronouncements of the end of history or the triumph of the market as literal fact.

Second, and relatedly, there is much more room than Wade admits for what might be called an “open economy industrial policy.” A central animating theme of Wade’s book is the need for countries to cautiously approach integration into the world economy with respect to not only trade but also flows of foreign direct investment (FDI) and financial capital. Wade also saw these instruments for controlling international exposure—most notably selective protection—as the critical elements of a policy toolkit for advancing capital accumulation and structural change. True, such instruments are less important for more advanced developing countries than they used to be. This does not mean, however, that other instruments might not perform a similar function.

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52 On this point, see particularly Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem, 2002).

53 See Wade, “Globalization and Its Limits”; see also liii n. 65 of the 2004 edition on how “Korea and Taiwan beefed up covert trade controls even as they announced bold trade liberalizations.”
For example, Wade reads my work on the disk drive industry with David McKendrick and Richard Doner as containing an argument against the efficacy of industrial policy (xxi). In fact, what we found was rather more complex. Countries that wanted to play a role in this industry had to accept highly open trade and investment policies in order to make themselves attractive to the foreign firms that dominated the industry; accepting these policies was the cost of entry. Singapore and Malaysia, however, succeeded in maintaining investment in this sector, even as labor and land costs rose dramatically; these countries did so through a host of sector-specific activities, from the creation of a research institute on the industry in Singapore, to the encouragement of domestic linkages with local suppliers in both Singapore and Malaysia, to the investment in training by the Penang government in Malaysia. As Wade points out, Taiwan has pursued this path as well, for example, electronics. Weiss and Thurbon, in this volume, also provide evidence of a continuity in industrial policy efforts in Taiwan, but with a different set of instruments. Moreover, they suggest how these policies are now supported by much closer business-government relations than existed during the authoritarian period; indeed, Taiwan now looks more like Wade’s corporatist model of business-government relations than it did at the time Governing the Market appeared!

Finally, to return to politics, we should be cautious about celebrating the virtues of the developmental state. Discussion of replicating the East Asian model typically focuses on the particular policy mix the East Asian countries adopted. The discussion of replication raises, however, a common political economy conundrum: if the policies are in fact endogenous to politics and institutions, the developmental task broadens to political change as well. Wade recognizes this conundrum (pp. 375-81), but generally sidesteps the question of whether mimicking—and justifying—the authoritarian-corporatist institutions of the East Asian developmental states elsewhere constitutes sound advice. The economic performance of developing authoritarian regimes has ranged from miracles to utter disasters. In many developing countries, there is undoubtedly more to be gained—both in terms of economic growth and human freedom—from overthrowing authoritarian rule than there is in attempting to copy East Asia’s political model.

Despite my complaints and quibbles about the details, I believe the central thrust of Wade’s analysis to be correct. The big lesson I take from the book is that East Asian capitalism had highly distinctive features, particularly in the role of the state in steering the economy onto a high growth path, and in the political arrangements that supported those efforts. On these most basic points, Governing the Market reads very well a decade after its publication.
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