

## BOOK REVIEWS

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***Business and Government in Industrialising Asia.* Edited by Andrew MacIntyre.** St. Leonards, NSW: Allen & Unwin, 1994. 312 pp.

This book on the business–government relationship in industrializing Asia is a welcome addition to the growing literature on the region. It takes the reader beyond policy analysis to the question of why and how the policies are what they are by addressing “the ways in which political arrangements or, more broadly, institutions constrain policy and thus performance” (p. ix). It is therefore a useful complement to the 1993 World Bank publication, *The East Asian Miracle: Economic Growth and Public Policy*, a study on economic policy in industrializing Asia.

The book under review covers Taiwan, South Korea, Malaysia, Thailand, the Philippines, and Indonesia, whereas the World Bank publication, in spite of its title, covers all these plus Singapore and Hong Kong (but excluding the Philippines) — the so-called high performing Asian economies (HPAEs). Because of the large overlap of countries examined, and because of significant differences in approach and subject matter, these two books will take the reader to the forefront of research and debate on the reasons for the dynamism of the region.

MacIntyre’s book contains ten chapters, which may be divided into two groups. One group consists of case studies on the political economy of the above six countries, and the other four chapters are the introductory and concluding chapters and two on more general theoretical issues relating to the role of government in economic development.

The six country chapters written by highly competent specialists

are uniformly good, containing a wealth of details on government–business relations in the respective countries. These chapters address why and how governments have interacted with business in the way that they have, and demonstrate some major differences in the relationship between Korea and Taiwan in Northeast Asia, on the one hand, and Indonesia, Malaysia, the Philippines, and Thailand in Southeast Asia, on the other. A common theme that comes through from these chapters is that policy formulation and implementation are contextual and that factors such as history, ethnicity, and external relations do play an important role in policy adoption and implementation. What this suggests is that policies proffered by foreign experts and consultants, however good they may be for economic growth, may fall on deaf ears unless they are congruent with the conditions prevailing in the country. For instance, a patrimonial oligarchic state of the type described in Hutchcroft's chapter on the Philippines is unlikely to adopt the policies recommended by foreign consultants which would result in the destruction of the entrenched political and economic interests of the oligarchy.

The six country chapters are well summarized in the final chapter by Stephan Haggard, and for those who need only an overview of government–business relations in these countries, Haggard's chapter, plus MacIntyre's excellent introductory chapter, should suffice.

Many readers of the book will, however, want to go beyond the descriptive analysis of the government–business relationship in these countries and learn how the relationship has affected the path of their economic growth. The chapter by Matthews and Ravenhill, and that by Islam, as well as the concluding chapter by Haggard address that issue although they all offer different perspectives.

Matthews and Ravenhill argue that trade policy has been strategically employed in Japan, South Korea, and Taiwan to create international competitiveness in selected industries. They point out "the dynamic and cumulative impact of technological change and innovative capacities on inter-country competitiveness and economic growth" and argue that government policies creating technological change and innovative capacities account for the successful experiences of these three countries better than the policies based on the "market-following rationale of the neoclassical trade theory" (p. 32). The thesis of their chapter is thus in stark contrast to that of the 1993 World Bank publication which attributes the success of the HPAEs to correct "fundamentals" (these include macro-economic stability, high investments in human capital, and stable and secure financial systems, among others).

In support of the argument made by Matthews and Ravenhill, one

might note that now popular endogenous growth theories regard the accumulation of human capital as the engine of growth and relegate the accumulation of physical capital to a subsidiary, albeit significant, role. Since human capital accumulation takes place in schools, research organizations, and so on, but most importantly on the job, it follows that trade policy can be fruitfully used as a means for accumulating human capital by creating opportunities for on-the-job training.

Matthews and Ravenhill cite market imperfections as a reason for government intervention but they also recognize the possibility of government failure in carrying out strategic trade policy. Cognizant of the fact that there is no general rule in this second-best world, Matthews and Ravenhill offer an eminently reasonable argument that the strategic trade policy of a particular government be judged by its average performance.

The chapter by Islam compares and contrasts statist political economy with neoclassical political economy and declares the latter as the winner in explaining the sources of rapid economic growth in Northeast Asia. As the representative statist political economy, Islam chooses the "quasi-internal organization" (QIO) paradigm since it can accommodate a variety of views on statist political economy.

The QIO paradigm regards the government–business relationship in Northeast Asia as one that takes place within an internal organization consisting of the government and large business units. These units can be large private enterprises (South Korea), state-owned enterprises (Taiwan), or peak business organizations (South Korea and Japan). Whichever specific form the business unit may take in any given country, its relationship with the government is not carried out at arm's length but more like a transaction between a sub-unit and the head office of an international organization. Thus, in the QIO paradigm, government intervention can be efficient or inefficient in achieving its objectives for the same reasons that the head office of a business organization can be efficient or inefficient in achieving organizational objectives.

There is no point in offering here a point-to-point counter-argument to the criticism made by Islam against the QIO paradigm. Suffice it to say that the QIO paradigm is offered to explain the experiences of certain countries during a specific period of time and not as a theory that is universally applicable to all countries at all times. In other words, paraphrasing Matthews and Ravenhill, the QIO paradigm argues that the government has been decisive for the success of some industries in some countries at a certain stage of their economic development.

This contrasts with the neoclassical dictum that any departure from non-intervention, except for those narrowly prescribed in theory, necessarily results in inefficiency. The QIO paradigm, however, admits

the theoretical possibility for such intervention to result in efficiency and thus makes it possible to raise a fair question: under what conditions is departure from non-intervention more or less efficient in promoting economic growth? These are conditions that range from economics to politics, as the chapters in this volume attest to, and thus take the question of economic development beyond the domain of neoclassical economics.

In his introductory chapter, MacIntyre notes that the development experience of the four Southeast Asian countries, which differs from that of the two Northeast Asian countries, may raise a question about the necessity of a strong state in economic development: is a strong state capable of withstanding rent-seekers and governing business to achieve its developmental objectives a prerequisite for major structural adjustment and economic development? According to MacIntyre, the answer is a negative one as there are grounds for doubting that the progress so far achieved in the Southeast Asian countries, which has been fuelled largely by direct foreign investment, is sustainable with existing political and institutional arrangements.

In his concluding chapter, Haggard discusses statist political economy in terms of the institutionalist approach. In doing so, Haggard offers three lines of argument: bureaucratic capacity, existence and control of relevant policy instruments, and political capacity. Although these are all important for government intervention to be successful, the institutionalist approach is criticized for failing to address the motivations of the state. As Haggard puts it, the question not being asked is why does a government choose to do what it does.

It seems that, although critical of the institutionalist, Haggard cannot avoid being one himself. In his scheme of the world, there is no room for the role of particular individuals in determining the motivations of the state. In the institutionalist approach, who actually heads the government has no effect on its motivations and, thus, how it performs. To argue, as Haggard has, that ideology, external pressure, and so forth, affect the way that a government carries out its activities, but then to suggest that the particular person who heads the government does not matter, seems to go against our everyday observations. To say that Park Chung Hee, Lee Kuan Yew or, for that matter, Ferdinand Marcos did not leave any individual mark on the way that their governments and thus their countries were run seems to go against what most historical studies say about such charismatic leaders.

If who the CEO (chief executive officer) matters to the success or failure of a private business organization, why does the person who is head of state not matter in the way that the government is run. One must wonder whether this inability or unwillingness by social scientists

to recognize the role of particular individuals in shaping the course of a country's development has limited their ability to understand how and why some countries have been able to develop while others have not.

In spite of all this quibbling, this reviewer finds MacIntyre's book an excellent addition to his library and strongly recommends it to those who are interested in the question of how and why certain policies are adopted as well as how such policies have worked in bringing about rapid economic growth in industrializing Asia.

CHUNG H. LEE  
*Center for Korean Studies*  
*University of Hawaii at Manoa*

***Regional Security in the South Pacific: The Quarter Century 1970–95.*** By Ken Ross. Canberra Papers on Strategy and Defence No. 100. Canberra: Strategic and Defence Studies Centre, Australian National University, 1993. 194 pp.

This study, by a New Zealand official long involved with assessments on the South Pacific, provides a wide-ranging survey of a topic whose modest salience on global security agendas belies its considerable complexity. With decolonization virtually completed, the contemporary South Pacific political community is now internationally diverse — by what it expects from a wider world in meeting its needs, in constitutional and political composition, and through orientations to varying forces and contrasting powers encircling its rim. So far as security assessments are concerned, such diversity is further complicated by a turbulence increasingly generated from non-military pressures, be they demographic, resource, environmental, or economic in origin.

For those unfamiliar with the South Pacific, the study provides a thumbnail sketch of the region's post-1970 decolonization, and essential information about what the author regards as amongst its three most important, if contrasting, security difficulties: New Caledonia's unfinished decolonization; a conflict of unresolved autonomy, if not outright secession, on Bougainville; and the problematic constitutional and social implications of the racially-biased political system that emerged from Fiji's 1987 military coups. Enough is said about why each of these cases comprises continuing security dilemmas for the region, a reference point