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Institutions and Growth in Korea and Taiwan: The Bureaucracy

TUN-JEN CHENG, STEPHAN HAGGARD and
DAVID KANG

How do competent bureaucracies emerge in developing countries? We examine bureaucratic reform in Korea and Taiwan and argue that in both cases political leaders had an interest in reforming the civil service to carry out their programmatic initiatives. In addition, both governments undertook organisational reforms that made certain parts of the bureaucracy more meritocratic, while utilising centralised and insulated 'pilot agencies' in overall policy coordination. However, we reject the approach to bureaucratic reform that focuses primarily on its efficiency-enhancing effects. If delegation, bureaucratic and policy reform provided an easily available solution to the authoritarian's dilemma, dictators would have more uniformly positive economic records. Rather, we analyse the political and institutional constraints under which governing elites operate. In doing so, we underscore several important variations in the design of bureaucratic organisation, which in turn mirror larger policy differences between the two countries.

In the last decade, the debate about the role of government in the growth of the East Asian newly industrialising countries (NICs) – Hong Kong, Korea, Singapore and Taiwan – has undergone an evolution. The initial controversy centred on the effects of economic policy. Neoclassical interpretations emphasised the role of stable macroeconomic policy, outward-oriented trade and exchange rate regimes, and market-conforming microeconomic policies. Dissenters placed more weight on targeted industrial policies and

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on aggregate investment [*Amsden, 1989; Wade, 1990*].

Though this controversy continues, a second debate has arisen over the political and institutional foundations of rapid growth. To claim that policy mattered only pushed the puzzle of East Asia's growth back another step; policy choices themselves had to be explained. Analysis initially focused on the authoritarian, centralised, and insulated nature of political institutions in East Asia [*Johnson, 1982; Cheng, 1990; Gold, 1980, 1986; Gereffi and Wyman, 1990; Haggard, 1990*]. 'Strong' states had the political capability to respond flexibly to opportunities and to avoid the rent-seeking pressures that were typical of the policy-making process in other developing countries. As Alice Amsden [*1989*] put it succinctly, the capacity of the state to 'discipline' the private sector was an integral component of the East Asian miracle.

A correlate of this approach was an emphasis on the bureaucracy [*Johnson, 1982; Evans, 1992, 1995; Kang, 1997*]. Even champions of minimalist government could agree that a competent bureaucracy was important for effective economic policy; a well-organised and meritocratic bureaucracy was even more crucial for those who saw industrial policy as an integral element of the region's growth [*Chang, 1993*].

Yet the question of how competent bureaucracies emerge has received surprisingly little attention [*Geddes, 1994*]. Under what conditions do political leaders have an incentive to create such institutions, and why do they take the shape they do? Campos and Root [*1995, Ch.6*] offer an explanation that is rooted in a fundamental dilemma of authoritarianism, which until the 1980s was the characteristic form of political rule in most of the high-growth Asian countries. Dictators have difficulty convincing economic agents of the security of property rights and the stability of a given strategy because their powers allow them to change policy at will. One means of solving this problem is through delegation: to grant decision-making powers to relatively insulated technocratic agencies. Of course, if the dictator can delegate, he can also take authority back. However, he does so only at a cost. By raising the cost of renegeing, delegation enhances the credibility of the government with economic agents.

We agree with Campos and Root that bureaucratic reform in Korea and Taiwan supported the broader policy projects of the authoritarian rulers, who initiated the two countries' export-led growth strategies: the Kuomintang (Nationalist) Party (KMT) in Taiwan and the military government under Park Chung Hee that came to power in Korea in 1961. In both cases, political leaders had an interest in reforming the civil service to carry out their programmatic initiatives. In both cases, governments undertook organisational reforms that improved the internal incentive structure and made the bureaucracy – or certain parts of it – more

meritocratic. In both cases we find evidence that centralised and insulated 'pilot agencies' played a role in overall policy coordination.

However, we reject the approach to bureaucratic reform – or any policy change – that focuses primarily on its efficiency-enhancing effects. If delegation, bureaucratic and policy reform provided an easily available solution to the authoritarian's dilemma, dictators would have more uniformly positive economic records. Rather, we analyse the political and institutional constraints under which governing elites operate. In doing so, we underscore several important variations in the design of bureaucratic organisation, which in turn mirror larger policy differences between the two countries.

The existence of a dominant party organisation in Taiwan provided a degree of continuity in political organisation that was altogether lacking in Korea. A dominant party permitted much more extensive penetration of society, and substantially reduced opportunities for independent political and social organisation [*Gold, 1986*]. Because of political history, however, the KMT was more sensitive to inflation and rural interests than Korea's political leadership. Hyperinflation and failure to address the rural question were among the major reasons for the KMT's defeat by the Communist Party on the mainland. Bureaucratic organisation privileged policy in these areas through a strong rural reform commission and an independent Central Bank.

Second, and also in contrast to Korea, policy was initially biased to a much greater extent towards the state sector itself. The Kuomintang government, made up overwhelmingly of mainlanders, had few ties with the local Taiwanese private sector, nor any need for their political support. Conservatives in the party were highly suspicious of private economic power and favoured the maintenance of a substantial state-owned enterprise (SOE) sector. Bureaucratic organisation mirrored these priorities; the agencies providing direct support for the private sector were relatively weak and had few instruments when compared with their Korean counterparts.

Korea's politics has been substantially less stable than Taiwan's, oscillating between weak or highly controlled democracy and various forms of authoritarian rule. In Taiwan there was no fundamental change in regime until the political liberalisation of the 1980s, and that was initiated by the KMT leadership. In Korea, by contrast, we can distinguish at least eight distinct periods in the country's post-war political history: the nominally democratic government of Syngman Rhee (1948–60); the short-lived democratic Second Republic (1960–61); a period of outright military rule (1961–63); a return to a nominally democratic, but highly controlled democracy under Park Chung Hee (1964–72); a period of civilian authoritarian rule under the Yushin or 'revitalising' constitution (1973–79);

a brief political opening, following Park Chung Hee's assassination in 1979; a declaration of martial law and the continuation of authoritarian rule under Chun Doo Hwan's Fifth Republic (1980-87); and finally the transition to more fully democratic rule in 1987-88.

These broad political differences have had consequences for the organisation of the bureaucracy; we highlight two. First, the president has exercised greater direct control over policy-making in Korea, which has been much more centralised. Second, successive Korean governments have not had the same aversion to establishing close relations with the private sector. Under Syngman Rhee, these relations rested on substantial corruption and rent-seeking [*Haggard, Cooper and Moon, 1993*]. Park achieved his political aims *vis-à-vis* the private sector by strengthening the bureaucratic machinery that provided various forms of support to industry.

However, the very concentration that Korean industrial policy fostered ultimately served to undermine the authority of the technocrats. During the 1970s Park Chung Hee circumvented the economic bureaucracy altogether, a powerful reminder that if delegation can provide a partial solution to the authoritarian's dilemma it can never overcome it completely.

Since the policy reforms in the two countries have been amply described in the literature [*Krueger, 1979; Galenson, 1979*], we seek to focus attention on the less-studied phenomenon of the development of the bureaucracy in the two countries. We distinguish between the evolution of organisational structure and the management of personnel. First, how was the bureaucracy organised internally? To what extent was decision-making centralised? To what extent did particular agencies, such as the central bank or key planning agencies, enjoy autonomy from normal bureaucratic routine? Second, we examine the civil service itself: how economic bureaucrats were trained, recruited, promoted, compensated and overseen.

I. TAIWAN

One of the surprising features of the organisation of the economic bureaucracy in Taiwan is its fluidity. The organisational framework of economic planning has been remoulded numerous times during the post-war era, usually in line with internal political realignments. The result is a more fragmented structure than that visible in Korea. Economic policy jurisdictions have neither been concentrated nor hierarchically structured, with resulting fragmentation, parallel organisation and problems of coordination.

These apparent organisational problems have been partly overcome in two ways. First, concurrent appointments and distinctive personnel policies allowed particular individuals to serve coordinating roles [*Wade, 1990: 225*;

Haggard and Pang, 1994]. For example, in the 1950s, the heads of most economic ministries and agencies were concurrently members of two key bodies – the Economic Stabilisation Board (ESB) and the Council for US Aid (CUSA) – creating a structure that resembled interlocking corporate directorates. Patterns of promotion also facilitated coordination. Top bureaucrats are not generally recruited from outside the bureaucracy, but promoted from within; this has allowed a handful of the most important technocrats to establish relationships across a number of bureaus and to maintain continuity in the general direction of policy over time.

A second mechanism of coordination arose from the fact that the early planning bodies and almost all major economic planning units – the ESB, CUSA, the Council on International Economic Cooperation and Development (CIECD), the Economic Planning Commission (EPC), and the Council on Economic Planning and Development (CEPD) – were constructed *outside* of the formal bureaucratic structure. This form of organisation was partly a response to the extraordinary situation in the early years of Taiwan's post-war development and partly a response to the need to maintain relations with the US aid machinery. These agencies were only gradually incorporated back into the bureaucracy over time, a task that was not fully completed until 1986.¹ Even as this process of gradual integration was taking place, the government continued to rely on the creation of specialised, small-scale units outside the normal ministerial structure in order to achieve particular objectives.

The advantages of this organisational strategy were several. First, the structure contributed to agency independence. *Ad hoc* organs maintained direct links with the top political leadership, which gave key economic officials political backing and the ability to operate amid the confusion created by a large SOE sector, a complex national and provincial political structure, and the inertia of existing ministries [*Gold, 1986*]. The early post-aid period of the 1960s overlapped with a generational transition in the political leadership; poorly connected with the economic bureaucracy, Chiang Ching-kuo was much more hesitant than his father (Chiang Kai-shek) to grant discretion to the technocrats and took over the leadership of several key agencies himself. Nonetheless, the continued dominance of the presidency kept the economic bureaucracy insulated both from legislative scrutiny and from societal pressures more generally.

The second advantage of this structure was that it allowed the government to bypass civil service regulations with respect to pay, and thus to attract the best people not only from the domestic labour pool but from the expatriate community as well. This parallel structure was facilitated by US aid, which encouraged the development of counterpart agencies.

An important feature of the economic bureaucracy in Taiwan, when

compared to Korea, is the relative standing of those agencies responsible for promoting industry. It is true that the economic planning agencies in Taiwan have controlled important policy instruments, including trade policy [*Wade, 1990: 224*]. However, it is also true that macroeconomic stability has been a central objective of the political leadership, and that both monetary and financial agencies were strongly insulated from the economic and industrial development agencies.

The Central Bank of China (CBC), restored in 1961, was until 1979 subordinated directly to the president. Its governor was appointed by the president for a term of five years without term limit and was accountable neither to the legislative branch nor to the premier or ministry of finance. Since 1979 the premier has nominated the governor of the CBC, but subject to final appointment by the president. As a member of the cabinet, the central bank governor attends cabinet meetings and can be called before the legislature for interpellation. However, unlike other cabinet members, the governor of the CBC serves for a fixed term; with the exception of one resignation due to health reasons, the governor has always served his or her entire term and in most cases has been reappointed.

The Ministry of Finance and the state-owned banks are also quite autonomous from the economic and industrial development agencies [*Cheng, 1993*]; there are few flows of personnel between these two domains and little ability on the part of the industry-oriented portions of the bureaucracy to direct the flow of resources from the state-owned banking system. This lack of financial instruments was not initially a handicap to industrial policy objectives because US aid was the major source not only of foreign exchange but of savings more generally. As aid fell off, however, and domestic savings became the major source of capital, the independence of state-owned banks necessarily diluted the ability of the economic planning agencies to pursue sector-specific policies. It was only after the Bank of Communication was rechartered as a development bank in 1979 that credit support and targeted lending became a tool of industrial policy.

Fiscal incentives remained the principal device for industrial promotion, but even the use of those instruments was hindered by the need to coordinate with the Ministry of Finance, which naturally had quite different incentives. These incentives were buttressed by the conservative macroeconomic policy preferences of the top political leadership and the fact that, with one exception, those premiers that have come from the economic bureaucracy have come from finance-related agencies rather than from the industrial development bureaucracy.

Organisational Structure

For the purpose of analysing the early development of the state apparatus, it

is useful to divide the economic bureaucracy into three parts.² The first comprises the agencies for economic planning. A series of bureaucracies performed similar functions, yet held different hierarchical positions and power during different periods. Before the central government moved to Taiwan, it authorised the provincial government to create a liaison body, the Taiwan Production Board, to oversee the operations of the state enterprises that were relocated to Taiwan and the management and disposal of the properties inherited from the Japanese. It quickly assumed broader development planning functions. The Taiwan Production Board was absorbed into the Economic Stabilisation Board (ESB) in July 1953.³ The ESB was chaired by the Governor of Taiwan, its members included the Ministers of Economic Affairs and Finance among others. The Board in turn had five divisions chaired by various ministers, but these divisions had no staff and served primarily a coordinating function.⁴

The first division of the ESB, however, was a key player in the evolution of early industrial policy in Taiwan, and played an important role in establishing relations with the Taiwanese private sector. An Industrial Development Commission (IDC) was established as a subsidiary of the first division to implement the industrial aspects of the first Four-Year Economic Development Plan (1953–56), which were drawn up by the ESB. The IDC had four sections – general industry, chemicals, transportation, and finance – and was staffed by over 30 full-time personnel. The IDC identified key projects and sought investors; it was after the formation of the IDC that the US aid agencies began to approve long-term investment projects [*Yen, 1989: 64,70; Kuo, 1995*].

A second organisational complex was the agencies for controlling foreign exchange and trade; in contrast to Korea, these were not closely integrated with industrial policy functions. To balance foreign trade and payments, an Industrial Finance Committee (IFC) was set up in June 1949 under the Taiwan Production Board. When this Board was merged into the Economic Stabilisation Board, however, the IFC was not moved; rather it was reorganised into an independent Foreign Exchange and Foreign Trade Committee, attached to the Taiwan provincial government and supervised by the Ministry of Economic Affairs and Ministry of Finance. In 1955, an independent Foreign Exchange and Trade Control Commission (FETCC) was established, which had a wide range of functions concerning the setting of the exchange rate, determining import requirements, screening foreign exchange applications and coordinating US aid, all of which gave it substantial power; again, these functions were separate from the planning activities of the ESB. The liberalising reforms of the late 1950s and early 1960s and the end of aid weakened the FETCC's clout, however; by the end of the decade, its trade functions had reverted to the Ministry of Economic

Affairs and the foreign exchange control function had been absorbed by the Central Bank [*Pang, 1992: 51–2*].

A final institutional complex was the agency for administering US aid, which gradually evolved into the country's core planning institutions in the 1960s. The CUSA began operations in 1950. The functions of the CUSA included the selection of aid projects, oversight of the local currency or counterpart programme, and maintaining a liaison with the US aid mission. When the ESB was dissolved in 1958, the CUSA proved the major bureaucratic gainer. On the one hand, inflation had been curbed and its *raison d'être* seems to have passed; on the other hand, the ESB was considered too powerful, with functions that overlapped with those of the regular ministries. These functions were for the most part decentralised into the Ministries of Economic Affairs and Communications and the Bank of Taiwan; this decentralisation followed a report on administrative reform designed to reduce redundancy and to revitalise the line ministries of the executive yuan. Since these ministries did not have the expertise or manpower to engage in planning, this reorganisation appeared to sacrifice an integrated approach to economic management.

In fact, the functions of macroeconomic planning and the utilisation of aid, as well as elements of the Industrial Development Commission, were shifted into the CUSA, which became the new super-ministry. Chaired by Chen Cheng, heir apparent at the time to Chiang Kai-shek, the CUSA orchestrated the third four-year plan and engineered most of the important reforms between 1958 and 1961 that are associated with the turn towards export-led growth [*Wang, 1993: 148*].

Planning was further recentralised in 1963 with the formation of the CIECD, which was responsible for the fourth and fifth five-year plans (1965–68 and 1969–72) as well as the drafting of the sixth one (1973–76). Vice-premier Wang Yung-wu and some legislators believed that the CUSA had over-extended itself, with too many subdivisions and small groups that needed consolidation. The end of US aid also demanded new activities, including soliciting foreign direct investment and coordinating foreign borrowing, and the development of the capacity to carry out planning exercises without the tutelage of the US aid mission.

Initially chaired by Chen Cheng, vice-president and premier, and then after his death by Yen in 1964, the CIECD appeared to be a new super-ministry. The CIECD was responsible for sectoral planning, borrowing from abroad, and endowed with its own resources in the form of the Sino-American Fund made of residual aid and counterpart funds. In fact, the CIECD was more like a coordinating body than a centralised agency like Korea's Economic Planning Board. During the period of the CIECD, economic technocrats and their extra-bureaucratic niches were gradually

incorporated into the regular bureaucracy and the line ministries expanded their functions.⁵

The passing of the first generation of political leaders and the transfer of power to a new generation served to further weaken the CIECD. In 1969, vice premier Chiang Ching-kuo first became involved in economic issues by being assigned the chairmanship of the CIECD. The junior Chiang circumvented the CIECD by convening ad hoc meetings among line ministers to address major policy issues. In 1973, the CIECD was formally downgraded to vice-ministerial level and renamed the Economic Planning Council, while Chiang's informal meetings became institutionalised as a five-person Economic and Financial Special Group [*Wade, 1990: 200*]. Lacking in staff, the Special Group consisted of the Ministers of Finance and Economic Affairs, the governor of the Central Bank, the director-general of Budget, Accounting and Statistics, and the secretariat-general of the Executive Yuan. As in the 1958–63 period under the CUSA, planning was again decentralised to the line ministries, which regained power within their own bailiwicks, with loose coordination at the top [*Wen, 1984: 12–25*].

In 1978, when Y.S. Sun, then Minister of Economic Affairs, was appointed as premier, the EPC was again upgraded to ministerial rank and renamed the CEPD. One reason for the reorganisation was that Chiang Ching-kuo had by that time succeeded in placing his allies in the ministries. A second reason, however, was a growing concern about the need to steer the process of industrial upgrading and an interest on the part of some technocrats in emulating the Japanese and Korean models of more centralised industrial planning. Not coincidentally, the formation of the CEPD coincided with the rechartering of the Bank of Communication into a development bank and experimentation with sectorally targeted lending.

However, the contrasts between the CEPD and Korea's Economic Planning Board are even more instructive. The CEPD never regained the status of a superministry, such as the CUSA or CIECD; rather, it was on a par with the other ministries and provided coordinating functions. The CEPD did assess and approve large-scale development programmes and projects, such as the '10 major infrastructure projects' of the 1970s and the investments of the larger SOEs. But the agency was initially headed by the governor of the Central Bank, and his deputies tended to be economists; as a result, the CEPD was slow to embrace industrial policy as a primary objective. To the contrary, it became the locus for the push to internationalise and liberalise the economy, that gained strength as trade surpluses and foreign pressure mounted over the 1980s.

Under these organisational circumstances, it was the Industrial Development Bureau (IDB) of the Ministry of Economics Affairs that emerged as the leading advocate and practitioner of industrial policy. IDB

organised export cartels, tried to have input in the screening of loans from the strategic industry fund, and maintained close dialogue with private-sector firms in targeted sectors. The IDB often found itself at loggerheads with the CEPD on issues such as trade policy. As the opportunities for protection or the manipulation of rules governing foreign direct investment narrowed, the IDB shifted its ground towards the promotion of collaborative R&D efforts in promising industries such as electronics, and as the organiser of capacity reduction in sectors experiencing economic distress. Beginning in the 1980s, it designated information and machinery as two strategic sectors for promotion.

There are several features of this organisational history that are noteworthy. First, the apparent complexity of the organisational structure and the constant changes they appeared to undergo was offset by a system that resembled interlocking directorates. For example, in 1955 the members of the Economic Stabilisation Board included the Governor of Taiwan (chair), the ministers of Finance, Economic Affairs, Communications and National Defense, the chairman of the Joint Committee on Rural Reconstruction, the secretary-general of the CUSA, the commissioner of Finance of Taiwan provincial government, the chairman of the board of the Bank of Taiwan, and the chairman of the Industrial Development Commission. A similar story can be told for the CUSA. Such overlaps created greater cohesion in the economic bureaucracy than might be at first apparent.

A second feature of this economic policy structure was its unusual organisational independence. With their budgets supported by US aid, the institutions analysed here enjoyed a degree of financial independence. Not only were the agencies financially independent; they were also exempted from normal civil service regulations, and were thus able to pay much higher salaries in the early 1950s, as much as five times as high. This enabled the agencies to recruit and train highly competent staff, to attract talent, and to maintain an organisational *esprit de corps*.

This organisational autonomy had operational consequences that are summarised by Neil Jacoby [1966: 61] in a discussion of the CUSA:

Being free of the need to obtain legislative approval of its expenditures, the Council was able to act speedily on developmental projects ... Whereas the top councils of the Chinese government were preoccupied with political and military problems of security and 'return to the mainland', the Council could concentrate upon the development of Taiwan ... Had US aid been part of the Chinese government's budget, and administered through the regular departments of government, its developmental effects would have been greatly diminished.

A third feature of this structure was its surprising openness to penetration by American aid officials, who further served to coordinate policy informally. American officials sat in on the meetings of the Economic Stabilisation Board, Committee on United States Aid, Joint Committee on Rural Reconstruction, and the Foreign Exchange and Trade Commission. Chinese officials actually had to hold meetings in English for the benefit of American advisors, who would formally and informally make their case for particular reforms [*Gold, 1986: 68–9*]. The result was a particularly strong transnational alliance among aid donors and portions of the host government.

Personnel Policies

Until the 1980s, all ministers of finance and economic affairs and the heads of the economic planning agencies as well as most of their high-ranking subordinates were mainlanders who had come to Taiwan with the defeated KMT government. An interesting feature of this first generation of technocrats was the predominance of scientists and engineers. Economic technocrats trained in the social sciences – and known as ‘economists’ – occupied either lesser positions in industrial and fiscal policy areas or high positions only in finance and the banking sector. Of ten key decision-makers in Taiwan’s post-war economic development, seven were scientists or engineers; of 19 other policy makers, 12 were [*Pang, 1992: Appendix A*].

Thanks to a recent study by Liu [*1989: 89–91*], we have a statistical comparison between 44 economic policy-makers and bureaucrats in the major economic policy-making institutions in the 1950s and 1960s with the 1957 members of the Central Standing Committee (CSC) of the KMT. Ninety-eight per cent of the planners had a university education, while the proportion for the party members was a surprisingly high 70 per cent. Fifty-two per cent of the planners had studied in the United States, as compared with 28 per cent of the CSC members. These data suggest that the top planning staff, though often educated in engineering and science rather than economics, had a more cosmopolitan and liberal outlook than their political counterparts [*Yang, 1984: 161–3*].

Many of the first generation of economic technocrats joined the government through the National Resource Commission, an agency created by the KMT regime on the mainland to oversee SOEs. On Taiwan, the economic technocrats in charge of industrial development came to favour private enterprise at a time when many officials in the government remained committed to a large SOE sector. Nonetheless, their outlook was hardly *laissez-faire*; rather, they looked to Meiji Japan as a role model [*Wang, 1993: 86–7, 91*] and focused on the development and implementation of particular projects rather than on broad allocative efficiency [*Chu, 1986:*

30–33]. Into the 1980s, this engineering approach to industrial policy predominated [*Wade, 1990: 225–6*].

The *economists* in the government – and advising it – were divided into two groups: one with a monetarist-cum-neoclassical perspective called ‘the academics’ because most of their leading members have been based in universities abroad or the Academia Sinica; the other a Keynesian one dubbed the ‘editorial group’ because of their use of newspaper commentary as a vehicle for policy advocacy [*Commercial Times, 1982*]. The leading economic technocrats naturally found the editorial group more congenial than the academics, and they were instrumental in drafting the first few economic plans. But their influence weakened after the 1958–61 economic reforms, and over time they became increasingly critical of the government for lacking the kind of industrial and trade policies found in Korea [*Wang, 1988*].

From the very beginning of the country’s post-war history, a number of the ‘academics’ held influential advisory positions, particularly with respect to macroeconomic policy-making [*Cheng, 1993: 86; Haggard and Pang, 1994*]. Academics were responsible for crucial elements of the stabilisation programme of the early 1950s, including the decision to pursue a high interest rate policy, the 1958 foreign exchange regime reform, the tax reform of 1968–69, and the liberalisation of financial markets that began in the mid-1970s. The academics were also consistent critics of government intervention in support of industry [*Hsing, 1993*] and, although these criticisms did not prevail, they constituted a check on ‘high-powered’ industrial policy that was largely absent within the government in Korea until the 1980s.

The expansion of the economic bureaucracy in the 1950s generated demand for new staff.⁶ Recruits came predominantly from elite universities, particularly the National Taiwan University, and were trained in regular disciplines – engineering (for the industrial development bureau), economics and law – rather than through special professional programmes for the civil service, as is the case in Japan and France. Because of the bureaucratic independence of the early economic agencies, most new recruits were able to bypass the civil service examination, which continued to test knowledge of political ideology and classical Chinese. As the economic agencies were increasingly incorporated back into the formal bureaucratic structure, more new recruits passed through the civil service examination process, although direct hires from top-ranking universities continued until 1986, when the CEPD was formally ‘bureaucratised’.

Passing the civil service examination in Taiwan does not confer the same degree of prestige as it does in Korea. Bureaucratic careers were initially limited to mainlanders, and later carried the implication of collaboration

with the mainlander-dominated government. Aspiring Taiwanese thus sought alternative career paths, including the pursuit of advanced study and careers abroad. Partly as a result, the civil service examination was not as competitive as several other professional examinations (as measured by the failure rate), including the bar, the medical profession and accounting. Moreover, the civil service examination process remained tarnished by political exceptionalism, including 'back door' examinations to funnel KMT party elites and retired military officers into state bureaucracies and special provincial quotas for descendants of mainlanders.⁷

However, entry into the economic bureaucracies has been more selective than that for the general administration. Direct hiring from elite universities, particularly National Taiwan University, already implied that candidates had been through a rigorous screening process, namely the united entrance examination for college admission and, typically, also the masters programme in economics [*Cheng, 1992*]. Direct recruitment allowed the CEPD and other agencies to pick their recruits, while new entrants into the general civil service were assigned by the personnel department of the Examination Yuan. Moreover, there was no 'backdoor' entry into the economic agencies for party cadres or retired military personnel, nor any special quotas for mainlanders.

Compensation schemes have increasingly been seen as a crucial component of attracting talent and building a competent civil service. Until recently, however, pay in the public sector was from 30 to 50 per cent lower than that in the private sector [*Wade, 1990: 219, 280*]. Aversion to inflation and the very size of the public sector – as high as 17.5 per cent of the non-agricultural work force, not counting the military – limited the government's willingness to match private-sector salaries. Only after the mid-1980s did pay differentials between the public and private sectors begin to narrow.

Throughout the post-war period, however, technocrats in the economic planning agencies – most of which were associated with the US Aid Mission in one way or another – have been better paid than their counterparts in line ministries, such as the Ministry of Economic Affairs (MOEA) and Ministry of Finance (MOF). In the beginning of the 1950s, pay for employees on the Economic Stabilisation Board and in the Council on US Aid were five times higher than for those in regular bureaucracies [*Fu et al., 1967: 944*]. After the termination of US economic aid, the Sino-American Fund continued to cover the overhead of economic planning agencies. With the incorporation of economic bureaucracy into the government, the remunerative gap narrowed, but only gradually. In 1965 the salary of economic planners was twice that of their colleagues in line ministries [*Wang, 1993: 211*]. In the early 1970s, the gap still stood at 50 per

cent. Only after 1986 were the CEPD pay scales standardised with those in the MOEF. However, as the pay gap narrowed, recruits in the economic bureaucracy were put on a fast track of promotion and became the core of the emerging leadership, now approaching the rank of vice-ministers.

II. KOREA

Under Syngman Rhee the bureaucracy was generally both ineffective and disorganised, characterised by widespread corruption and patronage. Not only were policy instruments used for political purposes, but the staffing of the bureaucracy itself was an important form of patronage [*Suh, 1967*]. The aggregate picture demands some modification, however, since portions of the bureaucracy were open to innovation and planning. The Korean bureaucracy in the late-1950s might be described as 'dualistic': technically-oriented 'developmental enclaves' existed, but their functioning was circumscribed by the political interference of the top leadership [*Lee, 1968*].

In 1955, Rhee established the Ministry of Reconstruction (MOR). As a counterpart to the US aid mission, the purpose of the MOR was to develop plans that could be used to nail down US aid commitments over a longer time horizon. The first Minister of Reconstruction was Son In-sang, an ex-banker with experience at the World Bank. The MOR was involved in the coordination of annual stabilisation plans with the American aid mission through the revived Combined Economic Board, which provided a working link with foreign advisors interested in rationalising economic management.

In general, however, institutions and politics in Korea made the Rhee government less amenable to reform than the KMT regime in Taiwan. In contrast to Taiwan, the United States had imposed a set of weak democratic institutions on Korea. Syngman Rhee was not above political manipulation and it is generous to consider the political system democratic in any but a formal sense [*Palais, 1973; Henderson, 1968*]. None the less, Rhee did have to play an electoral game. One obvious way of mobilising funds to finance elections and other party activities was to forge a closer alliance with the new businessmen who had risen in the post-World War II period through commerce or the acquisition of SOEs. The erratic nature of economic policy and the extensive corruption in the 1950s can be seen as an outcome of this effort to build bases of business support [*Haggard, Cooper and Moon, 1993*].

It was thus not until 1958 that domestic planning efforts got under way, influenced by the Indian model [*Lee, 1968; Wolf, 1962*]. An Economic Development Council (EDC) was formed in March 1958 as a consulting and research agency for the Ministry of Reconstruction, financed partly by counterpart funds. In April 1959, the EDC economists drafted a Three Year

Plan which was to be the foundation for later planning efforts. The macroeconomic framework was a relatively sophisticated one that stressed employment objectives and based investment requirements on specified capital-labour ratios by sector. The plan spurred reforms in the government's statistical capabilities and became an important educational device, even if its technical sophistication far outstripped the government's capacity to implement it.

The fate of the Three Year Plan was decided by politics both within and outside the bureaucracy. The semi-independent status of the EDC created interministerial jealousies, particularly with the Ministry of Finance, which resisted MOR efforts to extend its authority. Additional problems were raised by the relative youth and low rank of the reform group. The nature of the broader political milieu guaranteed that support for the reformers would not be forthcoming. The economic bureaucracy as a whole had little autonomy from pressures emanating from the ruling party, the private sector and the executive itself.

Conditions only worsened as the political situation deteriorated over the late 1950s. Preoccupied with political problems, Rhee reviewed the Three Year Plan only twice during the two-year period of its formulation. Besieged by political difficulties in 1959, the Liberal Party shelved the final draft of the plan for a year, approving it only a few days before the student revolution of 1960 that ended Liberal Party rule. The last years of the Rhee administration were thus a period of some innovation within the economic bureaucracy, but these innovations took place in a larger political context that blocked reform.

Military Centralisation

Upon seizing power, the military undertook a substantial restructuring of the bureaucracy and the economic decision-making structure [*Cho, 1968; Kim, 1988; Haggard, Cooper and Moon, 1993*]. The change of government provided an auspicious opening for reformers within the bureaucracy to push forward the ideas concerning administrative restructuring that had already been developed under Rhee. The reformers' plans for an Economic Planning Board (EPB) fit with the centralising tendencies of the military, resulting in a ministry that had an unusual level of intra-bureaucratic independence and control over the activities of other ministries. The bureaucratic reform centralised control over a variety of policy instruments, including control over foreign exchange, finance, trade policy, and the budget.

The new ministry consisted of the budget bureau, transferred from the Ministry of Finance, the statistics and research bureau, moved from the Ministry of Home Affairs, and the planning coordination offices from the

MOR. From its initiation, however, the EPB came to have a powerful say over other ministries through the budget. The EPB's Bureau of Budget prepares the broad guidelines for the annual budget, collects annual proposals from the other ministries and evaluates their feasibility. The EPB's power lies in its ability to designate specific projects for which other ministries prepare the budgetary implications and, above all, in its power to adjust the budget estimates submitted by the ministries, which generally exceed that called for by the total budget. The EPB then passes the budget on to the president for approval, and though the National Assembly is given 60 days to deliberate on the budget, it has had little power to alter the budget's structure, even following the transition to democratic rule in the 1980s.

A capital import bureau was also established in 1961, and the EPB's power extended to the area of foreign borrowing. In July 1962, the ministry was given the power to grant government guarantees to loans and to audit and oversee the activities of the borrowing firms. When coupled with the power to approve and extend incentives to foreign direct investment and the ability to select those capital goods imports and importers which qualified for government-aided deferred payment privileges, the new ministry effectively gained complete control over capital inflows.

These laws effectively gave the EPB a strong say over the money supply as well. As Sylvia Maxfield shows in some detail, the Korean Finance Minister was effectively subordinated to the EPB and the Central Bank was subordinated to the Ministry of Finance [*Maxfield, forthcoming*]. But the EPB's influence over the financial system did not stop there; because the government owned the banking system, monetary and credit policies were ancillary to industrial policy objectives. Preferential finance became a central tool of government industrial policy [*Woo, 1990; Choi, 1993*], with its end use ultimately dictated by the planning apparatus headquartered in the EPB.

In 1963, the special status of the EPB within the cabinet was further enhanced when its minister was also given the title of deputy prime minister. At the same time, an Economic Ministers' Meeting and an Economic Vice-Ministers' Meeting were created, for which the EPB served as the support staff. Ministries established special ad hoc committees for the analysis of certain policy issues, and private experts could participate in such committees, but these committees generally approved policies proposed by the ministry.

In addition to consolidating the economic planning structure itself, the military government also forged much closer relations between the executive and the economic policy machinery more generally; there could be little question that the president was firmly in command [*Wolf, 1962*]. On

coming to power, the military demanded weekly briefings on the state of the economy. The military had developed a standard briefing procedure, leading to the joke that the country was run by the 'ABCs': Army, briefings and charts. These briefings provided an important channel of access for the technocrats, however, and a way of influencing and educating the top military leaders. The close interest in economic developments was visible after 1964 in the construction of an 'economic situation room' that allowed Park to monitor progress on specific projects on a daily, and even hourly, basis, and in the organisation of four Presidential Secretariats within the Blue House, the presidential mansion. Two dealt with political, two with economic affairs. Recruited from the ministries, the secretaries and special assistants allowed Park to maintain close contact with, and control over, the bureaucracy. The contrast with Rhee's aloofness from the details of economic management is striking.

The military also developed a system of 'planning and control offices' (PCOs) as a way of monitoring and evaluating performance. A PCO was established within the EPB in July 1961 and the model was gradually extended to other ministries. Placed under an Office of Planning Coordination in the Prime Minister's office, the PCOs were required to monitor and evaluate the status of implementation of its projects in quarterly reports. These in turn were evaluated by an outside Economic Performance Evaluation Group. This system constituted an intricate web that linked ministries horizontally while giving the prime minister, and ultimately the president, another independent channel of information on the bureaucracy and specific projects.

The ends to which these bureaucratic reforms were to be put rested on a restructuring of business-government relations. After the fall of the Rhee government, the punishment of those who had illicitly accumulated wealth during the 1950s became a major political issue [Kim, 1967]. Two weeks after the coup, the junta arrested 13 major businessmen. Though eight of these were induced to make large 'contributions' to the government and were released, the investigation was broadened to include another 120 businessmen. The definition of 'illicit' wealth accumulation was inclusive, covering the entire range of rent-seeking and rent-granting activities that had been pervasive, if not unavoidable, under Rhee. Moreover, radical members of the junta were arguing that all illegally accumulated fortunes should be confiscated outright and the profiteers put before a firing squad.

The government did seize all outstanding shares of commercial bank stocks, thus gaining direct control of an important institution. Bargains were ultimately struck with large manufacturing and construction firms, however. The reason is summarised neatly by Kim [1967: 470]: '... the only viable economic force happened to be the target group of leading entrepreneurial

talents with their singular advantage of organisation, personnel, facilities and capital resource'. On their release, the members of the newly formed Korean Businessmen's Association submitted a plan to the Supreme Council identifying 14 key industrial plants – cement, steel, fertiliser, cable, etc. – in which they were interested in investing if the appropriate supportive policies were forthcoming. In making peace with the newly organised private sector, the new bureaucratic organisation was put into the service of the outward-oriented but interventionist policy style that has been thoroughly documented in the literature on Korea.

Despite the centralisation of economic functions, the EPB and the other economic ministries did not constitute the totality of the economic bureaucracy. Park continued to rely on, and seek support from, the military. No military personnel held the Ministry of Finance under Park Chung Hee, but 11 out of 16 transportation ministers, nine out of 13 ministers of home affairs and six out of 15 construction ministers were military men. In effect, Park Chung-hee created a bifurcated bureaucracy, in which domestic 'service' ministries, such as construction, were staffed with clientelistic appointments, allowed to be relatively inefficient, and served to satisfy domestic patronage requirements [*Kang, 1997*].

Personnel Policy and the Organisation of the Civil Service

Organisational reform was matched by an overhaul of the civil service. The Americans had sought civil service reform under the Rhee regime, but as a detailed study [*Bark, 1967: 221–2*] concludes, it 'was difficult to find any effect of the American effort on the personnel system in Korea'. The military government undertook reforms both by purging the bureaucracy and by reforming recruitment procedures.

Under the military junta, the 'Extraordinary Measures for National Reconstruction Law' allowed the suspension of all civil rights. Under this law, 2,000 military officers, including 55 generals, were dismissed on charges of factionalism and corruption [*Henderson, 1968: 183*] and the Political Purification Law of 1962 barred 4,369 persons from political activity. The junta also dismissed 35,684 civil servants on various charges [*Lee, 1968: 310*]. Even a decade later, when Park's rule was relatively consolidated, Park dismissed 331 officials in April 1974 for corruption, including 52 with posts higher than section chief. In March 1977, 420 civil servants were purged. In 1976, 15,000 officials were reprimanded and sanctioned for corruption. The willingness of the president to directly intervene was visible under President Chun Doo-hwan (1980–86) as well. Even before Chun took power, he headed a 'Special Commission for National Security Measures' that purged 4,760 public officials in late 1979 [*Kang, 1997*].

Under the guidance of the Minister of Cabinet Administration, a series of reforms under the military rationalised the system of personnel administration and moved towards a more meritocratic system. As a study conducted by the US aid mission noted, 'with the advent of the military government the door to personnel administration improvements swung open' [Landers, 1967: 85]. These included: centralising recruitment and selection; improving examinations; installing a performance rating system; adapting a new training system; improving pay administration and installing a position classification system.

Passing the higher civil service exam in Korea has historically carried tremendous prestige, and competition under both Rhee and Park was fierce. The ratio of successful applicants to those taking the exam were daunting: in 1949 there were 100 exam-takers for every successful applicant; in 1956, 214; in 1957, 315. Under Rhee, however, higher civil servants frequently bypassed the examination process altogether and were increasingly recruited with only perfunctory screening; patronage and political appointments prevailed. From 1949 to 1961, only 336 men passed qualifying tests, compared to 8,263 'special appointments' [Park, 1961; Song, 1960; Yi, 1966; Kang, 1997]. While only 4.1 per cent of higher civil servants under Rhee entered the bureaucracy through merit-based examinations, a full 20 per cent entered that way under Park and the number of internal promotions, governed to a greater extent by merit, also increased at the top ranks [Cho, 1968].

As in Taiwan, civil servants in Korea generally earn less than their counterparts in the private sector. A 1992 World Bank report found that pay, even at the senior level, was roughly 70 per cent that of a private sector official. In contrast to Taiwan, however, Korea does not appear to have had extra-bureaucratic career routes that permitted extraordinary compensation for top civil servants except for a small group of officials in the late 1950s who were working in aid-related ministries. However, pay discrepancies do not include illegal or quasi-legal compensation to which middle- and top-level bureaucrats have had access. Until the implementation of a 'clean government' campaign by President Kim Young-sam in the 1990s, it was generally accepted for business to provide gifts, services and even cash for bureaucrats as a way of keeping relations with various ministries on a solid footing. In contrast to Taiwan, there is also a moderate amount of Japanese-style *amakudari* (descent from heaven) in Korea, a system through which retired bureaucrats assume positions in the private sector upon retirement and thus effectively increase their lifetime earnings. Government officials have also often found positions in various quasi-governmental organisations.

The Heavy Industry Drive

Even though Park supported and protected the economic technocrats, it is a mistake to see them as independent from the executive. The decision to launch the Heavy and Chemical Industry Plan (hereafter called the 'Plan') in the early 1970s provides an example of how the political objectives of the executive could prevail over, and ultimately circumvent, the economic bureaucracy.

Military calculations undoubtedly weighed heavily in Park's calculations to launch the heavy industry push [*Rhee, 1991*]. Nixon's 'Guam Doctrine' of 1969 appeared to signal American retreat from East Asia, and was followed closely by the withdrawal of one infantry division from Korea in March 1971. Heavy industries, such as steel and machinery, would form the core of a defence-industrial complex capable of guaranteeing Korea's defence self-reliance.

However, the Plan also appeared to have a domestic political rationale. In 1972, in response to growing protest against the autocratic style of his rule, Park restructured politics in an explicitly authoritarian direction with the imposition of the Yushin, or 'revitalising', Constitution. This political change was followed by two major economic policy initiatives designed to secure new bases of political support: an expansion of the Saemaul (New Village) Movement that improved rural welfare and cemented Park's standing among his conservative rural constituents; and the ambitious Plan that benefited the largest Korean firms, or *chaebol*. Both the Saemaul movement and the formulation and implementation of the Plan bypassed existing bureaucratic structures by creating new ones directly responsible to the president [*Choi, 1987*].

The decision-making structure surrounding the Plan established the key intra-bureaucratic cleavages of the late 1970s, contributed to the incoherence of macroeconomic policy, and was an important factor behind the increasing intervention of the state in the economy [*Choi, 1987; Rhee, 1991*]. During the first half of 1973, the Plan was drafted by a small working group centred in the Blue House. Working closely with the industry-oriented Ministry of Commerce and Industry, the formulation of the Plan bypassed both the EPB and the MOF. It was released in May, at which time a Heavy and Chemical Industry Promotion Committee was formed under the Office of the Prime Minister. This organisational arrangement was unusual. The committee included all major economic ministers, but departed from the usual practice of centring economic policy coordination around the EPB.

In September, a Heavy and Chemical Industry Planning Council was formed which later came under the direction of the Second Presidential

Economic Secretary Oh Won Chul, an engineer with a decade of experience in the industrial bureaucracy. Oh Won Chul was a strong advocate of an extremely activist industrial policy that would involve the government in detailed sectoral planning. The Planning Council was an extremely powerful body. Designed to provide staff work to the Committee, it was also the centre of various interministerial working groups designed to assist implementation of the plan and the main point of contact for consultations with big business over specific projects.

Numerous instruments were deployed in support of the plan, but the central policy instrument was preferential credit. Though managed by the banks, the allocation of funds was largely in the hands of the Planning Council and ultimately with the president himself, who exercised final approval over major projects. The Plan, and the system for managing it, thus had important implications for the conduct of macroeconomic policy, since crucial decisions affecting the level and allocation of credit took place outside of the normal planning channels in which the EPB and the Ministry of Finance played a more central role. In 1974 the Ministry of Finance created a massive National Investment Fund through mandatory deposits from financial institutions. The immediate aim of the Fund was to finance the heavy industry plan, but for the Ministry of Finance it also served the political function of setting some limits on the ambition of industrial planners in a bureaucratic context in which direct opposition to the initiative was impossible. Not until a coincidence of economic and political difficulties of 1979 did the EPB regain its position within the bureaucratic hierarchy, as Park was finally forced to scale down his ambitious heavy industry drive [*Haggard et al., 1994*].

III. CONCLUSION

One must be cautious in drawing policy conclusions for other countries. To some extent, institutional structures constitute organic wholes: it is difficult to transplant one part without importing the entire system. Nonetheless, there are lessons to be drawn from these cases, lessons which underscore the importance of strengthening institutions as a component of the economic reform process.

First, although reform was typically preceded by a concentration of political power in the executive, executives also delegated some independent decision-making authority to relatively insulated technocratic agencies. Why did they choose to do this? Crisis conditions are an important part of the story. Typically, erratic policy and performance in previous periods had damaged the credibility of the government in the eyes of investors, bilateral donors and the multilateral financial institutions.

Delegation signalled the government's willingness to make certain policy decisions on the basis of economic criteria.

The importance of concentrated executive authority does not imply the necessity of authoritarian rule for successful reform; we now have important cases of democratic governments undertaking radical reforms, including Poland, Argentina and Bolivia. Yet it is interesting to note that these democratic reform episodes resemble in important ways the pattern of reform in Korea and Taiwan. Crises permitted a concentration of executive authority, albeit in a democratic context, which was coupled with a degree of delegation to technocratic agencies.

When we turn to the actual organisation of the economic bureaucracy, there is no single pattern. Korea's high degree of centralisation reflected the military's more interventionist policy style, and allowed the government to coordinate a range of policy instruments around the objective of rapid industrial growth. With this style came certain risks: macroeconomic policy was sometimes sacrificed to industrial policy objectives and as business concentration increased, policy-making shifted from the economic bureaucracy to the office of the president, and technocratic checks on policy diminished. The looser organisational pattern in Taiwan was mirrored in a less dirigist policy style, though we have shown that there was a variety of effective coordinating mechanisms: the US aid machinery, a strong central bank, 'interlocking directorates' and the creation of ad hoc coordinating bodies.

None the less, in both systems, political leaderships saw merit in insulating some portions of the economic bureaucracy from other branches of government and from interest group pressures. An important component of this insulation centred on personnel policy and an expansion of the meritocratic portion of the bureaucracy. Both countries also shared a pattern of civil service organisation that recruits from top educational institutions, promotes from within, and limits lateral entry, thus encouraging strong loyalty to organisational goals [Evans, 1995]. The two countries undertook somewhat different strategies in achieving this goal; the military in Korea attempted an overall reform of the civil service, while Taiwan relied to a greater extent on special career tracks that fell outside of the normal civil service. However, the common attention to building state capacity through strengthening of the civil service is a clear reminder that policy and institutional reform go hand in hand.

NOTES

1. At that time, the employees of the Council on Economic Planning and Development were finally integrated into the civil service and were no longer supported by the Sino-American Fund, a 'second budget' that had been established following the termination of US aid in 1964, that had operated beyond the scrutiny of the legislative branch.
2. A fourth important area concerned the organisations for agricultural development, the most interesting of which was the Joint [i.e. Chinese-American] Commission on Rural Reconstruction, which had virtual plenary powers in the agriculture reform area.
3. The Taiwan Production Board was nominally chaired by the governor of Taiwan, but was actually directed by the vice-chairman of the Board, K.Y. Yin, who was concurrently head of the Central Trust Bureau, a government financial institution [Wang, 1995: 36]. At its creation, the ESB also absorbed a central-government coordinating committee, the Committee on Economic and Financial Affairs (CEFA), and the commission of industrial development of the Council on United States Aid (described in more detail below). The CEFA was established in March 1951 to review and coordinate trade, payments, monetary and fiscal policies in the interest of stabilisation, and reflected the interest of the national government in asserting its authority over economic policy making.
4. The first was responsible for industrial development planning; the second was in charge of utilising US aid; the third assumed responsibility for controlling fiscal policy, including state-owned enterprises; the fourth undertook planning for agriculture, forestry and fishing; and the fifth was responsible for establishing policies for controlling price levels.
5. The Investment Group was reorganised as a Bureau of Investment Affairs, and its rank and file became civil servants [Wang, 1993: 148], while more and more full-time members of the CUSA and CIECD began to assume ministerial positions. An Industrial Development Bureau was created within the Ministry of Economic Affairs in 1968 and its Bureau of Commerce was expanded.
6. The following draws on an interview with Wang-an Yeh on 30 November 1995.
7. Interview with Tso-jung Wang on 1 December 1995.

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