

Capitalist Development and Economism in East Asia: The Rise of Hong Kong, Singapore, Taiwan, and South Korea. *By Ku-wai Li*. New York: Routledge, 2002. xviii + 300 pp. Index, notes, bibliography, figures, tables. Cloth, \$100.00. ISBN 0-415-26873-7.

Reviewed by Richard Lufrano

Ku-wai Li argues that the many scholars of postwar East Asian economic development have too often taken a piecemeal approach to the topic, thereby limiting themselves to single academic disciplines. Instead, he proposes the economism paradigm—a “cohesive and comprehensive conceptual framework”—to explain successful economic development in Hong Kong, Singapore, South Korea, and Taiwan and to serve as a potential model for worldwide economic development. Having rejected the popular theory that unique cultural traits brought about Asian development, the author believes that, given the proper conditions and sufficient time, Asian success can be replicated elsewhere.

Five essential aspects, or “conceptual elements,” make up the economism paradigm, and although Li discusses them separately, he stresses that they are mutually reinforcing and supporting. The five are “the focus on poverty reduction rather than pursuit of equality; the role of government as a provider of “economic fertilizers”; the emphasis on domestic strength with changes in comparative advantages; a pro-growth political regime; and the presence of a market economy” (p. 2). He readily acknowledges throughout the book the considerable differences among the four territories, but he believes these core elements apply equally to Hong Kong, Singapore, South Korea, and Taiwan. The Asian financial crisis of the late nineties has not affected these “conceptual underpinnings” of Asian economic development, and the new regime in Hong Kong, despite early problems, seems committed to policies that will continue economic growth.

East Asian governments maintained economic growth as their highest priority and did not allow short-term political considerations to interfere with this strategy. Although not democratically elected, they managed to preserve political stability throughout the postwar decades. Most important, they created the conditions (the “economic fertilizers”) for the private sector to succeed and only intervened in the economy when necessary. These governments rejected the welfare-state model, and governmental assistance was minimal and of limited duration.

In the course of his analysis, Li challenges certain conventional notions about East Asian development. He takes on, for instance, a famous World Bank study that notes the reduced levels of inequality in economically successful Asian territories. Looking at the data carefully, Li finds no “consistent tendency for inequality to decline.” Rather, by consistently stressing economic growth,

Asian territories pulled large numbers of people out of poverty. This raising of absolute income levels was more relevant to economic development than the evening out of inequalities resulting from differences in personal endowment. The author also avoids the usual focus on international conditions and the world economy, choosing instead to emphasize the creation of domestic conditions that make exports attractive and draw foreign investment. Developing nations have more power to control their own destiny than is often thought.

Ku-wai Li presents a coherently argued thesis written in a “reader friendly” manner. Someone seeking to understand Asian economic development would learn a great deal from this book. But how persuasive is his argument? Is there indeed an East Asian economic development model applicable to the rest of the world? Li’s thesis raises a number of important questions.

How successful would these East Asian economies, especially South Korea and Taiwan, have been without American help and support in the postwar era? Li certainly acknowledges the importance of the United States to Asian economic development, but, in my view, he underestimates it. First, East Asia was a key factor in the American drive to stop the expansion of world communism. Would the political stability so important to Li’s paradigm have been possible without the American presence? Or did that presence keep Asian regimes from bickering and interfering with one another in a manner harmful to economic development? Did the Americans’ being there also help to prevent internal challenges to the various regimes?

Second, Japan played an important role in East Asian economic development by providing export markets and investment. Would it have been able to do this if the United States had not resurrected it as a bulwark against communism at the dawn of the cold war and urged it to help other noncommunist East Asian territories? Third, the United States gave abundant foreign aid to some developing East Asian territories in the decades after World War II. How can cash-strapped developing countries today find similar sources of funding? Fourth, the author indicates the importance of the United States as a key export market for the region: at one point the United States accepted nearly 50 percent of Taiwan’s exports. Would the United States have been as generous if it was not concerned about the spread of communism? The United States opened its market for political as well as economic reasons. Today many developing countries clamor in vain for the United States to open its export markets. All four of these conditions would be difficult to replicate today.

Moreover, how well do these four places fit into Li’s development model? After all, they are localities with vastly different conditions and historical experiences. On the whole, Li makes reasonable generalizations about each of them. The case he makes of Singapore, however, to my mind is the most problematic. It is described as having a comparatively low level of state economic

activism. Yet when it comes to maintaining comparative advantage—one of the main elements of economism—the state rather than the market plays an instrumental role. This seems to go beyond the function of providing economic “fertilizer.” Furthermore, Lee Kuan-yew, the architect of modern Singapore, studied in Great Britain during the creation of the British welfare state, and aspects of that state found their way to Singapore. The Singaporean state, in addition, often creates rewards and punishments to persuade Singaporeans to behave in ways it considers desirable. All this seems to go beyond the government’s simply establishing basic conditions and letting individual initiative take its course.

If, despite these reservations, we do accept economism as a paradigm, we can still question how far it diverges from the model the United States itself proposes to developing countries. Critical aspects of this paradigm include the paramountcy of economic growth, an open market economy, a pro-business domestic environment; the rule of law, low taxes, economic freedom, individual initiative and effort, minimal social welfare, and a limited (but essential) role for the government in the economy. All are central aspects of what may be called “the American model.” Granted, there are differences—the economism model, for example, does place greater emphasis on the role of government. In many essential respects, however, it resembles the American model. Li attempts throughout the book to show that capitalism is only a part of his paradigm, but in my view his evidence more convincingly shows East Asian development to be a variant or subset of the American model. Despite these qualms, I consider this book to be a stimulating contribution to arguably the most important question of modern Asian history.

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