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Review Of "Asia Next Giant: South Korea And Late Industrialization" By A. H. Amsden

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Review

Reviewed Work(s): *Asia's Next Giant: South Korea and Late Industrialization*. by Alice H. Amsden

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120 COUNTRY STUDIES

Asia's next giant: South Korea and late industrialization. By ALICE H. AMSDEN. New York and Oxford: Oxford University Press, 1989. Pp. xvi, 379. \$29.95. ISBN 0-19-505852-6.
JEL 90-0504

This book's title purposefully evokes another's, *Asia's New Giant: How the Japanese Economy Works*. Though it remains to be seen whether South Korea is in fact "Asia's next giant," Professor Amsden is correct in implying that its economy is no less deserving of widespread attention today than was Japan's in the mid-1970s. She could also have subtitled her book analogously, "How the Korean Economy Industrialized." But her analysis proceeds from a very different perspective, for she argues that Korea's industrial development exemplifies an historically new growth process, "late industrialization." This leads her to propound a new paradigm that conflicts with what she takes to be conventional economic wisdom.

One does not have to accept its paradigmatic discourse to gain a great deal of insight from reading this book. In discussing the underlying sources of Korea's exceptional record in rapidly developing a wide array of internationally competitive modern industries, it identifies crucial elements that have been neglected in previous tomes on Korean development (the only exception, one considerably more modest in tone, is Enos and Park, 1988). But this book also does something else. By informatively examining Korea's industrialization in both a comparative and an historical context, it isolates central features that uniquely characterize contemporary industrialization in a way that few other monographs have. Correspondingly, this book should interest a wide audience.

Professor Amsden's analysis starts with the observation that the seminal feature of late industrialization is technological. As at no other time in the past, industrialization today is based on "learning," or on assimilating technology imported from abroad; previously innovation also played a role. Korea, like Taiwan, has performed better than other late industrializers—such as Brazil, India, Mexico, and Turkey—because it has forged the institutional where-

withal to master modern technologies quickly and effectively. (In Amsden's view, Japan does not fully qualify as a late industrializer because its rise as an international competitor did not simply reflect learning plus low wages; pp. 57-63.) Two facets are critical: "reciprocity between big business and the state . . . and the internal and external behavior of the diversified business group [*chaebol*]" (pp. 150-51).

Much of the book is devoted to examining these facets in detail. The origins of Korea's strong, development-focused government are traced (not altogether persuasively) and its insistence that large firms meet tough performance standards in exchange for extensive support is emphasized. Likewise, the growth of the *chaebol* is documented and their essential practices are extensively probed. In addition to examining the roles of formal education and foreign technical assistance in the formation of human and institutional capital, the book also analyzes other significant aspects of Korean development: for example, it argues that stabilization has rarely been a concern of short-run macro economic policy, and that Korea's unprecedented rate of real wage growth stems from the high wages that have been given to induce rapid skill accumulation. The book ends with a chapter giving the author's lessons for countries that need to "reindustrialize" and an epilogue that celebrates Korea's recent turn toward political democracy.

Professor Amsden makes her singular contributions in discussing how the *chaebol* managed so rapidly to acquire substantial technological capabilities in a variety of heavy industries. Case studies of Korea's leading enterprises—including those producing and exporting automobiles, cement, ships, and steel—provide illuminating evidence about the nature of the learning process and the related economies of scope underlying the rise of the *chaebol*. No significant issue about the evolution of these business groups and their part in Korea's development is left unexplored as the discussion ranges from the shop floor to the group headquarters and beyond.

This book is definitely on my shortest lists of essential readings about Korean development and about the process of industrialization more generally. But there is a severe caveat. As the book emphasizes, many of its pronouncements,

such as those concerning the government's role in Korea's industrialization, are highly controversial. Professor Amsden considers the government to have been the prime mover throughout Korea's industrialization. Other analysts strongly disagree. Though my views—on Korea and on contemporary industrialization—are often rather close to hers, I can not accept a number of her fundamental assertions. I focus below on differences regarding Korea.

The book contains some rather blatant errors; for instance, the contention that it was not until 1965 that the government, as a result of groping its way toward policies to abate excess capacity, adopted an export-promoting policy regime (pp. 64–69, 145). There is ample objective evidence that the government's commitment to the regime came much earlier, certainly no later than 1962. The example just given points to a serious weakness. Consistent with the prominent attention given to the *chaebol* and to heavy industry, the book has many more perceptive things to say about what drove Korea's industrialization in the 1970s and 1980s than it does about what caused its takeoff in the early 1960s, when neither the *chaebol* nor heavy industry were prominent.

More generally, the book often overstates matters, as it does in alleging that the government has effectively made all (or all the important, it is unclear) decisions about "what, when, and how much to produce" on the part of large firms (pp. 79–92, 144). This way of summarizing the effect of interventionist government policies—import protection, export promotion and targeting, plus controls over access to technology and cheap capital—does not capture the essence of the complex interplay between private and government initiatives. In the same vein, the book implies that market-reliant policies—that is, policies which rely on market mechanisms for their effect—"amounted to nothing more than a footnote to the basic text of Korean expansion" (p. 78; see also pp. 141–45). My knowledge of the Korean economy does not in any way support this interpretation. Instead, it leads me to side with those who see Korea's industrialization as having been driven by the government's practice of a subtle, highly effective mix of coercive intervention and market-reliant policies.

Regardless of the shortcomings of this provo-

cative book, its analysis is thoughtful throughout and often conspicuously perceptive. Even if they do not agree with all of its declarations, its readers are certain to obtain fresh insights about the institutional and technological imperatives of contemporary industrialization. Some will doubtless find they must reappraise their own views about effective policies for industrial development as a result.

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130 ECONOMIC FLUCTUATIONS; FORECASTING; STABILIZATION; AND INFLATION

- A supply-side agenda for Germany: Sparks from—the United States—Great Britain—European integration*. Edited by GERHARD FELS AND GEORGE M. VON FURSTENBERG. New York, London, Berlin, and Tokyo: Springer, 1989. Pp. vi, 439. \$63.00. ISBN 0-387-50544-X. JEL 89-0780

The major purpose of this collection of essays is to promote laissez-faire economic policy, especially for West Germany. A secondary goal is to explain the failure of West Germany to adopt supply-side policies. The contributed papers are detailed in their descriptions of the German, U.S., and U.K. economies and convincing in their advocacy of laissez-faire government. Most are accessible to a wide audience, including noneconomists. The extreme views and strong rhetoric of the editors, however, may be more apt to antagonize readers than to convert them to free-market thinking.

The first item on the agenda is to establish that government economic intervention is undesirable. First, the authors attempt to demonstrate that excessive regulation has harmed West Germany; they then argue that deregulation has benefitted the United States and the United Kingdom.

Perhaps nowhere is West German economic policy more egregious than in the labor market.