

Leader, Government, and Market: The Economic Development of South Korea and Taiwan in the 70s and 80s

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Abstract

South Korea and Taiwan experienced the extremely rare type of high-level, sustained postwar economic growth. While it has attracted the attention of many scholars who found out the identical pattern of economic development between South Korea and Taiwan by focusing on the similar structural conditions, relatively less attention has been given to the development mechanism South Korea and Taiwan employed to develop their economy. Furthermore, few studies have highlighted the role of actors in the process of economic development in South Korea and Taiwan because most of previous studies have focused on the structural conditions. This study aimed to examine how South Korea and Taiwan have developed their economy by discovering the type of a development mechanism employed. Based on using the set of secondary data source, this study found out that South Korea and Taiwan achieved a phenomenal economic development based on the export-oriented industrialization. However, South Korean economy was developed by the government-led development mechanism, while Taiwanese economy was developed by the market-led development mechanism. And, the difference in the way of developing their economy was mainly caused by not only several structural conditions, such as the consensus between the government and private sector over the matter of economic development, the urgency of economic development, and the existence of vertical social system, but also the characteristics, such as the leadership style of key policy makers.

Keywords: development mechanism, structure, actor, economic development of South Korea and Taiwan

1. Introduction

The extremely rare type of high-level, sustained postwar economic growth experienced by South Korea and Taiwan has drawn the great deal of scholarly attention. And, various research attempted to pinpoint the cause of the noticeable economic development of South Korea and Taiwan, such as (1) industrial policies which make identical economic developmental paths based on the export-oriented industrialization with being heavily dependent on Japan and the U.S. as their main trading sources due to the histories of Japanese occupation and colonialism and the U.S. aid in 1950s and 60s (Kim & Roemer, 1979; Kuo et al., 1981), (2) cultural features based on Confucianism, such as loyalty, submission to authority, and thrift, among others, which shape economic behavior (Berger, 1986), (3) the sense of social and economic urgency triggered by the significant external threat from communism and volatile geographic setting, and the feeling of urgency helped the mobilize local support for industrial development (Vogel, 1991), and (4) the highly centralized and authoritarian political system with the high degree of institutional intervention on these economic developments (Haggard, 1986). Therefore, it is believed that a rapid economic development South Korea and Taiwan have achieved since the post-WWII should be made by the export-oriented industrialization. As shown in Table 1, these two economies have been developed by the successful implementation of the export-oriented industrial policy (hereafter EOIP). In other words, South Korea and Taiwan achieved high-level growth by first importing intermediate and capital goods, processing them by utilizing rich sources of inexpensive labor, then exporting the finished goods to consumers.

However, when looking closely at the pattern of the economic development in South Korea and Taiwan, two economies have not taken the same path of economic development because they adopted the different mechanism to implement the export-oriented industrial policy. As shown in Table 2, South Korea and Taiwan adopted a different

way of implementing the EOIP in the 70s and 80s, in that South Korea continued to maintain the share of the heavy-chemical industries (HCIs) in its total industrial production, while Taiwan reduced the share of the HCIs. Therefore, it suggests that although there was a similar pattern of economic development between South Korea and Taiwan based on the export-oriented industrialization, the mechanism in which Korea and Taiwan achieved their own economic development was somewhat different, and it resulted in making the pattern of economic development not identical.

Thus, it suggests that even if there have been a great deal of research on the economic development of South Korea and Taiwan, it has not fully explained by those previous studies because those studies have mainly focused on the similar pattern of economic development between South Korea and Taiwan, but not paying much attention to the mechanism to develop their economy (Berger, 1986; Haggard et al., 1991; Vogel, 1991; Chen, 1990; Chu, 1989; Sakong, 1993; Ho, 1978).

Table 1. Economic Performance in South Korea and Taiwan

		South Korea	Taiwan
Per capital GNP (U.S.\$)	1961	83	152
	1990	5,659	7,954
Average growth rate of per capita GNP (%)	1960–90	7.1	7.1
Manufacturing output / GDP (%)	1961	9.1	18.9
	Peak	33.2 (1988)	39.7 (1986)
	1990	28.9	34.4
Exports / GDP (%)	1961	5.4	14.0
	Peak	41.5 (1986)	56.7 (1986)
	1990	31.0	46.5
Imports / GDP (%)	1961	14.9	21.1
	Peak	41.5 (1981)	53.8 (1980)
	1990	31.5	41.2

Source: Figures for Korea are from the Republic of Korea, National Statistical Office; for Taiwan from the Republic of China, Taiwan Statistical Data Book.

In order to gain a better understanding of why South Korea and Taiwan employed a different mechanism to achieve such a phenomenal economic development, this paper aims to discover the differences in the characteristics of social structure between South Korea and Taiwan that is determined by the political, economic, social, cultural conditions of a country because they are the key to finding out the reason why South Korea and Taiwan used a different approach to develop their economy based on the export-oriented industrialization. Furthermore, this paper also tries to highlight the impact of key policy makers on the difference in their development mechanism because policy makers are not only constrained by a specific structural condition, but they contribute to making changes in the condition of structural condition.

Table 2. The Distribution of South Korea and Taiwan's Exports in Deepening the EOIP Stage

	Percentage of Total Exports					
	1970		1979		1986	
	S. Korea	Taiwan	S. Korea	Taiwan	S. Korea	Taiwan
HCIs	4.7	7.5	18.2	8.7	20.9	8.4
High-Skill Light Industries	22.7	30.4	28.5	45.1	37.6	53.1
Traditional Labor-Intensive Industries	49.8	38.8	42.6	33.5	33.7	29.7
Primary Products	22.7	23.3	10.7	12.7	7.6	8.7

Source: Joel D. Aberbach, David Dollar, and Kenneth L. Sokoloff, eds. 1994. *The Role of the State in Taiwan's and Korea's Development*. Armond, NY: M.E. Sharpe.

2. Development Mechanism, Structure, and Actor

A development mechanism is the basis in that a country chooses a certain path to achieve their economic development (Lewis, 1984), so it is assumed that the pattern of the economic development in a country is largely determined by a specific development mechanism the country employ. Previous studies focusing on the role of development mechanism on the pattern of economic development in many developing countries found out two major types of development mechanism: a market-led mechanism and a government-led mechanism. Under a market-led development mechanism, a market controlled by households and private firms make economic decisions based on the principles of market-based competition (Krueger, 1990; Balassa, 1986). On the other hand, a government-led development mechanism allows key policy makers, such as political leaders, to make the choice of which path they will take and attempt to directly and indirectly mobilize resources to the cause of development and growth (Amsden, 1989; Wade, 1990). And, it suggests that the implementation of a certain development mechanism to an economic development results from not only various structural conditions, such as political, social, and cultural conditions, but also the characteristics of the key policy makers, such as the leadership style.

There are various perspectives on the impact of structure and actor on social change. For instance, Oliver (1991) sees structure and agency as competing and opposing ideas in that they privilege one side over the other rather than complementary ideas. Different from this viewpoint, however, there are some scholars who emphasize the impact of interweaving structure with actor on shaping a certain institutional phenomenon (Dobbin et. al. 1993; Giddens, 1984). Based on the theory of Structuration, Giddens (1984) argues that social structure involves patterning social activities and relations through time and across space. This viewpoint is reflected in the term called “duality of social structure,” recognizing that social structures exhibit a dual role in that they are both the medium and the outcome of the practices performed by actors (Giddens, 1984). Individual actors are simultaneously constrained and empowered by existing social structures, but social structures are made up of rules and resources that can be used and modified by individual actors who enhance or maintain power that contribute to making a form of agency (Giddens, 1984; Sewell, 1992).

Based on Structuration theory, it is assumed that actors not only create but also follow rules and use resources created by structure as they engage in the ongoing production and reproduction of social structures (Giddens, 1984), so actors are viewed as knowledgeable and reflexive, and capable of understanding and taking account of everyday situations. In this sense, therefore, agency refers to an actor’s ability to have some effect on the social world and to alter the rules or the distribution of resources (Giddens, 1984).

However, the amount of agency actors possess varies among types of social structures because agency is socially and culturally structured and resides in the interpretive processes in that choices are imagined, evaluated, and contingently reconstructed by actors in ongoing dialogue with unfolding situations (Emirbayer and Mische, 1998; Swindler, 1986), so social action will never be completely determined or structured without being intertwined with structure in which individual actors create goals, provide meaning, and generate ongoing social commitment (Emirbayer and Mische, 1998; Somers and Gibson, 1994). In other words, an actor's decision-making process is made by his/her personal values and preferences (Somers and Gibson, 1994), but it is important to know that these values and preferences are socially and culturally structured. In other words, even if individuals can make a decision rationally to deal with structural constraints, they should be within the scope of collective belief system which is not only developed by shared memories but also socially and culturally structured (Somers and Gibson, 1994).

Some scholars develop this perspective by underlining that differentiated roles are created and performed in localized contexts as repetitive patterns of action gradually become habitualized and objectified, but it is also important to recognize the operation of wider structural frameworks that provide organizing models and scripts that lead actors to perform their agency (Goffman, 1974; Berger and Luckmann, 1967). So, when they emphasize the extent to which wider belief systems and cultural/social frames are imposed on or adopted by individual actors, so cultural and social institutions should be treated as the cognitive containers in which actors' social interests are defined and classified, argued, negotiated, and fought (Douglas, 1986).

Some scholars stress the significance of sharing common history on the process of actors’ decision-making. For example, Selznick (1957) stresses that building and sharing common natural history of a specific organization develops its distinctive structures, capabilities, and liabilities, and it precipitates actors to follow the norms and rules of the organization. Therefore, this perspective emphasizes individual actors' sharing knowledge and belief systems to explain their compliance to the cultural and social system in the decision-making process. In other words, at the intra-organizational level, it is more likely that actors who are confined within the intra-organizational level share a common organizational belief that make more consensus on the decision-making process because they should have

similar social, cultural, ideological tastes (Kunda, 1992).

Based on these perspectives, therefore, it is assumed that having a certain pattern of economic development is contingent on a specific development mechanism that a country employ, it is determined by not only various structural conditions, such as a country's social or cultural condition which is the field where policy makers make a decision, but also the nature and characteristics of agency performed by policy makers, such as the personality or ideology of key policy-makers who are constrained by social or cultural conditions (see Figure 1).

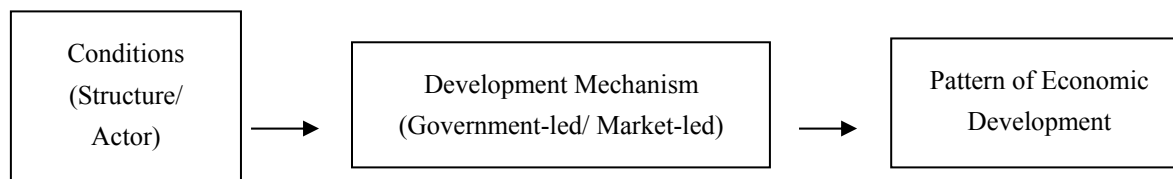


Figure 1. The Pattern of Economic Development and Development Mechanism

Being steered by this theoretical reasoning, in the following section I examine how South Korea and Taiwan implemented their development mechanism based on the export-oriented industrialization in the 70s and 80s. I decided to focus on these specific historical times because this is when South Korea and Taiwan employed different mechanisms to implement their industrial policy.

3. The Economic Development in South Korea and Taiwan in the 70s and 80s

As I mentioned, South Korea and Taiwan used a different mechanism to develop their economy in the 70s and 80s when two economies were rapidly developed, and I think the successful implementation of a development mechanism based on the EOIP) as a key to explain a rapid economic development in South Korea and Taiwan.

In the mid-1970s, South Korea and Taiwan faced various external challenges for making sustainable development for their economy, such as the oil crisis, growing protectionism in industrialized countries, rising labor costs in domestic manufacturing sectors, and competitive pressure from other newly industrializing countries (Wade, 1990). Among these challenges, growing protectionism and the decreasing competitiveness were the most significant factor which forced South Korea and Taiwan to change their industrial policy (Wade, 1990; Balassa, 1981; Ho, 1981). Given that both countries still had surplus labor and abundant capital, South Korea and Taiwan chose to deepen their export-oriented industrial policy (EOIP) that made the overall pattern of economic development comparable between South Korea and Taiwan, and there are various factors that contribute to making this similar pattern of economic development between South Korea and Taiwan.

First of all, there was a unique geopolitical factor that made impact on the reorganization of both economies by strengthening the heavy and chemical industries (HCIs). This was in part caused by a geopolitical factor that is the consistent threat from the neighboring communist regimes making the overwhelming feeling of urgency in two societies to strengthen the power of the self-defense from the communist threat (Amsden, 1989; Balassa, 1986). However, the threat from the communist regimes gave the government more leverage over private sectors in leading this new industrial strategy (Chen, 1990; Sakong, 1993; Vogel, 1991), and it was characterized as the developmental state in that the state has more independent or autonomous power as well as controlling power over the private market behavior (Onis, 1991; Johnson, 1982; Evans, 1995).

Second, there was a unique political environment in that South Korea and Taiwan have longstanding autocratic regimes maintained by a group of strong leaders, such as President Park Chung-hee and his successor Chun Doo-hwan in South Korea and of the Generalissimo Chiang Kai-shek and his successor and son Chiang Ching-kuo in Taiwan (Paik, 2005; Uk et al., 2008; Taylor, 2000; Chan & Clark, 1994).

In addition, a unique cultural factor based on Confucianism also made a comparable pattern of economic development in South Korea and Taiwan where the government played a bigger role in implementing the industrial policy based on the export-oriented industrialization than the private sectors because social relationship built on Confucianistic ideology is more likely to be vertical than horizontal in that the government is powerful enough to dominate other sectors in a society (Hahm & Paik, 2003; Jochim, 2013).

In the process of implementing a new industrial policy with the promotion of the HCIs in South Korea and Taiwan, thus, various structural conditions in South Korea and Taiwan, such as strong Confucianistic cultural traits, strong leadership style of key policy makers, and consistent threat from the neighboring communist regimes, made the pattern of economic development based on the considerable government intervention (Amsden, 1989; Koo, 1987; Sakong, 1993) that was characterized as a developmental state in that the government has more independent or autonomous power, as well as controlling power over the private market behavior (Onis, 1991; Johnson, 1982; Evans, 1995).

The economic development led by a developmental state, according to Sakong (1993), was clearly evidenced by the series of the economic development plan, such as the Korean's five-year economic development plan and Taiwanese' several six-year and one ten-year plan in the 60s, 70s, and even 80s, and the unfailing government intervention through its systematic planning strategy played a crucial role for the successful industrial transition that made two economies stable and competitive when the global market condition became more unstable and challenging in the 70s and 80s.

Amsden (1989) also found out that the decision concerning where capital is invested in South Korea were largely made by the inner circle of the administration including the president and key bureaucrats, such as the Ministry of Strategy and Finance rather than by private firms. And, it is clearly supported by the fact that Korean economic development in the 70s and 80s was largely made by the Park Chung-hee and Chun, Doo-hwan administration that played an active role in planning research and development (R&D) to establish new industries, distributing fund to few selected corporations, and establishing government-run research institutes to support corporations for their sustainable development, such as Samsung, Daewoo, Hyundai, and LG that became major conglomerates (Amsden, 1989). Like the Korean case, it was also evident that the implementation of a new industrial policy based on the export-oriented industrialization was also led by the strong government guidance in Taiwan in the 70s and 80s. According to Wade (1990), the Chiang Ching-kuo administration under the supervision of the Generalissimo Chiang Kai-shek was actively involved in promoting a set of new industries initiated by the new industrial policy implementation, such as the petrochemical and steel industries. In other words, these new industries were established and developed in the 70s and 80s because the Chiang administration's decision to give various privileges to domestic firms over other foreign corporations, such as the privilege of accessing government funding, the effects of tariffs in distorting Taiwan's price mechanism, and tax holidays. Therefore, it is obvious that the government intervention should to be crucial for the economic development in Korea and Taiwan.

However, these evidences do not fully explain the pattern of the economic development Korea and Taiwan achieved in the 70s and 80s. When the pattern of the economic development is closely examined, it shows that there was a different approach in implementing an industrial policy based on the export-oriented industrialization between South Korea and Taiwan because the proportion of the HCIs in the total exports was dramatically increased in South Korea but not in Taiwan in the 70s and 80s (see Table 2).

In order to gain a better understanding of why South Korea and Taiwan implemented their industrial policy differently despite maintaining the emphasis on the export-oriented economic development, therefore, the next section discusses the details of how South Korea and Taiwan implemented their industrial policy in the 70s and 80s.

3.1 Industrial Policy Implementation: Taiwanese Case

Led by the export-oriented industrial policy, Taiwan introduced many export promotion measures, such as Statute for the Encouragement of Investment in 1960 and Statute for the Setting up and management of Export Processing Zones in 1965, and these measures achieved the intended goals in which the amount of export in 60s rose at an annual rate of 17.3% and the economic growth rate was about 10% (Cheng, 1990). In addition, the rapid growth of export-oriented production brought substantial accumulation of capital and management skills (Chen, 1990).

However, the significance of export growth was declining in the early of 1970s, and it could be attributable to the following factors: the oil crisis in the 1970s, the rise of protectionism in the U.S. and Western European markets, and the sharp rise of labor cost in the manufacturing sector (Wade, 1990). With the world recession and oil crisis, there was inflation in 1973 (Wade, 1990), and the government introduced the Economic Stabilization Program in 1974 in which government tightly controlled credit to the private market to deal with this skyrocketed inflation, but it resulted in forcing corporations to reduce their inventories that curtailed consumers' demand and encouraged savings (Wade, 1990).

Led by the key decision makers, such as Prime Minister Chiang Ching-kuo, Taiwanese government actively tried to make massive industrial rearrangement to handle these internal and external challenges through replacing

labor-intensive with capital-intensive industries (Chen, 1990; Jacobs, 2014). The immediate objective of this industrial restructuring was to make the sustainable economic development through upholding and even deepening the export-oriented industrial policy. The group of high-ranking officials led by Prime Minister Chiang had a lot of confidence in making this dramatic policy redirection because internal and external environment at that time was favorable for Taiwanese government to implement this new policy measures, such as making arrangements for the full-fledged production of the material for those new industries by the late 60s and having a favorable overseas market condition for Taiwan to pioneer new trading markets because of its comparative advantage in terms of the technology and price competitiveness in the global market (Chu, 1989; see also Emirbayer and Mische, 1998). Thus, guided by the reflexive and knowledgeable governmental leadership (Giddens, 1984), Taiwanese economic development had taken a different track when it had shifted to emphasize the development of the heavy chemical industry (HCIs).

Contrary to the policy implementation of Korean government which was comparatively exclusive and centralized, it is remarkable that the policy implementation of Taiwanese leadership in the 70s and 80s was more likely to be decentralized and inclusive because the government tried to minimize the scale of discretionary power and maximize the autonomy of the private market through opening the door for any interested companies in these new industries (Hwang, 1991), but the majority of private firms showed no interest in cooperating with the government for nurturing these industries in reality (Kuo et al., 1981).

It was mainly caused by the uniqueness of Taiwanese industrial structure in that many firms in Taiwan were the small-to-medium sized enterprises (SMEs) that not only lacked the capacity in nature to undertake these industries that was highly capital intensive but also had a tense relationship with the governmental leadership (Hwang, 1991). In addition, there was also a social condition in that Taiwanese society has an unswerving rift caused by persistent ethnic contention between the mainlanders who had occupied the power in the public sector, such as the executive branch led by the ruling Nationalist Party (KMT) and the islanders who held dominance in the private sector (mainly SMEs) (Lu, 1991; Jacobs, 2014). Since the mainlanders settled in to occupy the territory the islanders used to reside, Taiwanese society has suffered from the persistent ethnic strife between those two groups because it was difficult for the two groups to share not only common social capitals because of the long physical separation but also common belief system that is necessary to build a deep consensus for policy implementation (Koo, 1987; see also Selznick, 1957; Somers and Gibson; 1994; Kunda, 1992). Furthermore, the repressive attitude of the ruling mainlanders toward the ruled islanders coupled with the discriminatory administrative policy made the ethnic relation between these two groups even more strained, and it resulted in several uprisings, including the “2-28 incident” by the islanders, and after that point, these uprisings and harsh oppression by the mainlanders had a long-lasting negative effect on the Taiwanese society that was instigated by the distrust between the mainlanders-led government and islanders-led civil society (Chu, 1989), so the ethnic relations was the crucial for the economic policy implementation in the 70s (Clark, 1987).

When acknowledging this longstanding ethnic contention in Taiwanese society that is the biggest impediment to make the sustainable development of the heavy chemical industry (HCIs), the group of top decision-makers in the Taiwanese government evaluated, imagined, and reconstructed many choices and only invited government-owned big corporations to participate in this new industrial field without completely breaking up with the private sector as their partner (Wade, 1990; see also Swindler, 1986), so it is assumed that the government officials, especially Prime Minister Chiang, still attempted to keep making their approach decentralized and inclusive with lessening their supervising power and increasing the market autonomy even if the structural condition was not favorable for performing their agency. And, Taiwanese leadership held their ground and even firmed up their stance although they had to make another policy redirection in the late 70s when the market condition was more challenging because of the second oil crises occurred in 1979 (Nathan & Ho, 1993).

When the second oil crises occurred in 1979, the industrial foundation was shaken, and the growth rate of GNP and the volume of exports declined sharply because of the slow growth in industrialized countries, the erosion of competitiveness in the global export market caused by the appreciated value of the U.S. dollar, and the excessive production cost of manufactures (Clark, 1987). In that situation, the group of top policy makers changed their economic strategy in that they quickly reduced the economic scale and reshuffled the industrial structure based on non-energy-intensive and technology-intensive industries, such as high-tech industry rather than the energy-intensive and big scale industries, such as the heavy chemical industry in the early 80s (Hwang, 1991). This change in economic strategy clearly characterizes a reflexive and knowledgeable agency performed by the group of Taiwanese leadership who were simultaneously influenced by the challenging global market environment (see Giddens, 1984; Sewell, 1992). And, carrying out this new industrial restructuring to maximize their goal to sustain the economic

development reflects how the group of rational actors in Taiwanese leadership structure coped with structural constraints caused by the changes in the global market condition (see Somers and Gibson, 1994), in that this new direction to implement the EOIP were defined and classified, argued, and negotiated (see Meyer and Rowan, 1977; Douglas, 1986).

Furthermore, it is worth noting that, in the passage of implementing this industrial rearrangement in the early 80s, the government consistently abstained from dominating the market transaction by making furious efforts to maintain the cooperative and friendly relationship with the private sector, especially the SMEs that was dominated by the islanders (Jacobs, 2014; Hwang, 1991). In return for this consistent effort by the group of top government officials, more and more private firms started upgrading technology and automating equipment to make more active participation in this new industrial field (Koo, 1987).

However, it is also important to know that a new structural condition that was made government directives that shifted its emphasis from the big scale to small scale industries was considered as a favorable condition for those small and medium sized enterprises (SMEs) because those government directives were developed into strong government sponsorship for emerging entrepreneurs, so this structural change made a big impact on many SMEs' decision to participate in these new industries. (See Somers and Gibson, 1994; Douglas, 1986).

Therefore, when the government decided to reorganize the industrial structure based on the non-energy intensive and small-scale industries, many SMEs, in contrast to its reaction to the development of the HCIs in the early 70s, responded to the government's invitation to join these new industries, such as high-tech industries in the late 70s. Thus, it is evident that Taiwanese industrial restructuring in the 70s and 80s was made by not only a decentralized and inclusive policy but also a horizontal and reciprocal relationship between the government and private sector when compared with the case of Korean policy implementation, and the mutual relationship between structural constraints and actors' coping strategy is clearly presented in the industrial policy implementation made in Taiwan in the 70s and 80s.

3.2 Industrial Policy Implementation: South Korean Case

Like the Taiwanese case, there are many external and internal factors to sustain Korean economic development in the 70s and 80s, such as the guidance of the strong leadership, the construction of relatively sound infrastructure, and the consistent inflow of foreign aid (Mason et. al, 1980), but the most crucial factor was the strong executive leadership led by President Park Chung-hee who made a perfect transition in the emphasis in the industrial policy from the import-oriented to the EOIP policy at the right moment in the early 70s when the overall trade was growing in the global market, and the total exports rose at an average annual rate of 39% (Mason et. al, 1980). However, the situation changed substantially in the mid-70s when Korean economy met with a series of adverse events, such as losing its comparative advantage in light manufacturing exports in the global market and the increased security threat from North Korea with the one-third reduction in the number of the U.S. armed forces (Mason et. al, 1980), and it was President Park who took decisive actions that made a redirection of industrial policy based on strengthening the established export-oriented industrial structure rather than making a dramatic shift to create a new industrial reorganization (Uk et al., 2008). While maintaining the exiting industrial base, Korean leadership led by President Park undertook the task of establishing a new industrial field, the heavy chemical industry in the 70s (HCIs) (Chen, 1990).

Despite moving in a similar direction, however, the way of implementing the EOIP was considerably different between South Korea and Taiwan in the 80s. To promote economic development, top policy makers in South Korea and Taiwan, especially Prime Minister Chiang and President Park, took a major role in adopting and fostering many promotive policies. However, unlike Prime Minister Chiang who heavily relied on the institutionalized policy development and refrained from exerting his supervisory power, President Park maintained his dominant presence in the process of industrial restructuring and openly disregarded the institutionalized process of policy-making (Sakong, 1993; Chen, 1990). Thus, Korean economic development was led by the strong government leadership which was characterized as the developmental state (Onis, 1991; Johnson, 1982; Evans, 1995).

In connection with the fact that Korean government had the full scale of autonomous executive power, it was shown that the policy-making process for nurturing the industrial structure based on the HCIs was much more swift and prompt in South Korea than in Taiwan because of the strong leadership by top policy makers (Koo, 1987), and it suggests that the policy implementation by Korean government was more aggressive, closed, and government-led than the case of Taiwanese government in the 70s and 80s (Paik, 2005).

Considering the premise that Korean economic development was more likely to be characterized by the strong

leadership of a developmental state, thus, it is obvious that carrying out the industrial restructuring based on fostering the HCIs was mainly led by strong government intervention with the lack of horizontal cooperation between the government and private sectors because there were socio-political conditions that made it possible that the government leaders who were armed with wide discretionary powers freely exerted all their authority to make substantial outcome without taking into consideration the policy-making based on the institutionalized process, such as the impact of Confucianism on Korean society that make Korean society more vertical, group-oriented based on the strong in/out group boundary, and hierarchical structure; the high level of urgency caused by the ceaseless threat by North Korea; and the presence of authoritarian regime that dominated the civil society (Noland, 2012; Amsden, 1989; Wade, 1989). In other words, as a group of knowledgeable and rational actors who can calculate all the possible social, cultural, and political circumstances (see Giddens, 1984), Korean government leaders were encouraged to take a more aggressive and unilateral action in taking care of this new policy implementation (Paik, 2005).

Especially, the high level of government control over the civil sector is clearly shown in the presence of the selected chaebols in the path of Korean economic development. In the vertical relationship between the government and private sector, these Korean conglomerates were asked to launch new ventures in targeted industries, and the government provided various reward programs in return, such as providing those chaebols with massive financial support through government controlled financial institutions and giving monopolistic privileges in the domestic market (Scitovsky, 1986). The chaebols were induced to participate in the HCIs with various privileges guaranteed by the group of top government officials, especially by President Park who made this direct strategy of launching these industries. Thus, it clearly shows that the government agent led by President Park, actively engaged in the process of policy implementation, such as the selection of firms through provide financial sponsorship.

In addition to that the high level of government control over the private sector as an important causal factor of those chaebols' active participation in this new industrial plan, it was also easier for the chaebols to join this new industrial plan than SMEs because the HCIs was mainly based on the capital and energy-intensive industries in that participants had to be big in their production capability. So, it was more advantageous for a participant whose size is big enough to maintain the affordable level of production in the competitive market.

Launching this new industrial plan seemed to be successful because the HCIs achieved the satisfactory level of performance by which the total manufactured commodity exports in South Korea increased by 40% in 1979 (Sakong, 1993). However, there was several undesirable side effects, which became apparent with more dependence on the HCIs, and it was mainly caused by the way in which Korean economic is managed (see Table 2). As mentioned before, the Korean government adopted aggressive and pushy approach on the implementation of the HCIs. Thus, even if most countries, including Taiwan adopted anti-inflationary policies because of the sharp increase in the oil price caused by the series of the oil crises, South Korea persisted in maintaining a growth-oriented, expansionist policy by permitting inflationary pressures (Sakong, 1993). However, it made severe negative impact on the sustainability of Korean economy. Especially, the excessive foreign debts increased the burden on the Korean economy and weakened the HCIs' international competitiveness (Sakong, 1993). In addition, when the second oil crisis occurred, the whole industrial performance was plunged in the lowest point. However, the government did not make any significant policy change and kept sponsoring the HCIs (Scitovsky, 1986). This shows the sharp difference in the way of implementing an industrial policy between South Korea and Taiwan.

The difference in the pattern of industrial strategy between South Korea and Taiwan was sustained even when the Fifth Republic emerged in South Korea. To minimize the criticism against his illegal seizure of power, President Chun Doo-Hwan concentrated on maintaining high economic growth rates (Uk et al., 2008). Thus, despite given the rampant inflation and growing deficit due to the massive financial flow into the HCIs, the Chun's government did not abandon the HCIs, but they were even exerted to maintain the level of the HCIs' production (Sakong, 1993), and it suggests more centralized, government-led mechanism of economic development in South Korea than the case of Taiwanese economic development. Consequently, HCIs in South Korea was three times as important as HCIs in Taiwan measured in the percentage of HCIs' production in the total exports.

Therefore, it is evident that even if South Korea and Taiwan shared structural conditions that led them to have the similar pattern of economic development based on the export-oriented industrialization, there was the difference in the mechanism to implement their industrial policy between South Korea and Taiwan. And, I discuss more details of why the export oriented industrial policy (EOIP) was differently implemented in South Korea and Taiwan.

4. Discussion

The pattern of economic development in South Korea and Taiwan has been mostly identical in that South Korea and Taiwan have taken a similar path in their economic development. However, as indicated in the previous section, there was a difference in the way of implementing the EOIP between South Korea and Taiwan even if they have developed their economy based on the export-oriented industrialization. The difference in the ways of implementing the EOIP was apparent in the 70s and 80s when South Korea scaled up the heavy-chemical industries (HCIs) in its total exports, but Taiwan did not (see Table 2). Based on surveying previous research, thus, it suggests that there are various structural conditions that have the impact on how South Korea and Taiwan employed a different mechanism to develop their economy based on the export-oriented industrialization, and some of those structural conditions and the characteristics of agency in South Korea and Taiwan are discussed in this section.

First, there was the difference in terms of the level of urgency about achieving economic development between the Korean and Taiwanese society since the early 60s. Both countries had some level of urgency about bolstering their economy in the early 60s when their economy was still at the early stage of development, and it helped to develop social consensus about the need for a unilateral policy-making process that ensures the simpler, quicker processing of industrial policy implementation based on a strong government leadership rather (Chu, 1989; Wu, 2004). But, several data show that economic condition in South Korea was much worse than Taiwan in the 60s. As shown in Table 1, the South Korea's per capita GNP was only 55% of the Taiwan's per capita GNP in 1961 (see Table 1). The savings rate in South Korea would continue to fall below the Taiwanese rate which was supposedly caused mainly by the lower levels of productivity. Furthermore, Taiwan already began exporting several agricultural products that enabled a certain level of foreign currency acquisition, while South Korea fell behind in this aspect (Kuo et al., 1981). Therefore, this poor economic condition made South Korea one of the world's poorest countries in the early 60s (Kim & Roemer, 1979), and this poor accumulation at its initial development stage made South Korea adopting a drastic mechanism of improving its' economic condition in that the group of top government officials were given the excessive power of controlling the process of the policy implementation because Korean society had the high level of urgency about catching up with other developing countries' economic development.

South Korea's poor accumulation at its early development stage is originated in times when Korea became independent from Japan in 1945. Initially, the living conditions of Korean people were not as bad as that of Taiwanese (Suh, 1987; Lu, 1991). But, after the Korean peninsula was divided by the establishment of two independent states, North and South Korea in the late 40s, the economic condition in the southern part of the Korean peninsula became dramatically worsened because most of the means of production were located in the northern part of the Korean Peninsula, so the newly established South Korea was cut off from the major industrial production (Haggard et al., 1991). Furthermore, during the Japanese imperial rule, most of the manufacturing firms in the Korean peninsula were owned and managed by Japanese, and after Korea became an independent state, most of Japanese entrepreneurs living in the Korean peninsula for business deserted their business when leaving Korea (Suh, 1978). So, there were little human resources to manage those deserted business and manufacturing operations. On the other hand, although many large corporations were also owned and managed by Japanese in Taiwan, the small and medium enterprises (SMEs) were owned and managed by the islanders (Fields, 1995). And, South Korea had a massive civil war against North Korea that was ended in 1953. As recorded as one of the deadliest war in modern history on per-capita basis (Cavanaugh, 2017), the Korean War caused a tremendous damage to South Korea in approximately 1.2 million military troops and civilians were killed or missing (Lacina & Gleditsch, 2005) and over 50 percent of the industry was destroyed (Lee, 2001). Therefore, after the liberation from Japanese rule, South Korea experienced more setbacks due to the lack of manufacturing facilities, the human resources than Taiwan, and these external and structural conditions made South Korea one of the poorest countries in the world in the early 60s (Noland, 2012).

These unfavorable external conditions caused by lacking in resources that were crucial for economic development made South Korea attempting to take more emergency measures than Taiwan, and there was more unilateral pattern of the policy-making process in that an industrial policy was made by the group of key government officials (Fields, 1995). For example, the Park Chung-hee administration nationalized the country's financial institutions and took control of loans from overseas without any significant resistance from the private sector (Kim & Roemer, 1979). Thus, it indicates that the government sector monopolized the process of implementing the EOIP without allowing any interested parties in the private sector to make their input in the process of policy implementation.

On the other hand, since becoming an independent state, Taiwan had already attained a relatively high level of economic growth although it also had some level of deficiency in resources for achieving economic sustainability.

Various social indicators, such as life expectancy, infant mortality, daily calorie intake per capita, residential floor-space per capita, households with television set, and electric power consumption per capita, suggest that the living condition of the Taiwanese people was higher than that of South Korea in the early 60s, and this difference was maintained through the early 80s (Scitovsky, 1985). In addition, income distribution in South Korea and Taiwan also indicates that it was more egalitarian in Taiwan than in South Korea in 60s and 70s (Kuo et al., 1981; Park, 1980). So, this structural condition relatively advanced accumulation at the early development stage allowed Taiwan to take a more relaxed and gradual approach to economic development in that the implementation of the EOIP is made by the input of various interested parties in the government and state sector (Rubinstein, 1999).

Second, there was the difference in the characteristics of the government-private relationship between South Korea and Taiwan. When comparing to South Korea, the relationship between the government and private sector in Taiwan has been somewhat more equal but contentious since the establishment of its own government led by people from the mainland China. The “quasi-conquering state” formed by the Nationalist Party (Kuomintang or KMT), which mainly consisted of people from the mainland China (mainland Chinese or the mainlanders), on the island after the civil war had a very strong and authoritative character created a deep rift with the local island Taiwanese community (Chinese Taiwanese or the islanders) (Jacobs, 2014). Originally, the ethnic groups of Taiwan consisted of the few indigenous Malayo-Polynesian and the Chinese majority who arrived at the island prior to Japanese rule (1895–1945) from the Southern China and are identified as the Chinese Taiwanese (Lin & Keating, 2008; Central Intelligence Agency, 2017). There was another group of Chinese immigrating into this island in 1949 who followed the relocation of KMT from the Northern China and are identified as the mainland Chinese (Lin & Keating, 2008). Thus, Taiwan is current comprised of the Taiwanese Chinese (84%), the mainland Chinese (14%), and the indigenous people (2%) (Central Intelligence Agency, 2017). Despite being classified as Chinese in terms of ethnicity, these two Chinese groups are different in terms of language and customs (Jacobs, 2014). And, this is one of the main reasons why there was a contentious relationship between the mainland Chinese (the mainlanders) who dominate the government sector based on the ownership of KMT and the Chinese Taiwanese (the islanders) who largely control the private sector based on the ownership of most of SMEs. Especially, during the regime of Chiang Kai-shek, the government took a detached attitude toward society and lacked concern about the economic development of the island (Wu, 2004). In response, most of the islanders who accounted for the major share of economic production through the ownership of SMEs had a relationship nothing but distrust and contempt for the government that was mainly controlled by the mainlanders, making it impossible for the latter to mobilize society’s various resources. Thus, it was the relationship between the government and private sector that made the poor response of the private sector to the government’s call for investment to expand the heavy-chemical industry (HCIs) in the 70s and 80s (Fields, 1995).

On the other hand, the strained relationship between the government and private sector was nowhere near as tense as in South Korea even if South Korea has been the scene of regional conflicts. There was no significant rift among people in terms of the geographical reason, so there was always the feeling of one nation that enhanced the higher degree of consensus between government and private sector on several economic policy implementations (Haggard, 1986). In other words, goals concerning economic development held by the private sector in Korean society were the same as those held by the government, so it was much easier for government officials to implement a comprehensive government-led industrial policy (Haggard, 1986). Therefore, whenever the government enlisted the help of the private sector in setting up an industrial policy, the private sector was fully cooperated in the process of any new policy implementation because the private sector accepted the government leadership without any opposition, and it made the executive power of the authoritarian regimes led by President Park and Chun more legitimized to some extent in the 70s and 80s (Kim, 2011).

Third, there was the difference in the characteristics of social system between South Korea and Taiwan even if they both regarded Confucianism as the backbone of their social system, such as loyalty, submission to authority, and vertical social order, and symbolic boundary (Scitovsky, 1990; Berger, 1986, see also Bourdieu, 1986; Lamont & Fournier, 1992). As mentioned earlier, Taiwanese society is based on the cultural tradition of the Southern China in that social networks are more horizontal and open than Korean society, and this is the culture of Taiwanese Chinese who are the biggest ethnic group in Taiwan society and settled down in this island from the southern part of the mainland China before the era of Japanese Rule (Jacobs, 2014). Therefore, compared to Korean society, Taiwanese society is built upon various social networks that are managed by (1) more balanced and equal human relationship between groups and (2) more open symbolic boundary within and between social groups promoting active exchange of resource and information and making them available for any interested groups.

These characteristics of Taiwanese society are well reflected in the pattern of its economic development that was

based on the contribution made by not only large corporations but also the SMEs. For example, when a new industrial policy based on the promotion of the HCIs was made in the late 60s, the Taiwanese government did not force the private sector but invite it to participate in this new industrial policy (Hwang, 1991). In addition, the government opened the door to any interested firms, so the resources—financial and material—necessary for a firm to be established and maintained were open to any interested firms through independent market transaction without a strong government intervention (Kuo et al., 1981). Thus, even if the Taiwanese government had the leverage to control the private sector, the openness and horizontality of Taiwanese social system also left room for the private sector to fend off an excessive government intervention.

These characteristics of social system were also reflected in a case in that Taiwan decided to scale down the proportion of the HCIs in its total production in the late 70s to respond to a series of major economic crises due to changes in the global market condition. This new direction was a radical change from the longstanding Taiwan's industrial policy focusing on the HCIs that was developed the EOIP in the 60s, and it was mainly made by a vigorous discussion between the government and state sector that have an equal and balanced relationship with the central Taiwanese government represented by the Nationalist Party (KMT) (Chu, 1989). Thus, this new direction in the implementation of the EOIP indicates that Taiwanese society had a social system that was characterized as more open and horizontal rather than closed and vertical. In other words, the government and private sector in Taiwanese society are equal and highly independent from each other, so any social transaction requires the active exchange of communication between interested groups, such as the communication between government officials and the leaders of the private sector. So, it is concluded that Taiwanese economy was developed by the market-led development mechanism in that there was an active contribution of the private sector with the low level of government intervention, compared to the case of Korean economic development.

On the other hand, Confucianistic culture seems to be more influential on Korean society than Taiwanese society. In other words, compared to Taiwanese social system, Korean social system is composed of social networks that are managed by (1) more hierarchical social relationship (Berger, 1986) and (2) more closed symbolic boundary between groups hampering the active exchange of resources and information within and between social groups and making information and resources available only for in-group members (see Bourdieu, 1986; Lamont & Fournier, 1992).

Confucianistic culture is well reflected in the pattern of Korean economic development that was mainly led by a few big corporations (chaebols) that were chosen by the discretion of the government, and it reflected a strong oversight the Korean government had to regulate the private sector. For instance, the heavy chemical industries were developed in South Korea in the late 60s that was similar to Taiwan, but the resources, such as financial resource, that were necessary to participate in these new industries was not open to any firms but only to a few selected chaebols, and it was the government that took charge of distributing those resources. Thus, those chaebols put little effort to participate in the HCIs which are very resource intensive because of the patronage of the top government officials, and it gave the government the leverage to control the direction of the Korean economic development (Kim & Roemer, 1979). So, this pattern of Korean economic development clearly reflects Confucianistic culture that characterized by the closed social system.

Furthermore, these Confucianistic cultural characteristics are also embedded in a decision to continue to scale up the production of HCIs in the total industrial production in the late 70s through the 80s. Different from the decision made by Taiwan, South Korea did not change the direction of its industrial policy by keep emphasizing the importance of the HCIs in its economic development even if the global market condition was dramatically changed in the 70s and 80s in that maintaining its industrial structure with an emphasis on the HCIs was more difficult (Noland, 2012). And, this decision was solely made by the Park and Chun administration without having any vigorous exchange of information and communication with the private sector (Hahm & Paik, 2003). Thus, it suggests that it is not optional but mandatory for the private sector to follow any directive by the government in South Korea because the relationship between the government and private sector is more vertically structured in Korean society that results from the Confucianistic culture. Thus, it is concluded that the Korean economy was developed by the government-led development mechanism because of the strong government intervention into the implementation of the EOIP.

However, there is another important factor that made South Korea and Taiwan to employ the different mechanism to develop their economy. This factor is not rooted in the social or cultural condition but is related with the characteristics of the top decision-makers who supervised the entire process of policy implementation. As mentioned earlier, an actor's behavior is socially and culturally constructed through sharing same memories or cognitive belief system with the rest of society (Berger and Luckmann, 1967; Meyer and Rowan, 1977; Douglas, 1982; see also

Somers and Gibson, 1994), and actors behave in accordance with how they are internalized in socially and culturally constructed rules or procedures (Garfinkel, 1967). In order to gain a better understanding of why South Korea and Taiwan employed a different development mechanism despite having a similar pattern of economic development, this paper also focus on the characteristics of agency, such as the leadership style of the top policy makers in South Korea and Taiwan, such as South Korean President Park Chung-hee and Chun, Doo-hwan, and Taiwanese Generalissimo Chiang Ching-Kuo.

President Park and Chun were army generals before they became the president of South Korea (Clifford, 1998), and the relationship between President Park and Chun was so intimate because Chun was within *hanahoi* which was the clique of a military elite group that were organized and fostered by President Park (Kang, 2003; Kim, 2011). Thus, President Park and Chun were deeply embedded in not only the closed and exclusive but also vertical and militaristic environment, and it led their leadership style to be more authoritarian focusing on the vertical line of decision-making procedure (Clifford, 1998).

However, there were also some social and cultural conditions that contributed to shaping their authoritarian style of exercising executive power. In other words, their leadership style was largely influenced by some unique social and cultural conditions in Korean society, such as the emphasis on Confucianism, the high economic urgency, and the common economic goal between the government and private sector, and these structural conditions encouraged President Park and Chun to employ the unilateral leadership style to implement the EOIP without having the reciprocal cooperation with the private sector (Kim, 2011; Uk et al., 2008) because they considered the fast economic development as the most effective tool to legitimize their ruling and to alleviate tension with the civil society after they all seized the power illegally through the military coup (Paik, 2005). In order to achieve the rapid economic development, they employed more centralized way of implementing the EOIP based on the government-led development mechanism. Furthermore, their leadership style based on authoritarianism and militarism made a big impact on every sector of Korean society and changed Korean society in many aspects, such as the authoritarian presidential system with a long-term seizure of power, the government-led chaebol system, and the government-controlled surveillance system (Gemici, 2013). Thus, these social changes made Korean society in the 70s and 80s visibly hierarchical, closed, and centralized in that the implementation of the EOIP in South Korea was made by more government-led development mechanism. So, it is concluded that the pattern of the Korean economic development is more based on the government-led development mechanism than the market-led mechanism.

On the other hand, Generalissimo Chiang Ching-Kuo took different life track from that of President Park and Chun. He was the son of Generalissimo Chiang Kai-Shek, who was the supreme leader of the mainland China and the founder and the supreme leader of Taiwan and succeeded to the position of generalissimo after the death of Chiang Kai-Shek (Lin & Keating, 2008). Thus, he became the supreme leader of Taiwan by a natural process rather than by unlawful means, such as military coup. But, he came from the mainland China that made him a minority in Taiwanese society, so when he succeeded to the generalissimo of Taiwan, there was a dissonance between the mainlanders (the mainland Chinese) who dominated the government sector and the islanders (the Chinese Taiwanese) who largely controlled Taiwanese private sector because there was a massive resistance by the islanders who disagreed with the position of generalissimo being succeeded by another mainland Chinese (Jacobs, 2014). However, his leadership style was not dictatorial to crush the resistance of the private sector but more democratic, institutionalized, and reciprocal (Nathan & Ho, 1993).

This was partly caused by his educational background. He was sent to the Soviet Union and was educated there (Taylor, 2000). During that time, he had opportunities to meet various thinkers who introduced many important western ideologies, such as democracy and socialism, and it made his leadership style much more democratic, socialistic, and horizontal than the authoritarian compared to that of his father, Chiang Kai-shek. (Rubinstein, 1999; Taylor, 2000).

It is clearly shown in the course of democratization in Taiwan that was much smoother and peaceful than the passage of democratization in South Korea. (Lu, 1991) Under the rule of Chiang Ching-kuo, Taiwan made smooth democratization process which were executed by several rounds of political reform through the intra-party reform and the constitutional reform (Nathan & Ho, 1993; Lu, 1991). Thus, these democratic reforms would not have been carried out without the personal motivation of Generalissimo Chiang Ching-kuo. In other words, unlike South Korea in that democracy was achieved by massive demonstrations by college students and civic groups against authoritarian regimes (Paik, 2005), democracy was achieved by more nonviolent way in Taiwan, and this peaceful process of democratization in Taiwan should be credited to the leadership style of Generalissimo Chiang because he rarely attempted to control the private sector despite having a position as generalissimo that gave him the full

authority to Taiwanese society (Lu, 1991). Thus, his leadership style was a crucial factor to understand how Taiwan achieved its democracy without massive serious social turmoil.

The democratic, institutionalized, and reciprocal leadership style of Generalissimo Chiang significantly echoed how Taiwanese economy was developed by the market-led development mechanism. Unlike President Park and Chun of South Korea, when the EOIP was initiated with setting off the heavy chemical industries in the late 60s, Generalissimo Chiang did not select and patronize a specific company but opened the door for any companies that had an interest in joining these new industries. Thus, his strategy was more based on a decentralized and institutionalized approach because he tried to minimize his role in developing these new industries and tried to let the market run its course (Rubinstein, 1999), so it made Taiwanese economic development more driven by the market transaction rather than the strong government intervention (Onis, 1991; Evans, 1995).

Like the case of South Korea, however, the leadership style of Generalissimo Chiang was shaped by some structural conditions in Taiwanese society, such as the moderate degree of economic urgency, the disagreement between the government and private sector over the matter of how to achieve its economic development, and the horizontal and open social network. For example, Taiwanese social networks are based on more open and horizontal social relationship compared to Korean society, and this structural condition should be related with Chiang's democratic, reciprocal, and institutionalized leadership style that is reflected in the way of his exercising executive power in the process of implementing an industrial policy. In other words, he tried to minimize the use of his executive power and let the market determine the course of economic development. Thus, it suggests that his leadership style contributed to the development of Taiwanese economy based on the market-led development mechanism.

5. Conclusion

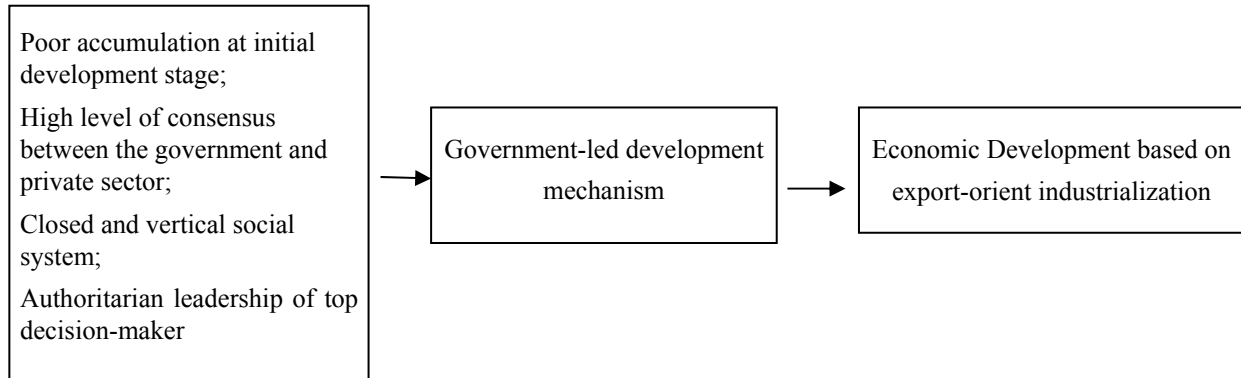
In this paper, I attempted to show how South Korea and Taiwan developed their economies respectively. As many previous studies suggested, South Korea and Taiwan have had a similar pattern of economic development since WWII when they established their own independent states. Especially, they have achieved a rapid economic development since the 60s when both countries experienced a successful transition from the light industry to the heavy chemical industry to the electronics industry, and this successful transition was made by the implementation of the industrial policy based on the export-oriented industrialization (Kim & Roemer, 1979; Kuo et al., 1981), Confucianistic cultural tradition (Berger, 1986), the sense of social and economic urgency (Vogel, 1991), and the highly centralized and authoritarian political system (Haggard, 1986).

However, the findings of this study show that South Korea and Taiwan employed a different way of developing their economy based on the export-oriented industrialization. And, it was caused not only by structural conditions, such as the degree of economic urgency, of consensus between the government and private sector in the way of achieving economic development, and the characteristics of social system, but also the characteristics of key decision-makers, such as the leadership style of top decision-makers.

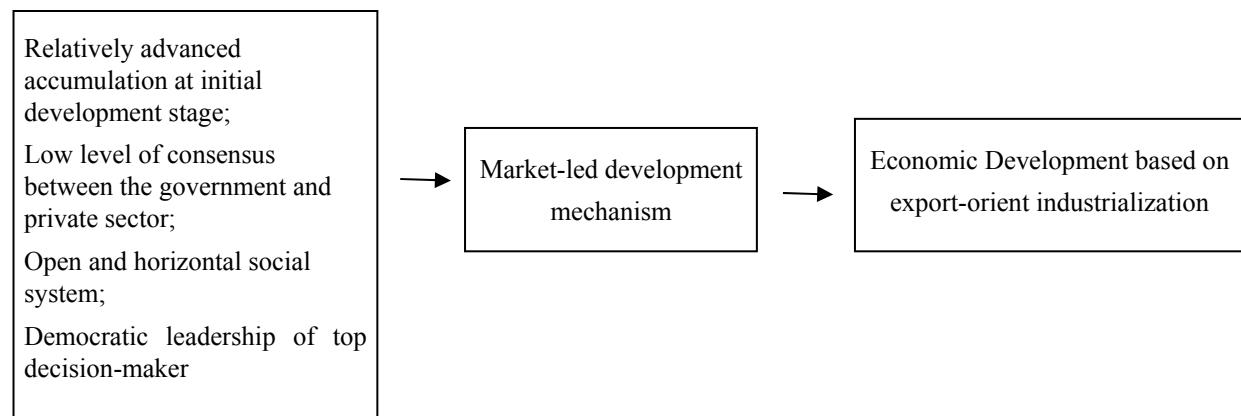
Based on the findings of this research, therefore, it is concluded that the higher the consensus between the government and private sector over the matter of how to achieve economic development, the higher the feeling of economic urgency in a society, and the more the society vertically networked, a country's economic development is made by more government-led development mechanism. In addition, the more the top decision-makers are likely to be dictatorial in the style of their exercising executive power, the more its economic development is likely to be government-led development. Thus, Korean economic development was more made by the government-led development mechanism, while Taiwanese economy was more developed by the market-led development mechanism.

In conclusion, in order to better analyze why a country achieves a successful economic development, it is necessary to look into not only structural conditions, such as the social, cultural, economic, and political condition but also the characteristics of actors, such as the leadership style of top decision-makers.

a. South Korea



b. Taiwan



Source: Prepared by the author

Figure 2. The Pattern of Economic Developmental in South Korea and Taiwan

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