

[特別寄稿論文]

An Economic Development Model of the East Asian Countries

—An Alternative Approach—

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I. Introduction

Over the past few decades the East Asian economies of South Korea, Japan, and Taiwan, but also Hong Kong and Singapore have experienced a remarkable economic growth and development. Because the East Asian countries are characterized as resource-poor, overpopulated, in vulnerable security situations, and unable to the self-reliant, the dramatic success of the East Asian economies has naturally become a focus of attention of observers, including social scientists, business people, and policy analysts.

Although it may be reasonable to classify the East Asian countries as a single category over the long historical view, they have had quite different experiences during the process of modernization (Pye 1988 ; Cummings 1984 ; Myers and Peattie 1984). There is also considerable variety of the economic scale and development level among those five countries. For example, Japan accept and managed capitalist system over a century, her populations are three times more Korea's and six times more Taiwan's. Japan, indeed, now has the second largest economy in the world after the United States.

In spite of the historical differences and the variations in their economic scale and development level, there are valid reasons for treating the East Asian economies as a common category. Although it is necessary to keep in mind the differences among the five, it is equally important to note that their similarities demand attention when they are compared with the developing countries of Africa and Latin America. Not only was the rate of economic growth in the East Asian countries rapid in comparison to other developing countries, it was also remarkably consistent. Unlike growth in many resource rich developing countries—rapid during some periods and slow or negative in others—the East Asian economic growth rate outpaced that of comparable countries in all forty periods consistent. Also, during their periods of rapid growth all five the East Asian countries had above average rates of investment, and some had among the highest rates in the world. The five countries have had an investment rate which has been exceeding 20% of GDP on the average during the period of 1960–90. More important and characteristic was that all five countries have been able to induce savings to finance an above average rate of investment since the mid—

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1960s, at least it is all the more remarkable because all of these countries, at one time or another and some for their entire postwar history, were high-risk in national security and uncertainty places for savings and investment. Also, the rapid accumulations of human capital due to universal primary and secondary education are another common characteristics in East Asian countries. What is ever more unusual is that East Asian economies were and remain reasonable egalitarian societies (Sawyer 1976 ; Renaud 1980 ; Kuo, Ranis, and Fei 1981 ; Koo 1984 ; World Bank 1993). Empirically, all East Asian countries have achieved a greater equality of income distribution than all other countries (Chen 1979 ; Page 1994). In short, the outstanding characteristics of the East Asian economies are rapid, steady, and equitable growth from a base of low per capita incomes at the end of WWII.

With the distinctive feature of the East Asian economies, this paper reviews the economic development model of East Asia presented so far, and suggests alternative model—the Confucian market economy model.

II. The previous economic development models of East Asia

One can divide the models presented so far concerning East Asian economic development into five groups : the modernization, political economy, free market, governing market, and cultural model. The models have all proven to be useful in explaining the economic development of East Asia. However, each has its strengths and weakness to explain the economic success of East Asia.

Modernization model as a development theory is concerned with the factors that aid or impede economies in their presumed march toward modernization. The model emphasizes on the elimination of tradition factors in underdeveloped

society to promote sustainable long-run growth. As the representative form of modernization model, the "structural-change model" defines the underdeveloped economy consists of two sectors : a traditional, overpopulated rural subsistence sector characterized by zero marginal labor productivity and a high-productivity modern urban industrial sector into which labor from the subsistence sector is gradually transferred (Lewis 1954 ; Fei, and Ranis 1964 ; Chenery 1979). The model focuses on the mechanism by which underdeveloped economies transform their domestic economic structures from a heavy emphasis on traditional subsistence agriculture to a more modern manufacturing and service economy. More recent versions of modernization model, "the patterns-of-development analysis", recognize the fact that developing countries are part of a highly integrated international system that can promote their development : also, countries can skip stages by observing and emulating more advanced nations. Empirically, the East Asian countries had launched into economic development process with labor intensive industries such as textiles and clothing (HofReinz and Calder 1982). In early 1950s, Japan had specialized and promoted exporting of labor-intensive manufactures as she began export-push strategies (Hsiao 1988). Also South Korea, Taiwan and Singapore followed these strategies in 1960s. As results, the relative abundance labor in agricultured sector had been supplied to manufacturing sector and the economic structure of East Asian countries had transfered from traditional subsistence society to modern urban industry (Kuo, Ranis, Fei 1981 ; Bai 1982 ; Kim 1983, 1984, 1986, 1997 ; World Bank 1993 ; Yanagihara 1994). Also, in the empirical studies of Levy (1972) and Dore (1973) based on "the pattern of development analysis", they argue that Japan has a remarkable and sustained economic growth with the

method of absorption, copy and betterment from Western developed products and technologies. And Alice Amsden (1989), in her best-known of the empirical work based largely on the modernization model—Asia's Next Giant : South Korea and Late Industrialization, examined the process of development in South Korea. She argued that South Korea was able to industrialize rapidly, leapfrogging early development stages, by appropriating technologies and processes formulated by more advanced nations.

With those plenty of empirical studies, the modernization model was proven to be useful to explain the early stage of economic development process in East Asia. However, this model hypothesizes that development is an identifiable process of growth and change whose main features are similar, and finally same as Western European countries. But while East Asian economies' development levels and scales are almost same as Western economies at present, they have had different patterns and features of development, moreover the economic and social structures of East Asia are some different from those of Western Europe. Nevertheless it is hard to say that East Asian countries are "not modernized" and "underdeveloped". With these facts, the modernization model has limit to explain the economic development—at least from the middle stage—of East Asia.

Political economists do not usually discuss economic actors or markets per se ; rather, they argue that actors play only the roles assigned them by their place in society or the whole world system. So, political economists prefer structural analysis. They argue that individuals behave in terms of their structural—often described as class—location: Likewise, individual nation has relative position in the world power structure. A nation's structural location—for example, as a developed center country, or as a dependent periphery country—shapes its policies and behavior. So,

they explain the East Asian economic development through largely structural analyses (Biggart 1997, pp. 6 – 7).

From the political economist view, the East Asian ruling elites calculated their own situations in postwar global political—economic contexts. The political imperatives of the U.S. Cold War ideology vis—s—vis Soviet and Chinese communism in the East Asia region had established an "outer limit" for the activities of the East Asian allies of the U.S., e.g., South Korea, Taiwan, Japan, and to a lesser extent, even Hong Kong and Singapore. The fact that East Asia was viewed as a front bulwark against Soviet communism in the U.S. containment strategy formulated right after World War II helps one understand the multifaceted support which the capitalist—inclined states in this region received from the U.S., economically and militarily. Once the external linkages were established, a kink of exchange process was then underway. The East Asian countries utilized such external linkages as opportunities and "benevolence," although they heavily depended, economically, militarily, and politically, upon the United States (Cumings 1984 ; Hsiao 1988, P.15).

Political economy model has several advantages to understanding the East Asia's economic action in a Cold—War era. The thoughts of political economy model alert us to the importance of the structure and workings of the world economy. However, there are limitations to the political economy perspective. In the model, the structure of the economy is assumed to be the determining factor in all societies. But such an assumption prejudices the character of social relations in a society, assumptions that should be the object of investigation. Also, political economic model has a crucial limitation to analyze the different between the economic development of East Asian countries and other non—East Asian developing countries. East Asian countries have succeeded in economic

development and non-East Asian developing countries fail to economic development in the same structure of world capitalistic system after WWII. For example, South Vietnam and Phillipine did not achieve economic success faced with the same "outer limit" of anti-communist allies situation as South Korea and Taiwan during the Cold War periods.

The central argument of the neoclassical free market view is that underdevelopment results from poor resource allocation due to incorrect pricing policies and too much state intervention by overly active developing country's governments. So, the free market model argues that by permitting competitive free markets to flourish, privatizing state-owned enterprises, promoting free trade and export expansion, welcoming investors from developed countries, and eliminating the government regulations and price distortions in factor, product, and financial markets, both economic efficiency and economic growth will be stimulated. The leading scholars of free market view explain the East Asian's economic development as a response to the free market conditions. For example, I.D.Little (1979) attributes Taiwan's spectacular success to free market conditions that economists' hypothesized "perfect competitive market," that is, a market characterized by a number of small autonomous firms with few barriers to entry.

However, for the most part, this free market model has been rejected due to the massive empirical evidence available which illustrates significant government intervention in the East Asian economies. So, an alternative neoclassical view accepts the idea that government intervention has been pervasive, but argues that most of the distortions created were offsetting naturally (Pomfret, 1992; Wade, 1992). Thus the resulting system of relative prices is very similar to what would exist in a free market situation. This "simulated free market" or "market-friendly" is the World Bank's thinking on the general question of

government intervention in East Asia (World Bank, 1991, 1993). Theorists of "market-friendly" model argue that government interventions in East Asia are deemed "market-friendly" and more likely conducive to development because they are applied reluctantly, cautiously, and openly.

The free market model has faced with criticism, by some economists. Although there is no doubt that promoting efficient production and distribution through a proper, functioning price system is an integral part of any successful development process, a conventional neoclassical model needs to be modified to fit the unique social, institutional, and structural circumstances of developing nations. In the model, a perfect competitive market leads economy to "efficiency" state. But as Perrow (1981) has charged, efficiency is a possible but not necessary explanation of development in the long-run. Also, the free market model has been criticized—most persuasively by M. Granovetter (1985) that the model cannot account for the impact of social networks, gender, class, culture, religion—the entire panoply of social life. The free market model is based on the Western society of individualism, most notably autonomous, self-seeking actors uninfluenced by social relations. Scholars must have questions the applicability of this model to explain the East Asian economies where individualism is unimportant ideologically and institutionally, and was never a factor in the historical development of East Asian civilization. Market theorists look at the East through the lens of the West when they employ the neoclassical paradigm to explain Asia and in so doing find it "imperfect", "distorted" and "undeveloped", those are comparative term using the West as a benchmark. But nobody can say Japan who has the second largest economy in the world, or Taiwan and Singapore as "imperfect" and "undeveloped" economy.

Development state model and/or governing market

model attribute the success of East Asia to the states activities aimed at governing the market allocation of resources (Wade 1990a, pp. 27–29). Specifically, the government engages in policies which allocate more resources to a small number of industries than would occur with a free market. As the selected industries grow and mature, the country become capable of exporting those industrial products. Thus successful industries are not naturally born in the market, but they are made. Also, comparative advantage does not evolve naturally, instead comparative advantage is created by government. The argument of the role of state in promoting economic development has a long history. Following the European historical experience, most of the industrial nations of Europe used government intervention and protecting infant industry policy to launch successful industrial transformation and economic development in the past. So, in Western Europe, resources had been allocated inefficiently in the short–run in order to achieve more rapid long–run growth. With the theoretical and historical bases, the government of East Asian economics intervened–systematically and through multiple channels–to simulate and faster development (Wade 1990b ; Uy, 1993 ; Page 1994, P. 624)). All the various methods of government intervention provide sufficient evidence to prove that development state model and governing market model explain the success of East Asian economies, at least the first stage of development periods.

But the model cannot explain the difference between the East Asian governments and non–East Asian governments. After WWII, most or probably all the governments of new–born countries embarked to economic development. But only a few– the East Asian countries – had succeeded in economic development. So the model has limit to explain how there could exist so–called” hard” government and

harmony among the social members in the East Asian countries.

The cultural model assumes a causal relation to the reverse of the free market model’ s hypothesized, viewing the economic system as a product of the social order. In addition, most culturalists reject the structural approach of political economy. A cultural approach explains economic structure and practice as a collective enactment of beliefs and values or of shared cognitive structures (Zelizer 1988). Until recently, the cultural approach was the province of ethnographers and comparative culture theorists, but in the 1980s economists, managerial consultants, and applied researchers embraced this approach to understanding business and corporate organization, especially in the East Asian economies. The” Confucian capitalism” model from the cultural approach has been used to mainly explain the East Asian business and management forms, and corporate organizations (Ouchi 1982 ; Hamilton and Biggart 1988 ; Ju 1998, 1999). Similarly, other culturalists have established the cultural perspective as an alternative to the economic rationality paradigm in economic success of the East Asia. The most obvious vehicle for these explanation is the” Post–Confucian hypothesis” model suggested by H.Kahn (1979). This model is essentially simple : both Japan, Taiwan, South Korea, Hong Kong, and Singapore belong to the broad area of influence of Confucian culture, and there can be no doubt that Confucianism has been a very powerful force in all of them.

Despite of many studies of cultural model , this model also has limitations. Culture studies cannot explain the differences in the same cultural arena. The influence of a Confucian ethic throughout East Asia cannot explain, for example, the reason of South Korea’ s economic success and North Korea’ s economic failure. It can explain only why there exist

similar traditional cultural factors such as obedience to superiors and group oriented culture in both South and North Korea. The cultural model also has difficulty explaining the difference over time, even within the same society. Culture is relatively constant, transforming only slowly. Then if a Confucian culture is a main factor of the East Asian economic success as the Confucian model argues, how can a Confucian culture explain the East Asian economic backwardness before World War II when a Confucian culture was still widespread? Also, the culture model can not explain the reason China failed to economic development before the transition of 1979, and has succeeded in rapid economic growth after transition under the same Confucian traditions.

III. A Confucian market economy model

As the East Asian development models presented so far have in their own limitations, the issue which concerns us is to find alternative model for East Asian economic development. The question is where the East Asian economic success comes from. However, the alternative model we are searching is not just to find the explaining factors of East Asian economic success, but find distinctive factors which explain the reason why East Asian could succeed economic development while other underdeveloped countries failed.

" A properly trained member of a Confucian culture will be hardworking, responsible, skillful, and ambitious and creative in helping the group (extended family, community, or company). There is much less emphasis on advancing individual (selfish) interests" (Kahn 1979, P. 121).

The five East Asian countries who catch up Western economies—Japan, South Korea, Taiwan, Hong Kong, and Singapore—have been heavily influenced by Confucianism. Confucianism, while most of other region in the world have had religious cultures which believe

in the future existence, has had a mundane—pragmatic characteristics related with ethical norm and manners in ordinary human life. Thus, contrary to the thoughts of most western scholars, Confucianism contains basically affirmative factors for economic development. The core values of Confucianism, as H. Kahn has pointed out, include perseverance and diligence in undertaking matters involving one's work, family, or social obligation ; and a strong emphasis on education ; orderliness, as achieved through tightly structured social relations based on the family model (Tai 1989, P. 106).

With abundant labor force endowment the Confucious diligent, skillful and group-oriented behavior of the East Asians enabled them to launch successfully a labor-intensive industry in the early stage of industrialization. On the other hand, following the teaching of Confucianism, the East Asians consider that life has its meaning in the continuity of the family—from ancestors, to the present generation, and to next generation. They must live frugally, the frugality and savings is necessary to the survival of themselves as well as the future generations of their families (Tai 1989, p. 23). Following a frugal life with a diligent attitude toward work leads the East Asian countries to maintain high savings. Subsequently, with a large accumulation of savings, the East Asian countries were able to shift from labor-intensive to capital-intensive industries (e.g., automobiles, shipbuilding, and steel). Another important teaching of Confucianism is the belief in the perfectibility and educability of human beings. With this teaching, the East Asian government used a system of civil service examinations to recruit men of learning as political leaders, and the society accorded intellectuals a very high social rank. These Confucian traditions are today carried over to most East Asian society (Tai 1989 p. 25). Thus today both East Asian citizens and the governments have rushed

to invest heavily in education. With rapid formation of high quality human resource, East Asian economies make possible a rapid economic development, and that the industrialization process rapidly shift again from capital-intensive industries to high-tech, knowledge-intensive enterprises (e.g., electronics and computers). As, Confucianism existed in East Asia for more than a thousand years. *The Analects of Confucius* has been considered a prudent way to handle interpersonal relations in East Asia. The heart of the Confucianist doctrine is to maintain the immutable harmony, tranquility, and equilibrium underlying both the universe and human society; individual should obey the structural core of social order, so-called "five cardinal relations (oh-ryun)". As a matter of course, the rulers and governments used *The Analects* & "oh-ryun" to maintain a loyalty-based political order. Because of the strong emphasis on the concept of loyalty, the people could accept the linkage between personal cultivation and family regulation and between state governance and peaceful world. This centrality of the role of the government remains a distinctive feature of the East Asian countries today, and therefore the cooperative relationship between government and the private sector, become a vital force bringing forth to East Asian economic success.

The facts that East Asians are diligent attitude toward work, following a frugal life, maintaining high savings, group-oriented, and willing to follow government policies have been due to the cultural-Confucian-factors. But it is hard to say that Confucianism is the only and decisive factor of the East Asian economic success. Since Confucianism has some properties as a culture, Confucianism can be only necessary, not sufficient, condition to the East Asian economic development. An important property of Confucianism is that Confucianism is a culture which makes a frame for social and economic system, and

affects to social ethics and custom. Therefore Confucianism could not affect on economic development by itself. Only when Confucianism combines with a direct basic systems, Confucianism is able to make economic activity lively. In addition to a cultural nature, Confucianism has double-faced properties. Confucianism has a positive effect on economic development on the one hand and a negative effect on the other. The Confucian ethics emphasized on a "harmony" between men as well as between nature and men, therefore despised acquisitiveness in profit-making based on a selfishness. Logically, there were few ideas related with profit gaining or investment to expand production, or selfishness in Confucian thoughts. These teachings had tacitly interfered with advent of capitalism and entrepreneurship. The Confucian flaws were inimical to economic development, and inhibited to expand market economy. Therefore, although Confucianism had plenty of positive factors to stimulate economic development such as diligence, frugality, and educability, but there were lack of detonators which exploded the positive Confucian factors for economic development.

However, after WWII the limits of Confucianism become dissolved, as the East Asian countries bring in market economy and are incorporated into the world capitalist market economy. Naturally, the earthly pragmatic natures of Confucianism are interlinked to economic development. Namely, advanced Western technologies, new products, and management skills are imported to the East Asian economies, and also world market provides the expansion of market for the East Asian products and makes possible East Asian economies to enlargement of investment as well as production. At the same time, importation of Western technologies, rapid increasing of market demand for the East Asian products induce Confucian strength such as diligence, frugality, respect for learning to turn up

diligent workers, high savings and capital accumulation, rapid formation of human capital, and "hard" governments. These rapid economic environmental changes awake and explode Confucian potential capability for economic development. Hence the East Asian economies succeed rapid economic development and enter into the high-income countries.

So, the "East Asian Miracle" can not be explained by a simple equation composed one explaining variable. Rather, the East Asian' s success may be explained by the Confucian market economy model—a operation of market economy based to the earthly—pragmatic Confucian culture. This model explains the "timing" problem why East Asian economies were underdeveloped before WW II, and developed after WW II based on the same Confucian culture. Also, the model explains the "geographical" problem—the economic backwardness of North Korea and success of South Korea : both sharing the same Confucian culture. In addition, the model describes the reason why China failed to economic development before the transition—import of market economy—of 1979, and has succeeded in rapid economic growth after importation of market economy. Reviewing the common experience of East Asia, their economic success coincides with the time of importation of free market economy and the time when this market economy start to explode the pragmatic characters of Confucianism.

Originally, a free market economy and capitalism had erupted in Western Europe. The record of the colonial era seemed to confirm the argument that market economy and capitalism was a characteristically European as their basis on Protestantism and that non—European countries had failed to generate market economy and capitalism. From this perspective, market economy and capitalism at its origin was specific to its Western cultural context (T. Brook & V. Luong 1997).

However, most of new—born countries in the post war period needed urgently to economic development. The governments of these underdeveloped nations at the moment of independence felt the need to deal with the extreme poverty which existed in their respective nations. The historical experience of Western economic achievement indicated to them this could only be achieved through a process of rapid modernization, hence they embarked on importation of Western economic system—market economy and capitalism—to promote such modernization. When most of new—born countries embarked on importation of western market economy and capitalism for economic development after WW II, Western scholars argued Western economic system would remake economy and society not just in Europe but throughout the world and develop into a universal" set of social rules by which people try to increase the value of capital through market competition" (Shimada 1993). However, in all of these countries, such policies were imposed within the context of their own historical, social, traditional and cultural bases which were quite different from the Western bases. As a result, only a few—all are the East Asian countries—succeeded in economic development. Thus the key distinction between failure and success in economic development is, in the words of Eliezer B. Ayal (1963), "for this we need to go beyond the boundaries of economics." The only non—Western nations, East Asian nations, who were successfully adopting and utilizing market economy have shared a common Confucian heritage over a thousand years. Is there any relations between market economy and Confucianism, or any characteristics to adopt easily and utilize market economy in Confucianism? As Confucianism has related with ethical norm in ordinary human life, Confucianism has have a earthly pragmatic characteristics over two thousand years. Because of this character, before 18 century

East Asian countries had surpassed, or at least not dropped Western countries. On the other hand, one of the most significant moral value for free market economy is known as prudence in seeking self-interest according to A. Smith who emphasized this in "*The Theory of Moral Sentiment*" in 1759. This very ethical value for free market economy was pointed out by Confucianism with the well known "gen (仁)" which implied rather a broad aspect of moral behavior including also prudence. Also the other valuable virtue of Confucianism such as Yi (義), Ye (禮), Chi (智), and Shin (信) are relevant to free market economy. Hence, the pragmatic nature and some valuable virtue of Confucianism can make the East Asian countries possible to adopt and utilize the free market economy.

IV. Conclusion

The East Asian countries—South Korea, Taiwan, Hong Kong, Singapore, and Japan—have attracted the attention of the world because of their outstanding economic performance. So economists, political and social scientist have suggested the economic development models to explain the economic success of the East Asian countries. The models presented so far suggest the important factor, respectively, which is largely responsible for the economic success of these countries. The modernization model emphasizes economic structural changes, the political economy model ; world political structure related with Cold War, the free market model ; free market system, and the governing market model ; state role, as the core factor of East Asian economic development. But actually, the various factors each model suggested work together in the process of economic development in East Asia. However, the four models are valid to explaining the early stage of East Asian development process. But the four models have limits to explain how several specific features such as equal income distribution, peculiar

business organizations and managerial properties, diligent worker, high accumulation of human capital, and "hard" governments are presented in East Asia. On the other hand, the Confucian culture model describes that the several specific features in East Asia, such as high savings and human capital, which the previous four models do not explain have originated from Confucian culture. But the model bases on the culture which is too much a background factor.

Consequently, the Confucian market economy model—a operation of market economy based on the Confucian culture—can be suggested to explain the East Asian economic success. The model points out that East Asian economic success is derived from the market economy based on the Confucian culture. Market economy plays a detonator role in East Asian economies. Related with this fact, the economic index including per capita income show that the difference of economic development levels among the East Asian economies are depend on the period how long a country has adopted market economy and the degree of how freely utilize market economy. From these evidences, it is no wonder that Japanese economy is leading and South Korea is the last among the East Asian economies. Further, it was presumable that South Korea would fall into a economic crises during the period of East Asian economic turmoil in 1997. Confucian market economy model and the empirical experiences of East Asian economies teach us how a market economy is a decisive factor in East Asian economic development. So, if any government of East Asia intervenes the free market economy, the government would not be no longer based on the Confucian culture which has earthly pragmatic characters. The history of economic development in Western developed countries as well as in East Asian countries have proved that the free market economy is the most, in some sense the only, effective method to

economic development. So Confucian culture, as has a pragmatic nature, should be changed to adopt, diffuse, and utilize market economy. Also, Confucianism should keep its valuable virtue to utilize market economy. The free market economy as a economic system is not a perfect, omnipotent system. The market economy has not only a positive aspect, but also a negative aspect. The free market system can produce a efficient, and optimum status only when the system is operated by a conscious, honest, and rational behavior of economic man. However, in reality, most or some of participants in market are dishonest economic beings, and they lead economy to market failure. If we looked back to the past history of free market system, it would not difficult to find that the market system specifies and intensifies the motive to seek self-interest in favor of egoism, that produce a conflict among the members and groups in society, thereby leading to disharmony of society and inefficient allocation of social resources. Confucianism emphasizes morality and virtue that is likely to foster social harmony and social peace. These kinds of Confucian virtue support and complement the free market system, and minimize the negative factors of market system for the development of East Asian economy.

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