

RECASTING DEVELOPMENT THEORY
IN LATIN AMERICA AND EAST ASIA

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SOCIAL SCIENCES RESEARCH CENTRE
OCCASIONAL PAPER 6

in association with the

DEPARTMENT OF SOCIOLOGY
THE UNIVERSITY OF HONG KONG

First published 1992
by the
Social Sciences Research Centre,
The University of Hong Kong,
in association with the
Department of Sociology,
The University of Hong Kong,
Pokfulam Road,
Hong Kong.

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Editorial subcommittee for the Department of Sociology:
Benjamin K P Leung, Carol A G Jones, Ng Chun Hung, Jon Vagg.

ISBN 962-7558-08-7

Note

This paper is based on the article, 'Rethinking Development Theory: Insights from East Asia and Latin America', *Sociological Forum*, Vol. 4, No. 4, December 1989, pp. 505-33, which was part of a special issue edited by Alejandro Portes and A. Douglas Kincaid on 'Comparative National Development: Theory and Facts for the 1990s'. Parts of this chapter also draw on several other publications by the author: 'Determinants of Development Strategies in Latin America and East Asia' (with Donald Wyman) in Stephan Haggard and Chung-in Moon (eds.), *Pacific Dynamics: The International Politics of Industrial Change* (Boulder, CO: Westview Press, 1989), pp. 23-52; 'International Economics and Domestic Policies', in Alberto Martinelli and Neil J. Smelser (eds.), *Economy and Society: Overviews in Economic Sociology* (Newbury Park, CA: SAGE Publications, 1990), pp. 231-58; 'Explaining Strategies and Patterns of Industrial Development' (with Christopher Ellison), in Gary Gereffi and Donald L. Wyman (eds.), *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia* (Princeton, NJ: Princeton University Press, 1990), pp. 368-403; and 'International Subcontracting and Global Capitalism: Reshaping the Pacific Rim', in Ravi Arvind Palat (ed.), *Pacific-Asia and the Future of the World-System* (Westport, CT: Greenwood Press, forthcoming). This paper is also forthcoming as a chapter in Peter F. Klaren and Thomas J. Bossert (eds.), *Promise of Development: Theories of Change in Latin America*, 2nd edition, Boulder, CO: Westview Press, 1992.

Acknowledgements

The author would like to thank Thomas Bossert, Frederic Deyo, Christopher Ellison, Miguel Korzeniewicz, William Parish, Edward Tiryakian, and Robert Wade for their helpful comments on this paper.

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This paper is an effort to rethink some of the key suppositions of development theory and to identify the fallacies that have been generated by a selective reading of the evidence from East Asia and Latin America. Although the East Asian and Latin American nations by no means cover the entire spectrum of development possibilities in the Third World, they are a good base from which to build solid comparative generalizations because they embody different routes to industrial success. This suggests that there are a number of alternative paths of national development.

The first part of the paper outlines several theoretical perspectives on development that highlight key features of the East Asian and Latin American experiences. While these perspectives offer some important insights, each one is flawed by attempts to generalize beyond the cases that gave rise to the insight itself. These misperceptions are dealt with in the remainder of the paper, which presents cross-regional evidence from East Asia and Latin America leading to a reformulation and synthesis of some of these earlier approaches.

Theoretical perspectives on East Asian and Latin American development: perceptions and misconceptions

The development theories related to East Asia and Latin America are at several different levels of generality, including new trends in the global economy, distinct conceptual categories used to describe and analyze the highly industrialized nations in the two regions, and the roles of domestic institutions and sociocultural factors that shape the process of national development. The literature on *the new international division of labor* traces the recent surge of manufactured exports from the Third World to the emergence of a global manufacturing system based on labor-intensive export platforms established by transnational corporations in low-wage

areas. This new international division of labor was created in order to exploit reserve armies of labor on a world scale by using the advanced transport and communication technologies that permit the spatial segmentation of the production process (Fröbel et al. 1981).

An extension of this approach, the *globalization of production* perspective, argues that the shift of manufacturing capacity toward decentralized production sites is occurring in both the advanced and the developing countries, and it reflects the increasingly centralized control and coordination by transnational corporations (TNCs) of these decentralized production units. This has fostered both greater international interdependence and enhanced TNC leverage over national governments and domestic labor (Gordon 1988).

The most widely used term in referring to the high-growth, diversified economies of East Asia and Latin America is *newly industrializing countries* (or NICs). The expression was coined in the mid-1970s by the advanced capitalist nations which were concerned that a number of developing countries were significantly expanding their world share in the production and export of manufactured goods (see OECD 1979). The NICs included are South Korea, Taiwan, Hong Kong, Singapore, Brazil, Mexico, Spain, Portugal, Greece and Yugoslavia.) The specter of 'other Japans' was a worry to the slumping Western industrial economies, giving rise in some circles to strident calls for protectionism.

Once the economic trends in the NICs became well established, the World Bank and prominent neoclassical economists in a variety of other institutions began to offer unambiguous policy prescriptions regarding the *development strategies* of these Third World nations. They argued that the outward-oriented development strategies of the East Asian NICs led to better economic performance in terms of exports, economic growth, and employment than the inward-oriented development strategies of the Latin American NICs (see Balassa 1981:1-26, Balassa et al. 1986, and World Bank 1987: chapter 5). The clear implication was that the East Asian NICs should serve as a model to be emulated by the rest of the developing world.

World-systems theory employs the concept of *semiperipheral countries* to identify an intermediate stratum between core and peripheral nations that promotes the stability and legitimacy of the three-tiered world-economy. The countries within the semiperipheral zone, which includes the East Asian and Latin American NICs, supposedly have the capacity to resist peripheralization but not the capability to move into the upper tier (Wallerstein 1974, Arrighi and Drangel 1986).

Dependency theory uses the term *dependent development* to indicate that structural dependency on foreign capital and external markets in rapidly industrializing Third World nations like the

Latin American and East Asian NICs constrains and distorts, but is not incompatible with, capitalist economic development (Evans 1979, Cardoso and Faletto 1979, Gold 1981, Lim 1985). This was a striking departure from earlier 'stagnationist' views that claimed dependency could only lead to underdevelopment and revolution (see Gereffi 1983: chapter 1 for an overview of this debate).

Some political scientists argue that one of the key institutional features of successful late industrializers is the rise of a *developmental* state oriented to selective, but substantial, intervention in their economies in order to promote rapid capital accumulation and industrial progress. In Latin America as well as East Asia, the state has tended to be strong, centralized, authoritarian (often under military control), and actively involved in economic affairs (O'Donnell 1973, Collier 1979, Johnson 1987, Wade 1990). This literature raises the question of whether a developmental state is a prerequisite for capitalist industrialization on the periphery.

The rapid growth of the East Asian NICs has refocused attention on the role of *cultural factors* in national development. Various writers have argued recently that Confucianism confers certain advantages over other traditions in the quest for economic development (see Berger 1986, Berger and Hsiao 1988). Because Confucian beliefs place a high value on hard work, loyalty, respect for authority, and punctuality, these characteristics are thought to have facilitated the national consensus around high-speed economic growth that has characterized Japan and the East Asian NICs in recent decades. In Latin America, on the other hand, the Ibero-Catholic heritage has been blamed for giving rise to a divergent set of cultural norms that have impeded the economic advancement of the region (see Valenzuela and Valenzuela 1978, Wiarda 1982).

Each of these theoretical perspectives contains valuable observations about the development of the East Asian and Latin American NICs. Recent comparative research, however, suggests that some of these prior generalizations may be too sweeping. They often fit one region or time period reasonably well, but falter when their scope is expanded. To facilitate efforts at reformulating the earlier theoretical approaches, I will highlight the fallacies or misperceptions embedded in each of these perspectives.

(1) The early discussions of the new international division of labor place an undue emphasis on labor-intensive, assembly-oriented export production in the NICs, which in retrospect characterizes only the initial phase of their export efforts. Since the 1970s, both the East Asian and the Latin American NICs have moved toward more technology- and skill-intensive exports focusing on high-value-added products. Furthermore, these newer export industries are not 'export enclaves', but instead promote high levels of integration with a well developed local industrial base.

(2) The globalization of production approach correctly highlights the emergence of a decentralized global manufacturing system in which production capacity is dispersed to an unprecedented number of developing as well as industrialized countries. However, this does not rest solely on a base of increasingly centralized and coordinated control by TNCs. Local private firms are the main exporters in many of the Third World nations today, but their ability to effectively capture the economic surplus in these export industries tends to be restricted by the kinds of subcontracting relationships in which they are enmeshed.

(3) The East Asian and Latin American NICs are not really 'newly' industrializing, nor have they developed in response to the same kinds of global dynamics. Because of their origins in the mid-1970s as a defensive reaction by OECD countries to increasing Third World exports, many studies of the NICs tend to focus too narrowly on manufactured exports and they implicitly or explicitly marginalize the opportunities for countries that have a rich endowment of natural resources. To understand the emergence of the NICs, we need to adopt a broader historical and world-systems perspective that is sensitive to different kinds of economic capabilities in Third World nations.

(4) The contrast between the outward-oriented and inward-oriented development strategies of the East Asian and Latin American NICs, respectively, is overdrawn. Each of the countries in the two regions has pursued a combination of inward- and outward-oriented strategies. Furthermore, it is this mix of development strategies that helps us to understand how industrial diversification has led to enhanced export flexibility and competitiveness in both sets of NICs in the 1980s.

(5) The semiperipheral zone encompasses an extremely diverse range of countries. In order to understand the actual roles played by semiperipheral nations in the world-economy today, we need to disaggregate this concept and focus on the specific characteristics of the NICs in different geographical regions like East Asia and Latin America.

(6) Dependent development is applicable to the NICs in East Asia as well as Latin America. The nature and consequences of dependency are quite different in the two regions, however. Dependency in the East Asian NICs is a product of their heavy reliance on foreign aid and foreign trade, while dependency in the Latin American NICs is an outgrowth of their extensive involvement with transnational corporations and transnational banks. The developmental consequences of these different types of dependency turn, in large degree, on the ability of the state to convert these external linkages to national advantage. Successful 'dependency management' depends on the historical timing of these efforts as well as institutional factors.

(7) While there is a substantial degree of state intervention in the economies of the Latin American and East Asian NICs (with the exception of Hong Kong), the developmental state is not a singular phenomenon in the two regions. The objectives, social bases, and policy instruments of the state are quite different in each country, with major implications for the exercise of state autonomy in areas like industrial policy.

(8) Simplistic cultural arguments run into a variety of problems. First,

regions are not culturally homogeneous; this is particularly true of East Asia. More importantly, both the Confucian and Ibero-Catholic traditions have existed for centuries. The dynamic shifts in terms of high-speed economic growth, however, have occurred primarily in recent decades, especially in East Asia. A more sophisticated cultural interpretation would see culture as historically situated, emergent, and mediated through institutions (see Swidler 1986). The impact of cultural variables probably is most important in outlining an acceptable range of solutions to development problems, rather than in determining specific economic outcomes.

The following sections of this paper address some of these themes in greater detail. In closing, I will outline the elements for a new theoretical synthesis, with some suggestions for future research.

Contemporary industrialization in the NICs: similarities and contrasts

The East Asian and Latin American NICs are a very heterogeneous group, with major differences in terms of population size, land area, resource endowments, cultural legacies, political regimes, social structures, per capita income, and economic policies. Nonetheless, these nations tend to have several dynamic features in common that lead them to be widely perceived as industrial 'success stories': rapid and relatively sustained economic growth, based on a sharp increase in the manufacturing sector's share of total output and employment; a growing diversification of industrial production that permits each nation to make ever broader ranges of manufactured goods; and a fast expansion of exports with an emphasis on manufactures.

At the beginning of the 1980s, the Latin American and East Asian NICs were at similar levels of industrial development. They all were classified as upper-middle-income countries by World Bank standards, with their gross national product (GNP) per capita varying from a low of \$1,700 in South Korea to a high of \$5,240 in Singapore. Their overall degree of industrialization also was quite high. Industry's share of gross domestic product (GDP) in the NICs ranged from 34 percent in Brazil to 44 percent

TABLE 1

THE EAST ASIAN AND LATIN AMERICAN NICSS: BASIC INDICATORS

COUNTRY	POPULATION (millions) mid-1989	AREA (thousands of square kilometers)	GDP (US\$ billions)		GNP per capita		DISTRIBUTION OF GROSS DOMESTIC PRODUCT (percent)							
			1981	1989	1981	1989	Agriculture		Industry		Manufacturing ^(a)		Services, etc.	
							1981	1989	1981	1989	1981	1989	1981	1989
<u>East Asian NICs</u>														
South Korea	42.4	99	65.8	211.9	1,700	4,400	17	10	39	44	28	26	44	46
Taiwan ^(b)	19.9	36	46.9	118.6	2,600	6,160	9	6	44	46	34	39	47	48
Hong Kong ^(c)	5.7	1	27.2	52.5	5,100	10,350 ^(d)	NA	0	NA	28	NA	21	NA	72
Singapore	2.7	1	12.9	28.4	5,240	10,450	1	0	41	37	30	26	58	63
<u>Latin American NICs</u>														
Brazil ^(c)	147.3	8,512	210.7 ^(c)	319.2	2,220	2,540	13 ^(c)	9	34 ^(e)	43	27 ^(e)	31	53 ^(e)	48
Mexico	84.6	1,958	239.0	200.7	2,250	2,010	8	9	37	32	22	23	55	59
Argentina	31.9	2,767	153.3 ^(c)	53.1	2,560	2,160	9 ^(c)	14	38 ^(e)	33	25 ^(e)	35	53 ^(e)	53

- Notes:
- (a) Because manufacturing is generally the most dynamic part of the industrial sector, its share of GDP is shown separately.
 - (b) The most recent data are for 1988
 - (c) The most recent data for GDP and the percentage distribution of GDP are for 1988.
 - (d) GDP per capita.
 - (e) 1980
- NA = Not available.

Sources: World Bank, 1983, pp. 149, 153; 1991, pp. 205, 209; and CEPD, 1989, pp. 3-4, 23, 29, 41 and 199 for the data on Taiwan

in Taiwan (see Table 1), which put most of the NICs above the industrial market countries' industry/GDP average of 36 percent (World Bank 1983:153).

Manufacturing, the most dynamic part of the industrial sector, has been the cornerstone of development for the NICs. In 1989, the prominence of manufacturing activities in all the NICs (from 21 percent of GDP in Hong Kong to 39 percent in Taiwan) was much higher than in the United States (17 percent) and comparable to many of the other advanced industrial economies, including Japan (30 percent).

However, while the East Asian NICs continued to grow rapidly during the 1980s, the Latin American NICs suffered an absolute as well as a relative decline. The GNP per capita figures for 1989 highlight both trends (see Table 1). In the East Asian NICs, GNP per capita in 1989 was two to five times higher than in the Latin American nations: Singapore - \$10,450, Hong Kong - \$10,350, Taiwan - \$6,160, South Korea - \$4,400, Brazil - \$2,540, Argentina - \$2,160, and Mexico - \$2,010. Furthermore, Argentina and Mexico had substantially *lower* per capita incomes in 1989 than eight years earlier, while Brazil's income increased by just 14 percent. The East Asian NICs, on the other hand, more than doubled their average incomes in the 1980s.

Similar trends are evident if we look at the export performance for the NICs in the two regions. In 1981, the Latin American and East Asian NICs each exported between \$20 and \$23 billion of goods, with the exception of Argentina at \$6.3 billion. By the end of the decade, however, the East Asian NICs clearly established themselves as the Third World's premier exporters, especially of manufactures. Taiwan and South Korea topped the list with over \$60 billion in exports, followed by Singapore (\$44.6 billion), Brazil (\$34.4 billion), Hong Kong (\$28.7 billion), Mexico (\$23 billion), and finally, at a considerable distance from the others, Argentina (\$9.6 billion) (see Table 2).

Manufactured products constitute over 90 percent of total exports in Taiwan, South Korea, and Hong Kong, whereas for the Latin American NICs manufactures are only about one-half to one-third of total exports. Singapore is an intermediate case in that slightly over one-fourth of its

TABLE 2

EXPORTS BY THE EAST ASIAN AND LATIN AMERICAN NICs, 1980-81 AND 1989

COUNTRY	Exports (US\$ billions)		Exports/GDP (Percentage)		PERCENTAGE SHARE OF EXPORTS ^(a)							
					Primary Commodities		Textiles and Clothing		Machinery and Transport Equipment		Other Manufactures	
	1981	1989	1981	1989	1980	1989	1980	1989	1980	1989	1980	1989
<u>East Asian NICs</u>												
South Korea	21.3	62.3	32	29	10	7	29	23	20	38	41	32
Taiwan	22.6	66.5	47	52 ^(b)	NA	8	NA	15	NA	36	NA	42
Hong Kong	21.7	28.7	80	120 ^(b)	7	3	34	39	19	23	40	34
Singapore	21.0	44.6	162	157	46	27	4	5	26	47	24	21
<u>Latin American NICs</u>												
Brazil	23.2	34.4	NA	11 ^(b)	61	48 ^(b)	4	3 ^(b)	17	20 ^(b)	18	29 ^(b)
Mexico	20.0	23.0	8	11	61 ^(c)	55	3 ^(c)	2	19 ^(c)	24	17 ^(c)	19
Argentina	6.3	9.6	NA	18	77	68 ^(b)	2	3 ^(b)	7	6 ^(b)	14	23 ^(b)

Notes: (a) Percentages may not add up to 100 percent due to rounding error.

(b) 1988.

(c) 1979.

NA = Not available.

Sources: World Bank, 1983, pp. 153, 165,167; 1990, P. 205; and 1991, pp. 209, 230-231, 234-235.

Taiwan's export totals for 1981 are given in CEDP, 1989, pp. 23, 208.

exports are primary commodities, mainly petroleum-related products.

The NICs also vary considerably in the priority given to external trade. The East Asian nations are export-led economies in which exports in 1989 accounted for 52 percent and 29 percent of GDP in Taiwan and South Korea, respectively, and for well over 100 percent of GDP in the entrepôt city-states of Hong Kong and Singapore. This compares with export/GDP ratios of 11 percent in Brazil and Mexico, and 18 percent in Argentina (Table 2). To put these figures in a broader perspective, Japan, which often is seen as a model for its East Asian neighbors, had an export/GDP ratio of less than 10 percent in 1989, while the export ratio for the United States was about 7 percent. The East Asian NICs, partly because of their smaller size, thus are far more dependent on external trade than their larger Latin American counterparts or Japan.

The emergence and evolution of the NICs has been a product of cyclical shifts in the world-economy, in which export promotion followed and built upon earlier and relatively successful efforts at import substitution. To gain a better picture of the dynamic relationship between these patterns of inward- and outward-oriented industrialization, we need to examine more closely the paths of industrialization followed by the Latin American and East Asian NICs.

The dynamic interplay of inward- and outward-oriented industrialization

Based on a broad historical view of industrialization in the Latin American and East Asian NICs, one can identify five main phases of industrial development. Three of these are outward-looking: a commodity export phase, and primary and secondary export-oriented industrialization (EOI). The other two are inward-looking: primary import-substituting industrialization (ISI) and secondary ISI. The subtypes within the outward and inward approaches are distinguished by the kinds of products involved.

In the *commodity export* phase, the output typically is unrefined or semiprocessed raw materials (agricultural goods, minerals, oil, etc.). *Primary ISI* entails the shift from imports to the local manufacture of basic consumer goods, and in almost all countries the key industries during this phase are textiles, clothing, footwear, and food-processing. *Secondary ISI* involves using domestic production to substitute for imports of a variety of capital- and technology-intensive manufactures: consumer durables (e.g. automobiles), intermediate goods (e.g. petrochemicals and steel), and capital goods (e.g. heavy machinery). The two phases of EOI both involve manufactured exports. In *primary EOI* these tend to be labor-intensive products, while *secondary EOI* includes higher value-added items that are skill-intensive and require a more fully developed local industrial base.

Following this schema, the principal sequences of industrial development in Mexico, Brazil, South Korea and Taiwan are outlined in Figure 1. For purposes of convenience, the phrase 'paths of industrialization' will be used to refer to these economic outcomes. The varied role of government policies, incentives, and explicit development strategies in bringing about these industrial shifts is an important but separate issue (this topic is analyzed in Cheng and Haggard 1987, Cheng 1990, Dore 1990, Kaufman 1990, and Wade 1990).

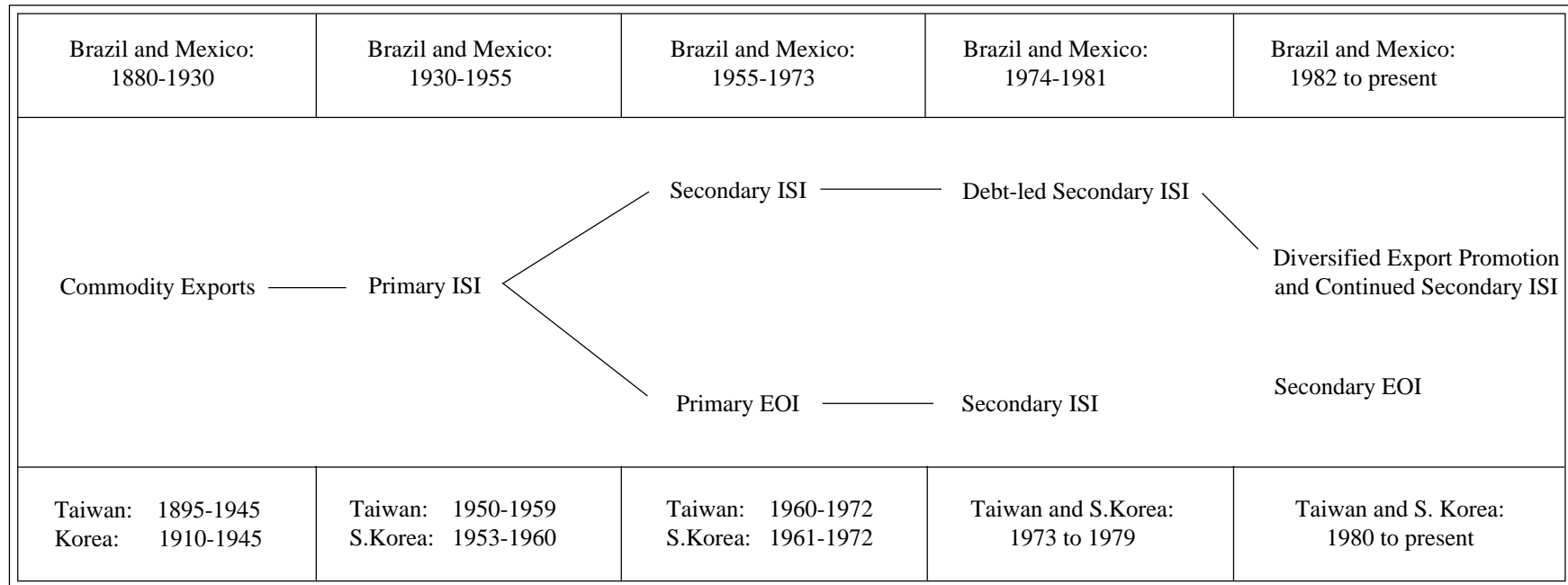
Each of the two regional pairs of NICs has followed a distinctive industrial trajectory that includes the ISI and EOI ideal types mentioned above, plus a 'mixed' phase in the most recent period. An analysis of these trajectories, as shown in Figure 1, suggests the following conclusions (see Gereffi and Wyman 1989).

First, the contrast often made between the Latin American and East Asian NICs as representing inward- and outward-oriented industrial paths, respectively, is oversimplified. While this distinction is appropriate for some periods, a historical perspective shows that each of these NICs has pursued *both* inward- and outward-oriented approaches.

Every nation, with the exception of Britain at the time of the Industrial Revolution, went through an initial stage of ISI in which protection was extended to incipient manufacturing industries producing for domestic markets. Even Hong Kong, the most laissez-faire of the NICs, benefited from a period of 'disguised ISI' on the Chinese mainland. Refugees to Hong

FIGURE 1

DEVELOPMENT STRATEGIES IN LATIN AMERICA AND EAST ASIA: COMMONALITIES, DIVERGENCE, AND CONVERGENCE



ISI = Import-Substituting Industrialization

EOI = Export-Oriented Industrialization

Kong from the mainland included a significant segment of the Shanghai capitalist class and a huge supply of politically unorganized labor, and they brought with them technical know-how, skills, and even machinery (Haggard and Cheng 1987:106-10). Furthermore, each of the NICs subsequently has combined both advanced ISI and different types of EOI in order to avoid the inherent limitations of an exclusive reliance on domestic or external markets, and also to facilitate the industrial diversification and upgrading that are required for these nations to remain competitive in the world economy. Rather than being mutually exclusive alternatives, the ISI and EOI development paths in fact have been complementary and interactive (Gereffi and Wyman 1990).

Second, the early phases of industrialization - commodity exports and primary ISI - were common to all of the Latin American and East Asian NICs, although the timing and specific products involved varied considerably. The subsequent divergence in the regional sequences stems from the ways in which each country responded to the basic problems associated with the continuation of primary ISI. These problems included balance of payments pressures, rapidly rising inflation, high levels of dependence on intermediate and capital goods imports, and low levels of manufactured exports.

Third, the duration and timing of these development patterns vary by region. Primary ISI began earlier, lasted longer, and was more populist in Latin America than in East Asia. Timing helps explain these sequences because the opportunities and constraints that shape development choices are constantly shifting. The East Asian NICs began their accelerated export of manufactured products during a period of extraordinary dynamism in the world-economy. The two decades that preceded the global economic crisis of the 1970s saw unprecedented annual growth rates of world industrial production (approximately 5.6 percent) and world trade (around 7.3 percent), relatively low inflation and high employment rates in the industrialized countries, and stable international monetary arrangements. The expansion of world trade was fastest between 1960 and 1973, when the average annual growth rate of exports reached almost 9 percent.

Starting in 1973, however, the international economy began to enter a troublesome phase. From 1973 to the end of the decade, the annual growth in world trade fell to 4.5 percent as manufactured exports from the developing countries began to encounter stiffer protectionist measures in the industrialized markets. These new trends were among the factors that led the East Asian NICs to modify their EOI approach in the 1970s (see Cheng and Haggard 1987).

Fourth, the development trajectories of the Latin American and East Asian NICs show some signs of convergence in the 1970s and 1980s. To support this convergence thesis, it is necessary

to distinguish two subphases during the most recent period. In the 1970s Mexico and Brazil began to expand both their commodity exports (oil, soybeans, minerals, etc.) and their manufactured exports, as well as to accelerate their foreign borrowing, in order to acquire enough foreign exchange to finance the imports necessary for furthering secondary ISI. This 'diversified exports' approach, which became even more prominent in the 1980s in the face of sharply curtailed foreign borrowing, was an important addition to Mexico's and Brazil's earlier emphasis on industrial deepening.

South Korea and Taiwan, on the other hand, emphasized heavy and chemical industrialization from 1973 to 1979, with a focus on steel, automobiles, shipbuilding, and petrochemicals. The objective of heavy and chemical industrialization in East Asia was twofold: to develop national production capability in these sectors, justified by national security as well as import-substitution considerations, and to lay the groundwork for more diversified exports in the future. China's re-entry into the international community, ushered in by its *détente* with the United States in the early 1970s, not only made South Korea and Taiwan's domestic defense concerns more credible, but China also presented a long-term competitive threat to labor-intensive industries in the region. South Korea and Taiwan have used the secondary ISI industries established during the 1970s as a base for launching a far more variegated array of technology- and skill-intensive manufactured exports in the 1980s (Gereffi 1989a). It is clear that neither inward-oriented nor outward-oriented paths of industrialization are self-sufficient models of development. Both are susceptible to systemic constraints or vulnerabilities such as recurring balance of payments problems, persistent inflation, and the disruption of key trading relationships (see Gereffi

1990b). However, the NICs in each region have adapted or switched their development trajectories in response to these problems, and thus they succeeded in moving to a more diversified pattern of export growth in the 1980s. An adequate understanding of how this happens requires a model of policy change that is responsive to the typical crises generated by the ISI and EOI development paths, as we will see below.

A crisis model of policy change in the NICs: the limits of ISI and EOI

This overview of the development sequences of the Latin American and East Asian NICs has brought to light several critical turning points in each country's industrialization experience. This raises a number of key questions. What causes the broad cross-regional development patterns - commonalities, divergence, and convergence - that have been noted? When a specific development approach is no longer viable, what factors influence a country's choice of its subsequent strategy? In particular, why did Latin American NICs respond to a crisis in primary ISI by a continued emphasis on supplying the domestic market through secondary ISI, while the East Asian NICs responded to a similar crisis by adopting an export-oriented approach? Why do the NICs in both regions appear to be converging toward a 'mixed' model in the 1980's which is simultaneously inward- and outward-oriented?

To answer these questions, one needs a comparative perspective on policy change that is both historical and structural. As a starting point, it is important to distinguish between development 'patterns', which are clusters of interrelated economic outcomes, and development 'strategies', which are defined as 'sets of policies that shape a country's relationship to the global economy and that affect the domestic allocation of resources among industries and social groups' (Gereffi and Wyman 1989:28). Development strategies thus define and mediate a country's relationship to the international environment, as well as embody domestic priorities regarding economic growth and equity.

Government decision-making in capitalist societies is often pragmatic and incremental rather than strategic, responding to immediate crises and short-term dilemmas rather than to long-range plans and comprehensive schemes for change (see Kaufman 1990, Cheng 1990). With regard to the NICs, the discussion of 'import substitution' and 'export promotion' frequently is misleading because this distinction is ignored: the domestic policies associated with ISI and EOI can refer to short-term defensive tactics as well as long-term development strategies. The fact that many economic policies are motivated by crisis situations does not invalidate the notion of development strategies, though, since they still retain much of their capacity to influence subsequent decisions even if they emerge as post-hoc constructs.

The main crisis situations that generate defensive reactions or strategic shifts are of two sorts. There are *external crises*, such as wars, world economic depressions, or severe raw material shortages (e.g. the oil crisis of the 1970s). These crises test a country's capacity to adjust to a radically changed external environment, but they usually are not predicted or planned for in advance. In addition to these catastrophic external events, there are also *developmental crises* that are inherent in particular development strategies, such as ISI or EOI. These developmental crises are the result of systemic constraints that lead countries to periodically modify or adapt a given economic orientation.

To better understand this process of crisis-induced policy change, one must examine both the motives and the limits associated with ISI and EOI. The original justification given to ISI in Latin America was not that it was an economic panacea, but rather that it allowed nations in the region to take advantage of particular opportunities presented by their abundant natural resource base and relatively large domestic markets. Thus, it presented greater possibilities for industrial diversification and increases in GDP per capita than the commodity export model did.

Similarly, the East Asian nations had varied motives for undertaking EOI. For Taiwan and South Korea, it was primarily a means of acquiring needed foreign exchange when the US government announced in the late 1950s it planned to reduce official aid disbursements to these countries; Hong Kong, as a commercial entrepôt, had no industrial alternative to EOI because it had a small domestic market and no agricultural hinterland; Singapore turned to EOI for reasons similar to Hong Kong's when it was dissociated from Malaysia; one of Malaysia's primary goals in adopting EOI was employment creation; and Indonesia was strongly inclined to move toward EOI when its oil revenues began to fall. The fact that countries adopted EOI for different reasons is important in order to know the conditions under which this strategy is viewed as successful by the countries pursuing it. The choice of EOI or ISI for whatever purpose, however, implies potential constraints.

As a development strategy, ISI confronts four main limitations. The first is that, paradoxically, given its advocacy on the grounds of enabling countries to escape from the foreign exchange bind associated with late industrialization, it tends to cause even greater foreign exchange vulnerability. This is because ISI is import-intensive, and gives rise to the need for more intermediate and capital goods imports to the extent that consumer goods production advances. Indeed, secondary ISI was relatively successful in Latin America because it was implemented during a period of unusually favorable commodity prices induced by the Korean War (Fishlow 1985:128). A related problem is that standard ISI policies like overvalued exchange rates tend to discourage exports.

Secondly, import substitution also gives rise to sectoral imbalances. Industrial production tends to be emphasized at the expense of agricultural output. Food production in Latin America has not been able to keep pace with urban demand, and industry has been unable to generate enough jobs to absorb the effects of rapid population growth and migration to the cities. In addition, agricultural exports have a tendency to fall, thus further reducing the availability of foreign exchange.

Third, ISI tends to generate fiscal disequilibria as the state increasingly has been called upon to subsidize the continuing investments in industry from its own revenues. This leads to a vicious circle: increased government expenditures fuel accelerating inflation, which aggravates the balance of payments problem by further overvaluing the exchange rate, thus curbing the appetite of private sector entrepreneurs for productive investment in export industries.

Finally, there were real limits to ISI's potential as a source of continuous economic growth, given the severe income inequalities that characterized Mexico, Brazil, and most of the other Latin American nations. In addition, the capital-intensive technology used in advanced ISI industries diminished its job creation impact (Sunkel and Paz 1970:361-3). The export sector thus not only stimulated the ISI process, but also constituted a real limit on it. The success of ISI in the finished consumer goods sector did not truly *substitute* for imports in an absolute sense, but rather *displaced* imports toward the intermediate and capital goods industries that would become the ultimate target of ISI efforts.

Although EOI has been viewed by some as the new 'development orthodoxy' for Third World nations based on the extraordinary dynamism achieved by the 'Four Tigers' (South Korea, Taiwan, Hong Kong, and Singapore) in East Asia, it should be emphasized that EOI is not a universal route to success either. Three conditions must be present for EOI to produce good results: (1) the maintenance of favorable prices for exports and stability in the prices of imports; (2) continued economic growth in key overseas markets, typically the United States, Western Europe, and Japan; and (3) a nonprotectionist world trading atmosphere. By the 1980s, the existence of each of these conditions was being called into question.

There are also other vulnerabilities inherent in EOI. The first is what can be called a 'fallacy of composition' - if all developing countries tried to pursue export-led growth at the same time, the ensuing competition would drive down the gain for all (Fishlow 1985:138). A high degree of openness has two related disadvantages: it makes an economy more susceptible to external shocks, and the marginal gains from trade tend to diminish as economies become progressively more open. It is also important to note that EOI, like ISI, is import-intensive. It requires a high

volume and diverse range of imports to satisfy the input needs of a rapidly expanding export economy, especially one that is small or lacking in natural resources. Finally, EOI employment is often more unstable than traditional manufacturing employment, particularly if foreign-dominated export-processing zones are a main component of a country's export structure.

An analysis of the constraints inherent in ISI and EOI is crucial in order to clarify the nature of the development choices facing the NICs. Both ISI and

EOI are susceptible to recurring balance of payments problems, which are a byproduct of negative trade balances, heavy foreign indebtedness, the flight of substantial amounts of private capital, etc. When confronting a balance of payments problem, a nation has a variety of possible options. The most obvious are to *increase exports* via primary commodities or manufactured items; *decrease imports*, which could involve import-substituting local production (by foreign or local companies), the restriction of imports (e.g., to essential items), or simply doing without most imported goods which runs the risk of a severe recession; and *finance imports* either through economic aid, borrowing from abroad, or domestic savings. Which of these options were pursued, and in what order, became prime determinants of the different industrial paths the Latin American and East Asian NICs took after primary ISI (see Gereffi 1990b:246-56).

State structures and social coalitions

Development strategies are state-centered policies - i.e., they are policies designed and executed primarily by governments. Different groups in society may have strong policy preferences on certain issues, but the formulation of a development strategy implies at least some degree of state leadership. Since the state is the agent that adopts a development strategy, an interest in the sequence and choice of these strategies requires us to examine the ways in which political structures buffer the state from the pressures of civil society, as well as the content of the policy preferences of governmental elites.

A standard reference point for Latin American studies on the nature of the state and its role in development was Guillermo O'Donnell's analysis of the emergence and dynamics of 'bureaucratic-authoritarian' (BA) regimes in the southern cone of Latin America (O'Donnell 1973, Collier 1979). More recently, Bruce Cumings introduced the term 'bureaucratic-authoritarian industrializing regimes' (BAIRs) to refer to the strong states in South Korea and Taiwan (Cumings 1984). While these models of political regimes grew out of specific regional and historical contexts, it would be useful for researchers of both Latin America and East Asia to push toward some integrating or overarching conceptualization of the state in the context of late, dependent, capitalist development.

The similarities among the states in the NICs of the two regions are quite apparent: they tend to be strong, centralized, authoritarian (often under military control), and actively and extensively involved in economic affairs. The differences are equally notable. The origins of the BA regimes and the BAIRs contrast sharply. Exclusionary BA regimes in Latin America (this includes Brazil, Argentina, Uruguay, and Chile, but not Mexico) emerged from the crises produced by periods of populist rule, when organized labor had been one of the important bases of social support of the state. BAIRs, on the other hand, inherited the centralized state apparatus from the

Japanese colonial period and enjoyed a significant measure of autonomy from local social groups and classes, including those most likely to be affected by rapid industrialization, such as large landowners and workers. Whereas BA regimes had to repress previously mobilized popular sector organizations, such as free trade unions, the BAIRs did not confront an activated popular sector and were exclusionary from the outset.

A second contrast has to do with the social alliances on which the two kinds of regimes are based. In most Latin American BA regimes, international capital is an important part of the dominant coalition that also includes the military, select industrial groups, and civilian technocrats. In the East Asian BAIRs, international capital is a relatively minor actor, while the role of domestic economic groups integrated across industrial, trade, and financial sectors is central. Although labor is excluded in both BA regimes and BAIRs, labor until recently has been a more influential actor in Latin America than in East Asia (see Deyo 1987).

If we are to fruitfully compare and contrast the nature and role of interventionist states in a cross-regional setting, however, we need to go beyond simplistic notions like 'strong' versus 'weak' states. State-led industrialization in the NICs, prior to the much heralded wave of redemocratization experiences in Latin America in the late 1980s (O'Donnell et al. 1986), has been characterized by authoritarianism. Yet authoritarianism per se does not guarantee either state strength or state autonomy. The majority of developing countries still have authoritarian regimes, but few have autonomous or strong states. Political leadership, economic ideology, the role of the technobureaucracy, and the organizational resources and discretion of decentralized public agencies all need to be taken into consideration to show how state intervention has come about and been made effective in specific historical contexts.

The development trajectories of the Latin American and East Asian NICs are rooted in social coalitions - i.e., constellations of interests that support or oppose particular development strategies. Traditional agrarian and mining export elites, for example, promoted the primary product export model. Industrial workers, national producers of finished goods, and middle- and low-income consumers, on the other hand, generally were united in their support of primary ISI, even as the agro-export elite opposed this approach that jeopardized their privileged position.

As the initial industrialization phase came to an end, however, the political parameters for continuing industrial expansion began to narrow (Kaufman 1990). In countries like Argentina, Brazil, and Mexico, which promoted investment in consumer durable as well as intermediate goods sectors (secondary ISI), the social basis of this strategy was the 'triple alliance' of TNCs, affiliated local manufacturers, and the state, along with skilled workers and upper-middle class consumers who could afford to buy items like automobiles and major electrical appliances

(Evans 1979). Agro-export elites, non-import-substituting firms, and the poor had little to gain from this strategy, although the political climate was such that they did not effectively challenge it. The popular sector's main impact on development strategies in the Latin American and East Asian NICs generally affects the implementation of development policies, rather than the goal formulation and agenda setting stage of national affairs (Deyo 1990).

In the turn to EOI, big business (foreign and domestic) has played very different roles in the Latin American and East Asian NICs (Gereffi 1990a). Although the TNCs that came into Brazil and Mexico to help implement secondary ISI in the 1950s and 1960s initially were satisfied to supply protected domestic markets, both countries have had some success since the 1970s requiring foreign manufacturers to generate increasing export revenues as a condition for continued access to their domestic economies (Gereffi and Evans 1981). However, the key position of TNCs in the Latin American NICs' export industries poses serious potential constraints to the formulation of national industrial policies, since foreign firms operate with a global rather than a domestic frame of reference. Political or economic instability within the NICs, or temporary downturns in major export markets, frequently are sufficient to bring expanding exports to a halt. In addition, TNCs often form class alliances with local managerial and technical cadres, affiliated suppliers, the workers who rely on TNCs for their jobs, and the middle class that consumes their products. These alliances serve to buffer the foreign firms from excessive governmental pressure (Gereffi and Newfarmer 1985:432).

The relative importance of TNCs has been far less in South Korea and Taiwan, where locally owned firms account for the lion's share (around 85 percent) of exports. While the state actively participates in the economies of the East Asian NICs, a good deal of this involvement is indirect (e.g. government-controlled credit, regulating the purchase of raw materials, energy, and foreign exchange, and price controls) (Wade 1990). Nonetheless, business groups in East Asia are crucially important in the implementation of the government's economic policies. Although South Korea's large, vertically integrated industrial conglomerates (*chaebols*) and Taiwan's business groups made up of loosely knit agglomerations of small and medium-size family firms (*jituanqive*) highlight the differences between their countries' centralized versus decentralized patterns of industrialization, respectively, both play a similar organizational role to TNCs in the Latin American countries by utilizing their export networks to link their respective economies to dynamic overseas markets. East Asia's private exporters are encouraged by their governments to adopt a mercantilistic approach to global markets, since overseas sales are equated at home with enhanced national security, profitability, and prestige.

The social bases of support for development strategies are not likely to be the same across regions, nor are the forces that contribute to the downfall of one strategy necessarily those that

initiate or help institutionalize a subsequent strategy. The analysis of social coalitions, therefore, must be flexible enough to account for both periods of stability as well as turning points in the development process.

Dependent development in Latin America and East Asia

The generalizability of dependency theory has been challenged because of its historically close association with the development of the Latin American NICs. The 'dependent development' literature drew heavily on the experience of Latin American nations, and it looked at the problems of Third World development with an eye toward investment and debt dependency. Therefore it has been claimed that dependency theory has little, if any, relevance to the East Asian NICs (Amsden 1979, Barrett and Whyte 1982, Berger 1986). In fact, the East Asian NICs have experienced two quite distinct kinds of dependency: the dependency on American aid in the 1950s, and trade dependency, again largely on the United States, since the 1960s. The internal and external consequences of each kind of dependency are quite different, however.

To approach the issue of dependent development in a cross-regional setting, the concept of transnational economic linkages (TNELs) is quite useful. There are four main TNELs: foreign aid, foreign trade, foreign direct investment, and foreign loans. Table 3 identifies the relative importance of each of the TNELs in Brazil, Mexico, South Korea, and Taiwan during the different phases of industrialization discussed earlier. The 'high', 'medium', and 'low' weights in Table 3 are based on estimates of the relative significance of the TNELs in each economy, compared with other developing countries at similar stages in their industrialization process.

There is considerable variation among the NICs in the role played by TNELs. First, the salience of TNELs varies markedly over time within each region, since each phase of the industrial trajectories of the Latin American and East Asian NICs is associated with a different mix of external resources used to finance development. In East Asia, for example, primary ISI relied on a great deal of foreign aid and little export trade; conversely, the subsequent phase of primary EOI was defined by extensive exports and virtually no foreign aid.

Second, the salience of TNELs also varies *between* the two regions within the same phase of industrialization. For example, both regions went through a period of primary ISI, but the dynamics were quite different. In

TABLE 3

THE STRUCTURE OF DEPENDENT DEVELOPMENT IN THE LATIN AMERICAN AND EAST ASIAN NICs

Development Strategies Trans-National Economic Linkages	Brazil and Mexico				South Korea and Taiwan			
	Commodity Exports	Primary ISI	Secondary ISI	Diversified Exports and Secondary ISI	Commodity Exports	Primary ISI	Primary EOI	Secondary ISI and EOI
Foreign Aid	Low	Low	Medium	Low	Low	High	Medium	Medium
Foreign Trade	High	Low	Low <i>[Exports]</i> Medium <i>[Imports]</i>	Medium <i>[Imports]</i> High <i>[Exports]</i>	High	Low <i>[Exports]</i> Medium <i>[Imports]</i>	High	High
Foreign Direct Investment	Medium <i>[Brazil]</i> High <i>[Mexico]</i>	Low	High	Medium	Medium	Low	Low <i>[S. Korea]</i> Medium <i>[Taiwan]</i>	Medium <i>[S. Korea]</i> High <i>[Taiwan]</i>
Foreign Borrowing	Medium	Low	Medium	High	Low	Low	Low <i>[Taiwan]</i> Medium <i>[S. Korea]</i>	Medium <i>[Taiwan]</i> High <i>[S. Korea]</i>

ISI = Import-Substituting Industrialization.

EOI = Export-Oriented Industrialization.

source: Gereffi and Wyman (1989): 43.

East Asia primary ISI was financed by massive amounts of foreign economic assistance, whereas in Latin America the same phase tended to be carried out by local industrialists with the support of the state and with limited participation by TNCs (Gereffi 1989b:520).

Third, the contrast with regard to TNELs is sharpest during the 1960s, when Latin America's secondary ISI is juxtaposed with East Asia's primary EOI. The former phase relied heavily on foreign direct investment (FDI) and external loans, but was oriented toward supplying local markets; the latter phase depended on access to overseas markets, but was implemented in large part by domestic entrepreneurs who drew mainly on local financial resources. This was especially true in Taiwan, whereas in South Korea local capitalists became heavily indebted to foreign creditors in the 1970s.

Fourth and finally, Latin America and East Asia differ in terms of the overall weight that specific TNELs have had in the two regions. Historically FDI and foreign loans represented the most important external economic resources for the Latin American NICs; in contrast, export trade and foreign aid have been the key forms of East Asian linkage to the international economy. A main reason why dependency has been such a thorny issue for the Latin American countries is that FDI tends to create greater frictions than other types of foreign capital in Third World countries (see Stallings 1990). In the East Asian NICs, on the other hand, trade dependency on the United States has been declining since the early 1970s and their export profile has become more diversified (Barrett and Chin 1987), thus reducing but not eliminating some of the deleterious consequences of export partner and product concentration.

The dependency perspective can be enriched by dealing more explicitly with issues of *dependency management*. This approach focuses attention on the capacity of domestic actors to use external economic resources productively and selectively to serve local interests. A key to understanding the success of the East Asian NICs' export strategy, for example, is the performance of locally owned exporting firms that aggressively sought and exploited opportunities for profitable overseas sales. These local exporters established close ties with foreign buyers, who assisted in matters of product design and technology transfer. The adaptation of available modern technology has enabled the East Asian NICs to move from conventional labor-intensive exports like textiles, clothing, and footwear to heavier and high-tech industries like transportation equipment, electrical machinery, and computer components. Joint-venture research projects, as well as locally owned companies, have been set up in South Korea and Taiwan to give these countries greater flexibility in developing their own production and technological capabilities (Schive 1990). The success of both primary and secondary EOI in the East Asian NICs thus is explained in large part by the ability of domestic firms to effectively manage their dependency relationships in the areas of international trade and investment.

The capacity to manage or renegotiate dependency varies considerably, however, over time and in terms of the different TNELs. The Latin American NICs had developed a very nationalistic stance toward TNCs by the early 1970s, as evidenced by the wide range of ownership controls and performance requirements that were in place in a number of key sectors (e.g. the nationalization of natural resource industries, mandatory joint ventures in manufacturing, domestic content rules, and export requirements as a condition for new investments in autos and computers). However, the severe slump that affected the region in the 1980s led many of these measures to be repealed or weakened in order to encourage fresh inflows of investment capital. On the other hand, the debt crisis in Latin America proved to be somewhat more manageable by the late 1980s than initially believed, as international banks were pressured by developed country governments, among others, to implement measures like debt forgiveness and debt-for-equity swaps in order to help the Latin American economies recover from the 'lost development decade' of the 1980s.

In East Asia, it has become increasingly difficult to cope with the problems of export-led growth. Protectionist policies in the industrialized nations of North America and Europe, and intense competitive pressures from lower-wage Asian nations like China, Thailand, Indonesia, Malaysia, and the Philippines, have made it more difficult for local firms in South Korea, Taiwan, and Hong Kong to maintain their traditional subcontracting arrangements with foreign buyers. The East Asian NICs thus are vulnerable to dislocations in their export activities as foreign buyers shift their

orders to nations with cheaper labor or more favorable trade relations with the major industrialized countries. This has pushed the East Asian NICs to continually upgrade their export industries, using advanced technologies and more expensive material inputs, and also to undertake rapidly growing levels of FDI in neighboring Asian nations in order to maintain their international competitiveness. Thus, dependency management is an ongoing process that leads countries to constantly redefine their modes of integration to the world-economy.

Culture

The rapid growth of the East Asian NICs has refocused attention on the role of culture in national development. Drawing on the seminal work of Max Weber, many social scientists center their discussions of culture and development on religious values. A number of writers argue that Confucianism confers certain advantages over other traditions in the quest for economic development. Confucian values stress the importance of sobriety, education, achievement, and reciprocal social obligations, while the Confucian emphasis on hierarchy, encourages harmony, cooperation, and loyalty within organizations (Kahn 1979:122).

These characteristics are said to have facilitated the national consensus around high-speed economic growth that was evident in Japan and the East Asian NICs in the 1950s and 1960s. This culturally derived capacity for cooperation led political elites, industrial leaders, workers, and other citizens to agree on the primacy of economic objectives for the society as a whole and on the means to achieve those objectives (see Johnson 1983:6-10; and the chapters by Lucian Pye, Gordon Redding, and Siu-lun Wong in Berger and Hsiao 1988).

In Latin America, a divergent set of cultural norms based upon an 'Ibero-Catholic' or Hispanic heritage has been identified as impeding the economic advancement of the region. According to the modernization theorists of the 1960s, this Latin American tradition is characterized by an elite culture of luxury, disdain for labor and commerce, a general affinity for ascriptive criteria in the distribution of social benefits, and other values typically found in feudal societies (see Valenzuela and Valenzuela 1978 for a review of this perspective). Lawrence Harrison, the author of a book entitled *Underdevelopment Is a State of Mind*, has voiced one of the most virulent indictments against the Hispanic tradition: 'In the case of Latin America, we see a cultural pattern, derivative of traditional Hispanic culture, that is anti-democratic, anti-social, anti-progress, anti-entrepreneurial, and at least among the elite, anti-work' (cited in Fishlow 1989:118).

Sweeping arguments about the impact of culture on development in East Asia and Latin America

run into various problems. First, as some proponents of culturalist arguments acknowledge (e.g. Berger 1986), regions are not culturally homogeneous; this is particularly true of East Asia. In Taiwan and South Korea, for example, Taoism and Buddhism have important followings along with Confucianism. There also is a significant Christian entrepreneurial minority in some countries of the region, like South Korea (see Jones and Sakong 1980). Even where Confucianism is predominant, there tends to be a gap between the ideal and the reality - i.e., between what is believed and what is practiced (Pye 1985).

Further, the same Confucian beliefs that now are thought to facilitate rapid industrialization in East Asia were criticized by several generations of Western scholars for inhibiting economic development (see Hamilton and Kao 1987). In addition, many of the stereotyped views of 'Confucian' values may be empirically inaccurate. For instance, East Asian industrial relations have not always been (and are not now) harmonious (Gordon 1985, Form and Bae 1988), and Chinese employees do not identify closely with their work organizations (Silin 1976).

Instead of a template or predetermined program that mechanically shapes individual behavior, culture can be viewed as 'historically situated and emergent, shifting and incomplete meanings and practices generated in the webs of agency and power' (Ong 1987:2). This situational characterization of culture recognizes that culture is mediated through institutions. Thus, while culture highlights core societal values, there is no direct relationship between values and behavior independent of an institutional or organizational context.

In addition to the hotly debated issue of a 'Confucian ethic', several other cultural themes are associated with cross-regional variations in paths of development. First, observers call attention to striking cross-regional differences in attitudes toward the state apparatus and its personnel (Dore 1990). The early development of meritocratic educational systems in East Asia, in contrast to the more status-oriented systems of Latin America, partly accounts for the greater prestige and popular legitimacy of bureaucrats in East Asia, particularly relative to electoral politicians.

Second, there also is evidence of a cultural demonstration effect in international production, consumption, and development policy. In some instances, the substance and language of East Asian industrial policies seems to have been taken almost directly from Japanese documents (Dore 1990). Further, the reemergence of Japan as a regional power after World War II may have encouraged the East Asian NICs to imitate Japan's relatively austere personal consumption patterns, while the 'showcase modernity' of the Latin American NICs is more in accord with the kind of consumer-oriented lifestyle characteristic of the United States (Fajnzylber 1990).

Third, the relative ethnic homogeneity of East Asian societies like South Korea and Japan plays

a major role, along with the situational imperatives of resource scarcity, small size, and military threats, in heightening nationalistic sentiments which are conducive to a single-minded emphasis on economic growth. In this regard the East Asian NICs contrast strikingly with their Latin American counterparts, which tend to be far more culturally diverse (Dore 1990).

While culture underlies cross-regional contrasts in several important ways, culture also may help to account for *intraregional* differences in paths of industrial development. For instance, the degree of ethnic homogeneity of the East Asian NICs varies within the region, and these variations have important social and political consequences. In contrast to the high level of ethnic homogeneity in South Korea, political and economic power in Taiwan are distributed along an ethnic fault line: The mainlander political elites of the Kuomintang (KMT) remain suspicious of any efforts by native business leaders to develop non-party bases of power (Cheng 1990). Accordingly, the KMT has encouraged the proliferation of small and medium-sized firms rather than Korean-style

conglomerates.

However, these ethnopolitical cleavages are not the only cultural factors contributing to intraregional divergences in industrial structure. Hamilton et al. (1987) underscore the importance of family structure and ideology on the size and behavior of industrial concerns in South Korea and Taiwan. Interfirm relations in Korean conglomerates, for example, are organized on the principle of *corporate patriarchy*; these enterprises are controlled by a single authoritarian individual and operated via hirelings. This principle of economic organization facilitates close working relationships between the state and the private sector. In contrast to the formal system of command which prevails in Korea, Taiwanese firms are characterized by a more decentralized form of management based on *patrilineal ties*, or personal (primarily extended kin) relationships based on reciprocal trust and loyalty. These cultural differences in family structures, managerial ideology, and industrial organization provide both opportunities and constraints for political elites seeking to guide the industrialization process.

As these examples indicate, to evaluate cultural arguments seriously one needs to turn to history and also to look at the evolution of special institutional arrangements. One of the 'lessons' of East Asian development may be that the institutional bases underlying the region's growth are effective precisely because they have responded flexibly to the traditional forces in each society.

The emergent global manufacturing system: toward a theoretical synthesis

This comparative overview of industrialization in the East Asian and Latin American NICs provides the elements for a new synthesis in development theory. Two related themes will be highlighted to illustrate the direction this approach might take: (1) the declining significance of industrialization in the contemporary world-economy; and (2) the emergence of new export roles for the NICs. The concluding remarks will address issues for future research.

The Declining Significance of Industrialization

Since the 1950s, the gap between developed and developing countries has been narrowing in terms of industrialization. Industry as a share of GDP has increased substantially in the vast majority of Third World nations, not only in absolute terms but also relative to that of the core countries (see Harris 1987). By the late 1970s, the NICs as a whole not only caught up with but overtook the core countries in terms of their degree of industrialization (Arrighi and Drangel 1986:54-5).

While industry and manufacturing as a share of GDP are on the decline in the most developed nations of the world-economy, this trend is counterbalanced by the core's emphasis on the service sector and on the most productive, high-value-added segments of manufacturing. Ironically, as more and more countries in the world are becoming industrialized, industrialization itself is losing the key status it once had as an ultimate hallmark of national development.

These observations lead to two basic conclusions about the theoretical status of industrialization in the contemporary world-economy. First, 'industrialization' and 'development' are not synonymous. This is apparent in the disparate social and economic consequences of industrial growth in the Latin American and East Asian NICs over the past couple of decades. Despite similarly high levels of industrialization in the NICs from both regions, the East Asian nations have performed significantly better than their Latin American counterparts in terms of standard indicators of development such as GNP per capita, income distribution, literacy, health, and education (see World Bank 1991: Tables 1, 2 and 3).

Second, just as industrialization can not be equated with development, neither does it guarantee proximity to core status in the world-system. Although the NICs are now more industrialized than most of the core countries, this achievement generally has not led to a substantial change in the relative position of the NICs in the hierarchy of nations in the world-economy. Arrighi and Drangel (1986:44), who measured upward and downward mobility in the world-system over the past 50 years in terms of national changes in per capita GNP, found that 95 percent of the states that were classified in one of the three world-system zones (core, semiperiphery, and periphery) in 1938-50 were in the same zone in 1975-83. Among the few exceptional cases of upward mobility in the world-system were Japan and Italy, which moved from the semiperiphery to the core, and South Korea and Taiwan, which moved from the periphery to the semiperiphery.

Therefore, while industrialization may be a necessary condition for core status in the world-system, it no longer is sufficient. Mobility from the semiperiphery to the core, or the periphery to the semiperiphery, should not be defined simply in terms of a country's degree of industrialization, but rather by a nation's success in upgrading its mix of economic activities toward technology- and skill-intensive products and techniques with higher levels of local value-added. Innovations by the most developed countries continue to make core status an ever receding frontier.

Differentiating the roles of the NICs in the world-economy

The prior analysis of the Latin American and East Asian NICs allows us to identify a differentiated set of export roles that semiperipheral nations play in the world-economy. These

roles reflect the mix of core-peripheral economic activities in the NICs, as well as the significance of core and peripheral capital in carrying out these development efforts. These roles are not mutually exclusive, and their importance for a given country or set of countries may undergo fairly dramatic shifts over time.

The NICs can be characterized in terms of five basic types of economic roles: (1) the commodity-export role; (2) the export-processing role; (3) the component-supplier role; (4) the commercial-subcontracting role; and (5) the independent-exporter role. This framework focuses on export production in the NICs, since this is the best indicator of a country's international competitiveness.

The *commodity-export* role is of prime importance for the Latin American NICs, where natural resources account for one-half to two-thirds of total exports, and also for Singapore, which processes and re-exports a large volume of petroleum-related products (see Table 2). Peripheral capital controls most of these natural-resource industries at the production stage in Latin America, with the petroleum and mining industries usually being run by state-owned enterprises, while the agricultural and livestock industries generally are owned by local capital. In Singapore, by contrast, TNCs are the proprietors of most of the petroleum-related industries. These commodity exports are sent to a wide range of nations, with the predominant share going to core countries. The export and distribution networks are usually controlled by core capital.

The *export-processing* role corresponds to those nations that have foreign-owned, labor-intensive assembly of manufactured goods in export-processing zones. These zones offer special incentives to foreign capital and tend to attract firms in a common set of industries: garments, footwear, and basic electronics. Virtually all of the East Asian and Latin American NICs have engaged in this form of labor-intensive production, although its significance wanes as wage rates rise and countries become more developed.

In Taiwan and South Korea, export-processing zones have been on the decline during the past 10 to 15 years, largely because labor costs have been rapidly rising. These nations have upgraded their mix of export activities by moving toward more skill- and technology-intensive products. The export-processing role in Asia is now being occupied by, low-wage countries like China, the Philippines, Thailand, Indonesia, and Malaysia.

In Latin America, on the other hand, export-processing industries are on the upswing because the wage levels in most countries of the region are considerably below those of the East Asian NICs, and recent currency devaluations in the Latin American NICs make the price of their exports more competitive internationally. The export platforms in Latin America also have the advantage

of geographical proximity to the most important industrial markets (North America and Europe), compared with the more distant Asian export-processing zones. Mexico's *maquiladora* industry is probably the largest and most dynamic of these export areas (see Gereffi 1991). There are similar zones in Brazil, Colombia, Central America, and the Caribbean. Core country firms control the production, export, and marketing stages of the production networks for these consumer goods. The main contribution of peripheral nations is cheap labor.

The *component-supplier* role refers to the production of component parts in capital- and technology-intensive industries in the NICs for export and usually final assembly in the developed countries. Component supply has been a key niche for the Latin American NICs' manufactured exports during the past two decades. Brazil and Mexico have been important production sites for vertically integrated exports by TNCs to developed country markets, especially the United States, since the late 1960s. This is most notable in certain industries like motor vehicles, computers, and pharmaceuticals (see Newfarmer 1985). American, European, and Japanese automotive TNCs, for example, have advanced manufacturing facilities in Mexico and Brazil for the production of engines, auto parts, and even completed vehicles for the US and European markets (Gereffi 1990a, Shaiken 1987).

In Latin America, the manufacturing stage of component-supplier production typically is owned and run by foreign capital, sometimes in conjunction with a local partner. The export, distribution, and marketing of the manufactured items are handled by the TNC. This production arrangement is the one most likely to result in a significant transfer of technology from the developed countries to their supplier nations.

In East Asia there are two variants of the component-supplier role. The first is similar to the Latin American arrangement in which *foreign subsidiaries* manufacture parts or subunits in East Asia for products like television sets, radios, sporting goods, and consumer appliances that are assembled and marketed in the country of destination (most often, the United States). The firms that engage in this form of specialization subcontracting can be considered as 'captive' companies that supply the bulk of their production (usually in excess of 75 percent) to their parent corporation.

The second variant of the component-supplier role in East Asia involves production of components by *local firms* for sale to diversified buyers on the world market. These 'merchant' producers sell virtually all of their output on the open market. The importance of 'merchant' producers is illustrated in the semiconductor industry. South Korean companies have focused almost exclusively on the mass production of powerful memory chips, the single largest segment of the semiconductor industry, which are sold as inputs to a wide range of domestic and

international manufacturers of electronic equipment. Taiwan, on the other hand, has targeted the highest-value-added segment of the semiconductor market: tailor-made 'designer chips' that perform special tasks in toys, video games, and other machines. Taiwan now has 40 chip-design houses that specialize in finding export niches and then develop products for them (*Far Eastern Economic Review* 1988).

The *commercial-subcontracting* role refers to the production of finished consumer goods by locally owned firms, where the output is distributed and marketed by large retail chains and their agents (Holmes 1986:85). This is one of the major niches filled by the East Asian NICs in the contemporary world-economy. In 1980, three of the East Asian NICs (Hong Kong, Taiwan, and South Korea) accounted for 72 percent of all finished consumer goods exported by the Third World to OECD countries, other Asian countries supplied another 19 percent, while just 7 percent came from Latin America and the Caribbean. The United States was the leading market for these products with 46 percent of the total (Keesing 1983:338-9). In East Asia, domestic firms control the production stage of the finished-consumer-goods commodity chains, while foreign capital tends to control the more profitable export, distribution, and retail marketing stages. While the international subcontracting of finished consumer goods is growing in Latin America, it tends to be subordinated to the export-platform and component-supplier forms of production.

The latter two types of international subcontracting, component-supply and commercial subcontracting, could be stepping stones to more autonomous levels of industrial development if the manufacturing countries introduce new products and gain some degree of control over the marketing of the goods they make. Taiwan, with its technological prowess, is acquiring the flexibility to move into the high-value-added field of product innovation. However, without their own internationally recognized company brand names, a substantial advertising budget, and appropriate marketing and retail networks, Taiwan's ingenious producers will find it difficult to break free of the commercial subcontracting role. South Korea probably has more potential to enter developed country markets successfully because its *chaebols* have the capital and technology to set up overseas production facilities and marketing networks. Thus South Korea's leading auto manufacturer, Hyundai Motor Company, has become one of the top importers into both Canada and the United States since the mid-1980s (see Gereffi 1990a).

The final role in this typology is the *independent-exporter* role. This refers to those export industries in which there is no subcontracting relationship between the manufacturer and the distributor or retailer of the product. These goods can range from construction materials (like cement, lumber, and standard chemicals) to a wide variety of food, clothing, and electronics items (such as beer, watches, jewelry, radios, etc.). Independent party transactions are most

common for resource-based or mature products in which the logic of the comparative advantage paradigm still works to a degree. Transport and energy costs, exchange rates, wages, interest rates, and low-priced resource-based inputs all play a determining role in the growth of these exports.

This typology of the different roles that the Latin American and East Asian NICs play in the world-economy shows that the standard development literature has presented an oversimplified picture of the semiperiphery. The East Asian NICs have been most successful in the areas of commercial subcontracting and component supply, with secondary and declining importance given to the export-platform role emphasized in the 'new international division of labor' literature (Fröbel et al. 1981). The Latin American NICs, on the other hand, have a different kind of relationship to the world-economy. They are prominent in the commodity-export, export-platform, and component-supplier forms of production, but they lag far behind the East Asian NICs in the commercial-subcontracting type of manufactured exports.

Although each of these roles has certain advantages and disadvantages in terms of mobility in the world-system, the prospects for the NICs can only be understood by looking at the interacting sets of roles in which these nations are enmeshed. The Latin American nations economically tend to be far more diverse than the East Asian NICs. Many of the former possess a wide range of natural resources, abundant labor, and relatively large domestic markets. This allows Latin American nations to pursue a variety of export roles simultaneously, including raw material exports. The objective should be to create *competitive* advantage by maximizing the economic and technological benefits that can be attained from this

industrial diversity, rather than to rely exclusively on the region's current *comparative* advantage in cheap labor and proximity to the US market.

Directions for future research

The theoretical synthesis outlined above suggests several promising areas for research on the varied performance of the NICs in the world-economy. In order to better understand why some nations have developed more rapidly or extensively than others, and what the latter can learn from the former, we should focus on several interrelated levels of analysis: the global or world-system level, policies and institutions at the national level, and the social bases of competitiveness at the local level.

The global manufacturing system that has emerged in the last couple of decades and the related expansion in export activity by the NICs has led to new patterns of diversification and specialization in the contemporary export-oriented, network-centered world-economy. While the *diversification* of the NICs' exports toward nontraditional, capital- and technology-intensive manufactured goods is now a clear trend (see Table 2) less well recognized is the tendency of the NICs to develop higher levels of *specialization* in their national export profiles. There is evidence of increasing heterogeneity in the export profiles of the NICs *within* East Asia and Latin America, for example, which leads us to question the assumption that there are homogeneous regional models of industrial development (see Gereffi 1989a). How and why did these patterns of export specialization emerge during the past several decades? How did the East Asian NICs construct such effective export networks for consumer goods in the 1960s? What are the lessons to be derived by other countries that wish to expand their manufactured exports today?

Commodity chains are an important analytical tool that can be used to address some of these questions (see Gereffi and Korzeniewicz 1990). Detailed studies of commodity chains in diverse industries are required in order to detect the mix of core-peripheral activities at each node of the chain, and also to identify the strategies different nations are pursuing to move upward or conversely to resist peripheralization in the world-system (Arrighi and Drangel 1986). The recent success of Korean automobiles, semiconductors, and home appliances, Taiwanese computers and sporting goods, and Mexican beer in the US market indicates that it is possible for firms in the NICs to capture significant shares of core-country markets, even in technology- and advertising-intensive industries. (See Newfarmer (1985) for a related approach applying industrial organization economics to a variety of internationally oriented manufacturing industries in Latin America.) Comparative research on commodity chains is needed to illuminate

the conditions under which domestic producers in the NICs can capture higher levels of economic surplus through integrated production and marketing strategies at the global level.

National differences in government policies, economic organization, social structure, and culture are important determinants of how the NICs have responded to opportunities and constraints in the world-economy. Industrial policy in each of the NICs, for example, has been influenced by varied patterns of ownership in terms of the relative importance of foreign-owned corporations, state enterprises, and local private companies (Gereffi 1990a, 1990b). Intraregional differences are often as striking as cross-regional ones. Whereas South Korea's concentrated industrial structure composed of locally owned conglomerates and proletarian industrial communities predisposes it to a 'mass-production model' of economic growth, Taiwan's myriad array of smaller firms and its more fragmented labor force leads to a 'flexible-specialization model' of permanent innovation which attempts to accommodate change rather than control it (this theme is suggested but not developed in Sabel 1986, Deyo 1990).

The social basis of competitiveness in the NICs focuses our attention on how economic activity is embedded in structures of social relations in modern industrial societies (Granovetter 1985). Effective production, export, and marketing networks are rooted in cooperative as well as competitive relationships that draw upon ethnicity, kinship, gender, class, and other social ties. Japan, South Korea, and Taiwan, for example, have very different principles of social organization that affect their approach to domestic expansion as well as their orientation to world markets (see Hamilton et al. 1987, Hamilton and Biggart 1988). Research on the informal sector has highlighted how complex patterns of social embeddedness underlie efficient production arrangements that cut across social strata and realign the relations between employers, workers, and government in a wide range of nations (see Portes et al. 1989). These issues have become especially salient for many export-oriented industries in which global competitiveness requires rapid and flexible adaptations to changing conditions in the world-economy.

Development theory needs to incorporate and integrate the global, national, and local levels of analysis if we are to understand the challenges and choices that confront industrializing nations. The false dilemma of outward- versus inward-oriented development must be replaced by a more comprehensive approach that sees countries as occupying differentiated roles in the world-economy requiring a combination of export industries as well as those producing for domestic markets. A multidisciplinary view of development issues offers the best hope for theory that is responsive to concrete problems and also can provide the basis for useful generalizations.

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《 重整拉美和東亞發展理論 》

(中文摘要)

本文目的是從總結過去一些關於拉丁美洲和東亞發展經驗的研究成果，去檢視目前在發展理論中一些中心的命題，並提出一些研究經濟和社會發展的新方向。

近年流行的幾種有關世界經濟發展和理論概念，如「新國際分工」、「全球生產線」、「毛病的謬論」、「同起式」等，都對國家發展的新方向，偏重於地區和導向，而忽視了國家和導向的整體性。這些理論，都強調「等工」當中的「等」字，是「等」的代名詞，是「等」的代名詞，是「等」的代名詞。

拉了美洲和東亞的九世紀末，其來取口入一些更合多勾劃了兩個基向工在兩勢出，更依拉口同年經式，更拉了美洲和東亞的九世紀末，其來取口入一些更合多勾劃了兩個基向工在兩勢出，更依拉口同年經式，更拉了美洲和東亞的九世紀末，其來取口入一些更合多勾劃了兩個基向工在兩勢出，更依拉口同年經式，更

要瞭解這種複雜的組和分化的研究，方包括：(一)特別和關係，(二)世界經濟的歷史，(三)國際貿易的條件，(四)社會和經濟的結構，(五)社會和經濟的結構，(六)社會和經濟的結構，(七)社會和經濟的結構，(八)社會和經濟的結構，(九)社會和經濟的結構，(十)社會和經濟的結構。

一個整合和多科制的觀念，是研究發展問題的最佳出路。