

Cambridge University Press

0521622093 - Emergent Economies, Divergent Paths: Economic Organization and International Trade in South Korea and Taiwan

Robert C. Feenstra and Gary G. Hamilton

Frontmatter

[More information](#)

## Emergent Economies, Divergent Paths

The economies of South Korea and Taiwan in the second half of the twentieth century are to scholars of economic development what the economy of Britain in the late eighteenth and early nineteenth centuries is to economic historians. This book, a collaboration between a leading trade economist and a leading economic sociologist specializing in East Asia, offers a fresh, original explanation of the development paths of post-World War II Korea and Taiwan. The ambitions of the authors go beyond this, however. They use these cases to reshape the way economists, sociologists, and political scientists will think about economic organization in the future. They offer nothing less than a theory of, and extended evidence for, how capitalist economies become organized. One of the principal empirical findings is that a primary cause for the industrialization of East Asia is the retail revolution in the United States and the demand-responsiveness of Asian manufacturers.

Robert C. Feenstra is a Professor in the Department of Economics at the University of California, Davis. He also directs the International Trade and Investment Program at the National Bureau of Economic Research in Cambridge, Massachusetts. He is the former editor of the *Journal of International Economics* and an associate editor of the *American Economic Review*. Feenstra has published more than seventy articles in international trade and edited eight books.

Gary G. Hamilton is a Professor of Sociology at the Jackson School of International Studies at the University of Washington. He has published numerous books and articles, including most recently *Cosmopolitan Capitalists: Hong Kong and the Chinese Diaspora at the End of the Twentieth Century*, editor and contributor (1999), *The Economic Organization of East Asian Capitalism* with Marco Orrù and Nicole Biggart (1997), and *Asian Business Networks*, editor (1996).

Cambridge University Press

0521622093 - Emergent Economies, Divergent Paths: Economic Organization and International Trade in South Korea and Taiwan

Robert C. Feenstra and Gary G. Hamilton

Frontmatter

[More information](#)

## Structural Analysis in the Social Sciences

The series *Structural Analysis in the Social Sciences* presents approaches that explain social behavior and institutions by reference to relations among such concrete entities as persons and organizations. This contrasts with at least four other popular strategies: (a) reductionist attempts to explain by a focus on individuals alone; (b) explanations stressing the causal primacy of such abstract concepts as ideas, values, mental harmonies, and cognitive maps (thus, “structuralism” on the Continent should be distinguished from structural analysis in the present sense); (c) technological and material determination; (d) explanation using “variables” as the main analytic concepts (as in the “structural equation” models that dominated much of the sociology of the 1970s), where structure is that connecting variables rather than actual social entities.

The social network approach is an important example of the strategy of structural analysis; the series also draws on social science theory and research that is not framed explicitly in network terms, but stresses the importance of relations rather than the atomization of reduction or the determination of ideas, technology, or material conditions. Though the structural perspective has become extremely popular and influential in all the social sciences, it does not have a coherent identity, and no series yet pulls together such work under a single rubric. By bringing the achievements of structurally oriented scholars to a wider public, the *Structural Analysis* series hopes to encourage the use of this very fruitful approach.

Mark Granovetter

## Other Books in the Series:

1. Mark S. Mizruchi and Michael Schwartz, eds., *Interorganizational Relations: The Structural Analysis of Business*
2. Barry Wellman and S. D. Berkowitz, eds., *Social Structures: A Network Approach*
3. Ronald L. Breiger, ed., *Social Mobility and Social Structure*
4. David Knoke, *Political Networks: The Structural Perspective*
5. John L. Campbell, J. Rogers Hollingsworth, and Leon N. Lindberg, eds., *Governance of the American Economy*
6. Kyriakos Kontopoulos, *The Logics of Social Structure*
7. Philippa Pattison, *Algebraic Models for Social Structure*
8. Stanley Wasserman and Katherine Faust, *Social Network Analysis: Methods and Applications*
9. Gary Herrigel, *Industrial Constructions: The Sources of German Industrial Power*
10. Philippe Bourgois, *In Search of Respect: Selling Crack in El Barrio*
11. Per Hage and Frank Harary, *Island Networks: Communication, Kinship, and Classification Structures in Oceania*
12. Thomas Schweitzer and Douglas R. White, eds., *Kinship, Networks, and Exchange*
13. Noah E. Friedkin, *A Structural Theory of Social Influence*
14. David Wank, *Commodifying Communism: Business, Trust, and Politics in a Chinese City*
15. Rebecca Adams and Graham Allan, *Placing Friendship in Context*
16. Robert L. Nelson and William P. Bridges, *Legalizing Gender Inequality: Courts, Markets, and Unequal Pay for Women in America*
17. Robert Freeland, *The Struggle for Control of the Modern Corporation: Organizational Change at General Motors, 1924–1970*
18. Yi-min Lin, *Between Politics and Markets: Firms, Competition, and Institutional Change in Post-Mao China*
19. Nan Lin, *Social Capital: A Theory of Social Structure and Action*
20. Christopher Ansell, *Schism and Solidarity in Social Movements: The Politics of Labor in the French Third Republic*
21. Thomas Gold, Doug Guthrie, and David Wank, eds., *Social Connections in China: Institutions, Culture, and the Changing Nature of Guanxi*

(continued after index)

Cambridge University Press

0521622093 - Emergent Economies, Divergent Paths: Economic Organization and International Trade in South Korea and Taiwan

Robert C. Feenstra and Gary G. Hamilton

Frontmatter

[More information](#)

Structural Analysis in the Social Sciences 29

# Emergent Economies, Divergent Paths

*Economic Organization and  
International Trade in South Korea  
and Taiwan*

ROBERT C. FEENSTRA

*University of California, Davis*

GARY G. HAMILTON

*University of Washington*



**CAMBRIDGE**  
UNIVERSITY PRESS

Cambridge University Press

0521622093 - Emergent Economies, Divergent Paths: Economic Organization and International Trade in South Korea and Taiwan

Robert C. Feenstra and Gary G. Hamilton

Frontmatter

[More information](#)

CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press

40 West 20th Street, New York, NY 10011-4211, USA

[www.cambridge.org](http://www.cambridge.org)

Information on this title: [www.cambridge.org/9780521622097](http://www.cambridge.org/9780521622097)

© Robert C. Feenstra and Gary G. Hamilton 2006

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2006

Printed in the United States of America

*A catalog record for this publication is available from the British Library.*

*Library of Congress Cataloging in Publication Data*

Feenstra, Robert C.

Emergent economies, divergent paths : economic organization and international trade in South Korea and Taiwan / Robert C. Feenstra, Gary G. Hamilton.

p. cm. – (Structural analysis in the social sciences)

Includes bibliographical references and index.

ISBN-13: 978-0-521-62209-7 (hardback)

ISBN-10: 0-521-62209-3 (hardback)

1. Korea (South) – Economic conditions. 2. Taiwan – Economic conditions – 1945– 3. Korea (South) – Commerce. 4. Taiwan – Commerce. I. Hamilton, Gary G. II. Title. III. Series.

HC467.F44 2006

330.95124'9 – dc22 2005030036

ISBN-13 978-0-521-62209-7 hardback

ISBN-10 0-521-62209-3 hardback

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party Internet Web sites referred to in this publication and does not guarantee that any content on such Web sites is, or will remain, accurate or appropriate.

Cambridge University Press

0521622093 - Emergent Economies, Divergent Paths: Economic Organization and  
International Trade in South Korea and Taiwan

Robert C. Feenstra and Gary G. Hamilton

Frontmatter

[More information](#)

---

*To Gail and Eleanor*

Cambridge University Press

0521622093 - Emergent Economies, Divergent Paths: Economic Organization and International Trade in South Korea and Taiwan

Robert C. Feenstra and Gary G. Hamilton

Frontmatter

[More information](#)*Contents*

<i>Acknowledgments</i>	<i>page xi</i>
Introduction	1
<b>Part I. Business Groups and Economic Organization</b>	
1. The Problem of Economic Organization	13
2. Interpreting Business Groups in South Korea and Taiwan	50
3. A Model of Business Groups: The Interaction of Authority and Market Power in the Context of Competitive Economic Activity	78
4. Economic Organization in South Korea and Taiwan: A First Test of the Model	120
<b>Part II. Emergence and Divergence of the Economies</b>	
5. The Origins of Capitalist Economic Organization	169
6. The Rise of Intermediary Demand: A Reassessment of the “Asian Miracle”	212
7. Global Matching, Demand Responsiveness, and the Emergence of Divergent Economies	253
8. Trade Performance of South Korea and Taiwan: A Second Test of the Model	299
Conclusions	342
<i>Appendix A: Mathematical Model of Business Groups</i>	365
<i>Appendix B: Examples of Differential Pricing Practices of Korean Groups</i>	391
<i>Appendix C: Hypothesis Tests of the Model</i>	396
<i>Appendix D: The Role of Debt in the Korean Financial Crisis, 1997</i>	405
<i>References</i>	419
<i>Index</i>	455

Cambridge University Press

0521622093 - Emergent Economies, Divergent Paths: Economic Organization and International Trade in South Korea and Taiwan

Robert C. Feenstra and Gary G. Hamilton

Frontmatter

[More information](#)

## *Acknowledgments*

This book began at the coffeehouse at the University of California, Davis, where we first met each other in the early 1990s. At that time, Feenstra was pondering the links between market structure and international trade patterns: a topic that was much in vogue in the economics literature, but for which empirical applications were hard to come by. Hamilton, meanwhile, had been active investigating the differing structures of business groups in Asia, much of this work in collaboration with Nicole Woolsey Biggart. In the process, he had accumulated a rich collection of firm-level data at the Institute of Governmental Affairs. Since, by market structure, economists mean the concentration and behavior of firms, then what better application than to contrast the radically different structures of business groups in South Korea and Taiwan? Thus, a collaboration was born that has lasted more than a decade and resulted in this book.

It would not have happened without the gracious assistance of many people. First, we wish to thank Alan Olmstead, Director, and Jean Stratford, Director of Research Services, at the Institute of Governmental Affairs, University of California, Davis, along with Shelagh Matthews Mackay and other staff at IGA. They have managed a countless number of grants, conferences, visiting scholars, research assistants, datasets, and other requests that have allowed us to continue our research across time, space, and disciplines. We can only hope that others will be able to enjoy the same benefits from affiliation with IGA that we have gained.

Intellectually, we owe a great debt to Nicole Woolsey Biggart and Cheng-shu Kao, who have contributed to this project from the start. Other coauthors, too, have been instrumental in carrying this work forward, and some of these began as graduate students and research assistants at Davis: from the economics department, William Zeile, Tzu-Han (Maria) Yang, Dorsati Madani, and Shunli Yao, all of whom have made significant contributions to the project, and from the sociology department the same is true for Yinhwa Chu, Holin Lin, and also Eun Mee Lim and

Cambridge University Press

0521622093 - Emergent Economies, Divergent Paths: Economic Organization and International Trade in South Korea and Taiwan

Robert C. Feenstra and Gary G. Hamilton

Frontmatter

[More information](#)xii      *Acknowledgments*

Wai-keung Chung, who followed Hamilton in his move to the University of Washington in 1993. We also wish to single out Deng-Shing Huang, who helped us at a crucial point in developing the model that we use in Chapter 3 and detailed in Appendix A, and Misha Petrovic, who worked tirelessly on developing and formatting the figures in Chapters 4 and 6 and who commented extensively and insightfully on all the chapters. Many other people have taken time to comment on one or more of the chapters or have helped with our many questions about Korea and Taiwan, and while some of these are acknowledged in our references, we also wish to thank Mary Brinton, Wei-an Chang, Chieh-hsuan Chen, Loretta Fung, Eun Mee Kim, Hyuk-Rae Kim, Seok-Choon Lew, Victor Nee, Richard Swedberg, and Harrison White.

Finally, we are grateful to James Rauch and Mark Granovetter for their unfailing support. Rauch organized several conferences bringing together sociologists and economists, where we could present our preliminary results, and he and Granovetter both provided detailed comments at various stages of the project. There is no question in our minds that the analysis in this book could not have been done by one of us acting alone: it represents a genuine collaboration across the two disciplines that is relatively rare, but very fruitful for us. We are indebted to Rauch, Granovetter, and other scholars who are encouraging of this type of collaboration, and trust that our research will find an interested readership in both disciplines.

We wish to recognize the support of the Ford Foundation and the National Science Foundation for grants that supported the research leading to this book. We began to write this book in earnest during the year (1999–2000) that Hamilton was a Fellow at the Center for Advanced Studies in the Behavioral Science. He gratefully acknowledges the opportunities provided by the Center.

An early version of Chapter 1 is “The Organization of Economies,” pp. 153–80 in *The New Institutionalism in Sociology*, edited by Victor Nee and Mary Brinton, 2nd ed., Stanford: Stanford University Press, 2001. Early versions of Chapters 3 and 4 are found in “The Organization of the Taiwanese and South Korean Economies: A Comparative Equilibrium Analysis,” pp. 86–142 in *Networks and Markets*, edited by James Rauch and Alessandra Casella, New York: Russell Sage, 2001. In addition, the full mathematical exposition of the model, “A Market-Power Based Model of Business Groups,” appears in *Journal of Economic Behavior and Organization*, 51, pp. 459–85, 2003. That appears in the book as Appendix A. Material on the Korean financial crisis contained in Chapter 3 and Appendix D appeared as “*Chaebol* and Catastrophe: A New View of Korean Business Groups and Their Role in the Financial Crisis,” *Asian Economic Papers*, 1(2), 2002, pp. 1–45.