The Wages of Containment
The Geopolitical Origins of the Developmental State

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Abstract
Scholars have attributed the economic miracles of Japan, South Korea, and Taiwan to a model of state-led industrialization known as the developmental state. This paper argues that this development strategy was the outcome of the international politics of the Cold War. Using historical case studies, I argue that a developmental state emerges whenever a superpower defends its client against a long-term threat from its geopolitical rival that begins as a crisis. I focus on American national security policy in the early Cold War and argue that this configuration of threat led the United States to play a decisive role in the emergence of the developmental state on Taiwan. In response to the initial crisis of the 1950s, the United States supported state control in order to stabilize Taiwan’s economy. After the initial crisis passed, the United States sought to strengthen Taiwan while reducing its outlays of economic aid by encouraging liberalization and support for private industry. The net effect of these interventions was a capitalist developmental state. In contrast, the absence of a severe, long-term threat led the United States to forgo supporting the formation of a developmental state in the Philippines. I present evidence that because the Philippines was not on the front lines of the Cold War, the United States subordinated Philippine economic interests to Washington’s larger strategic objectives. Instead of promoting industrialization, U.S. aid agencies directed assistance toward the production and processing of Philippine agricultural goods and raw materials for export to Japan.

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Introduction

East Asia has often been characterized as a region of miracles. Mired in poverty and devastation after the Second World War, East Asian countries experienced a period of sustained and rapid economic growth that propelled them to the ranks of the advanced industrial economies. The phenomenal success of the first generation of East Asian economies attracted considerable scholarly attention. While Hong Kong and Singapore were considered *sui generis* on account of their unusual status as island city-states, Japan, South Korea, and Taiwan were regarded as comparable political economies whose essential features formed the basis of a model of state-led development. The term “developmental state” was first coined by Chalmers Johnson to explain Japanese development and came to be the classic expression of this thesis. The emphasis of this model was on a strong state pursuing a capitalist development strategy. Using an economic pilot agency, East Asian states intervened judiciously in the pursuit of national goals while maintaining a close and cooperative relationship with the private sector. Scholars argued that these interventions led to higher rates of economic growth than what would have been possible under the unfettered operation of free markets in the Anglo-American mold.

The developmental state was remarkable because in spite of its striking success, it was distinguished by both extreme rarity and extreme geographic concentration. Only Japan, South Korea, and Taiwan have been able to create this model along a narrow band on the geographic periphery of Asia. This paper advances an explanation for this puzzling empirical pattern by focusing on how East Asia served as the site of fierce geopolitical confrontation in the early Cold War. What was distinctive about Japan, South Korea, and Taiwan was that they entered the post-war period in a state of crisis, and although they survived under the aegis of American protection, the threats that they faced never disappeared entirely. In each case, these conditions triggered a similar sequence of American interventions. During the initial crisis, Washington supported the consolidation of state control and provided an emergency transfusion of economic aid. After the crisis passed, the United States sought to wean its clients off aid by enabling them to become

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3 Singapore also adopted a state-led model, but it differed from Japan, South Korea, and Taiwan in its decision not to develop local capital, relying primarily on foreign investment and state-owned enterprises instead (Haggard (1990), 114-115).
economically self-reliant in the long term. To American strategists, this meant a capitalist development strategy that was integrated with the international trading system. The final outcome of these policies was a state-led model of capitalist development.

The Theory of the Developmental State

Precise definitions of the developmental state vary depending on the author (and some authors eschew this terminology entirely).\(^4\) One must adjudicate between the various definitions both for the sake of conceptual clarity and for the sake of defining an empirical scope. Simply leaving the definition at “state-led development,” however qualified by its capitalist orientation, is too vague. Based on previous research\(^5\) and my own observations of the nature of state-led development in East Asia, I believe that following criteria are essential:

1) Economic development is a political priority, not as an end in itself or only as an index of welfare, but in order to secure the autonomy of the national state.

2) In order to maintain the autonomy of the state, the emphasis of development is on the growth of domestic industry as the basis of national power.\(^6\)

3) An economic bureaucracy, led by a pilot agency or an economic general staff, stands at the apex of the political economy and possesses instruments for guiding development.

4) Although the state intervenes in the economy, there is a fundamental respect for private property and exposure to competition, as evidenced by early success in land reform and later orientation toward international trade.

5) There are institutions in place for the state to engage in consultation and coordination with the private sector.

6) The political system, whether democratic or authoritarian, is characterized by a weak labor movement.

In summary, the developmental state is a form of political economy in which the state acts through an elite economic bureaucracy to lead or guide capitalist development. It is neither liberal nor socialist. The private sector retains control of the means of production, but the state governs the process of development through measures such as export promotion, selective allocation of credit, competition, and consultation with the private sector.

\(^6\) This feature of the developmental state is important because it is prescribed by the ideology of economic nationalism. Economic nationalists emphasize the development of domestic industry because they believe that industry serves as the fulcrum between the economy and the security of the state. Industry is the basis of military power, which in turn is the basis of political autonomy (Gilpin (1987), 33).
and the formulation of industrial policy. Moreover, it is a top-down model with economic priorities being defined independently by the state and emanating downward. To achieve and maintain this hierarchy, it is essential that the state be capable of acting autonomously, both in the larger sense of the state apparatus vis-à-vis the political system and in the specific sense of the economic bureaucracy being insulated from political pressure. The East Asian developmental state is thus distinct from the bureaucratic-authoritarian states of Latin America in its ability to avoid capture by big business;\(^7\) it is also distinct from French *dirigisme* and European corporatist arrangements generally in its exclusion or suppression of organized labor.

Previous studies of the origins of the developmental state have generally focused on post-war domestic politics\(^8\) and the legacy of Japanese imperialism.\(^9\) Doner, Ritchie, and Slater (2004) have elucidated the domestic political response that is engendered by what they call “systemic vulnerability,” which comprises the danger of mass unrest, the condition of national insecurity, and the scarcity of revenue sources.\(^10\) They argue that the confluence of these three conditions creates an imperative for domestic political elites to create a developmental state. However, these three factors were not simultaneously present in the case of Taiwan until the late 1950s, whereas the developmental state had begun forming much earlier. Vu (2007) similarly emphasizes domestic politics, arguing that polarized intraelite interactions and repressive elite-mass interactions led to the creation of the South Korean developmental state. This argument applies well to the case of South Korea, but it is limited in its ability to explain the case of Taiwan. Scholars such as Chalmers Johnson and Atul Kohli emphasize the deeper historical origins of the postwar developmental state in the political project of Japanese imperialism. Johnson traces the origins of Japan’s famous Ministry of International Trade and Industry (MITI) to the wartime Ministry of Munitions,\(^11\) while Kohli argues that the South Korean developmental state was largely inherited from the Japanese colonial regime.\(^12\) However, it was not inevitable that these institutions would survive; what explains their persistence is American containment strategy.

The argument of this paper is that the United States played a critical role in the formation of the developmental state because of the threat of Communist coercion. The unique nature of the

\(^7\) Johnson (1987), 151-158
\(^8\) Doner, Ritchie, and Slater (2005), Vu (2007)
\(^10\) Doner et al. (2005), 328
\(^11\) Johnson (1982)
\(^12\) Kohli (1994)
threat to Japan, South Korea, and Taiwan was that it was initiated by a crisis, and after the immediate crisis passed, a significant threat persisted over the long term. In response to the initial crisis, the United States provided an emergency transfusion of aid and supported the consolidation of state control over economic resources in order to enforce stability. After the initial threat passed, the United States sought to gradually reduce the volume of aid without jeopardizing its allies’ ability to resist the threat of Communism over the long term. This led to developmental measures such as liberalization of the trade regime, privatization of state-owned enterprises, and support for private industry. As a result of these various policies, the United States’ allies moved away from a model of state control and toward a model of public-private cooperation, in which the state played a leading role but left control of the means of production in the hands of private enterprises and exposed those enterprises to competition on international markets.

This is a story of competition between superpowers for spheres of influence in a bipolar international system. There are three principal actors in the theory: the patron, which is one of the superpowers; the client, which is a country in the patron’s sphere of influence (i.e., an ally or security partner); and the antagonist, which is a constellation of states comprising the other superpower and its satellites. I hypothesize that the client will acquire a developmental state when two conditions are present. First, the threat that the antagonist directs against the client must begin as a crisis, which I define as the imminent prospect that the client will be detached from the patron’s sphere of influence through an act of coercion. Such an act can take the form of a military attack or internal subversion. The second condition is that the threat from the antagonist must persist over the long term, so that after the patron assists the client in weathering the initial crisis, the threat declines but does not completely evaporate. An important implication of these two conditions is that the patron has to be successful in defending the client during the initial crisis (if it were not, it would not meet the condition of a persistent long-term threat). This accounts for the absence of a developmental state in South Vietnam. Like Taiwan and South Korea, South Vietnam faced a crisis-level threat from international Communism, but it never reached the stage that my theory would expect the U.S. to create pressure for developmental policies.

During the crisis, the patron deploys military and economic resources to defend its client from coercion. However, it does not use its influence to promote difficult economic reforms. Instead, it directs economic aid toward maintaining stability, which entails the imposition of state
control and the reconstruction of industry. The patron supports the concentration of political authority in a strong state because a client that enjoys a high degree of state capacity is better able to resist attack and root out internal subversion. This is most evident in the case of South Korea, in which American efforts to stabilize the peninsula led to the deliberate preservation of institutions that had developed under Japanese colonial rule: a police force that had been the repressive arm of the colonial regime; a civil service that had been schooled in the severe discipline of a transformative state; and a judiciary that was long disposed to the administration of an imperial justice. Most importantly for the formation of a developmental state, this support for the strong state leads to the centralization of authority over economic resources because it is during a crisis that shortages of resources become most acute. These resources have direct applications in defense, so the patron supports the client’s efforts to impose economic controls, such as rationing foreign exchange and applying import and export restrictions. I therefore characterize this stage of the theory as the period of stabilization.

After the client successfully weathered the crisis, the patron is faced with a dilemma. On the one hand, the patron needs to maintain the collective power of the alliance in order to deter the antagonist from engaging in coercive action in the future. On the other hand, there is a distributitional concern within the alliance. Maintaining a deterrent is inherently costly because it entails financing a military presence. The patron’s interests will be better served if it can create the conditions that allow the client to contribute more to its own security. Economic development, and especially industrialization, is a way to resolve this dilemma. A wealthier client can draw on a greater pool of resources during a military campaign, and a strong industrial base translates to a greater capacity to engage in warfighting. As Neil Jacoby reports in a study commissioned by U.S. AID, a major goal of American aid to Taiwan was “creating an internal capability to support the military establishment…economic aid was considered to be an efficient method of ‘buying’ U.S. national security, by maintaining a strong defense base in Taiwan.”

Therefore, after the threat declines from its initial peak, the patron begins to lay the foundations of self-sustaining growth by promoting economic reform and supporting new industries—what I refer to as the period of expansion. The specific policies that the patron advocates will of course reflect the patron’s own conception of the causes of economic growth; in the case of a

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13 Kohli (2004), 64-68
14 Jacoby (1966), 31
capitalist patron such as the United States, this means support for private industry and liberalization of the policy environment. While the ideal outcome for the U.S. is a set of liberal economic policies, American officials cannot simply dismantle the existing state-dominated political economy and erect a fully laissez-faire system in its place. Instead, they pressure the client to adopt a general orientation toward capitalism, and they may rely on unorthodox measures and artificial supports (such as export promotion) to facilitate this transition. Therefore, the sequencing in this theory is highly consequential: stabilization must precede economic expansion because it means that the eventual transition to a capitalist orientation occurs under the auspices of a strong state. The applicability of this theory to Japan, South Korea, and Taiwan is summarized in the table below.

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<th>STATE</th>
<th>STABILIZATION</th>
<th>EXPANSION</th>
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Table 1

For a capitalist patron like the United States, the net effect of these policies makes a decisive contribution to the emergence of a developmental state. First, reflecting the earlier policy of supporting state control and defending the state against both internal and external threats, the state will be a more effective and autonomous actor as a result of U.S. intervention. Second, the basis of development will be domestic capital rather than state-owned enterprises. Third, as the net effect of the earlier policy of supporting state planning and the subsequent policy of supporting capitalist development, the ultimate relationship between state and capital will fall somewhere between state control and pure laissez-faire. In practice, this is likely to lead to public-private cooperation along with the exposure of domestic capital to competition on world markets.
The remainder of this paper will be devoted to examining Taiwan and the Philippines as positive and negative cases for this argument, respectively. Because the Chinese Nationalist government on Taiwan faced a long term-threat from the Chinese Communists that was initiated by a crisis, the United States supported the formation of a developmental state. Conversely, because U.S. officials perceived the Philippines to be under a weaker Communist threat, and because that threat was effectively neutralized by 1954, the United States did not pursue a policy of supporting state-led capitalist development.

Taiwan as Nationalist China

The Nature of the Threat

The Chinese Civil War ended in a stalemate in 1949 with the establishment of two regimes in Taipei and Beijing that both claimed to be the sole legitimate government of China. However, without even an armistice agreement to bring an end to hostilities (as had been signed at Panmunjom to end the Korean War), the peace between the Chinese Nationalists and the Chinese Communists was extremely fragile for most of the 1950s.\(^\text{15}\) Chiang Kai-shek’s government continually threatened to use military force to recover the mainland, while Mao Zedong’s government continually threatened to use military force to “liberate” Taiwan. In two separate crises in 1954-1955 and 1958, the People’s Liberation Army shelled the Nationalist-held islets of Quemoy and Matsu (Jinmen and Mazu) off the coast of Fujian Province. For psychological, political, and military reasons, the Eisenhower administration believed that failure to defend Quemoy and Matsu would lead to the loss of Taiwan.\(^\text{16}\) The United States had to perform a delicate balancing act in order to defend the Republic of China without allowing the conflict to escalate into a general war with the Communist bloc. Although there were ominous signs of potential escalation to the nuclear level, after the second crisis ended in 1958, it appeared that U.S. policies had succeeded: there would not be another military confrontation between the rival Chinese states for the rest of the Cold War. Moreover, the Nationalist military (especially the air force) performed exceptionally well during

\(^{15}\) Christensen (1996); Christensen (2011)
\(^{16}\) Taylor (2011), 477-478, 495
the confrontations over Quemoy and Matsu, demonstrating that the initial U.S. goal of stabilization had been achieved.\textsuperscript{17}

However, there remained a fundamental problem for the United States government: although the Chinese Nationalists had been able to defend their offshore territories, the internal stability of Taiwan that had enabled such successful military action had been dependent in large part on American economic aid. This was obviously unsustainable for the United States, yet neither could the U.S. afford to immediately withdraw its assistance. To have done so would have severely weakened the Nationalist state and likely would have tempted Beijing to launch another offensive; although the Communists did not attack the Kuomintang after 1958, the specter of Communist coercion still loomed over American policy toward the KMT. For as long as Mao refused to renounce the right to use force to achieve reunification, the Communist threat that had reached its high tide from 1950-1958 had not been permanently neutralized. In contrast to Latin America, where the United States frequently engaged in military interventions, Washington was consistently averse to any military solution to the existence of the hostile Communist state on the Chinese mainland. This meant that American officials had to devise a strategy that would address a long-term military threat without employing military assets, and to do so at minimal cost to the United States. Economic development was the only way to square that circle.

Taiwan therefore fits the conditions of the theory insofar as the threat began in the form of a crisis from 1950-1958 and persisted for the long term. The fact that Taiwan, like Japan and South Korea, became one of the rare examples of a developmental state was a direct consequence of this specific configuration of the external threat environment and the American response that it engendered.

\textsuperscript{17} Jacoby (1966), 32
Statism in U.S. Aid to Taiwan

Although there are excellent studies of U.S. influence on Nationalist economic policy during the aid period, existing accounts place overwhelming emphasis on the role of the United States in laying the foundations of a capitalist export economy. What has received far less attention is the fact that American support for capitalism was preceded by American support for statism. In their efforts to create stability during the crises of the 1950-1958 period, the U.S. aid agencies supported the unorthodox measure of imposing state control. These policies were a critical dimension of the role of the United States in the formation of the statist aspect of the developmental state on Taiwan, comparable to the Reverse Course in Japan and decision of the U.S. Occupation authorities in 1946 to support conservative forces in South Korea that had deep ties to the Japanese colonial regime. However, studies of Taiwan have yet to come to terms with the significance of this critical intervention. Scholars have mentioned the U.S. policy of creating institutions as a practical measure for enhancing the effectiveness of American assistance, but the long-term impact of these institutions has not been fully appreciated.

The U.S. aid mission viewed the adoption of a state-led approach to development as an expedient measure in its assistance programs to Taiwan. This policy reflected the generally high priority that the United States placed on Taiwan’s economic progress and the fear that aid would not be utilized effectively toward this end. Underlying these fears was a long and troubled history of corruption within the Nationalist government during its tenure on the mainland. President Chiang Kai-shek had made continual requests for American economic aid only to stand by helplessly as that aid was siphoned off by his subordinates, earning him the ignominious title of “General Cash My Check.” Seeking the correct this deplorable state of affairs, the China Aid Act of 1948 had mandated the creation of a counterpart institution within the Nationalist government

18 The classic is Jacoby’s study *U.S. Aid to Taiwan*, which must be approached with a degree of caution in light of the fact that it was commissioned by U.S. AID. It is probably most reliable as an account of U.S. motives rather than as an account of the U.S. impact on Taiwan. An excellent recent study, which is based on recently declassified KMT documents, is Kuo and Myers (2012).
19 See for example Jacoby (1966) and Wade (2004)
20 Fenby (2003), 412
known as the Council for U.S. Aid (CUSA) for administering economic assistance in close coordination with the U.S. aid mission. CUSA continued its work after the Nationalist retreat to Taiwan in 1949, when, in light of the overwhelming importance of U.S. aid for Taiwan’s economy, it effectively operated as an economic planning agency. It was in fact the progenitor of Taiwan’s economic general staff, for after the official termination of the U.S. aid program in 1965, the CUSA’s successor institutions continued to engage in economic planning. CUSA became a permanent agency of the Nationalist bureaucracy in 1963, when it was renamed the Center for International Cooperation and Development. In 1975, it was renamed yet again as the Council for Economic Planning and Development (CEPD), and in this guise it served as the economic pilot agency that Robert Wade studied in Governing the Market.

From 1951-1958, CUSA shared its planning functions with another institution known as the Economic Stabilization Board (ESB). ESB had the responsibility for coordinating payments, trade, fiscal, and monetary policies, and U.S officials played a critical role in its creation and its operation. Although U.S. officials did not serve on the ESB in an official capacity, they were able to influence the Board’s policies through their regular attendance at ESB meetings. There is considerable evidence that through their collaboration with the Nationalists, U.S. officials were able to persuade technocrats in the Kuomintang economic bureaucracy of the need for more liberal economic policies. K.Y. Yin, one of the leading technocrats, regularly interacted with U.S. officials after the resumption of aid in the summer of 1950. His associates later recalled that he had been “the most sympathetic to American ideas” and that many other leading technocrats who had interacted with U.S. aid agencies had been similarly persuaded of the virtues of capitalism. Although the changing views of the technocrats did not translate into political support for reform among the Nationalist leadership, they did represent a considerable body of opinion within the KMT that Taiwan should adopt a capitalist system. Ironically, the creation of a state-led system during the period of stabilization from 1950-1958 established the necessary preconditions for subsequent liberalization.

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21 Jacoby (1966), 60-61
22 Wade (2004), 196-201
23 Jacoby (1966), 59-60
24 Kuo and Myers (2012), 116
**Autonomy of the State and the Economic Bureaucracy**

As Chalmers Johnson argues, two of the critical features of the capitalist developmental state are that both the state and the bureaucracy are autonomous. The United States played a critical role in the formation of both of these features in Taiwan’s political economy. To forestall the likelihood of unrest in Taiwan, the U.S. collaborated with the Nationalist government in an ambitious and highly successful land reform program (as it also did in Japan and South Korea). The institution that oversaw this program was the Joint Sino-American Commission on Rural Reconstruction, the JCRR, which was staffed by two American and three Nationalist commissioners. The land reform program had three significant consequences for the emergence of Taiwan’s developmental state. First, it weakened landed elites who might otherwise have been able to exert influence over or exercise a political challenge to the Kuomintang. Second, in redistributing land to farmers, it created a basis of popular support for the KMT in rural areas. Johnson argues that one of the ways that the LDP in Japan was able to maintain its autonomy from big business was by simultaneously maintaining a basis of support among farmers; the Kuomintang adopted a similar strategy that produced similar results. Third, land reform facilitated the emergence of a domestic capitalist class, on which I shall elaborate below in the discussion of the private sector on Taiwan.

The United States also deliberately designed the institutions that oversaw aid projects to be relatively autonomous from political influence. The Council on U.S. Aid was chaired by the Premier of the Chinese Nationalist government and was founded as a separate institution from the Nationalist economic bureaucracy. This meant that American aid was allocated separately from the rest of the Nationalist government’s budget, and aid programming was determined by a single institution with a direct line to the Executive. The structure of this institution shielded American aid from bureaucratic red tape (and possibly embezzlement), as well as the loss of efficiency that could have resulted from a dispersal of authority. After the KMT formally integrated CUSA into

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25 Johnson (1987)
26 Wade (2004), 196-17
27 Taylor (2011), 414
28 Johnson (1987), 156
29 Jacoby (1966), 60-61
the economic bureaucracy, CUSA and its successor institutions preserved the semi-autonomous nature that they had acquired during the aid period.\textsuperscript{30}

\textit{U.S. Push for Capitalist Development}

American support for the private sector began with land reform. As mentioned above, the Joint Sino-American Commission on Rural Reconstruction (JCRR) had been established under the China Aid Act of 1948 as a collaborative effort between the United States and Nationalist China. The JCRR played an instrumental role in Taiwan’s land reform program from 1949-1953. It accomplished both the easy task of distributing land previously held by the Japanese (which represented as much as two-thirds of all land on Taiwan) as well as the more difficult task of redistributing land held by large Taiwanese landholders. In an abstract sense, this strengthened the institution of private property by giving farmers title to the land they tilled. In a more concrete sense, this stimulated the growth of industry. To compensate large landowners for expropriated land, the Nationalists allocated shares in state-owned enterprises, many of which were later privatized. These former large landowners became Taiwan’s first business magnates and played an instrumental role in the development of light industry in the 1950s.\textsuperscript{31}

The United States also used aid to finance the establishment of new enterprises through the Small Industry Loan Fund and the Model Factory Program.\textsuperscript{32} U.S. advisors were often engaged in direct efforts to recruit private investors. For instance, Formosa Plastics, one of Taiwan’s most successful conglomerates, was established with American assistance.\textsuperscript{33} Other major recipients of U.S. aid included firms in the fertilizer, shipping, cement, aluminum, paper, glass, sugar, chemical, synthetic fiber, and pharmaceutical industries. Another form of aid was technical assistance to the Nationalists to improve the government’s ability to generate private investment. This led to the liberalization of investment regulations, the cutting of bureaucratic red tape, and the establishment of export-processing zones,\textsuperscript{34} which began as an American proposal in 1956.\textsuperscript{35} At times the aid agencies took a more confrontational approach. They blocked state-run projects by the Nationalist

\textsuperscript{30} Wade (2004), 198-201
\textsuperscript{31} Taylor (2011), 413-414, 484-485; Gold (1986), 71
\textsuperscript{32} Gold (1986), 71-72
\textsuperscript{33} Tucker (1994), 56
\textsuperscript{34} Jacoby (1966), 190-191
\textsuperscript{35} Tucker (1994), 57
government, including a nuclear reactor, a steel mill, and an airline, and they actively resisted efforts by conservatives within the Kuomintang to establish new firms as public enterprises. The turning point in the battle between American aid agencies and Nationalist hard-liners occurred in 1957, when Taiwan’s first plastics plant was established as a private enterprise. This was regarded as a watershed moment insofar as it marked an acceptance by the Kuomintang of the American view that the state did not have to dominate all aspects of the economy. Industrial production rose from a baseline metric of 100 in 1952 to 422 by 1964, of which the composition was increasingly weighted toward private enterprise.

The final stage in the American effort to set Nationalist China on a capitalist development strategy occurred in the economic reforms of the late 1950s and early 1960s. In 1959, the director of the American aid mission proposed an 8-point program of economic reform that included, among other things, unification of the exchange rate, liberalization of controls on foreign exchange, and privatization of government enterprises. This proposal served as the basis of the Nationalist government’s Nineteen-Point Program of Reform in early 1960, which marked a decisive shift toward export-oriented industrialization. The United States also used its aid leverage to ensure prompt implementation of the Program; the aid mission offered a loan of $20-30 million upon realization of the reforms. Subsequent reforms created tax incentives for exporters. By the time the aid program ended in 1965, Taiwan had adopted an outward-oriented model characterized by state intervention and a strong private sector.

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36 Wade (2004), 83
37 Jacoby (1966), 282
38 Jacoby (1966), 134-135; Gold (1986), 77
39 Kuo and Myers (2012), 99
The Philippines and American Strategy in East Asia

Whereas Taiwan was one of the great success stories of economic development in East Asia, the Philippines has experienced considerable challenges in the pursuit of economic progress. I argue that the stagnation of the Philippines can be understood in terms of the very same factor that accounts for the growth of Nationalist China: the American response to the threat from the international Communist movement. Although the Kuomintang and the Philippine government both faced Communist coercion, the threats that they faced varied widely in scale. The existence of the Chinese Nationalist government was imperiled by the ambitions of Communist China, a hostile state with an army, air force, and navy that had previously demonstrated its ability to overwhelm Kuomintang forces and forced them to beat an ignominious retreat. The threat facing the Philippines was more modest in scope. It was an insurgency that resorted to guerrilla tactics in the face of superior government forces. American intelligence estimates expressed confidence in the ability of the Philippine government to neutralize the threat, and in this hope they were vindicated: the Huk insurgency was effectively decapitated in 1950 and ceased to pose a substantial threat thereafter.40

But it is not enough to simply demonstrate that the threat to the Philippines was more modest than the one facing Taiwan. To complete the logic of the argument, it is necessary to show that the weaker threat had developmental consequences for the reasons suggested by the theory. The case of the Philippines affirms the validity of these propositions in a negative sense. Because they were relatively sanguine about the ability of the government to resist and defeat the Huks, American officials provided limited economic assistance to the Philippines. Consequently, aid levels were too low to promote sweeping economic reforms that would have enhanced the autonomy of the Philippine state, and the U.S. government did not evince great enthusiasm for effective state planning. Moreover, American officials did not consider the Philippines to be in great need of industrialization. The general tenor of U.S. policy toward the Philippines was to assure a basic level of economic stability and to strengthen existing economic structures (which were concentrated in the production and processing of agricultural goods and raw materials) instead of promoting large-scale industrialization. I argue that this American strategy can be attributed to the relatively moderate threat facing the Philippines compared to Taiwan.

40 Cullather (1994), 89-90
The Nature of the Threat

The point of departure for a comparison of Taiwan and the Philippines is on the basis of threat. After gaining independence from the United States on the Fourth of July, 1946, the principal Communist threat to the Philippine government came from an insurgency known as the Huk Rebellion. The Huks (an abbreviation of the Tagalog expression for the People’s Anti-Japanese Army) had originally been organized in 1942 as a guerilla army to resist Japanese occupation of the Philippines during the Second World War. As the military arm of the Philippine Communist Party, the Huk insurgency posed a threat of Communist subversion in the Philippines after the end of the war. Under the leadership of Luis Taruc, the Huks recruited peasants with grievances against landlords in central Luzon and were renamed the People’s Army of Liberation.\textsuperscript{41} After the 1940s, however, the fortunes of the movement were in swift decline. On October 18\textsuperscript{th}, 1950, Ramon Magsaysay, the secretary of national defense (and later President of the Philippines) used intelligence from a Huk informant to arrest the senior leadership, including every member of the Politburo. With that sudden decapitation, the Huk Rebellion ceased to present a substantial threat to the Philippine government.\textsuperscript{42} The tide in the conflict turned decisively in favor of government forces, culminating in the surrender of Taruc in May of 1954. The movement survived in a vestigial and diminished form,\textsuperscript{43} but it no longer posed the danger of a Communist takeover in the Philippines. Declining from a peak of 12,000 soldiers in 1950 to a few hundred by the end of the 1960s, the Huks fragmented into competing factions and were reduced to engaging in organized crime in areas of Luzon that were outside the reach of the central government.\textsuperscript{44}

Although the Huk Rebellion had at one point represented a threat to the Philippines from international Communism, it did not meet the criteria for the particular kind of threat that leads to a developmental state on two grounds. First, even at its high tide in the late 1940s and early 1950, the Huk insurgency was considered by American officials to be well within the capacity of the Philippine government to counter and suppress. Second, after the decapitation of the movement in October of 1950, and especially after the surrender of 1954, the threat from the Huks fell precipitously. This comparison is summarized in the figure below.

\textsuperscript{41} Kunio (1994), 158-159
\textsuperscript{42} Cullather (1994), 89-91
\textsuperscript{43} Mitchell (1969), 1159
\textsuperscript{44} Kunio (1994), 158-159
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Figure 1

Although American officials did consider the Huk insurgency to be a threat to the Philippine government in the late 1940s and into early 1950, they considered it to be relatively modest and manageable. In a letter to the Secretary of Defense on September 6th, 1950, the Joint Chiefs of Staff concluded that the Huks lacked the military capabilities to overthrow the Philippine government and establish a Communist regime. U.S. intelligence indicated that the Huk forces numbered no more than 10,000 and 15,000 and were engaging in hit-and-run operations. The Joint Chiefs did warn of the danger that if the social, political, and economic conditions in the Philippines deteriorated further, the Chinese Communists might incite subversive activity. In that scenario, the Communists could succeed in overthrowing the pro-American Philippine government. However, the Joint Chiefs concluded that “vigorous action by the Philippine armed forces in accordance with present plans should, therefore eliminate the Huks as a serious threat within one year, provided the Huks receive no substantial external support and provided further that the political situation in the Philippines can be stabilized.”\footnote{“Memorandum by the Joint Chiefs of Staff to the Secretary of Defense.” 6 September 1950. \textit{Foreign Relations of the United States, Volume VI: East Asia and the Pacific}. 1485-1489} Although the report did note that poor economic conditions had given rise to the Communist insurgency, it did not regard the Huks to be an existential threat to the Philippine government. This was in sharp contrast to the panic among American officials during the Taiwan Straits Crises, in which President Eisenhower himself believed that the loss of
Quemoy and Matsu would lead to the loss of Taiwan and possibly even Japan.\textsuperscript{46} Not only was the Communist threat to the Philippines less severe than the one that Taiwan faced, it was also comparatively short-lived. Taiwan has lived under the specter of potential coercion ever since the end of the Chinese Civil War in 1949, but the threat to the Philippine government was swiftly neutralized in the early 1950s.

\textit{U.S. Foregoes Opportunity to Enhance Autonomy of the Philippine State}

Reflecting the relatively moderate U.S. perception of the Communist threat to the Philippines, the United States did not attempt to create an economic bureaucracy that would be effective in promoting development or autonomous from political influence. As on Taiwan, the United States encouraged the formation of a counterpart institution known as the Philippine Council for U.S. Aid (PHILCUSA) to coordinate the use of aid funds. The operation of PHILCUSA, however, could not have been more different from Taiwan’s Council on U.S. Aid. Recall from the earlier discussion that CUSA and the ESB on Taiwan was designed to give American officials considerable influence in the policy formulation and implementation process. In the Philippines, American officials did not make determined efforts to ensure that aid would be paired with effective policies. Instead, the aid program fed into existing patterns of patronage and corruption, as Philippine officials were given considerable discretion over the use of funds. U.S. aid officials even gave their Philippine counterparts the right to veto projects that the United States supported. Still more serious was the fact that the Economic Cooperation Administration (ECA) allowed Philippine officials to divert aid money to their own firms or the firms of their supporters.\textsuperscript{47}

Nor did the United States attempt to enhance the autonomy of the Philippine state. Johnson argues that one of the characteristics of the developmental state is that it “avoid[s] becoming the captive of its major clients.” In the case of Japan, South Korea, and Taiwan, these clients were the “representatives of big, privately owned businesses,” from which the state was able to maintain a wider degree of political independence than in the case of other capitalist countries.\textsuperscript{48} In the case of the Philippines, one of the major reasons why a developmental state did not emerge was that

\textsuperscript{46} Taylor (2011), 477-479
\textsuperscript{47} Cullather (1994), 91-92
\textsuperscript{48} Johnson (1987), 156
the landed class wielded considerable influence over the state through its domination of the Philippine Congress. Although the U.S. initially supported land reform in the early 1950s, it backed down in the face of political opposition. Even two years later, there had been so little progress on the land reform issue that the Ambassador to the Philippines expressed great pessimism in a letter to the Secretary of State:

The result is that the chances of getting the necessary laws through the Congress to effect land reform are very poor, unless we have something to give which the Filipino politicians want badly and which we can and will withhold if we do not get our land reform legislation...the millions of dollars which the United States gives to be spent by MSA (including JUSMAG) in the Philippines is about all we have to offer in exchange for the laws we require for land reform and for an honest execution of these laws.49

This amounts to an admission that the “millions of dollars” in aid money from the Mutual Security Agency was simply too little for creating effective pressure for land reform. The implication is that if the United States had been more concerned about a Communist takeover in the Philippines, the U.S. would have been given more aid to the Philippines and would have had the resources necessary to push through its desired land reform policy. This would have weakened the landed class by redistributing land to Philippine farmers and weakened the ability of these elites to capture the Philippine state.

This is not to say that all of the differences in the autonomy of the state in the Philippines compared to Taiwan can be attributed to differences in U.S. policy. To be sure, the Nationalists pursued land reform on their own initiative rather than as a result of American pressure, with the U.S. serving primarily in a technical and advisory role. In the absence of any U.S. influence, the state on Taiwan would undoubtedly have been more autonomous than the state in the Philippines. What this paper does argue is that the United States accentuated these differences.

**Limited U.S. Support for Philippine Economic Development**

In addition to political institutions such as the economic bureaucracy, economic institutions are also a critical feature of the definition of the developmental state. It is essential that domestic private industry be sufficiently strong to ensure the feasibility of a capitalist development strategy;

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a state-led system that relies primarily on agriculture and other primary goods would be an alto-
gether different model. In this connection, it is highly significant that the United States decided
not to promote industrialization in the Philippines. In January of 1952, President Truman appointed
Raymond Spruance to be Ambassador to the Philippines. Shortly after his appointment, Spruance
wrote a letter to the State Department that outlined his concerns about the unfavorable impact of
the Philippine aid program on American strategic interests in East Asia. The larger aim of U.S.
foreign policy, Spruance remarked, was to prevent Japan from turning Communist\textsuperscript{50} because a loss
of the Japanese industrial base to the Communist bloc would be prejudicial to the security of the
United States. Ensuring Japan’s alignment with the American sphere of influence would require
the United States to secure a source of resources and raw materials for Japan. Failure to do so
would tempt Japan to trade with Communist China, granting Beijing a lever of economic coercion
that would lead to Japanese neutrality or even wholesale alignment with the Communist bloc.\textsuperscript{51} It
was in this connection that Spruance considered large-scale industrialization in the Philippines to
be inimical to American interests.

To be kept out of the Communist camp, Japan must be able to trade with the free
nations and obtain the materials and the markets needed to support her ever increasing population...she is an industrial nation and must manufacture the raw materials she imports, export and sell them abroad. If all of the free countries of the Far East
industrialized to the limit of their capacities and failed to increase their capacity for
the production of food and raw materials, the result might be the forcing of Japan
into the arms of the Communists.\textsuperscript{52}

Spruance expressed his opposition to the tendency of the aid program to promote “forced indus-
trialization” and advocated using aid to support industries that would process food and raw mate-
rials (e.g., minerals, lumber, copra, rice milling, cement, sugar refining, and tobacco). He felt so
strongly about the strategic use of aid that he threatened to withhold his support for aid projects
that did not conform to his prescriptions. He argued that the “major effort” of American aid should
not be “pushing the industrialization of the Philippines.”\textsuperscript{53}

\textsuperscript{50} “The Ambassador in the Philippines to the Secretary of State.” 8 September 1952. \textit{Foreign Relations of the United
States, Volume XII: East Asia and the Pacific}. 498

\textsuperscript{51} Schaller (1997); Rotter (1987)

\textsuperscript{52} “The Ambassador in the Philippines to the Secretary of State.” 8 September 1952. \textit{Foreign Relations of the United
States, Volume XII: East Asia and the Pacific}. 498

\textsuperscript{53} “The Ambassador in the Philippines to the Secretary of State.” 8 September 1952. \textit{Foreign Relations of the United
States, Volume XII: East Asia and the Pacific}. 497-502
In the graph below, I plot data from the Penn World Tables\textsuperscript{54} on the share of merchandise exports in output-side real GDP for the Philippines and Taiwan. The data cover the period 1951-1970, during which the Philippines received U.S. economic aid every year and Taiwan received aid until 1965. There is a clear pattern in which Taiwan’s merchandise exports represented an increasing share of national wealth and the Philippines’ declined, which is consistent with the prescriptions in Ambassador Spruance’s letter.

\begin{figure}
\centering
\includegraphics[width=0.5\textwidth]{merchandise_exports.png}
\caption{Merchandise Exports}
\end{figure}

In conclusion, the weight of evidence indicates that the United States did not promote industrialization or enhance the developmental effectiveness of the Philippine state because American officials had a relatively sanguine perception of the Communist threat. There was a fateful decision in 1952 to direct U.S. aid toward the production and processing of agricultural goods and raw materials in order to safeguard the economic interests of Japan, with the result that the share of manufactured goods in Philippine exports declined substantially over the next two decades. This is extremely ironic given that the natural place to implement such a program would have been Taiwan and not the Philippines. After all, Taiwan had been one of Japan’s colonial possessions for

\textsuperscript{54} Feenstra et al. (2015)
50 years, and during that period the Japanese government had promoted the export of primary goods from Taiwan to the Japanese home islands.\textsuperscript{55} There were strong reasons for the United States to treat Taiwan the same way it treated the Philippines, a subordinate member in the economic sinew of regional containment. The fact that the United States chose not to do so was a direct consequence of the fact that Taiwan faced a major Communist threat, and the United States had to find a way for Taiwan to maintain its ability to resist coercion without direct outlays of American economic assistance. The solution was to promote rapid economic development under an elite economic bureaucracy, leading to the emergence of Taiwan’s postwar developmental state.

\textsuperscript{55} Gold (1986), 37
References


