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Original Citation

Siddiqui, Kalim (1995) Role of the state in South-East Asia. The Nation.

The Nation, Lahore, Pakistan. http://www.nation.com.pk/

Role of the state in South-East Asia

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The present neo-liberal stance of non-intervention in the market is not justified by the evidence of successful industrialisation. The evidence from the East Asian newly-industrialised countries (NICs): South Korea, Taiwan, Hong Kong and Singapore, shows the need for state intervention. The essential presumptions of neo-liberalism are that free markets are efficient and that any imperfections that exist cannot be solved by government intervention.

A few small and resource-poor countries effecting significant outward-orientation in their economic policies, coupled with a favourable world economic environment, resulted in a development strategy which produced dramatic results for all these four NICs. Under direct advice from US officials, a radical land reform was carried out in South Korea to punish the big landlords, who were considered to have supported the Japanese. Also by distributing land the Americans thought to undermine the growth of radical movements. As a result, the land reforms extended the domestic market by increasing the purchasing power of the rural masses.

Under Park Korea adopted a growth model to move fast in the direction of capitalism and its integration into the world economy. The growth model was, however, implemented at the expense of democracy, social justice and national independence.

In 1961, the Korean Won was devalued by about 50 per cent. Subsequently, the level and the range of export subsidies was increased sharply in 1963 by about 23 percent. Initially, the government focused on labour intensive and light industries but soon emphasis shifted to promoting capital intensive and heavy industries. The change coincided with the increased direct and indirect involvement of US and Japanese capital. The role of foreign trade and investment in Korean development became increasingly important.

South Korea's record of export development is perhaps the most impressive in modern economic history. Its government intervened extensively and offered protection to selected industries while forcing export competitiveness. It directed domestic investment to infant industries and fostered giant private conglomerates. The government invested heavily in education, especially technical education, research and infrastructure. The most interesting aspect of South Korea's industrial success is that it is largely based on indigenous enterprises and the government was until recently highly selective on foreign direct investments. In some instances it induced Japanese investors to sell out to locals after some years in the country. Further, the fact that the country has a research and manufacturing base that is able to copy, adopt and build modern technologies implies that indigenous research capability has many benefits for local industries. Apart from significant by lowering costs of technology transfer, it allows independent diversification into more advanced areas of comparative advantage than by the foreign investors. It feeds into local capital goods and component production and enables the accumulated technical knowledge to be applied by other industries.

Its success has also been supported by a relatively large foreign debt. In the 1980s, South Korea's debt was $29 billion, which rose to $48 billion in 1990. Although Korea is able to repay its interest, the debt burden continues to remain the most serious problem. Because of strong pressure, particularly from the US, South Korea has opened its door for food imports. Besides ruining the small peasantry, this also has increased the need for more foreign capital to pay for growing food imports. At present, South Korea imports four-fifths of its food, items whose prices are the most sensitive to changes in value of the opening of science parks and generous subsidised capital to firms locating investment in higher technological research. In 1985, the country's economy suffered a temporary setback when falling exports and global cyclical downturn in vital industries led to Singapore's economy shrinking by 1.8 percent. Here it was felt that external dependence ran a high risk. The state responded by showing increased interest in business by its investment in Singapore Aircraft Industries. Nevertheless, the state never abandoned its interest in foreign capital, which following an upswing in the late 1980s, again rose strongly.

The state ownership of land increased from 44 per cent of the total land in 1960 to 78.2 per cent in 1990. Singapore has been making a concerted drive to regionalise its economy by developing investment and other economic relations in the region. It also has high saving and investment rates and surplus budget. For all these the state's role has been vital and it has acted as planner, enforcer, administrator and even direct participant in economic activities. Through various measures and policies relating to personnel, training, and adoption of information technology, the government has lowered the costs of various services. The government initiated the so-called Strategic Economic Plan, which identifies 13 industries to be developed for international competitiveness, which aims to turn Singapore into an innovation driven economy by the year 2030.

Hong Kong has not intervened in markets, either to support particular industries or to protect manufacturing. Its growth performance has been impressive since the 1960s. Its century and a half of entrepot trading experience gave it a range of capabilities and infrastructure for trading and finance. Industries like textiles and toy industries took-off only after the communist revolution in China, when there was an influx of experienced Chinese entrepreneurs, engineers and technicians.

The dramatic increase in world trade in the 1950s-60s combined with cheap supply of labour boosted the export sector. There was considerable foreign investment, but manufacturing stayed firmly in local hands. The colony concentrated on light labour-intensive manufacturing industry. Its success was based on an impressive development of operational and marketing capabilities. In recent years as wages and land costs rose, the colony had to relocate its manufacturing to mainland China, and suffered a significant loss of industrial activity in Hong Kong (over 1986-1993 it lost about 38 per cent of its manufacturing employment and the process is continuing). As a result the growth of manufacturing exports has slowed down considerably.

The increase in exports has been very impressive during the last more than two decades among the NICs. In 1964, Hong Kong exported about $1.01 billion, Singapore less than one billion, Taiwan about $0.43 billion and S. Korea $0.12 billion. But between 1964 and 1973, export earnings of Korea had increased by about 27 times, that of Taiwan by 10 times, and that of Singapore about 4 times. Significant improvements in domestic investment and savings were also achieved in NICs during this period. Between 1964 and 1973, domestic investment increased by 22 per cent to about 40 per cent in Singapore, from less than 15 per cent to 23 per cent in S. Korea and from 21 per cent to 27 per cent in Taiwan. During the period from 1950 to 1965, except for Hong Kong, the annual average growth of GDP among the NICs had been about 5.5 per cent and in the post reform period i.e. 1965 and 1973, the annual average growth of GDP in Singapore was 12.5 per cent; in Taiwan about 11 per cent and in Korea about 9.4 per cent.

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dollar. A rise in interest rates would also exacerbate South Korea's debt problem. It appears that industrial expansion took place at the expense of agriculture as indicated by the growing food imports and the decrease in the share of agriculture in national production. Wealth and income are also unevenly distributed, and "the gap is widening between the poor and rich". Sales of the 10 largest Korean conglomerates amounted to more than 63.5 per cent of the country's GNP in 1990, and the top 10 exporters accounted for 70 per cent of total Korean exports for the year.

Taiwan took to trade and exchange reforms as early as the 1960s, when the government devalued the domestic currency. From 1966 onwards, exports were also promoted through the establishment of duty-free export processing zones. The government gradually liberalised import controls and reduced tariffs. Its development strategy had elements of the "Korean type" attempts to select and promote local industries, by protection, credit allocation etc. However, unlike Korea, Taiwan did not attempt to create giant private conglomerates. It focused on small and medium-sized enterprises that tapped its large base of human resources. As a result, a large proportion of small enterprises are specialised in labour-intensive manufacturing sector.

Singapore is the smallest country among the NICs. Here the government has been very interventionist, but different from South Korea. The country had a weak tradition of local entrepreneurship. It started with a decade of light industrial activity (i.e., garments), after that the government acted firmly to upgrade industrial structure by intervening in the entry of foreign investors to specific areas. Specific areas of both manufacturing and services were selected for promotion incentives, subsidies and support which lowered the costs of entry into difficult activities. Thus, selective interventions led industry into sophisticated production of electronics and other modern instruments at low costs.

Singapore was among the first Asian countries to allow use of its territory as a production base. It thus was able to capitalise on the major waves of outward investment from the US, West Europe and Japan. TNCs were encouraged to invest in Singapore through liberal foreign investment policy including a variety of tax exemption and financial incentives. Singapore succeeded in sustaining foreign interest in production enough to ensure rapid manufacturing growth, unemployment rates falling from 13.5 per cent in 1960 to 2.2 per cent in 1990. Given the virtual absence of the agricultural and mining sectors, services and manufacturing remained the prime growth generators. In the early-1980s the government determination to turn the country into a high technology base is reflected in

However, in the mid-1970s, the NICs were finding it difficult to sustain high growth rates of labour intensive manufactured exports. The rapid economic growth did tighten the labour market and hence an increase in wage rates. At the same time, the worsening balance of payments and rising unemployment in US and Europe were imposing additional tariff barriers and discrimination against the exports of the NICs. The policy responses to these challenges varied substantially across these NICs. Taiwan responded primarily by a two-fold strategy: speeding up the trade and exchange liberalisation process further and launching a 210 hectares science-based industrial park to boost high technology. The responses of South Korea and Singapore differed somewhat from that of Taiwan. Both these resorted to greater state intervention to shift resources away from labour intensive to skill and capital-intensive sectors. Korean government intervened heavily in the capital markets and the foreign trade regime whereas the Singapore government intervened in the labour market. South Korea embarked on trade and industrialisation policy that encouraged the setting up of heavy industries such as steel, chemicals and heavy machinery. The government provided credits for setting up these industries at low interest rates and also selective import controls and tariffs were imposed on the import of these products.

In short, there is no unique East Asian model of industrial development, despite the fact that the four NICs have been generally treated as a homogeneous groups. Each of the four Asian NICs entered the post-colonial period with an existing set of factors which were to prove conducive to subsequent industrialisation. In South Korea and Taiwan, the Japanese an established industrial base of significance, a better education system and a skilled workforce as well as state administration and planning. Both Singapore and Hong Kong were strategic centres of the British trading and financial networks with established communications, trading and banking infrastructures, an effective state apparatus and the basis of an educated middle class. Moreover, in the early post-colonial period, which also coincided with the rise of the Cold War, each NIC received substantial foreign capital which stimulated the growth of manufacturing. The most important point is in South Korea and Taiwan land reforms were undertaken by governments independent of social and political power bases of the ruling elites. The effect of these reforms was to eliminate the power of the landowning classes and to channel investment out of land and usury-rent into urban areas and manufacturing.

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