Chapter 2: INDUSTRIALIZATION POLICIES AND PERFORMANCE IN EANIES

2.1 INDUSTRIALIZATION IN THE EANIES

Based on many sources, it is clear that economic growth and industrialization records in the EANIEs have been fairly creditable since the mid-1960s. Table 2.1 shows that during 1965-80, average gross domestic product (GDP) growth of the five EANIEs (South Korea, Taiwan, Hong Kong, Singapore and Malaysia) was high. The lowest growth rate of 7.5% in this period took place in Malaysia. Except for South Korea, the four other EANIEs stepped into the 1980s decade with lower growth rates than in the previos period. From the late 1980s, whereas the average growth rate of GDP in South Korea, Taiwan had slightly reduced by 8.0% and 6.8% respectively, this indicator for Malaysia and Singapore had increased sharply by more than 8%. It is worth noting the growth rate for Hong Kong decreased dramatically from 8.6% in the period 1965-80 to 4.7% in the period, 1988-92. Perhaps, it happend because of political reasons, linked to Hong Kong's reversting to China in 1997.

It was proved that there was an intimate and close relationship between the GDP growth rate and of the manufacturing share in GDP. Therefore, along with the growth of GDP, the manufacturing share of GDP increased over time. It is well known that from 1985 to 1988, the GDP and manufacturing shares in GDP of the five EANIEs had risen rapidly . While South Korea had GDP growth rates of 9.6% in 1965-80, 9.9% in 1980-88 and 8.0% in 1988-92, manufacturing's shares of GDP went up from 8% in 1965 to 32% in 1988 before going down to 27.3% in 1992; Malaysia's growth was 7.3% for the period of 1965-80, 4.6% for the years of 1980-88 and recorded 8.9% for 1988-92 period; Malaysia's contribution of manufacturing to GDP was 9% in 1965, 19% in 1988 and 26.8% in 1992 (see Table 2.1, 2.2).

***Table 2.1*: EANIE AVERAGE GDP GROWTH RATES, 1965-92 (%)**

ECONOMY	1965-80	1980-88	1988-92
South Korea	9.6	9.9	8.0
Taiwan	9.8	8.3	6.8
Hong Kong	8.6	7.3	4.7
Singapore	10.1	5.7	8.2
Malaysia	7.3	4.6	8.9

Sources: Jomo, 1993, p.288; Zainudin Bahari, 1986, p.44; The Economist Intelligence Unit (EIU), country report (CR) third quarter 1993, Malaysia and Brunei p.3; EIU, CR, 4th quarter 1993, Singapore, p.3; EIU, CR, 3rd quarter 1993, Hong Kong and Macao, p.4; EUI, CR, 4th quarter 1993, North Korea and South Korea, p.4; EIU, CR, 4th quarter 1993, Taiwan, p.4

The contribution of manufacturing goods to exports for South Korea, Singapore, Malaysia rose from 59%, 34% and 6% in 1965 to 93%, 75% and 45% in 1988 respectively, Taiwan and Hong Kong have risen slightly from 87% in 1965 to 98% in 1983 for Taiwan and from 83.4% in 1965 to 91% in 1988 for Hong Kong (see Table 2.3)

Table 2.2: **CONTRIBUTION OF MANUFACTURING SECTOR TO GDP IN EANIEs, 1965-92**

ECONOMY	1965	1988	1992
South Korea	8.0	32.0	27.3
Taiwan	21.8[a]	33.0	32.9
Hong Kong	24.0	22.0	15.5
Singapore	15.0	30.0	27.9
Malaysia	9.0	19.0	26.8

Note: [a]: this figure for 1961.
Sources: Jomo, 1993, p.288; Zainudin Bahari, 1986, p.44; The Economist Intelligence Unit (EIU), country report (CR) third quarter 1993, Malaysia and Brunei p.3; EIU, CR, 4th quarter 1993, Singapore, p.3; EIU, CR, 3rd quarter 1993, Hong Kong and Macao, p.4; EUI, CR, 4th quarter 1993, North Korea and South Korea, p.4; EIU, CR, 4th quarter 1993, Taiwan, p.4

2.2 INDUSTRIALIZATION POLICIES AND CIRCUMSTANCES IN EANIES

A question arises why as the EANIEs have experienced rapid GDP growth as well as of manufacturing sector in total export during the period 1965-92. It may be thought that there were both objective and subjective conditions.

The objective condition was that the post-war economic boom in the 1950s and 1960s involved a tremendous expansion in international trade, creating tremendous opportunities for export-led growth. The internationalization of manufacturing production processes from the 1960s created new opportunities for industrialization. The General Agreement on Tariffs and Trade (GATT) also served to create an international environment conducive to such trade expansion and industrialization. Under the Generalized System of Preferences (GSP), developing countries that found favor with the North have been exempted from import duties and other restrictions on exporting to the USA and other developed countries. Although many would maintain that economic growth has been retarded in the 1970s, and especially in the 1980s, global conditions remaine generally favorable to late industrialization (Jomo, 1993, p.294).

Table 2.3: **CONTRIBUTION OF MANUFACTURING GOODS TO EXPORTS OF EANIEs, 1965-88**

ECONOMY	1965	1988
South Korea	59	93
Taiwan	83	98[a]
Hong Kong	87	91
Singapore	34	75
Malaysia	6	45

Note: [a]: this figure for 1983
Sources: Jomo, 1993, p.289; Zainudin Bahari, 1986, p.45; The Economist Intelligence Unit (EIU), country report (CR) third quarter 1993, Malaysia and Brunei p.3; EIU, CR, 4th quarter 1993, Singapore, p.3; EIU, CR, 3rd quarter 1993, Hong Kong and Macao, p.4; EUI, CR, 4th quarter 1993, North Korea and South Korea, p.4; EIU, CR, 4th quarter 1993, Taiwan, p.4

Apart from that, five EANIEs have also subordinate objective condition for industrialization that all of them were colonies of imperialism before 1960s. South Korea and Taiwan experienced far greater industrialization under Japanese colonialism than those countries under British colonialism (Jomo, 1993, p.290) like Hong Kong, Singapore and Malaysia.

Another objective condition for the rapid growth of the EANIEs is satch to be cultural factor. In the four EANIEs except Malaysia, it is claimed that Confucianism has provided an important cultural advantage over other cultural traditions because of its supposed emphasis on diligence, loyalty and respect for authority. The cultural factor is also invoked differently to underline the apparent cultural homogeneity of EANIEs societies. This is generally undisputed in the case of South Korea and Taiwan or even Hong Kong, though it is still dominated by a British colonial elite and includes an important ethnic Indian merchant community. Although Singapore is three quarters Chinese, there has not been insignificant tension with other ethnic minorities, especially the Malays (Jomo, 1993, p.296).

It is assumed that since the EANIEs except Malaysia lacked significant natural resources, they were compelled to industrialize (Jomo, 1993, p.292).

What was subjective conditions? It is believed that the state's role is crucial for industrialization in each EANIE. The state's role is expressed through state intervention in business and production activities in accordance with desired goals providing price support, subsidies and favorable arrangements where necessary. It is also increasingly clear that there has been considerable variation in the role, nature and extent of state intervention and how all this has changed over time. It is well known that the EANIEs including Hong Kong are all examples of state led development. Whereas state intervention in either South Korea or Taiwan have tried to consolidate strong domestic industrial capitalists with more than a little help from their respective governments, Malaysia's industrialization path is closer to Singapore's experience. In so far it has relied heavily on foreign capital, policy makers seem to be quite happy to develop Malaysia as a more sophisticated export platform for transnationals attracted by Malaysia's relatively cheap and skilled labor, good infrastructure and favorable investment climate (Jomo, 1993, p.299).

Now, we examine some of the main characteristics of state interventions in the EANIEs in previous decades.

SOUTH KOREA

The history of economic policy in South Korea has been one of considerable state intervention. This is particularly true of industrial policy where state intervention has been extensive and highly selective as well.

From the 1960s, South Korean policy has linked import substituting industrialization (ISI) with export oriented industrialization (EOI). Thus, it is true that the policy was outward oriented - indeed, increasingly through the 1960s, the whole state policy was directed at stimulating exports. There was a dramatic shift towards promoting exports as aid from the USA was reduced. But this was a state-sponsored drive for exports, and not a switch left to the free market (Edwards, 1993, pp.302-307), such as from December 1962 until September 1979, when former President Park personally hosted the so called "Expanding Meeting for Export Promotion" every month. This meeting was attended by 40-50 top decision makers in economic affairs. Most importantly, the meeting was attended by representatives of various business associations, presidents of private firms (chaebols) and representatives of exporters who could directly advance their problems and make appeals to the authoritarian ruler. For every appeal received in the meeting, the relevant ministers not only had to answer on the spot, but also had to report in the following meeting how they had solved the problems raised in the previous meeting. Any kind of administrative problems could get the immediate attention of the top decision-makers and could be solved immediately.

Regarding trade liberalization, import policy was liberal for inputs for exports, but illiberal otherwise. The effective protection rate (EPR) on import substitutes was high in South Korea through the 1970s. It could be said that the integration of import controls with exports undoubtly provided a major key to export success.

Contrary to the Keynesian theory that investment is likely to be deterred by higher real interest rates, the South Korean experience suggests the theory that the interest rates paid to depositors was raised to increase the quantity and improve the quality of investment. It was argued that the quantity of investment was raised because the rise in interest rates attracted savings and that the quality of investment was also raised because higher real rates of interest attracted savings out of low profit sectors and made it available to the "high return" sectors which had previously been financially repressed (Edwards, 1993, p.308).

In South Korea, domestic ownership was diffused through a large number of small firms or plants. However, South Korea's growth was dominated by the growth of chaebols, large holding companies. The chaebols have been closely controlled by the state, facilitated by the high debt equity ratios of the companies. Thus, highly selective intervention by the state in promoting industry has entailed a subordination of financial to industrial capital and of foreign to domestic capital. But the role of foreign direct investment (FDI) in the manufacturing sector has been tightly controlled, with the exception of electronics. Strong restrictions were imposed on foreign companies: foreign equity holdings has been limited to a maximum of 80%, forcing them into joint ventures with Korean firms except in the export processing zones (EPZs) isolated from the Korean national market. Also, the government has seen very selective in allowing foreign investment, looking particularly for companies that could facilitate some technology transfer. Therefore, industrial output was and still is under domestic ownership. Overall FDI remains quite limited, accounting for only 19% of exports and 16% of total manufacturing output in 1978 (Appelbaum, 1992, pp.37-41). Generally speaking, the share of FDI in industrial production in South Korea was low relative to that in most other LDCs.

State intervention for industrialization has also been embodied in education. The state role in education has clearly been supportive of development and this has been backed up by a strongly interventionist role in the acquisition and development of technology. The state has promoted the overseas training of Korean managers and engineers and has also encouraged the use of technical assistance from overseas. The state has emphasized promoting and R & D expenditure to 2% of the state budget in 1986, but also coordinating the acquisition and application of already existing technology (Edwards, 1993, pp.308-310). The

Korean state increased the literacy rate to 96% in 1980; the level of education of the labor force has been continuously promoted and South Korea stands out in term of most indexes of education (Jomo, 1993, p. 293; Edwards, 1993, p.309).

Thus, control by the state in South Korea has been extended to every corner of the economy. But this intervention has seen highly selective and has seen consistent with a high rate of profit in manufacturing.

TAIWAN

In some respects, Taiwan has been similar to South Korea, e.g. prior to the 1960s both countries received extremely high aid from USA. Between 1953 and 1962, U.S. aid financed 70% of total South Korean imports and 80% of total fixed capital formation, 85% of Taiwan's current account deficit and 38% of gross domestic capital formation (Deyo, 1987, p.87); Both countries have relied on domestic manufacturing capitalists and before the 1960s, they had a ISI policy ISI too.

In all instances, two features are critical for understanding Taiwan's industrialization process: The Kuomintang (KMT) state is the center of a highly diversified, decentralized structure and made up of networking relation between firms, between firms and the state and between firms and the world market through trading companies and worldwide commercial intermediaries.

The state is the central actor in guiding and coordinating the whole process of industrialization, by setting up needed infrastructure, attracting foreign capital, deciding the priorities for strategic investment and imposing conditions when necessary. In the process of gaining competitiveness through flexibility, the medium and small firms have played important role in the Taiwanese economy. Subsequently, it can be said that the nucleus of the Taiwanese industrial structure was made up of a large number of local enterprises, set up with family savings and cooperative savings networks, and supported by government bank credits, many of which were (and still are) located in the rural fringes of metropolitan areas where family members work on the land and in industrial shops at the same time (Appelbaum, 1992, pp.43-44).

In the 1960s, Taiwan had changed from ISI to EOI and after 1960s the policy for industrialization has been called by Gold, (1986) export oriented import substitution. In 1960s, the 19 point program of economic and financial reform liberalized controls on trade, stimulated exports and designed a strategy to attract foreign investments.

Regarding trade liberalization, import licenses for imported commodities in the controlled category, are granted only if comparable goods are not produced or can not be supplied domestically. While imported commodities belonging to this category went down from 3.8% in 1966 to 0.1% in 1978, and commodities belonging to the permissible import category increased from 57.9% to 97.6% in 1978. Meantime, average tariff rates were reduced from 34.5% in 1965 down to 31.2% in 1983 (Zainudin, 1986, pp.47-48)

In order to promote exports, Taiwan's government has taken many measures such as import exchange entitlement rebates for taxes and duties, low interest export loans, establishment of EPZs, export subsidies and so forth. Among the types of taxes rebated, customs duties and commodity taxes accounted for the major share. Tax rebates increased rapidly and began to decline only after 1980. Tax rebate measures reduced costs for exporters and improved the international competitiveness of Taiwan products.

The interest export loan program, under which short term loans were extended to finance materials and wozk in progress of exporters was initiated by the Bank of Taiwan. Designed as part of the government's export promotion measures, these short term loans were offered at 6% per annum for those repayable in foreign currencies, and at 11.8% per annum for those repayable in the local currency to public enterprises. These rates were substantially lower than the 19.8% secured loan and 23.3% unsecured loans then available to private sector enterprises for general business purposes. This measure provided an export subsidy to those exporters who took out export loans. The value of this export subsidy, obviously varied from firm to firm depending on the extent of borrowing and on whether the alternative would have been bank loans or unorganized money loans (Zainudin, 1986, pp.48-51).

Taiwan was the first country in East Asia to establish an EPZ in Kaoshiung in 1966; two others established in 1971. The government provided the necessary public utilities, simplified administrative procedures and gave tax exemptions. One of the main features influencing the establishment of enterprises in the EPZs was labor-intensive technology. Therefore, wages in the zone were much lower than elsewhere, with average monthly wage rates at US$26.6 in 1971 (Zainudin, 1986, pp.53-54). However, like South Korea, with the exception of electronics, FDI has not involved a major component of the Taiwanese economy. In 1987, the direct capital stock of foreign companies in Taiwan accounted for only 2% of the GDP, employment in foreign companies amounted to only 4.8% of total employment, with their output only accounting FOR 13.9% of total output and their exports representing only 25.6% of total export (Purcell, 1987, p.81). Foreign corporations were linked through subcontracting arrangements to a wide decentralized network of small firms that provided the substantial base for industrial production.

In order to shift Taiwan's export products from labor intensive to technology intensive ones, the state engaged in a process of upgrading and modernization of industry, particularly in high technology, including the creation of one of the most successful high technology parks in Asia in Hsinchu, articulating the major government research institute. Meanwhile, the state also encouraged people to improve their knowledge. The state provided a safety net in the form of subsidized health and education, but not housing (Appelbaum, 1992, pp.44-45). In 1980, the literacy rate of Taiwan was 90%, higher than in Singapore and Malaysia (Jomo, 1993, p.293)

Since the 1980s, Taiwan has become an economic power in its own right; Taiwanese companies have taken on the world market, internationalizing their production and investment both in Asia and in the OECD countries through links with international capital.

SINGAPORE

Unlike South Korea and Taiwan, Singapore is a city state independent since 1965 with a population of nearly 2.5 million. In January 1968, the British announced that its military force withdrawal would be accelerated so that all forces would be out of Singapore by 1971. This represented a significant blow to the Singapore economy (Rodan, 1989, pp.86-87). Therefore, the

Singapore government decided that its impoverished, tiny territory could only prosper by offering itself as an export platform to multinational corporations. In this sense, the Singapore government had to provide the necessary incentives to attract investment from big international companies which would bring expertise and assure markets through the creation of the Economic Development Broad that did strategic planning on the future direction of the international economy and successfully sold Singapore to prospective investors through a network of offices across the world. In other words, the Singapore government sought to enter into competition for investments in labor-intensive manufacturing production for established markets in developed industrial countries (Rodan, 1989, p.87). Among the critical factors attracting a continuous flow of investments, initially in manufacturing were: a favorable business environment, including low labor costs, social peace, an educated labor force, lack of governmental and industrial regulation, excellent industrial and communication infrastructure, an advantageous inflation differential, stable fiscal policy and political stability. Furthermore, the Economic Expansion Incentives Act allowed for profits on exported manufactured goods for existing or new industries (excluding processing) to be taxed at the equivalent of one-tenth of the normal company tax rate, that is at an effective rate of 4%. Other incentives under the Act included the unlimited duty free import of equipment, machinery and raw materials needed by industrial enterprises as well as accelerated depreciation allowance. These specific measures to promote EOI were accompanied by general pump-priming measures to promote economic growth in view of the British withdrawal announcement (Rodan, 1989, p.89). As a result, during the 1970s, FDI oscillated somewhere between 10% and 20% of GDP, and in terms of export value, the share of foreign firms in total investment in recent years has been about 70%, much higher than South Korea and Taiwan (Appelbaum, 1992, pp.11-12, 35).

Parallel with FDI, another factor for economic development that the Singapore government has paid attention to is gross national savings, that reached 42% of GDP in the mid-1980s, the highest savings rate in the world. For the period 1966-1985, gross national savings accounted for more 74% of the total gross domestic capital formation. Much of it was generated by the public sector (46%), mainly through the Central Provident Fund, a government controlled social security scheme designed to improve savings on the economy (Appelbaum, 1992, p.35). Much of these savings were invested in social and physical infrastructure, some in public corporations (more than 500 public companies) and in investment abroad to decrease the vulnerability of government revenue vis a vis the cycle of Singapore's economy. About another one quarter of total government revenues was kept in the government development fund to stabilize the economy and allow for strategic government expenditure, actually providing the government with substantial instruments to ensure stability and to control inflation.

In order to shift gradually from traditional services to manufacturing and advanced services; from low skill assembly manufacturing to advanced production processes including R&D and wafer fabrication in electronics, and from an economy dominated by maritime trade and petroleum refining to a highly diversified economic structure including machinery industries, electronics, transport equipment, producer services and international finance, the government has upgraded the level of operations performed in Singapore by creating the necessary educational and technological infrastructure (the state provided 87% of the population's housing, heavily subsidized public health, public eduction and mass transit) by organizing advanced services and by upgrading labor through a series of measures including a substantial increase in labor costs in 1979 to squeeze out companies looking for unskilled cheap labor.

Thus, it can be said that the Singapore government has accomplished its task to convert the Singapore from a devastated economy in the mid-1960s into a showcase of the new development process, building a national industry on the basis of multinational investments attracted and protected by a developmental city state.

MALAYSIA

Malaysia developed later than South Korea, Taiwan, Singapore and Hong Kong, and to some extent has benefitted from observing their efforts. Many transformation measures introduced were learnt from the experiences of these countries which have generally enabled the Malaysian government to select and adopt the most appropriate strategies and to introduce them at the right time. Therefore, like these economies, Malaysia experienced a period of ISI from the late 1950s to the 1960s and began the EOI policy from the late 1960s.

A protection system was used by state as the major instrument for encouraging growth of the manufacturing sector (Jomo, 1993, p.19). Protection measures were put in place for the period of 1959-68, but were later moderated in the export promotion phase. The main protection tools used were tariffs on imports and quantitative restrictions (Mahani, 1993, p.75). The EPR has been quite high, rising from 25% in 1962 to more than 65% by the end of the decade. However, by the mid-1980s this indictor had been reduced to a minimum of 30% (Mahani, 1993, p.75).

To promote the development of EOI, the government enacted the incentives packages in 1968 and in 1986, granted pioneer status to companies, the main benefit of which is a tax holiday. Other incentives that directly promoted exports were also introduced such as an accelerated depreciation allowance and tax deductible promotional expenses. These incentives were awarded on the basis of export performance. Other benefits for exporting activities are export finance and insurance facilities.

Two of the most important instruments for EOI that are used by some states are the EPZ and the licensed manufacturing warehouses (LMW). Malaysia has got 12 EPZs. Companies set up in these industrial areas have to export at least 80% of their output and are exempted from import duties on inputs and export and excise duties on production. Other benefit related to EPZs are primarily in the form of improved facilities such as streamlined customs procedures and upgraded physical infrastructure (Mahani, 1993, p.75). Generally speaking the development of EPZs in Malaysia is unique among developing countries established in these zones. Nowhere else is their role as significant, either in absolute terms or as a proportion of overall manufacturing activity (Jomo, 1993, p.25). Export values of share of foreign invested firms in Malaysia are only about 45% in 1985 lower than that of Singapore (Appelbaum, 1992, pp.11-12).

Although the Malaysian government has promoted the development of EOI, ISI has not been abandoned. In effect, the two strategies run parallel. A second round of ISI involving heavy industries such as motorcars, steel mills and cement were introduced in the early 1980s. To assist these projects, import tariffs on certain commodities such as on motorcar by 50% have risen (Mahani, 1993, p.75)

In 1982, the Malaysia government in 1982 began to deregulate and liberalize sectors that might hinder private sector growth. These measures dealt mostly with financial markets and exchange rates. Allowing the market to determine interest rates made the financial market more responsive to the demands of the economy. The government also tailored its monetary policy pragmatically, using variations in the level of statutory reserves and liquidity requirements as ways to stabilize the market. Floating the ringgit has kept it competitive and this has helped the export sector considerably.

The Malaysian government has implemented privatization of the public sector which is highly appreciated by World Bank, IMF and Asian Development Bank (ADB). Since the program began, 38 activities have been privatized by the Federal Government. In addition, many other activities have been privatized by state governments, local authories and statutory bodies.

However, due to its multiracial society, it is widely believed that the ethnic Malay dominated government has actually favored industrialization under foreign transnational auspices in preference to the likely alternative of domestic ethnic Chinese dominance. Therefore, unlike South Korea and Taiwan, industrialization policy in Malaysia has not contributed very much to the likelihood of industrialization led by national rather than foreign capital (Jomo, 1993, p.297).

HONG KONG

Unlike South Korea, Taiwan and Malaysia where the prominent role of the state in growth is clear the Hong Kong government has always put its faith in free enterprises and has eschewed policies of direction, manipulation and centralized control, but has instead followed policies of positive non-intervention. Therefore, Hong Kong is well known as a so called laissez faire economy.

However, if analyzed carefully, since the close of 1950s, when Hong Kong has had to face two great problems of population pressure and uncertainty about the actions of China. This suggests a decisive role of the government in creating the conditions for economic development with a more subtle and more indirect, but not less important manner than the intervention described in the case of other three EANIEs above.

In terms of free trade, even the strictest advocate of laisser faire ideas would have to say that Hong Kong's performance has been satisfactory. Even the most liberal trade policies followed elsewhere have been restricted by comparison with Hong Kong's. Not only has Hong Kong allowed the virtually free passage of goods in and out, it has also allowed the free movement of capital and, until the closing months of 1980s, the almost free movement of people (Youngson, 1982, pp.123-124).

Like other EAEs, Hong Kong has also pursued EOI, exports and international trade are well-known as leading factors in explaining Hong Kong´s growth, but it has concentrated over time on the same few industries - textiles, garments, footwear, plastics and consumer electronics - a different pattern than that observed in other EAEs. The strategic role of government is expressed in creating conditions of production and subsidizing collective consumption, that have been the sources of Hong Kong business competitiveness of Hong Kong business.

1. The main factors of has been the flexibility of Hong Kong manufacturers to adapt quickly and effectively to change demand in the world market within the same industries. Those factors that would give rise to low production cost are themselves the result of a specific industrial structure characterized by small business: more than 90% of manufacturing firms in Hong Kong in 1981 employed less than 50 workers, and large entities (more than 100 workers) accounted for only 22.6 of manufacturing´s contribution to GDP (Appelbaum, 1992, pp.45-47). With this industrial structure of small firms specializing in export/import, the government has played a significant role in linking these small firms to the world market. It has organized

the distribution of export quotas allowed under the Multifibre Arrangement (MFA) among different companies in the textile industry, actually shaping production networks under the guidance of the government's industry department. It has also established a series of information and training centers, engaged in training programs, consulting and technological services and the Hong Kong Trade Development Council, with offices around the world, to promote and disseminate information among Hong Kong firms. Other services such as the Hong Kong Credit Insurance Corporation serve to cover some of the risks incurred by exporter (Appelbaum, 1992, p.48). In the late 1970s, as a result of protectionism in the core market, the government established a Committee of Industrial Diversification that elaborated a strategic plan for Hong Kong entering into new stage of industrialization.

2. Subsidized collective consumption is the second way the government has indirectly assisted small business. Collective consumption consists of huge public housing programs that house about 45% of the population in subsidized apartments; comprehensive programs of public education, public health, subsidized mass transit, social services, and subsidized foodstuffs amounting to a major subsidy of indirect wages for the labor force over the years (more details are available in Youngson, 1982, pp.123-31). Thus, government is certainly not ignorant of science and scientific methods. It has used some advanced technology and has links with research activities in

Europe and North America. With population of more than 5 million, Hong Kong has 20,000 postgraduate students and large numbers of young people from Hong Kong study overseas, especially in universities (Youngson, 1982, pp.142-147). Like Taiwan, in 1980, the literacy rate of Hong Kong was 90%, only behind South Korea (Jomo, 1993, p.293). Hence, by shifting the responsibility for worker´s well being to the government´s shoulders , small firms could concentrate on competitive pricing, shrinking and expanding their labor force according to variation in demand

It is worth noting that foreign manufacturer´s role in exports from Hong Kong is very small and may be said to be smallest among the EANIEs. The proportion of Hong Kong manufactured exports for foreign firm went up for 10.9% in 1974 to only 13.6% in 1984 (Appelbaum, 1992, p.47).

Thus, with indirect intervention, by creating the production condition and subsidizing collective consumption, the Hong Kong government has assisted small business to develop the economy dramatically, especially among 1960-1980, with a GDP average growth rate of 10.8% (Youngson, 1982, p.8)

MARKET FORCEs - THE INVISIBLE HAND IN THE EANIES

Although Edward Chen, one of the region´s leading economists argues that in the case of the EANIEs, "state intervention is largely absent. What the state provided is simply a suitable environment for the entrepreneur to perform their function" (Chen, 1979, p.41), it is not denied that the EANIEs have been successful because their governments have sought to maximize efficiencies putatively resulting from market based resource allocation. And dispite the neoclassical economists argue that the EANIEs governments rather never intervene in normal market allocation functions or if they have they progressively liberalized their economies prior to initial periods of rapid economic growth associated with EOI; or if there have been state induced market distortions that have been kept minimum, this has made market operate more efficiently, in its 1983 World Development Report, the World Bank argued that there was an inverse relationship between price distortion and economic growth (Edwards, 1993, p.303). In addition, Wade argued that at the aggregate level, East Asian government have successfully balanced domestic market protection with export promotion policies. The overall effect has been "neutralization" of one set of state induced market distortion by a second set (Wade, 1990, pp.23-24).

Moreover, according to Appelbaum, it is no coincidence that the principal counterweight to neoclassical arguments about the supposedly pivotal role of free markets in the EANIEs has come from those who argue, in fact, that there are varieties of free market economies, and that for some of them, "free" is very much a relative term. While the EANIEs may indeed have quite small public sectors, and while their domestic economies may be intensively competitive, this does not mean that the role of the state with regard to economic transformation has been minimal. On the contrary, late industrialization - EAEs are so far the best examples - demands a decisive role for the state in setting and implementing national goals for economic growth (Appelbaum, 1992, p.14).

Vietnam´s renovation policy is actually aimed at shifting from acentrally planned economy to a market economy to stimulate and encourage high growth rate. It would be naive to deny the state role in the EAEs in spite of different types and degrees of state intervention depending on circumstances. As I presented earlier, whereas state intervention has been extensive and highly selective in the case of South Korea, Taiwan and Malaysia and Singapore, Hong Kong seem to have followed free market policies to a far greater degree. Unlike the countries, the two city states have avoided protectionist policies, controlled credit or general controls on business. But by means of subsidized collective consumption in Hong Kong and forced savings - via compulsory employer and employee contributions to the Central Provident Fund in Singapore - they have massively influenced both prices and reproduction of labor power.

By way of conclusion, state policies should now be accepted as the single most important determinant of Vietnam economic success. Since 1979, the Vietnam economy has gradually developed, mainly due to economic reforms that the Vietnamese government has conducted. But in order to obtain higher growth rates, the Vietnam Government should refer to the experience of the EANIE governments over the last thirty years.