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# Entrepreneurial State: The Role of Government in the Economic Development of the Asian Newly Industrialising Economies

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Tony F. Yu\*

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## A challenge to free market economists

The 1980s are often regarded as a triumphant period for the free market economists. In many socialist countries 1989 saw the end of communism as a legitimate ideology (Boettke, 1991). Even Mainland China, though maintaining its socialist intonation, has in reality made drastic moves towards a market economy. The increasing popularity of Western liberal economic ideologies in these countries cannot be denied.<sup>1</sup> The 1980s also witnessed massive deregulation, liberalisation and privatisation in the OECD countries and in developing countries, largely promoted by the World Bank and the IMF (Chia, 1993: 7). Observing these changes, James Fallows, an economic writer on the *Wall Street Journal*, claimed, 'With a few exceptions, . . . it seems that the ideas of Adam Smith, of Alfred Marshall, of Milton Friedman, have triumphed. We are all capitalists now' (Fallows, 1994: 192).

However, the experiences of the Asian Newly Industrialising Economies (NIEs), namely Singapore, Taiwan, South Korea and Hong Kong, have embarrassed the free market economists. With the active intervention of their governments in economic affairs, they have created what the World Bank (1993) has called the East Asian 'miracle'. In response, the neo-classical free market economists contend that government intervention policies in the Asian NIEs were in general market-conforming or market-sustaining (World Bank, 1993; Chia, 1993). Furthermore, they insist that these NIEs were able to grow

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\* Research Associate, School of Economics and Management, University College, University of New South Wales, Australia. An earlier version of this paper was presented at the Joint Residential Conference organised by the New Zealand Association of Economists and the Law and Economics Association of New Zealand held at Lincoln University, Canterbury, New Zealand, 28–30 August 1995.

1. Paul Heyne's liberal economics textbook, *The Economic Way of Thinking* (7th edn, 1984), is reported to have been well received in Poland. The Chicago economists, Milton Friedman and his follower Steven Cheung, gained tremendous popularity during their academic tours of Mainland China in 1980 and 1988 (see Cheung, 1989: 56).

rapidly only in recent decades after their governments had liberalised their economies.<sup>2</sup> Economists at the World Bank and the IMF therefore concluded that, if other developing economies want to grow faster, the key is ‘getting prices right’ and avoiding distortions in the market.

Political scientists such as Wade (1988a and b, 1990), Johnson (1982, 1985, 1992), White (1988), Amsden (1989), Weiss and Hobson (1995) disagree, however, with the views of the neo-classical free market economists. According to them, the governments of the Asian NIEs had not pursued non-interventionist or neutral policies. Rather they had intervened extensively in their economies and actively promoted the development of many new industries, including many which had become internationally competitive (though to a lesser extent in Hong Kong).

From an entrepreneurial perspective, this article attempts to demonstrate that governments have played a significant role in the economic development of the Asian NIEs. It reiterates the important role of entrepreneurship in economic development, manifested not only in private enterprise but also in the public sector, and argues that the governments of the four Asian NIEs are entrepreneurial states.<sup>3</sup> Among the Asian NIEs, Hong Kong is often singled out as an exceptional case because its government pursued *laissez-faire* policies (Rabushka, 1979). This seemingly contradictory observation concerning the East Asian development model is reconciled by means of a distinction between the two major roles of entrepreneurial states, namely, ‘directive’ and ‘facilitative’, followed by a discussion of how these entrepreneurial states have steered their economic development. The study concludes that, by means of government entrepreneurship, developing countries can catch up with the economically more advanced nations, as illustrated by the Asian NIEs.

### **The positive role of government in economic development**

According to the mainstream neo-classical economists, one of the important roles of government is to correct market failures (Bator, 1958; Musgrave, 1959). One form of market imperfection is the externality problem, a concept

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2. Friedman (1980: 57) insists that ‘Malaysia, Singapore, Korea, Taiwan, Hong Kong, and Japan — relying extensively on free markets — are thriving . . . By contrast, India, Indonesia, and communist China, all relying heavily on central planning, have experienced economic stagnation’. Cheung (1989: 82) argues that Taiwan has become prosperous in recent decades because the government has taken steps to deregulate the economy and to reduce taxes.

3. The term government entrepreneurship or state entrepreneurship is believed to have appeared in the economic literature in the 1960s or earlier. However, I am indebted to H.B. Cheah who introduced the term ‘entrepreneurial state’ to me. See also Blecher (1991: 265–91); Lee and Low (1990).

originating from Pigou's *Economics of Welfare* which argues that, because of the divergence between marginal social and private net products, government intervention, either via taxes or other forms of regulation, is required if the economy is to achieve an optimal level of output. This view had been held generally until the re-discovery of Coase's contributions (1937, 1960),<sup>4</sup> from which economists came to understand that inefficiencies in the market economy are due largely to transaction costs and that the so-called externality problem in fact arises from poorly defined property rights.

Coase's arguments have significant theoretical implications for the choice of economic institutions (Cheung, 1982). Because of the existence of transaction costs, the socialist system is not necessarily superior to the capitalist system, or vice versa. Coase's contributions, which laid the foundation of the New Institutional Economics, had the effect of limiting the scope for government intervention. Inefficiencies in the public sector are now largely explained in terms of rent-seeking theory in public choice, or from a property rights/transaction costs economics perspective (for example, see DiLorenzo, 1988). In the view of liberal economists, protectionism and other forms of government interference are doomed to fail, since they raise prices for consumers and shield inefficient industries from the bracing effects of international competition. Costly government failures, the free market economists now contended, called for liberalisation or deregulation. Unfortunately, observations from the Asian NIEs illustrate the contrary. As Fallows (1994: 193) notes, the East Asian regimes are

inconsistent in important ways with even a modified version of the standard economists' account of what a good trade regime looks like . . . It is amazing and even scandalous that the distinguished academic theories of trade policy . . . have not tried to reconcile these facts about East Asian trade regimes with their core prescription.

Though the New Institutional school has provided a new perspective in economic analysis, it works largely within the orthodox neo-classical paradigm. Their common weakness is that the role of entrepreneurship is ignored. Without entrepreneurial learning, one can easily draw the conclusion that government intervention often yields negative impacts, i.e., distortions in the price mechanism and the encouragement of inefficient production and corruption, as has been argued by the free market neo-classical theorists.

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4. Coase's original article, 'The Nature of the Firm' published in 1937, was not well received at the time. Coase's arguments gained recognition only after he published his other significant piece of work, 'The Problem of Social Cost' in 1960.

Challenging the neo-classical orthodoxy, the Austrian school of economists represented by Mises (1949), Hayek (1978) and Kirzner (1973, 1979, 1985) place entrepreneurship at the centre of economic analysis. Building upon Weber-Mises' action theory, Kirzner (1973: 33) notes that

Mises' homo agens . . . is endowed not only with the propensity to pursue goals efficiently, once ends and means are clearly identified, but also with the drive and alertness needed to identify which ends to strive for and which means are available.

According to Kirzner, the entire role of entrepreneurs lies in their alertness to hitherto unnoticed opportunities. Once they discover opportunities, they will exploit them. Alertness implies that the actor possesses a superior perception of economic opportunity. It is like an 'antenna that permits recognition of gaps in the market that give little outward sign' (Gilad et al., 1988: 483). In the market process, entrepreneurs, with their superior ability in reading the data, exploit these opportunities and eliminate errors.

The entrepreneurial function consists, however, of more than just opportunity identification, it also involves 'getting things done' (Schumpeter, 1934: 93). Unlike the neo-classical economics which assumes static uncertainty,<sup>5</sup> economic analysis in the entrepreneurial perspective deals with structural uncertainty.<sup>6</sup> Thus, given genuine uncertainty, entrepreneurs perceive external events and formulate plans according to their experience and knowledge. With new information and experience, they subsequently revise their plans in order to eliminate errors. As O'Driscoll and Rizzo (1985: 37) note, this entrepreneurial learning process is 'more than mathematical computation, rather it consists of the setting up of the problem situation itself or the movement from one problem situation to another'. It takes place when the entrepreneur's framework for interpreting the external messages of stimuli has changed over time.

Yu (1995) and Cheah and Yu (1996) use the Austrian theory of entrepreneurship to explain the economic 'miracle' of the Asian NIEs. They demonstrate that Hong Kong's success has hinged largely on the dynamics of adaptive entrepreneurship, and argue on similar grounds for the other three

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5. According to Arrow (1974: 33), uncertainty in the conventional neo-classical sense refers to the situation when 'we do not have a complete description of the world which we fully believe to be true. Instead, we consider the world to be in one or another of a range of states. Each state of the world is a description which is complete for all relevant purposes'. This sort of uncertainty consists of not knowing which state is the true one.

6. Structural uncertainty refers not only to the situation when people do not know the chances of various outcomes, but when they do not know what outcomes are possible. They may well be far from sure even of the structures of the problem that they face (Loasby, 1976: 9).

NIEs.<sup>7</sup> If entrepreneurship is so significant in economic development, then what is the role of government?

Most scholars confine the role of entrepreneurship to private enterprises; they fail to note that this function can be undertaken by the government as well. The present study argues that a government can act like an entrepreneur. Public agents are entrepreneurial when they are alert to change, and discover and exploit opportunities. As in private enterprises, the entrepreneurial process in the public sector also involves planning, learning, revision of plans and elimination of errors. When a government exhibits these entrepreneurial characteristics, we refer to it as entrepreneurial state. Once the concepts of entrepreneurship and structural uncertainty are introduced into the economic analysis, the whole government intervention framework becomes a dynamic process. Hence, the neo-classical notions of 'getting the prices right', welfare costs and efficiency losses, etc., which are prescribed by the Paretian paradigm with the equilibrium configuration, will lose their meaning.

Luedde-Neurath (1988: 103) distinguishes two kinds of government intervention: facilitative and directive. The former aims to restore markets to their proper function; it seeks to provide public goods such as infrastructure, education, etc. which cannot be supplied adequately in private markets. The latter aims to achieve predetermined results by means of conscious interference with market forces and the selective application of incentives and/or controls. According to Luedde-Neurath, in an entrepreneurial state, policies which interfere on a large scale to make significant changes in investment and production patterns in an industry are referred to as 'directive' entrepreneurial intervention, and policies which attempt to create an environment for private enterprises to pursue their interests are referred to as 'facilitative' entrepreneurial intervention.

Government intervention in the Asian NIEs can be broadly classified according to these two major entrepreneurial forms. In Hong Kong, the government emphasised a 'facilitative' role; it strove to *create* an environment for the development of private enterprise. But in Taiwan and Singapore, apart from promoting private entrepreneurship, the government also directly assumed certain entrepreneurial functions. In South Korea, as in Japan, it even extended its entrepreneurial intervention in industrial development to take the form of a senior partner (Henderson, 1993: 105). According to Wade (1990: 306), the Taiwanese entrepreneurial state can be thought of as containing both the Hong Kong and the Korean or Japanese paradigms. Taken as a whole, all three governments pursued 'directive' entrepreneurial functions.

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7. However, not all economies have relied on adaptive entrepreneurship (Kirzner's notion). The early industrialising economies depended largely on innovating entrepreneurship (Schumpeter's notion). For a distinction between these two modes of entrepreneurship and their roles in economic development, see Yu (1995) and Cheah and Yu (1996).

*'Directive' entrepreneurial intervention: South Korea, Taiwan and Singapore*

Economic growth in Taiwan, Singapore and South Korea has owed much to government entrepreneurship.<sup>8</sup> Their developments have been engineered by the governments and are prototypes of government-led growth (Deyo, 1987: 17; Soon, 1994: 144–7). These governments can be broadly regarded as 'directive' entrepreneurial states.<sup>9</sup>

In line with Johnson's theory of the developmental state, 'directive' entrepreneurial states define the growth, productivity and competitiveness of their economies (Johnson, 1982; 1985). Lichauco (1988: 111) argues that these three economies have regarded the state 'not only as the source of economic policy, but also as the proprietor, entrepreneur and operator of industrial and commercial enterprises'. These states have explored opportunities and set the direction for businesses to follow. Especially in South Korea and Taiwan, the state has consistently monitored world markets in search of export opportunities and in order to identify new types of demand that it may then encourage companies to meet (Henderson and Appelbaum, 1992: 22).

The approach of the 'directive' entrepreneurial states has proceeded from the recognition that some industries and some products are more important for the future growth of the economy than others, and they have attempted to concentrate scant capital in strategic industries. Some industries have accordingly been highly subsidised and directed by governments; others have experienced policy intervention only intermittently; the rest have been more or less left to take care of themselves within a broad framework of regulation (White and Wade, 1988: 7).

Castells (1992: 38) argues that, in the initial stages of the development process, the governments (particularly in South Korea) assumed entrepreneurial roles via public corporations and state investments. In the later stages, they steered the competitive process into higher-wage, more sophisticated-technology policies and away from labour cost-reducing alternatives within or beyond the national territory. As a whole, mercantilist policies were employed to lever national economies into a higher niche in the world economy (Deyo, 1987: 18;

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8. For an account of the role of government in the economic development of Japan, see Johnson (1982); for South Korea, see Jones and Sakong (1980), Mukerjee (1986) and Amsden (1989); for Taiwan, see Wade (1990); for Singapore, see Rodan (1989; 1992), Lee and Low (1990). For a comparative analysis of the Asian NIEs, see Castells (1992); Weiss and Hobson (1995: 133–95).

9. Johnson (1985) and White (1988) refer to the Asian NIEs as developmental states. Building upon Johnson's distinction between plan rational and plan ideological states, Henderson (1993) refers to them as 'plan rational economies', while Wade (1988a and b; 1990) argues in terms of a 'guided market economy'.

Soon, 1994: 145, 148).<sup>10</sup> They have done this either by systems of constraints, such as controlling credit through the banking system (South Korea, Taiwan), or/and by rigging prices (South Korea, Singapore, Taiwan). For instance, in Singapore, manual labour costs had more than doubled since 1978 as a consequence of government-induced increases in employer contributions to the Central Provident Fund (Henderson and Appelbaum, 1992: 21).

In South Korea and Taiwan, legislation was passed to discourage short-term speculative domestic or overseas investment, thus indirectly ensuring its flow into manufacturing. An extreme example is the South Korean law which forbade the export of sums of more than US\$1 million without government permission (Amsden, 1990: 22; Henderson and Appelbaum, 1992: 21).

**Creating competitive advantage and making winners** It can be argued that the governments of Taiwan, South Korea and Singapore have been involved in altering market outcomes by industrial targeting to 'pick winners'. These winners were industries that might not have emerged in the absence of government assistance. However, Wade (1990: 334) contends that

the governments of Taiwan, South Korea and Japan have not so much picked winners as made them. They have made them by creating a larger environment conducive to the viability of new industries — especially by shaping the social structure of investment so as to encourage productive investment and discourage unproductive investment, and by controlling key parameters on investment decisions so as to make for greater predictability.

All three entrepreneurial states have paid consistent and co-ordinated attention to the problems and opportunities of particular industries, based on a long-term perspective (Weiss and Hobson, 1995: 155–6). In doing so, they have not only produced sizeable effects on the economy but have also controlled their direction (Wade, 1990: 343). These governments have routinely targeted industrial assistance on specific industries and even specific firms. In some instances, they proposed a project to private firms and, by means of credit and financial guarantees, encouraged them to proceed. As in the mercantilist period, the governments have sometimes even created a small number of interest groups, granting them monopoly rights in return for the right to monitor them in order to discourage the expression of narrow demand, thus shaping the demands that have been made upon them and so maximising compliance and co-operation (*ibid.*: 27). In other cases, they have simply initiated a project via a public enterprise (*ibid.*: 356). In both of these ways, the governments have created industrial sectors that did not exist previously. Common examples found

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10. For an account of how the governments of the East Asian economies applied mercantilism and nationalist economics to manage their economies, see Lichauco (1988).

in all three states are steel, shipbuilding, transportation, petrochemicals and semiconductors (Henderson and Appelbaum, 1992: 22).

More specifically, in product and technology development, the governments have taken initiatives with regard to what products or technologies should be encouraged and have put public resources and influence behind these initiatives. They have invested heavily in the creation and refinement of new technologies, usually by setting up government research and development facilities and then transferring the results to private companies without transferring the development costs (Henderson and Appelbaum, 1992: 21). Taiwan's small firms are reported to have been quite responsive to profit opportunities opened up by these public investments, while South Korea's relatively more concentrated industry allowed the government to target its industry-specific policies on a small number of firms each capable of making a substantial response (Wade, 1990: 325). In South Korea, two examples are worth mentioning. Hyundai Heavy Industries, now the world's largest shipbuilding company, was created on government instructions in the early 1970s with state-subsidised credit, a protected domestic market for its products and a variety of technical assistance acquired from abroad (Amsden, 1989: 269–90; Henderson, 1993: 96–7; Weiss and Hobson, 1995: 153). Similarly, semiconductor production by Samsung, Goldstar and Hyundai was induced as a result of government pressure and support, the latter including the identification and funding of the acquisition of foreign technologies and technical assistance, heavily subsidised R&D and a protected domestic market (Henderson, 1989: 65–7; 1993: 97).

**Export performance as the criterion** Entrepreneurial discovery implies selection (O'Driscoll and Rizzo, 1985: 124). The three governments selected new industries with export potential and protected them. Wade (1988a: 155; 1988b: 53) reports that the central economic bureaucrats of the three countries

have been well aware of what might be called the Latin American fallacy; that indiscriminate support of any industrial investment would be sufficient to promote the right kind of industrialisation . . . They seem to realise that mere protection was not sufficient to generate rapid growth. They have sought to couple protection with competition so as to ensure that the lethargy-inducing effect of protection was swamped by the investment-inducing effect.

To guide their directions, the Asian NIEs cleverly used export performance as their criterion (Henderson, 1993: 98; Luedde-Neurath, 1988: 99; Weiss and Hobson, 1995: 151–2). The governments wanted the protected industries to start to export very quickly. This export-push approach provided a mechanism whereby industry moved rapidly toward international best practice (World Bank, 1993: 358). The link with export performance helped to reveal mistakes. Furthermore, the emphasis on export performance or other indicators of international competitiveness provided government officials and private

entrepreneurs with a 'known principle by which the government would adjust to or adjudicate unforeseen contingencies and thereby helped them to enter transactions which they would not undertake if the governments' mode of response to unforeseen contingencies was unclear' (Wade, 1990: 335–6).

Hence, Castells (1992: 51) concludes that the economic competitiveness of the Asian NIEs did not seem to result from picking the winners but from *learning* how to win. Only those industries which could pass the crucial test of international competition were able to succeed in the long run. To illustrate this, entrepreneurial firms in Hong Kong have exposed themselves fully to international competition (Sung, 1987: 48; Ng, 1988: 35). The South Korean Government tried to develop heavy industry behind tariff barriers in the 1970s; by the early 1980s, this policy was discontinued in order to allow the industries to be exposed to international competition.<sup>11</sup> The export performance of most Latin American and sub-Saharan African countries was disappointing partly because their governments tolerated and protected negative value-added industries for a long time (Wade, 1990: 335).

**Entrepreneurial learning, error elimination and flexible government** Carroll (1992: 187) remarks that an interventionist government has to be alert and flexible, with a broad vision of what is essential to a prosperous nation. These are precisely the features of the entrepreneurial states in the Asian NIEs. They tend not to follow ready-made textbook prescriptions. They have been pragmatic and flexible, not only in the sense that no excessive trust has been placed in liberal market policies but also in the sense that the dangers associated with state intervention have been recognised. They have behaved like private entrepreneurs in that, if economic policies are demonstrably incorrect or inappropriate in the face of changed circumstances, they have been quickly discontinued or reversed (Luedde-Neurath, 1988: 99; Hong, 1991: 160; Tan, 1992: 26; Chia, 1993: 12; World Bank, 1993: 86–7). For example, in the late 1970s and early 1980s the Singapore Government embarked on a 'wages correction policy', and increased wages across the board by substantial margins.<sup>12</sup> By the mid-1980s, this was found to be inappropriate. Immediately a wage freeze was implemented in order to get the economy out of recession (Chng, 1991: 231; Tan, 1992: 26, 205; World Bank, 1993: 87, 120–1).

If government bureaucrats are not familiar with an industry, they may be less proficient in identifying opportunities (Wade, 1990: 335). For this reason,

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11. The World Bank (1993: 98–9) argues that using exports as a performance yardstick generates substantial economic benefits. A firm's success in the export market is a good indicator of economic efficiency.

12. Lichauro (1988: 109) argues that Singapore is a heavily socialised economy in which the government is extensively involved as proprietor, entrepreneur and manager of commercial and industrial enterprises.

Taiwan, Singapore and South Korea established institutional arrangements to avoid the pitfall of government officials taking the lead role in a new industry while knowing little about it. To enhance their learning, government officials were engaged in a policy network with sources of information closer to the operating level of particular industries. Moreover, the custom of interaction between business and government leaders ensured that all parties knew what was expected of them (Fallows, 1994: 446). In South Korea, there has been close co-operation and consultation between the peak federations of business groups, individual business groups, and the state-owned or state-influenced banks. In Taiwan, the Ministry of Economic Affairs and the Council for Economic Planning and Development (CEPD) have been linked to public enterprises, publicly funded research and service organisations, and state banks (Wade, 1990: 336; Tan, 1992: 27).

### *'Facilitative' entrepreneurial intervention*

While the governments of Singapore, Taiwan and South Korea have taken initiatives in many economic fields and exerted 'directive' entrepreneurial intervention, this does not imply that they have ignored the efforts of private enterprises. After all, they are not socialist economies. In fact, all these governments are anti-communist. The three countries are essentially market economies in the sense that the means of production are mostly privately owned, and profits are mostly privately appropriated (White and Wade, 1988: 6). Economic activities remain largely in private hands, and companies engage in competitive relations with one another (Henderson and Appelbaum, 1992: 19; Henderson, 1993: 88). For example, though South Korea is regarded as the most mercantilist among the three economies and the role of public enterprise has been impressive, a large share of its growth has originated in the private sector. Jones and Sakong (1980: 166–7) find that 'despite the pervasive activity of the government's visible hand, the bulk of decisions leading to production are still taken in the private sector'. Heavy government intervention in the three states should not therefore be taken as indicative of either blindness or an anti-business bias (ibid.: 194). Apart from assuming the 'directive' role of intervention, some government policies have been structured to be supportive of entrepreneurial endeavour. In other words, these governments have also pursued 'facilitative' strategies.

Compared with the other three Asian NIEs, Hong Kong has embarked on a more liberal economic policy; however, this should not be construed to mean that it has adopted a laissez-faire approach to economic management. Contrary to popular belief, Hong Kong's success has been facilitated by the government's entrepreneurial intervention (Vogel, 1991: 68–72). Unlike the other three Asian states which have undertaken massive 'directive' intervention, the Hong Kong

Government has chosen an alternative route. Its policies attempt to create an environment for business people to exploit opportunities; the government is the prototype of a 'facilitative' entrepreneurial state. As will be argued below, its interventions have been conducted in a highly creative and subtle manner which has led neo-classical free economists such as Rabushka (1979) mistakenly to regard Hong Kong as 'a last bastion of laissez-faire'. We now discuss the 'facilitative' role of the four entrepreneurial states.

All four took initiatives to maintain law and order and social stability, which are extremely significant for development. Like many other developing countries, the Asian NIEs encountered severe political conflicts. However, their governments were able to overcome these problems. For example, the Singaporean state was able to establish ethnic harmony among Malays, Chinese and Indians, while the Taiwan Nationalist Government successfully resolved the conflicts between mainlanders from China and natives born on the island. Opposition political movements in Taiwan were repressed, and later brought under control by the state so that businesses could function normally (Castells, 1992: 52).

In Hong Kong, apart from building a legal, social and institutional framework necessary for effective market operation, the government has demonstrated its entrepreneurship in maintaining social stability.<sup>13</sup> A classic instance of entrepreneurial intervention has been in housing provision. Specifically, Hong Kong's public housing programme has accommodated more than 50% of the population. Yu and Li (1985: 139) comment that 'the Hong Kong Government has played an important and constructive role in the field of housing provision. It is difficult to envisage how this can be substituted by private sector activities'. More importantly, Castells (1992: 49) points out that the programme has subsidised workers and allowed them to work long hours without putting too much pressure on their employers, most of whom have little margin to afford salary increases. It has also provided a safety net for small entrepreneurs who took a chance in starting their businesses with only a small amount of capital. This kind of policy has also been pursued by the Singapore Government (Henderson and Appelbaum, 1992: 22). Another entrepreneurial intervention in Hong Kong is in land development. Hong Kong is well-known for its low tax policies and high rents; this is the result of the government's monopoly of the land supply. The Hong Kong Government has intervened substantially in land supply to the benefit of export competitiveness (Schiffer, 1991: 180–96; Henderson, 1993: 100). As Henderson and Appelbaum (1992: 22) note, it has 'used land revenue as a budgetary mechanism to allow the delivery of a

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13. The establishment of the Independent Commission Against Corruption (ICAC) in 1974 has effectively eliminated corruption in both the public and private sectors. This is particularly beneficial for less well-connected small business owners and for foreign businessmen not familiar with the local art of bribery (Chau, 1993: 28).

relatively extensive welfare system . . . while maintaining low corporate and personal taxation’.

Secondly, the states built highways, telecommunications, transportation and dams and provided education to facilitate development. For example, in Taiwan, the ‘ten big public work projects’ constructed in the 1960s and 1970s were well known to the overseas Chinese. In Singapore, the Jurong Town Corporation’s Ten-Year Master Plan (1980–90) included the reclamation and development of the Southern Island, and the development of Loyang as the first aviation centre and an engineering base to support offshore oil and mineral exploration (Rodan, 1992: 84). Investment in education in these economies was selective. The governments emphasised engineering, technical and vocational education (Industry Commission, 1990: 1; World Bank, 1993: 14).

In Hong Kong, the government also took initiatives in forecasting and planning most of the physical infrastructure, such as the new airport scheme, the container terminals, the cross-harbour tunnels, the mass transit railway, highways, and public utilities like gas, electricity, telecommunications, buses and trams. Interestingly, though it retained some shares, the Hong Kong Government did not undertake full ownership of these enterprises, which were tendered for and mainly owned by private companies. Henderson (1993: 95) correctly points out that only Hong Kong among the East Asian economies did not use state equity-holding as part of a general development strategy, indicating that the government’s ‘facilitative’ intervention is both unique and entrepreneurial.

Thirdly, all four states encouraged private entrepreneurs to exploit their talents. As mentioned above, the governments did not neglect private enterprises; they formulated a series of policies which encouraged whatever entrepreneurial talents were latent in their societies. Entrepreneurs had virtually been guaranteed against nationalisation. In Singapore, the PAP Government provided incentives for outward-looking entrepreneurs. In South Korea, those wishing to initiate new productive combinations encountered no bureaucratic impediments (Jones and Sakong, 1980: 193). Both Taiwan and South Korea provided protection for native industries in order to give managers and workers experience, but not sufficient to affect their desire and ability to compete (McCord, 1991: 107, 113).

In Hong Kong, the government chose to play a catalytic role in manufacturing developments by motivating the people to exercise their entrepreneurial spirit (Soon, 1994: 144). It deliberately restrained itself from subsidising or protecting any industry and left private enterprises to function on their own. It helped entrepreneurs to pick the ‘right’ industries simply by furnishing them with a limited amount of consultancy facilities such as the Hong Kong Productivity Centre and the Trade Development Council. This policy was subtly coined by the Colony’s former financial secretary, Sir Phillips Haddon-Cave, in 1978 as ‘positive non-interventionism’. Paradoxically, this

philosophy is by no means *laissez-faire*. Instead, the government would restrain its visible hand if it found that the private sector could do better, as illustrated in its manufacturing activities, but would interfere without reserve if it found it necessary, as is the case in housing provision. The Hong Kong Government is therefore essentially interventive.

Fourthly, the governments take steps to enhance export competitiveness. They have all passed anti-labour legislation banning oppositionist trade-union activities. In South Korea, the incorporation of labour into the industrial structure was brutal and repressive; autonomous workers' unions were forbidden and working conditions were kept at minimum standards (Castells, 1992: 40). In Taiwan, the social control of labour was originally achieved by establishing the precedent of unrestrained repression of any challenge to the state's authority. Before 1984, wage workers had no official bargaining rights or rights to protection. However, the state did provide a safety net in the form of subsidised health and education (McCord, 1991: 42; Castells, 1992: 44). In Singapore, independent trade unions were banned by the PAP in the period 1961–5 (*ibid.*: 36, 64). Hong Kong's pro-business government also repressed the labour movement and enacted labour legislation to make manufacturing industries more competitive. As a result, labour costs in the four economies were restrained to a lower level, which provided their manufacturing industries with a competitive edge over the US and Western Europe (Henderson and Appelbaum, 1992: 17; Rodan, 1992: 77–89).<sup>14</sup>

Fifthly, according to their own economic backgrounds, the four states formulated different policies to attract and utilise foreign direct investment for their national benefit. These policies were quite liberal in Singapore and Hong Kong but more stringent and selective in South Korea and Taiwan. Of the four Hong Kong was the most accommodating host in inducing foreign firms to invest in the economy. Profit taxes ranging from 15.5% to 16.5% were probably the lowest in the world; there was no foreign-exchange control and no central bank. Hence Hong Kong was regarded as a 'capitalist paradise' (Woronoff, 1980).

As regards Singapore, in 1965 the government came to the conclusion that the tiny territory could prosper only by offering itself to multinational corporations as an export platform. It therefore designed investment incentives to attract foreign capital into particular industries (Castells, 1992: 36; Chia, 1993: 13–14). Some 75% of Singapore's manufacturing output and exports was reported to come from wholly foreign-owned firms or joint ventures (Hirono, 1988: 247). During the period 1958–62, important reforms were undertaken by the Taiwanese state to attract multinational investment as a way of generating

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14. However, the importance of cheap labour in accounting for the economic success of East Asia should not be overstated. For further explanation, see Henderson and Appelbaum (1992: 17–18).

capital and obtaining access to world markets. Foreign investors were allowed 100% equity holdings, 100% remittance of profits, and repatriation of their initial capital at the rate of 15% a year starting two years after completion of the project. They also received equal treatment with domestic producers in terms of access to investment and export incentives (Wade, 1988b: 35). The nationalism of the Korean Government rejected the excessive presence of foreign multinational corporations. Capital influx therefore mainly took the form of loans guaranteed by the government.

In summary, the growth experiences of the Asian NIEs reveal a combination of government and private entrepreneurial efforts and preferences (Jones and Sakong, 1980: xxxii; Wade, 1990: 27; Weiss and Hobson, 1995: 170–83). The economic success of these regimes derives from their ability to combine a high degree of government entrepreneurship with strong encouragement for the private sector (Mackie, 1988: 289). It has been argued by the neo-classical economists that government interference in the Asian NIEs was implemented with the aim of working with rather than against the market. In other words, it was primarily market-sustaining rather than market-repressing (Industry Commission, 1990: 15; Tan, 1992: 26; World Bank, 1993: 10, 84). As we have argued, the ‘directive’ entrepreneurial interventions in these economies are essentially non-market-conforming. It is only their ‘facilitative’ policies that lead the neo-classical economists to gain the erroneous impression that government intervention in the Asian NIEs is market-conforming.

## **Conclusion**

Most economic advisers today are trained using conventional neo-classical economics. In their analysis, entrepreneurship, the engine of economic growth, has been neglected. Hence, in examining the role of government in economic development, they ignore the important fact that governments can act as entrepreneurs and can, through learning and innovation, alter the given resource situation. In other words, states can play an active role in the creation of comparative advantage. Ignorance of the role of government entrepreneurship leads the neo-classical economist to believe that states should limit themselves to market-conforming policies.

This article has illustrated how the Asian NIEs have relied on the dynamics of government entrepreneurship which performs either ‘directive’ entrepreneurial intervention, as illustrated in the cases of South Korea, Taiwan and Singapore, or ‘facilitative’ entrepreneurial intervention, as evidenced by the case of Hong Kong. Furthermore, their development experiences reveal a high degree of interaction between governments and private enterprise. The neo-classical analytical framework, which is based on the dichotomy between states and markets, is unlikely to explain the East Asian economic dynamics convincingly.

Therefore, instead of maintaining an ideological insistence that states should limit their influence on markets, as Rodan (1992: 89) argues, it would be more fruitful to investigate the different ways in which states and markets are interrelated and how both government and private businesses can consciously work together towards specific goals.<sup>15</sup>

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15. For a discussion of the nature of the government–business relationship, see Weiss and Hobson (1995: 170–83).

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