THE ROLE OF THE STATE IN ECONOMIC REFORM IN BURMA

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A research report submitted to the Faculty of Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management (in the field of Public and Development Management).

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Abstract

Since the 1960s, a pattern of rapid growth and integration into the world economy has occurred in some Asian countries. Some institutions such as the World Bank and the IMF said it was an Asian Miracle. This research tried to explore the reasons behind their successes. The study focused on the experiences of three Asian countries namely South Korea, Malaysia and Thailand: particularly on the state's role in their industrialisation processes during the 1960s and the 1970s. The chosen data were carefully selected from secondary sources due to time and financial constraints, but whenever possible the primary sources such as interviews with renowned economists which were carried out by other interviewers on the experiences of these countries successes were included. This study found that the political will or state's commitment to economic development, capable and insulated institutions as well as competent and uncorrupted bureaucrats, stable and open macroeconomy, high human-capital development, and export-oriented strategy which was fully integrated with the world market were the key success factors of their industrialisation processes. Thus these five key factors have become my recommendations for future Burmese economic reform especially in her industrialisation process.

Declaration

I, Myo Naing, declare that this report is my own, unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Management (in the field of Public and Development Management) in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other University.

Myo Naing
17 November, 2006.

Dedication

To my fellow oppressed people of Burma
To all political prisoners, especially for those who died whilst behind bars,
To the democracy and human rights activists
Dedicated, sacrificing their lives
Sustaining a courageous and vibrant movement
For human rights and democracy
In spite of incredible repression

Acknowledgements

I am deeply grateful to Prof. Mohammed Jahed for his practical and helpful supervision. My special thanks also go to members of Free Burma Campaign (South Africa) especially Dr. Thein Win and his family, Graham Bailey (who also edited my work, thanks so much Graham for your excellent editing), and David Kramer, for all of their valuable support, logistically, politically and morally, throughout my study in South Africa. I am further grateful to the Institute for Community and Institutional Development - Burma (ICID-Burma), Prospect Burma and the Open Society Institute (OSI) for their scholarship awards.

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INTRODUCTION

"…a wise and frugal Government which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government, and this is necessary to close the circle of our own felicities".

(T. Jefferson, 1st Inaugural Address, 1801, Memorial Edition; 3:320, cited in Tabellini, 2004:1).

This document is a research report for an exploratory study that looked into the role of the state in the industrialisation of three Asian countries: South Korea, Malaysia and Thailand, during their first and second decades of economic reform in the 1960s and 1970s. It provided background insight into why this topic needed to be studied and highlighted the boundaries of the study. It presented an overview of the theoretical framework that informed the study. A qualitative research design was presented along with dissemination strategies.

1.1 General Background of Study

In the 1960s and 1970s, some Asian countries experienced dramatic growth of their economies and their economic development is still continuously increasing. In the process of East Asian development, the role of the state has been well documented. All scholars claim that the character of the state has played an active and leading role in development in each country. Each Asian government is relatively "autonomous" and "strong". These states have built for themselves, a powerful role in promoting certain economic sectors or favouring certain classes or social constituencies (Hsiao, 1993:17).

Thus the state's role is critical for economic development. The government's economic policies must be strategic and prudent with the country situation and the implementation needs to be efficient. These three Asian countries have strong interventionist government and the governments knew how to improve development. So they have chosen affective economic strategies and implemented them successfully. These countries have done almost everything right during the 1960s and 1970s. Burma (Myanmar)[1] is now inexorably moving toward a new political system from the military-government. The challenge is the lack of experiential evidence to inform the choices of balance in government's intervention for economic development. In the following section, a briefing on Burma will be presented.

Burma: Burma in the 1950s was one of the wealthiest countries in Southeast Asia, holding great promise for the future. Newly independent from Britain, and blessed with an outstanding educational system, hardworking peoples, and a resource-rich countryside, many expected the country to be the economic powerhouse of Southeast Asia. Tragically, the exact opposite has happened. Forty-four years of military rule (since 1962) has decimated much of the country (US Campaign for Burma, 2005).

For most of the second millennium Burma has been one of the most cohesive and dominant socio-economic entities in Southeast Asia. The country was unified as long ago as the reign of King Anawratha (1044-77). Successive Dynasties carried Burmese arms and influence into the territories of her neighbours and won the respect and fear of Western merchants and mercenaries. Even after the colonial conquest and occupation by the British in successive stages during the 19th century, the Burmese economy outperformed its neighbours in the export of rice, timber and other primary products. In terms of human capital, Burmese literacy was always exceptionally high, and modern education during the colonial period was at an advanced level despite being restricted to a narrow elite (Kyi, *et al.*, 2000:1).

The statistics in Table 1.1 showing per capita exports and imports of Burma in comparison with Siam (Thailand), Netherlands Indies (Indonesia), Indochina (Vietnam), British Malaya (Malaysia), India and China for the years 1936-39 shows that Burma's exports were approximately double those of Indonesia and

[1] In this report, its name is referred to as Burma rather than Myanmar. This is the form preferred by the leaders of Burma's democracy movement, the legitimate winners of the 1990 elections. They do not accept that the unelected military regime has the right to change the official name of the country to suit its own ends.

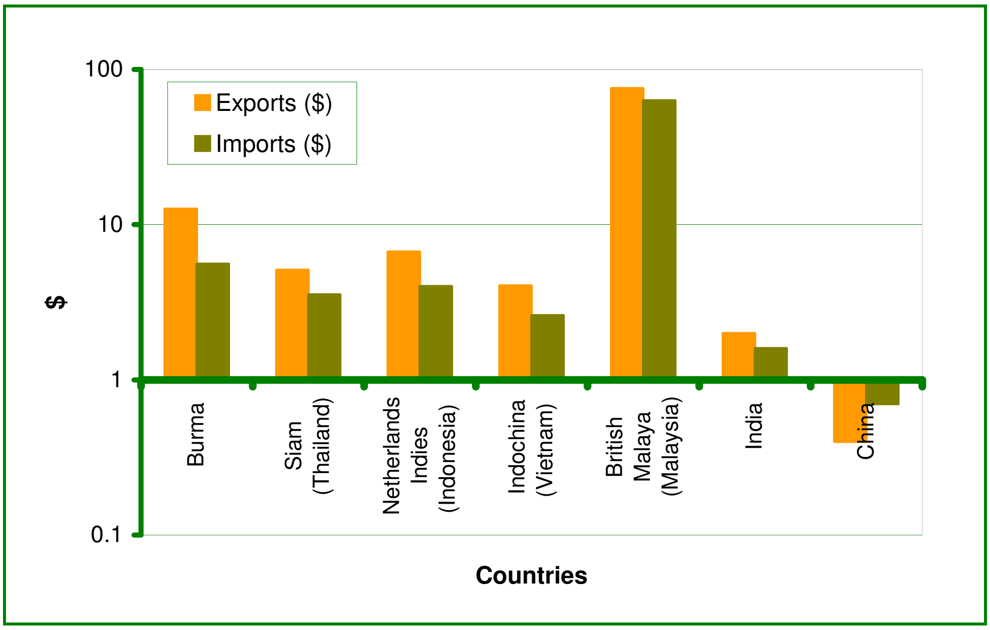
Thailand, three times as high as Indochina, six times as high as India and 25 times as high as China. Only British Malaya, with tin and rubber resources and a small population, was substantially higher than Burma by this index of development and links to the world economy (Kyi, *et al.*, 2000:1).

Table 1.1 Per Capita Foreign Trades in Southeast Asia, India and China
(Annual Average 1936-39 in US$)

	Exports ($)	Imports ($)
Burma	12.65	5.60
Siam (Thailand)	5.10	3.55
Netherlands Indies (Indonesia)	6.70	4.00
Indochina (Vietnam)	4.05	2.60
British Malaya (Malaysia)	75.55	63.00
India	2.00	1.60
China	0.40	0.70

Source: J.R. Andrus, *Burmese Economic Life,* Stanford University Press, 1947, cited in Kyi, *et al.*, 2000:1.

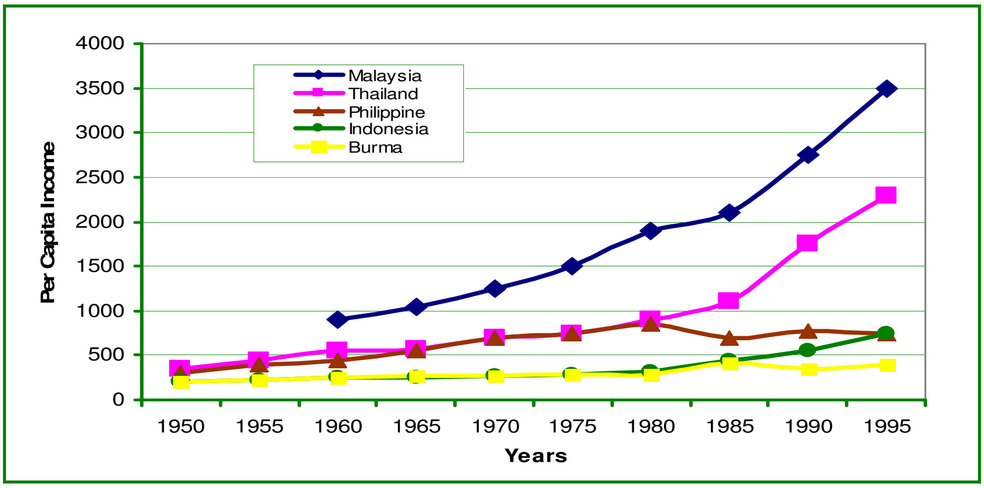
Figure 1.1 Per Capita Foreign Trades in Southeast Asia, India and China
(Annual Average 1936-39 in US$)



Note: Logarithmic scale

Even though it was substantially devastated from being a major war theatre in World War Two, by 1950 Burma was not too far behind Thailand by most economic and development indicators. From 1950 to 1995, however, the divergence in per capita income levels had become dramatic, as shown in Figure 1.1. Per capita income had increased fivefold in Thailand and doubled in Indonesia while it had barely moved in the case of Burma. Figure 1.2 also shows that growth rates did not diverge from 1950 to 1965 but did so increasingly thereafter (Kyi, *et al*., 2000:2).

Figure 1.2 Changes in Per Capita Income



Source: Various issues of *World Tables,* World Bank and authors' estimate cited in Kyi, *et al*., 2000:2).

The period from 1950 to 1962, in retrospect, was a "golden age" for post-war Burma. The military takeover that ended parliamentary rule in 1962 ushered in the disastrous era of the "Burmese Way to Socialism". Nationalism was carried to the ridiculous extreme of taking over petty retail trade and binding all the productive sectors of the economy in a tight straitjacket of controls and regulations. Foreign trade stagnated or went "underground". The year 1998 will be the 50th anniversary of Burma's independence. Sadly, however, the basic structure of the economy remains in many ways a distorted legacy of the colonial regime. Dependence on primary exports remains, and the proportion of the labour force engaged in agriculture has not altered significantly. Indeed, the performance of the economy as measured by the volume of primary exports has become drastically worse, without any alternative source of foreign exchange earnings being created. Instead of serving as a foundation and springboard for the sustained and balanced growth of a sovereign nation, the system bequeathed by the colonial regime has been perverted and despoiled by shortsighted and irresponsible policies. Popular discontent finally erupted in the demonstrations of 1988 that were put down by the new military regime that took control and held it till now (Kyi, *et al*., 2000:2-4).

1.2 Problem Statement

No economy in the world has a free market system in the purest sense (Roux, 1998:5). The central authorities play a major role in all of the world's economies. The nature and amount of intervention differ greatly from country to country. Britain is in the middle, command economies such as North Korea and China at the one extreme and the relatively free-market economies of the USA and Brazil at the other extreme (Lipsey, Courant and Ragan, 1999:75).

According to Adam Smith (1976 cited in Mohr, 2000:53), the individuals who seek their own advantage will be more efficient than any set of politicians or bureaucrats and governments tend to be inefficient and wasteful. The neo-liberals also recommended a wholesale market liberalisation because the wholesale market liberalisation will allow countries to reduce "wastes" in their economic systems by making them use resources in the most efficient way. Thus "freeing the market" is the best path to economic development (Chang, 1999:185).

But in East Asia, the role of the state is the key agent in leading development, followed by specific governmental policies to encourage economic growth in those countries. The effectiveness of the states' direct or indirect intervention in the economic and market spheres in East Asia has been gradually evident among development experts (Hsiao, 1993:12).

Many attempts have been made to explain how these countries in fact achieved their success and, to a lesser extent, how their government's economic strategies play an important role in economic development. In this study an attempt was made to fill this gap. Among the ingredients that constituted the dynamism behind the economic success of these three countries, a focus was concentrated on the government's role. This research studied the government's policies for industrialisation and the outcomes that contributed to the economic development were studied and then an analyse carried out of their economic progress and the achievements and failures of industrialisation as well as examining the state's role as the body setting the "rules of the game": laws, regulatory acts, and implementation of economic policy.

Moreover, for Burma's industrialisation it is quite important to know how should the government lead and take the initiative with economic development strategies and economic policies. Thus some recommendations were made for Burma's industrialisation.

1.3 Purpose of Study

The purpose of this study was to explore the role of these three Asian states in an economic system as well as its implications (benefits and negative side-affects on economic development). Then the outcomes of state involvement in the economy and the effects of government's economic policies on their economy during the 1960s and 1970s were analysed.

The constraints of space, and time, have forced me to be severely selective, since it is believed that as an introduction to exploring and analysing the state's role in industrialisation which is a part of three Asian countries' economic reform, it is more useful to discuss a limited number of countries and decades of economic reform at some length than to devote a few pages to each country or to a more comprehensive list.

In this study the most relevant experiences of government intervention in three Asian countries are examined and analysed. It also looked at the government's efforts and plans to promote the economy, how they make economic policies, why they chose these policies, how they prepared to implement these policies and projects, why they have succeeded while other countries have failed.

Because of this study, it is now known how the government successfully intervened and guided the economy in these three countries, the models they have used and the similarities and dissimilarities among these models, the difficulties and failures they encountered while implementing their economic policies and projects. This approach contributed to an understanding of how government can make an optimum contribution for the country's economic development.

1.4 Research Question

The central question for this study was the role of the state in the economy – especially in relation to the effect of government policies on economic development and the experiences of industrialisation in the economic reforms of Thailand, Malaysia and South Korea, during the 1960s and 1970s.

The research investigated how these three governments influenced industrialisation and the outcomes of their economic policies and industrialisation strategies, and analysed the links between effect on government policies and strategies during these two decades and their economic development. After that, the lessons for industrialisation in economic reforms and the most suitable models for Burma to use in its first decade of democracy are provided.

In order to further explore the main research question the following guiding questions framed the research into the experiences of industrialisation in South Korea, Malaysia and Thailand in their first and second decades of economic reforms

- What policies and strategies did government implement to restructure their economy, for advanced industrialisation?
- What are the benefits and drawbacks of these implementations for industrialisations?
- What model and strategies are most suitable for Burma's industrialisation in its first decade of democracy – as a result of lessons, experiences, and best practice that have been observed from studies of these three countries' industrialisation?

1.5 Delimitations and Limitations

Leedy (1997:59) points out that "the researcher can be easily beguiled by discovering interesting information that lies beyond the precincts of the problem being investigated." In order to ensure that the researcher did not fall into this trap a framework was set to assist the limitations of the research needed. Because of time constraints, the study was limited regarding the number of countries that would be studied to examine their industrialisation experiences. Three Asian countries have been chosen because of their different situations, backgrounds and economic strategies.

The entire process and complete timescale of their economic reform were not studied. It was also not the aim of this study to provide a detailed description of the sectors that contribute to economic development. Although it is acknowledged that the strong influence of others factors such as cultural, global political-economic context, state structure and state-society relationships, and the geographical situation on the economic development of these countries, may have had influence only the state's role in their industrialisation was emphasised as a part of their economic reform covering the period between the 1960s and 1970s.

The purpose here is to indicate how government intervened and what they did in the 1960s and 1970s to develop industrialisation such as imposing economic policies and implementing those policies, projects and programmes successfully. State performance was analysed as a conducive ground that indirectly or directly contributed to the success and implementation of the private sector such as imposing economic regulation and providing education policies.

1.6 Significance of the Study

This research shall pave the way for further study of models of the state's role in the economies of other countries in Europe, Africa, North and South America, and Australia. Although the Asian models will not be necessarily the same as the models of other countries on other continents, it shall form a sound basis for further research studies into the economic role of the state in other countries.

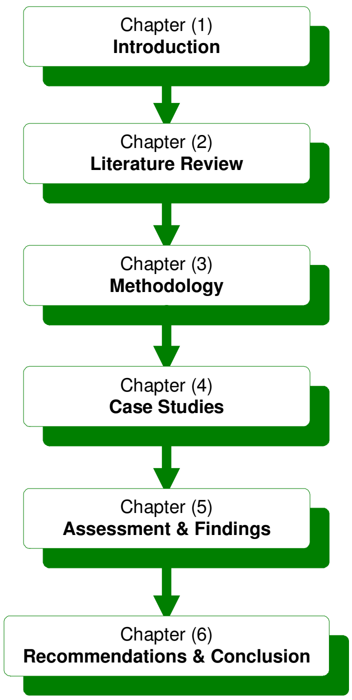
In order to have economic development and to raise the living standards and well-being of people a clear understanding of the complexity of the role, policies and programmes of government in the economic system needs to be elucidated. So this study was significant as much research attention was paid to the role of the state in economic development, and the consequences and impact of government's intervention. Although the study focused on the role of industrialisation in three Asian countries' economic reform, other countries' policies and experiences were also mentioned where necessary. The three Asian countries were chosen because of their different strategies for economic development as well as that their situations were rather similar to that of Burma.

It also means that this study is a meaningful contribution for policy makers to peruse and to assist in deciding their economic policies correctly and to realise what they need to prepare for successful implementation. It is also a start of the stream study on other countries' economic reforms thus it means paving the way for further studies about other economic policies and experiences. Shortly after this research was completed, there is also a plan to carry out the same kind of research on other countries. Eventually, it hopes that this study will serve as a useful basis for further thought and discussion by all concerned with the future welfare of the people of Burma.

1.7 The outline of research report

The following model will be followed in the research report.

Figure 1.3 Outline of research report



Chapter (1) presents the introduction, background, problem statement, and the purpose of the research report. It also provides a summary of the research and the significance of the study. Chapter (2) reflects a thorough review of the literature on the economic reform, economic roles of the state and the debate over East Asian growth. Chapter (3) provides the methodology used in this study as well as the manner in which data was organised, categorised and analysed. Chapter (4) is the multiple case study chapter: three case studies about the industrialisation of Thailand, Malaysia and South Korea during the 1960s and 1970s. Chapter (5) analyses the state performance during industrialisation. In order to assess the contribution of the state in their economic growth, governmental factors have been included in the success factors of their economic growth. Chapter (6) arrived at some conclusions as well as some recommendations for future research and also for the Burmese economy.

1.8 Conclusion

The basic rational for this study was a hypothesis that the state has a definite role to play in the economy. There are two distinct views which contradict each other on the economy: Views of structuralists or institutionalists who favour state intervention in the economy and neo-liberalists who are against the intervention of the state in the economy. The hypothesis of this study was on the side of the structuralist or institutionalist.

In this study, three Asian countries were studied to justify the role of the state in the economy. These three countries were chosen because of their differences in the level of their economic systems and economic development. In South Korea, the state intervened heavily in the economy while in Malaysia and Thailand, the state intervention was much softer than in South Korea. The intensities of their economic development are also quite different each other. The economic development in South Korea was rapid, but that of Malaysia and Thailand was not so impressive but still more successful than other third world countries which industrialised during the 1960s and 1970s.

What this study tried to find out were the reasons for their success and to find out what their governments did in their industrialisation and why they were successful while many other countries met failure. In the following chapter, the background literature concerned with economic reform, industrialisation, the economic role of the state and a brief introduction of these three countries experiences will be reviewed.

Chapter 2
LITERATURE REVIEW

This chapter introduces the reader to the various explanations of economic reform, industrialisation and the role of the state in the economy. First of all a background introduction of three Asian countries' economic success will be presented. Then a theoretical framework is discussed followed by the literature reviews on economic reform, industrialisation and the economic role of the state. The aim of this chapter is to create an understanding for the theory in order to analyse the empirical findings.

2.1 Introduction

The 1950s and 1960s were the years of active government intervention in many developing countries (Behuria and Khullar, 1994:3). Serious observers and scholars in world development studies shared by and large the view that the economic dynamism of the East Asian Newly Industrialised Countries (NICs) can be attributed to good policies (Hsiao, 1993:13). Many attempts have been made to explain how these countries in fact achieved their success.

Takatoshi Kato[2] (2004) states that beginning in the 1950s, East Asian countries—some faster, some slower—adopted wide-ranging policies aimed at transforming themselves into fully-fledged market economies. Sound macroeconomic policies were put into place, which provided a stable backdrop for business to grow. At an early stage, the importance of infrastructure investment as an aid to exporters and import-competing firms was recognized—and appropriate measures taken. Later in the reform process, greater emphasis was placed on liberalization of the trade and financial sectors. Thus the main thrust of economic policy became an outward orientation with strong incentives for exporters, and a commitment to growth through trade.

2.2 Theoretical Framework

The theoretical framework of this study informed by understanding the phenomenon of industrialisation and economic reform underpinned by the government's intervention or state's role in the economy and its subsequent

[2] Deputy Managing Director of International Monetary Fund (IMF)

relations such as economic development, poverty reduction, and land reform. The appropriate role of government in the economy is an age-old issue that has been addressed over the centuries by all the famous economists, including Adam Smith, Karl Marx and John Maynard Keynes. It is a highly emotional, ideological issue that lies at the heart of economic policy and the choice between different socio-economic systems (Dornbusch, Fischer, Mohr and Rogers, 1996:65).

Broadly speaking, there are two intellectual traditions in macroeconomics. One school of thought asserts that markets work best if left to themselves; the other that government intervention can significantly improve the operation of the economy (Dornbusch, Fischer, Mohr and Rogers, 1996:6). This will be broadly discussed in the section on the economic role of the state.

In the following sections, the concept of economic reform and industrialisation will be discussed, and after that the different views on the state's economic role will be presented. Then various explanations on East Asian growth will be described.

2.3 Economic Reform

Val Koromzay[3] (2004) defines economic reform as "policy change directed at improving the static or dynamic efficiency of resource allocation in the economy". According to Křížek and Poskočil (2005:4), economic reform means changes in policies aiming at improving overall economic performance of a country. There are three types of reforms: political reform (such as transforming from Socialism to capitalism), legal reform (e.g Drinking age), economic reform (such as changing taxes). They mention that economic reforms are very strongly tied to Political and Legal reforms. Economic reform is controlling the economy in terms of taxes, minimum wage, interest rates, foreign exchange rates, pensions and welfare, tariffs, quotas, and restrictions (such as antimonopoly laws, fair competition laws) through the Ministry of Finance, Parliament (laws), Central Bank (fiscal and monetary policies) (Křížek & Poskočil, 2005:5-6).

The goal of economic reform is, according to Williamson (1999), to achieve the system that makes the best use of an economy's human and natural resources in terms of generating economic output. It means the system that best allows

[3] Director for country studies of OECD Economics Department

individuals to realize their potential should be counted as a benefit in its own right and not just a means to increase output. For Křížek and Poskočil (2005:4), the goal is to have wealth, long-term growth and peace and stability.

Williamson (1999) argues that such an economy does not arise spontaneously, it needs social organization. The prime economic purpose of government is to provide such organization, implying a need to nurture those institutions—notably laws regulating property rights, contracts, the operation of corporations and banks, and bankruptcy, a judicial system capable of enforcing these laws impartially and efficiently, and a system of prudential supervision of financial institutions—that are central to the operation of a market economy. Williamson (1999) states that an efficient economy requires government to preserve a stable macroeconomic environment, within which enterprises can make decisions without unreasonable uncertainty about circumstances beyond their control, and to provide public goods. There are three classic circumstances in which market failures may usefully be addressed by government: where externalities are present, where a market is monopolized, and in regard to income distribution. Otherwise, activities are best left to the private sector (Williamson, 1999).

From the experiences of South Korea, Malaysia and Thailand, it is found that their economic reform was successful in making the best use of their human and natural resources in terms of generating economic output is a competitive, open, market economy. The governments of these economies are also successful in building their institutions, transforming into a market economy and improving their work-force's capabilities through macroeconomic policy, banking policy and education policies. What this research studied was how they made reform in this two periods and why they are successful. In the following section a literature review on industrialisation will be presented.

2.4 Industrialisation

"If you want to develop you must industrialise."

Kitching, 1982:6

Historically, the biggest change in the direction of economic development has been industrialisation (Thomas & Potter, 1992:119). Thomas and Potter

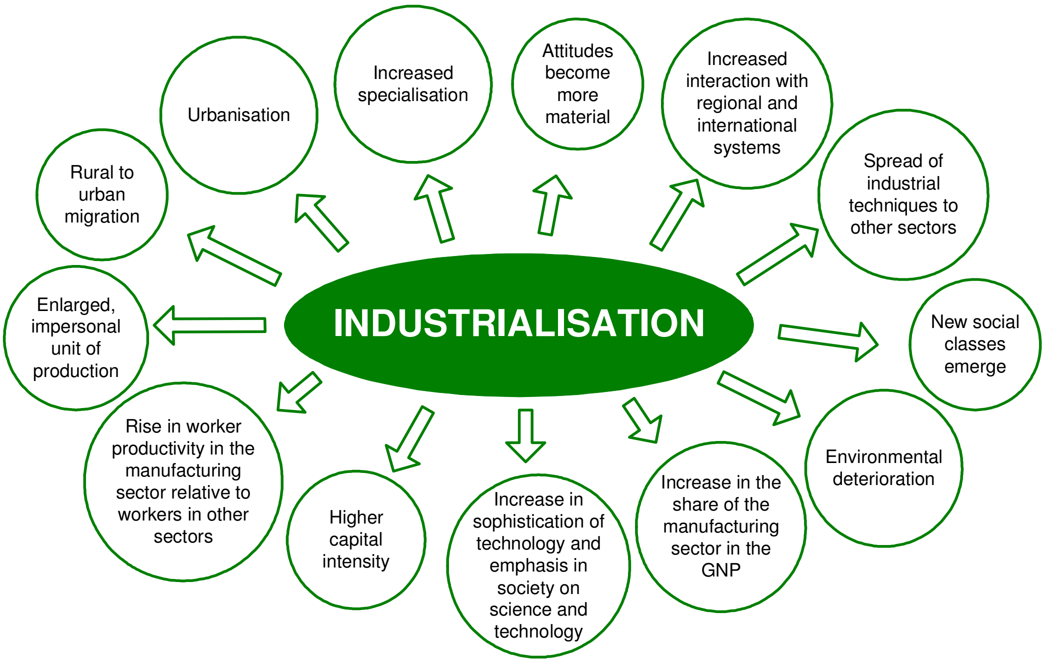
(1992:119) define industrialisation as “a process by which production in the industrial sector becomes increasingly important compared with agricultural production; more fundamentally, a general change towards the use of advanced technology and a complex division of labour in production with associated changes in social structure and organisation”.

Chandra (1992:4) states “industrialisation refers to an increase in the share of the gross domestic product (GDP) contributed by the manufacturing sector. It is a process that involves a change in the structure, or make-up, of the economy. Industrial growth in itself is not sufficient for industrialisation, because other sectors of the economy may increase their output at the same rate. It is necessary for the manufacturing sector to increase its relative importance in the economy more rapidly than other sectors”.

According to Chandra (1992:4), industrialisation is not a purely economic process. Chandra (1992:4) sees industrialisation as “a process of societal transformation, involving economic, political, social and cultural changes”. Industrialisation implies greater economic specialisation in production geared to national and international markets and a significant increase in the share of manufacturing in the total output of a country and in the absorption of resources. It also implies that the use of science and technology in production, leading to the production of goods based on complex technology and capital-intensive techniques; changes in work organisation leading to scientific management and increased productivity; the spread of industrial techniques to the rest of the economy; a shift in attitudes and relationships to material phenomena; and a shift to urban settlement. Figure (2.1) provides more details of the various attributes of industrialisation, underlining the very broad nature of the process of industrialisation (Chandra, 1992:4).

The research questions of this study are to understand how these three countries have implemented their industrialisation process in order to get a significantly increased shared of manufacturing in the total output of a country, what the benefits and drawbacks of their implementation for industrialisation. This study examined the industrialisation processes of three countries and found out how the government of these countries restructured and implemented a strategy to increase the manufacturing products in the country's gross national product (GDP). Moreover the differences between these three countries' industrialisation and the other countries' industrialisation were also studied to determine the success factors of industrialisation. In the following section, two approaches to industrialisation policy will be discussed.

Figure 2.1 Implication of industrialisation



Source: Chandra, 1992:5

Two Approaches to Industrialisation Policy

Lall (2004:1) says there are essentially two approaches to the issue of policy in industrialisation. These are a neoliberal approach and a structuralist approach.

Neoliberal approach: The *neoliberal* approach is that the best strategy for all countries and in all situations is to liberalise – and not do much else. Integration into the international economy, with resource allocation driven by free markets, will let them realise their 'natural' comparative advantage. This will in turn optimise dynamic advantage and so yield the sustainable growth attainable – no government intervention can improve upon this but will only serve to reduce welfare. In this approach, the only legitimate role for the state is to provide a stable macro-economy with clear rules of the game, open the economy fully to international product and factor flows, give a lead role to private enterprise, and furnish essential public goods like basic human capital and infrastructure. This approach has the backing of the industrialised countries and the Bretton Woods institutions (which is why it is also referred to as the ‘Washington consensus’). It has become enshrined in the new rules of the game being formulated and implemented by the WTO (Lall, 2004:1).

The neoliberal approach has strong theoretical premises: markets are ‘efficient’, the institutions needed to make markets work exist and are effective, and if there are deviations from optimality they cannot be remedied effectively by governments. The premises are a mixture of theoretical, empirical and political assumptions. Their theoretical core relies, among other things, on a restrictive view of the technological basis of competitiveness. The empirical one relies on a particular interpretation of the experience of the most successful industrialising economies, the ‘Tigers’ of East Asia. The political element – that governments are necessarily and universally less efficient than markets – has less to do with economics than with ideology (Lall, 2004:1-2).

Structuralist approach: The structuralist view puts less faith in free markets as the driver of dynamic competitiveness and more in the ability of governments to mount interventions effectively. It questions the theoretical and empirical basis for the argument that untrammelled market forces account for industrial success of the East Asian Tigers (or, indeed, of the earlier industrialisation of the presently rich countries). Accepting the mistake of past industrialisation strategies and the need for greater openness, it argues that greater reliance on markets does not pre-empt a proactive role for the government. Markets are powerful forces but they are not perfect; the institutions needed to make them work efficiently are often weak or absent. Government interventions are needed to improve market outcomes (Lall, 2004:2).

Structuralists also accept that some industrialisation policies have not worked well in the past. To the neoliberals this is a reason for denying any role for proactive policy both in past success and in future strategy: if there are market failures, the costs are always less than those of government failures. The structuralists, on the other hand, see a vital role for policy in industrial success. For them, therefore, past failure is not a reason for passive reliance on deficient markets but for improving government capabilities. They note that many poor regions that have implemented neoliberal policies recently have not experienced the industrial growth or export success that characterised more interventionist economies. To them, a projection of current trends suggests that persisting with passive liberalisation in the context of globalisation will exacerbate rather than reverse divergence (Lall, 2004:2).

In the neoliberal approach, the only legitimate role for the state is to provide a stable macro-economy with clear rules of the game, open the economy fully to international product and factor flows, give a lead role to private enterprise, and furnish essential public goods like basic human capital and infrastructure. However, in the structuralists approach, the state has a proactive role and is mounted to intervene effectively. The study looked at the industrialisation experiences of South Korea, Malaysia and Thailand to find out which approach was used in their industrialisation. In the following section, the different strategies of industrialisation are going to be discussed.

Export Promotion versus Import Substitution

In the process of industrialisation, there are generally two strategies; outward-looking or export promotion, and inward-looking or import substitution. In the words of Paul P. Streeten (1973 cited in Todaro, 1997: 459), outward-looking development policies "encourage not only free trade but also the free movement of capital, workers, enterprises and students…, the multinational enterprises, and an open system of communications."

By contrast, inward-looking development policies stress the need for LDCs to evolve their own styles of development and to control their own destiny. This means policies to encourage indigenous "learning by doing" in manufacturing and the development of indigenous technologies appropriate to a country's resource endowments. According to proponents of inward-looking trade policies, greater self-reliance can be accomplished only if "you restrict trade, the movement of people and communications, and it you keep out the multinational enterprise, with its wrong products and wrong want-stimulation and hence its wrong technology" (Streeten, 1973 cited in Todaro, 1997:459).

Advocates of import substitution (IS) believe that LDCs should initially substitute domestic production of previously imported simple consumer goods (first-stage

IS) and then substitute through domestic production for a wider range of more sophisticated manufactured items (second-stage IS)—all behind the production of high tariffs and quotas on these imports. In the long run, IS advocates cite the benefits of greater domestic industrial diversification ("balanced growth") and the ultimate ability to export previously protected manufactured goods as economies of scale, low labour costs, and the positive externalities of learning by doing cause domestic prices to become more competitive with world prices (Todaro, 1997:459).

Advocates of export promotion (EP) of both primary and manufactured goods cite the efficiency and growth benefits of free trade and competition, the importance of substituting large world markets for narrow domestic markets, the distorting price and cost effects of protection, and the tremendous successes of East Asian export-oriented economies of South Korea, Taiwan, Singapore, and Hong Kong (Todaro, 1997:460).

In practice, most LDCs have employed both strategies with different degrees of emphasis at one time or another. For example, in the 1950s and 1960s, the inward-looking industrialisation strategies of the larger Latin American and Asian countries were heavily IS-oriented. By the end of the 1960s, some of the sub-Saharan African countries began to pursue IS strategies, and some smaller Latin American and Asian countries also joined in (Kirkpatrick, 1987 cited in Todaro, 1997:460). However, since the mid-1970s, the EP strategy has been increasingly adopted by a growing number of countries. The early EP adherents—South Korea, Taiwan, Singapore, and Hong Kong—were thus joined by the likes of Brazil, Chile, Thailand, and Turkey, which switched from an earlier IS strategy (Todaro, 1997:460).

In the experiences of South Korea, Malaysia and Thailand during the 1960s and 1970s, both of import-substitution and export promotion were used. However South Korea used import-substitution for a short period and then swiftly shifted to the export-promotion. In Malaysia and Thailand, import-substitution was used for a long period and long after that the export-promotion was introduced.

2.5 Economic Roles of the State

> *"In centrally-planned economies an individual or a select group of individuals must determine the distribution of resources, but that these planners will never have enough information to carry out this allocation reliably. The efficient exchange and use of resources can be maintained only through the price mechanism in free markets … Laissez-faire was not enough. Government did have a clear role: to ensure the development and maintenance of the institutions—the laws and rules—that would ensure a competitive economy."*
>
> ***Friedrich Hayek***[4] *(Commending Height, 2005d)*

The classical view of the state is the idea of an institution with sovereign power over its citizens. It means a state has power which is the monopoly over force and violence to make sure its citizens act within the bounds of the law (Wikipedia, 2006f). In feudal times, in his *"Il Principe"* (*The Prince)*, Machiavelli (1513 cited in Wikipedia, 2006f) wrote that in order to control the population within the principality, the state should gain as much power as possible. He assumed that state should win over their people by love if possible and force if necessary. Hobbes (1650 cited in Wikipedia, 2006f) believed in the absolute power of a sovereign. In his "*The Elements of Law, Natural and Political"*, he (Hobbes, 1650 cited in Wikipedia, 2006f) argued that power should be spread out as little as possible because conflicts in power and sovereignty would bring conflicts among the population as well. Since Hobbes believed that a state was the most important part of society because it protected the individuals from eliminating each other and therefore preventing the destruction of society itself, so individuals should give up their power in order for the state to regulate all aspects of personal lives if needs be in order to protect the majority of the people (Wikipedia, 2006f).

The liberals believed that the state which governs the least is the one which governs best. Since individuals have a good amount of virtue, states should exist to protect only the most fundamental rights since humans have the capacity to govern themselves in a fair manner. In his *Two Treatises of Government* (1986) Locke (1689 cited in Wikipedia, 2006f) described that the state should be created

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[4] 1974 Nobel Prize-winning economist. He was a libertarian, famous for his strong defence of *laissez-faire* liberalism and free-market economics.

to serve humans by protecting them from harm and to protect the private property they want to accumulate.

Adam Smith (1976 cited in Wikipedia, 2006f) holds that government had an important role to play. Like most modern believers in free markets, Smith believed that the government should enforce contracts and grant patents and copyrights to encourage inventions and new ideas. In his *"An inquiry into the nature and causes of the wealth of nations,"* he wrote that the government should provide public works such as roads and bridges that he assumed, would not be worthwhile for individuals to provide. He wanted the users of such public works to pay in proportion to their use. Smith believed that economic development was best fostered in an environment of free competition that operated in accordance with universal "natural laws" (The Concise Encyclopedia of Economics, 2005). Smith (1976 cited in Wikipedia, 2006f) argued that the free market in a capitalist system would be enough to regulate most of the distribution of wealth within a population. He also acknowledges that necessity of state to maintain infrastructure such as schools and certain forms of transportation

Monetarists and the new classical macroeconomists tend to favour limited government intervention, and abhor budget deficits and a large public debt. They favour tax cuts during recessions and cuts in public spending during booms, with the net effect of winding up with a smaller share of government in the economy (Dornbusch, Fischer, Mohr, & Rogers, 1996:33).

> *"I think there's a lot of merit in an international economy and global markets, but they're not sufficient because markets don't look after social needs. Markets are designed to allow individuals to look after their private needs and to pursue profit. It's really a great invention and I wouldn't under-estimate the value of that, but they're not designed to take care of social needs."*
>
> ***George Soros*** *(2000*, in Schapiro, 2000)

Activists, by contrast, tend to favour an active role for government and are therefore quite willing to use increased government spending and transfers as tools of stabilisation policy (Dornbusch, Fischer, Mohr, & Rogers, 1996:34). Some economists labelled as interventionists, favour or at least do not have a quarrel with a larger or more active role for government, while freemarketeers abhor government intervention and consistently plead for smaller and less interfering government (Dornbusch, Fischer, Mohr, & Rogers, 1996:448).

Economic nationalism holds that the state is important because individuals are generally not virtuous. Instead, they are ignorant and confused, and cannot form a cohesive society without a strong state. The state's accumulation of public property is better for the society than the individual accumulation of private property is (Wikipedia, 2006e). Marx believed that the different structures of the state systems throughout history have allowed for inequality and class conflict. Therefore, he believed that the state would not be necessary after capitalism had been overthrown (Wikipedia, 2006f).

According to managerialism, governments should be responsible for the co-ordination of co-operation among different voluntary groups and institutions. However, government's role should not be coercive but must remain consultative. Using their delegated authority, governments can establish public volunteers' committees to co-ordinate the voluntary activity at the local and national levels. Governments will maintain their advisory position, providing the citizens with sufficient conditions and experience to work out their spontaneous ideas (Vigoda & Golembiewski, 2001:290).

According to Chang (1999:183) economic development requires a state which can create and regulate the economic and political relationships that can support sustained industrialization—or, in short, a developmental state. Chang also states that economic development involves shifting resources from such low-productivities as agriculture into high-productivity activities like manufacturing.

2.6 Various Explanations over East Asian growth

A great debate arose among policymakers and scholars in different parts of the world over the economic growth of East Asian countries including Thailand, Malaysia and South Korea. In its "The East Asian Miracle", the World Bank (1993) explains East Asian miracle growth as it reflected prudent policy choices by governments, prudent policy choices that happened to fit with the prevailing wisdom of the Washington Consensus. The World Bank highlights some types of measures that these East Asian governments took for their economic reforms. These measures includes economic polices as well as other supportive policies.

Economic policies include (1) stable macro-economy that keep inflation and deficits under control, maintaining stable interest rates, ensuring a business friendly legal and regulatory environment; (2) effective and secure financial systems; (3) limit price distortions that protect domestic, infant industries and which lead resources to be used in not the most productive ways; (4) openness to foreign technology that helps countries to remain open to outside investments and able to climb up the technology ladder; (5) develop agriculture through the Green Revolution, that enable to get more out of agriculture; (6) selective interventions that favour certain sectors of the economy and worked best when they were disciplined and performance-based; (7) export push that enables countries to develop goods for export markets; and (8) maintain competitive discipline that enables government and business working together and be accountable to world market (World Bank, 1993).

Other supportive policies that produce factors such as (1) high human capital that was the result of investing in education; (2) technocratic insulation of policymakers that insulated from political pressures, demands for favours and corruption: (3) high quality civil service; (4) information exchange among government, business, workers to foster a collaborative development effort; (5) high levels of savings that were a result and a cause of high growth; and (6) flexible labour markets (World Bank, 1993).

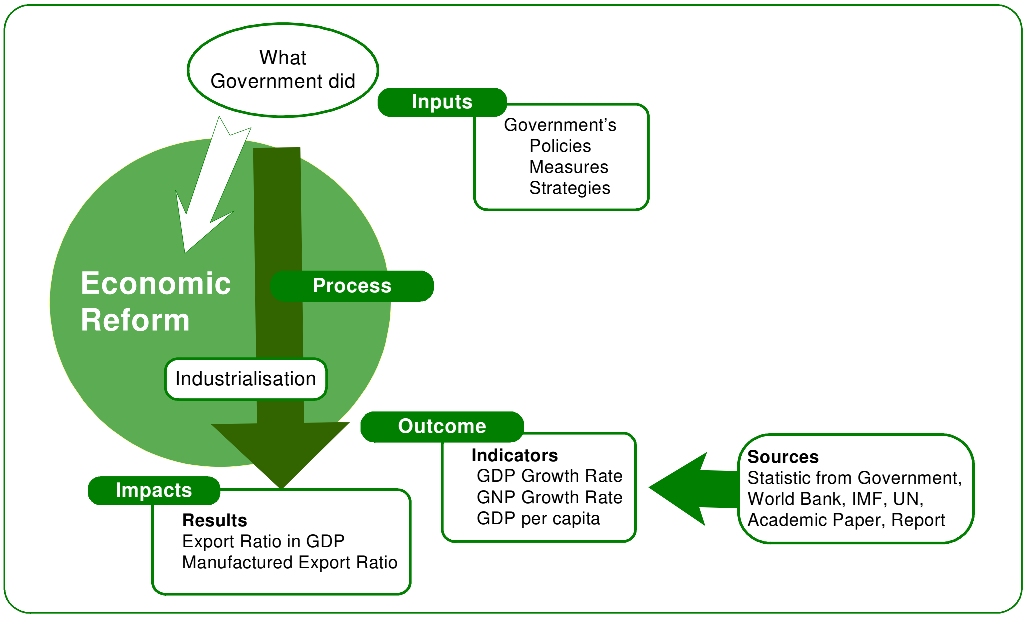
There are also other heterodox explanations. Tan (2004) argues that these countries' governments did intervene strongly in the market, so it couldn't just be a free market system that brought success. She points out the strong role of the government in picking winners in development, channelling credit to firms, and directing development and governments' inventive offer to firms to begin to produce in that area. It also mentions government efforts of gearing to export and protecting the home market (Tan, 2004).

Moreover there are other types of explanations for the East Asian miracle. These are the geographical explanations such as demonstrable effects of successful policies and reverberations from living in a good neighbourhood, historical explanation such as networks of overseas Chinese throughout much of the region, former Japanese colonies, US support during the Cold War; and cultural explanations such as Confucian-influenced cultures that support strong states, order and harmony, and the culture of submission to government, hard-working, respectful of authority, and oriented to the welfare of the group (Tan, 2004). In the following section evaluation framework will be presented.

2.7 Evaluation framework

To analyse the data, an evaluation framework was prepared to evaluate the government strategies and policies during their industrialisation. The evaluation framework adopts an approach of input (activities), process, outcome and impact indicators to evaluate the goals and objectives of the policy (Figure 2.2).

Figure 2.2 Evaluation Framework



In this framework, input is a means used for the industrialisation process, i.e., import-substitution strategies, export-orientation strategies, etc. Outcome is actual or intended change in economic conditions that reflect more immediate results from government policies and strategies such as rapid growth of exports; increased share of manufactured goods in their exports; ratio of total trade to

GDP; increased value of manufactured exports; rapid industrialisation. Impact is the overall and long-term effect of an intervention such as higher per capita income growth; improved human welfare; rapid demographic transition; rapid agricultural transformation; reduced poverty, and improving social indicators. The key indicators used in this study are a) GDP, b) GDP per capita, c) values of exports, d) ratio of manufactured products and total exports.

2.8 Conclusion

In this literature review discussion was made about the economic reform, industrialisation, economic role of the state, and various explanations on East Asian growth. After reviewing the literature, it is learned that the goals of economic reform is to achieve the economic system that make the best use of human and natural resources in an economy in term of generating economic output. Industrialisation was a part of economic reform, and it means changing in the structure of the economy to increase in the share of manufacturing sector in the gross domestic product (GDP). There are two approaches in industrialisation: neoliberal and structuralist. In neoliberal approach holds that the only legitimate role of the state was to provide a stable macro economy with clear rules of the game. It gives the private enterprise a leading role. The structuralist approach acknowledges that markets are powerful force but the institutions are needed to make market work efficiently because markets are not perfect. Thus government interventions are needed to improve market outcome. In the experiences of South Korea, Malaysia and Thailand, it is found that the structuralist approach was used in their industrialisation and the state played a leading role.

It is also learned that industrialisations has only one major aim: to get significant increase shared of manufacturing in the total output of a country. From the Korea, Malaysia and Thailand's experiences, it is found that they have unusual increase in productivity by raising human and natural capital, saving and investment. Because of increase productivity their manufacturing was significantly increased. Moreover their government also rebuilt their economic institutions and upgrade their economic bureaucracy to successfully implement the industrialisation process. In the following section research methodology that was used for this study will be presented.

Chapter 3
METHODOLOGY

This chapter presents the methodology used in this report. The chapter starts by explaining research approach and how that influenced other choices along the road. The chapter proceeds with methods of research and evaluation of the chosen methodology. In this chapter the method of data collection and data analysis were explained. The chapter is intended to help the reader understand how the research was approached.

3.1 Introduction

This research was conducted as a secondary source analysis research because living in South Africa it is quite difficult, almost impossible to collect the necessary data and to conduct interviews on these three Asian economic and political situations. This study used the qualitative approach, case study methodology and secondary source analysis. Because in doing a case study, this research is not a sampling research (Tellis, 1997:1). Also because of being secondary sources, there is no ethical issue in this study.

3.2 Qualitative Approach

This research used a qualitative approach. Neuman (2003) states that qualitative research provides a means through which a researcher can judge the effectiveness of particular policies, practices or innovation. According to Peshkin (1993 cited in Leedy, 2001:148) qualitative research studies typically serve one or more of four purposes: description, interpretation, verification and evaluation.

For this study a qualitative approach was used as a primary evaluation. Firstly the study distilled the nature of economic reform, then tested the validity of the assumption that government plays a critical role in economic development, and finally judged the effectiveness of government economic policies on the economic development. Although qualitative methods were primarily used, to some extent quantitative methods were also used for particular data and statistics when looking at the economic development in Thailand, Malaysia and South Korea. The lessons of the experiences and best practices from the case studies were distilled.

3.3 Secondary Source Analysis

Secondary analysis involves the utilisation of existing data, collected for the purposes of a prior study, in order to pursue a research interest which is distinct from that of the original work (Hinds, Vogel and Clarke-Steffen 1997, Szabo and Strang 1997 cited in Heaton, 1998). The reasons for doing secondary source research are the limited opportunities for conducting primary research and the costs of qualitative work (Heaton, 1998).

Szabo and Strang (1997, cited in Heaton, 1989) suggest that secondary analysis is a more convenient approach for particular researchers, notably students. There are some advantages in doing secondary source analysis. These are allowing the researcher to cover a wider geographic or temporal range and for larger scale studies on a small budget. Moreover it does not exhaust people's good will by re-collecting readily available data. Living in South Africa, it is quite difficult, almost impossible to collect the data and to conduct interviews on these three Asian economies and political situations. Moreover with constraints such as time and cost limitations, it was found that choosing secondary source analysis research is the most suitable and reasonable.

3.4 Data Collection Strategies

Stake (1995 cited in Tellis, 1997) and Yin (1984) identified at least six sources of evidence in case studies: documents, archival records, interviews, direct observation, participant-observation and physical artefacts. Among them the documents and archival records were studied in this study. Tellis (1997) says that documents could be letters, memoranda, agendas, administrative documents, newspaper articles, or any document that is germane to the investigation. Archival documents can be service records, organizational records, lists of names, survey data, and other such records.

Since doing secondary source analysis, the secondary data was primarily used. The term secondary data refers to information that already exists and that has been previously gathered by some other person or organization. Secondary data includes many kinds of written and visual materials such as: previous research reports, project reports, historical accounts, books and materials describing the region and the people, documentary films/photographs, statistical reports/digests of various government agencies and other institutions, maps and other materials (CEMCA, 2005).

This study also used documentary data. Documents, both historical and contemporary, are a rich source of data for social research. Since the development of social science, these have been great dependence on documentary research (Macdonald and Tipton, 1996:187 cited in Punch, 1999:190). For example, in sociology, Marx, Durkheim and Weber worked primarily from documents; similarly, Chicago school sociology was often based on written documents (Hammersley and Atkinson, 1995: 158 cited in Punch, 1999:190).

To collect data, this study used library searches, Internet searches and bibliographies. It also looked for information in academic books, scholarly journal and newspapers concerning various government's interventions, the state's role in economic development, and theories about government policies, economic development and strategies. Government reports, policy papers, statements and numerous periodicals of the three Asian countries in the 1960s and 1970s were also evaluated. Moreover, academic reports of international institutions such as the United Nation, the World Bank, International Monetary Fund (IMF), Asia Development Bank (ADB), etc were also studied.

Interviews: Although interviews with economists from these three Asian countries could not be conducted, some quite useful interviews conducted by others have been found in journals and in the internet. So this study has used some interviews with several main economists on Asian countries including George Soros[5], Ha-Joon Chang[6], Paul Krugman[7], K.S. Jomo[8], Professor You

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5 George Soros is a financial speculator, stock investor, liberal political activist, philanthropist and philosopher and the chairman of Soros Fund Management and the Open Society Institute. During the Asian financial crisis (1997), then Malaysian Premier Mahathir called Soros 'a moron' by accusing him of using the wealth under his control to punish ASEAN for welcoming Burma as a member. Thai extremists have called Soros "an economic war criminal" who "sucks the blood from the people" (Wikipedia, 2006i).

6 Ha-Joon Chang is a guru of the Korean economy and Reader in the Political Economy of Development at the University of Cambridge and worked as a consultant for numerous international organizations, including various UN agencies (UNCTAD, WIDER, UNDP, and UNIDO), the World Bank and the Asian Development Bank.

7 Economic Professor at Stanford University, one of the most prominent sceptics of East Asia's Miracle.

Jong-il[9]. These all have being studying the economic successes of these three countries extensively and renown for their expertises on these economies. The discussions of these interviews were utilised in the case studies mentioned in chapter 4.

3.5 Triangulated Research Strategy

Case study often uses a triangulated research strategy (Tellis, 1997:2). State (1995 cited in Tellis, 1997:2) states that the protocols that are used to ensure accuracy and alternative explanations are called triangulation. Yin (1984) mentions that in case studies, triangulation could be done by using multiple sources of data. In this study, various sources of data were used to ensure the accuracy and validity of the data and information. Government data and information as well as international financial organisations data such as the World Bank, IMF, and Asia Development Banks were also used. Moreover the papers and research of Non-governmental organisations (NGOs) and study reports of academics were also applied in this study.

3.6 Data Analysis Strategies

Data analysis is the process of bringing order, structure, and meaning to the mass of collected data. Qualitative data analysis is a search for general statements about relationships among categories of data; it builds grounded theory (Marshall & Rossman, 1989:112). In this study, the data was analysed by means of analytic induction and constant comparison.

Creswell (1998 cited in Leedy, 2001:150) and Stake (1995 cited in Leedy, 2001:150) state that data analysis in a case study typically involves five steps: organisation of details about the case, categorisation of data, interpretation of single instances, identification of patterns, synthesis, and generalisation. These steps were applied for the case studies of industrialisation in the economic reforms of three Asian countries. Investigation was done on the relationships between the government's policies and economic development (in terms of economic variables such as GDP, Ratio of Total Trade to GDP Value of Manufactured Exports, Growth in GDP Per Capita growth, etc,) to look for

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8 Professor at the University of Malaya

[9] Senior economist at the Korean Development Institute in Soul

patterns, temporal and causal relationships (for example because of human capital increase, the economy developing growth; because of high saving and investment, GNP is rising). Similarly statistical analysis was applied to find the relationship between the government's intervention and economic development, and then a detailed and systematic examination of the relationship between the government's intervention and economic development for the purpose of identifying patterns and themes within these relationships was made. Then by reviewing the relevant literature, the causes and the justifiable reasons for government's interventions and the impacts of this intervention on the economic development as well as its negative effects have been found.

3.7 Case study methodology

Robert K. Yin (1984:23) recognises that case study research excels at bringing us to an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analyses of a limited number of events or conditions and their relationships.

Winston Tellis (1997) states that case study can be seen to satisfy the three tenets of the qualitative method: describing, understanding, and explaining. He also points out that case studies can be single or multiple-case designs. Multiple cases strengthen the results by replicating the pattern-matching, thus increasing confidence in the robustness of the theory.

Yin (1984) listed several examples along with the appropriate research design in each case. There were suggestions for a general approach to designing case studies, and also recommendations for exploratory, explanatory, and descriptive case studies.

This study used a multiple or collective case study methodology. It studied three cases of industrialisation in Thailand, Malaysia and South Korea during the 1960s and 1970s. Then comparisons were made and proposed commonalities and differences between them. It described what their governments tried and struggled towards in their economic development, then analysis was carried out to determine the outcomes and impacts of their government's efforts on the economy, finally an explanation was offered on the linkages between government economic policies and economic growth as well as to why government's intervention is vital for economic development.

3.8 Conclusion

The research methodology in this study was based on an analysis of the literature related to the topic and was supported by case studies as described in the following chapter. The qualitative data generated was in line with the research question, for the purpose of the study, and presented according to emergent themes. During the data collection phase, some barriers were encountered because of the fact that all information was acquired from secondary sources, which comprise the literature in the case study, either from the government departments or international agencies. Secondary sources were used, interviews with renowned economists were included as a primary source. To ensure the accuracy of data that has been collected, a triangulated research strategy was used in the data collection method. In the following chapter, three case studies of three Asian countries' industrialisation processes are going to be presented.

Chapter 4
CASE STUDIES

"The goal of economic policy should be to upgrade the factor endowment structure. Since the endowment of land and other natural resources in any country is fixed, the upgrading of the endowment structure means an increase in capital. Capital comes from the accumulation of economic surplus. To create the maximum economic surplus, a country must put into play its comparative advantage. In many cases, this will be facilitated by cooperation among firms and industries, and here again, there is an important planning role for the government to play."

(Prof Justin Yifun Lin [10], 2003)

4.1 Introduction

This chapter presents case studies of three Asian countries' industrialisation. Industrialisation is a part of their economic reform. It describes industrialisation during the 1960s and 1970s. Each case study has four main sections: (1) an introduction which is a brief background of the country, (2) the role of the state that discusses how government is involved in its economy; (3) the government's economic policies which is about the policies, strategies and measures that government pursued during the two decades of its industrialisation; and (4) economic development that is supposed to be a result of government's efforts during these two decades of reform and its impact. The economic development section is not constrained only to 1960s and 1970s, and also looks at the economic conditions more widely i.e. during the 1960s, 1970s, 1980s and 1990s.

In these case studies the evaluation framework was applied. As I have described in Chapter 2: Literature Review, there are four states in an evaluation framework. Two states (input and process) are mentioned in the economic policies sections and the other two states (outcome and impact) are discussed under the economic development sections.

[10] Founder and director of the China Centre for Economic Research at Peking University and professor of economics at Hong Kong University of Science and Technology.

4.2 South Korea [11]

"Do you know what was Korea's first export product? It was a wig made of girls' hair. At that time wig traders used to cut the long hair of girls and young girls would hardly come out on the street lest they lose their long hair."

Kim (Cited in Ahmad, 2004)

4.2.1 Introduction

South Korea (Republic of Korea) occupied the southern portion of a mountainous peninsula projecting southeast from China and separating the Sea of Japan from the Yellow Sea. Its only land boundary is with North Korea. With more than 40 million people, it has one of the world's highest population densities – much higher than India or Japan. As a major new force in the international economy and one of the most economically powerful of the newly industrialising countries of the Third World, South Korea represents the most conspicuous example of successful long-term economic development (Todaro, 1997:441-3).

In 1945 Korea achieved liberation from Japan whose colonial administration since 1910 managed Korea's economy for the benefit of Japan, so few of the benefits of development belonged to Koreans (Library of Congress, 1990). In 1945 just after achieving liberation from Japan, the peninsula was divided at the thirty-eighth parallel due to the confrontation between the United States of America and the Soviet Union. The division created two distorted economic units; dealt a severe blow to South Korea's economy (Lee, 1984). North Korea inherited most of the mineral and hydroelectric resources and most of the existing heavy industrial base built by the Japanese during their lengthy occupation. South Korea was left with a large, unskilled labour pool and most of the peninsula's limited agricultural resources (Todaro, 1997:451). Moreover, the Korean War (1950-53), sparked by the North Korea's attack on the south in June 1950 totally

[11] Although its official name is Republic of Korea, for more convenience this report used its name as South Korea

devastated the economic base (Choi, 1976 cited in Lee & McNulty, 2003:32). Due to the unstable economic and political situation, a civilian revolution occurred in 1960 and was followed by a military-led coup (of General Park Jung-Hee) in 1961 (Lee & McNulty, 2003:32).

Due to being threatened by invasion from the North, the South's leaders desperately needed to answer a basic question: why should they lead and not others? The leaders selected the principle of shared growth strategy to answer the basic challenge of legitimacy. Hoping that rapid, widely shared improvements in economic welfare would bring legitimacy, they adopted an explicit commitment to shared growth. Wealth-sharing programs were designed to include non-elites in economic growth. A cadre of economic technocrats was insulated from narrow political pressures Institutions and mechanisms to share information and win the support of business elites (World Bank, 1993:157).

4.2.2 Role of the State

South Korean politics are highly authoritarian and undemocratic (Griffin, 1989:128). The notion of power is a highly personalized one and viewed as finite. If you share it, you lose it, which means that authority is delegated in a very limited way, whether it be from central government to provincial governments or from factory owner to manager. Power is delegated reluctantly, if it is delegated at all (Steinberg, 1997:15). A centralized government system has been there for centuries (Kim, 1993:212). Paternalistic authority in Korea is lonely authority. Centralized decision-making is the norm. Decision-making is concentrated in the Blue House. Nothing is final until these ultimate authorities pass on it (Pye, 1993:91).

In 1961 General Park Chung Hee overthrew the popularly elected regime of Prime Minister Chang Myon. The Park administration decided that the central government must play the key role in economic development because no other South Korean institution had the capacity or resources to direct such drastic change in a short time (Country Study, 2005). Then a new economic strategy of export-oriented industrialisation was introduced. According to Griffin (1989:122) it was not a laissez faire strategy, quite the reverse. During the 1960s and 1970s the banking system was entirely owned and managed by the government (Woo-Cumings, 1999).

By taking a role as a “benevolent coordinator”, government intervened in the economy extensively and it was not limited to macroeconomic policy. The government has created some extraordinary economic groups. But politically they are minor factors and their strength comes from the favours of government (Pye, 1993:91). Most of the major business organizations were either formed by the government or were in some way subject to government influence. In many cases, associations were a way for government to explain its policies to industry and obtain its backing (Flake, 1995).

In the early stages of South Korea's development experience, the government was the primary engine pushing development. Business served as a tool of government in the drive to build a modern economy, although in turn big conglomerates known as *chaebol*[12] benefited greatly from favourable protectionist state policies. The economy was dominated by a group of *chaebol*, and also was supported by a significant number of public corporations in such areas as iron and steel, utilities, communications, fertilizers, chemicals, and other heavy industries. The government guided private industry through a series of export and production targets utilizing the control of credit, informal means of pressure and persuasion, and traditional monetary and fiscal policies (Country Study, 2005). Government, business, and labour worked together with impressive unity towards the common goal of national development (Flake, 1995).

Moreover Park extended government control over business by nationalizing the banks and merging the agricultural cooperative movement with the agricultural bank. The government directly controlled over all institutional credit. The Economic Planning Board was created in 1961 and became the nerve centre of Park's plan to promote economic development. Beginning in the 1960s, the board allocated resources, directed the flow of credit, and formulated all of South Korea's economic plans (Country Study, 2005). The Economic Planning Board and Ministry of Trade and Industry gave detailed directives to Korean companies. Through tight control of banking, the government determined which companies

[12] Large private conglomerates

received which loans at what rate. The initiative for companies to expand into new sectors sometimes came from the government. When state planners believed it possible to open up an important new sector, they encouraged companies with appropriate managerial and technical capabilities (Vogel, 1991:50-62).

4.2.3 Government's Economic Policies

Prior to the transition to export-led growth, South Korea pursued policies that were quite common across the developing world. Because of external shocks, foreign exchange scarcity and protectionist lobbying, firstly South Korea pursued inward-looking, import-substituting trade and exchange rate policies. Tariffs were high, and overvalued and multiple exchange rates discouraged exports and contributed to its high and apparently chronic dependence on US aid. With trade liberalization and devaluation, resources shifted rapidly into the export sector. Although foreign direct investment did not play a dominant role in the transition to export-led growth, efforts were made to attract foreign firms, particularly export-oriented ones (Haggard, 1996).

4.2.4 Industrialisation

Korea's industrialisation began in earnest in 1961. In May 1961 Park Chung Hee seized power and made economic progress a mission. Park's first major goal was to establish a self-reliant industrial economy independent of the massive waves of United States aid. In his first hundred days, he moved to establish an Economic Planning Board to coordinate rapid development and announced that the first five-year plan would begin in January 1962. The first Five-Year Economic Development Plan came into effect in 1962 (Kim, 1993:199).

Import Substitution: Like most other developing countries, South Korea began its drive for industrialisation with import institution, which resulted in a rapid growth in production as entrepreneurs moved to take advantage of very attractive conditions with low risks. Also, given the right levels of protection, there was no problem with overseas competition. Many of the goods produced did not need economies of scale or a skilled labour force (Chandra, 1992:37). Import substitution policies were favoured until 1960 in Korea (IMF 1998:96).

The state drove the industrialisation but the private sector implements it (Jong-ill, 2005 cited in Mbeki, 2005). Professor You Jong-il[13] said during an interview by Mbeki (2005) that it was very much a government-run economy with the government playing a leadership role and as a benevolent coordinator. In 1961 the government nationalised commercial banks putting it in a position to decide to which parts of the economy investments were to be directed. Because of having very little savings of its own in the 1960s, government used its control of commercial banks to borrow from abroad and then channelled those funds to companies investing in approved exporting industries.

The South Korean industrialisation model abstained from attracting foreign investors and instead focused on educating the Korean population. Government played a central role in projecting a vision and mobilising and allocating financial resources, but business activities was mostly left to the private sector. A shift from low-growth equilibrium to high-growth equilibrium requires an increase in the level of entrepreneurial activity. It can be brought about either by providing incentives to the private sector or by augmenting the state's entrepreneurial activity. The Korean government chose to do both. In the early 1960s, to give incentives to the export sector, currency was devalued and export subsidies were provided. To give incentives to invest in the priority industries, access to bank loans in general and subsidised policy loans in particular were also provided (Mbeki, 2005).

Industrialisation in its first phase from 1962 to 1987 was driven by an authoritarian regime that was hostile to organised labour and to political opposition, the regime promoted measures that minimised social inequality. The country used foreign borrowings to develop privately-owned exporting industries which could earn the money required to service its debts (Mbeki, 2005).

The government combined a policy of import substitution with the export-led approach. Policy planners selected a group of strategic industries to back, including electronics, shipbuilding, and automobiles. New industries were nurtured by making the importation of such goods difficult. When the new industry was on its feet, the government worked to create good conditions for its exports.

[13] Senior economist at the Korean Development Institute in Soul

Incentives for exports included a reduction of corporate and private income taxes for exporters, tariff exemptions for raw materials imported for export production, business tax exemptions, and accelerated depreciation allowances (Country Study, 2005).

Export-oriented Strategy: A series of five-year economic plans concentrated on the development of export-oriented and import-substituting manufacturing (International Finance Centre, 2005). By the late 1950s, South Korea had exhausted its easy phase of import-substitution industrialisation. Unlike many other developing countries that proceeded to the less advantageous second stage of import-substitution industrialisation, South Korea decided instead to pursue an export-oriented strategy. This was done through an overhaul of the system of incentives, leading to a reduction of protection for domestic industries.

In 1962 when the first five-year economic development plan was introduced, government encouraged business activities by showing entrepreneurs where to find new business opportunities through “strategic industries” (Asianinfo, 2000). In order to promote exports, the government also devalued the currency by nearly 100 % and replaced the previous multiple exchange rate system with a unified exchange rate. It also provided short-term export financing, allowed tariff rebates on materials imported for re-export use, and simplified customs procedures (Asianinfo, 2000).

The currency devaluation made Korean products cheaper and more competitive in overseas markets. Moreover it also helped the agricultural sector since farmers received higher prices in local currency for their export products. Overall, then, the new package of incentives made it more attractive to export manufactured goods than to produce for the domestic market (Chandra, 1992:38). In the late 1960s as soon as it was able to borrow the necessary capital, South Korea decided to expand into heavy and chemical industries. The government borrowed foreign capital and redistributed it to private companies through banks. Businessmen who made investments in preferred industries received public support and subsidies. It pursued the programme throughout the 1970s by boldly investing in heavy industry (Vogel, 1991:7).

As part of their export-promotion strategies, government encouraged the import of technology by fostering licensing for knowledge-intensive or technology-intensive products. Anti-inflationary policies were politically supported strongly and it acted as a constraint on fiscal policies (IMF, 1998:97-9). Governments encouraged firms to export at least partly because "exports provided a performance-based criterion for allocating credit, encouraged the adoption of international standards, and accelerated the diffusion of technology". Contests among exporters were used as incentive devices with key bureaucrats acting as impartial referees, and allocating resources to those firms who achieved the highest performance standards (Booth, 1998:8).

Modernizing the economy and maintaining overall sustained growth were additional goals in the 1970s. Significant economic policies included strengthening key industries, increasing employment, and developing more effective management systems. The early economic plans emphasized agriculture and infrastructure; the latter were closely tied to construction. Later, the emphasis shifted consecutively to light industry, electronics, and heavy and chemical industries. Using these strategies, an export-driven economy developed (Country Study, 2005).

In the early 1970s, to upgrade the composition of its exports, Korea turned to the heavy and chemical industry (HCI). Already an important priority in the Third Five-Year Plan (1972-1976), HCI received greater emphasis because of the changes in the external environment. With the announcement of the Heavy and Chemical Industry Development Plan in 1973, the government set forth an accelerated development schedule for technologically sophisticated industries. Investment in new industries produced significant results, and the country soon developed successful undertakings in electronics, shipbuilding, and other fields. To initiate these sectors, extensive investment in capital-intensive industries such as power generation equipment, heavy machinery, and diesel engines were made (Asianinfo, 2000).

Heavy Investment in expansion of education: The government invested heavily in the expansion of education at the primary and secondary levels soon after the war. By the latter part of the 1960s, well over 4% of GDP was devoted on education. Being concerned about "overexpansion" of the education system and the emergence of educated unemployment, government was also prepared to invest in the expansion of general, vocational and on-the-job training (Booth, 1998:6).

Land Reforms: South Korea conducted two stages of land reform. The first was in 1947 and initiated by US forces. The land was confiscated from the Japanese and distributed to the tillers and a ceiling was put on rents of other land. The second was undertaken in 1950 by the Korean government. Landlord properties were expropriated and nominal compensation was paid, and the land was redistributed to 900,000 tenants, effectively eliminating tenancy (World Bank, 1993:160-1).

Labour Sector Restructuring: The government restructured the labour sector to suppress radical activity in an effort to ensure political stability. Governments abolished trade-based labour unions and pushed the creation of company-or enterprise-based unions. Management and company union representatives were then required to jointly formulate and implement work-related policies (World Bank, 1993:164-5).

Merit-Based Recruitment and Promotion: The bureaucracy in Korea has a long tradition of independent policymaking. But as late as 1960, the civil service was widely viewed as a corrupt and inept institution. It was turned around after General Park Chung Hee's takeover in 1961. Realising the need for a competent and honest bureaucracy to help him achieve his goal of bringing Korea into the ranks of the industrialised world, Park reorganised the civil service and replaced the spoils system with a merit-based system. Monitoring of the activities of civil servants was improved, and recruitment and promotion became based more on capabilities and performance. A retirement system patterned after Japan's was introduced to encourage bright individuals to remain in the bureaucracy. This plan induced stiff competition among bureaucrats and improved the work ethic. (World Bank, 1993:170-6). In less than two decades: by the late 1970s, the bureaucracy had become one of the most reputable in the developing world.

Deliberation Councils: From the mid-1960s to the early 1980s, government and private sector relations were close and cooperative. Government and business leaders met often and regularly. Government solicited businesses' views and included them as a critical policy component. Until the early 1980s, the most important communication channels were monthly export-promotion meetings, at which the president of Korea himself presided over discussions between the economic ministers and top business leaders. Businessmen expressed their views about markets, regulations, and potential plans. The president then instructed specific ministers to attend to each important issue; at the next meeting, the ministers delivered a progress report on their assigned tasks. The meetings were supplemented by government-initiated discussion groups involving company managers, middle-level government officials, and experts or scholars. Bureaucrats invited interested parties and experts to present their views. The focus was on information gathering; bureaucrats made the final decision. Even so, officials tried to incorporate all viewpoints in policies (World Bank, 1993:183).

Tax System: Korea used complex tax codes not only to favour investment but also to direct the pattern of their industrial development. Korea was the first HPAE to establish a value-added tax (VAT). The VAT in Korea provided revenue to support incentives for investors in industry, particularly exporters. Tax incentives included credits, accelerated depreciation, and special exemptions. The tax policy was continuously fine-tuned to promote industrial development. From 1953 to 1986, there have been nine major tax reforms. These initiatives fall into three phases: first, tax rebates to encourage exports (1961-72); then, investment credits and tax holidays to promote heavy and chemical industries (1973-79); and finally, a value-added and more neutral overall tax regime to support adjustment and liberalisation (1980-89).

Postal savings systems: Postal savings systems were established to encourage small savers by offering a secure and convenient way to deposit their savings through extensive post office networks. Households were encouraged to use the postal savings system through the exemption of interest income from tax (IMF, 1998:90-1).

In this section the Korean government's efforts towards industrialisation during the 1960s and the 1970s are presented. But the policies and measures mentioned in this section are not confined within these two decades, some policies such as land reform and import substitution were implemented in the 1950s, because their whole economy as well as industrialisation was greatly benefited from these kinds of policies and measures. These policies, strategies and measures are in fact government's inputs and processes for industrialisation. In the next section the impact of these efforts will be discussed as the outcome of their economic development.

4.2.5 Economic Development

> ***Day of Free Trade:*** *"On November 29, 1964, South Korea reached the export target of two-million US dollars. It was the day for the Koreans. The government was so happy at the export performance that cookies and candies were distributed among the schoolchildren for celebrations. November 29 was declared as the 'Day of Export'. Now it is observed as the "Day of Free Trade".*
>
> *(Ahmad, 2004)*

When it released its first five-year economic development plan in 1962, South Korea was no different from most African countries then. More than half of its population (57%) was rural and most industry was located in the communist north. Manufacturing, which was South Korea's secondary industry in the early 1960s, employed only about 9% of the total labour force. By 2002, after 40 years of a huge government-directed industrialisation drive, this badly-skewed equation has been radically changed (Mbeki, 2005).

Today only a small proportion of South Korea's people (9%) remain on the land. Similarly the structure of the economy has been transformed beyond recognition. In 1962 primary industries - agriculture, fishing, and forestry - accounted for 32% of GDP and employed 63% of the total labour force. However, by 2002 the primary sector accounted for only 5% of GDP. On the other hand, manufacturing today accounts for 35% of GDP and employs 19% of the labour force. In 2005 South Korea was the 6th largest carmaker in the world with annual vehicle production running at 3-million units. And along with Japan and China it is one of the top three shipbuilders in the world. It has also become an important world player in electronics. One of its largest companies, Samsung Electronics, exports $45-billion in electronic products annually, making up nearly 18% of South Korea's total exports (Mbeki, 2005).

The Korean success in industrialisation can be seen both in the rapidly increasing importance of manufacturing in the national economy and in exports. Table (4.1) shows the rapid expansion of the manufacturing sector, with the annual manufacturing valued increasing more than 340 times in 20 years (Chandra, 1992:38-9).

Table 4.1 The growth in Korean manufacturing, 1963-84

Year	No. of establishments	No. of persons engaged (000)	Gross output (billion won)	Value added (billion won)
1963	18,310	402.2	167.0	61.4
1967	23,455	643.7	548.0	206.6
1968	23,808	741.6	767.3	300.1
1969	24,752	820.1	1,045.1	424.2
1970	23,905	854.1	1,331.6	547.9
1971	23,208	824.4	1,669.9	688.6
1972	32,729	973.7	2,241.5	899.3
1973	22,293	1,157.8	3,697.0	1,397.6
1974	22,632	1,298.4	5,704.0	1,867.2
1975	22,787	1,420.1	8,165.0	2,828.1
1976	24,957	1,717.3	11,679.0	4,075.1
1977	26,726	1,918.6	15,438.0	5,596.9
1978	29,864	2,111.9	21,157.0	8,193.0
1979	31,804	2,116.7	26,692.0	9,205.0
1980	30,823	2,014.7	36,279.0	11,587.0
1981	33,471	2,044.2	46,716.0	15,412.0
1982	36,799	2,099.1	51,561.0	17,306.0
1983	39,243	2,215.9	60,547.0	20,912.0
1984	41,549	2,343.4	71,308.0	24,656.0

Source: United Nations Department of Economic and Social Affairs (various years) *The Growth of World Industry and Yearbook of Industrial Statistics* cited in Chandra, 1992: 38

The export performance of South Korea has been similarly outstanding. Between 1960 and 1969, it increased its manufactured exports at an annual rate of 69% compared with the rate of developing countries as a whole of 8% per annum. It has risen from being the world’s 26th largest exporter of manufactured goods in 1970s to the 12th largest in 1987. Moreover, South Korea has diversified its exports and has become the world’s 6th largest exporter of electronics, a dramatic and very significant achievement. South Korea is now the 10th largest trading economy in the world and is emerging as one of the developing world’s major automotive exporters (Chandra, 1992:41).

In fact, in early 1996, its per capita income crossed the $8,356 barrier that separates “high-income” from “middle-income” countries in the World Bank classification system. Between 1965 and 1993, export grew by more than 20% a year. Labour productivity increased 11% annually in the 1960s and 1970s. Export growth has shifted from labour-intensive light industry (textiles and footwear) to skill-intensive, high-quality production (electronics, automobiles) (Todaro, 1997: 452). Figure (4.1) demonstrates a significant structural change in the economy: the manufacturing sector’s contribution increased from 19.5% in 1973 to 30.4% in 1984 (Chandra, 1992:39).

Table 4.2 Korea’s Manufactured Exports, 1965-1990

	1965	1970	1975	1980	1990
Manufactured Exports as a % of Total Export	52.0	74.9	76.8	80.1	94.1
Total Exports as a % of GNP	-	9.4	24.3	28.5	32.6
% of Total Developing-Country Manufactured Exports	2.0	7.4	15.0	18.2	24.6

Source: United Nations, *Handbook of International Trade and Development Statistics* (various years); World Bank, *World Debt Tables* (1985, 1992); International Monetary Fund, *World Economic Outlook,* (1992) cited in Todaro, 1997:425.

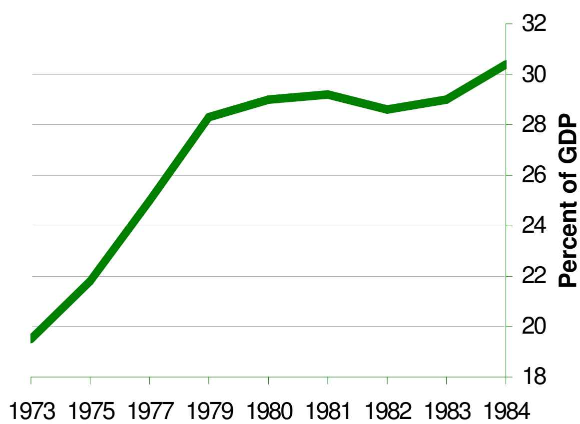


Figure 4.1 South Korea: manufacturing share of GDP

Source: UNIDO (1986) *handbook of Industrial Statistics,* cited in Chandra, 1992: 39

From 1963 to 1978, real GNP rose at an annual rate of nearly 10%, with average real growth of more than 11% for the years 1973-1978. While South Korea’s national production was rising throughout the 1960s and 1970s, the annual population growth rate declined to 1.7%, resulting in a 20-fold increase in per capita GNP in those two decades. Per capita GNP, which reached $100 for the first time in 1963, now exceeds $8,200 (Todaro, 1997:452).

Within the past 30 years, South Korea’s economic growth has been spectacular. The nation has advanced in a single generation from being one of the world’s poorest countries to the threshold of full industrialisation. Its economy is rapidly approaching full maturity—a marked change from the 1960s and 1970s, when it was a major recipient of US foreign assistance (direct US aid ended in 1980) (Todaro, 1997:451-2). As a major new force in the international economy and one of the most economically powerful of the newly industrialising countries of the Third World, South Korea represents the most conspicuous example of successful long-term economic development. Its economic success has been so spectacular in fact that in 1995 it formally applied to join the Organization for Economic Cooperation and Development in Paris as a fully industrialised aid-giving developed country (Todaro, 1997: 452-3).

4.2.6 Conclusion

South Korea has achieved spectacular industrialisation since the 1960s and it is frequently used as a case study to show that it is possible for developing countries to break the vicious cycle of poverty, to achieve structural change and to narrow the economic gap with the developed countries. From the experience of South Korea, it is learned that the commitment of government is pivotal in their economic development. Because of strong and devoted political will, the state restructured their institutions with the help of economic advisers both domestic and international. Moreover, to successfully implement the state's policies and strategies, they upgraded the quality of human capital by heavily investing in education. These three factors: (1) strong political will, (2) competent institutions, and (3) qualified human capital are at the core of their success.

The experience of South Korea provides considerable inspiration to other developing countries, although there were special circumstances in this case that are not present for other developing countries, such as an early start in exporting and massive assistance from the United States of America because of South Korea's strategic importance. However, government policy, especially in the use of exchange rates and the timely overhaul of the incentive system, can serve as a model for other developing countries (Chandra, 1992:36-42). No nation has tried harder and come so far so quickly, from handicrafts to heavy industry, from poverty to prosperity, from inexperienced leaders to modern planners, managers, and engineers (Vogel, 1991:65). In a region of overachieving economies, South Korea has been called a "miracle" (Flake, 1995).

4.3 Malaysia

> *"If they are left unregulated then they will profiteer, because the market is all about making profits, as much profit as possible, and they will do anything in order to increase their profits. What happens to people—that is irrelevant to them. They are not in the business of attending to the social needs of people. They are only thinking about their profit, and if you allow the market to go free, unregulated, then the world will face monopolies of giants who will not care at all about what happens to people, what happens to the consumers. There must be a balance between a free market and some regulations which are essential in order to safeguard the interests of consumers and of people in general."*
>
> ***Dr. Mahathir Bin Mohamad***[14]
>
> *(Commanding Heights Interview, 2005e)*

4.3.1 Introduction

Malaysia gained independence in 1957 from British rule. On 16 September 1963 the Federation of Malaysia was established. It contains a population of some 20 million within a land area of around 330,000 square kilometres. Its north border is Thailand and the narrow Johor Strait separates it from Singapore (Todaro, 1997:392). Malaysia was one of the last countries to join the wave of development in East Asia (Hartwell and Burki, 2000:4). Malaysia is a relatively

[14] 4th Prime Minister of Malaysia from 1981 to 2003; Deputy Prime Minister from 1978 to 1981; Minister of Education from 1973 to 1978

small Southeast Asian country, with a total land area of about 330,000 square kilometres and unlike South Korea, well endowed with natural resources. About 58% of the total land area is forested, the bulk of which is commercially exploitable timber, while most of the remaining land is cultivated. It also possesses extensive mineral resources such as tin, iron ore, bauxite and copper and other non-mineral resources such as crude petroleum, natural gas, limestone and marble (Yan, 1994:554).

Malaysia was a multi-racial country with a mix of people from many different races and cultures. The Malays controlled government and agriculture, while the Chinese dominated commerce and industry. The Chinese resented the political power of the Malays, and the Malays envied the economic success of the Chinese. The tensions eventually triggered racial violence. In 1969, bloody riots broke out. The government declared a state of emergency, suspending the Constitution and Parliament until 1971. After the riots, Malaysia's leaders determined to improve the economic conditions of the Malays. In 1971, a 20-year plan called the New Economic Policy was launched to achieve a better balance of wealth among racial groups (Aun & Jiunn, 2004).

4.3.2 Role of the State

In spite of fairly regular multi-party elections and some other features requiring accountability of the regime, the Malaysian state has been authoritarian since the colonial period (Gomez & Jomo, 1997:1). Government administration is considered reasonably efficient and fair. Government leaders have acted moderately in the implementation of policy (Wawn, 1982:44). The government utilized its influence in the economy and plays a strong pro-active economic role. This role includes: investor, economic planner, approver of investment projects, approver of public and private procurement decisions, author and implementer of policies and programs to bolster the economic status of the Malay and indigenous communities (bumiputras), and decision maker over privatisation contracts (U.S. Department of State, 1998).

Although the government does play an active role in development planning to promote and act as a catalyst for balanced economic growth and social progress, the economic system is based essentially on private enterprise (Yan, 1994: 554).

To speed up the growth of industry, the government increased spending on a number of heavy-industry and infrastructure projects. The prices of a range of items were controlled. In the period 1976-80, over one third of domestic funds for private investment came from the Federal Government. It has also invested heavily in education (Todaro, 1997:405).

4.3.3 Government's Economic Policies

The government of the newly independent nation (in 1957) sought to immediately address the structural weaknesses of the economy by focusing on diversifying and modernizing agricultural production and emphasizing rural development (Economic Planning Unit, 2005). Since 31 August 1957, the government had prepared the economic and social growth plans. It is implemented to spur growth and prosperity in Malaysia. There are a lot of other policies which the government had and have been doing. These policies are mostly concerning education, social and economy such as Look East Policy, National Industries Policy and Sogosasha Malaysia Policy.

Malaysia has invested heavily in education. Virtually all Malaysian children attend primary school, and well over 50% attend secondary school. By combining educational investment with health expenditures and employment creation, Malaysia has achieved one of the lowest poverty rates (26%) among all LDCs (Todaro, 1997:405). Because of these policies and actions, GDP grew more than 700% since 1957 (Aun & Jiunn, 2004).

Table 4.3 Industrial strategies and trade orientation, 1958-2000

Phases	Trade orientation	Period of dominance	Policy instruments
Phase 1	IS1	1958	Pioneer Industries Ordinance, 1958
Phase 2	EO1	1970	Investment Incentives Act, 1968 Free Trade Zone Act, 1971
Phase 3	IS2	1980	Heavy Industries Corporation of Malaysia (HICOM), 1980
Phase 4	EO2	1985	Industrial Master Plan (IMP), 1986 Promotion of Investment Act, 1986 Action Plan for Industrial Technology Development (APITD), 1990 IMP2, 1996

Source: Rasiah (2002:2)

4.3.4 Industrialisation

Malaysia's industrialization strategy went through four major phases. An import substitution strategy, pursued till 1970, gave way to an export-oriented strategy during 1970- 80 (Amjad, cited in Rasiah, 2002:2). In this study, however, I studied only two phases: the first period of import-substitution (IS1) and the first period of export-orientation (EO1) during 1958 and 1979. (Table 4.3)

First Phase of import-substitution (IS1)

Import substitution was the strategy employed to promote industrial development which concentrated on basic resource-based industries, such as rubber and tin (Economic Planning Unit, 2005). The first phase of IS was implemented under three important development plans after independence, viz., the First Malaya Plan, 1956-60, the Second Malaya Plan, 1961-65, and the First Malaysia Plan, 1966-70. The promotion of import-substituting (IS) industries was aimed at attracting investors into priority sectors, as determined by the prevailing industrial policy.

Unlike typical IS policies, the first period of import-substitution (IS1) was not characterized by high protection and strong State intervention to spawn local industries. The post-colonial industrialization strategy was largely of a laissez-faire kind as it promoted private industry, confining public investment to infrastructure development. From the late 1950s to the early 1960s, trade policies favoured IS but were limited to auxiliary support facilities and tax incentives. Industrialization policy under IS1 showed strong adherence to *neoclassical prescriptions*[15] (World Bank, 1993 cited in Rasiah, 2002:3).

Tariff protection was not used extensively between 1958 and the mid-1960s. Government had four main reasons for having no extensive tariff protection (Alavi, 1996). First, the Government feared deterring imports, as customs duties on these were a major source of revenue. Second, export producers (especially tin and rubber exporters) were worried that increases in import duties would raise input costs and pressure wage increases. Third, the newly-elected Government was reluctant to implement a policy that would be perceived as favouring the

[15] minimum government intervention and preference for subsidies and taxes as industrial promotion tools.

Chinese-dominated business and industrial class. Fourth, large import agencies opposed import-curbing industrialization because it would reduce their participation in distribution activities (Bruton, 1992:261).

In the 1960s, being priority industries, consumer goods enjoyed protection. The protection levels for consumer goods fell sharply while those for intermediate goods rose strongly between 1969 and 1987, as a result of a shift in policy emphasis from final goods consumption. The effective rates of protection (ERP) for consumer goods declined from 72% in 1969 to 9% in 1987 while for intermediate goods they increased from 33% to 65% over the same period (Rasiah, 2002:3).

The lack of tariff protection in the initial IS1 phase restricted expansion, so that the manufacturing sector's contribution to Malaysia's GDP remained at around 9% between 1960 and 1965 (World Bank, 1980 cited in Rasiah, 2002:3).

Following recommendations of a World Bank mission in 1963, the Tariff Advisory Board (TAB) was established and the Federal Industrial Development Authority (FIDA) in 1966 (Malaya, 1963:48-49). These two institutions became critical in development of industrial policy in subsequent years. However, there was not much immediate change in the policy of granting tariffs. Tariff protection was given on an ad hoc basis and in response to pressure by producers or private officials to get their applications approved.

Hence, in 1963 very few industries enjoyed a nominal tariff of more than 30% and non-tariff barriers were almost non-existent (Hoffman and Tan, 1980:58). Import duties were levied only on a limited number of items such as liquor, tobacco, petroleum and motor vehicles, and until 1963 about 73% of the total import revenue was derived from these goods (Teh, 1977 cited in Rasiah, 2002:3-4).

It was only after the mid-1960s that tariff protection became a major policy tool for promoting IS (Hoffman & Tan, 1980). Tariff and non-tariff protection was used vigorously to support the growth of new industries. Urgent applications for such protection were considered by the Action Committee on Tariff and Industrial Development (ACTID), established in 1965. The level of protection increased substantially in the late 1960s, particularly for tobacco, garments, paper, basic metals, electrical machinery and plastic industries, and as more IS industries came into operation. The rubber product subsector enjoyed high protection, particularly after 1967, with the setting up of a rubber tyre industry by Dunlop (Lee, 1975). And there was an increase in the effective rates of protection (ERP) of transport equipment following the establishment of a motor vehicles assembly industry in 1967. Later, protection increased with the level of processing: by 1969, the ERP on consumer goods had reached 85%, as compared to 45% for intermediate goods (Edwards, 1975:293). As a consequence, consumer goods industries grew more rapidly in the 1960s (Alavi, 1996).

Early industrialization in Malaysia was accelerated by IS1 from the mid-1960s, enabling diversification of the economy and reducing excessive dependence on imported consumer goods. The contribution of manufacturing to GDP increased from 8% in 1957 to 12% in 1969, and the manufacturing sector recorded a growth rate of 10.2% in the 1960s (Rasiah, 2002:5).

Criticism: Under IS1, the focus was almost exclusively on supplying the domestic market. In 1970, manufacturing accounted for only 12% of overall exports. There were many reasons for the low contribution of manufacturers to exports. First, the IS industries nurtured by protection were generally inefficient and therefore unable to compete in overseas markets (Ariff and Hill, 1985:18). Secondly, the indirect antiexport bias of protection policy in the 1960s discouraged exports. Thirdly, the tariff protection given was based on applications and without any appraisal and monitoring to ensure that the industries which were granted benefits had the potential to become internationally competitive (Alavi, 1996).

Industrial expansion was rapid only from the mid-1960s as the readily available home market was easily captured behind tariff walls, but it slowed down considerably in the late 1960s. In addition, extensive imports of capital and intermediate goods used in the production of final consumer goods under IS adversely affected the balance of payments. Linkages with the rest of the economy were also weak and limited (Rasiah 2000:5).

As a result, and by following recommendations of international agencies such as the World Bank and the United Nations Industrial Development Organization (UNIDO), An export-oriented strategy was launched in 1970 (Rasiah, 2002:5).

First round of export orientation (EO1)

During 1970 and 1980 a concerted policy moved towards export orientation which was viewed as the springboard for the revival of manufacturing growth and employment absorption. Growing competition and production costs in developed economies had been driving foreign assembly and processing operations to developing economies since the 1960s (Henderson, 1989).

The implementation of the Investment Incentives Act of 1968, while offering substantial EO incentives that included tax holidays and tariff-free movement of goods for exporting firms, investment credits, tax concessions for exports and tax exemption, tariff exemption on raw materials, preferential treatment for import permits and other infrastructural facilities, only managed to attract large capital inflows following the establishment of Free Trade Zones (FTZs) in 1972, and the Licensed Manufacturing Warehouses (LMWs) later. Special visits by government officials to the headquarters of targeted firms were also important. Officials from the Malaysian Industrial Development Authority and Penang Government played a major role by visiting prospective firms directly. International competitiveness was immediately achieved by relocation of giant global firms which have technological and market leadership (Rasiah, 2002:8-9).

Firms located in the EO enclaves have enjoyed the special incentives such as substantial rents that help tilt rent biases from IS firms to EO manufacturing firms (Rasiah, 2002:9). Other incentives to promote employment and industrial dispersal included an accelerated depreciation allowance, labour utilisation relief and locational incentives. Since cheap and docile labour is important to maintain competitiveness in labour-intensive industries, labour regulations were tightened to favour transnational operations. Trade unions were not allowed in the electronics industry until 1989, and thereafter, only in-house unions were permitted (Rasiah, 2002:9).

Although protectionist policies had been blamed for the inefficiency and lack of competitiveness of IS industries, they were further strengthened during this period. Tariff support continued to be provided to industries to enable them to "develop and meet foreign competition" (Malaysia, 1971:155). However, even rising protection levels did not constrain EO industries, as tax holidays and tariff-free regulations helped exporting firms in the Export Processing Zones (EPZs) bypass regulations that affected firms operating in the principal customs area (PCA) (Rasiah, 2002:9).

While implementing the above processes for industrialisation, like South Korea, Malaysia's government also conducted the following processes to upgrade its bureaucracies, to have a secure and smooth relationship between public and private sectors; and to encourage the saving which is one of the factors of achieving their industrialisation.

Upgrading Bureaucracies: Malaysia has gradually introduced measures to upgrade their bureaucracies. Although being in the forefront of the process, it still clearly lags behind the more industrialised economies. Numerous mechanisms have employed to increase the appeal of a public service career, thereby heightening competition and improving the pool of applicants. The overall principles of these measures are: (1) recruitment and promotion are merit-based and highly competitive. (2) total compensation, including pay, perks, and prestige, are competitive with the private sector, and (3) those who make it to the top are amply rewarded (World Bank, 1993:174-5).

Consultative Panels: Until 1983, Malaysia had some consultative panels within ministries that dealt with specialised issues and were concerned mainly with cutting red tape. Many had little private sector participation, but produced concrete results. Since 1983, more deliberation councils have been formed, dealing with broader and more complicated issues such as the budget and trade. But only in 1983 was formal public-private cooperation introduced (World Bank, 1993:186-7).

Mandatory Saving Schemes: Since the 1960s Malaysia has developed mandatory saving schemes (IMF, 1998:89).

Postal Savings Systems: Like Korea, Malaysia also established postal savings systems to encourage small savers by offering a secure and convenient way to deposit their savings through extensive post office networks (IMF, 1998:90).

After mentioning the processes for industrialisation, in the following section the results of these processes will be presented as an economic development.

4.3.5 Economic Development

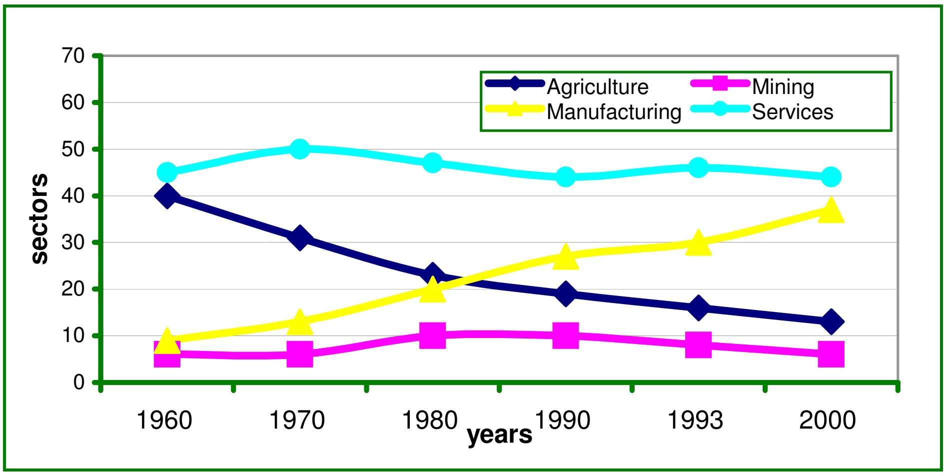
At independence, Malaysia inherited an economy dominated by two commodities—rubber and tin. In the 40 years thereafter, Malaysia's economic record had been one of Asia's best (Nationmaster, 2005). Over the past three decades, Malaysia has been one of the top-performing developing nations (Todaro, 1997:405).

Table 4.4 Structural Changes in Malaysia (1960-2000)

	Share of GDP (%)					
Sector	**1960**	**1970**	**1980**	**1990**	**1993**	**2000**
Agriculture	40	31	23	19	16	13
Mining	6	6	10	10	8	6
Manufacturing	9	13	20	27	30	37
Services	45	50	47	44	46	44
Total	100	100	100	100	100	100

Source: Gomez & Jomo, 1997:41&175

Figure 4.2 Structural Changes in Malaysia (1960-2000)



The trend values of the export-GDP ratio increased significantly from the early 1970s, from around 40% in the first half of the 1970s to over 60% in the second half of the 1980s, and exceeded 80% after 1990. Similar trends can be seen in manufactured exports as a percentage of total exports (Rasiah, 2002:13). From

1965 to 1984, the economy experienced a period of broad diversification and sustained rapid growth averaging 7% to 8%. Palm oil, timber, cacao, and pepper were added to Malaysia's export crops. Moreover Malaysia is the world's leading producer of rubber, tin, palm oil, and tropical timber (Todaro, 1997:405-6).

The export-GDP ratio increased at a modest rate during the 1970s, slowed down in the first half of the 1980s and then increased sharply from about 1987. The export-GDP ratio in 1995 (96%) was twice as high as in 1970. Between 1987 and 1995, the manufacturing sector grew by an average annual rate of 14.5%, with the share of manufacturing in GDP increasing from about 20 percent to over 33 percent. Between these two years, over 50% of the growth in GDP came directly from the manufacturing sector (*Athukorala* & *Menon* 1996:9).

Table 4.5 Growths and Export Orientation in Malaysia, 1970-1995

	GDP		**Per-capita GDP**		**Export-orientation**
	value* (millions of ringgit)	growth (%)	value* (ringgit)	growth (%)	Export/GDP (%)
1965-69	30149	7.08	2902	3.97	46.09
1970-74	35986	9.12	3257	6.04	42.30
1975-79	51703	7.22	4734	4.17	50.44

Notes: * At constant (1990) prices.
Source: IMF, International Financial Statistics Yearbook - 1995 and Malaysia Ministry of Finance, Economic Report 1995 (for estimates for 1995) cited in Athukorala & Menon, 1996:18)

Table 4.6 Manufacture Export Share in Total Exports (%), 1970-1993

Total manufactures #	1970	1975	1980	1985	1988	1990	1993
Value (million US$)	148.1	799.9	2811.3	4603.1	9960.5	22194.6	34201.7
As % of total exports	8.8	20.7	21.7	30.1	47.2	75.4	72.6

Note: # Excuding petroleum products, and processed palm oil and other oil products.
Source: Bank Negara Malaysia, *Quarterly Bulletin*, Kuala Lumpur, various issues, cited in Athukorala & Menon, 1996:19)

Malaysia's overall growth rates have been impressive, averaging 7% per annum in the 1960s and 8% per annum in 1970s. In 1984 GDP per capital reached $2,000 (Todaro, 1997:406). Manufacturing grew from 13.9% of GDP in 1970 to 30% in 1999, while agriculture and mining, which together had accounted for 42.7% of GDP in 1970, dropped to 9.3% and 7.3%, respectively, in 1999. Manufacturing accounted for 30% of GDP (1999). Since the late nineteenth century it has been a major supplier of primary products (tin, rubber, palm oil, timber, oil, liquified natural gas, etc) to the industrialized countries (Drabble, 2004). Moreover, Malaysia is one of the world's largest exporters of semiconductor devices--electrical goods, and appliances (Nationmaster, 2005).

4.3.6 Conclusion

In Malaysia's experience, it is learned that civil service exam results are subject to affirmative action guidelines meant to increase the number of Malays in government. Malaysia's industrialisation was quite successful, but its affirmative action development of the bureaucracy was hindered because it reduced the pool of eligible applicants (World Bank, 1993:189). It also learned that while foreign firms were central to the success of the export processing zones that subsequently emerged, major government initiatives were critical for attracting export-oriented firms during the period 1971-79 (Rasiah, 2002:8).

Like South Korea, Malaysia has performed almost similar processes for their industrialisation. These processes involved the rebuilding of state institutions, encouraging saving and attracting investment and investing in education. But because of lesser commitment of the state to economic development and the lesser competency of economic bureaucracy, the success of Malaysia's industrialisation was less than South Korea.

However, possessing abundant resources and land, a well-educated workforce, a stable political environment, and strong domestic savings that provide adequate funds for investments, Malaysia remains attractive to foreign investors and its prospects for continuing growth and prosperity are good. Moreover, rising currency values in South Korea have also heightened Malaysia's competitive position in the region (Todaro, 1997:406).

Although Malaysia's success was not as impressive as South Korea, it is generally regarded as one of the most successful non-western countries to have achieved a relatively smooth transition to modern economic growth over the last century or so. Its achievements in terms of trade expansion and economic growth are impressive (Drabble, 2004). Moreover, Malaysia's economic progress is often regarded by many, including the World Bank and the International Monetary Fund, as a showcase of successful economic development (Yan, 1994:553).

4.4 Thailand

``It is not important to be an economic tiger. What matters is that we have enough to eat and to live. A self-sufficient economy will provide us just that. It helps us to stand on our own and produce enough for our consumption."

King Bhumibol[16],
1998 cited in Chakulwisut, 2000).

4.4.1 Introduction

Thailand is a constitutional monarchy. The Kingdom of Thailand is situated in the centre of South-East Asia's mainland, with a land area of some 500,000 square kilometres and a population of some 57 million. Differing from most developing countries, it has never been colonised. Its ethnic composition is less diverse than Malaysia, but more divers than homogeneous Korea (Muscat, 1994:4).

Thailand's west and north is Burma; north and east is Laos, in east is Cambodia and it shares a southern border with Malaysia. The monarchy and Buddhism play a central role in society; and the monarchy exercised a strong stabilizing influence behind the scenes. During the 1960s and 1970s there has been some instability in politics. The army lies behind all governments (Wawn, 1982:136-8). During these two decades, Thailand has changed eight Prime Ministers: among them three are from army and one was appointed from army (Wikipedia, 2006j).

4.4.2 Role of the State

Thailand is an authoritarian state. The administration and bureaucratic are highly centralized for a long history (Muscat, 1994:4). Delegation is limited within Ministries and Departments and from the Central Government to local governments, which have little financial and other autonomy. Although the army lies behind all governments, the bureaucracy has remained stable (Wawn,

[16] Thai monarchy, the world's longest-reigning monarch who came to the throne in 1946, and was treated like a demi-god by his people (Chakulwisut, 2000)

1982:136-8). Moreover because of strong opposition from various sections such as press and judiciary, its authoritarianism is not very repressive. The press of Thailand is one of the freest in Asia and it usually opposes the authoritarian regime whenever they extend its controls and suppression to the general populace. Moreover, its judiciary is an autonomous body and not subject to the control of the military and the bureaucracy: it is a long-standing institution that safeguards the encroachment of civil liberties. Whenever authoritarian regimes attempted to be too repressive, the press and the judiciary strongly opposed the regimes (Diamond, Linz and Lipset, 1989:37).

So the state is characterised as 'soft': government has limited ability to impose its policy preferences or decisions on its citizens' economic and other behaviour (Muscat, 1994:4). However politically Thailand has suffered because of harsh authoritarian rule and rampant corruption (Smith, 1997:568).

4.4.3 Government's Economic Policies

The Thai government is laissez-faire and the government's stated policy is to give the private sector the primary role in economic development and to keep its own role relatively small. But, in practice the government's participation in business extends over a number of fields. It controls several important commercial operations such as in paper manufacture, sugar milling and banking. Through the use of variable taxation, it has long controlled rice and sugar prices and also imposed direct controls on the prices of a range of manufactured goods. Import protection has historically been modest, but has increased since the mid-1970s. Investment is guided through the Board of Investment. Interest rates have ceilings (Wawn, 1982:139-140).

Like South Korea and Malaysia, labour movements in Thailand were routinely suppressed at the first sign of radicalism, primarily because of the governments' fear of communism (World Bank, 1993:164-5). Substantial agrarian sectors have widespread land holdings resulting from traditional ownership patterns, (World Bank, 1993:160-1).

In relation to Korea, Thailand has been more typical in its relatively modest volume of aid receipts. Its level of domestic saving and investment was high but not extraordinary like South Korea. Moreover, the extent of the threat to its survival and the pressure that threat put on government to press economic growth and industrialisation was not high compared with Korea (Muscat, 1994:4). The National Economic Development Board (NEDB) charged with planning for economic development limited state planning and instead highlighted "priorities" for the economy. But according to the World Bank (cited in Hartwell and Burki, 2000:19), until the 1980s, Thailand didn't subscribe to the more blatant state-directed economics that both Malaysia and Korea exhibited.

4.4.4 Industrialisation

Thailand's industrialization started in the early 1960s under the highly protectionist import substitution strategy of the First and Second Economic Plans (1961-1971). Before 1958 Thailand tried to copy Japanese and European industries and then it followed a traditional import-substitution strategy, imposing tariffs on imports, particularly on finished products (Smith, 1997:565).

The first Industrial Promotion Act was promulgated in 1954, but implemented only in 1960 with the establishment of the Board of Investment. In 1962 it was revised to promote investment in specific activities, mainly through tariff protection, tax holidays and a reduction of taxes on imported raw materials and machinery (Sunsite Thailand, 2005). Public investments were made in food processing and textiles. Then supported by advice, ranging from the World Bank to the Thais' own Board of Investment, and from the National Economic Development Board to the Ministry of Industry and even the central bank, it veered towards import-substituting plants during the 1960s, to save foreign exchange and build up infant industries (Clad, 1989:100).

Since the early 1960s, when the first development plan was implemented, the government has supported private enterprise and limited government involvement in the economy to the key utility and infrastructure sectors and to maintaining an incentive structure to encourage the private sector. Under this regime, average annual growth rates of value added in manufacturing reached 11% in the 1960s, while the share of primary-process manufacturing declined from 60% to 40%. Consumer goods, petroleum products, and some producer goods industries were established (IMF, 2002).

Mistakes in import substitution: The Second Plan promulgated by the National Economic Development Board (NEDB) in the late 1960s and early 1970s pursued an import substitution model that raised import tariffs to protect local industries. Throughout this period, tariff duties were not prohibitive and were largely imposed for revenue purposes. But to prohibit imports, much of non-tariff barriers were used such as an array of quotas and numeric targets in lieu of taxes. Capital and intermediate goods were imported at "low duty rates. That contributed to an increase in effective protection to value added in import-substituting industries and to declines in effective protection for agricultural and other traditional exports" (Hartwell and Burki, 2000:21).

This phase of import substitution coincided with the end of the Thanom government and the end of United States military support. The withdrawal of military forces at the beginning of the 1970s adversely affected the Thai economy, which had become dependent on the steady stream of revenues. However, Thailand's growth during this phase tapered off, as foreign investment also left the country. The first oil shock of 1973 also harmed the Thai economy, sparking inflation and bringing growth back to a less-than-miraculous 4% a year (Hartwell and Burki, 2000:21). In 1972 in accordance with the government's shift in policy from an import-substitution to an export-oriented economy a new Industrial Promotion law was introduced (Sunsite Thailand, 2005).

Export Promotion: By the late 1960s and early 1970s, a major policy shift towards export promotion had taken place. Thailand has had an active, export-oriented industrial policy (Todaro, 1997:559). Casting about for ways to sustain growth, Thailand slowly adopted the ways of its successful neighbours and moved towards an export-oriented economy. The government sought balanced economic growth and the closing of the income gap, along with improvement of the inequitable distribution of social services (Thailand Economy, 2005). The Third Economic Plan (1972-1976) inaugurated an active phase of export promotion interventions and stressed the necessity for exported growth, but effective levels of protection remained high even throughout the late 1970s. In fact, Thailand did not begin a true move towards export promotion until 1981, as export taxes were reduced and the baht[17] was devalued twice (and subsequently devalued twice more in 1984 and 1985) (Hartwell and Burki, 2000:21).

To restrict majority foreign ownership in certain activities, the Alien Business Law was enacted in 1972. In 1977 a new Investment Promotion Law was passed to provide the Board of Investment (BOI) with more power to provide incentives to priority areas and remove obstacles faced by private investors (Thailand Economy, 2005).

Many Thai departments and institutions are actively engaged in formulating and implementing industrial and trade policies, including the Board of Investment (BOI), the Ministry of Industry, the Ministry of Finance, the Ministry of Commerce, the Fiscal Policy Office (FPO), the Bank of Thailand, and the Department of Customs (DOC) (Smith, 1997:566).

To promote exports, the Board of Investment (BOI) offers a series of arrangements including three-to five-year exemptions from corporate income taxes, reductions or exemptions from business taxes and import duties on imported raw materials and machinery, and additional tax reductions in so-called investment promotion zones. These breaks are increasingly targeted toward specific sectors, following the South Korean example, with moving into higher-value-added, more technologically sophisticated exports. The Board of Investment (BOI), the Department of Customs (DOC), and the Fiscal Policy Office (FPO) also offer various extensive duty drawback and exemption systems for exports and special export credit facilities (Smith, 1997:566).

To attract direct foreign investment, very favourable tax and other inducements are used. According to Smith (1997:566) unlike South Korea, Thailand's export boom has been largely fuelled by a massive inflow of direct foreign investment from Japan and the four Asian Tigers.

In Thailand's pre-takeoff period: the 1970s, tariffs on consumer and light intermediate goods rose dramatically, generally to about 35% to 60%. These goods continue to be relatively highly protected, despite reductions of nominal

[17] Thai currency

tariffs after industries had become established. Average effective rates of protection of manufacturing appears to continue to be over 60%, and the World Bank found Thailand to be one of the most protectionist countries in East Asia. About 40% of imports and exports are banned and restricted: These include 20 published import bans. Thailand publicly describes its motive as raising revenue rather than protectionism (Smith, 1997:566-7).

Following the example of South Korea, Thailand is working hard to establish an export culture in government and industry. The deputy prime minister chairs the Export Promotion Committee that is an influential advisory body with private and public representatives. The prime minister chairs a similar Joint Consultative Committee. Thailand also adopted the South Korean model of export awards and prizes (Smith, 1997:567).

As a result, the growth of manufacturing continued at 10% per annum throughout the 1970s. Clothing and electrical machinery along with producer goods in chemicals, transport equipment, and textiles gained in importance (Smith, 1997:565).

One difference from South Korea is that Thailand has been very open to an active role for multinational corporations; it has placed much less emphasis on promoting indigenous firms and regulating multinationals (Smith, 1997:567).

Like South Korea and Malaysia, Thailand has employed a wide variety of tax policies to increase investment by raising the retained earnings of companies. According to the World Bank (1993:229), Thailand's tax system is one of the most complex systems among HPAEs. Business and income taxes include a bewildering array of rates, mostly high. On top of this, the government adopted a complex system of tax incentives to direct investments into strategic sectors. Since 1960, the Board of Investment has granted investors fiscal incentives such as tax and import duty reductions and nonfiscal concessions (eased restrictions on foreign investment and employment of foreigners) on the basis of the contribution of proposed projects to the balance of payments, employment, development of poorer provinces, and other economic and social criteria. The complexity and lack of bureaucratic capacity have resulted in poor implementation (World Bank, 1993:229).

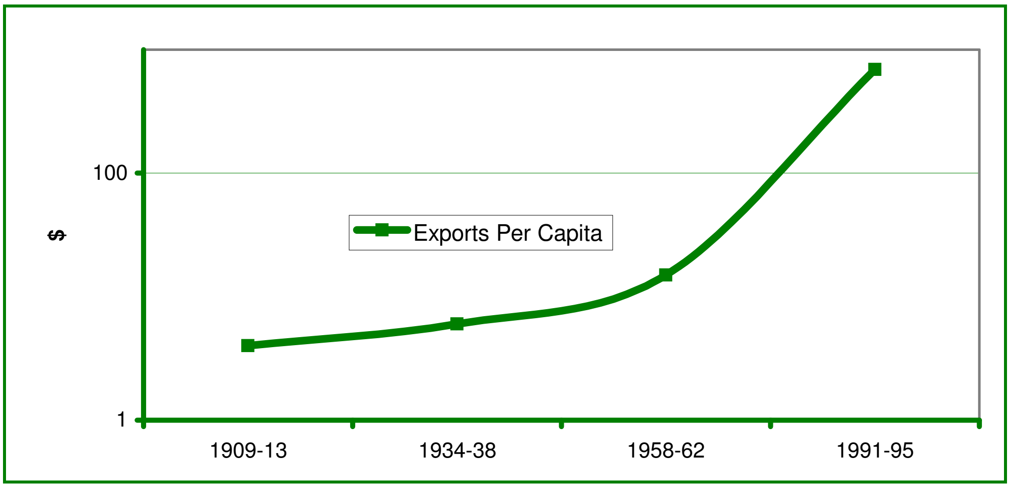
Like Korea, Thailand has tried to use tax policy to provide investment incentives; however, weak administrative capabilities mean such efforts have been distortionary rather than helpful. One study found that 70% of all board-sponsored projects would have proceeded even without incentives. A detailed analysis of seven projects found that three with very high private returns actually had negative social return. Studies also show that Thailand's tax holidays have been inefficient in promoting investment in terms of forgone revenue (World Bank, 1993:228-231).

Table 4.7 Thailand's Exports Per Capita ($), 1909-13 to 1991-5

Country	1909-13	1934-38	1958-62	1991-95
Thailand	4	6	15	692

Sources: 1909-13 and 1934-38: Mitchell (1982:389-92) with additional data from Andrus (1948), cited in Booth, 1998:47.

Figure 4.3 Thailand's Exports Per Capita ($), 1909-13 to 1991-5



Note: Logarithmic scale

In Thailand, during the 1970s and 1980s, corporate saving accounted for almost 45% of total private saving and 8.5% of GDP, on average. The share of corporate saving rose sharply during the late 1980s, to around 60% of total private saving and 13% of GDP (IMF, 1998:89). In Thailand, development banks provided long-term credit to priority industries, small firms, agriculture, housing, and poorer borrowers. Furthermore, as part of their export-promotion strategies, Thai government encouraged the import of technology by promoting inward foreign direct investment geared mainly toward export industries (IMF, 1998:90-7).

Since the early 1960s, Thailand has continued to expand and diversify their export economies. Per capita exports grew almost 50-fold in nominal US$ terms between 1958-62 and 1991-95 (Table 4.6), while at the same time the proportion of exports accounted for by manufactured goods rose from under 20% to over 70% in the early 1990s (Booth, 1998:16).

While implementing the above processes for industrialisation, like South Korea and Malaysia, the Thai government also conducted the following processes to upgrade its institutional capabilities and its bureaucracies, to insulate their economic technocracies, to keep inflation low and manage debt efficiently, to have a secure and smooth relationship between public and private sectors; and to encourage saving which is one of the factors for achieving their industrialisation (World Bank, 1993:170).

For historical reasons, Thailand has been profoundly concerned with low inflation and debt management. Historically, Thai bureaucracy has always had a powerful influence over public administration and policymaking. In 1975, when General Sarit took over the reins of government, bureaucratic reforms were introduced to address macroeconomic imbalance. Since then, keeping inflation low and efficiently managing debt have been among the government's key concerns (World Bank, 1993:171).

To achieve the twin objectives of low inflation and prudent debt management, the Thai government created mechanisms to insulate their economic technocracies. The government's Budget Bureau has tight control of the budget drafting process and has maintained a stable exchange rate and low inflation. To draft the budget, the Budget Bureau consults with the National Economic and Social Development Board about proposed public investments and with the Finance Ministry about expected revenues. It then determines together with the Central Bank how much deficit financing the economy can tolerate without increasing inflation. Having determined aggregate allowable expenditure, it calculates how much each government agency may spend and forwards a broad outline of proposed expenditures to the cabinet (World Bank, 1993:172).

The cabinet may propose changes to the outline before forwarding it to a parliamentary budget committee for evaluation. But since neither the cabinet nor the committee receives budget details, the bureau's proposals usually survive with few alterations. After approval by the committee, the budget outline is submitted to the entire parliament for routine passage. The results have been impressive. Except for the disruptions caused by the 1972 and 1979 oil shocks, the annual inflation rate has been close to 5% (World Bank, 1993:170-2). In Thailand, legislation limited the size of public sector deficits (IMF 1998:99). Its generally superior record at avoiding long-term fiscal deficits and restraining inflation gave people the confidence to save (Neal 1990 cited in World Bank, 1993:205).

Thailand embodies many of these pro-investment policies in their tax codes. These codes varied across economies and over time, both in their specific intent and in the degree of success, but have nearly always aimed broadly to encourage investment. There are four highly specific mechanisms used to encourage investment: (1) low relative prices for capital goods, (2) risk sharing, (3) controls on capital outflows, and (4) mild financial repression (World Bank, 1993:230).

Build domestic institutional capabilities: The programs of the 1950s and 1960s to build domestic institutional capabilities in economics, other social sciences, and public administration were now paying off in terms of the supply of professionally trained personnel, the availability of faculty to undertake policy-oriented research, and the flow of economic and social statistics. Even in the private sector, university-trained professionals began to find employment, a portent of the forthcoming end of the intellectual monopoly long held by the universities and the government (Muscat, 1994: 134).

Insulated bureaucracies: The Bank of Thailand has enjoyed a considerable, albeit fluctuating, degree of autonomy over several decades and was crucial in maintaining a stable monetary and fiscal policy regime through Thailand's years of accelerated growth, while in Thailand technocrats in the Ministries of Finance have been able to insulate key areas of macroeconomic policy-making from overt political interference. In Thailand, for example, the administration of duty drawback schemes, crucial to the rapid growth of a number of export-oriented industries, were placed in the Ministries of Finance to minimise corruption and malpractice (Booth, 1998:18). Thai governments are not hopelessly captured and corrupt, but on the other hand they are frequently beholden to sectional interest groups, and tainted by nepotism and cronyism. Nevertheless the Thai government has been capable of coherent policy formulation and implementation in the face of external shocks, and has thus been able to maintain the momentum of growth over several decades (Booth, 1998:19).

Upgrading Bureaucracies: Like Malaysia, Thailand has also gradually introduced measures to upgrade its bureaucracies, but they still clearly lag behind more industrialised economies. Their bureaucracies have employed numerous mechanisms to increase the appeal of a public service career, thereby heightening competition and improving the pool of applicants. The overall principles of these measures, readily applicable to any society, are: (1) Recruitment and promotion must be merit based and highly competitive, (2) Total compensation, including pay, perks, and prestige, must be competitive with the private sector, and (3) These who make it to the top should be amply rewarded (World Bank, 1993:174-5). Finance-related agencies in Thailand, for example, the Bank of Thailand and the Budget Bureau, have their own personnel and recruitment programmes (World Bank, 1993:189).

These are the processes the Thai government implemented for their industrialisation during the 1960s and 1970s. Because of these processes Thailand became one of the most successful economies together with South Korea and Malaysia. In the following section, the outcome of these processes will be presented as an economic development section.

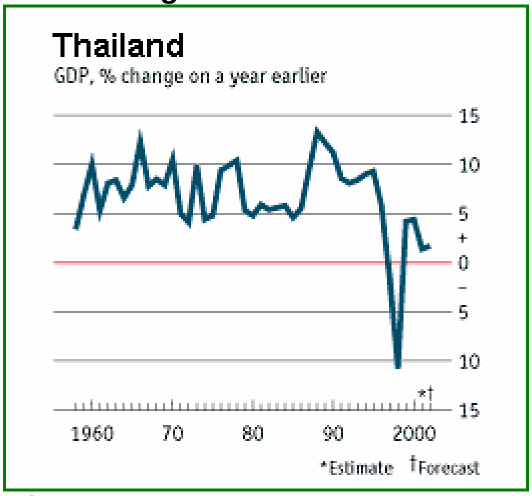
4.4.5 Economic Development

In the 1960s and 1970s, Thailand was among the fastest growing and most successful developing countries in the world. Rapid growth in production was impressive, especially in the 1970s. Between 1960 and 1970, the country's average annual growth rate of gross domestic product (GDP) was 8.4%, between 1970 and 1980, 7.2% (*Thailand Economy*, 2005).

Table 4.8 Thailand's Average Annual GDP Growth Rate

	1960-70	1970-80	At the end of 1980s
Average annual GDP growth rate	8.4 %	7.2 %	Over 11 %

Figure 4.4 Thailand's GDP, % Change On A Year Earlier



Source: IMF; Economist intelligence Unit cited in Economist, 2002.

At the end of the 1980s, Thailand led the world in GDP growth, with over 11% annual increases in 1988, 1989, and 1990. (See figure 4.4 for detailed trend.) Since 1986 an explosive growth in exports and investment has renewed the speculation of the late 1970s that Thailand would become the fifth East Asian Tiger. A strategy of growth through the export of manufactured goods was at the core of this success. In 1965, just 4% of Thailand's exports were manufactured goods, but by 1992, this figure had reached 77% and a substantial diversification of manufactured exports had taken place. Since 1986, the annual growth rate of merchandise exports has reached 25% (Smith, 1997:566).

By the early 1980s Thailand was optimistic that it would emerge as a rapidly industrialising country with bright prospects for continued growth and industrialisation (Hewison, 1987). In his 1987 study Kevin Hewison (1987) notes four reasons for the optimism: (1) local Thai ownership of much of the domestic manufacturing base; (2) a relatively constant growth rate; (3) an almost minuscule foreign debt burden; and (4) regained political stability after upheavals in 1973 and 1975. This seemed a sound base at the time and also reflected a different approach by Thailand's economic managers.

4.4.6 Conclusion

However, growth does not always equal true development. Although the economy was growing, Thailand had serious problems, including choking urban pollution, one of the Third World's most menacing AIDS epidemics, and horrendous conditions for impoverished women, including teenage girls who are often sold as prostitutes into virtual slavery. The country has suffered politically under harsh authoritarian rule. Corruption is rampant in Thailand, and economic policies seem to have more frequently reflected rent seeking (Smith, 1997:568).

In the experience of Thailand, it is learned that although the processes which they have taken are not so different from South Korea and Thailand, the intensity of state commitment, the capacity and commitment of politicians and bureaucracy are quite different to South Korea. These differences made its economic development less than South Korea. Additionally, the instability of the political situation in these two decades also gave reasons for lesser success.

At the end of 1978 a confidential report of the World Bank (1978 cited in Clad, 1989:116), leaked to the press, revealed that one-third of all agricultural households in Thailand, or about nine million people, still lived in conditions of absolute poverty. The report criticised not only the rich landlord interests but also the invariably corrupt bureaucracy, for failing to confront Thailand's poverty. This truism remains; a land reform programme dating from the 1970s has become stymied by powerful landed interests, one of many reasons for Thailand's dismal agricultural productivity. Meanwhile, the absolute number of absolute poor has grown.

The preface to another World Bank study (1980 cited in Clad, 1989:116) said that 'analysis of economic change in Thailand over the two decades i.e., during the 1960s and 1970s, clearly shows that rapid and sustained growth has lifted a very substantial proportion of the population out of absolute poverty but also that a significant proportion of the rural population, particularly in the outer regions, has been left out of the process of economic change.'

In sum, Thailand has had an active, export-oriented industrial policy that seems by and large to have approximated a response to market failures in technology and skills upgrading. Its record on poverty, women, distribution, the environment, and inequality is not the best in its region. Thailand does not have a pristine development record. It has paid an environmental price for its growth, policy successes have often come in spite of corruption, and terrible social injustices persist. These experiences illustrate the idea that it is not just any exports, but increasingly sophisticated manufacturing or service exports that matter for long-term growth. Government policy can make a large difference—either for good or for ill (Smith, 1997:568,570).

4.5 Conclusion

From the experiences of the three countries mentioned in this case study chapter, it is learned that they use almost the same policy and strategies as well as the same measures. Policies involved education policy, banking policy, tax policy and. Strategies involved import-substitution, export-promotion, and measures involved export incentives, institution setting and postal savings systems. During their industrialisation, the inputs and processes are almost the same.

Table 4.9 Share of Manufacturing value added in GDP (%), 1965-2000

	1965-70	1971-75	1976-80	1981- 85	1986-90	1991-95	1996-2000
Korea	19.21	23.99	27.32	28.79	30.62	28.99	30.16
Malaysia	10.81	15.59	19.86	19.58	21.80	26.06	28.24
Thailand	14.97	18.59	20.48	22.18	25.58	28.05	29.37

Sources: Lancaster University (2005).

Figure 4.5 Share of Manufacturing value added in GDP (%), 1965-2000

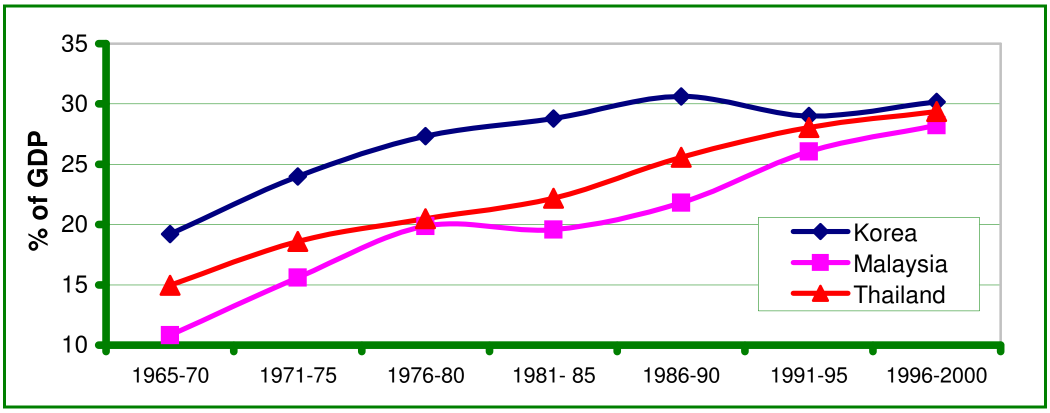


Table 4.10 Share of Manufacturing value added in total exports (%) (1965-2000)

	1965-70	1971-75	1976-80	1981- 85	1986-90	1991-95	1996-2000
Korea	68.82	83.04	87.76	90.92	92.76	93.09	91.38
Malaysia	5.42	11.86	16.99	24.17	44.46	68.60	77.87
Thailand	3.16	12.31	20.60	30.81	53.76	69.78	72.80

Sources: Lancaster University (2005).

Figure 4.6 Share of Manufacturing value added in total exports (%)

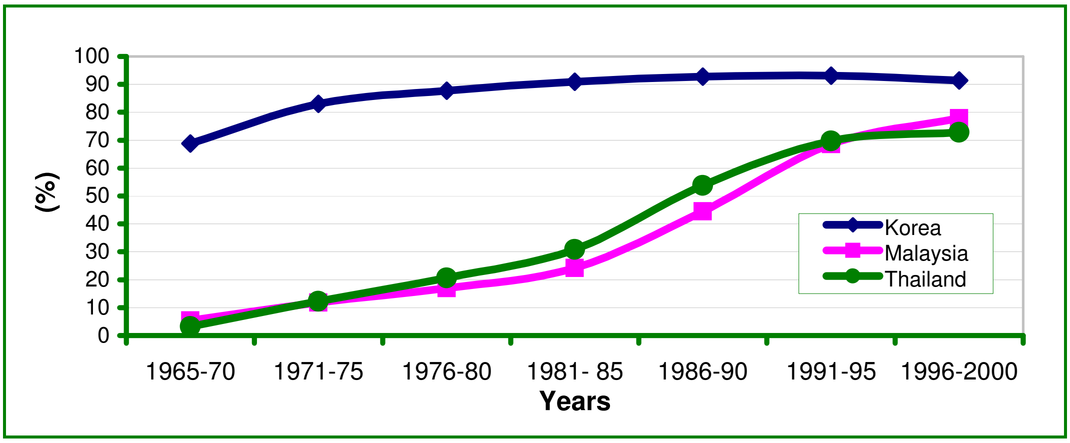
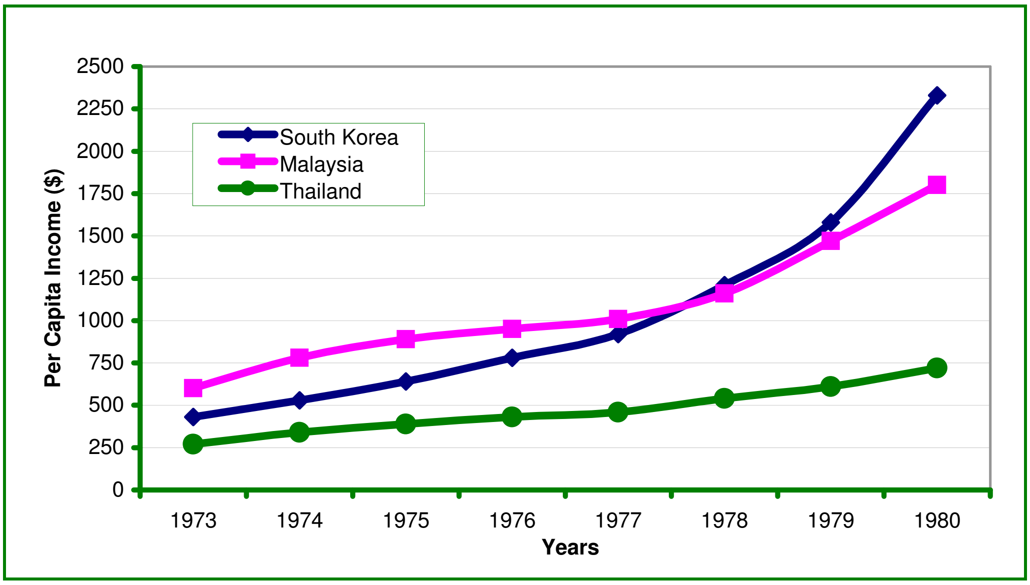


Table 4.11 Per Capita Income at Current Prices ($)

Country	1973	1974	1975	1976	1977	1978	1979	1980
South Korea	430	530	640	780	920	1210	1580	2330
Malaysia	600	780	890	950	1010	1160	1470	1800
Thailand	270	340	390	430	460	540	610	720

Sources: Asian Development Outlook, 1995-1997; World Tables, 1995

Figure 4.7 Per Capita Income at Current Prices ($)



But as mentioned in table 4.9, 4.10, 4.11 and figure 4.5, 4.6, 4.7, their economic developments are not the same as each other. South Korea has very high success while Malaysia and Thailand have more success than other developing countries but not as high as South Korea.

The prime difference in the experiences of South Korea, Malaysia and Thailand during their industrialisation is the intensity of political will to economic development. The political will to economic development of the South Korean government is unusually high, but the political will of Malaysia's and Thailand's governments have not been strong enough. In Korea, the industrialisation was started in earnest and with a strong leader who was so dedicated to economic development and wanted to improve the life of the common people suffering from poverty (Vogel, 1991:50-1). But a similar commitment and political will of the government was not found in Malaysia and Thailand.

As mentioned in the case study of South Korea, the important role of the president in economic planning is very visible. During industrialisation, especially in the export-promotion period, at the very top, the president, Park selected a small group of able business executives and economic technocrats with whom he met regularly, and accepted advice from knowledgeable people for the country's economic development (World Bank, 1993:183).

Another difference is the social and institutional capabilities. The bureaucracy and economic technocracy in all of these three countries are insulated and quite free from the influence of politicians, but the ability of the Malay and Thai bureaucracy and technocracy was not qualified as high as in South Korea. Moreover in Malaysia and Thailand the institutions that facilitate communication and cooperation between the private and public sectors are not so well-found as in South Korea.

In South Korea, the president himself presided over the monthly export-promotion meetings and held discussions with the economic ministers and top business leaders. At these meetings businessmen expressed their views about markets, regulations, and potential plans. The president then instructed specific ministers to attend to each important issue; at the next meeting, the ministers delivered a progress report on their assigned tasks (World Bank, 1993:183). However in Malaysia and Thailand, the deliberation councils for communication between government and business sector exist but are not well-found and not functioning well. Largely because of weak institutional capabilities, both Malaysia and Thailand have not had as much success as South Korea.

This study found one point that was quite interesting; i.e. the numbers of heads of state involved during their two decades of industrialisation. In South Korea the president was only one person from 1960 to 1979. During these two decades, Malaysia had three Prime Ministers and Thailand had eight Prime Ministers: among them three are from the army and one was appointed from army (Wikipedia, 2006j). However in one thing Thailand was fortunate that was in having a bureaucracy and technocrats who were insulated from politicians and who have enjoyed a lot of freedom from the influence of politics. Like South Korea, Thailand had economic advisors from the United States of America during the whole world war. Additionally, as a special favour during the Cold War, both of them have access to the markets of the United States of America and Europe.

In the next chapter, the research questions of this study will be answered and the lessons will be presented for Burma’s coming industrialisation.

Chapter 5
ASSESSMENT AND FINDING

"The overall lesson is that you need a committed and well-coordinated government which focuses on economic growth."

***Ha-Joon Chang**, 2006 cited in Lee (2006:9)*

5.1 Introduction

In the previous chapter, the process of industrialisation of three Asian countries during the 1960s and 1970s was mentioned by applying the evaluation framework introduced in Chapter 2: Literature Review. It is obvious and many studies agree that although the levels of success differed with each country, their industrialisation processes were successful. In this chapter: assessment and finding, the research questions of this study are going to be answered.

As discussed in the literature review chapter, industrialisation implies greater economic specialisation in production geared to national and international markets. The outcome will be a significant increase in the share of manufacturing in the total output of a country (Chandra, 1992:4). The research questions of this study are to find out how these three countries have implemented their industrialisation process in order to get a significantly increased share of manufacturing in the total output of their country, what the benefits and drawbacks of the government's implementations for their industrialisation are, and the lessons for Burma in terms of industrialisation. In the following section the research questions of this study will be answered.

5.2 Government's implementations for industrialisation

<u>The first research question of this study is what steps have government implemented to restructure their economy through policies, strategies and measures for industrialisation. In the following section I am going to answer this question.</u>

> *"Market incentives may not directly coincide with social incentives and so government regulation is required, as is in the case of pollution. Some industries which may not generate money today,*

may do so in the future and prove conducive to the rest of the economy's growth. A useful analogy would be raising a child. You can either subject a child to work from an early age or provide him/her with the opportunity to get into better paid professions, which would require parental support and investment in education. Likewise, by providing breathing space for their companies to acquire and develop the necessary technology for global competition, the government can enhance the industries' chance of success"

***Ha-Joon Chang**, 2006 cited in Lee (2006:8)*

5.2.1 Policies that created the Success

As mentioned in Chapter 4: Case Studies, during their industrialisation process, the governments of South Korea, Malaysia, and Thailand generally used two kinds of policies: 1) intervention policies, and 2) fundamental policies. Their development policies were fundamentally sound and were conducive to rapid growth (World Bank, 1993:5).

Takatoshi Kato[18] (2004) states that beginning in the 1950s, East Asian countries including South Korea, Malaysia and Thailand — faster in South Korea, slower in Malaysia and Thailand —adopted wide-ranging policies aimed at transforming themselves into fully-fledged market economies. To provide a stable backdrop for business to grow, sound macroeconomic policies were indispensable; all of these three countries put them into place. At an early stage, they all recognised the importance of infrastructure investment as an aid to exporters and import-competing firms, and they took appropriate measures. Later in the reform process, they all place greater emphasis on liberalization of the trade and financial sectors. Thus the main thrust of economic policy became an outward orientation with strong incentives for exporters, and a commitment to growth through trade (Kato, 2004).

The industrialisation of South Korea, Malaysia, and Thailand during the 1960s and the 1970s utilised a wide variation of industrial strategies, including a mixture of import-substituting (IS) and export-oriented (EO) strategies (table 5.1). In the

[18] Deputy Managing Director of International Monetary Fund (IMF)

following section, a summarisation of the industrialisation processes in South Korea, Malaysia and Thailand during the 1960s and 1970s are will be presented.

Table 5.1 Strategies of Industrialisation	
South Korea	Import-substitution in early 1960 rapidly followed by export-oriented industrialization.
Malaysia	1958-69: First Period of Import Substitution Strategy 1970-80: First Period of Export-oriented industrialisation 1981-84: Second Period of Import Substitution Strategy Since 1985: Second Period of Export-oriented industrialisation
Thailand	1960-70: First Phase of Import Substitution strategy; 1970-72: Second Phase of Import Substitution strategy; After 1972: Export-oriented industrialisation

South Korea: Like most other developing countries, South Korea began its drive for industrialisation with import substitution that was favoured until 1960 (IMF, 1998:96). In the early 1960s, government policy shifted away from import substitution towards export orientation. Policy planners selected a group of strategic industries to back. In 1961 commercial banks were nationalised and decided to which parts of the economy investment was to be directed. Under the control of government, commercial banks borrowed from abroad and then channelled those funds to companies investing in approved exporting industries. New industries were nurtured by making the importation of goods difficult. When the new industry was on its feet, the government worked to create good conditions for export. Incentives and subsidies included bank loans with almost zero interest to businessmen for the promotion of exports and strategically selected export sectors. As incentive devices, contests were arranged among exporters and resources were allocated to the firms that achieved the highest performance standards (Booth, 1998:8). To acquire foreign technology, South Korea did not encourage FDI (foreign direct investment) but instead encouraged the development of indigenous competence through the liberal use of foreign consultants and technology-licensing agreements (Komiya, Okuno, and Suzumura 1988; Enos and Park 1988 cited in Noland and Pack, 2005:6).

Getting free access for their products in the American market because of being US's strong ally, made the export environment very hospitable for South Korean products. In South Korea, exporters were considered as "true patriots" of the country and bank loans were arranged for them to promote exports. In the 1970s, industrial policy emphasis shifted from pursuing labour-intensive industries to promotion of Heavy and chemical Industries (HCIs). To support this endeavour, the bank loans were redirected to HCIs. The Government provided loans for these billion-dollar projects (Adelman, 1999).

Malaysia: Malaysia's industrialization strategy went through four major phases: (1) first period of import substitution strategy (IS1) (1958-69), (2) first period of export-oriented strategy (EO1) (1970-80), (3) second period of import substitution strategy (IS2) (1981-84), and (4) second period of export-oriented strategy (EO2) (since 1985). Early industrialisation in Malaysia was accelerated by import-substitution. Unlike typical IS policies, the first period of import-substitution was not characterised by high protection and strong State intervention to spawn local industries. Tariff protection was not used extensively between 1958 and the mid 1960s. Non-tariff barriers were almost non-existent (World Bank, 1993:135). Import duties were levied only on a limited number of items (Rasiah, 2002:3-4). But after the mid-1960s, the tariff protection became a major policy tool for promoting import substitution and tariff and non-tariff protection was used vigorously to support the growth of new industries.

An import substitution strategy pursued till 1970 gave way to an export-oriented strategy during 1970- 80 (Amjad, cited in Rasiah, 2002:2). Prior to the 1970s, Malaysia promoted specific industries primarily through tariffs and quotas and the provision of basic infrastructure. In the early 1970s, export-oriented industries were promoted through the Investment Incentives Act of 1963, the establishment of EPZs[19], and restrictions on labour unionisation to entice trans-national corporations looking for low-cost production sites abroad. The investment included investment credits, tax concessions for exports and tax exemption, tariff exemption on raw materials, preferential treatment for import permits and other infrastructure facilities. The EO drive through EPZs transformed the industrial sector into a significant economic activity (Kanapathy, 2000:2).

Thailand: In the early 1960s, slightly later than Malaysia, Thailand started industrialisation with the highly protectionist import substitution strategy of the First and Second Economic Plans (1961-1971) (Smith, 1997:565). The first Industrial Promotion Act was promulgated in 1954, and implemented in 1960 with

[19] Export-Processing Zones

the establishment of the Board of Investment. In 1962 it was revised to promote investment in specific activities through tariff protection, tax holidays and reduction of taxes on imported raw materials and machinery (Sunsite Thailand, 2005). Public investments were made in food processing and textiles (Clad, 1989: 100).

In 1970, because of lacking complete success in terms of general prosperity, Thailand started a second phase of import substitution strategy untill 1972. The objective was to enable heavy industries to emerge. Major policy changes involved increases in import licensing and steps to obtain investable funds from domestic markets. Functioning as a contributor to industrialisation, the banks became an important influence on the type of businesses that were given an advantage (University of New South Wales, 2006).

In 1972, an export promotion strategy was introduced to stimulate manufactured exports (Siriprachai, 1998:11). Export promotion became a specific direction of the Thai Government, working through the Board of Investment. The practice of granting relief from taxes and duties was established for export production as well as special depreciation allowances. Credit from the banking system was allocated on a preferential basis. During this strategy, the quality of cotton textiles, leather goods, electronic components, and downstream processing of raw materials was significantly improved and these industries became leading exporters and the manufacturing sector became responsive to changing market conditions (University of New South Wales, 2006).

Intervention Policies: As mentioned above, all of these three countries used intervention policies with varying degrees of intensity to alter market incentives during their industrialisation process. All of the governments have intervened systematically and through multiple channels to foster development, and in some cases the development of specific industries. The broadest interventions were generous incentives for manufactured exports (World Bank, 1993:89). The following ten forms of intervention are noted in these three countries' experiences. They are

1) keeping deposit rates low

2) maintaining a ceiling on borrowing rates (because of No.1 & No.2, profits and retained earnings have increased)
3) targeting & stabilizing credit to selected industries
4) protecting domestic import substitutes
5) subsidizing declining industries
6) establishing and financially supporting government banks
7) making public investments in applied research
8) establishing firm- and industry-specific export targets
9) developing export marketing industries, and
10) sharing information widely between public and private sectors (by using deliberate councils) (World Bank, 1993:89).

In Chapter 2, the evaluation framework was presented. In the evaluation framework, an approach of input (activities), process, outcome and impact indicators was adopted to evaluate the goals and objectives of the policy (Figure 5.1). Input is a means used for the industrialisation process, i.e., import-substitution strategies, export-orientation strategies, macroeconomic policies, etc. Processes are series of actions or steps towards achieving industrialisation. Outcome is an actual or intended change in economic conditions that reflect more immediate results from government policies and strategies. Impact is the overall and long-term effect of an intervention. In the following table (5.2) the inputs, processes, outcomes and impacts in the industrialisation processes South Korea, Malaysia and Thailand were mentioned. This table was compiled from the previous section of government's economic policies mentioned in Chapter 4: Case Studies.

Table 5.2 Inputs, Processes, Outcomes and Impacts in Industrialisation

Inputs	SK	M	T
Macroeconomic policies	√	√	√
Banking polices	√	√	√
Fiscal policies	√	√	√
Anti-inflationary Policies	√	√	√
Education policies	√	√	√
Export-promotion strategies	√	√	√
Institutional setting	√	√	√
Deliberation Councils	√	√	√
Tax policies	√	√	√
Postal savings systems	√	√	√

Tax Incentives	√	√	√
Non-Tax Incentives	√	√	√
Export Incentive and Subsidies	√	√	√
Processes	**SK**	**M**	**T**
Suppressing labour movements	√	√	√
Building up infant industries	√	√	√
Establishing an export culture	√	√	√
Establishing Export Processing Zones (ETZs)	√	√	√
Establishing Free Trade Zones (FTZs)	√	√	√
Liberalising trade	√	√	√
Developing more effective management systems	√	√	√
Heavy-investment in the expansion of education at the primary and secondary levels	√	√	√
Encouraging export growth	√	√	√
Tax holidays and reduction of taxes	√	√	√
Reduction in export taxes	√	√	√
Special export credit facilities	√	√	√
Favourable tax and inducements	√	√	√
Offering a secure and convenient way to deposit	√	√	√
Removing obstacles faced by private investors	√	√	√
Fixed exchange rate system	√	√	√
Contests among exporters with key bureaucrats acting as impartial referees	√	√	
Recruiting and promoting based on capabilities and performance	√	√	
Recruiting heavily among academics with advanced degrees	√	√	
Tax Rebates and Holidays Special exemptions	√		√
Exemption of interest income from tax	√		√
Currency devaluation	√		√
Joint Consultative Committee	√		√
Export Promotion Committee	√		√
Adopting export awards and prizes	√		√
Sharing up-to-date information	√		√
Corporate income taxes exemptions		√	√
Promoting investment		√	√
Tax concessions for export		√	√
Nationalising the banks	√		
Subsidising loans	√		
Investment in the expansion of general, vocational and on-the-job training	√		
Borrowing foreign capital and redistributed it to private companies through banks	√		
Allocating credit and resources to those firms	√		
Adopting International standards	√		
Monitoring the activities of civil servants	√		
Emphasising agriculture and infrastructure	√		
Investment credit		√	
Accelerated depreciation allowance		√	
Labour utilisation relief		√	
Locational incentive		√	
Mandatory saving schemes		√	
Saving foreign exchange			√
Granting a wide range of fiscal and non-fiscal incentives			√

	SK	M	T
Corporate income tax holidays			√
Providing guarantees against nationalisation, state competition and price controls			√
Outcomes and Impacts	**SK**	**M**	**T**
Resources shifted rapidly into the export sector	√	√	√
Unusually high-rate of saving	√	√	√
Close and cooperative relations between government and private sector	√	√	√
Export-driven economy developed	√	√	√
Products become cheaper and more competitive in overseas markets	√	√	√
Exports were promoted	√	√	√
Significant increase shared of manufacturing in the total output of a country	√	√	√
Increased Annual growth rates of value added in manufacturing	√	√	√
Improved Work ethic	√	√	
Bureaucracy had become reputable	√	√	
Achievement of international competitiveness	√	√	
Highest performance standards were achieved	√		
Entrepreneurial activity was augmented	√		

Note: SK = South Korea; M = Malaysia; T = Thailand

However, these inputs and processes as well as intervention policies are not enough to have a successful industrialisation process. Policymakers in other developing economies have followed these similar paths, but they have often met with failure. The reason for failure is lacking the balance between fundamental and intervention policies. In Thailand, balanced budget laws and legislative procedures constrained the scope for subsidies. In Korea and Malaysia, when fiscal costs threatened the macroeconomic stability, during their heavy and chemical industries drives, governments pulled back (World Bank, 1993:7).

Along with intervention policies, they also applied four kinds of fundamental policies: 1) macroeconomic policies, 2) banking policies, 3) education policies, and 4) agricultural policies (World Bank, 1993:5).

Table 5.3 Macroeconomic Indicators of Korea, Malaysia, and Thailand
1975–85 (average) (% of DGP)

	Growth	Inflation	Fiscal Balance[1]	Current Account Balance
Korea	7.6	13.5	–2.2	–3.7
Malaysia	6.3	4.8	–5.3	–3.2
Thailand	6.6	7.2	–3.7	–5.5

Note: 1Central government.
Source: IMF, 1998:101

Macroeconomic Policies: They have good macroeconomic management and unusually stable macroeconomic performance (table 5.1). These policies kept price distortions within reasonable bounds and they were open to foreign ideas and technology. This macroeconomic situation provided the essential framework for private investment (World Bank, 1993: 5).

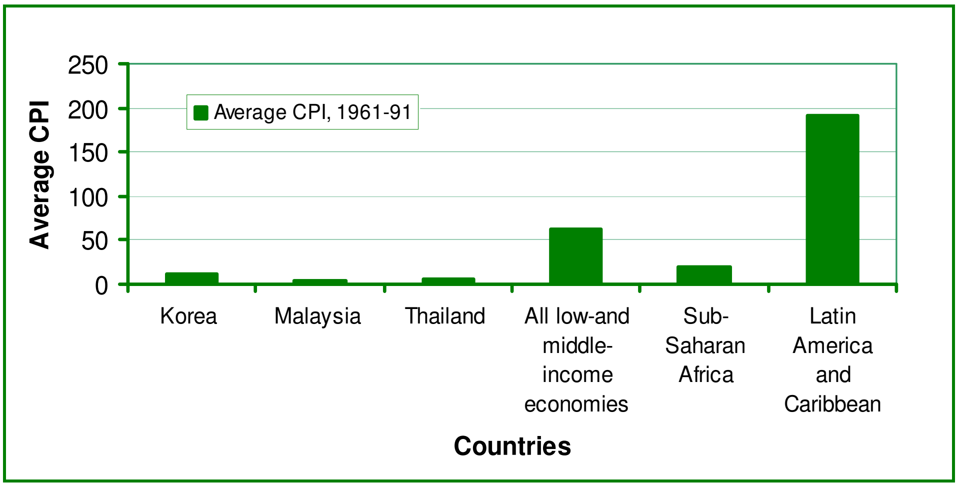
During 1961 and 1991, the average CPI (Consumer Price Index) of Korea was 12.2, Malaysia was 3.4 and Thailand was 5.6. But in all low-and middle-income economies, the average CPI was 61.8. Their generally superior record at avoiding long-term fiscal deficits and restraining inflation (table 5.2) gave people the confidence to save (Neal 1990 cited in World Bank, 1993:205).

Table 5.4 Inflation Rate In South Korea, Malaysia, and Thailand

Economy	Average CPI, 1961-91
Korea	12.2
Malaysia	3.4
Thailand	5.6
All low-and middle-income economies[20]	61.8
Sub-Saharan Africa	20.0
Latin America and Caribbean	192.1

Source: World Bank, 1993:110

Figure 5.1 Inflation Rate (1961-91)



Together with this macro economic policy, they also used banking policy to increase the integrity of the banking system, and make it more accessible to non-traditional savers.

[20] Low-income economies are those with a GNP per capita of $635 or less in 1991; Middle-come economies are those with a GNP per capita of more than $635 or less than $7,011in 1991 (World Bank, 1993:XV)

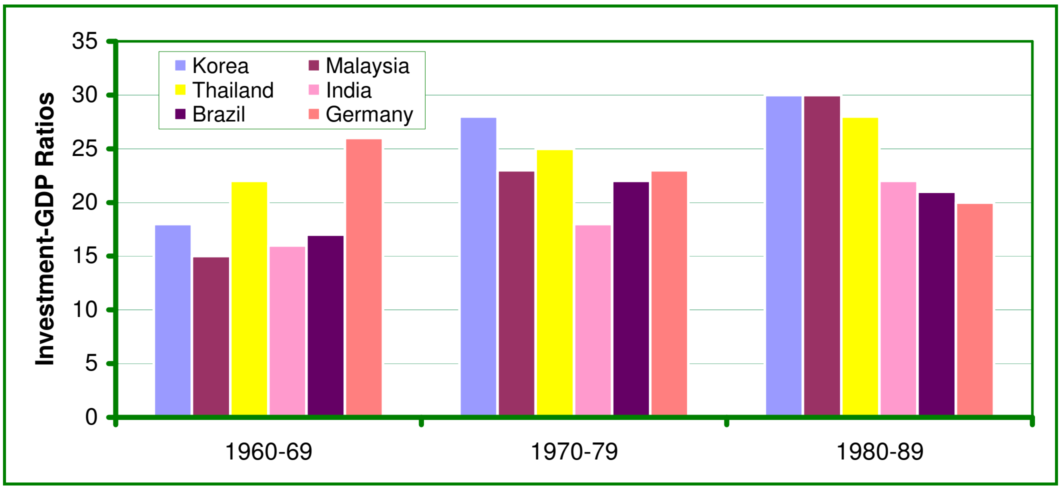
Banking Policies: These three governments have attached great importance to maintaining savers' confidence in financial institutions. Often their policies have gone beyond prudential regulations to include protecting banks from competition to increase the financial strength of banking institutions. When necessary, all governments have bailed out troubled financial institutions through financial and management assistance or mergers with stronger banks (World Bank, 1993:213).

Table 5.5 Investment-GDP Ratios in 1960 and 1996 (%)

Country	Averages		
	1960-69	1970-79	1980-89
Korea	18	28	30
Malaysia	15	23	30
Thailand	22	25	28
India	16	18	22
Brazil	17	22	21
Germany	26	23	20

Note: Investment refers to gross fixed capital formation plus change in investors; Data for Malaysia, Thailand, India and Brazil start in 1963
Source: IMF, 1998:88

Figure 5.2 Investment-GDP Ratios in 1961 and 1991 (%)



Nearly all governments regulate the creation of new financial institutions and the entry of foreign financial institutions to try to ensure that newcomers are solvent and will remain so. They have also limited competition and protected existing banks both from foreign banks and from new domestic competitors. With entry restrictions, governments have a more discretionary tool to influence the behaviour of banks than net worth requirements, and can exercise discretion in deciding which banks should expand through more branches. Banks have an incentive to respond to governments' actions lest they forgo the additional profits from asset growth (World Bank, 1993:215).

These policies raised the levels of financial savings. Over the past two decades gross fixed investment as a proportion of GDP of South Korea, Malaysia, and Thailand rose steadily and markedly to about 30%. Investment rates in Korea, Malaysia, and Thailand have been exceptionally high, at around 30% of GDP, in the 1980s (IMF 1998:88) (Table 5.3).

Besides these banking policies, they also used Postal-run savings schemes and Restrictions on luxury consumption to encourage domestic saving.

Postal-run savings schemes and Restrictions on luxury consumption: Government postal-run savings schemes that lowered transaction costs for small savers and offered them relatively high levels of security have been identified as important mechanisms for tapping into savings of low income households in Republic of Korea, Malaysia. Restrictions on luxury consumption, such as tariffs on high value consumer imports, and restrictions on consumer financing may also have had some positive impact on savings (Weiss, 2005: 13). Because of these measure, in the 1980s, domestic saving in percentage of GDP have been exceptionally high, over 30% of GDP in South Korea and in Malaysia, and 26% of GDP in Thailand (Table 5.6).

Table 5.6 Domestic Saving in export boom periods (% of GDP)

Country	1960s	1970s	1980s
Republic of Korea	9	22	31
Malaysia	25	29	33
Thailand	22	26	26

Source: Leipziger and Thomas, 1997 cited in Weiss, 2005:12.

Agriculture Policies: Moreover they have agricultural policies that stressed productivity without taxing the rural economy excessively.

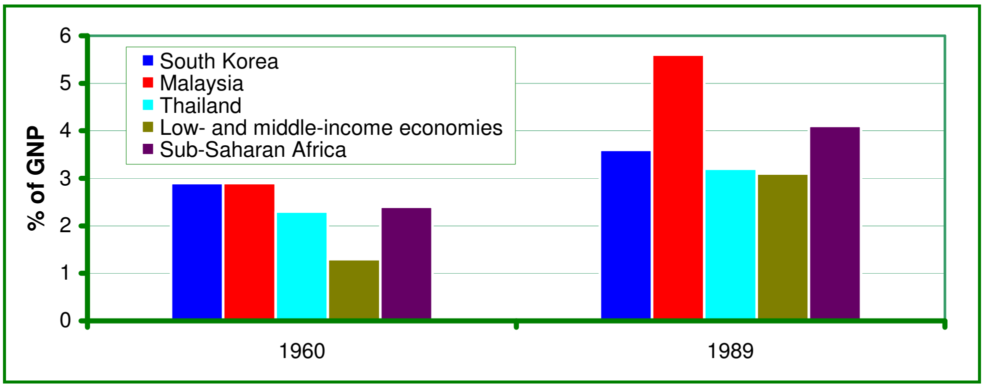
Education Policies: One of the prerequisites for any form of industrialisation is a well-educated workforce. In these three countries, the state placed heavy emphasis on human capital development. They have education policies that focus on primary and secondary schools. In table 5.5 we can see their education expenditure during 1960 and 1989. Because of these education polices, their labour force skills have increased rapidly (IMF 1998:88).

Table 5.7 Public Expenditure on Education in 1960 and 1989
as % of GNP

Economy	1960	1989
South Korea	2.9	3.6
Malaysia	2.9	5.6
Thailand	2.3	3.2
Low- and middle-income economies	1.3	3.1
Sub-Saharan Africa	2.4	4.1

Source: World Bank, 1993:198

Figure 5.3 Public Expenditure on Education in 1961 and 1991



By raising the skill level of the workforce, education and training contribute directly to the expansion of an economy's productive capacity and growth potential. Human capital accumulation also affects economic growth in indirect ways. Physical capital equipment and skill levels are often complementary, so that an increased availability of skilled labour may induce greater investment; conversely, as is the case in a number of developing countries, a paucity of skilled labour may deter certain types of investment (IMF 1998:88).

Moreover there are perquisites for their success. That is "developing institutional mechanisms" which can allow them to establish clear performance criteria for selective interventions and to monitor performance (Amsden, 1989 cited in World Bank, 1993:5). In the following section the developing institutional mechanisms are going to be discussed.

Developing Institutional Mechanisms

> *"A first best policy in the wrong institutional setting will do considerably less good than a second best policy in an appropriate setting."*
>
> ***Rodrik**, 2004:17-8*

Building a Reputable Civil Service: While insulation of the technocracy may be necessary, it is hardly sufficient in the long term. To sustain growth, a bureaucracy must have the competence to formulate effective policies and the integrity to implement them fairly. The more policymakers attempt to fine tune the economy, the greater the need for competence and honesty. Korea has been successful in building relatively competent and honest bureaucracies. Malaysia and Thailand have gradually introduced measures to upgrade their bureaucracies. Their bureaucracies have employed numerous mechanisms to increase the appeal of a public service career, thereby heightening competition and improving the pool of applicants (World Bank, 1993:174).

Merit-Based Recruitment and Promotion: In terms of recruitment and promotion, Korea relies on exams and performance but has supplemented these filters by recruiting heavily among academics with advanced degrees. As late as 1960, the Korean civil service was widely viewed as a corrupt and inept institution. In less than two decades, this view has been dramatically altered. By the late 1970s, the bureaucracy had become one of the most reputable in the developing world (World Bank, 1993:175).

In 1961, when General Park Chung Hee's took over the state's power, the turnaround began. Realising the need for a competent and honest bureaucracy to help him achieve his goal of bringing Korea into the ranks of the industrialised world, Park reorganised the civil service and replaced the spoils system, which had governed personnel management, with a merit-based system. Monitoring of the activities of civil servants was improved, and recruitment and promotion became based more on capabilities and performance. A retirement system patterned after Japan's was introduced to encourage bright individuals to remain in the bureaucracy. This plan induced stiff competition among bureaucrats and improved the work ethic (World Bank, 1993:175-6).

However, in Malaysia, civil service exam results are subject to affirmative action guidelines meant to increase the number of Malays in government. Because this reduces the pool of eligible applicants, it probably hinders development of the bureaucracy. In Thailand, finance-related agencies such as the Bank of Thailand

and the Budget Bureau have their own personnel and recruitment programmes (World Bank, 1993:189).

Developing Better Business-Government Relations through Deliberation Councils: In Korea, from the mid-1960s to the early 1980s, government and private sector relations were close and cooperative. Government and business leaders met often and regularly. Government solicited businesses' views and included them as a critical policy component. Until the early 1980s, the most important communication channels were monthly export-promotion meetings, at which the president of Korea himself presided over discussions between the economic ministers and top business leaders. Businessmen expressed their views about markets, regulations, and potential plans. The president then instructed specific ministers to attend to each important issue; at the next meeting, the ministers delivered a progress report on their assigned tasks. Government-initiated discussion groups involving company managers, middle-level government officials, and experts or scholars supplemented the meetings. There were basically two types: functional and sectoral. The function meeting focused on fundamental policies such as macroeconomic policies and taxation; the sectoral meeting usually focused on a particular industry. In both kinds of meeting, bureaucrats invited interested parties and experts to present their views. The focus was on information gathering; bureaucrats made the final decision. Even so, officials tried to incorporate all viewpoints in policies (World Bank, 1993:183).

But in Malaysia formal public-private cooperation was introduced only in 1983. Before 1983, it had some consultative panels within ministries that dealt with specialised issues and were concerned mainly with cutting red tape. Many had little private sector participation; those that did, however, produced concrete results. Since then, more deliberation councils have been formed, dealing with broader and more complicated issues (the budget and trade, for instance) (World Bank, 1993:186-7). Also in Thailand the formal mechanisms of communication have generally been used to a lesser extent to present businesses' positions to government and to reduce the private sector's suspicion of government (World Bank, 1993:15).

Insulating the Economic Technocracy: In the success of Korea, Malaysia and Thailand economies, institutional traits have been critical. Foremost among them is technocratic insulation – the ability of economic technocrats to formulate and implement policies in keeping with politically formulated national goals with a minimum of lobbying for special favours from politicians and interest groups. Without it, technocrats would have been unable to introduce and sustain rational economic policies, and some vital wealth-sharing mechanisms would have been neutralised soon after their inception (World Bank, 1993:167).

Insulated bureaucracies: In South Korea, the bureaucracy has a long tradition of independent policymaking. This was boosted in 1961, when army General Park Chung Hee seized power and reorganised the government to promote rapid development. He created a powerful Economic Planning Board that has had broad budgetary authority (World Bank, 1993:170). In Thailand, the Bank of Thailand has enjoyed a considerable, albeit fluctuating, degree of autonomy over several decades and was crucial in maintaining a stable monetary and fiscal policy regime through Thailand's years of accelerated growth, while in Thailand and Malaysia, technocrats in the Ministries of Finance have been able to insulate key areas of macroeconomic policy-making from overt political interference. In Thailand, the administration of duty drawback schemes was placed in the Ministries of Finance to minimise corruption and malpractice (Booth, 1998:18).

5.3 Benefits and Drawbacks of Government's implementations

The second research question of this study is "what are the benefits and drawbacks of these implementations?" In the case studies the benefits of government's implementations for industrialisation were answered under the economic development section. In the following section the failures of government's policies, strategies and measures will be discussed.

5.3.1 Failure

"General economic progress is held hostage to political and military solutions."

L. Thurow *(1992: 217)*

South Korea has undoubtedly achieved extraordinary success in providing high levels of education and standards of living for all their people, and in spawning businesses and an economic bureaucracy which enabled their nationals to be masters of their own fate. Unfortunately this study found that South Korea's economic gains have been accompanied by a great deal of political repression. Labour unions have been very much discouraged, and there exist many cases of employer abuse of unskilled workers, reminiscent of nineteenth century sweatshops in Western nations. Moreover since its experiences were probably the unique combination of political, historical, and cultural circumstances that made policies succeed and which are found only in South Korea, the relevance of these experiences to other less developed economies is questionable at best (Frank, Kim, & Westphal, 1975:243).

Similarly, the base of success in Malaysia and Thailand is weak, tattered and fragile; large numbers of people still received only a low level of education and live in poverty. Businessmen and political leaders, meanwhile, have siphoned off enormous fortunes without playing any constructive role in promoting their countries, and the fortunes are not reinvested. Too many local businessmen have been content to sell off their nations' resources – their oil, rubber and tin (Vogel[21], 1989, cited in Clad, 1989: vii).

From the experience of Malaysia, the consequence of affirmative action was noted. In Malaysia, civil service exam results are subject to affirmative action guidelines meant to increase the number of Malays in government (World Bank, 1993:189). This affirmative action reduced the pool of eligible applicants and therefore hindered development of the bureaucracy.

Moreover the success of Thailand and Malaysia depends on outside finance, outside technology and outside management. Some local leaders have shared in the fruits of the success, but not enough have learned the secrets of that success and how to capture it for their own country, or how to develop their own initiative. The infrastructure projects instigated by foreign loans and technical assistance are often poorly maintained" (Vogel, 1989, cited in Clad, 1989: vii).

[21] Clarence Dillon Professor of International Affairs, Harvard University

Another problem for Thailand and Malaysia was the size of their current deficits. They were importing a greater value of goods and services than they were exporting. This in turn might put downwards pressure on the local currency but is not in itself necessarily bad or unusual for a fast-developing economy, particularly if the deficits are accounted for by imports of heavy equipment – factory machinery, say – which can be used to create future exports. In Thailand and Malaysia, however, it turned out that investments had not been as productive or efficient as first thought; much money was in fact being spent on 'prestige' infrastructure projects which seemed likely to consume some foreign exchange than they could hope to generate. This was particularly true for Malaysia. Malaysian growth had been very high, but not as high as it should have been given the level of investment. "there is a concern that capital has not been used very efficiently," said Professor Mohammed Afriff[22]. "For our level of investment, we (Malaysian) should have been having double-digit gross domestic product growth" (Kynge, 1997 cited in Mallet, 1999:146).

Moreover, in Thailand it was estimated that 76% of population still remained in rural areas, a decline of only about 10% since 1960. After two decades of development Bangkok still remains the primary city. While about 9.7% of the Thai population lived in Bangkok in 1980, 32.7% of total GDP in Thailand originated in Bangkok. Although overall incidence of poverty was reduced from 57% in the early 1960s to about 31% in the mid-1970s, poverty remains largely a rural phenomenon. It is estimated that in 1980, 11 million people in the rural areas were living in poverty. The benefit of growth was not evenly dispersed but has widened the gap between the rich and the poor, and between the rural and the urban sectors (Diamond, Linz and Lipset, 1989: 329).

Additionally, in Thailand, the new rich and the new middle class found that they could no longer afford luxuries they had started to take for granted: overseas holidays, expensive cars (which were often paid for in instalments), mobile telephones and expensive clothes with foreign brand names. The Japanese car-maker Toyota, which has a third of local market, suspended production from November 1997 for several weeks to try to clear a backlog of unsold cars

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(Bardacke & Nakamoto, 1997 cited in Mallet, 1999:146). Bangkok entrepreneurs tried to unload everything from Rolex watches to golf clubs to pay their bills.

5.4 Most suitable model and strategies for Burma

The third research question of this study is "what model and strategies are most suitable for Burma's industrialisation in its first decade of democracy – as a result of lessons of experience and best practice that have been learned from these three countries' industrialisation?" In the following section this question will be answered.

5.4.1 Political Will or Leadership Commitment

> *Political will means a determined, deliberate, purposeful, independent decision on or choice of a course of action by persons in political authority. Lack of political will is often said to be one of the main obstacles to development and the main reason for the failure of many development plans*
>
> ***Todaro,** 1997:711*

From the experiences of South Korea, Malaysia and Thailand's industrialisation, it is obvious that the model of South Korean industrialisation was the best. It is also learned that the model of industrialisation was the product of government commitment and devotion to economic development. The Korean government has a very strong commitment to economic development and push toward industrialisation in earnest. They are very dedicated to their economic development. When Park Chung Hee seized power in May 1961, he was determined that South Korea would become able to produce the goods required for national defence. He also has a clear vision to improve the life of the common people suffering from poverty. So he made economic progress a mission. In his first hundred days, he moved to establish an Economic Planning Board to coordinate rapid development and announced that the first five-year plan would begin in January 1962 (Vogel, 1991:50-1).

Like in South Korea, General Ne Win, the leader of Burma's armed forces, staged a military coup and seized power in May 1962. But there was a sharp difference between the South Korean General and the Burmese General: Park Chung Hee was a benevolent dictator, Ne Win was a foolish despot. First Ne

Win's new Revolutionary Council suspended the constitution and instituted authoritarian military rule. The country was closed off from the outside world as the new despot promoted an isolationist ideology based on what he called the Burmese Way to Socialism. Superstitious, xenophobic and ruthless, for the next three decades Ne Win set a thriving nation on a disastrous path of cultural, environmental and economic ruin. Cutting off Burma from the outside world, he plunged the Burmese people deeper into poverty (US Campaign for Burma, 2005).

In the experiences of South Korea and Burma, it can be clearly seen how important is the leadership ability and commitment to economic development. As Ha-Joon Chang (2006, cited in Lee, 2006:9) observes, the most important overall lesson is that “we need a committed and well-co-ordinated government which focuses on economic growth”. Once the nation got wise, benevolent and humane leadership, the leader will lead his or her nation toward other important steps such as developing institutional mechanisms, developing better business-government relations, building developmental states.

5.5 Conclusion

After studying the experiences of South Korea, Malaysia and Thailand’s industrialisation, it is found that on unfertile land, quality plants cannot grow: from poor quality seed, strong fruit and beautiful flowers cannot be expected; moreover an unqualified or uncommitted gardener cannot produce abundant vegetation or crops. These various factors need to be met to produce targeted results. Although there are several factors that are important for a successful plantation, the role of the gardener is superior to other factors because if the gardener is really qualified, he or she can improve the land to make it fertile and can choose the seed that can produce the best kind of crops or vegetables.

In the case of these three countries’ industrialisation experiences, their government’s commitment is compared to careful, devoted gardeners; good institutional settings are like fertile land which can produce or is capable of producing abundant crops; policies, strategies and measures, along with human and physical capitals and country’s infrastructure like seeds to be grown.

Analogous to these examples, in the case studies of South Korea, Malaysia and Thailand's industrialisation, there are several factors that contributed to the economic development of these three Asian countries. Among them, the effective and efficient role of the state is significant. In the case of most countries that have followed similar paths to these three countries and have failed in their industrialisation, the missing ingredient in their efforts to industrialisation was the state's commitment to economic development and well-connected institutions.

In South Korea's experience particularly and in Malaysia's and Thailand's experiences in general, a very strong commitment to economic development and a clear vision to improve the life of their people (this fact is in clear contrast with the vision of many other developing countries' leadership: they also have a clear vision to improve life, but not the life of common people, only the life of their families and their cronies) have been found clearly. Even in the experience of South Korea, Malaysia and Thailand, it found that the different magnitude of government's commitment to development brought about different levels of development. South Korea has achieved unusual economic growth because of the very high commitment of their government while Malaysia and Thailand have not achieved as much as in South Korea because of the lesser commitment of their government to economic development. Thus the most important lesson that the study found from these three Asian countries was "leadership commitment and well-coordinated government is the essential for economic development".

In the next chapter, recommendations for Burma industrialisation and conclusion will be presented.

Chapter 6
RECOMMENDATIONS AND CONCLUSION

A Journey called development: *While studying for this research, it was discovered that the development process is similar to travelling a journey: travelling from an undeveloped state toward a developed one. It was also observed that in this magnificent (but rather difficult to succeed in) journey, government is like a navigator who leads this journey; know-how or technological capability is similar to a map which directs how we can reach our aim; technocrats and bureaucrats as well as (national and international) intellectuals are like advisors or guides for the mission; human and physical capital, country infrastructure and the work-force are like a vehicle which carries the whole group through the trip; finally, the international situation is like a traffic condition which control how vehicles proceed, by sometime stopping us, sometime helping us. Then it can be easily realized which factors are most critical to reach our destination. Although all factors seem to be indispensable for a successful trip, on the base of this study it found that the role of the state is the most crucial because they are sitting in the driver's seat and controlling the steering wheel as well as the whole vehicle.*

6.1 Introduction

It should be remembered that East Asia was not the favoured candidate for rapid economic growth among many analysts and observers during the 1950s—too many people, too few resources—with many instead favouring resource-rich African countries then moving towards independence. But over the last forty years, life expectancy in East Asia and the Pacific has risen from 53 years to 70 years today. This impressive record of economic and social development has shown other emerging regions that with appropriate policies and strong commitment of the government, it is possible for countries to grow rapidly over a long period of time—even in countries with few natural resources or small populations (Kato, 2004).

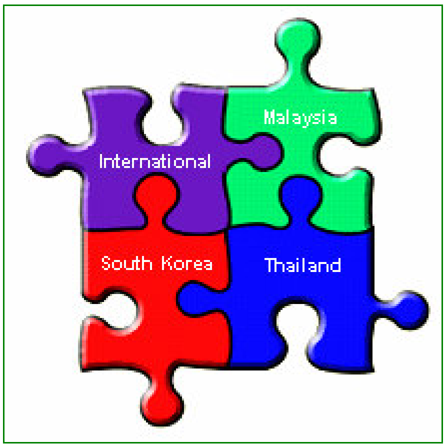
In this chapter, first of all the very opening paragraph mentioned the understanding of the development process. After that, based on the experiences learned from this study, Suggestions for further research will be made. Then recommendations for Burma's coming industrialisation in her first democratic era are going to be presented.

6.2 Suggestions for Further Research

Naturally this research cannot be regarded as the definitive research in this area. As a result of the research findings, potential areas for further research can be identified as follows:

The study can be extended so that the entire economic reforms in these three countries are assessed for a more complete view of the whole reform context. By studying the economic reforms holistically we can see the interdependence of government's policies, strategies and measures as an interlink between macroeconomic policy, industrial and trade policies, labour market policy, land policy, education policy, so on.

Figure 6.1 Interlink between three countries



Because of time and financial constraints, this current study has used only secondary data. So all necessary data for analysis could not be obtained. This study focus was based on three countries, but sometimes data for only two countries can be found and data for the other country was missing. So for further study, a researcher should live in these countries to study their governments archives, to read their newspapers and government documents, and to interview government's officials and economists from various local universities.

Finally, with enough time and resources, a similar in-depth and extensive exercise could be carried out to assess the impact and effects of the industrialisation in other countries such as Indonesia, Singapore, India, etc.

After making suggestions for further research, recommendations for Burmese industrialisation for her first democratic era will be presented in the following section

6.3 Recommendations for Burmese Industrialisation

From the lessons and experiences of South Korea, Malaysia and Thailand's industrialisation process, many lessons were identified as the cause of their success. Among them, the export-oriented strategy which is based on the signals of world markets and which used various forms of incentive and intervention to encourage the export sector is at the core of their success. But this alone cannot guarantee that industrialisation will succeed. The macroeconomic policies must be fundamentally sound and conducive for rapid growth.

Moreover in the industrialisation process of South Korea, Malaysia and Thailand, the government's commitment to development, and good institutional setting that insulated economic technocracies and bureaucracies have played a great role in their success. Furthermore, they have heavily invested in education in order to provide sufficiently trained workforces. So these three primary conditions: (1) government's commitment for development, (2) conducive and well-connected institutions which have enough competent and honest bureaucrats who can manage and implement development policies effectively, and (3) investing in education that will provide enough skilled workers for building the country are the prime differences that explained the cause of success and failure in the industrialisation process that many countries implemented.

Therefore, recommendations for Burma's coming industrialisation will be (1) to conduct export-oriented strategies which are based on the signals of world markets and effectively used various forms of incentive and intervention to encourage the export sector; (2) to maintain macroeconomic stability and openness; (3) to have commitment to development through political will; (4) to build institutions which are insulated from various interest groups and competent to perform economic policies and strategies effectively; and (5) to invest in education to have sufficient levels of human capital.

6.3.1 Export-oriented Strategy

In the industrialisation experiences of South Korea, Malaysia and Thailand, it is found that the export-oriented sector played a key role their in industrial development; the state pushed firms into foreign markets, forcing them to become internationally competitive (Haggard, 1996). So Burmese industrialisation should use an export-oriented strategy which is based on the signals of world markets and uses various forms of incentive and intervention to encourage the export sector as well as emphasis on labour-intensive manufacturing in order to address unemployment and unequal income-distribution problems.

6.3.2 Maintain Macroeconomic stability and openness

As Haggard (1997) states, macroeconomic stability, competitive exchange rates and some openness to trade and investment are necessary conditions for growth. Williamson (1999) argues that an efficient economy requires the government to preserve a stable macroeconomic environment within which enterprise can make decisions without unreasonable uncertainty about circumstances beyond their control. In the experiences of South Korea, Malaysia and Thailand, it was learned that their ability to maintain macroeconomic to be stable and openness is a one factor for their successful industrialisation. Thus, it is recommended to maintain macroeconomic stability and openness in Burmese industrialisation.

Since these two recommendations are essential but not sufficient, it is also necessary to have three more conditions; (1) to make a commitment to development, (2) to build insulated and well-connected institutions, and (3) to invest in education

6.3.3 Make Commitment for Development

It is found that leadership commitment to economic development was the major institutional factor differentiating among economically more or less successful nations in the group of countries that had already achieved high levels of socio-institutional development. Leadership commitment to development captures the contrast between most of Latin America, where commitment to development was at best moderate and East Asia, where commitment to development was high (Adelman, 1999:22).

From the experiences of the three countries' industrialisation especially in the performance in South Korea's case and to a lesser extent Malaysia and Thailand, it can be seen that the ability of the state's leader in ensuring a conducive environment for economic reform, their skills for building a legal foundation, their foresightedness and competence to acquire the benefits that emerge from timing in the world situation, and their readiness to reap the opportunities that came from their cold war rivals. So it is critical to have commitment for the nation's development by putting the interest of the nation before the personal and family interest of leaders.

6.3.4 Build Institutions

As Rodrik (2004:17-8) and Tabellini (2004:1) state, "a first best policy in the wrong institutional setting will do considerably less good than a second best policy in an appropriate setting and in principle there are many more things that governments could and should do: provide public goods, correct market failures, reduce inequalities in income and opportunities, stabilize excessive economic fluctuations. But these other government activities are not what make the difference between success and failure in economic development. The real difference is made by the basic institutional and legal infrastructures that protect property rights, enforce the rule of law and prevent abuse by governments. So the next essential for development is to build an institution that is conducive, well-connected and having enough competent and honest bureaucrats who can manage and implement development policies effectively

6.2.5 Invest in Education

In nearly all experiences of industrialisation in the whole world, one of the prerequisites for any form of industrialisation is a well-educated workforce and has been based on sound educational development. This is especially important because of technology import—bureaucrats and enterprise managers need to be educated to be able to make intelligent choices in what are decisions with far-reaching consequences. In the industrialisation experiences of South Korea, Malaysia and Thailand, the state has made heavy emphasis on human capital development and has invested greatly in education over a long period of time. Paul Krugman (1994 cited in Adelman, 1999: 17) and Larry Lau (1997 cited in Adelman, 1999: 17) both find that in Korea almost all of economic growth has, so far, been due to exceptionally high rates of physical and human capital accumulation. Moreover the South Korean government created national commitment to development, through the educational system, the use of the media and national campaigns to motivate workers, entrepreneurs, bureaucrats and households to exert themselves and save in the interest of the modernization of their countries (Adelman, 1999:25).

So to get successful industrialisation, heavy emphasis on human capital development and great investment in education is a must. Therefore, this study proposes that the main engine of the rapid growth of economy should be education that will not only promote but also accelerate the change to modernization.

Since the Burmese have always had great respect for education reflected in a high literacy rate also that her past education performance is not too far from the quantitative achievements of our two advanced neighbours, Thailand and Malaysia (Kyi, *et al*., 2000:145) (table 6.1), it is not too late for Burma to pursue a radical improvement in education with a special focus on the creation of a quality workforce and the culture of competence, the kind of education-centred growth path that Japan and South Korea have followed.

In view of all these considerations, we should take the goal of educational development in Burma to be the education of all young people to the fullest extent that they can benefit from such education.

Table 6.1 Enrolment Ratios (1965-1995)
(as % of age group)

	Secondary Level			**Tertiary Level**		
Country	**1965**	**1980**	**1995**	**1965**	**1980**	**1995**
South Korea	35	78	98	6	14.7	52.0
Malaysia	28	48	57	2	4.1	10.6
Thailand	14	29	55	2	14.7	20.1
Burma	15	22	32	1	4.7	5.4

Source: UNSCEO (1997) Statistical Yearbook 1997; World Bank (1996) World Development Report, 1996; cited in Kyi, *et al*., 2000:156).

Figure 6.2 Enrolment Ratios in Secondary Level (1965-1995)

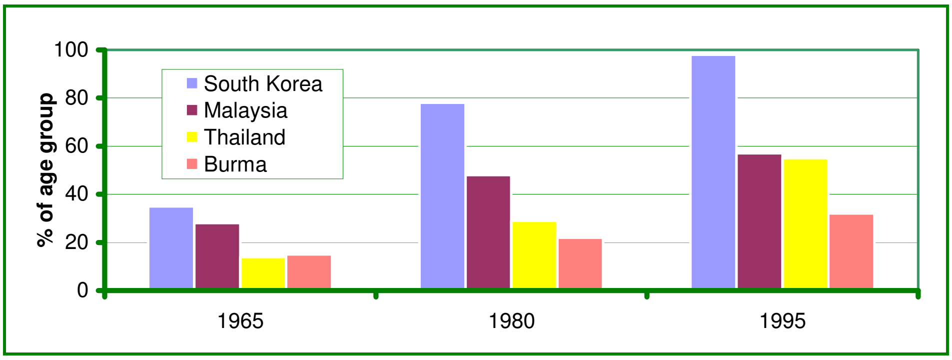
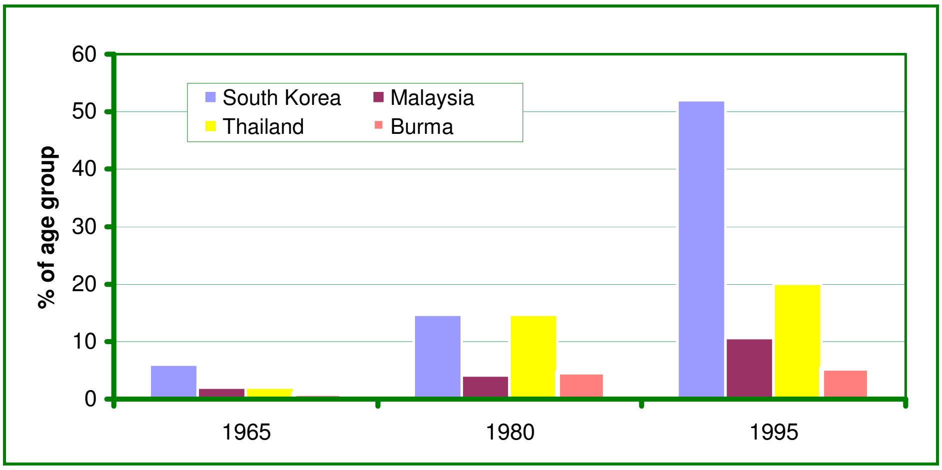


Figure 6.3 Enrolment Ratios in Tertiary Level (1965-1995)



6.4 Conclusion

"There is no new thing under the sun. The thing that hath been, it is that which shall be."

(Preacher in Ecclesiastes,
cited in Woo-Cumings, 1999:4)

As mentioned in the introduction to this paper, the basic rational for doing this study was a hypothesis that the state has a definite role to play in the economy. As a theoretical framework, the neo-liberalist and the structuralist or institutionalist view was kept in mind throughout this study. The hypothesis of this study was on the side of the structuralist or institutionalist. Then the study was effected into the industrialisation processes of three Asian countries because their processes were impressively successfull.

What this study tried to find out were the reasons for their success and to find out what their governments did in their industrialisation processes and why they were successful while other many countries met failure. In the previous chapters, three case studies were presented. In these case studies, what their governments did during their first two decades of industrialisation was mentioned. Then in the "Assessment and Finding" chapter, by using the evaluation framework the analysis was carried out in order to answer the research questions and to make recommendations for Burma's upcoming industrialisation process.

The conclusion that this study arrived at was that commitment by the state or government is the main ingredient in the reasons for the successful industrialisation process in the three countries studied in this research. However, this alone is not enough to guarantee success. The role of the institutions which will monitor and control also play a very important role in these processes. It is obvious that without competent and reliable as well as honest institutions, it is impossible to steer the whole economic system toward intended goals (in this study, it is to increase the shared amount of manufacturing in the GNP and the GDP. However again, even with very high commitment by the state and very competent and honest institutions being in place, the industrialisation process as well as economic reform cannot be expected to be successful because these two factors were not enough for a successful industrialisation process and for complete economic reform. Sufficient human resources are also needed to bring about the successful realignment for both industrialisation and economic reform.

These three factors (i.e. state's commitment, competent and honest institutions and sufficient human resources) are the basic ingredients for their successful industrialisation during the 1960s and the 1970s. Regarding the industrialisation strategies, it was found that the export-oriented strategies and maintaining macroeconomic stability were the most important factors in their success stories.

The good news which this study elicits was that under that sun, there are no new things, the things which have happened could happen again. In the same vein, if these three countries could implement their industrialisation processes successfully, why cannot we be successful in our processes? If we have government's strong commitment to economic development and institutions which are competent, insulated from the political interest and not corrupted, invested in education and sensitive to macroeconomic stability and openness, then our export-oriented industrialisation would be successful as the three countries were in their industrialisations.

At the very beginning of this research report, the speech of one of the greatest statesmen in the world: Thomas Jefferson was directly quoted in order to shed light on the virtue of good governance.

In his first inaugural in 1801 Thomas Jefferson (cited in Tabellini, 2004:1) stated his view on the role of government as *"…a wise and frugal Government which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labour the bread it has earned. This is the sum of good government, and this is necessary to close the circle of our own felicities".*

The central conclusion of this study is that Jefferson was largely right. Not because a minimalist government is necessarily better than a big government. Regarding the processes of industrialisation and economic reform, the issue is not government intervention versus laissez-faire, but efficient forms of intervention versus crippling ones.

Let this report be concluded by sharing a small part of history retold by Professor Scott Gordon[23]. The message of this story teaches us how important the state is for prosperity and development of its country and its people.

6.5 Reign of Folly

> The long reign of Louis XIV, which ended in 1715, left France with a magnificent court and a nearly ruined economy. Louis engaged in a series of wars and built the lavish place of Versailles, activities that cost much and produced little. In addition he expelled the Protestants from France, which lost some of its most skilled and talented human resources. He proclaimed himself absolute and tolerated no criticism,

[23] Distinguished Professor at the Department of Economics and a Professor at the History and Philosophy of Science Department, Indiana University

thus stifling another source of productivity. His Finance Minister, Colbert, embarked on a policy of encouraging industry which emphasised economic activities for which France was not particularly suited and hampered agriculture, in which the country had rich natural resources. The result of this reign of folly was that the economy of France was overburdened by regulations and twisted by policies that stunted its productivity, and, despite the crushing burden of taxes, the flow of revenues into the national exchequer was insufficient to match expenditures. The state sank ever more deeply into debt (Gordon, 1991:89).

Chapter 7

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