



THE IMPORTANCE OF STATE INTERVENTION IN THE RISE OF THE “ASIAN TIGERS”

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Abstract. *Newly Industrialized Countries (NICs) - such as the “Four Asian Tigers” of South Korea, Taiwan, Singapore, and Hong Kong had achieved phenomenal economic growth between the 1960s and 1990s. Their growth from poverty to prosperity has brought controversy on whether it is a contribution of state intervention or market liberalization. This article argues that the main driver to the success was the state intervention in shaping the development, and uses examples of Asian Tigers.*

Keywords. *Newly Industrialized Countries, Asian Tigers, market liberalization, state intervention, economic development.*

State Intervention and NIC Success

The experience of the NICs is a good evidence that the development was based on state intervention. South Korea’s government made an significant lead in economic planning and industrialization. In the early 1960s, South Korea had a GDP per capita was about \$80 and considered as one of the poorest countries in the world. All of this changed within the next 40 years, as South Korea expanded large with governmental administration, credit guidance and import levies (Tai-Hwan, 2017).

In 1961, the state introduced five-year economic plans, strategic industries (steel, shipbuilding, automobiles, and electronics) and nationalized banks to control the process of credit allocation to priority sectors (SaKong and Koh, 2023). Through strict financial control, the government provided cheap loans to industrial conglomerates and export businesses; policy loans in 1962-1987 were estimated at 57.9% of all bank loans (Lee, 2017). This kind of intervention enabled rapid

expansion of manufacturing capacity that a free market alone would not have achieved in a developing economy.

The State intervention was also in the form of generous incentives and subsidies to foster infant industries. Exporters in South Korea were given comprehensive promotion measures by the government – with preferences on the tariffs imposed on imported inputs, reduction of taxes on export income, preference to export credit, industrial parks and technical assistance (SaKong and Koh, 2023).

The government also implemented an export targeting system that set export quotas for firms and holding monthly export promotion meetings to ensure targets were met. This performance based aid resulted in significant export growth: in 1965 the Korean exports amounted to only \$175 million, ten years later it had escalated to over \$5 billion and since then (Castley, 2011). The tangible results in NICs show the effectiveness of state intervention. South Korea’s real GDP grew at an average rate around 7–10% for decades (CFI team, 2024).

Market Liberalization and the Role of Free Markets

While strong government leadership was crucial, the contribution made by market liberalization cannot be ignored. Another core element of free-market capitalism that was adopted by the Asian Tigers was international trade, as well as dependence on market signals. Export-oriented policies were one of the major factors of the emergence of the Four Asian Tigers (CFI team, 2024). For example, Hong Kong and Singapore adopted free trade regimes with minimal tariffs and restrictions. Hong Kong especially is commonly referred to as an example of laissez-faire development. Consequently, Hong Kong turned into one of the freest economies in the globe and evolved into a global financial hub with the GDP per capita of more than \$50,000 as of 2023 (Bloomenthal, 2025).

Singapore also combined an open-market culture with its state planning. It welcomed huge flows of foreign direct investment (FDI) through the establishment of a favorable business environment. The government maintained moderate

corporate taxes and business-friendly regulations (Cheang, 2023). By promoting free trade and foreign investment, Singapore became a major export hub (in electronics, petroleum refining, finance) despite its small size (CFI team, 2024). This outward liberalization meant firms had to compete internationally, which ultimately strengthened them; only those who could meet world standards would survive. In this way, the market forces collaborated with the state orientation in the NICs. Governments guided industries to the development, yet their success was justified by the demand of the global market.

Proponents of the free-market view also note that NIC governments generally maintained sound macroeconomic policies that aligned with market principles. Private entrepreneurship was encouraged in many sectors, and price mechanisms were largely allowed to function (except in targeted areas). Importantly, after initial phases of heavy intervention, countries like South Korea and Taiwan gradually liberalized their financial and trade regimes in the 1980s (S. Kim, J. Kim, Ryoo, 2006). Tariffs were reduced and many state controls eased once domestic firms became competitive. This liberalization prevented the economies from stagnating under state domination and allowed more innovation and efficiency from competition. By the 1990s, South Korea had significantly opened its capital markets and privatized banks, moving closer to a market-led system (S. Kim, J. Kim, Ryoo, 2006).

Evaluation: The Visible Hand vs. the Invisible Hand

Market liberalization and state intervention had a huge role to play in the NIC growth story. The big issue is what was the most decisive factor in the catalyzing of their economic miracle. The indication is that the visible hand of the state was the dominant one, and the invisible hand of the market was playing the secondary role in the success of East Asia in its late-20 th century. It is worth noting that all those NICs which became developed were (to some extent or another) governed by a strong, interventionist regime. South Korea and Taiwan openly did not seek laissez-

faire orthodoxy when developing, but instead applied protection and planning to propel industries (Cheang 2023). Singapore, despite its much-bemoaned characteristics of being a free-market, actually fits the pattern of the developmental state in many important respects - it has plenty of government-linked corporations and agencies that influenced investment and industry although such influence remains often hidden in statistics (Cheang, 2023). Hong Kong alone is a laissez-faire success, and this is a city-sized economy that has an unusual position as a trading and financial center, to which the larger developing countries cannot easily be compared. The overall lesson of the NICs is that liberalization of markets was not enough, but must be combined with a good state leadership to utilize the market forces in high-speed development.

It is also telling that the World Bank’s own 1993 report *The East Asian Miracle* – initially expected to credit free markets – ended up acknowledging that selective government interventions played a significant role in East Asia’s achievement (World Bank, 1993). Although the report used the term “market-friendly interventions,” it did highlight policies like land reform, education, export subsidies, and directed credit as part of the formula. In other words, these countries succeeded by using markets but not trusting them entirely: the state acted deliberately to overcome initial disadvantages (such as lack of capital and skilled industries) that markets alone would not overcome. Once those gaps were closed, the NICs could gradually liberalize – but reaching that point required an activist state. As one commentator succinctly put it, the Asian Tigers “maintained high growth since the 1960s... thanks to their focus on exports, industrialization, and strategic planning” (Investopedia 2025). Here “strategic planning” refers to the government’s guiding hand, without which exports and industrialization might never have gotten off the ground.

Overall, the evidence scale leans towards the first option in the form of state intervention as the primary driver of NIC success. It needed the presence of the free-

market factors - private entrepreneurship and competition, but they were planned in the system organized by the state. As the NIC experience shows, markets are optimal in helping to bring development but when combined with state policies to create capabilities and fix market failures. The emergence of South Korea as a liberalized agrarian country transformed into a technological manufacturing powerhouse (Hays, 2019). The NICs would not have gone this far at such pace without the visible hand of the government in the form of infrastructure, education, finance, and industry policy to make the invisible hand of global markets go in the right direction.

Conclusion

The Newly Industrialized Countries' achievements were due to a force of both the state and the market but state intervention was the difference maker. Through visionary leadership, NIC governments planned and accelerated their countries' economic transformation and thereby nurtured competitive industries where none existed and empowering firms to conquer export markets. Market liberalization was definitely an addition to this process - the opening to the global economy and the use of the market incentives became significant in terms of efficiency and development. Nevertheless, liberalization and laissez-faire policies alone cannot be attributed to the rise of NICs that have never before been seen. The turning point was created by the developmental states that participated in the industrial upgrades and controlled the process of development. The South Korean, Taiwanese, Singaporean, and Hong Kong experiences prove that in case a capable state employs the power of market, the outcome may be spectacular. The miracle of the NICs was largely a government initiative where the state was the key driver of the development and the market was a powerful tool once it is directed in the right direction. This implies that in the case of late-developing countries, the best option is neither the state nor the market, but rather the fruitful collaboration - though one where the leading role of the state is dominant in the initial years of the accelerated growth.

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