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LEARNING FROM THE ASIAN NICs:
POLICY OPTIONS FOR CENTRAL & EASTERN EUROPEAN REPUBLICS

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INTRODUCTION

The transition from command economy to market economy, and from Soviet rule to parliamentary democracy, has turned out to be more problematic than had been anticipated by many Western policy advisors. By applying Sachs' "Shock-Therapy," many government officials of Central and Eastern European Republics (CEER) believed that cultural affinity "being European," common history "being part of Christian Heritage," and a simple incantation of "neo-conservative economics" would guarantee the transition to economic prosperity and political stability. Results so far have been mixed and often disappointing. Instead of almost a blind trust in such development advice, we propose that CEER governments would fare better by studying the development steps of the Newly Industrializing Countries (NICS) of Asia, in particular Singapore, Taiwan, and

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South Korea. Despite the cultural differences between the two regions, many of the Asian NICs' crucial developmental policy approaches could be more easily applied to CEERs offering greater chances of success, less political turmoil, and less social anxiety than those proposed by "Shock-Therapists."

New Social Contract?

What will and should be the political, economic, and social arrangements in Eastern Europe? What will the new "Social Contract" look like so that it will satisfy the majority of the population? Like a Capitalist-democratic system? If so what kind of capitalism—American, French, German, Swedish? What kind of democracy—parliamentary, presidential, federalist, centralist? The major external factor contributing to the confusion lies in the transitional nature of the economic, political, and social systems. But the never-ending avalanche of Western experts speaking different tongues (literally and figuratively), and selling solutions often lacking soundness and integrity certainly adds to the current confusion. Many Western consultants propose models of a market economy not even applicable in their own countries, treating Eastern Europe as a laboratory for their own pet paradigms.

Many Anglo-Saxon economists, for instance, concentrate on radical "big bang" measures. They often advise their uninformed counterparts to free prices, remove subsidies, open economies to international trade, make currencies freely convertible, privatize public enterprises, invite foreign investment, close inefficient plants, and lay off unproductive workers. They advise them to trust Adam Smith's "Invisible Hand." The result of such drastic interventions have been mass unemployment, reduced standards of living, growing foreign debt, possible stagnation, and long-term economic decline. These draconian measures have led to traumatic adjustment reactions, demanding unprecedented cooperation from the public. Realizing that acceptance levels for such "Shock-Therapy" are low, foreign experts have been urging the CEER European governments to move ahead boldly and rapidly before the majority of the people voice their discontent.

This "Shock-Therapy" recipe is doubly risky. First, there is no agreement on what kind of "promised land" the people of the CEERs would get. Second, in order to make such textbook economics work, the Central and Eastern Europeans should have such prerequisites as adequate access to Western markets, assured sufficient transfer of manufacturing technology, guarantees in regard to long-term financing, and support of technical cooperations projects especially in the area of infrastructure building and retraining of their workforce and managers. All of this, at this point, has not been sufficiently forthcoming and might even be less available due to the development of regional trade blocks (EC, NAFTA) which lead to an increase of natural entry barriers (Czinkota, 1991).

Since all of the above requirements are unlikely to be forthcoming in the near future, it seems unwise, if not foolish, to go ahead with "big bang" neo-conservative style restructuring programs. Faced with reconstruction after World War II, Finland, Germany, and Japan opted for "Visible Hand" development strategies consisting of regulated labor market economics, and a mix of public and private sector microeconomies which today are alternatively labeled as "Social Market Economics" or "Japan Inc." depending on the ideological preferences of the labeler. According to Kuttner (1990), after World War II, Western Europe's middle way or mixed economy strategy consisted of simultaneous development of public and private sectors, gradual trade liberalization, gradual privatization, and a gradual move toward convertibility of currencies.

Going back further, when faced with external and internal threats in the 1930s and 1940s, Switzerland opted for a consensus style approach to development labeled as "Corporatist Economics" (Katzenstein, 1980) characterized by conflict avoidance, consensus oriented decision making, extensive cartels, and labor-management-government collaboration. OECD's (1992) report describes Switzerland as suffering from extensive collusive cartel behavior severely restricting open competition.

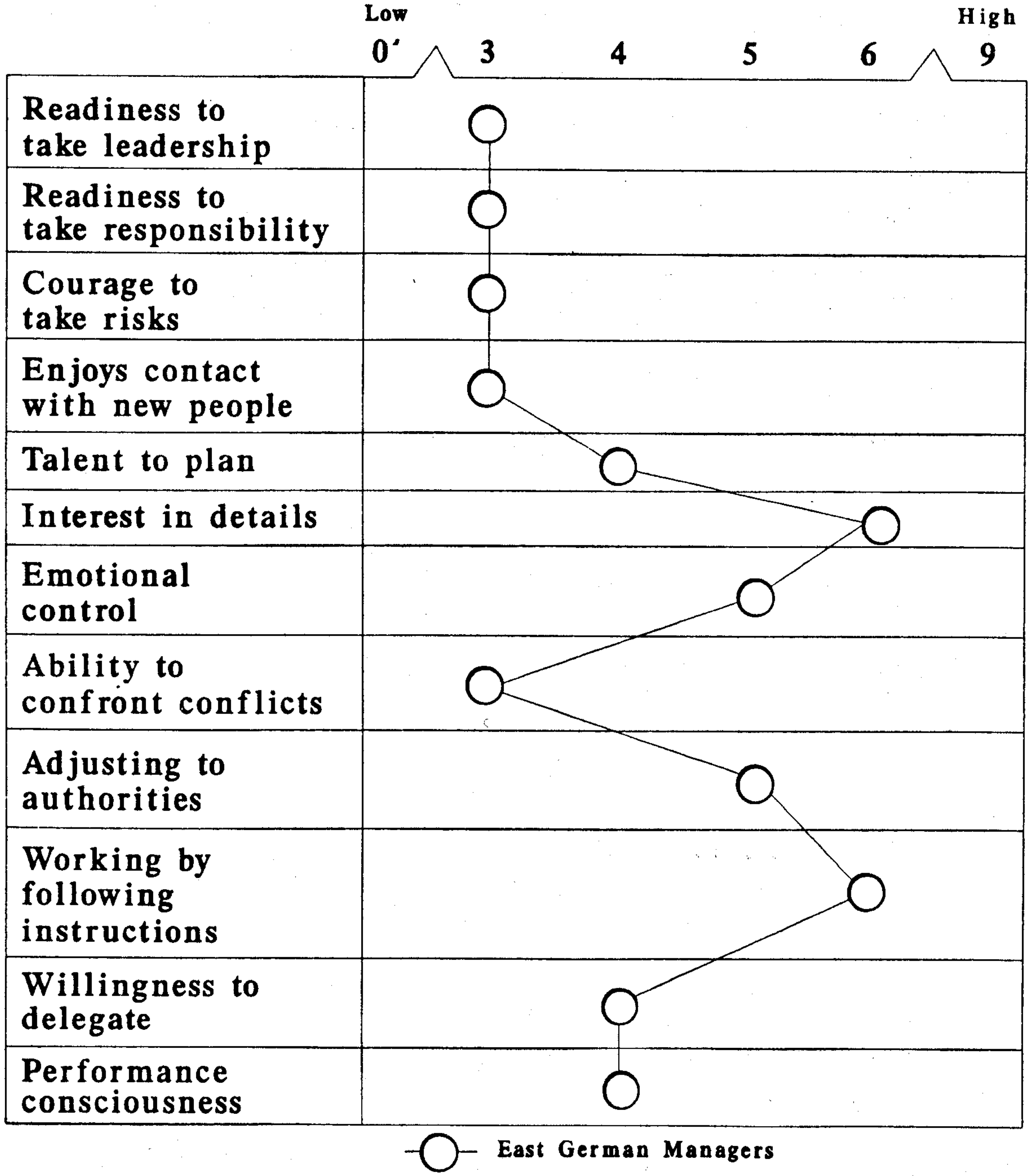
Sweden approached the turmoil of the Depression with public sector strategies, labor-management collaboration, and social safety-net regulations now criticized as being too expensive, bureaucratic, and anti-competitive. Japan fought the post-World War II hardships with consensus driven industrialization programs designed by government bureaucrats and executed by business conglomerates. Japan's success was largely based on the limitation of open neo-conservative style competition. Curiously enough, the GNP per capita of the countries mentioned above ranks at the top of the world list despite their "collusive-cartellised-managed-consensus driven" economic policies now so strongly criticized by disciples of neo-conservative economic thinking.

Some of the CEERs have had previous experiences with market economics, democracy, and industrialization dating mostly from the period before World War II (e.g., Czech Republic, Poland, Hungary). Memory, skills, and knowledge have nevertheless faded in the meantime. Many Western businessmen working in the CEERs see more communality between CEERs and developing countries in Asia than between CEERs and developed Western countries. For instance, describing the trepidations, in Prague, of BSN SA, a French food giant, E.S. Browning (1993), writes: ...In some ways, the challenges facing BSN in Eastern Europe often seem more like those of China than those of Western Europe...." True or not, the authors agree that CEERs have more in common with some developing countries in Asia than with Western Europe, not considering cultural affinity, but in terms of managerial behavior and entrepreneurial thinking. A study conducted by the PA-Consulting Group (Henkel, 1991) shows that although East and West Germany share a common language and a common history, the influence of their different economic and political systems seems to have left a stronger formative influence on management behavior than the common cultural heritage.

East German managers' profile share many features of traditional Asian management, especially in regard to behavioral preferences like conflict avoidance, reluctance to delegate but to take full responsibility alone, emotional control, and adjusting to authority figures.

Of course there are differences between the East German and traditional Asian managers but they seem to relate more to the owner-employee distinction. The owner of an Asian family business, for instance, has a reputation (Redding, 1991) of taking high risks while his Asian employees would not make risky decisions without obtaining prior approval, and even then only if the decision has been clearly delegated to them.

In general, the East German and the traditional Asian manager have more in common than can be expected. The similarities of their behavior are probably due to the influence exerted on East German managers by the socio-political system of the communist era in East Germany in specific and in CEER states in general. That is a socio-political system, based on collective action, authoritarian leadership,

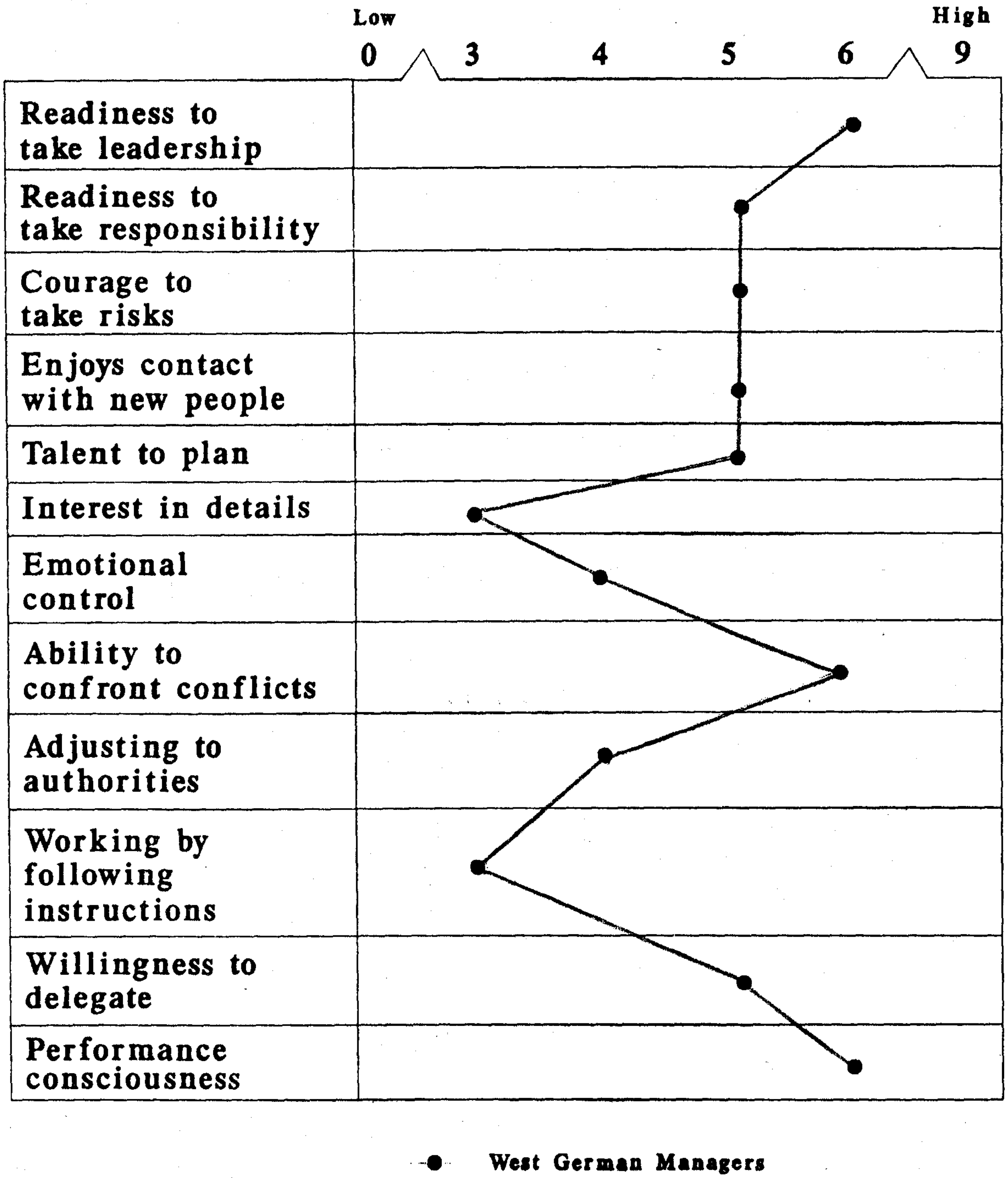


Source: adapted from R.C. Henkel (1991)

Figure 1a. Management Behavior

and ideological indoctrination which bears some similarities to the traditional Asian management environment.

The Asian NICs' business environment has changed noticeably since the 1980s and is now characterized by relative affluence, low unemployment, better education, freer communication, and travel.



Source: adapted from R.C. Henkel (1991)

Figure 1b. Management Behavior

Reacting to these evolving environmental conditions, younger Asians managers have expressed other attitudes and shown different behaviors than their older, more traditional colleagues. Labor turnover, for instance, has gone up tremendously despite many years, if not generations, of indoctrination that emphasized loyalty to one employer (Saner & Yiu, 1992).

Faced with such high turnover, Asian entrepreneurs and top managers had to adapt and adjust their leadership styles from authoritarian-paternalistic to more consultative-participatory in order to meet the evolving standards of effective leadership behavior. Asia changed as the Asian NIC's developed from an agrarian/pre-industrialized or semi-industrialized to a fully industrialized economy. These gradual changes are the consequence of successful socio-economic development.

Hence, the main part of this paper concentrates on the development strategy taken by Asia's NICs, the idea being that an analysis of their success factors and development steps could provide CEER governments with alternative policy options for sustained economic growth and sustainable social change in their countries or at least provide them with intellectual breathing space as they are forced to swallow the false either-or dichotomies of "Shock Therapists.'

Asian NICS & CEERS: Some Common Ground

Economic performance levels of the Asian NICs are remarkable if not outstanding. Hong Kong, Singapore, South Korea and Taiwan together have 73 million people, only five million less than unified Germany. Taken as a group, they became the fourth largest world merchandise exporter (7.7% of world trade) and the third largest world merchandise importer (7.4% of world imports) in 1991 according to GATT statistics. By all standards they have achieved immense economic growth in less than 40 years.

Looking at this remarkable performance record, one might wonder about the factors which have contributed to this success story and whether the recipe for success could be replicated in Central and the traditional Asian management environment.

CHANGING ENVIRONMENTAL CONDITIONS

Looking at this remarkable performance record, one might wonder about the factors that have contributed to this success story and whether the recipe for success could be replicated in Central and

	Population in millions (1988)	Rank 1990	EXPORTERS	1990 % Share	Value Billion US$
	78.0	1	Germany[a]	12.1	
	250.0	2	United States	11.4	
	124.0	3	Japan	8.2	
	56.0	4	France	6.2	
	57.0	5	United Kingdom	5.3	
	58.0	6	Italy	4.9	
	15.0	7	Netherlands	3.9	
	27.0	8	Canada	3.8	
	10.0	9	Belgium-Luxembourg	3.4	
	291.0	10	USSR[b]	3.0	
	6.0	11	Hong Kong[d]	2.4	
72.0	20.0	12	Taiwan	1.9	7.7
	44.0	13	Korea, Rep. of	1.9	
	7.0	14	Switzerland	1.8	
	1,115.0	15	China	1.8	
	8.0	16	Sweden	1.7	
	40.0	17	Spain	1.6	
	3.0	18	Singapore[e]	1.5	
	87.0	19	Mexico	1.2	
	8.0	20	Austria	1.2	
	17.0	21	Saudi Arabia	1.1	
	17.0	22	Australia	1.1	
	5.0	23	Denmark	1.0	
	4.0	24	Norway	1.0	
	158.0	25	Brazil	.9	
			Total	*84.3*	*2,925*
			World	*100.0*	*3,470*

[a] The value figures for exports and imports combine the former Federal Republic of Germany with the former German Republic.
[b] Because of difficulties involved in converting data expressed in national currency into dollars, the figures are at best only rough approximations.
[c] Imports f.o.b.
[d] Includes re-exports, In 1990, they amounted to $53.0 billion compared to $44.3 billion in 1989.
[e] Includes re-exports. In 1990, they amounted to $18.0 billion compared to $16.4 billion in 1989.
[f] Includes substantial imports for re-exports.
[g] Includes estimates of trade flows through processing zones.

Source: GATT, March, (1991)

Figure 2a. Leading exporters and importers in world merchandise trade 1990

Eastern Europe considering the obvious geographical and cultural differences existing between both regions.

The designation of Central and Eastern Europe is, of course, as much a misleading generalization as the term "Asian NICs."

	Population in millions (1988)	Rank 1990	IMPORTERS	1990 % Share	Value Billion US$	
	250.0	1	United States	14.3		
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	57.0	5	United Kingdom	6.2		
	58.0	6	Italy	5.1		
	15.0	7	Netherlands	3.5		
	291.0	8	USSR[b, c]	3.4		
	10.0	9	Belgium-Luxembourg	3.3		
	27.0	10	Canada	3.3		
	40.0	11	Spain	2.4		
	6.0	12	Hong Kong[f]	2.3		
	7.0	13	Switzerland	1.9		
	44.0	14	Korea, Rep. of	1.9		
73.0	3.0	15	Singapore[f]	1.7		7.4
	20.0	16	Taiwan	1.5		
	8.0	17	Sweden	1.5		
	1,115.0	18	China	1.5		
	8.0	19	Austria	1.4		
	17.0	20	Australia	1.2		
	87.0	21	Mexico[g]	1.1		
	5.0	22	Denmark	.9		
	56.0	23	Thailand	.9		
	17.0	24	Malaysia	.8		
	4.0	25	Norway	.7		
			Total	*83.8*	*3,016*	
			World	*100.0*	*3,600*	

[a] The value figures for exports and imports combine the former Federal Republic of Germany with the former German Republic.
[b] Because of difficulties involved in converting data expressed in national currency into dollars, the figures are at best only rough approximations.
[c] Imports f.o.b.
[d] Includes re-exports, In 1990, they amounted to $53.0 billion compared to $44.3 billion in 1989.
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[g] Includes estimates of trade flows through processing zones.

Source: GATT, March, (1991)

Figure 2b. Leading exporters and importers in world merchandise trade 1990

Countries in both regions differ in regard to the level of economic development, political structure, and socio-cultural makeup. What they have in common nevertheless is the experience of a fundamental sudden break with their previous historical development. CEERs have been thrown into sudden independence after more than 40 years of Soviet rule. South Korea, Taiwan (Republic of China), and Singapore have also been thrown into freedom some 50 years ago after many years of Japanese colonial rule and bloody civil wars. All three countries have reached independence after World War II and after bloody civil wars and revolutions. Taiwan and South Korea had been occupied by Japan, namely Taiwan for 50 years (1895-1945) and South Korea for 40 years (1905-1945). Singapore was ruled by Great Britain as a colonial territory, then occupied by Japan (1942-1945), retaken as a colony by Britain and given independence in 1963.

Jerzy Dietl, a Polish senator and professor of marketing, outlined the difficulties of Eastern Europe's post-communist countries at a 1991 EFTA meeting in Geneva. He characterized Eastern Europe's problems as consisting of five main development gaps compared to the developed Western countries. These "gaps" can be compared with "gaps" which Taiwan, South Korea, and Singapore had to close between their level of development and that of the United States of American and Western Europe after World War II. Dietl's definitions of these five gaps are illustrated in Figure 3 and contrasted with the situation of Taiwan, South Korea, and Singapore in the early 1950s.

What follows is a direct comparison of the "gaps" that Asian NIC's have closed over the last 45 years and that Central and Eastern Europe have to close in the coming years.

1. *Eastern Europe*: "Structural Gap" as a result of economic and social resources having been allocated without considering market forces for the past 45 years.
   Asian NIC's: "Structural Gap" as a result of Japanese and British colonial rule and forced division of labor within the empire's grand schema lasting approximately an equal number of years.

2. *Eastern Europe*: "Technological Gap" due to the decline of innovative ability that expresses itself in the difficulty products from Eastern Europe have in competing in Western markets, as well as how badly they are adapted to meet the demands and aspirations of people in the post-communist societies.
   Asian NIC's: "Technological Gap" due to the fact that advanced technology was centralized in Japan, and Japan's colonies were reduced to the role of supplier of raw materials and semi-finished industrial goods.

Post-Communist Eastern Europe (1945-1990)		Anti-Communist Asian NICs (1885-1945/65)
	Structural Gap	
Soviet Rule 45 years	- Misallocation of resources due to absence of market forces	Japanese Rule 50 years (ROC) 35 years (ROK) 3 years (SIN)
	Technological Gap	
Soviet Empire COMECON	- Division of Labour - Centralisation of Technology	Japanese Empire
	Organisational Gap	
Command economy	- Deficient infra-structure - Bureaucratic-administrative management	Colonial Economy
	Social Gap	
Homo Sovieticus	- Ideological Brain-washing - Self-Identity Collectivised	Homo Nipponicus
	Ethical Gap	
"Stealing from oppressor and local nomenclatura"	- Lack of committment to social good - Sense of being disowned	"Stealing from colonial rulers & Neo-feudal Oligarchy"

Source: adapted from J. Dietl (1991)

Figure 3. Development "GAPS"

3. *Eastern Europe*: "Organizational Gap" resulting from the absence of the proper infrastructure and of the social awareness indispensable to a modern market economy.
Asian NIC's: "Organizational Gap" for the Asian NIC's resulted from the fact that practically all important managerial

posts were occupied by Japanese "expatriates" who deprived local managers of managerial expertise.

4. *Eastern Europe*: "Social Gap" that was due to the creation of the collective man, the "Homo Sovieticus" who is passive and has a insufficiently developed entrepreneurial spirit.
   Asian NIC's: "Social Gap" that was due to the merciless nipponisation of the Asian NICs populations with the goal of turning Chinese, Koreans, and Malay people into work slaves stripped of their ethnic and national identity.

5. *Eastern Europe*: "Ethical Gap" in the sense of a lack of socially accepted codes of professional behavior, based on competition, the operation of market mechanism, and the decentralization of social and economic life."
   Asian NIC's: "Ethical Gap" in the sense of lack of socially accepted codes of behavior based on autonomous business practices, independent legal framework, and national expertise in regard to indigenous government-labor-employer relations.

Additional "Gaps" in Eastern Europe have been diagnosed by Kraljic (1990) such as Productivity Gap, Marketing Gap, Capital Gap, Environment Gap, Motivation Gap, Management Gap, and Legislation Gap. Again, these additional Gaps also existed in Taiwan, South Korea, and Singapore 40-50 years ago.

The Asian NIC's success story is the more remarkable if one compares their "gap-closing" achievement with their respective "mirror-images," e.g., Taiwan (ROC) with mainland China (PRC), South Korea with North Korea, Singapore with Malaysia, and Hong Kong with Macau.

The differences are most apparent when comparing Taiwan with mainland China and South Korea with North Korea. They all had similar starting conditions after World War II but the "Northern brothers and sisters" ended up with much lower levels of social development and economic performance than their "Southern siblings."

Taking into account the similarities and dissimilarities of the situation encountered by the CEER countries today and those of the Asian NICs 45 years ago, we will now summarize some of the key decisions taken by Taiwanese, South Korean, and Singaporean

Population (millions)	Country	GNP (US$)	Population (millions)	Country	GNP (US$)
1,105	China	263	20	Taiwan	5,020
22	N. Korea	1,114	42	S. Korea	3,600
17.4	Malaysia	1,676	2.6	Singapore	9,070
0.4	Macao	3,070	5.7	Hong Kong	9,220

Source: World Development Report, (1990)

Figure 4. Basic Economic Indicators

governments that have contributed to their countries' economic, political, and socio-cultural developments believing that some of their policy decisions could be of interest to CEER governments. Hong Kong is left out in this analysis since its main political and economic conditions have and still are linked with its colonial ruler, Great Britain.

ECONOMIC POLICY CHOICES OF THE ASIAN NICS

Faced with the aftermath of war, such as destroyed infrastructure, poverty, and social unrest, the post-war governments of the Asian NICs decided to accelerate economic development through industrialization (Choi, 1986). In general, long-term development strategies were conceived and implemented gradually. Building on Jao, Mok, & Ho (1989), Limlingan (1989), and Katz (1991), the following development policy options were reported to have been effective.

1. *Industrial Strategy and Support.* Neither Asian NICs nor Japan entrusted to the market or to foreign investors the responsibility for deciding which of their industries should prosper and which should fail. On the contrary, they formulated industrial strategies based on forecasts of market developments and on their assessment as to which of their "infant" industries could carve out a niche in world markets and which ones could not. Those industries considered to be of strategic importance received protection from import competition as well as export incentives, tax relief, and other financial help (e.g., low interest credits) to bolster their growth and competitiveness. Fiscal support was provided on a declining scale to ensure that the beneficiary industries would not become dependent on protection and would indeed become internationally competitive over time. At the same time, companies in uncompetitive or declining industries were helped to diversify or phase out, and workers were retrained.

2. *Exchange Rate.* Asian NICs have used exchange rates as an important tool of economic policy. As typified by South Korea and Taiwan, exchange rates were set to encourage exports and savings and discourage imports. The same approach, but to a lesser degree, was taken by Singapore. Only after exports had penetrated big

overseas markets did these country's governments agree, rather reluctantly, to reevaluate their currencies. In the meantime, many Asian NICs had amassed large sums of foreign reserves.

3. *Foreign Investment.* Japan earlier, and the Asian NICs more recently, have acquired much of their technology through licenses, franchises, market sharing arrangements, and reverse engineering ("pirating"). They wanted knowledge and technology, not foreign partners, and foreign equity investment was and still is not actively encouraged. In regard to property rights and ownership of companies or real estate, many Asian NICs have instituted laws that seriously limit foreign ownership or even make it outright impossible.

4. *Price Liberalization and Subsidies.* Prices in Asian NICs are nominally set by market forces but prices that are considered crucial for the smooth functioning of markets are adjusted by fiscal means (e.g., tax rebates, tariffs, duties, subsidies) to ensure that the save/invest signals they emit conform to national priorities of high savings and investment rates, aggressive exporting, and relative self-sufficiency in food.

5. *Trade Agreements and Trade Concessions.* Asian NICs have been very successful in obtaining favorable trading conditions from the most important markets, namely North America and Western Europe. They became members of the GATT and secured special trading conditions, oftentimes under the mantle of technical cooperation and military pact agreements, (The Cold War strategy was to confine the Soviet Union and push back regional communist movements). Maintaining close ties with the West was crucial for both economic and strategic reasons.

6. *Public Sector & Privatization.* One of the first decision by the government in Taiwan in 1949 was to expropriate land from the island's dominant landowners and to proceed with rapid distribution of land in favor of small farmers. Productivity in the primary sector improved rapidly; in retrospect one can put the productivity of collectives in Eastern Europe on a comparable level with Taiwan's unproductive latifundista system prior to 1949. Once the land reform was completed in East Asia, the former landlords were destroyed as a class and removed as a potential obstacle to industrialization (Jenkins, 1991).

After expropriation, the former landlords were compensated with shares in public enterprises, forcing them to take an interest in entrepreneurship. During the initial stages of economic development, public utilities and some 50 percent of Taiwan's manufacturing and mining were in government hands. In 1952, the share of public holding was reduced to 43.4 percent and in 1989 it came down to 28.6 percent, still leaving the government with a substantial influence to play in the future.

In other words, it took 40 years to partially privatize mining and manufacturing without apparently endangering Taiwan's rapid economic development. South Korea and Singapore experienced similar forms of gradual and cautious privatization strategies indicative of the continued presence of state intervention, open monopolies, and covert cartel arrangements.

7. *Nationalization and State Ownership of Banks.* Singapore, South Korea, and Taiwan kept the banking sector under close control throughout the early period of economic growth. Foreign banks were severely restricted or completely excluded and privatization of state held banks has only recently started at a very slow pace indeed, e.g., in Taiwan the government dominates the financial sector (Fry, 1985). In 1990, it still owned all but three of the major banks.

ASIAN NICS VERSUS LATIN NICS

A critical comparison between the development scenarios of Asian and Latin NICs further highlights the success stories of the Asian NICs. In the early 1960s, Latin NICs (Brazil, Mexico and Argentina) were on equal footing with the Asian NICs. Both groupings showed early strong growth and promise for a bright future. The Asian NICs however were the only ones to deliver the promise while the economic growth of the Latin NICs actually declined.

The policy options retained and nurtured by the Asian NIC's differed fundamentally from the Latin NIC's. It might be worth while to highlight some of the key differences in economic and social policy since some of the CEER governments might be tempted by some of the Latin NIC's policy choices. Summarizing from Koo (1990), the main differences are illustrated in Figure 6a and 6b.

Asian NICs

The Asian NICs launched land reform early, created an early perception of equity, and started industrialization with an import

	GNP per capita	
	% Average Annual Growth Rate 1965-1988	Dollars 1988
Latin NICs		
Mexico	2.3	1,690
Brazil	3.6	2,160
Argentina	0.0	2,520
Asian NICs		
Hong Kong	6.3	9,220
Singapore	7.2	9,070
South Korea	6.8	3,600
Taiwan	na	5,020

na = not available

Source: World Development Report, (1991)

Figure 5. Comparison of Economic Growth

COMPARATIVE POLICY DECISIONS

Latin NICs (Mexico, Brazil, Argentina)	Asian NICs (Singapore, South Korea, Taiwan)
* Aborted land reform	* Completed land reform
* Inward-looking growth Strategy - second stage import substitution	* Outward-looking growth Strategy - second stage export orientation
* Development of manufacturing industries - subsidized inputs - over-valued exchange rate - low or negative real interest rates - protectionist	* Development of manufacturing industries - infant industry subsidization - under-valued exchange rate - medium real interest rates - selective protectionism
* Low absorptive capacity of technology and resources - elitist education - medium-high government intervention non-decreasing	* High absorptive capacity of technology and resources - public education - limited government intervention gradually decreasing
* Income distribution - distorted & inequitable - perceived injustice leading to social unrest and repression	* Income distribution - equitable - perceived equity leading to relative labour peace

Figure 6a.

substitution policy that was followed by an export expansion strategy and a move towards high tech and service industries.

The main emphasis of the early development policy centered on the education of the work force and the population at large through mandatory public education programs that allowed the countries to absorb new manufacturing and production technology.

COMPARATIVE POLICY DECISIONS

Latin NICs (Mexico, Brazil, Argentina)	**Asian NICs** (Singapore, South Korea, Taiwan)
* Labour Unions Controlled and labour leaders eliminated leading to violent conflicts	* Labour Unions Controlled and labour leaders jailed, then gradually, installment of tripartite arbitration process
* Development of political system partial democracy → military dictatorships → partial democracies	* Evolution of political system military-authoritarian dictatorships → partial democracies
* Social Welfare System underdeveloped - strikes, violence	* Social Welfare system underdeveloped, then installment of labour law and social welfare
* Financial Controls in private hands (private banking)	* Financial Controls in governmental hands (banks majority state controlled)
* Low tax policy due to pressure of upper class self interest - continued budget deficits - loans & indebtedness - devaluations	* Initially low then medium to high tax policy - balanced budget - some loans, but mostly balance of payment surpluses - pressure towards revaluations

Figure 6b.

Stability of growth was facilitated through the encouragement of savings, control of capital flows, sensible and equitable taxation measures, and labor relations that evolved from initial repression to a more balanced tripartite cooperation (labor, employers, government).

Foreign multinational companies were given the necessary infrastructure and tax incentives within a clear context of an industrial policy that consisted of protection of the Asian NICs' infant industries, mandatory licensing agreements to enforce transfer of technology, and incentives to manufacture locally.

Latin NICs

The Latin NICs were never able to create a perception of equity either in regard to land reform, income distribution, or labor relations. Uncontrolled rent seeking behavior dominated (Borner, Brunette, Weder, 1990) and institutionalized uncertainties prevailed. Newly created wealth was rarely reinvested but rather was lost as flight capital.

Instead of building equitable educational infrastructures, elitist education was retained and the necessary upgrading of the Latin NICs' workforce never happened. Hence, the absorption capability for new manufacturing technology remained limited or non-existent. The corollary to this rent seeking behavior was an import substitution policy coupled with high protectionism and overvalued exchange rate manipulations. Individual profiteers outsmarted any attempts to bring the Latin NICs toward a sustained and equitable development policy.

CONCLUSIONS

In summary, Asian NICs did not opt for neo-conservative economic policy, but instead opted for a mixed economy characterized by decisive and continuous state guidance, direct or indirect interventionism comparable to the examples of Japan, Finland, Switzerland, Sweden, Austria, and West Germany whose economic development models at times have been labeled as corporatist or social-market capitalism.

The Asian NICs' models of socio-economic development has been very successful and could serve as a model for other countries trying to close multiple "gaps" of socio-economic development.

However, direct emulation of the Asian NICs' successful policies to CEERs current impasses and trepidations would be unrealistic and only doomed to failure. The world economy of today offers less opportunities for an export-led development strategy as pursued by the Asian NICs. In addition, not all of CEERs are agriculture-based economies as were Taiwan and South Korea at the beginning of their industrial development. Some of the CEERs are semi-industrialized and in need for industrial restructuring. On top of this, the size of the public sector of CEER states is greater than was the case with the Asian NICs. Still, this does not justify a call for neo-conservative "Shock Therapy." Rather the call should be for a measured dose of gradual liberalization coupled with continuous efforts at improving social and political conditions over time.

Asian NICs made the transition from poverty to prosperity and industrialization without "Shock Therapy." Paul Marer (1991) describes their successful transition as follows:

> . . .(South-East Asian countries) built their market mechanisms and competitive international strengths under authoritarian and interventionist governments, with the populations and the labor force cooperating and acquiescing in economic direction.

A complementary reason for the Asian NICs sustained successful economic development has been the ability of their respective governments to gradually move from initial authoritarianism to a more participatory style of governance characterized by an increasing degree of power sharing. Hence, energies were not invested in continuous repression but rather into gradual democratization that in turn provided sufficient political stability and socio-cultural cohesion needed for economic growth and socio-cultural adaptation.

The lesson to be learned from the Asian NICs and West-European social market economies is that CEER countries might fare better if they were to give priority to social development coupled with gradualist economic policies and move slowly but steadily from direct state interventionism to an indirect measure such as creating a legal framework (Rahmenbedingungen) which guarantees predictability and a sense of fairness.

"Shock-Therapy" with its conflict-and-chaos-inducing consequences does not allow for a gradual build-up of trust and confidence. Instead, we argue, that it adds to the existing political and social conflicts an element of uncertainty—namely, more unemployment without adequate social safety nets, rent seeking behavior (asset stripping) of a privileged class (former 'latifundistas' of the communist nomenclatura), and a growing exodus of the skilled workforce to the greener pastures of Western Europe.

Of course, NATO countries could greatly help the CEERs reconstruct their economies and societies. In short, this would mean giving more loans and grants, providing more educational exchange programs, and agreeing to a transfer of appropriate manufacturing technologies. Without such help, CEERs will not be able to develop the necessary business environment needed for measured and gradual economic reforms, political evolution, and extensive infrastructure developments.

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