

Embedded Autonomy in the "East Asian Miracle": Hong Kong's Banking, Textile/Garment, and Electronics Sectors in the 1990s*

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Conventional wisdom suggests that the economic miracle of Taiwan, Singapore, and South Korea was due to interventionist policies. Peter Evans' embedded autonomy, a theory emphasizing state prowess and interconnection between the state and society or business actors, has been used to explain the Asian miracle. The relevance of embedded autonomy to Hong Kong's economic history has been largely neglected, however. This paper aims at applying this concept to study the banking, textile/garment, and electronics sectors of Hong Kong.

Theoretically, embedded autonomy is a pattern of state-society interaction that allows the state bureaucrats to become highly professionalized and to gain close access to important societal actors, thereby crafting successful policies. Being relatively autonomous from society, however, the government can make timely policy adjustments that could either be hands-off or interventionist depending on necessity. As such, embedded autonomy and the role of the government are conceptually separate. This revelation directs the focus of the cross-sectoral analysis of Hong Kong toward studying the relationship between embedded autonomy and the role of the government.

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The major empirical finding is that embedded autonomy varies across sectors—being high in the banking, medium in the textile/garment, and low in the electronics sectors of Hong Kong from 1990 to mid-1997. This variance correlates with the level of success of the government's role-setting that indicates different developmental prospects of the three industries.

KEYWORDS: embedded autonomy; Hong Kong's banking, textile/garment, and electronics industries; Asian economic miracle; state-society interaction

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Introduction

With the advent of the East Asian financial crisis in 1997, the "East Asian miracle"—a popular phrase referring to the high economic growth, low inflation, and high employment rate in East Asia since the 1960s—seems to become an outdated story. While many scholars still find reason for optimism, others are pessimistic about the sustainability of growth in the four little dragons, which include Taiwan, South Korea, Singapore, and Hong Kong. Yet, even the most critical commentators cannot devalue the concrete benefits enjoyed by the four dragons in the past decades. If we desire to predict the future, we must first understand how the system worked in the past and thereby gain insight into whether the past system will effectively adapt to the changing domestic and global topography.

Many scholars tend to attribute the past East Asian miracle to interventionist policies while Hong Kong, well known for its hands-off government, is usually considered an exceptional case. Serious study of Hong Kong's government has been largely neglected. This paper therefore aims at digging into the single case of Hong Kong with reference to the selected industrial sectors—the banking, textile/garment, and electronics sectors—in the 1990s.

Objective of the Paper

Conventional wisdom holds that the role of the government affects economic performance, yet there has not been enough debate on what determines whether a government will take on a growth-promoting role.

This question requires a state-society approach which emphasizes not only bureaucratic or state prowess, but also the interconnection between the state and society—particularly business actors—that provides an effective basis for economic transformation. The high performance or rationalized bureaucracy in Japan, South Korea, Taiwan, and Singapore provides compelling approximations of Weberian-type coherent state prowess.¹ The East Asian miracle is more than Weberian bureaucracy, however. The state is connected with society, which is a decentralized source of intelligence which can produce growth. Peter Evans uses the term "embedded autonomy" to summarize such a combined relationship between a coherently strong bureaucracy and connectedness to society that has a positive impact on the East Asian economic performance, particularly Japan, South Korea, and Taiwan. However, the attempt to study the relations between embedded autonomy and the economic performance of Hong Kong has been absent.

Can embedded autonomy explain the economic performance of Hong Kong? Before answering the question, we must note that Evans' embedded autonomy is used for comparative cross-national analysis. Evans thinks that the level of embedded autonomy—a form of state organization which is internally coherent and competent, and maintains close ties with society—determines the variation of the state's capability to formulate and implement a positive economic role of the state across countries. For instance, he argues that South Korea had a higher degree of embedded autonomy, and therefore was more successful in promoting information technology than India and Brazil.

However, cross-national analysis may ignore the variation of embedded autonomy, the role of the government, and economic performance across different industries within one country. Such an analysis may also

¹See Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford, Calif.: Stanford University Press, 1982); Richard J. Samuels, *The Business of the Japanese State: Energy Markets in Comparative and Historical Perspective* (Ithaca, N.Y.: Cornell University Press, 1987); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, N.J.: Princeton University Press, 1990); Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); World Bank, *The East Asian Miracle* (New York: Oxford University Press, 1993).

impede further theoretical refinement of embedded autonomy, which has been accused of definitional imprecision.²

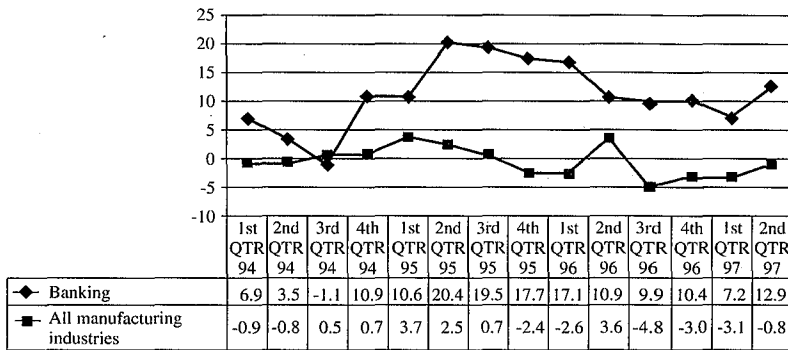
As a breakthrough, this paper studies how the extent of embedded autonomy affects the developmental prospects of the three industries within one city-state³ setting. I will provide a cross-sectoral analysis of embedded autonomy in the banking, textile/garment, and electronics industries from 1990 to mid-1997.⁴ Many have long perceived Hong Kong as dominated by the service industry, with the manufacturing industries having reached the sunset stage. Therefore, I select from the growing service industries the banking sector and pick the textile/garment and electronics industries, which respectively account for 27.9 percent and 9.2 percent of the gross industrial output,⁵ from the manufacturing sector. As shown in tables 1 and 2, the banking sector has maintained stable growth while the total manufacturing sector inclusive of textile/garment and electronics industries has experienced stagnant or negative growth since the 1990s. By comparing the finance sector with the entire manufacturing sector, we see that the manufacturing sector's percentage contribution to gross domestic product (GDP) has dropped tremendously—particularly since the 1990s—while the finance sector has maintained strong growth (see table 3). The banking industry has tended to have had a stronger alliance with the government while the textile/garment and electronics industries have appeared to have been much weaker. This has prompted us to ask if embedded autonomy—a relationship between the state and society—is relevant to these contradictory economic performances. I can therefore refine my core research objective as the examination of the correlation between the extent of

²Alejandro Portes, "Feature Essays," *Contemporary Sociology* 25 (March 1996): 175-76.

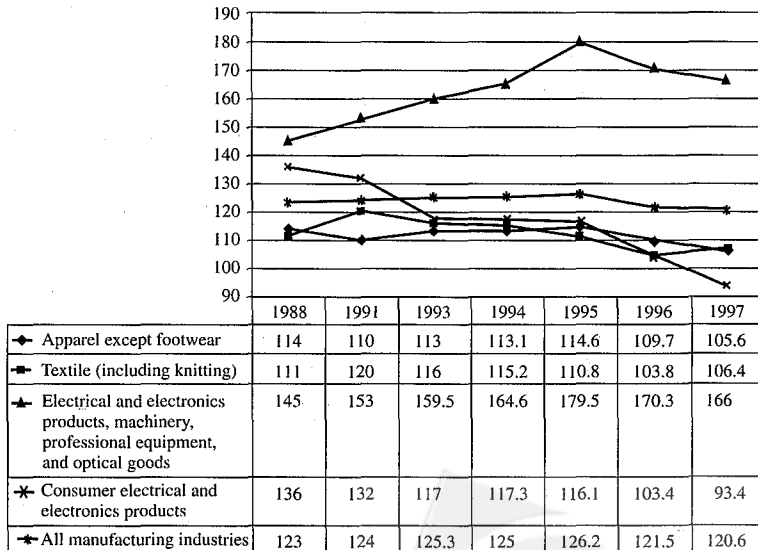
³Hong Kong, strictly speaking, cannot be considered a "state." In this paper, "state" is narrowly defined as a government, and I will use "state" and "government" interchangeably.

⁴The East Asian financial disturbance that began in July of 1997 is beyond the scope of this paper as the research was completed before the start of the financial crisis. However, I will discuss the implications of the arguments of this paper for the financial crisis in the conclusion.

⁵The figures are based on 1996 estimates in the *Annual Digest of Statistics 1998* (Census and Statistics Department, HKSAR), 59. Textiles and garments refer to apparel (except footwear) and textiles, while electronics comprises radio, television, and communications equipment, electronics parts and components, electrical appliances, housewares, and electronic toys.

Table 1**GDP Growth Rates in Real Terms:****Banking versus All Manufacturing Industries, 1994-97**

Sources: *Hong Kong Economic Trends* (HKSAR Census and Statistics Department), various issues.

Table 2**Indexes of Industrial Production: Textile/Garment and Electronics Industries versus All Manufacturing Industries (1986 = 100)**

Sources: *Hong Kong Annual Digest of Statistics* (1998), 62.

Table 3**Production-Based GDP Estimates by Economic Activity, 1980-97**

	GDP at current prices (HK\$ million)		% contribution to GDP at factor cost	
	Manufacturing	Financing, insurance, real estate, and business services	Manufacturing	Financing, insurance, real estate, and business services
1980	31,806	30,938	23.7	23.0
1981	37,557	39,361	22.8	23.9
1982	38,070	41,197	20.8	22.5
1983	46,242	35,563	22.9	17.6
1984	58,329	37,454	24.3	15.6
1985	56,192	40,739	22.1	16.0
1986	66,836	50,306	22.6	17.0
1987	80,713	65,707	22.0	17.9
1988	90,035	82,813	20.5	18.9
1989	96,170	97,297	19.3	19.5
1990	98,352	113,127	17.6	20.2
1991	97,223	143,296	15.4	22.7
1992	99,764	178,923	13.6	24.4
1993	92,582	214,550	11.2	25.8
1994	87,354	254,346	9.2	26.8
1995	84,770	247,985	8.3	24.4
1996	82,769	284,119	7.3	25.1
1997	82,156	333,338	6.5	26.5

Source: *Quarterly Report of Gross Domestic Product Estimates, Fourth Quarter 1998* (HKSAR Census and Statistics Department, March 1999).

embedded autonomy and the role of the government, a correlation which is one indicator of the developmental prospects/performance in the banking, textile/garment, and electronics sectors of Hong Kong.

The Structure of the Paper

The concept of "embedded autonomy" is part of the literature on the role of the state. This paper begins with a brief review of the statist literature of Asian studies. I will then introduce my analytical framework that positions the concept of embedded autonomy in the larger environmental context. This framework will outline the flow of my analysis of the three chosen industries from 1990 to mid-1997. This will be followed by a cross-

sectoral comparative summary and conclusion that recaps the major findings and spells out the theoretical and practical implications for the East Asian financial crisis that began in July 1997.

Literature on the East Asian Miracle: A Statist Approach

For the field of developmental studies, the statist approach is a classical way to analyze the developmental prospects of late developing nations. Much of the Asian studies literature traces origins to Alexander Gerschenkron and Albert Hirschman⁶ who stress that latecomers can not only catch up, but also surpass the earlier developers through active government involvement in economic development. Ezra Vogel's "late, late developers" thesis that he applied to Japan and the four little dragons is a typical work in the tradition of Hirschman and Gerschenkron. Although providing a clue that the role of the government for late industrializers is crucial, this "advantage of lateness" perspective fails to explain the variation in latecomer success. Ding Xue-liang suggests that with the same "top-down"⁷ industrialization, there are both successful latecomers (such as Germany and East Asia) and unsuccessful ones (such as Russia). Therefore, the institutional and behavioral characteristics of the East Asian states, which distinguish their successes from the other less successful late-developers, need to be defined more clearly.

State Autonomy Variant: Strong, Authoritarian, and Interventionist State

We tend to describe Taiwan, South Korea, and Singapore's states as "strong" and believe that a "strong" state—equated intuitively with the "authoritarian" regime and "interventionist" policies—is a crucial factor

⁶Albert O. Hirschman, *The Strategy of Economic Development* (New Haven, Conn.: Yale University Press, 1958).

⁷Ding Xue-liang, *Post-Communist China* [in Chinese] (Hong Kong: Oxford University Press, 1994), 39-40.

behind the East Asian miracle. The "authoritarian regime" argument holds that the dragons have experienced the highest economic growth rates in the world when they were under authoritarian rule, and this seems to suggest that authoritarianism aids economic performance.⁸ As Robert Marsh asserts: "New state cannot afford democracy because they must place prior value on economic growth—the authoritarian regimes are better able to keep current consumption down, thereby creating needed savings and freeing funds for investments."⁹ Although ruled by authoritarian regimes, some developing countries such as those in Latin America still experience poor economic growth. These exceptions suggest that authoritarianism is an insufficient indicator of economic development. However, East Asian authoritarianism may differ from other authoritarian regimes in some important aspects. One possible difference is interventionism.

One representative of this approach includes Robert Wade. To Wade, the success of East Asia is due to active government intervention well beyond the assertion of neoclassical economics of eliminating market imperfection. He thinks that the East Asian economy is a "governed market" where the government is proactive in assisting (big followship) and/or even leading (big leadership) the market to create economic miracle.¹⁰

Wade's interventionist argument, however, fails to differentiate East Asian states from those in Latin America, Russia, and China that were equally interventionist from the 1960s to the 1970s. Furthermore, "interventionism" or the extent of government intervention cannot explain the diversity of intervention among the four little dragons. The Taiwan government often assumes the dual role of an investor and a producer, benefit-

⁸For related literature on the relationship between political regimes and economic growth, see Alberto Alesina and Roberto Perotti, "The Political Economy of Growth: A Critical Survey of the Recent Literature and Some New Results" (Discussion Paper #626, Department of Economics, Columbia University, 1992); Adam Przeworski and Fernando Limongi, "Political Regimes and Economic Growth," *Journal of Economic Perspectives* 7, no. 3 (1993): 51-69; and Zehra F. Arat, "Democracy and Economic Development: Modernization Theory Revisited," *Comparative Politics* 21, no. 1 (1998): 21-36.

⁹Robert Marsh, "Does Democracy Hinder Economic Development in the Latecomer Development Nations?" *Comparative Social Research*, vol. 2 (Greenwich, Conn.: JAI Press, 1979), 217-19.

¹⁰Wade, *Governing the Market*, 22-29.

ing public enterprises and leaving autonomy to domestic private firms. The South Korean government emphasizes support to indigenous private conglomerates (chaebols)¹¹ and Singapore relies on attracting multinationals. Taiwan, South Korea, and Singapore began intervening in their economies at different times—Taiwan in the 1950s, South Korea and Singapore in the 1960s.¹² The three dragons differed in their command of policy instruments, such as control over banks and fiscal measures, the strength of state-owned enterprises, coalition with capital, and control over labor.¹³

In brief, the notions of "strong state," "authoritarianism," and "interventionism" are not synonymous, and the latter two cannot distinguish East Asian states from the less successful cases in Latin America, which are equally authoritarian and interventionist. To unveil the crux of East Asian miracle, we must go beyond authoritarianism and interventionism and refine the meaning of "strong state."

State-Society Variant: Strong and Limited State, Embedded Autonomy

Scholars further define "strong state" by relating the government with society. A state, according to Peter Evans, with unlimited capacity to control "the other" could also be an effective predator that is detrimental to the public good. Therefore, a strong state, as asserted by Hilton Root, instead of having unlimited capacity, should be "strong and limited" in order to achieve "good governance."¹⁴ Root's "strong and limited" state embraces two conditions: first, the state has "bureaucratic capability" to prevent itself and others from violating the rules it sets; and second, the state is "interfaced" with society, a design to limit and check the state.¹⁵

¹¹Wing-kai Stephen Chiu, "The State and the Financing of Industrialization in East Asia: Historical Origins of Comparative Divergence" (Ph.D. thesis, Princeton University, 1992) (Michigan: UMI, 1992), 420-31.

¹²John Y.T. Kuark, "Study of Foreign Trade in North and South Korea," in *Comparative Asian Economies*, ed. John Y.T. Kuark (Greenwich, Conn.: JAI Press, 1996), 128-29.

¹³Stephen Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (Ithaca, N.Y.: Cornell University Press, 1990), 46.

¹⁴Hilton Root, *Small Countries, Big Lessons: Governance and the Rise of East Asia* (Hong Kong: Oxford University Press, 1996), 141-42, 145-50.

¹⁵*Ibid.*, 6-9, 10-15.

Root's argument is in line with Evans' embedded autonomy in the sense that autonomy refers to Root's "strong" state while embeddedness corresponds to the "limited" notion. Evans' autonomy refers to a state that is "strong" to "bind the behavior of incumbents to its pursuit of collective ends, [and] the state can act with some independence in relation to particularistic societal pressure."¹⁶ His embeddedness notion means that the government is connected with society, so that society can act as not only a source of policing and monitoring which helps "limit" the state, but also a source of information and intelligence.¹⁷

Evans' idea of embedded autonomy actually continues by arguing that embeddedness and autonomy are inseparable or complementary and therefore should be combined to create developmental states.¹⁸ A strong and coherent bureaucratic state, which is resistant to narrow and organized pressure groups, ensures more effective ties with society. These ties to society, by providing monitoring and information, strengthen instead of deprive the state's self-disciplined capacity.

By looking into the variations of autonomy and embeddedness, Evans is able to differentiate higher performing states from lower performing ones: (1) *developmental*¹⁹ such as Japan, Taiwan, and South Korea; (2) *intermediate* such as India and Brazil,²⁰ and (3) *predatory*²¹ such as Zaire (see table 4). Evans thinks that predatory states such as Zaire have no prospect of growth as they lack both embeddedness and real autonomy. The Zaire state is weak in the sense that it is heavily corrupt, being captured by strong interest groups. Moreover, intermediate states²² such as Brazil and India

¹⁶Peter Evans, *Embedded Autonomy: State and Industrial Transformation* (Princeton, N.J.: Princeton University Press, 1995), 59.

¹⁷*Ibid.*, 12.

¹⁸*Ibid.*

¹⁹*Ibid.*, 47-60.

²⁰*Ibid.*, 60-70.

²¹*Ibid.*, 12-13, 44-47.

²²Having quite a good record in terms of an internally cohesive bureaucracy, India's lack of embeddedness, however, means that economic policies are doomed to failure. The Brazilian state is better connected with local entrepreneurs but the fragmentation within the state apparatus creates difficulties in preserving the coherent program of transformation. *Ibid.*, 60-70.

Table 4**Classification of States in Terms of Embedded Autonomy**

	Predatory	Intermediate		Developmental
Autonomy	Low	High	Low	High
Embeddedness	Low	Low	High	High
Examples	Zaire	India	Brazil	Japan, Taiwan, South Korea

Source: Based on the idea of Peter Evans, *Embedded Autonomy: State and Industrial Transformation* (Princeton, N.J.: Princeton University Press, 1995), 43-73.

have either embeddedness or autonomy—but not both at the same time—and thus lack sufficient preconditions. This situation may even produce perverse economic results. Finally, Japan, Taiwan, and South Korea are regarded as developmental states because they possess both autonomy and embeddedness.

Other than being able to differentiate the higher performing developmental states from the lower performing ones, embedded autonomy solves the theoretical flaw of ignoring the "diversity" among the East Asian developmental states. Evans demonstrates that the degree of embedded autonomy determines the "kinds" of roles²³ of the government. By comparing South Korean, Indian, and Brazilian information technology sectors, he argues that South Korea, with a higher level of embedded autonomy, has successfully positioned itself into the role of promoter which is more positive than the regulatory or producer roles adopted by India and Brazil. What he implies, however, may not necessarily be that a promoter role—which is superior in the information technology sector—is the ideal role-setting for the other industries as well.²⁴ In fact, he observes that the government is playing a "blend"²⁵ of roles. I would go further by arguing

²³To Evans, the role of the state is not Wade's question of "how much," but rather a question of "what kind." He identifies four roles: "midwifery," "husbandry," "custodian" (regulator), and "demiurge" (producer). These roles are not used in isolation, but in combination. For detail, see *ibid.*, 11-13, 78-82.

²⁴*Ibid.*, 81-94. Evans explicitly argues that the types of ideal roles vary across sectors.

²⁵*Ibid.*, 82.

that the implications of his comparative studies are that the "optimal" blend of government could vary across countries, time, and industries within one country.

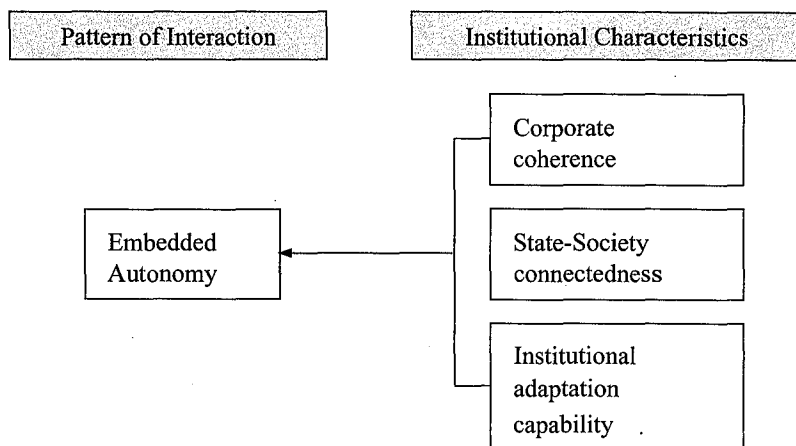
Analytical Framework

That Hong Kong, well known for its laissez-faire economy, is often excluded in the statist explanation of the Asian miracle may be due to the confusion of the "strong state" notion associated with embedded autonomy and interventionist government concepts. Embedded autonomy is conceptually different from the "role of the government," and therefore we cannot rule out the possibility that Hong Kong has an autonomous government being connected with society while adopting noninterventionist policies. To highlight the two separate but closely related concepts, I have designed a framework that positions embedded autonomy as a crucial factor for the success of the "role of the government." I will refine the meaning of embedded autonomy and then explain how this autonomy works in the larger environment to affect the role of the government (important because government role is one of the factors affecting economic performance). This framework will set the basis for the cross-sectoral analysis of Hong Kong used later on in the paper.

Embedded Autonomy and Its Institutional Characteristics

Evans' concept of "embedded autonomy" is actually the behavioral pattern of intimate interaction between an autonomous government and an informed society. Strictly speaking, human interaction patterns are an outcome of a set of institutional arrangements.²⁶ Evans does imply this relationship by arguing that embedded autonomy is the "contradictory combination of corporate coherence and connectedness" which provide "the

²⁶Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (Cambridge: Cambridge University Press, 1990), 1-6.

Figure 1**The Three Institutional Characteristics Sustaining Embedded Autonomy**

Source: Peter Evans, *Embedded Autonomy: State and Industrial Transformation* (Princeton, N.J.: Princeton University Press, 1995), 12-16. "Institutional adaptation capability" is my invented concept.

structural basis for successful state involvement in industrial transformation."²⁷ To Evans, embedded autonomy is an inseparable concept where corporate coherence builds autonomy, while connectedness constructs embeddedness. Refining his idea, embedded autonomy can be defined as the combination of three institutional characteristics: (1) corporate coherence, (2) connectedness, and (3) institutional adaptation capability, my invented concept, which is an ignored but important component of embedded autonomy (see figure 1).

Autonomy: An autonomous state can "bind the behavior of incumbents to its pursuit of collective ends . . . [and] can act with some independence in relation to particularistic societal pressure."²⁸ This is sustained by corporate coherence. Corporate coherence requires a Weberian type of bureaucratic capability which refers to a powerful, talented, and prestigious

²⁷ Evans, *Embedded Autonomy*, 12.

²⁸ Ibid., 59.

economic bureaucracy whose members are recruited by merit with long-term career rewards. Meritocratic recruitment ensures the quality and neutrality of policies.

Evans' corporate coherence, however, goes beyond Weber's prescription of a meritocratic bureaucracy. He thinks that the "informal network," a non-Weberian element of bureaucracy, is crucial to binding Weberian meritocracy. An internal network²⁹ refers to corporate culture, a close working relationship among civil servants within the bureaucracy. Such internal coherence is the precondition for bureaucrats to connect effectively with society. As Evans argues, "Given a sufficiently coherent, cohesive state apparatus, isolation is not necessary to perverse state capacity. Connectedness means increased competence instead of capture."³⁰

With internal coherence, the state is less likely to be captured by external private interests despite the level of state-society ties. Instead, the external network³¹ allows society to monitor the policymaking of the state which binds the behavior of bureaucrats toward the collective good instead of piecemeal private interests. Thus, corporate coherence is a prerequisite for the capacity of the state to monitor society and perform self-restraint. This type of coherence requires a Weberian type of meritocracy as well as an "informal network" that is linked to "embeddedness" as will be discussed below.

Embeddedness: Evans' "embeddedness" refers to the state's ties with social groups—particularly to industrial capital—which allow joint sharing in economic transformation.³² He refers to such ties as "connectedness"

²⁹For instance, in Japan the internal centrality of *gakubatsu*, or "ties among classmates at the elite universities from which officials are recruited," enhanced corporate coherence. See Johnson, *MITI and the Japanese Miracle*, 52-57.

³⁰Peter Evans, "State Structures, Government-Business Relations, and Economic Transformation," in *Business and the State in Developing Countries*, ed. Sylvia Maxfield and Ben Ross Schneider (Ithaca, N.Y.: Cornell University Press, 1998), 63-87.

³¹Evans cites Japan as an example to show the importance of external ties. Japanese industrial policy depends on the maze of ties that connect ministries and major industrialists. *Amakudari* (the "descent from heaven" of the retired officials to the private corporations, industrial associations, or quasi-governmental organizations) is a unique external tie which builds consensus in a less time-consuming manner.

³²Evans, *Embedded Autonomy*, 234.

and he thinks that they are the key for a state to succeed. Connectedness allows society to police the government by restraining it from abusing its power on the one hand and providing a source of information on the other. Yet regardless of capability, the state requires the nonbureaucratic sources of intelligence provided by society, the group which possesses the most updated and expert information crucial for policy formulation.

Although embeddedness seems attractive, Alejandro Portes argues that the concept is definitionally vague and cannot be falsified. He thinks that embeddedness encompasses "the fuzzy relationship between Japanese bureaucrats and keiretsu executives, but also the arms-length and authoritarian treatment of Taiwanese firms by Kuomintang officials."³³ Similarly, as William Form writes,

The embeddedness section of Evans' theory is theoretically and methodologically underspecified. . . . Apparently, whether ever economic development is successful, proper embeddedness occurs. The theory does not specify a priori the conditions of successful embeddedness and his research design makes its nullification impossible.³⁴

In order to avoid this definitional imprecision,³⁵ I try to clarify Evans' concept of embeddedness by identifying three sets of conditions:

- * *The existence of a set of formal and informal channels for participation.* Formal channels include advisory committees, consultative papers, regular and ad hoc meetings, and study groups. Informal channels include friend and peer relationships, social gatherings, seminars and conferences, etc.
- * *The open attitude of the government in considering various sources of opinion.* The government should take a serious attitude toward the opinions obtained through different communication channels.
- * *The sense of efficacy shared among societal actors using the chan-*

³³Portes, "Feature Essays," 176.

³⁴William Form, "Book Reviews: *Embedded Autonomy: State and Industrial Transformation* (Peter Evans)," *Administrative Science Quarterly* 42 (March 1997): 187-89. Also see Anthony Woodiwiss, "Review Essays: Searching for Signs of Globalization," *Sociology* 30 (November 1996): 799-810.

³⁵Portes, "Feature Essays," 176.

nels. Related to the previous two conditions, societal actors will participate sincerely only when they can benefit from participation.

The three conditions construct a favorable participatory environment through which societal ideas are substantially considered by the state. Such connections sustain the phenomenon of a state being embedded with society.

Institutional adaptation capability: Another reason for the definitional imprecision of Evans' embedded autonomy concept may be due to his neglect of institutional adaptation capability as a component of the concept. To be fair, both Root³⁶ and Evans recognize the necessity of institutional adaptation. In particular, Evans asserts in his latest work that "new social groups" should be included to counterbalance the increasing power of business and keep embedded autonomy working: "As government-business relations evolve, a more encompassing set of state-society networks that includes institutionalized ties between the state and other social groups may provide a better means of sustaining future transformation."³⁷ To Evans, as transformation proceeds, increase in power of business classes will result in a diminished sense of dependence on the state, and embedded autonomy should be restructured.³⁸

In view of this, I develop further that "institutional adaptation capability" is also integral to the "embedded autonomy" concept. Institutional adaptation capability refers to the existence of institutional change mechanisms such as annual review committees that help to identify the need to introduce new organizations, rules, procedures, and people into existing system so as to keep corporate coherence and state-society connectedness up-to-date. The connections that were adequate in the past may become "narrowly constructed"³⁹ at today's level. Without institutional rejuvena-

³⁶Root thinks that the importance of new organizations, rules, and procedures is not reflected in the collocation of total factor productivity growth, and thus has been underestimated. See Root, *Small Countries, Big Lessons*, 16.

³⁷Evans, "State Structure, Government-Business Relations, and Economic Transformation," 85.

³⁸*Ibid.*, 83-86.

³⁹*Ibid.*, 87.

tion, the outdated institutional structure may no longer sustain embedded autonomy. Institutional adaptation capability is therefore indispensable to uphold embedded autonomy.

*The complementarity*⁴⁰ *between embeddedness and autonomy*: Evans believes that embedded autonomy exists only when "embeddedness" and "autonomy" are complementary. Evans states, "Embeddedness provides sources of intelligence and channels of implementation that enhance the competence of the state. Autonomy complements embeddedness, protecting the state from piecemeal capture."⁴¹ To Evans, autonomy without embeddedness implies that the state will be less capable of formulating suitable policies and may easily abuse power because the state is deprived of both information and the checking power of societal mechanisms. Most importantly, in a fragmented and weak bureaucracy, embeddedness or connections with societal actors have high possibility of evolving into clientelism/corruption. Marcos' crony capitalism⁴² in the Philippines may be one vivid example showing that embeddedness without the prerequisite of state autonomy results in privilege and wealth created for a few individuals yet pushes the country into increasing underdevelopment.

I argue that, as such, the coexistence of embeddedness and autonomy is stated as "embedded autonomy," a complementary and inseparable concept. The growth-promoting state requires the "contradictory combination of corporate coherence and connectedness"⁴³ as well as the institutional adaptation capability.

⁴⁰The complementarity concept originates from Peter Evans. In particular, he sees a "state-society synergy" which includes two elements: complementarity and embeddedness. Complementarity refers to day-to-day public-private interactions and the "mutually supportive relation." Embeddedness refers to the "institutional forms" of state-society ties that sustain the "mutually supportive relation." For details, consult Peter Evans, ed., *State-Society Synergy: Government and Social Capital in Development* (Berkeley: University of California Press, 1996), 178-209.

⁴¹Evans, *Embedded Autonomy*, 248.

⁴²Ricardo Manapat, *Some Are Smarter Than Others: The History of Marcos' Crony Capitalism* (New York: Aletheia Publications, 1991), 68-97.

⁴³Evans, *Embedded Autonomy*, 12.

Analytical Framework: Embedded Autonomy as an Independent Variable Explaining the Role of the Government and Economic Performance

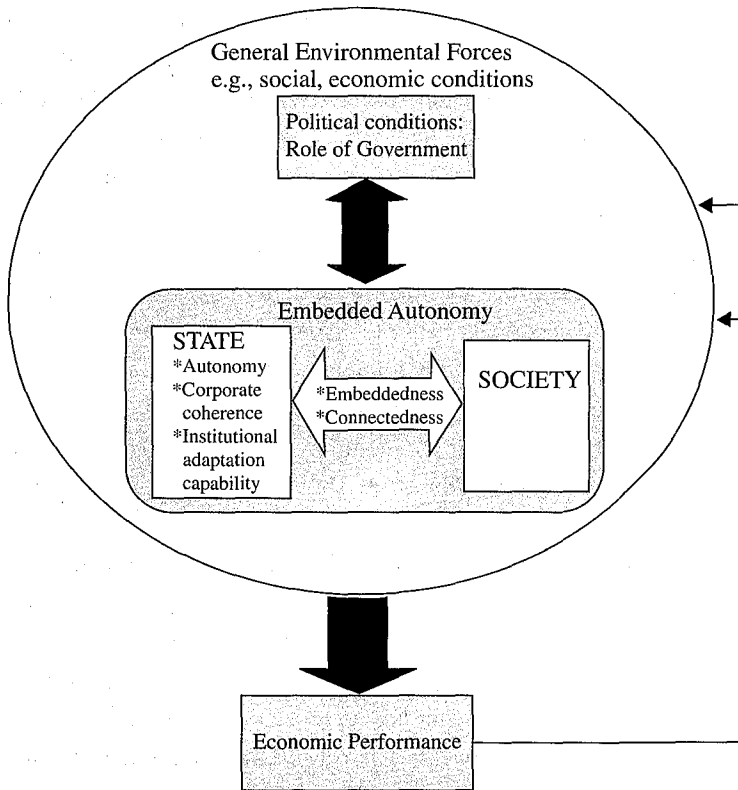
In this paper, I will explain how embedded autonomy works to affect the role of the government. This general framework will be applied to the cross-sectoral studies within the single city-state setting of Hong Kong. Due to space limitations, my analysis will focus on the relationship between embedded autonomy and the role of the government only, while assuming causality between the role of the government and economic performance. The assumption is still valid, however, as the notion of strong correlation between good governance and high performance has been widely studied and accepted. I should also clarify in advance that the concept of embedded autonomy is not solely confined to the government but also extends to society at large. The focus of this paper, however, is more on the role of the government.

General environmental forces: As shown in figure 2, general environmental forces include political, social, and economic conditions that can be considered exogenous variables that affect economic performance. The environmental forces this paper takes as independent variables are embedded autonomy and the role of the government. The framework highlights that embedded autonomy and the role of the government are conceptually separate and the former has an impact on the latter.

The role of the government: The role of the government is taken as correlating strongly with economic performance. A growth-promoting role of the government should correspond to the general environment. At the cross-national level, assuming the three dragons including Taiwan, South Korea, and Singapore shared common traits such as culture; regime type, and strategies that were conducive to a more interventionist style of governance, the growth-promoting mode of the government should be similarly interventionist. Yet, the environment is usually unique across countries, over time, and across industries. The three dragons are confronting quite distinct environmental conditions. Thus, their interventionist policies actually differ in terms of type, target, and timing. As such, if Hong Kong has a unique environment that requires a less proactive government, a successful governmental role should be correspondingly noninterventionist. This

Figure 2

**Analytical Framework: Embedded Autonomy as an Independent Variable
Explaining the Role of the Government and Economic Performance**



Note: The concepts of "embedded autonomy" and its institutional requirements, namely "corporate coherence" and "connectedness," are borrowed from Peter Evans' *Embedded Autonomy*. The rest of the framework is the author's own invention.

implies that the crux for the dragons' successful economic takeoff, instead of the so-called interventionist mode of government, is more the government's ability to be mindful of "environmental circumstances." In the study of different industrial sectors in Hong Kong, the optimal role of the government should thus correspond to the unique environmental requirements of a particular industry. However, what exactly causes the government to adopt a growth-promoting role?

The relationship between embedded autonomy and the role of the government: The answer lies in embedded autonomy. Embedded autonomy, in the context of the government, implies that while formulating policies the government can draw intelligence from both within (i.e., via the bureaucracy) and without (i.e., via society). I therefore consider that a high level of embedded autonomy allows the state to be "informed" and therefore adjust to environmental conditions. A low level of embedded autonomy, however, deprives the state of sources of intelligence from the bureaucracy and society. Embedded autonomy is too weak to allow the government to be able to adopt a growth-promoting role—as the state could be easily misled or distorted by either bureaucratic or societal interest.

Economic performance/developmental prospects of industrial sectors: Economic performance is the outcome of the fusion of conditions in the exogenous environmental forces with the role of the government, the independent variable highlighted in the framework. Economic performance, like the expansion of the middle class, will itself transform the environment that would impact embedded autonomy and thereby lead to role adjustment.

As this paper is focused on the study of three industries within Hong Kong, economic performance refers to the varying developmental prospects of the three sectors. The developmental prospect is assumed to be correlated with the compatibility of government role-setting to the developmental needs of respective sectors. Under such an assumption, I will focus on studying the correlation of embedded autonomy with the role of the government that is predictive to the developmental prospect of each industry.

Embedded Autonomy in the Banking Sector in the 1990s

Considered the pillar of the Hong Kong economy, the banking industry and its success could be traced to the sophisticated system of banking supervision. Hong Kong's banking industry has been evolving from an underregulated to a carefully regulated system⁴⁴ similar to New York and

⁴⁴For a general discussion of the change in the extent of government regulations in the bank-

London. The state actor that is responsible for the supervision is the Hong Kong Monetary Authority (HKMA). Since the HKMA's establishment in 1993, Hong Kong has been relatively immune from a series of challenges, including the East Asian financial crisis that threatened the confidence of the US-HK dollar peg. The HKMA also maintains intimate links with the Hong Kong Association of Banks (HKAB) which provides an institutional context for the interaction between the HKMA and individual bankers. The subtle relationship between the HKMA and the HKAB actually exemplifies the relationship between embedded autonomy and the growth-promoting regulatory role-setting in the banking industry.

Autonomy in the HKMA

The level of government autonomy in the banking industry can be assessed by looking into the administrative structure of the HKMA. The HKMA combines the functions of the two formerly separated bodies—the Banking Commission and the Exchange Fund—and now provides both banking and monetary supervision. The new body has higher discretionary power in personnel, administrative, and financial management. In the personnel arena, according to Rose Luk, the HKMA is able to attract more professionals who prefer to work in a private organization rather than as a civil servant.⁴⁵ The HKMA also enjoys a higher level of administrative efficiency because the new system helps to simplify administrative procedures and reduce red tape, thereby improving the Authority's responsiveness to the dynamics of the banking industry. Moreover, instead of being subsidized directly by the government, the HKMA also enjoys higher financial independence because its source of budget has shifted from direct government subsidy to the Exchange Fund managed by the HKMA. The new structure therefore enables the HKMA to sustain a high level of internal coherence and bureaucratic professionalism.

ing sector, see Peter C. Tashjian and Anton Cooray, *Regulatory Framework of Finance and Banking in Hong Kong* (Hong Kong: Longman Asia, 1993), 23-29.

⁴⁵The HKMA is now composed of mixed staff: some classified as civil servants (applicable to those personnel who were transferred directly from related government bodies including the Office of Banking Commissioner), and others under the HKMA. Personal interview with Rose Luk, division head of the HKMA Banking Policy Department, July 3, 1997.

The HKMA is autonomous due to exercise of its built-in "continuous supervision" mechanisms. The mechanisms include on-site examinations, off-site reviews, and tripartite prudential meetings and treasury visits. On-site examinations are regular supervisory visits that allow the HKMA to have a snapshot view of a bank's condition.⁴⁶ Off-site reviews, which involve a much more thorough analysis of statistical and other information submitted by authorized institutions,⁴⁷ have been growing in importance. In 1996, for instance, the HKMA's main supervisory priority was "to intensify its monitoring of authorized institution's asset quality" and "try to improve 'off-site analysis' of the ways in which individual institutions had classified and provided against problem credits."⁴⁸ Tripartite meetings⁴⁹ involve prudential discussion among the officers of authorized institutions, the HKMA supervisors, and bank auditors. As ritual monitoring procedures, the contents of these techniques have been continuously clarified, formalized, or reformulated to enhance the quality of examinations.⁵⁰ In short, with the reformed management structure and built-in monitoring mechanisms, the HKMA can be regarded as highly autonomous in regulating the bankers.

*Embeddedness Facilitated by the HKAB*⁵¹

In order to develop full autonomy, the HKMA must sustain embeddedness with societal actors (i.e., bankers, the sources of both policing

⁴⁶I. A. Tokley, "The Banking System of Hong Kong," in *Hong Kong Banking Law and Practice* (Hong Kong: Butterworths Asia, 1996), 2:805-52.

⁴⁷*Ibid.*, 853-54.

⁴⁸*The HKMA Annual Report* (1996), 31.

⁴⁹Tokley, *Hong Kong Banking Law and Practice* 2:855-902.

⁵⁰For instance, detailed studies of liquidity, interest rate and market risk, netting, money laundering, letters of comfort, and load classification are conducted to improve quality of examination. See *ibid.*, 903-1003.

⁵¹The HKMA derived from the Exchange Banks Association (EBA) which was a voluntary body. The EBA was established in 1981 under HKAB Ordinance and became a statutory body. The major difference between the EBA and the HKAB is that the latter has formal enforcement mechanisms to regulate member activities. Also, every licensed bank is required to be a member of the HKAB. The most obvious functions of the HKAB are to further the collective interests of the industry and to act as an informal means to regulate banking activities, one of which involves the setting of interest rate agreement.

and market intelligence). This can be assessed by looking into the internal structure of the HKAB, a genuine banker representative body. The HKAB is the official meeting point for bankers; every licensed bank is required by law to be a member. Its main committee is composed of three permanent and nine other members elected every three years. As the membership in the main committee is limited, the HKAB has a consultative council that allows a larger group of bankers, composed of two permanent members as well as members elected according to geographical location, to meet twice a quarter. Although lacking in executive power, the consultative council provides a forum for bankers to raise queries to the chairman of the main committee and the other member banks concerned. In practice, at each meeting the chairman usually gives a report on a list of activities over the past quarter and opens the floor for comments.⁵²

Between the HKMA and the HKAB, there are abundant formal and informal connections. The HKAB exercises informal control over the activities of banks, and therefore can be regarded as a regulatory partner of the HKMA.⁵³ The HKMA may issue advisory letters, statements, or policy papers to the HKAB that urge banks to adopt certain policies. The HKAB's Disciplinary Committee,⁵⁴ although having no formal power of punishment, receives and investigates complaints and enforces compliance. Other than enjoying the formal power to draft interest rate agreement,⁵⁵ the HKAB also makes informal rules or guidelines for its members.⁵⁶ A recent

⁵²Other than going through the consultative council, member banks can write directly to the Secretariat or Chairman of the HKAB at any time. Subcommittees will then take up that matter before referring to the main committee. Personal interview with Guy N. Priestley, HKAB secretary, July 22, 1997.

⁵³Sai-hong Ko, *Banking Regulation of Hong Kong* (Hong Kong: The Chartered Institute of Bankers-HK Centre, 1991), 29.

⁵⁴The Disciplinary Committee can hear and take evidence, and summon any employee to give evidence. If a complaint is proved, the most the committee can do is to report the results to the main committee and recommend the imposition of one of the penalties outlined in section 21 of the Banking Ordinance. However, the committee has never been convened. See Tokley, *Hong Kong Banking Law and Practice* 2:1502-53.

⁵⁵*Ibid.*, 1353; and personal interview with Guy N. Priestley, July 22, 1997.

⁵⁶Guidelines are sometimes offered by the HKMA to be disseminated by the HKAB. The banking (code of conduct) guidelines 1986, banking (loan approvals, records, and provisions) guidelines 1987, and prevention of criminal use of the banking system for the purposes of money laundering guideline 1989 are some examples.

case in point is the Code of Banking Practices. Although the HKAB has no statutory power to punish those who fail to comply, informal warning has already appeared to be sufficient. As an informal regulator of the bankers, the HKAB actually works closely with the HKMA, the formal regulator, giving the two bodies functional embeddedness.

Members of the HKAB are also connected informally with those in the HKMA on an ongoing basis by letters, telephones, and personal meetings. The chairman visits the chief executive of the HKMA every Friday to discuss concerns. A type of consultative meeting, called in a relatively informal manner once every couple of months, facilitates the communication between a number of senior businesspeople in the HKMA CEO, the HKAB chairman, and representatives of some larger banks.⁵⁷ In short, as a meeting point of bankers and an intimate partner with the HKMA, the HKAB actually provides an effective institutional context for sustaining the interconnectedness between the HKMA and bankers.

Institutional Adaptation Capability

Other than the establishment of the HKMA (itself an institutional adaptation mechanism), the HKMA also undertakes a series of reforms to sustain a high level of internal coherence and bureaucratic professionalism. For instance, the HKMA attempted to enhance its efficiency by linking with a wider scope of bankers via the Memorandum of Understanding with the Securities and Futures Commission of Hong Kong in 1995 and the Monetary and Exchange Authority of Macau in 1997.⁵⁸ The HKMA also participates in multilateral agencies such as the Bank for International Settlement (BIS) and attends seminars with regional central banks to upgrade supervision quality.⁵⁹ In addition, the HKMA also attempts to deepen its embeddedness with the bankers through advisory committees, banking associations, and informal meetings.

⁵⁷Personal interview with Guy N. Priestley, July 22, 1997.

⁵⁸*The HKMA Annual Report* (1996), 32.

⁵⁹*Ibid.*, 50-53.

*The Role of Government Performance:
Prudential Monitoring and Self-Regulation*

The HKMA has, in the 1990s, adopted a position compatible to banker perception of the banking environment. The HKMA's regulatory framework can be summarized as "prudential monitoring and self-regulation." Prudential monitoring means that the HKMA has moved from the traditional reactive monitoring to a more proactive approach to solving not only present issues but also to avoiding potential problems in the future. For instance, the HKMA has been working on the introduction of a Central Provident Fund and a Mortgage Fund, and cultivating external functions with China, overseas governments, or banks that are all aimed at constituting a better investment environment in the future. Despite this, the HKMA understands its limitation in monitoring the ever-changing nature of banking and therefore the Authority emphasizes informal prudential control and self-regulation, aiming at avoiding overregulation and retaining flexibility. Institutional reforms like the Code of Banking Practices are introduced to guide the banks to disclose information voluntarily to the public.⁶⁰ Some supervising responsibilities are decentralized to authorized institutions such as the HKAB which is guided by the HKMA, a move which helps reserve flexibility in banking supervision.

Summary

In the 1990s, the growing sophistication of the banking industry calls for both a tighter regulatory framework and more self-monitoring in Hong Kong. This positioning has been successfully achieved by the close cooperation of the HKMA (the state actors) and the HKAB (the societal actor). The HKMA is highly autonomous in its execution of supervision policies due to bureaucratic professionalism. The HKMA's strong connections with the HKAB also ensure an informed policymaking process that enjoys the consensus of the bankers. Proactive institutional innovations are initiated to ensure that the capacity and links with bankers remain intact and updated. As such, embedded autonomy can be con-

⁶⁰Personal interview with Rose Luk, July 3, 1997.

sidered generally high in the banking sector, and this correlates with the "prudential supervision" positioning conducive to the development of the banking industry.

Embedded Autonomy in the Textile/Garment Sector in the 1990s

Different from the banking industry, the textile/garment industry has been in a state of decline since the 1990s. With the emerging Asian economies, low-end mass production has no longer been Hong Kong's comparative advantages, and the only way to remain productive for Hong Kong's textile/garment industry is by creating a textile and garment trading center. However, Hong Kong's textile/garment industry has always been dominated by small and medium-sized (S&M) firms that are inherently weak in accumulating capital and recruiting human resources for massive upgrading. The best agent for sustaining growth of the industry may be the government. Despite establishing institutions to support the upgrade, the government's position regarding the industry has always been unclear and the services provided appear to be mismatched with the needs of S&M firms, the heart of the industry.

This section will investigate whether or not the mismatched role-setting relates to the level of embedded autonomy. In the context of the textile/garment sector, the state is represented by a range of quasi-governmental supporting institutions⁶¹ and societal actors are represented by the relevant trade organizations and industrialists.

Autonomy in Government Supporting Organizations

Autonomy is sustained by having the state institutions be internally coherent and bureaucratically efficient. For the textile/garment industry, the degree of state autonomy can be assessed in the context of a range of

⁶¹ Suzanne Berger and Richard K. Lester, eds., *Made by Hong Kong* (Hong Kong: Oxford University Press, 1997), 157.

Table 5
Supporting Organizations Relevant to the Textile/Garment Industry

Type	Organizations
Human Resources Development	*Vocational Training Council (VTC) *Clothing Industry Training Authority *Employees Retraining Board *The Hong Kong Polytechnic University
Trade Promotion	*Hong Kong Trade Development Council (TDC)
Technology Development and Services for Upgrading	*Hong Kong Productivity Council *Quick Response Center for Textile and Clothing Industries *Applied Research Council Company Ltd. *Hong Kong Industrial Technology Center Corporation (ITCC)
Capital (Support funding schemes)	*New Technology Training Scheme *Applied Research and Development Scheme *Cooperative Applied Research and Development Scheme *Industrial Support Fund

Source: Some of the information extracted from Kent Salmon Associate, *1995 Techno-Economic and Market Research Study on Hong Kong's Textile and Clothing Industries* (1996), 2:111-18.

government bodies or quasi-governmental organizations⁶² as shown in table 5.

The Trade and Industry Bureau, the Industry Department and its advisor—the Industry and Technology Development Council (ITDC),⁶³ and the Textile and Clothing Advisory Committee are the government bodies that formulate industrial policies. Consistent to the general bureaucratic tradition, these bodies are meritocratically recruited, internally linked, and streamlined.⁶⁴ Moreover, they are always advised by advisory committees composed of people from the industry, government, academics, and other relevant organizations. Yet these organizations constitute only a portion of the industrial supporting bodies.

⁶²*Industry Department Handbook* (1995).

⁶³*Director of Industry 1992-93 Departmental Report* (Hong Kong: Industry Department, 1993), 9.

⁶⁴Personal interview with Wing-hing Cheuk, Assistant Director of the HKSAR Industry Department, September 9, 1997.

The major part of government support has been decentralized to a series of textile/garment-related quasi-governmental organizations such as the Trade Development Council (TDC), the Vocational Training Council (VTC), and the Employees Retraining Board (ERB). The TDC helps enhance government bureaucratic efficiency in export promotion. The VTC and ERB perform government's autonomy in human resource training agent. The former aims at training high-skilled labor while the latter specializes in funding⁶⁵ the training of lower-skilled labor and the retraining of workers to adapt to industrial restructuring.⁶⁶ Such government support as export promotion and training is actually a quasi-public good.⁶⁷ This type of support is best delivered by the quasi-governmental institutions because on the one hand, they enjoy high financial independence and flexibility in personnel recruitment being exempted from complicated laws and regulations;⁶⁸ and on the other, they can maintain bureaucratic partiality for services involving generic public interests.⁶⁹ The strategy of delivering industrial support through quasi-governmental bodies is therefore a cost-effective way of enhancing the autonomy of the government in supporting industrial development.

However, the government can only be considered fully autonomous when it is successfully linked to key societal intelligence organizations. Within such quasi-governmental bodies as the TDC, VTC, and ERB are formal and informal consultative mechanisms. One typical formal mechanism is found in the main committees of the government supporting organizations in which, as described by VTC Executive Director Horace Knight: "You will find people who would speak on behalf of government, industry, commerce, and tertiary institutions. Within the council itself, these people are represented effectively that all sectors are being consulted

⁶⁵The ERB now funds and works closely with a network of 59 training bodies comprised of 134 centers. Personal interview with Alice Cheung, Manager of the ERB Course Administration and Development Department, July 16, 1997.

⁶⁶Fact sheet, "Employees Retraining Board" (July 1997), 3.

⁶⁷Personal interview with Edward Leung, Chief Economist of the Hong Kong Trade Development Council, July 16, 1997.

⁶⁸Personal interview with Chow Tung Shan, ERB Executive Director, July 16, 1997.

⁶⁹Personal interview with Edward Leung, July 16, 1997.

at the council level and they discuss together."⁷⁰ On other occasions, officials are invited to participate in advisory committees such as the Textile and Clothing Advisory Committee and the Small and Medium Business Committee to help formulate industrial policies. The VTC, for example, even formulates human resource programs by keeping contact with a wider scope of industrialists by two-yearly large-scale surveys with the assistance of the Census and Statistics Department.⁷¹ The survey is a "rolling exercise" performed every two years that provides a simple mechanism for which the VTC can identify the needs of those who have money in the market and who need trained people.⁷²

These organizations also have informal connections with industrialists through frequent seminars, social functions, and day-to-day communication. For example, the ERB maintains frequent day-to-day contacts including visits, ad hoc meetings, and telephone conversations that involve ERB members, training board officers, and representatives of employers and employees.⁷³ However, embeddedness is only sufficient when the government supporting organizations can gain access to the bodies that truly represent the majority of the industry.

Embeddedness in the Textile/Garment Trade Organizations

Historically, the government bodies are connected closely with the general or textile/garment-specific trade organizations. General organizations include the Hong Kong General Chamber of Commerce, the Hong Kong Chinese Manufacturers' Association, the Hong Kong Chamber of Small and Medium Businesses, and others. Major sector-specific organizations include the Hong Kong Woolen and Synthetic Knitting Manufacturers' Association, the Textile Council of Hong Kong, the Federation of Hong Kong Garment Manufacturers, the Hong Kong Cotton Spinners Associa-

⁷⁰Personal interview with Horace Knight, June 23, 1997. Knight had worked for the VTC for many years before he formally retired in 1997. He is now advisor to the VTC.

⁷¹*Program of Proposed Activities and Estimates of Income and Expenditure for the Financial Year 1 April 1997 to 31 March 1998*, 52.

⁷²Personal interview with Horace Knight, June 23, 1997.

⁷³Personal interview with Alice Cheung, July 16, 1997.

tion, and the Federation of Hong Kong Cotton Weavers Association. These trade organizations represent the traditional institutional contexts through which the opinions of textile/garment manufacturers are reflected.

Some of the members of the general trade organizations and sector-specific trade organizations are nominated to sit on government or quasi-governmental bodies,⁷⁴ such as the textile and clothing boards of the VTC. One typical case is the Federation of Hong Kong Garment Manufacturers (FHKGM), one of the oldest garment trade associations that also enjoys the largest membership in Hong Kong. The presidents, directors, and members of the FHKGM have been invited or appointed to be members of many public organizations such as the Executive Council, the Legislative Council, the Governor's Business Council, and various advisory committees such as the Textile Advisory Board, the National People's Congress (NPC), and the Chinese People's Political Consultative Conference (CPPCC) of the PRC.⁷⁵ In table 6, members of the FHKGM are appointed to various advisory and implementation bodies related to textile and clothing affairs. Furthermore, the appointed industrialists usually hold membership in multiple organizations.⁷⁶ For example, Henry Tang, Managing Director of the Peninsula Knitters Ltd., holds various positions (including member, chairman, and director) in associations such as the FHKGM, the Business and Professional Federation of Hong Kong (BPF), the Federation of Hong Kong Industries, and the Hong Kong General Chamber of Commerce. Similarly, James P.C. Tien, Chan Sui-kau, and Chan Wing-kee—all major textile/garment manufacturers—hold important posts in other trade organizations as well as in such government bodies as the Executive Council, the Legislative Council, and various advisory committees. Thus, some key manufacturers are able to assess the government organizations through multiple channels.

Other than the above-mentioned formal contacts, the embeddedness

⁷⁴Personal interview with Simon Ngan, Manager of Industrial and Corporate Affairs of the Hong Kong General Chamber of Commerce, July 11, 1997.

⁷⁵Fact sheet provided by the FHKGM (July 1997).

⁷⁶Personal interview with Andrew K.T. Kwok, Assistant Director of the Business Professional Federation of Hong Kong, June 24, 1997.

Table 6**List of FHKGM Members Appointed into Government Supporting Bodies Related to the Textile/Clothing Industry (1996)**

Organizations	Presidents, Directors of FHKGM
Textile Advisory Board	*Ernest Kwan *Chan Wing-kee OBE JP *Justin Yue MBE *Norman Tam *Jay Leung
Clothing Industry Training Authority	*Chan Sui-kau OBE JP *Choi Hiu-to
HKTDC Garment Industry Advisory Committee	*Yeung Chun-fan
VTC Clothing Industry Training Board	*Norman Tam
Industry and Technology Development Council of the Industry Department: Textile and Clothing Committee	*Jay Leung
HK Polytechnic University Textile and Clothing Committee	*Yeung Chun-fan

Source: Fact sheet entitled "Address by Chan Wing-kee OBE, JP, President of the FHKGM, at the Annual General Meeting 1996," 4.

between the industrialists and the government is facilitated by extensive informal contacts through seminars, conferences, business meetings, and social functions. These informal contacts are operated at both the decisionmaking and operational levels. At higher decisionmaking levels, the chairmen of the trade organizations can communicate directly with the Trade and Industry Branch. At the daily operational level, the secretaries of the FHKGM and other trade associations work closely with government bodies like the Industry and Trade departments.⁷⁷ For example, during the introduction of factory audit checks by the Trade Department on November 7, 1996, the directors of the Textile Council of Hong Kong and the FHKGM called an ad hoc meeting with the heads of government departments while the secretary-general kept in contact with the relevant depart-

⁷⁷Personal interview with Anthony Tang, Secretary General of the Federation of Hong Kong Garment Manufacturers, July 14, 1997.

ments by making inquiries and clarifying the details of new policies.⁷⁸

Institutional Adaptation Capability:

Lack of Connections with S&M Manufacturers

Despite the presence of government supporting institutions and the tradition of incorporating the views of several trade organizations, the quasi-governmental bodies have missed the societal participation of S&M textile/garment firms⁷⁹ that account for 98 percent of the industry. Due to their fragmented nature, large numbers of S&M textile/garment producers can hardly be effectively involved in the top decisionmaking process and their views are assumed to be represented by general trade organizations such as the FHKGM and the Hong Kong General Chamber of Commerce. Yet, the committee members are always the owners of various large firms, and so their views may not necessarily be relevant to the smaller counterparts.⁸⁰

In the past, this isolation of S&M manufacturer opinion did not create serious problem because such manufacturers were capable of creating comparative advantages without the sophisticated, cooperative effort of the government.⁸¹ In the 1990s, however, the S&M firms have started to confront a change in competitive environment where government support is becoming more crucial. The present market has turned to a high-end competition where initial capital investment is essential, and yet the S&M industrialists are inherently weak in building infrastructure and upgrading capital and technology. The establishment of the Hong Kong Chamber of Small and Medium Businesses Limited (HKCSMB) in 1996 perhaps symbolizes the lack of institutional innovation by the government to extend its embeddedness with S&M manufacturers.

⁷⁸Facts sheet, "Address by Chan Wing Kee OBE, JP, President of the FHKGM, at the Annual General Meeting 1996," 2.

⁷⁹Personal interview with Daniel Poon, President of the Hong Kong Chamber of Small and Medium Businesses, August 13, 1997.

⁸⁰In the past, this was not a fundamental problem as the opinions represented in the general trade organizations were quite consistent with, or at least not detrimental to, the growth of S&M manufacturers. Personal interview with Daniel Poon, August 13, 1997.

⁸¹Personal interview with Daniel Poon, August 13, 1997.

*The Role of Government Performance:
Weak Partnership with S&M Industrialists*

The role-setting of the government will be successful when it corresponds to the changing requirements of the environment over time. In the 1990s, the environment requires the government to partner with the majority S&M manufacturers who have historically been excluded from the consultative network. The new competitive environment has pushed us toward the goal of a "textile and garment trading center" which requires institutional reform to reach the traditionally ignored S&M industrialists.⁸²

However, S&M industrialists remain isolated from the core of the government's consultative channels, where most consider the government's support either fragmented or simply unavailable.⁸³ Despite the growing number and diversity of support from the government supporting organizations, most S&M firms consider that support mismatches their needs either because of the complicated application procedures or impracticality of proposal writing given their tight schedule and lack of expertise. The mismatch is obviously a symbol of lack of embeddedness between the government and the S&M textile/garment industrialists.⁸⁴

Summary

The textile/garment industry is facing a threat of serious downsizing in the 1990s. Those hardest hit are the S&M firms that are least able to upgrade into a new developmental path: a textile and garment trading center. Although the government did attempt to provide support through various quasi-governmental organizations, the awareness and the perceived efficacy of the support available is low and does not match well the needs of S&M industrialists. This mismatch appears to correlate with the lower level of embeddedness and autonomy in the textile/garment sector as com-

⁸²Since the 1960s, the government has been working in the background while manufacturers have been active at the forefront. This is because capital and technological and human resource requirements for the textile/garment sector were not so great during earlier times and could be matched by private businesses alone.

⁸³Informal correspondence with five S&M textile/garment manufacturers, August 1997.

⁸⁴Personal interview with Daniel Poon, August 13, 1997. Poon asserts that the government's "positive noninterventionism" is acceptable to large firms, but not to the S&M firms as they have inherently been weak in building infrastructure and accumulating capital.

pared with the banking sector. Despite the increase in general supporting bodies of a quasi-governmental nature and the existence of government-trade organization contacts, government's embeddedness is confined to a few traditional trade organizations that have become outdated in the 1990s. The government lacks institutional adaptation capabilities to incorporate the view of the traditionally ignored S&M industrialists. This has hindered embedded autonomy performance and affects the efficacy of role-setting, and thus helps explain the stagnant developmental prospects of the sector.

Embedded Autonomy in the Electronics Sector in the 1990s

Stepping toward the high-tech era in the 1990s, Hong Kong's electronics industry⁸⁵ has been evolving from low-end mass production in the 1950s to an investment-driven development that requires an injection of enormous capital, human resources, and technology. Government support thus becomes crucial. Despite the government's attempt to introduce relevant supporting institutions, several studies show that companies are not aware of the support available or find such aid too complicated to utilize. This problem is somewhat similar to the case in the textile/garment industry, yet is more acute in the electronics industry. The problem originates not only from the government's inadequate connections with S&M firms, but also from the government's fundamental exclusiveness from and low technical expertise within the government's decisionmaking institutions.⁸⁶

In Hong Kong, the support programs are broad and unfocused in nature; the organizations relevant to the textile/garment industry have parallel counterparts in the electronics industry.⁸⁷ Embedded autonomy can be

⁸⁵Electronics products basically include (1) finished or end products such as computer and peripherals, consumer electronics, and telecommunications equipment; and (2) parts and components.

⁸⁶Personal interview with Charles E. Champman, Executive Director of the HKEIA, August 8, 1997.

⁸⁷Boston Consulting Group (BCG), *Techno-Economic and Market Research Study on Hong Kong's Electronics Industry 1993-1994* (Hong Kong: Hong Kong Industry Department, 1995), 2:224.

assessed in the context of a similar set of government organizations summarized in table 7, and the core trade organizations, the Hong Kong Electronics Industries Association (HKEIA).

Autonomy within Government Supporting Organizations

Government autonomy in electronics matters has remained low because the recruitment structures of the bureaucracy and the consultative committees have not stressed incorporating electronics expertise. Although we begin to find a few members from the technology-related business in some electronics-related advisory organizations (like the ITDC assisted by the Technology Review Board and its Electronics Committee), the technical-oriented nature of the industry requires a more specialized consultative meeting.

Similar to the case of the textile/garment industry, the government has sustained a certain degree of autonomy through the setting up of quasi-governmental supporting institutions, such as the VTC, the Hong Kong Productivity Council (HKPC), and the Hong Kong Industry and Technology Council Corporation (ITCC). The VTC's technical institutes, such as the Electronics Industry Training Center and the Application Specific Integrated Circuit (ASIC) Design Training Center, provide courses at the craft and technician level.⁸⁸ At the engineer level, the Electronics Design Technology (EDT) Training Center has collaborated with five universities to train about 270 practicing electronic engineers annually. At the worker level, the New Technology Training Scheme provides financial assistance to companies who desire to have their staff trained.⁸⁹ In productivity development, government autonomy is achieved through the quasi-governmental productivity promoter: the HKPC that performs a multidisciplinary industrial consultant and training agent for the government. The HKPC organizes seminars, short training courses, exhibitions, overseas study missions, and in-factory training; offers consultancy services to both local and

⁸⁸James T.Y. Fok, in *Doing Business in Today's Hong Kong*, fifth edition (Hong Kong: American Chamber of Commerce in Hong Kong, 1995), 136-37.

⁸⁹*Ibid.*

Table 7

Summary of Hong Kong Supporting Organizations That Offer Programs Relevant to the Electronics Industry

Type of Support	Organizations
Human Resource Development	<ul style="list-style-type: none"> *Hong Kong Productivity Council *Hong Kong Polytechnic Industrial Center *Universities, polytechnics, and secondary schools *Vocational Training Council, e.g.: <ul style="list-style-type: none"> • Matching grants through the New Technology Training Scheme • ASIC Design Training Center • Electronics Industry Training Center *Hong Kong Industry Department (HKID)
Technology	
R&D Product Design	<ul style="list-style-type: none"> *Tertiary institutions *Hong Kong Productivity Council *Applied Research and Development Scheme *Hong Kong Industrial Technology Center Corporation *Governors' Award for Industry: Consumer product design and machinery & equipment design
Technological Capability Development	<ul style="list-style-type: none"> *Hong Kong Productivity Council *HKID Investment Promotion Division
Technology Transfer	<ul style="list-style-type: none"> *Hong Kong Productivity Council *Hong Kong Industrial Technology Center Corporation *HKID Investment Promotion Division *Tertiary institutions
Technology Support	<ul style="list-style-type: none"> *HKID Technology Development Division support to the Industry and Technology Development Council *HKID Science Park Development
Productivity & Quality	
Productivity	<ul style="list-style-type: none"> *Hong Kong Productivity Council *Governor's Award for Industry: Productivity
Quality	<ul style="list-style-type: none"> *Hong Kong Quality Assurance Agency *Governor's Award for Industry: Quality *Quality Service Division of HKID *Quality Awareness Campaign *ISO 9000 certification *Standard and Calibration Laboratory *Hong Kong Laboratory Accreditation Scheme *Product Standards Information Bureau

Table 7 (Continued)

Type of Support	Organizations
Business Development/ Infrastructure	
Data Collection	*Hong Kong Industry Department (consultancy studies and databases)
Strategic Advice	*Industry-specific committees & subcommittees of the Industry and Technology Development Council *Hong Kong Polytechnic Industrial Center (consultancy services) *Hong Kong Industrial Technology Center Corporation *Incubation of fledgling technology-based companies
Infrastructure	*HKID Infrastructure Support Division *Hong Kong Industrial Estates Corporation
Export Promotion	
	*Hong Kong Trade Development Council (computerized database, overseas offices, research library, seminars, conferences, trade fairs, publica- tions) *Governor's Award for Industry: Export Marketing

Source: Boston Consulting Group, *Techno-Economic and Market Research Study on Hong Kong's Electronics Industry 1993-94* (Hong Kong: Hong Kong Industry Department, 1995), 2:225-29.

foreign investors; and provides information retrieval services such as an Electronics Bulletin and Directory of Linkage Industries.⁹⁰

The ITCC is probably the most relevant supporting organization to the electronics industry that displays bureaucratic capability in the promotion of technological innovation and the application of new technologies in Hong Kong's industry.⁹¹ The corporation offers a technology-based business incubation program that provides support to start-up companies,⁹² and a Technology Transfer Program that widens "the interaction between busi-

⁹⁰HKPC *Annual Reports* (1997) and *Hong Kong Industry Department Handbook* (1995).

⁹¹The corporation focuses on four main areas where Hong Kong has competitive advantage: (1) multimedia and networking, (2) telecommunications, (3) software and systems, and (4) microelectronics and components.

⁹²Personal interview with James Liu, Chief Executive Officer of the ITCC, July 14, 1997.

ness and technology and exploits applied research results for commercially successful applications."⁹³ Through different kinds of services, such as Tech-Link⁹⁴ and quarterly Business and Technology Exchange Forum, ITCC achieves the "matchmaking" function by bringing interested parties together, and in turn ends with technology transfer.⁹⁵ This body also provides R&D support and services helping companies to solve the problems related to high entry cost for accessing technology.⁹⁶

The quasi-governmental bodies, consistent to general government practice, are managed by the main committees composed of members from management, labor, academia, and professionals as well as government departments closely associated with productivity, technology, and other related areas. The officials and industrialists meet frequently in conferences, seminars, or joint management organizations. In other words, the input mechanism incorporating the relevant industrialists is basically guaranteed for policymaking and yet the key issue lies in whether the informants are sufficient and representative enough.

Embeddedness with the HKEIA⁹⁷ and Individual Electronics Firms

Autonomy can only be developed fully when embedded within a group of societal actors who are major players in the market. The HKEIA is "the only official body exclusively representing the Hong Kong electronics industry and trade,"⁹⁸ and therefore is highly illustrative of the embeddedness between the electronics actors and the government.

The HKEIA has become particularly proactive in the past ten years as government-electronics cooperation has been becoming crucial for the continued growth or even the mere survival of the industry.⁹⁹ The organization

⁹³See *HKITCC Annual Report* (1995/96), 19.

⁹⁴Tech-Link is a database service program that helps companies to find potential partners. Personal interview with James Liu of ITCC, July 14, 1997.

⁹⁵See details in *HKITCC Annual Report* (1995/96), 18-20.

⁹⁶*Ibid.*, 20-23.

⁹⁷The HKEIA was formerly called "The Hong Kong Electronics Association Limited."

⁹⁸Fact sheets provided by the HKEIA, August 1997, and HKEIA CD-ROM.

⁹⁹Personal interview with Charles E. Champman, August 8, 1997.

has been striving to cultivate formal and informal government-electronics connections.¹⁰⁰ While the Executive Committee members of the HKEIA are invited to join the major boards of government supporting bodies, the HKEIA also invites government officials such as James Liu, Chief Executive Officer of the ITCC, to chair its internal subcommittee. The HKEIA also organizes activities such as trade and investment missions overseas, the Hong Kong electronics trade fair, factory visits, and seminars that facilitate mutual understanding between the government and the electronics sector.

Despite the efforts of the HKEIA to improve embeddedness through formal and informal connections, embeddedness is still perceived to be ineffective and insufficient. The interest of the electronics industry is relatively underrepresented in government supporting bodies such as the ITDC and TDC. The boards of the organizations are composed of members mainly from general trade associations such as the Federation of Hong Kong Industries, the Hong Kong General Chamber of Commerce, and the Chinese Manufacturers' Association. As these members tend to ignore the importance of the electronics industry (which requires technical expertise),¹⁰¹ end policies may be irrelevant and ineffective. For instance, the underrepresentation of electronics industrialists in the TDC has resulted in a biased emphasis on the fashion and garment industry despite the fact that the electronics industry has already overtaken fashion and garments as the largest exporter in Hong Kong. Over the years, electronics manufacturers have failed to upgrade the industry or create superstars like Sony and Samsung.¹⁰² The electronics sector also lacks a high-level advisory committee similar to the Banking Advisory Committee and the Textile Advisory Board which advise the secretariat directly. As such, the actors in the electronics field are relatively isolated from the government, and therefore embeddedness has been low in the sector.

This low level of embeddedness can be further exemplified by the

¹⁰⁰Consult *The Fifteenth Anniversary the Hong Kong Industries Association* (HKEIA, 1995).

¹⁰¹"Revitalize Technology-Based Manufacturing Industries in Hong Kong" (HKEIA Position Paper with Special Reference to the "Made by Hong Kong" Report, August 1997), 18.

¹⁰²*Ibid.*

limited awareness among individual electronics manufacturers of government support. According to the Boston Consulting Group (BCG), industrialists were not aware of the existence of support programs and among those they interviewed, very few could describe even a small portion of the range of programs available.¹⁰³ This is consistent to the fieldwork interviews with some S&M electronics manufacturers. The findings reveal that the support services offered by the government are not well received either because of complicated procedures, low awareness, or low perceived efficacy. The mismatch suggests that the embeddedness between the supporting bodies and the electronics industrialists, especially those of the S&M firms, has remained low.

Institutional Adaptation Capability:

Weak Connectedness with Electronics Actors

Institutional adaptation capability entails the existence of institutional mechanisms to rejuvenate corporate coherence and connectedness to facilitate effective electronics policymaking and implementation. Historically, there were few government organizations which specifically represented the electronics industry, and few electronics industrialists that were incorporated into the government's highest decisionmaking bodies (such as the Executive Council, the Legislative Council, and boards of various government departments and supporting agencies). This was not a problem in the past as the general policy direction was quite acceptable to electronics manufacturers. However, as signaled in the 1979 Report on Diversification, the government began to realize the importance of supporting high-tech development and thus has been establishing new institutions such as the ITDC, the ERB, the Industry Development Board, the Science and Technology Board, and the Hong Kong University of Science and Technology (HKUST). The government has also been reforming such current organizations as the Industry Department, the TDC, and the HKPC. However, the government has not done enough to seed its technical expertise within the bureaucracy and reform its consultative structure to connect with

¹⁰³BCG, *Report on Techno-Economic and Market Research Study* 1:18.

the electronics industrialists, especially those who do business on a small and medium-sized scale. With indirect and inadequate connectedness between the government and the electronics sector, the newly established institutions could not perform effectively their functions and thus were unable to assist the upgrading of the electronics industry in the high-tech era.

The Role of Government Performance:

Blurred Positioning

The government seems to maintain its past positioning of "government in the background and industrialists at the forefront" without noticing the fact that the electronics industry has become the fundamental base necessary for the prosperity of other industries in Hong Kong. Yet individual electronics firms dominated by S&M manufacturers have confronted serious disadvantages in accumulating capital and investing in infrastructure and human resource development. In particular, capital still remains the greatest problem in Hong Kong due to the reluctance of banks to approve loans as well as the underdeveloped industrial or high-tech stocks in Hong Kong's stock exchange market. For stock issues, at present, Hong Kong's industrial stock accounts for only 0.3 percent (July 28, 1997 closing)¹⁰⁴ in Hong Kong's Hang Seng index, a pittance compared with Singapore's industrial and Sesdaq listings which, as of the June 30, 1997 closing, accounted for 66 percent of its stock market. As such, the government's active partnership has become crucial. Yet, government positioning is still too blurred, resulting in confusing and inflexible support services.

Toward a solution, the HKEIA believes:

The government's well-worn policy of "nonintervention" or "not picking winners," which had worked well in the 1950s and 1960s when the territory was the primary low-cost production base in Asia, is totally inappropriate in today's time. Virtually every major government in the world, from the most advanced to the just developing country, has a firm leadership role and very specific policy of picking its own country as a winner in the global technology race.¹⁰⁵

¹⁰⁴"Revitalize Technology-Based Manufacturing Industries in Hong Kong," 23.

¹⁰⁵Comments by HKEIA Chairman Lui Ming Wah, in *ibid.*, Foreword.

The policy of picking winners could still be in line with Hong Kong's "maximum support, minimum intervention" principle. The industry actually needs a central think-tank and the government can act as a coordinator, instead of as a direct subsidizer, to draw together the resources of private companies for a coherent R&D plan. Such positioning cannot be established and implemented unless the government has built up its technical capability in the bureaucracy and reformed the embeddedness with electronics industrialists.

Summary

In the 1990s, similar to the textile/garment sector, S&M firms of the electronics sector are confronting the challenge of upgrading, but their problem is far more acute because of the greater capital and risks involved. They therefore require a more proactive government role during an era of high technology. However, the current government positioning in the electronics sector seems blurred, and this lack of clarity appears to correlate with the weak embeddedness and inadequate autonomy in the industry. Thus, the government has the combined problem of limited electronics expertise within the government supporting organizations and a low level of embeddedness with the S&M manufacturers.

Conclusions

The question of whether or not Hong Kong's noninterventionism is an exception to the Asian miracle has inspired the study of Hong Kong from the perspective of the statist literature, specifically the concept of embedded autonomy. This approach opens up an important research question: whether embedded autonomy can explain cross-sectoral performance within a single city-state setting of Hong Kong. This paper shows that the study of embedded autonomy is not confined solely to government departments, but also extends to many quasi-governmental bodies like the HKMA, TDC, ITCC, and VTC. Embedded autonomy is found to be correlated with the level of conformity of the government's role-setting with the developmental requirements of the three sectors in the 1990s. As the role of the

government is one indicator of economic performance, I argue that embedded autonomy can indicate the developmental prospects across three industries.

The coexistence of embeddedness, autonomy, and institutional adaptation capability in the banking sector gives the HKMA a clear role as a "prudential supervisor" while leaving market decisions to bankers. In the textile/garment sector, despite the government's enhanced autonomy and endeavors to establish supporting institutions, the government has failed to effectively link itself up to the majority—S&M manufacturers. Because of this failure, the "matching" problem between the services available and the need of the industry persists. Embeddedness and autonomy are weak in the electronics sector. Despite the attempts of the government to incorporate more technology-related support by setting up supporting institutions, the electronics sector is underrepresented in the government supporting organizations. As a result, the government is unable to define for itself a clear role in the development of the electronics industry. In short, the findings show that the degree to which the three sectors correspond to embedded autonomy determines the compatibility of the government's role-setting ability with the developmental needs of the sectors.

Implications and Suggestions for Future Research

The findings have inspired further research directions. First and foremost, we need to explore the variations in the other sectors of Hong Kong's economy in order to have a more complete picture of the enclave's general economic situation. More importantly, as the scope of this paper is confined only to Hong Kong, worthwhile would be to study the same set of industries in Taiwan, Singapore, and South Korea. The cross-country sectoral analysis may allow us to understand the competitive position of different countries in a specific industry.

The findings may also provide some research insight into the fate of Asian economies beyond the financial crisis that began in 1997. Future scholars may compare and contrast embedded autonomy in the financial sector of the four little dragons. The better adaptability of Hong Kong in defending its currency may be because embedded autonomy in the financial sector is stronger in the Hong Kong case than in the South Korea ex-

ample. In particular, my notion of "institutional adaptation capability" highlights that bureaucratic autonomy and connectedness require innovation and modification. This notion can be used to study the hidden problems of the South Korean economy before the financial crisis. South Korea's economy, which suffers from massive irrational loans to conglomerates and bad bank debts, has probably outgrown the capability of banks, a traditional arm of government, to control. This has opened up an area for studying how the improvement of institutional adaptation capability of the state could help to restructure the South Korean government's relationship with the banks.

While scholars stress the role of external influences that triggered the outbreak of the financial crisis, my findings suggest that internal conditions such as embedded autonomy may explain the cause and effect of the financial crisis as well. Some scholars argue that the financial crisis is due to external factors like international speculators, the International Monetary Fund (IMF), and the World Bank. However, the findings that embedded autonomy varies across sectors suggest a more complicated internal picture of the crisis. We may perhaps start to query whether ailing Indonesia and Thailand had a weaker banking sector than Hong Kong, an economy whose banking sector has achieved a sophistication comparable to New York and London.

The East Asian financial crisis is a warning signal for East Asia. At the same time, however, the crisis has presented each country with new opportunities.¹⁰⁶ In South Korea, the financial crisis has forced the government to ask for the help of the IMF in initiating painful economic reforms. In Singapore, the fall of the currency may reduce the operation costs of foreign firms in Singapore and increase export competitiveness. Similarly, in Taiwan, the authorities have allowed their currency to weaken in an effort to remain competitive, especially given the precipitous fall of the South Korean currency, an economy which is Taiwan's direct competitor in a range of industries from semiconductors to chemicals.¹⁰⁷ Hong Kong has

¹⁰⁶See detailed comments in the *Far Eastern Economic Review*, December 4, 1997, 74-76.

¹⁰⁷*International Herald Tribune*, January 7, 1998.

had a golden opportunity to adjust its property market, which is the most expensive in the world.¹⁰⁸ To effectively understand the warning signals and grasp the available opportunities, my findings indicate that the government may have to rejuvenate its bureaucratic capability and links with societal actors. Such steps would determine East Asian governments' ability to achieve economic recovery.

¹⁰⁸Ibid., January 8, 1998.

