

# The Asian Development State: An Evaluation

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JESSICA TSELEPY, NOV 22 2014

The potential for grave economic collapse at the close of the Second World War left the world in a desperate state. As countries searched for ways to revitalise their economies on both a national and global scale, doubts of the existing economic systems were widespread. Traditional capitalist practices had shown themselves to be repeatedly unsettled by deeply disruptive episodes of immense economic imbalance, demonstrated most profoundly by the Great Depression (Beeson 2007: 143). A leading illustration of how susceptible this period was to the introduction of an alternate approach is the Asian Development State. Termed by Chalmers Johnson, the guiding quality of this state model is an emphasis on governments that actively intervene in economic processes and control the course of development (Wade 1990). Commonly appreciated as the basis of the 'East Asian Miracle', the most significant result of this model was its unprecedented rapid development and economic growth (Page, 1994). The three key developmental states were South Korea, Taiwan, and, in its most striking application, Japan. Japan will be given extensive consideration in this essay as arguably the "the pioneer of both rapid economic growth and industrialisation in East Asia, and of the developmental state itself" (Beeson 2007: 141). The concern regarding this sudden rise in economic power was so great that "some analysts in the US feared that American dominance or hegemony was in decline" (O'Brien and Williams 2013: 96). While there are a multitude of claims as to how and why this system arose, this essay will attempt to address the key features of the Asian Development State, and consequently evaluate its theoretical underpinnings. This will be addressed in three main points. Firstly, through an examination of the historical and political context of the Developmental State model in Japan. Secondly, by evaluating the chief unique aspects of the model that were central to its unprecedented success. Finally, a direct evaluation of what theoretical approaches are most applicable to explaining the model will be conducted. Considering these critical areas will elucidate the economic and political activity of the region that was crucially important to the highly unique growth of East Asia in the decades following the Second World War.

A central part of understanding why Japan's Developmental State model was so successful is appreciating the historical and political context in which it arose. The foundation of Japan's approach to development is typified firstly in its industrialisation process. The country's pursuance of industrial innovation occurred much later than Western industrialisation, specifically during the Meiji period (1868-1912); the advantage being that it could "utilize existing technology and developmental techniques to compress the rate at which the industrialization process took place" (Beeson 2013: 147). Facilitating this rapid industrialization process was the establishment of large- and small-scale industry arose, alongside a pattern of state intervention. Influenced by the philosophy of Confucius, Japan's system of selecting public officials based on merit placed an important role on the government in controlling development (Mahbubari 2008: 70). As Pyle has observed, "since the Meiji Restoration, Japanese leaders have had a keen sensitivity to the forces controlling the international environment; they tried to operate in accord with these forces and use them to their own advantage" (2007: 134). Equally crucial to clarify is the impact of the war and interest-driven politics on Japanese policy, rather than focusing solely on anything "distinctly Asian" about Japan's rise (Beeson 2013: 106). The fact that the Japan was left "economically devastated" after the Second World War was hugely influential in shaping its national sentiment towards a focus on sustainable economic growth (Ikeda 1994: 35). An important advantage of this devastation is that the "rich and poor alike had equal change to buy what they needed," resulting in an extraordinary sentiment of consensus for social improvement that allowed Japan to pursue rapid economic development without much opposition from its populace (Havens 1978: 76). The primary objective of both the government and the people was an "unrelenting focus on economic growth" which allowed the expansion of Japan's economy to be organized by key bureaucratic agencies (*World Bank* 2001: 9). This led to the establishment

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of the “plan rationale”, now commonly referred to as the ‘developmental state’, which entailed Japanese policy makers deciding exactly which economic industries and sectors they deemed to be most advantageous, and subsequently the encouragement of their long term development (Crow and Nath 1990: 341). While the rapid growth experienced by Japan in the post-WWII period was indeed extraordinary, it is important to consider that it had strong history in powerful bureaucratic control and an established industry as its foundation.

The unique aspects Japan's approach to economic development must be evaluated in order to understand its unprecedented success. While there are many, the most notable were: a revival of zaibatsu, the close relationship between the government and business sectors, their distinct approach to trade, and the economic and security support received from the United States. Firstly, the returned prominence of zaibatsu (essentially rebadged keiretsu) in the post-war period meant that the Japanese economy was dominated by a handful of vertically monopolized conglomerates (Woo-Cumings 1999: 18). The main difference from the pre-war period zaibatsu and the post-war keiretsu was that instead of being owned by clans of wealthy Japanese, large financial institutions took their place (Johnson 1982: 206). This meant that key government agencies thereby had direct control over the economy through guiding the “process of industrial regeneration” (Beeson 2013: 148). These agencies were key to the strong relationship between the state and business sectors, later termed the “embedded autonomy” (Evan 1995: 179). The facilitation of bureaucratic control in industrial development was especially assisted by the Foreign Investments and Loan Program (FILP), which was intended to reinforce the overall direction of development, or in another sense, was responsible for “picking winners” (Wade 2005: 100). Furthermore, direct control by the government over the banking system allowed for “monetary controls alone to expand or contract the tempo of economic activity,” unseen in any traditional capitalist economy (Johnson 1982: 204). Another central factor was Japan's approach to its trade industry. The relative insulation of the Japanese economy was aimed towards securing supplies and maintained by highly effective trade barriers (Yahuda 2004: 191). In particular, MITI's control over the tariff regime and access to foreign currency “gave the bureaucracy powerful leverage over companies that wanted to operate overseas or receive government protection” (Kraus 1992: 50). The insulation of Japan's domestic economy essentially strengthened its bureaucratic control. Lastly, as Japanese nationalistic pride grew after the war so did their resentment of external pressure (Yahuda 2004: 192). However, the principle goal in this period was economic rehabilitation, and to this end “economic and political cooperation with the United States was essential” (Ibid: 194). This effectively resulted in Japan experiencing a “ready access to the American domestic market on a non-reciprocal basis” (Bergsten 1997: 546). It was Japan's capability to custom design policy to match the divergent circumstances and needs of its industries that was central to their success.

Given the unprecedented nature of Japan's economic approach, it is important to consider how it can be understood in terms of theory. A recurring argument in the literature is that the pragmatism and heterodoxy of economic thought in Japan meant that it was “not driven by a particular economic philosophy” (Hayashi 2010: 47). While there was no overarching economic theory prior to Development State model that seemed to account for its methods, there were existing ideas that had a conspicuous influence on Japanese policy makers. First and foremost, Japan's model noticeably echoes post-WWII social democratic ideals in which “states were seen as having the right – indeed the duty – to intervene in the economy and society” (Berman 2006: 16). This influence of the “national economics” or “state capitalism” ideas, particularly of the German political economist Friedrich List, are palpable in the legitimization of industrial targeting that began in Japan in the late Tokugawa period, which was reinforced from the Meiji period onwards (Beasley 1990: 103). Of course, while the social democratic approach was directly aimed at the protection of “common or public interest,” the developmental state model was primary goal was “economic development” (Johnson 1982: 305). This model subsequently meant there was “greater willingness to limit individual freedom of expression for the sake of growth in the long run” (Vuong, 2013). Further, the neo-mercantilist economic approach, which emphasized state control of credit, fixed exchange rates, and a protected domestic economy is visibly present in the Japanese model (Yahuda 2004: 187). Accordingly, Japan's approach can be witnessed as a “revolt against the ‘rational choice’ theory of neo-classical economics,” as it emphasized that the state, not the market, could best achieve “efficient allocation of resources” (Peet and Hartwick 2009: 68). The developmental state is therefore considered “both a direct intellectual and ideological challenge to the dominant economic orthodoxy associated with the Washington consensus or neoliberalism” (Satz and Ferejohn 1994: 143). When considering Japan's methods as a new economic model, the statist-institutionalist approach purported by Theda Skocpol is very reflective (Doner, 1991). This theory saw the “state as an agent of social and political change,” thereby depicting the

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Asian Development State model in Japan as “paternalistic authoritarianism” (O’Brien and Williams 2013: 198).

In conclusion, the Asian Development State model, particularly in Japan, was vastly distinctive to the dominant economic approaches of its time. By examining the historical and political context of Japan’s model, evaluating its main unique aspects, and evaluating the theoretical approaches that are most applicable in explaining the model, the Asian Development State has been revealed as an economic model typified by rapid economic development and grounded in the circumstances of the post-war period. Its implications lie most pertinently in considering developmental approaches in the modern world, so that the East Asian experience can provide an important lesson to areas where development is most greatly needed.

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