Idea Wars: The Rise, Fall, and Rebound of the East Asia Challenge to Development Orthodoxy

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A great deal has been written over the past fifty years about the so-called “East Asian model” of development. The vast majority of these writings have focused on the seemingly endless debate over whether the model is a “good” one or not, with proponents asserting that it was a key cause of successful industrialization, and detractors attempting to prove just the opposite. A related topic of interest has been on the “lessons” of the model, and whether developing nations today can hope to replicate the approach. Again, proponents insist that the model can be usefully emulated, at least on a partial basis, while opponents stress the daunting institutional and other prerequisites for the model to succeed.

This project will take a different cut at the subject, namely to develop a better understanding of how the concept of the East Asian approach has evolved over time, and to trace first how it has had an impact on the development strategies of many of the East Asian economies, and then on the broader debate over development ideology.¹

In the first part of the project I will investigate the question of how and why some state elites initially chose to adopt the East Asian approach. I begin with the argument that there were enough similarities in the development approach followed by key East Asian economies to merit treatment as a common approach. As I explain further in the next section, I boil this approach down to three core policy commonalities: a degree of state involvement in promoting key industries, an emphasis on exports, and the states’

¹ I should note at the outset that this is a concept paper, representing my initial thoughts on a larger, perhaps multi-year project. I have taught this subject for some years and thought about things on a general level. But I am just now embarking on a full academic and scholarly study of the issues involved here, so this paper includes as many questions as suggested answers. I thank the organizers of the FLASCO-ISA conference for giving me this opportunity to flesh out the parameters of the project, and to receive feedback, criticisms, and guidance. I thank Brian Woodall for some comments on an earlier version of this paper.
role in mediating interactions with the external economy. This core approach, I will argue, formed the basis of the early development strategies followed by Japan, South Korea, Taiwan, Singapore, China, Malaysia, and, to a lesser extent, Indonesia and Vietnam. I should point out at the outset that I am less interested in assessing the extent to which this approach was fully adopted, or the degree to which it was successful; rather, I will be investigating the factors and processes that best explain why these state elites chose to attempt implementing this approach in the first place.

In contrast to existing explanations of the choice of the approach, which tend to look at domestic, political, institutional, or external structural factors, I will argue that we cannot understand these choices unless we also factor in the important role played by the ideas that underlay the East Asian approach. To do this I will trace the processes and mechanisms through which this developmental approach was diffused and adopted in Northeast Asia, and then more selectively, in other parts of Asia. In so doing, I will stress an element that I believe has not received enough attention: the process of learning that was at play. Many scholars loosely refer to successive nations adopting “the East Asian model,” implying that emulation and learning was taking place, but less concrete attention has been given to the role of ideational factors. I will delve more deeply into the role of ideas by looking at the decision process that faced the different state elites during the era in which they chose to adopt the approach, and in particular their consideration of alternative approaches to development.

As with other scholars who have looked at the role of ideas, I am not arguing that ideas in and of themselves completely determined choices. Rather, the argument is that we cannot understand outcomes without factoring in the independent role that ideas
themselves have played. In this case, the argument will be that the choice of adopting the East Asian approach was not determined completely by structural or material factors, but that state elites were also attracted by the compelling nature of the idea of the East Asian approach.

The flip side of learning is teaching, or perhaps more precisely, promotion or proselytizing. In the overall project I will also argue that one mechanism for the diffusion of the approach was the active efforts undertaken by certain regional governments to convince other state elites to adopt the approach. The Japanese government was initially the most active, not only on a government-to-government basis, but also in terms of attempting to influence the international development agencies. In later years the Korean government, and more recently the Chinese government, seem to have also made attempts to persuade others to adopt this approach.

This process has in the last two decades begun to influence the broader debate over development policy. In the second part of the project I will focus on the efforts of state elites from certain countries to influence policy thinking in the international organizations. Again, Japan made the initial effort, culminating in the 1993 World Bank report, *The East Asian Miracle*, which represented the first time the Bank had addressed some elements of the East Asian approach. The report, however, also engendered a strong backlash against the approach by those who favored the market orientation. And soon after this, the collapse of the Japanese bubble economy and the region-wide Asian Financial Crisis led to intense criticisms of the approach, and for a time it seemed that its death knell had been sounded.
But things have trended in a different direction in the last decade, with the ongoing reinterpretation of the lessons of the Asian Financial Crisis, the resumption of growth in the region, and especially the rapid expansion of the Korean and then Chinese economies. Most importantly, it was the collapse of the US economy in 2008 and its global ramifications that has cast deep doubts on the wisdom of US-style market fundamentalism. Throughout East Asia the growing consensus is that the “Asian version” of capitalism, the East Asian approach, is the preferable one.

The core ideas behind the East Asia approach also seem to have gained more acceptance in the World Bank over the past decade. These inroads are best symbolized by the naming of Justin Yifu Lin as chief economist of the Bank in 2008. Lin was the first non-western educated economist to be named to this top spot, and has been an open proponent of lessons to be learned from East Asia. In the project I will assess the extent to which the East Asian alternative has led to a significant shift in development thinking. Although I have yet to do concrete research on this, it seems that the ideas behind the East Asian approach have already had a subtle but identifiable influence on the thinking going on within the developmental agencies.

Regardless of the bottom line conclusions, I see this as a fascinating case where we can trace the interaction between power and ideas, material interests and ideational commitments. Existing orthodoxy has been challenged to a degree by evolving “facts on the ground,” which has forced policymakers to at least reconsider existing ideational positions, and to some extent, definitions of interests as well. This process has been ongoing, in fits and starts, over the past half century, and will no doubt continue into the future.
I. The Emergence of the East Asian Approach: Some Definitional Issues

Before proceeding, I need to first define what I mean by the “East Asian approach.” This is a difficult task, as there seem to be as many different definitions as there are scholars who have written on the subject. For the purposes of this project, I will focus on what I believe are the most basic, core elements of what all of the economies actually did. The definition of the approach that I adopt here thus includes three fundamental policy dimensions: state-led industrial policy in a capitalist setting, the importance of exports, and a conditional outward-orientation. These are not only the most fundamental elements of the approach in practice, they are also the most distinctive elements that differentiate this approach from other orthodox approaches, the market school and import substitution.

It should be noted again at the outset that not all of the economies successfully implemented these elements to the same degree, and that there was a wide range of relative developmental success. The focus of the project will be on explaining why these state elites initially chose to attempt to implement the approach.

The “East Asian Approach” – a core definition

1. Important roles for the market AND the state
   -- The state and industrial policy (promotion and protection policies)
   -- More market than state: the need for competition
2. Integration with the External Economy
   -- The emphasis on exports
   -- External sources of capital and technology
3. Conditional Outward Orientation
   -- The state role in mediating interactions with the external economy
1. Important roles for the market AND the state

It should be first emphasized that capitalist forces were the driving force in each of the economies, either originally or, in the case of China and Vietnam, as a result of later policy changes. But unlike the market prescriptions calling for a minimal role for the state in the economy, these state elites were not content to leave the pace and direction of development completely up to the market. State elites thus have also played an active role in the industrialization process.

-- The state and industrial policy (promotion and protection policies). State elites used a wide variety of policies to affect the pace and direction of development. The exact policy mix differed by initial conditions and stage of development, but in general, the favored industries were backed by promotional policies that encouraged increased investment, and protective policies that allowed them time and space so that they could emerge from their infant industry stage. Policy makers sought to upgrade factor endowments, and paid particular attention to the acquisition of technology (initially from external sources, then over time through the creation of domestic, indigenous technology capabilities).

-- More market than state: the need for competition. One common element was the perceived need for competition among national firms, at least in theory. Protection and promotion of infant industries was meant to be temporary and pragmatic. An ISI strategy may have been used early on, but was quickly replaced by an ELI approach. States used many different mechanisms to make sure that domestic industries faced some form of “market discipline.”
2. Integration with the External Economy

Unlike the ISI approach, the East Asian approach clearly embraced the international economy as a necessary dimension of development strategy.

-- The emphasis on exports. A core element of the model was the adoption of an export-led strategy. But this was not exporting based on comparative advantage (the market prescription), but rather exports pushed as a part of industrial policy. Not only would exporting earn foreign exchange, it also was seen as reinforcing market discipline, as exporting industries aimed to become competitive in the global market. This is the element that most clearly differentiates the East Asian approach from its ISI cousin, which also used state-led industrial policy, but in a protected, inward-oriented fashion.

-- The importance of the external environment for capital and technology. The external environment was also seen as an early source of needed capital and technology. This varied in practice, with some states being relatively resistant to inward investment, while those that lacked sources of domestic technology creation being considerably more active in their pursuit of foreign investment.

3. Conditional Outward Orientation

-- The state role in mediating interactions with the external economy. The embrace of the global economy, however, was meant to be on the state’s terms, not the market’s. On the one hand, state elites sought to take advantage of the opportunities afforded by the external environment, in particular attempting to harness foreign investment, transfer technology, and the like. At the same time, state elites sought to ameliorate or manage the risks of vulnerability or exploitation inherent in exposure to the international capitalist system. As importantly, state elites were driven by a concern for
national welfare, which included cushioning domestic actors from the costs of the outward orientation. The bottom line here is that in no case were state elites committed to “market fundamentalism,” or policies of unconditional openness or liberalization.

**Why Not a More Complicated Model?**

I justify this simplified version of the approach as a way to focus us on the most essential elements of the East Asian development experience. In contrast, most analysts prefer much more complicated treatments of the approach. That most versions of the East Asia model are so complicated in part reflects the enormous complexity of developmental economics and politics, and the fact that the industrialization experiences of the East Asian economies have indeed differed in practice.

A number of scholars have further argued that the developmental experiences of these countries differ so greatly that we cannot speak usefully of any common “model” or even a more general “approach.” To be sure, all of these countries faced extremely different conditions, including their initial stage of development, institutional structures, external circumstances, and a host of other differences. Furthermore, some elements of the approach also changed over time, especially as the external political and institutional environments evolved. Finally, I would note that scholars also seem to prefer complexity, and thus seem tempted to add more details and nuances into their definition of the approach. The more complicated the model, the more difficult it is to trace, or even speak of, core commonalities.

Given the huge differences in the circumstances facing each of these economies, we should not be surprised that we have not seen exact replication. Considering how
different the Japanese situation was compared to that of, say, Indonesia, it should also not be surprising that each set of elites had to adjust the approach to fit their own existing conditions, opportunities, and obstacles. That approaches and experiences therefore differed does not, in my view, preclude the identification of a common core. In looking at what this group of economies did in practice, I argue that the common elements listed above do in fact emerge.

Another complicating factor is that the implementation of the approach has changed over time in each country in which it was attempted. As soon as state elites initiated the approach, its parameters by necessity needed to be made to conform to local conditions. As one of many examples, the private business sectors in Korea or Singapore in 1960 were not as developed or experienced as Japan’s was in 1950, necessitating a stronger and more active role for their respective governments. And over time, as each government faced different problems, obstacles, and successes, the developmental experiences of each also diverged. This is especially true as each country successfully developed, passing from the NIC stage to industrialized economy, and then to post-industrialization.

For these reasons I think it is important to keep the initial focus of the project on the core, most basic elements of the approach, and to concentrate on the process through which it was initially adopted.

**Treatment of Other Attributes**

There are many other attributes that other scholars have pointed to as part of what these East Asian economies did in practice, or as necessary elements of different
definitions of an “Asian Model.” These include the presence of able and non-corrupt bureaucrats and developmental institutions; close but not too close relations between government and business (i.e., embedded autonomy); flexible and pragmatic leaderships; authoritarian political structures; and a favorable external environment, and many others.

I will initially treat these other attributes as conditions that help to explain why the approach was successfully implemented or not. Certainly the extent to which states enjoyed these attributes made state-led industrial policies more effective and efficient and thus contributed to their growth. One can also argue that the existence of these attributes made it more likely that state elites would have confidence that the approach would work, and thus would in fact adopt the East Asian approach (Doner et al., 2005). But did these attributes themselves determine the initial choice of the policy approach?

In the larger project I will evaluate the importance of these structural factors and attributes, but will try to avoid structural determinism. To put it a different way, some state elites could and did choose to follow the core policies of the approach even though they lacked some of these other attributes. As just one example, in the 1980s Malaysian bureaucrats were not nearly as elite as those of Japan or Korea; its private business sector was not at all strong or developed; and because it did not enjoy close ties to the United States, and because external markets were already becoming saturated, its external environment was considerably less favorable than the earlier adopters. And yet the Malaysian government under Mahathir still attempted to adopt the core elements of the approach, basing policies explicitly on the experience of Japan and Korea. Clearly, something other than structural attributes was at work here.
I will need to treat these other attributes in greater detail in the larger project, and will also assess how these structural attributes interacted with ideas, as well as other factors. I plan to pay particular attention to how state elites actually understood the approach in practice – that is, how elites themselves defined the approach. At this point, rather than becoming too bogged down with the initial theoretical definition of the approach, I am willing to allow the actual state elites to define what approach they thought they were adopting.

II. The Spread of the East Asia Approach

A. Some Puzzles from Northeast Asia

It has been well established that in the early postwar era state elites in Northeast Asia all pursued rapid economic development. The governments of Japan from the 1950s, Taiwan under Chiang Kai-shek, and South Korea under Park Chung-hee were all highly nationalistic, and placed a heavy emphasis on rapid industrial growth. State elites in both South Korea and Taiwan also had strong security-oriented reasons to seek rapid industrialization, similar to the security motivations of Meiji Japan. All wanted to use economic development to cement domestic political support or legitimacy, or to catch up with their neighbors and/or rivals.

But what development policy would best allow them to achieve their industrialization goals? In hindsight, we know that all three adopted the East Asian approach, but at the time what alternatives did they actually have? Imagine being an observer of these governments at the time that they chose to adopt the East Asia approach (Japan in the late 1940s, Taiwan at the end of the 1950s, and Korea in the early 1960s).
What would you have predicted? I argue that given their domestic political and institutional situations, as well as their external situations, it probably would have been a safer bet to predict that the three would choose one of the more orthodox developmental approaches. A more specific but related question is why did these three chose to shift to the export orientation (again, reflecting industrial policy priorities rather than pure market signals)? It seems to me we do not have an adequate understanding of either question, and so my project seeks to reexamine some of our standard explanations.

Many have already described Japan’s early experience with state-led industrialization, dating back to the Meiji era, and the continuities with the postwar period. It seems logical that the postwar Japanese state would continue to intervene heavily in industrialization, but what of the shift to exports? The standard view is that elites in MITI perceived and took advantage of the export opportunities presented by the postwar international economy. Another interpretation is that the prewar economic policy was actually “outward oriented” even if the state did not actively promote exports. That is, prewar Japan relied less on promoting exports because it was able to seize colonies and make them into captive markets. In other words, colonialism was the functional equivalent of the ELI strategy. In the postwar period, with the loss of its colonies and no chance to acquire new ones, the obvious or perhaps only choice was to focus on exports.

I generally agree with the standard explanations, but for the project I will consider some alternatives. First, the choice to concentrate on exports was not preordained by institutional structures or tradition. For instance, given its very large domestic market, it
is certainly plausible that Japan could have continued with an ISI approach. I will also consider other possibilities, including how Japanese leaders reacted to the pressures and incentives provided by the U.S. government.

Observers of Taiwan and South Korea at the time of the adoption of the East Asian approach might also have predicted that both would have chosen one of the then orthodox approaches. A contemporary observer might not have been surprised if both had stayed with the ISI approach for much longer than they did. This, after all, was the essence of the approach adopted by the prewar government of Japan, from the Meiji period on, in which state elites organized and mobilized industrialization efforts that focused more heavily on the domestic market. Present day institutionalists could point to the colonial legacy to argue that the developmental institutions left over from the prewar period should have predisposed to state-led, inward-focused industrialization. It makes sense to me that the relatively small size of their domestic markets spurred policy change, but again, other states have stuck with the ISI approach even when facing similar problems, especially balance of payments difficulties.

A number of scholars have pointed to domestic economic problems at the time as spurring both to seek a major shift in development policy approach. Standard explanations include the small size of domestic markets, balance of payments problems, US pressures, and resource scarcity in part caused by declining aid budgets. But even if we accept that state elites felt the need to make a major policy change, why did they choose to go in the direction of the East Asia approach rather than a market orientation?

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2 Japan in 1950 had the fifth largest population in the world, at the time equal to the combined populations of Brazil and Mexico.
Had either or both shifted to a more market-oriented approach to development, a contemporary observer would not have been surprised. Given their external situations, one might have predicted that both would adopt a U.S.-style market orientation. Both had important military and political ties to the United States, and were each subject to varying but strong degrees of U.S. influence. With both dependent on the United States for their security, one might have expected American preferences to carry considerable or perhaps decisive influence. U.S. policy makers at the time clearly favored the market school: the U.S. government pressured these economies to open their markets to imports of goods, capital and technology; focus on exporting goods based on their comparative advantage; to integrate their economies with the world economy; and to limit the extent of government influence over their economies. This was certainly the orientation that US. government officials promoted, either through government-to-government advice or more direct forms of pressure.³

Given their dependence on the U.S. relationship, the advice and pressures exerted by the United States (and, by extension, the World Bank) should have been decisive. The United States by this time had become the dominant external influence on both. If either or both had followed this logical course, today’s institutionalists or IR structuralists would have no problem explaining why they made this shift, and critics of Western capitalist hegemony would include them on today’s list of examples of the strong imposing their preferences on the weak.

³ It is also true that the U.S. refrained from pushing these policies to their limit. For the sake of the Cold War alliances, the U.S. government was willing to allow considerable deviations from “free trade” or the market ideal. But there is no doubt that the U.S. preference was for a market orientation. It remains to be seen what evidence I will find as to how hard the U.S. actively pushed these preferences.
And yet, both chose to move in the direction of the East Asia approach, beginning with Taiwan in 1958, when government planners designed policy packages to give incentives for export industries, as well as industrial policy efforts to support core industries and to bring in foreign investment to spur domestic growth. The case for Korea is even clearer, with the government of Park Chung-hee adopting many of the development policies that Japan was then pursuing, including protecting infant industries, promoting high-tech strategic industries, subsidizing exports, and the like.

One argument I will look into is the extent to which the Japanese model played a direct or indirect role in the choices made in Taiwan and South Korea. Certainly both had observed the early success of Japan’s recovery and the beginnings of export-led growth. Other scholars have pointed to a more direct and conscious emulation of the Japanese model, especially in South Korea during the Park era. Logically, given their proximity in space and time, and to the extent that all adopted the core elements of the approach, this statement might not be controversial. I am aware, however, that this is a quite sensitive subject to some.

B. Explaining Later Adopters of the East Asia Approach

As we move forward in time, the issue becomes how to explain why others in the region chose to adopt the entire East Asia approach, rather than explaining just the shift to the ELI strategy. By the time these late adopters enter the picture, the power and influence of the Western-dominated international institutions was well established. In the mid-1960s, the industrialized nations clearly controlled the Bank and IMF, and developmental advice reflected what would later be referred to as the “Washington
Consensus.” Critics of the capitalist institutions point to World Bank lending practices and IMF conditionality, especially Structural Adjustment Policies, as the mechanisms through which the West imposed its preference for a liberal market orientation.

In the cases of Singapore and Malaysia, history and existing institutions also might have pointed to both taking the market route. Both were former colonies of the United Kingdom, and thus had existing bureaucratic institutions and traditions that were closer to the British model than the developmental state. Furthermore, many of the elites in both countries were British-educated or trained. The odds should have been in favor of both following a more laissez-faire or market approach. In addition, both enjoyed strong political and security ties to the United Kingdom and later to the United States. Although these relationships were weaker or less direct than those that prevailed in Northeast Asia, they were still significant.

Post-Sukarno Indonesia might also have been expected to adopt policies closer to the market orientation. The new military leadership was heavily influenced by the US government, not only in terms of the burgeoning security relationship, but also because it was U.S. economists who served as the core economic policy advisors to the new government. Added to this Indonesia’s abundance of oil, it is perhaps most surprising that it even dallied in the East Asian approach.

Given the small size of Singapore’s domestic market, it is not surprising that Lee Kuan Yew adopted an outward orientation. But Singapore also chose to adopt many of the policies used in the Northeast Asian economies, including industrial policies to actively tap into foreign sources of technology and policies to substantially increase its industrial upgrading. Malaysia is a clear example of a state making a conscious decision
to adopt the East Asian approach, with Mahathir’s “Look East” policy calling for the emulation of the Japanese and Korean experiences. As mentioned earlier, the Malaysian government chose this approach even though it lacked many of the institutional advantages enjoyed by others. And finally, from the 1980s on, Indonesia deviated from Western economic advice and chose to adopt what some have called an uncoordinated industrial policy approach.

In the cases of China and later Vietnam, given the historical legacies and institutional inertia both faced, it would have been more logical to expect an extended ISI strategy, rather than any move toward the East Asian approach. Both economies of course were originally communist in orientation, with a tradition of complete state dominance of the economy and a strong distrust of the international capitalist economic system. Even if both governments desired economic growth, and felt that they should move away from past policies, it would have made more sense to choose an inward focus. This would have been a shorter step from what their governments were thus already doing. It would also have been the best way to avoid integrating with the international economy, something that would have been unthinkable during their revolutionary periods. Furthermore, China obviously enjoyed a very large internal market, which would have made it the most likely candidate for a successful ISI approach (to put it a different way, if ISI were to be able to work in any country, it should have been China).

And yet both chose versions of the East Asian approach. In the case of China, the outward-oriented shift instituted by Deng Xiaoping is perhaps the most unexpected. Not only did Deng introduce capitalist elements to the economy, he also pursued opportunities afforded by the international economic system, first as a source of capital
and technology and then as a source of external markets. The depth of China’s eventual embrace of integration with the outside economy would not have been predicted in 1977. Vietnam is the one case that has least fully adopted the East Asian approach, but policy changes in the late 1980s were in this direction. The jury is still out as to what directions Vietnam takes in the future.

C. The Attractiveness of the East Asia Approach, Passive and Active

I find it difficult to explain why these economies adopted the East Asian approach without factoring in the ideational dimension. As mentioned earlier, many scholars of Asia implicitly acknowledge that these governments did emulate those who went before, so would not find this statement problematic. However, it seems to me that we have not explicitly investigated *the process through which the idea of the East Asian approach was conceptualized, and the means by which it was diffused*. Other scholars of political science are less open to the independent influence of ideas, in particular institutionalists who ascribe behavior and choices to existing institutional constants, and scholars of IR who tend to focus on power and security relations.

How did this ideational component operate? One component undoubtedly was the power of example, or the demonstration effect. That is, as already mentioned, each successive adopter could see that those coming before it had succeeded by using the approach. As we move to the later adopters it was probably the examples of Taiwan and Korea, which had started from a less developed state, that had become the most relevant example. Having a clear demonstration that the model could work, and in particular that
the ELI gamble could pay off, no doubt gave others the reassurance to even consider attempting it.

I should note that the academic world was following, not leading, the adoption of the approach. That is, almost all of the literature we are all familiar with was being written after these countries had already decided to adopt the approach. The role of academics was still an important one, however, in terms of clarifying and codifying the elements and principles of the approach. To the extent that the academic debate spilled over to the broader debate on development, scholarship also might have played a reinforcing role.

But my sense is that the conceptualization and understanding of the model was being done mostly within each set of the state elites, as they considered their policy choices and alternatives, and between elites of different countries. Also relevant were the politics inside the development agencies, and the relationship between the agencies and the different nations.

An interesting element here is the active role played first by the Japanese government and later the Korean government in trying to spread the model throughout the region. Although I have not yet investigated this concretely, others have argued that the Japanese government gave strong policy advice pushing its version of development as part of its foreign policy in the region. In particular, I will look into how developmental ideas were a part of the aid that they gave to the region. (I do not intend this to be part of the old criticisms of Japanese “tied aid,” but it seems natural and uncontroversial that Japanese development officials espoused the Japanese model.)
One aspect in this effort was the role played by some of Japan’s development agencies. The Japan Development Bank, as one example, has for decades held elaborate developmental seminars for government officials throughout the region devoted to explaining and teaching the Japanese approach. At this point I do not want to exaggerate the effectiveness of such efforts, but they at least presented these countries an alternative to the advice that Washington was giving, and of course the market orthodoxy of the World Bank. In addition, I will look at the role of JICA and OECF as examples of mechanisms through which the approach might have been spread.

It was not only the Japanese government that attempted to promote and diffuse this developmental ideology. Anecdotally, I have seen references to Korean officials in the 1990s being involved in a similar spreading of developmental advice. Mahathir’s “Look East” concept, for instance, meant not only Japan but also, perhaps more importantly, Korea. Mahathir evidently decided to bring in Korean advisors because he thought that its initial conditions were more similar to Malaysia’s, and thus would provide more relevant lessons. I will need to do a great deal more research on the extent to which the Korean government attempted to promote its version of development.

There is also some anecdotal evidence that China is beginning to similarly advocate its approach to development with some of its economic partners in Africa and elsewhere. It would not be surprising if China in the future will be giving similar policy advice as Japan Korea have done. The growing influence of China’s experiences is best symbolized by the emergence of the so-called “Beijing Consensus.” I will argue that this phrase, while catchy (i.e., as the alternative to the “Washington Consensus”), is misleading in that it is far too specific to China’s unique development experience, and
does not capture the broad similarities in the approach adopted throughout the region; because its success or failure is tied too directly to what happens with the Chinese economy; and because it includes a defense of authoritarianism and other political elements. Nonetheless, the Beijing Consensus has become a symbol of the attractiveness of the East Asian approach to development, and perhaps portends growing influence for the PRC on development policy in the future.

In sum, it has not only been the West or the United States, through the Washington Consensus, that has tried to “remake the world in its own image.” The same can be said of Japan, followed by perhaps Korea and now China, in the promotion of a particular conception of development. Explaining how and why numerous countries have adopted versions of the model will involve an interesting interplay between ideas, interests, and power.  

III. The World Bank and the War of Ideas

Standard criticisms of today’s international developmental institutions routinely describe the World Bank and IMF as dominated by Western, or perhaps American, economic ideology. The standard criticism is that the Fund and the Bank have a consistent and nearly hegemonic focus on the market approach, and that this ideology is enforced through the Bank’s lending criteria, IMF conditionality, and the like.

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4 I will also need to at least address why some obvious candidates in the region chose not to adopt the East Asian approach. One case is the Philippines, which is usually explained away because it has enjoyed a stronger relationship with the United States rather than East Asia. Another very interesting case is North Korea, which has been subjected to considerable pressures from China to adopt the East Asian approach.
As discussed above, at least a handful of East Asian nations chose to defy these pressures and to adopt a different form of capitalist-oriented development policy. In addition, over the past two decades, certain East Asian nations have made attempts to alter the orthodox policy prescriptions of the international developmental institutions. This will be the focus of Part II of the overall project.

A. The 1993 World Bank Report: A New Hope?

The first of these challenges culminated in the 1993 World Bank report, *The East Asian Miracle*, a report that was initiated and pushed by the Japanese government. Robert Wade has presented some detailed discussion of the inside politics behind this report, which is today seen as the high point of Japan’s efforts to shift the terms of the debate (Wade 1996). Although Japan did succeed in getting the World Bank to at least acknowledge the possibility that the state had a positive, active role to play in industrialization, Wade shows how the findings of the research team were curtailed and challenged by market-oriented economists and political appointees. Wade argues that the result of the report was a compromise between Japanese developmental ideas and the Bank’s market-friendly orthodoxy.

While this report represented at least a questioning of World Bank orthodoxy, it did not represent a full-blown challenge to it, or at least an effective one. But in 1993, given the growing success of the East Asian economies, Western perceptions of the coming “Pacific Century,” and the like, it did seem that the trend was moving in the direction of the East Asian “miracle.”
B. The Washington Consensus Strikes Back

The uptrend in interest in the East Asian approach to development was cut short by events on the ground, as the collapse of the Japanese “bubble economy” was followed by the Asian Financial Crisis. Both led to an at least temporary discrediting of the East Asian approach and the seeming hegemony of the Washington Consensus. Neither, I will argue, was a permanent trend.

1. US-led efforts to resist the challenge to orthodoxy. Even before the region’s economic downturn the U.S. led a concerted effort to counter the rise of the East Asian approach. In Clinton and Japan, I argued that the growing acceptance of “revisionist” assumptions about the Japanese economy (namely, that it was different, inherently closed, and a threat to the U.S. economy) led to the eventual adoption of managed trade demands on Japan, calling on the Japanese government to agree to guarantee market outcomes rather than simply market access. Although these pressures were eventually rejected by the Japanese government, the U.S. government demonstrated that it was strongly opposed to any version of East Asian “developmentalism.” These concerns over the spread of the East Asian approach can also be seen in U.S. efforts to strengthen WTO rules, including new or stronger rules to deter the use of industrial policy instruments, conditions for investment, infringement on property rights, or, in Wade’s apt phrase, attempts to “shrink the developmental space” afforded to the less developed.

Yet another element of this effort, according to Wade, involved enforcing a market approach at the World Bank, symbolized by U.S.-led efforts to have Joseph Stiglitz fired as Chief Economist of the Bank, in part because of his criticisms of IMF
conditionality following the Asian Financial Crisis. Wade describes these efforts as an example of the nearly hegemonic American dominance of developmental ideas.

2. The Collapse of the Japanese bubble and the Asian Financial Crisis.

However, it was the twin Asian crises that did the most to undermine the attractiveness of the approach. By the mid-1990s it had become clear that the collapse of the Japanese bubble was not going to be a short-term dip, followed by a strong recovery. Rather, the orthodox view came to be that it was the failure of policy makers to avoid capture by organized actors in the economy that was the core cause of Japan’s economic malaise. Japan’s repeated failures to deregulate or “disengage the developmental state” strengthened the view that whenever any government becomes too involved in the economy, politicization and capture are the inevitable results.

To critics of the Asian approach, the Asian Financial Crisis beginning in 1997 cemented the contention that the approach itself was fundamentally flawed. Decades of subsidizing investment gave rise to moral hazard, excessive investment, and market saturation. Not only did this cause artificial bubbles in each economy, it also led inevitably to politicization or “crony capitalism.” Critics of the approach called for its complete rejection, and there was a noticeable drop in discussion of and attention to the East Asian approach, both among policy officials and within academics. For a time, the triumph of the Washington Consensus seemed complete.

C. The Return of the East Asian Approach?

Events over the past decade have demonstrated that the pendulum swing against the East Asian approach was not as decisive or permanent as it seemed in the early 2000s.
Since then we have seen a re-emergence of attention to the East Asian approach, both within the region and in the broader debate over development. I will not be arguing that the market orthodoxy is in danger of being replaced, but the rebound in attention to the East Asian approach does present at least a potential partial alternative. This resurgence can be seen at different levels.

1. The ongoing debate over the Asian Financial Crisis, its causes and implications. Faith in the East Asian approach was considerably less shaken within the region than it was outside. First, many in the region preferred to blame the external financial markets, not the model itself. Blame was placed on “casino capitalism,” “hot money,” and worse. Although some recognized that state governments had fallen into excesses, and although some liberalization efforts were made, few in the region called for a rejection of the approach. Second, critics of the response to the crisis followed by the IMF and World Bank also pointed out that the standard market approach – austerity and liberalization – had in many ways made the crisis deeper and more painful.

2. The quick recovery in the region and the resumption of growth. The fact that the crisis proved to be temporary (except for Japan), gave further support to the approach. While economists pointed to some liberalization policies in countries like Korea as the cause of their subsequent rebound, this view was not as widely shared in the region. Rather, retrenchment policies were seen as consistent with regaining a balance between the state and market. In any case, regional growth rates quickly recovered and surpassed those seen in the rest of the world.

3. The Rise of Korea and China. Korea’s rapid recovery was followed by a decade of significant industrial successes. Although not all in Korea seem to share this
A rosy view of its economic situation, the view from outside is one of a very successful economy that has excelled at hi-tech exports. Korea’s emergence coincided with the revival of interest in the East Asian approach in general.

But it has been China’s rapid industrialization over the past 15 years that has done the most to revive interest in the East Asian approach. There has been an intense ongoing debate as to whether this growth is sustainable (one never knows when you are at the top of a bubble until after it bursts). But the perception has been that China did adopt a version of the model back in 1978, and has maintained this approach, and further that this has been an important factor in its growth. And as mentioned above, China has begun to promote its version of development, including possibly a greater role in the international organizations.

4. The 2008 “Lehman Crisis.” The collapse of the US financial sector has been seen in East Asia as a symbol of the dangers of excessive deregulation, and in the process the legitimacy of the Washington Consensus has been called into increasing question. The growing backlash against market fundamentalism, or at least the question of some of the more extreme positions, seems on the rise in Asia and elsewhere – everywhere, it seems, except for the United States.

Even before the crisis former World Bank official Ravi Kanbur noted a shift away from the market ideology, which he described as unconditional liberalization, rampant globalization, and “unfettered free trade”; this shift was hastened and strengthened by the U.S.-led financial collapse.

5. Revival of the approach’s impact on the broader policy debate. The resurgence of the East Asian approach can be seen in the revival of academic writing on
the potential contributions of industrial policy. Here I would flag Dani Rodrick of Harvard, who has been one of the most vocal and tireless champions of the industrial policy approach.

I will also look at the possibility that we have seen a more significant shift within the World Bank itself. A turning point may have been the June 2008 appointment of Justin Yifu Lin as Chief Economist of the World Bank. Lin was the Bank’s first non-Western Chief Economist, and more importantly was not at all an advocate of the market-only approach. Lin had not only witnessed development policies in his native Taiwan, he was also a participant in China’s implementation of the approach.\(^5\)

Lin describes his thinking on development as the “New Structural Economics,” which starts with the recognition that the state indeed has a positive “facilitating” role to play in terms of transforming the industrial structure and fostering technological upgrading. Although Lin has been criticized for still being too tied to the market ideology, his views are a clear departure from those held by his World Bank predecessors. (Lin and Chang 2009, 484)

Lin’s views also show an obvious influence from the experiences of the East Asian economies. As he put it in 2012:

“During my travels in the past three and a half years as the Chief Economist of the World Bank Group, I have been struck by the potential for less developed countries to take a page from the playbook of more successful industrializing East

\(^{5}\) Lin’s background is quite interesting. Born and educated in Taiwan, he defected to the PRC in 1979, at age 27, literally by swimming to the mainland. (He evidently swam from one of the nearby offshore islands, but this is still fairly impressive!) After receiving his MA from Peking University, he immediately went to the University of Chicago where he received his Ph.D. in economics in 1986. He returned to Peking University where he established and ran its Center for Economic Research after Tiananmen, a period in which Deng doubled down on the East Asian approach.
Asian countries, such as China, Indonesia, Japan, Korea, Malaysia, Singapore, and Vietnam, and to dramatically improve their development performance.” (Lin 2012, p. 350)

I will need to find out much more about the politics behind how and why he was chosen. But this was at least a symbolic shift, especially given the controversial politics surrounding the firing of Stiglitz earlier in the decade. In this sense, this development seems to fly in the face of views of the World Bank as a hegemonic purveyor of market views, as hinted at by Wade and other critics of the Bank.

IV. Some Final Thoughts

While the debate remains ongoing, there are at least some signs that the East Asian approach has made a strong comeback, and is having a continuing impact on developmental thinking. A few tentative points:

1. The backlash against the Washington Consensus is likely to continue and remain strong in Asia and elsewhere in the developing world. The East Asian approach is in a good position to capitalize on wariness of complete liberalization and openness, as it provides at least the hope of governments being able to industrialize while also cushioning the impact of growing globalization. To the extent that the East Asian approach grows in attractiveness relative to market fundamentalism, I would also expect greater and more effective resistance to further efforts to strengthen international trading rules.

2. Countries in the region will remain committed to the basics of the approach. Even during the height of the Asian Financial Crisis, the nations of the region
continued to utilize various forms of industrial policy. My sense is that the publics in these nations still believe public investment in the industries of the future is still, on balance, a positive thing for their national economies.

A second factor here is that the institutions of industrial policy have already become entrenched in all of these economies. Although the exact nature of the state role has changed over time, and will continue to morph, it seems clear that these state institutions will continue to play SOME role in terms of industrial policy. That is, there is some degree of institutional inertia here, and so developmental agencies will continue to look for new roles to play. The bottom line is that no one in the region will be jettisoning the approach (for better or for worse).

A third point here is that the state role in the industrialized economies has already shifted, and thus plays a more appropriate role for their stages of development. For the past few decades industrial policy in the more developed countries has become less direct and less interventionist. Rather than focusing on picking winners and channeling resources to them, industrial policy in the advanced economies has stressed public-private collaboration, especially in terms of identifying and creating new technologies, and the like. While not all of these attempts have been successful, these nations see these efforts as legitimate and useful.

In Japan, for instance, MITI/METI has long been involved in collaborative R&D efforts, mostly in terms of future technologies (IT industries, next-generation vehicles, robots, etc. In terms of green technologies, MITI and the auto companies were early investors in hybrid electric technologies we see today (although Japan has not invested in the full range of green technologies, as Brian Woodall has pointed out). In Korea, the
Ministry of Knowledge and Economy has focused on R&D upgrading in general, but has also identified IT, Biotech, robotics, energy, and “K-technologies” as worthy of support. Similar stories can be found throughout the region.

China continues to use its own version of the East Asian approach. Current efforts include support for many basic and mid-level industries (steel, autos, computers, etc.). More recently, the state has articulated a new focus on trying to transfer technology to domestic producers, increasing national R&D capabilities, and a commitment to building up knowledge-based industries. Again, it is not clear that these efforts will succeed, but I would argue that China is in a position that resembles where Japan was in the 1980s and Korea in the 1990s. Regardless of their relative success, it is clear that the Chinese government remains committed to the basics of the East Asia approach.

3. Continued Growth of Influence for the East Asian Approach? At this point I am reluctant to make concrete predictions as to what exact impact the East Asian approach will have in the future. As mentioned, the East Asian economies will continue to utilize versions of the approach, and to the extent that they remain relatively successful, the demonstration effect of the approach will continue or perhaps grow.

I also cannot yet say how much World Bank orthodoxy and lending policies have actually changed, or whether the trends seen while Lin was its Chief Economist will continue. After Lin’s term ended in July 2012 he was replaced by Kaushik Basu, who is also a non-Western trained economist who is no fan of the Washington Consensus; however, his experience is more with India’s inward-focused industrialization, rather than the East Asian approach. So the jury is still out.
A VERY Select Biography


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