Javier Solis

UCInetID: 73732736

Professor Uriu

IPE of East Asia

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Question One: Essay

Question Two: Outline

In the past few decades, the economic liberalization prescriptions of the Washington Consensus have simply failed to adequately improve the outlooks of most developing nations. The failures of the *laissez faire* policies championed by the Washington Consensus came to a dissonant crescendo during the 2008 world-wide financial crisis. This crisis was a direct result of the same financial deregulations that developing countries have been told for decades would improve their economic outlooks, thus prompting the search for a new model of socioeconomic development. Though other development models like the famous East Asian model look like attractive alternatives to the failed policies of the Washington Consensus, developing countries in modern times face internal and external challenges and circumstances that their predecessors did not. Developing countries in the 21^{st} century have much more industrialization to "catch up" on that their East Asian predecessors did; must contend and survive in a more competitive, globalized international market; and must balance diminishing manufacturing/industrial employment opportunities caused by automation with a ballooning domestic population in need of jobs. Yet developing countries seeking to adopt a model like the East Asian Model also face new opportunities, such as a fledging global consumer market, vast and diverse sources of international capital, as well as access to troves of advanced technology and expertise. Considering these new challenges and opportunities, it is clear that developing countries *can* learn some developmental lessons from the East Asian model, but cannot be expected to emulate it exactly, nor would it be advisable for them to do so.

In a post-World War II world, East Asian countries were in a unique position to benefit from the creation of a new American world order. The old manufacturing centers of Europe were destroyed and a new consumerist middle class established itself in the US while international institutions were erected to facilitate the flows of international trade. Furthermore, East Asian countries' proximity to two communist powers (China and the Soviet Union) made them essential allies in America's effort to contain communism and thus entitled them to vast amounts of developmental assistance and knowledge. Japan and South Korea specifically benefitted from close cooperation with the United States. The provisional postwar US government in Japan helped establish sound microeconomic policies and dismantled the old landownership system as well as the *zaibatsu*—the industrial and financial conglomerates that dominated the pre-war Japanese economies. This allowed the needed political and economic liberalization reforms to be implement much quicker and more efficiently, thus speeding up the process of industrialization. Additionally, the windfall of money created by American military procurements during the Korean War and Vietnam War provided Japan and Korea, respectively, a vast flow of money in US dollar denominations as well as access to US knowledge, expertise, and economic guidance (Kanji 2011, Glassman & Choi 2014). All these external factors and resources combined allowed many East Asian countries to quickly industrialize and fund this industrialization through a combination of foreign funds and exports, eventually paving the way for their dominance in consumer electronics as well as their unbeaten record of economic growth.

Nowadays, the international context in which developing countries exist in is different. There is no significant manufacturing vacuum produced by global warfare which developing nations can fill, nor is the prerogative of American funding as plentiful or accessible as it once was. International trade organizations and agreements are still around and are often now more robust and larger scale than ever. But this unfortunately means that there is a wider divide between industrialized and developing countries and also that competition on the international market is much more cutthroat since the number of active players on the international market has grown significantly in the past six decades.

The rise of international regulatory agreements such as the ones dealing with investment measures, (TRIMS), trade in services (GATS), and intellectual property (TRIPS) have also shrunk the "development space" of developing nations. Taken together,

> the agreements make illegal many of the industrial policy instruments used in the successful East Asian developers to nurture their own industrial and technological capacities and are likely to lock in the position of Western countries at the top of the world hierarchy of wealth. (Wade 1)

A focus on green energy also means that many of the fuels and methods which allowed other countries (including East Asian ones) to industrialized are now frowned upon. Instead, developing countries are guilted into using expensive green technology which may not be entirely economically accessible to them or may not produce the same level/speed of industrialization as traditional fossil fuels would.

Furthermore, the international free trade system of today is potentially threatened as more and more industrialized countries begin exploring protectionist trade policies in the wake of a slow global economy ("Report on G20 Trade Measures"). The rhetoric of American President Donald Trump stands out in particular. Trump's proposed tariffs on imports coming into the United States would devastate American trading partners and also make trade with the US virtually inaccessible to developing countries. If converted into policy, American protectionism might upend the current international free trade regime and potentially make the flow of capital, goods, and services much slower and pernicious—effectively making it impossible for developing countries to industrialize and modernize quickly. However, American isolationism might instead prompt the creation of multilateral trade agreements that bypass the United States all together, potentially creating new hubs for developing countries to find new resources through. Trump has also made his “America First” foreign policy very clear, meaning many former recipients of American aid might see less of it—a major blow to developing nations which depend on the US for capital and investment.

Though developing countries face significantly higher barriers of entry to industrialization today than they did six decades ago, these countries also stand on the shoulders of giants. They have access to unprecedented amounts of technology and knowledge, yet the very same technology that can facilitate industrialization might also negate the need for the mass employment campaigns rapid industrialization usually entails. The rise of automation can endanger the future of anywhere between 55 to 85 percent of jobs in developing countries. Though automation of labor will threaten jobs in both industrialized and developing nations, the latter have the most to lose because of their lower levels of consumer demand and insufficient social safety nets (“Technology at Work v2.0”). Of course, the rise of labor automation also presents a variety of new opportunities that developing countries can exploit, but this will require fine economic maneuvering to meet these challenges as they arise—like the type of maneuvering the world saw from the private-public cooperation of East Asian countries during their development.

Aside from the external factors, the East Asian countries which developed the fastest benefitted from a unique endowment of internal domestic factors. For one, the region’s profound Confucian religious history played a huge role in the structure of Asian societies and also shaped the expectations and responsibilities for individual citizens, a role some political scientists have found akin to Weber’s Protestant Work Ethic in Western societies. Confucianism emphasized the importance of education and meritocracy, leading to the creation of a rigorous examination process to choose top bureaucrats. Infusing Confucianism into the workplace created a special relationship between management and labor, one which espoused "the values of benevolence (from employer) and loyalty (from employee)" (Ornatowksi 576). This mantra led to increased efficiency within industries as well cooperation between different industries and the government bureaucracy. Furthermore, this Confucian work ethic meant that many firms and individuals saw it as their personal duty to ensure the prosperity of the homeland through their own economic successes, thus intertwining individual and societal success. To round off the domestic factors faced by East Asian countries during their developmental period, their lack of vast natural resource reserves and the relatively small domestic markets meant that most countries could not sustain Import Substitution Industrialization (ISI) policies for very long, if at all, and had to turn to Export-Led Industrialization (ELI) for a source of foreign currency and economic prosperity. This is also another area where East Asian countries were helped by the United States, as the US largely turned a blind eye to their strong barriers on imports which were erected to protect domestic strategic industries.

Japan itself was fairly industrialized before the outbreak of World War II and while the war destroyed most of the country’s industrial capabilities, “its surviving population retained its most important asset: a collective knowledge and experience of how to build and operate an industrial economy” (Borthwick 241). With the exception of very few countries, modern developing nations do not have this advantage and thus must expend more resources and time creating industrial capabilities from the ground up. This includes investing in and developing the civilian infrastructure needed for rapid industrialization. Schools, hospitals, telecommunications and transportation networks, among other improvements, can all create the necessary human capital in developing nations needed to sustain a skilled and educated workforce that can serve as an engine for socioeconomic development.

The East Asian model of development is just that: a model of development. It becomes unviable to pursue these strategies after basic industrialization and development has been completed, but the problem has historically been disengaging the states' intervention in the economy once it reaches this point. This weakness makes the East Asian model rife for both authoritarianism and crony capitalism. Bureaucracies and the decision-making process become politicized and state-run industries eventually become inefficient behemoths that lack market discipline. This all results in economic stagnation and loss of opportunity that might have been avoided had it been left up to the markets (Meltzer). However, the East Asian model also (seemingly counterintuitively) requires strong state guidance and effective allocation of capital, resources, and funds in order to be properly classified as such. Developing countries face another challenge in this regard, as authoritarianism is looked down upon and might trigger US military intervention in the country.

The international community is now waking up to the failures of the Washington Consensus prescriptions. As developing states begin to look at alternative paths towards industrialization and socioeconomic development, models like the East Asian one will be filled with promise and opportunity—but they should be cautious not to be blindly optimistic. While developing countries can learn a few lessons in state-guided industrialization and development, they should not expect to replicate the model down to a T, as their domestic conditions and international context are different than those experienced by East Asian countries during their period of development.

- State intervention in economic development was crucial for East Asian countries to quickly establish the basic essential industries needed for their future socioeconomic development;
  - State did an effective job at fostering and cultivating skilled & educated workforce; this also helped establish the domestic consumption rates needed to sustain ISI in early stages
  - In Japan, collaboration between public and private sector to see what needed to get done, with state acting as a handmaiden to the private (providing infrastructure, money, and skilled human capital); also good at providing a suitable environment for foreign investment by maintaining strong rule of law and contract enforcement (Johnson).
    - State eased interactions between firms and capital markets (Japanese saving system, low interest rates by Ministry of Finance) which allowed companies to expand production
  - Often lead to authoritarianism and corruption, but their perception of this was different: corruption "not (…) seen as pathological phenomena but as deeply integrated into the particular path of political and economic development" of these countries (Moran).
- The Asian Financial Crisis (AFC) was not a result of model's inherent flaws, but rather, mostly the effect of excess financial market liberalization and unscrupulous "casino capitalism": high economic growth rates & low interest rates attracted foreign hot money into these countries, a lot of which went to real estate speculation & was pulled out at the slightest sign of trouble
  - "Overlending" by private sector and banks often meant that the quality of the loans themselves was subpar: loans either had dubious profitability or were used to make speculative purchases of other financial assets, resulting in risky and poorly performing projects (Corsetti, Pesenti, & Roubini)
  - Some governmental policies allowed this flow of hot money to come in without much oversight while state response worsened the crisis: encouraging excess private investment on strategic industries & government overspending on ineffective stimulus programs
- Washington Consensus economic liberalization approach typically provides a one-size-fits-all remedy to developing countries, ignoring historical and social context, thus typically resulting in failure because the policies are ill-fitted; encourages a "race to the bottom" among recipients
  - Austerity measures prescribed by the IMF as a condition for loans and economic aid made the AFC worse: undercut consumer confidence → less consumption → more economic downturn → further currency depreciation (pg. 55-56)
  - In the decades since the East Asian Miracle, no other group of developing countries have even come close to measuring their breakneck growth—in fact, those which have liberalized their economy have yet to reap the benefits they were promised
    - Differences in current domestic, regional, and international politics might mean that these East Asian Countries might have been in a unique position for this exact approach to development to be successful, thus it is harder to replicate nowadays
- Industrial Policy can also be green & environmentally friendly: compare this to Washington Consensus deregulation which often comes at the expense of the natural environment
  - Many E Asian economies are not natural resource rich, needed to turn to alternative green sources of energy; emphasis on green tech development following 1st & 2nd oil shock (Samuels 134-144); state can also make up for market failures with subsidies and investment in otherwise unpopular or inaccessible green technology development
    - Example: Japan's foray into solar cell development & nuclear power, China's reversal of course on pollution & their recent leadership in the fight against climate change (China can serve as a role model & provide the equipment and expertise for these developing countries to industrialize while being environmentally friendly)

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