

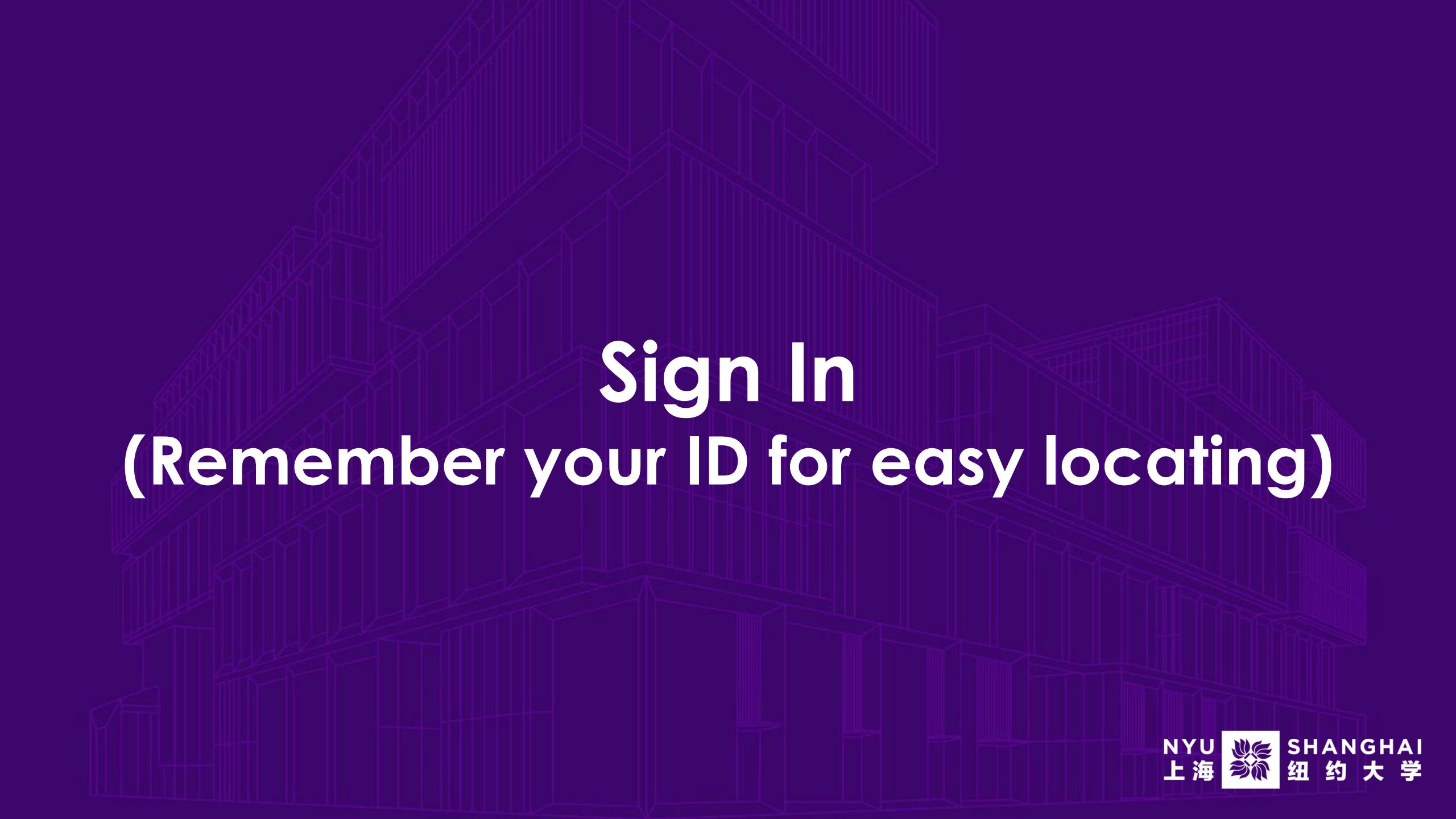


The Political Economy of East Asia

(BPEP-SHU 9042)

Monday & Wednesday
3:45 pm – 5:00 pm
Room N202

Instructor: JING QIAN



Sign In

(Remember your ID for easy locating)

Logistics

- Quiz 1 grade posted
- All groups confirmed/assigned
 - See <https://jingqian.org/PEEAclass/group>
 - Group Office Hour before March 16
- Sample topics after the break

Quiz 1 Recap

According to Chris Humphrey, what is the core operational model shared by all Multilateral Development Banks (MDBs), and what is its primary financial advantage for member governments?

- A. They operate as commercial banks that prioritize short-term financial returns to ensure they remain independent of political influence.
- B. They rely on direct annual budget allocations from member countries to fund all projects, eliminating the need for private debt.
- C. They act as insurance agencies that only provide funds in the event of a total national economic collapse.
- D. They channel mostly private investor resources toward public policy goals, allowing for large-scale investment at a minimal budgetary cost to the governments.
- E. They function as non-profit entities that borrow primarily from official government sources to provide low-interest grants.

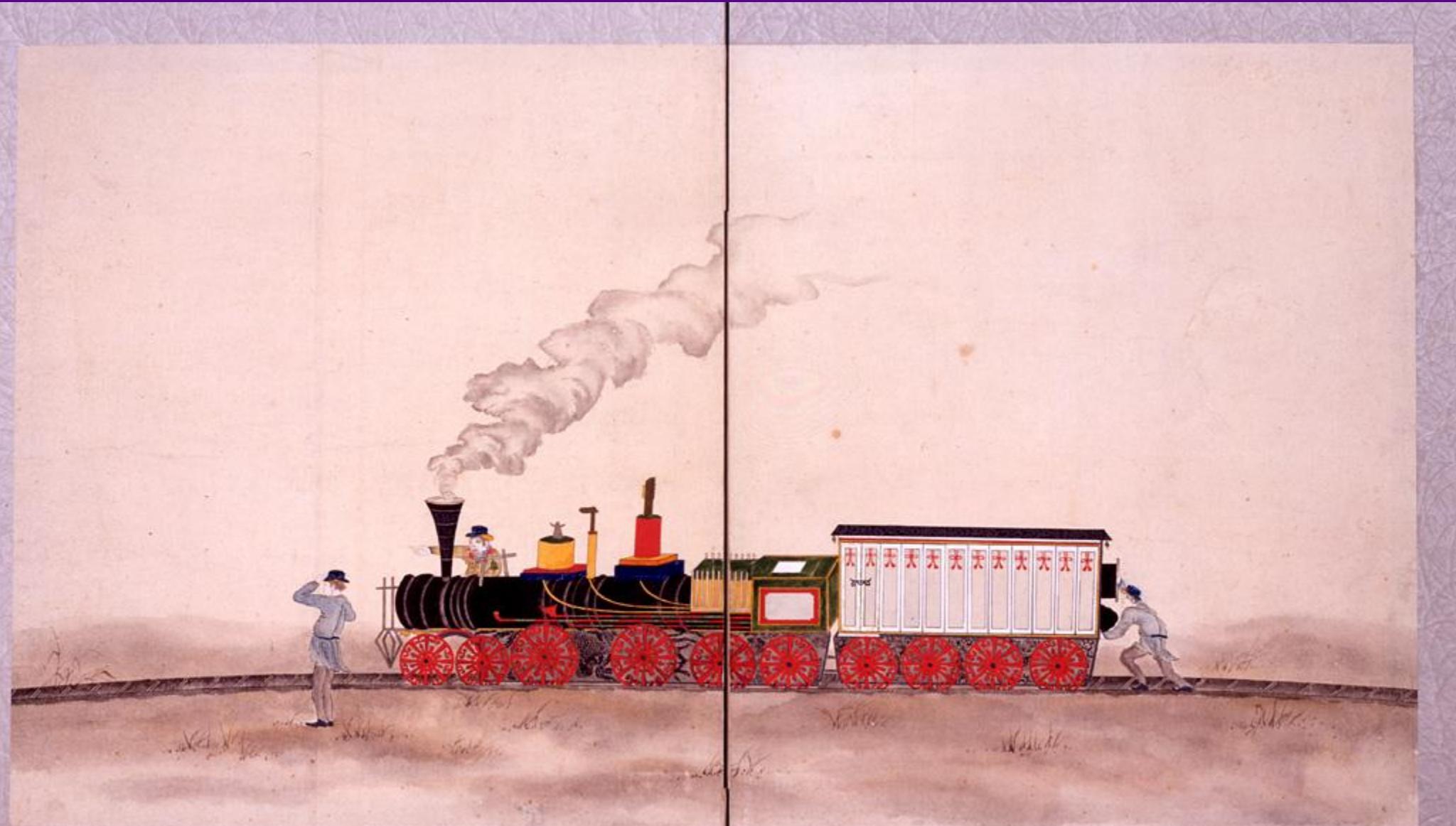
Humphrey (2022), Page 2: The core operational model is exactly the same for all MDBs, from the World Bank to the East African Development Bank to the Asian Infrastructure Investment Bank, and is highly successful at channeling mostly private investor resources toward public policy goals at minimal budgetary cost. But this core model is poorly understood by outside observers—and even by some MDB staff and member country government officials—hidden by political rhetoric, organizational complexity, and financial technicality, confusing external observers about key factors driving MDB policies and actions.

Quiz 1 Recap

During the 1853 mission to open Japan to trade, Commodore Matthew Perry used which of the following as a primary tool of "gunboat diplomacy" to demonstrate Western industrial and technological superiority?

- A. A 1/4 scale miniature steam locomotive
- B. A collection of American agricultural seeds and grain samples
- C. A library of Western political philosophy translated into Japanese
- D. A gold-plated portrait of the US President
- E. A crate of modern repeating rifles intended for the Samurai

The Miniature Locomotive

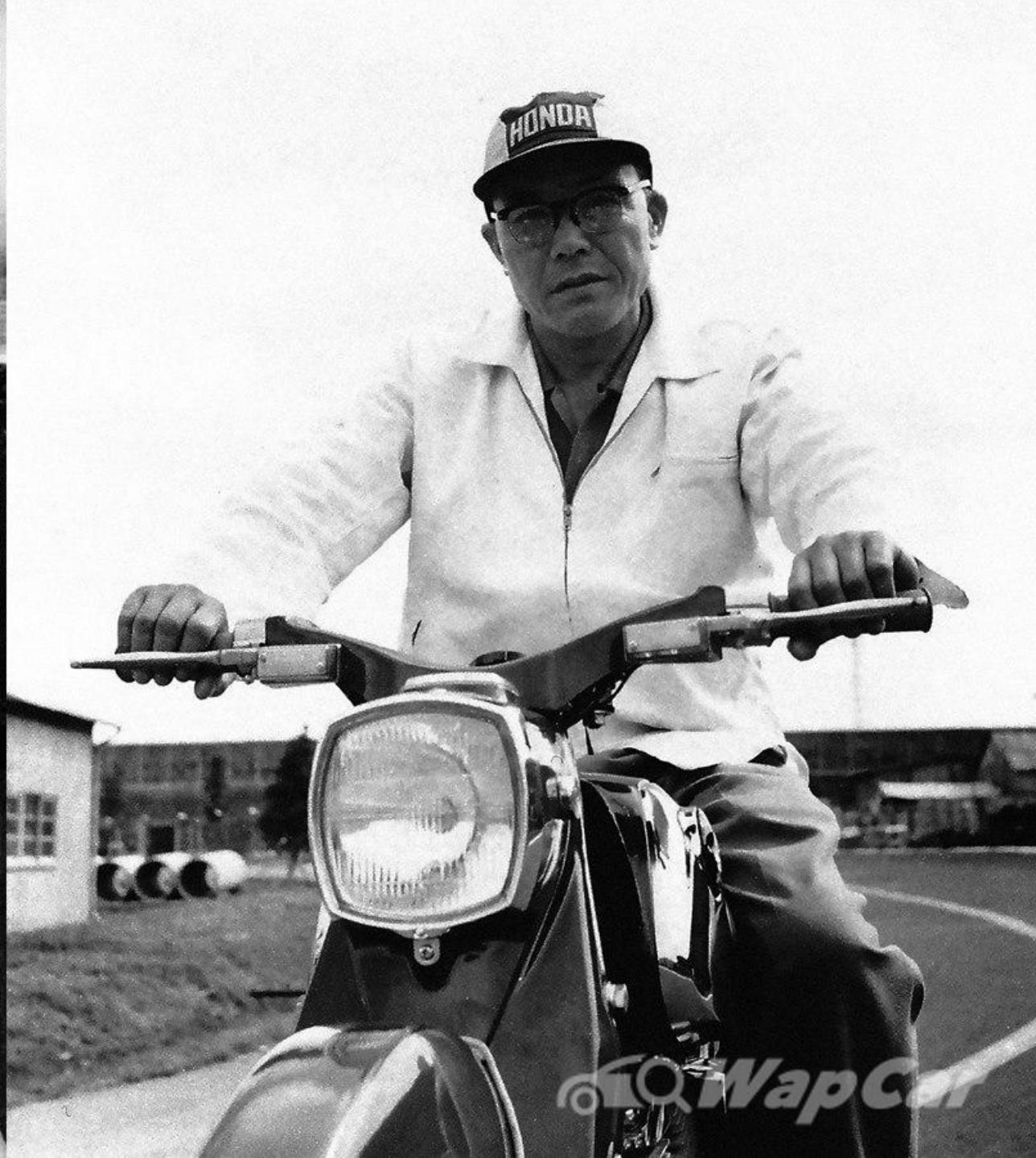


Let's continue

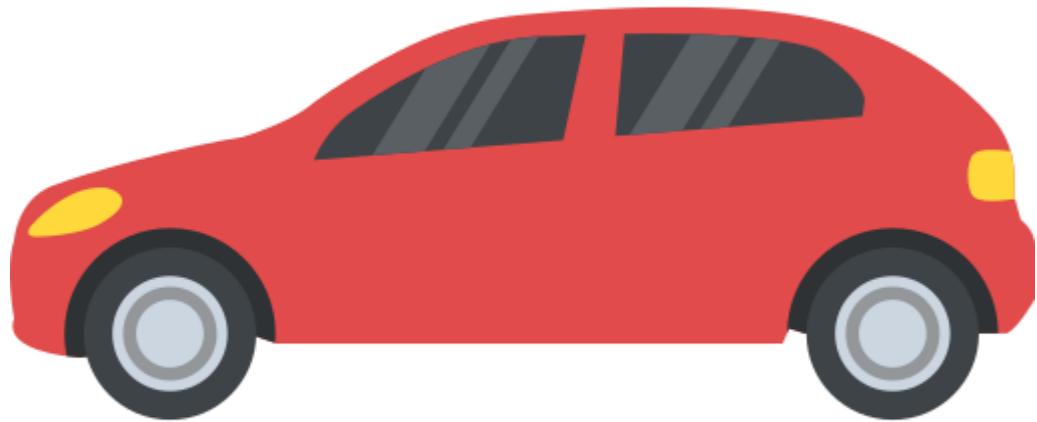


1995 Honda Civic Coupe EJ1



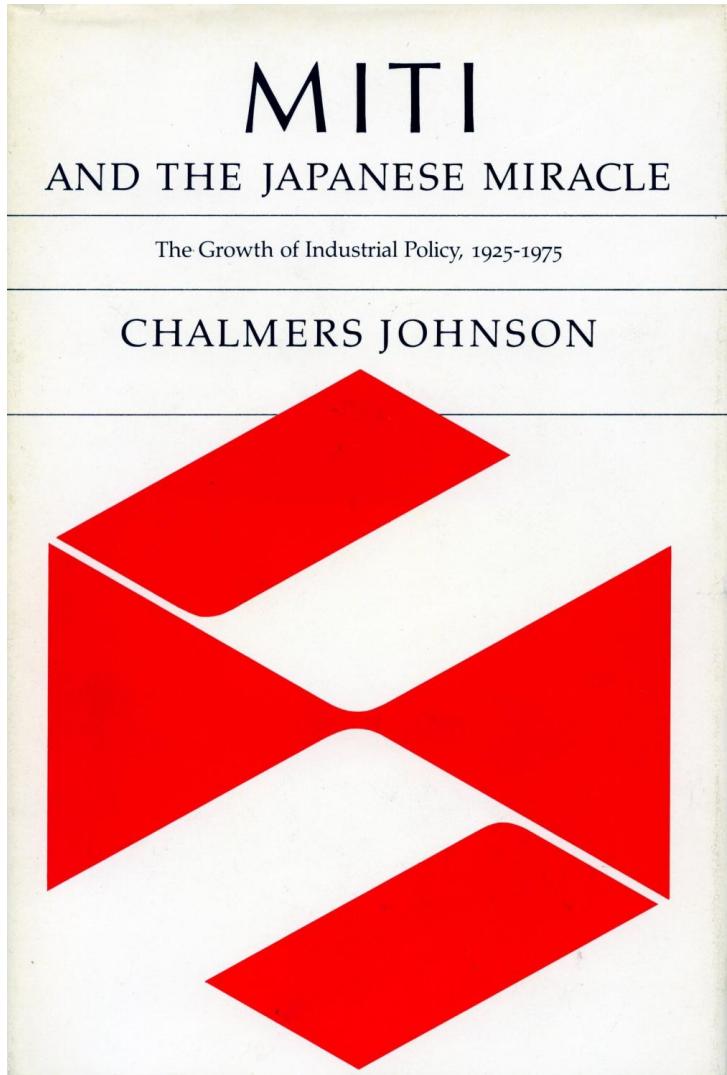


In late 1950s, Soichiro Honda wanted to make cars



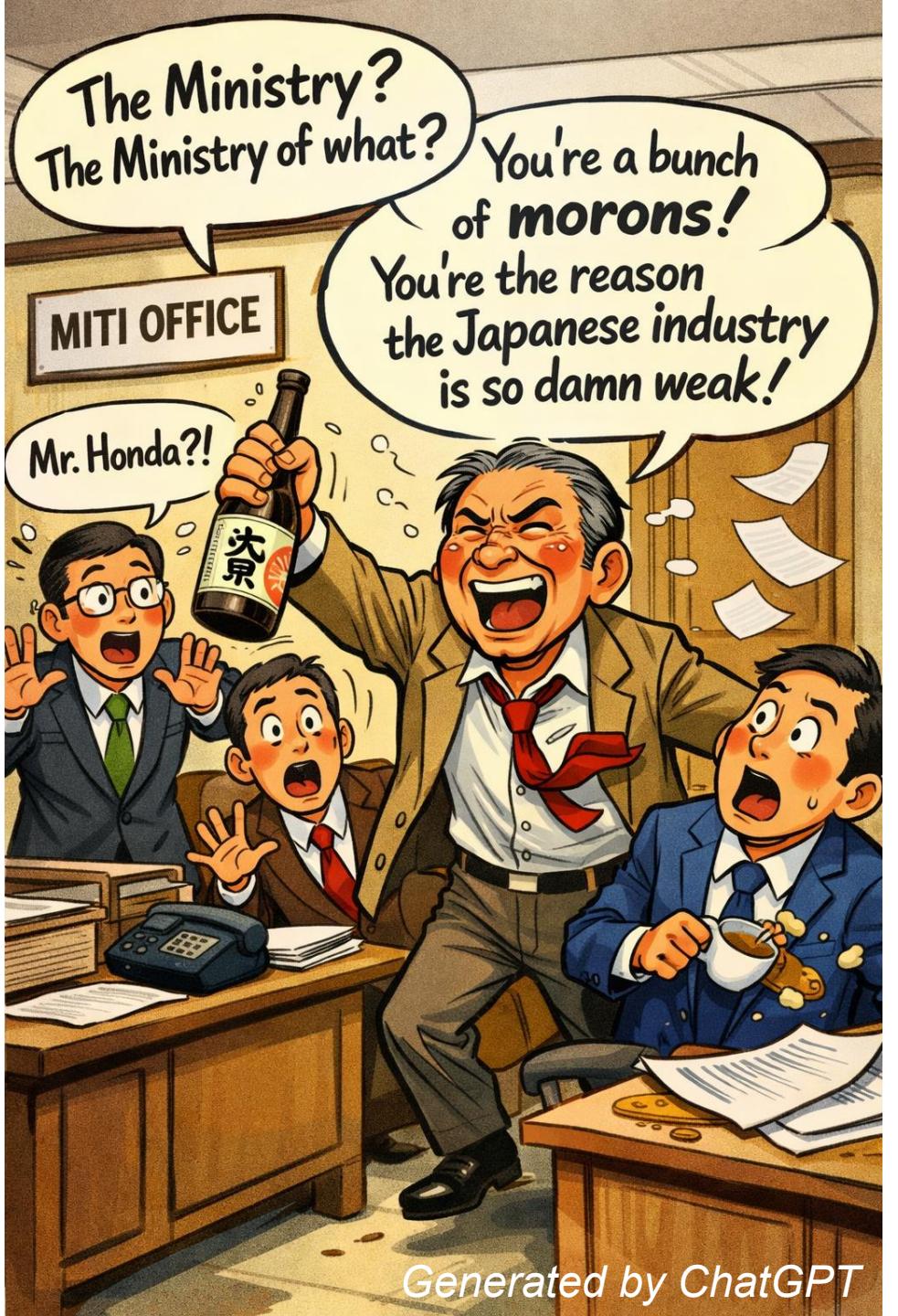
MITI

Ministry of International Trade and Industry

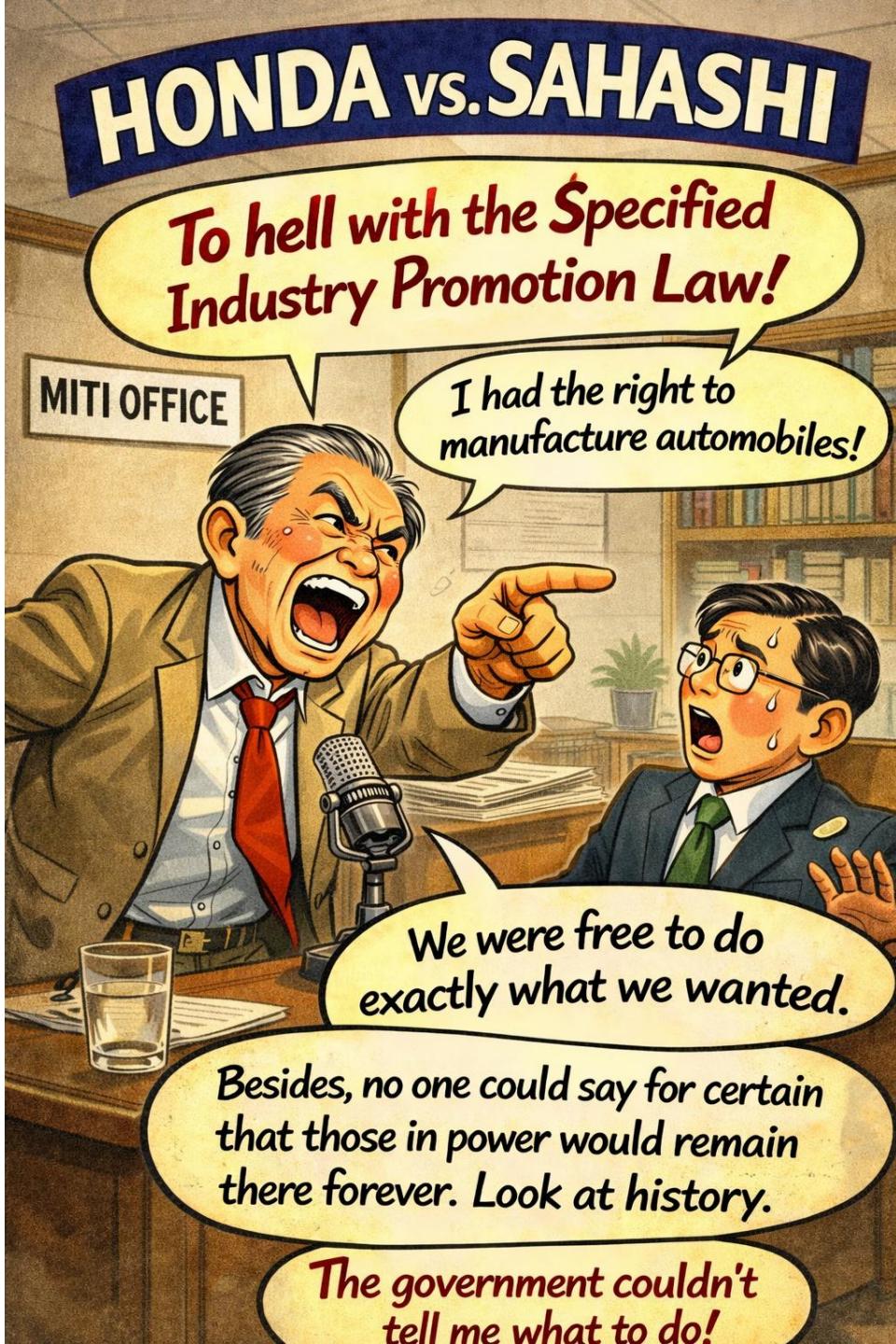


Proposed Bill (1961)

- Force all Japanese carmakers into three giant ones
 - Toyota
 - Nissan
 - Mergers from existing automakers
- No new entrants to the auto industry



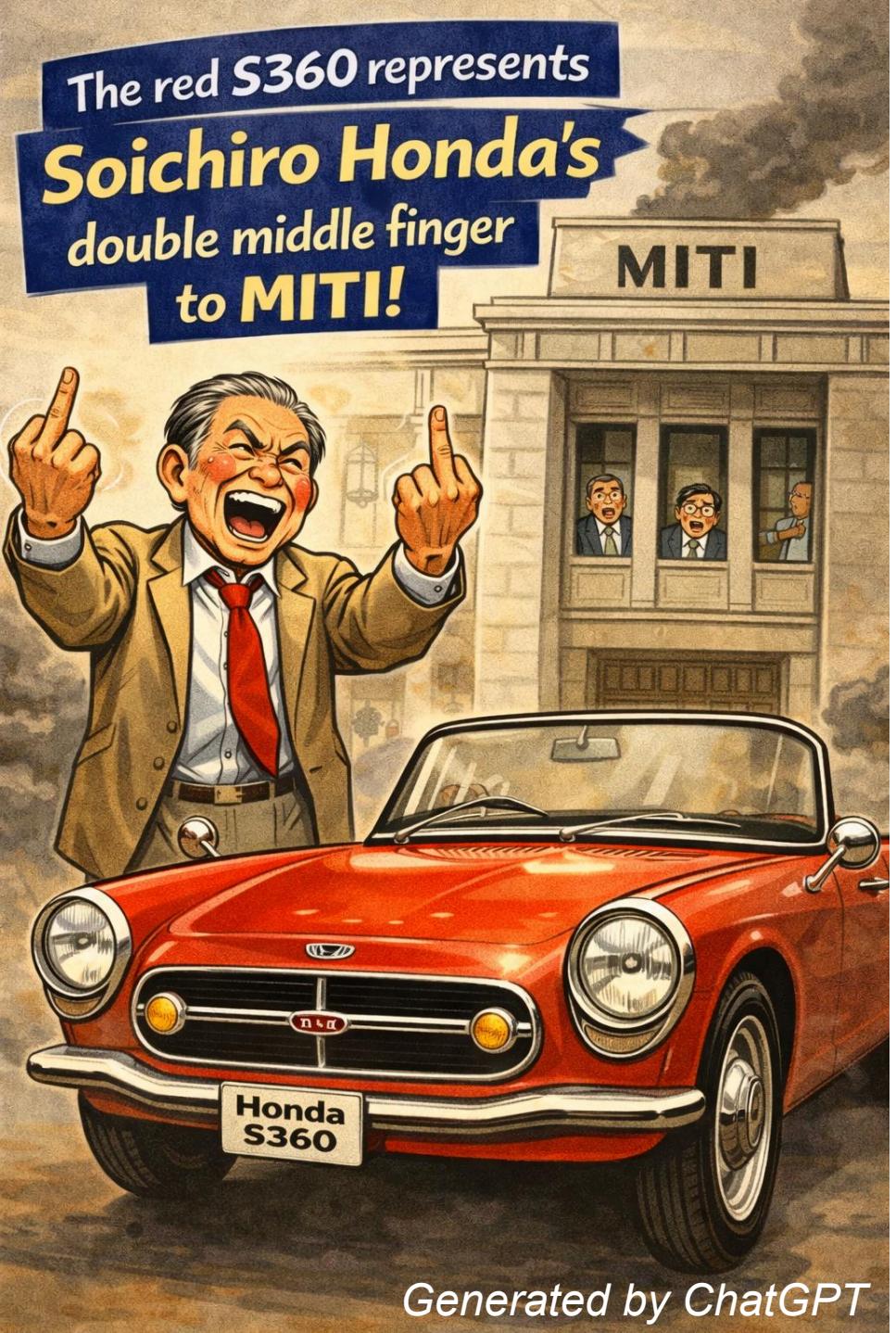
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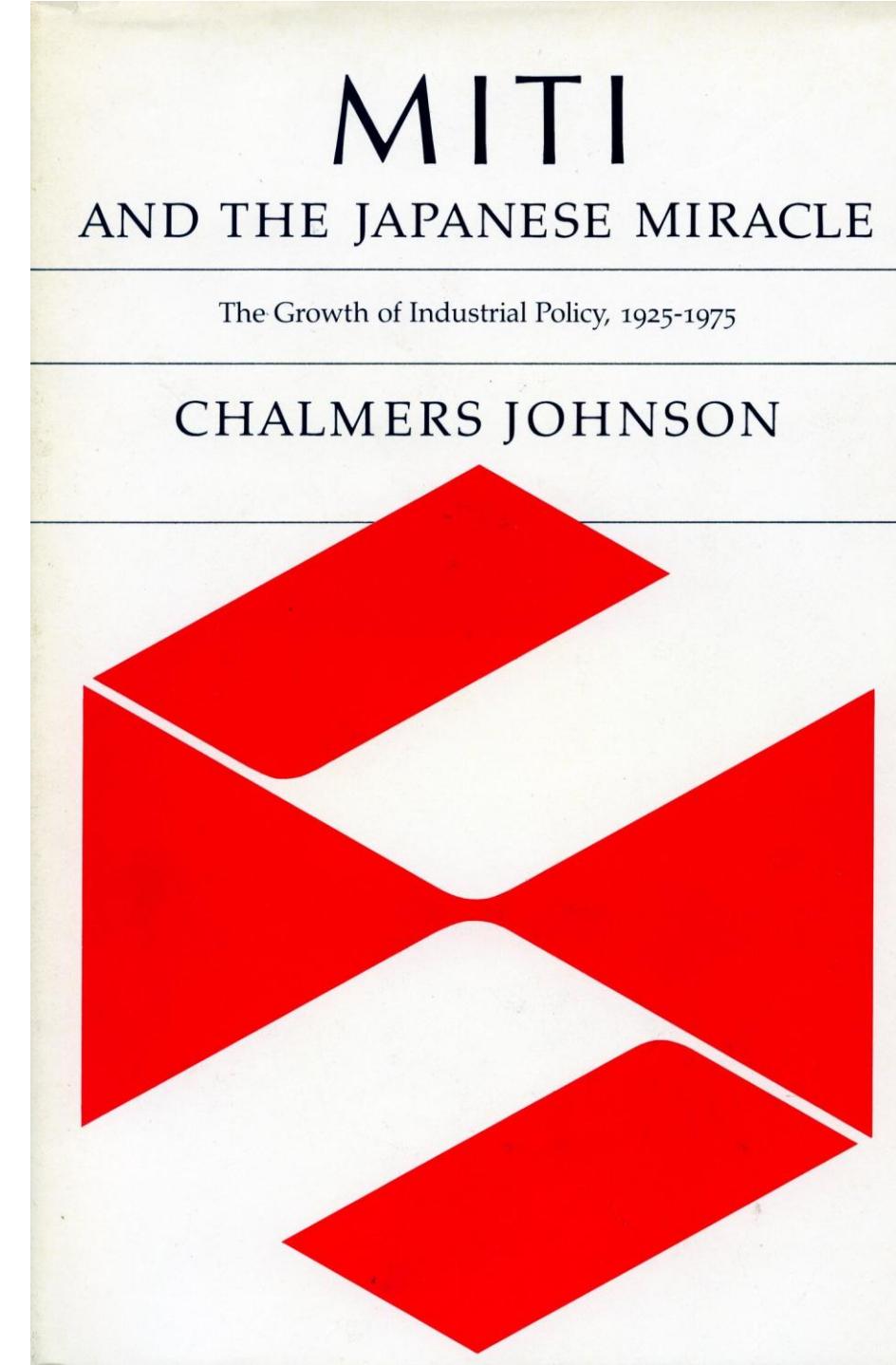








VS

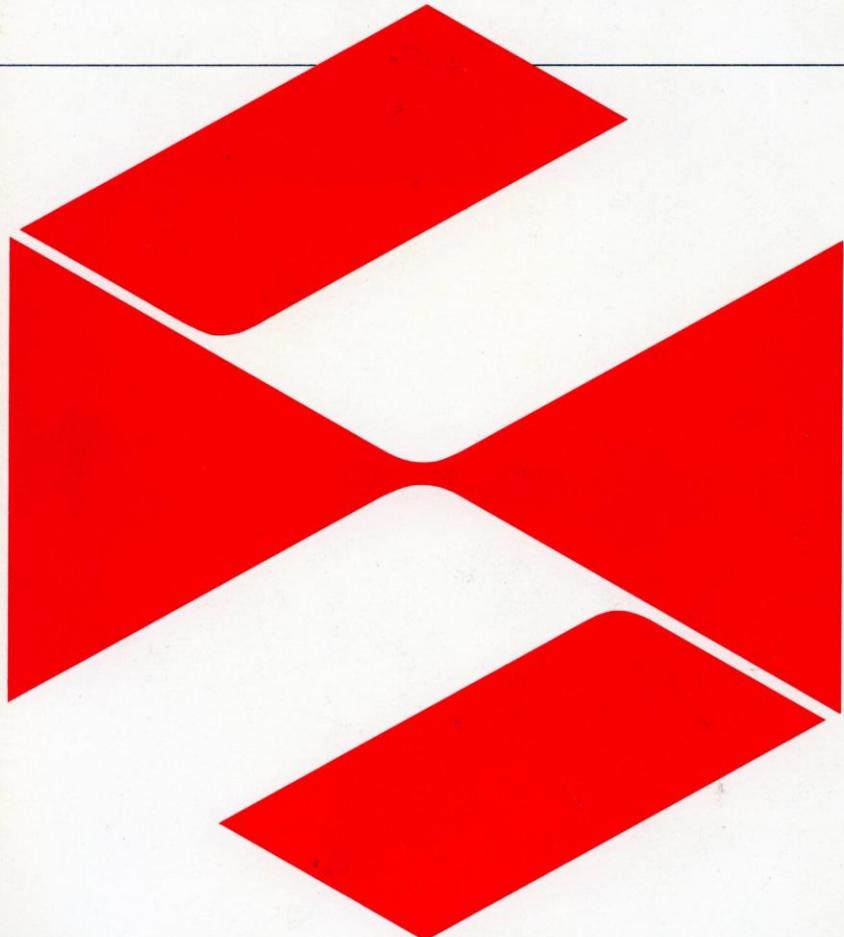


MITI

AND THE JAPANESE MIRACLE

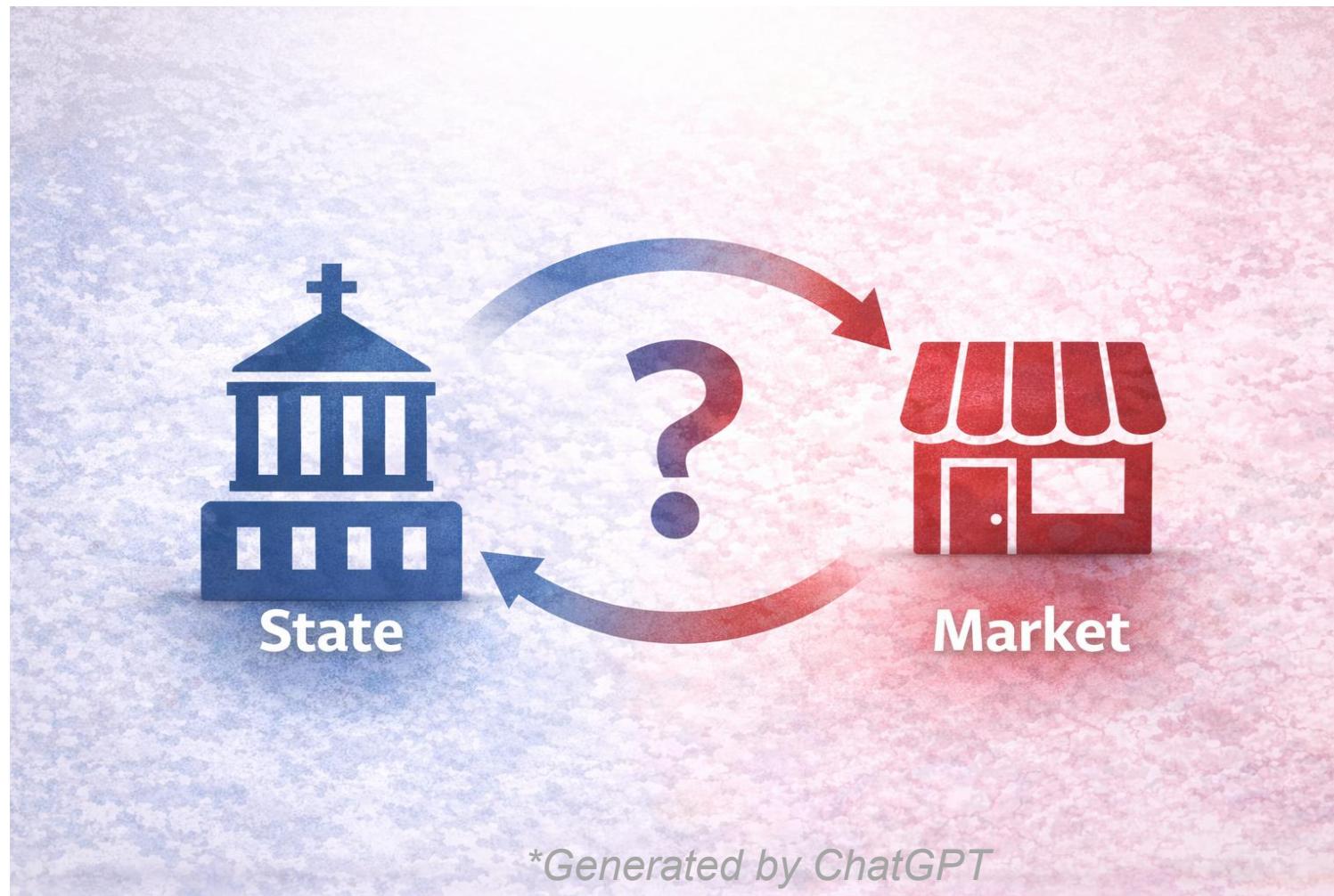
The Growth of Industrial Policy, 1925-1975

CHALMERS JOHNSON



- **Control over credit & investment**
 - Low-interest loans via Japan Development Bank
- **Identify “strategic industries”**
- **Technology import screening**
- **Trade Protection & Export Promotion**
- ...

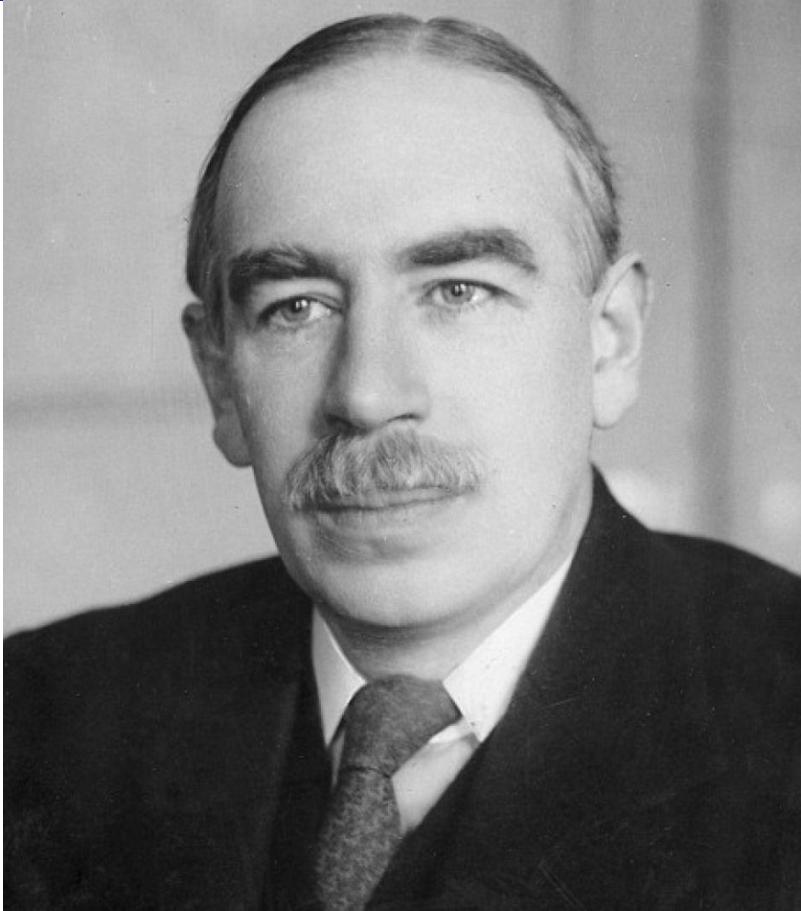
Political Economy: How Politics Shapes Markets



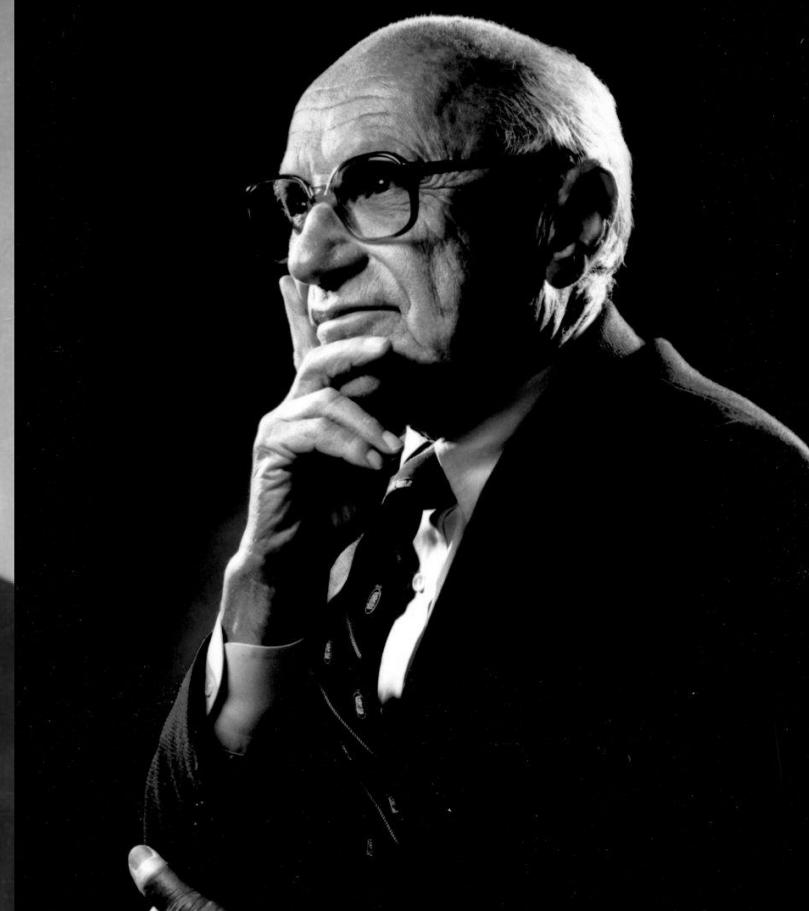
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Political Economy: How Politics Shapes Markets

John
Keynes



Milton
Friedman



State
Intervention

Free Market

The State Sets the Rules of the Game

State decides:

- Who can invest
- Which industries (firms) get support
- What property rights look like
- How open the economy is
- ...

How does the state make these economic decisions?

Politics!

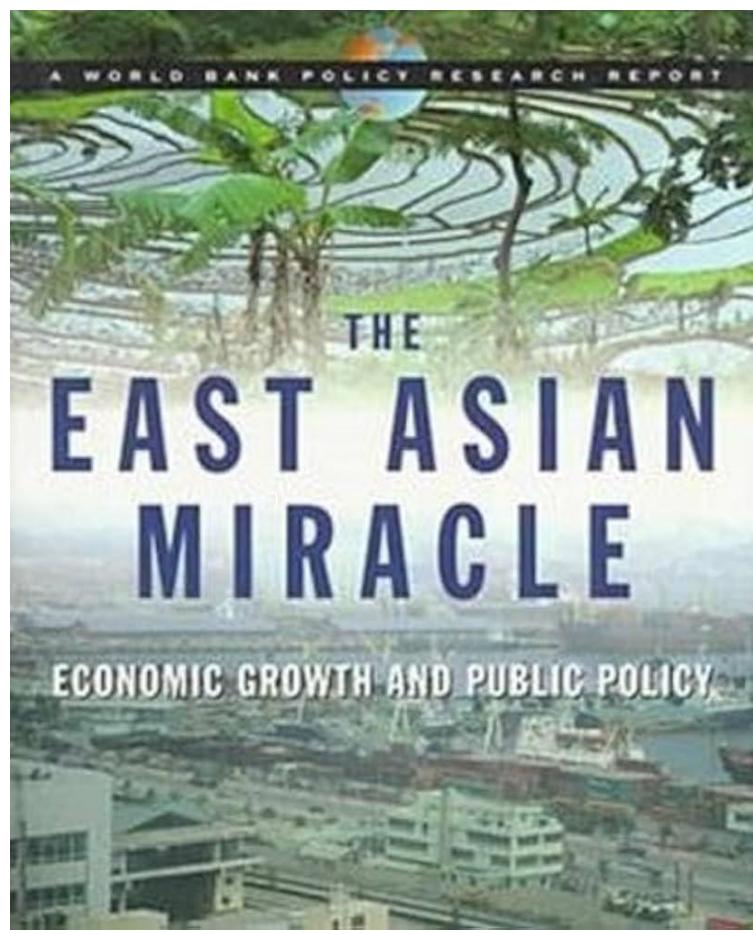
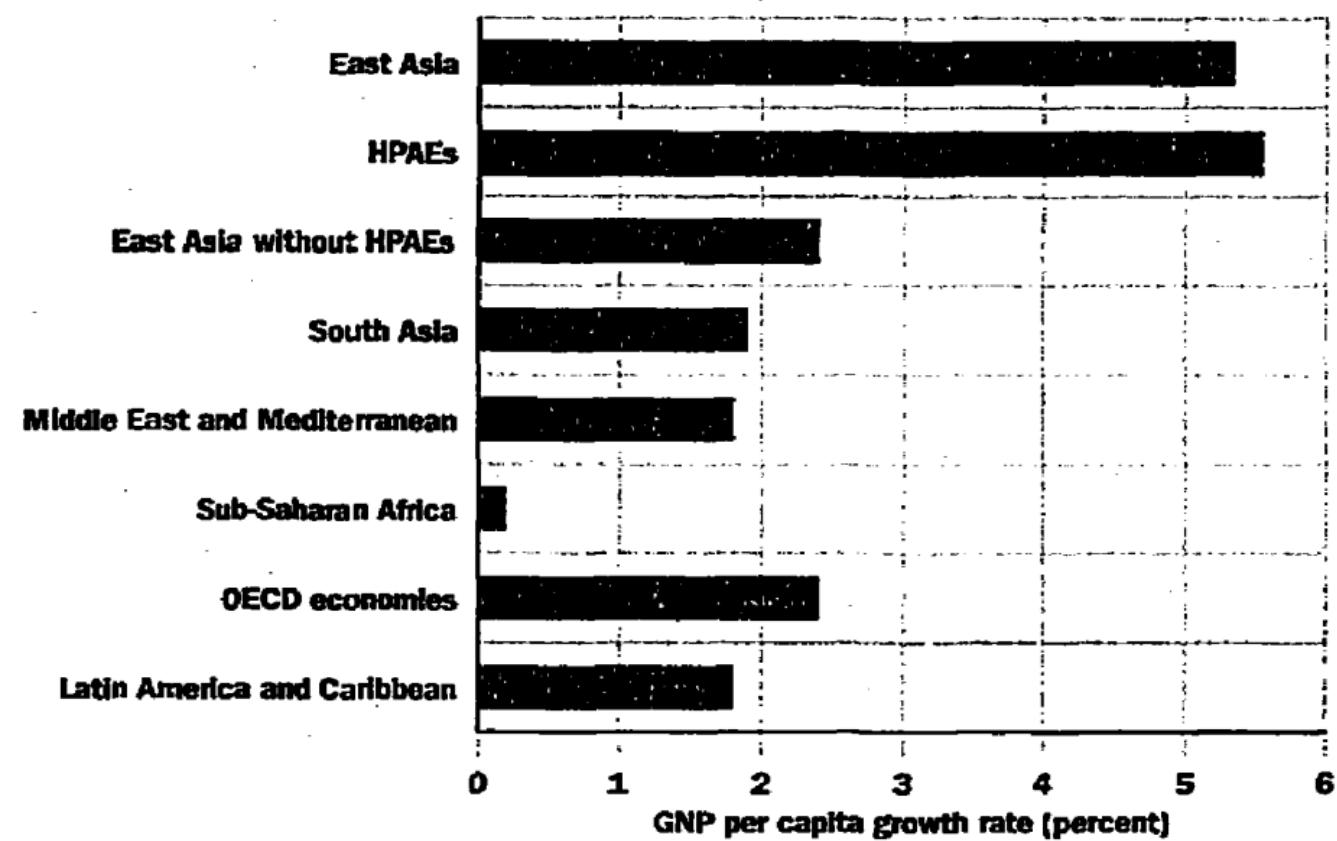


Figure 1 Average Growth of GNP per Capita, 1965–90

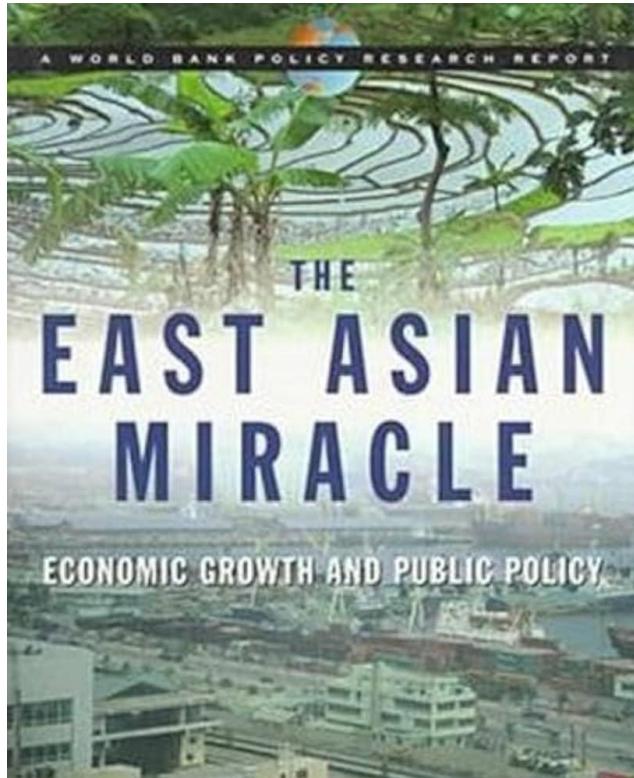


Source: World Bank (1992d).

Competing Paradigms: Why did the Miracle happen?

- Neoclassical Economics
- Regional Perspective
- Cultural Explanations
- The Developmental State Approach

Neoclassical Development Approach



“Getting the Basics Right”

- Government intervene only to correct market failure
- Free market, free trade, free capital mobility, and limited government
- “Washington consensus” of US Treasury, IMF, and World Bank
 - Export-oriented trade
 - Prudent macroeconomic policies
 - High savings & investment
 - Limited price distortions
- Governments were “market-confirming”, not interventionist
- Growth = Efficient Allocation + Capital Accumulation

Neoclassical Development Approach

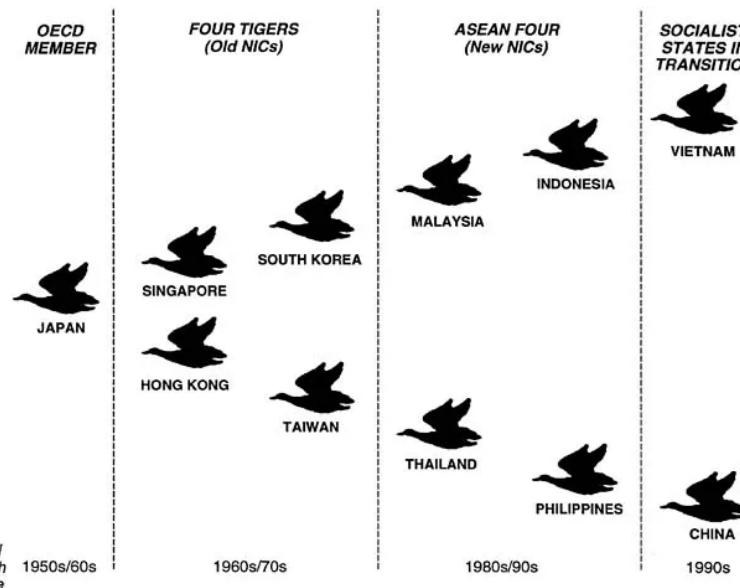
Limitations

- Cannot explain why these states adopted good policies
- Ignores heavy state intervention
- Treats East Asia as “normal” rather than distinctive

Neoclassical Development Approach



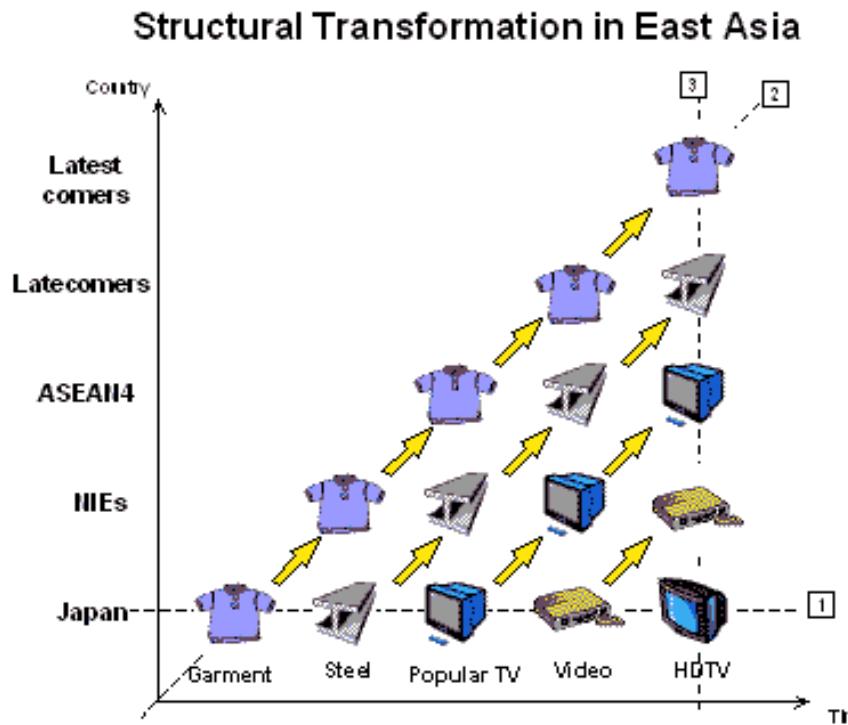
Regional Explanations — “Flying Geese” Model



East Asian development followed a *sequential, hierarchical* pattern led by Japan — like a formation of flying geese.

- **Japan = lead goose**
 - Upgrades into higher-tech industries
 - Offshores lower-tech production to followers
- **Newly Industrializing Economies (NIEs) — Korea, Taiwan, Hong Kong, Singapore**
 - Take over mid-tier industries as Japan moves up
- **ASEAN economies — Malaysia, Thailand, Indonesia**
 - Absorb labor-intensive production as NIEs upgrade
- **Result: A cascading process of**
 - Technology transfer; Production relocation; Export upgrading

Regional Explanations — “Flying Geese” Model



What It Explains

- Why industries shifted across East Asia in orderly “waves”
- Why regional supply chains became so dense
- Why latecomers could “catch up” through borrowed technology & FDI

What It Can't Explain

- **Why some states** (e.g., Korea, Taiwan) built strong domestic champions
- **Why others** remained stuck at low-value stages
- **Why the “lead goose” role emerged in Japan** (political economy, not geography)

Cultural Explanations — Values & Social Norms



Shared Confucian or East Asian cultural traits shaped economic behavior.

- Hard work, thrift, discipline → high savings
- Respect for authority → social stability → investment
- Emphasis on education → rapid human-capital accumulation
- Family networks → trust → lower transaction costs

Limitations

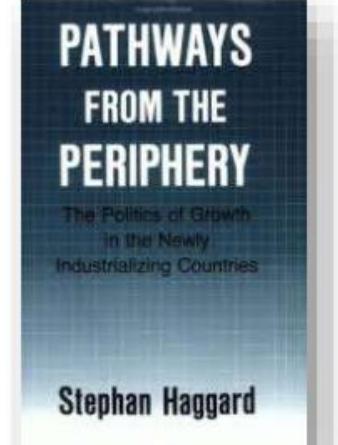
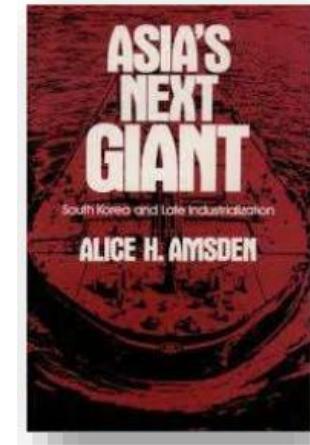
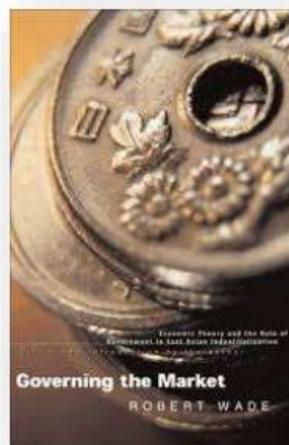
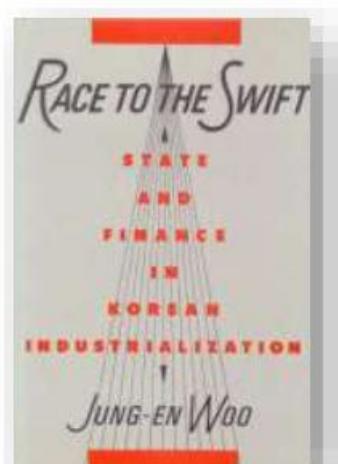
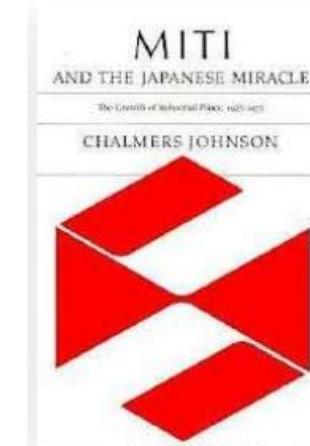
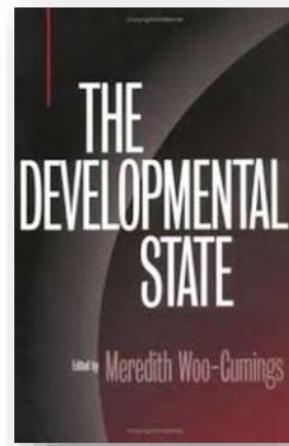
- Culture is (1) overly broad, (2) not unique to East Asia.
- Culture cannot explain **timing**:
 - Why no “miracle” before the 1960s?
- Culture alone cannot explain policy choices or state capacity.



Developmental State

“A state that is focused on economic development and takes necessary policy measures to accomplish that objective” (Chalmers Johnson 1982)

- **Place top priority on economic development**
 - growth, productivity, and competitiveness
- **Actively intervene in market**
 - guide, discipline, and coordinate private sector
 - strategic allocation of resources
 - use of diverse policy instruments
- **Rational and competent bureaucrats**
 - insulated from political pressures



Developmental State — Growth-Oriented

Predatory State vs. Developmental State

- *Why state's power is used for productive economic goals or individual enrichment of the leader?*

**Systemic Vulnerability and the Origins of Developmental States:
Northeast and Southeast Asia in Comparative Perspective**

Richard F. Doner, Bryan K. Ritchie,
and Dan Slater

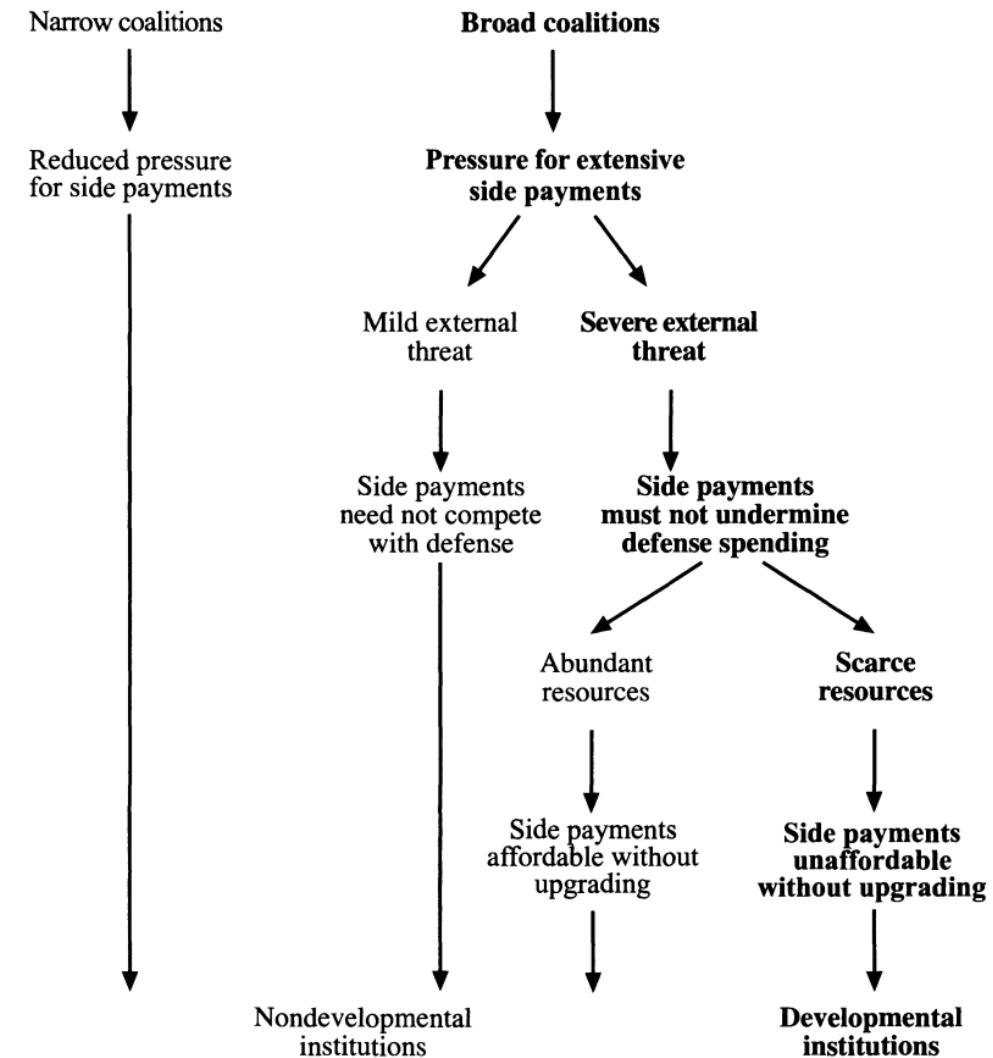


FIGURE 1. Argument flow

Developmental State — Growth-Oriented

Predatory State vs. Developmental State (Doner, Ritchie and Salter, 2005)

- Harsh and uncertain international environment
- Lack of natural resources and raw materials
- Necessary side payments to maintain a broad political coalition
- Economic growth becomes one of the key objectives of the state

State intervention and economic growth

- Industrial policy to facilitate industrial upgrade
- Strategic trade policy to protect domestic producers and introduce international competition
- Other policies on rural development, education, and social welfare

Developmental State —— Government-Business Coordination

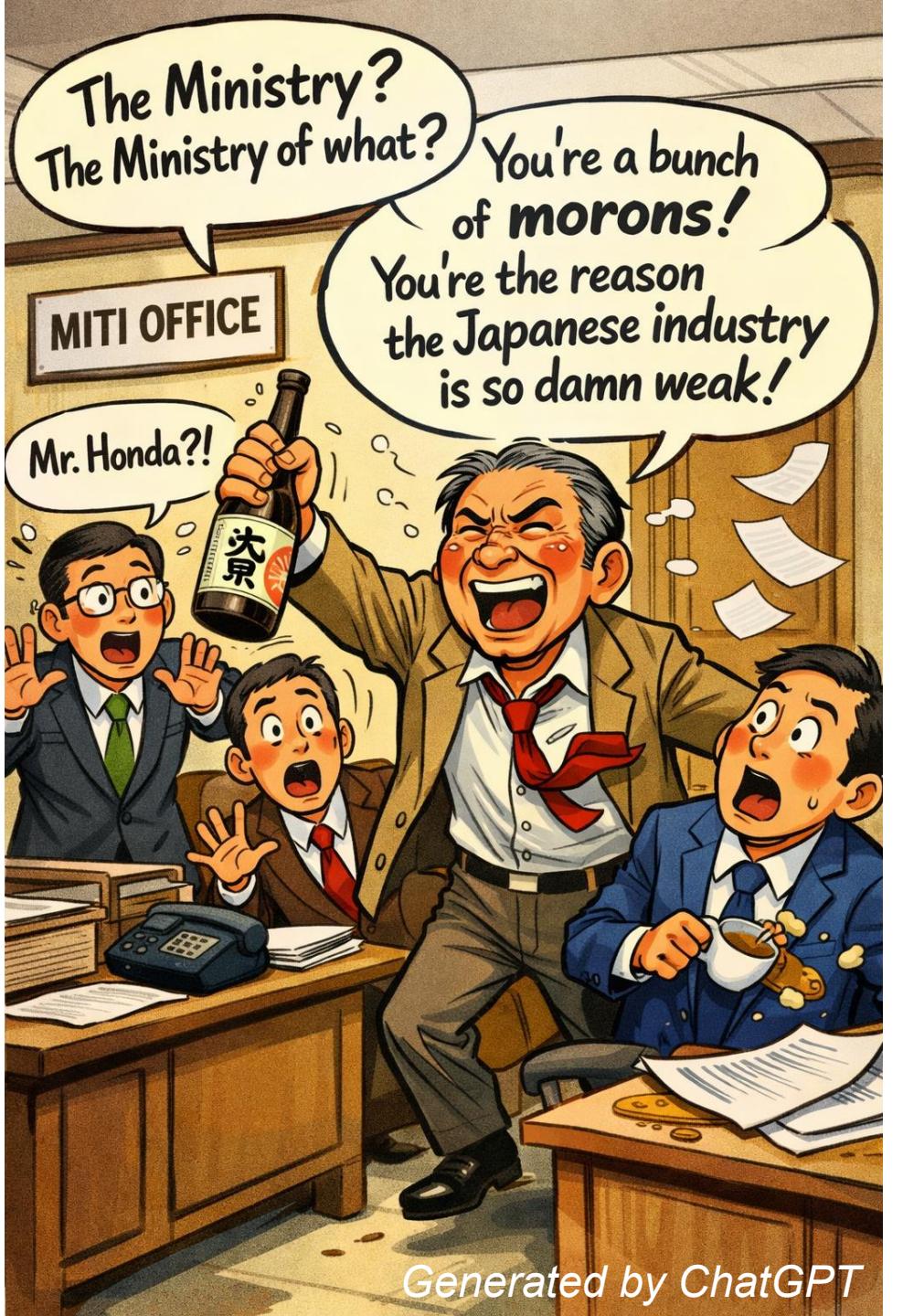
- **The rationale behind the close government-business relationship**
 - The growth-oriented government support and guide the business sector's commercial activities
 - The success of the business sector fulfills the state's growth objective and lends legitimacy to its interventionist policies
- **Institutional arrangement**
 - (Spontaneous or engineered) business associations
 - Coordinating business activities, representing business interests, and facilitating government-business communication
- **(Institutionalized) government-business linkages**
 - Regular meetings between government officials and business leaders
 - Mutual support in policy-making and implementation

Developmental State — Bureaucratic Competence

- **Competent state bureaucrats**
 - Talented candidates and competitive recruitment
 - Meritocratic promotion and institutional competence
 - Less vulnerable (if not completely immune) to **corruption**
- **Bureaucratic autonomy**
 - (Relative) autonomy from the societal pressures
 - Prioritizing policy imperatives over political compromise
 - Organizing the pilot agency and conducting policy experiment

The Prototype Developmental States

- **Japan** – original model of the developmental state
 - Ministry of International Trade and Industry (MITI) → METI
 - Keidanren (日本経済団体連合会), Doyukai (経済同友会), Nissho (日本商工会議所)
- **South Korea** and state-directed development
 - Park Chung Hee (1917-1979)
 - The *Chaebols*, strategic credit allocation, ‘getting the prices wrong’
- **Singapore** and industrial upgrade
 - Lee Kuan Yew (1923-2015) and the People Action Party (PAP)
 - A clean, efficient and well-paid bureaucracy; Economic Development Board (EDB)
- **Taiwan** and small and medium-size enterprises
 - Decentralized government authority, using public enterprises to push for new sectors, and relying on arm’s length incentives to guide the private sector



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Thank You!



Wishing a wonderful Spring

Festival to everyone celebrating



—and a restful break to all!