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How Asia Got Rich: World Bank vs. Japanese Industrial Policy
by Edith Terry

In a lavish teak-paneled conference room in the Tokyo headquarters of the Japan Export-Import Bank, Toshihiko Kinoshita, head of the Eximbank's research institute, is explaining the history of Japanese industrial policy to two dozen young officials from developing countries.

After Japan's defeat in World War II, industrial policy came naturally to a ravaged society desperately short of resources, Kinoshita says. "If the government had not done anything, Japan would not have had coal, steel, electricity or shipping. Our ideas did not come from economic textbooks. They came from people's sentiments that we should have big industries, industries that would make Japan grow strong."
This is the message: get the power; adopt Japanese-style industrial policy. For developing countries, it has new attraction in the aftermath of the failure of free market-oriented development policies in the former Soviet Union. Developing countries are also listening because Japan is putting its US$13 billion foreign aid budget behind countries that copy its model. China and Vietnam, not to mention the ambitious but cash-poor newly emerging nations of Central Asia and Eastern Europe, can hardly afford not to listen. Industrial policy makes sense to economies that are making the transition from communism to capitalism, or to ones that fear the loss of control that democratic institutions bring. Industrial policy's central message--that government does a better job of managing the national interest than the free market--appeals alike to dictators and worried technocrats in developing countries whose only solid advantage is cheap labor.

Industrial policy's other big constituents are the businesses that fall under governmental protection. Economic theory has yet to offer convincing proof that governments can make an industry more productive. But they can certainly help companies grow richer, hire more people, and--by keeping competitors out of domestic markets--promote export industries.

The prospect of China, let alone Vietnam or Indonesia, following the Japanese model by keeping their markets closed as they grow presents an unmistakable challenge to the U.S. The U.S. trade deficit with China is growing faster than with any other country, including Japan. A future in which the U.S. faces a confident and intransigent Asia developed on the Japanese model may produce trade wars that will make the past quarter century of stalemated trade disputes with Japan seem like a tea party.

Japan as Model

In the late 1980s, Japan launched a series of initiatives to elevate its global prestige. Most of these, such as an effort to reshape Japan's image as an exporter of polluting industries into that of a "global environmental leader," have petered out or failed. But in their promotion of industrial policy, Japanese policy makers think they have picked a winner. At a closed meeting of U.S. and Japanese academics and aid officials in Hawaii in early April, 1995, Seiichi Otsuka, director of the evaluation division of the Japanese Foreign Ministry's Economic Cooperation Bureau, described "selective government intervention" as the "paradigm for development in East Asian countries," assuring his audience that Japanese aid "matches practically and theoretically the developmental needs of the Asian countries." The Japanese model--government-sanctioned cartels, price-fixing, forced savings, import barriers, cheap loans to targeted industries, and cross shareholding--forged the world's preeminent exporter of manufactured goods in the postwar period. As a recipe for success, it's hard to argue with. It also runs counter to nearly every prescription that has come out of the major multilateral lending institutions--the World Bank and International Monetary Fund--for the last two decades.

Since last fall, the Japanese Foreign Ministry, which together with MITI and the Finance Ministry sets foreign aid policy, has put macroeconomic advice on its agenda for foreign aid, a departure from the traditional mix of financial and technical aid[1]. Japan will apply "Japanese-style conditionality" in its lending program, says Katsuhisa Yamada, president of the Institute of Developing Economies (IDE).

In the international development business, "conditionality" is a term closely associated with the World Bank's structural adjustment programs. The borrowing country agrees to reengineer macroeconomic indicators such as interest rates and money circulation as a condition for borrowing money. What the Japanese have in mind, however, is a lot more than just tinkering with interest rates. They want to see a relationship between government and business that more closely mirrors their own.

Japan's campaign to promote the "Japanese model" of development may be the most ambitious challenge to orthodox economic views since Bretton Woods. The neoclassical view, accepted by most international economists, is that government's role is limited to the correction of market failures. The market, for example, may not provide enough information on the need for an educated workforce twenty years down the road in an economy based largely on farming.

The Japanese view, by contrast, is that the market fails most of the time for smaller economies struggling to catch up with the giants of the industrialized world. "The market in reality is imperfect, unlike the market depicted by economic theories," the IDE's Yamada wrote in a 1984 article. A former MITI and Overseas Economic Cooperation Fund (OECF) official, Yamada argues that only by working with government can private firms "make maximum use of their initiative and entrepreneurship."[2]

Industrial policy also gives Japanese nationalists a tool to focus anti-American sentiments in developing countries. "Consciously or unconsciously, Americans tend to regard the United States as a model or ideal type to which every country should turn, where a market economy and democracy of that type are the most desirable things," Kinoshita says. "That makes the recipient countries sometimes feel fairly uncomfortable."

Kinoshita represents the moderate end of the Japanese spectrum--neoclassical economists resentful of U.S. domination of the international development business. Eisuke Sakakibara is a pioneer on the nationalist fringe. The president of the Finance Ministry's Institute of Fiscal and Monetary Policy, Sakakibara has a Ph.D. in economics from the University of Michigan and has published widely on "Japanese capitalism."

Sakakibara views the Japanese economic model as one step toward defining a broader Asian civilization. "Japan and Asia are separate civilizations which have their own legitimacy," he says. "The reason why Asian countries are now looking at Japan is that Japan is probably the only country which has modernized its society without losing its culture and traditions. We don't want to Japanize. What we want to do is re-establish this civilization."

Sakakibara currently is leading a four-month, 70-person study group investigating the "Socio-Economic System of the 21st Century," due to wrap up in June 1995. The premise is that Japan has a mission to break up the Anglo-American monopoly of global economic policy. While not every advocate is as blatant a cultural hawk as Sakakibara, the industrial-policy crusade reflects nationalistic passion at least as much as the measured consideration of the needs of Japan's Third World clients that Japanese bureaucrats proclaim.

In 1993, the World Bank gave Japan a considerable boost by publishing a report that acknowledged that "in a few economies, mainly in Northeast Asia, in some instances, government interventions resulted in higher and more equal growth than would otherwise have occurred."[3] The "East Asian Miracle" report, as it is commonly called, qualified its endorsement with numerous caveats and was at pains to state that industrial policy did not work most of the time and was a poor policy choice for the majority of developing countries. But the Japanese have diligently exploited the report as a testimony to Japanese-style industrial policy. Writes Columbia University economist Dani Rodrik, "Thanks to the Bank's study, it will no longer be fashionable to argue that the East Asian economies did so well because their governments intervened so little, or that they would have grown even faster had their governments intervened less."[4]

Godzilla vs. King Kong

The World Bank's East Asian Miracle study--and a series of Japanese studies that have followed in its wake--owes its existence to two irascible and dedicated Japanese bureaucrats, Masaki Shiratori, vice president of Japan's Overseas Economic Cooperation Fund, which provides most of Japan's soft loans for developing countries, and, Isao Kubota, senior deputy director general of the International Finance Bureau of the Ministry of Finance. From 1989 to 1992, these two used their key positions--Kubota in charge of lending policy at OECF and Shiratori as executive director for Japan at the World Bank in Washington, DC--to pressure the World Bank to open the gates to Japanese-style industrial policy.

They began their campaign in 1989, after the World Bank forced the OECF to modify its lending activities in the Philippines. Professor Rodrik describes the confrontation as a "clash of celluloid titans--the King Kong of 1818 H Street versus the Godzilla of the Ginza" (although OECF headquarters is actually in the Otemachi quarter of Tokyo). In fact, the conflict was not nearly so dramatic, but it gave Kubota and Shiratori the excuse they were looking for.

The technical issues between the OECF and the World Bank go back to the late 1980s, when the Bank was in the full flush of enthusiasm for structural adjustment policies. Structural adjustment was both a reaction to the failure of Bank policies in the 1960s and 70s, and a reflection of the free-market ideological excesses of three Republican Administrations in the U.S. One way to visualize what the World Bank meant by structural adjustment a decade ago is by looking at it as the mirror opposite of Japanese industrial policy. Developing countries were expected to tune their financial systems to global clearing rates for the value of currencies and interest rates, and the free market would take care of choosing "growth" sectors.

Structural adjustment took on an institutional edge after a 1986 position paper by World Bank economist Frank Levy advocated reform of a long-standing practice of the Bank to offer soft loans through government development banks, which would then turn over funds at concessional rates to the private sector. This, according to Levy, resulted in distortions of market interest rates that could interrupt efforts at macroeconomic reform instigated by multilateral agencies. The Japanese development community did not immediately react. According to Shinji Asanuma, the head of S.G. Warburg Securities (Japan), and a former World Bank official, lending through government credit institutions was "what OECF--and a lot of others--had been doing for years." Things only got nasty, Asanuma says, when an "overzealous" Bank official began scrutinizing OECF loans to the Philippines under the US$2 billion ASEAN-Japan Development Fund.[5]

Japan, meanwhile, had been preoccupied with the key economic crisis of the 1980s. The Plaza Accord of September 1985 saw finance ministers of the five largest industrial economies agree to stop propping up the U.S. dollar and allow the yen to appreciate. This galvanized the Japanese economic bureaucracy into plans for the orderly transfer of Japan's export industries offshore. In 1987, after an OECF report calling for higher levels of assistance to export industries in Indonesia, Malaysia, the Philippines and Thailand, MITI set up a strategic plan for regional aid and investment called the New Asian Industries Development Plan. The same year, the Japanese Foreign Ministry set up a companion fund called the ASEAN-Japan Development Fund.[6]

Japanese officialdom clearly looked to its foreign aid program in Asia as a key strategy for bailing out Japanese industry from the effects of the high yen. Ed Lincoln, a Brookings Institution economist who currently serves as economic advisor to U.S. Ambassador to Japan Walter Mondale, quotes Tadao Chino, then the senior career official in the Ministry of Finance as saying in 1991 that "Japan will increasingly use its aid. . . as seed money to attract Japanese manufacturers or other industrial concerns with an attractive investment environment."

“Japan started becoming a sizable aid donor in the late 70s to mid-1980s. The Japanese felt under pressure to assume more of the burden of being an advanced country by coughing up more foreign aid money,” says Lincoln. “If you’re lending to lots of developing countries, who are you lending to? To their governments. Then the Reagan Administration comes along and says, you’re encouraging socialism, and that’s not good. The Reagan Administration puts pressure on the World Bank to employ conditionality.”
“But the Japanese couldn’t give a damn what these countries were doing--whether they were socialist or free market. They were just as happy being involved with government control and all the sleaze that went with it. It was good for business. After the fall of Marcos, when papers were taken out of the palace documenting kickbacks in foreign aid--five percent off the top to the Marcoses--the Japanese were perfectly happy. They have no Foreign Corrupt Practices Act. The Japanese weren’t interested in putting pressure on the system. They worried about American pressure, and a system dominated by the Americans.”

These crosscurrents--the World Bank’s enthusiasm for structural adjustment and Japan’s feelings of vulnerability to the high yen--came together in the spring and summer of 1989, when the World Bank asked Japan to withdraw a loan for small and medium enterprises in the Philippines. Shiratori recalls: “At that time I was in the Finance Ministry. It was a relatively small loan. The World Bank said that if we were to provide subsidized loans to specific groups, it would jeopardize the World Bank’s efforts to strengthen the financial sector in the Philippines. They mentioned two faults. One was that we shouldn’t target specific groups. Two, we shouldn’t provide loans at interest rates that were below market rates. These kinds of loans were quite popular in the 60s and 70s in the World Bank. But the World Bank had had too many failures. When the neo-classicists became dominant, they discarded the whole idea completely.”

The OECF compromised by adjusting the interest charge on the loan upward, though the final rate was still two percentage points below the six-month time deposit rates prevailing in the Philippines at the time. But the World Bank did not drop the matter there. In September 1989, a letter under the signature of Moeen A. Qureshi, a senior vice-president of the Bank, later to become prime minister of Pakistan, went to the OECF president’s office. Qureshi’s letter asked the OECF in no uncertain terms to stop the so-called “two-step” loans that passed along below-market interest rates to private sector end-users. The Bank backed up its request with a threat, making the OECF’s removal of interest rate subsidies a condition for its own continued loans to the Philippines.

Shiratori, who in June 1989 had become executive director for Japan at the World Bank, says about Qureshi’s letter, “I was quite upset at the contents. My first reaction was that it was interference with our domestic affairs. Secondly, and more fundamentally, I thought that it was not in the best interest of developing nations.” On his travels as executive director, Shiratori says, “Everywhere I went, I was asked to have a secret talk with high ranking officials from the ministries of finance and business people. They complained about the diagnoses given by World Bank economists, and wanted to hear about the

Japanese experience. They asked me to influence the Bank staff through the Board of Governors."

At meetings of the Board of Governors, Shiratori would regularly raise his hand and ask the Bank to do more research on industrial policy. He began lunching with Nancy Birdsall, then director of the Bank's policy research department. Meanwhile, Kubota, who shared his opinion of World Bank economists ("Most are Ph.D.'s with no feel for the real side of the economy") lobbied the Ministry of Finance to supply funding for a series of studies to be carried out by the Bank's research department to analyze successful East Asian economies, including Japan.

Lewis Preston, just appointed president of the World Bank, accepted Japan's offer. Japan would eventually pay the Bank US$3.5 million to conduct not only the principal East Asian Miracle study, with a research budget of US$1.2 million, but an expanding list of companion studies, on policy-based finance, East Asian civil services, tax administration, and savings and investment policies.

Shiratori had accomplished his goals. Kubota had the next turn. In October 1991, just before the Bank's annual meeting, Kubota fired his salvo--the OECF's first direct criticism of World Bank structural adjustment programs and conditional lending. In a paper entitled--Issues Related to the World Bank's Approach to Structural Adjustment--Proposal From a Major Partner" and labeled "OECF Occasional Paper No. 1," Kubota roundly attacked the Bank's emphasis on economic efficiency and market mechanisms.

"Although efficiency and fairness are the major objectives to be pursued in economic policy, there is sometimes [a] trade off between the two," the OECF paper concluded. "In the 1980s, economic theory as well as economic policy were heavily oriented toward the pursuit of efficiency. In this sense, it was a unique period. However, this period has come to an end. What is now needed is a policy well balanced between efficiency and fairness, in order to improve the welfare of the whole society . . . . The World Bank's approach to structural adjustment may have to be changed reflecting the change of streams."[8] Behind the gentlemanly language lay the first direct challenge to the World Bank from an entity that had previously exercised studious compliance with each of the Bank's initiatives. However long it may have been brewing, the gesture almost certainly persuaded the Bank's management it would have to make at least some concessions to industrial policy in its East Asian Miracle study. In the end, the report struck a middle line that defended the neo-classical position on macroeconomic management while admitting that governments with strong and independent bureaucracies sometimes called the signals right. If nothing else, East Asian economies had been effective in promoting export industries.

Not surprisingly, the report's spin on industrial policy pleased nobody. John Page, its principal author, was attacked with equal ferocity by neo-classical economists and industrial policy advocates. His mentor at Oxford, Ian Little, one of the great names in neo-classical development theory, lamented his failures as a teacher. The Japanese carped that the report's math was off and that Page had failed to bring capable Japanese economists onto his core team. Asian specialists complained that the report showed a stunning ignorance of the pervasiveness of government's role in East Asian economies.

Page argues that Shiratori, in particular, was more pleased with the results of the study than he let on. "I think we actually went beyond his expectations. My own sense is that it was part of broader Japanese government aspirations to have a piece that was endorsed by the World Bank, that got through the system and said something other than that there were all these lovely free market economies. That was why they were willing to accept that I would put together a team without a Japanese on it."

While the report was being written, the Japanese had carefully monitored its progress. Toru Yanagihara, an economist with ties to both MITI and MOF, made it his business to watch over it. Yanagihara had gone to graduate school at Yale with Page's boss, Birdsall, and became one of Page's main contacts in Japan. Until moving to Hosei University in 1991, Yanagihara was a government economist at IDE, and he floats with ease between the premier Japanese government economic agencies. He has since emerged as OECF's point man on the East Asian Miracle study. He was one of the authors of the OECF Occasional Paper and he is now working to develop an original policy framework based on the Japanese experience.

Forty-five background papers and 18 months after it was launched, the East Asian Miracle Report was finally published in September 1993. It denies that industrial policy is a factor in East Asian productivity growth, with the one exception of export-push policies. But the report's conclusion states that the export promotion policies of East Asian economies succeeded partly because they occurred during a time of global economic expansion and that "global realities will limit developing economies' ability to adopt the more interventionist instruments of export promotion."

The Japanese were particularly incensed by the Bank's advice to other developing countries not to look at Japan as a model at all, but rather to the southern tier of East Asian "miracle" economies--Singapore, Thailand, Malaysia, Indonesia and Hong Kong--which have liberalized their economies much more rapidly than Japan, South Korea or Taiwan.

In public, the Japanese made no secret of the fact that they were dismayed by the result. At a joint World Bank and OECF conference in Tokyo in December 1993, Yanagihara asked "Where's the beef?" and attacked the report for applying a "black box" methodology that obscured the "tangible, visible details" of economies as well as the social consensus that lies behind high levels of economic performance.

Shiratori, using equally strong language, accused the Bank of misunderstanding Japanese development. "Japan's industrial structure did not 'evolve largely in a manner consistent with market forces and factor intensity based on comparative advantage,' as the report claims," he said. "Rather, the government actively intervened to develop specific industries with high growth potential. We picked winners such as steel, shipbuilding, synthetic fiber, petrochemicals, automobiles, machinery and parts, electric appliances and electronics, and so forth, most of which were infant industries in Japan at that time. I totally disagree with the report's statement that 'many infant industries have never grown up.'"[9]

Shiratori has said privately that he believes the Japanese government wasted the $10,000 that was spent as a consulting fee to Howard Pack, who worked with Page on regression analysis attempting to correlate industrial policy with productivity growth in East Asia. They found no significant match.

And yet, two years later, the East Asian Miracle Report has become the intellectual godfather of a series of Japanese research projects on industrial policy that dwarfs the World Bank study. What gives?

After the East Asian Miracle

The simple answer is that the Bank study legitimized industrial policy as a research topic. Mellowed, perhaps, by the passage of time, Shiratori agrees. "The World Bank is still dominated by neo-classicists. But I see a very tiny change. When I was at the Bank Board, and when young Japanese economists tried to talk about subjects such as directed credit or industrial policy, they were put down. Now they can openly talk about the replication or application of these policies."

The Japanese studies use the East Asian Miracle Report not only as something on which to piggyback but also as a how-to manual. Each of the three major studies underway have adopted the East Asian Miracle format. All of them argue that the World Bank report was good enough in its way but failed to identify the crucial "lambda" or mystical ingredient that made East Asian industrial policy successful.
The new Japanese studies are on the same scale or larger than the World Bank study. The Foreign Ministry is running a three-year, US$3 million study through an affiliate, the Foundation for Advanced Studies on International Development (FASID); IDE has a program on the same scale; and the EPA has its own three-year study in which Kinoshita and Yanagihara are involved. OECF and the Finance Ministry's Institute of Fiscal and Monetary Policy each have commissioned broad comparative studies on governance and privatization, seeking to demonstrate that the "Anglo-American" approach is not universal.

All five organizations have organized a spate of conferences on East Asian lessons for developing countries. In early April, FASID joined hands with the Washington-based Institute for Policy Reform, with funding from the U.S. Agency for International Development, to hold a closed workshop on the "East Asian Paradigm" in Honolulu. Those attending included Page, Shiratori, and Henry Bienen, former dean of the Woodrow Wilson School at Princeton. In May 1995, Shiratori and Yanagihara are organizing an OECF symposium on lessons of East Asia for Latin America, at which the principal guest will be Nancy Birdsall, who is now executive vice-president at the Inter-American Development Bank.
The earliest to get underway, and the only one of the projects to have published a report in English, is the EPA project, which began about the same time as the World Bank's Report, in mid-1992. In November 1994, it released its report on the "Possibility of the application

of Japanese experience from the standpoint of the developing countries" and invited a small group of Japanese and developing country economists to comment on it. Page, who was the main "outside" guest at the conference, calls the report "an honest attempt to go beyond the war stories and pharmacology of how the Japanese economy works, and begin to put together an analytical framework. It's an important departure."

More grandly, the EPA claims its study is "the first to take a comprehensive approach to Japan's development."[10] Through some 92 often turgid pages, the report "recapitulates" the history of Japanese economic development from the Meiji Restoration to the present seeking the social and institutional keys to Japanese success. The EPA's basic argument--that policy "menus" will not work unless institutions are in place to serve them up--is similar to the East Asian Miracle's argument that exceptionally strong bureaucracies were critical to industrial policy's positive track record in Japan, South Korea and Taiwan. The EPA report attempts to go a step further and isolate the qualities that made Japanese institutions successful. It identifies these as "self-help," "adaptive gradualism," an emphasis on building infrastructure at an early stage of development, "participatory interaction," and abundant "human capital."

While the language is opaque, the concepts translate easily. Self-help refers to the political economy of shared growth, in which a social consensus supports government policy. Adaptive gradualism is the ability to abandon bad policies. Japan invested early both in human capital through widespread primary education and in social infrastructure such as transportation and communications. Participatory interaction refers to cooperation between business and government.

All except the last could easily fit into the World Bank's admonishment to "get the fundamentals right." According to Kazumasa Iwata, an international economist at Tokyo University who participated in the EPA study group, "participatory interaction" is the essence of Japanese-style industrial policy. "The government played the role of catalyst, giving incentives to a dynamic private sector," he says. "That function as catalyst means that in economic development one plus one equaled three or four instead of two."

Who Is Listening?

When former Soviet President Mikhail Gorbachev visited Japan in April 1991, he hoped to win a settlement to the long-lived Russo-Japanese dispute over the southern Kurile Islands. Instead he came away with a handful of agreements on technical exchange. These seemingly minor agreements presented Japan with both a problem and an opportunity. The opportunity was to show off Japan's allure as an alternative role model for "transitional" states seeking to acquire market economies. The problem was that the Japanese had nothing to say.

Over the next few years, hundreds of officials from the former Soviet Union and Central Europe visited Tokyo to study Japanese economic policy. Osamu Yasuda, a counselor at the Nomura Research Institute, was in charge of technical cooperation with the Soviet Union at the Economic Planning Agency at the time of the Gorbachev visit. He describes the trip as a watershed in the attitude of Japanese government agencies toward economic policy. “Frankly, a few years back, we didn’t think economic policy was a form of technology that could be transferred to other countries,” he says.

Since Gorbachev’s visit, every major Japanese economic agency has jumped into the trainee business. The new burst of interest in theory stems partly from this explosive growth in policy-related training programs. Agencies such as the EPA, once they had committed themselves to taking several hundred students a year, found they were not exactly sure what their message was. Training materials were nonexistent.

The EPA’s solution was to dragoon agency “old boys”--retired senior officials like Yasuda--to lecture and write textbooks. Four years after the training department was set up, it has a textbook list of 32 titles, plus two videos.

The EPA training literature is frank propaganda for industrial policy. A training video on “Main Features of the Market Economy in Japan” begins with montages of fireworks and the collapse of the Berlin Wall to imply a revolution. A voice-over intones, “As a result of the reforms in the former Soviet Union and Eastern Europe, the tendency throughout the world is toward the market economy. But the market economy has taken on different forms in Japan, the USA and Europe, and each have their own special features.”

The video then deals with “harmonious competitive” ties among Japanese businesses--cartels, that is--the “cooperative relationship between government and the general public,” and harmony between owners and employees due to the lifetime employment system, in which employees pledge their allegiance to the company “for life” upon entry, “in sharp contrast to the standard practice in America.”

“The essence of Japanese supply-side policies was that the government emphasized the vitality and entrepreneurial spirit of business and pushed it in the desired direction. This helps explain the growing dynamism of the Japanese economy,” the EPA video concludes. “From this Japanese-style market economy, Japan has achieved remarkable growth in the past half century, so that the non-interventionist market economy is not omnipotent.”

As Japan’s top aid recipient, China has been a particularly avid student. Although it has alternately wooed Japan and cursed it for the rapid appreciation of its yen debts, the Chinese translation of MITI’s 17-volume official history was underway well before the English version. Oxford University Press will not publish the first volume of the English translation of the MITI history until this fall.

Since Emperor Akihito’s symbolically important visit to China in the fall of 1992, Japanese trade with and investment in China have risen dramatically. Another watershed was the visit to Japan by China’s top economic official, Vice Premier Zhu Rongji, in February and early March 1994. The nine-day trip was a public relations tour de force. Zhu threw out the first baseball at a Daiei Hawks game in Fukuoka, visited Osaka in Western Japan, where he hobnobbed with auto and electronics executives, made the usual rounds in

Tokyo, and blithely predicted that bilateral trade would grow by 1000 percent by the end of the decade.

Most beguiling of all, Zhu dangled before his hosts the prospect that China might shun Western models of economic reform in favor of Japan's. China wished to learn both from Japan's gradualist approach to liberalizing equity markets and from its "keiretsu" system of linked cross-shareholdings between banks and manufacturers, he said.[11] He lived up to his word. With Zhu's blessing, China last year created a state development bank, agricultural bank and export-import bank based on Japanese models.[12]

The Japanese government and private sector have spent billions of yen pumping information on the Japanese financial system to the Chinese. The Ministry of Finance's seminar program and study group for Chinese finance officials, set up in 1993, is its largest developing country trainee program.[13] Nomura Research Institute, a branch of the giant investment bank, has invited some 800 Chinese government officials to Japan since 1980 for one to three-month training programs. NRI has reached at least as many or more students through an arrangement with the State Economic Commission under which NRI sends a dozen or so experts to China twice annually.

Vietnam is the latest darling of Japanese policy makers. Japanese government and private organizations, from the Economic Planning Agency to the Sasakawa Peace Foundation, are making the same concerted effort to transfer financial know-how to Vietnam that they previously made to China. In mid-April of 1995, on his first visit to Tokyo, Vietnamese Communist Party leader Do Muoi invited Japan to design a five-year development program for the years 1996 to 2000, covering industrial development, investment and fiscal and monetary policies. Japanese press reports crowed that the invitation showed that assistance from the World Bank and IMF "does not necessarily meet the local needs and desires of Vietnam."[14]
To be sure, neither China nor Vietnam show any signs of giving the boot to multilateral donors. At least part of their enthusiasm for the Japanese model may be posturing to entice Japanese foreign aid. Yet their support has given Japan a powerful propaganda weapon in its broader agenda to reshape global policy toward the developing world.

The most recent evidence of Japan's politicking in support of region-wide industrial policy has been at the 18-country Asia Pacific Economic Cooperation (APEC) grouping. Japan will be hosting this year's economic ministers' meeting and summit in Osaka. In advance of the November meeting, Japan has tabled an initiative called Partners for Progress, which, though vague, calls for a systematic approach to regional economic development.

Partners for Progress is close in spirit to MITI's 1987 New Asian Industries Development Plan, which called on Japan to serve as the regional "brains" for Asian development. It envisions a tiered approach to economic cooperation in which technology and financial aid are passed down the ladder from advanced to developing countries. Its opponents call it a Trojan horse for Japanese economic domination of the region. Not surprisingly, countries on the receiving end of Japanese aid look to the plan as an opportunity to squeeze more aid out of Japan.

The “Restoration of Asia”

How effective is Japan’s salesmanship? On an individual level, the answer is often, not very. The developing-nation officials who attend training programs in Japan complain not only about the usual hazards--social isolation and high prices--but also that the content of courses is sketchy and repetitive.
“I knew this course was supposed to be about Japan’s experience,” says Miguel Herrera, an economist with the Philippine National Economic and Development Authority who in the fall of 1994 attended Kinoshita’s lecture as part of a two-month EPA training program. “They’re trying to influence our economies into probably adopting some of the success stories. The big disappointment was that everything that was said about Japanese development was historical. There was nothing scientific. At the end of the day you realize that there is nothing that is true for other countries, that we can adopt.”
John Page tells a story about how he and Nancy Birdsall, when just beginning the East Asian Miracle study, lunched with a MITI official who solemnly told them that Japan’s success at industrial policy was based on its tribal rice-cultivation culture. There are many Japanese who remain convinced that Japan’s experience is too special, too intimate to communicate to outsiders.

A big reason for Japan’s push to teach its industrial policy to the rest of Asia is the renewed appreciation of the yen, which has risen twenty percent against the US dollar since the beginning of 1995. At 80 yen to the US dollar, Japanese companies are racing to transfer production outside Japan. A recent survey by the Nikkei Industry and Consumption Research Institute showed that more than half of the companies surveyed, representing 45 percent of Japanese industrial output, had already moved some operations to Asia. The top six preferred locations for investment were China, Thailand, Malaysia, Indonesia, Taiwan and Singapore. Another survey, by Zenshinren Bank, showed that 85 percent of small businesses that have moved offshore are operating in Asia.

For Japanese bureaucrats, this is the same handwriting on the wall they have been reading since 1985. If they can convince Asians of the need for region-wide industrial policy, the transfer of production by Japanese companies may be less a rout than an orderly process that leaves Japan as the “brain” of the world’s most dynamic economic consortium. The alternative is a random hollowing out process similar to the one that has gutted American manufacturing industries.

Japan’s ambassador to Vietnam, Kazuo Ogura, is indicative of the new mood in the Japanese Foreign Ministry. “We can say that today, at long last, Asia as a result of cultural collision with Europe and America has secured its own political independence and economic prosperity and will transmit its own messages in its own voice.”[15]

For developing countries in Asia and elsewhere, the choices may narrow as America and Europe turn off the aid taps. If Japan develops its own “conditionality” in development assistance, Japanese aid clients may be as helpless as they are today to turn down the World Bank’s more draconian structural adjustment prescriptions. The issue may not be whether Japanese-style industrial policy works or not, but whether Japan has the clout to assert its model as the model, when it is paying the bills.

NOTES

1. “Govt to Help Third World Draw Up Policies,” *Daily Yomiuri*, Oct. 28, 1994.

2. Katsuhisa Yamada, “*Government-Business Interface*,” unpublished article, 1984.

3. *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993), p. 6.

4. Dani Rodrik, “King Kong Meets Godzilla: The World Bank and the East Asian Miracle,” in *Miracle or Design? Lessons from the East Asian Experience,* (Washington, DC: Overseas Development Council, 1994), p. 14.

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