



# HOW ASIA GOT RICH

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China,  
and the  
Asian  
Miracle

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Foreword by Chalmers Johnson



AN EAST GATE BOOK

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**For Sarah, Mae, and Charles**

*We should, even today, make a new start, leave Chinese studies and fencing aside as of secondary importance, and take to the European ways, acquire a number of steam ships, prepare strongholds on the sea and on the land with many big guns which we will make. And in Edo first of all, then in Osaka, Kyoto, Nagasaki, Hakodate and other places, we will have standing armies at all times so that in the event an evil country should come upon us in a lawless manner, we will in all confidence . . . drive them away with our own might. Or, under some circumstances, we may even go out to destroy that evil country. Yet, the whole world will approve our act and not one word of protest will be made. And all the world will look up to the glorious might of this great nation of Japan.*

—Fukuzawa Yukichi, *Tojin Orai* (A primer on foreigners), ca. 1861–63

# Foreword

*Chalmers Johnson*

It seems likely that fifty to a hundred years from now, when historians look back on the period we conventionally call the “Cold War,” c. 1950 to 1990, and ask what actually happened that was of enduring importance, the answer will be the enrichment of East Asia. At the beginning of that period, groups of Western savants, such as the Council of Rome, argued that Asia’s population explosion would soon exhaust the world’s food supply and that Asian starvation, illiteracy, and corruption might destabilize the global economy. And yet between 1965 and 1990, seven so-called high-performance Asian economies, joined since the early 1980s by China, achieved the world’s highest growth rates and thereby transformed the region’s and global balances of power. The leader of this truly unexpected development was Japan, which by 1993 contributed two-thirds of the \$6.2 trillion regional economy.

This massive economic growth occurred in a stealthy manner, with the so-called Western nations, particularly the United States, not paying close attention to what was happening and remaining smugly confident that the East Asian achievements merely confirmed the superiority of their own “capitalist” structures. When, during the mid-1980s, they awoke to their hollowed-out industries and discovered that Japan had become the world’s leading creditor nation while the United States was the world’s bigger debtor, there was nothing for them to do but try to adjust. East Asian growth had become self-sustaining, and Japan’s share of it was starting to decline, indicating that East Asian wealth was not just a Japanese phenomenon. By the end of the 1990s, China was the world’s fastest growing economy.

These developments have set off one of the most intense intellectual and ideological debates of the second half of the twentieth century: How did Asia get so rich? The answers to that question have enormous implications for the integrity of the “orthodox,” Nobel Prize-winning economics as taught

in English-speaking countries, for the possibility that there is an Asian model of development, and for the Atlantic world's organizational repositories of punditry and money to help the so-called developing nations, such as the World Bank and the International Monetary Fund. The indefatigable and truly empirical Boswell of this debate, which continues to the present day, is Edith Terry.

I first met Edith Terry in Tokyo on October 26, 1994. I had just given a speech at the Foreign Correspondents' Club of Japan, and she came up afterwards to introduce herself and make a comment or two on what I had said. From 1988 to 1992, she was the East Asian correspondent for the *Globe and Mail*, and in 1993 she received an Abe fellowship from the Japan Foundation to write a book about Japan's strategy toward the other countries of Asia in the wake of the bursting, in the late 1980s, of its economic "bubble." She had already made several discoveries that were more or less unknown to scholars and officials who claimed to follow East Asian economic developments. One of these was that Japanese pressure within the World Bank had led to the Bank's publication in 1993 of its defensive and often contradictory book, *The East Asian Miracle*. In 1994, she also offered to give me a copy of a recent Japanese Economic Planning Agency follow-up study to the World Bank's report, rebutting the Bank's soft-pedaling of the role of governmental "industry policy" in East Asia's high-speed economic growth.

I paid close attention. Terry was doing some of the most original, truly hands-on investigative research on contemporary Japan that I was aware of. I soon received confirmation that she was on to a major story that was going virtually unreported in the dispatches filed by linguistically challenged Western journalists from Japan (Terry reads both Japanese and Chinese). An old friend at Japan's Ministry of International Trade and Industry, Yamada Katsuhisa, who had become head of the Institute of Developing Economics, publicly asserted, "We are not saying that developing countries should imitate Japan. But they do need to study an alternative to neoclassical economic theory" (see William Dawkins, "Pedlars of the Japanese Model to Developing World," *Financial Times*, February 7, 1995). The following month, Terry herself went into print with her revelations that Japan was in open revolt against the World Bank's view of how Asia got rich and was offering a made-in-Japan alternative (see Edith Terry, "Japan Tries Cloning Its Economic Model in Willing Nations," *Christian Science Monitor*, March 24, 1995).

Thus began her major research and writing project that has finally culminated in this important book. The years from 1995 to the present took Terry through the Asian economic crisis of 1997, when she almost abandoned her project, to Japan's economic stagnation and the endless American triumphalism

about its own economy. This triumphalism is now somewhat muted in light of the U.S. economic downturn, the unraveling of the “information technology” mania, and the East Asian recovery with its dirigiste orientations strengthened. The emergence of a popular antiglobalization movement in all the advanced democracies except for Japan, and the World Bank’s own belated agreement with its East Asian critics—that a market economy under effective governmental supervision produces more growth than either socialist displacement of the market or American-style *laissez-faire*—are also covered in this book.

Terry’s project has also taken her back into the past to consider the history of Japan’s relations with its natural trading partners, the countries of East Asia, and whether it is possible for Japan ever to overcome its dependency on exports to the United States and to rejoin its neighbors in mutually beneficial economic relations. The result is an insightful book of investigative reporting about some of the cardinal economic, political, and regional issues of the new century for East Asia and the world.



# Introduction

## Globalization: One Path or Many?

Until the end of the Cold War in 1989, the phrase “economic ideology” to most Westerners referred implicitly to Soviet propaganda. The battle between free-market ideology and Soviet-style collectivism, with its Maoist variant, was the familiar one. Only after the fall of the Berlin Wall did it seem for a few years as though the battle was over and free-market institutions had triumphed.

Then, with the sharp contraction of the Russian economy in the early part of the 1990s, instability in Mexico and Latin America, and ethnic warfare in Africa and the Balkans, the picture grew more complicated. In the mid-1990s, Asia was in the grip of an economic boom that seemed likely to redraw the lines of the global economy. And Japan, which had faced an enormous loss of prestige during the Gulf War, resulting from its own political inertia, suddenly grasped a way to expand its influence among developing countries, starting with the progeny of its wartime Greater East Asia Co-Prosperity Sphere.

These nations could become a critical group of allies in international organizations such as the United Nations as well as alluring venues for Japanese industry, which was being chased abroad with the rapid rise in value of the Japanese yen. Tokyo thus began a quiet but determined campaign to re-enter the treacherous intellectual space where economics plays politics and economic policy becomes a tool of national interest. The campaign wrapped together a newly minted, Japanese approach to development economics, and an old-fashioned appeal to pan-Asian values. Diplomatically, it was accompanied by a sharp tilt to Asia, and a measured downplaying of Japan’s relationship with the United States.

The campaign failed in most of the obvious ways, first of all in imprinting the Asian economic model as a distinct and successful alternative to the free market. But it succeeded perhaps, where it was most important—in sustaining a challenge to the reigning ideology of the global economy. Japan be-

came the first of the major powers to attack the convergence theory forcefully championed by the United States in the aftermath of the Cold War. Japan embraced and promoted a theoretical middle ground between the market and centrally planned economies, starkly different from the neoclassical model, which was supposed to work best in the early stages of industrialization, and had been pioneered by the Asian economies. The proof of the Asian model lay in the Asian economic miracle. Until Japan made the link, it was largely an issue for academic economists, not policy makers. In Japanese hands, the Asian model gained strategic and diplomatic traction that ultimately fed into the antiglobalization protests of the late 1990s.

This book is about Japan's challenge to globalization, how it came about, what went wrong, and what went right. Readers who are looking for a litany of Japan's failures, or proof of an imminent comeback, can stop here. The Japan of the 1990s was a study in gray—caught between paradigms, stuck on the horns of a dual economy in which some of its multinationals thundered along while the domestic economy stagnated, crippled by public inertia and political confusion, and yet bearing seeds of a new Japan. Japan might be diminished and humbled in the post-Cold War equation, but amid the gray Japanese were asking questions about core values, seeking the means to engender creativity and entrepreneurialism, and groping for new forms of political and economic leadership. Even its campaign to promote an Asian development model, loaded though it was with propaganda, contained within it a genuine attempt to re-examine the intellectual constructs associated with 150 years of Westernization. Japan lost the decade, but it began to find itself.

In the early stages of the campaign, Tokyo looked for ways to deepen its imprint on Asia. As it evolved, Japan's focus shifted to the premier global institutions of economic management—the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO). Faced with massive dislocation in global financial markets in 1997 and 1998, these institutions responded by abandoning convergence theory and accepting a more pluralistic approach to economic policy. The World Bank, in particular, swiftly got on board a new intellectual platform at least partly to disassociate itself from its past mistakes. Thus the Asian model, that is the Japanese version of it, was embraced by the largest and most influential of the Bretton Woods institutions. This unexpected collateral benefit—economists would call it an externality—served Japan's original purposes as well, strengthening its hand in Asia, and giving it a new platform for dealing with China. By the late 1990s, Japan could no longer hope to contain China's quest for superpower status, or its competing diplomacy within Asia. But it could, through its influence in the World Bank as well as through its own substantial aid program, play a role as mentor and senior partner to the emerging Chinese giant.

Its strategy would be to replace Chinese resentment and hostility with a sense of obligation, bridging a new century in which China would almost certainly become Asia's dominant political and economic power.

The gap between Japanese expectations at the outset of the 1990s and the reality of the early 2000s is so vast that it is difficult to perceive the thread that leads from the strident declarations of Japanese ascendance that breached the decade to Japan's actual accomplishments, overshadowed by the gloom of the era. Not so long ago, in the late 1980s, the West looked with fear and suspicion at an avalanche of Japanese money moving into Asia, together with its diplomatic corollary, as Tokyo launched the process of bridging from economic to political leadership of the region. It was a drum roll without a march, however. Over the next few years, Japan appeared to drop its regional ambitions, stunned not only by a deepening recession but dazed as well by the resurgence of the U.S. economy and China's rapid ascent. But this was not the whole story. Meanwhile, the Japanese financial, economic, and diplomatic bureaucracies were working on the outline of a new, post-Cold War regional structure. Within this new framework, the concept of an Asian model—infused with Japanese bureaucratic practice—was to play a crucial role. It was to serve as a rallying point for Asian economies seeking to fend off market liberalization and band together in defense against global market cataclysms such as the upheavals of 1997–1998. The massive problems of the Japanese economy were no deterrent; for these officials and diplomats, the issue was protecting the legacy of the old paradigm while moving to a new one. By the end of the 1990s, Japan had ensconced itself within a new network of relationships in Asia that were, for the first time, founded on a successfully promoted Japanese idea about managing growth for latecomers to the global economy. And Japan had allies outside Asia as well.

In Tokyo's hands, the contest was subtler than the one between communism and capitalism. Japan's ideas dovetailed with those of many Europeans, the communist states making painful transits to the free market, India, as well as others defending regional practices and local interests against the widening wingspan of the free market. Japan argued the case for economic pluralism and against the champions of convergence, led by the United States. Asian success was used as the leading evidence to prove the point. Here, the world's most populous region, following economic policies inspired by Japan, had achieved wonders by harnessing the market to national interest. Governments collaborated with industry. Rather than strangling the market, Asian governments had succeeded in managing it. Markets free of government interference were not the ultimate goal of economic evolution. At least, in Asia, governments and the market had found a different balance.

The thesis clashed directly with a view that had gone unchallenged during

the Cold War, that Asian economies were successful because of their adoption of free market principles and institutions. Flushed with the triumphs of the 1990s, the United States paid scant heed to the debate launched by Japan. But for the Japanese, the effort to promote a Japanese model became increasingly critical to maintaining and expanding its regional and international relationships. Japan at the end of the twentieth century was easing away from its post-war alliance with the United States; at the same time, it lacked a clear view of an alternative structure defining the parameters of the new relationship except for the fact that it would need to be tolerant of Japanese institutions, if not positively embrace them. It had the tools to wield diplomatic influence but little experience in using them. Its most obvious resource was its deep pockets. The country had already built up a position as the leading supplier of development “soft credits” in Asia (financing with lengthy repayment terms and below-market interest rates) and by the late 1980s was expanding its aid program in Latin America and Africa. By the early 1990s, Japan was the world’s largest aid donor, primarily through the provision of low-interest loans. International financial institutions such as the World Bank had become increasingly dependent on Japan as the United States pulled back from its obligations.

The stage was thus set for an expansion of Japanese influence going beyond the “yen shock” deals of the late 1980s, when Japanese high rollers plunged into high-priced global real estate and snapped up signature icons of Western capitalism. The implicit questions that Japan raised presented the most fundamental challenge to Western assumptions about growth and governance since Karl Marx. The Asian financial crisis of 1997–98 and the instability it caused added legitimacy to the notion of setting up safety zones outside the stream of globalization, whether for truffle farmers or fragile transitional economies. The Asian crisis may have discredited individual Asian leaders and their cronies, but it reinforced the significance of government as monitor, intermediary go-between, and champion of national interests. Government no longer dared to extract itself from the market, when the market so obviously needed its informational and disciplinary roles in order to function. This was the essence of the Japanese model. The worse the toll of globalization became, the more the Japanese model generated enthusiasm.

The irony was that Asia should become the focus for this debate. Less than a generation earlier, the Council of Rome and other elite punditry shops had engaged in extravagant public lamentations over the fate of Asia’s poor. Asia was seen as a black hole for the global economy, a vortex that could suck in all the wealth created by advanced industrial nations. An Asian population explosion would soon exhaust the world’s food supply. Asian starvation, illiteracy, and corruption would drag down the global economy and dilute the

advances of Western technology. Such was the predominant view of Asia well into the 1970s. Most Asian economies were hard hit by the two oil shocks that occurred during that decade. And then, like a rabbit from a magician's hat, wealthy Asians were suddenly crowding into Western hotels and stock markets; smart Asians were suddenly producing the world's largest semiconductor chips and smallest mobile telephones; and Asian leaders were rudely lecturing their Western counterparts on family values and hard work.

Another peculiarity of the debate is that, in broad outline, the answers were mostly self-evident. How Asia got rich, while Africa, Latin America, and the countries of the old Soviet bloc remained poor, is no mystery. Asia started out with major advantages. Unlike their developing-country counterparts in other regions of the world, nations such as China, Japan, and India—and to a lesser degree Korea, Thailand, and Indonesia—bore a legacy of excellence. Each had experienced periods in which their respective cultures led the world in technological sophistication, the size and splendor of their cities, and depth of learning. Historical pride played a crucial role in negating the psychological and economic damage suffered in the colonial experience. In the post-colonial era after World War Two, fate dealt Asia a handy set of cards through international responses to the triumph of Stalinism in Russia and Maoism in China. First the United States, then Japan, made Asia a large part of its geopolitical strategy, as part of a joint strategy to contain China. Both poured resources into the region, and, in different ways, both opened up their markets to it.

And yet the debate over the sources of Asian wealth has been intense, heated, and fundamental. The real issues behind this success can be gleaned from the recent statistical record covering the period from the mid-1960s to the mid-1990s. During these three decades, the East Asian economies were world champions in the economic growth sweepstakes. Their achievements were called “miracles,” and the nations were described as “little dragons” or tigers and their cubs. “Asian tigers” became a familiar figure of speech, conjuring up images of economic prowess to the extent that subtitles were unnecessary in a long series of books about their leaping success and the dilemmas that followed the currency collapse and “Asian crisis” of 1997. China was Dick Wilson's “Big Tiger”; Thailand, Robert Muscat's “Fifth Tiger”; Korea, a “Troubled Tiger” in Mark Clifford's book predating the crisis; after the crisis broke we had Jomo Kwame Sundaram's “Tigers in Trouble” and Robert Garran's “Tigers Tamed.” The image prowls and roars and is menacing even in defeat. The ancestral tiger in this tribe was Japan. In the late nineteenth century, Japan overturned the global order established by Western imperialism's quest for wealth and power. In the 1960s, Japan roared again, when it combined tools of state planning and free-market institutions

to achieve its second economic miracle. Its immediate neighbors in North-east Asia, Korea, Taiwan, and Hong Kong, took note. By the 1980s, Korea, Taiwan, Hong Kong, and Singapore had worked their own miracles and were dubbed the “four tigers.” Finally, in the 1990s, a new litter of tiger “cubs” emerged in Southeast Asia, including Thailand, Malaysia, Indonesia, and the Philippines. The pace accelerated; by the mid-1990s, the transitional states of Indochina were clawing at the door. China loomed as the most formidable “tiger” of all.

At least initially, the debate was about how to interpret the statistics properly. One camp maintained that the Asian economies were successful because they followed the free-market model. The other argued that they had succeeded by adopting the developmental state model pioneered by Japan. The dialogue began mutedly in the mid-1980s, at a time when free-market ideology seemed unassailable and Japan was so far from promoting an economic ideology of its own that it even lacked any kind of charter or set of guiding principles for proffering its foreign aid. Insiders scoffed at pretensions that Japanese aid was based on any motive other than economic opportunism. Even Japanese aid officials, when pressed, maintained that the basis of their management of the Japanese economy was merely pragmatic, not principled. The origins of the Japanese model were, in fact, very practical. By the late 1980s, Japanese and U.S. interests in Asia, at least in terms of economic policy, diverged sharply. Japan was under pressure from the United States and international financial institutions to fall in line with the free-market policies of the day; these clashed directly with Japan’s interest in harnessing the energies of high-growth Asian economies to benefit Japanese business. Tokyo reacted by promoting a Japanese model of development. The “model” was legitimized by the obvious success of Japan, the “tigers,” and their “cubs”; it was also a tool that Japan could use to deflect the pressures running counter to its emerging economic and diplomatic strategies in Asia.

Japan’s first thrust was through elite circles within the World Bank and its own governmental contacts in developing countries. Terms of the debate were polite and gentlemanly. One close student of Japan’s strategy within the World Bank, Anne Emig, argued that Tokyo was less interested in producing new litters of tigers around the world than in enhancing its own prestige.<sup>1</sup> By the late 1980s, Japan was already the second largest shareholder in both the World Bank and the IMF yet had little or no impact on lending policy. Fair enough. In 1997 and 1998, however, what had been a hushed argument behind boardroom doors suddenly became a loud, bitter dispute in the vortex of a remarkable financial and economic convulsion in the world arena. The latter began with the “Asian financial crisis” of 1997 and segued into the “emerging markets crisis” of 1998. The series of market failures commenced

with a speculative attack on the Thai baht that quickly expanded to include all the convertible Southeast Asian currencies, then leaped continents to swamp any unit of exchange that shared certain characteristics with the Asian currencies—U.S. dollar pegs, weakening current account surpluses or deficits, and high interest rates that seemed more a prop to the currency than a means of imposing fiscal discipline. Hedge fund traders yanked support, eventually, from most of the economies that had participated in the investment binge in emerging economies of the mid-1990s. The currency collapse in many economies quickly generated banking crises, and as bank credit evaporated manufacturing ground to a halt.

The 1997–98 crisis raised the specter of global economic collapse, and although markets recovered, the legacy of crisis was a new distrust of market capitalism and a sense that globalization was a tool of the rich economies. The term “globalization” itself came into vogue as an emblem of a runaway process in which the free market expanded at the expense of poor countries, labor, women, children, and the environment—indeed, all but the giant multinational corporations that gradually were assuming the powers traditionally associated with nations. Japan found itself in the swing position. In December 1999, when developing countries—angry at the United States for insisting on the inclusion of environmental and labor standards in the negotiations—scuttled the WTO’s launch of the “Seattle Round,” Japan allied itself with the cause of the poor countries as well as that of European Greens, who worried that the WTO would open their agricultural markets to imports from lower-cost countries. The failure to launch the Seattle Round was a severe setback to the global trading system. The arguments about economic models were no longer academic; Japan had raised the stakes in the debate far beyond issues of mere prestige.

Except, perhaps, for the term “globalization,” the language, counterparties, the tone and tenor of the larger battles in Seattle and beyond were presaged by the rolling financial crisis of 1997–98. Within a matter of months, the Asian crisis transformed a group of countries on the leading edge of globalization into victims of the process. Instead of success as the common denominator of Asian economies, they were linked in catastrophe. The nascent debate over the Japanese and East Asian “model” became swept up into a firestorm of controversy over the reasons for Asia’s swift, unexpected, and virtually universal collapse. The Japanese argued that Asian success had been founded on a different relationship between government and the market than the one promoted by “Anglo-American” economics. Western critics swiftly reacted by declaring that the Asian miracle was bogus, and its model had failed. The high growth rates and obvious creation of wealth were based on speculative bubbles and fed by cronyism and corruption. The Asian model had created

vast over-capacity and wild spending because it was immune to the discipline of the market. Globalization had not gone far enough. This line of criticism, though serious and substantive, had the unintended side effect of reinforcing the basic premises of the Japanese, that the Asian model was different. Perhaps worse, it helped cement the idea that Asians had flunked globalization's final exam. Globalization and Asia were no longer on the same side. The implication was that if the high-growth economies of East Asia were unable to handle the test, who else could, other than the richest of nations?

Plenty of evidence supported the thesis that the East Asian miracle had failed, not least because of the venality of leaders such as Indonesia's President Suharto and the cowboy banks and real-estate moguls of Jakarta, Bangkok, Seoul, and Tokyo. Also, the Asian economies that weathered the storm exercised more discipline than the "crisis" economies, although the disciplines were not exactly market based. China, Singapore, and Hong Kong sustained perhaps the least damage to their currencies and economies in 1997—China because its capital markets were closed, Hong Kong through swift market intervention when the Hong Kong dollar came under speculative attack that October, and Singapore through preemptive monetary policy that let the air out of its property and stock market bubbles in 1996, a year before the region-wide collapse. In all three economies, governments played a decisive role in mitigating the crisis. Because Hong Kong and Singapore enjoyed the reputation of freewheeling capitalism, their survival seemed to vindicate the "miracle is dead" school. Simultaneously, reform-minded officials throughout the region seized the crisis as an opportunity to push through privatization and deregulation, writing their wish lists into the balance-of-payments agreements with the IMF.

Evidence existed on the other side of the ledger as well, however. Asians felt that they had been the victims of unregulated global capital markets, speculative hedge funds, and imprudent lending practices on the part of international banks, as much as the weaknesses of their leaders and institutions. The sweeping generalizations about Asian corruption as a cause of the crisis seemed unfair, although most senior Asian financial officials agreed upon the need for better banking supervision, functioning bankruptcy laws, and healthy capital markets. Financial liberalization, however, was a tricky business, and many of the weakest Asian banks and credit institutions were a product of textbook capital-market liberalization policies of the early 1990s. In many instances, the same economists and journalists who in 1997 loudly denounced Asian corruption and predicted years of stagnation had been slavish admirers up until the crisis broke. The chameleon behavior of such critics helped reinforce the view that Asia was being treated as a scapegoat, and that globalization was a rigged game favoring those who set the rules.



This bitter feud over who was responsible for Asia's crash was by no means a classic confrontation of East and West. The fundamental issue, which became the basis for the failed negotiations in Seattle two years later, was the management of global capitalism. On one side were those who argued that globalization was inevitable—a force of history—and who viewed the Asian crisis as an event that exposed weaknesses that would have to be resolved before growth could resume. The revisionists, including Japan, believed that the crisis pointed to a need to engineer protective barriers into the system for more fragile economies and social groups. One group perceived globalization in terms of being a set of universal principles for the creation of wealth. The other saw it as a process that could and must be buffered for the sake of specific communities.

Emergency policies taken to prevent the wide-scale collapse of the Asian banking and financial sectors added another wrinkle to the debate. Rather than discrediting the Asian model, the Asian recovery seemed to give it new life. The crisis shrank the boundaries of private ownership in the financial sector and expanded government control. Post-crisis, Asia's governments essentially owned its banks. Malaysia owned 20 percent of the banking assets in its country, Thailand 30 percent, South Korea 58 percent, and Indonesia a staggering 78 percent. Instead of sinking into a decade of recession in 1999 and 2000, the Asian economies quickly regained their footing as exports soared, assisted by soft currencies and a U.S. economy on warp drive. By 2000, Asia (excluding Japan) was expanding at a 6 percent annual clip.<sup>2</sup> Even as global growth slowed in 2001, led by a stock market crash in the United States, Asian economies remained relatively robust.

The economies leading the post-1997 recovery, particularly Korea and Thailand, had used generous amounts of public money and exports to save their necks. These were “traditional” components of the Japanese model. The IMF, which had presented long lists of economic reforms as conditions to its huge balance-of-payments emergency support loans in 1997 and 1998, by 1999 was suffering an internal overhaul after facing withering criticism for its mismanagement of the crisis, particularly in Indonesia. Korea and Thailand paid back their IMF loans early, and despite the continued support of President Kim Dae Jung and Prime Minister Chuan Leekpai, huge chunks of the IMF programs were tied up in political wrangling. With the resumption of growth came a blunt rejection of reforms in more politically sensitive areas, such as privatization. Success also bred a conviction that the critics had been wrong and the Asian model had been vindicated. In its response to the crisis, the World Bank echoed the Japanese in placing new emphasis on gradualism and good governance. The new mantra emphasized the role of government in managing the market. Privatization, market opening, and fi-