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THE ROLE OF JAPAN
IN ASIA

Shinichi Ichimura

INTERNATIONAL
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The Role of Japan in Asia

Shinichi Ichimura



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PREFACE

The International Center for Economic Growth is pleased to publish *The Role of Japan in Asia* as the thirty-sixth in our series of Occasional Papers, which present reflections on broad policy issues by noted scholars and policy makers. This monograph brings together two essays by Dr. Shinichi Ichimura, distinguished director of the Institute of International Relations at Osaka International University.

In the first, and more comprehensive, essay, the author examines the transformation of Japan from a resource-poor, poverty-stricken, occupied country to the economic superpower it is today. He shows that Japan's success has contributed in several ways to wider economic development in Asia: through trade, through direct investment abroad, through official and private lending, through technology transfer, through transfers of human resources and information (including Japanese-style business management), and through rapidly expanding official development assistance. Dr. Ichimura offers recommendations for actions Japan can take in the future to sustain and encourage development in Asia. In the shorter essay that concludes this work, the author concentrates on the role of education and of technological development in promoting economic growth, presenting Japan's experience as an instructive example for other economies in Asia.

We are confident that Dr. Ichimura's understanding of Asian economic events since World War II and his strong support of increased Japanese international economic cooperation will make his remarks of great interest to scholars and policy makers concerned with well-being in the Asian Pacific economies in particular and in all developing countries.

Nicolás Ardito-Barletta

General Director

International Center for Economic Growth

Panama City, Panama

April 1993

ABOUT THE AUTHOR

Shinichi Ichimura, a Japanese citizen, is vice chancellor of Osaka International University and general director of that university's Institute of International Relations. He joined the newly established university in 1988, after two decades of distinguished service at Kyoto University, where he was professor of economics and director of the Center for Southeast Asian Studies. He has a long-standing interest in Asian development economics and in the comparative study of Pacific economies.

CONTENTS

| | | |
|--|-------------------------|-----|
| <i>Preface</i> | Nicolás Ardito-Barletta | v |
| <i>About the Author</i> | | vii |
| Introduction | | 1 |
| Contributions of Private Enterprise | | 2 |
| Economic Development, Education, and Technological Progress | | 65 |
| <i>Notes</i> | | 80 |

SHINICHI ICHIMURA

Introduction

The two essays that make up this Occasional Paper were written to explain to the international reader the reasons for and the process of Japanese and Asian economic development, particularly in the post-World War II period. The first essay is a paper that was presented at the International Center for Economic Growth's meeting of Asian correspondent institutes in Malaysia in 1990, and the second is a short version of a paper presented at the Korea Institute for Economics and Technology, also in 1990.

Japanese experiences in economic development provide highly instructive lessons for the developing countries of Asia, in both positive and negative ways. Despite Japan's remarkable achievement in economic growth and the impressive rise in the standard of living within a few decades, one should not ignore the unfortunate darker side of Japanese economic development. Regional discrepancies in the economic welfare of the nation, extremely high property prices and rent in major cities, and the symptoms of social deterioration already noticeable in urban living are only a few examples of conditions that are sources of serious concern. Nevertheless, I have not approached those problems in these essays and must ask the reader to await a discussion of them in my forthcoming book *Economic Essays on Japan and Asia*. Until publication of that volume, I shall be happy to make some of my previously published work, such as *Nihon Keizai no Shinro o motomete* (Searching for the course of the Japanese economy), available to interested readers of Japanese who write to me.

Contributions of Private Enterprise

The greatest contribution of Japan to Asian development is the country's demonstration of successful economic and political development as a non-Western nation, going in only a few generations from the poverty-stricken feudal conditions of the Edo period to the prosperous modern, or even postindustrial, society of the present. The miraculous reconstruction of a devastated land after World War II and the nation's further development as a global economic power has been more than even the Japanese people themselves expected. This performance was by no means easy, however, because there was no precedent for a country in Asia to learn how to catch up with the West and modernize itself quickly without being colonized—as many other countries in Asia, Central and South America, and Africa were. Many Asian nations could take Japan as an economic precedent, if not a political precedent, and follow the same path of rapid economic development, unlike many other underdeveloped countries in Latin America, Africa, or West Asia.

In order to explain what kind of issues Japan and other Asian countries have faced and how they resolved difficult problems to achieve impressive development in the 1970s and the 1980s, I shall first survey the growth performance and overall pattern of Asian economic development; second, I shall briefly describe the political economy of postwar Japan; and, third, I shall compare the various factors for Japan's and other Asian countries' economic and sociopolitical development. In these discussions particular attention will be paid to relevant economic policies of the Japanese government.

Patterns of Asian Development

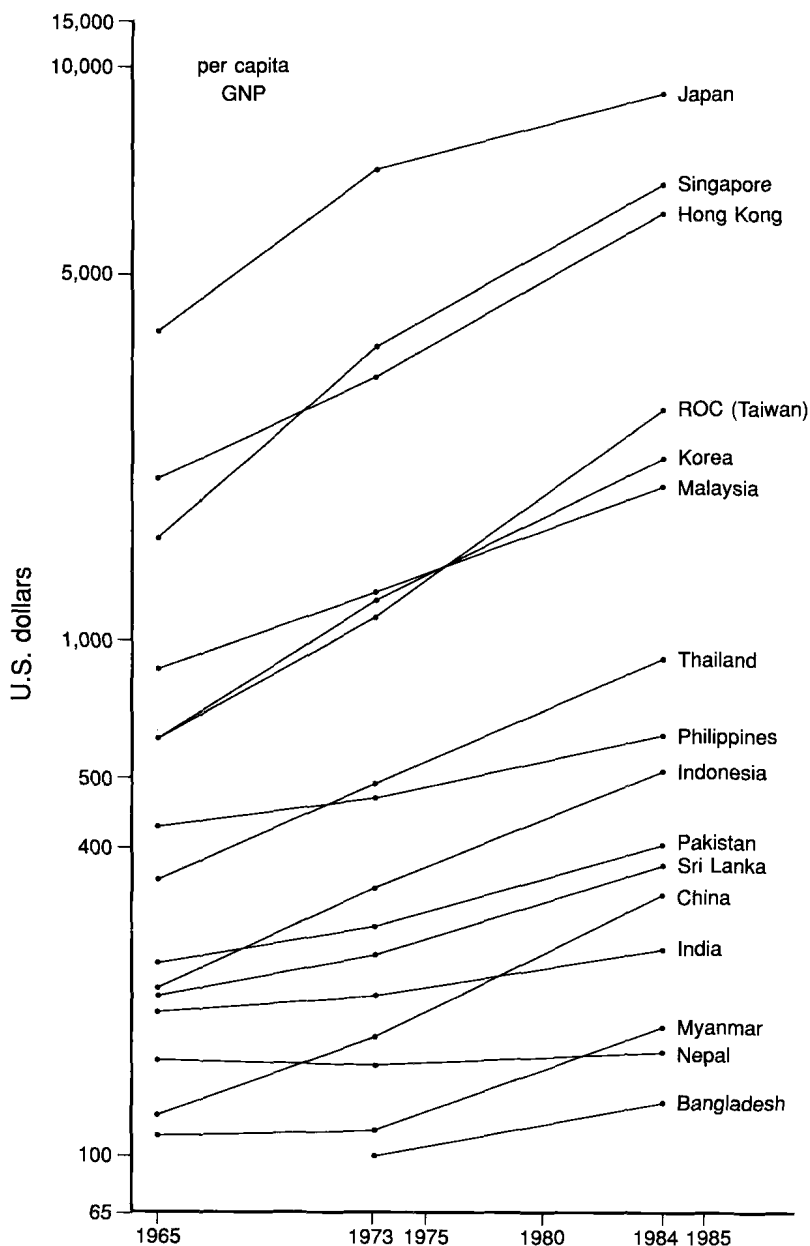
The economic performance of Asian countries over the past several decades has surprised everyone in the world. Asia was once known as the place of Oriental despotism and widespread, irreducible poverty.

Even as late as 1968 the *Asian Drama* was conceived as a tragedy of stagnation by no less an authority than Dr. Gunnar Myrdal. This pessimism gradually yielded to optimism, however, as most Asian underdeveloped countries began to emulate the fast growth of the Japanese economy, which grew in terms of per capita GNP from US\$300 in 1948 to US\$12,750 in 1987. Even so, the most authoritative study, known as the Hla Myint report, undertaken by an Asian Development Bank study group just before 1970 and published in 1971, predicted only a modest 5.5 percent growth rate for East and Southeast Asian countries in the 1970s. The actual performance turned out to be 7.4 percent, the East and Southeast Asian countries achieving faster growth than countries in any other region of the world, whether industrialized or developing and including the oil-rich Middle Eastern countries as well. Figure 1 illustrates this rapid rise in GNP per capita for each country in Asia.

These economies, however, have not developed at the same rate or to the same degree. In fact, on the basis of their growth performances, we may classify them into six groups:

1. Japan alone as an industrial market economy—highest in GNP per capita as well as largest in output
2. Singapore, Hong Kong, Taiwan, and South Korea forming a cluster of newly industrializing economies (often referred to as the Asian NIES)
3. Malaysia, Thailand, the Philippines, and Indonesia (the ASEAN countries of Southeast Asia minus Singapore), which we shall refer to as the ASEAN-4
4. China and India, developing countries like the ASEAN-4 but with special characteristics stemming from their enormous size, leading us to identify them as giant economies in Asia
5. the typically agrarian economies in South Asia, namely, Pakistan, Sri Lanka, Nepal, and Myanmar
6. the stagnant socialist economies: three economies in Indochina, and North Korea

FIGURE 1 Performance of Asian Development for 1965–1985



NOTE: Intervals indicated on the Y axis are not constant.

| TABLE 1 Grouping of Selected Asian Economies, 1965-1986 | | | | | | |
|--|--------------------------|--------------------------------------|---------------------------------|--|--------------------------------|---------|
| | Population (millions) | GNP per capita (1986, dollars) | GDP (billions of dollars) | Growth rate 1965-86 (percentage) | Inflation rate (percentage) | |
| | | | | | 1965-80 | 1981-86 |
| Industrial market economy | | | | | | |
| Japan | 121.5 | 12,840 | 1955.7 | 4.3 | 7.8 | 1.6 |
| NIES | | | | | | |
| Singapore | 2.6 | 7,410 | 17.3 | 7.6 | 4.7 | 1.9 |
| Hong Kong | 5.4 | 6,910 | 32.3 | 6.2 | 8.1 | 6.9 |
| Taiwan | 19.0 | 3,000 | 57.0 | 9.0 | 9.6 | 6.2 |
| South Korea | 41.5 | 2,370 | 98.2 | 6.7 | 18.8 | 5.4 |
| Developing economies | | | | | | |
| Malaysia | 16.1 | 1,830 | 27.6 | 4.3 | 4.9 | 1.4 |
| Thailand | 52.6 | 810 | 41.8 | 4.0 | 6.8 | 3.0 |
| Philippines | 57.3 | 560 | 30.5 | 1.9 | 11.7 | 18.2 |
| Indonesia | 166.4 | 490 | 75.2 | 4.6 | 34.3 | 8.9 |

(continued on next page)

TABLE 1 (continued)

| | Population (millions) | GNP per capita (1986, dollars) | GDP (billions of dollars) | Growth rate 1965-86 (percentage) | Inflation rate (percentage) | |
|-----------------|--------------------------|--------------------------------------|---------------------------------|--|--------------------------------|---------|
| | | | | | 1965-80 | 1981-86 |
| Giant economies | | | | | | |
| China | 1054.0 | 300 | 271.9 | 5.1 | 0.0 | 3.8 |
| India | 781.4 | 290 | 203.8 | 1.8 | 4.6 | 6.0 |
| South Asia | | | | | | |
| Sri Lanka | 16.1 | 400 | 5.9 | 2.9 | 9.6 | 13.5 |
| Pakistan | 99.2 | 350 | 30.1 | 2.4 | 10.3 | 7.5 |
| Myanmar | 38.0 | 200 | 8.2 | 2.3 | 8.7 | 2.1 |
| Bangladesh | 103.2 | 160 | 15.5 | 0.4 | 14.9 | 11.2 |
| Nepal | 17.0 | 141 | 2.2 | 1.9 | 7.7 | 8.8 |

SOURCES: *World Development Report 1988*; National Statistical Yearbooks; Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (July 1989).

SOURCES: *World Development Report 1988*; National Statistical Yearbooks; Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (July 1989).

If we group Japan and the NIES together, these groupings correspond in a general way to the resource endowments characteristic of each group: Japan and the NIES being poor in natural resources, the ASEAN-4 being relatively rich in natural resources, and China and India being advantageously endowed with both. Given the different circumstances these states found themselves in, therefore, it would be surprising indeed if the same growth strategy had been adopted by all. Thus, it would seem that the development strategies of the Japanese economy may not have direct relevance to those of the other two groups, except in the immediate postwar period or for certain aspects of the industrialization policies in the later stages of other Asian economies' development.

The resource-poor economies (Japan and the NIES) have pursued a strategy designed to overcome their weakness in natural resources and take advantage of their human capital. The first step in this strategy was to develop labor-intensive light industries such as textiles and footwear and then to increase productivity and export the products. The next step was to use the foreign exchange earned in this way to import capital equipment to invest in infrastructure and in these and additional export industries. Exports were further expanded and higher levels of industrialization were attained. Government support in the form of various subsidies usually plays a crucial role in the early stage of industrialization.

The resource-rich economies (the ASEAN-4) pursued a different strategy, centering on the exploitation of the natural resources which they had in abundance. The first step in this strategy was to explore for oil and other mineral resources or to develop primary (agricultural, fishery, and forestry) industries. These natural resources, primary products, and processed raw materials were then exported, the foreign exchange earnings being used to pay for imported capital goods, which were invested in infrastructure and resource exploration, agro-industry, resource-related industries, or, if government desired, light industries. Countries following this model usually require a significant amount of investment in human capital, because they are the countries seriously short of skilled workers, engineers, bureaucrats, and businessmen. Only after a preparatory stage of development does a gradual shift to a higher degree of industrialization become possible.

Giant economies (China and India), as countries rich in both human and natural resources, did not feel forced to follow exclusively either

TABLE 2 Basic Indicators of Development in Asian Economies

| | GNP growth rate | GDP growth rate | | Industrial growth rate | |
|---------------------------------|--------------------|--------------------|---------|---------------------------|---------|
| | 1960s | 1965-73 | 1974-84 | 1965-73 | 1974-84 |
| Industrial market economy | | | | | |
| Japan | 10.4 | 9.8 | 4.3 | 13.5 | 5.9 |
| NIES | | | | | |
| Singapore | 7.6 | 13.0 | 8.2 | 17.6 | 8.6 |
| Hong Kong | 8.0 | 7.9 | 9.8 | 8.4 | 8.0 |
| Taiwan | 9.2 | 9.0 | 10.3 | 12.0 | 13.5 |
| South Korea | 6.4 | 10.0 | 7.2 | 18.4 | 11.2 |
| Developing economies | | | | | |
| Malaysia | 6.2 | 6.7 | 7.3 | 4.6 | 8.7 |
| Thailand | 6.2 | 7.8 | 6.8 | 9.0 | 8.7 |
| Philippines | 5.9 | 5.4 | 4.8 | 7.4 | 5.3 |
| Indonesia | 3.0 | 8.1 | 6.8 | 13.4 | 8.3 |
| Giant economies | | | | | |
| China | | 7.8 | 6.6 | 12.1 | 8.7 |
| India | | 3.9 | 4.1 | 3.7 | 4.1 |
| South Asia | | | | | |
| Pakistan | 2.5 | 5.4 | 5.6 | 6.6 | 7.6 |
| Sri Lanka | | 4.2 | 5.2 | 7.3 | 4.8 |
| Myanmar | | 2.9 | 6.0 | 3.6 | 7.7 |
| Nepal | 1.8 | 1.7 | 3.1 | — | — |
| Bangladesh | 3.3 | — | 5.0 | -6.1 | 7.6 |
| Socialist economies | | | | | |
| Vietnam | | | | | |
| North | 6.0 | — | — | — | — |
| South | 3.6 | — | — | — | — |
| Kampuchea | 2.5 | 2.7 | — | — | — |
| Laos | 4.5 | — | — | — | — |
| Korea, North | 6.0 | — | — | — | — |

Blank cell = not applicable; dash = not available.

SOURCES: *World Development Report, 1985-1988*; National Statistical Yearbooks; Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (July 1989).

of these strategies. Instead, they found it possible to undertake development on several different fronts at the same time. The first step was natural resource exploration and agricultural development. Industrialization was pursued simultaneously for a considerable period utilizing out-of-date technology and without relying much on external trade or foreign investment. Capital was largely squeezed from domestic savings and invested in infrastructure and certain strictly protected, labor-intensive industries. Exports were limited to selected natural resources, primary products, and light industrial products. Imports were restricted to minimum essentials for industrialization. Eventually, of course, this simultaneous effort tended to retard technological progress, so that as the pace of development fell behind that in surrounding industrializing countries of smaller scale, demands were generated for “opening up” the economy.

Since the experiences of Japanese economic development are not directly relevant to the South Asian economies and to the socialist economies in Asia, details of their development will not be discussed in this essay.

Political Economy of Japanese Development, 1945–1988

The growth of the modern Japanese economy was a challenge to the Western world in terms of long-term rate of growth in per capita income before World War II—but more so after the war. This section presents my view of the postwar development of the Japanese economy within its political setting in the world. It is convenient to divide the postwar era of Japan into the following six periods:

1. 1945–1952: the occupation period
2. 1952–1960: the reconstruction period
3. 1960–1970: the rapid growth period
4. 1970–1980: the shocks period
5. 1980–1990: the internationalization period
6. 1990–2000: the trial period

The last two periods cover contemporary times, so their issues will be examined in later sections. Initially, the political economy in the first four periods will be discussed.

The occupation period. This period should be regarded as fundamentally a continuation of wartime, when every initiative was taken by the occupation authorities. Some political analysts characterize the occupation policies in the immediate postwar period as guided by three *Ds*: Demilitarization, Democratization, and De-monopolization.

Politically the occupation authorities not only executed and punished the persons whom they regarded as war criminals but also purged all the important political and business leaders and ordered the Japanese government to do what they regarded as necessary to keep Japan from becoming a threat to them again. The accomplishment of their prime objective was symbolized by enacting the new Japanese constitution, whose original version was prepared by a few American officials in the office of the supreme commander for the Allied powers (SCAP) in a few weeks. This constitution restricted the use of Japanese military power strictly to self-defense. All laws and regulations that restricted the freedom of speech, press, and association were abolished, and the constitution recognized women's suffrage.

Economically, the occupation authorities ordered the passage of the Fundamental Labor Law and liberalized the labor union movement. They also ordered implementation of the land reform that had been prepared by the Japanese government in prewar days and dissolved the *zaibatsus* (big business conglomerates) by passing a law to remove excessive concentration. All these policies had advantages and disadvantages for postwar political and economic development. It cannot be denied that the sudden introduction of liberal democracy to postwar Japan caused a great deal of social unrest for more than a decade. As far as the effects on economic growth are concerned, however, they have been largely favorable for maintaining the competitive character of the Japanese economy up to the present time.

Well before the outbreak of the Korean War in June 1950, indeed as early as 1947, the occupation policies changed from those of the American New Dealers and took a more conservative, anticommunist

direction. Many radical labor and student movements were suppressed by the occupation authorities. The Police Reserve Forces were organized as a miniature army. Despite all the confusion in the postwar chaos the reconstruction of the Japanese economy began step by step with the initiatives of new leaders as well as with the help of those who were released from the purge. The war damage in Japan, amounting to one-quarter of national wealth, was more serious than that in Germany. Nevertheless, the Japanese people struggled for survival with the help of generous supplies of foodstuffs from the occupation forces and with sound policy guidance, such as the Dodge plan on fiscal and monetary policies for stability. As a result, the Japanese economic recovery was as impressive as the German reconstruction.

The reconstruction period. During this period the Japanese nation devoted its total energy, day and night, from the northern corner of Hokkaido to the southern tip of Kyushu (Okinawa was still under occupation), with determination and initiative, to completing as soon as possible reconstruction to the highest prewar standard of living and industrialization. The so-called Jimmu boom (Jimmu was the first emperor in Japanese history) in 1956 gave Japanese businesses the impression that a new postwar era was dawning, going beyond the best prewar record in many industrial indices.

During this period, however, the Japanese government was still concerned with the country's relations with the outside world. The most important goal was to return to the international community after World War II by joining the United Nations as a full member. This was achieved by concluding the USSR–Japan Joint Declaration in 1956 and having the Soviet Union's agreement to admit Japan to the United Nations in 1956. The next concern among Japanese politicians was their dissatisfaction with many of the restrictions imposed during the occupation period. Among the problems, there were two major ones. One was the Japanese constitution, and the other was the Mutual Security Agreement (MSA) between Japan and the United States. The former involved two prime issues from the Japanese point of view. The first was its non-conformity with the historical tradition of the Japanese monarchy, and the second was a too-restrictive article on defense (Article 9). The Mutual