

**THE JAPANESE MODEL AND SOUTHEAST ASIA  
BEYOND THE ASIAN CRISIS**

**Lee Poh Ping  
Professor  
Institute of Malaysian and International Studies  
Universiti Kebangsaan Malaysia**

In the seventies and eighties, Southeast Asia, and indeed many parts of the world, were fascinated by the Japanese model. Many Southeast Asians were awestruck by how Japan on one hand developed an economy that could achieve high growth, pioneer certain technologies and management methods and conquer many world markets, while on the other hand constructed a society relatively free of crime, drug addicts and many of the social ills then plaguing Western societies. They were thus very keen to emulate Japan. Singapore for example launched a “learn from Japan” campaign in 1978 while Malaysia began a “Look East” policy in 1982. Many other Southeast Asian countries, while not having national campaigns, nevertheless expressed interest in imitating certain aspects of the model.

Two developments were to tarnish greatly this model. One was the prolonged Japanese recession which began in the early nineties. Japan has yet to recover completely. This recession together with other events such as the scandals surrounding the handling of the HIV problem and the

Jusen bailout, the ineffectiveness of the police to deal with the Aum Shinryo Kyo and the slow bureaucratic response to the Kobe earthquake reveal to many that the Japanese model was not what it was cracked up to be.

The second was the Asian financial crisis. Beginning in 1997, this crisis wreaked havoc with many Southeast Asian economies. Many observers, particularly Westerners, attributed the cause of this crisis to Southeast Asian practices of "crony capitalism" (whatever this might mean), excessive government intervention in the economy instead of letting the market decide, and so on. These observers contend that such practices originated from a Southeast Asian political and economic system that either derived its inspiration from Japan or contained many features not dissimilar to it.<sup>1</sup> These conclude that if Southeast Asia, or indeed Japan, were to recover, they should abandon the Japan Incorporated model and move towards Anglo-American capitalism.

It must be said these observers have a powerful point. If Japan and Southeast Asian had practised more "open" economies, in particular if such economies had been more responsive to market signals, they could have avoided the recession and the crisis. Moreover if both were to adapt to the era of financial globalization and the information revolution, such as are now apparently powering American's "new economy", the adoption of an Anglo-American system could be unavoidable.

Yet there is strong resistance in many Southeast Asian countries, particularly Malaysia, and I suspect, also among many quarters in Japan to a full embrace of the Anglo-American model. In part because these people fear the social costs (they saw what happened in Indonesia after the IMF programmes were implemented), and in part, they, particularly Malaysia, believe such an embrace could lead to a modern form of colonization.<sup>2</sup> Moreover some might argue that one could still achieve growth without fully adopting Anglo-American capitalism while continuing with some form of the Japanese model.

Given such reservations about Anglo-American capitalism, this paper attempts to assess the continuing relevance, or lack, of the Japanese model, and in keeping with the aim of the symposium, suggests some implications for Japan and Southeast Asian cooperation.

To begin with, a distinction is here made between the “effectiveness” aspect of the model from those aspects pertaining to the developmental and socio-cultural. Chalmers Johnson in his famous book on MITI<sup>3</sup> used the term “effective” to describe the involvement of the Japanese state in the economy. (He calls Japan a “plan rational” state) On the other hand, the “market rational” state (such as the American capitalist state) is concerned with “efficiency”. In short, the effective state aims at substantive ends such as in the targeting of industries for state prescribed purposes, for example, while the efficient state sets rules and

regulations for the proper conduct of business. The difference of course is much less clear-cut than I have put it but the purpose here is not to expatiate on this difference but to appropriate the term "effectiveness" to describe those aspects of the Japanese model which could achieve substantive ends. For our purpose, these are a high growth rate, the pioneering of new technologies and management methods and the conquest of world markets. These are the achievements that have made the the Japanese model justly famous. Johnson wrote primarily about the role of the state. I have however also included the contribution of the private sector, such as that of the Keiretsu system and the practice of what may be called "company welfarism" towards such accomplishments. The Keiretsu is considered because its system of engendering solidarity in its grouping such as through cross directorships and shareholdings on one hand and through cultivating the spirit of group endeavour on the other hand enable it to plan for the long term. The solidarity between bank and other firms in a particular Keiretsu, for example, allows for liberal loans from the bank to these firms as to reduce the dependence of such firms on shareholdings. There is less of the need, unlike most American and Western firms, to make reports quarterly or in some short period. The pressure for quick profitability is thus less urgent. This enables those Japanese firms then to concentrate on winning market share. Company welfarism such as involving lifetime employment,

seniority and enterprise unions for example can be “effective” in aiding economic performance as such practices induce greater labour commitment, reduce strikes, help innovation, achieve better quality control and so on.

The model is however not only about effectiveness. It is also about social stability and the maintenance of the core values of society. It is also about development, of how the state can be used to bring a developing country to a developed status. There will also be considered.

### **Effective Aspects**

The argument here is that the effectiveness of the Japanese model has been greatly eroded but depending on whether it can adapt to the age of globalization, not completely gone. On the other hand, the socio-cultural and developmental aspects still retain their attractiveness to Southeast Asia.

Some developments attest to this erosion. One, as mentioned previously, is the length of the Japanese recession. The Japan of the 90's and beyond is no longer achieving the high growth of the previous decades of the 60s, 70s and 80s. Indeed it is trying hard to avoid a contraction of its economy. Where growth is achieved, it is at a very low rate. Second, Japanese exports in what is called the three C's (cars, computers and cassettes) are no longer sweeping away competition that

was in their path. A good case in point is the automobile industry. At one stage there was talk not only of Detroit being destroyed by Japanese automobile exports but indeed of western civilization being threatened! While Japan still remains a formidable exporting power, there is less such apocalyptic doomsday talk by Westerners now. Indeed the shoe may be somewhat on the other foot. Renault, a car coming from a country, France, where alarmist talk of a Japanese automobile invasion has been the most strident, has bought over a large chunk of Nissan, the second largest Japanese automobile company. And of all things, it has put one of its executives to revamp Nissan operations, a far cry from those days when Western adoption of Japanese management methods was all the rage.

Moreover, the Keiretsu and company welfarism, because of certain global changes, are now perceived to be more of a drag than a boon to the effectiveness of the model. Precisely because the Keiretsu system need not be responsive to shareholders' demands, it is increasingly believed, Japanese firms have created overcapacity making it increasingly difficult maintain full employment. This difficulty is compounded by the long-term commitment to the employees.

By contrast the United States, once seem to be saddled with a declining economy and many other societal weaknesses at a time when admiration of the Japanese model was at its highest, is now not only

achieving a high rate of growth (by the standards of industrial economies) but also at a sustained rate. Some even call the present American performance as the longest growth in peacetime. Not only has the United States caught up in some of the technologies that powered the Japanese economy but is now in the forefront in utilizing the information revolution for its economy.

Thus the recent remarks by the senior minister of Singapore Lee Kuan Yew in a meeting in Japan that Japanese firms should respond more to market signals echo the view of many Southeast Asians that the Japanese economy is no longer a great performer.

There are many reasons for the declining effectiveness of the Japanese model. One is the adaptability, or lack, of the model to the information revolution. While Japan had achieved great success in the manufacture of computer hardware, its record in software is less sterling. Except for Sony and perhaps a few others, Japan has nothing like the plethora of successful American software giants such as Microsoft, and so on, not to mention internet companies such as Yahoo, Amazon dot. com and others. The technology of the future is clearly American dominated with Japan behind. It may be that the creativity needed to be successful in the information revolution is not simply a matter of the right state and business cooperation but of philosophical and educational considerations. Creativity, it is said, results from an individualism (for which the Americans

have in abundance) which the Japanese lack. Japanese are always told to conform (“the nail that sticks out will be hammered down”). Conformity stifles creativity so many believe. Similarly some might argue that an educational system, found also in many other Asian systems, that emphasizes rote learning rather than independent thinking, will not produce many Nobel prize winners. Whatever the reasons, they do not hide the fact that Japan Incorporated is not conducive, nay, may even be a hindrance to adapting to the information revolution. <sup>4</sup>

It is pertinent to note that two of the nations that were very gung-ho not too long ago about the Japanese model, Malaysia and Singapore, are not following any Japanese example in their recent attempts to harness the power of the information revolution. Malaysia a short while ago launched an ambitious project called the multimedia supercorridor or the MSC. The idea is to develop an area within Malaysia, in this case near the capital, Kuala Lumpur, where firms associated with information technology such as in teleconferencing, telemedicine, and so on would predominate. An international advisory board, consisting of the big players of the information age, has been set up by the Malaysian government to advise the government on the development of this corridor. While there are some Japanese advisers on this board, the model here, in so far as there is any, is Silicon Valley in America. A local newspaper headline in Malaysia aptly captures this change in orientation



when it describes Malaysia's attempt to achieve high technological status as moving from from Malaysia Incorporated to Malaysia dot. com!<sup>5</sup>

Singapore's aim to create an "intelligent island" or to wire itself as much as possible is even more ambitious as it is not confined to a particular area but the entire country, albeit a tiny one. It intends on one hand to create a group of technopreneurs meaning entrepreneurs in high technology that will power some kind of a "new economy" in Singapore, if at all possible, to on the other hand, make its entire population literate in the use of information technology.

Singaporeans are encouraged to own computers, use them in schools and for trading purposes and so on. If there is any model, it is not Japanese. Most likely it is Silicon Valley, or America as a whole.

A second reason is financial globalization. The ability of the state to direct capital to preferred industries or to other areas is a very important factor in the state's effectiveness. That was the case with the financially regulated Japanese economy. But the increasing dominance of the Thatcher-Reagon neo-liberal philosophy beginning in the early 80s of freer markets and deregulation has made it very difficult for countries to control capital movements, short of taking the most drastic steps such as capital control for example. Particularly for Japan, which after the Yen revaluation of 1985 became so financially powerful that it was using its money to buy up a lot of things overseas, thus increasingly undercutting

what justification it may have for regulating capital at home. As such, capital will move to where it gets the best return, undermining in the process the state's ability to direct capital to business.

The third reason has to do with the end of the Cold War. During the Cold War, a common enemy, the Soviet Union, bound together the United States and Japan together with America's Asian allies. This constrained the United States from doing anything which could fundamentally affect the economies of these allies. The American market was then open. Little or no pressure was exerted on Japan for reciprocity. And in general, the United States turned a blind eye to the practices of what may be called the development state of Japan and the Asian allies. Not so now. All manner of retaliation has been threatened and some implemented against Japanese exports, because of Japan's alleged close market, and in general, the United States has carried out a campaign against the developmental state.<sup>6</sup>

### **Non-Effective Aspects of the Model**

If the social aspects, particularly that of maintaining lifetime employment or of resisting pressure to retrench because of profit or market considerations no longer play much of a part in the model's effectiveness, nevertheless these serve the purpose of social stability. Retrenching employees is a deeply wrenching experience in any society,

even in the United States. In the United States, there is tremendous labour mobility because of the structure of its economic system (it is no problem to move from one firm to another) and also of the opportunity a vast continent offers to those who will like to move. There is also a certain frontier spirit perhaps still lingering (a "go west young man" kind of spirit). All these mitigate the harshness of retrenchment. The Japanese economic system is quite different. It is very difficult for example for a Sumitomo man, if fired, to find equivalent or better employment, in the Mitsubishi or Mitsui group. Such crossover is very rare if at all done. Hence, a retrenched Japanese employee will have few outlets, certainly not the opportunities of a continent like America. The retrenched could turn to anti-social activities that could lead to social instability.

Southeast Asia is somewhere in between the US and Japan as far as labour mobility is concerned. In the modern sector particularly in that dominated by the multinationals, labour mobility is quite common, but in the more traditional sectors such as those businesses still based on clan and pre-modern structures, labour mobility is limited. Retrenchment is a problem in the latter. Indeed Japan is remarkable in having a modern economic structure that is able to command a pre-modern loyalty from their employees.<sup>7</sup>

Related to this is the cultural aspect. Japan is a society that values harmony which can be jeopardized by mass, unemployment. But more

to the point is the value Japan places on loyalty. If an employee has given his loyalty to a firm should he be sacked because of no fault of his own but of market conditions? Would such retrenchment not go against a value that Japan as a society has always put great weight on. After all one of the great classics of Japan is Chusingura or the 47 Ronin which revolves around the loyalty masterless samurais gave to their wronged Lord even to the extent of committing suicide!

It is not that American society finds no place for loyalty; Americans value personal loyalty and in many other ways but it has developed nothing like the tradition of loyalty in Japan.

Many Southeast Asian businesses, particularly among those of Chinese origin which are clan based also value loyalty. These are also loath to retrench employees who have given them loyalty for primarily market reasons.

If the role of the state in the economy is losing its effectiveness,<sup>8</sup> does that mean the state should in Japan and Southeast Asia move towards the Anglo-American model of primarily ensuring efficiency. It is unlikely this will happen as far as in many countries of Southeast Asia are concerned as these countries still believe the state has a developmental role in the process of bringing a developing country into a developed status. Many believe a completely *laissez-faire* economy will lead to big foreign multinationals dominating their economies whereby Southeast

Asian countries would only become “hewers of wood and drawers of water” i.e. reducing to doing only the most menial of tasks. Some countries, like Malaysia, believe a new form of colonialism can even result. One might think such paranoia is very outdated in this global age, and they might be right. Nevertheless Southeast Asian fears over this should not be underestimated. They see the state as a crucial institution in preventing this.

### **Japan and Southeast Asia**

Despite what had been said, Japan can still serve as an example to Southeast Asia beyond the Japanese recession and the Asian crisis if it can make the transition from Japan Incorporated to the new realities, and still achieve high growth and social-cultural stability. If successful in this regard, Japan would have developed an Asian paradigm (if one can employ this much used but nevertheless appropriate word) that will be an alternative to Anglo-American capitalism.

The following areas in the Japanese transition should be of particular interest to Southeast Asians. One is the manner in which Japan manages the greater involvement of Western firms in its economy.

Japan and Southeast Asia in this regard are of course not completely the same. Japan for long had very minimal Western participation in its economy as a result of its relatively “closed” system

and that it could manage this “closed” system successfully without Western help. Japan was also never colonised. Southeast Asia on the other hand had Western involvement from colonial days (Western firms developed much of the modern economy of Southeast Asia), an involvement which is still very great today. Nevertheless many Southeast Asian countries are able to develop many modern economic sectors without Western control,<sup>9</sup> mostly through state intervention. And these Southeast Asian controlled economic sectors and Japan now face a Western onslaught different from before in that the traditional defenses against foreign involvement such as associated with that of the national control of one’s economic destiny no longer have much force in a post Cold War era, especially after Thatcher and Reagan. Also many Western firms are now armed with the latest advances of the information revolution.

How Japan balances its encouragement of its competitive firms without destroying its less competitive firms constitutes the second area of interest to Southeast Asians. One reason for the success of Japan Incorporated consists of the fact that many competitive Japanese firms are willing to pay high prices for things such as labour and other material, a payment which kept many less competitive sectors alive. This apparently is no longer possible particularly as many competitive Japanese firms have relocated overseas thus reducing their “subsidy” of

less competitive ones. This among other reasons have caused, something of a crisis in Japan's economy.

Southeast Asia is in a similar predicament. There are many domestic Southeast Asian firms which are quite competitive but have been somewhat restrained by the state to ensure that too great a social gap does not develop. This is also complicated by the fact that many of these successful domestic firms are of a different ethnic group (mostly Chinese) from that of the less successful ones, reinforcing a social cleavage with an ethnic one. Yet the pressure of globalization would reduce the ability of the state to intervene on behalf of the weaker firms, thus creating possibly a social political crisis.<sup>10</sup> A successful Japanese balance could provide useful lessons for Southeast Asia.

Finally, how Japan adapts to the information age would be of great interest to Southeast Asians. As mentioned, Malaysia and Singapore look towards Silicon Valley. Yet if there were a successful Japanese example, it would help. Like Japan, Southeast Asian countries have educational systems stressing rote learning, Southeast Asians are conformist (though somewhat more individualistic than Japanese but much less so compared with Americans) and respectful of authority. Moreover they, like the Japanese, also look more towards the state for guidance even in high technology. Compare this to America where Silicon Valley is private sector inspired. For example, the Malaysian multimedia super corridor is

state led. So with Singapore's intelligent island. The Singapore state has gone even to the extent of toying with the encouragement of creativity in its schools! Japanese success in high technology would have, I think a great impact on Southeast Asia.<sup>11</sup>

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<sup>1</sup> Many observers tend to forget that there are many differences between the Japanese and Southeast Asian situation. First, the Japanese recession came earlier than the Asian financial crisis. It resulted from a Japanese attempt to correct the bubble economy while the Asian financial crisis was externally induced, primarily by the precipitate movement of capital. Second, Japanese institutions owed not to foreign banks so much as to Japanese ones. Southeast Asian firms on the other hand were very much in hock to foreign lenders. This reduced their maneuverability, making them susceptible to IMF intervention. And third for all the talk of "crony capitalism" on both sides, the "crony capitalism" of Japan is that of a very advanced economy with a very high level of technology.

<sup>2</sup> Dr. Mahathir Mohammed, Malaysia's prime minister, believes this is so.

<sup>3</sup> Chalmers Johnson, MITI and the Japanese Miracle. The Growth of Industrial Policy, 1925-1975 (Stanford University Press, Stanford 1982) pp. 21.

<sup>4</sup> I am indebted to Dr. Kim Ong – Ginger, a researcher on Japan and the information revolution, for this observation.

<sup>5</sup> I read this recently in a local Malaysian newspaper but quite forgot the date. But the slogan is so apt as a description of recent Malaysian attitudes towards how a high technological society can be achieved that I cannot resist including it even if I have forgotten the source.

<sup>6</sup> I am not saying that there is a deliberate American policy to weaken Asian economies. Nevertheless there are many Americans who see Asian economic strength as a threat and would like to contain it. For example in the Asian crisis recently, Mickey Kantor, the former US trade representative, was quoted as saying that the West should use this crisis to prevent the emergence of new Japans!

<sup>7</sup> Japan is probably the only advanced society where there are so many modern firms or corporations which can command almost feudal like loyalty from their employees. If you are a Mitsubishi man or a Mitsui man, you are in both for life, more or less. There may be some equivalent in the West where you can be a Ford man for life. But the numbers are very much less and there is certainly less compunction in Ford than in Mitsubishi or Mitsui to retrench an employee. In Southeast Asia, comparable examples would be the clan-based businesses of the ethnic Chinese. But most of these businesses are not joint-stock companies like that of the Japanese.



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- <sup>8</sup> This is not to say the state cannot be still effective in the economy, though not in the sense that is used here. The state can impose capital controls as Malaysia did in the recent financial crisis to prevent a collapse of its stock market and currency. It can also, like Hong Kong recently, intervene in the stock market to prevent it from collapsing. These are however dire measures.
- <sup>9</sup> This is particularly true of so-called strategic sectors such as in banking, telecommunications and in heavy industries such as automobiles and steel. Long protected by the state, these are vulnerable to Western competition.
- <sup>10</sup> This fear was expressed by the deputy prime minister of Malaysia, Badawi Ahmad, in a speech in a Seminar organized by the Malaysian Strategic Research Centre Malaysia, on the 1999 Malaysian elections on February 3, 2000.
- <sup>11</sup> In this regard, Japanese success in animation suggests that Japan is not without some strength in the information revolution. I am indebted to Professor Saya Shiraishi of Kyoto Bunkyo University for pointing to me the impact of Japanese animation in Southeast Asia.