

Beyond Compatibility : Replicating High-Performing Asian Economies

Meicen SUN²⁰, University of Pennsylvania

Abstract

There is much contention on the applicability of the high-performing Asian economic (HPAE) model, often on the basis that the Asian countries' unique historical, political, economic and cultural conditions are really what make the model work. I argue in this paper, however, that the replication of this model may be desirable for certain economies. This is of course not without conditions. First, the country should have a significantly Pareto-suboptimal starting level of resource mobilization. The HPAE model is most effective in pushing a country's economic development toward the Pareto frontier through mobilization of underutilized resources. Second, given this, the success of an HPAE model hinges on the state's intervention in not only the procedural but also the substantive aspect of economic policymaking. Since there are presumably high stakes involved in having the state playing the "coach" (and not just the "referee"), having a reliable decision-making body is indispensable to implementing the HPAE model. Third, for the HPAE model to achieve its maximum effect, the demographic makeup of the target country should meet a few requirements, such as a relatively low dependency ratio. On the other hand, I contend that the country's sociocultural compatibility with the HPAE model is of limited importance because the HPAE is powerful in transforming such contexts to its advantage. Lastly, I address what I call a "latent political cost" in adopting the HPAE model as a policy caveat looking forward.

²⁰ Meicen Sun is a Ph.D student of International Relations at the Department of Political Science, University of Pennsylvania

DEFINING HPAE – ESSENTIALS AND NON-ESSENTIALS

I first set straight what defines an HPAE model. The World Bank characterizes the HPAEs as implementing neoclassical economic fundamentals such as high levels of capital and macroeconomic stability on the one hand, and enforcing robust government intervention to entrench these fundamentals on the other.²¹ Thus the *orientation* of the HPAE model distinguishes it from the plan ideological model in the sense that the model ultimately relies on the regulatory power of the market rather than that of the government to achieve economic growth, and the *degree* of state intervention distinguishes it from the market rational model because the government plays a much more central role in manipulating the market's regulatory power in the HPAEs than in a typical laissez-faire economy.²² Partly as a result, a strong, insulated elite bureaucracy is often observed in the HPAEs as primarily responsible for the making and implementation of key economic policies.²³

While scholars have attached various other qualifiers to the basic HPAE model, such as “input-based” vis-à-vis the

efficiency-based economies,²⁴ or in some cases “agriculture-oriented,” or “labor-intensive,” I consider these as different *manifestations* of the aforementioned two policy dimensions. They are the *economic* dependent variables resulted from the *political* explanatory variables – orientation and degree of state intervention. Similarly, specific *tactics* used by different HPAEs in realizing their economic objectives, such as the different forms of centralized economic planning across various HPAEs, should not be confused with the commonality in their political economic *strategy*, which is economic growth through goal-oriented state intervention. Only the latter is relevant to my argument henceforth.

I. STATE INTERVENTION IN REALIZING UNDERUTILIZED RESOURCES

Paul Krugman correctly identifies that a key to the HPAEs' success is their massive mobilization of resources to feed productivity growth by increasing input. Without achieving a level of technological progress comparable to that in the U.S., even highly efficient HPAEs like Singapore are merely a “one-time” occurrence and little more than the result of deferred gratification

²¹ “Strategies for Rapid Accumulation,” *World Bank*, 1993, 192.

²² These terms are borrowed from Chalmers Johnson. See Chalmers Johnson, “Market Rationality vs. Plan Rationality,” 216.

²³ Gregory Noble, “The Japanese Industrial Policy Debate,” 59.

²⁴ Paul Krugman, “The Myth of Asia's Miracle,” 64.

– namely the people’s “willingness to sacrifice current satisfaction for future gain” by complying with government policies aimed at producing future economic growth through sacrifices made in the present. Similarly, the miracle of China’s rapid growth is simply attributable to an exceptionally low baseline and the open-up policy that served as a “one-time recovery” from its near total stagnation.²⁵

Krugman’s critique is valid insofar as an input-driven development model is hard to sustain absent of a matching level of technological innovation. But to the extent that suboptimal growth is attributable, at least partly, to the underutilization of resources and a weak capital stock, the HPAE model is still effective in quickly bridging the capital gap. This is especially true for the so-called late developers in Alexander Gerschenkron’s linear stage theory, such as the vast majority of sub-Saharan and a number of Latin American countries today, which typically have both low levels of human capital – an undereducated population, and low levels of physical capital. The World Bank’s analysis shows the HPAEs’ advantage in providing the initial momentum through rapid accumulation of capital on both fronts. The HPAEs’ prioritization of basic education through substantial government subsidies

was, for example, essential to overcoming market failure associated with privatized education while creating the necessary positive externalities conducive to economic growth. More importantly, when horizontally compared to states of comparable development levels such as Pakistan and Peru, the success of the HPAEs’ human capital accumulation can almost solely be accounted for by their public education policies.²⁶ The productivity growth derived from improved basic education in the HPAEs was less the result of their cultural legacy than of this specific policy directive.

The accumulation of physical capital is a more complex issue. Some ascribe the boom of HPAEs like Japan, South Korea and Taiwan to the initial funding from the U.S.²⁷ This fails to explain the success of other HPAEs that did not have such foreign aid, e.g. China. To be sure, foreign direct investment (FDI) was the most prevalent means of acquiring physical capital from abroad for all HPAEs. Salient in this approach was the joint promotion of domestic savings on the one hand and investment, especially FDI, on the other.²⁸

²⁶ “Strategies for Rapid Accumulation,” 199-200.

²⁷ Tun-jen Cheng, “Political Regimes and Development Strategies: South Korea and Taiwan.” 147-150.

²⁸ See the discussion on such measures as favorable tax policies and price manipulation to attract (foreign) investors in “Strategies for Rapid Accumulation,” 228-235.

²⁵ Krugman, 70-78.

Together, these two levers created a steady and systematic bias toward investors at the expense of domestic savers. The importance of FDI and trade for a developing economy speaks for itself: Whereas Mexico had a similar level of per capita GDP to that of Japan, it plummeted immediately after the government restricted foreign trade, and has since fallen progressively further behind that of Japan's.²⁹ Not only did capital flow faster into the HPAEs, but it was usually better utilized as well. A horizontal comparison of the HPAEs with Latin America, again, shows that much of the former's superiority in growth was accounted for by the governments' direct channeling FDI into the most efficient industries, in this case manufacturing.³⁰

In most cases, household savings in particular provided the first "pool of funds" which was then efficiently invested to spur productivity and growth.³¹ Though frugal Confucious ideology and the history of suffering both played a part in people's desire to save, the HPAEs' domestic savings policies that actively rewarded such behavior was what ultimately sustained the capital flow.³² This ability to select certain

economic behaviors of the HPAE model also suggests that if there were a history of adversity that the government could tap into, as is the case for a large number of sub-Saharan African countries and certain Latin American countries that have undergone prolonged civil wars such as El Salvador, it might be especially easy for the government to promote domestic savings by appealing to people's sense of insecurity.

II. MAINTAINING A COMPETENT BUREAUCRACY THROUGH MERITOCRACY

Given the HPAE model's efficacy in mobilizing underutilized resources on a massive scale, we should then ask how such can be best achieved. Chalmers Johnson contrasts the "plan rationality" of the Japanese economy to the "market rationality" of that of the U.S., primarily by the state's substantial undertaking not only in the regulatory but also substantive economic matters in the former, to the extent that it essentially dictates "which industries ought to exist and which industries are no longer needed."³³ At different times and to different degrees, the MITI in Japan, the EPB in South Korea and the CUSA in Taiwan all assumed such a role in prioritizing economic goals by directly or indirectly dictating what was to be produced. This clearly demands tremendous foresight

²⁹ Henry Rowen, "The Political and Social Foundations of the Rise of East Asia: An Overview," 18.

³⁰ Anthony Elson, "What Happened?"

³¹ Edward Lincoln, "The Showa Economic Experience," in *Daedalus* Summer 1990, 196-197.

³² This point will be elaborated in Section III below.

³³ Johnson, 216.

on part of the leadership, and it was not accidental that all three states had a well-established institution that steadily supplied qualified civil servants into the system.

The legacy of the civil examination system in Confucious Asia did provide a foundation for such rigorous screening processes. For instance, in South Korea under Rhee and Park, hundreds of exam-takers typically vied for one vacancy in civil service, much like civil exams at ancient times.³⁴ But more important than the screening process is a robust incentive structure that retains talents in the bureaucracy. All HPAEs employed various schemes of reward-punishment to ensure that qualified bureaucrats not only enter, but stay in the system. Such incentives boil down to compensation and security. In postwar Taiwan, for example, technocrats in the economic planning agencies were consistently better paid than those in the other ministries. The status of the EPB in South Korea, similarly, was elevated not only by way of financial compensation, but also by its minister being given the same title of deputy prime minister.³⁵ Long-term job security for civil servants in Japan likewise helped create not only a competent bureaucracy, but also corporate coherence

that was critical to the consolidation of state-business relations.³⁶

Although both the examination system and the incentive structure for maintaining a qualified bureaucracy have their cultural roots in the HPAEs, these states also aggressively engaged in entrenching these mechanisms in their development model, hence making such a bureaucracy *endogenous* to their political economy, hence replicable beyond the Asian context.

Because of the highly paternalistic role of the state, the importance of leadership to the successful implementation of the HPAE model is evident. The strength of state intervention amplifies both the successes and failures of the state's economic policies. China, a latecomer in Gerschenkron's theory, offers one example in each direction: With the two disastrous policy programs of the Great Leap Forward and the Cultural Revolution, Mao practically stripped China of its economic productivity and trade capacity within three decades.³⁷ Yet under the equally decisive leadership of Deng, and the continuation of his open-up policy under Jiang and Hu, China caught up

³⁴ Tun-jen Cheng et al., *Institutions and Growth in Korea and Taiwan: The Bureaucracy*, 99.

³⁵ Cheng et al., 102-105.

³⁶ Peter Evans, *Embedded Autonomy: the State and Industrial Transformation*, 12.

³⁷ See, for example, Kenneth Lieberthal's account of the Maoist Era in Chapter 4 of *Governing China: From Revolution Through Reform*, and his attribution of the "greatest weakness of the Maoist system" to the fact that the Chairman "loomed so large in it," 122.

to be one of the largest and fastest growing economies second only to the U.S., also within about three decades. China's case is illustrative in showing not only the miracle that a market-conforming, "plan rational" dictatorship can achieve, but also the havoc that a market-nonconforming, "plan ideological"³⁸ dictatorship can wreck, *ceteris paribus*. This dichotomy, as well as the dichotomy of the two Koreas, demonstrate that the HPAE model goes far beyond the cultural constraint, and that the quality of the decision-making elites is a far better predictor of economic growth than either culture or history. A competent bureaucracy therefore serves to guard against the HPAE model's one inherent weakness – that of sporadically giving rise to a "worst outcome"³⁹, of which market rational liberal democracies usually manage to steer clear.

III. MAXIMIZING THE HPAE EFFECT – DEMOGRAPHIC MAKEUP

I outlined in Section I the policy undertaking by certain HPAE governments to secure rapid capital accumulation. Some of these policies' efficacy was derived from the country's demography at the time of implementation. A dramatic fall in

dependency ratio, for example, meant that any increase in physical capital and education resources already predicted by the policy would be further amplified by the decline in population.⁴⁰ Because of this, skeptics like Krugman dismiss such growth as a one-time occurrence since drastic demographic transitions resulting in a sudden, drastic drop in dependency ratio rarely happen. However, this does not mean that these policies are ineffective, just that they may not have as dramatic an effect as they did in the HPAEs if the dependency ratio happens to be high. Furthermore, since most of the developing countries today are characterized by a high and rising population density, such as most sub-Saharan African countries and Asian countries like India, the HPAE model may be particularly suitable for creating and furthering comparative advantage in labor-intensive industries.

IV. IV. WHY SOCIOCULTURAL COMPATIBILITY IS OVERRATED – THE TRANSFORMATIVE POWER OF THE HPAE MODEL

Finally, I evaluate from a historical constructivist point of view why sociocultural compatibility theory holds poorly for the HPAE model. Proponents of the "culture" theory argue that it is not the economic policies of the HPAEs *per se*, but

³⁸ Again, we are borrowing Johnson's term used for the USSR. See Johnson, 216.

³⁹ Yuhua Wang, lecture, October 14, 2013.

⁴⁰ "Strategies for Rapid Accumulation," 194-195.

rather such sociocultural norms as “group-oriented” ideology⁴¹ that make these policies work only in these Asian countries. It implies therefore that only countries with such deep-rooted ideologies can readily absorb the shock from aggressive government policies such as radical redistribution and top-down economic planning.

Interpretations along this line overlook the fact that more often than not, state intervention had to work *against* the East Asian culture in which it was embedded. The effective implementation of economic policies in the HPAEs owes more to the state’s active “persuasion and incentives to steer the private sector in desired directions,”⁴² rather than a natural inclination of the private interests to succumb to those of the state. Almost all HPAEs took coercive measures to weaken entrenched traditional and indigenous interests at some point⁴³ for the purpose of economic development. More than the

model’s innate compatibility with Asian cultures, we ought to recognize the HPAE model’s powerful ability in *shaping* sociocultural norms to its advantage. It does so by selectively rewarding the desirable aspects of the culture, such as the desire for secure savings in the case of the postal savings scheme in Japan,⁴⁴ while punishing undesirable ones, such as the feudalistic daimyo-samurai relations and landlordism.⁴⁵ The prevalent land reform in virtually all postwar East Asian economies, often in extremely violent forms which essentially “separate[ed]...the landlord from the land,” was perhaps the most radical move to mobilize social resources by completely severing old socioeconomic ties. This was often the result of “blatant manipul[ation]” by the military or civilian bureaucracy,⁴⁶ which lends more support to my bureaucracy argument than to the culture argument. To be sure, the gradual elimination of these “counterproductive” sociocultural aspects have helped sustain, over time, an illusion that HPAE has worked because of the Asian cultures in which it finds itself.

⁴¹ For an example, see Kozo Yamamura’s discussion on Japan’s postwar industrialization in “Bridled Capitalism and Economic Development in Japan, 1880-1980”, 67-68. A similar argument has been used for China and East Asian countries in general, where the ideological essence (*Ti*) of the country does not change with the practical means of production (*Yong*) borrowed from the West. See Jonathan Spence, *The Search for Modern China*, 225-226.

⁴² Daniel Okimoto, “Japan, the Societal State”, 214.

⁴³ See for instance, the KMT’s strategy aimed at weakening and transforming the indigenous interest structure in Taiwan post 1949, in Cheng, 146-151.

⁴⁴ “Strategies for Rapid Accumulation,” 220.

⁴⁵ For a detailed discussion of the tremendous risks involved in the abolition of the samurai class and the agricultural tax reform during the Meiji restoration, see Ann Waswo, *Modern Japanese Society, 1868-1994*, 43-45.

⁴⁶ John Dower, “The Useful war,” in *Daedalus* Summer 1990, 60-61.

In reality, what is left of the apparent “Asian culture” today is in itself the product of aggressive selection by the HPAE model over at least six decades. The “embeddedness” or “networked-ness” is, rather than a predetermined outcome of cultural compatibility, the very process by which the HPAE model works to manipulate the malleable private interests through lowering transaction cost on the one hand and closing the bureaucracy-market information gap on the other.

POLITICAL SUSTAINABILITY – AFTER PROSPERITY

Having evaluated the feasibility of the HPAE model, I now turn to its sustainability. As Krugman points out, the HPAEs’ success hinges not upon “growth in output per unit of input,” or efficiency-driven growth, but merely upon a sheer “expansion of inputs.”⁴⁷ Additionally, the HPAE model may be unsustainable for a deeper, political reason – the HPAE model tends to be politically self-undermining in the longer run.⁴⁸ Once a certain level of economic growth has been reached and all previously underutilized resources mobilized, the HPAE model may undercut its own achievement by degenerating into a system of diminishing productivity growth resulted from unchecked power of the

highly centralized and insulated bureaucracy. This is perhaps one of the strongest critiques for the HPAE model – that it tends to prioritize economic growth over other development objectives such as human rights, environmental sustainability and democratization, at the sole discretion of the ruling elites.

In fact, HPAE works well economically precisely by creating political, social and environmental externalities.⁴⁹ Such often goes unnoticed at first because the political cost of corruption and rent-seeking typically lags behind economic growth. This *latent* political cost may therefore only be activated at a later time, when marginal return from the input-driven growth starts to diminish and be outweighed by the sociopolitical price. The existence of this “tipping point” finds evidence in the similar paths taken by HPAEs including Japan, South Korea and Taiwan. In all three states, the formerly centralized decision-making body gave way to market and political liberalization after prosperity was achieved: In Japan, the dissolution and replacement of MITI ran concurrent to the country’s economic development, and were carried out as a relatively smooth phase-out process. South Korea and Taiwan, by

⁴⁷ Krugman, 63-64.

⁴⁸ Cheng et al., 100-101.

⁴⁹ For example, this can be political externalities such as corruption and rent-seeking, or environmental externalities such as pollution. For such cases see Cheng et al.’s discussion on the political implication in South Korea and Taiwan.

contrast, paid a much higher political price for a similar transition in their political economy.⁵⁰ On the other hand, Singapore is a case where the technocracy has carried through despite sustained high growth rate, and is sometimes considered to be an anomaly of high growth rate and rule of law without democracy.⁵¹

While there is no sure way to predict, *a priori*, which of these will occur once a country implements the HPAE model, the multiplicity of paths serves as a caveat that a sound exit option or phase-out strategy, *ex ante*, should be in the policymakers' calculus before implementing the model. Moreover, externalities like corruption are path dependent. Japan avoided this cost by strictly enforcing intra-system personnel rotation early on in its economic development, which helped ensure that the eventual phase-out of the centralized bureaucracy was prompt and smooth. China and Indonesia, on the other hand, missed the window of opportunity in their earliest stage of development, resulting in an ever increasing gap of corruption over time. But as Haggard suggests, it is entirely possible for countries to develop institutions conducive to both political liberty and economic growth.⁵² If a phase-out strategy is

established *ex ante* to put a limit on the bureaucracy's power, the HPAE model can be implemented with considerable success at a minimal cost.

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⁵⁰ Cheng et al., 89-90, and Wang, lecture, September 30, 2013.

⁵¹ Wang, lecture, October 14, 2013.

⁵² Stephan Haggard, *Pathways from the Periphery*, 256.