Mitii's Secret Life

The Japanese industry policy model has been a beacon for the Australian union movement in its struggle to situate itself in the region. But Kanishka Jayasuriya argues that the importance of the Japanese model has been dramatically overestimated.

With the end of the cold war, the division between the communist and the capitalist world is being replaced by new sets of international cleavages. One that is becoming more salient is that between liberal market economies in the English-speaking world and the Japanese or East Asian type of market economy. American observers like Francis Fukuyama appear to suggest that this cleavage will be the frontier where the next international battle of ideas will be fought.

Another influential group, comprised mainly of academics and media analysts, contends that Japanese industry policy and, in particular, the relationship between the state and the market in Japan is an impediment to free trade between the US and Japan. Advocates of this point of view have gained an influential foothold in some parts of the United States political structure.

In a similar way, a significant debate has emerged in both the developed and developing countries about the relative roles of the market vis a vis the state in economic development. Many argue for using industry policy to provide incentives to nurture certain high-tech industries, despite the lack of any clear comparative advantage for these types of industry. In other words, policy can be used to pick out industries which are potential ‘winners’ in the international market place. This argument has a good deal of support in the Australian labour movement and on the Left.

These policy stances appear to reflect, either implicitly or explicitly, the influence of the Japanese model of industry policy. However, I want to argue here that this view is based on a misleading interpretation of the Japanese model, chiefly because it ascribes to policy a strong capacity to shape industry structure and organisation. A closer reading of the Japanese experience would suggest that in reality the effect of industry policy in these areas is highly limited. Whatever effect it has lies in its capacity to shape, support and encourage pre-existing strengths in various industrial sectors, organisational patterns and activities. The emerging industry policy model is simplistic in that it assumes that industry policy is merely a matter of picking ‘winners and losers’. It also makes the dubious assumption that these winners are primarily to be found in the lucrative high-tech areas where, with a combination of the right policies, golden economic eggs can be hatched.

Given the influence of Japanese policy on such ideas, it is critically important to examine more closely the real lessons that could be drawn from the Japanese model and determine more accurately how it functions. Much of the rationale for the current forms of industry policy pursued in a number of countries arises from a misreading of the Japanese model. A little bit of history might be relevant here. At one time, the conventional wisdom was that the high level of Japanese economic performance was due to the pursuit of market conforming policies.

In other words, policy makers served to create the ‘level playing field’ beloved of neoclassical economists. However, this conception soon had to confront the evidence of extensive public intervention in the market to support certain industries. For example, a persistent feature of Japanese industry policy was the closure of the local market to foreign producers during the period in which local industry was made export competitive. Likewise, many analysts have noted
the widespread use by Japanese industry of strategic industry and trade policy to encourage important capacities, such as learning by doing, that market structures failed to deliver.

Not surprisingly, therefore, an alternative view of Japanese economic performance to the discredited 'level playing field' hypothesis has emphasised the importance of the state in promoting economic development. Both the proponents of the market and of statist perspectives underline the importance of economic and political aspects of Japanese economic growth. Indeed, initially these two perspectives coincided with the disciplinary boundaries of economics and political science, though the increasing dominance of the statist point of view in recent years has blurred some of these disciplinary divisions.

The 'statist' conventional wisdom of the recent past focused heavily on one key agency—Japan's Ministry of International Trade and Industry (MITI)—and its part in developing a range of industrial markets. These interventions range from the provision of subsidies to the organisation of research and development (R and D). The lesson of the Japanese model, according to this thesis, is the need to comprehend the active role played by MITI in fostering industrial development. In fact, MITI is imitated right across the globe in the hope of replicating Japan's economic success. Central to this argument is the notion that MITI has a high degree of autonomy from business interests, which enhances its capacity to intervene in industrial markets. These interventions range from the provision of subsidies to the organisation of research and development (R and D).

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Japanese success in sectors such as electronics has been made possible by the fact that these have been well suited to a flexible production process. For instance, the Japanese electronics industry has been geared towards producing for market niches and adapting rapidly to changing consumer needs. In a similar manner, Japanese dominance in the area of auto-production points to the superior nature of such innovations as 'just in time' production.

By contrast, the Japanese have been lagging in areas such as aerospace and biotechnology where these types of production processes are not as important in securing an advantage, and which require different structures for harnessing R and D (such as state-sponsored research centres and university-based innovation). It is in these research areas that Japan is relatively weak in comparison with the US. Therefore, even in areas such as R and D which seem to be highly amenable to public intervention, it is the way in which an industrial or any other market is structured which counts.

What, then, are the lessons of the Japanese experience for countries like Australia? Firstly, it suggests that current ideas about industrial targeting are based on a far too simplistic notion about the role and significance of MITI in Japan's industrial development. One clear lesson is that policy by itself is unlikely to have much impact on the pattern of industrial development. Effective and successful policies operate in conjunction with other structural forms such as the way market institutions are organised. Secondly, an emphasis on either the state or the market as the critical element in Japanese industrial development is misplaced. What is important is the way industrial markets are organised. Therefore, policies directed at industrial targeting, rather than picking the golden industrial goose, may more likely end up creating a lame duck. Rather, policies should be aimed at enhancing existing organisational strengths.

Finally, the Japanese experience suggests that the idea that all countries tend to move towards the same type of industrial structures needs to be abandoned. If there is one overriding lesson, it is that the type of industrial structure that a nation has is a product of a variety of factors, which cannot necessarily be replicated elsewhere. In fact, the most paradoxical lesson of the Japanese experience may be that a nation's industrial structure is heavily dependent on past patterns of development. From a policy perspective, the current fascination in many developed and rapidly developing countries with the expansion of high-tech industries is likely to end in failure. The current debate between proponents and opponents of industry intervention is likely to remain unproductive as long as it continues to be based on such misleading notions about states and markets.

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