

# Japanese Miracle and Uzbek Development Model: Comparative Study of Development Paths

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## Abstract

Japanese miracle is the primary exemplary of developing nations to find out ways of economic growth and development-led policies. Evolution of modern Japanese economy comprises the time frame from post-war devastated system of 1945 to a leading economic power of global economy of current millennium. Japanese development path possesses several lessons for developing and transition economies to follow and at least consider in transformation of economic system. This article compares the Japanese miracle and Uzbek model and examines the applicability of Japanese development measures to further economic growth of Uzbekistan.

**Keywords:** Japanese miracle, Uzbek development model, post-war recovery.

## 1. Introduction

After World War II, East Asia was the only region of the world that experienced continual substantial economic growth and no other East Asian country enjoyed more economic success than Japan (Ellington, 2004). Among postwar recovery and development strategies Japanese economic development became the success story and often cited as “Japanese miracle”. Historical evidence reveals that early years of postwar period Japan shown unprecedented multifaceted growth and economic boost. At that time other states of the postwar period, both losers and winners, were in a deeply rooted economic crisis, social depression and political chaos. Most economists often use the “Japan miracle” when they speak about Japan or any success stories in the history of international economy. Still this economy presents its power and international potential in global economic arena despite the geographic location with a small quantity of natural resources. Global turbulence and instability in global financial crisis and following tensions periods shocked many developed economies of the globe. Especially in Euro Area, long-term implications of this downturn still dominate and affect the proper functioning of national economies of member countries. Public budget deficit, financial market disorders and banking system turmoil erupted socio-economic stability. Comparative studies and preliminary strategic analyses found that Japan conducted the appropriate counter-crisis policy and took relevant measures for recovering financial sector. Public debt management, banking and financial market systems keep the comparatively stable and less risky profile among advanced economies.

After the Soviet dissolution all member states faced long-term economic crisis with excessive deterioration of life quality: unemployment, poverty and civil conflicts. Monosectoral specialization of economies made newly independent states undergo food chain crisis. Accelerated privatization and economic liberalization measures led to weak and vulnerable economic structures because of absence of people’s awareness of business conduct, ownership and free economic activity. As a former member of Soviet Union Uzbekistan also experienced a long term socio-economic crisis in 1990s. From the first decade of new millennia Uzbekistan launched all aggregates of its development strategy “Uzbek model” which stemmed from five core principles based on national priorities and internationally recognized development principles. Since the introduction of “Uzbek model” socio-economic structure enhanced, life quality, employment, industrialization, economic activity and business opportunities widened. However, observations and investigations show the need for international experience from leading countries of global economic community. During the transition process beyond economic system reforms mainly focused on gradual large-scale privatization, enterprise restructurization, price liberalization, competition policy, banking and interest rate liberalization, financial markets and nonbank financial institutions, foreign trade and currency liberalization. Investment activity promotion, business and corporate conduct, openness to foreign cooperation strengthened the relevance of transition principles further. Ongoing transition process has faced several issues in introducing the relevant aspects of market economy and conducting the reform.

This article attempts to study possibility of introducing the aspects and features, actions and strategies, lessons and experiences of Japanese economic development model to Uzbek economic system which is in the final and vital stage of economic transition to market economy. Time frame of research covers the period from postwar Japan till present. The research investigates each stage and period of Japanese economic development, analyses the results and implications of all reforms and transformations, compares the similarities between priorities of

both Uzbek and Japanese economic development models, and evaluates the opportunities and conditions of introduction of Japanese experience in public finance, financial markets, bank and nonbank financial institutions, business structure and behavior, and trade sectors.

## 2. Literature Review

Japanese economic development has been a hot topic for research and application in developing economies. Several strategies, frameworks and large scale studies were conducted in many countries on the bases of Japanese experience. However, still number and scope of studies on the applicability of Japanese development model for transition economies are limited, although lessons from Japan's economic history can be comparatively easily tailored and introduced to economic systems under structural reforms. Crawford (1998) studied the economies, who followed Japan's development path and analyzed the effects and consequences after adoption. He found that Asian Tigers created an analogue of Japan's business and corporate structures, while Western economies adopted Japanese management techniques in large corporations. Nakaso (2015) examined the condition of development finance in post-war reforms and sudden growth of Japan, and assessed the case for double trilemmas by Mundell and Schoenmaker with a strong focus on productivity effect. Takada (1999) investigated Japan's post-war economic development history, compared the pre-war and post-war conditions and studied the factors and different strategies for further growth.

## 3. Methodology and Hypothesis

This paper is structured around the retrospective and prospective analysis of Japan's economic growth under the comparative analyses with Uzbekistan's national development strategy called "Uzbek model". In this paper following questions will be answered based on the research findings and outcomes gained from analysis and comparative study:

**RQ-1:** Do Japanese and Uzbek development model have the similar features and priorities?

**RQ-2:** What aspects and features, actions and strategies, lessons and experiences of Japanese economic development model can be used as a pattern for Uzbek economic development in condition of transition to market economy?

For abovementioned research questions, following hypotheses are tested:

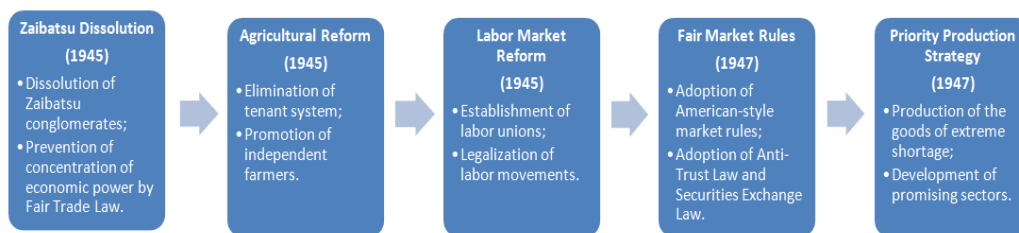
- **$H_{0a}$ :  $r=0$**  Japanese and Uzbek development model have not the similar features and priorities
- **$H_{1a}$ :  $r \neq 0$**  Japanese and Uzbek development model have the similar features and priorities
- **$H_{0b}$ :  $r=0$**  Aspects and features, actions and strategies, lessons and experiences of Japanese economic development model cannot be used as a pattern for Uzbek economic development in condition of transition to market economy
- **$H_{0b}$ :  $r \neq 0$**  Japanese economic development model partially can be used as a pattern for Uzbek economic development in condition of transition to market economy
- **$H_{0b}$ :  $r \neq 0$**  Japanese economic development model can be used as a pattern for Uzbek economic development in condition of transition to market economy

The first two hypotheses (*a*) are targeted to test and use to address RQ1 and the last the two hypotheses (*b*) targeted to answer RQ2.

## 4. Japanese Economic Development History: Main Steps and Key Reforms

Japan is the purest example of what has become known as a producer economic state, and many of its economic practices are now familiar (Crawford, 1998). History of today's success story dates back to the post-war recovery period of Japan which was totally devastated with a war-inherited loss of a quarter of national wealth, a tenth of prewar volume of industrial production, extreme shortage of goods and hyper-inflation. Harsh condition of economy and welfare was a burden to revive the normal life of the country which proves the absolute relevance of survival-led reforms. Post war recovery reforms were began in 1945, as called Reconstruction and Rehabilitation Phase and comprised the most important actions to drive the economy forward (Figure 1).

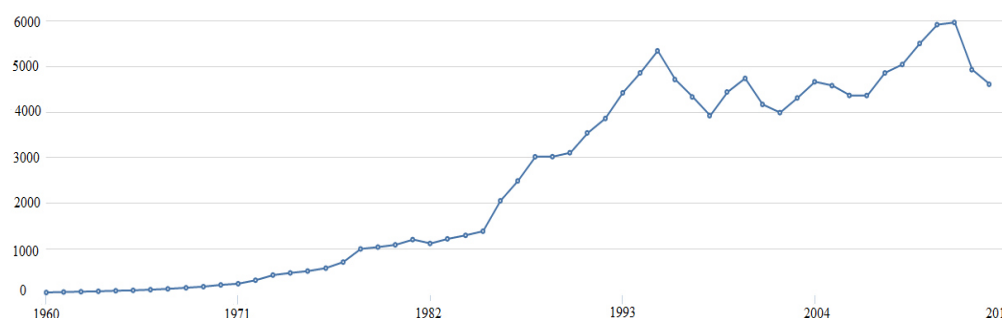
Figure 1. Initial post-war economic reforms in Japan



Source: Author's compilation

In 1949 Japan put the second milestone to economic miracle as Dodge Stabilization Strategy launched key reforms in fiscal and monetary systems. Macroeconomic tightening, transition to balanced budget on consolidated bases, increase of direct taxes, fixed exchange rate of US dollars and Japanese yen, counter-inflation measures and reduction of price subsidies ensured a solid foundation for economic development despite a short-term economic recession period in the early period of implementation of Dodge's strategy. Harmonization of sequenced reforms enabled the recovery from implications of war and provided an opportunity to leap from rehabilitation to economic improvement. In 1950s, Japan experienced large scale industrialization and strengthening of international competitiveness. Economic revival was reflected in government's business support policy (The Business Rationalization Promotion Act, 1952) and in a boost in acquisition of foreign technologies to modernize the economic system and sectors. Japan Development Bank, ExIm Bank, and Medium and Small Business Credit Corporation were established to provide long-term lending and capital to businesses for modernizing the equipment in key industries through fiscal investment and loan program.

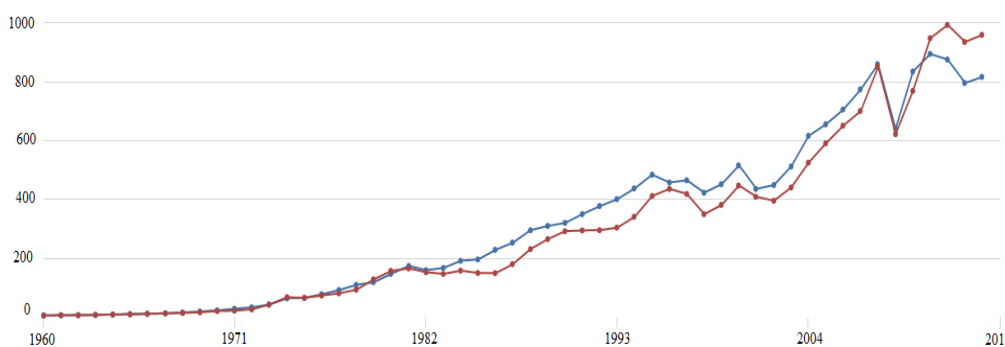
Figure 2. GDP volume in Japan at market prices in 1960-2014, billion USD



Source: World Bank, 2016

The Japanese economy eventually entered an economic growth process with positively reinforcing feedback: demand expansion - production expansion - increases in income - consumption expansion - further income expansion - increases in savings - investment growth and an expansion of production capacity (Otsubo, 2007). Mid 1950s and early 1970s are often referred as "rapid growth era" of Japan as Japanese economy grew at average 9.3 per cent annually in that period (Figure 2). In "rapid growth era" Japan run "catching-up policy" with other industrialized economies and kept a strong position in global market, thanks to gradual market opening policy in 1960s (Figure 3). In strategic manner, Japan enabled the market access in several stages: trade liberalization, free exchange of yen in international market, capital liberalization and permission for foreign ownership.

Figure 3. Export and import of goods and services in Japan in 1960-2014, billion USD



Source: World Bank, 2016

After 1970s, Japanese economy slowed in growth, faced recessions, crises and revivals again. Rapid economic growth era replaced with downturn in 1970s and late 1980s, as the annual growth rate reduced and averaged at 3.4 per cent. Japanese miracle shown the effects of bubble and exploded in 1990s and headed to the blind path of Asian Crisis occurred in 1997. However, economic development principles and economic policy outcomes of Japan before and after Asian and global financial crises are an important area of research interest. Current development status and economic profile of Japan is achieved through prudent monetary, fiscal and public debt management policy which shows the strategic character of Japanese economy.

### 5. Japanese Miracle and Uzbek Model: A Comparative View

Planned economic system of former Soviet Union promoted the absolute public ownership, collective capital exploitation and monosectoral specialization of member economies through unionwide outsourcing. After its collapse, former members began integrating to global economy and supported financial globalization with openness to international collaboration. Most of them are still in transition and reforming their economic systems. Difficulties in the early stage of market economy reforms shown the growing need for international partnership in gaining the relevant experience in running prudent economic policy in consistent with the principles of market economy because of absence of domestic specialists' knowledge of theory and practice in market economy. During the past period they coordinated basis of fiscal and monetary policy, ownership and business structures. However, competitive international economic climate requires the transition economies to keep pace with changes in global economic condition in order to ensure socio-economic stability and growth based on the experience of advanced economies. From the early days of independence Uzbekistan started large scale system-wide economic reforms and took actions for removal of outdated socialist economy inherited by the former Soviet empire. Despite the difficulties in transition, Uzbekistan conducted transformations to transit from centrally planned economy to market economy with a prudent strategy called "Uzbek model" and created an economic system working with market principles, competition and freely determined prices.

Uzbekistan was a pure agrarian economy specialized for cotton fiber supply with a handful of related industries like textile, agricultural machineries, food processing, oil extracting etc. Economic diversification and restructuring was vital to survive as an individual economy. During the initial phase of national development strategy, as mentioned Uzbek model, Uzbekistan conducted core reforms – difficult and challenging (Figure 4). In 1992 Uzbekistan launched privatization policy and met the first and the most important systemic requirement of adopting market principles. As result, Uzbek economy acquired the business climate, private and corporate ownership through decentralization and denationalization of public assets or state owned enterprises. Consequent reforms were followed with land ownership and tenure reforms which focused on the elimination of collective farms and creation of independent farming. There was an anecdotal view that in Soviet period people were deprived of earning revenues from any kind of legal business and eked out a living by the low wage and compensations from the government. After independence, free economic activity and entrepreneurship became one of the highly supported areas of economic development policy.

Figure 4. Core economic reforms in Uzbekistan

| Ownership Reforms   | Free Economic Activity   | Land Tenure and Ownership Reforms   | Financial Sector Reforms   | Free trade and investment reforms  |
|---|--|---|--|--|
| <ul style="list-style-type: none"> <li>• Elimination of absolute public ownership;</li> <li>• Private, corporate and foreign ownership;</li> <li>• Privatization policy in three stages commenced from 1992 to 1996.</li> </ul> | <ul style="list-style-type: none"> <li>• Elimination of government bans for self-employment and earning any kind of income other than wage;</li> <li>• Support for entrepreneurship and private business;</li> </ul> | <ul style="list-style-type: none"> <li>• Cancellation of communist-style collective farms and establishment of independent farming system;</li> <li>• Crop diversity reforms;</li> <li>• Creation of land ownership procedures;</li> <li>• Establishment of public-private partnership in agricultural production;</li> </ul> | <ul style="list-style-type: none"> <li>• Separation of public and business finance;</li> <li>• Creation of national financial services market and introduction of modern financial services e.g. individual, business and mortgage loans, leasing and factoring;</li> <li>• Creation of national financial market;</li> <li>• Currency and convertibility reforms;</li> <li>• Establishment of private and jointly owned banks;</li> </ul> | <ul style="list-style-type: none"> <li>• Export-oriented and import-substitution production;</li> <li>• Free trade opportunities for individuals and firms to export and import;</li> <li>• Openness for foreign and domestic investment;</li> </ul> |

Source: Author's compilation, 2016.

Financial sector reforms gained the central importance in a market-led development strategy of Uzbekistan. Creation of domestic financial markets and institutions under modern market economy principles, introduction

of national currency and ensuring its full convertibility, provision of full spectrum of financial services and participation of private and foreign shares in financial system seen as the success of financial sector reforms. In mid 1990s Uzbekistan removed all structural and systemic barriers to foreign capital and attracted foreign investments to promising sectors of economy. Capital mobility chain strengthened with export support and import-substitution schemes. Consequently, current economic profile of Uzbekistan totally diversified: number of fulcrum economic sectors increased and agrarian status eliminated, small and medium-sized enterprises are main supplier and private sector dominates the market.

## 6. Conclusion

Experience of Japan serves as a virtual laboratory for providing relevant solutions for existing issues and recommendations for further development. Our analyses shown that functioning of Japanese economic development model comprised set of prudent and time-efficient strategies which are worth in accordance with national priorities and interests to economic systems of both developing and transition countries. However, analyses show that there are systemic differences and varying orientations depending on the historical conditions between Japanese and Uzbek development paths. But a growing need for learning from Japan is apparent in the further transition process. Therefore,  $H_{1a}$  and  $H_{0b}$  match the research hypotheses.

From a practical standpoint, Uzbekistan had passed the most of the long transition path and adopted key aspects and elements of market economy in accordance with country specifics. Deriving from current and prospective development orientation of Uzbekistan, it is unavoidable scenario that business management and corporate relations have to be learnt, technology transfer and experience should be acquired.

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