

MITI'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.

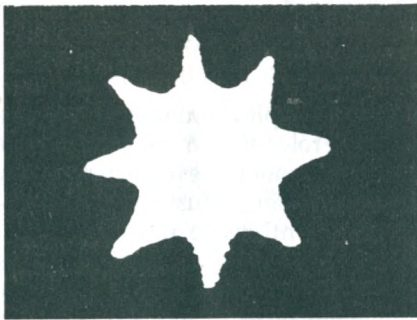
Not surprisingly, therefore, an alternative view of Japanese economic performance to the discredited 'level playing field' hypothesis has emphasised the importance of the state in promoting economic development. Both the proponents of the market and of statist perspectives underline the importance of 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 in the pursuit of long-term interests. It is this strength that gives the Japanese state the ability to intervene effectively in the operation of a variety of industrial markets.

A cursory examination of Japanese policy history tends to support the proposition that this form of intervention was indeed highly effective in securing the development of key industrial sectors. But the argument is fraught with difficulties. First, the record of intervention itself is somewhat clouded by the fact that on many occasions MITI has often been defeated by business-led opposition. Indeed, quite often business came to

dominate postwar regulatory mechanisms for implementing industry policy—a far cry from the picture of MITI independence painted by the proponents of the statist approach. It should also be remembered that MITI often failed to obtain legislative approval to expand its powers.

Another key difficulty encountered by the statist approach is methodological. To demonstrate that MITI has been an active player is by itself not sufficient to establish that favourable outcomes have been the result of its intervention. An equally plausible reading of the evidence is that MITI actions simply reflected industry demands. In other words, on a reading of the internal history of MITI alone, the direction of causation remains unclear. What this suggests is that MITI policies in a specific sec-



tor need to be put into the context of the development of that whole sector. When looked at in this manner, the apparent independent influence of MITI on Japanese industrial development is much less than that normally claimed by advocates of a doctrinaire statist viewpoint.

A final problem with this approach is that it places too much weight on policy. The Japanese experience suggests that what is important is not the right policies alone, but also the right industrial structure. Industrial structures are the results of specific historical and external forces that are highly durable. By themselves, policies cannot fundamentally change the basic nature of industrial organisation.

For these reasons, a body of writing has emerged which suggests that the nature of Japanese industrial development is best understood in terms of the specific way in which industrial sectors are organised. What this perspective—we might call it institutionalist—suggests is that

markets are important, but not in the sense of the neoclassical 'level playing field' approach. Instead, it emphasises the specific types of organisation structures which are characteristic of Japanese industrial activity. These structures include the way in which large industrial groups in any one sector are linked to their suppliers in a complex network.

In such networks, the ties that bind are not only economic, but are also found in the investment in trust which an economic network entails. In fact, from this perspective, many of the cultural attributes and norms that are often identified as invisible forces which shape economic development are more explicable as rational economic responses. Moreover, the notion of organisation goes beyond this type of networking to include the way in which work, and even attitudes to work, are structured. It also includes the very important arrangements that link the private sector to the state. From this institutional perspective, the organisational structures that characterise the leading Japanese industrial sectors such as electronics are the key to understanding the nature of Japanese industrial strength.

A further important facet of the Japanese organisational structure is the flexible nature of Japanese production. Mass production methods of the traditional 'Fordist' type are organised around the production of one standard product of high volume and at the lowest cost. Both machinery and workers become specialised such that they can be used for one specific task. Flexible production, on the other hand, is structured around an organisation capable of producing a wide variety of goods able to satisfy specific needs. Under this form of industrial production, workers need to be highly skilled with a capacity to work in different settings. They also have to be flexible and adapt rapidly to changes in the way a particular product is produced. Further, a critical organisational pressure for flexible producers is the need to maintain close contact with suppliers. Consequently, enterprise networking is a key feature of this type of organisation.

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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INDONESIAN

HUMAN RIGHTS FORUM



Newsletter on Development and Human Rights in Indonesia

Prepared by
The Indonesian Legal Aid Foundation (YLBHI)

INDONESIAN HUMAN RIGHTS FORUM is prepared by the Indonesian Legal Aid Foundation as a medium of information and for discussion of human rights issues and their development in Indonesia.

INDONESIAN HUMAN RIGHTS FORUM is published quarterly, in January, April, July and October, and circulated on a limited basis.

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