

INDUSTRIAL POLICY IN EAST ASIA

Lessons for Malaysia

Editors

JOMO K.S.

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University of Malaya Press

PUSTAKA PERDANA



1005994

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Preface

More than a decade and a half after the announcement of Prime Minister Mahathir's Look East policy soon after he became premier in mid-1981, there is still considerable superficial understanding and even misunderstanding of what it is he wanted Malaysians to emulate. By the mid-1980s, it appeared as if he only wanted Malaysian to emulate Japanese and Korean work ethics. However, this ignores the initial scope of the challenge posed by his policy (See Jomo 1983, 1985, 1992).

This volume is primarily concerned with one aspect of the original challenge, namely that of industrial policy. The impressive growth performances of the World Bank's (1993) eight high-performing Asian economies (HPAEs) — Japan, South Korea, Taiwan, Hongkong, Singapore, Malaysia, Thailand and Indonesia — are no longer in dispute. However, many would dispute that there is such a thing as an East Asian growth model. Perkins (1994) has suggested that there are three models: one for the resource - poor and interventionist northeast Asian economies of Japan, South Korea and Taiwan, a second for the city-states of Hongkong and Singapore, and a third for the relatively resource-rich South-

east Asian countries of Thailand, Malaysia and Indonesia. While one might dispute many aspects of this categorisation, e.g. grouping interventionist Singapore with relatively non-interventionist Hongkong, it seems useful to focus our attention on the first grouping, which is what we try to do in this volume.

Very briefly then, this volume draws lessons from the Northeast Asian experiences to draw industrial policy lessons for others interested in late industrialisation, especially Malaysia. The bulk of this work is undertaken in Part One primarily by Tan Kock Wah in the first five chapters of this volume. He begins in chapter 1 with a brief review of the relevant debates in economic development policy, especially after the neoclassical 'counter-revolution' against development economics in the 1980s. In the next three chapters, he considers the role and consequences of industrial policy in pre-war and early post-war Japan, as well as South Korea and Taiwan before the 1990s. The fifth chapter draws some lessons from the preceding discussion for industrial policy. The sixth chapter, by Chin Kok Fay, reviews finance—industry relations in Japan, Korea and Germany to highlight how alternative institutional arrangements may be more conducive to more supportive and effective bank financing of industrial investment. Rather than postulating an East Asian model, the chapter suggests that such alternatives to Anglo-American financial systems — so influential in Hongkong and Southeast Asia — have developed in different parts of the world.

Part Two extends the discussion by looking at the implications of the Northeast Asian experience for industrial policy in Malaysia. Chapter 7 compares and contrasts the experiences of the first-tier or first-generation East Asian newly industrialising economies (NIEs) with that of Malaysia, and suggests some difficulties for Malaysian efforts in emulating them. The eighth chapter compares and contrasts the Malaysian with the South Korean experience, focusing on the different nature and role of industrial policy in the two contexts. Chapter 9 reviews Malaysia's industrialisation experience, highlighting the changing role of government policy over time. The concluding chapter focuses on the policy options and dilemmas faced by the Malaysian government in trying to accelerate late industrialisation by using industrial policy instruments.

While there is much less talk of looking East in Malaysia these days, there is little doubt that the rapid industrialisation of Japan and the first-generation East Asian NICs inspired Malaysia's own late industrialisation efforts especially during the Mahathir era since the early 1980s. But this has not meant the same policies throughout. During the early and mid-1980s, Malaysia embarked on a heavy industrialisation programme — a second round of import-substitution. Then fiscal, and foreign debt problems, exacerbated by other economic difficulties, required a drastic revision of policies, resulting in some deregulation and economic liberalisation, including privatisation, as well as new incentives to

induce higher value-added export-oriented manufacturing investments. With economic recovery from the late 1980s, the 1990s has seen far more attention to technology policy as the government has taken various initiatives to upgrade manufacturing technology, skills and productivity in the country (see Jomo & Felker; Jomo, Rasiah & Felker). There is also far greater recognition of the mixed consequences of closer economic integration with Japan (Jomo, 1994).

In sum then, there is considerable evidence of significant improvements in Malaysian government capabilities, of the authorities having learnt significantly from the experiences of the last decade and a half, if not more. Yet, some of these lessons need not have been learnt from hard, sometimes painful, bitter and costly experience. While it has become trite to say that those who do not learn the lessons of history are condemned to repeat it, there is much for Malaysians and others to learn from our own as well as other experiences. This volume is therefore a modest offering to draw deeper inspiration from the East Asian experience by better understanding the nature and role of industrial policy in the late industrialisation of the region and its lessons for others who seek to emulate it.

Acknowledgements

I am grateful to my co-editor, Tan Kock Wah, who has prepared the bulk of this volume from his Master of Economics dissertation completed under my supervision. I am also grateful to the other contributing authors, namely Dr. Chris Edwards, with whom I have had a long and fruitful collaboration, and Chin Kok Fay, who also prepared his chapter from part of his Master of Economics research paper under my supervision.

I am also grateful to Routledge in London, who have kindly allowed me to use material by Chris Edwards and myself previously published in my edited volume, *Industrialising Malaysia: Policies, Performance, Prospects* (London, 1993). Part Two of this volume includes revised material from chapters previously published in that volume.

Much of this volume was compiled for the SAREC research project coordinated by Professor Johan Saravanamuttu of Universiti Sains Malaysia and Professor Peter Walensteen of the University of Uppsala. I am grateful for their support.

The establishment of the East Asian Studies Department in the University of Malaya, and through the initiative of the university's Deputy Vice Chancel-

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lor, Professor Dato' Dr. Osman Bakar, provided the impetus for preparing this publication.

As usual, I am grateful to Mr. Foo Ah Hiang for his help, and also to the university's Publications Department for their cooperation. Tan and Chin have been responsible for the proofreading, while as usual, I must take responsibility for any remaining shortcomings.

Jomo K. S.
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