

Comparing the Applicability of the Japanese and Chinese Models to Malaysia

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Abstract: An intriguing question arises as to why the Chinese model did not catch on in Malaysia and the rest of the Association of Southeast Asian Nations (ASEAN) 5 (i.e., Indonesia, the Philippines, Singapore, and Thailand) as compared to the Japanese model when China's post-1980 growth rate exceeded Japan's growth rate in the 1970s and 1980s. China's performance is even more impressive due to its scale (China has a population of 1.3 billion compared to Japan's 120 million). This article attempts to answer this by first considering the timing. The Japanese model was adopted in the early 1980s when Malaysia then was looking for a model, but not now. The nature of both models will be discussed. The Chinese model is not original and is a derivative of the Japanese model. It too was successful in alleviating poverty, and attracting foreign investment. These achievements hold no allure for Malaysia, which also has a good record in both endeavours. Finally, that Japan is an industrialised country and for a long time had a one party dominant system appealed to Malaysia.

Keywords: Chinese model, developmental state, Japanese model

JEL Classification: O10, O20, P17, P50

1. Introduction

This article explores the reasons for the lack of appeal of the present Chinese model for Malaysia, and the other Association of Southeast Asian Nations (ASEAN) 5 countries (i.e., Indonesia, the Philippines, Singapore, and Thailand) as compared to the appeal of the Japanese model in the 1970s and 1980s. In that period, an infatuation for the Japanese model could be seen among many of the ASEAN 5 countries. Two of these countries, Malaysia and Singapore, had launched official campaigns to emulate Japan. Singapore began its 'Learn from Japan' campaign in 1978, whilst in 1982, Malaysia embarked on its 'Look East' policy to emulate Japan. Of the other ASEAN 5 countries, both The Philippines and Thailand expressed a need to follow the Japanese model. In 1987, the Filipino Trade and Industry Secretary, Jose Concepcion, was quoted as saying that his country "must become something like Japan Incorporated" (*Asian Wall Street Journal*, 1987) Many Thais also expressed an interest in emulating some aspects of the Japanese model. The *sogo shosha*, the general trading companies, of Japan, were of particular interest to the Thais (Lee, 1988).

Thus, the present lack of appeal of the Chinese model is surprising as many of the features that these ASEAN countries found attractive in the Japanese model are also found in the Chinese model today. In terms of economic prowess, Malaysia and many of the ASEAN 5 countries were then dazzled by the high growth rates of the Japanese economy in the decades after the Second World War, and by the ability of the Japanese companies to penetrate world markets. Yet China has also been experiencing a similar high growth

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rate. In fact China, in the three decades from 1980, “has grown by an average of almost 10% a year, more than the growth Japan or the Asian Tigers (Hong Kong, Singapore, South Korea, and Taiwan) achieved over similar periods when their economies took off” (*The Economist*, 2007b). Chinese goods are also penetrating world markets even if they are less technologically sophisticated than those exported by the Japanese. The high growth rate of the Chinese economy is still continuing (though somewhat less than the 10% of the previous three decades) whereas Japanese economic growth has greatly slowed. The bursting of the Japanese economic bubble from the 1990s onwards has seen it experience recessions. And if one considers the scale of things, China’s achievement, again according to *The Economist* (2007a) is even more impressive as its population is more than ten times larger than the Japanese population. China has a population of 1.3 billion compared to the Japanese population of 120 million.

Next, China is still a developing country whilst Japan became an advanced industrial country in the 1970s. One would have thought that Malaysia and the other ASEAN 5 countries, being developing countries themselves, would find they have more things in common with China than with Japan.

Lastly, the Chinese model is not lacking in boosters (Ramo, 2004; Zhang, 2006; Channel News Asia, 2006; Jacques, 2012). While many of these boosters may lack the prestige of the earlier advocates of the Japanese model, such as Vogel (1979) and Johnson (1982) who were professors from very prestigious Western universities such as Harvard University and University of California (Berkeley) respectively, and the wide currency the Japanese model enjoyed (in the 1980s there was a veritable cottage industry of books on lessons from Japanese management, quality control circles and so on), they nevertheless are no slouches in pushing the Chinese model. Even the Chinese government has joined in the act, pushing its record of poverty reduction to countries in Latin America (Hawksley, 2006).

This article will consider the comparative appeal, or lack of appeal, of both the Chinese and Japanese models from the perspective of two ASEAN 5 countries, primarily that of Malaysia, and to some extent Singapore. It will focus on three aspects, namely the nature of both models, the goal of becoming an industrialised country, and the similarity of political systems. Prior to this, two issues are considered, namely the comparability of both models, and the significance of the comparison.

The ability to objectively compare the models’ attractiveness, or lack of it, from different time periods, such as China today and Japan in the 1970s and 1980s, is complicated by the possibility that the domestic factors that propelled Malaysia and Singapore to seek Japan as a model may be different from the present factors. Take Malaysia, for example. Malaysia under the Mahathir administration in the early 1980s was actively seeking a model that was different from the model it was practising. Hence it was very susceptible to adopting a model that might prove attractive. Malaysia today evinces no desire to make any radical departure from its present path, and hence maybe less likely to adopt any model, however dazzling it may be. Moreover, the environment of international relations is different. The environment that allowed for the emulation of Japan’s developmental state model at a time when the Cold War was on is not present today for a possible emulation of China, and of any other country that might be practising the developmental state model. Notwithstanding these differences in the domestic imperatives and the external

circumstances, this article will focus primarily on the features in the Japanese model in the 1970s and the 1980s that were found to be attractive to Malaysia and Singapore. It will then consider whether such features are found in China today.

This comparison will also give us some insight into the inherent attractiveness of the political-economic systems of both China and Japan (at least the Japan of the 1970s and the 1980s). It would tell us something about the soft power of both systems. Soft power is defined as the capacity of a country to attract other countries without bribery or coercion. According to Nye (2004), one of the leading theoreticians of soft power, the greatest source of soft power “comes simply from the powerful attractiveness of an open and affluent society.” Nye (2004, p. 6) adds that such a society should be able, in the words of John Winthrop, an early English settler in Massachusetts, to serve as “city upon a hill that would shine like a beacon for the rest of the world to emulate.” It is doubtful whether Japan in the 1980s and present non-Maoist China have any ideological spirit comparable to the religious fervour of the early English settlers. Nevertheless, the basic point about the ability of a country to act as a model of soft power, with or without puritanical zeal, is valid.

2. The Nature of the Model and Mahathir Mohamad’s Adoption of the Look East Policy

When Mahathir took over as prime minister of Malaysia in 1981, he was looking for a continuation of the New Economic Policy (NEP) introduced in 1970, which focused on reducing the economic gap between the Malays and Chinese within the context of economic growth. The implementation of the NEP in the decade after it was introduced had been done through state enterprises. Mahathir found such enterprises to be inefficient and wanted to bring the NEP to a new stage by developing among the *Bumiputeras*, an entrepreneurial community, a so-called *Bumiputera* Commercial and Industrial Community (BCIC), without sacrificing high economic growth. Mahathir looked for a model that could deliver this but could not find it in the then two most significant types of political economy, the *laissez faire* economy and the command economy. The *laissez faire* model, which was practised in Malaysia before the advent of the NEP, could not, according to Mahathir Mohamad, help reduce the economic gap between the Malays and the non-Malays, even if it was conducive to economic growth (*Rakyat Post*, 2015). The ongoing state involvement in the economy was considered essential to the reduction of this gap and also to help develop the BCIC. However, the experience of state intervention in command economies (mostly practised then by socialist countries) had been dismal as it paid no heed to market forces, being concerned primarily with achieving ideological ends. Mahathir on his part was not impressed with such a system as it would have led to economic stagnation. This can be seen from a speech he made to an International Monetary Conference (IMF) conference in 1985 in Hong Kong where he spoke of the “end of extreme socialist ideology” brought about by “the severe loss of faith in the efficiency of rigid, over-centralised planning” (Khoo, 1995). In the Malaysian context, Mahathir would have been aware that such stagnation could bring about political instability.

Mahathir believed that the Japanese experience showed how state intervention can bring about both economic growth and social justice, particularly one that can reduce

the economic gap between the Malays and non-Malays. By the early 1980s, Japan had not only recovered from the devastation of the Second World War but had developed into one of the largest economies in the world. It had been experiencing tremendous economic growth while dazzling the world with many of its exports, such as cars, cassettes, and computers. Moreover, Japan had achieved such economic development without sacrificing social stability (because inequality was not very great to begin with) and national identity.

These Japanese achievements made a deep impression on Mahathir, as can be seen from his adoption of the Look East policy in 1982 and his frequent extolling of the Japanese work ethics (which he believed was a major reason for Japanese economic growth) and conversely from his many disparaging remarks about the deteriorating work ethics in the West. An example of his attitude can be seen in a speech he made to a joint gathering of Japanese and Malaysian businessmen and industrialists in 1982, when he told them that he had “been extolling Malaysians to emulate the Japanese, particularly in work ethics and ethical values.” He went on to say that the West was no longer a suitable model for Malaysia. “They (the West)”, he continued, “have lost their drive. They still want the good life but are no longer prepared to face the realities of the world market, which they can no longer dominate. Consequently, if we emulate them, we will land ourselves in the quagmire they are in without ever passing through the golden period they went through” (Mahathir, 1982).

At the same time, Mahathir believed that the Japanese model could also deliver social equity, though this is often not well publicised given the emphasis on the dazzling economic achievements of the Japanese model. That this was not an unimportant consideration can be seen in a revealing statement he made in 2000 when the Japanese model had become passé. When asked as to what had been achieved in the ‘Look East’ policy, he defended the policy by stating it had aided race relations (*New Straits Times*, 2000) The implication from this remark is very obvious, that the ‘Look East’ policy had helped in reducing the gap between the Malays and non-Malays.

The heart of the ‘Look East’ policy was the adoption of the concept of Malaysia Incorporated, after the fashion of Japan Incorporated. In essence this meant the adoption of a system where the state and business are not confrontational, as is claimed to be the case in Anglo-American capitalism, but cooperative in nature. State intervention in the economy, whether for economic growth or for ideological ends, should as much as possible be in tune with market forces, unlike state intervention in the command economies where market considerations are sacrificed for ideological ends.

But for Mahathir, state intervention of the Malaysia Incorporated form need not follow one path. He was not, for example, very impressed by the heavy emphasis, practised in the first decade of the NEP, where the focus was on the role of state or public enterprises. Their intervention in the economy had not brought about the results intended. Whilst he did not do away completely with such enterprises, his preference was for the state to put the emphasis on encouraging a native Malay capitalist class. In this context, one has to view his introduction of the privatisation program, which in the main benefited private Malay entrepreneurs, as in consonance with the practice of state intervention, if not necessarily in ideological terms. Some for example, have not considered the privatisation program as being directly part of the ‘Look East’ policy. Khoo (1995) writes only of the

very close relationship between the two, calling privatisation a twin of the 'Look East' policy while Gomez (2007) sees the influence of the philosophy of neo-liberalism at work in the adoption of privatisation. Whatever the case, it is undeniable that privatisation was introduced not too far from the time the 'Look East' policy was launched and saw the use of the state to encourage the development of a Malay capitalist class by leasing or selling off of state enterprises to this class. Thus, following the three types of political economy as put forward by Johnson (1982), the *laissez faire* economy, the command economy and the developmental state, Malaysia's 'Look East' policy comes under the latter.

It has to be stated that societal and government realities in Malaysia at the time of the introduction of the 'Look East' policy were quite different from that of Japan as to make it difficult for Malaysia Incorporated to work in the same way as Japan Incorporated. Japan is a relatively homogeneous society where those who dominate the bureaucracy and the private sector come from the same race. Moreover many of the leaders of both government and business are graduates of Tokyo University, the most prestigious of Japanese universities. Given the great premium the Japanese place on the old school tie, what they called *gakubatsu*, it was relatively easier for the bureaucracy and private sector to cooperate as compared to Malaysia. Malaysia is a very racially heterogeneous society. At the time Mahathir became the Prime Minister, the Malays dominated the bureaucracy, while the Chinese and foreigners dominated the private sector, though this is changing somewhat with the increasing role of government linked corporations, which are dominated by Malays, going into business. Not one for being fazed about the challenges ahead, Mahathir's way of implementing Malaysia Incorporated was primarily the identification by himself and his closest aides, of people who can constitute the BCIC and a number of Chinese businessmen, and persuading or browbeating the Malay dominated bureaucracy to go along.

Fast forwarding to the present, the Japanese model has become *passé* because of developments in Japan, and also the Asian crisis of 1997 had shown up the limitations of the developmental state. The neo-liberal model seems to be on the ascendancy. Malaysia, for its part, loathes to completely embrace the neo-liberal model given the strong emphasis on the reduction of racial inequality in the economic arena. It may not be averse to emulating a new model, which can combine economic growth and allowing autonomy to the state to address social inequity.

The existence of such a model in China is debated in the literature. One argument is that the Chinese model is not the neo-liberal model, which is seen as ideologically driven. The Chinese model allows for a country to follow its own path. Thus Ramo (2004, p. 9) writes of a Beijing Consensus that has replaced "the widely-discredited Washington Consensus, an economic theory made famous in the 1990s for its prescriptive 'Washington-knows-best' approach to telling other nations how to run themselves. The Washington Consensus was a hallmark of 'end-of-history arrogance'; it left a trail of destroyed economies and bad feelings around the globe." Zhang (2006) writes that as far as Africa is concerned, the "American model is largely ideology-driven with a focus in mass democratisation. With regard to local conditions, it treats sub-Saharan Africa or other less developed regions as mature societies in which Western institutions will automatically take root." Jacques (2012, pp. 230 & 619) is impressed with the role of the state owned enterprises in China's economic development

and the capacity of the Chinese to rid themselves of inefficient enterprises.

The essence of the Beijing Consensus, which is not based on the neo-liberal model, is described by Ramo (2004) as being a desire for equitable, peaceful high-quality growth, and a vigorous defence of national interests. Zhang (2006) adds that one of the important aspects of the Chinese model is that it is "led by a strong developmental state capable of shaping national consensus on modernisation and ensuring overall political and macro-economic stability in which to pursue wide-ranging domestic reforms."

Zhang (2006) quite explicitly claims China to be a strong developmental state. Similarly, Ramo (2004) states that Beijing Consensus is neither the *laissez faire* economy nor a command economy, and less explicitly claims it to be some variant of a developmental state. Thus the Chinese model is in its essence not basically different from the Japanese model. In fact there is a lot of evidence that the Chinese have modelled themselves on the Japanese experience. Wang (2006) writes of how the success of the four Asian Tigers influenced the Chinese after the end of their Cultural Revolution. It was these examples that China sought to learn from after the return of Deng Hsiao Ping. "The Chinese," he continues, "did not necessarily follow the Japanese model directly but they studied the economies that had benefited from the Japanese experience" (Wang, 2006). Johnson (1996) writes of how the Chinese have "discovered the secret of the enrichment of the rest of East Asia-Japanese-style state-guided capitalism and began to act on it." He went on to add that the Chinese also studied with the greatest care his book on the role the Japanese Ministry of International Trade and Industry (MITI) played in the Japanese economic miracle.

It is possible that the Chinese model is not a slavish copy of the Japanese model. It may have variants that could be emulated by others. One particularly relevant feature of Chinese development is the role of foreign investment. Many will argue that such foreign investment is a big driver of the present Chinese economic growth. A developmental state with a big role for foreign investment, unlike the developmental state models that were practised by Japan and South Korea which allowed little room for foreign investment, could be an attractive option for developing countries. Such a model reduces the scope for protectionism against one's products in the Western markets, especially in the United States of America, as many of such products would come from the investment of Western multinationals. This is especially critical as nations that would presume to be developmental states no longer enjoy the mostly unimpeded access to American markets that the Japanese and the Koreans enjoyed during the Cold War. The Americans allowed this then as they needed Japanese and Korean support in the fight against communism. They will not easily now allow unimpeded access to their markets by countries practising developmental state methods as they do not need such countries in any ideological struggles. They might do so if their own multinationals are involved. This can be seen in the export of Chinese goods to the American market, where a great many of these products are made by American multinationals. Hence states, even if they used developmental state methods but allow for meaningful foreign, especially American, investment, may enjoy good access to the American market.

This kind of model, however, offers nothing new to Malaysia as it has always relied greatly on foreign investment to fuel its economic growth, long before the Open Door policy of Deng Hsiao Ping in 1978. In an important sense, the implementation of the NEP, which

some scholars have argued was the beginning or the foundations of a developmental state, made possible with foreign investment (Rahman, 2007). The importance of foreign investment in the early decade of the NEP (1971 to 1980) can be seen from its share of 10% to 15% of gross fixed capital (World Investment Report, 1999). This is a high percentage for any country. Foreign investment is still playing an important role in the Malaysian economy currently. Hence the Chinese variant of the Japanese developmental model is already in practice in Malaysia.

Since the open door policy, using a variant of the state developmental model, China has managed to reduce the number of its citizens mired in poverty during the three decades or so after 1980. The World Bank (n.d.) gives a figure of 400 million people while some Chinese estimates give about 220 million (Zhu, 2006). These are impressive numbers. Even at the lower estimate of 220 million, the figure is slightly less than the population of Indonesia. Imagine almost the entire Indonesian population being lifted above the poverty line! It is no surprise then that the UN is pushing for developing countries to learn from China on this score. Indeed, even China is still pushing for further poverty reduction.

While this Chinese achievement may be impressive for Africa and Latin America, it may, however, be less so for Malaysia. Malaysia itself has made great strides in poverty reduction. While it may have experienced a high rate of poverty in 1970 of about 50%, it has managed to reduce the poverty rate greatly. The incidence of poverty went down to 17.1% in 1990, and in the latest figure available in 2004, the rate was 5.7% (Ragayah, 2008). Furthermore, Malaysia's achievement on poverty reduction is accompanied by a slightly better record than the Chinese in coping with income inequality, even if the Malaysian rate is still high. The Chinese Gini coefficient has been increasing from 0.424 in 1996, 0.456 in 1998, 0.457 in 1999, and 0.458 in 2000 (*People's Daily*, 2001). The Malaysian Gini coefficient has been steadier from 0.470 in 1997, 0.452 in 1999, and 0.461 in 2002 (Ragayah, 2008).

Another variant of the developmental state is the extensive use of state owned enterprises (SOEs) to develop the economy, unlike that of the Japanese or the Koreans. The Japanese relied on private business groupings variously described as the *Zaibatsu* such as Mitsubishi and Mitsui, and *Konzerns* to run the economy, albeit these groupings are heavily favoured or guided by the state. And in the Korean case, these groupings are the *chaebols*, such as Samsung and Hyundai, which are family controlled. The Japanese *Zaibatsu* were family controlled before the Second World War but the families were stripped of power by the occupying American authorities. Thus according to Jacques (2012), the use of SOEs, and the ruthless way the Chinese forced the inefficient SOEs out of business, could be a lesson for others. Malaysia is no stranger to the use of SOEs, as stated before, and has developed its own versions known as Government linked corporations (GLCs). In contrast to the Chinese, the Malaysian Government cannot be too ruthless with inefficient GLCs as they are basically Malay run with the vast majority of their employees being Malays. Shutting down such GLCs in a racially divided society could create not only political tension, but possibly racial clashes.

3. The Goal of an Industrialised Country

Though mentioned earlier that Malaysia should find something in common with a developing country like China, in truth Malaysia and Singapore, when they were looking

for models, were looking for those that have successfully reached an industrialised or an advanced status. Japan has reached this status while China has not. China's achievements might have either already been achieved by Malaysia or are those of a developing country that does not hold very much appeal.

In the Malaysian case, the attempt to create a native Malay commercial and industrial class is a good case in point. Malaysia sees this creation as an essential step in its march towards industrialisation. Japan has, in Malaysia's opinion, been successful in this endeavour whether one traces this back to the *Meiji* period or to the period after the Second World War. China has not developed such a class, if indeed it wants to develop such a class at all given its professed socialist creed.

And indeed the assumption behind the adoption of Malaysia Incorporated, after the fashion of Japan Incorporated is that that is the best way for Malaysia to reach the status of an industrialised country like Japan. So with Singapore with its 'Learn from Japan' campaign being based not only on the belief that Singapore shared a similarity in physical endowment (or lack of) with Japan in that both are resource poor and dependent on human resource, but also that Singapore can follow Japan's path to an advanced country. Chin (1984, p. 84) states that "a time when Singapore is actively seeking to restructure its economy and move up the technological ladder, Japan is looked upon as a model from which positive lessons may be learned."

As to China today, Singapore finds no such lessons in the Chinese experience, and indeed China itself is looking to Singapore as a model. As mentioned earlier, China has been emulating the Asian Tigers, of which Singapore is one. There is enough evidence to show this Chinese fascination with the Singapore experience. One needs only to refer to the statement of Lee Kuan Yew, former Prime Minister of Singapore, in this regard. After an official visit to China in November 2007, Lee speaking to the Singapore media said that China was studying Singapore very seriously including how its civil servants are trained and how the members of Parliament conduct 'Meet the People' sessions (*Channel News Asia*, 2007). In general, the Chinese, according to Lee, see themselves as moving in the direction of Singapore.

4. Similarity of Political Systems

Another reason why the Chinese achievements have not much appeal for both Malaysia and Singapore is that they are achieved in the context of a dictatorial system. Even if one can point to evidence of democratising tendencies in China, in essence it is a one party system where the communist party has total control and Halper (2012) points out that one distinguishing feature of the Chinese model is its non-democratic nature. Malaysia and Singapore, while not totally conforming to Western type democracies and also not totally adverse to adopting authoritarian methods if the necessity arises, are nevertheless not dictatorships. They have to consider the wishes of their electorate (as they are subject to general elections), and they are also more responsive than the Chinese to the rule of law. It would be doubtful whether the Malaysian and Singaporean governments could or would be able to do many of the things done by the Chinese government without some drastic changes in their political systems, changes for which they see no necessity to make.

Japan by contrast is democratic. However, the political system has for almost the entire period from 1955 been dominated by one party, the Liberal Democratic Party. Japan has been in effect a one party dominant system, not a one party system like China. Such a system has allowed for a bureaucracy in a democracy, in particular the Ministry of International Trade and Industry (MITI), without the distraction of having to cope with changing governments in a two party or a multi-party system, to bring about the Japanese economic miracle.

Malaysia and Singapore, right from their independence have been governed by only one party, with *Parti Perikatan* (which later became *Barisan Nasional*) and the People's Action Party, respectively. Whilst Mahathir (1984) might not have been directly talking of the one party dominant system of both Japan and Malaysia when he spoke of the commonality of political philosophy enjoyed by both despite many differences, the fact of policy making stability in both systems might have been on his mind. Certainly, the important role of the bureaucracy in a one party dominant system was not lost on him when he created a Malaysian MITI, after the fashion of the Japanese MITI, to help implement his 'Look East' policy.

In this respect, the latest entrants to ASEAN, Cambodia, Laos, Myanmar, and Vietnam, the so-called CLMV countries may have more in common with China. The CLMV countries have one party systems or a military dominated dictatorship and practise the command economy. The Chinese achievements would be relevant to them. And indeed the CLMV countries, in trying to make the transition from command economies to market economies, are looking at the Chinese example. They are as interested in having socialism with their own national characteristics as the Chinese have been achieving their socialism with Chinese characteristics.

5. Conclusion

The Japanese model in the 1970s and 1980s appealed to a country like Malaysia as it was believed that this model could provide both high economic growth and social equity. In contrast, Malaysia does not find the present Chinese model attractive as it is a derivative of the Japanese model, and hence not original. Where the Chinese model has variants from the Japanese model in that it allows for an important role for foreign investment, has a good record of reducing poverty, and that the role of SOEs is crucial, they are not something new to Malaysia. Malaysia in fact has also a successful record of attracting foreign investment and poverty reduction. Also SOEs are playing an important role in the Malaysian economy if they are somewhat different from the Chinese enterprises. A second reason for the lack of appeal of the Chinese model is that China has not reached the status of an industrialised country whereas Japan has. Malaysia is keen to join Singapore in gaining an industrialised status. Malaysia is more impressed with a model that has been successful in enabling a country to become industrialised compared to one that is still struggling to do so. And finally, Malaysia and Singapore have a one party dominant system like Japan. Hence they find it easier to follow the Japanese path, than attempting to emulate the Chinese one party dictatorship.

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