From convergence to divergence? A case study of Japan in growth and decline

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One of the commonplaces of debates over divergence and convergence is the manner in which Japan, having embarked upon a deliberate policy of industrial modernization from the last quarter of the nineteenth century, eventually after wartime defeat in 1945 achieved stellar growth and convergence with its principal competitors. It was a convergence that appeared to vindicate a very divergent, distinctive political economy. Central to this story are the advantages Japan gained from having a fixed and undervalued exchange rate down to the 1970s and the willingness of America for geopolitical reasons to acquiesce in the country's deliberate policy of economic mercantilism. Convergence it seemed depended to a considerable extent on the good fortune of accommodating international circumstance and the simple ability to exploit cheap capital and labour. In some ways Japan's experience mirrored that of earlier industrialized nations in that it exploited technologies to comparative advantage and reaped the benefits of privileged access to a huge market for its exports.

Such benefits were not to last. Japan's economic denouement from the late 1980s onwards seemed too many critics to be a not unexpected outcome to the workings of an essentially flawed economic system. Convergence had been gained by the exploitative use of capital and labour with little thought of the natural laws of diminishing returns and by a series of networked relationships that were inimical to the workings of the free market. Western-style political economy seemed the surer path to lasting modernity. In consequence Japan's 'developmental state' lost favour as a blueprint for the development of emerging nations. Indeed, it was increasingly seen as a principal cause of the country's lingering setbacks from the 1990s onwards.

This paper traces the symbiotic links between Japan's high-growth experience and its subsequent decline to examine why and how it became trapped in a form of institutional and ideational obsolescence from which it has proved difficult to escape. In doing so, we highlight the importance in the convergence/divergence debate of how a nation can engender a highly distinctive form of political economy for the purposes of catch-up growth and remain convinced of its relative superiority over that of more mature industrialized nations only to find that
without timely adaptation to changing national and international circumstances it becomes increasingly unable to sustain growth and prosperity.