

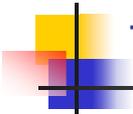


The Transferability of the East Asian Development Experience

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Photo by Saizou Uchida (location: Sakai-gun, Fukui Prefecture, Japan)



Three Levels of Transferability

- (1) Blindly copying East Asian policies to different soil (main banks, postal saving, priority production system...) **NOT ADVISABLE**
- (2) Selective transfer of theories and policies (distinguish common features from specific, international comparison studies...)
- (3) General philosophy and methodology: East Asian approach to development and its problems

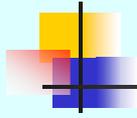
A lot of confusion occurs if we mix these levels...

- This presentation focuses on the third (general transferability)
- No need to adopt East Asian policies exclusively (most suitable international experience for each country should be adopted)



The Menu for Discussion

- East Asian experience (as viewed by Japan's aid ministries & aid executing agencies)
 - Economics
 - Political economy and leadership
 - New selectivity?
- Development as Japan perceives
- Our advice for Vietnam
- Sub Saharan Africa?



East Asian Development

- Growth driven by trade and investment
- Collective growth, not isolated or random
- Staggered participation in regional production network
- Region as an *enabling environment* for catching up (model and pressure)
- Authoritarian developmentalism



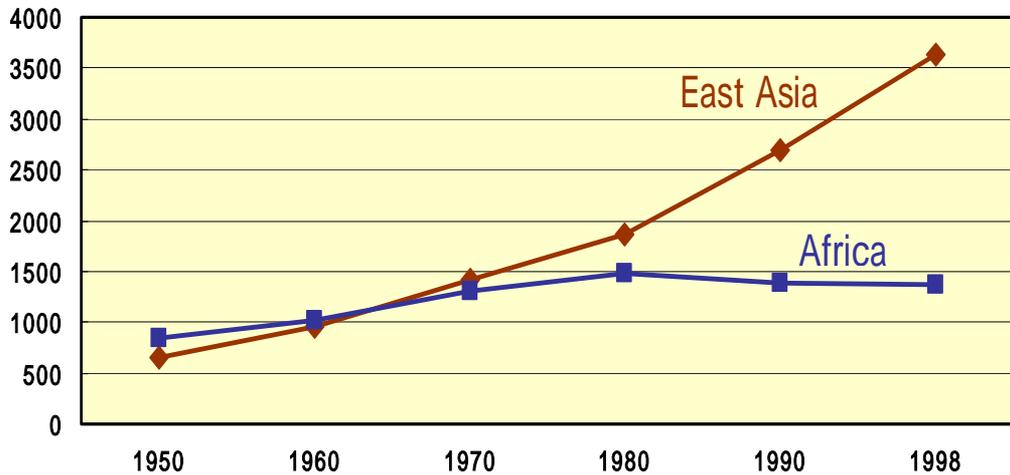
“Asian Dynamism”

(Also known as the *Flying Geese Pattern*)

- Geographic diffusion of industrialization
- Within each country, industrialization proceeds from low-tech to high-tech
- Clear order and structure (with a possibility of re-formation)
- <Warning> Not all success--crises, failures, instabilities also often occur

Per Capita GDP

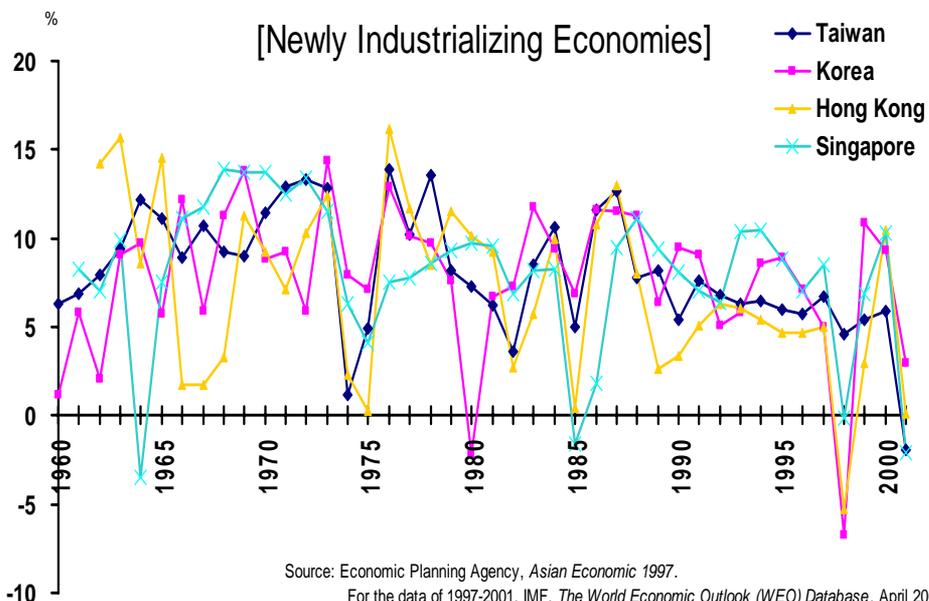
(In 1990 international Geary-Khamis dollars)



Source: Angus Maddison, *The World Economy: A Millennial Perspective*, OECD Development Centre, 2001

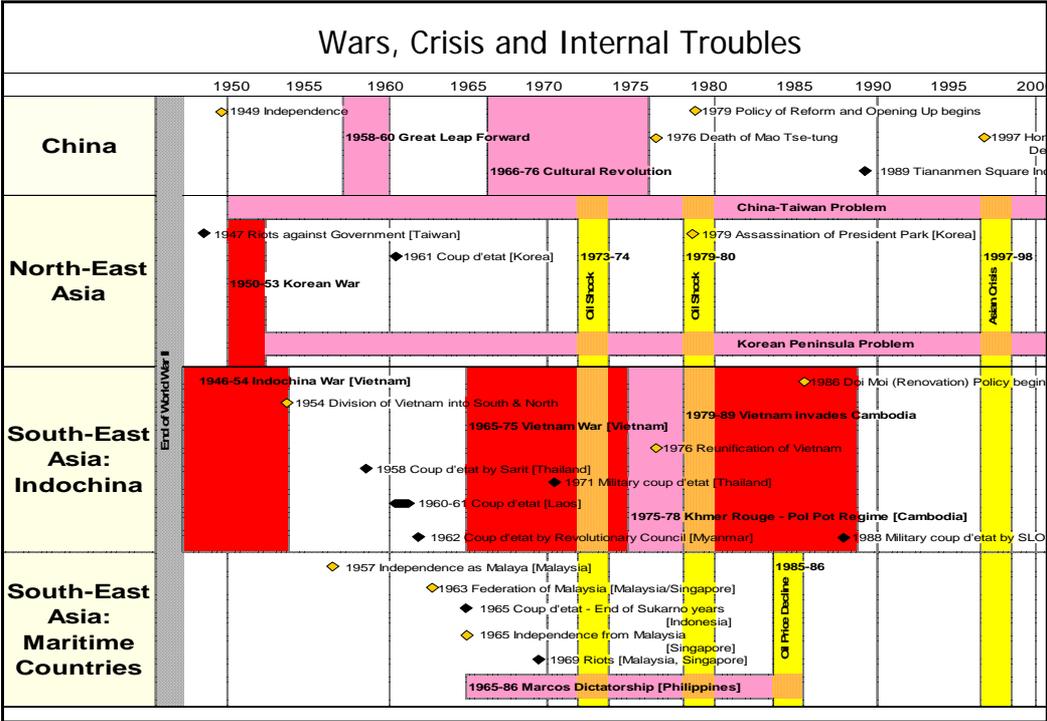
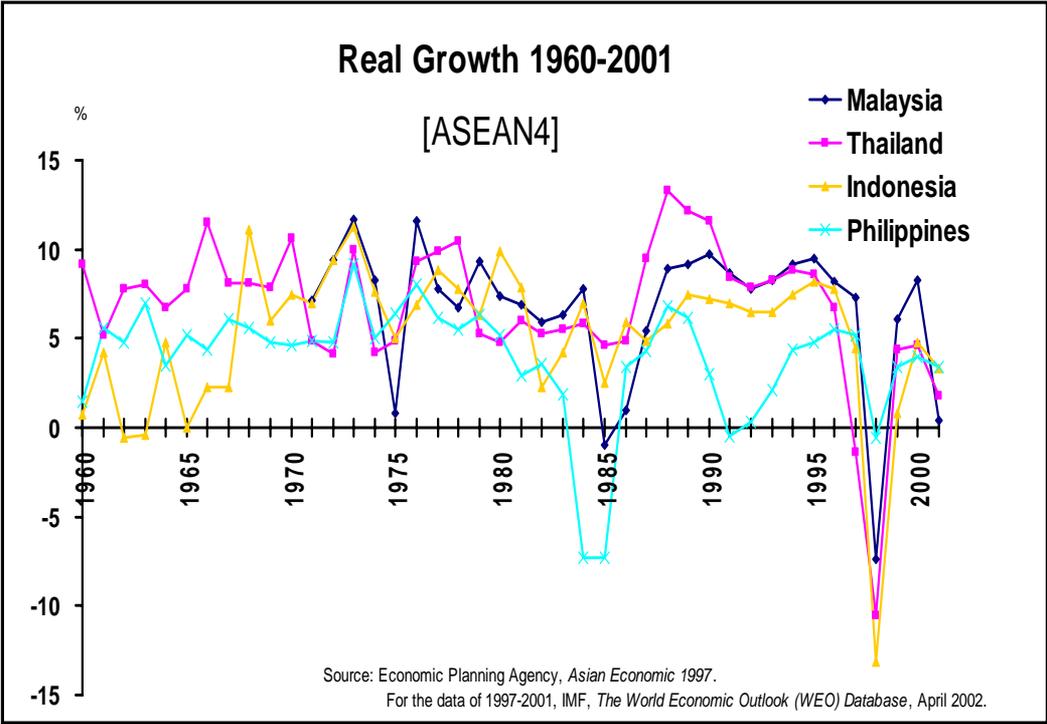
Real Growth 1960-2001

[Newly Industrializing Economies]

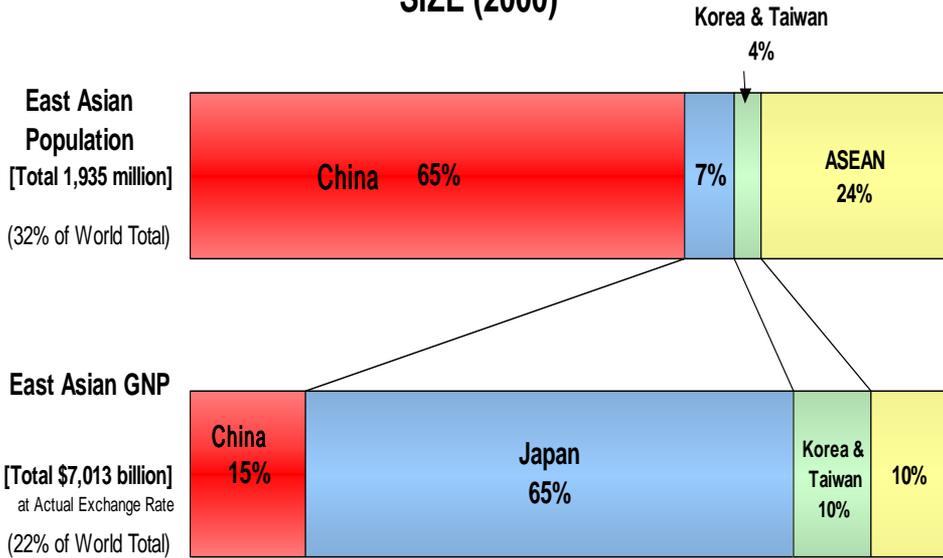


Source: Economic Planning Agency, *Asian Economic 1997*.

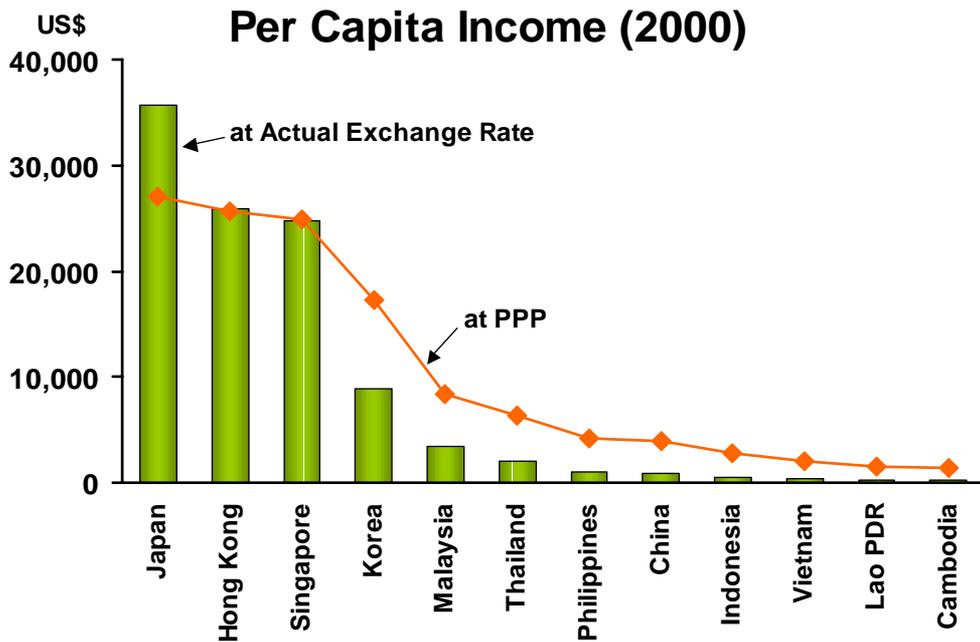
For the data of 1997-2001, IMF, *The World Economic Outlook (WEO) Database*, April 2002.



SIZE (2000)



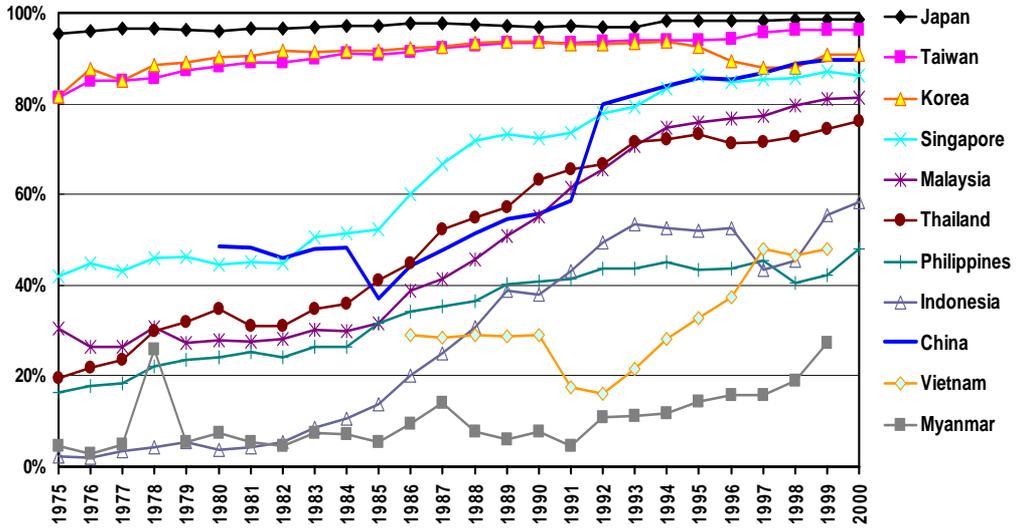
Sources: World Bank, *World Development Indicators 2002*; For Taiwan, ADB, *Key Indicators 2001*.



Source: World Bank, *World Development Indicators 2002*.

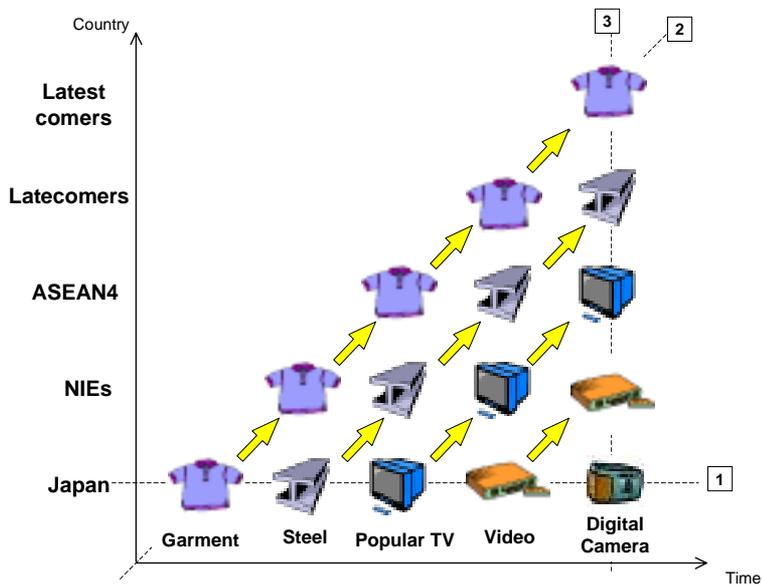
Manufactured Exports

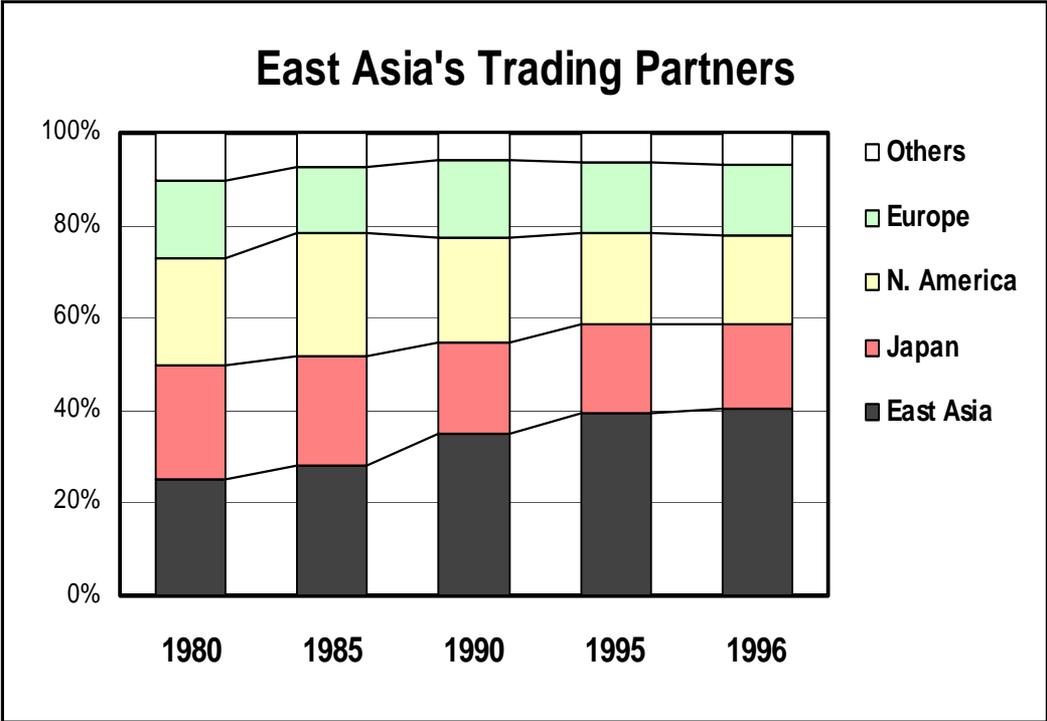
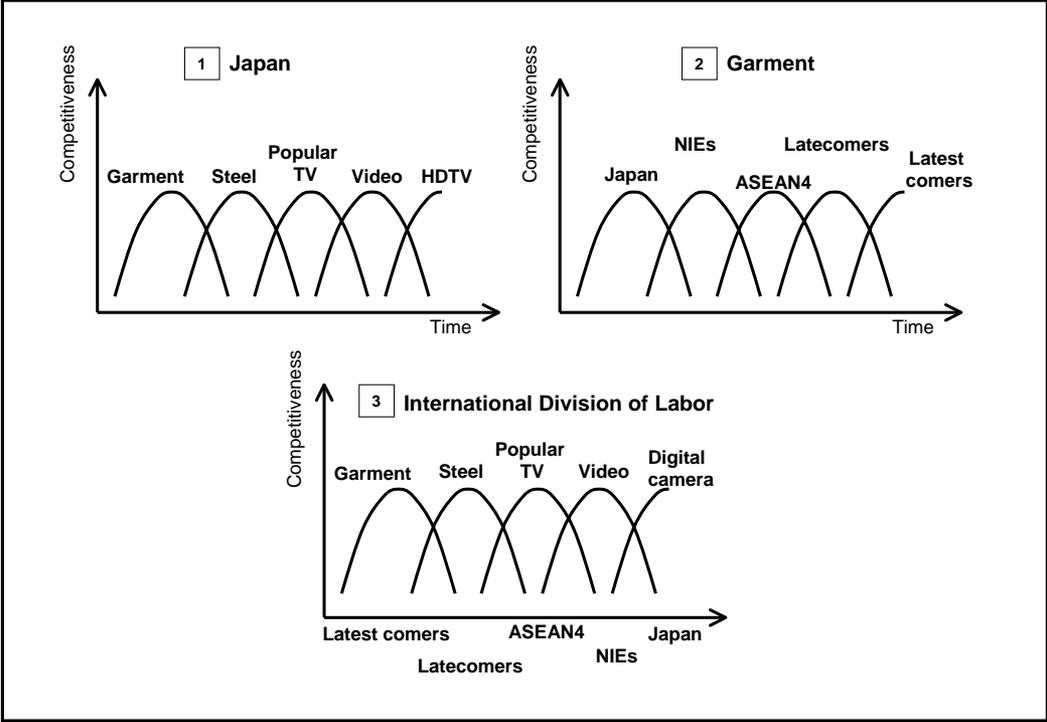
(% of total exports)



Source: ADB, *Key Indicators of Developing Asian and Pacific Countries*, 2001/1993; IMF, *International Financial Statistics Yearbook 1990*. For Japan, *Japan Statistical Yearbook 2002/1999*, Statistics Bureau/Statistical Research and Training Institute, Ministry of Public Management, Home Affairs, Posts and Telecommunications, Japan.

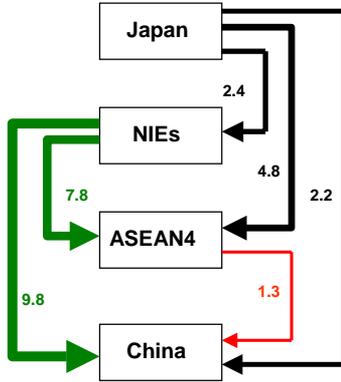
Structural Transformation in East Asia



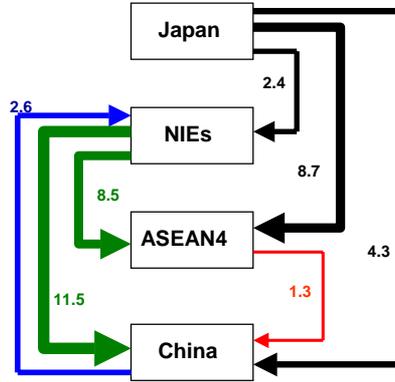


Foreign Direct Investment Flows (Billions of USD / year)

[1st Half of 1990s]



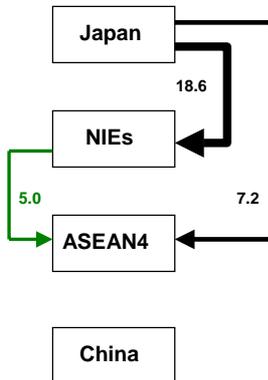
[2nd Half of 1990s]



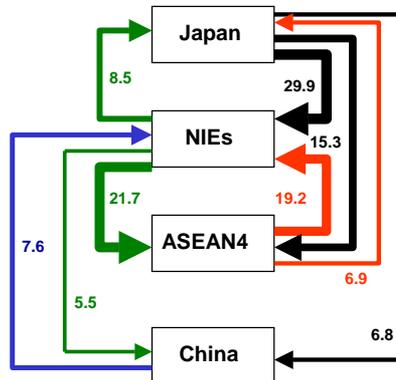
Source: Ministry of Economy, Trade and Industry, *White Paper on International Trade 2002*, p12.
Note: Flows less than \$1 billion are not shown. The "NIEs to China" flow excludes Hong Kong.

Trade in Machine Parts (Billions of USD / year)

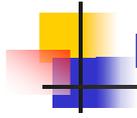
[1990]



[1998]



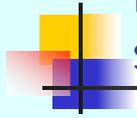
Source: Ministry of Economy, Trade and Industry, *White Paper on International Trade 2001*, p12.
Note: Flows less than \$5 billion are not shown.



Factors often cited: not true causes

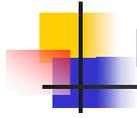
- High level of education
- Export promotion
- High savings and investment
- Income equality and shared growth
- Good government-business relationship
- “Selective intervention”

These are tools for participating in the regional network which each country must prepare



How to escape the vicious circle and start the growth process?

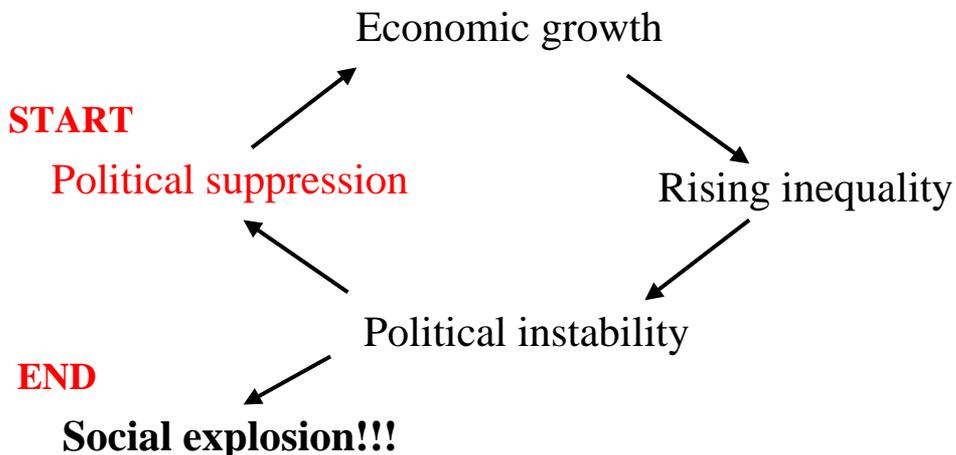
- **Authoritarian developmentalism** as a temporary regime to realize high growth
- A strong state with economic capability
 - National obsession with industrialization and export competitiveness
 - Powerful and economically literate leader
 - Elite team to support the leader
 - Top down and agile: not necessarily “democratic” by Western standards



Basic Roles of East Asian States

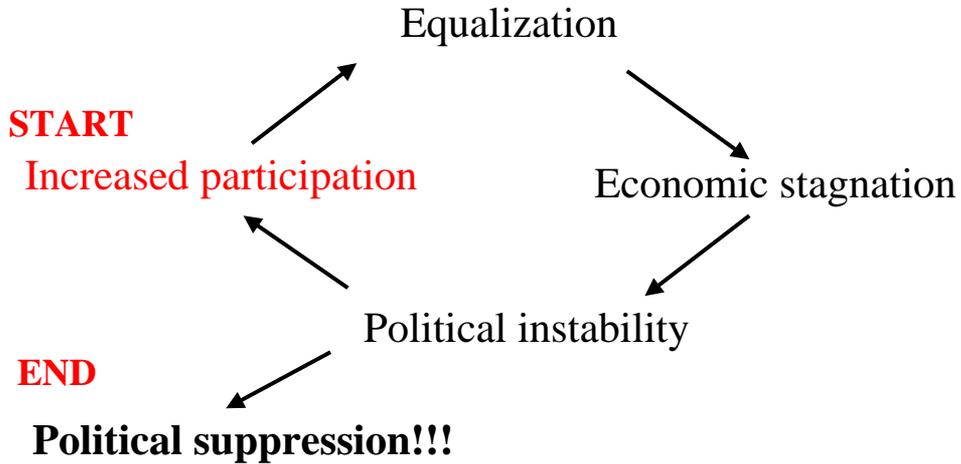
- **Political stability and social integration**
(precondition for development)
- Task 1: Create a market economy with competitiveness
- Task 2: Initiate and manage global integration
- Task 3: Cope with negative aspects of growth
(emerging income gaps, congestion, pollution, corruption, etc.)

“Technocratic Model” and its failure



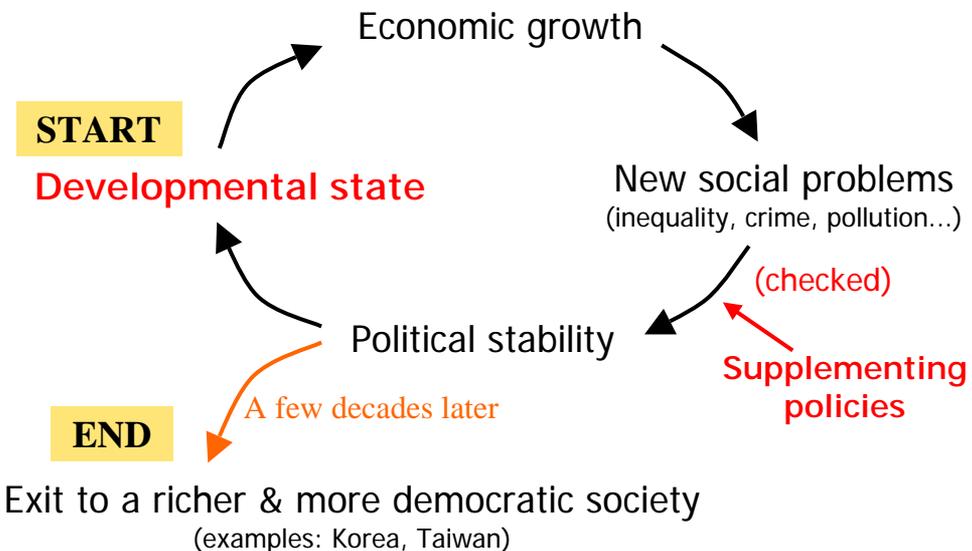
Samuel P. Huntington and Joan M. Nelson, *No Easy Choice: Political Participation in Developing Countries*, Harvard Univ. Press, 1976.

“Populist Model” and its failure



Samuel P. Huntington and Joan M. Nelson, *No Easy Choice: Political Participation in Developing Countries*, Harvard Univ. Press, 1976.

East Asia's Developmentalism



Authoritarian Developmentalism in East Asia													
	1945	50	55	60	65	70	75	80	85	90	95	2000	
Korea				60 61			79			87 88		92	97
	Rhee Syngman			Park Chung-hee			Chun Doo-hwan			Noh Tae-woo		Kim Young-sam	Kim Dae-jung
Taiwan	49			75			78			88		Kim Young-sam	
	Nationalist Party			Chiang Kai-shek			Chiang Ching-kuo			Lee Teng-hui		Chen Shui-bian	
Philippines	46	48	53	57	61	65	86			92	98		
	Quirino		↑	Garcia	↑	Marcos			Aquino		Ramos	Estrada	
Indonesia	Magsaysay			Macapagal								99	
	Skarno			Suharto								Wahid	
Singapore	55			59			65			90			
	Labor Party			People's Action Party			Lee Kuan-yew			Goh Chok-tong			
Malaysia	57			70			76			81			
	UMNO / Rahman			Razak			Hussein			Mahathir			
Thailand	46	48	57	58	63	73	75	77	80	88	91	97	
	Phibun		Sarit		Thanom		↑		Prem	↑		Chuan	
Vietnam	51			76			Kriangsak			Chatchai			
	Indochina Communist Party			Labor Party			Vietnamese Communist Party						
Myanmar	48			62			88						
	U Nu			Burma Socialist Programme Party / Ne Win			SLORC						

Source: Akira Suehiro, *Catch-up Type Industrialization*, Nagoya University Press, 2000, p115.



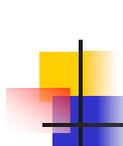
Rise & Fall of Auth. Developmentalism

- Established under severe threat to national security or unity
- Often by military coup
- Replaces a previous weak government
- Economic growth legitimizes the regime
- Over time, its own success undermines legitimacy and leads to democratic transition (Korea, Taiwan)



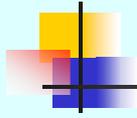
Transferability?

- Direct replication is impossible
 - Weak domestic capability (both state and market)
 - Regional production networks don't exist elsewhere
- Growth policy formulation can be taught
 - Demonstration effect of excellence
 - By long-term commitment to work together
 - Not by imposing conditionality or policy matrix
- Leadership quality is key
 - We (donors) can't change governments but can choose good ones to work with



Redefining Selectivity and Good Governance

- To initiate trade-driven growth, different and narrower conditions are needed
 - Strong leadership with ownership & commitment
 - Administrative mechanisms for policy consistency and effective implementation
- High-performing East Asia did not have
 - Transparency, accountability, participatory process, clean government, privatization, free trade
(maybe not necessary for initiating growth?)



Development as Japan Sees It

<Experiential & relational, not conceptual>

- Long-term, comprehensive, self-help, respect for local uniqueness
- Real sector and ingredients oriented
- Ultimate goal: social pride & dynamism via industrial growth & competitiveness
- Aid is not charity
- Poverty reduction as an ultimate goal???

Different Visions on Trade & Growth

	Japanese View	Dominant View
Integration & liberalization	--Step by step --Competitiveness, not ownership, matters	--Generally desirable --Free trade, privatization --Level playing field for all
Role of state	--Initiator/manager of development & integration --Hard, strong state for promoting growth	--Competent state, not laissez-faire, is needed --Good governance: clean & transparent administration is required
Sectoral intervention	--Must intervene in individual industries under weak markets	--Set framework only --Don't intervene individually; let market decide

Contd.

	Japanese View	Dominant View
Typical policy supports	--National dev. plan --Concrete strategies for each key industry --Factory checkups	--Poverty reduction --WTO accession --Open export markets for LDCs
Typical research	--In-depth studies of individual industries --FDI attraction policy	--Trade impacts on poverty & employment --Supply chain mgt.
HRD	--Engineers, managers --Factory OJT	--Primary educ. & health --Training trade officials
Infrastructure	--Large-scale infra. esp. power & transportation	--Small rural infra. esp. feeder roads, water etc.



“Pro-Poor Growth”?

- *Too small for a national devel. goal*
- *Desirability?*--is more equality always good? Should we not balance equality and incentive?
- *Channels and linkages*--many ways to cut poverty, direct and indirect. Strategy should be geared to each country.

Three Channels of Pro-Poor Growth

(1) Direct channel (impacting the poor directly)

- Health, education, gender, rural jobs & development, etc.

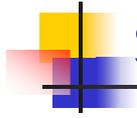
(2) Market channel (growth helps poor via economic linkages)

- Inter-sectoral and inter-regional labor migration (cf. Chinese TVEs)
- Increasing demand (cf. proto-industrialization, multiplier effect)
- Capital accumulation & improved productivity
- Reinvestment

(3) Policy channel (supplementing the market channel)

- Price support, taxes, subsidies
- Fiscal transfer, public works, infrastructure
- Micro & SME credit, other financial measures
- Proper design of trade & investment policies
- Coping with social/market divisions
- Pro-poor legal framework

➔ **Need to broaden the scope of pro-poor growth** (not just direct channel)



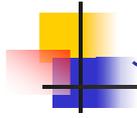
Some Key Words

- **Best-mix approach** – multi aid modality (grants, TA, loans), not uniformity or convergence
- **Non-fungibility** -- some ideas & methods are not fungible; which donor does it matters
- **Self-help effort** -- for a long time, the key idea in Japanese ODA; broader than ownership



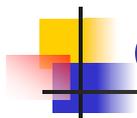
Japan in Vietnam, 2002-03

- Vietnam in E Asia: potential not fully realized due to bad business environment
- Infrastructure + HRD + policy advice
- Regaining leadership as top donor (from LMDG); linking with GoV; WB, AsDB, DfID
- Adding “large-scale infrastructure” to PRSP (called CPRGS)
- Projecting Japan’s ideas (we were too quiet previously)



Japan's Growth Support Package

- Large infrastructure projects (e.g. 40% of new power capacity, 1992-2001)
- Ishikawa Joint Research Project (1995-2001); other research projects
- New Miyazawa Initiative (1999: PSD, SOE audits, tariffication of NTBs)
- Japan-Vietnam Investment Working Group for regular government-business dialogue
- Scholarship for studying in Japan

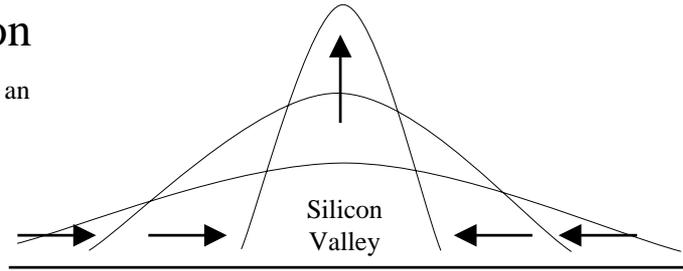


Contd.

- TA & training for market economics, factory operation, telecom, construction, agriculture...
- Building 200 primary schools & upgrading 2 central hospitals
- **Japan-Vietnam Joint Initiative** for improving business environment for competitiveness (April 2003, agreed by prime ministers)
- Launching **"Growth Initiative"** (Interim CG, June 2003)

Agglomeration

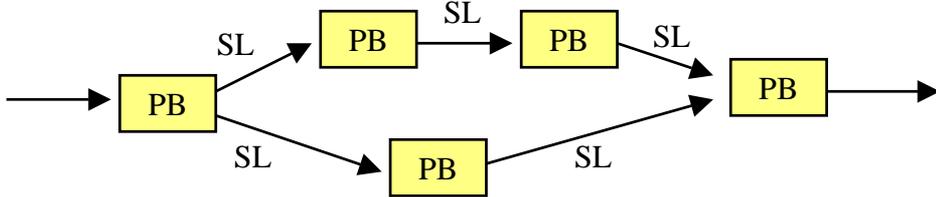
Initial concentration has an accelerating effect



Fragmentation

International division of labor in parts production & assembly

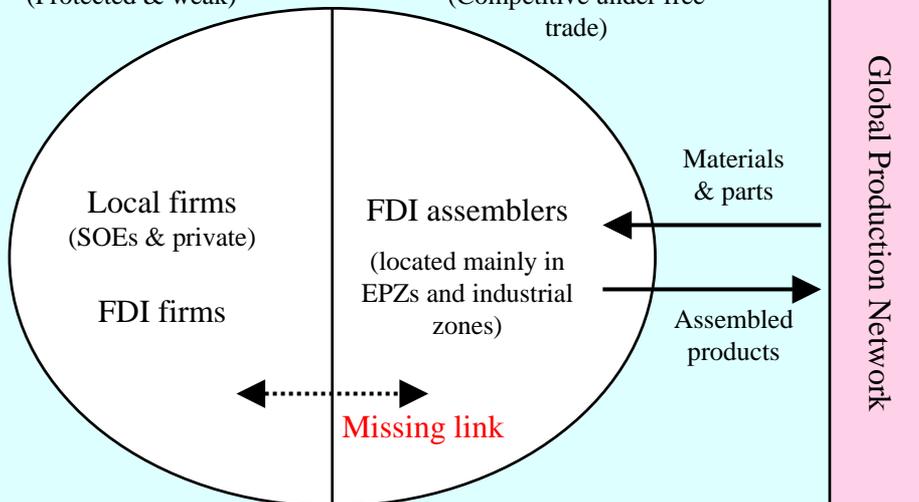
PB: production block
SL: service link



Vietnam's Industrial Dualism

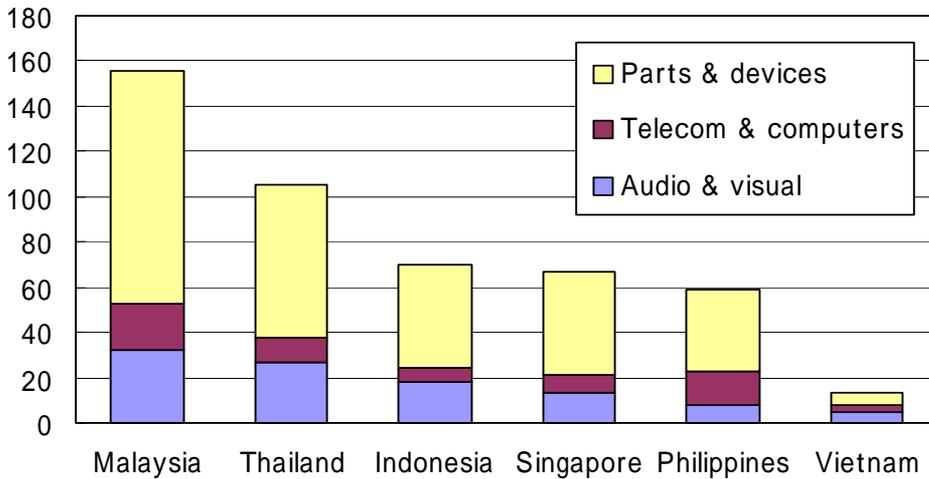
Domestic Sector
(Protected & weak)

Export Sector
(Competitive under free trade)



Japanese Electronics FDI in ASEAN

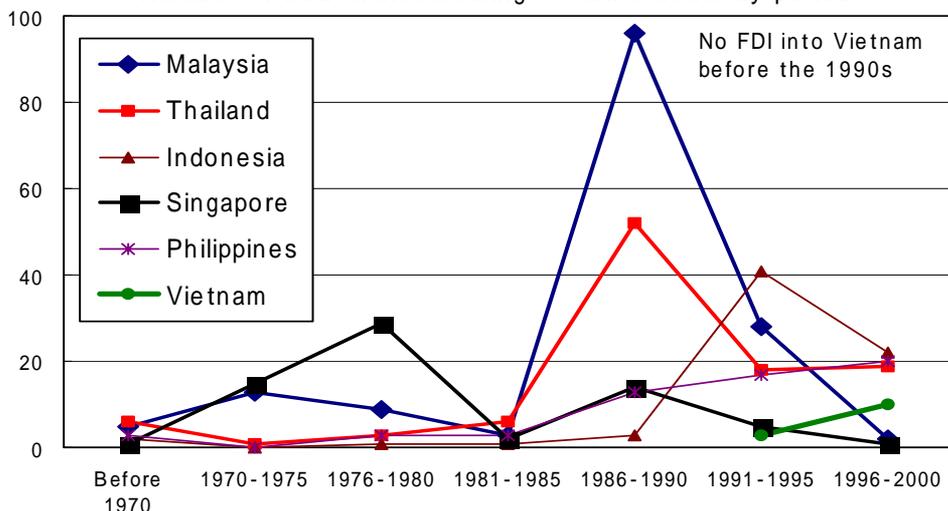
Cumulative number of manufacturing establishments



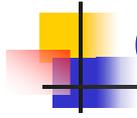
Source: Electronic Industries Association of Japan (2000), quoted by Yumiko Okamoto, "Electronics and Electrical Industries," in K. Ohno & N. Kawabata, eds, *Industrialization Strategy of Vietnam*, Nihon Hyoronsha (2003).

Japanese Electronics FDI in ASEAN

Number of new manufacturing establishments by period



Source: Electronic Industries Association of Japan (2000), quoted by Yumiko Okamoto, "Electronics and Electrical Industries," in K. Ohno & N. Kawabata, eds, *Industrialization Strategy of Vietnam*, Nihon Hyoronsha (2003).



Our Policy Proposal

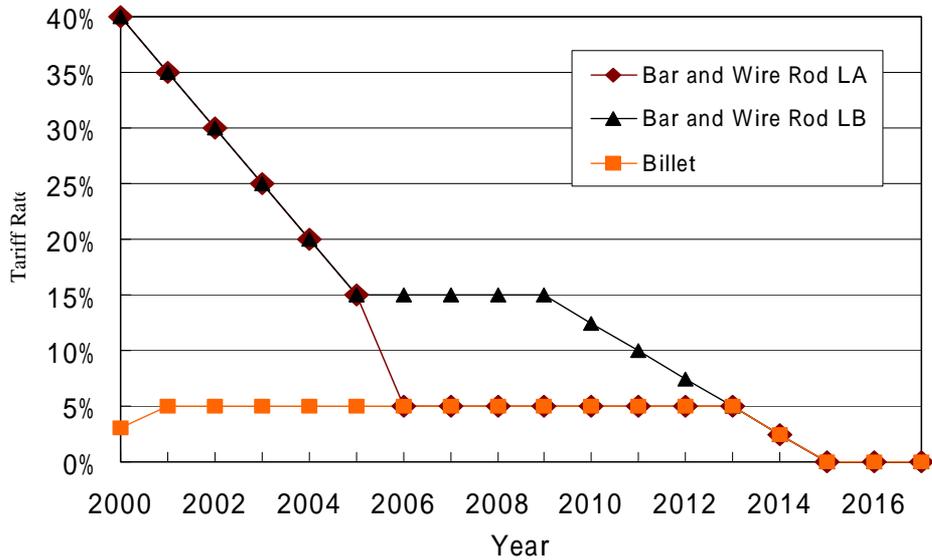
- Attract critical mass of FDI; don't be selective; remove localization requirement
- Help local firms link with FDI's network
- For protected IS-type industries,
 - (1) Pre-announce tariff reduction schedule
 - (2) Let market ultimately decide
 - (3) Offer tentative help to eligible firms only
- Intensive policy for creating parts industries (before WTO bites)



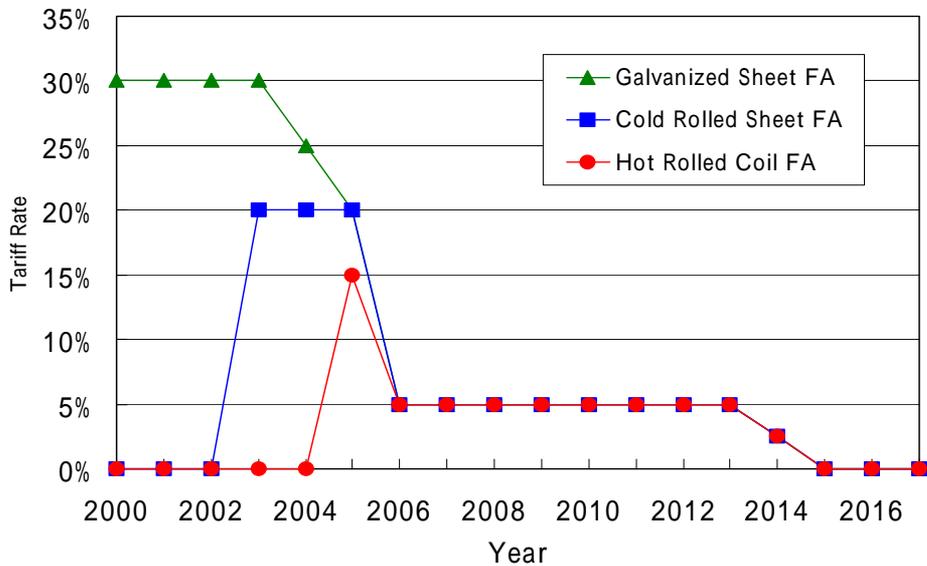
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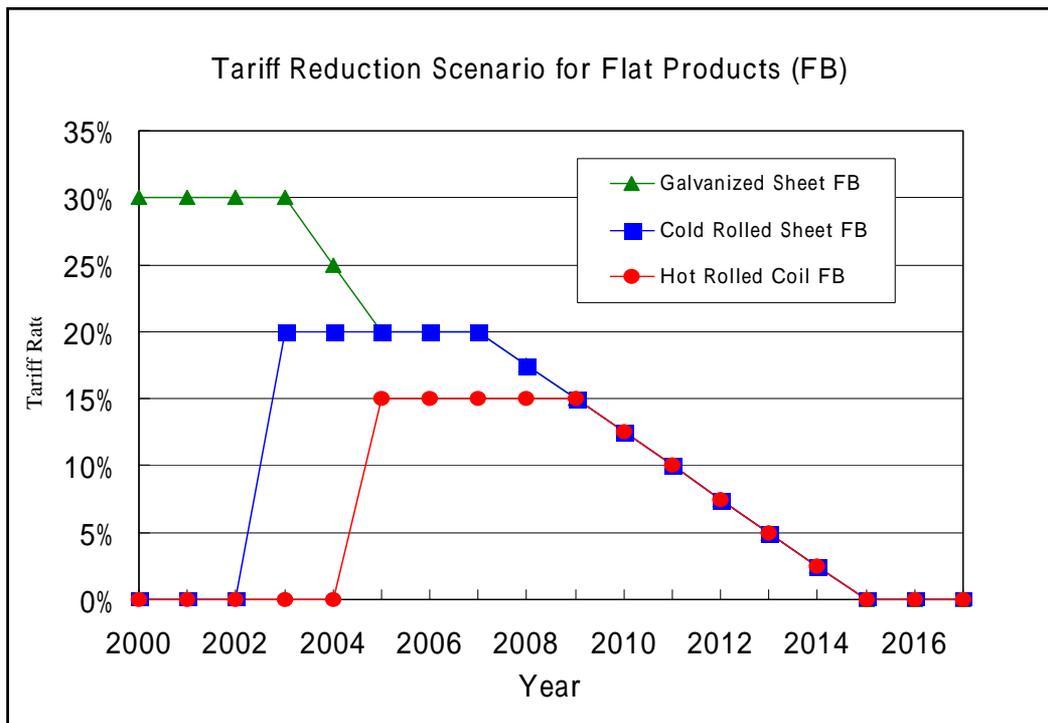
- Improve business-government dialogue
- Create elite team under prime minister
- Concrete analyses and proposals for:
 - Textile & garment --Electronics
 - Steel --Motorbike --Software
- Many workshops with officials directly in charge

Tariff Reduction Scenario for Long Products



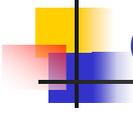
Tariff Reduction Scenario for Flat Products (FA)





Japan in Sub Saharan Africa

- Domestic support for aid to Africa needs to be secured (under severe fiscal crisis)
- HIPCs/PRSP/MDGs/aid coordination: too much attention on poverty & modality, less on growth content (now agreed by many)
- East Asian emphasis on growth & trade is also valid in Africa, but sectors and goals must be adapted to local reality



Our Effort to Move the Japanese Government into Action

- JICA, JBIC, scholars interested in Africa
- Our two goals:
 - (1) Adjust Japan's aid system to fully participate in new aid modality (soon!)
 - (2) Launch growth initiative in a small number of countries (medium to long-term endeavor)
 - Preliminary selection of candidate sectors & countries started
 - Offer growth package, not isolated projects
 - Jointly with Gov, NEPAD, other donors



Selection and Prioritization

- Selectivity criteria
 - Social and political stability
 - Strong will & solid understanding by leader(ship)
 - Policy mechanism for consistent design & effective implementation
 - Japan's existing local knowledge & policy capacity
- Other Considerations
 - HIPC completion point (CP) countries?
 - ODA yen loans can't be used in HIPCs countries
 - TICAD3 Conference (Oct. 2003)

THE END

Photo by Saizou Uchida (location: Sakai-gun, Fukui Prefecture, Japan)

