Pro-Poor Growth 2003

- The first round of poverty reduction drive is over (MDGs, PRSP)
- Emerging recognition that growth is needed for sustained poverty reduction
- Attention turns to:
  -- Ensuring “pro-poor growth”
  -- Contents of growth strategy
Japanese Uneasiness

- The gap between the current strategy and E Asian development experience:
  - *Poverty reduction* as ultimate goal???
  - *Pro-poor growth*—what is it???
- Inability to clearly articulate Japan’s aid goals: ideas, aid system, language
- ODA budget is declining (-5.8% in FY03) while EU and US are increasing aid

- Fear that Japan’s aid will be discredited or marginalized
- Japan feels that global aid strategy changes too fast
Domestic Division

- “Use aid for national interest and Asian dynamism!”
- “Use aid for global and humanitarian purposes, not for economic interest!”
- “Cut ODA!” (recession/budget crisis, ODA scandals, China)

What should be done?

- Japan should be fully engaged in global aid strategy, not isolation or rejection.
- Japan should bring a new perspective as a non-West industrialized country.
- To do so, Japan should clearly define its aid goals and its comparative advantage.
- Leadership, networking, and institutional reform are needed.
Topics for Discussion

1. “Pro-poor growth”
2. Development experience of East Asia
3. Vietnam’s CPRGS (=PRSP)
4. Japan’s engagement principle

(1) “Pro-Poor Growth”

Morally correct, politically convenient and currently very popular, but...

- **Definition?**
- **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.
Equity vs. Incentive Tradeoff

John Rawls: “Choose the society which maximizes the welfare of the poorest”
Deng Xiaoping: “Those who can, get rich first. Let others imitate and follow”

- Innovation requires reward, but too much inequality destabilizes society. The right mix is needed for each country.

- Perfect equality is the ideal of communism. Does pro-poor growth (faster rise of the poor) support it?
  --Where do we switch (criteria)?
- Society can be too equal and stagnant:
  --General poverty in poorest countries
  --Transition from socialist egalitarianism
  --Welfare state in excess
“Technocratic Model” and its failure

Economic growth

START
Political suppression

Rising inequality

Political instability

END
Social explosion!!!


“Populist Model” and its failure

Equalization

START
Increased participation

Economic stagnation

Political instability

END
Political suppression!!!

East Asian Way to Success

Two-tier approach
- **Primary**: create source of growth.
- **Supplementary but very important**: deal with problems caused by growth—income gap, regional imbalance, environment, congestion, drug, crime, social change, etc.

Yasusuke Murakami: “industrialization policy must be combined with supplementing policies or it will fail” (*Theory of Developmentalism*, 1994)

Revised Technocratic Model (E. Asia)

- **Economic growth**
- **Developmental state**
- **Political stability**
- **Rising inequality**
  - (checked)
  - **Supplementing policies**

**START**
- A freer & more democratic society (a few decades later)

**END**
- cf. Korea, Taiwan
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)
   --Reinvestment (formal, informal and internal
   financing)

Three Channels (contd.)

(3) Policy channel (supplementing the market
   channel)
   --Price support, taxes, subsidies
   --Fiscal transfer, public investment,
   infrastructure
   --Micro and SME credit and other financial
   measures
   --Proper design of trade and investment policies
   --Pro-poor legal framework
Broadening the Scope

- So far, disproportionate attention on the direct channel—the question of sustainability and the risk of permanent aid dependency
- Emerging emphasis on pro-poor growth
  -- Focus still too narrow, not integrated
  -- Past studies on growth, equality, incentive, migration, etc. have not been incorporated
  -- The right mix depends on each country

(2) East Asian Experience

- Growth driven by trade and investment
- Collective growth, not isolated or random
- Staggered participation in the regional production network
- Region as an enabling environment for catching up (model and pressure)
Per Capita GDP
(In 1990 international Geary-Khamis dollars)


“Asian Dynamism”

- Geographic diffusion of industrialization
- Within each country, industrialization proceeds from low-tech to high-tech
- Also known as the Flying Geese Pattern
- Clear order and structure (with a possibility of re-formation)
Per Capita Income (2000)

- Japan
- Hong Kong
- Singapore
- Korea
- Malaysia
- Thailand
- Philippines
- China
- Indonesia
- Vietnam
- Lao PDR
- Cambodia


Graph: per capita income

- US$ at Actual Exchange Rate
- US$ at PPP
Manufactured Exports
(% of total exports)

Structural Transformation in East Asia

Foreign Direct Investment Flows  
(Billions of USD / year)

<table>
<thead>
<tr>
<th>Country</th>
<th>1st Half of 1990s</th>
<th>2nd Half of 1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>7.8</td>
<td>11.5</td>
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<tr>
<td>NIEs</td>
<td>2.4</td>
<td>2.6</td>
</tr>
<tr>
<td>ASEAN4</td>
<td>1.3</td>
<td>2.2</td>
</tr>
<tr>
<td>China</td>
<td>9.8</td>
<td>8.5</td>
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</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>18.6</td>
<td>8.5</td>
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<tr>
<td>NIEs</td>
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<tr>
<td>China</td>
<td>7.6</td>
<td>6.9</td>
</tr>
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</table>

Note: Flows less than $5 billion are not shown.
The Role of Government

- In low-income or transition economies with undeveloped markets, privatization and free trade alone may not lead to prosperity
- Unregulated markets may be unstable and polarize income
- The national goal was (is) to catch up and be prosperous

Basic Roles of East Asian States

- Political stability and social integration (precondition for development)
- Task 1: Create a competitive market economy
- Task 2: Initiate and manage global integration
- Task 3: Cope with negative aspects of growth
Poverty Reduction in East Asia

- Extreme poverty in E Asia already halved
  
  (1990: 27.6% ➔ 1999: 14.2%)

- National strategy for *equitable growth*
  already in place
  
  (even before PRSP/MDGs)

- Aid coordination centered on pro-poor
  measures unlikely to work in East Asia

Redefining “Good Governance”
and “Selectivity”

- To initiate trade-driven growth, different
  and narrower conditions are needed
    -- Strong leader(ship) with ownership
    -- Strong administration 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?)
(3) Vietnam’s CPRGS

“Comprehensive Poverty Reduction and Growth Strategy” (completed May 2002)

- Considered “great success” because of strong country ownership
- Like Minded Donor Group (LMDG) wants to further strengthen the process
  --PIP, SWAP, budget support, aid harmonization...

Vietnam’s View

- Highest national documents are *Five-Year Plan* and *Ten-Year Strategy*
- CPRGS is one of the “other” papers
- Donors should respect national process
- “ODA is culture”--forced aid coordination is unrealistic
- Aid diplomacy--willing to go with different donor demands within certain bounds
Japan’s Aid Policy in Vietnam

- Top donor (30%+)
  --involved in all sectors, esp. infrastructure and policy advice
  --multi-modality (loans, TAs, grants)
  --supporting growth and coping with growth impact

- Annoyed by CPRGS; independent and critical until mid 2002

- Review underway (revising Country Aid Strategy Plan for Vietnam)

Japan’s New Initiative

A new team in Hanoi (Autumn), CG (Dec.2002)

- Active coordination among Embassy, JICA, JBIC, Tokyo... began

- Positive engagement in CPRGS process

- Include *infrastructure* as a key pillar of poverty reduction (cooperation with World Bank)

- More involvement in the debate on pro-poor growth, aid harmonization, etc.
Goals in the Near Future

- Add *content* to growth strategy (not just framework)
  --Vietnam has no realistic vision or strategy
  --Industrial policy and trade policy inconsistent
  --FDI policy deteriorating since 2002
- Intensify policy dialog with Vietnam, donors and enhance Japan’s comparative advantage
- Adjust Japan’s aid modality where necessary
- Advertise Vietnam as an East Asian model

(4) Japan’s Engagement Principle

- Two-track principle
  (1) For the prosperity of Japan and East Asia
  (2) For solving global issues (poverty, education, health, environment, refugees, peace building...)
- Helping the “self-help” effort of LDCs
  --Aid is not humanitarian charity
  --To grow and become equal trading partners
  --Not for all; but we encourage as many countries as possible to challenge
- Supplementing private dynamism
- Leadership in growth debate
- Aid modality harmonization?
  --Balancing diversity and harmonization
  --Some procedures can be harmonized, but ideas are often “non-fungible”

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### Japan’s Approach to Growth

- Respect for each country’s uniqueness
- Long-term and holistic perspective
- Real-sector concern (trade, investment, key industries, technology...)
- Help in good times as well as bad
As Growth Debate Begins...

Contents differ between West and Japan

West: privatization, free trade, rule of law, clean & transparent government, level playing field, market comes first...

Japan: active government, national vision, proper design of industrial, trade, FDI policy, sector specific intervention...

Common: political & macro stability, HRD, SME support, environment, HIV...

→ Back to the 1980s (unresolved issue)