The Transferability of the East Asian Development Experience

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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
Graph: GDP in EA vs Africa

Per Capita GDP
(In 1990 international Geary-Khamis dollars)

[Graph showing GDP comparison]


Graph: growth over time

Real Growth 1960-2001
[Newly Industrializing Economies]

### Wars, Crisis and Internal Troubles

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>Independence of Taiwan</td>
</tr>
<tr>
<td>1950-53</td>
<td>Korean War</td>
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<tr>
<td>1954</td>
<td>Division of Vietnam into South &amp; North</td>
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<tr>
<td>1956</td>
<td>Coup d'etat in Laos</td>
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<td>1958</td>
<td>Coup d'etat by Sarit in Thailand</td>
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<td>1960-61</td>
<td>Coup d'etat in Laos</td>
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<tr>
<td>1962</td>
<td>Coup d'etat by Revolutionary Council in Myanmar</td>
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<tr>
<td>1965</td>
<td>Coup d'etat - End of Sukarno years in Indonesia</td>
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<tr>
<td>1965-86</td>
<td>Marcos Dictatorship in Philippines</td>
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<tr>
<td>1966-76</td>
<td>Cultural Revolution in China</td>
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<tr>
<td>1976</td>
<td>Reunification of Vietnam</td>
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<tr>
<td>1979-89</td>
<td>Vietnam invades Cambodia</td>
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<tr>
<td>1986</td>
<td>Doi Moi (Renovation) Policy begins in Vietnam</td>
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<tr>
<td>1989</td>
<td>Tiananmen Square Incident in China</td>
</tr>
<tr>
<td>1990</td>
<td>Asian Crisis</td>
</tr>
</tbody>
</table>

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

Manufactured Exports
(% of total exports)


Structural Transformation in East Asia

Foreign Direct Investment Flows
(Billions of USD / year)

[1st Half of 1990s]

Japan

NIEs

ASEAN4

China

2.4
4.8
1.3
2.2

[2nd Half of 1990s]

Japan

NIEs

ASEAN4

China

2.6
8.5
11.5
2.6

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]

Japan

NIEs

ASEAN4

China

18.5
7.2

[1998]

Japan

NIEs

ASEAN4

China

29.9
15.3

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.)

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“Technocratic Model” and its failure

START

- Political suppression

Rising inequality

Political instability

Social explosion!!!

END

“Populist Model” and its failure

Equalization

START
Increased participation

Economic stagnation

Political instability

END

Political suppression!!!


East Asia’s Developmentalism

Economic growth

START
Developmental state

New social problems
(inequality, crime, pollution...)

(checked)

Political stability

A few decades later

Supplementing policies

END

Exit to a richer & more democratic society
(examples: Korea, Taiwan)
## Authoritarian Developmentalism in East Asia

<table>
<thead>
<tr>
<th>Year</th>
<th>1945</th>
<th>50</th>
<th>55</th>
<th>60</th>
<th>65</th>
<th>70</th>
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<th>2000</th>
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<tr>
<td>Korea</td>
<td>Rhee Syngman</td>
<td>Park Chung-hee</td>
<td>Chun Doo-hwan</td>
<td>Kim Dae-jung</td>
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<td>Taiwan</td>
<td>Nationalist Party</td>
<td>Chiang Kai-shek</td>
<td>Chiang Ching-kuo</td>
<td>Lee Teng-hui</td>
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<td>Aquino</td>
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<td>Indonesia</td>
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<td>Suharto</td>
<td>Wahid</td>
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<td>Singapore</td>
<td>Labor Party</td>
<td>Lee Kuan-yew</td>
<td>Goh Chok-tong</td>
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<td>Malaysia</td>
<td>UMNO / Rahman</td>
<td>Razak</td>
<td>Hussein</td>
<td>Mahathir</td>
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<td>Thailand</td>
<td>Phibun</td>
<td>Sarit</td>
<td>Thamom</td>
<td>Prem</td>
<td>Chuan</td>
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<tr>
<td>Vietnam</td>
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<td>Labor Party</td>
<td>Vietnamese Communist Party</td>
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<td>Myanmar</td>
<td>U Nu</td>
<td>Burma Socialist Programme Party / Ne Win</td>
<td>SLORC</td>
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### 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

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

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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)
FDI firms
Local firms
(SOEs & private)

Export Sector
(Competitive under free trade)
FDI assemblers
(located mainly in EPZs and industrial zones)

Global Production Network
Materials & parts
Assembled products
Missing link
Japanese Electronics FDI in ASEAN

Cumulative number of manufacturing establishments


Japanese Electronics FDI in ASEAN

Number of new manufacturing establishments by period

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)

Contd.

- 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Tariff Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>0%</td>
</tr>
<tr>
<td>2002</td>
<td>5%</td>
</tr>
<tr>
<td>2004</td>
<td>10%</td>
</tr>
<tr>
<td>2006</td>
<td>15%</td>
</tr>
<tr>
<td>2008</td>
<td>20%</td>
</tr>
<tr>
<td>2010</td>
<td>25%</td>
</tr>
<tr>
<td>2012</td>
<td>30%</td>
</tr>
<tr>
<td>2014</td>
<td>35%</td>
</tr>
<tr>
<td>2016</td>
<td>40%</td>
</tr>
</tbody>
</table>

Tariff Reduction Scenario for Flat Products (FA)

<table>
<thead>
<tr>
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<td>2000</td>
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Japan in Sub Saharan Africa

- Domestic support for aid to Africa needs to be secured (under severe fiscal crisis)
- HIPC/PRSP/MDG/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)