Transferability of East Asian Experience to Africa

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Topics

- East Asia--performance, policy mix and political regime
- Lessons for Africa--method, details, and core infrastructure

Flying geese
High Performance (on average)

East Asia achieved high average growth in recent decades

Per Capita GDP
(Measured in 1990 international Geary-Khamis dollars)

Per Capita GDP in 2004 ($PPP) World Bank data

Hong Kong
Japan
Taiwan
Singapore
Brunei
S Korea
Malaysia
Thailand
China
Philippines
Indonesia
Vietnam
Cambodia
PNG
Mongolia
Laos
N Korea
Malaysia
East Timor

Green: participants in East Asian production network

Diversity in Political and Economic Development

High correlation (0.90) but causality cannot be argued from this diagram
Only circled economies participate in regional dynamism

Sources: Compiled from World Bank, Worldwide Governance Indicators, Sep. 2006; and World Bank, World Development Indicators, 2006.
Different Speed of Catching Up

Per capita real income relative to US
(Measured by the 1990 international Geary-Khamis dollars)


Why Some Succeed Greatly While Others Succeed Less or Fail?

Middle income ($1,000+) can be reached by opening up and receiving FDI, but attaining high income ($10,000+) requires:

- Policy capability (esp. leadership quality)
- Local private sector dynamism

<table>
<thead>
<tr>
<th>Strong local businesses</th>
<th>Good policy</th>
<th>Not-so-good policy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Japan (past), Taiwan, Korea</td>
<td>(China)</td>
</tr>
<tr>
<td>Weak local businesses</td>
<td>Malaysia, Thailand</td>
<td>Indonesia, Philippines</td>
</tr>
</tbody>
</table>
Catching Up Process

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage One</td>
<td>Simple manufacturing under foreign guidance</td>
<td>Vietnam</td>
</tr>
<tr>
<td>Stage Two</td>
<td>Have supporting industries, but still under foreign guidance</td>
<td>Thailand, Malaysia</td>
</tr>
<tr>
<td>Stage Three</td>
<td>Technology &amp; management mastered, can produce high quality goods</td>
<td>Korea, Taiwan</td>
</tr>
<tr>
<td>Stage Four</td>
<td>Full capability in innovation and product design as global leader</td>
<td>Japan, US, EU</td>
</tr>
</tbody>
</table>

East Asian Production Network

- The region is like a big factory where economies compete and cooperate
- Growth starts by participating in this regional dynamism
- The sandwich effect—pressure from above and below to work harder
- FDI as relocater of industries
- Clear but shifting order and structure (“flying geese”)
Manufactured Exports

Manufactured exports / total exports


Structural Transformation in East Asia

Country

Latest comers

Latecomers

ASEAN4

NIEs

Japan

Garment Steel Popular TV Video Digital Camera

Time

1

2

3

4
**Foreign Direct Investment Flows**
(Billions of USD / year)

<table>
<thead>
<tr>
<th></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>8.5</td>
</tr>
<tr>
<td>NIEs</td>
<td>2.4</td>
<td>8.7</td>
</tr>
<tr>
<td>ASEAN4</td>
<td>4.8</td>
<td>11.5</td>
</tr>
<tr>
<td>China</td>
<td>2.2</td>
<td>1.3</td>
</tr>
</tbody>
</table>

**East Asia’s Trading Partners**

- 1980: 20% Others, 20% Europe, 40% N. America, 20% Japan, 10% East Asia
- 1985: 30% Others, 20% Europe, 30% N. America, 20% Japan, 10% East Asia
- 1990: 40% Others, 20% Europe, 30% N. America, 20% Japan, 10% East Asia
- 1995: 50% Others, 20% Europe, 30% N. America, 20% Japan, 10% East Asia
- 1996: 60% Others, 20% Europe, 30% N. America, 20% Japan, 10% East Asia

*Large part of intra-regional trade is machinery, parts and components. In 2006, intra-regional trade was 50-60%*

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 18.6
NIEs 5.0 7.2
ASEAN4
China

[1998]

Japan 8.5 29.9
NIEs 15.3
ASEAN4 21.7 19.2
China 6.8

Note: Flows less than $5 billion are not shown.

Guaranteed Failure of Development?

Technocratic Model

START
Economic growth
Political suppression (authoritarianism)
Rising inequality
Political instability
Social explosion!!!

END

Populist Model

START
Economic equalization
Increased participation (democracy)
Economic stagnation

START
Political suppression (democracy)
Political instability
Social explosion!!!

END
East Asia’s Policy Mix

Growth policies—vision, strategy, technology, HRD, infrastructure, SMEs, FDI, trade, finance, logistics, marketing, etc.

Social policies—inequality, pollution, traffic, housing, urbanization, internal migration, corruption, drugs, HIV/AIDS, etc.

--Rapid growth creates new problems which destabilize society.
--Unless both policies are implemented, development will fail (Murakami 1994).
--Success depends on these policies, rather than diligence or Confucianism
Cf. Not very successful--Indonesia, Philippines
E. Asia chose authoritarian developmentism (AD) for economic take-off.

**Key ingredients of AD**
- Powerful and economically literate top leader
- Development as a supreme national goal
- Technocrat group to support leader and execute policies
- Political legitimacy derived from growth performance (not necessarily free election)

The leader, as primary force of change, can create the other three conditions.

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**Authoritarian Developmentalism in East Asia**

<table>
<thead>
<tr>
<th>Year</th>
<th>China</th>
<th>South Korea</th>
<th>Taiwan</th>
<th>Philippines</th>
<th>Indonesia</th>
<th>Singapore</th>
<th>Malaysia</th>
<th>Thailand</th>
<th>Vietnam</th>
<th>Laos</th>
<th>Cambodia</th>
<th>Myanmar</th>
<th>North Korea</th>
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</thead>
<tbody>
<tr>
<td>1945</td>
<td>Mao Zedong</td>
<td>Park Chung-hee</td>
<td>Nationalist Party</td>
<td>Quirino</td>
<td>Sukarno</td>
<td>United Labor Party</td>
<td>U Nu</td>
<td>Phibun</td>
<td>Independence</td>
<td>Kaysone Phomvihane</td>
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<tr>
<td>50</td>
<td>Dang Xiaoping</td>
<td>Park Chung-hee</td>
<td>Chiang Kai-shek</td>
<td>Garcia</td>
<td>Suharto</td>
<td>Lee Kuan-yew</td>
<td>Mosha</td>
<td>Phanakorn</td>
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<tr>
<td>55</td>
<td>Jiang Zemin</td>
<td>Park Chung-hee</td>
<td>Chiang Kai-shek</td>
<td>Marcos</td>
<td>Fadzil</td>
<td>Tun Hussein</td>
<td>Mahathir</td>
<td>Thaksin</td>
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<td>60</td>
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<td>Chiang Kai-shek</td>
<td>Aquino</td>
<td>Suharto</td>
<td>Mahathir</td>
<td>Thaksin</td>
<td>Chuan</td>
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<tr>
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<tr>
<td>2000</td>
<td></td>
<td>Park Chung-hee</td>
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<td>2005</td>
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<td>Chuan</td>
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<td></td>
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</tbody>
</table>

**Notes:**
- For China, the most influential leader among those holding highest positions is indicated. The Philippines' Marcos is classified as AD by Suehiro but not in this table.
Why Power Concentration is Needed?

- Growth requires a critical mass of mutually consistent policies. A strong state is needed to mobilize resources quickly and flexibly.
- If broad participation is allowed, policies are too slow and can’t achieve critical mass due to:
  - Power struggle, party politics, interest groups
  - Processes requiring patience and compromise, including parliamentary debate and consensus building
  - Some groups may refuse to cooperate with state purposes

Exit of AD

- AD is a temporary regime of convenience, needed only to push up the country to a higher level.
- Once a certain level is reached, AD becomes an obstacle to further development.
- Watanabe (1998) argues that successful AD melts away through social change and democratic aspiration.

“if development under authoritarian regime proceeds successfully, it will sow the seeds of its own dissolution” [improved living standards and diversified social strata]
Democratic Developmentalism?

--In search of developmentalism without a dictator

- Countries that already have free elections, functioning parliament, human rights—can they adopt developmental policies without throwing away their political achievements?
- Existing research on DD
  -- Robinson and White eds (1998)
  -- Ethiopian Prime Minister Meles Zenawi
  -- "The Democratic Developmental State in Africa" (joint study by South Africa & Egypt, by Omono Edigeji et al.)
Lessons for Africa?

Methodology
Policy details
Core infrastructure

Wrong Lessons from East Asia

- **WRONG:** Mindless copy of a policy adopted by some E. Asian country in the past (cf. postal savings, heavy industry drive, Green Revolution, etc).

- **WRONG:** Strong government should direct private sector activities (In East Asia, private dynamism informed and led policy direction).

- **WRONG:** An authoritarian state is needed for economic take-off (reality is much more subtle and complex).
Three Valid Lessons from East Asia

- Methodology of industrial policy formulation
- Details of Eastern policies (models to be examined and adjusted for each country)
- Regional development around a core infrastructure

⇒ Acquiring ideas and tools for policy making; Content must be decided by each country.

Development and Aid Strategy

There is a clear difference in developmental orientation between Eastern practitioners and Western aid community.

<table>
<thead>
<tr>
<th>East Asia's Way</th>
<th>Western Donors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal</td>
<td>Poverty reduction (MDGs)</td>
</tr>
<tr>
<td>Economic prosperity and national pride</td>
<td>Health, education, governance</td>
</tr>
<tr>
<td>Policies</td>
<td>Investment, trade, skills, technology</td>
</tr>
<tr>
<td>Key actors</td>
<td>Central government and businesses</td>
</tr>
<tr>
<td>Local communities and poor people</td>
<td></td>
</tr>
</tbody>
</table>
Eastern Development Thinking (Tendencies)

- Field-based concrete actions in industrial and agricultural sectors
- Development as a holistic social process, not short-term technical problems (importance of leadership, social context, broad scope, gradualism, political consideration, etc.)
- No ready-made advice for all countries; solution must be discovered locally

Eastern way is more difficult to understand for outsiders due to:
- Emphasis on local diversity
- Doing rather than talking/writing
- Language barrier

JICA-JBIC Report in Progress


- Africa needs more policy space to discover and help develop growth-leading industries.
- Establish “Industrialization Strategy” as a process, not just a document.
- Support measures should match the institutional capacity of each country.
JICA-JBIC Report (cont.)

- Identify long-term vision, desirable economic structure, and the country’s positioning in global value chain.
- Through public-private dialogue, discover growth-leading industries for future.
- Identify their constraints (infrastructure, HRD, etc).
- Devise measures to remove constraints and promote targeted industries.
- Measures must be consistent with the country’s institutional capability and executed under discipline and competition.

A Proposal for Japan’s New Aid in Africa (Not Official Yet)

By JICA-JBIC Report, MOFA Wise Men Committee on ODA, Multi-stakeholder ODA Manifesto, GRIPS Development Forum

- Japan should concentrate additional aid to Africa on a few countries with:
  -- Strong political will (top leader)
  -- Social stability
  -- Minimum administrative mechanism
- Policy dialogue for formulating concrete national/regional growth strategy
- Mobilize available aid tools to implement agreed strategy
- Involve private sector and other donors
Example: The Case of Zambia

- JICA is conducting the “Triangle of Hope" Project (improving investment climate) mobilizing a Malaysian consultant under new methodology (2006-09).
- As a next step, Zambia requests Japan to help formulate a long-term industrial strategy.

Suggested Steps (for Zambia)

- Preparation – forming a strong super-secretariat under President
- First stage (1 year) – manufacturing sector surveys, studying East Asian experiences, receiving experts, seminars, website, produce Basic Issues Report
- Second stage (2 years) – drafting of Industrialization Strategy with JICA support

---Top leader's strong commitment is critical
---Mainstreaming of this project among donors and in Tokyo
Learning Policy Details from East Asia

- East Asia has rich experiences in industrial measures. Africa should learn them in detail for formulating their own.
- Examples:
  - Drafting industrial master plans
  - SME promotion
  - Development of industrial HR
  - Strategic FDI marketing
  - Managing industrial estates
  And many others...

Central Coordination Model:
Thailand under Thaksin Government 2001-06
Multi-layered Model

Malaysia
Organization for drafting Industrial Master Plan

Industrial Planning Committee (IPC)

Steering Committee (SC)

Technical Resource Groups (TRGs)

- Head of TRG

Source: MITI website

Note: Numbers in parentheses indicate the number of members in each committee or group.

Vietnam: Successful Technical and Vocational Training Centers

<table>
<thead>
<tr>
<th>Location</th>
<th>Period</th>
<th>Partner</th>
<th>Budget</th>
<th>No. of Students</th>
<th>Courses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cao Thang Technical College</td>
<td>1905-2006</td>
<td>Self finance</td>
<td>7,500 in 2006 (plus 7,000 in short prog.)</td>
<td>30 industrial majors with clear career orientation and practical workshops</td>
<td></td>
</tr>
<tr>
<td>Vietnam-Germany Center at HCMC University of Tech. Education</td>
<td>1993-2000</td>
<td>German</td>
<td>7 mil USD</td>
<td>400 per year</td>
<td>Standardized programs to train teachers in electrical-electronics and mechanics, with modern equipment</td>
</tr>
<tr>
<td>Vietnam-Singapore Tech. Training Center</td>
<td>1997-2005</td>
<td>Singapore</td>
<td>5 mil USD</td>
<td>500 (in 2002)</td>
<td>Electrical-electronics, mechanics, mechatronics, customized courses; in cooperation with VSIP</td>
</tr>
<tr>
<td>Vietnam-Japan Technical Center at Hanoi Industry University</td>
<td>2000-2005</td>
<td>Japan</td>
<td>6 mil USD</td>
<td>720 per year (plus 1,300 in short courses in 5 years)</td>
<td>Machining, metal processing, electrical control; using modern equipment and teaching good attitude</td>
</tr>
<tr>
<td>Vietnam Japan Cooperation Center</td>
<td>2000-2010</td>
<td>Japan, HCMC</td>
<td>n.a.</td>
<td>2,000 in 6 years</td>
<td>Business administration and strategy, production management, etc. for top and middle managers</td>
</tr>
</tbody>
</table>
Malaysia’s SME Promotion (SMIDEC)

- Grants available for improving planning, products, processes, productivity, certification, marketing, packaging, design; loans available for factory relocation, ICT.
- Application processed within 14 working days; disbursement within 20 working days.
- Enterprise efforts are monitored.
- Industrial Linkage Program (ILP)—database of 18,000 companies and business matching services between FDI and locals.
- National SME Development Council headed by PM meets regularly to adjust policies.

Development around Core Infrastructure

- Large infrastructure such as roads, ports and power has broad effects.
- Policies and aid should be organized around core infrastructure for maximum impact.
Indochina’s Economic Corridors

Strongly promoted by the Asian Development Bank

Even at local level (Northern Vietnam), impact of large roads (HWY 5 & 18) is highly visible on industrialization and FDI attraction.

References

