

# Growth and Competitiveness from the East Asian Perspective

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## 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)

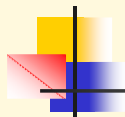


## What should be done?

- 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

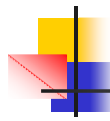
1. “Pro-poor growth”
2. Development experience of East Asia
3. Vietnam’s CPRGS (=PRSP)
4. Japan’s engagement principle



### (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

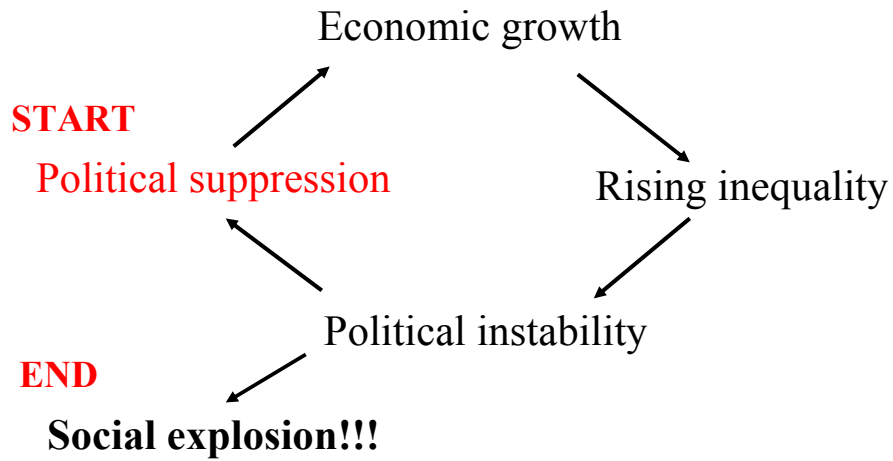
John Rawls: “Choose the society which maximizes the welfare of the poorest”

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.

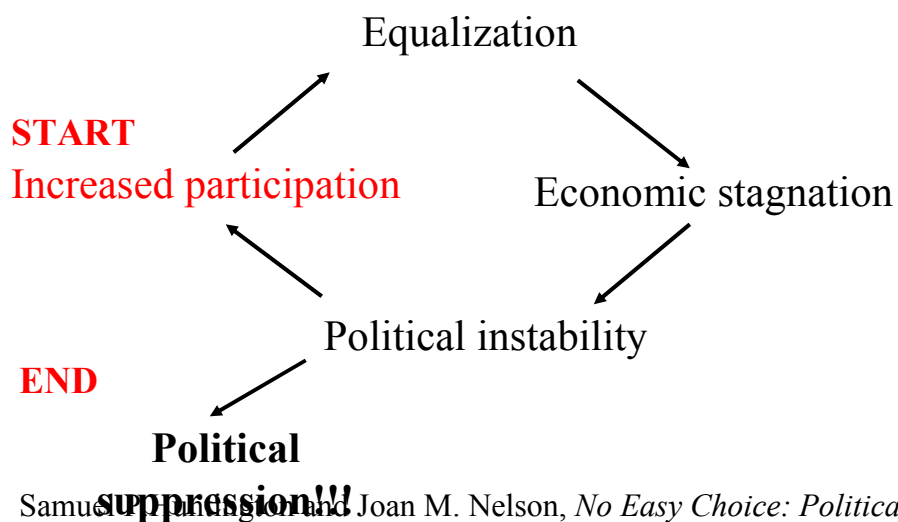
- Perfect equality is the ideal of communism. Does pro-poor growth (faster rise of the poor) support it?
  - Where do we switch (criteria)?
- Society can be too equal and stagnant:
  - General poverty in poorest countries
  - Transition from socialist egalitarianism
  - Welfare state in excess

## “Technocratic Model” and its failure



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.

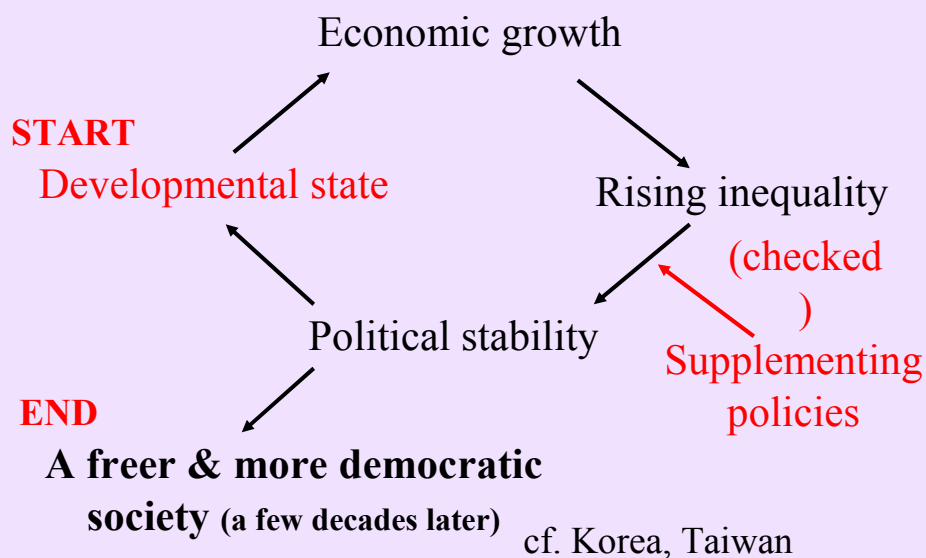
## East Asian Way to Success

### 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)



## 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)

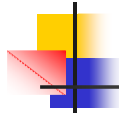
- Inter-sectoral and inter-regional labor migration (cf. Chinese TVEs)
- Increasing demand (cf. proto-industrialization, multiplier effect)
- Reinvestment (formal, informal and internal financing)

## Three Channels (contd.)

### (3) Policy channel (supplementing the market channel)

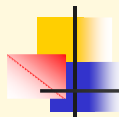
- Price support, taxes, subsidies
- Fiscal transfer, public investment, infrastructure
- Micro and SME credit and other financial measures
- Proper design of trade and investment policies
- Pro-poor legal framework





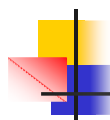
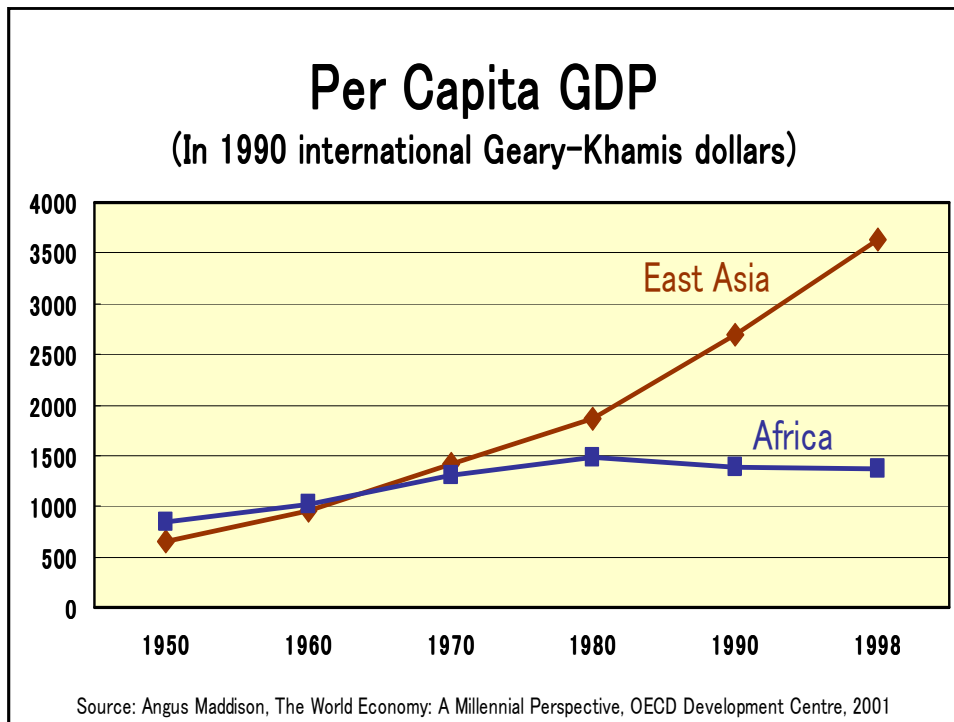
## Broadening the Scope

- 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



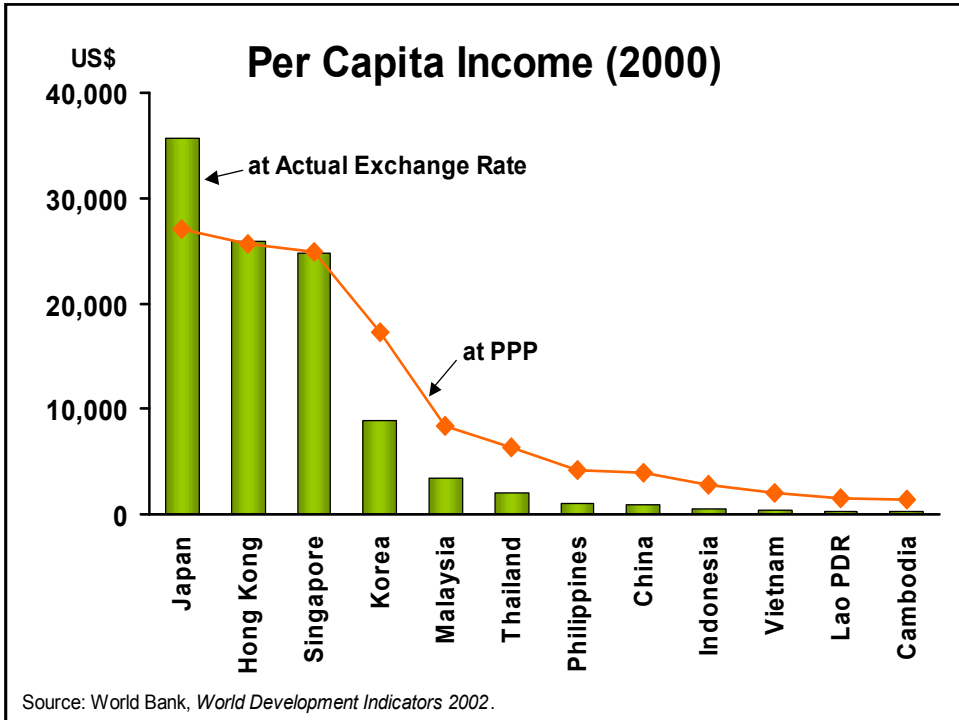
## (2) East Asian Experience

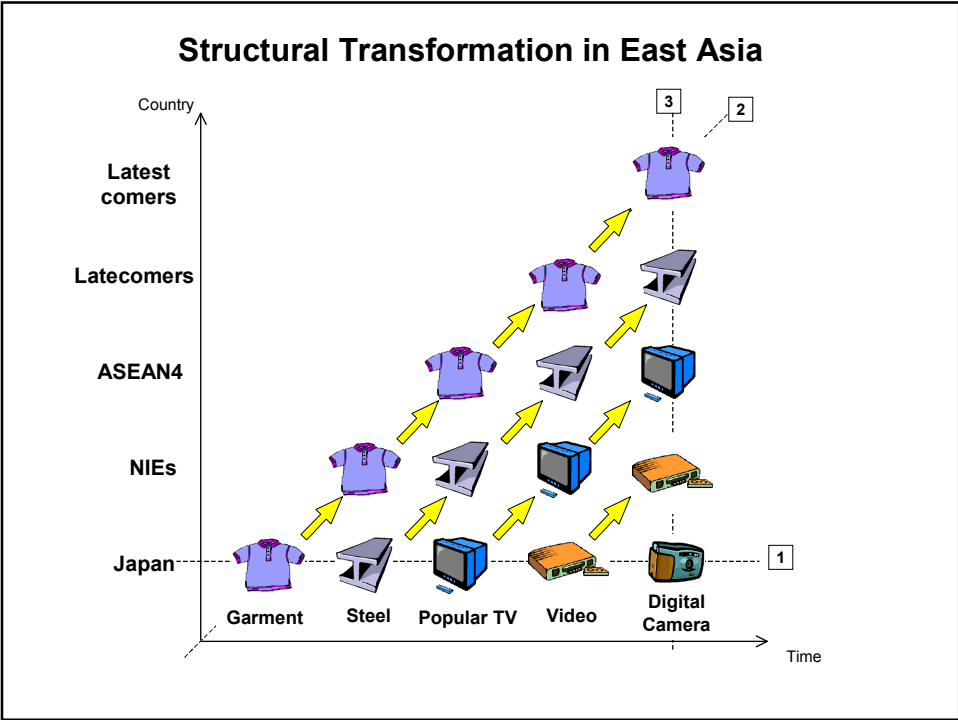
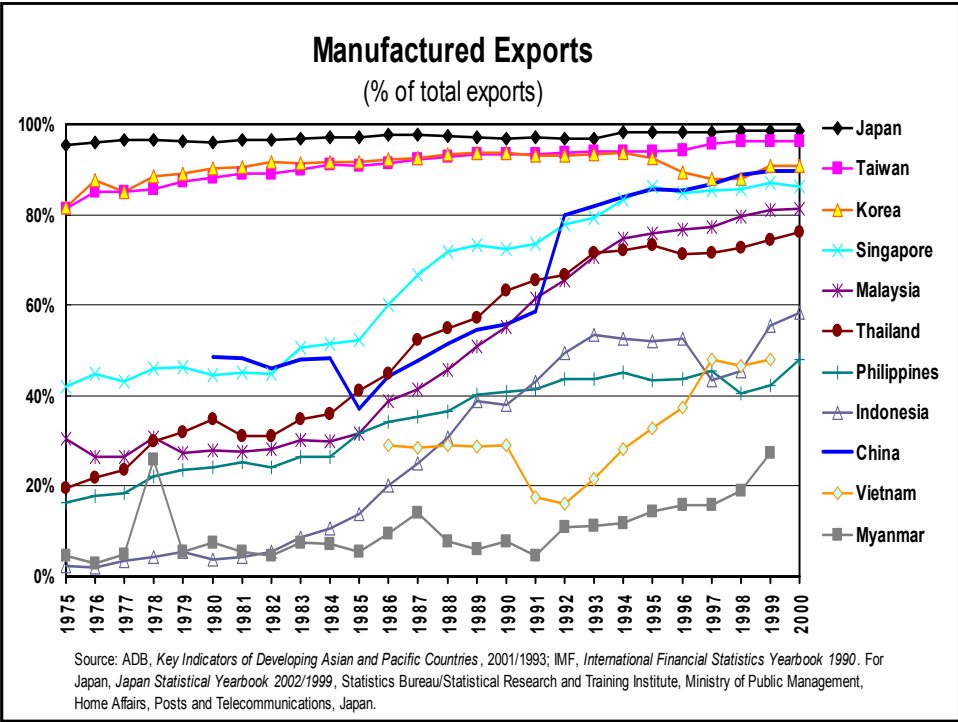
- Growth driven by trade and investment
- *Collective* growth, not isolated or random
- Staggered participation in the regional production network
- Region as an *enabling environment* for catching up (model and pressure)

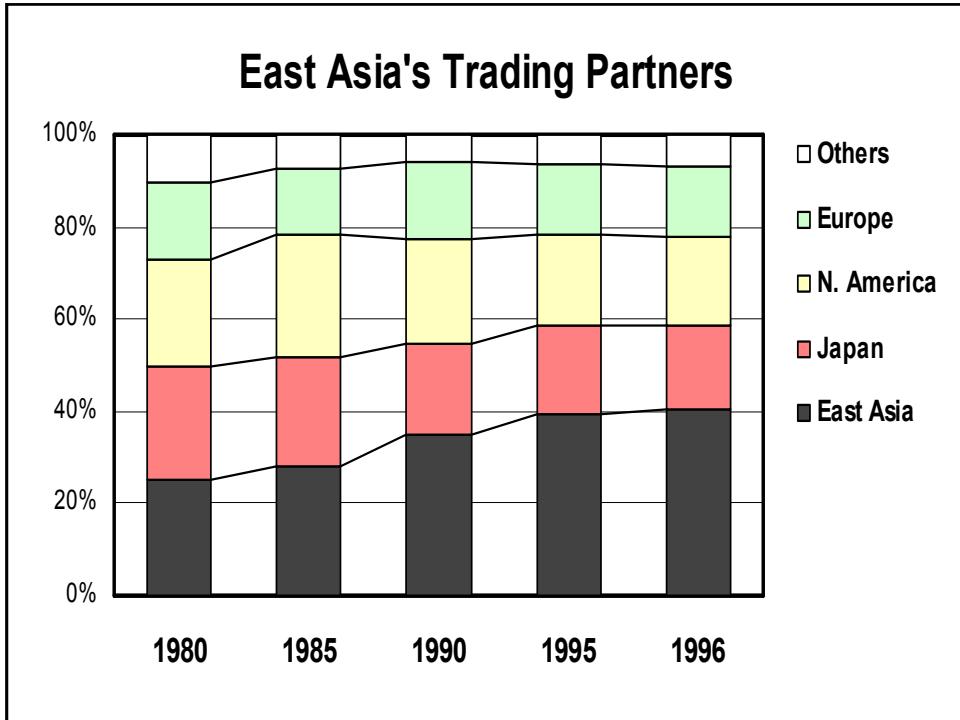
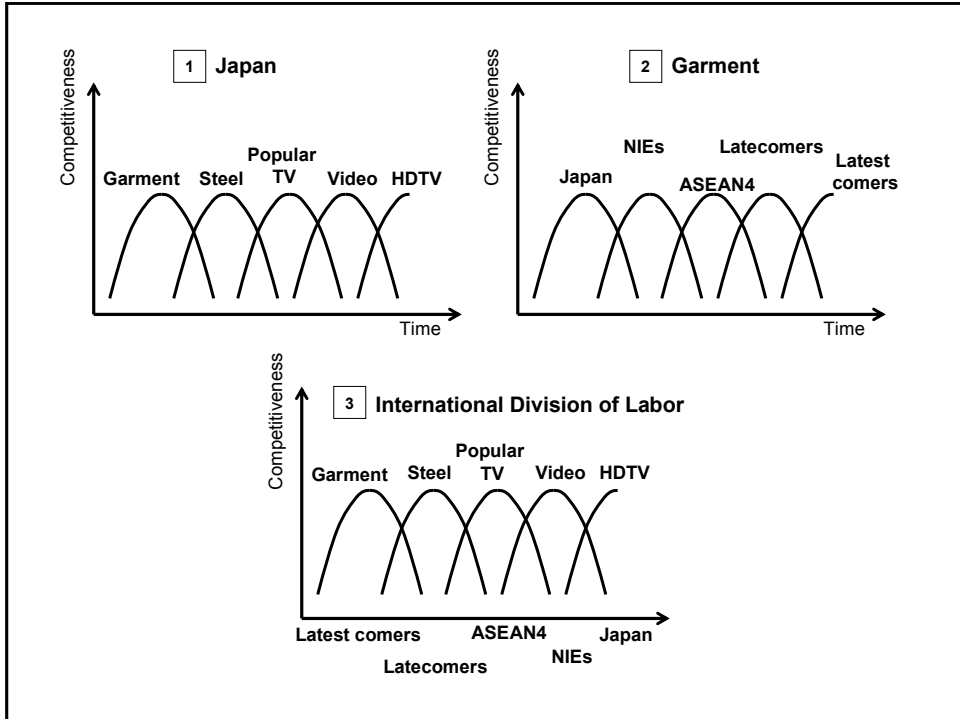


## “Asian Dynamism”

- 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)

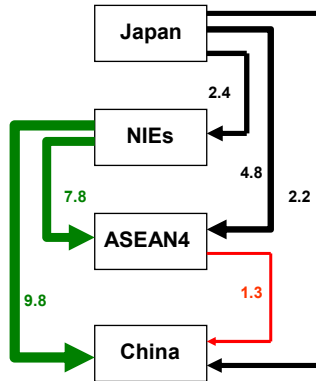




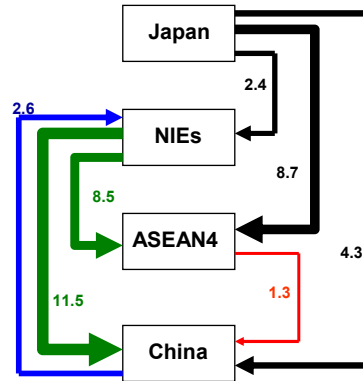


## Foreign Direct Investment Flows (Billions of USD / year)

[1st Half of 1990s]



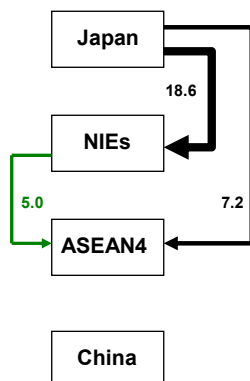
[2nd Half of 1990s]



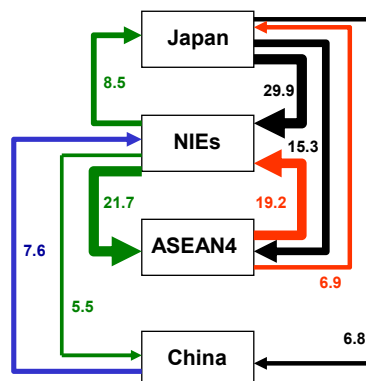
Source: Ministry of Economy, Trade and Industry, *White Paper on International Trade 2002*, p12.  
Note: Flows less than \$1 billion are not shown. The "NIEs to China" flow excludes Hong Kong.

## 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.



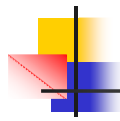
## The Role of Government

- 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

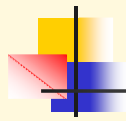
- Extreme poverty in E Asia already halved  
(1990: 27.6% → 1999: 14.2%)
- National strategy for *equitable growth* already in place  
(even before PRSP/MDGs)
- Aid coordination centered on pro-poor measures unlikely to work in East Asia



## 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

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*“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

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- 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)



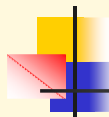
## Japan's New Initiative

- 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”



## 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)



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