

Development with Alternative Strategic Options

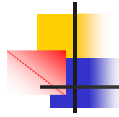
A Japanese View on the Poverty Reduction Drive and Beyond

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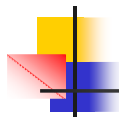
Background

- Ongoing global poverty reduction partnership
- Japan is uncomfortable
 - It feels current strategy is unbalanced
 - Fear of marginalization
 - New engagement effort is begun
 - Catalyst for a group of LDCs/donors?



Recent Poverty Cutting Drive

- World Bank's CDF/PRSP
- UN's Millennium Development Goals
- Poverty-terrorism nexus
- EU and US pledge to increase ODA
- Many international conferences for development in 2002



Japan's Concern (Domestic)

- Due to fiscal crisis, Japan's ODA is to be cut (now top donor)
- Popular demand for transparency and accountability
- Groping for new ODA vision – from quantity to quality



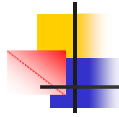
Japan's Concern (External)

- With partnership approach, ignoring global trend is more difficult
- Japan's policy silence may lead to marginalization
 - Too much focus on poverty; too little on growth and industries
 - From ODA loans to grants?
 - Less aid for middle-income countries?



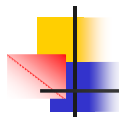
Japan's External Initiatives

- Disappointment with IMF's handling of Asian Crisis -- Chiang Mai Initiative, New Miyazawa Plan
- WTO's slowness -- Japan-Singapore FTA (2001); proposals for Japan-ASEAN and other FTAs
- Unease with PRSP/MDGs -- ??????



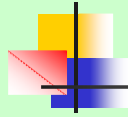
For Reshaping ODA Policy

- MOFA's ODA reform effort
- METI's study on ODA for "Asian Dynamism"
- IDEA, WSSD (2002); TICAD3 (2003)
- GRIPS Development Forum
- Washington DC Development Forum
- Inputs to Vietnam's PRSP (starting)



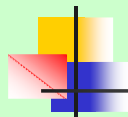
Targeted Audience

- Governments and scholars in East Asia
 - Same in other developing regions
 - Sympathetic donors
 - Aid professionals with little exposure to East Asia
- We don't expect unanimous approval
- Research must proceed in parallel



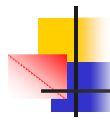
Japan's Proposed Agenda

1. Critique of current global strategy
2. East Asian development as an alternative approach (where conditions are right)
3. Japan's two-track development assistance vision



Agenda (contd.)

4. Industrial support in the age of globalization
5. PRSP is too small for East Asian experience or aspiration
6. Transferability to other regions, especially Africa?



1. Critique of Current Strategy

- World Bank's policy shifts are too quick and radical
- Industries (60s), BHN (70s), SA (80s), privatization & institutions (90s), now poverty (cf. Easterly 2001)
- Development strategy should be more stable and cumulative



Japanese Views

- **Strategic diversity**, not convergence
- **Real-sector concern**, not just framework
- Deeper studies of each sector/country required, rather than policy matrices or cross-country regressions
- More patience, respect, ownership for developing countries (incl. selection of goals and strategies)



Costing of MDGs: some Q's

\$40-\$70 billion, or doubling global ODA

Devarajan, Miller, Swanson (WB Apr 2002)

- Why assume only ODA funding?
 - Even poor can generate resources (FSR/PSD)
- Are two calculations consistent?
 - Investment-output-poverty linkage vs. adding up pro-poor expenditures
- No problem with aid absorption capacity?



2. East Asian Dynamism

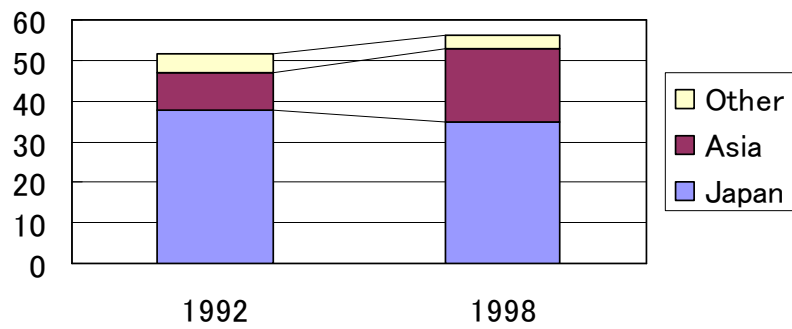
- Development as poverty reduction vs. development as catching up
- Meaningful participation in regional/global production network through trade and investment
- Higher and more dynamic aspiration (health, primary education not enough)



Increasing Linkage (1)

Asian Affiliates of Japanese Firms

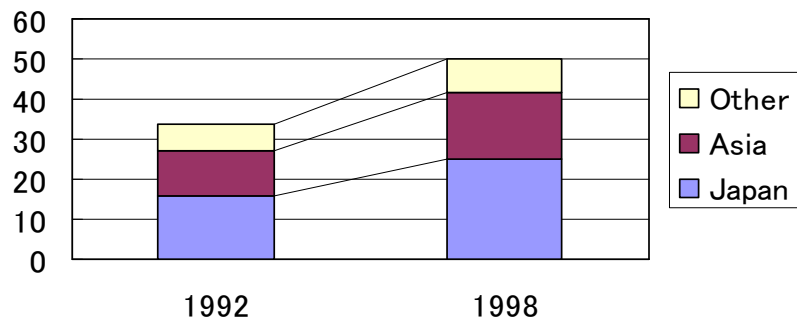
Input Procurement (% of total)



Increasing Linkage (2)

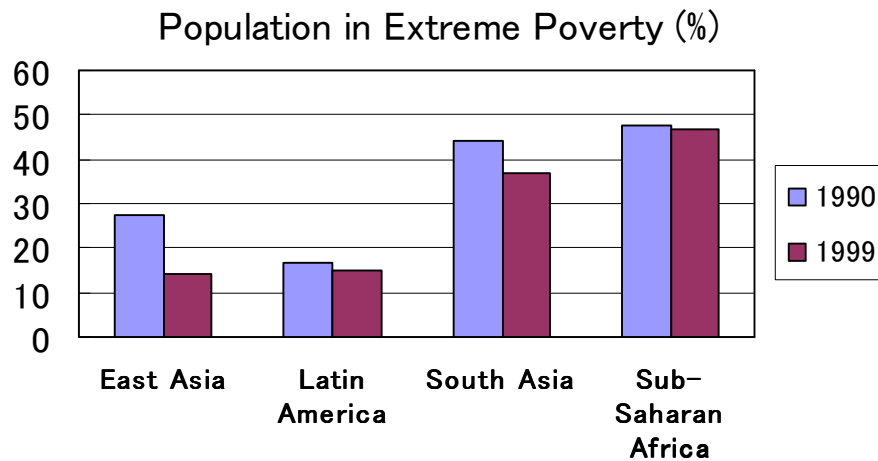
Asian Affiliates of Japanese Firms

Output Sales (% of total)



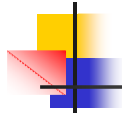


East Asia Cuts Poverty



Region's Enabling Environment

- World Bank's *East Asian Miracle* (1993) assessed policies of individual countries
- Asian growth as collective phenomenon
- Region provides enabling environment for growth and structural change
- From market-led to institution-led regional integration (cf. EU)
- Crisis impact? Back to normal



3. Japan's Two-Track ODA

- One pillar for **global contribution**, including poverty and environment
- Another pillar for supporting **East Asian dynamism** as a production network
- Two pillars have always been present, just affirm them (Japan's dual identity)
- Do both with more confidence and flexibility



4. Today's Industrial Support

- Infant industry support with subsidies and protectionism no longer allowed
- FDI attraction is key: understand *agglomeration* and *fragmentation*, and virtuous circle (Southern China)
- Simple opening is not enough



Support (contd.)

- Policies for offering superior locational advantages and low costs of doing business are needed
 - Improving domestic skills, infrastructure, institutions; efficient public services; good management of IZs and EPZs, etc.
- Case for regional public action is strong
 - Narrowing gaps, integration, harmonization, crisis prevention, externalities, etc.



Theories of Flying Geese

1. Factor-proportion view
 - Industries shift as capital-labor ratios change through accumulation
2. Technical ladder view
 - Technology is transferred from low-tech to high-tech by learning
3. **FDI dynamism view**
 - Industries arise where a critical mass of FDI is accumulated (no capital/technology needed)



5. PRSP in East Asia?

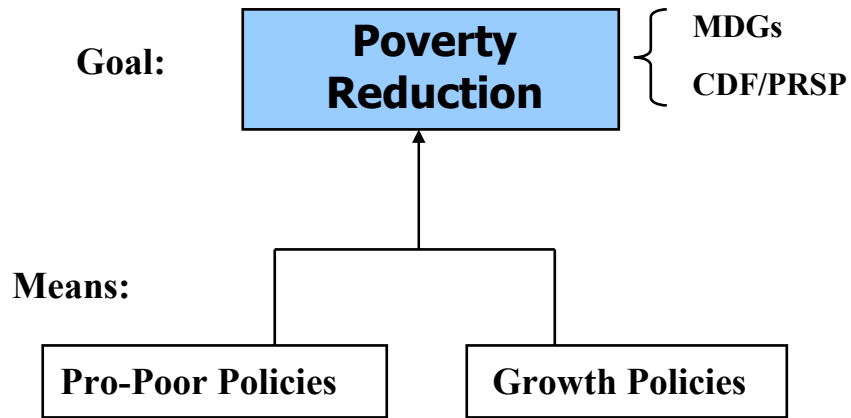
- Vietnam with typical E Asian aspiration
- National goal: *Industrialization & Modernization* by 2020
- 10-Year Strategy & 5-Year Plan
- CDF pilot country; full PRSP in 2002
- How does it really work? Indonesia, Laos, Cambodia, (Africa) are watching



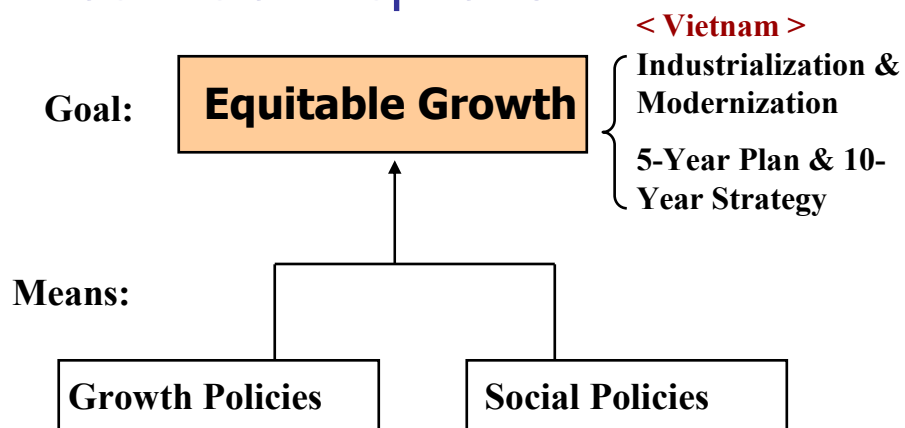
Vietnam's CPRGS

- Considered “great success” because of strong country ownership
- PRSP renamed to “*Comprehensive* Poverty Reduction & *Growth* Strategy”
- Policy inputs through CPRGS? Unlikely
- Enthusiastic donors, skeptical donors
- Growth-poverty link left ambiguous

PRSP Approach



East Asian Aspiration





Governments in East Asia

- Very strong interest in narrowing intra-regional gaps (original ASEAN vs CLMV)
- Also interested in infrastructure, HRD, trade, FDI attraction
- Rejection of narrow “poverty reduction” approach



Governments in EA (contd.)

- More, not less, economic cooperation including middle-income countries
- ODA is but one tool of cooperation among many



6. Not Just in East Asia

- There are countries with similar growth aspiration outside East Asia
- Transferability?
 - Initial step is disseminating information
 - Partial or revised implementation possible
 - Academic debate can go on in parallel
- Concentrate on a few pilot projects/countries (not many)



Dissemination Plan

- Japanese research papers to be selected, summarized and translated in readable form, for policy impact
- Non-profit organizations should support government
- Use (or convene) international conferences for announcement of policies