

The East Asian Experience of Economic Development and Cooperation

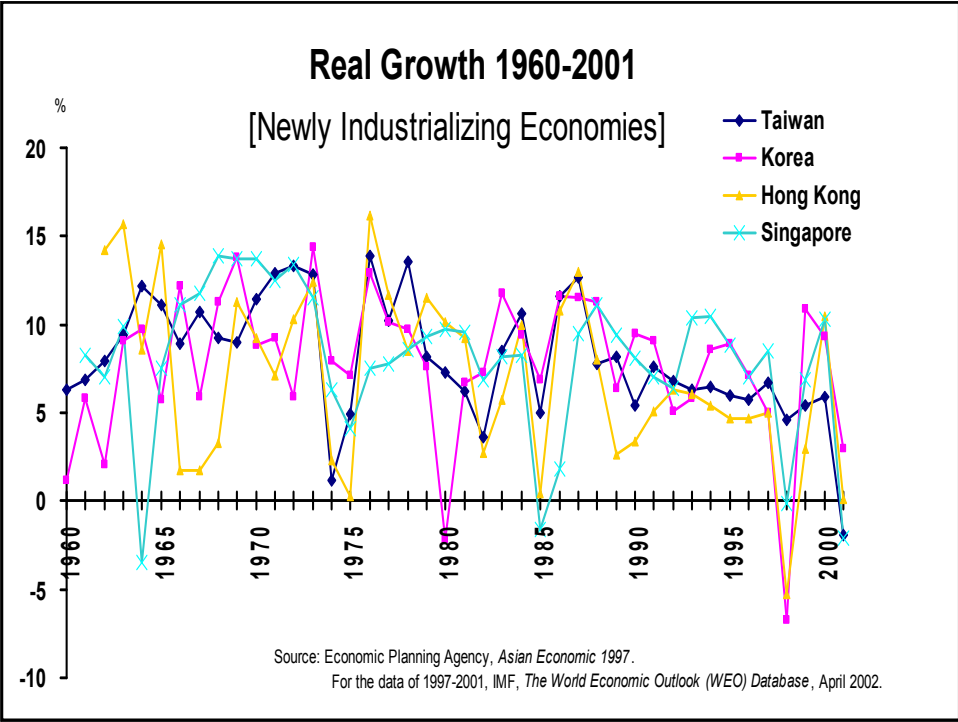
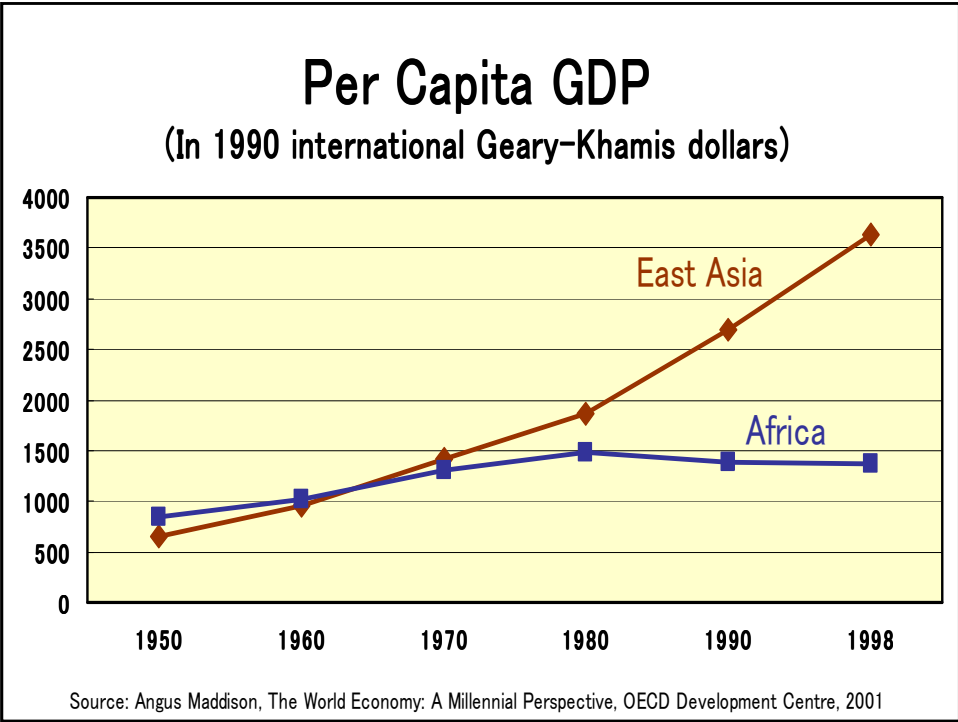
Kenichi Ohno

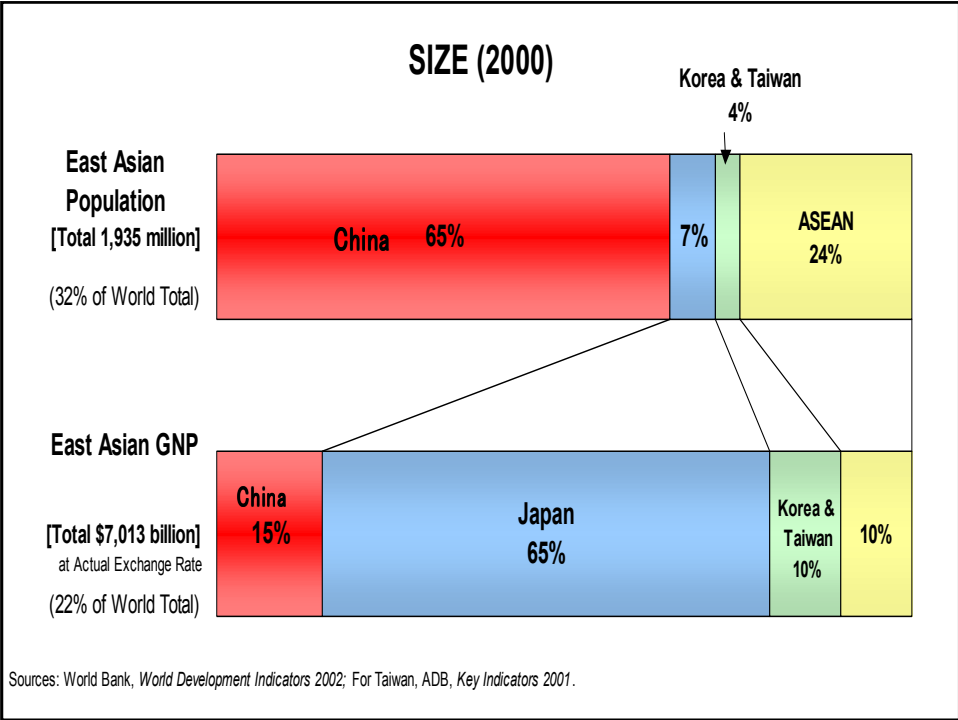
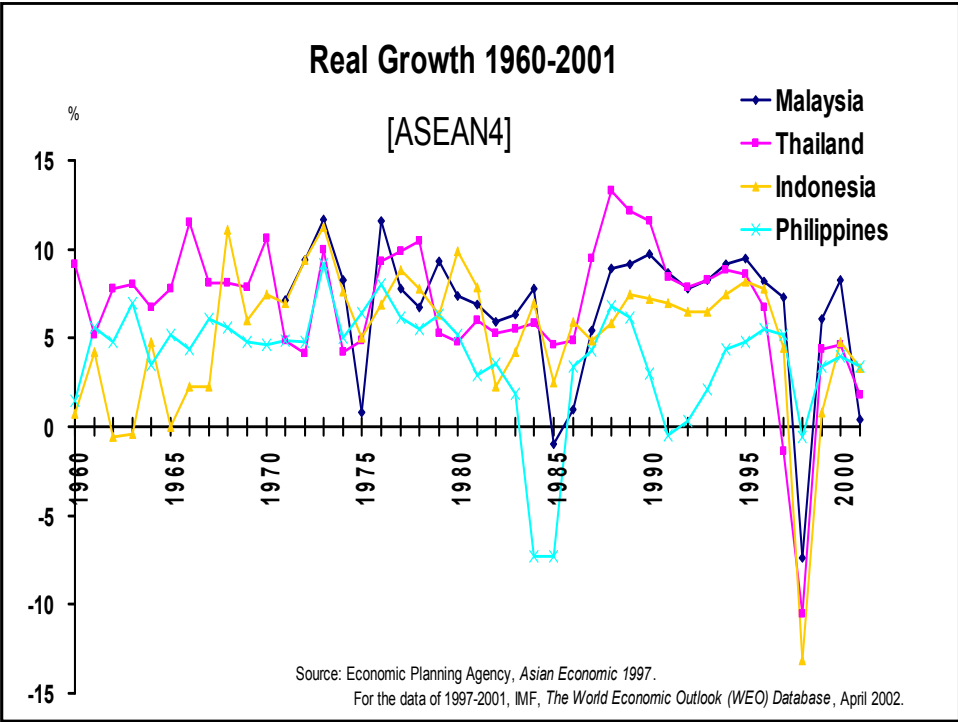
National Graduate Institute for Policy Studies

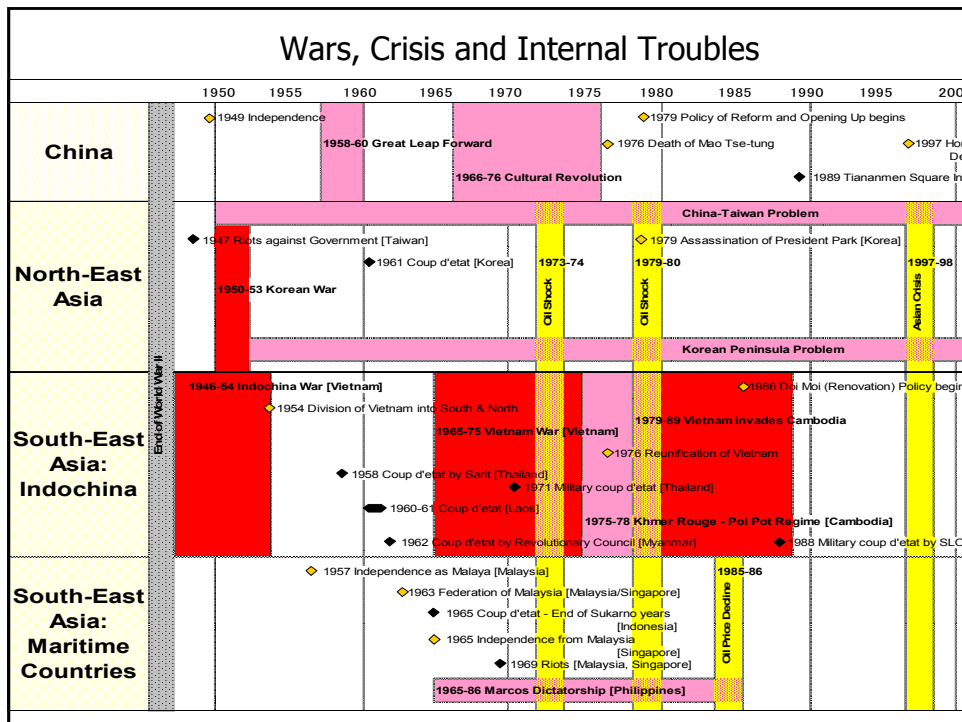


Background

- Polarization of the developing world into high and low performers
- East Asia as a high performing region
 - Diversity in size, income, culture, etc.
 - Failures and bad periods also existed
 - But high growth was sustained in most countries and over the long run

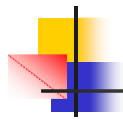






East Asian Development

- 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)



“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)

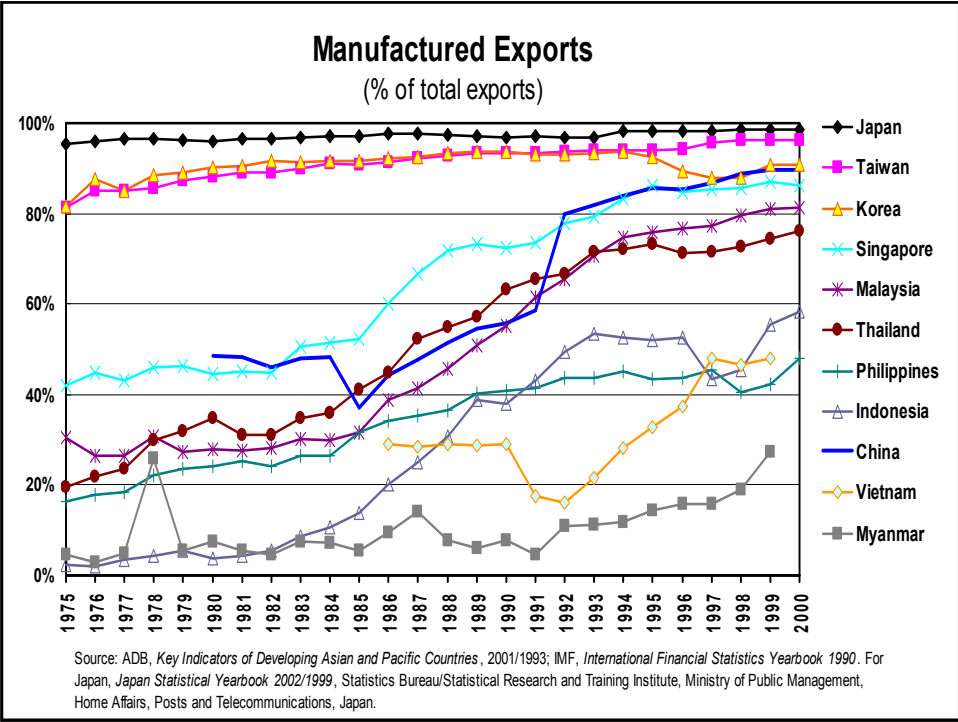
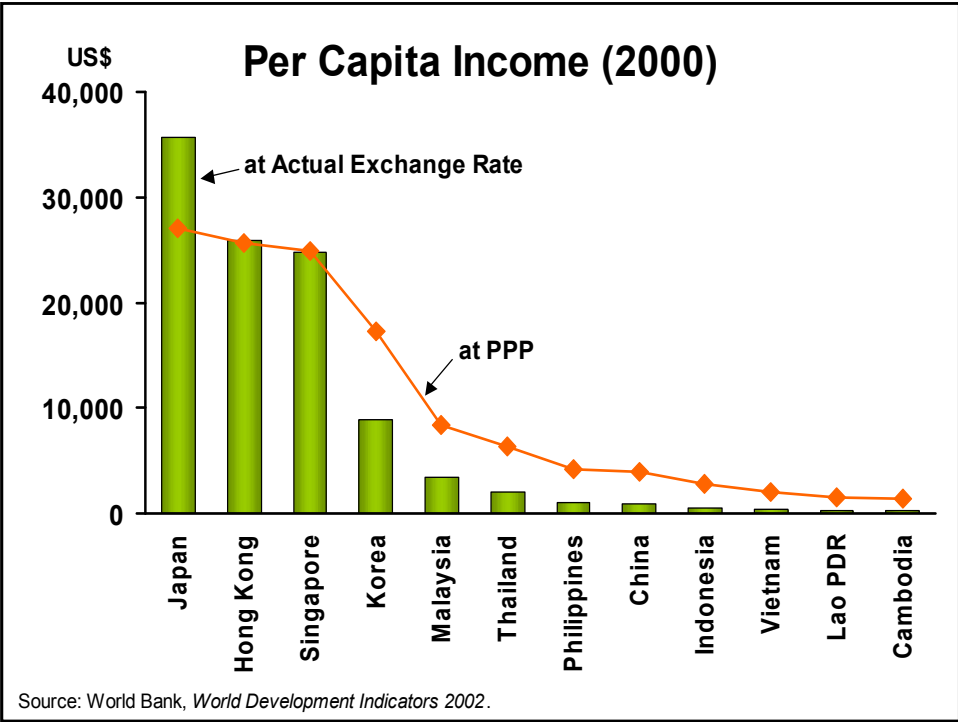


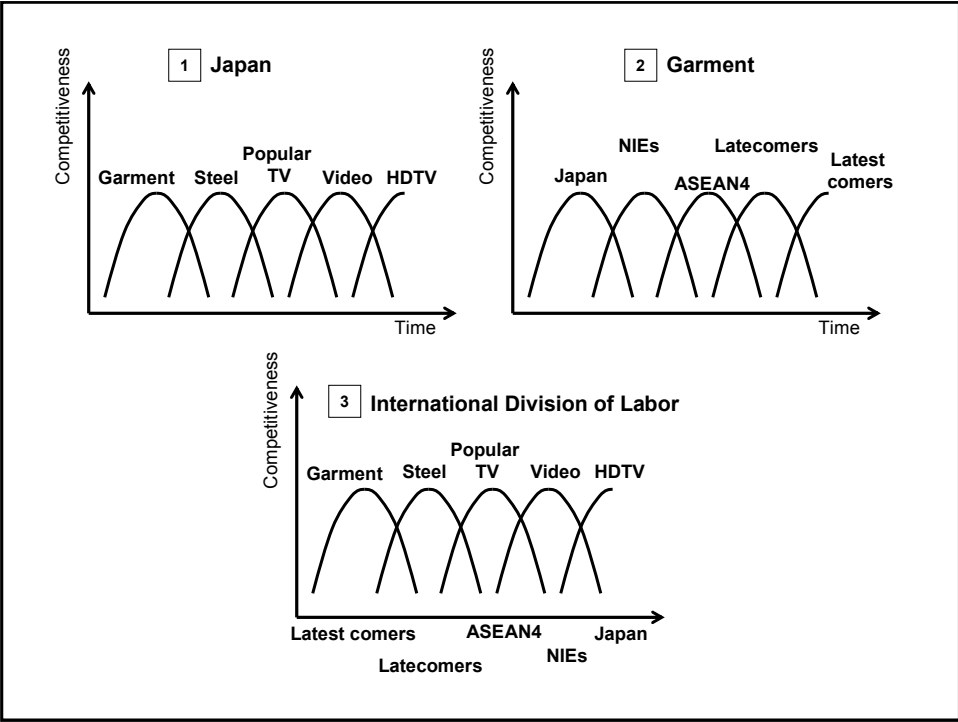
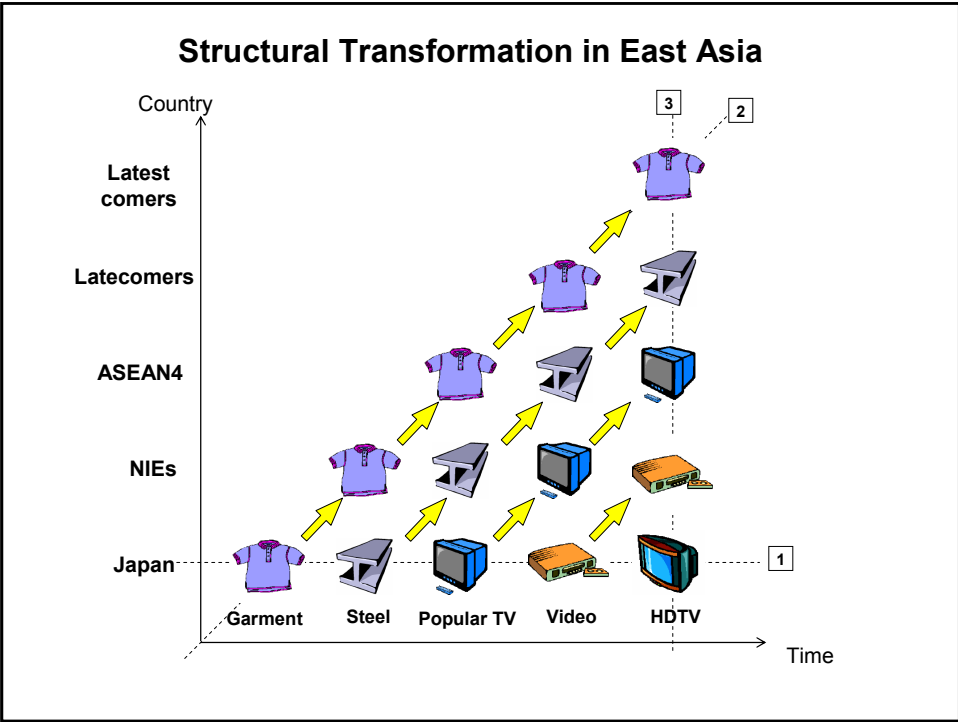


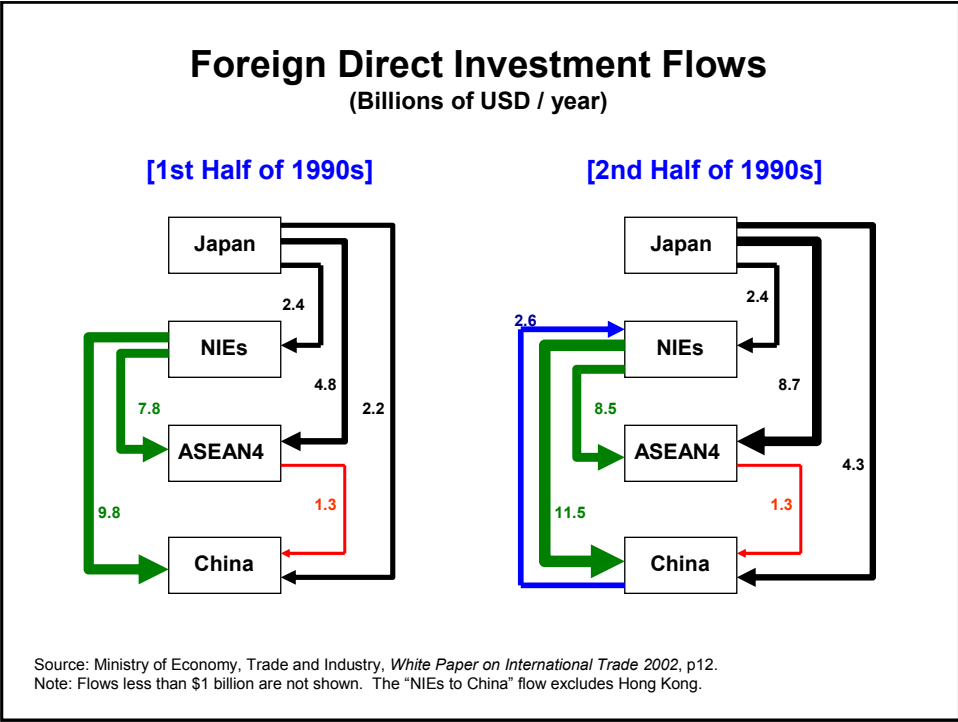
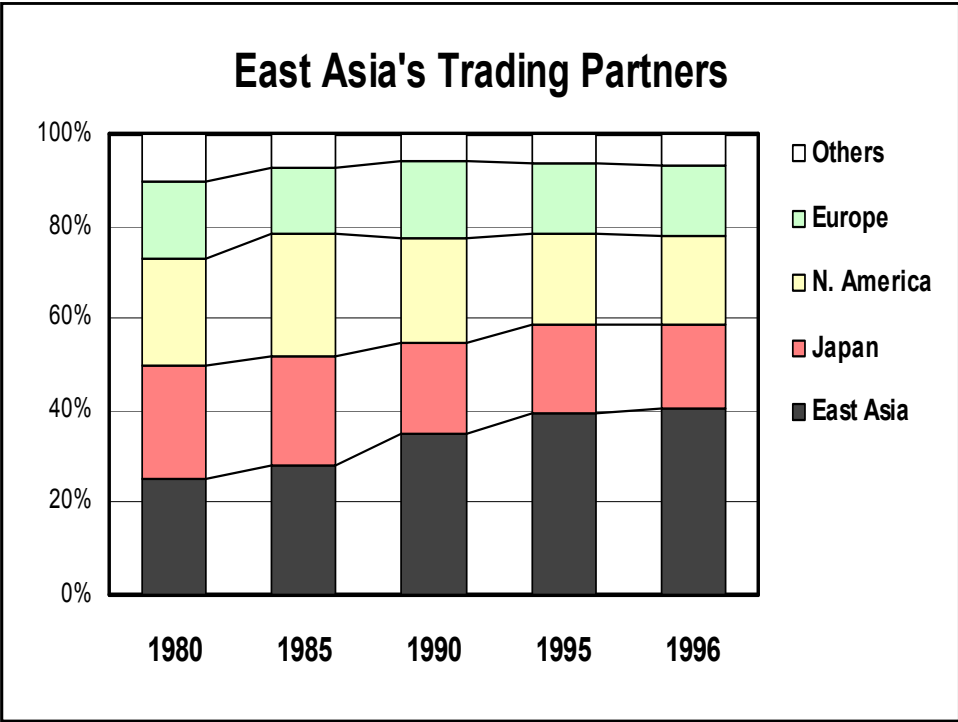
Photo by Saizou Uchida (location: Sakai-gun, Fukui Prefecture, Japan)



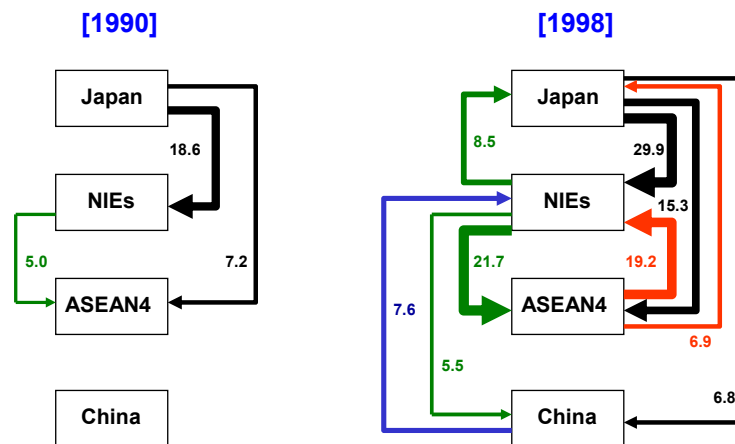
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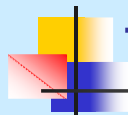




Trade in Machine Parts (Billions of USD / year)



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 (domestically and globally)
- Escape from the vicious circle of low income, low saving and low productivity



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 needed to join the regional production network, which each country must prepare



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
(emerging income gaps, congestion, pollution, corruption, etc.)



Authoritarian Developmentalism

- What if the government is weak?
- East Asian answer: **install 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: not necessarily "democratic" by Western standards

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Source: Akira Suehiro, *Catch-up Type Industrialization*, Nagoya University Press, 2000, p115.



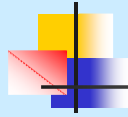
Rise & Fall of Auth. Developmentalism

- 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)



Redefining “Good Governance”

- To initiate trade-driven growth, different and narrower conditions are needed
 - Strong leadership with ownership
 - 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?)



Role of Regional Cooperation

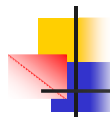
To maintain Asian dynamism, regional efforts are essential

- Avoid or remove difficulties and crises
- Support the private sector from sidelines
- Present visions to reduce uncertainty



From Market-led to Institution-led

- Previously,
 - Integration by private sector (trade, FDI)
 - Open regionalism
 - Informal and voluntary
- Now, institutionalization has begun
 - “ASEAN+3” is the main framework
 - AFTA, ARF, ASEM, AIA, IAI, Chiang Mai Initiative...
 - Bilateral and regional FTAs are proposed (some concluded)
 - Initiative for Development in East Asia (IDEA)



Remaining Issues for East Asia

- Maintaining regional peace and security
- Narrowing the gap between early developers and latecomers
- Promoting globalization while mitigating its negative impacts
- HRD, institution building, governance for strengthening competitiveness



East Asia Should Also:

- Project its views to the world
 - Markets must be managed properly
 - Diversity, not uniformity, in development strategies
 - IMF's wrong response to the Asian crisis
- Study the new modality of industrial promotion in the age of globalization
 - Neither laissez-faire nor protectionism



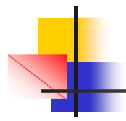
Japan's Role in East Asia

1. By far the largest ODA donor
2. Large trading partner (together with US, EU)
3. Japanese firms are chief architects of regional production network through FDI (especially in electronics)
4. Regional leadership?
5. Economic vitality?



Japanese ODA

- Two-track principle
 - (1) For the prosperity of Japan and East Asia
 - (2) For solving global issues (poverty, health, education, environment, refugees...)
- Helping the “self-help” effort of LDCs
 - To grow and become equal trading partners
- Supplementing private dynamism
 - Infrastructure, HRD, policy/institutional support
 - Coping with growth-induced problems



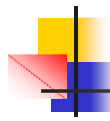
Poverty Reduction in East Asia

- Extreme poverty in East Asia already halved
(1990: 27.6% → 1999: 14.2%)
- National strategy for *equitable growth* in place
(even before PRSP)
- Aid coordination centered on pro-poor measures unlikely to work in East Asia
- Vietnam: strong ownership, growth *and* equity, PRSP under existing national strategy
(Does Vietnam really need an externally imposed PRSP?)



Implications for Africa

- Simple replication will not work
 - Different situations, no regional network
 - However, methodology for policy formulation can be transferred
- Africa must balance:
 - Fight against poverty (humanitarian)
 - Growth generation (for long-term self support)
- Concrete growth strategy needed, in addition to PRSP



Japan's Approach Emphasizes:

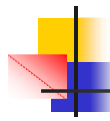
- Respect for each country's uniqueness
- Long-term and holistic perspective
- Real-sector concern (trade, investment, key industries, technology...)
- Help in good times as well as bad

This can complement the current approach based on short-term conditionality, frequent monitoring and globally common framework



Steps to Japanese Involvement

- First, build domestic support for more aid to Africa (but ODA is being cut)
- Select a few countries and study deeply
 - New selectivity criteria for growth
 - Create a permanent policy research team
 - Work with government, IFIs, other donors
 - Support "growth" component of PRSP
- Propose a concrete and realistic strategy, with additional ODA



Last Words

- Japan already extends such policy support to Vietnam, Laos, Myanmar, Mongolia...
(but it must be further improved)
- Ad hoc, short-term involvements are unlikely to produce lasting results

THE END

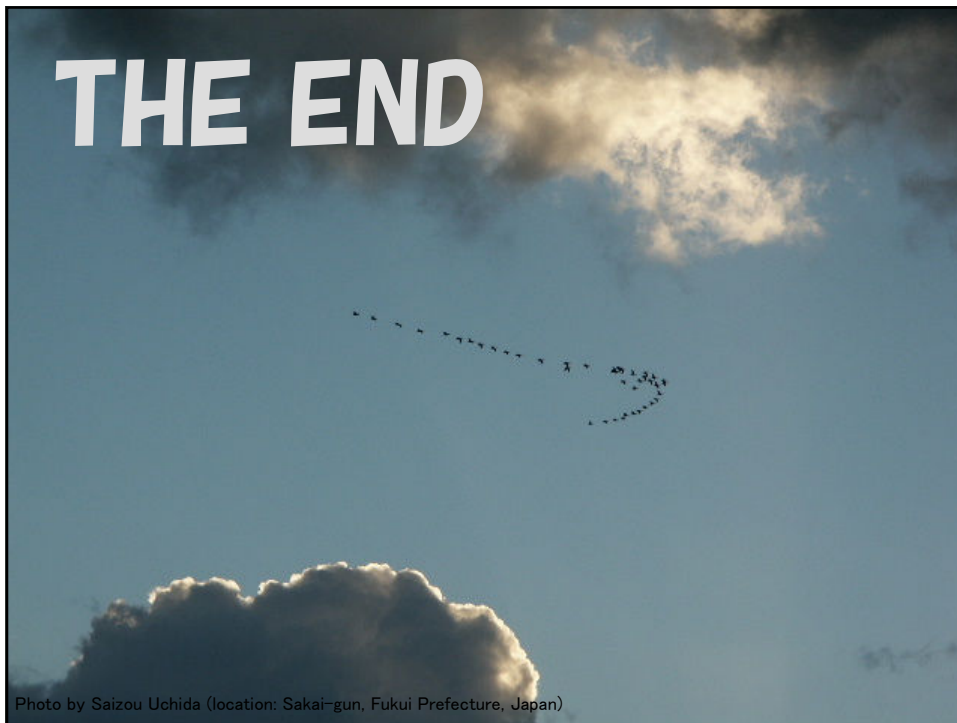


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