

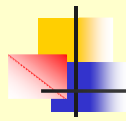
Pro-poor Growth and Aid Coordination from the Japanese Perspective

Kenichi Ohno

National Graduate Institute for Policy
Studies, Tokyo

Topics for Discussion

1. Pro-poor growth 2003
2. Development experience of East Asia
3. Aid harmonization
4. Japan's engagement principle



(1) Pro-Poor Growth 2003

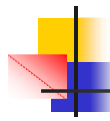
- The first round of poverty reduction drive is over (MDGs, PRSP)
- Renewed recognition that *growth* is needed for sustained poverty reduction
- Attention now turns to:
 - Ensuring “pro-poor growth”
 - Trade, investment, infrastructure
 - Contents of growth strategy ←



“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 stop (criteria)?
- Society can be too equal and stagnant:
 - General poverty in poorest countries
 - Transition from socialist egalitarianism
 - Welfare state in excess

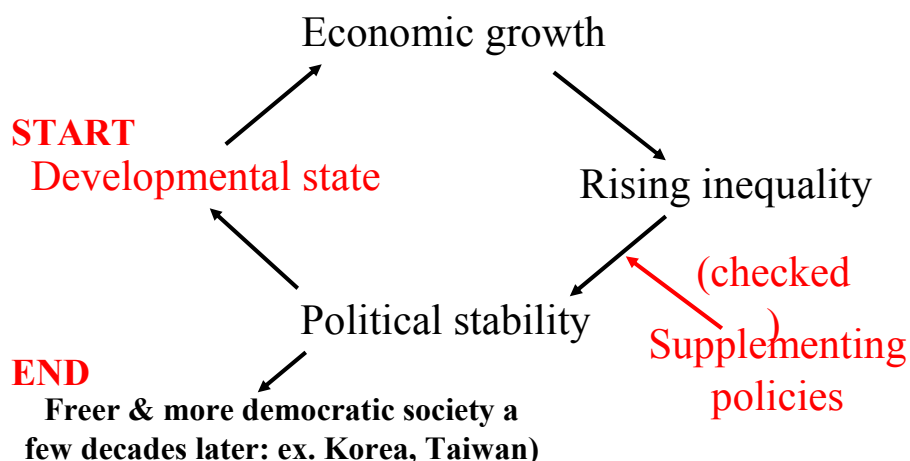
East Asian Way to Success

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)



Adopted with revision from: Samuel P. Huntington and Joan M. Nelson, *No Easy Choice: Political Participation in Developing Countries*, Harvard Univ. Press, 1976.

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: a.k.a. *trickle down*)

--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

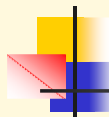
--Proper design of trade and investment policies

--Pro-poor legal framework



Broadening the Scope

- So far, disproportionate attention on direct channel—question of sustainability and the risk of permanent aid dependency
- Emerging emphasis on pro-poor growth
 - Focus still too narrow, not integrated
 - Past studies 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)



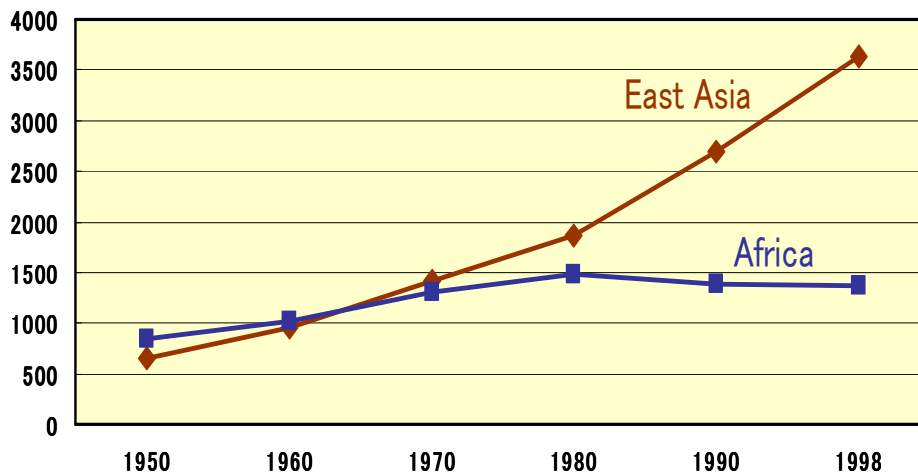
Asian Dynamism (Flying Geese)

- Geographic diffusion of industrialization
- Within each country, industrialization proceeds from low-tech to high-tech
- Clear order and structure (with possibility of re-formation, new entry and dropouts)

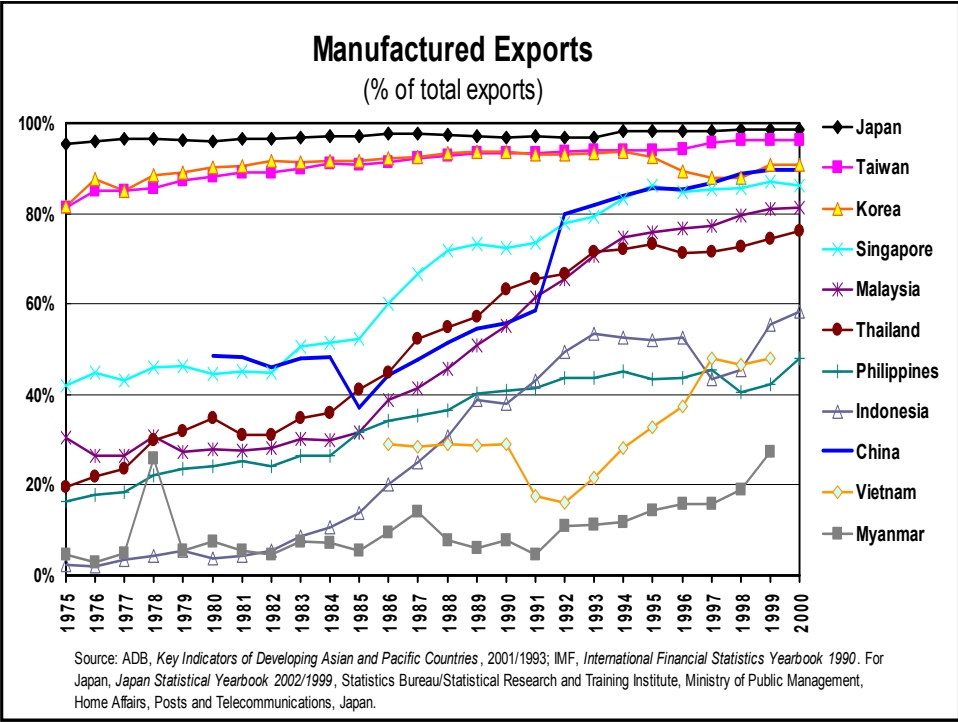
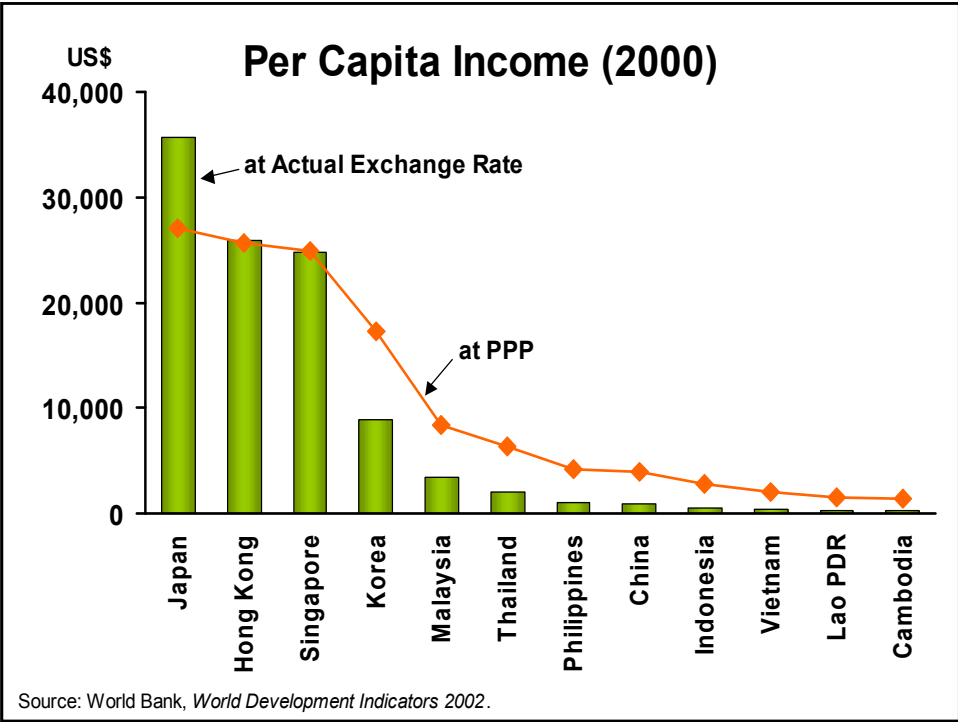


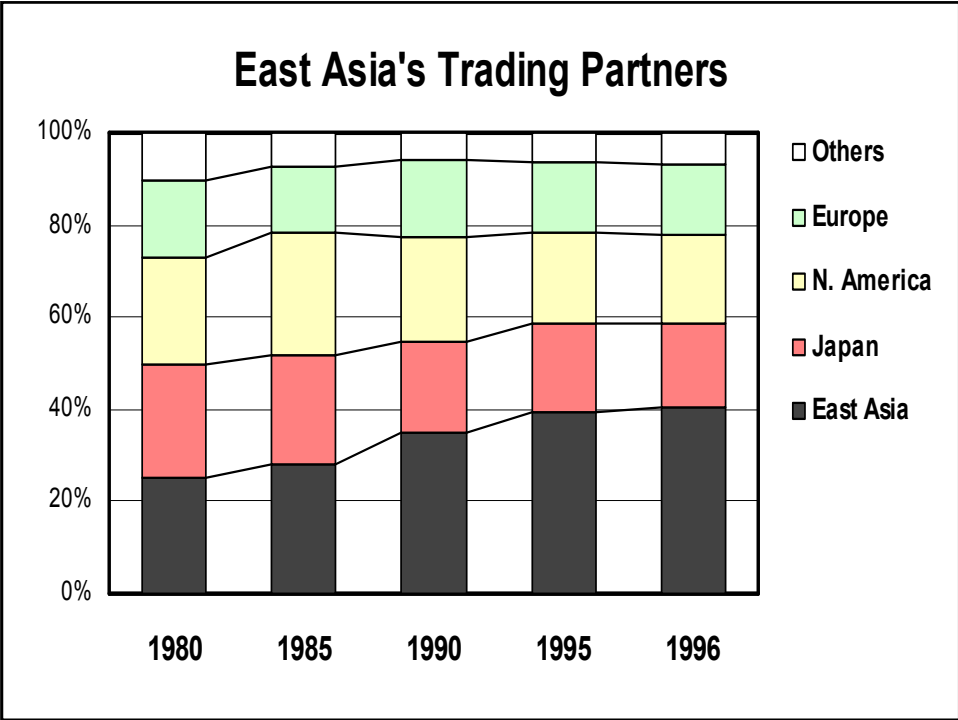
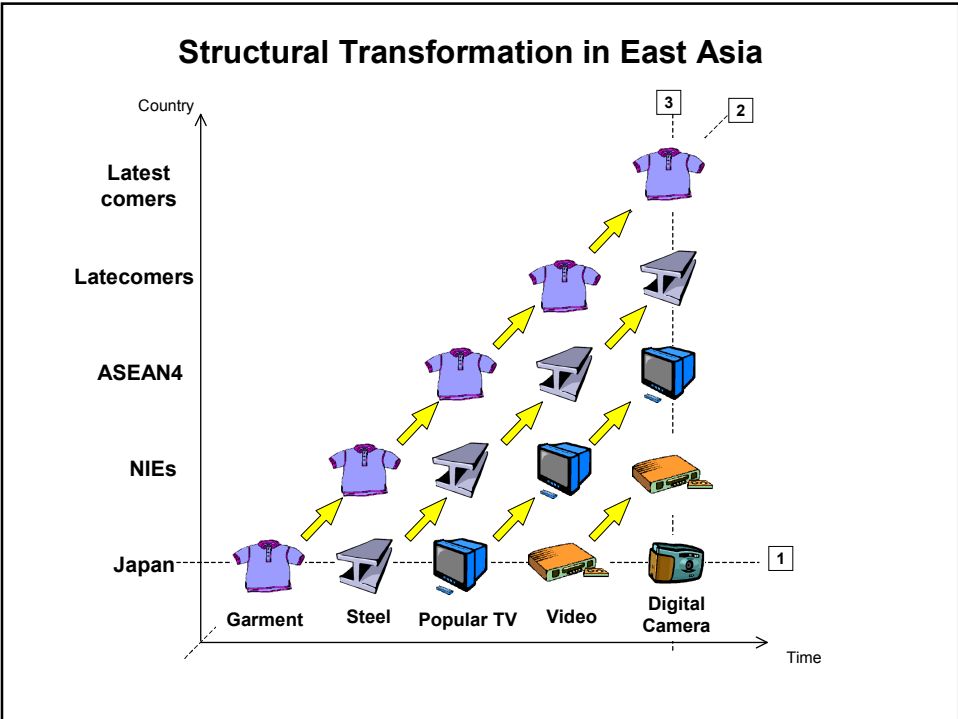
Per Capita GDP

(In 1990 international Geary-Khamis dollars)



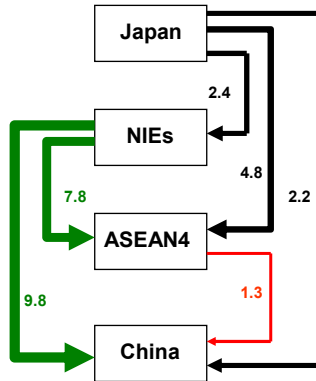
Source: Angus Maddison, *The World Economy: A Millennial Perspective*, OECD Development Centre, 2001



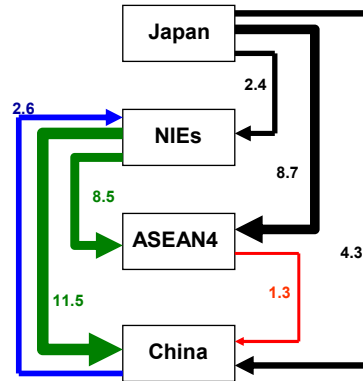


Foreign Direct Investment Flows (Billions of USD / year)

[1st Half of 1990s]



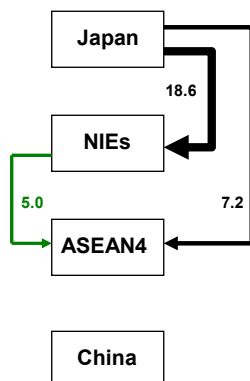
[2nd Half of 1990s]



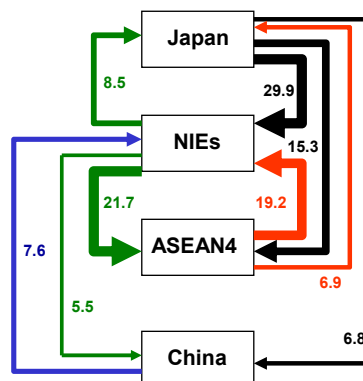
Source: Ministry of Economy, Trade and Industry, *White Paper on International Trade 2002*, p12.
Note: Flows less than \$1 billion are not shown. The "NIEs to China" flow excludes Hong Kong.

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.



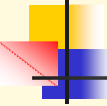
Poverty Reduction in East Asia

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

- Harmonize aid practice to reduce transaction costs!?
- Japan gives only conditional support
 - Yes we recognize the value of coordination BUT
 - Don't impose uniform modality (non-project aid) on all countries and sectors
 - Don't deny or discredit ODA loans
- Japan reacts strongly to harmonization hardliners, but accepts its milder form



“Best Mix” Approach

- Nonfungibility of ideas & strategy
 - Multiple options for different countries
- Inseparability of money and ideas
- Donors according to their comparative advantage
- Harmonization for *aid implementation*?
 - Policy & institution also key to effective development
 - Need to also discuss contents of growth strategies

Regional (VN) & Global (Rome) Forums on Harmonization

Japan intervenes to relativize
harmonization:

- “Ensure partner country ownership”
- “Adopt country-based approach”
- “Ensure diversity of aid modalities”
- “Cost-benefit analysis of harmonization is necessary”

Diversity in Strategy Formulation & Implementation

Strategy Formulation:

Choosing from Alternative
Strategic Options

- Strategy A
- Strategy B
- Strategy C
- ...

Adoption

Jointly with
Client Country

Implementation:

Diverse Modality under
Common Framework

- Projects
- Non Projects
- Pooled TA
- Non Pooled TA

Matching Aid Modality with Needs

	Non Project Aid	Project Aid
Recurrent-exp. intensive (esp. social sector)	<input type="radio"/>	
Investment-exp. intensive (esp. infrastructure)		<input type="radio"/>
Policy Reform	<input type="radio"/>	
Pilot innovation (requiring trial-and-error)		<input type="radio"/>

Matching Technical Assistance Modality with Needs

	Pooled TA	Non Pooled TA
Transfer of universal skill and knowledge (established best practice)	<input type="radio"/>	
Transfer of tailor-made skill and knowledge (choosing from alternative models)		<input type="radio"/>



Japan Also Needs to Change

Take advantage of harmonization to:

- Enhance dialogue with other donors
- End unnecessarily rigid procedures
- Reduce high grant cost → greater use of local human resources
- Delegate authority to field offices, and strengthen their capacity



(4) Japan's Engagement Principles

Japan's Uneasiness:

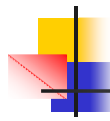
- The gap between current strategy and E Asian development experience
 - Due to cultural and historical differences
- Inability to clearly articulate Japan's aid goals: unspoken ideas, systemic rigidity, language barrier

- ODA budget is declining (-5.8% in FY03) while EU and US are increasing aid
- Uncomfortable with aggressive aid harmonization (budget support, SWAPs...)
- Fear that Japan's aid will be discredited or marginalized (though still large)



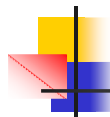
Japan's Approach to ODA

- 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 LDCs; but we encourage eligible countries to try



Japan's Approach (contd.)

- Respect for each country's uniqueness
- Long-term and holistic perspective
- Tacit knowledge, shared experience (rather than explicit rules/matrices and quantified targets)
- Real-sector concern (trade, investment, key industries, technology...)
- Help in good times as well as bad



Growth Contents Differ

West: privatization, free trade, rule of law, clean & transparent government, level playing field, market comes first...

Japan: active government, national dev. vision, proper design of industrial, trade, FDI policy, sector/industry specific intervention...

Common: political & macro stability, HRD, SME support, environment, HIV...

→ Back to the 1980s? (unresolved issue)



New ODA Charter

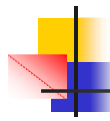
- New ODA charter by Fall 2003?--with inputs from LDP (ruling party), ODA Comprehensive Strategy Council, NGOs, general public, etc.
- Likely to feature:
 - Two-track principle (*for Japan* and for world)
 - From request-based to multiple policy dialogue
 - Human security, peace building, MDGs
 - Country Assistance Plans (clearer goals & strategy)
 - Strengthening transparency, evaluation, popular participation



New Country Strategy Plan for Vietnam

Now *Short Draft*, final draft Sep. 2003

- Clarifying national interest
 - Vietnam's role in Japan's China-ASEAN diplomacy & economic ties
 - Humanitarian and social needs
 - Vietnam as Japan's ODA model country
- Vietnam at crossroads
 - Soar and join the geese or stagnate?
(need to dramatically improve FDI policy)



Vietnam (contd.)

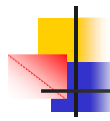
- ODA for *growth, social needs, and institution building* (targeted areas, subsectors, etc. to be clarified by September)
- Quantitative direction linked (loosely) to policy performance and absorptive capacity

Strategies for Sri Lanka, Mongolia, Indonesia, Pakistan, India also under review



What Japan Should Do

- 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 comparative advantage
- Leadership, networking, and institutional reform are needed



Japan as Aid Partner

- Japan is a clumsy speaker
- Japan is very sensitive to what others say about its policy (fear of isolation)
- Understand, and even respect, Japan's vision while noting mutual differences (praise works better than criticism)
- Help it voice its views (when possible)
- Don't tread on its sensitive spot



Japan-DfID Partnership?

- Potentially very fruitful:
 - Complementarity because we are different in aid goals, modality
 - East Asia: Japan has money, but needs intellectual partner
 - Infrastructure as entry point
 - Start with joint study on its growth/poverty impact
 - Cooperation in social sectors also?