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The East Asian Growth Regime and Political Development

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Sep. 2007

Topics

- East Asia: performance and diversity
- Policy mix for fast growth
- Political regime
- The case of Vietnam
- East Asian lessons and Japan's aid

Flying geese

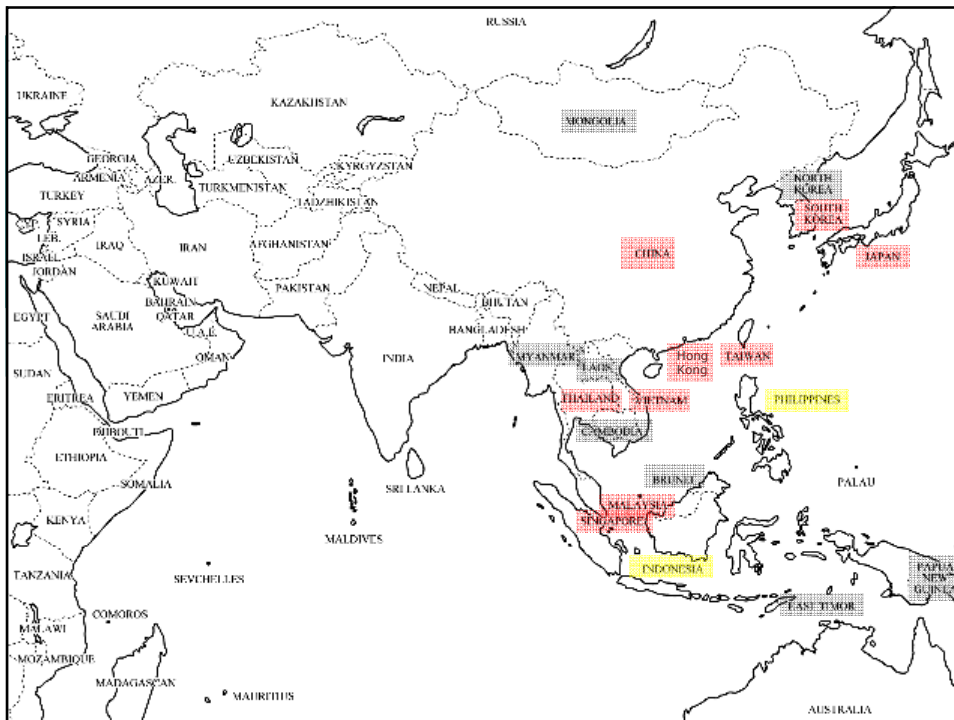
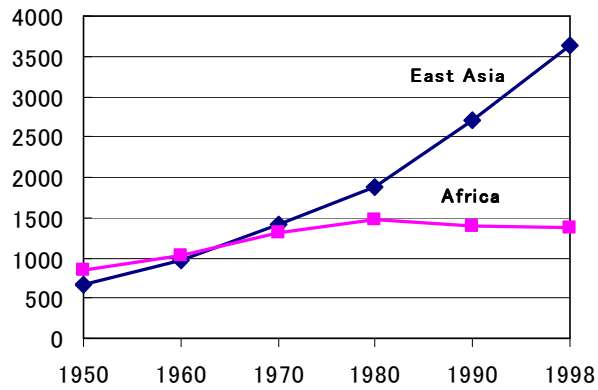


High Performance

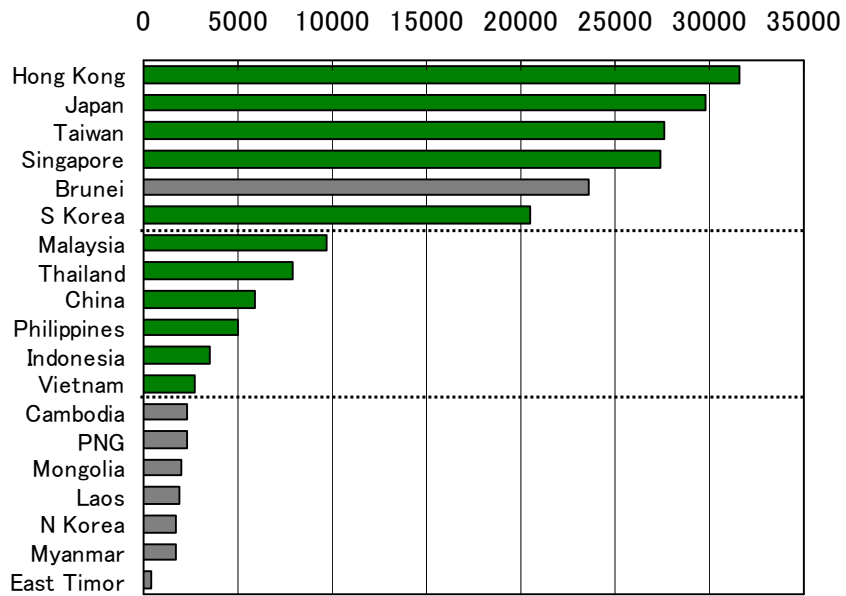
East Asia achieved high average growth in recent decades

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

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

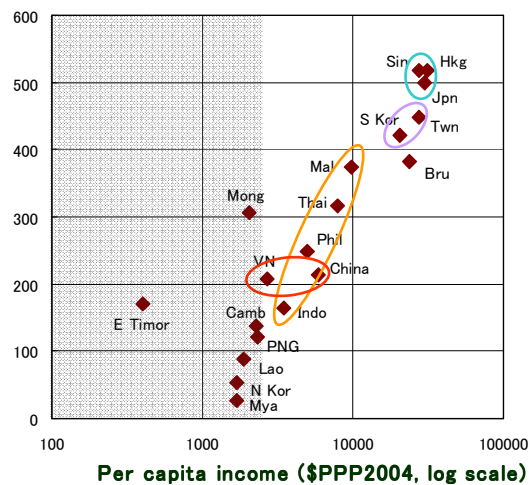


Per Capita GDP in 2004 (\$ PPP) World Bank data



Diversity in Political and Economic Development

Governance, WGI2005



High correlation (0.90) but causality cannot be argued from this diagram

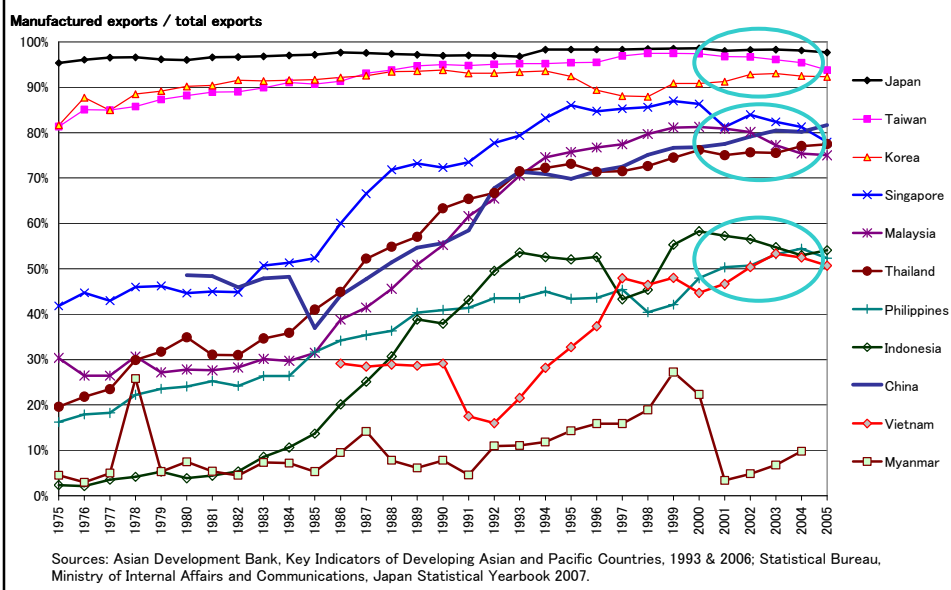
Only circled economies participate in regional dynamism

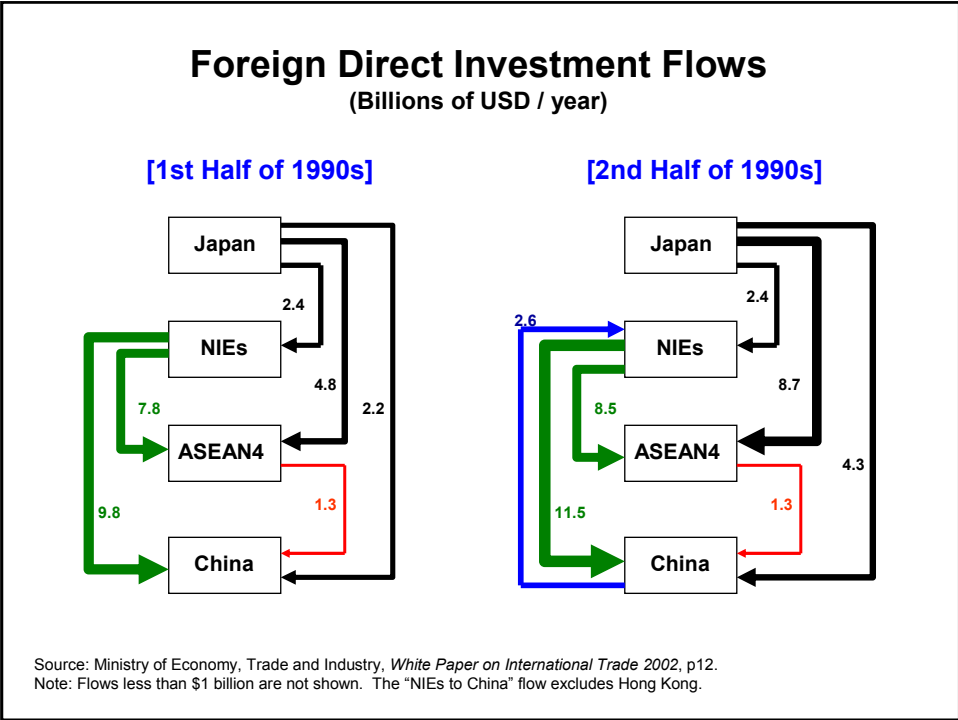
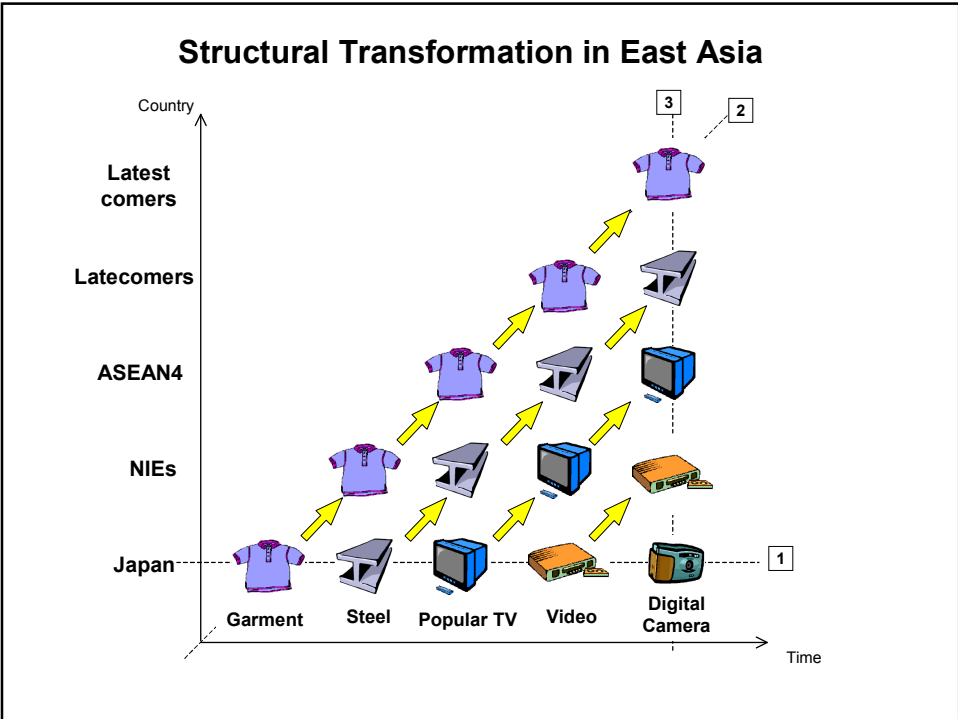
Sources: Compiled from World Bank, Worldwide Governance Indicators, Sep. 2006; and World Bank, *World Development Indicators*, 2006.

East Asia's Uniqueness

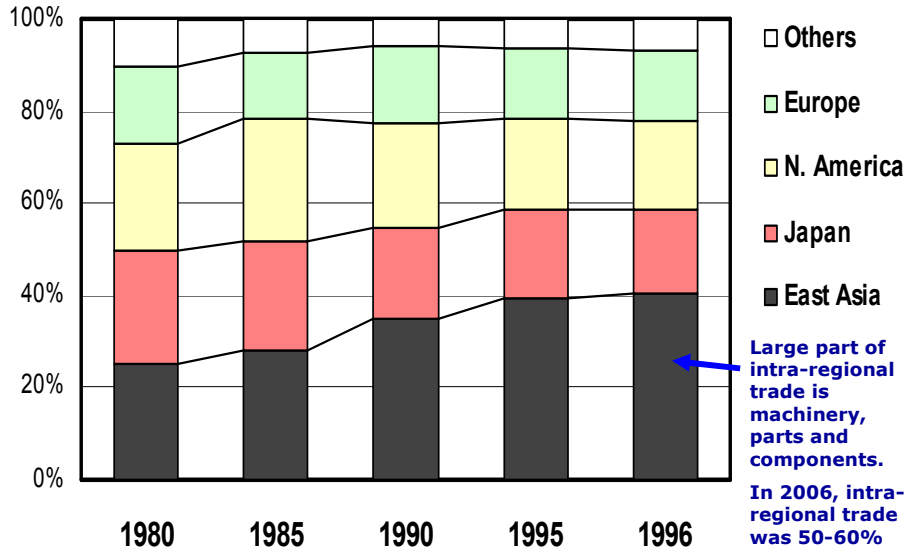
- The region is like a big factory where economies compete and cooperate
- Growth starts by participating in this regional dynamism
- The sandwich effect—pressure from above and below to work harder
- FDI as relocater of industries
- Clear but shifting order and structure (“flying geese”)

Manufactured Exports



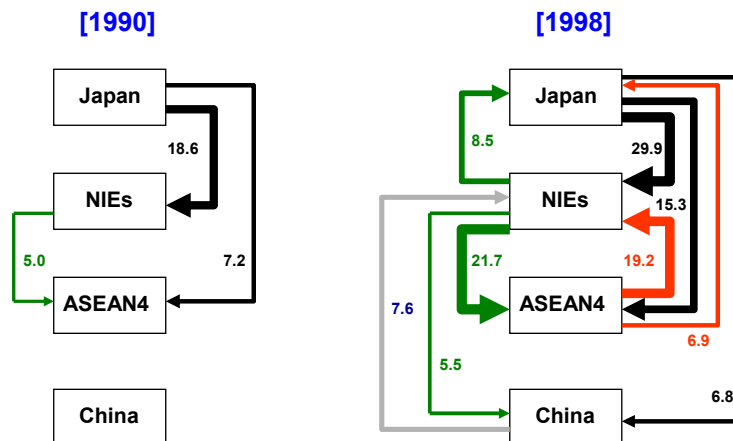


East Asia's Trading Partners



Trade in Machine Parts

(Billions of USD / year)

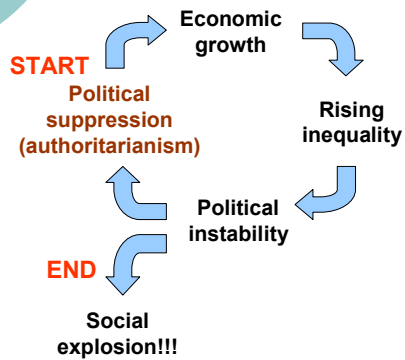


Source: Ministry of Economy, Trade and Industry, *White Paper on International Trade 2001*, p12.
 Note: Flows less than \$5 billion are not shown.

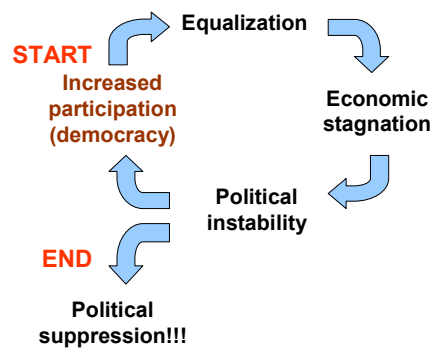
Guaranteed Failure of Development?

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

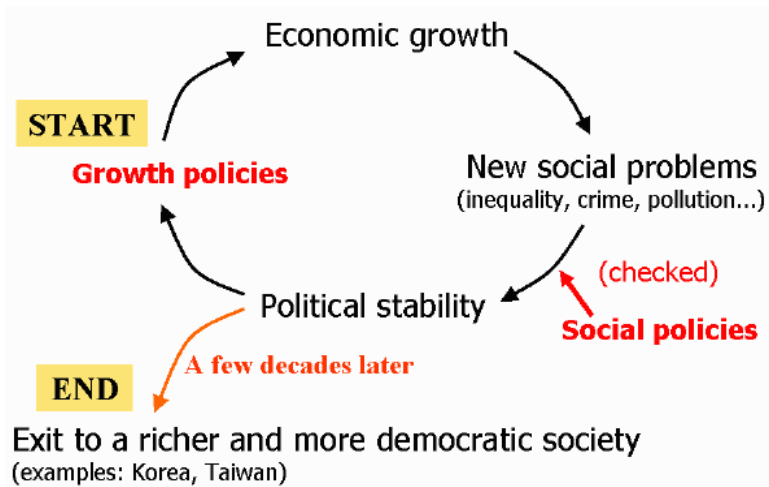
Technocratic Model




Populist Model



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



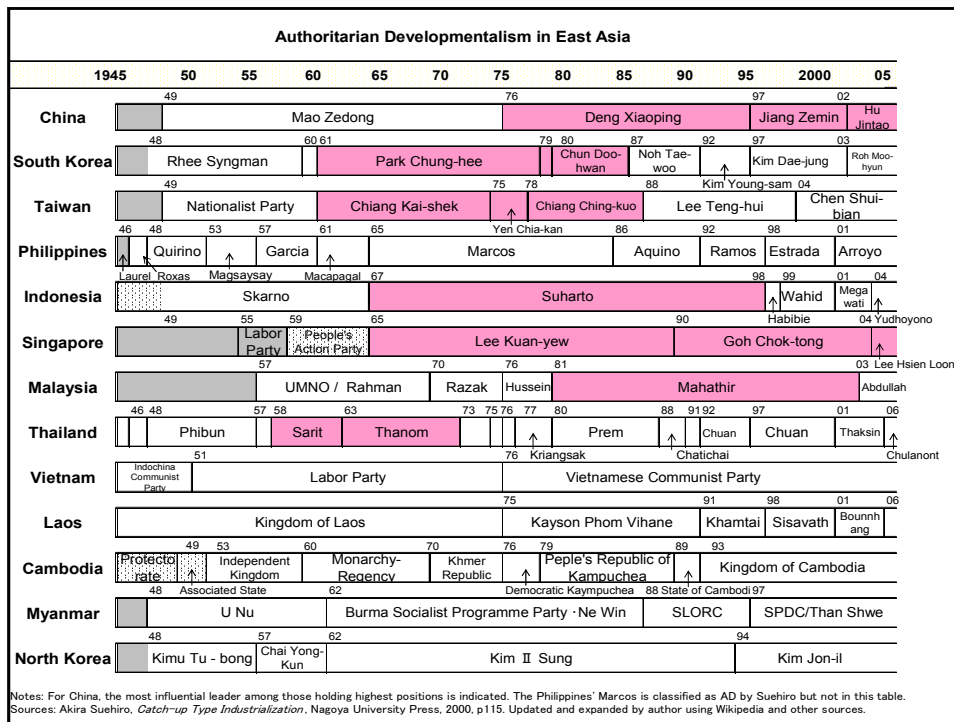
Authoritarian Developmentalism

E. Asia chose *authoritarian developmentalism* (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

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



Emergence of AD

- AD emerges through a coup as well as through election.
- AD is more likely to rise when the nation's existence is threatened by:
 - External enemy
 - Internal ethnic/social instability
 - Incompetent and corrupt leader
- The rise and fall of AD is also influenced by international environment.
 - Eg. Cold War – reduced global criticism of AD

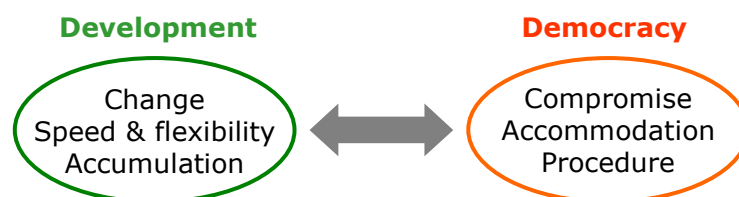
Why Power Concentration is Needed?

- 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

Adrian Leftwich (2005)

“The institutional characteristics and requirements for development and for democracy pull in opposite directions.”

“Democracies have great difficulty in taking rapid and far-reaching steps to reduce structural inequalities in wealth.”





Critiques of AD

Democracy and development are separate issues:

“I do not subscribe to the idea that you need to delay democratization just so that you can actually have growth or that you can have democracy only when you can afford it.” (Dani Rodrik, 2006)

Democracy is required for development:

“Expansion of freedom is viewed... both as the primary end and as the principal means of development.” (Amartya Sen, 1999)

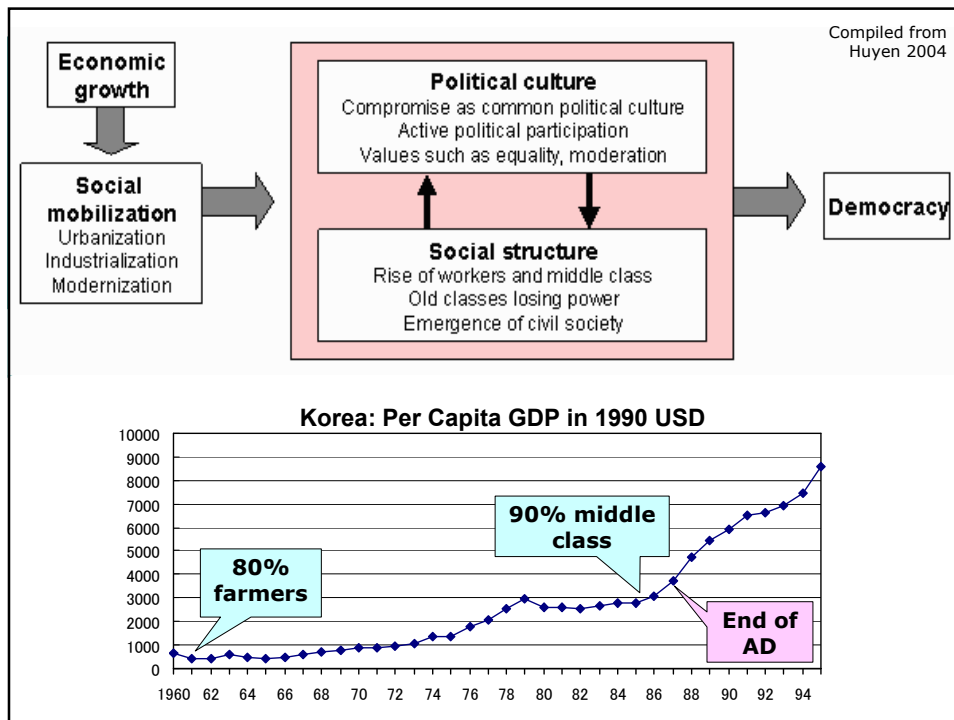


Korean Experience

N.T.T.Huyen “Is There a Developmental Threshold for Democracy?: Endogenous factors in the Democratization of South Korea” (2004)

“Democracy as an advanced form of politics is not independent from socio-economic development.”

“*Developmental threshold for democracy* [is] a point in the development process beyond which democracy can be effectively installed and sustained.”



Exit of AD

Low income trap

Catching-up period (AD useful)

High income society
Democracy
Pluralism

- 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 automatically 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]



Exit of AD: A Less Optimistic View

- However, barriers do exit: stubborn leader, bureaucratic resistance, interest groups. Therefore, leadership and strategy are also needed for an exit.
- Strong leaders often refuse to step down because they will be revenged, jailed and even executed after transition, with most or all of their policies denied and reversed.



“Democratic Developmentalism”? (Mild Form of AD)

- Can we separate resource mobilization from freedom and human rights?
- Countries that already have free election, functioning parliament, human rights—can they adopt developmental policies without throwing out their political achievements?
- Research on DD
 - Robinson and White eds (1998)
 - “The Democratic Developmental State in Africa” (joint study by South Africa & Egypt)
 - Ethiopian Prime Minister Meles Zenawi

Decomposing Democracy

Purposes	Freedom, human rights, equality, social and economic benefits for all, security, peaceful coexistence
Procedures	Legitimacy (election), rule of law, participation, multi-party system, balance of power, local autonomy
Properties	Tolerance, patience, compromise, fairness, transparency, accountability

--Democracy is not an all-or-nothing choice; nor does it depend only on free election.

--Can some of the components be selectively adopted while ensuring rapid resource mobilization?

Conditional Restriction?

- Random and excessive oppression should never be allowed.
- However, some democratic components may be restricted if it is moderate, helpful for economic policy execution, and well monitored.
 - Freedom to criticize government
 - Free and competitive election
 - Multi-party system
 - Balance of power (strong executive branch)
 - Decentralization and local autonomy



More Comments on DD

- Like market, democracy grows slowly under unique local conditions.
- When income is low, a regime based on mass support (poor farmers or workers) or social democracy may not work—risk of populism.
- More realistic--use East Asian AD model (top-down quick decisions with supporting elites) as base but add more democratic elements.



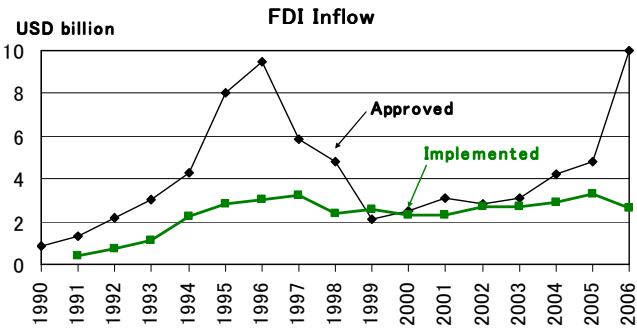
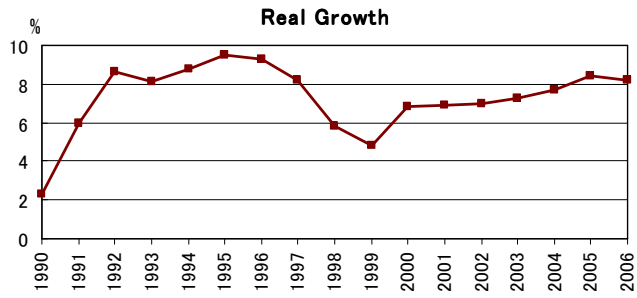
Vietnam 2007

Good location, good workers, bad policy

- Income: \$300 (1995) → \$800 (2007)
- National goal: “Industrialization and Modernization 2020”
- Growth driven by inflows of FDI, ODA, remittances, private foreign capital
- Social transformation underway
- Policy is improving, but still very primitive by East Asian standard
- Local firms remain small and weak -- industry dominated by FDI firms



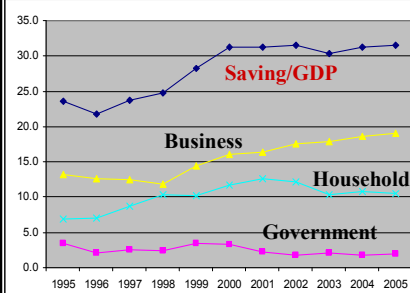
Population 85 million
 Area 330,000km²
 Ethnicity: Kinh (86%)
 Main exports:
 Crude oil Garment
 Electronics Rice
 Footwear Coffee
 Shrimp Furniture



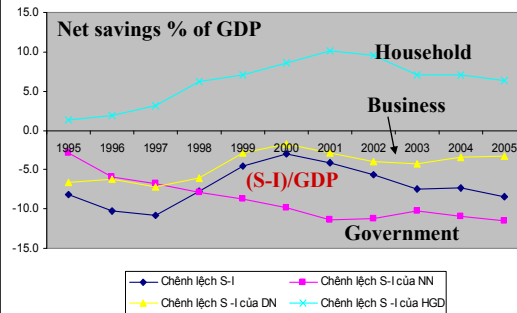
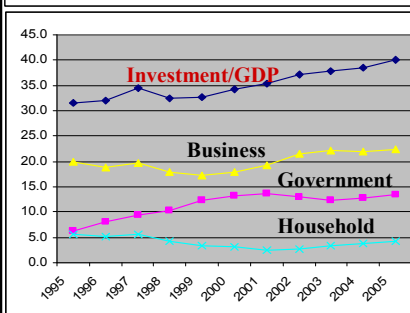
Vietnam: Savings and Investment

(Preliminary study by Nguyen Ngoc Son)

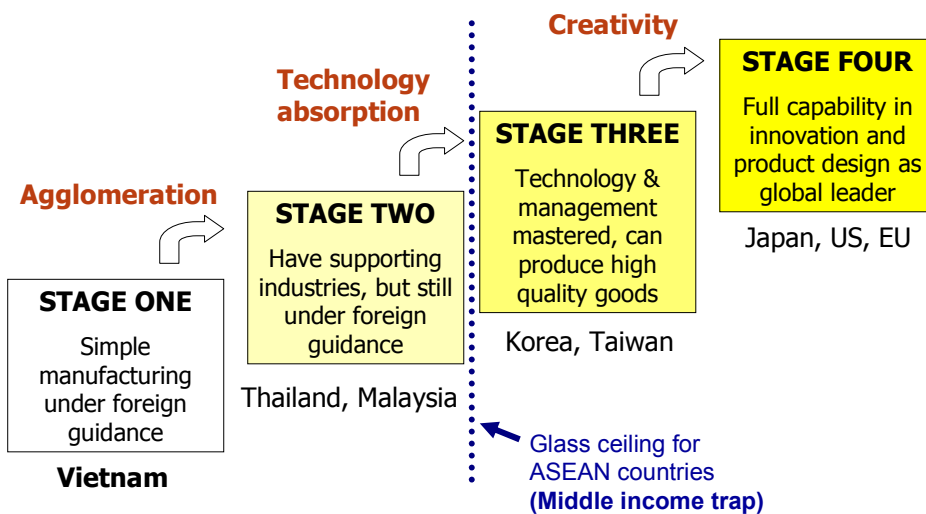
% of GDP



- Savings = 30%+ of GDP
- Investment = 40% of GDP
- Foreign savings = nearly 10% GDP
- Business is a large saver & investor: internal fund mobilization
- Household net savings = 5%+



Stages of Catch-up Type Industrialization





Vietnam's Strengths

- At the heart of East Asia: locational advantage in attracting FDI, ODA and foreign capital
- Unskilled workers are very good (perhaps best in East Asia) if they are given proper training and incentives
- Political stability--no terrorism or ethnic conflict

Biggest Problem: Policy Inconsistency

- Inter-ministerial coordination is extremely poor.
- Politics, red tapes, and old planning mentality dominate.
- Laws and regulations often remain unimplemented.
- Industrial plans are drafted by a few officials without business consultation.
- New taxes & regulations are suddenly introduced, angering businesses.



Vietnam's Challenges

- Reforming policy making process and administrative mechanism
- Clear vision & strategies for industrialization
- Building infrastructure (power, transport) to support fast growth
- Raising domestic capability--**industrial human resources** and **"supporting industries"**
- Mastering **"integral manufacturing"** to become Japan's industrial partner
- Coping with growth-induced evils--inequality, pollution, congestion, new crimes, etc.



General Lessons from East Asia

Way of thinking or methodology rather than concrete policy measures.

- Field-based concrete thinking 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
- **These views should supplement more functional views of the West**

Development and Aid Strategy

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

	East Asia's Way	Western Donors
Goal	Economic prosperity and national pride	Poverty reduction (MDGs)
Policies	Investment, trade, skills, technology	Health, education, governance
Key actors	Central government and businesses	Local communities and poor people

Wrong Lessons from East Asia

- Mindless copy of a policy adopted by some E. Asian country in the past (cf. postal savings, heavy industry drive, Green Revolution, etc).
- The view that strong government should direct private sector activities (In East Asia, private dynamism was primary and policy was secondary).
- The idea that an authoritarian state is needed for economic take-off (reality is much more subtle and complex).



How Japan Should Contribute

- Japan should not just repeat what Western donors are doing (health & education, aid harmonization, budget support, etc)
- Emphasize *self-help* and *aid for graduation*
- Japan's comparative advantage: long and rich experience in industrial support
 - Physical infrastructure
 - Industrial human resources
 - Drafting industrial master plans
- Africa is different from East Asia: study local conditions, learn from local officials, researchers, private actors, other donors



Japanese ODA in Africa

- Japan should concentrate additional aid to Africa on 1 or 2 countries with:
 - Strong political will (top leader)
 - Social stability
 - Reasonable 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 (incl. emerging donors such as Malaysia)