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The East Asian Growth Regime and Political Development

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Topics

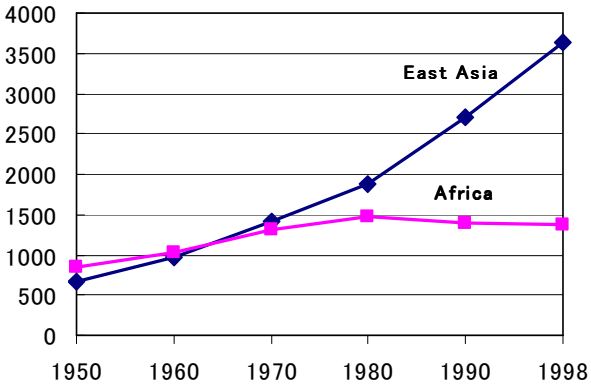
- East Asia: performance and diversity
- Policy mix for fast growth
- Political regime
- The case of Vietnam


Flying geese

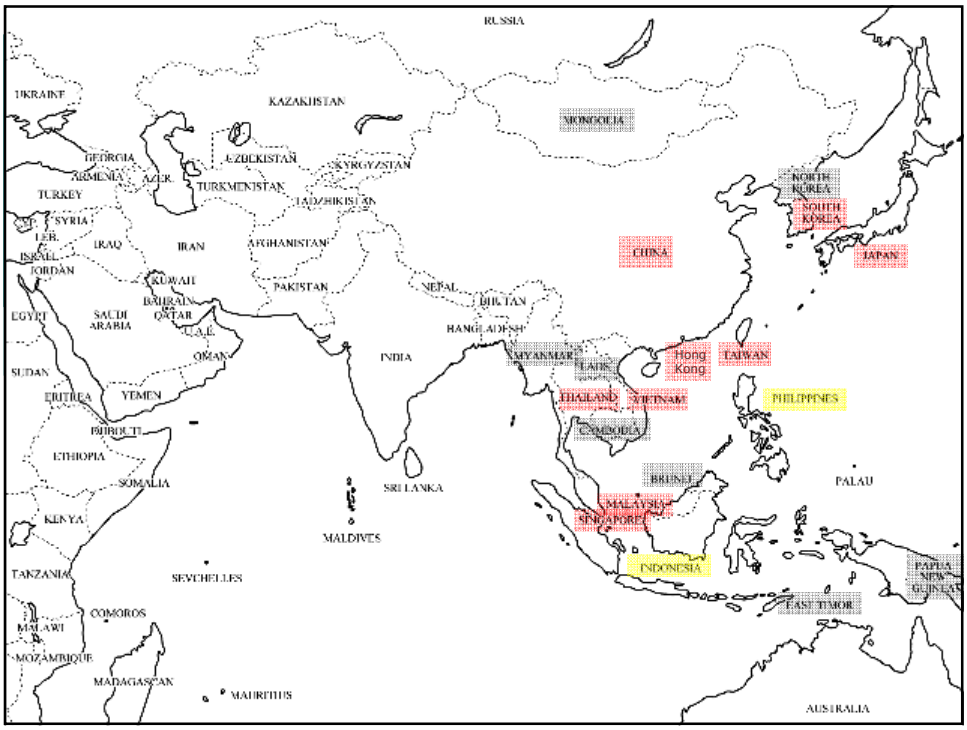
High Performance

East Asia achieved high average growth in recent decades

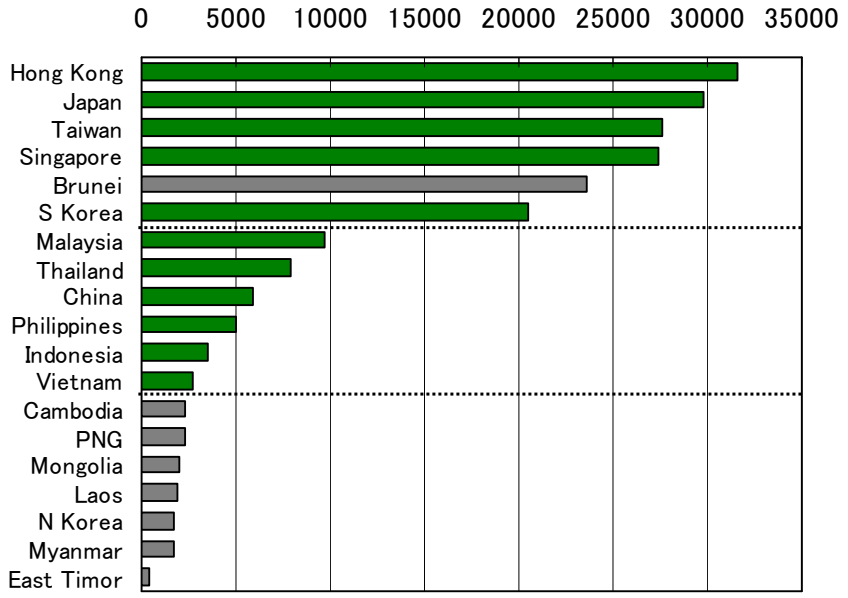
Per Capita GDP
(Measured in 1990 international Geary-Khamis dollars)



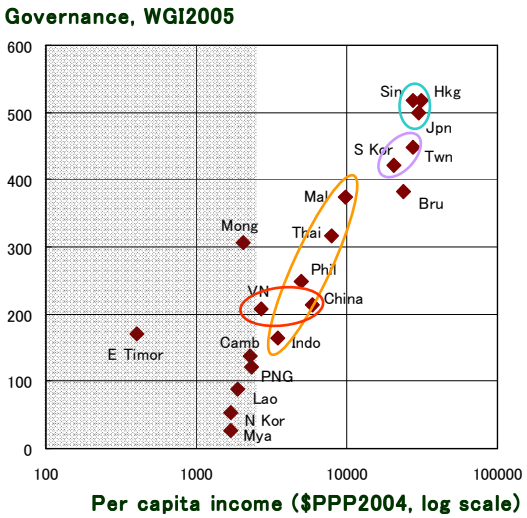
Source: Angus Maddison, *The World Economy: A Millennium Perspective*, OECD Development Centre, 2001.



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



Diversity in Political and Economic Development



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

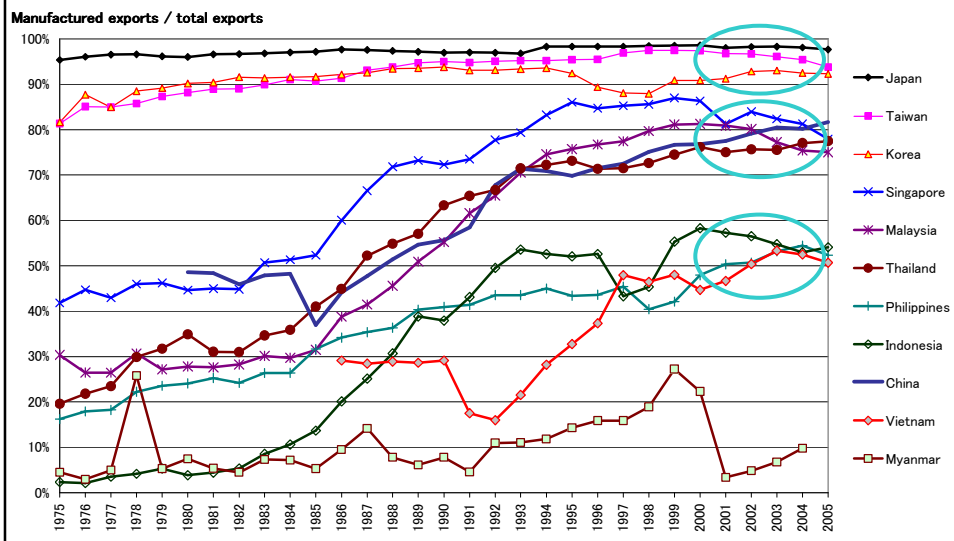
Only circled economies participate in regional dynamism

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

East Asia's Uniqueness

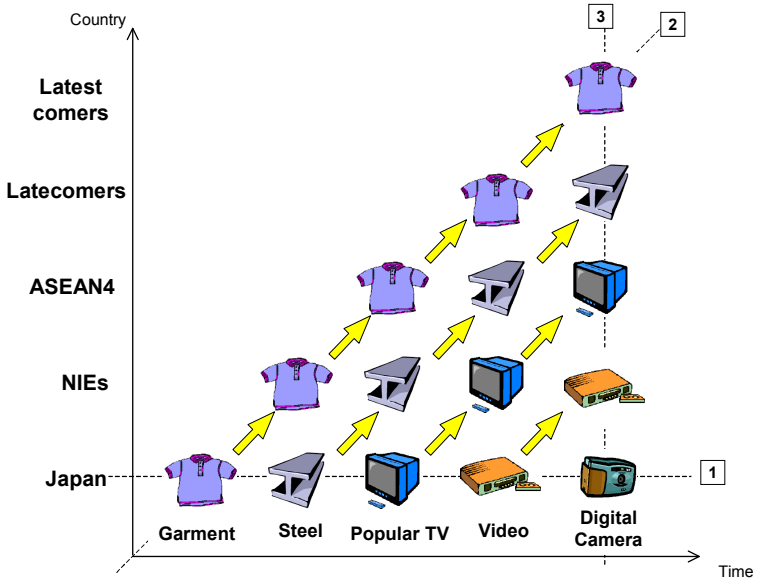
- The region is like a big factory where economies compete and cooperate
- Growth starts by participating in this regional dynamism
- The sandwich effect—pressure from above and below to work harder
- FDI as relocater of industries
- Clear but shifting order and structure ("flying geese")

Manufactured Exports



Sources: Asian Development Bank, Key Indicators of Developing Asian and Pacific Countries, 1993 & 2006; Statistical Bureau, Ministry of Internal Affairs and Communications, Japan Statistical Yearbook 2007.

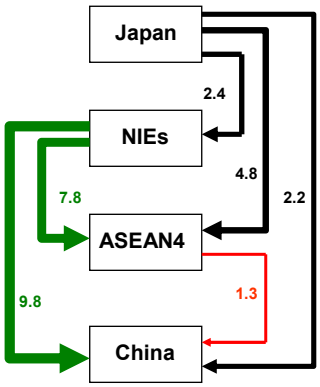
Structural Transformation in East Asia



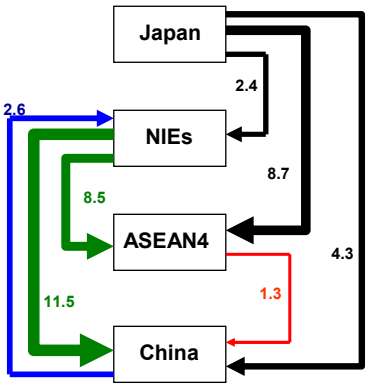
Foreign Direct Investment Flows

(Billions of USD / year)

[1st Half of 1990s]

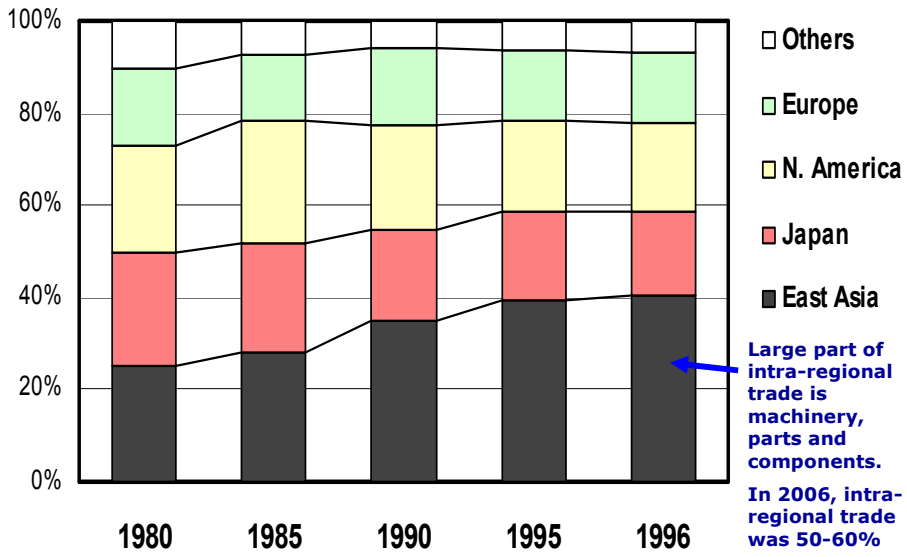


[2nd Half of 1990s]



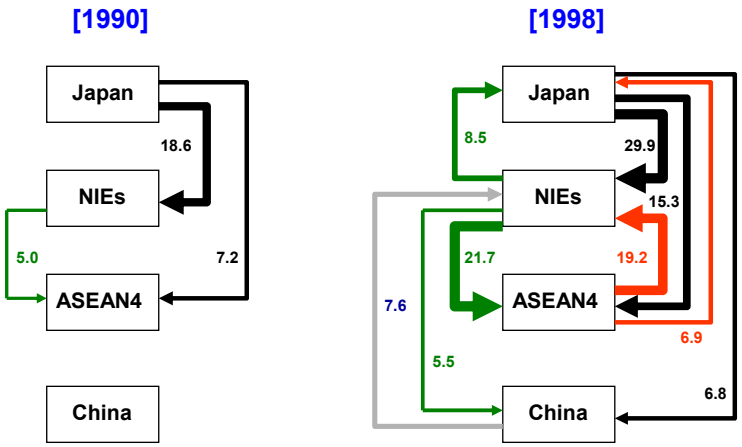
Source: Ministry of Economy, Trade and Industry, *White Paper on International Trade 2002*, p12.
Note: Flows less than $1 billion are not shown. The "NIEs to China" flow excludes Hong Kong.

East Asia's Trading Partners



Trade in Machine Parts

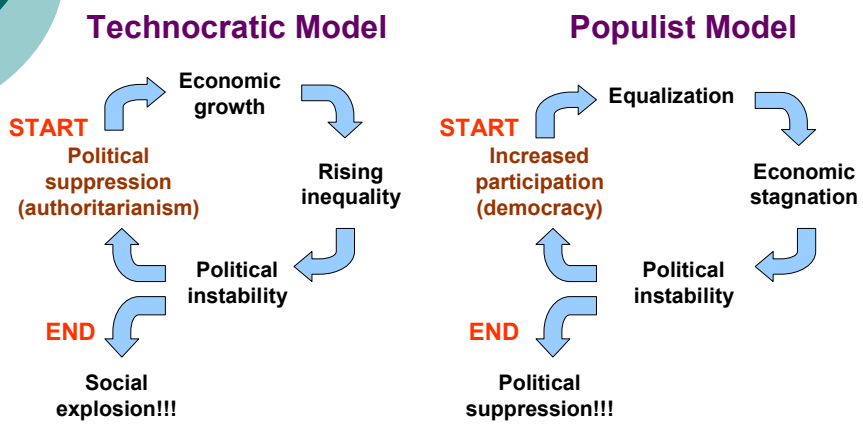
(Billions of USD / year)



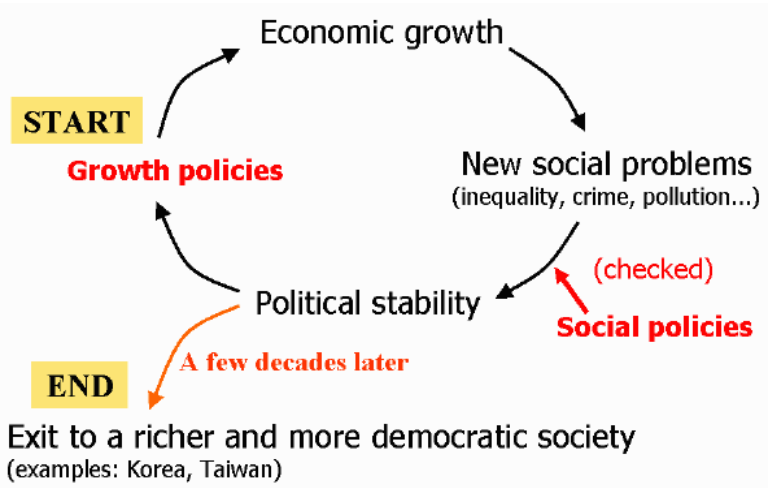
Source: Ministry of Economy, Trade and Industry, *White Paper on International Trade 2001*, p12.
Note: Flows less than $5 billion are not shown.

Guaranteed Failure of Development?

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



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

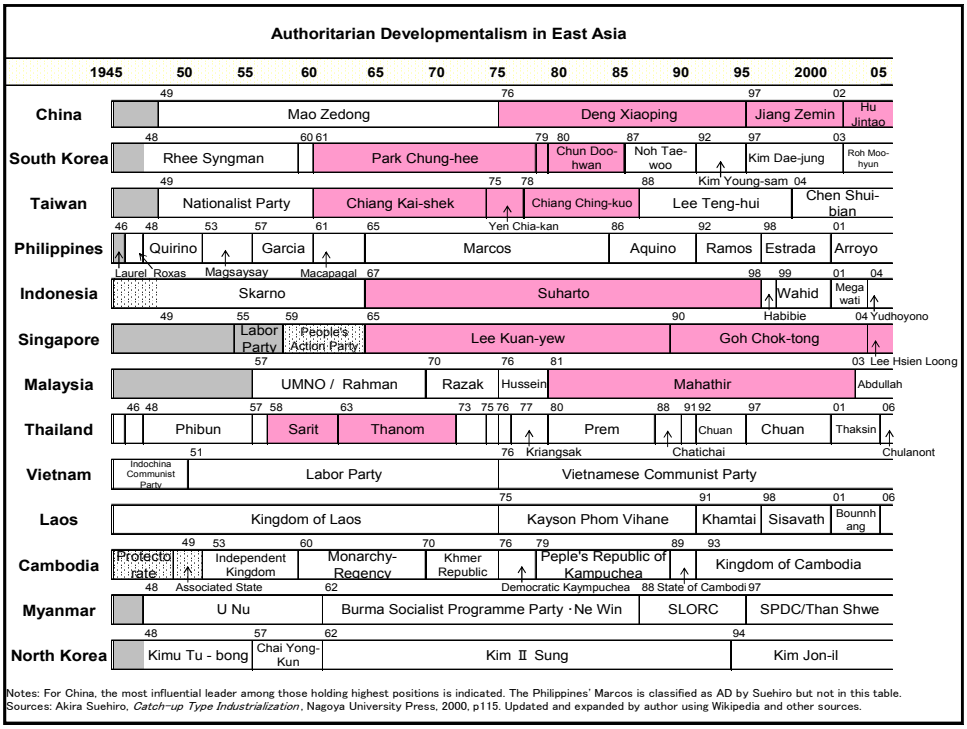
Authoritarian Developmentalism

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.



Notes: For China, the most influential leader among those holding highest positions is indicated. The Philippines' Marcos is classified as AD by Suehiro but not in this table.
Sources: Akira Suehiro, *Catch-up Type Industrialization*, Nagoya University Press, 2000, p115. Updated and expanded by author using Wikipedia and other sources.

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

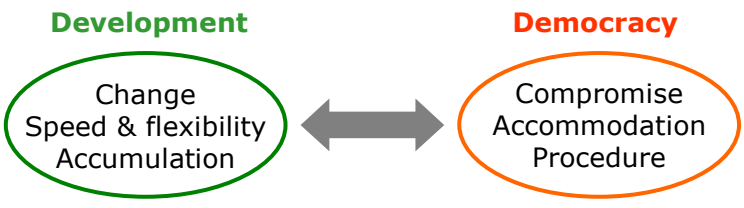
--Processes requiring patience and compromise, including parliamentary debate and consensus building

--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:

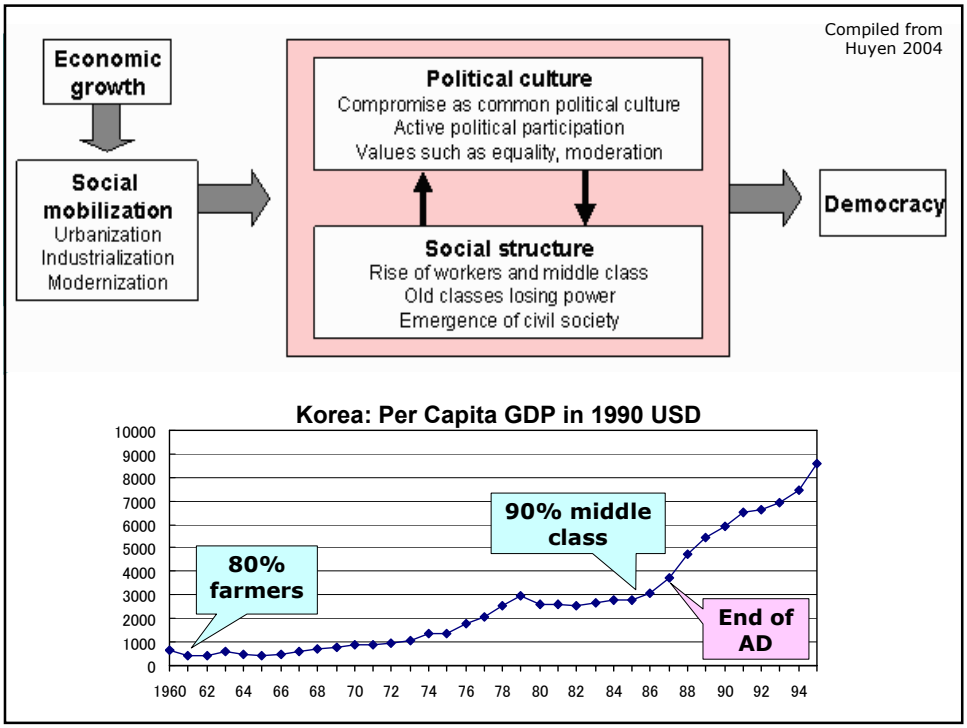
> "Expansion of freedom is viewed… both as the primary end and as the principal means of development." (Amartya Sen, 1999)

Korean Experience

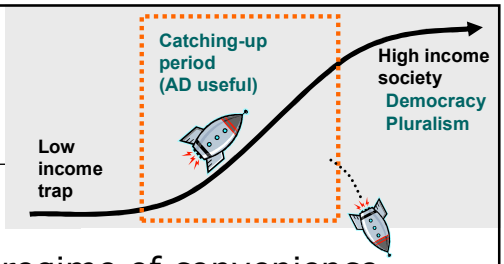
N.T.T.Huyen "Is There a Developmental Threshold for Democracy?: Endogenous factors in the Democratization of South Korea" (2004)

"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



- 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?

Vietnam 2007

Good location, good workers, bad policy

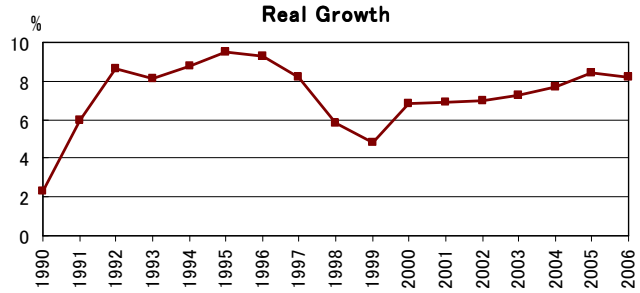
- Income: $300 (1995) ➔ $800 (2007)
- National goal: "Industrialization and Modernization 2020"
- Growth driven by inflows of FDI, ODA, remittances, private foreign capital
- Social transformation underway
- Policy is improving, but still very primitive by East Asian standard
- Local firms remain small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

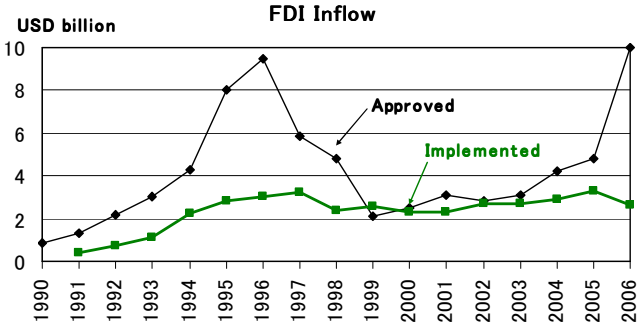
Population 85 million

Area 330,000km^2

Ethnicity: Kinh (86%)

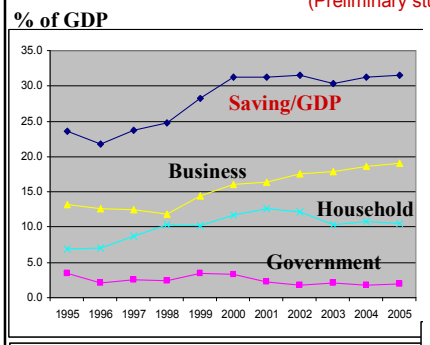
Main exports:
Crude oil Garment
Electronics Rice
Footwear Coffee
Shrimp Furniture



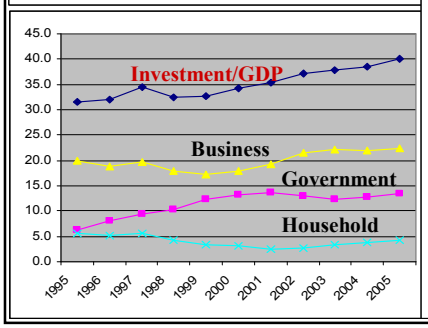


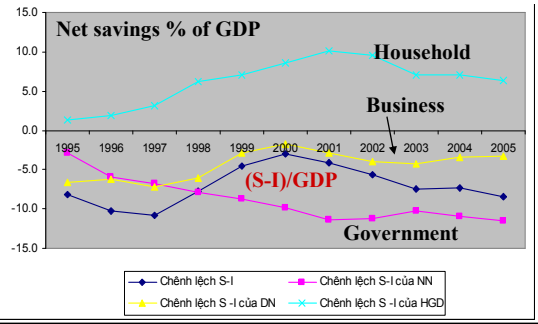
Vietnam: Savings and Investment

(Preliminary study by Nguyen Ngoc Son)

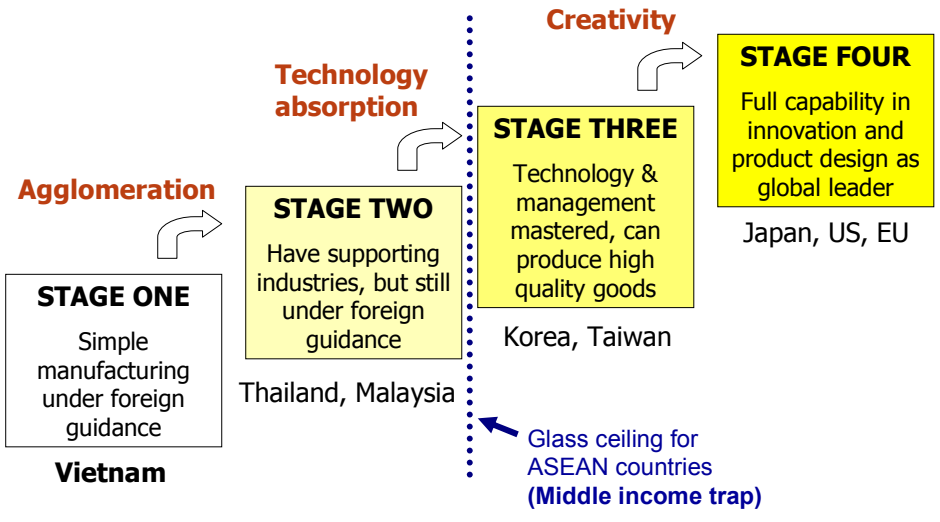


--Savings = 30%+ of GDP
--Investment = 40% of GDP
--Foreign savings = nearly 10% GDP
--Business is a large saver & investor: internal fund mobilization
--Household net savings = 5%+





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.