

The Role of Government in Promoting Industrialization under Globalization: The East Asian Experience*

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Economic development in East Asia has followed a remarkable pattern, unlike any other developing regions in the world. For this reason, East Asia continues to stimulate policy debate among international development aid circles. This paper presents the essence of what happened in the East Asian development process as Japan sees it. Ideas contained here were formulated through intensive discussion among Japanese officials, experts and scholars in the field of development during 2001-2002 for the explicit purpose of projecting it to the rest of the world¹.

There is a long-lasting gap between the West and Japan regarding what constitutes a good development strategy. The West, especially the Europeans, thinks that the ultimate goal of development is *poverty reduction* and emphasizes health, education and other programs that directly help the poor. They also stress *good governance*—efficiency, participation, transparency, accountability, etc.—as the prerequisite for receiving aid. By contrast, East Asia is much more *growth contents-oriented*. As a major donor and a member of East Asia, Japan wants to propose this view as a complement to the current global discussion which often focuses too much on poverty at hand and too little on long-term growth strategy.

Our view has been presented on a variety of occasions including the OECD Economic Forum (Paris; May 2002), World Bank research seminar (Washington; May 2002), World Summit on

* This paper is based on the author's presentation at the opening session of the Workshop on Capacity Enhancement of Myanmar Civil Service organized by the Civil Service Selection and Training Board and the Sasakawa Peace Foundation (Japan) in Yangon in November 2003. A few related issues not discussed in the above session are added in this version. The author would like to thank the organizers and the participants of the Workshop, and especially Dr. Than Nyun, chairman of the Civil Service Selection and Training Board, and Mr. U Aye Lwin, retired Director-General of ASEAN, Ministry of Foreign Affairs, for encouraging me to produce this paper. The views summarized here reflect the author's extensive discussion with Japanese experts, officials and researchers on the issue since 2002. However, all responsibility for the contents remains with the author alone.

¹ The study group on Asian Dynamism organized by the Ministry of Economy, Trade and Industry (METI), of which the author was a principal member, served as a main vehicle for such discussions.

Sustainable Development (Johannesburg; September 2002), Global Development Forum (Cairo; January 2003), OECD Development Assistance Committee seminar (Paris; January 2003), Japan-UK Department for International Development seminar (Tokyo; April 2003), and UNCTAD expert meeting (Geneva; June 2003). In each of these meetings, the reaction is roughly the same. Some are surprised at the Eastern view which they never heard before. Most participants are generally interested and sympathetic, and even enthusiastic. Some say it is too obvious. But there are also a handful of people who reject our idea, sometimes emotionally. It would be interesting to see what kind of reaction this paper would generate in Myanmar.

1. Growth driven by trade and investment

During the last half century, the economic performance of the developing world has been far from uniform. Developing countries were polarized into those that made great progress in catching up and those that were mired in stagnation. The majority of the East Asian countries belong to the first group.

However, East Asia's success has not been smooth across time and countries. There were failures, instabilities and periods of trouble. The most recent severe shock we faced was the Asian crisis of 1997-98. East Asia was home to two cold wars turning hot (Korea and Vietnam). Domestic political and social problems also abounded. It is therefore hardly possible to argue that East Asia developed because the region was stable. Despite these problems, however, growth was sustained in most countries and over the long run. It is in this *average* sense that East Asian growth was remarkable compared with other developing regions.

The secret of East Asian growth is not in the particular policies adopted by individual countries but in their remarkable determination to join and compete in the dynamic regional economy. East Asian growth has been attained through the very existence of East Asia as a powerful arena of economic interaction among its members, and not merely by "market-friendly" policies or good governance of individual countries alone.

One by one, countries in different development stages realized economic growth by participating in the dynamic production network created by private firms. Linked by trade and investment, a system of international division of labor with clear order and structure exists in the region. Under this system, industrialization has proceeded through geographic spreading on the one hand and structural deepening within each country on the other. The term *flying geese* refers to these supply-side developments, which we prefer to call *Asian dynamism*. To understand this mechanism, we must analyze production structure,

intra-regional trade, and investment flows of East Asia as a whole.

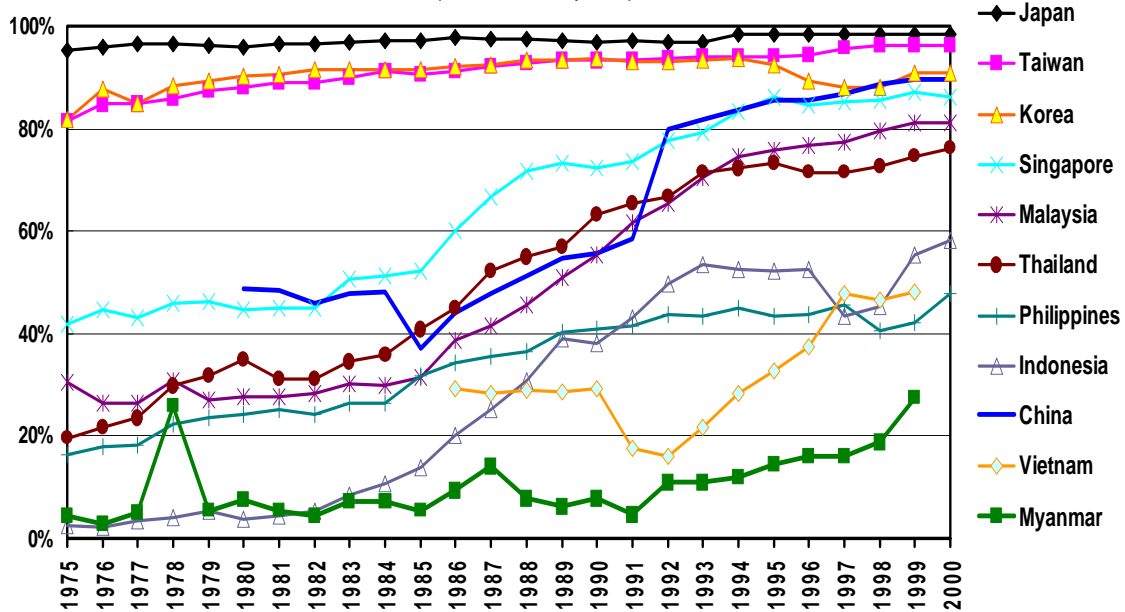
For developing countries in East Asia, economic development was tantamount to becoming one crucial link in this production network under competitive pressure from and cooperative relations with neighboring countries and, through it, upgrading their industrial capabilities from low-tech to high-tech. To initiate development, they had no choice but to undertake international integration via trade and investment. However, the integration strategies of latecomers like the ASEAN4 and latest comers like CLMV are and should be different from those of the early developers such as Japan, Taiwan and Korea.

East Asia as a region has offered a political, economic and social model and an enabling environment for the catching up of latecomer countries. Every country was under strong market pressure from above and below to constantly improve capabilities and climb the ladders of development. What drove them were national desire for material well-being and the demonstration of excellence from neighboring countries, not conditionalities or policy matrices introduced by international organizations. No other developing region has formed such an organic and dynamic interdependence as East Asia.

The diagram below shows how the East Asian geese are flying as measured by the manufactured goods ratio in total exports. The top countries including Japan, Taiwan and Korea have long exported manufactured goods. The second tier of countries such as Singapore, Malaysia, Thailand, and especially China, are catching up very fast. Then, there is a third group of countries like Indonesia, Philippines and Vietnam that are coming up more slowly. Myanmar, at present, has not entered the race yet.

Manufactured Exports

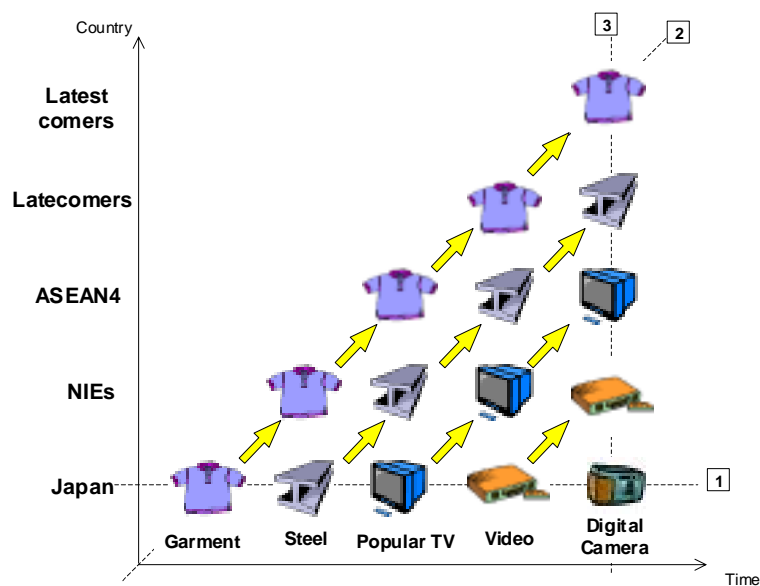
(% of total exports)



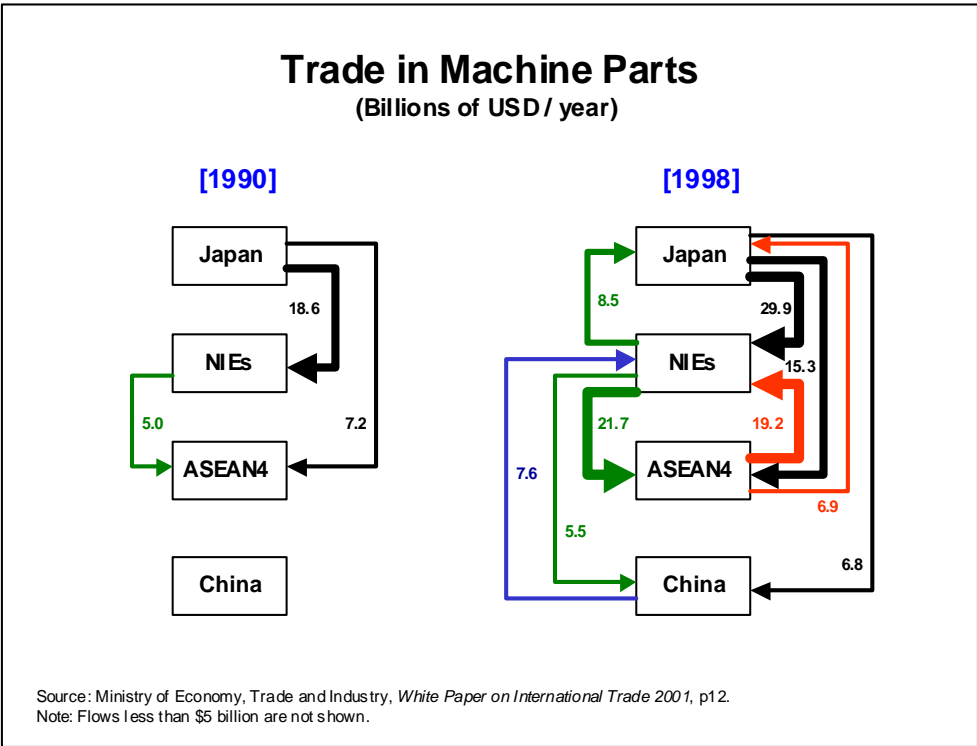
Source: ADB, *Key Indicators of Developing Asian and Pacific Countries*, 2001/1993; IMF, *International Financial Statistics Yearbook 1990*. For Japan, *Japan Statistical Yearbook 2002/1999*, Statistics Bureau/Statistical Research and Training Institute, Ministry of Public Management, Home Affairs, Posts and Telecommunications, Japan.

The following schematic diagram shows how industries are passed from the first tier countries to the next tier and down the line. This industrial passing occurs through foreign direct investment (FDI) of private companies. In this way, FDI is the crucial agent of change for a country wishing to participate in this staggered industrialization game.

Structural Transformation in East Asia



Japanese corporations are the chief architect of the East Asian production network. Asian dynamism has also been supported by the trade and investment relationship with the EU and the US, as well as the extensive business networks of Taiwan, Hong Kong, and the overseas Chinese. During the last decade, the emergence of China as the factory of the world became the new important factor. The mutual interaction is accelerating and dynamically changing, as seen by increasing machine parts trade which reflects the deepening of international division of labor in manufacturing.



The following factors are often cited as the “causes” of high performance in East Asia².

- High level of education
- Export promotion
- High savings and investment
- Income equality and shared growth
- Productive government-business relationship
- Selective intervention (targeted on individual industries)

These are undoubtedly nice features, but citing them does not solve the fundamental question of how to get out of the poverty trap. Almost all poor countries know that these conditions are necessary for growth. Their problem is not lacking this knowledge, but inability to actually

² The list is a summary of conclusions by World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, Oxford University Press, 1993.

realize them. We must address a problem at a higher level: what enabled East Asia to escape the vicious circle and prepare these conditions which were necessary to participate in the regional production network? This is a question in political economy of how to build a government that can lead development. It is the question to which we now turn.

2. Authoritarian Developmentalism

East Asian countries which succeeded (or are succeeding) in industrialization had a clear and common answer to the problem above. They adopted *authoritarian developmentalism* as a regime to break out from the vicious circle of poverty and instability and realize high growth³. Authoritarian developmentalism is a strong state with economic capability. There are many strong states in the world but very few of them boast economic capability. More specifically, for an authoritarian state to be properly called developmental, the following conditions must be satisfied:

- A strong and economically literate leader
- A highly capable team to support the leader
- Top-down, coherent and flexible decision making
- Ideology that affirms material progress as the supreme national goal
- Popular support for this regime backed by successful income growth

A strong government is necessary because resources must be mobilized into a few channels which can catalyze growth, rather than spread out to too many activities (including consumption) with little development outcome. But a strong government is not sufficient since it has to be also wise in order not to waste such resources. The table below is taken from a book by Akira Suehiro (2000). The pink areas denote the period of authoritarian developmentalism in each country⁴. According to this table, Myanmar and Vietnam have never had this regime. This interpretation seems reasonable, since neither country has mastered the art of economic policy making for effective integration into the regional and global economy. To become authoritarian developmental states, they must greatly improve their policies.

³ The term *ken'i shugi kaihatsu taisei* (authoritarian developmentalism) is used by Watanabe (1998) while Murakami (1998) and Suehiro (2000) call it *kaihatsu shugi* (developmentalism). In this paper, we follow Watanabe's terminology and definition.

⁴ I am not sure if the Philippines' Marcos regime can be classified as authoritarian developmentalism. Its economic policies were far less effective and consistent than the other cases.

Authoritarian Developmentalism in East Asia												
	1945	50	55	60	65	70	75	80	85	90	95	2000
Korea	Rhee Syngman			60 61 Park Chung-hee				79 Chun Doo-hwan	87 88 Noh Tae-woo		92 Kim Dae-jung	97
	49 Nationalist Party		Chiang Kai-shek				75	78 Chiang Ching-kuo	88 Kim Young-sam		Chen Shui-bian	
Taiwan	46 48 Quirino		53	57 Garcia	61	65	86 Marcos			92 Aquino	98 Ramos	Estrada
Philippines	Magsaysay			Macapagal		99 Suharto					Habibie	
	55 Skamo		59 People's Action Party		65 Lee Kuan-yew				90 Goh Chok-tong			
Indonesia	57 UMNO / Rahman			70 Razak		76 Hussein	81 Mahathir					
Malaysia	46 48 Phibun		57 58 Sarit		63 Thanom	73	75	77	80 Prem	88	91 Chatichai	97 Chuan
	51 Labor Party			76 Kriangsak				Chatichai				
Thailand	Indochina Communist Party		51 Labor Party				Vietnamese Communist Party					
Vietnam	48 UNu			62 Burma Socialist Programme Party / Ne Win				88 SLORC				
Myanmar	Source: Akira Suehiro, <i>Catch-up Type Industrialization</i> , Nagoya University Press, 2000, p115.											

Authoritarian developmentalism is never meant to be an ideal or permanent political system. Rather, it is a temporary and dynamic regime of convenience for the sole purpose of propelling the nation from the poverty trap to the trajectory of industrialization. It is typically established under a severe internal or external threat to national unity or security. It sometimes emerges as a consequence of a military coup replacing the previous weak government. It derives its legitimacy not from legal procedure but from the fact that it can deliver economic growth to the population. It typically lasts for a few decades, and its very success eventually undermines its support and the nation transits to a new regime with higher income and more democratic institutions. In a sense, the regime is like a first-stage booster rocket in a satellite launch. Once you achieve a certain altitude, the booster is no longer needed and jettisoned.

While it lasts, authoritarian developmentalism is not necessarily democratic by Western standards. And precisely for that reason, the West (especially the United States) criticizes East Asian developing countries as non-democratic. But after a few decades, many of them grow into high-income economies with more democratic systems. Korea and Taiwan have already done so.

People who reject the East Asian way are frequently troubled by the argument that

democracy must be put on the back burner for the sake of development. They contend that democracy is essential even in the earliest stage of development and its installation also promotes sound development. What is the dynamic relationship between development and democracy in latecomer countries? This is a fundamental point of contention theoretically, empirically and also ideologically. This paper cannot resolve this issue, but we can at least say that people in East Asia on average are more supportive of authoritarian developmentalism as a means of development relative to the Westerners, probably because they have personally experienced the impact of such a regime in their own countries (or nearby).

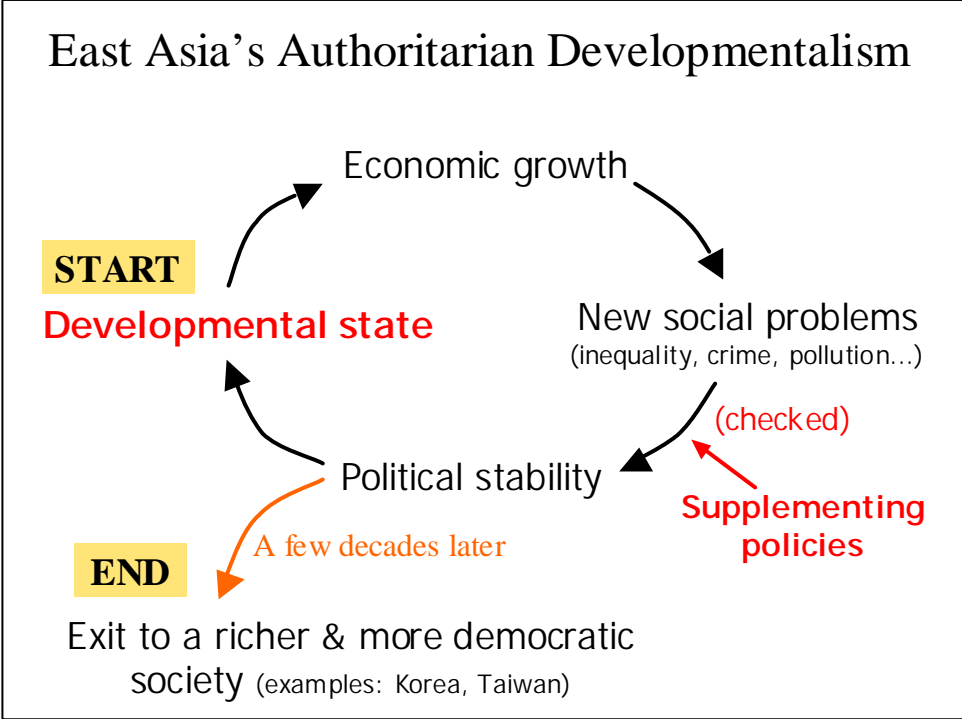
More than a quarter-century ago, Samuel Huntington and Joan Nelson wrote a book entitled *No Easy Choice: Political Participation in Developing Countries* (Huntington and Nelson, 1976). Reflecting mainly on the history of Latin America, they painted a very pessimistic picture of the developing world. The book is entitled *no easy choice* because however you may start your development process, you end up in failed growth. They presented two policy options.

The first option is the *technocratic model*, in which you start with political suppression to mobilize resources and achieve high growth. But growth generates a new problem of rising inequality and associated popular discontent. To maintain stability, political suppression is tightened further. After a few rounds of this, social tension is accumulated to such an extent that growth under dictatorship is no longer sustainable. Popular uprising overthrows the government and the nation is plunged into chaos.

The second option is the *populist model*, in which political participation by all groups are allowed from the beginning. As each interest group vies for a larger share of the economic pie, income is equalized but stops growing. This is because resources are scattered into consumption while little productive investment is undertaken. As the total pie shrinks, political contest for a larger slice of it accelerates as the macroeconomy continues to stagnate. After a while, a military government which rejects popular participation will take over and the democracy ends.

But Huntington and Nelson may be too pessimistic. There is a way out and many successful East Asian countries have actually practiced it. We can re-interpret authoritarian developmentalism as a regime that combines the merits of the two policy options above while avoiding their demerits. It starts out with a strong state, as in the technocratic model, and achieves growth. But it simultaneously recognizes the problems which high growth brings (not just inequality but also environmental pollution, urbanization, traffic problems, housing shortage, crime, corruption, materialism, etc.) and implements *supplementing policies* to

alleviate them. When growth policies are properly mixed with policies to ameliorate these problems, the government can achieve growth and stability at the same time and legitimize its rule.



In sum, here is what an authoritarian developmental state needs to do.

- **Precondition:** Political stability and social integration
- **Task 1:** Create a market economy with competitiveness
- **Task 2:** Initiate and manage global integration
- **Task 3:** Cope with negative aspects of growth

Details must be adjusted to local situation but the list remains valid as a general guide. If the country fails to fulfill any of these requirements, its development process will be jeopardized.

First and foremost, you must achieve political stability and social integration or you cannot even talk about development. This is the precondition for everything and you must achieve it by any means if development is desired at all. While there are many people deserving assistance in Iraq and Afghanistan, it is very difficult to help them since these countries have not satisfied this basic condition. But once you achieve it, there are three more principal tasks that the government has to undertake.

The first task is to create a market economy where it does not exist and make that economy competitive externally. Neither the market mechanism nor competitiveness automatically arises in a developing or transition country. When the private sector is underdeveloped, we

must reject the free market doctrine as a development strategy. When both the market and the state are weak, the state must take the leadership. The impetus must be injected from outside the economy to break out of the vicious circle. That has precisely been the role of authoritarian developmentalism in East Asia.

The second task is to initiate and manage global integration. This is the area where WTO, AFTA and FTAs matter. Integration is primary to economic development and systemic transition since the latter two are all driven by the force of integration. A developing country does not transform itself from within; it does so through the interaction between domestic systems and external stimuli. By opening up your country, the process of development and transition will begin. Another crucial requirement is to pace the speed of integration to the degree of your preparation. If liberalization proceeds too fast without competitiveness or policy capability, it will lead to macroeconomic disaster or social crisis sooner or later.

The third task is to cope with the negative aspects of growth, which was already discussed above as supplementing policies. The government must be keenly aware of new problems growth brings and take adequate measures to alleviate them. Unless supplementing policies are implemented, the growth process will break down.

We cannot say that the governments of the high-performing East Asian countries fulfilled these three roles perfectly. But at least they did not make a fatal error in any of these that could put them off the track of economic development.

3. Japan's Development Philosophy

Japan's development assistance philosophy, in its most general and ideal form, can be stated as follows. *Japan wants to assist developing countries to soar as proud and capable members of the global economy, by extending long-term and comprehensive commitment to solving their real-sector growth problems through good times as well as bad, with due respect to the uniqueness of each society and mobilizing a broad menu of aid tools available to Japan (including yen loans).*

This is not a theoretically derived idea but the one which naturally arose from Japan's own experience as a non-Western developing country and, more recently, the largest aid donor in dynamic East Asia. Because of this, Japan's aid philosophy has changed very little over the years. This stubbornness is in sharp contrast to the global development trend generated by the World Bank which has evolved rapidly from big-push industrialization to basic human needs, structural adjustment, institution-building, and poverty reduction.

Let me elaborate further on the differences in aid philosophy.

First, Japan's methodology is experiential and relational, and not conceptual. This means Japan wants to *experience* Myanmar (for example) in its own uniqueness. Instead of relying on some neat model or imposing a pre-set policy conditionality or matrix, we want to spend much time to get to know the country in its entirety, including its complexity, dilemma and aspiration. Rather than rushing to a clean answer, we want to struggle for the right question. Since this type of knowledge is often irrational and hard to explain logically, it is easily ignored or misunderstood. Apart from the language problem, that is probably why Japan has been very clumsy in expressing its aid philosophy to the Western donors and international organizations.

Second, Japan considers development to be a long-term and comprehensive undertaking. It is not just about budget allocation or poverty measures; it is a process of great social transformation. Therefore, vision and patience are required to produce results and setbacks are sometimes inevitable. From this perspective, setting performance criteria and monitoring the progress every few months to decide whether aid should be continued or not is a very strange approach to development.

Third, Japan is interested in concrete real-sector problems and solutions. This includes such issues as technology, competitiveness, trade, investment, production network, policy support, global market trends, and so on, of individual industries as well as the whole economy. Instead of debating the desirability of free trade versus protection in the abstract, we would like to select a few target industries and visit as many factories as possible to identify the problem in concrete detail. We firmly believe that the government of a developing country should be equipped with such in-depth industry-specific information, without which effective industrial promotion is hardly possible. Macroeconomic and financial issues are also important, but they should be subordinated to the issue of generating growth.

Fourth, we do not think that aid is charity. ODA is provided not because Japan is rich and the developing country is poor, but because we want to see that country rise and join the regional production network as a competitive producer. *Self-help* of the recipient country has always been extolled in Japan's ODA policy, and aid is provided temporarily to help the country graduate from it. True, if the recipient country succeeds in industrialization, it may become a formidable rival to Japanese industries (*boomerang effect*); it already happened with Korea and China. It is also true that Japan sometimes imposes protectionist measures against goods from neighboring countries (especially in agriculture). Even so, the idea that the ultimate aim

of development aid is to help the developing country escape from permanent aid dependency is widely shared by Japanese aid officials and experts.

4. East Asia in Global Development Debate

Since East Asia's path to development has been very different from what the West traditionally considers to be the standard approach, East Asia continues to offer many interesting topics for global development debate. Let us take up a few of them here.

Transferability

Most people interested in East Asian development are tempted to ask the question: are these lessons transferable to other regions? Can we take what Taiwan, Korea, Malaysia, etc. did to Sub-Saharan Africa, for example? The answer to this question must take a somewhat complex form, instead of a simple Yes-or-No.

It is self-evident, I think, that direct replication *at the level of concrete policies* is impossible. Since situations in each country and region are different, it is easy to understand that forcing the East Asian solution blindly on foreign soil is unlikely to succeed. As a development strategy, the East Asian model is a very demanding one, requiring high-level domestic capability. For one thing, the government must be equipped with necessary policy capability and consistency. For another, the private sector must be dynamic and ready to be competitive. In countries where the market economy is severely underdeveloped and strong entrepreneurship is scarce, imitating East Asia only complicates the situation without much result.

However, valuable lessons can be learned at a different level. In our opinion, the *general methodology* of industrial research and growth policy formulation is transferable. In the recent global development debate, poverty alleviation has been highlighted as the major—or only—goal of development (see below). At the operational level, moreover, procedural issues such as aid modality, aid coordination, procurement, monitoring, etc. became the main topics at international organizations including OECD. As a consequence, the formulation and implementation of growth strategies which are concrete, feasible and specific to individual countries have largely been forgotten. This imbalance should be corrected by strengthening the support for concretizing the growth strategy for each poor country.

East Asia is deeply interested in growth policy contents. As noted above, the ideal of Japanese ODA emphasizes totality of vision, respect for individuality, and real-sector concerns. The goal

of Japanese economic cooperation is to help discover—and implement—the most suitable growth strategy for any particular developing country, irrespective of whether this strategy has an East Asian origin or not. I once heard a European economist say, “Vietnam should not invest in heavy industries like steel” at a conference held in Ho Chi Minh City. But he had never been to Vietnam before and had no idea of the current situation of the Vietnamese steel industry! I am sure he will say the same thing in any other country he visits. This is not the attitude we want to encourage. Instead of repeating globally common prescriptions, we must work together to understand the problem in its uniqueness and find a solution which is realistic socially, politically and economically. In many countries in Sub Saharan Africa, the growth strategy must probably begin with agriculture rather than industrialization based on FDI as in East Asia. So be it. What must be transferred is not what we did in the past but the way we ask the growth question and how we arrive at the answer.

Redefining selectivity and good governance

Selectivity and *good governance* are the terms frequently used among development organizations. Selectivity addresses the issue of how donors should allocate limited aid funds among different developing countries. It has long been recognized that aid tends to be wasted in countries with weak policy and institution. Therefore, the argument for selectivity requires that aid be given only to those countries which satisfy certain selectivity criteria. On the other hand, good governance is a set of conditions that make development effort effective in developing countries. Selectivity and good governance are not identical concepts but, roughly speaking, they both define the necessary conditions for mobilizing development aid.

The general idea of directing aid to its effective users is reasonable. However, an issue arises when we discuss concrete contents of *selectivity* and *good governance*. The currently dominant criteria typically include transparency, accountability, participation, administrative efficiency, economic liberalization, privatization, decentralization, free trade and investment, and macroeconomic stability. We have no quarrel with macroeconomic stability. But for other conditions, they look very much like unadjusted Western transplants. We wonder if they are really necessary (or even desirable) in the context of a developing country in the long process of political and economic development.

The Western selectivity says you must have a clean government, open up your country, and have a liberal economic system—now. But East Asia has achieved high growth without them. Generally speaking, authoritarian developmental states in Korea, Taiwan, China, etc. were neither clean nor open. They combined private dynamism with heavy official intervention. It is probable that a different and narrower set of conditions are needed to initiate trade-driven

growth. The criteria for selectivity and good governance must be redefined for countries in the early stages of development.

What are the contents of the Eastern selectivity, then? I think they are essentially the same as those required for authoritarian developmentalism. Among the five conditions required of this regime (see Section 2 above), the government must directly prepare at least the first three, namely,

- A strong and economically literate leader
- A highly capable team to support the leader
- Top-down, coherent and flexible decision making

For growth, political stability and social integration are absolutely necessary. Beyond that, we need a strongly committed and economically literate leadership, a technocrat group to support it, and an administrative mechanism to execute economic policies consistently. This is a much shorter list than what the international organizations typically require. If proper advice on growth policy formulation is combined with such a government, aid has a good chance of being used effectively.

We should not force privatization, free trade or clean government as conditions for aid to countries with very low income. These conditions look nice but may actually complicate and even derail the growth process. As I said before, this is where the Western and Eastern minds often come into conflict (there is also a fierce debate among the Easterners as well). But developing countries cannot jump to the Western system immediately. I firmly believe that the proper sequencing of development strategy is crucial. Besides that, whether they should converge to the Western system in the long run remains another open question.

Reconsidering pro-poor growth

Since 1999, the World Bank has promoted cutting poverty as the ultimate goal of development and required all poor countries to draft a *poverty reduction strategy paper* (PRSP) as its principal tool. The United Nations Millennium Summit in September 2000 adopted the *Millennium Development Goals* (MDGs), a set of numerical social goals to be achieved by 2015. For a few years, poverty reduction dominated the global development debate. By the summer of 2002, however, political enthusiasm for poverty reduction began to wane although operational processes are still in place.

In East Asia, no country has adopted poverty reduction as the only goal in national economic development. A more balanced approach is favored, where economic growth is pursued strongly while serious concern for social equity is also emphasized. It may be argued that this

approach, rather than concentrating on the narrowly defined poverty reduction, produced more remarkable results in social development over the long run (though we do not deny that problems did arise in environment, congestion, income gaps and so on in East Asia, and many governments were slow to act on them). It is now agreed globally that there is no ultimate solution to social problems (including poverty) without sustained economic growth. But East Asia knew this from the beginning.

Now, everyone—including the World Bank and UNDP—agrees that growth is very important. But the Europeans and international organizations continue to insist that growth must be *pro-poor*, which means that the poor must benefit more (their incomes must rise faster) than the rich in the growth process. Pro-poor growth has become a new development mantra for them.

To me, the idea seems too small for a national development goal. This is not to deny the dire situation of the poor or the need to extend a helping hand to them. But development is not just about helping the poor or narrowing the income gap. It is a dramatic process of total transformation of a nation which can be experienced only once in its history. It is participation of a weak latecomer in the existing world system which is brutally unstable and competitive, without losing national unity, pride and identity. And this must be done not through permanent aid dependency but through self-supported industrialization and competitiveness. Social change (including poverty alleviation) naturally occurs as a result of successful development, but it is not the aim. Unless other things are simultaneously achieved, improving the life of the poor alone cannot be called development.

We may also question the desirability of pro-poor growth. If the goal is to narrow the gap between rich and poor, the final consequence will be perfect income equality. But it is well known that incentive and equity are in conflict. In a perfectly equal society, how can we encourage hard work, entrepreneurship, and innovation? If this picture is too extreme, when do the proponents of pro-poor growth want to stop pushing equity above incentive? Instead of such a lopsided philosophy, it is generally much better to try to balance incentive and equity at any stage of development.

Even if we agree that much assistance to the poor is warranted, there are many ways to help them. First is the *direct channel*, namely the services directly targeting the poor such as education and health. This is mainly what people have in mind when they advocate pro-poor policies. But if the national economy is not growing, you have to rely permanently on external assistance for these programs, and there is no sustainability. This is why growth is said to be necessary for poverty reduction.

If GDP grows steadily, the *market channel* will automatically benefit the poor. This occurs through labor mobility across regions and sectors, domestic demand increase, productivity growth, and reinvestment of profit. Traditionally, these phenomena have been called the “trickle-down” of growth, and this phrase has often been used with a negative connotation, that it is a defective idea because growth does not benefit the poor sufficiently or across the board. But it is a very powerful channel and we should not underestimate it. Certainly it is not perfect, but without it poverty reduction is hardly possible. In East Asia, market has been the principal channel through which to elevate people out of poverty.

Then there is the *policy channel*. The role of this channel is to support and complement where the market channel fails. This was called *supplementing policies* in the discussion of authoritarian developmentalism earlier.

The upshot is that we need to broaden the scope of pro-poor growth measures. What we need is not just better schools and hospitals. Growth must be generated by all available means, and distortions created by growth must also be corrected. In the end, the argument always comes back to the effective execution of authoritarian developmentalism. Focusing on poverty reduction alone is not a productive way to promote development.

Industrial policy in the globalization age

In the age of globalization which began to accelerate in the 1990s, policy tools to participate in Asian dynamism must be amended to reflect the new reality. Several decades ago when Japan—and later, Taiwan and Korea—were rapidly industrializing, *infant industry protection* was adopted, in which local enterprises were strengthened under temporary import protection. However, this policy is no longer feasible today because (i) early trade liberalization is required for all countries; and (ii) local firms in the remaining developing countries lack capability. But full and immediate liberalization and external opening will not lead to the catching up of these latecomers. We need to come up with practical policy advice as to how industrialization of these countries should be supported by public policies in the age of globalization. East Asia is an ideal place to conduct this intellectual quest.

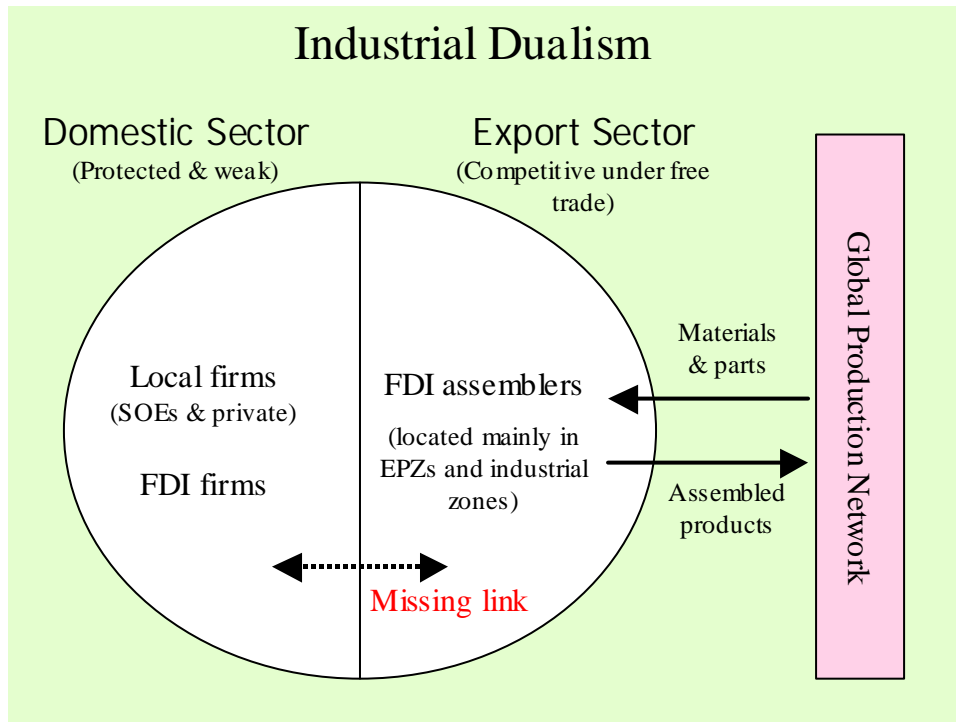
That is precisely the aim of the research projects Japan initiated in 1995 in Vietnam. We have implemented a series of projects including the JICA-Ministry of Planning and Investment (MPI) Project on Development Policy in the Transition toward Market-Oriented Economy in Vietnam (the so-called “Ishikawa Project,” 1995-2001), the JICA-National Economics University (NEU) Joint Research Project on Trade and Industrial Policies (2000-2003), and

the GRIPS-NEU Joint Research Project on Economic Development of Vietnam (2003-2008). I was a member of the first and am the Japanese leader of the second and the third. The purpose of these projects is to conduct in-depth studies of individual key industries in Vietnam and produce concrete policy options. Continuous dialogue with policy makers, output dissemination, and construction of intellectual networks are also important goals.

In the many workshops and symposiums we hosted in Vietnam, alternative views on basic growth strategy have been presented and debated. One group considers the burgeoning domestic private sector to be the growth engine. Another group argues that FDI is the key to industrialization, competitiveness, and global integration. A small number of Vietnamese officials want to support SOEs as the pillar of the national economy. The Japanese team supports the second view. However, the biggest problem in Vietnam is inconsistent policy environment which suppresses foreign investment inflows below the critical mass required to ignite full-fledged industrialization. The main objective of the Japanese government in its policy dialogue with the Vietnamese government at present is to encourage a dramatic improvement in Vietnam's FDI policy.

The principal advice of our joint research projects is for Vietnam to (i) maximize FDI inflows without selectivity; (ii) create linkage of local enterprises to FDI firms; and (iii) absorb technology, management skills, marketing, etc. from this linkage. To support these, studies on localization policy, industrial parks, and tariff design are also conducted. Moreover, promotion strategies for individual industries including electronics, textile and garment, motorbike, steel, and software are discussed.

As in many other developing countries, Vietnam exhibits dualism in its manufacturing sector. On the one hand, FDI firms form the modern export sector with global competitiveness. On the other hand, the domestic sector (which includes some FDI firms) is weak and protected. The crucial question is how to connect the two sectors. The need to foster domestic "supporting industries" which supply intermediate inputs to the globally competitive modern sector is widely recognized, but Vietnam has not mastered the policy skills to actually accomplish this feat. Our policy recommendation, in a nutshell, is to enlarge the export sector as fast as possible as a first step, and create supporting industries by linking to this sector. But some policy makers want to establish supporting industries even before the export sector grows, which we think is unrealistic.



This is an ongoing debate in Vietnam as elsewhere, and much more study and persuasion are needed to produce positive results.

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For Vietnam's trade and industrial policies, see the following web sites.

<http://www.grips.ac.jp/module/vietnam/home.html>

<http://www.neujica.org.vn/>