

Nouveaux pays industrialisés asiatiques et mondialisation : Emulation du Japon ?

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DEVELOPING EAST ASIA: Shifting from catching-up competitiveness to knowledge-based competitiveness

« East Asian nations cannot rely any more on comparative advantages but on competitive advantages » Michael Porter, 1996

by

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Introduction: National competitiveness as an obsession in East Asia?

- REVIEW OF THE ECONOMIC « MIRACLE » PARADIGM(World Bank, 1993)
 - ◆ 1950s-60s: Competition against communist regimes led to fierce development commitment and economic nationalism as internal /external legitimation of post-colonial neo-authoritarian regimes
 - ◆ 1970s-80s: « Miracle » based on guided catching-up industrial policies
 - ◆ 1990s/...: developmental state deregulation and GVC knowledge-based competitiveness policies
- GOVERNMENTS TOOK « NATIONAL COMPETITIVENESS » OVER SERIOUSLY
 - ◆ Not conceived as a one-time push but as a continued process of catching-up policies enhancing but not hindering firm-level competitiveness efforts
 - ◆ Strength and limits of « incorporated » States (Korea inc., Singapore inc.)
- FOCUS ON INDUSTRY- AND FIRM-LEVEL COMPETITIVENESS
 - ◆ Aggregate productivity approach with prioritization of 3 types of inputs (infrastructure, education and skills, market access and technology absorption)
 - ◆ Open debate on East Asian total factor productivity growth (TFP, Paul Krugman)

ASSESSING EAST ASIAN COMPETITIVENESS?

- 1. CATCHING-UP COMPETITIVENESS FOR THREE DECADES (1950s/60s - early 1990s)
- 2. GLOBALIZATION AND THE EAST ASIAN FINANCIAL CRISIS (1997-98) : COMPETITIVENESS IN TROUBLE ?
- 3. SHIFTING TO GVC KNOWLEDGE-BASED COMPETITIVENESS

(1) GUIDED CATCHING-UP FOR THREE DECADES: Combining State intervention (market creation) with the Washington consensus (market conforming)?

- Specific historical circumstances enabled **meritocratic and insulated technocracies** to pursue catching-up policies aimed at strengthening domestic/external legitimacy (support of OECD allies)
- Secured political stability enabled developmental states to deliver macroeconomic fundamentals and focus on **microeconomics**: Build up of comparative advantages from labour intensive manufacturing to capital intensive industries and services
 - ◆ Guidance of costs and pricing (getting relative prices wrong/but wrong is right!)
 - ◆ Combination of import substitution and export promotion (tariffs, exchange rates)
 - ◆ Streaming of savings, investment and debt financing (interest rates and loans)
 - ◆ Investment in public industries and finance to compensate **absence or weakness of local private entrepreneurship** in the 1950s-60s (=State creates market)

- Diversity of policy approaches and industrial structures (**figure 1**)
- Massive investment in business enabling environment:
 - ◆ High performing and internationally-oriented infrastructure
 - ◆ Education and skills oriented towards enterprise needs
 - ◆ Market and technology intermediation institutions
- Focus on internalization of foreign technology transfers
 - ◆ Dynamic concept of continued acquisition, absorption and adaptation of products
 - ◆ (Korea, Taiwan): **LICENSING + IMPORT SUBSTITUTION/EXP. PROMOTION**
 - ◆ (Hong Kong/China, Southeast Asia): **FDI + IMPORTS for EXPORTS**
- Market & technology access to major OECD partners combined with Oversea Chinese and Japanese transborder business networks
- Stages of catching-up development (**figure 2**)
- Catching-up (aggregate transformational performance) differs from R & D leadership competitiveness (OECD economies):
 - ◆ No invention/little or behind frontier innovation/but **LEARNING & LEARNING!**
 - ◆ Cumulative technology trial and error experimentation combined with extensive training of local operators and with OEM/ODM/OBM systems ' management
 - ◆ State-firm market augmenting reciprocity: Pro-active allocation of rents favouring selected firms to reinvest in priority industries, sub-sectors and specific products

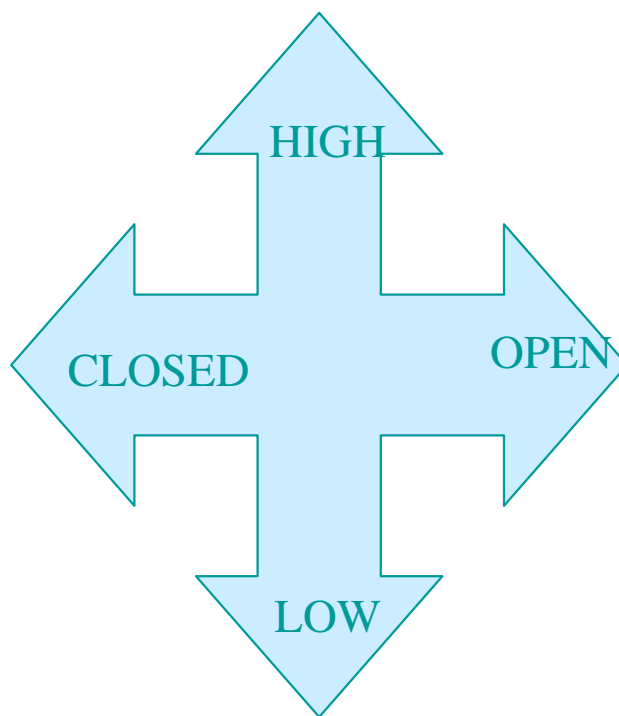
Figure 1: Diversity of policy approaches and industrial structures in East Asian Economies

(Source: ADB 2003)

Degree of Direct Policy Intervention

KOREA
Locally owned
large firms

SINGAPORE, MALAYSIA,
THAILAND
Foreign owned large firms



TAIWAN
Locally owned
SMEs

HONG KONG
Foreign owned large firms,
Locally owned SMEs

Figure 2: Stages of catching-up development

(Source: ADB 2003)

Period/ Stage	Technological Transition	Market Transition
1960s/70s Original Equipment Manufacture System (OEM)	Assembly process of standard simple goods	Foreign buyers control design, brand and distribution (and capture non manufacturing value added)
1980s Own Design Manufacture System (IDM)	Process engineering and detailed product design skills	Foreign buyers source locally but control brands and distribution
1990s Own Brand Manufacture System (OBM)	Local firms conduct full product design and R&D (S'pre, Korea, Taiwan)	Local firms develop own brands and distribution channels (and capture all value added)

(2) GLOBALIZATION AND THE EAST ASIAN CRISIS 1997-1998: COMPETITIVENESS IN TROUBLE?

- Government policy can also go « wrong »!
 - ◆ Need to reform developmental states and to recompose public-private partnerships together with grown-up private entrepreneurs
 - ◆ Transparency of state allocations against dark side of past malpractices (ethnic or business clientelism, corruption, nepotism)
 - ◆ Need to connect more closely export-led policies with domestic market development (not necessarily meaning protectionism)
- Local corporate governance should improve
 - ◆ Introduction of international modes of finance and management to go beyond the limits of local entrepreneurial cultures and practices
 - ◆ Development of domestic/regional **long-term finance** for high productive investment in order to reduce corporate vulnerability to **short-term finance volatility**
 - ◆ Reduction of cyclical production overcapacity in a few key sectors to prevent decrease of profit margins and rise of cut-throat competition

(3) SHIFT TO GVC KNOWLEDGE-BASED COMPETITIVENESS

• 3.1. NEW CENTER OF GRAVITY: THE FIRM

■ GVCs AND EAST ASIAN FDI/TRADE NEXUS

- ◆ **Resilience** of FDI flows and rise of intrafirm business (M&A)
- ◆ Supply-side implications (FDI=exports=forex=imports for exports with production scale, technical efficiency and productivity spillovers)
- ◆ Demand-side implications (rise and diversification of external and local demand combined, demand for high level skills and education)

■ DISSEMINATION OF MULTI-LAYER BUSINESS LINKAGES

- ◆ **Resilience and market gains** among local firms and SMEs linked to oversea buyers (and not exclusively domestic market-oriented)
- ◆ Competitiveness gains by local firms and SMEs linked to foreign affiliates producing for local, regional and global markets: **B2B transfer arrangements**: Tech, mangt, marketing & sales, finance
- ◆ **Multiplier and trickling-down effects** of global-local linkages: TNCs/large domestic firms/SMEs and SME clusters or networks/informal MSEs (including rise of **local intrapreneurship**)

- 3.2. SUBSIDIARY ROLE OF THE STATE? Shift from market intervention to facilitation
 - ◆ Addressing **market failures** beyond neo-classical definition: inability of markets alone to deliver industrial restructuring and knowledge up-grading (ex: far-reaching ICT strategic plans)
 - ◆ Deregulation of **business entry** restrictions (firm ownership and local content)
 - ◆ Promotion of **business facilitating** institutions (diffusion of information, one-stop admin., specialized infrastructure,...)
 - ◆ Picking up business **winners** and investment **incentives?**
 - ☞ Not proscribed under current WTO provisions
 - ☞ Signal of long term commitment of host government
 - ☞ Temporary rents for most promising local firms/SMEs developing new markets or products (fiscal deductions or refunding for training, technological or management up-grading)
 - ☞ FDI externalities exceed subsidy costs (agglomeration of firms involved in assembly/or sourcing/or producer-service)
 - ☞ Compensation for corporate specific search costs and extra risks in transfer and absorption of advanced production systems

■ 3.3. PUBLIC-PRIVATE PARTNERSHIPS FOR WELL-FUNCTIONING MARKET ECONOMY

- ◆ Existed but not generalized due to **lack** of local private sector maturity
- ◆ Growth of private sector reduces role of public sector without **counterproductive** privatization shock therapy
- ◆ Enhance **leverage power** of government vis-a-vis local and foreign business pressure groups
- ◆ **Areas of PP partnerships:**
 - ☞ Sophisticated R&D, ICT and transport infrastructure
 - ☞ Skilled labour training and R&D firm-university linkages
 - ☞ Matching investors and local suppliers (joint venture capital)
 - ☞ Addressing « missing links » (large firms/SMEs, SMEs/MSEs)
 - ☞ Streaming social savings schemes to mobilize cheap funds for soft infrastructure and development projects (health, education, housing,...)
 - ☞ Exploring decentralized development initiatives (meso/micro)

CONCLUSION: ISSUES AND PROSPECTS

- Growth-productivity dynamic of catching-up industrialization:
 - ◆ High growth of inputs/outputs generate high productivity growth
 - ◆ Behind frontier technological change = productivity gains + high growth
 - ◆ Catching-up depends on foreign tech imports, learning curve and sufficient scale of operations (to minimize costs)
- Globalization not meeting uneven development of East Asia
 - ◆ Competitiveness of LDCs: **Institutional economics** precede well-functioning markets? Schumpeter
 - ◆ What institutions after « **systemic collapse** »? Indonesia
 - ◆ What kind of global market-friendly state for industrial take-off?
- What appropriate institutions: State, firm or « invisible hand » for shifting from foreign technology attraction to **local innovation** and **production of knowledge**?

(Conclusion continued)

- Beyond rapid deregulation of national investment policies: Global compatibility of new domestic incentives in the absence of a **WTO/international investment regime**
- Rise of TNC intra-firm and inter-firm trade and M&A: OECD vertical concentration and intellectual protection of high value added **versus or combined** with local de-packing and price deflation of generic manufacturing?
- Shift from export-manufacturing investment to local production of non tradables? China/India

