Special Event on “Development Day”
Growth Driven by Trade, Investment, and Economic Cooperation

(Transcript)

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PROGRAM

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- Keynote Speaker: Kenichi Ohno
- Moderator: Yoshihiko Sumi
- Panelists:
    - Chakramon Phasukavanich
    - Jeffrey Sachs
    - Xian Zhu

Growth Driven by Trade, Investment and Economic Cooperation: The East Asian Experience of Economic Development and Cooperation

Mr. Yoshihiko Sumi: Let us begin the second session of the Development Day. In this session we will follow up on the discussion of the East Asian development model in the first session, although we would like to focus more on the link between trade, investment and economic cooperation in the East-Asian region as well as its implications on development in the rest of the world.

Let me introduce myself. My name is Yoshihiko Sumi. I am Deputy Director-General for Trade Policy with Japan's Ministry of Economy Trade and Industry (METI). I am going to moderate this session this afternoon, which will last until three o'clock, maybe a little bit later than that.

We want to thank all of you for coming to this session and also we want to thank the four distinguished speakers, panelists, sitting on my left, who traveled all the way to Johannesburg to participate in this session.

Let me start by saying that for those in Washington, D.C. who visit the headquarters of the World Bank, you will see in the lobby capitalized letters saying "Our goal is a world free of poverty," and everybody agrees and there is a very broad consensus among the management of the bank, as well as the staff of the bank and other donors and visitors of the World Bank. However, the question is still open: how? How do you achieve that goal, and that is the reason that we organized the three consecutive sessions on this Development Day, today, to discuss what should be the mode of that poverty reduction effort in the various parts of the world which are struggling for development and reduced poverty. So that is the main objective of our session.

First of all, we would like to remind you that this is not just preaching to the other developing countries of the success and lessons of East-Asian development. Rather, we just want to share with you the experiences of these East-Asian economies, particularly those countries and economies which have very close links with my own country, Japan, and those who also experienced some hardship during the Asian financial crisis in 1997 and 1998. The challenges have been gently addressed by these countries, although some structural issues still need to be addressed. You will hear other issues to be addressed which have been raised by the development success itself. So we do not want to just focus on the success side, we also want to highlight the negative aspects of rapid and successful development.

Having said that, I just want to move on, straight to the speakers' remarks and interventions. First, I would like to invite Professor Kenichi Ohno, on my left, who is a professor at the Graduate Institute for Policy Studies (GRIPS) of Japan, who has had very extensive research experience in development economics and international finance. He is a PhD graduate from Stanford University in the United States. He had worked for the IMF for some period and then he came back to Japan to teach at various institutions, and he has been working as a research fellow at the Research Institution of Economy, Trade and Industry (RIETI), which is one of the two organizers of this session. You will hear the basic points to be discussed today so that the other speakers and panelists can elaborate or comment or criticize later on. Just for the sake of the time, I would like to ask Professor Ohno to conclude his presentation within 20 minutes. So, Professor Ohno, you have the floor.

Mr. Kenichi Ohno: Thank you very much. I would like cover many aspects of East-Asian development. I would like to start with this figure, but I think this screen here is a little bit hard to see so you also have my slide handouts in your package, so you may want to follow that. And if you could also close that drape, I think that would be better.

This chart shows that in East Asia and Africa, in the 1950s, 1960s, and 1970s, the income levels were similar according to Angus Madison's statistics. Only in the 1980s and 1990s there is an enormous gap evolving, because East Asia grew very fast and Africa stagnated. Let me skip over these basic diagrams, except this one. This shows the histories of wars, crisis, and internal troubles, and this picture is to show that East Asia has not been very peaceful, especially Indo-China, which has been mired in wars and internal conflicts. The red ones shows the hot wars, the pink ones are serious domestic troubles, and yellow lines show international economic crisis.

Now, East-Asian development has the following features: it was a growth driven by trade and investment; it was not driven by conditionalities or good governance. It was a collective growth of an entire region, not isolated or random. There was staggered participation in a regional production network. One by one, Japan, Korea, Philippines, and Thailand— they jumped into this existing production network of the region. And the region itself provided an enabling environment for catching up by providing a model and providing pressure to do better and to become more competitive, otherwise you will fail.

What we call "Asian Dynamism" has the following features: geographically, the industrialization defused, expanded from the core to the periphery. Within each country that participated in this dynamism, industrialization proceeded from low-technology to high-technology. This pattern is also known as the "Flying Geese" pattern, by which we mean there is a clear order and a structure to it, although there is the possibility of reformation. This picture—it is kind of hard to see—but this is actually how geese fly. There is a top bird and then two wings of follow-up birds. This is another picture, a little bit more complex substructure, but basically a V shape. This is another shape where the top bird is not very clear and there are some dropouts from the front lines. As the geese fly, I think there are lots of variations, but the basic structure is the top bird followed by the other birds.

Let's look at how the East-Asian birds are flying. This is per capita income in 2000. The top bird is still Japan, followed by Hong Kong and Singapore, the small economies, Korea, Malaysia, down the line. And the lowest income countries are really low, about US$300 to US$400 per capita. This shows the manufactured exports lines over the years, the percentage of total exports. The first birds, like Japan, Taiwan, and Korea, always had manufactured exports dominating throughout this period of a quarter of a century. But there are three or four countries that went up very fast, from agricultural producers to dominantly manufacturing producers, like Singapore, Malaysia, Thailand, and most recently China. There are three or more birds just catching up to become middle producers, like the Philippines, Indonesia, and

Vietnam. Vietnam is catching up very fast, and Myanmar is still an agricultural producer. But you can see this catching-up pattern with time delays.

This is a schematic diagram to show what is happening. On the horizontal axis we have time; on the vertical we have the countries, and garments, steel, and other goods are passed on from one country to another. This passing on of products is done by Foreign Direct Investment (FDI). You can carve this diagram this way or that way, three different ways, and you can have this diagram. If you look at Japan, Japan's exports shift over time. If you look at one product, like garment, the exporting countries shift, and if you look at one point in time, you can see the international division of labor across the countries.

This shows East Asia's trading partners. The dark part is East Asia trading within East Asia, intra-regional trade, and that portion is increasing. What we can see is the rest of the trading partners for East Asia are basically equally divided by Japan, America, and Europe.

This shows the FDI flows in the early 1990s and late 1990s. Within these several years, the structure of FDI flows did not change very much, as you can see, but the volume increased very much.

This shows trade in machine parts from 1990 to 1998, and of course trading machine parts show the deepening of the international division of labor in this production network. As you can see, in the 1990s, it is a relatively simple structure where machine parts are exported from Japan to lower echelon countries. By 1998, it has become more complex. Also, China joined this network. There are also machine parts exports from lower-level countries to higher-level countries within the span of only several years, and this is the dynamism of East Asia.

So East Asia has been driven by private sector trade and investment primarily, it has a clear structure, it is changing, and it is very dynamic. In this context, what is the role of the government? In general, I think in lower-income and transitional economies with undeveloped markets, privatization and free trade alone may not lead you to prosperity. Unregulated markets may be unstable and polarize income I think it is vital for these governments to become an active agent in escaping from the vicious circle of low income, low savings, low productivity, and low other things.

There are factors often cited as the cause of the East-Asia high performance, for example, high-level education, export promotion, and so forth. I think these are not real true causes. These are the policy tools needed to join the regional production network that I have just mentioned, which each country must prepare. So if you do not have these elements, you do not join the production network of East Asia and you do not have any development. So, the regional environment sort of forces you to adopt these things.

According to my view, I think the basic roles of the East Asia states are as follows: First and foremost, as a precondition for development, political stability and social integration is necessary. If you do not have this, there is no development. If you have political stability and social integration by any means, then I think there are three tasks. The first task is to create a competitive market economy. In a lower-income country, the market is not something that exists already. It is not competitive yet. So these things must be generated and supported by the government. Just freeing the economy will not give you this. Task two is to initiate and manage global integration, because global integration gives you the impetus to develop and to create the market. There is a risky aspect too, so you have to manage the risk of integration as well as initiate integration. Task three is to cope with the negative aspects of growth, the negative aspects of success. For example, emerging income gaps, congestion, pollution, corruption, and so forth. If you do all these three things on top of the first, most important step—political stability and social integration—then you will have East-Asian development.

But these are very tall orders. Not every country can do this, how East Asia solved this problem. What if the government is very weak? The East-Asian answer is to install a strong state with economic capability. It is not just a strong state, it is not just a dictatorship. We have many dictatorships with very weak economic capability. What we need is a strong state with economic capability and with the following features: a national obsession with industrialization and export competitiveness, a powerful and economically literate leader (that is very rare; we have powerful leaders but very few economically literate leaders), we need an elite team to support the leader, and there should be top-down decision making, not necessarily democratic by Western standards.

Now this picture, which is kind of hard to see, is the history of authoritarian developmentalism in East Asia—Korea, Taiwan, down the line. The pink part is the regimes that are considered as Authoritarian Developmentalism (AD) in the book by Professor Akira Suehiro. Some countries have already finished this regime, like Korea and Taiwan, and then they have democratized. I am not sure if the Philippines' Marcos regime is AD, but that is what Professor Suehiro says. Singapore and Malaysia still continue this regime, whereas Vietnam and Myanmar never had AD. They have authoritarian governments but are not yet satisfying these conditions. I think this AD regime is a temporary historical regime in East Asia. It is typically established under severe threat to national security or unity. As I said, East Asia has never been a very peaceful region in the past. It is often established by a military coup and it replaces a previously weak government, and economic growth itself legitimizes the regime. But over time, its own success undermines the legitimacy and leads to a democratic transition, as you can see in Korea and Taiwan. So this is a very temporary regime that lasts maybe a few decades to a little bit more.

In this light, I think we have to redefine good governance. If you want to initiate trade-driven growth, maybe different and narrower conditions are needed, including the following: strong leadership with ownership, and an administrative mechanism for policy consistency and effective implementation. On the other hand, high-performing East Asia did not typically have the following: transparency, accountability, a participatory process, clean government, privatization, and free trade. These are not typically shared by the high-performing East-Asian countries and maybe these are not necessary for initiating growth, although these are necessary for other purposes.

In addition to individual governments' efforts, I think we need regional cooperation in the past and we will need that in the future in order to avoid and remove difficulties and crisis, support the private sector from the sidelines, and present visions to reduce uncertainty. In East

Asia, regional cooperation and integration has moved from this stage of market-led integration to institution-led integration. Previously, integration was done by the private sector trade and FDI, as I showed you in the diagrams. It was an open regionalism in the sense that the countries outside East Asia were not discriminated against in their trade relations. It was informal and voluntary. But now East-Asian governments are institutionalizing their efforts of integration and the basic framework for this is ASEAN+3 - ASEAN ten countries plus China, Japan, and Korea. And there are many other institutions, alphabet soups, that are related to this ASEAN+3. This morning, we heard Japan's initiative for development in East Asia. And for these regional cooperation efforts, remaining issues for East Asia are as follows: We have to maintain regional peace and security—that is a matter of course, without that we do not have any development. But the next one is very important: narrowing the gap between early developers and latecomers. Intra-regional income gap is a very serious and maybe the top concern among East-Asian governments right now. We also must promote globalization while mitigating its native impacts, and human resource development, institution building, and governance improvement are necessary for strengthening competitiveness, because in East Asia each country is always pressured by the market to do better and better, otherwise you will fall. It is a bicycle situation.

In my view, East Asia should also do the next two following things: it should project its views to the world. Sometimes East Asia has different views from the World Bank or the global development strategy. On top of that, we should study the new modality of industrial promotion in the age of globalization. We know that simple protectionism does not work and it is not allowed today. But that does not mean that we should add up to a 100% laissez-faire policy. What is the policy modality that is suitable for this age of globalization? That is the thing that East Asia should really think about. I am leading a study project in Vietnam that does exactly this thing: What is Vietnam's policy for industrialization in the twenty-first century?

What is Japan's role in East Asia? It is in the past and at present by far the largest ODA donor, it is a large trading partner for East Asia, and Japanese firms are the chief architects of regional production network through FDI, especially electronics. But there are things that Japan should do but has not done. Regional leadership has not been forthcoming from Japan very strongly. And the economic vitality of Japan itself is lacking, which is a very big negative for the region.

Let me talk about Japanese ODA a little bit more. Japanese ODA has the two-track principle, and this is my own characterization of how the Japanese ODA has been implemented and should continue to be implemented in the future. There should be two pillars to Japanese ODA: one is for the prosperity of Japan and East Asia for national and regional economic self interest, and the second pillar is for solving global issues like global warming, poverty, health, and education. These two pillars must be combined flexibly, and Japan should continue to do so. Japan also wants to help the self-help efforts of less-developed countries. Japan never considered ODA as charity. Japan's ODA is to let them grow and become equal trading partners, like Korea did in the past and the ASEAN countries are now doing at present. And Japanese ODA wants to supplement private dynamism, not replace it.

Poverty reduction in East Asia. Extreme poverty in East Asia already halved from 1990 to 1999, so MDG, the most important goal of MDG—halving extreme poverty—in 25 years has already been achieved in 10 years. This achievement is made mainly not by improving governance but by high growth. Most East-Asian countries have national strategy for equitable growth in place, even before PRSP was invented by the World Bank. In my opinion, any coordination centered on proper measures alone is unlikely to work in East Asia, and that was the theme of the previous session. Vietnam has a strong ownership and growth and equity orientation, and PRSP was put under the national strategy. You may even ask the questions, "Does Vietnam really need a PRSP from outside when it already has a strategy? Why don't we reduce transaction costs for Vietnam to have only one strategy rather than two?"

Now, finally, let me talk about replicability. What are the implications for Africa and other regions? These are my views, but I have discussed this with Japanese officials and experts before I came here. I want to say a few things.

First, simple replication will not work—that is the starting point. We have different situations in East Asia and Africa, and particularly in Africa there is no regional production network that I have described for East Asia. However, I think the methodology for policy formulation can be transferred, and I will elaborate very shortly.

I think Africa must balance two things: One is the fight against poverty. It is a humanitarian cause and it must be done, but at the same time growth generation for long-term self support must be concretized. Everybody talks about how growth is necessary for poverty reduction, but at the operational level I think this growth strategy has not been concretized. And everybody is talking about coordination for proper measures. That has to be changed. We need concrete growth strategy too, on top of PRSP.

Japan's approach to development emphasis is the following, and these are the general characteristics: We want to respect each country's uniqueness. We do not want a globally common framework or something like that. We want a long-term and holistic perspective, and I think in this regard the World Bank's holistic approach is not holistic enough for Japan. We are interested in real sector concerns like trade, investment, key industries, and technology. Of course financial institutions and institution building and other things are important, but the primary goals should be real sector, and these are the supporting factors that we have to think about. We want to continue to help LDCs in good times as well as bad.

Now, this Japanese approach is not quite like the World Bank's approach or the current approach based on short-term conditionality, frequent monitoring and a globally common framework. I am not saying the World Bank approach is bad or that this is good. I think both elements of short-term, frequent monitoring plus long-term commitment are necessary, and the latter is desperately lacking at this point.

If Japan is to get involved with African development—and that is not taken for granted yet, I think—then these are the steps to follow. First, build domestic support in Tokyo, in Japan, to build domestic support for more aid to Africa. As you know, most ODA from Japan goes to East Asia right now, that is our priority area; and Japanese ODA is being cut because of the budget crisis, so it is not certain whether the Japanese government wants to increase commitment to Africa, so we have to first decide on that. If we are to increase our commitment in Africa, then select a few countries, do not disperse resources. Select a few countries and study deeply how realistically we can have a growth scenario. To select these one or two countries a new selectivity criteria for growth is necessary, not the good governance-criteria of the usual type.

We want to create a permanent policy research team, not three weeks, three months or three years, and work in partnership with other stakeholders and propose a concrete and realistic strategy with additional ODA to support it. That is my view.

My last words. Japan already extends such policy support to Vietnam, Laos, Myanmar, and Mongolia. We study all aspects of real sector issues. I am a member of this Vietnam team. Some of these programs are good, some are not so good. We have to improve the situation, but the question is whether we want to start this kind of study for one country or two countries in Africa as well, and that has not been decided. Ad hoc, short-term involvements are unlikely to produce lasting results—those are my last words. Thank you very much.

Mr. Sumi: Thank you very much, Mr. Ohno, for your excellent overview of the major issues to be discussed in today's session. I am very much struck by his very convincing argument on the need of a strong state. I just recall that Thomas Jefferson of the United States said, "Small government is good government," but you may want to say small government may not necessarily be good government. You need to have capable leadership. Maybe you need to rephrase it for the twenty-first century. Also, I liked his analogy of the flying geese. Although I am not very sure that the first goose is still Japan because that first goose has been suffering from a chronic flu for ten years or so. I hope that that goose is not suffering from pneumonia. But anyway, I liked his philosophical thoughts.

I just want to move on to the next speaker, Mr. Chakramon Phasukavanich from Thailand. I invited him not just because he represents a country which has achieved very great economic growth through trade and cross-border, longer-term investments in the East Asia region, but also I have known him personally for about seven or eight years when Mr. Chakramon was a senior official of the investment board. I was responsible for the consumer electronics industry in the government of Japan, and we were sitting together to talk about how to develop the trade and investment link in the consumer electronics sector in the ASEAN region. That was the first joint project between us, so I respect his leadership, and now he is the Secretary-General of the National Economic and Social Appointment Board of the Kingdom of Thailand. I am very much looking forward to his remarks from a developing country's perspective. Mr. Chakramon, the floor is yours.

Mr. Chakramon Phasukavanich: Thank you, Mr. Sumi. Well, first of all, let me congratulate Mr. Ohno for his excellent paper and clear and concise presentation. I think it conceptualizes and provides insight into the East-Asia experience during the last couple of decades. I myself have found his paper very interesting and very enlightening, and I would like to highlight some of his key messages, upon which I would like to make comments.

The first message: development in East Asia is unique. An appropriate development strategy in East Asia may not be the same as in the West and may not totally apply to other less developed countries. Agreed. Even among East Asia or South-East Asia themselves, we are quite different in various aspects and there is no way to replicate the East Asia experience to any single country.

Message number two: it is important to look at the region as a whole rather than focusing on an individual country due to the dynamic production network embedded in East Asia. Comment: I think economic integration in East Asia has taken place in its natural course rather than by design, maybe due to the close proximity or similar social wills which have reinforced the integration among East-Asian countries.

Message number three: a stable political regime and political integrity are relevant to achieve high growth. Comment: I think that history has already confirmed the significance of stability. However, it should be kept in mind that stability alone cannot lead to sustainable growth. Since there are so many factors involved, there might be some trade-off between, say, a strong political regime and full democracy, perhaps.

Message number four: a supply of international public goods may be the way to get out of the mess. Frankly speaking, the meaning of supply of international public goods in the paper is not clear to me; it seems hanging to me as well. However, if we adopt the meaning as defined by Professor Ohno, I think that under the umbrella of ASEAN+3, the Chiang Mai Initiative, which is arranged by ADB, Asia Cooperation Dialogue (ACD), resource pooling or international reserve pooling, soft arrangement, and the fund cycling are likely to be conceivable international public goods in the future.

Message number five: economic growth and macro-economic stability are conducive to reducing poverty. I more than agree to this because in the case of Thailand, since after the crisis in 1997, the number of poor increased from 6.8 million to almost 10 million people in 1998, just two years apart. And when the economy turned around later in 1999 and 2000, the number of poor had dropped to only 8.2 million in 2001.

Another message: growth and stability in East Asia have been largely supported by international trade, investment, and regional cooperation led by Japanese forces. In principle I agree, but how much the Japanese forces have influence upon the growth and integration of East Asia—I doubt it. They need to be examined before we can make such concrete conclusions.

Seventh message: the role of the government. There are three roles identified by Professor Ohno. One, creating a market economy; two, promoting trade and investment integration; and three, reducing negative impact of growth, for instance income cap, environmental problems, etc. Comment: the government, I think, should keep in mind a level playing field when creating a market economy. I think country competitiveness is perhaps the key factor to long-term growth. Sometimes we walk a very delicate or thin line between a liberalized economy and what we call a government-intervened economy—this is a very delicate line. I also agree with Professor Ohno that the government should promote trade and investment integration, but the degree and sequence of trade and investment liberalization need to be carefully deliberated and in good timing. I also agree that the mobilized approach, which I call dual track, should be a good solution, and I will touch on this subject matter later on.

Message number eight: poverty reduction should be blended in government policy rather than specifically pursued as the only objective. Such a notion, I think, is very consistent with the way several countries in East Asia have formulated their development policy, and may I add at this point that growth with equity and growth with stability should be the first and foremost objectives of development.

Message number nine: Japanese policy in long-term assistance should aim to help tailor the most appropriate growth strategy for selected countries. Second, selectivity criteria will be revised if resources are extended to other regions. Third, unlike other regions, East Asia has a well-established network of Japanese investment. Agreed. But, talk however must be done at the initial stage so that the donor can understand the nature and characteristic of the recipient, so that the most appropriate strategy can be designed to match recipient needs and that the right attitude between the two parties can be put in place. I remember 40 years ago when King Bhumibol of Thailand visited the United States, 40 years ago nobody in the United States knew Thailand—40 years ago. The media, one pressman, asked the king, “Your majesty, you come to the United States to ask for something?” The young king replied, “Yes, we ask for your understanding.” That set the right tone for successful cooperation at a later stage.

Message number ten: this is my own comment that I would like to add. First, I think it is very important that strengthening the government agency in policy implementation should be emphasized, because a strong government agency can be an extra driving force to boost the economy further. I think we are approaching the dawn of a knowledge-based economy which is driven by information technology, and the question is how can less developed countries handle this without having adverse affects on people in the traditional sector - digital divide.

Well, in the case of Thailand, insofar as the Thai economy is concerned, I think that at the moment the Thai government is currently implementing what we call the dual-track economy policy, emphasizing not only international trade and investment but also boosting the local or domestic economy as well. We realize the importance of international trade and investment as what we call a locomotive or an engine of growth, but we need some extra engine or to energize the existing or local engine so that it can provide an extra impetus to move the economy.

In conclusion, I would like to say that East Asia is growing strong, from strength to strength, from year to year. This is not only because of integration or cooperation but I think because of what I term—I think some professors at Harvard have already termed it—what we call “co-opetitive” or “co-opetition.” This is a combination of cooperation and competition, and this would lead to competitiveness in the future. Thank you very much.

Mr. Sumi: Thank you very much, Mr. Chakramon, for your excellent remarks. I believe that Professor Ohno may want to respond to some of the remarks that Mr. Chakramon made but I would like to postpone that until all the speakers complete their remarks. I just learned a very new concept called co-opetition - that is, the combination of cooperation and competition, those are very important key words in energizing the economy.

Let us move on to the next intervention. We would like to introduce Professor Jeffrey Sachs of Columbia University—I think everyone knows him. He is a world-famous professor of development economics and his contributions are extremely great in the various developing nations and in advising various international organizations. And recently, he was appointed as a special advisor for the United Nations Secretary-General Koffi Annan on the MDGs, or Millennium Development Goals. He has been the Director for the Center of International Development and for the Harvard Institute for International Development. He moved from Harvard to Columbia in recent months. Professor Sachs has advised my team when I was working in Poland just after the 1989 revolutions in Central Europe. I have known him for many years, for his excellent advice on the development policies, particularly for the economies in transition as well as low-income countries in Sub-Saharan Africa and Latin American regions. We are very much looking forward to hear his interventions on this interesting topic today. Professor Sachs, you have the floor.

<u>Mr. Jeffrey Sachs</u>: Thank you very much. Let me congratulate the government of Japan for putting on this wonderful day. I think that Japan's experience and the region's experience in East Asia has an incredible amount to teach for the world. I think what Professor Ohno highlighted is very important. I want to pick up on many of those themes. I have some points where I want to make the emphasis a little bit different, but I think we really need to learn from East Asia because it is the most successful region in the world for development. And what has been done in East Asia is not the same thing as what many countries are told to do by Washington or by others, so understanding those differences is really important.

Now, I think Professor Ohno highlighted one major point with which I concur a lot, and that is that a country and a region needs a development strategy. And a development strategy and a growth strategy are not the same thing as liberalization, stabilization, or privatization. That is actually not a full or even the right growth strategy necessarily. What East Asia has done is think very hard about industrialization and technological advance, and it has been thinking that way since 1868, since the Japanese era of modern economic growth began with the Meiji Restoration, so-called, because Japan was the first takeoff country outside of Europe and it was the first takeoff country in Asia. A lot of what Japan pioneered then spread to other parts of East Asia.

Now, what I think is very important is what Professor Ohno stressed, that East-Asian development has been export-led, investment-led, and technology-led. And with technology, a lot of the technology has come via attracting foreign direct investment from the leader to the next, to the next, to the next. And as Professor Ohno showed the product cycle, say, of textile and apparel, or consumer electronics as it is diffused through East Asia, a lot of that diffusion of starting in Japan, then being produced in Korea and Taiwan, then being produced in the regions of South East Asia, came through the foreign direct investment of leading firms looking for the next site for investment. In each of those cases, to attract that foreign investment required a national strategy.

Africa has not been successful in attracting foreign direct investment outside of the primary commodity sector. Outside of oil and gas and a few agricultural products, there are very few foreign direct investors for world markets and manufacturers, and this, I think, has been one of the great shortcomings of African development. The official advice that the Bretton Woods Institutions have given have not helped you to attract foreign direct investment. That is one of the things that I think Professor Ohno is implying: that you need a specific strategy to be able to attract foreign investment. The infrastructure has to be right, the partnership and trust with the source country has to be correct, often the tax code has to be allowing tax holidays or other incentives to make investors come to places where they were not very keen on coming in the first place, and then maybe after ten years they are very happy that they came. But without the initial stimulus, those pioneer sectors would never have been developed. So East Asia pioneered the use of pioneer industry incentives. And they actually said, one country after another, 'we need to move beyond primary commodities, we need to get into electronics.' That is what is called industrial policy. That became a bad word in the world, but it was very successful in East Asia, and a lot of what has been lectured to about industrial policy, especially from Washington, has not been correct, actually. Because industrial policy is important, at least, to conceptualize 'where could the country be in ten years?' And if you look at the structural adjustment era in Africa for the last 20 years, the one thing you can say about the structural adjustment period in Africa is that there has been no structural adjustment in terms of the export structure. It remains coffee, tea, cycil, palm oil, copper, iron ore, diamonds, gold, hydrocarbons—in other words, it is almost all primary commodities without structural change which lies at the essence of the East Asian development model.

I have two big issues, though, with the way Professor Ohno described it, and that is that actually East Asia all the way back to the Meiji Restoration did what he said but also did one other thing, and that was massive investment in human capital. So, right back from 1868, actually from the 1870s, the Japanese government in those days got serious about public health, and in those days got serious about the education system. So there were always two tracks. One track was the economic growth track in terms of the business environment, and there was always a role of government in thinking: 'What next? How do we push the technology forward? How do we move from agriculture to industry?' But there was always a track of investing in human capital: education and health. And Japan actually pioneered public health, and had huge improvements in public health at the end of the nineteenth century and the early twentieth century. By children staying alive in this early development period in Japan, fertility rates came way down, which was very important so that Japan could educate each child to a greater extent, and there was a boom in the education attainment in Japan as well. So the first thing I would comment on is I agree that Japan and East Asia really have something important to teach about the growth strategy, but there needs to be a social or human investment strategy very consciously alongside it. That is particularly important in Africa because of the amount of disease burden and the low education attainment, partly because children are sick so often that they do not complete school. This is vital to complement the investment and business strategy side, and Japan could play a huge role on both of those parts.

Now, the second part that I want to underscore is that unfortunately the East-Asian model is also not a panacea and it is going to have to be adapted. The first question you would ask is, ‘where is the lead goose for Africa?’ You see, Japan and the United States after World War II were the lead geese for East-Asian development. The United States was a provider of technology and it opened its markets for Korean goods, for example, for Taiwanese goods. Why did it do it? For geopolitical reasons, very importantly, because a lot of the countries of East Asia were under the US military umbrella, the security umbrella, and the United States invested heavily to help build up those countries and share technologies. But where is this process for Africa? Where is the lead goose? This is a major question. Europe has not played the role. The United States has ignored Africa, really, except in fighting proxy wars. This is a major problem that we have to think about.

The second issue is: geography plays a big role in the East-Asian model. That model of investors going from one site to another is what is called the spatial diffusion model. You go to your next-door neighbor. Japan actually went the hard way to Korea and Taiwan first as the colonizer, but it left behind a marvelous set of infrastructure and industries so that those countries could become the most successful developers among the next range, the new economies, and the newly industrialized economies. So Japan really contributed to their development, but they are right next door. And then with China—and we are going to hear from a real authority on China in a moment—the big development in China is on the coastline, because it is in Shanghai or Fujian or Hainan Island or Guangdong province, on the coast, where you get the investment, and in Thailand and Indonesia and Malaysia—these are coastal-led developments.

Now, there is a point about Africa which really is a pertinent point. Do you know that 80% of Africa’s population lives more than 100 kilometers away from the coast or from an ocean-navigable river? Africa is the continent with the most land-locked countries. Africa is the continent with the highest proportion of people away from the coast and therefore it is hard to participate in international trade. It is a deep, actually quite a profound geography question why that is. One reason is because in the hard tropics it is often desirable to go to the highland regions: the mountains of Ethiopia, the highlands of East Africa, Rwanda, Burundi, where volcanic soils and water are better, but that takes you 1,000 kilometers inland and then it is very hard to engage in the East Asian economic model of development because nobody goes into the interior for foreign investment of the export-led variety. Just to give you an idea: it is cheaper to send a container, much cheaper to send a container from Singapore to Los Angeles than it is to send a container from Mombassa to Kampala. That is the problem. That is a real geography problem that needs to be addressed and understood.

Well, let me conclude because time is going and because we have an outstanding speaker beyond me to get to. Let me conclude with some implications from African development. First, Africa needs to learn from the East-Asian model that real economic development is going to come from structural transformation and upgrading of technology, not simply intensifying coffee, tea, and other primary commodities. The World Bank needs to learn this also because this was the biggest blunder of the structural adjustment era: simply reinforcing the primary commodity sectors and not helping Africa to become apparel exporters, electronics exporters, from the great coastal cities. That is point number one.

Second, Africa will need a strategy for that. The coastlines will be key. It will be

Dar-es-salaam, Mombassa, Maputo, Accra, Dakar, and Abidjan where a lot of the first wave of new sector investments can take place. They will require an East-Asian development mentality to get them. Every one of those cities, not just countries, cities are going to have to say, 'how do we get investors here?' Well, you need reliable power. You need an export-processing zone. You need the ports dredged and working properly. You need physical security for the production process. You need tax authorities that are friends of the exporters, not the biggest enemies.

So you need a strategy for the urban-export base model. Japan could really help a lot in this process because it has done it and helped and led that so many times. And that could be a huge benefit. But you also need tax holidays, for instance, tax incentives; and the IMF and the World Bank have to turn around 180 degrees to understand how to do that, because frankly those institutions have never had to attract foreign direct investment. They do not know how to attract a business; that is not their business. But that is METI's business, or that is the business of other development authorities around the world, and we need to get practical people that can help bring real industry to Africa, not simply in the old sectors but in the new sectors—and so that is the second point I would make.

The third point I would make is: let's not forget the social investment. What Professor Ohno says in my view is absolutely 100% right. Social investment is not enough, it is not the same as a development strategy, but it has got to be part of a development strategy. Africa's region is in urgent need of social investment, especially in health, in education, and in agricultural productivity. All three of these need technology.

Technology at the center of development was Japan's theme since 1868: 'We need to build technology, we need to develop science that is how we are going to catch up.' Africa needs a technology-led strategy also. Technology for higher agricultural productivity, technology to make the drugs that could keep people alive in the AIDS pandemic, to fight malaria, to make the rain-fed agriculture work better; and Africa needs a major campaign for education for all.

Now, in the end, one thing that I have studied repeatedly in all of this is that Africa cannot pay for all of that on its own. It faces challenges that even Japan in 1868 did not face. It faces tougher malaria, it faces an AIDS pandemic, and it faces tropical agriculture that is a lot harder than Japan's temperate zone agriculture. It faces drought conditions that come with sub-humid tropics. So it is harder and it needs help, and that is why I would close my statement by making the appeal to Japan that, as a country that pioneered modern economic development, that has been the best exemplar of it, please do not cut foreign aid for Africa. Please help Africa to do it. So keep the development assistance and do invest in Africa because you have so much practical lessons to teach in the continent. Thank you very much.

Mr. Sumi: Thank you very much, Professor Sachs, for your very interesting remarks on development which have very grave implications to the development of Africa. I just do not want to summarize such extraordinary remarks but please take note of these very unique theories and advice.

Let us move on to the last speaker, Mr. Zhu Xian, the Principal Director of the Asian

Development Bank, working on the co-financing operations. Mr. Zhu had been working as a senior official of China's Ministry of Finance for a long time, and then he was appointed as Executive-Director for China in the World Bank Group.

I know him as a supervisor, but also as a very great friend to discuss the development of China and other East-Asian countries. Now he has moved on to the Asian Development Bank (ADB) and is working on multilateral lending institutions. I am very much looking forward to his remarks, both from the perspective of the ADB but also from a very successful developing nation, China. Mr. Zhu, you have the floor.

<u>Mr. Xian Zhu</u>: Thank you very much, Mr. Chairman. I really appreciate this opportunity to be a panelist for this very important discussion. I think the theme on "the East Asia development approach," is really significant and timely because after the Asian financial crisis, a lot of people naturally had a lot of doubts about the viability of the East Asia development models. I pretty much agree with Mr. Sumi that over the past 50 years, starting from Japan and then to others, the East Asian model may not just present itself with success. We also have failures and lessons. On the other hand, I think now it is really high time for us to revisit the viability and implications of this model, to see whether at least in part some of the useful lessons can be applied to other regions. But, particularly after listening to Professor Jeffrey Sachs' very compelling and convincing arguments, I really wonder whether I really have anything to add, but let me try.

I think that basically Professor Ohno provided a very useful overview of the East Asian development approach. Let me just try to make a comment on three things I think are of relevance and importance: first, the definition of the East Asian development model; second, relations between poverty reduction and growth; and third, regional integration.

Let me briefly touch upon the first one. When China decided to open up and reform toward a market economy about 20 years ago, China was really inspired by the success stories in Japan, Korea, Taiwan, Singapore, and Hong Kong. That was defined, maybe loosely, as the East Asian development model. At that time too, some people challenged whether China could successfully follow the model because China was a huge country with a long history of central planning, and whether it was too late or still relevant for China to follow along the model—I should say that after 20 years of success in China's transformation the answer is that it is never too late. Even for the non-regional developing countries, we do not say one has to follow exactly one model but the essence of the East-Asian model can still be relevant to all these countries, particularly if it is tailored to the circumstances of specific countries.

Particularly, I would say that, as Professor Ohno suggested, many factors in this model have worked, but particularly the importance of the government's role versus the market's role. This should be looked at not as a fixed but dynamic relation. Along with the changing situation, this role has to evolve. And Professor Jeffrey Sachs just spoke about industrial policy. In recent years, if not longer, industrial policy was being criticized for many reasons. But I should argue that, based on China's experience or maybe rather with others, industrial policy is not equal to central planning. It must be very flexible with strong growth dynamism based on a national consensus. On the other hand, the government has to be very visionary with a specific stage of development in mind.

In that sense, I think that the Asian model has a lot of relevance to other developing countries. Particularly, as Professor Jeffrey Sachs argued, if African countries want to get rid of the cycle, regarding, the primary commodity dependence. You have to start from somewhere. Then, there must be careful consideration on the national growth or development strategy based on the comparative advantage in the global economy. Otherwise, probably, in the process of globalization the warning sign is that the primary commodity-based economies will be further marginalized.

When China started the process, it could not even compete in the world market by manufacturing things like shoes and garments. But these days, these labor-intensive products are no longer the primary part of China's exports. China is going up to higher levels of sophistication. So this is a very dynamic process by attracting foreign direct investment and by technology advances, as the other speakers have just talked about. The lesson for other countries is that one should not just follow blindly, but on the other hand, it is never too late to try to do things differently.

Secondly, Asian development approach needs to be made more articulate to the rest of the world. We need to let the outside world know what are the features of our success stories and also our failures. Probably, if it is beneficial, I would suggest that some more research should be organized by the Japanese government and other East Asian governments and done by scholars on the Asian models so that we can develop sort of a tool kit for other countries that want to try to apply—but, of course, flexibly.

Let me now move on to poverty reduction. I think that the international development community these days has focused on poverty reduction—as the overarching objective. Nothing wrong with that. I think this is a very noble and correct objective. But as Professor Ohno has implied, rather in Asian countries, is poverty reduction the only overarching objective of government strategy? My answer is no, at least not in the case of China. Over the past ten years, probably China has been the most successful one in reducing poverty, particularly in the rural areas. But on the other hand, while China tried direct targeting and intervention on poverty reduction it never thought that this was the only top priority of its agenda. Rather, China tried to incorporate poverty reduction into the strong growth. So we should have a better and broader understanding of poverty reduction. Poverty reduction can only be achieved through strong and sustainable economic development. We should not narrowly define poverty reduction as a welfare function or as a charity effort. As Professor Jeffrey Sachs has just argued, human resource development is also so important, without which we do not think that poverty reduction will go very far.

Thirdly, let me just say a few words about regional integration. I think that in the process of globalization, in the context of other regions, Europe and North America particularly we in East Asia have to anchor our economies more closely to regional integration. While there are a lot of initiatives these days, at the firm or at the private sector level, as Professor Ohno just presented, now probably is the time when we need to intensify our efforts to institutionalize the framework.

I would argue that in the foreseeable future, we need to envision at least the three pillars of strategic importance. One is the free-trade agreement between ASEAN+3. The initiative has already started. We cannot expect that that be achieved overnight, but we have to overcome a lot of domestically-led difficulties in order to reach the goals. Second, we probably need a new financial architecture for the region. Along the lines of Chiang Mai Initiative, with a swap agreement initially done, we need to move forward toward a monetary union based on the experience of the Euro and others. Third and last, East Asia, regionally, has accumulated a lot of savings. How we recycle the savings into the sectors and the countries in need and further into regional public goods, this is a challenge facing us. Probably we need to consider restructuring the financial institutions along the lines of EIB or EBRD, particularly with the institution I am serving now, that is, the ADB.

All in all, I think that this is really a good time to discuss the Asian development strategy and approach, both for its relevance and implications for the countries in the region as well as for the countries outside of the region. As far as China is concerned, I believe that it needs to further collaborate with Japan, Korea, and ASEAN countries. All these countries may also need to make joint efforts in better disseminating useful experiences for other countries so that we can see that other developing countries, particularly in the African continent, can develop better. Thank you very much.

<u>Mr. Sumi</u>: Thank you very much, Mr. Zhu, for your excellent remarks on the three critical issues to be addressed by the region. First, on the definition and also the communications of the East Asian model to other parts of the world; second, the definition of poverty reduction or the implication of poverty reduction in East Asia; and third, the more institutionalized regional integration in East Asia—that is the new agenda. And although there is a political challenge faced by many industrialized and also developing countries, we need to move on to the next stage of institutionalized regional integration rather than just a private sector-led integration.

Thank you very much to all the speakers. We have about 15 minutes to go. Maybe, Mr. Ohno, would you like to start some initial responses to some of the critical points that the other speakers made?

<u>Mr. Ohno</u>: I just have two questions to Dr. Sachs. My first question is: of course, an urban FDI-driven growth strategy is very important for Africa, I agree completely. But you tend to underestimate, discredit agro-development or primary sector development. I wonder if that is so. I would emphasize an FDI-driven strategy change plus agro-based or primary-commodity-based development. I think these should be the two pillars for African development. That is my first question.

The second question is: when Dr. Sachs advised Russia in its transition, which is called a Big Bang transition, I think, there was a lot of privatization which was not very successful, liberalization and opening up. How do you square today's advice to Africa, which is based on a real-sector orientation, with your advice to Russia several years ago?

Mr. Sumi: Well, those are two very important questions, and maybe the answer to the first one is that both are important—manufacturing and agro-based industry. But do you have any words to respond with, Professor Sachs, and also on your suggestions on privatization, liberalization, the Big Bang approach, in the context of African countries?

Mr. Sachs: Well, I am glad you asked both questions. There needs to be investment in the rural areas, but there is an argument that floats around Africa which says that since 70% or 80% of the population is in the rural areas that is where all the emphasis needs to be. The process of development is a process of increasing urbanization, and I think that the urban sectors have been very much underemphasized in the policy advice and in the policy design, so that is why I put stress to them. I also do not believe that it will be possible to base development on the traditional primary commodities, whose terms of trade continue to decline very sharply. When I think about the traditional commodity producers in Asia, for example, take a case, a very successful case, Malaysia. Malaysia is a case that looked a lot like Ghana 40 years ago: it grew palm oil, natural rubber, and so forth. But it was not improving the palm oil and the rubber plantations that got Malaysia out of poverty, it was the export-processing zone that started in Penang in 1971, and it was Malaysia's transition to consumer appliances that was the real breakthrough for Malaysia. So I am not against the rural sector, I just think that we talk—and I am very much in favor of improved agricultural productivity and investing in that, but that will mean migration to the urban areas as food productivity rises, and Africa uniquely has not had urban-based export-oriented production, and that has been the most distinctive feature of Africa's export structure: the lack of urban export-based labor-intensive manufactures. That is why I put so much stress on that.

With respect to my advice to Eastern Europe, my advice to Eastern Europe was based on the geography of those countries, principally, and the initial conditions. With Poland, where I advised the so-called Big Bang in 1989, the argument was that this would lead to export-led growth to the European Union, and it did. Poland became the fastest growing country in Eastern Europe for the next ten years. With Russia, they did not listen to what I said, the United States did not listen to what I said, the World Bank and the IMF did not listen to what I said, so I left. I was an advisor to Russia for only a short period of time and have not been back for eight years, even physically to step foot in the country. So do not confuse what the advice given is and what the actual outcomes are. Russia, it should be understood, has a bigger problem, which is that it does not have a coastline that is significant in Europe. It is far from the main market that it faces, which is the European market. Actually, economically, Shanghai is closer to Europe than Moscow is. One is overland and it is expensive, and the other is by sea and it is inexpensive. Russia could have done much better, and I was not in favor of what was done in Russia—I just want to be clear to you. I was not in favor and that is why I resigned, very early on. I was in favor of what was done in Poland and am very happy with that.

So policies can be carried out very badly—that was one of the things you stressed, and I think the combination of what was advised in Russia by the Breton Woods Institutions, which I disagreed with, and what the Russians did, which was to steal a lot rather than privatize, was also very unwise. I am, by the way, in general in favor of privatizing the productive sectors. I do not think governments really ought to run hotels, steel mills, and so forth. They do not do a very good job. But privatization is a very tricky thing. It can be very corrupt, and corrupt privatization is no friend of development. Whereas, unfortunately, many people thought in Russia that corrupt privatization is as good as honest privatization, and I think that was a huge mistake and I quit because of that and I quit very early on.

Mr. Sumi: Thank you, Professor Sachs, very interesting responses. I believe that these are very eye-opening discussions, but are there any other points that you would like to make? Any of you? Yes, Mr. Chakramon, please.

Mr. Chakramon: There are two things that worry me most. First is that it seems to me that there has been a shift of paradigm from the old paradigm to a new paradigm at the turn of the century. We do not need a capital base anymore, we need a knowledge base. Even in the case of East Asia, they changed from a capital-based to a knowledge-based economy. But in Africa it is different. You still need a capital-based industry.

Secondly, the shift from owning assets to gaining assets or gaining access. For instance, Singapore recently announced that there will be a center for biotechnology in Singapore. Singapore has nothing. Singapore announced that they would like to be a hub for tourism in Asia. They said, they can gain access to Phuket, to Bali, to whatever. So they do not own assets, but they can gain access to anything. This is very important.

Third, we are talking about tangible assets for a very long period of time. We talked about FDI; we need FDI to bring money, set up nice factories, and so on and so forth. But I think it will change. It will change to intangible assets; property rights and intangible assets. And the country that owns these intangible assets, they are the richest.

Fourth, 20 years ago we talked about mass production, to reduce cost as much as possible. But at the turn of the century, we talk about customization. We shifted from an economy of skill to an economy of speed. This worries me because Africa will have to prepare for that. It has already changed. Besides that, when we talk about the agriculture sector, we are now going to change from intensive farming to productive farming, we change from supply-driven to market-driven, we change from the low-cost to a value-added change, and we change from mass production to product differentiation. At the moment, it seems to me that we are working, more or less, for developing countries like Thailand. The more we sell, the more we export. The margin is getting smaller, day-by-day and year-by-year. This is the thing that less developed countries are facing because of the paradigm shift. So this worries me most. The second thing is that what we call the biotechnology core breakthrough. I have heard that within 20 years or so, the world can double, triple, quadruple food supply because—I do not know if it is GMO, whatever it is—because of this, there will be a breakthrough in biology.

Last century, we experienced the breakthrough in ICT, but this century will be for biology. What will happen to Thailand? We are the largest rice exporter in the world. What happens to those who produce cassava or whatever—food products, staple foods? They will get poorer. I felt a chill from head to toes when I have learned that in the future there will be a biological breakthrough, like ICT, in the last century, like the petrochemical technology breakthrough in the last century, like the mechanical engineering breakthrough in the last century. But this century—and of course now people change the heart, we change everything, not just only for food but also health as well. So, if that is the case then, it is frightening.

Mr. Sumi: Thank you, Mr. Chakramon. Does anybody else want to make an intervention at this moment? Can we move to the open discussion? Okay, there are so many hands. Yes, your Excellency, first. Could you identify yourself first for the audience and also indicate which speaker you want to address your question to?

Mr. Patrick Ashly: My name is Patrick Ashly. I am the Minister of Economic Infrastructure from Cote d'Ivoire, West Africa. First of all, I would like to thank you very much, the government of Japan, for organizing such a talk with such brilliant people. You never get the experience to meet all of them at the same time, so thank you very much to Japan and thank you very much for your very brilliant speeches.

I would like especially to thank the panelists because they gave us Africans a dream, and you cannot achieve anything without starting with a dream. I particularly appreciate what Mr. Xian Zhu said when he said, "It is never too late," which means there is always time to do something when you want to do it the right way. So, thank you very much, all of you.

I have one question deriving from what you have said and the dream that you have helped us on, which is: how do we get out of the prison where we are? There is one point that Professor Sachs forgot when he was talking about the catastrophe that we have in African countries, which is debt. The debt issues. We have malaria, we have AIDS, and we have the debt issue, which is a very key issue. And then you have the prisons with the IMF program and the World Bank, you now, PRSB issues, where we tied up our foot and toes and hands, everything. I am fortunate to be a Stanford graduate, that is nice. I am a minister in my country and I am thinking about all these things, but at the end of the day I am just stuck there at the same point. So, my question, Professor Sachs, is how do we get out of this prison?

The second question is about Japan. I was, a couple of months ago, at the TICAD process meeting in Japan and I am afraid that so far, from Africa, what we are seeing is the shift toward poverty reduction, poverty alleviation—this is the main concern. We do not see anything about helping through growth, and that is what we have been talking about and I think Professor Ohno was really clear about, which is that, yes, we need to go through poverty reduction and all that but we have to start to think about growth. As far as my thinking is concerned, I share many of the views that have been developed here, but the key one is human development and human capacity. That is right. Professor Chakramon spoke about capital, that the need in Africa was capital, but I do not really think so. You can bring and flow in as much capital as you want; if you do not have the right people thinking the right strategy, being able to do the right thing, it is just money wasted. We have seen that for the past 50 years. We do not want to do it again.

So, human development, training, and education. Infrastructure; I am the Minister of Infrastructure. Professor Sachs was talking about urban people in coastal parts of the country. I have a free-zone project, a very fantastic one, and I am there. But the project is not profitable enough for private people to bring money in. They want a really good financial rate of return immediately. The World Bank, African Development Bank, and bilateral agencies are not interested in the project because they say it is not a poverty alleviation project. So we are just there stuck in the middle of nowhere. So how do we get out of that? I think that, Professor Ohno, your advice to the Japanese government is the right one: let us just start with something that talks about growth, and if there are a couple of countries to be selected in Africa, C'ote d'Ivoire is a candidate. Thank you very much.

Mr. Sumi: Okay. Professor Sachs, would you like to respond to the first very general question?

Mr. Sachs: Yes, I think you found your own way out of the prison, actually, which is to get METI involved with you and get more eyes on the process, because truly, you are right, the IMF-World Bank process has not worked for 20 years. It is stuck. The only good thing is that they know it now. The record is terrible. It did not produce growth, it did not produce results, so they are open. What I would suggest to you strongly, Mr. Minister, is first to come up with your program, not with Washington around, but to come up with your strategy for export-led growth and foreign direct investment. I would say when I spoke about human investment, I am talking also at the basic level keeping people alive, fighting the AIDS epidemic, malaria, as well as making sure that there is universal education.

I am in favor of a very aggressive strategy on the debt myself. I have recommended it many times successfully. I have recommended—this is always misunderstood when I say this—but I have recommended unilateral default many times, which has worked but only when countries were showing 'here is our strategy, here is why we need to do this to get out of the trap and you have not helped us out of the trap up until now,' whether the "you" is the IMF, the World Bank, the United States government, France, or whoever the "you" happens to be. So I would put them on the defensive, because we need to go beyond words to get real results. I would be happy to hear if you could make Abidjan really a center for investment. It is a beautiful city, but it has got to really work. What works in Penang or what works in Shanghai or what works in Hong Kong: boy, the logistics work like nothing else. It is efficient, you get in and out of the port, the tax people do not harass you, you are absolutely physically secure and the power does not go out three times a day so you can actually run the factory. Now, if you can do all of that, Abidjan is actually a wonderful place because it is closer to Europe than Shanghai, it is closer than Bangkok. You have a tremendous shipping advantage that they can never take away from you. But you probably are going to have to have a tantrum in between all of this. You are going to have to tell the IMF and the World Bank: 'Back off, we are doing it this way.'

Mr. Ashly: How?

Mr. Sachs: No, it is possible. But you have to have also a president that will back you up completely and coherently. I do not know whether that is the case or not. But that is vital. Because you have to be able to articulate, 'we are not doing it to steal our own money, we are not doing it because we cannot follow any rules, we are doing it because we have a clearer conception than you do of what is needed.' Give me a call. I would be happy to have a tantrum for you. But truly you need to articulate the strategy, and truly I must emphasize that is why I am so eager for the government of Japan to get involved, or Singapore, or places that really do it, where it is not some checklist off of a Bretton Woods Institution policy sheet. But the bottom line is: how many industries did you actually get in? How much investment? You do need investment. Of course you need the people, but you really need the investment.

One other thing I would say about training and capacity building: I personally do not like capacity building projects; I like learning by doing. If you want to train people to do industrial development, have industrial development there and they will learn along the way. So I would not separate out a capacity-building project, I would make an export zone project and people will learn in the process of making the export zone function. I would send them to Malaysia, I would send them to Shanghai, I would send them to Japan to METI, and that is where they will learn. Not that they are in a classroom, they are in the real world. And you are telling them: make the zone work, get investments in there.

Then the investors are going to tell you finally: "Look, why should we come to Cote d'Ivoire? We can go to Tunis, we can go here, we can go there, we can go to Shanghai, we can go to Honduras, we can go to Mexico with NAFTA. We need a ten-year tax holiday." And then the World Bank is going to say, 'Oh, no, that's impossible,' and that is when you have to tell them: 'Out of the country, sorry. We need industry and you have not brought us industry yet.' And they will stay. They will say, 'Oh, okay, okay.' But you are going to have to tell them that the real world demands real incentives, not some made-up thing in a textbook by my students who do not know how to attract industry.

So you are going to have to tell them. And, as I say, give me call.

Mr. Ashly: Thank you.

Mr. Sumi: Thank you. Yes, sir?

Mr. Malazi: Thank you very much. Let me add my weight also to the appreciation made to the Japanese government and the institutions you have made available. Yesterday, I asked the question, I would just want to briefly repeat it to learn from your history in a very clear, simple, straightforward exercise so that we can flexibly adapt it in our situation.

My name is Malazi. I am wearing many caps. I am from South Africa. One cap which I am tempted to say is as Minister-in-waiting for Economic Affairs and Development Planning of this country. There are three things which I would like to find out from the panelists. The first one is whether you are recording all this so that we can get the proceedings later, because we are not going to able to write everything which you are putting across. That is a request at the same time.

The second question is that in the presentations, with the exception of one or two, rural development has not been adequately emphasized save the issue of agro-based industries and what goes with it, and the infrastructure for Africa particularly is an issue in terms of vastness. If we are going to be adapting the model which you are putting across, then I want to find out what we could do very quickly, not waiting for 20 years, as has been put across in terms of

China—and I am hoping to get more lessons from that—but now. Why? Because there are over 800 million people in Africa.

We are attempting to put together the African Union. We attempted that in the OAU in 1963. It has not functioned adequately. The policies which we are attempting to do with various successes and various failures—more failures than successes—are human resource development as well as what we are talking about, capitalization. There are thousands of well-trained Africans in America, in Europe, in other places. One of the reasons is because they have not had the opportunities and facilities to apply their knowledge here, and their training, in places like Stanford in the United States and other universities, is not necessarily able to be applied here because the conditions and circumstances are not necessarily the same. So what do you then do in the shortest time possible to address economic development? I want to emphasize, maybe contrary to what has been said, the need for planning. I am saying so deliberately because Japan planned from the 1860s. Even after the Second World War, albeit with the assistance of the Marshall Plan, they planned. West Germany and the Marshall Plan, with their whole market destroyed, they planned. They did not have the whole market forces operating there, but they had targets that they were able to say, 'we are going to do this, within this timeframe, and these are the issues we are going do.'

In Africa, we are shying away from planning. Maybe because of the plague which was suffered by the Soviet Union and others and so forth, it was decided that this was not going to do good. We do not have to throw the child out with the bath water, but we have to do things so we are in the position to say 'we are moving on.' From the Chinese experience we are most interested in this, because even today it is not "an adulterated capitalist foreign market system." There are still, from what we hear, a social and socialist element in it and yet it is so successful. I would like to know what you have done in order to succeed so quickly.

The involvement of the rural areas, the involvement of the women, the skills training along those lines, and the literacy aspect along those lines. And then the question of access to market: we can do all that you are recommending we do, and then we have no access to markets. Europe is has a very serious blockage, the same thing with America—the subsidies, the billions of dollars which are making it impossible to compete the way you are putting it. When Japan was able to move on, and even the Asian countries, they were not so much constrained in terms of access to markets as Africa is constrained today.

The question which Professor Sachs has raised in terms of the infrastructure of Africa—we can throw our hands up in the air and say, 'we do not have coasts and so forth, and so we cannot succeed.' We need to have a way of addressing that issue. If you take the issue of either electric power, the Republic of Congo, which can electrify with clean energy the whole of Southern Africa that should be one of the considerations. If you are taking solar energy with what we are having, there should be some advantages where the technology you are talking about can be brought to bear so that we are able to advance ourselves. What I am trying to put across is: let us be innovative and practical in terms of assisting Africa, what Africa can do practically in the shortest time possible. Thank you.

<u>Mr. Sumi</u>: Does anybody want to address these excellent points? Yes, Mr. Zhu.

Mr. Zhu: Yes, I just want to try to answer your question about what happened in China's rural areas over the past 20 years. I think that after the failure of central planning in China, it was the consensus in China that we needed to adopt a different strategy, a national growth development strategy different from central planning. We need to have a blueprint to inspire people to make changes. As far as the rural area is concerned, China has much less arable land probably on average in global terms. So, unfortunately, China had a lot of rural labor surplus. Job opportunities were very limited. And then something out of entrepreneurship, amazingly, happened. That is in China what we call the TVE, the Township and Village Enterprises. Basically, these enterprises are very small in scale and initiated on a community basis. They try to produce something simple but that can be supplied to the market based on very inexpensive labor. And then gradually some of them grew into big businesses, competing with the state sector, and so on. But by ten years of development, this sort of enterprise already had one-third if not more of industrial production, thus solving two problems: one, helping the transformation from a rural or agricultural economy into industrialization, and second, creating a lot of jobs. Then these people, after being trained, either became themselves entrepreneurs or they moved into the cities to set up their own businesses. The implications are really significant for the changes in China.

I do not know to what extent this can be applied to African countries, but I think that you have to inspire entrepreneurship. At the same time, when people want to live better and in a different way, when they see opportunities, every government at different levels in China, tries to support, as Professor Jeffrey Sachs said, with tax holidays, with some seed money, innovatively or flexibly, anything to try to get the initiatives flying. At least in China this was a success, and fortunately I also hear that similar things have happened in countries like Vietnam. If you are interested we can try to share the experiences with African countries. Thank you.

Mr. Sachs: Just a very brief comment for South Africa. South Africa is already a manufacturing exporter, although traditionally heavily based on mining. But South Africa is right on the border of being able to be a profitable automobile exporter, and in good years the local companies use the South African production for exports back to Europe, for example. I think South Africa really should have an export campaign for bringing in foreign direct investment for export to the rest of the world.

I worry about the inflexibility of the labor markets here. One of the things that has been characteristic all through East Asia, very much in China, is highly competitive labor markets. That means also being able to compete on the basis of cost. In South Africa, through the consensus wage arrangements with powerful corporatist structures in COSATU and the unions, it has made a rather rigid labor market, or at least to the appearance of the outside world—that may not be true or not fair but that is the sense. One of the key aspects of the export-led growth model has been a very flexible labor market. It is an area where I would look within the South African context. But South Africa, uniquely in Sub-Saharan Africa, has a strong science and technology base from which to propel growth. When I have spoken to President Mbeki about this in the past, he has asked me whether to go with incentives, like the tax holidays and so forth, and I have been very encouraging of that approach.

Mr. Chakramon: Just half a minute. I think that is a one-billion-US-dollar question. It seems to me that things do not turn in favor of Africa as a whole. Two reasons: first, as I mentioned to you earlier, the paradigm shift from the old economy to the new economy. By the time Africa adopts the East-Asian experience, by that time other countries, other regions, will leap forward. Second, what you need, what the whole African continent needs, are three things: First, strong participation, strong cooperation from other regions—Europe, Asia, USA, or whatever. I think you need that, and you cannot just let go of globalization, I think it is impossible now. Second, you need impetus. I do not know what it is but you have to identify it. You need some impetus. There must be something that you can find within the African continent. Third, you would probably need to have what we call an "economic growth pole" to pull, because it is impossible to have every country in this continent grow first, it is impossible. You have to select a certain growth pole area but one that would help each other do networking. I think that would help. I think Africa needs a master plan to develop. Unfortunately, when you implement this development scheme it takes time. But for short-term measures, I think there is something, but you have to identify it. Of course, we can help you identify it together.

Mr. Sumi: Thank you, Mr. Chakramon. Let's take some questions from the back row. Yes, the gentleman standing.

Mr. Ricardo Malendez: Thank you, Mr. Chairman. My name is Ricardo Malendez, I am from the International Center of Trade and Sustainable Development in Geneva. I also want to congratulate you for an excellent panel.

I will be very brief on my question given the time. I would like to address this particularly to Professor Sachs and Mr. Narongchai. Basically, what I would like hear from them is what they think about the current architecture and rules of the international trade regime led by WTO. It is very refreshing to hear the emphasis put on domestic strategies and policies and on the autonomy of designing those domestic strategies and policies. Furthermore, it is also refreshing to hear about an emphasis on industrial policy and on development policy. However, I think that it is now recognized that trade rules and the trade architecture suffer from a great disconnect from development policy and they do limit and hamper those efforts of being active in promoting growth, particularly of development if you look at development as not equitable to just income growth but a more comprehensive understanding of development. So in that framework, would you characterize the current rules as enabling or disabling, and what would you advise in not only the current round of negotiations but parallel efforts to modify the basis that informs that trading system? Then to Mr. Narongchai, I would address the same type of question, but obviously focusing on the knowledge-based economy and architecture now for the intellectual property rights in the world, again led by the WTO regime. Thank you.

Mr. Sumi: I am sorry to correct you but Mr. Narongchai is not on the panel. Mr. Chakramon is. Mr. Sachs?

Mr. Sachs: A very brief response to a complicated issue. I think that the most important single issue in the international trading system for the poor countries remains the issue of market access and the fact that, basically, the rich countries open up their markets for most things except those things that poor countries can sell, so that the most protected sectors are apparel and textiles, with MFA still, although maybe that is going to change on schedule. And of course, the processing of primary commodities. It is outrageous that Africa can sell coffee beans to Europe but it cannot sell processed chocolate because of the escalation of tariffs. These are simply abusive policies of rich countries that have to end if there is going to be any sense in this Doha round as being a development round. I think the market access issues are the most important single issues.

The second set of issues is complicated, and none of us knows yet: to what extent will the flexibility to have industrial policy be fatally compromised by the rules of the game that are being set up? For example, it is still possible to have subsidies for pioneer sectors but it is not possible to have export subsidies. That may be a very damaging problem for getting new sectors started, or it may be that you can put the industrial policy not on an export promotion basis but on an industry sector basis, and therefore WTO-consistent. We do not know how this will play and I am very much in favor of the developing countries, especially the poor countries, negotiating for maximum flexibility on these issues.

I am also very happy to turn it over to my colleague from Thailand—I am delighted that Mr. Supachai is about to become director of WTO. I think he will…pardon me? Oh, it is today? Okay, let me say greetings to him then in that way. I think he understands very much the issues of developing countries and I am very much looking forward to his voice in these negotiations.

Mr. Sumi: Would you like to say anything about this potential disconnect between market growth and some flexibility or policy space for intervention? Okay, let's take other questions. Okay, Ma'am?

Ms. Biloa: Thank you very much for your very instructive and inspiring remarks. I want just to react to a single point when Mr. Chakramon spoke about a master plan for Africa. I thought of the existing NEPAD. I would like to know what is your assessment of NEPAD? Is it something which is likely to help Africa develop? And this question is for all of you. Thank you. Oh, sorry, my name is Biloa. I am a media manager from Cameroon. Thank you.

Mr. Chakramon: Sorry, I do not feel quite comfortable making a comment about that yet because I really do not know about that, but maybe later on. Sorry.

Mr. Sumi: Yes, sir?

Mr. Landium Mashana: Thank you. My question is slightly related to the second to the last speaker. I just want to maybe ask the panelists: what do they make of the current policy discussions, particularly with regards to bilateral trade arrangements like the free trade area for SADEC? To what extent, for instance, has that been a factor in the East Asian development model. My name is Landium Mashana, I am an economist with the development banks.

Mr. Sumi: Is there anyone who wants to make comments? Mr. Sachs?

Mr. Sachs: I think regional integration is useful but it is most useful to integration with the richest markets. So SADEC cannot replace Africa's access to Europe and the United States or its focus on exporting to Europe and the United States as well. So, I like the SADEC process. It will emphasize gains from trade within the region, it will help the negotiating power of southern Africa vis-à-vis the rest of the world, but unfortunately as we have seen in cases such as MERCOSUR that when two closed economies, Brazil and Argentina, integrate with each other they remain just a closed economy, only a little bit bigger. The important point is to integrate with the world markets, not just with small regional markets. So I would emphasize using SADEC to solve regional problems but to be aiming in the export promotion for the whole world market.

Mr. Sumi: Thank you, Mr. Sachs. Yes, this gentleman?

Speaker: I am a student in the International Relations Department, Vets University. My question is addressed to Professor Ohno. Among the basic recommendations you outlined in your presentation, you asserted that the Asian economies should continue to promote globalization while mitigating its negative impact. It is a little bit complicated for me but I want you to move down to Africa; after all, what Professor Sachs has been talking about is the situation of Africa. What is your take? Should they also be doing the same? Looking at the outline of needs that Professor Sachs has made for Africa—I am just suggesting that in future presentations you are making you might want to rethink your development strategy for Africa with a moral prerogative at the forefront. Moral, in this sense, I am talking about fairness. They have to deal with other societies like heavily industrialized societies. Fairness has to be in a situation where they would say: 'We are starting at this point. This person is already in the lead, and this person is lagging.' Professor Sachs sited examples of the cocoa pods being sold to Europe. Other European economies are actually using vegetable oil to make chocolate products to sell to Africa. Just try to imagine what would have happened to the Middle East economies if they had to encourage other countries to develop solar energy. What would have happened to their economies? So, my recommendation is: go back to your research and try to look at African developmental strategies from a moral prerogative. Thank you.

Mr. Ohno: I did not get your point quite well but I think what you said is exactly what I feel too, that globalization must be promoted but you have to manage, not the World Bank or the financiers in New York or London, but *you* must manage. And, as Professor Sachs said, globalization cannot be avoided, but the speed and scope and sequencing must be geared to the particular needs of the economy. At the same time, you have to give incentives for domestic producers and domestic FDI producers to do better and to become more competitive. At the same time, you do not want to have a crisis situation where all the factories are closed down. This is a very delicate task and I am trying to talk this thing into the Vietnamese government's policies, and it is very tough even in East Asia. But I am not saying that you should just globalize and then compete with the big economies or multilateral companies. That is not what I am saying. But you have to liberalize on your terms, and this speed must be geared to the improvement in your policy content, improvement in the domestic capability of the private sector and also the government sector, and then you open up gradually. The big mistake of the East-Asian currency crisis is that they just opened up without thinking about these things. So I think what you say—I take your point very positively, that we should not just liberalize or globalize, we have to also have the strategies, and to the extent that you have strategies you can open up with a positive attitude.

Mr. Sumi: Thank you very much, Mr. Ohno. Mr. Sachs, would you like to say the last word because timing…

Mr. Sachs: Well, a very brief one, which is that a lot of what is at issue in Africa is what seems to be a very limited power of Africa to negotiate with Europe or the United States. Here, I think that it is extremely important for the African leadership institutionally—SADEC, for example, or the New African Union, or through NEPAD—to put forward strong negotiating positions. The rich countries are very cynical—you know that. The rich countries know that they are not really doing anything for Africa—you should know that. They do not feel too guilty about it, but they do not feel too happy about it either. If Africa can put forward very strong positions, you will get a lot farther from the divide-and-conquer tactics of the Breton Woods Institutions, where they want you one-by-one to do whatever they say.

On the trade negations, Doha can never go the way that the Uruguay Round went, which was an abuse of poor countries. It will not happen again. But it takes a lot of preparation to be able to negotiate in a strong way. NEPAD was not bad in that regard, but it was not good enough. Africa has to prepare harder for better negotiations and to understand deep down that Europe and the United States know that they are cynical, they know that they are not really doing what they say they are doing, and you can press them to close the gap between their words, which are very nice, and their reality, which is often pretty ugly. And when that gap closes it will go up. They need Africa's support for all sorts of things. For our own security, for global stability—they need Africa's support. They want to get it very inexpensively, but if you raise the stakes you will be able to negotiate harder.

My advice is to negotiate very hard on three points: On market access. Do not give up, because it is an abuse the way the international system works: very cynical in the United States and Europe. So market access. Second, the debt. It is a crime for Africa to be paying debt when so many millions of people are dying for lack of drugs and medicines right now. The debt really needs to stop being paid. It just needs to stop so that this money can be used for the public health emergencies. Third and related, the rich countries really need to help more in development assistance.