Evolution of Development Paradigms and Socio–Economic Systems: Global Changes/Imbalances & China’s Path / Japan’s Path

(Economic Development Lecture in Shanghai, China)

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GSID, Nagoya University
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Organization of This Lecture

1. Evolution of Development Paradigms & Development Economics
2. Evolution of Socio–Economic Systems
3. Economic Growth, Governance, and Empowerment
4. Japanese Development Model in Transition
5. Global Changes/Imbalances & China’s Path

The Evolution of a Development Paradigm
The Evolution of a Development Paradigm

2. Revolutions and the Evolution of Economic Systems.....
3. Three Pillars of Poverty Reduction.....

**What is Development? 1**

*Introduction to International Development Studies: An Interdisciplinary Approach*

co-edited with Prof. H. Kimura, political scientist,
Prof. S. Ito, development sociologist

In this book, we define ‘development’ as the reform of the whole structural system that produces material as well as non-material poverty.

**What is Development? 2**

When ‘proper incentives to get out of poverty’ so defined by a development economist are given to the ‘structural poor’, if they are equipped with ‘capabilities’ and ‘adaptability’ to respond, those who cannot easily benefit from ‘trickle-down’ may rise to their feet and overcome poverty by themselves.

The ‘potential poor’ who may easily fall into poverty given external economic/social/natural shocks are equipped with resilience supported by social capital including social safety nets, they may not have to fall into poverty repeatedly.

The poor have to be treated as active participants to development. For that end, people have to be ‘empowered’.

**What is Development? 3**

The state of ‘development’ should be the situation where people are empowered and a country is full of empowered human beings.

‘International development’ should be the international cooperation/collaboration heading for this end.
Three Pillars of Poverty Reduction

Therefore, we set the three pillars of poverty reduction as follows:
1. Attainment of ‘pro-poor’ growth (the growth engine has to be running),
2. Adoption of proper public policies, incl. exercising good governance and building institutions, and
3. Empowerment of the ’structural poor’ and the ‘potential poor’.

LINK

Post-war Development of the Japanese Economy
— Development, Japanese/Asian Style —

April, 2008
Shigeru T. Otsubo*
GSID, Nagoya University

[Downloadable from: http://www.gsid.nagoya-u.ac.jp/oetsub/index_EDPAM.html]
1.1 Post-war Economic Reforms

Democratization of the Economy

- Zaibatsu dissolution: Dissolution of Zaibatsu conglomerates; Prevention of economic power concentration
- Fair market rules: Anti-trust Law; Securities Exchange Law; etc.
- Labor market reform: Legalization of labor movement; Establishment of labor unions

2-3 Rapid growth as a “catching-up” process

- Catching-up process
- Goal of development
- Consensus formation

Advantage of latecomers
- Introduction of technology and process innovation
- Lower business risks
- Incentive for innovation and quality control through competition in foreign market

2-8 Role of Economic Planning

14 economic plans officially adopted

Economic plans in a free market economy

- ‘Indicative-type’ rather than ‘Command-type’
- Sharing of information between the government and the public (business and household sectors)
- Medium-run development scenario the government assumes including target economic growth rate and other indicators
- Medium-run economic policy stance and policy priority, including allocation of funds for investment in social overhead capital
- Economic behavior of household and business sectors that the government deems desirable

2-1 Entering Virtuous Cycle

Period of rapid growth (1955–1970)

- Average real growth rate

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth rate</td>
<td>8.8</td>
<td>9.2</td>
<td>11.1</td>
<td>4.5</td>
<td>4.4</td>
<td>3.3</td>
<td>1.5</td>
<td>1.0</td>
<td>1.4</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: National Accounts

- Dual structure: Lower productivity and poorer working conditions in small businesses, consumption-goods and service sector
- National consensus: Trickle-down strategy
4-1 Elements of Japanese-Style Market System

- Employment system
- Main-bank system
- Corporate management
- Cross share-holding
- Parts supplier Keiretsu
- Industrial policy/regulation

Long-term relations
Organizational trade
Stability-oriented

Interventionist government

‘The 1940 Regime’ originated just before WWII
Adjusted by themselves after the war

Corporate finance relying on banking sector

- Functions of the ‘main-bank system’
  - Saving of costs associated with asymmetry of information
    - Screening and monitoring
    - Signaling to other financial institutions
    - Corporate governance
  - Insurance to corporate management risks
  - Information exchange

Corporate governance built on cross share-holdings

- Substitute for Zaibatsu
- Prevention of M&As
- Autonomy of corporate managers
- Long-term management perspective
- Low capital cost of equity finance

Shares issued by business companies
- Ratio of shares held by stable holders: 29.7% 28.7% 27.9%
  - of which held by financial institutions: 22.0% 20.1% 12.9%
Shares issued by banks
- Ratio of shares held by stable holders: 55.7% 53.3% 45.6%
  - of which held by business companies: 34.4% 32.9% 28.5%

Source: NLI Research Institute (adjusted series for changes in disclosure rules)

Financing Sources of industrial investment

Before the war: Equity finance dominant
During the war: Banking was promoted
After the war: Bank finance Main-bank system
Labor market practices based on long-term employment

- Japanese-style employment practices
  - Long-term or ‘life-time’ employment
  - Wage increases and promotions based on seniority
  - On-the-job training (OJT)
  - Intra-company labor unions

- Rationality of long-term employment
  - Accumulation of company-specific skills and technology
  - Smooth transfer of skills from one employee to another
  - Smooth introduction of new technology
  - Saving of workers’ transition costs of changing jobs
  - Less need to monitor workers

5-1 Failure to Adjust to Post-Catch-Up Era

The end of the “catch-up” process
Survival of the Japanese-style economic system and practice
Strengthened by the success in overcoming the oil crises

Implicit goals shared by all segments during the “catch-up” period
To attain success
- consensus formation
- coordinated actions

Japanese-Style Market System
- long-term relations
- information sharing

Post-catch-up period
Common goal disappeared
Autonomous action
Top management forced to steer the ship

5-2 Japanese (poor) corporate governance that caused the bubble

Corporate managers – interested in expansion of the company and stable relations with stakeholders; overlooked profitability and risks
Banks – struggled for new customers; lacked risk assessment of borrowers
Capital market – lost corporate monitoring function; equity finance
Revenue for size expansion
Neglecting risks & profits
Consensus for job security
Economic stimulus
Coordination by BOJ and government

The “bubble” economy

5-4 Burst Bubble and the ‘Lost Decade’

GDP growth rate
Nominal growth
Real growth

Average annual growth rate
1956~60 8.8%
1961~65 9.2%
1966~70 11.1%
1971~75 4.5%
1976~80 4.4%
1981~85 3.3%
1986~90 4.9%
1991~95 1.5%
1996~2000 1.0%
2001~05 1.4%

Note: data before 1980 are based on the 1968-based SNA.
6-1 Japanese System in Transformation

- Employment system
- Main-bank system
- Corporate management
- Cross share holding
- Parts supplier Keiretsu
- Industrial policy/regulation

Major challenge
- IT and globalization
- Mega-competition
- Aging of labor force
- Change of values

Structural reform
- Marketization, competition, choice, diversity, own risk
- Cohabitation and competition of systems based on comparative advantage

6-4 Weakening of Japanese-style employment practices

- Aging of workers leading to higher wage cost
- Development of “external” labor market
  - Dependence on part-time and other irregular workers
  - Development of temp services
- Lowering of growth of corporate size
- Changes in industry structure, globalization and IT
  - Manufacturing industries: skill transfer through OJT, process innovation, and team work
  - Knowledge based industries: higher speed and risk of innovation, leading to more flexible recruitment from external labor market and ability-based wage determination
7-1 Aging Japan

Unavoidable depopulation and aging

Population in Japan

<table>
<thead>
<tr>
<th>Year</th>
<th>Birth Rate</th>
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<tbody>
<tr>
<td>2000</td>
<td>1.36</td>
</tr>
<tr>
<td>2005</td>
<td>1.26</td>
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</table>

Medium case: Same level as now

Lower case: Drop until 2020s


Structural Reform: Agenda for Sustainable Growth

Expansion of Corporate Activity and Investment

Corporate governance
Corporate accounts disclosure
Corporate restructuring
FDI into Japan

Job choice society
Human capital investment
Portfolio investment diversification

Entrepreneurship promotion
Financial system reform
SME policy
Public investment reform

Information network
Budget consolidation
Administrative reform
FILP reform
Local gov’t/autonomy

Compact and Efficient Government

5. Global Changes/Imbalances and the Path/Roles of China
Global Imbalances
Sum of the Absolute Values of CAB across Cos. / World GDP

= 2-3% (-1997 AFC)
= near 6% (2006-2007)

Fig. 1: Global Imbalances
Saving-Investment Imbalances (CABs) of USA, Japan, and China

Source: Author's compilation from World Bank, World Development Indicators 2008.

Fig. 2: Global Imbalances
Saving-Investment Imbalances (CABs) of USA, OECD, and Developing Countries

Source: Author's compilation from World Bank, World Development Indicators 2008.

Fig. 3: Resource Flows to Developing Cos.

Note: Aggregate Net Transfers by the World Bank.
Source: Authors compilation from World Bank, Global Development Finance 2008.
Is Doomsday Imminent?

Age Dependency Ratio
(dependents to working-age population, %)

<table>
<thead>
<tr>
<th>Year</th>
<th>High Income Cos.</th>
<th>Japan</th>
<th>Low &amp; Middle Income Cos.</th>
<th>East Asia &amp; Pacific LMICs</th>
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<tbody>
<tr>
<td>2000</td>
<td>10</td>
<td>100</td>
<td>10</td>
<td>10</td>
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<tr>
<td>2010</td>
<td>90</td>
<td>90</td>
<td>80</td>
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<tr>
<td>2020</td>
<td>80</td>
<td>80</td>
<td>70</td>
<td>70</td>
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<tr>
<td>2030</td>
<td>70</td>
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<td>2050</td>
<td>50</td>
<td>50</td>
<td>40</td>
<td>40</td>
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</table>

Note: Assuming that Japan’s Total Fertility declines to 1 by 2035.

Determmnats of the private saving ratio:
- Income (level), rates of return, uncertainty, domestic/foreign borrowing constraints, financial depth, fiscal policy, pension system, income/wealth distribution, and demographics…

Global Imbalances
- Fig.2とFig.3を合わせて考えると、途上地域への資金フローが急増する中でも、米国が多額の資金を途上地域から吸い込んでいるため、結果として途上地域全体の資金インフロ（流入）とアウトフロ（流出）のバランスは、先述したように2000年に境にアウトフロー超過に転じているという構囲が明確に示される。基軸通貨ドルを保有する米国は、こうした世界的な資金循環の仲介者として機能してきたのであるが、レバレッジの高い金融モデルに支えられた消費過剰（賃食減少）に徹底した過剰の消費が行き過ぎ、結果として本来為替対象地域で投資活用されるべき世界の貯蓄も食いつぶしている。確かに借金に支えられた高消費は、途上国を含めた世界に需要を振りまき、各国の輸出を支えてきたことも確かではある。経常収支と資本収支は基本的にはコインの裏表であるから。

危機発生の理由
- アジア金融危機の開発途上地域の一時的な投資減退が、貯蓄とのバランスで世界的な低金利を招き、比較的魅力的であった米国や欧州の金融セクター・価格・財務証券の資金が流れ込んだ。それが少しでも高リターンを求めて高レバレッジでかつリスクの高いサブ・プライムローン市場の拡大等の金融バブルを生んだのである。今回のグローバル金融危機は、世界の貯蓄・投資の不均衡（imbalance）の上に生まれた高リスク金融商品の管理が適切でなかったために起きたのである。

多極化する世界
- 世界の資金を引きつけてきた米国型金融モデルと、それに支えられて米国の超過需要（消費超過）が世界に還流するという成長モデルが崩壊した今、米国一極集中型の世界経済システム、新吉派経済学に裏打ちされた自由市場原理主義と民主主義の合体（新自由主義）の拡散が市況を巻き上げたアメリカナライゼーションとしてのグローバリゼーションは、間違いなく大きな転換点を迎えようとしている。今後、多極化していくグローバル社会は、政府の役割を再認識し、国際通貨・金融制度を含め多様多様な制度・システムの構築・再構築を迫られることになるだろう。
必要な対策

このグローバル金融危機・経済危機への対処には、①米国の金融モデルの正常化と金融セクター改革・健全化、このサブプライムローンの毒を含んだ金融商品の多量保有をしていた欧州の銀行セクターの健全化という金融改革、②米国をはじめ先進国のみならず（このリスク性金融商品には関係のない）多くの開発途上国実物経済の立て直し（ケインジアン政策）とあわせて、③世界的な不均衡や開発途上地域からの資金逆流を是正する新たな世界的な金融循環およびそれを支える国際金融システムの（再）構築という3つの政策パッケージが必要とされる。

2009年半ばにおいて①、②が（開発途上国実物経済立て直しにはさらに時間がかかるが）動き始めているが、③の議論は今後G8サミットで頭出しが行われ、G20の枠組みも巻き込んで議論されていかねばならない。

今後の希望的観測

グローバルな不均衡を経常収支の絶対値（黒字でも赤字でも）の世界総和の対世界GDP比で見た場合、1997年のアジア金融危機まで2-3%で推移していたものが2006-7年には6%近くまで拡大していた。今後この比率は、米国の経常収支赤字がGDP比6%強から3.5%程度まで押さえられることに伴い、4%程度までは低下すると見られている。これは米国の住宅・金融バブル崩壊に伴う民間貯蓄率の増大、高レバレッジ金融モデルがレバレッジ率の低い金融モデルに（ある程度）収束していくことによる世界のクレジット市場のタイト化、石油・資源・食料価格の沈静化等の要因によって引き起こされるはずである。

システミック・リスク

多極化が進む新しい世界の金融体制・資金循環のなかで、減少するとはいえなお多額の経常収支赤字を出し続ける米国の国債をふくめた金融商品が魅力を失うことがあれば、大手金融機関やGM等製造業の救済財政コストが止めどなく拡大するなどしてデル暴落と底なしの世界金融危機に突入するリスクはなお厳然として存在している。

米財政赤字は短期的には対GDP比で少なくとも10%を越す。安定的な米国債保有者・購入者が必要とされる。中国国際？
The fundamental question we all have to answer is whether we have the determination and the commitment to partner in development and move this dialogue forward.

For the Sustainable Development of China.....

Thank you.