

# 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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## Organization of This Lecture

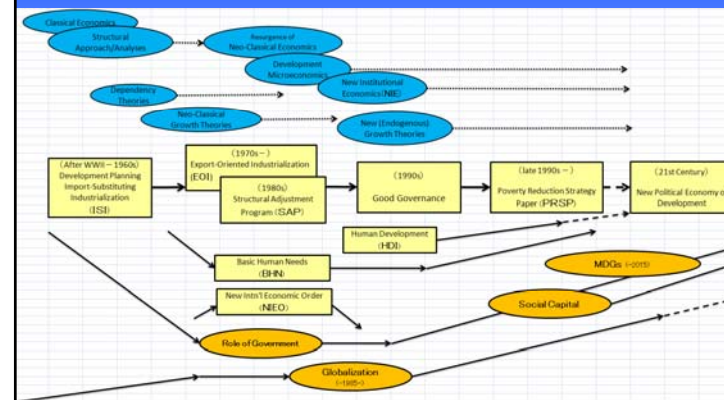
1. Evolution of Development Paradigms & Development Economics
2. Evolution of Socio-Economic Systems
3. Economic Growth, Governance, and Empowerment
4. Japanese Development Model in Transition
5. Global Changes/Imbalances & China's Path

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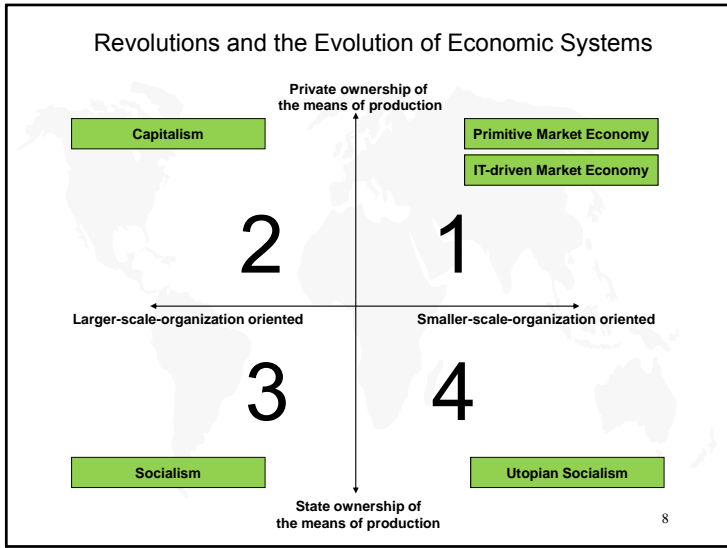
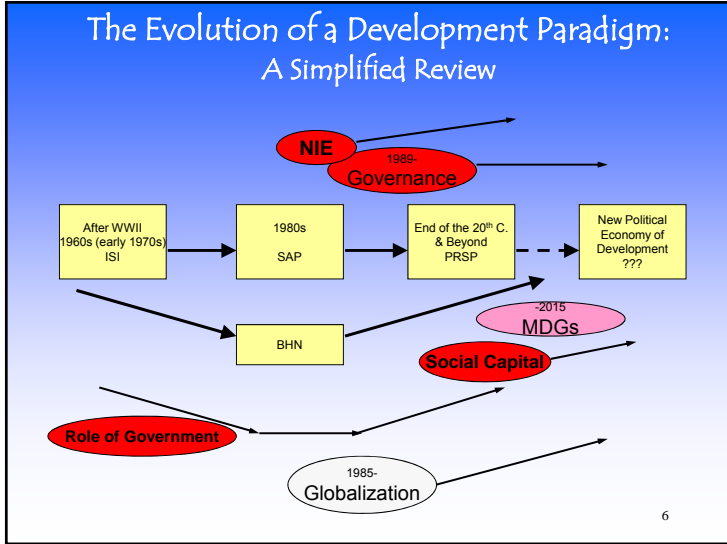
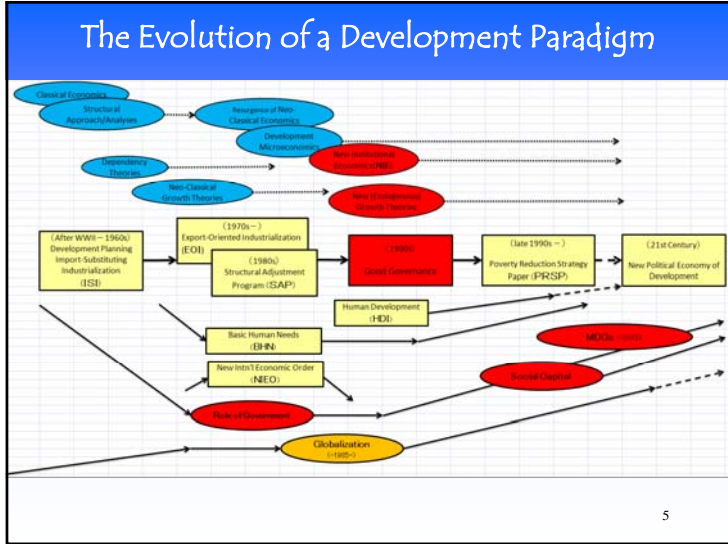
## 1. Evolution of Development Paradigm.....

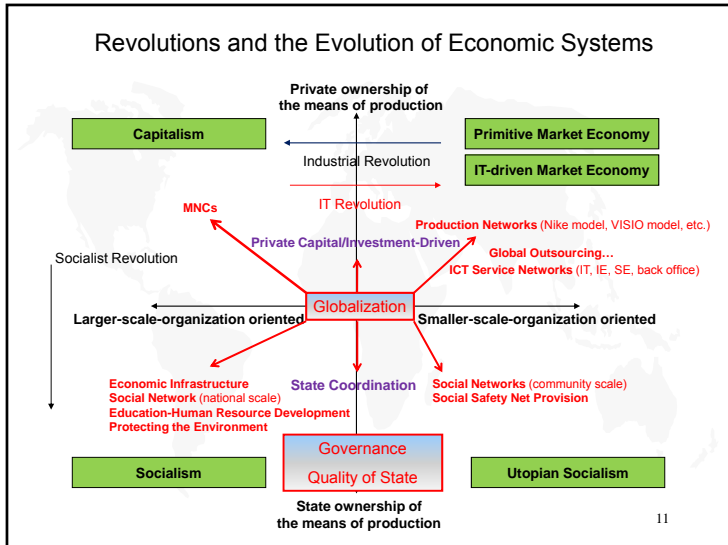
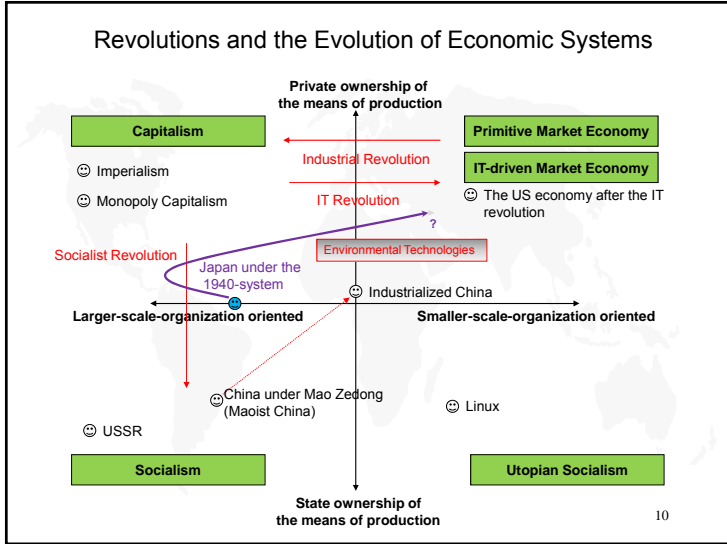
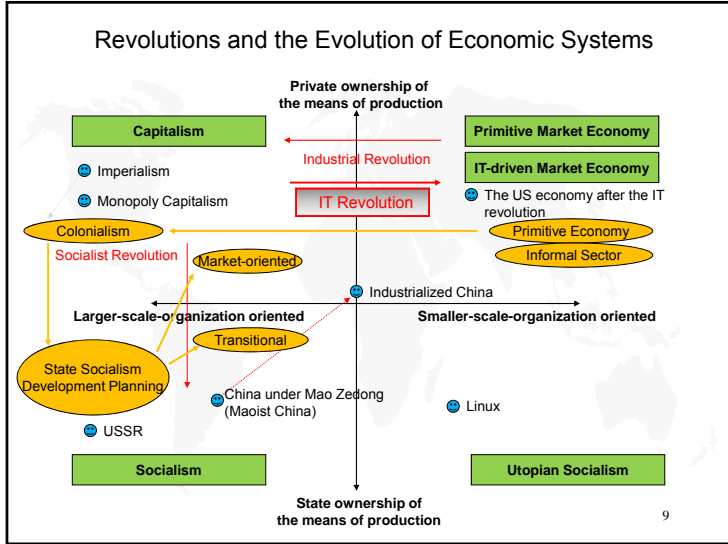
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## The Evolution of a Development Paradigm



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### 3. Three Pillars of Poverty Reduction.....

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## 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.

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## 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'.

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## 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.

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## 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'.

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## 4. Japanese Development Model and Challenges It Faces.....

[Link to Japanese Development Model](#)

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LINK

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



April, 2008  
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(w/ input from Prof. A.Furukawa, Ritsumeikan Univ.)

(Downloadable from: [http://www.gsid.nagoya-u.ac.jp/sotsubo/index\\_EDPAM.html](http://www.gsid.nagoya-u.ac.jp/sotsubo/index_EDPAM.html))

## Successes and Failures in Japanese Economic Development

Phase I (1945-1960s) Catching-up process	Phase II (1970s-'80s) Failure to reform & "bubble" economy	Phase III (1990s - ) Long stagnation & beyond
<ul style="list-style-type: none"> <li>-- Post-war democratization</li> <li>-- Common goal</li> <li>-- Savings shortage &amp; directed allocation</li> <li>-- Japanese-style Market system</li> <li>- Employment practices</li> <li>- Main bank system</li> <li>- Corporate governance</li> <li>- Gov't intervention &amp; public policies</li> </ul>	<ul style="list-style-type: none"> <li>-- "Front-runner" necessity for competitive market</li> <li>-- Failure to transform the system</li> <li>-- Expansive behavior by businesses/banks</li> <li>-- Macroeconomic policy to cope with yen's appreciation</li> <li>-- 'Bubble'</li> </ul>	<ul style="list-style-type: none"> <li>-- Excess capacity</li> <li>-- NPL and financial crisis</li> <li>-- Confidence crisis</li> <li>-- Deflation</li> <li>-- Expansive macroeconomic policy</li> <li>- Zero interest</li> <li>- Budget deficit</li> <li>-- Structural reform</li> <li>- Regulatory</li> <li>- Financial, etc.</li> </ul>

## 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.

#### Agrarian reform

Elimination of  
tenant system;  
Growing # of  
independent farmers

#### Labor market reform

Legalization of labor  
movement;  
Establishment of  
labor unions



## 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

## 2-3 Rapid growth as a "catching-up" process

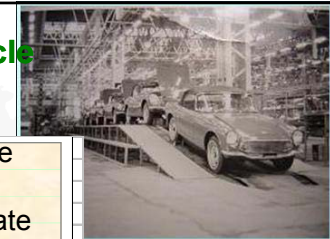
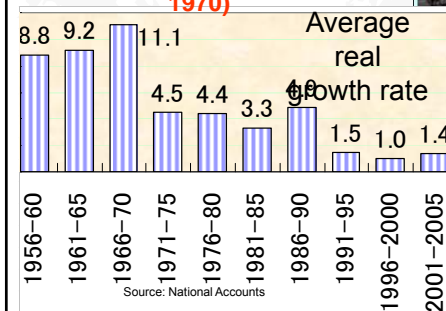
Catching-up process → Goal of development → Consensus formation

### Advantage of latecomers

- introduction of technology and process innovation
- lower business risks
- incentive for innovation and quality control through  
competition in foreign market

## 2-1 Entering Virtuous Cycle

Period of rapid growth (1955--  
1970)



Dual structure -- lower productivity and poorer working conditions  
in small businesses, consumption-goods and service sectors  
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

**'The 1940 Regime  
originated just  
before WWII  
Adjusted by themselves  
after the war**

Long-term relations  
Organizational trade  
Stability-oriented

Interventionist  
government

Corporate governance built on **cross share-holdings**

Substitute for  
Zaibatsu  
Prevention of  
M&As

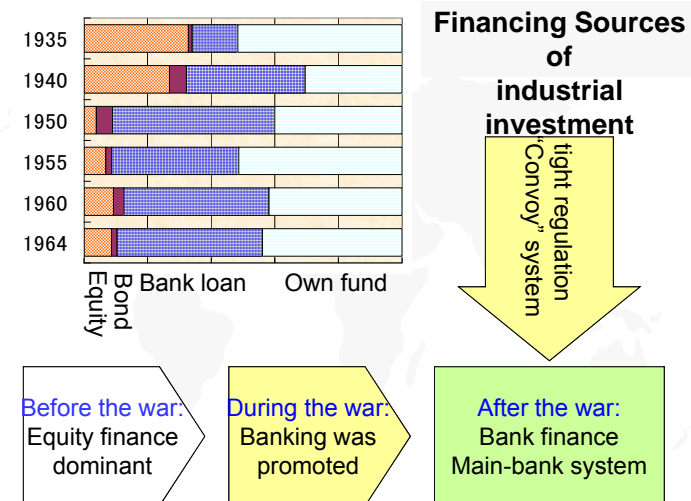
-- Autonomy of corporate managers  
-- Long-term management perspective  
-- Low capital cost of equity finance

	1987	1995	1999
Shares issued by business companies			
Ratio of shares held by <i>stable</i> 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 <i>stable</i> 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)

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

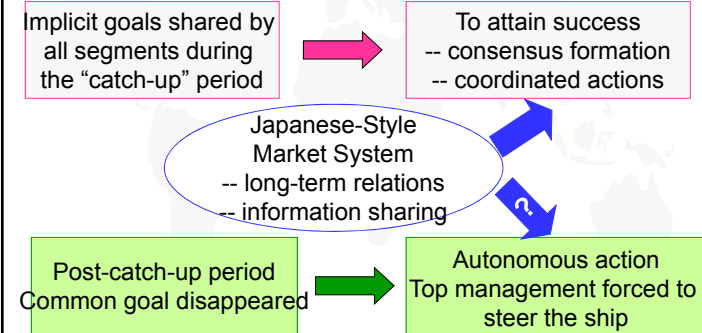


## Labor market practices based on long-term employment

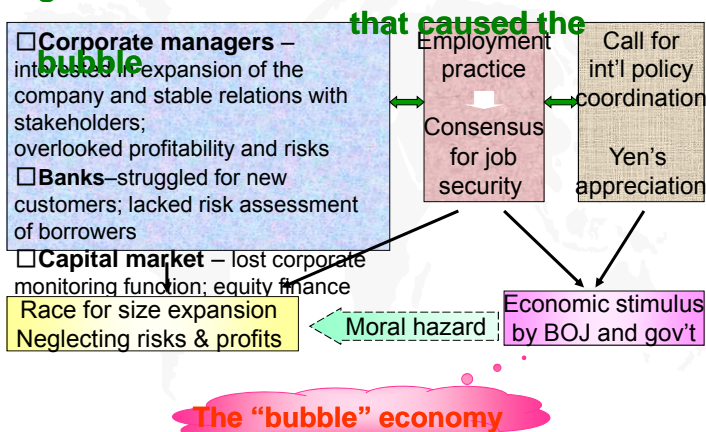
- **Japanese-style employment practices**
  - Long-term or 'life-time' employment
  - Wage increases and promotions based on seniority
  - On-the-job training (OJT)
  - Intra-company labor unions
- **Rationality of long-term employment**
  - Accumulation of company-specific skills and technology
  - 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

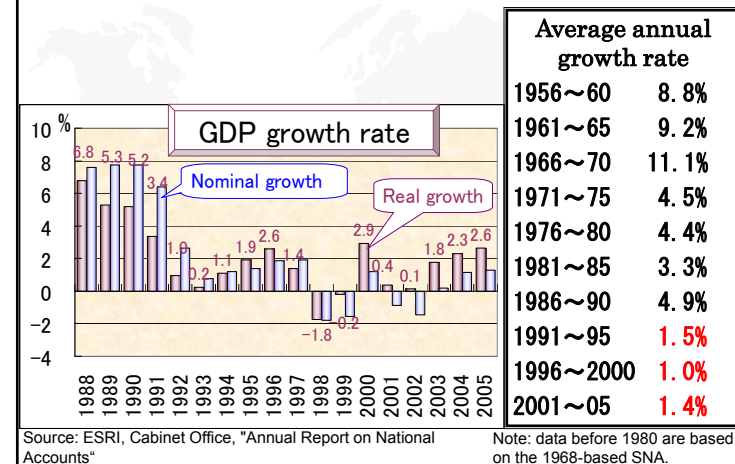
the end of the "catch-up" process  
Survival of the Japanese-style economic system and practices  
Strengthened by the success in overcoming the oil crises



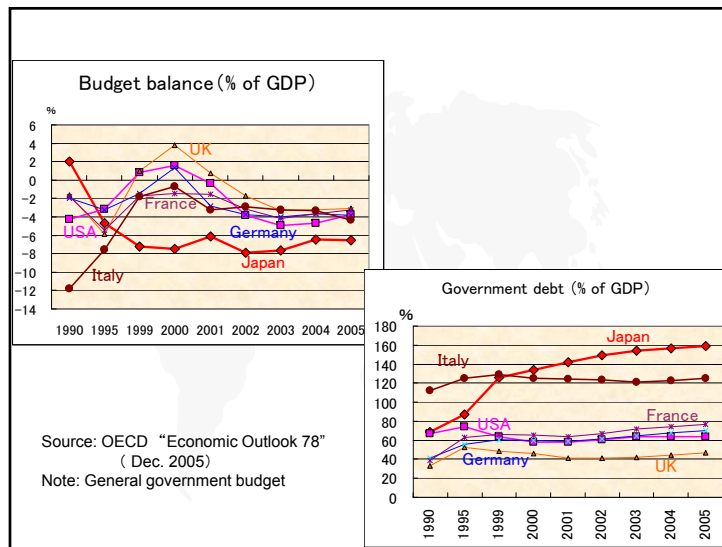
## 5-2 Japanese (poor) corporate governance



## 5-4 Burst Bubble and the 'Lost Decade'







## 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

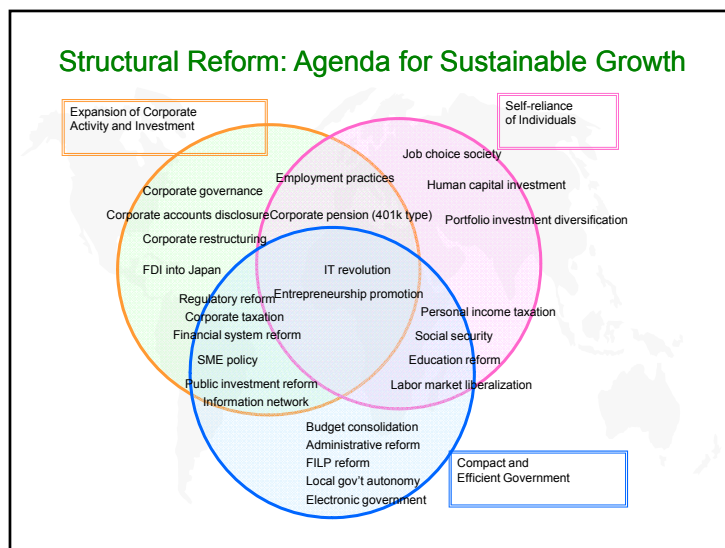
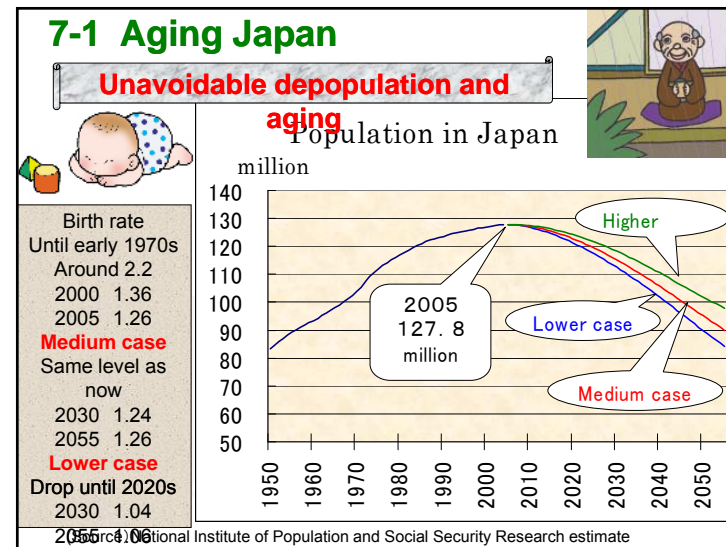
**Structural reform**

O Marketization, competition, choice, diversity, own risk  
O 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





## Global Imbalances

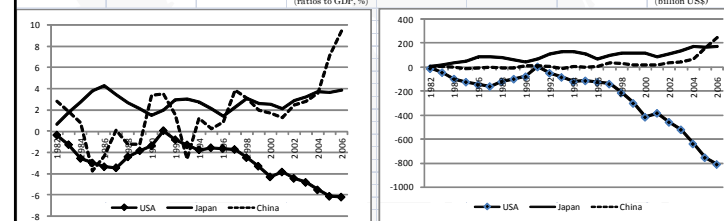
Sum of the Absolute Values of CAB across Cos. / World GDP

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

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## Fig. 1: Global Imbalances

Saving-Investment Imbalances (CABs) of USA, Japan, and China

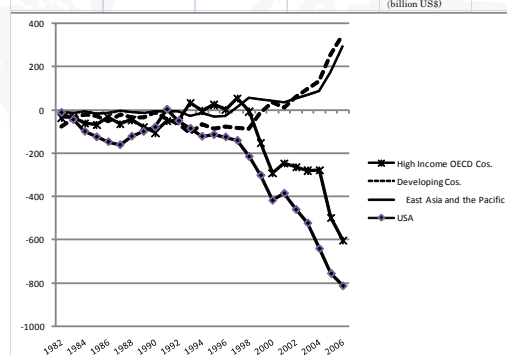


Source: Author's compilation from World Bank, World Development Indicators 2008.

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## Fig.2: Global Imbalances

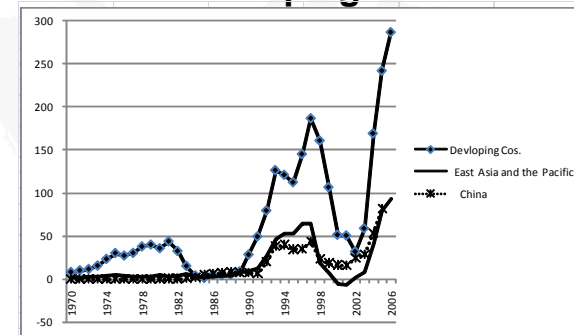
Saving-Investment Imbalances (CABs) of USA, OECD, and Developing Countries



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

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## Fig.3: Resource Flows to Developing Cos.

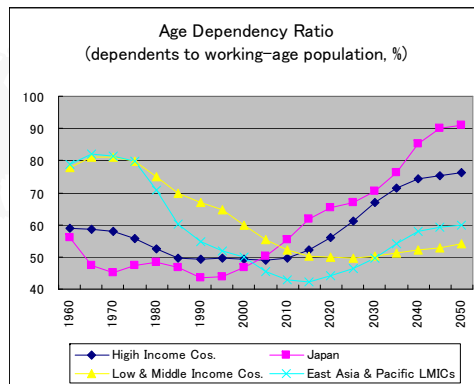


Note: 'Aggregate Net Transfers' by the World Bank.

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

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## Is Doomsday Imminent ?



### Determinants 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 ...

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

## Global Imbalances

- ◆ Fig2とFig3を合わせて考えると、途上国地域への資金フローが急回復する中でも、米国が多額の資金を途上国地域から吸い込んでいるため、結果として途上国全体の資金インフロー（流入）とアウトフロー（流出）のバランスは、先述したように2000年を境にアウトフロー超過に転じているという構図が浮かび上がる。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（貯蓄減少）が行き過ぎたことにより、結果として本来途上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、途上国を含めて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。

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## 危機発生理由

- ◆ アジア金融危機後の開発途上地域の一時的な投資減退が、貯蓄とのバランスから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や国債・財務証券に資金が流れ込んだ。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(imbalances)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。

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## 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、新古典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した「新自由主義」の拡散に根ざしたアメリカナ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・金融制度を含めて多種多様な制度・システムの構築・再構築を迫られることになるだろう。

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## 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)多くの開発途上諸国の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資金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(開発途上国の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。

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## 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3-3.5%程度まで押さえられことに伴い、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。

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## 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—ド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%を超す。安定的な米国債保有者・購入者が必要とされる。 **中国頼み？**

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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.

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For the Sustainable Development of  
China.....

Thank you.

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