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Development Strategies

Lessons from the Experiences of South Korea, Malaysia, Thailand and Vietnam

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Abstract

This piece synthesizes the development strategies of Korea, Malaysia, Thailand and Vietnam and draws some relevant lessons. Using a complex adaptive systems approach, strategic openness, a set of heterodox macroeconomic policies, creation of institutions for productive investment in both agriculture and industry, avoidance of severe inequalities and political conflict, special initial conditions and willingness to learn from unexpected developments are found to be some of these factors. Although no country can succeed by following mechanically the experience of another country cautious experimentation, rapid feedback and flexible, pragmatic policy-making with a strategic medium to long run perspective, can be helpful. Dynamic learning and flexible institution building are essential components of such a strategic approach to development.

Keywords: development strategy, complex systems, heterodox policies, institution building, dynamic learning

JEL: O10, O20, O30, O50

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Keynes, writing in a biographical essay on Edgeworth in 1926, underlined some of the problems of complex human systems:

> We are faced at every turn with problems of organic unity, of discreteness, of discontinuity—the whole is not equal to the sum of the parts, comparisons of quantity fail us, small changes produce large effects, the assumptions of a uniform and homogeneous continuum are not satisfied (Keynes 1971-9: 261).

If anything, the developing part of the world economy today highlights an even greater degree the kind of complexity captured in Keynes's words above. Fortunately, systems and economic theory have both made some progress since those dark days. Although a genuinely complete theory of complex economic systems is still far off, efforts are underway that have already borne some interesting fruit in several limited areas.[1] The set of four essays on country experiences under review here can be seen as case studies that reveal many facets of complex developing economies—each with its own sub-systemic characteristics to be sure, but also sharing some common strategic features. The purpose of this note is to synthesize from a strategic perspective—to the extent it is possible to do so—the development experiences of these four countries (South Korea, Malaysia, Thailand and Vietnam) and draw some appropriate lessons.

However, some clarification of the key term 'development' is necessary in order to avoid ambiguities and confusion. In the rest of this study, I refer to three concepts of development that are implicit in the essays under discussion. The first is the notion of development as growth with some structural change or at least the assumption that this type of growth is the most crucial condition necessary for development. The second concept is derived by adding explicit distributional elements to growth, particularly inequality and poverty. Both these ideas are shared by these authors, at least implicitly. Warr (2008) is the most explicit in discussing all three—growth, absolute poverty and inequality—and his thoughtful essay alerts the reader to the performance of Thailand in all three areas and derives, at least partly, a logic of further necessary reforms following from his cogent analysis of the three aspects of development in this sense. He concludes:

> Not all aspects of the Thai development strategy have been similarly successful. …Inequality has increased at the same time as absolute poverty has declined. The underlying causes of this increase in inequality are still not well understood (Warr 2008: 22).[2]

The third—and the broadest approach to development discussed here—is in terms of Sen's idea of capabilities and its further extensions. In this view, development is really an extension over time and space of freedom, particularly the positive freedom to lead the type of life the individual has reason to value. None of the essays, as far as I am able to judge, adopts this view explicitly. Yet, in so far as there is a normative aspect about development being a '(public) good' that is a premise for the whole project, such a view is consistent with the analyses of these essays. Warr's essay again is most explicit in

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[1] See, for example, Khan (2004a, 2004b, 2003a, 1998, 1997) and the references therein.

[2] See also Warr (1993, 1999, 2005) for nuanced analyses of the various aspects of Thailand's development experience and Jomo (2007, 1995) for Malaysia.

mentioning both the positive achievements and the shortcomings of Thailand's record and its strategy which can fit into this broad systemic capabilities approach. The other essays do this by implications as well. In fact, Keun Lee's perceptive comments on the possible role of democracy in development extends considerably the terrain of discussion in the direction of the 'development as freedom' perspective when he writes:

> We see obvious advantages in democracy, amongst which is the convenient feature that citizens are not subject to arbitrary arrest and torture. Truly strong states get it wrong more often than they get it right. Thus the military dictatorships of Latin America left little in the way of legacy, whereas the military dictatorships in Korea and Taiwan (while not on anything like the same scale of brutality) left a powerful legacy of development. The difference lies clearly in strategic orientation and in institutional capacity in formulating and implementing a program of national industrial development. Our point is that this is an option available to the political leadership of any developing country today. On top of this, the key to the Korean or Asian success was institutional longevity (Lee 2008: 13).

It would seem, therefore, that there is an implicit agreement that development is 'growth plus' other things. While the list of 'other things' may vary somewhat, none of the authors would want to equate growth and development. Yet, as all four papers attempt to show that generating high growth may be a useful means towards development. All four papers also pay some attention to what can be called 'the political economy of growth'. Here the paper by Jomo and Wee is the most explicit, followed by Thoburn's paper and then Lee's.

Synthesizing the experiences of the four countries further reveals some common strategic orientations as well as the effects of changes in external environment and shifts in policies over time. This is consistent with the characteristics of complex economic systems which are nonlinear with multiple equilibria and path dependence. Over time, one may observe the emergence of structural shifts in some cases, stagnation in other cases depending on initial conditions, strategies, policies and external environment, among other things. In the four cases discussed here, there are many specific variations within each. However, they also share, to various degrees, many specific features listed below.

Strategic openness

Strategic openness is evident to various degrees, with Thailand being the most open and Vietnam[3] the least. But in all cases there is a strategic commitment to export promotion and further goals of moving up the value added ladder. It should be kept in mind, however, that there can be a 'fallacy of composition'(Cline 1982; Khan 1983; Mayer 2002; Razmi and Blecker 2006) in claiming that all that the developing countries need to do is to pursue an export-led growth policy. Reciprocal demands may not exist sufficiently and the ensuing competition for export markets in developed countries may create winners as well as losers. Therefore, what may be needed in the future for other

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[3] However, see Thoburn et al. (2007) for an insightful and nuanced discussion of Vietnam's trade-orientation and policies for the textiles sector.

aspiring countries is a strategic approach that includes the development of national and regional markets and the creation of dynamic comparative advantage along with a number of other policies and institution-building processes described below.

Heterodox macroeconomic policies for stability[4]

Here Malaysia, Vietnam and Korea display more of a mix of heterodox policies than Thailand. It seems that the rigidity of the Washington consensus particularly in this area is rejected by the experiences of developing economies like Korea, Malaysia and Vietnam.

Creation of institutions for productive investment

The creation of institutions for productive investment exists in all four countries, but Korea seems to have gone much further than others much earlier. Starting with the reforms in the 1960s, it moved through several successive stages and is now trying to find an appropriate technological niche in a world that is moving towards a convergence of information, bio and nano technologies by 2050. The role of state in the creation of these institutions is still very prominent.

Agricultural development

All four countries put enough of an emphasis but Vietnam probably put through the most egalitarian pro-peasant development policies earlier. But Korea also had an egalitarian land reform after the end of Japanese colonialism.

Warr (2008: 12) describes the importance of agriculture in the Thai case:

> The results of the analysis indicate that agriculture's contribution to economic growth in Thailand included impressive rates of TFP growth. But its main contribution occurred through releasing resources which could be used more productively elsewhere, *while still maintaining output*, rather than through expansion of agricultural output. It is seriously wrong to characterize Thai agriculture as 'stagnant', based merely on the fact that output growth is slower in agriculture than in other sectors. If agriculture had really been 'stagnant' economic growth would have been substantially lower because it would not have been possible to raise productivity significantly within agriculture or to release resources massively while still maintaining moderate growth of output.

Vietnam's reforms in agriculture are evaluated by Thoburn (2008) in the following words:

> Rice, indeed, is the great success story of the agricultural reforms. Vietnam changed from being a net importer of rice in the 1980s to the world's third largest exporter (after the US and Thailand) in the mid-1990s, though there has been little further export growth since the late 1990s, particularly compared to other products. … This lack of growth is not necessarily surprising or a sign of failure. In the late 1990s, when rice

4 See Jomo and Nagaraj (2001) for a good discussion of heterodoxy in this context.

> export growth was peaking, less than 15 per cent of output was being exported … In an economy where around 70 per cent of households were both consumers and producers of rice, rises in rice output were important primarily for raising rural incomes and for food security, with the surplus available for export varying with fluctuations in domestic production.
>
> The state has played a role in encouraging new crops such as cashew, and later coffee. … Coffee is not straightforwardly a success story, though, as the expansion of Vietnam's coffee exports in the mid-1990s was a factor in causing a substantial fall in the world price.

Industrial development and structural change

The strategic perspective in this important area suggests that the successful countries pursued, to various degrees, a continuously unfolding and dynamic set of policies with much trial and error. The retrospective attempts to tell a coherent story have often led to an overly deductive picture where good performances supposedly follow from a few, usually neoclassical economic principles. The Malaysian case study is a good and convincing counterexample. Jomo and Wee (2008: 10) describe some changes in strategy and policy for Malaysia within specific time-sensitive contexts:

> Over the years, the government has changed its industrialization strategy. In response to problems and new priorities, the government announced the Second Industrial Master Plan (IMP2) for 1996-2005 in December 1996 to replace the (first) Industrial Master Plan (IMP) for 1986-95. In September 1996, the government had set up the Multimedia Super Corridor (MSC) to promote certain information technology investments. The government committed over RM50 billion for infrastructure development to support this initiative. At the same time, the government strengthened intellectual property laws to reassure foreign investors and provided more generous incentives for new investments in this area.
>
> Thus, the policy changes of the mid-1980s appeared successful in reviving growth and industrialization. Confirmation of the new policy direction from the mid-1980s came with the 1991 enunciation of Vision 2020, favouring growth, modernization and industrialization. Although FDI began levelling off in the mid-1990s, increased domestic investments—inspired by greater domestic investor confidence—sustained the momentum of rapid economic growth until the 1997-98 regional crisis. The gravity of the crisis and the difficulties of recovery were exacerbated by injudicious policy responses, compromised by cronyism, though there is little persuasive evidence that cronyism itself precipitated the crisis.

They also point out changes in the 1960s and 1970s as well in response to changing global economic environment:

> The decline of rubber prices in the 1960s must surely have affected economic performance and policy. Malaysia's experiment with import-substituting industrialization under foreign (principally British) auspices was quite different from most other developing countries where state-

> owned enterprises played leading roles as well as Northeast Asian experiences where effective protection was conditional on export promotion. Malaysia's transformation from net oil importer to exporter in the mid-1970s, when petroleum prices rose sharply, allowed the government to spend much more, while the recycling of petrodollars later allowed it to borrow from abroad at low cost until the Volcker intervention of 1980 raised real interest rates and precipitated a global recession, bringing commodity prices down (Jomo and Wee 2008: 14).

The case study on Vietnam also confirms the suspicion that much was improvised and *ad hoc* during the earlier phases of apparently successful development cases. The lesson here perhaps is to avoid major resource allocation distortions (as also documented by the Thai case) and constant monitoring and policy revisions if existing policies do not work well. The political preconditions for this are in the background even in the Malaysia and Vietnam case studies, which are more explicit in this respect than the other two.

Creation of technological capabilities

Here the Korean case stands out as a very apt illustration of creating technological capabilities throughout the entire growth and development trajectory in definite stages.[5] As Lee (2008: 4-5) points out:

> Among various aspects of capacities, emphasis should be on technological capabilities because without these, sustained growth is impossible. In this era of open market competition, private companies cannot sustain growth if they rely upon cheap products; they need to be able to move up the value-chain to higher-value added goods based on continued upgrading and improvement and technological innovation. Furthermore, private companies had better be 'local' companies, whenever possible, including locally controlled JVs, not foreign controlled subsidiaries of the MNCs. MNCs subsidiaries are always moving around the world seeking cheaper wages and bigger markets. Therefore, they cannot be relied upon to generate sustained growth in specific localities or countries although they can serve as useful channels for knowledge transfer and learning.

Malaysia also recognizes this essentially strategic aspect of creating technological capabilities during medium to long-run development. It is also clear from the Thailand and Vietnam cases that strategic concerns with the creation of appropriate technological capabilities have been and continue to be very important.

Technological learning and innovation

Promoting national innovation systems requires, in particular, the creation of specific institutions and technological learning over time. Ultimately, if development is to

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5 See also Lee (2006) for a contrast of Korean experience with the Washington consensus and Khan 2008, 2002, 1998 and 1997) for a discussion of the Korean (and Taiwanese) case(s) in the context of a distributionally sensitive growth model for positive feedback loop innovation system.

continue beyond the catching-up phase, this may present the set of the most crucial policy challenges. Here, the study on Korea is an admirable attempt to sum up the lessons. There are specific features here to which Lee (2008: 5) draws our attention.

> Therefore, while the ultimate goal and criterion of development is to raise the capabilities of local private companies, the process needs pilot agencies to guide and coordinate the whole process. Such needs exist because key resources are so scarce, and thus had better … be mobilized for uses in sectors or projects with greatest externalities. As understood by Gerschenkron, who analysed the latecomer industrialization of Germany and Russia, and identified latecomer agencies, such as large state-owned investment banks to drive the process in these countries, it is such agencies that can make up for gaps or lacunae in the country that is seeking to industrialize. All the east Asian countries built specific state-agencies that played a role in guiding the process of industrialization. In Korea the institutions established in the 1960s under the Park regime included the Economic Planning Board to set economic plans; the Ministry of Trade and Industry to support industrial policy and export; and the Ministry of Finance to finance economic plans.

Both state and civil society have to play important roles. At an earlier stage, the state necessarily plays a large and activist role. At a later stage, however, the creation of technological capability has to rely on a private-public partnership at both the precompetitive and the competitive phases of innovation (Khan 2004a).

Direct foreign investment (FDI) and foreign aid

These factors have played a role for all four but perhaps more so for Thailand, Vietnam and Malaysia. Investment from abroad may have been more significant than aid per se. However, internal generation of investible funds and public sector support have also played a crucial role, particularly in Korea. FDI in the manufacturing sector can be important, as the Vietnam case (and also the Thai and Malaysian cases) shows:

> Sectorally, manufacturing has been the most important area for FDI, with 51 per cent of accumulated registered foreign capital over the 1988-2006 period, followed by transport, storage and communications (9.6 per cent), mining and quarrying (8 per cent) and real estate (8 per cent) (Thoburn 2008: 8).

Not everything has to be of the best practice genre in order to attract DFI, as Thoburn shows for Vietnam:

> Paradoxically, Vietnam scores badly on conventional measures of competitiveness and investment climate, yet is highly regarded by foreign investors who operate in the country. The World Bank’s *Doing Business* survey ranks Vietnam as 104th out of 175 countries as a good place to do business. In contrast, the *VDR* for 2007 claims that Japanese inward investors see Vietnam as the third most attractive investment location in the world. It seems that Vietnam’s stable macroeconomic environment, high quality and low cost labour, and low levels of crime are more important considerations for investors than the details of

> bureaucratic procedures which are often included in international surveys (Thoburn 2008: 9).

Foreign aid, particularly Japanese aid, has played a role in the development of Thailand and Malaysia but in the Asian cases the leveraging of aid for domestic development has perhaps been more important than the actual quantity of aid.[6]

Poverty reduction strategies

This is a varied set of policies that are necessary in addition to growth. Although growth is a very important component of such a strategic approach to poverty reduction, in all cases under review specific policies targeting both rural and urban poverty were undertaken. It can be argued that in the case of Thailand and Vietnam, such attention is, for some time to come, still a necessary part of a coherent pro-poor development strategy. This suggests a 'growth plus…' strategy (Weiss and Khan 2006) for development.

In addition to the set of nine factors discussed above, there are also somewhat random, historically contingent factors. The paper on Malaysia acknowledges the presence of such factors explicitly. But even a quick look at the other cases reveals historically contingent events ranging from momentous events such as wars and revolutions to more usual changes in domestic and international political factors and changes in policies that depended on crucial personalities such as that of President Park in Korea in the 1960s. As Jomo and Wee (2008: 14) indicate in summing up the lessons from at least five different policy periods in Malaysia:

> It is difficult to evaluate policy success or failure simply in terms of subsequent economic performance. Malaysia's very open economy has often been subjected to circumstances not of its own choosing or making.
>
> The decline of rubber prices in the 1960s must surely have affected economic performance and policy. Malaysia's experiment with import-substituting industrialization under foreign (principally British) auspices was quite different from most other developing countries where state-owned enterprises played leading roles as well as Northeast Asian experiences where effective protection was conditional on export promotion. Malaysia's transformation from net oil importer to exporter in the mid-1970s, when petroleum prices rose sharply, allowed the government to spend much more, while the recycling of petrodollars later allowed it to borrow from abroad at low cost until the Volcker intervention of 1980 raised real interest rates and precipitated a global recession, bringing commodity prices down.
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> The Plaza Accord of September 1985 led to the strong yen just as Malaysia's sovereign foreign debt became yen-denominated. The mid-1980s' recession precipitated a banking crisis, which led to the 1989 banking reform to the seeming success of earlier deregulation facilitated

6 This is not to say that the quantity does not matter. Also for very poor countries today, aid can fill crucial financing gaps. See Khan (2003b) on these issues.

> financial liberalization, culminating in the 1997-98 crisis. The late 1980s' regulatory reforms encouraged further limited private foreign borrowings from abroad before that, limiting vulnerability on that front. The East Asian economic recovery from the last quarter of 1998, following the Russian and LTCM crises, similarly does not allow proper evaluation of the impact of Mahathir's controversial measures of early September as he moved to politically eliminate his deputy.

What follows from the above identification of both the relatively necessary as well as the more contingent factors that have played a role, I think, is the need to take a pragmatic and diagnostic approach to the problems of development. It is necessary to identify distortions. It is also equally important to identify market failures and other institutional failures. Instead of taking a grand, presumptive approach to development, a mix of heterodox policies and the willingness to revise policies before the cost becomes too high seems to be the best recipe for avoiding failures.

In looking at institution-building in the four cases, it is also clear that it is generally easier to list the functions that good institutions perform than it is to describe the shape they should take. In fact, consistent with the complexity approach outlined here, there may be a wide variety of institutions serving roughly the same function. From the four cases studied here, it is apparent that the desirable institutions provide a rough and ready type of security of property rights, enforceability of contracts and lead to a gradual and strategically conceived integration with the world economy. In addition, they also help to maintain macroeconomic stability without a necessarily rigid conservative fiscal stance. Over time and given sufficient financial development, the state and private sector institutions should be able to manage risk-taking by financial intermediaries. In order to promote equitable growth there will also need to be institutions that can supply social insurance and safety nets, and create a democratic space for voice and accountability. But there is no one-size-fits-all for any of these functions.[7]

As Warr insightfully points out in the concluding section of his study, rapid growth in the Thai case has also been accompanied by high inequality and environmental degradation. One important lesson that follows from this is that even if a country is successful in growing through a combination of strategies, policies and circumstances, without explicit attention to equity and ecology, sustainable growth and equitable development may not automatically occur but rather the contrary may happen.[8] It is, then, an added imperative for the policymakers to include these salient goals in policy formulation and institution-building. While no predetermined futures are foreordained in this complex world, a thoughtful diagnosis of these problems at a relatively early stage may introduce solutions that can be implemented before it is too late.

Summing up

To sum up, the four papers reviewed here offer much concrete and wise analysis of the growth and development experiences of these four countries. Although no country can succeed by mechanically following the experience of another country, a number of

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7 See Chang (2007) for a number of thoughtful contributions on this topic among other things.

8 See also Jomo et al. (2004) and Khan (1997, 2004a, 2004b).

helpful policy and institutional lessons can still be drawn. In the spirit of experimentation with rapid feedback and flexible policymaking informed by a strategic medium- to long-run perspective, much can be done by the policymakers who are both imaginative and pragmatic. Dynamic learning and flexible institution-building are essential components of such a strategic approach to development.

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