THE IMPACT AND COHERENCE OF OECD COUNTRY POLICIES ON ASIAN DEVELOPING ECONOMIES

Draft Terms of Reference for Individual Papers 2 - 13

Paper 2.  *East Asia’s Multi-layered Development Process: Trade-FDI Nexus*

This paper seeks to examine the impact of major OECD (and advanced non-OECD) country policies on the growth-generating interaction between trade and FDI in East Asia – a key characteristic of the region’s sustained growth. One important feature of the East Asian economic success is that a set of countries were able to begin the process of industrialization consecutively in a “flying-geese pattern” and achieved high economic growth, rapid development and poverty reduction.

The paper begins by highlighting major trends in trade (exports and imports) and FDI (inflows and outflows) within East Asia and between East Asia and other regions and examining the factors – both internal and external - underlying the significant expansion of trade and FDI flows since the mid-1980s. The paper should compare these trends observed in the last 20 years with those in the 1970s and early 80s, and should clarify the distinguishing characteristics of the role of trade and FDI.

Then the paper presents a detailed discussion of the external factors – both macro and micro – behind the emergence of a trade-FDI nexus in the region with special focus on the role of multinational firms as promoters of global and regional production sharing arrangements and a vehicle of technology and skill transfers\(^1\). It also needs to explain the mechanism through which a set of countries have been able to industrialize their economies in succession and in cluster through trade and FDI. Analysis should be based on existing empirical studies and quantitative materials available at hand. This may include a quantification of the trade-FDI nexus based on available gravity models. When appropriate, this section also provides some interesting “real” stories about specific country/sector developments and company strategies (in box, for example). It may also make reference to the role played, if any, by existing OECD practices and instruments, such the Guidelines for Multinational Enterprises.

Finally, the paper will discuss the question of sustainability - how far such close interaction between trade and FDI can continue and under what conditions?

Paper 3.  *Sustaining East Asia’s Economic Dynamism: How Aid Worked*

This paper intends to examine the role of development aid from OECD countries in helping integrate East Asia’s developing economies into the world economy and sustain internal reform programmes in the region.

Development aid consists of official development assistance (ODA) and other official flows (OOF). The former can be further broken down into loans and grants. Along with financial aid, donors and IFIs also provide various forms of technical advice or assistance. Discussion on the role of aid in this paper thus needs to be made in the context of different forms as appropriate.

---

\(^1\) Paper 9 will focus on FDI and technological capability building in the region.
Sustained rapid growth in East Asia during much of the period since 1970s (and despite the 1997-98 crises) is a unique phenomenon among developing regions in terms of development experiences in the post-war years, starting from the well functioning security system that provided the stability necessary for development and the opening up of the Japanese economy. A key feature of the region’s economic dynamism is increased trade and FDI flows linking the United States, Japan and other OECD countries to the first-tier Asian NIEs in the 1960s, 70s and 80s, then to middle-income ASEAN countries and China in the late 1980s and 90s, and finally to lower-income ASEAN countries more recently. Underlying such “multi-layer dynamism” in the latter group of developing economies is the major transformation of their agriculture- and mining-based economies in which the government played a critical role in the allocation of investible funds at least at the early stage of pursuing the export-oriented industrialisation strategy. The role of domestic capital formation through savings is another important feature to be highlighted.

The first objective of this paper is to review and discuss the role of development aid (distinguished from humanitarian aid) in helping to sustain initial reform programmes in the four ASEAN countries (Indonesia, Malaysia, the Philippines and Thailand) during the first half of the 1980s. However imperfect that may be, the economic system of ASEAN-4 countries has since then moved to one that relies primarily on market mechanism through gradual liberalisation and deregulation. And the role of the private sector in ASEAN economies has been increased markedly as well. Thanks to the continuation of their policy reforms and sustained rapid growth, many ASEAN countries have been relatively successful since the late 1980s in attracting both foreign aid and investment, though competition for FDI flows has become increasingly tense vis-à-vis China more recently. It should also be noted that even though similar reform programmes were adopted by ASEAN-4 countries, the sequence, coverage and results varied significantly among them. A second objective of this paper is thus to discuss and highlight what kind of development assistance was provided and how development aid was utilised in practice among these ASEAN countries during the ten year’s period of rapid growth (1986-96), especially in the light of strong domestic savings.

Prior to and during the financial crisis, the role of policy advice needs to be covered. Subsequently, when capital flows during the crisis diminished drastically, the role of aid in that context needs to be examined.

Finally, the paper will take a closer look at the new role of aid in an economic and social environment that has emerged during and after the 1997-98 crises. The initial impact of the crises was severe, notably in Indonesia, Thailand, Malaysia and Korea and to a lesser extent in the Philippines. Although these countries (except Indonesia) experienced V-type economic recoveries afterwards, impacts were transmitted into other social outcomes.

---


Paper 4.  **US and EU Trade Policies and East Asia**

This paper seeks to assess the impacts of US and EU trade policies on East Asia’s developing economies and discuss their significance for OECD policy coherence for development with respect to this region.

Trade is one of the most important policy areas for growth and development in East Asia. It can be argued that an open international marketplace is a critical external factor underlying the successful outward-oriented development strategies that many governments of the region have adopted successively over the last 20-30 years. The paper will review and discuss the impacts of US and EU trade policies during this period from two perspectives.

First, it provides a brief description of the evolution of US and EU trade policies at the multilateral level. As the most influential members of the GATT and its successor, the WTO, the United States and the European Communities have played the leading role in shaping and navigating the successive rounds of multilateral trade negotiations to date. The main outcomes of multilateral trade negotiations, with focus on the Tokyo Round (1973-1979) and the Uruguay Round (1986-1994), will be examined from the standpoint of East Asian developing economies, highlighting the role played by the United States and the European Communities in these two negotiations. At the same time, the paper will consider the political forces behind protection in the EU and the US in order to help understand the issues of policy coherence or incoherence.

Second, it examines major developments in US and EU trade policies at both bilateral and plurilateral levels. The United States began to embrace regionalism in the 1980s when it concluded FTAs with Israel (1985) and Canada (1989). The conclusion of the NAFTA in 1994 might well be construed as a North Atlantic response to the EC’s deeper and wider integration processes that were already (and still are) under way at the regional level. A key question to be addressed here is how these developments in US and EU trade policies may have affected trade and investment flows in East Asian economies and their trade and investment policy making processes, including recent developments in bilateral and regional integration and co-operation agreements involving the economies of the region.

Based on the above analysis and discussion of US and EU trade policies, the paper concludes by offering lessons and insights on their significance for OECD policy coherence with respect to East Asia.

Paper 5.  **Japan’s Structural Reform and Import Liberalisation: Implications for East Asia**

This paper seeks to examine the effects of Japan’s structural reform and trade liberalisation since the 1970s on the development of other East Asian economies.

The success of outward-oriented growth strategies of East Asian developing economies depends critically on market access to OECD countries and the latter’s willingness and capacity to adjust to import pressure. Unless there is a smooth transfer of capital and labour from lower to higher productivity activities

---

6. The paper would take up, where appropriate, the roles and interactions of the major donors and issues of aid quality, aid dependency, impacts at the micro and macro levels, and the relationship between aid and corruption.

7. Given the time constraints, it is expected that the author will draw on existing empirical literature that estimates the economic effects of US/EU trade policies in key sectors for both parts of the paper.
over the medium term, new room for imports from developing countries can not be created. In this sense, structural reform - a set of reform measures (deregulation, market opening and tax reforms, etc.) aimed at facilitating industrial adjustment or restructuring - by OECD countries may be seen as a necessary companion to import liberalisation. At the same time, issues related to the political economy of reform need to be considered. It is in this context that the record of Japan’s structural reform and trade liberalisation since the 1970s is examined and its effects on other East Asian economies are discussed.

The main part of the paper consists of three analytical and empirical sections. First, the origins, issues and directions of Japan’s structural reform are reviewed with reference to import adjustment measures undertaken in certain sectors and more generally structural measures to transform the Japanese economy into one that is more harmonious with the rest of the world, as recommended by various “wise men” reports to the Government, starting from the Maekawa Report in 1986.

Second, the paper reviews Japan’s trade liberalisation measures undertaken through multilateral trade negotiations under the GATT, through bilateral negotiations (most notably with the United States under the “Structural Impediments Initiative”), through regional fora such as APEC, and unilaterally and discusses their implications for other East Asian economies. It also examines the “added value” of Japan’s GSP as a special unilateral measure aimed at promoting imports from the region concerned.

Third, Japan’s trade relationship with other East Asian economies has changed since the latter part of the 1980s due to the trade-FDI nexus. The paper examines how Japan’s structural reform, including industrial adjustment induced by steep yen appreciation, has contributed to its expansion of trade with other East Asian economies.

**Paper 6. Korea’s Latecomer Policy Experience**

This paper seeks to examine major developments in Korea’s economic policy and its trade and FDI regimes since the 1970s and discuss the role played by Korea in the context of East Asia’s multi-layered development processes.

One of the central questions regarding East Asia’s multi-layered growth dynamism is how positive externalities were generated and transmitted from more advanced to less advanced economies. To address this question one needs to take a close look at the policy experience of catching-up economies, such as Korea, and ask the questions: how the Korean economy has responded to changes in the external economic environment; what incentives and measures have been used to help exploit trade and investment opportunities in the international marketplace; and how the Korean economy has contributed to the industrialization of other, less developed, economies in the region. It is in this context that the paper will review the evolution of Korea’s trade and FDI regimes since the 1970s and discuss how the Korean economy has contributed to East Asia’s multi-layered growth dynamism. As regards FDI, both inward and outward polices will be discussed.

One area of particular concern is about heavy-handed government intervention in several strategic industries at an early stage of industrial development by restricting imports and inward FDI. The paper will assess (or reassess) the pros and cons of such “infant industry” protection strategies based on existing empirical studies to delineate what we know and what we don’t. The extent to which innovation,
technology and technology transfer have played a role in Korea’s catching up is an area to be considered. The strategies and main policies influencing the access to and use of technology will be examined.

The second important area of discussion is the country’s active inward FDI policy after the 1997-98 crisis. The paper will provide an assessment of the effect of this policy on industrial restructuring in the Korean economy.

The third area is the country’s economic linkages with other East Asian economies, such as ASEAN and China, which have been created through trade, FDI and technology transfer.¹⁰


This paper seeks to identify major external factors influencing China’s growth and development experiences since the launching of policy reforms, collectively known as “Reform and Opening Up”, in late 1978 and assess the extent to which OECD country policies (notably, in the area of trade, investment, aid and technology transfer) might have contributed to that.

China’s development strategy and policy reform has been a subject of intensive discussion in economic profession.¹¹ Analytical focus so far, however, has been given almost entirely to examining key internal factors and constraints which have characterised the reform process in the country’s transition economy. As a consequence, the influence of external factors that might have contributed to the making of the China miracle has not been well understood. This paper intends to fill this gap by focusing on the interactions between external and internal factors that jointly contributed to China’s growth and development, and by analysing the Chinese development experiences through the lens of East Asia’s multi-layered growth dynamism.¹²

One fundamental question is what motivated China to embark on the “Reform and Opening Up” policy of 1978, which eventually led to spectacular economic growth.

The second key question to be addressed is how China’s accession negotiations for the GATT/WTO may have influenced the country’s policy reforms and _vice versa_.

The third important issue is the respective role of aid, FDI and technology transfer to the development process of the country. Was aid helpful to China in the sense of augmenting the already high domestic savings rate or by way of utilizing the policy advice that accompanied aid? What is the role of global knowledge on development and transition issues, which has been brought in through various types of consultations with experts?

---

¹⁰ The issue of FDI and technological capability building in East Asian developing countries is covered in detail by Paper 9.

¹¹ See, for example, Lin, J.Y., F. Cai and Z. Li (1996), _The China Miracle_, Chinese University of Hong Kong, Chinese University Press. Also, OECD (2002), _China in the World Economy_, Paris.

¹² East Asia’s multi-layered development growth dynamism refers to observation that a set of countries were able to begin the process of industrialization consecutively in a “flying-geese pattern” and achieved high economic growth, rapid development and poverty reduction. This issue is taken up in Paper 2.
Paper 8.  **Macroeconomic Management and Financial Stability**

This paper reviews quantitatively the impact of OECD countries’ macroeconomic developments on the economic performance of East Asia and assesses the impact of international community’s efforts to improve the international financial architecture on East Asia’s macroeconomic and financial stability.

The very success of several developing economies in East Asia based on outward-oriented development strategies over the past three decades has made it necessary for OECD countries to expand the scope of development co-operation from traditional aid to a much wider sphere of policies. As economic linkages intensify between OECD and developing economies through trade, finance and investment, maintaining macroeconomic and financial stability in the former is increasingly seen as a prerequisite for sustained growth and development in the latter. OECD countries play a critical role in setting their macroeconomic and financial policies right, because of the large spill-over effects on developing countries. It is important to recall in this context that tight monetary policy in the United States triggered the Mexican debt crisis in the early 1980s. A high interest-rate policy in the United States and other major OECD countries can reduce capital flows to emerging market economies or even cause their reversal, thereby triggering a crisis, as witnessed in Mexico and other emerging economies during the last decade.

From this perspective, the paper first examines the quantitative impact of OECD macroeconomic developments—growth, inflation and interest rates—on developing economies in East Asia. Such impacts are typically exerted through trade, FDI and other forms of capital flows. Analysis should be based on existing empirical studies and quantitative materials at hand.

Second, the paper discusses the role of exchange rates among the OECD currencies—particularly the US dollar, the yen and the euro—for economic and financial stability of the East Asian economies. More specifically the paper will focus on the role of yen-dollar (and to a lesser extent euro-dollar) exchange rate volatility for East Asia.

The paper finally assesses the recent efforts by the OECD countries and IFIs to strengthen the international financial architecture, and its impact on East Asia’s macroeconomic and financial stability.

Paper 9.  **Foreign Direct Investment and Technological Capability Building in East Asia**

FDI has been one of the defining characteristics of, and a prime mover behind, globalisation over the past two decades. During this period, several East Asian developing economies have emerged as major recipients of FDI flows, and at the same time, some more advanced developing economies of the region have become suppliers of FDI as well.

A key question to be addressed in this paper is how and to what extent the technological capabilities of local firms in a host economy have been influenced by the presence of MNE affiliates. Existing empirical work suggests that technology transfer is not spontaneous; it takes place over time, often years rather than months. It also takes various forms: through imports of technology-intensive products, linkages with suppliers and buyers, through demonstration effects and competition, through human capital turnover, through R&D and training activities provided by foreign affiliates in the host country and through intra-firm (from the parent firm to its foreign affiliates) transfer of technology and mobility of high-skilled human resources. In addition, firm-level technological capabilities and the extent of technology transfer depend crucially on host-country conditions, such as the level of education of workers and absorptive capacity of firms and workers.
Given this backdrop, the paper seeks to examine the incidence and relationships (or absence) involving technology capabilities, the potential role of foreign firms’ in technology transfer for economic development in East Asia in general and the importance of institutional capacity building in these countries to stimulate these activities. In addition, it discusses policy recommendations as to what OECD countries can do to facilitate technology transfer to developing countries.

**Paper 10. Agricultural Development and Poverty Reduction in East Asia: Impact of OECD Agricultural Policies**

This paper will begin by looking at the reduction of poverty in East Asia based on data indicating what has been accomplished. This will include data on income levels, those in certain low income categories, other indicators of poverty, and broken down to the extent possible by rural and urban regions. Time series evidence will be used as available back to at least 1990, preferably earlier into the 1980s.

The paper will then analyse what has been accomplished in terms of agricultural income growth and development, by examining the data on growth rates in agricultural sector. It will seek to show some links between agricultural policy reform, and other sources of agricultural productivity growth, and progress in agricultural growth and development. There will be some discussion of the role of the agricultural export sector vs the domestic agricultural sector in generating income growth, with comparisons across countries.

In this connection it is important to review the extent of industrial development and its sources, including changes in trade policy. The key elements of domestic policy contributing to non-agricultural growth, including foreign investment, will be discussed, as well as the interaction between the industrial and the agricultural sector, such as through growth in demand or interactions in factor markets, especially migration between rural and urban areas. This will improve understanding of the role of the non-agricultural sector in generating income growth in rural areas and reducing poverty, including some comparisons across different countries.

Finally, the paper will take up agricultural trade issues by a review of the structure of agricultural protection, domestic constraints and barriers to agricultural exports, and external constraints and barriers to agricultural exports. These will include:

- Market access, tariff and non-tariff barriers in trading partners or potential trading partners
- Export competition, domestic support issues if any, other trade policy instruments
- Role of regional and bilateral trade agreements
- Any distinctions possible between trade issues with developed (OECD countries) and other developing countries
- Effects on price levels in world market (i.e., capture those more diffused effects of market access restrictions and domestic support in addition to any direct effects of market access for a specific commodity)
- Selected commodity-specific examinations: rice, sugar, dairy, cotton?

Conclusions will be drawn regarding the importance of agricultural trade barriers and constraints on poverty alleviation in East Asia.

In general, the paper will cover selected countries in East and Southeast Asia, with particular attention to Indonesia and Vietnam, some other countries being covered on the basis of a literature review. In general, the paper will be written using existing data and analyses with the author’s review of that work, given the time and space constraints involved.
Paper 11. *Migration of Highly Skilled Workers and Its Effects on Economic Development in East Asia*

This paper seeks to review and highlight major trends in international migration both within East Asia and from this region to OECD countries, with focus on movement of highly-skilled, foreign workers, and discuss its effects on sending countries.

Currently there are large outflows of workers from less advanced East Asian countries to more advanced economies of the region and to OECD countries (other than Japan and Korea) as well as the Gulf countries and Israel. Several of them (e.g., Philippines, Indonesia and Thailand) are at the same time both sending and receiving countries. There are also important movements but not well measured (e.g., irregular migration, including “overstayers”). The paper first intends to review such major trends in and characteristics of international migration. Special reference will be made to movement of highly-qualified, foreign workers, which is a focal point of the “brain-drain versus brain circulation” debate in the international community.

The paper then documents briefly the migration policies of Australia, US and other OECD countries with respect to highly-skilled, foreign workers. Such policies vary significantly across countries, reflecting individual countries’ “philosophies” and experiences of managing migration.

In addition, the paper examines the effects of migration of highly skilled workers on sending countries and discusses some “policy coherence” questions, including:
- Can short-term migration schemes serve to attract highly qualified workers in receiving countries?
- Are such schemes beneficial to both sending and receiving countries?
- How can rapidly ageing economies of the region best cope with a growing need to attract qualified foreign workers, while at the same time minimising the social cost of doing so?
- What can receiving countries do about irregular migration (e.g., the role of regularisation programmes)?

Finally, paper presents a brief conclusion and policy suggestions.

Paper 12. *OECD Environmental Policies and the East Asian Experience*

This paper seeks to review and discuss the evolution of regulatory and incentive measures applied by OECD countries to protect the environment (air, water and land) and examine what lessons can be drawn for East Asia’s developing economies.

The paper first reviews the environmental performance of East Asian economies, both developed and developing, over the past two decades and discusses the relationship between economic growth and the environment. One interesting question to be addressed in this respect is why is it that countries at comparable levels of per capita incomes can have significantly varying levels of environmental quality. Some “real” country experiences may be provided in a box.

The paper then takes a close look at the evolution of “environmental policies” (a mix of regulatory and incentive measures) applied by major OECD countries to protect the environment and highlight similarities and differences among them and over time.

Finally, it distills and discusses key policy lessons for the developing economies of East Asia and may suggest the areas of further research.
Regional Economic Co-operation in East Asia

This paper seeks to review recent developments in regional economic co-operation schemes, particularly various bilateral and plurilateral trade initiatives and monetary and financial co-operation arrangements. It also examines the factors driving these developments, including the role played by OECD countries.

The phenomenon of a dramatic rise in the number of regional trade arrangements (RTAs) in many parts of the world in the 1990s is often referred to as “new regionalism”, as opposed to “old regionalism” in the 1960s and 70s. Such a new wave of RTAs is generally characterised by outward-oriented policies, as external trade barriers have been declining at the same time. East Asian economies have also embraced new regionalism over the past decade. AFTA is a case in point. APEC stands out as a unique case of regional integration and co-operation arrangements, based on two pillars. One is to undertake non-discriminatory confidence-building measures, such as enhanced exchange of macroeconomic information, increased transparency of trade policies among member states, trade and investment facilitation, consultation, voluntary codes and networking. The other is to design and implement voluntary but common liberalisation programmes under the principle of “open regionalism”. More recently, several RTAs involving East Asian economies as partners have been concluded. Many regional FTAs/EPAs are under negotiation or discussion, including China-ASEAN FTA, Japan-ASEAN FTA, Korea-ASEAN FTA, Japan-Korea FTA, etc.

In addition, East Asia has been strengthening financial cooperation, particularly since the Asian currency crisis, including the formation of the Manila Framework Group, ASEAN+3 Finance Ministers Process, and the Chang Mai Initiative.

The paper first reviews recent developments in regional cooperation in East Asia in the areas of trade, FDI and finance, and identifies the driving forces behind these developments. In this review, it discusses the role played by OECD countries’ policies.

The paper next outlines the broad direction of regional cooperation: Whether East Asia is heading toward an EU type of economic integration or only a loose partnership arrangement.

The paper finally explores how the development of regional economic co-operation in East Asia might contribute to the global rule-making efforts in the areas of trade, investment and finance.