

Preface and acknowledgements

Economic development flying-geese style is a ratcheting-up process of structural change, driven by innovations (both technological and institutional) and interactive business operations within a hierarchy of economies. And what matters most for the process is not just markets (where profit-seeking activities take place) but also, more importantly, a much broader set of institutions across national borders called 'global political economy'. Some of these essential characteristics are posited only implicitly in Akamatsu's original 'flying-geese' (FG) theory of economic development. Besides, in this age of rapid technological change, his FG theory originally conceptualized in the 1930s needs reformulation to match the contemporary landscape of the world economy.

This book is the third volume in a trilogy on FG theory reformulation. As indicated by its main title, *The Evolution of the World Economy*, the topic of this study is how the world economy evolves in step-like structural changes as a result of innovation-propelled progression in economic activities. The first volume is entitled *Institutions, Industrial Upgrading, and Economic Performance in Japan: The 'Flying-Geese' Paradigm of Catch-up Growth* (Ozawa, 2005, paperback 2006), and analyzes how the Japanese economy has been able to catch up with – and even surpass in some industries – the advanced West since the end of World War II. The focus is, thus, on one particular Asian country, Japan, whose prewar development experiences gave birth to Akamatsu's theory; and whose postwar catch-up growth occurred under the favorable circumstances created by the US as the leader of the Free World in the context of the Cold War with a then-rising Soviet Union as a military threat. The second volume, *The Rise of Asia: The 'Flying-Geese' Theory of Tandem Growth and Regional Agglomeration* (Ozawa, 2009, paperback 2011), expands its perspective from Japan to East Asia as the unit of analysis and examines how a string of vibrant industrial shoots started to sprout and grow in a staggered manner across the region, following in the footsteps of Japan, an unprecedented successful phenomenon that the World Bank (1993) called 'The East Asian miracle'.

Amazingly, during the last two decades of the twentieth century, the newly industrializing economies (NIEs) of Singapore, Hong Kong,

Taiwan, and South Korea kept growing further, not only having jumped over the middle-income trap but also having joined the advanced world within a short span of time, despite the Asian financial setback of 1997–98. They became no longer the NIEs. Also, China, Indonesia, Malaysia, the Philippines, and Thailand succeeded in quickly reaching middle-income status and alleviating abject poverty. These accomplishments were, indeed, an impressive, region-wide phenomenon that the World Bank identified as an ‘East Asian Renaissance’ (Gill and Kharas, 2007).

In particular, the galactic rise of China as an economic and military superpower defies any conventional development theories for adequate explanation. China’s most significant innovation in global political economy has been an effective combination of communist authoritarianism and global capitalism, a savvy ideological and institutional innovation. As if China fully understood the Cambridge School’s famous adage, ‘Like fire, the market is a good servant, but a poor master’ (Eatwell, 1982), its Communist Party has become a clever master which can take advantage of the market, the quiddity of capitalism, as a good servant. Capitalism used to be the nemesis of communism, but it has been made to serve as the eager collaborator in the interest of the Party. In this regard, there is a growing recognition and acceptance of multinational corporations (MNCs) as expeditious facilitators of structural change across the world, since they possess – and can provide practically overnight – much-needed capital, technology, managerial skills, and access to markets. Thanks to China’s spectacular success in foreign direct investment (FDI)-sparked take-off for industrial modernization, many emerging economies are now eager to open up for investment and trade in hopes of attracting and harnessing foreign multinationals’ operations in the interest of their economic development. Indeed, the China model of state-orchestrated, MNCs-assisted take-off has gained popularity in the emerging world. And a swiftly risen China has grown increasingly confident and assertive in molding itself as a superpower. In fact, China appears hell-bent on challenging the US economic and military primacy and attempting to become the architect and governor of a new world order. This book as the third volume on FG theory reformulation is about these recent changes in the world economy. Given the fast-paced sea changes across the globe, it already seems necessary to go beyond the trilogy and keep writing in order to stay current on the unfolding turns of events.

As before, I owe indebtedness to many people who have given me encouragement and opportunities to complete this book. Professor Peter J. Buckley OBE of the University of Leeds, UK, Editor of the New

Horizons in International Business series, Edward Elgar Publishing, has given me continuous support and encouragement to publish in the series. I am most appreciative of many decades of friendship and professional fellowship. Despite his busy travel schedule in September 2013, on the occasion of a workshop held at Leeds Business School he kindly invited me for a memorable lunch at the seventeenth-century Shibden Mill Inn in his home town, Halifax. Also, in this connection I would like to express sincere thanks to Professors Jeremy Clegg, Sierk Horn, and Hinrich Voss for their warm hospitality and the productive workshop they organized in commemoration of the fiftieth anniversary of East Asian Studies at the University of Leeds. Many of my ideas presented there are included in this book.

My gratitude also goes to Professor Takafumi Kurosawa of Kyoto University, Japan, who gave me the wonderful opportunity to give three seminars and present a paper at a conference he arranged at the Graduate School of Economics, Kyoto University, in early spring 2013. I am grateful for his kind hospitality and to his graduate students who kindly served as a sounding board for ideas.

The two working papers based on those seminars were later posted at the website of the Center on Japanese Economy and Business (CJEB), Columbia Business School, USA. They are ‘The Dynamics of Multi-national Corporation-Impacted Comparative Advantage: Relevancy to Ricardo’s View on Cross-border Investment and Samuelson’s Skepticism about Globalization’ (working paper No. 319, April 2013) and ‘The Classical Origins of Akamatsu’s “Flying-Geese” Theory: A Note on a Missing Link to David Hume’ (working paper No. 320, April 2013). The former has been incorporated into Chapter 4 in this book, and the latter into Chapter 2. In addition, another paper, ‘Explaining the Rise of East Asian Multinationals: State–Industry Links, a Stages Model of Structural Change, and Japan as a Precedent Setter’ (working paper No. 337, March 2014) was on the CJEB website and became a basis for Chapter 5. Also, an earlier version of Chapter 6 was posted on the website of Columbia University’s APEC Study Center as working paper No. 78 (April 2015), ‘Next Great Industrial Transmigration: Relocating China’s Factories to Sub-Saharan Africa, Flying-Geese Style?’. As before, I am thankful to Professor Hugh Patrick of Columbia Business School for his continuous support of my research by making the websites of both the CJEB and the APEC Study Center, Columbia University, available for my working papers.

Some key ideas in Chapters 3 and 5 were presented as a paper, ‘The Changing Nature of Multinationals’ Operations in the Emerging World and Their Impacts on Host and Home Countries’, at the workshop on

Translating Potential into Profits: Foreign Multinationals in Emerging Markets held at the German Historical Institute, Washington, DC, November 2–3, 2012. Professor Matthias Kipping of Schulich School of Business, York University, Canada, and Dr Christina Lubinski of the German Historical Institute, the organizers of the workshop, gave me helpful comments on the paper, for which I am grateful.

The Appendix to Chapter 3 reproduces the three short essays published in *Columbia FDI Perspectives*, two of which are mine: ‘The Role of Multinationals in Sparking Industrialization’ (No. 39, June 6, 2011), and ‘FDI, Catch-Up Growth Stages and Stage-Focused Strategies’ (No. 70, May 28, 2012). The third one is by Professor Francisco Sercovich and titled ‘Knowledge, FDI and Catching-Up Strategies’ (No. 53, December 19, 2011), which is a critique on my first essay. The three essays are reprinted with permission from the Columbia Center on Sustainable Investment (www.ccsi.columbia.edu).

I owe a great deal intellectually to Professor Christian Bellak of the Vienna University of Economics and Business, Austria, in co-writing the earlier versions of Chapter 6. He initially suggested that the flying-geese theory be applied to assess the feasibility of the World Bank’s proposal (made in 2009) to encourage China’s foreign direct investment in Africa’s low-cost manufacturing. We soon collaborated in publishing a short essay, ‘Will China Relocate its Labor-Intensive Factories to Africa, Flying-Geese Style?’ in the *Columbia FDI Perspectives* series (No. 28, August 17, 2010). To our pleasant surprise, our essay was immediately picked up by the *Financial Times*, the *Wall Street Journal*, and the *New York Times*, on their blogs, attesting to the public’s interest in the topic. Encouraged, we then produced an expanded version, ‘Will the World Bank’s Vision Materialize? Relocating China’s Factories to Sub-Saharan Africa, Flying-Geese Style’, that was published in the *Global Economy Journal*, (11) 3, 2011. We are indebted to Dr Karl Sauvant of the Columbia Center on Sustainable Investment for his encouragement, as well as Professors Deborah Brautigam, Daniel van den Bulke, and Stephen Young for their helpful peer-review comments on the original version; and Professor Jannett Highfill, editor-in-chief of the *Global Economy Journal*, for her guidance on the second version. Chapter 6 substantially reanalyzes and rewrites the issue with updated research materials.

Belatedly though, I must add my sincere appreciation to Professor Machiko Nissanke of the University of London, UK and Professor Erik Thorbecke of Cornell University, USA, for inviting me to present a paper at the United Nations University World Institute for Development Economics Research (UNU-WIDER)-sponsored conference on the Impact of

Globalization on the Poor in Asia, held at the United Nations University, Tokyo, April 25–26, 2005. My paper analyzed how the cross-border relaying, flying-geese style, of comparative advantage in labor-intensive manufacturing could lead to poverty alleviation in the emerging world (as will be touched on in Chapters 3 and 6). I remember Professor Thorbecke approvingly said to me, ‘I have never seen anything like this [theory] before’, a remark that helped to boost my confidence in my analytical framework. The paper was subsequently published as a chapter in M. Nissanke and E. Thorbecke (eds) (2010), *The Poor under Globalization in Asia, Latin America, and Africa* (Oxford University Press).

Last but not least, I am grateful to Professor Robert Wade of the London School of Economics, UK, who kindly facilitated the publication of my journal article, ‘The (Japan-Born) “Flying-Geese” Theory of Economic Development Revisited – and Reformulated from a Structural Perspective’, *Global Policy*, 2 (3), 2011, by giving me constructive comments on the initial draft. He also reviewed *The Rise of Asia* in an extremely favorable fashion: ‘[The book] is a blast of fresh air ... [It], moreover, not only analyzes big trends and big policy issues but does so in remarkably lucid and graceful prose, accessible to undergraduates and the general reader’ (reviewed in *Asia Policy*, 11, 2011). His encouraging review certainly uplifted my spirits and considerably mitigated the diffidence I always feel about writing in English.

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Surrounded by vineyards
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