

Preface and acknowledgements

This book is a sequel to *Institutions, Industrial Upgrading, and Economic Performance in Japan: The 'Flying-Geese' Paradigm of Catch-up Growth* (Edward Elgar, 2005; paperback edition, 2006). In that book, I examined how postwar Japan succeeded in catching up with the advanced West by upgrading its industrial structure through emulative learning. It is a story of great transformation in which a war-devastated Japan was reconstructed and emerged as the world's second largest economy over as short a span as less than three decades. Analysis was focused on the process of catch-up growth in that particular nation, Japan. By contrast, this book looks at Asia as a whole (and as the basic unit of analysis) and examines interactive/emulative growth between the US (the lead goose) and the region's catching-up economies – and among the latter themselves. It explores how emulative learning has spread to other Asian economies that followed in Japan's tracks. But Japan itself has been a great beneficiary of US-led global capitalism, especially during the Cold War. In a nutshell, the present book tells the story of how a cohort of Asian countries led by the US has advanced together, though in a staggered fashion, in structural upgrading and economic growth.

No economic system is perfect – that is, there is *no* first-best system. It always has advantages and drawbacks, boons and banes. For the system to prevail, however, the positive ought to be greater than the negative over the long haul, if not in the short run. It is a matter of whether a particular way of organizing economic activities is second-best, third-best, or even lower best. Capitalism, when combined with democracy, even though far from first-best, has proven far superior to socialism, communism, and authoritarianism in raising the standard of living *and* safeguarding human rights and individual liberty. But capitalism itself can still function in varying degrees in catching-up countries even under an undemocratic regime such as communism (as evidenced in China).

Countries are at different stages of economic growth. Such differences are the source of benefits that *both* the advanced and the less advanced can capitalize on by interacting – and integrating closely – across borders. It is the fortune of our times that the most economically advanced nation that 'leads' the world happens to operate on the principles of market capitalism and democracy. (Just imagine the nightmare of having a communist,

totalitarian, or authoritarian country as the hegemon that dictates to the entire world, though we tend to dwell on, and grumble about, the frailties of capitalism and democracy.)

I introduced the notion of 'tandem growth' in a background paper (1994) submitted to UNCTAD in preparation for the *World Investment Report (WIR) 1995*. To my delight, it was soon afterwards picked up in a *Financial Times* article that reviewed the WIR. Tandem growth as a new concept was thus apparently appealing. Until very recently, it had been best illustrated by the pattern of staggered catch-up growth in a string of East Asian economies. The US provided a favorable growth environment in East Asia during the Cold War. Japan's catch-up growth was quickly followed first by the newly industrializing countries (NIEs), which was in turn emulated by the ASEAN-4, and more recently by China and Vietnam. This series of growth has been set in motion under what may be called 'US-led growth clustering'. When economic activities are organized and coordinated within an extended hierarchy of countries, 'economies of hierarchical concatenation' are engendered, benefiting all the constituent countries, but especially those catching up (Ozawa, 1995, 2005).

In this regard, when we study economic development, the fundamental unit of analysis should no longer be so much the nation-state per se but rather *a supra-national regionalized cluster* or *a mega-supra-national region*, such as Europe, North America, East Asia, Latin America, and the like. True, each national economy is still more consciously coordinated and more policy-governed than such a supra-national region. But the private sector is now increasingly integrated on a supra-national basis. The 'flying-geese' theory of tandem growth and regional agglomeration presented in this book is all about this supra-national regional integration of economic activities. In contrast, the conventional 'flying-geese' theory as originally set forth by Kaname Akamatsu largely adopts the nation-state as the basic unit of analysis – that is, to explain how catch-up growth occurs in a particular developing country, albeit in an open-economy context.

Many of the ideas presented here owe much to a host of precious opportunities I have luckily been blessed with, the opportunities to associate – and exchange ideas – with other scholars in the past. The previous 2005 book already acknowledges the heavy intellectual debts I owe to many of them (notably, Professor Kiyoshi Kojima of Hitotsubashi; Professor John H. Dunning of Reading, UK; Professor H. Peter Gray of Rutgers; Professor Jean-Louis Mucchielli of the Sorbonne; Professor Hugh Patrick of Columbia; Professor Colin Dodds of Saint Mary's; Professor Tetsuo Abo of Tokyo University; and Dr Dieter Ernst of the East-West Center, Hawaii). Hence, acknowledgements below are limited to only those who

have inspired me specifically in connection with the present study and who were not mentioned previously.

Overdue acknowledgement must be given to Lord and Professor John Eatwell of Cambridge University, UK. After my journal article, 'Government Control over Technology Acquisition and Firms' Entry into New Sectors: The Experience of Japan's Synthetic Industry', was published in the *Cambridge Journal of Economics*, 4 (2), 1980, I was invited to give a talk to the Cambridge Political Economy Society. Then, Professor Eatwell asked me to come back to Cambridge in connection with the special BBC Cambridge TV series on Britain's industrial competitiveness, a program based on his book, *Whatever Happened to Britain? The Economics of Decline* (Duckworth, 1982). (In that book, he used as a reference my 1974 book, *Japan's Technological Challenge to the West, 1950–1974: Motivation and Accomplishment*, MIT Press.) Our interview appeared in two episodes of the TV series.

At that time (in the early 1980s), Japan was in the spotlight. Its rise to industrial power was the hot topic of the day. Japan was clearly on top of the world. Its automobile industry, in particular, was the envy and admiration of the world. And 'Japanization' of British factories was soon to be talked about. Some even speculated about Japan's imminent takeover of the United States as the world's economic leader, hinting that 'Pax Nipponica' would replace 'Pax Americana'. Also, Professor Eatwell organized a conference in Moleria, Mexico, where I had the pleasure of getting acquainted with the late Lord Nicholas Kaldor of Cambridge, and Professor Alice Amsden of MIT. In addition, Professor Eatwell invited me again to spend an entire academic year as a visiting scholar in the Faculty of Economics and Politics, Cambridge University, 1982–3. It was my privilege to become acquainted with Professor Geoffrey C. Harcourt and Professor Ajit Singh during my stay. This wonderful sojourn gave me ample time to think about why a particular advanced economy falls into a decline while some, especially in East Asia, can successfully catch up and thrive. It was also a wonderful opportunity for our son, Edwin (then 14 years old), and daughter, Clare (then 8 years old), to be exposed to excellent British education at state schools in Cambridge that emphasized writing essays in take-home assignments as well as classroom exams (not just marking 'checks' on multiple-choice quizzes). They benefited enormously.

Also, I am indebted to Professor Clark W. Reynolds of Stanford, then the director of the Americas Program, for intellectual stimulation when he invited me as a paper presenter to three different conferences on economic development in Latin America held at Stanford in the late 1980s and the early 1990s. We co-authored two book chapters, 'Japanese Investment in Mexico: A New Industrial Nexus?' in Ramon Myers (ed.), *Integrating*

the World Economy: Japanese Direct Investment in Six Countries during the Late Twentieth Century (Hoover Institution Press, 1996) and ‘La Nueva Conexión Estados Unidos-México-Japón: Interacción Económica Trilateral e Integración Regional en la Cuenca del Pacífico’, in Alejandro Bejar and John Borrego (eds), *La Inserción de México en la Cuenca del Pacífico* (Universidad Nacional Autónoma de México, 1990). At those conferences organized by Professor Reynolds, I gained valuable understanding about Latin American economies and also had the honor of meeting Professor Moses Abramovitz, Professor Masahiko Aoki, and Professor W.W. Rostow.

By the good offices of Professor Reynolds, I was then asked by Professor Riordan Roett of Johns Hopkins (SAIS) to present a paper at a conference on Mexican economic development in Mexico City in 1990, and the paper was published as a book chapter, ‘The Dynamics of Pacific Rim Industrialization: How Mexico can Join the Asian Flock of the “Flying Geese”’, in Riordan Roett (ed.), *México’s External Relations in the 1990s* (Lynne Rienner, 1991). (The same chapter was also reproduced in D. Chudnovsky (ed.), *Transnational Corporations and Industrialization*, Vol. 11, UNLTNC, London: Routledge, 1993.) It was at that conference that I met former Mexican finance minister (1982–6) Jesús Silva-Herzog F., who by then had kindly made an arrangement to have my 1988 OECD monograph, *Recycling Japan’s Surpluses for Developing Countries*, translated into and published in Spanish by the Center for Latin American Monetary Studies. These occasions led me to think of two different regions, Latin America and Asia, on a comparative basis (as reflected in Chapter 6).

I am also grateful to Dr Charles Oman of the OECD’s Development Center in Paris for many years’ professional association and friendship. Our friendship began in the spring of 1980 when I attended the Center’s conference on foreign direct investment at his invitation. He then kept inviting me back to a number of conferences over the next decade and a half and funded a couple of my research projects. Some of them resulted in OECD publications: *Japan’s General Trading Companies: Merchants of Economic Development*, (1984, co-authored with Kiyoshi Kojima, and translated into French and Japanese), and *Recycling Japan’s Surpluses for Developing Countries*, (1988, also translated into French and Spanish). The former was part of the larger research project organized by Dr Oman for what he called ‘the new forms of investment’ (a comprehensive phrase describing all non-equity forms: see his pioneering monograph, *New Forms of Investment in Developing Countries*, OECD, 1984). All these research projects at the Center induced me to mull over *how* and *why* Asia was rapidly growing as a region – with cross-border investments of both the old and the new forms as the major driver of catch-up growth.

Dr Oman kindly encouraged our professional acquaintance to evolve into close friendship at the family level. He showed my wife and me around the Loire Valley (with its many great chateaux). In particular, Mrs Monique Oman has so warmly hosted us for dinner at their Paris home numerous times, delighting us with her exquisite recipes and culinary skills. In 1988 when my daughter and I happened to be in Paris, she welcomed us to stay with her parents in Jarnac, and showed us around Cognac, Bordeaux, and La Rochelle. On another occasion, she drove my wife and me to Auvers, the site of Vincent Van Gogh's work in his last days and of his grave. And most recently she kindly took us to their charming country house in Plaizac, an idyllic southern France village near Cognac, for a week-long vacation in the spring of 2007. Our get-together in Japan in the late fall of 1996 was equally memorable. We are very grateful for all the nice things the Omans have done for us so generously.

The consulting work on multinational corporations I have had the good fortune to do over many years for the United Nations has motivated me to analyze the role of foreign direct investment in economic development. Through the kind offices of Professor John Dunning, my work began with the United Nations Center on Transnational Corporations (UNCTC) which had been once located in New York City (1975–92) before it moved to the United Nations Conference on Trade and Development (UNCTAD) in Geneva in 1993. I am thankful to Dr Karl P. Sauvant, former Director of the UNCTAD Division on Investment, Technology and Enterprise Development (DIAE), for inviting me to UNCTC and then to UNCTAD to work on the various issues of the *World Investment Report* (an annual UN publication) on several occasions (1992, 1994, 1997, and 1999). In 2005 he left UNCTAD and became director of the Vale Columbia Center on Sustainable International Investment, Columbia University, New York.

Most recently (in 2007–8) I was again involved in preparing the *World Investment Report 2008*. Chapter 5 of this book (Structural Upgrading, Infrastructure Development, and the Insatiable Quest for Natural Resources) draws on a background paper, 'History Repeats Itself: Evolutionary Structural Change and TNCs' Involvement in Infrastructure Overseas, Flying-geese Style', I submitted to UNCTAD. My involvement with the WIR benefited me intellectually as I was able to learn so much from others at the brain-storming meetings. In this regard, I owe a lot to Ms Anne Miroux, Head of the Investment Analysis Branch, IAB/DIAE/UNCTAD; Professor John H. Dunning of Reading; Professor Peter Buckley of Leeds; Professor Robert Pearce of Reading; Mr Hafiz Mirza, Chief, Development Issues Section, IAB/DIAE; Mr Masataka Fujita, Chief, Investment Trend Section, IAB/DIAE; Mr Torbjorn Fredriksson, Officer-in-charge, Policy Issues Section, IAB/DIAE; and all other staff

members. I am especially grateful for Mr Mirza's warm personal hospitality during my stay in Geneva. The same goes for Mr James Zhan, Officer-in-charge, DIAE, with whom I had the pleasure of co-authoring a book, *Business Restructuring in East Asia: Cross-border M&As in the Crisis Period*, Copenhagen Business School Press, 2001.

I am also deeply indebted to Professor Christian Bellak of the University of Economics and Business Administration, Vienna, Austria. He invited me as a speaker at a workshop on the Six Countries Programme on Innovation, held at Parkhotel Schonbrunn, Vienna, May 25–6, 1998. I presented a paper, 'The "Flying-Geese" Paradigm of Technological and Structural Upgrading: What Went Right and What Went Wrong in East Asia', and was thus able to use the conference as a sounding board for my ideas about the theory. Moreover, to my surprise, Professor Bellak kindly organized a special panel session at EIBA's (European International Business Association) annual conference in Oslo, Norway, December 10–13, 2005, a panel on 'The Flying-geese Theory of Growth and International Business' – in recognition of my contribution to the FG theory. There I made a brief presentation titled 'The Quiddity of the Flying-Geese Theory: A Reformulation'.

Another word of gratitude must be added for Dr Eric D. Ramstetter of the International Center for the Study of East Asia Development (ICSEAD) in Kita Kyushu, Japan. In June 2004, I was invited to present a paper titled 'The Division of Labor Revisited: Manufacturing Paradigms, Worker Welfare, and Comparative Advantage Recycling in East Asia', at the Center. This gave me a valuable opportunity to get feedback from the Center's research scholars.

Chapter 4 in this book is based on my paper, 'Asia's Labor-driven Economic Development, Flying-geese Style: An Unprecedented Opportunity for the Poor to Rise?', presented at the United Nations University–World Institute for Development Economic Research (UNU–WIDER) conference on The Impact of Globalization on the Poor in Asia, United Nations University, Tokyo, April 25–6, 2005, and circulated as Discussion Paper No. 40, 2005, APEC Study Center, Columbia University, and also as Research Paper No. 2006/59, UNU–WIDER (copyright UNU–WIDER, 2006). The Appendix to Chapter 4 is based on 'The Dynamics of the "Mature" Product Cycle and Market Recycling, Flying-geese Style: An Empirical Examination and Policy Implications' (co-authored with Harvey Cutler), *Contemporary Economic Policy*, **25** (1), January 2007, 67–78 (copyright the Western Economic Association, 2006), reprinted in part and modified with permission from Blackwell Publishing, Inc.

Chapter 5 is based on 'History Repeats Itself: Evolutionary Structural Change and TNCs' Involvement in Infrastructure Overseas, Flying-geese

Style', a background paper submitted to UNCTAD in preparation for WIR 2008 and posted both as Working Paper No. 261 on the web site of the Center on Japanese Economy and Business, Columbia Business School, and as Discussion Paper No. 58 on the web site of the APEC Study Center, Columbia University, 2008.

Terutomo Ozawa

Fort Collins, CO, USA
at the foot of the beautiful Rockies
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