Sustainable Development and International Development Cooperation
Memo 9

Part 3: SD and Developed Countries/Developing Countries

1. From Import Substituting Industrialization to Export Oriented Industrialization
   - Limits of Import Substituting Industrialization
   - Prebisch-Singer Thesis: The terms of trade between primary products and manufactured goods tend to deteriorate over time.

Historical trends of terms of trade

\[
\text{一次産品交易条件の推移 (IMF-IFSより作成)}
\]

- Export Oriented Industrialization
- Export(Trade) ⇒ FDI (Foreign Direct Investment) ⇒ ODA

Total Supply: \( Y = C+S \)
Total Demand: \( Y = C+I \)
Macro balance: \( I=S \)

\[
I-S = (GE-GT) + (EX-IM)
\]

- ODA と OOF
  ODA---bilateral ODA---Grant (Grant +TC) + Loan
  ----Multilateral ODA

Definition of ODA: Official Development Aid, OECD/DAC
Grants or Loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms [if a loan, having a Grant Element (q.v.) of at least 25 per cent]. In addition to financial flows, Technical Co-operation (q.v.) is included in aid. Grants, Loans and credits for military purposes are excluded. For the treatment of the forgiveness of Loans originally extended for military purposes, see Notes.
on Definitions and Measurement below. Transfer payments to private individuals (e.g. pensions, reparations or insurance payouts) are in general not counted.

2. **WW II and the present world**

   • F. D. Roosevelt: Four Freedom Speech, January 6, 1941:
     "The first is freedom of speech and expression – everywhere in the world.
     The second is freedom of every person to worship God in his own way – everywhere in the world.
     The third is freedom from want, which, translated into world terms, means economic understandings which will secure to every nation a healthy peacetime life for its inhabitants – everywhere in the world.
     The fourth is freedom from fear, which, translated into world terms, means a world-wide reduction of armaments to such a point and in such a thorough fashion that no nation will be in a position to commit an act of physical aggression against any neighbor – anywhere in the world.
     That is no vision of a distant millennium. It is a definite basis for a kind of world attainable in our own time and generation."

   • Bretton Woods System: IMF and World Bank
     Preparing to rebuild the international economic system as World War II was still raging, 730 delegates from all 44 Allied nations gathered at the Mount Washington Hotel in Bretton Woods, New Hampshire, United States, for the United Nations Monetary and Financial Conference. The delegates deliberated upon and signed the Bretton Woods Agreements during the first three weeks of July 1944.
     Setting up a system of rules, institutions, and procedures to regulate the international monetary system, the planners at Bretton Woods established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), which today is part of the World Bank Group. These organizations became operational in 1945 after a sufficient number of countries had ratified the agreement.

   • H. S. Truman:
     Marshall Plan: European Recovery Program
     Point Four, 1949
     "Fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas"

   • 1950s • 1960s  Big push
     According to the “big push” theory of economic development, publicly coordinated investment can break the underdevelopment trap by helping economies overcome deficiencies in private incentives that prevent firms from adopting modern production techniques and achieving scale economies. These scale economies, in turn, create demand spillovers, increase market size, and theoretically generate a self-sustaining growth path that allows the economy to move to a Pareto preferred Nash equilibrium where it is a mutual best response for economic actors to choose large-scale industrialization over agriculture and small-scale production. The big push literature, originated by Rosenstein-Rodan [1943, 1961], was initially motivated by the postwar reconstruction of Eastern Europe. The theory subsequently appeared to have had limited empirical application... Scholars have found few real-world examples of such an infusion of investment helping to “push” an economy to high-level industrialization equilibrium.
THE FALL AND RISE OF DEVELOPMENT ECONOMICS by Krugman

The glory days of "high development theory" spanned about 15 years, from the seminal paper of Rosenstein Rodan (1943) to the publication of Hirschman's Strategy (1958).

Loosely, high development theory can be described as the view that development is a virtuous circle driven by external economies -- that is, that modernization breeds modernization. Some countries, according to this view, remain underdeveloped because they have failed to get this virtuous circle going, and thus remain stuck in a low level trap. Such a view implies a powerful case for government activism as a way of breaking out of this trap.

It's not that easy, of course -- just asserting that there are virtuous and vicious circles does not qualify as a theory. (Although Myrdal (1957) is essentially a tract that emphasizes the importance of "circular and cumulative causation" without -- unlike Hirschman (1958), which is often treated as a counterpart work -- providing much in the way of concrete examples of how it might arise). The distinctive features of high development theory came out of its explanation of the nature of the positive feedback that can lead to self-reinforcing growth or stagnation.

In most versions of high development theory, the self-reinforcement came from an interaction between economies of scale at the level of the individual producer and the size of the market. Crucial to this interaction was some form of economic dualism, in which "traditional" production paid lower wages and/or participated in the market less than the modern sector. The story then went something like this: modern methods of production are potentially more productive than traditional ones, but their productivity edge is large enough to compensate for the necessity of paying higher wages only if the market is large enough. But the size of the market depends on the extent to which modern techniques are adopted, because workers in the modern sector earn higher wages and/or participate in the market economy more than traditional workers. So if modernization can be gotten started on a sufficiently large scale, it will be self-sustaining, but it is possible for an economy to get caught in a trap in which the process never gets going.

"1970s • 1980s  BHN: Basic Human Needs Approach;
1976 ILO, food, shelter, public health, education
→ Social Development"

"1989  End of Cold War
1990s  Aid fatigue, New direction of aid → Social development, Human development,
Sustainable development,
Capacity Development,
Human security,
1994 Cairo, International Conference on Population and Development; ICPD
1995 UN Summit on Social Development, Copenhagen
HIPC: Heavily Indebted Poor Countries
late of 1990s  World Bank; CDF → PRSP
2000  MDG
2003/2005  Rome Declaration, Paris Declaration; Aid Harmonization, Aid Effectiveness

**Aid Institutions**

**Multilateral Organization**

Bretton Woods Institutions: IMF and World Bank (IBRD, IDA, IFC, MEGA)
UNDG: United Nations Development Group; 28 organizations and 5 observers
UNDP+UNICEF+UNHCR+FAO+ILO+UNEP+WHO++
Bilateral Organization
OECD/DAC
  UK: DFID. Germany: GTZ, KfW. Sweden: SIDA. Norway: NORAD. Denmark: DANIDA,
  Swiss: SDC. USA: USAID, MCA. Canada: CIDA. Australia: AusAID

History: World
1945 Bretton Woods Convention, IMF and World Bank (IBRD)
1945 UN
1946 UNICEF
1947 Marshall Plan
1950 Colombo Plan for Cooperative Economic Development in South and Southeast Asia
1961 OECD, OECD/DAC, USAID, UN Decade of Development (16th UN General Assembly)
1964 1st UNCTAD
1966 UNDP, ADB
1967 ASEAN
1969 Pearson Report, Partners on Development
1970 UN Tinbergen Report
1971 Nixon shock
1972 Stockholm Conference on the Human Environment, DAC definition of ODA
1978 WB 1st WDR
1979 Brant Commission Report
1980 WB 1st SAL
1985 Plaza Accord
1987 Brundtland Report
1989 Collapse of Berlin Wall
1990 UNDP 1st HDR
1991 Soviet Union collapses
1992 UNCED
1995 WTO, farmer GATT
1996 OECD/DAC, Development Partners Strategy
1997 Asian Currency Crisis, UNFCCC-Kyoto Protocol
2000 MDGs
2002 Monterrey Conference, Johannesburg Summit
2003 Rome High Level Forum on Harmonization
2005 Paris High Level Forum on Aid Effectiveness
Historical Roots: Japan
1954 Japan participate in the Colombo Plan, Japan-Burma Peace Treaty and Agreement on Reparation and Economic Cooperation
1956 Japan-Philippines Agreement on Reparation
1958 Japan Indonesia Peace Treaty and Agreement on Reparation and Economic Cooperation
1961 OECF
1962 OTCA
1964 Japan joins OECD
1974 JICA
1977 Fukuda Doctrine
1978 1st Medium Target of ODA
1989 Japan becomes top donor
1992 ODA Charter
1993 TICAD 1
1997 Fiscal Structural Reform Act
1999 JBIC
2003 New ODA Charter
2008 JICA

Yen Loan: OECF-JBIC-JICA
1961 OECF
1999 JBIC
2008 JICA (New)

Technical Cooperation: OTCA-JICA
1962 OTCA
1974 JICA
2008 JICA (New)

Grant
MOFA: 1992 ODA Charter
2003 New ODA Charter
2008 JICA (New)

References
http://www.ide.go.jp/English/Publish/Download/Spot/24.html

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100m</td>
<td>%</td>
<td>100m</td>
<td>%</td>
<td>100m</td>
<td>%</td>
<td>100m</td>
<td>%</td>
</tr>
<tr>
<td>E. Asia &amp;</td>
<td>8.0</td>
<td>57.7</td>
<td>5.6</td>
<td>38.9</td>
<td>4.3</td>
<td>28.0</td>
<td>4.7</td>
<td>29.6</td>
</tr>
</tbody>
</table>

Table 1 Extreme Poverty Population and Ratio in Asia and Sub Saharan Africa
### Table 2  Population Growth Ratio in Asia and SSA

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>E. Asia &amp; Pacific</strong></td>
<td>Pop.</td>
<td>9.0</td>
<td>11.2</td>
<td>13.6</td>
<td>16.0</td>
<td>18.0</td>
</tr>
<tr>
<td></td>
<td>Growth Ratio (%)</td>
<td>2.2</td>
<td>2.2</td>
<td>2.0</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>S. Asia</strong></td>
<td>Pop. (100M)</td>
<td>5.6</td>
<td>7.1</td>
<td>9.0</td>
<td>11.1</td>
<td>13.5</td>
</tr>
<tr>
<td></td>
<td>G.R. (%)</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>SSA</strong></td>
<td>Pop. (100M)</td>
<td>2.3</td>
<td>2.9</td>
<td>3.9</td>
<td>5.2</td>
<td>6.7</td>
</tr>
<tr>
<td></td>
<td>G.R. (%)</td>
<td>2.6</td>
<td>3.0</td>
<td>3.0</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td><strong>World</strong></td>
<td>Pop. (100M)</td>
<td>30.2</td>
<td>36.7</td>
<td>44.2</td>
<td>52.4</td>
<td>60.7</td>
</tr>
<tr>
<td></td>
<td>G.R. (%)</td>
<td>1.9</td>
<td>2.0</td>
<td>2.0</td>
<td>1.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: World Development Indicators database (http://www.worldbank.org/)

### Table 3  Industrial GDP Ratio in Asia and SSA

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>E. Asia &amp; Pacific</strong></td>
<td>Agriculture</td>
<td>31.4</td>
<td>32.9</td>
<td>24.4</td>
<td>20.0</td>
<td>12.6</td>
</tr>
<tr>
<td></td>
<td>Manufacture</td>
<td>30.5</td>
<td>32.5</td>
<td>42.5</td>
<td>40.3</td>
<td>46.0</td>
</tr>
<tr>
<td></td>
<td>Service</td>
<td>38.1</td>
<td>34.6</td>
<td>33.0</td>
<td>39.8</td>
<td>41.4</td>
</tr>
<tr>
<td><strong>S. Asia</strong></td>
<td>A.</td>
<td>45.8</td>
<td>44.8</td>
<td>38.0</td>
<td>30.5</td>
<td>25.1</td>
</tr>
<tr>
<td></td>
<td>M.</td>
<td>17.6</td>
<td>19.9</td>
<td>23.8</td>
<td>26.6</td>
<td>26.2</td>
</tr>
<tr>
<td></td>
<td>S.</td>
<td>36.6</td>
<td>35.3</td>
<td>38.2</td>
<td>42.8</td>
<td>48.8</td>
</tr>
<tr>
<td><strong>SSA</strong></td>
<td>A.</td>
<td>27.1</td>
<td>21.0</td>
<td>17.6</td>
<td>18.1</td>
<td>17.0</td>
</tr>
<tr>
<td></td>
<td>M.</td>
<td>28.2</td>
<td>29.3</td>
<td>38.2</td>
<td>34.2</td>
<td>30.0</td>
</tr>
<tr>
<td></td>
<td>S.</td>
<td>45.4</td>
<td>49.7</td>
<td>44.2</td>
<td>48.0</td>
<td>53.1</td>
</tr>
</tbody>
</table>

Source: World Development Indicators database (http://www.worldbank.org/)

### Schedule

**Part 1: Concept and theory of sustainable development**
1. Introduction: SD and Global Sustainability  9/30
2. Concept of SD  10/07
3-4. Theory and policy of SD: Criteria and Indicators of SD  10/14, 10/28
Part 2: SD and Development Policy in Developing Countries
5. Present situation of global development and cooperation 11/4
6-7. Poverty, Development, and Environment: Poverty Trap, Big push, Dual society and two sector development model 11/11, 11/18
8. Development strategy: import substitution and export oriented 11/25

Part 3: SD and Developed Countries/Developing Countries
9. PRSP and MDGs 12/2
10. Paris Declaration 12/9
11. Assessing Aid 12/16
12. Aid and environment 1/6

Part 4: Social Capacity Development and Institutional Change
13. Capacity for Development 1/13
15. Concluding remarks 2/3