

Book Review

Learning to Industrialize: From Given Growth to Policy-aided Value Creation by Kenichi Ohno, Oxon: Routledge-GRIPS Development Forum Studies, 2013, 341 pp.

Part 1: Policy and Development

“Learning to Industrialize”, a book by Kenichi Ohno, discusses different industrial policy approaches for economic development. Ohno details policy objectives and contents, flow, administrative procedures and organisational structures in the selected economies. He notes different catch-up abilities of the countries under study in terms of per capita income and technological knowledge. There appears to be a correlation between natural resource-abundant economies and advanced development. Ohno’s correlation analysis is found in Chapter 1 and 2. He highlights the following points:

- The natural resource sector may crowd out manufacturing activities. A discovery of natural resources that can be used for economic activities and their subsequent extraction for export would increase national income and spending. As wages and prices rise and capital investment is mobilised towards the lucrative resource sector, investment in manufacturing becomes unattractive, costs for manufactured products become globally uncompetitive, and manufacturing activities will shrink in size.
- Economies that ride on resource exports are fragile and unsustainable. The growth of these economies will be affected when resource prices stop rising.

The risks of liberalisation of capital accounts that leads to excessive inflows of foreign funds in the case of some economies are also discussed (Chapter 1). These economies may see themselves exposed to consumption and construction booms, land speculation, stock market bubbles, current account deficits, and loss of commitment of the local industries to be internationally competitive in production. A few remarkable statements from the author inform policy makers of developing economies about the importance of building a favourable condition for “economic development driven by knowledge, skills and technology”.

- *“Natural resources and foreign money may make you rich, at least for a while, but they do not make you innovative and hardworking”.*

- *“Lucky people may conjure up envy but not necessarily respect and admiration. But even high-income countries endowed with large unearned advantages must face the challenge of using them to build an internal value creating mechanism as advantages do not usually last eternally”.* (pp. 20-21)

The development studies literature suggests the following conditions for economic development: reasonable political and macroeconomic stability; commitment to education and training; investment in technology; supporting and upgrading SMEs; building basic infrastructure and institutional support for social security purposes; and administering productive routines. Of particular relevance to economic policy makers, as the author stresses, is how well they carry out common development tasks. What matters to development is neither the choice of policies nor random copying of development strategies (be it South Korea’s support for Chaebol’s productive activities, or Taiwan’s approach for SME upgrading). It is noteworthy that many Asian economies offer a kind of industrialisation knowledge transfer programme to developing countries. South Korea’s knowledge transfer programme, according to the author, is standardised, institutionalised and public-oriented. Japan on the other hand conducts its knowledge transfer programme on a case-by-case basis via dialogues with its partners. Singapore and China conduct knowledge transfer bilaterally while Malaysia and Vietnam via intellectual cooperation (see Chapter 3).

The author emphasises that policymakers¹ of developing countries (along with entrepreneurs, engineers and industrial stakeholders - but not foreign consultants) must participate in policy processes, set priorities, decide policy content, build necessary institutions, and be responsible for implementing and monitoring projects. Strong policy ownership and collective learning over a period of policy process would lead a country to desire “national pride and global recognition” for the committed efforts in industrialisation. Standard policy menus (e.g. policy framework, education and training for industrial human resources, developing productive capability, financial supports for industrialisation purposes, FDI attraction, networks and linkages, and innovation systems) and certain industrial policy procedures and measures for productivity (e.g. technocratic oriented policy organisation of South Korea, productivity and continuing education council structure of Singapore, super-ministry coordination of MITI of Japan, etc.) are also discussed in this book. Ohno reminds policy makers to take ownership of the policy process and not merely make cosmetic changes to policy drafts prepared by others (see Chapter 4).

The following are some points that are seen as satisfying the conditions of a proactive industrial policy government (pp.37-38):

- Market driven development under globalisation whereby production, investment and trade are carried out by the private sector.
- The government must assume an active role in supporting industrialisation and development agendas.
- Adopting industrial policy instruments used by other economies, learning the essences and adapting it in response to the local and existing contexts.
- Learning from the policy processes and gradually advancing the policy scope and measures.
- Setting policies for human capital development and institutionalising a routine that can internalise knowledge, skills and indigenous technology.
- Creating mechanisms that build trust for cooperation between government and business enterprises.
- Policy makers must keep themselves abreast of the latest trends in economic development as well as be informed of the desires of the industrial community in order to set visions, roadmaps and action plans. There are policy makers who tend to outsource these learning tasks to consultants or foreign experts. The policy makers would find out industry expectations from the reports the experts produce. It is noted that unless the knowledge and understanding of expectations is fully digested by the policy makers, the ultimate policy execution would not be the socially desired one.

Part 2: Country Studies

This book consists of a few country studies on policies related to industrialisation (which were discussed in the first few chapters). A chapter on Japan (Chapter 5) is particularly useful, especially to readers who wish to explore the dynamics of Japan's industrialisation process towards becoming an advanced economy. It covers many aspects including: the structure of politics of a few governing regimes; sources of technologies; engineering education; and emergence of capable firms from different regimes in performing productive activities and policy learning.

Here review two country studies, namely Singapore (Chapter 6) and Malaysia (Chapter 8), as they seem to share similar industrial catching-up strategies during their early stages of development. Singapore stands out as an economy with high productivity levels due to the government's efforts in mobilising resources to empower certain public organizations toward periodic improvement and advancement of national industrial productivity. There are productivity councils and boards overseeing productivity performance; committed entities to ensure various stakeholders participate in productivity movements; and various programmes and campaigns since

the 1960s to raise productivity awareness, upgrade skills and ensure good working relations among the stakeholders. These along with FDI-friendly (foreign direct investment) policies and technology-targeting approach (see Wong, 1999) enabled Singapore to attract large volumes of investments from technology-based multinational corporations. Some of these corporations established their highly valuable R&D facilities in Singapore. In addition to the so-called ‘Singapore obsession’ about productivity, the country maintains institutions that deliver flexibility and agility in industrial policymaking in order to respond quickly to changing global production value chains. The public entities are led by technocrats and staffed with highly qualified professionals. Nonetheless, there are limits to a technocratic approach to achieve a desired level of industrialisation, particularly in the case of economies aspiring to chart a path similar to that of Singapore. The ‘desired level’ here refers to an apparent progressive coevolution between industrial development and socio-economic welfare. Rule by technocracy or providing logical answers to certain problems as perceived by highly trained professionals with modern technical skills (e.g. answers derived from specific disciplines such as theory of efficient economics, functional and productive aspects of industrial systems engineering, etc.) may lead to undesirable outcomes from the social point of view (see Barr, 2008, 2014). Malaysia, according to Ohno, has competent technocrats who manage complex policy processes well. He maintains that they:

“...have produced an elaborate policy system with a large number of internal linkages and key performance indicators. Documents they produce are colorful and easy to follow...Malaysia policies are not only well designed but actually implemented...Malaysia has mastered the art of policymaking to near perfection. Its policy documents can make good textbooks for other countries that want to follow.” (pp. 228-229)

However, as the author points out, the aspiration of the government and commitment of the technocrats in executing and perfecting the industrial policy processes have not receive the desired response from the private sector. He opines that Malaysia needs an approach “without detailed plans and create and adjust while you go”. He sees the limits of Malaysia’s technocratic solution that is filled with acronyms, elaborate targets and key performance indicators.

Ohno continues his analysis on the industrialisation processes in Malaysia by examining the case of Proton. He commends Proton for its efforts in technological upgrading. However, he also appoints to the inability of Proton and its local suppliers to internalise and develop core technology. He argues the Proton suppliers continuing to learn “basic process” and “moderate achievement” in cutting-edge technology is “tantamount to

nothing” in the global car market. The policy measures needed to upgrade the automotive sector, he says, are largely driven by the strong hand of the state instead of a more market guided approach. A contrasting and commendable approach can be seen in the case of Thailand. He opines that Malaysia must seek a more sustainable path for its automotive sector in order to compete with its neighbours.

Concluding Remarks

This book is quite fascinating in its discussion of various pragmatic approaches adopted by countries in their industrialisation path. It will benefit policy makers who wish to learn more about policy measures, tools and various issues faced by different countries in executing their respective industrial action plans. Students of policy studies would find this book a useful reference-particularly those who wish to explore the policy environments of Asian economies, and what tools were adopted in response to a rapidly changing global business environment. Industrial policies of two rapidly developing economies, namely Vietnam and Ethiopia, are discussed in detail to provide readers with an understanding of how and what emerging economies do in their catching-up process. This can serve as a useful guide for other developing economies aspiring to achieve industrialisation and economic development.

Acknowledgement

The impetus for this review exercise came from my visit to GRIPS (National Graduate Institute for Policy Studies) of Tokyo hosted by Professor Patarapong Intarakumnerd in July 2015. I had given a talk on “Industrialization Strategies of East Asia: Political Leadership, Technocrats and Policy Process” at the 66th GIST Seminar. I was fortunate to have Professor Kenichi Ohno as one of the participants. After the talk, I had the chance to learn from his sharing about his views on policy and industrialization

Notes

1. The author notes that the policy contents and structural design of some developing economies often were left to a small group of people, which may be officials of the ministry in charge, academics or foreign consultants (p. 28).

References

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