Flying Geese Pattern and Central and East European Countries

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This paper compares the economic development in East Asia and CEECs (Central and Eastern European Countries), especially the Western Balkans from perspective of economic history. Korea was colonized by Japan (1910-1945). Although Korea regained its independence after World War II, the country was separated by the Korean War (1950-1953). The country was completely devastated by the Korean War. As of 1960, South Korea was less developed than North Korea. Later, however, South Korea experienced a high economic growth with about 10 years lag behind Japan. South Korea has had a close economic connection with Japan and was able to introduce capital and technology from Japan. South Korea's high economic growth can be to a considerable extent explained by "Flying Geese Pattern" as well as "Advantage of Backwardness". It seems that the relation between Japan and East Asia is similar to the relation between Germany [not only Germany but also some other core countries in the European Union (EU)] and post-socialist East European countries. Central European and as well as Romania and Bulgaria (new EU member states of CEECs) attracted capitals and technologies from developed countries including the EU countries and attained rapid economic development. A problem is whether the Western Balkan countries will be able to attain rapid economic development with capitals and technologies absorbed from developed countries as new EU member states have experienced. In this paper, not only common characteristics but also differences in the conditions between East Asian countries and the West Balkan countries will be examined.

Keywords: Flying Geese Pattern, East Asia, Central and Eastern Europe, Western Balkans, economic history

It seems that the relation between Japan and East Asia is similar to the relation between Germany [not only Germany but also some other core countries in the European Union (EU)] and post-socialist East European countries. Central European countries as well as Romania and Bulgaria attracted capitals and technologies from developed countries including the EU countries and attained rapid economic development. A problem is whether the Western Balkan countries will be able to attain rapid economic development with capitals and technologies absorbed from developed countries as the above mentioned new EU member states of Central and East European countries (CEECs) have experienced.

In this paper, the Flying Geese Pattern is briefly explained at first. Then, experiences of South Korea and East Asia are explained, and secrets of South Korea's economic success are analyzed. Not only common characteristics but also differences in the conditions between East Asian countries and the West Balkan countries are examined. Finally, the paper reaches conclusion.

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Flying Geese Pattern

In the 1970s, labor-intensive industries such as textile industry and assembly of radio, television, and other home appliances were relocated from Japan to South Korea. Along with the economic development in Newly Industrializing Economies (NIES) such as South Korea, Taiwan, etc., labor costs in these countries have increased to a considerable level. Labor-intensive industries in these countries relocated their production bases to Association of Southeast Asian Nations (ASEAN) countries such as Thailand, Malaysia, etc., in pursuit of cheaper labor costs. These phenomena can be explained by the Flying Geese Pattern, which was originally presented by Kaname Akamatsu before World War II and was later developed and modified by the younger generations (Inada, Ohashi, Kozaki, & Muroi, 2000, pp. 67-68).

According to Yamazawa et al. (1993), it originally referred to the typical development pattern of modern industries in Japan, which, as a late-starting industrializing country in the late 19th century, introduced modern industries at first through import, then started domestic production to substitute import, and finally exported its product abroad as it became competitive internationally. It focuses on an efficient interaction between international trade and industrial growth and the sequence of inverse V-shaped growth curves of import, domestic production, and export resembles the flying formation of wild-geese returning to the south in late autumn.

The Flying Geese Pattern is also called the Catching-up Product Cycle (CPC) by younger generations. Yamazawa et al. (1993) further explains Figure 1 as follows: In Figure 1, Panel A illustrates CPC by means of the schematic forms of four growth curves of import (M), domestic production (S), domestic consumption (D), and exports (X) of a modern industry product. Statistically domestic production is derived as apparent consumption, i.e., production plus import minus export ($D = S + M - X$), but theoretically its growth curve sets the pace of the CPC development of a particular industry, through its impact on domestic entrepreneurs. Panel B illustrates the change of the two key ratios in the process of the CPC development, import/consumption ratio (M/D) and export/production ratio (X/S) which are often used to measure the progress of import of substitution and export expansion respectively. Although export starts only after import finishes in this schematic diagram, in reality, products are differentiated within the same products group and the export of lower quality product starts while the import of sophisticated one still continues. Panel C illustrates the CPC by a single growth curve of production/consumption ratio (S/D). Five development phases: Introductory, import substitution, export, mature, and reverse import, are distinguished by the specific value of S/D, namely 0.5, 1.0, maximum, 1.0 again (Yamazawa et al., 1993, p. 17).

This illustration was later extended to describe another sequence of inverse V-shaped growth curves of domestic production of individual modern industries with the same country, i.e., a diversification of industrial structure in the process of industrialization [Variation 1: see Figure 2 (A)—successive CPC development of industries in late-starting countries]. The illustration was further extended to describe the transmission of the CPC development among trading countries [Variation 2: see Figure 2 (B)—successive transfer of an industry to countries at a different development stage] (Yamazawa et al., 1993, p. 14).

Figure 1. The CPC development of an industry—a schematic diagram. Source: Yamazawa et al. (1993, p. 16).

Figure 2. Variations of the CPC development. Source: Yamazawa et al. (1993, p. 21).

Economic Development in South Korea and East Asia

A Miracle of the Hang River

In 1996, per capita gross domestic product (GDP) in South Korea reached US\$ 10,000. It is in 1996 that South Korea was admitted to the Organization for Economic Co-operation and Development (OECD), a group of advanced countries. As the country was hit by the Asian Economic Crisis and came under the control of the International Monetary Fund (IMF) in the following year (1997), the period 1996-1997 is considered to be an epoch-making. Let us take a general view of the economic history of South Korea until 1996.

Korea was under the rule of the Japanese Empire as its colony from 1910 to 1945. As expressed by words "agriculture in South and industry in North" (Lee, 1980, p. 72), during Japan's rule, industry was not developed in the southern part of Korean Peninsula compared with the northern part where mineral resources were rather abundant.

Although Korean nation regained independence after World War II, soon the Korean War (1950-1953) has broken out. As a result of the war, Korea was divided into North and South at the 38th parallel. It is said that US Army and Chinese Volunteer Army have mobilized three million soldiers. In total nearly six million soldiers have fought in the Korean Peninsula. Both sides had heavy casualties. The magnitude of physical

damages amounted to two years' GDP of South Korea at that time (Watanabe, 1996, p. 38).

Government led by Lee Sung Man spent all its time in ceaseless political strife and completely lacked ability to manage economic recovery. More than anything else, the national land has been completely destroyed by the three-year war, and almost no resource was left for economic reconstruction. (Watanabe, 1996, p. 40)

South Korea's last resort was aid from the USA. Its aid was mainly supply of goods, the majority of which being raw materials such as wheat, raw sugar, raw wool, raw cotton, etc. The aid goods were sold off by the government for the domestic production. A part of the proceeds was included in the general budget, and other part was utilized for financing companies through the Korean Industrial Bank. It was only flour milling, sugar refining, and textile industry that was brisk. These big companies succeeded in obtaining these articles of disposal by the government not because of their entrepreneurial efforts but because they behaved as businessmen with political contacts. Government had no economic policy for overcoming poverty, while a handful of big companies were enjoying privileges and prospering. People's disillusion and irritation about the government and such companies were increasing day after day.

There occurred a military *coup d'etat* led by General Park Chung Hee on May 16, 1961. General Park ran the presidential election in 1963 and he defeated an old and experienced politician. "Korean people chose president who came from the army" (Watanabe, 1996, p. 48). Although the declaration of democratization was made in June 1987 and the presidential election was held in December in the same year, the military regime practically continued until 1993 because General Noh Tae Woo was elected president. According to Watanabe, civil bureaucrats' way of thinking was conservative and abstract and their way of behavior was worship of the powerful and formalism, which was contrary to enterprising spirit. The military *coup d'etat* was an epoch-making event that broke down the civil bureaucracy which has been warmly fostered in the Confucian climate as well as thoughts and ethics which have supported the former. The author would like to add that he was very critical toward the military regime in South Korea 45 years ago. At present, however, he has to admit that the regime of development dictatorship has played a positive role in the modernization of South Korean society, although it of course had negative aspects too. Not only did the military itself appear as a driving force of the modernization, but also the military regime appointed young able bureaucrats to high-ranking positions of ministries. The mainstay of economic related ministries was composed of fresh bureaucrats in their thirties with young economists educated in the USA as a center.

According to Watanabe, the new government aimed at "export-oriented industrialization". In order to pursue it, protective policies were abolished. Main goods of South Korea's exports were labor-intensive assembled and processed products. South Korean companies assembled and processed materials and interim products which were imported from advanced countries, by using machines and equipments which were imported also from advanced countries, and they exported the final products. In spite of rapid heavy and chemical industrialization, the country had still fragile production on the basis of interim goods such as parts as well as capital goods such as heavy machines. The country had to strive for expanding exports, relying on imports of interim goods and capital goods.

The government responded to enlarging deficit in trade balance not by new equilibrium through reduction of imports but active and bold introduction of foreign capital. Without expansionist economic management in that sense, South Korea's high economic growth would be impossible. Foreign capital came mainly in the form of loan. Until mid-1960s, government-basis official loans have occupied a high share in the total foreign capital.

Noteworthy was the problem of the Basic Treaty between Japan and South Korea. People's feeling toward the treaty was complicated in South Korea. Many people took it as "humiliating". The public opinion was split into two concerning the pros and cons of signing the treaty. Suppressing people's opposition even by proclamation of martial law, the government concluded the treaty in December 1965.

Park Administration perceived it a better choice in diplomatic strategy toward Japan to dare to introduce capital from Japan and accomplish self-supporting economy through this rather than to stick to "bonds of life" in the past, being forced to fall into a slump. (Watanabe, 1996, pp. 74-75)

According to Watanabe (1996), by this treaty, Japan decided to offer aid totaling US\$800 million including aid gratis and private loans. With this as priming water, accelerated expansion of the introduction of foreign capital proceeded since 1965. In the second half of the 1960s, commercial loans surged. In the 1970s, foreign direct investment (FDI) increased. Not only foreign capital but also foreign technology has been introduced on a massive scale. Until mid-1960s, foreign technology was introduced mainly to spinning and weaving industries, however, as early as in the second half of 1960s, the introduction of foreign technology to these industries has almost ceased. Since mid-1970s, the shipbuilding and the petrochemical industries also have relatively decreased in the total introduction of foreign technology. In contrast, other heavy and chemical industries remained at high level for a while in the introduction of foreign technology. At the same time, the introduction of foreign capital to metal, electronic, and machine industries increased. Watanabe pointed out similarity of the system of technology between Japan and South Korea. Due to Japan's colonial rule before the war, the number of engineers who were able to easily understand technological literature written in Japanese was overwhelmingly large in South Korea and Taiwan, compared with any other countries. Watanabe mentioned a fact that there were 1,486 cases out of 2,293 cases of technological introduction between 1962 and 1983, it means that 63% of them came from Japan (Watanabe, 1996, pp. 77-78).

At the beginning, the price competitiveness was secured by low wages. In the second half of the 1970s, however, the level of real wage in the production area in South Korea rapidly increased, showing aspects of a turning point. Thus, South Korea's export strategy was pressed for a fundamental change (Taniura, 1989, p. 42). Instead of low wages, the price competitiveness has been secured by "economy of scale", as symbolized by a giant steel factory, a giant shipyard, etc. Taniura (1989) said that "the economy of scale" has been respected just like a religious belief by many people including economists in the government and managers (Taniura, 1989, p. 82). As the domestic markets were rather small, the products from these giant facilities had to be exported.

In order to construct a real self-sustaining economy, President Park launched a policy for promotion of heavy and chemical industrialization in 1973. This was urged by a kind of crisis consciousness "South Korea being exposed to the menace of North Korea". The government attempted to get "advantage of accumulation" through the regional collectivization by establishing industrial parks according to priority industries. Having prepared infrastructure such as roads, ports, water supply, electricity, etc., the government invited companies to these industrial parks. Companies located in these industrial parks enjoyed special measures of tax and finance and were given the privileges of exemption from custom duties and excise when they imported capital goods such as machines and equipments. It is a steel manufacturer POSCO that symbolizes the heavy and chemical industrialization in this period. This is the biggest and the most up-to-date integrated comprehensive steelworks. For construction of this giant steelworks, the government invested a huge amount of the budget funds and foreign capital. Its technology had nothing to do with conventional technology, but it was formed by the

introduction of the most up-to-date foreign technology. Watanabe said, "The construction of this steelworks was, at least at the beginning, a state 'venture business' attempted at any risk rather than a project planned on the basis of a rational cost-benefit analysis" (Watanabe, 1996, p. 86). Why were they in such a hurry? We should take into account that this country has always been confronted with North Korea. In the 1970s, the size of the US Army in South Korea was gradually scaled down. This fostered consciousness of urgent necessity for establishing self-reliance both economically and militarily among people and the military. People's national passions together with feelings of danger have supported the rapid heavy and chemical industrialization.

Rural areas have drastically changed. Rural areas in South Korea were extremely poor until early 1960s. As early as mid-1970s, however, peasants' income reached almost the same level as workers' household in urban areas. The industrialization in South Korea has been so strongly pulling employment that migration from the rural areas began. Since the second half of the 1960s, the tendency of a decrease in the rural population and the number of peasant families was remarkable. Labor markets in the rural areas became tight. Accordingly, the average labor hours of peasants became longer, the percentage of incomplete employment in agriculture was decreasing and the participation of women in labor was increasing, and at the same time, real wages of agricultural labor were rapidly increasing. The "Semaui Movement", the plan for modernization of villages led by the government, also supported the improvement of living conditions of peasants. According to Watanabe, most of soldiers who participated in the military *coup d'état* came from villages. One of the factors behind the military *coup d'état* was poverty in rural areas. The military regime has kept a kind of "*Nohonsugi*" (the belief that agriculture forms a basis of the nation's economic and social life) as its identity. The Semaui Movement had three major goals: The first goal was to remove peasants' conception to accept their fate with resignation and foster diligence, self-support, and cooperation. For this purpose, peasants should cooperate on small projects for improvement of their environment such as repair of banks of small rivers in their villages, construction of public wells, etc., with the financial support from the government; the second goal was improvement of the environment. This included government-supported projects such as electrification of rural areas, improvement of village structure, and construction of water supply facility as well as the national land improvement plan such as improvement of big rivers, soil-erosion control, forestation, etc.; the third goal was an increase in peasants' income. In order to increase the production of rice and wheat, big projects such as improvement of irrigation facilities, utilization of ground water, improvement of agricultural machines and implements, and breed improvement were carried out. In order to increase income, peasants were encouraged to do side business. Lucrative cash crops were cultivated, and peasants' group work as well as joint use of fertilizers and agricultural machines was actively encouraged. Thus, enriched rural areas became markets for industries (Watanabe, 1996, pp. 89-93).

Compressed Industrial Development

South Korea has experienced its high economic growth with 10 years lag behind Japan. We are impressed by amazing speed of its growth. South Korea's postwar economic development has been often called a Miracle of Hang River. Let us pay attention to capital stock which supports production activity in a country. In South Korea, the rate of capital formation was only 7% in 1953, but it increased to 33% in 1980. With the increase in capital stock, there emerged high economic growth and industrial development. Average annual rate of growth of the manufacturing was 12% during the period 1953-1961 and 15% during the period 1962-1966 (the first planned period), and it further accelerated to 22% during the period 1967-1971 (the second planned period).

Although there was the oil shock in 1973, the manufacturing kept developing with 18% of average annual rate of growth. In the course of the industrialization, the dependence on import has gradually decreased in manufacturing industries such as textile, electric, electronic, shipbuilding, petrochemical, steel industries, etc., and at the same time, the dependence on export has gradually increased in these industries. The speed of the decrease in the dependence on import as well as the speed of the increase in the dependence on export in these industries was higher than in the case of Japan (Watanabe, 2002, pp. 136-138).

The GDP grew at more than 12% for three consecutive years from 1986 through 1988. While the Japanese economy was suffering from Yen appreciation after the Plaza Accord in 1985, South Korea improved its price competitiveness because of Won pegged to US Dollar and significantly increased its export to the US markets. South Korea's trade balance turned to positive in 1986, however, it turned to negative again in 1990. Because wages in South Korea continued to increase at around 20% every year from the second half of the 1980s to the early 1990s, and the wage level became higher compared with not only ASEAN countries and China but also other NIES. Consequently, the domestic demand expanded, but at the same time, the export competitiveness of labor-intensive goods decreased remarkably (Watanabe, 2002, p. 150). Therefore, South Korean enterprises came to give high priority to high-tech industries. In the 1990s, South Korean enterprises became more actively involved in outward FDI in foreign countries, including CEECs.

Watanabe called such a miraculously high economic growth in South Korea "compressed industrial development"¹. According to him, it was enabled by "advantages of backwardness" which South Korea has enjoyed in terms of foreign capital, transfer of technology, invitation of private companies from developed countries, etc. Being situated in the least developed part of the capitalist developed world, NICs (Newly Industrializing Countries) including South Korea have benefited "advantages of backwardness" deriving from the developed world and succeeded in "internalize" them effectively (Watanabe, 2002, pp. 142-143).

East Asian Countries

Not only Japanese enterprises but also Korean enterprises have actively invested in China as well as ASEAN countries. However, we should not overlook these countries' efforts to attract FDI. Malaysia, for example, enacted Law on Encouragement of Investment in 1968, thereby the country sought overseas market for its industrial products, replacing the hitherto import substituting industrialization. The country became more positive to introduce foreign capitals. In 1986, the country enacted Law on Promotion of Investment, thereby aiming at more active introduction of foreign capitals to promote exports. The law also aimed at location of small and medium-sized enterprises in rural areas and making full use of private capitals (Maruyama & Narita, 1995, pp. 230-232). Similarly, Thailand launched measures for encouragement of investment for industrialization in the 1970s. A socialist country Vietnam also launched measures for encouragement of investment in the 1980s. All of them pursued the export-oriented industrialization. The author would like to add that in the case of Malaysia in 1981, the government under Prime Minister Mahathir launched the Look East

¹ According to Matsumoto (2001), South Korea's real strategy has been "making copies of Japan". South Korea, the government and people in a body, has been copying the methodology of Japan's economic development itself. They have actually made only Japan as the object of their learning. Maintaining their attitude of refusing Japanese culture for a long time, the area of learning has been narrowed to the economy with the whole process being controlled by the government. Taking into consideration from the beginning, a scenario that they should follow Japan and then oust her from the markets by the price competitiveness, South Korean business circles have copied the development process deliberately. Matsumoto expresses this strategy with the metaphor of "*kobanzame*" (remora or shark sucker) saying, "It can swim if it wants but it relies mainly on the driving force of a bigger fish which it has been sucking, and after arriving the destination, it neatly eats foods there and expels the bigger fish from the feeding area" (Matsumoto, 2001, p. 43).

Policy—which encouraged learning of experiences of Japan and South Korea—and aimed at introduction of not only advanced technology but also Japanese style of managerial administration.

Secrets of the Miracle of the Hang River

Advantages of Backwardness

A term “advantages of backwardness” is a concept coined by Alexander Gerschenkron (1966). Watanabe explained as follows: A late-comer country has advantages that it can make use of industrial technology, which advanced countries have elaborated in the long history of their technological development, as “existing technology” at the starting time of its economic development. In addition, it is blessed with an advantage that it can shorten the period of capital accumulation through the import of capital. Moreover, a present late-comer can introduce not only technology and capital individually but also talents and ability of the enterprise management that effectively organize this technology and capital. The introduction of direct investment by private companies from advanced countries is the case (Watanabe, 1996, p. 207).

In connection with this, another important factor is industrialism. Industrialism that was created in advanced countries was transmitted to less developed countries, which in turn internalized the transmitted industrialism and became able to begin the process of rapid development. The process of internalization of the industrialism which originated in developed countries is the process of the so-called “modern economic growth” of Kuznetz (Watanabe, 2002, pp. 22-23).

Not all developing countries were able to enjoy “advantages of backwardness”. Watanabe mentioned Bangladesh as an example of regression. According to him, in order to internalize industrialism, countries must possess suitable “social ability”. Namely, especially the three points: (1) technical ability of workers; (2) managerial ability of managers; and (3) bureaucrats’ administrative ability, i.e., ability to draft and implement policies are important (Watanabe, 2002, p. 25).

At the moment when the high economic growth started in the early 1960s, although South Korea was among the poorest countries, the educational level was not low in the world comparison. During the period of the Japanese colony, the literacy rate improved remarkably and at the same time, many specialists with practical knowledge such as teachers of physics and mathematics, specialist of taxation business and bookkeeping, specialists of railways, etc., were trained. Accordingly, potential managerial ability of future managers also improved. As mentioned above, the military government which came to power by the *coup d’etat* in 1961 picked out young bureaucrats including economists educated in the USA. They had a rational way of thinking without adhering to the old custom. Thus, bureaucrats’ administrative ability improved remarkably compared with the previous period.

Big Roles Which Entrepreneurs Have Played

In South Korean society which has inherited strong Confucian culture, the entrepreneurial tradition has been weak. In addition, under the colonial rule, it was strictly hindered to nurture Korean entrepreneurs. In South Korea, immediately after its liberation, enterprise organizations and entrepreneurial talents were in short supply. However, there were some powerful entrepreneurs. Among them, Mr. Jeong Juyeong (1915-2001), the founder of the Hyundai concern, can be mentioned as a representative of newly-emerged entrepreneurs. He was born and grown at a poor peasant family. Although he had no educational background other than elementary school, he began his career with railroad workman, and started a civil engineering and construction business

with his savings. In 1950, he acquired a motor vehicle repairing factory and brought the two businesses into one, starting “Hyundai” Construction Company. Making the best use of his entrepreneurial foresight, swift judgment, and energetic acting power, in a single generation, he has developed “Hyundai” into one of the greatest concern in South Korea. The author thinks that economic animal-like behavior of proprietors represented by Mr. Jeong Juyeong was very important in South Korea’s postwar economic recovery and its high economic growth.

Government’s Strong Leadership

Initially, there was very little investment from foreign countries, because the infrastructure was of very poor quality. Foreign companies were not willing to invest in South Korea which stood face to face with North Korea. There was very little, if any, investment in South Korea by Japanese companies. Foreign funds came mainly in the form of loans from Japan and West Germany with guarantee by the government of South Korea. Let us mention typical government’s strong leadership, for example, “8.3 emergency financial measures” announced on August 3, 1972, thereby loans were frozen and their repayment could be postponed for several years. There were state projects represented by POSCO. The government even intentionally created an oligopolistic condition of enterprises on the ground that it would be better to make enterprises have enough strength to compete on the world market rather than competition by a large number of enterprises on a small market leading their exhaustion. There was a “Big Deal” in which the Lucky Gold handed over its semiconductor production to the Hyundai and the Hyundai handed over a branch which overlapped that of the Lucky Gold to the Lucky Gold. The “Big Deal” was made under the government’s guidance. These are typical cases which the government dared to intervene in markets and materialized what could not be realized by market.

New EU Member States of Central and Eastern Europe and the Western Balkans

Analogies

It seems that the relation between Germany (not only Germany but also other core countries of the EU) and new EU member states is similar to the relation between Japan and Asian NIES. Especially, Central European countries have had close cultural and economic relations. In addition, there were bases of technology and skill which were represented by Skoda in the Czech Republic. In the 1990s, these countries actively attracted foreign capitals. Also, many companies of manufacturing industries from advanced countries paid attention to the fact that the wage levels in these countries were much lower than those in the EU core countries and took into consideration that these countries would be admitted to the EU soon, established assembly factories there to supply the whole market of enlarged EU with finished goods. By the early 2000, the share of foreign capital-owned enterprises in capital, employment, investment, sales, and export sales in these countries except Slovenia² increased rapidly. It may be fairly said that new EU member states of CEECs attained the economic growth led by foreign capitals. It seems that they reached the same position as South Korea and Taiwan occupied in the 1980s and that the former countries are stepping up to a more advanced stage. In this way, the Flying Geese Pattern occurred in new EU member states of CEECs. This is the first wave. It seems that the Western Balkan countries are similar to ASEAN countries such as Thailand, Malaysia, Vietnam, etc., 20-30 years ago. A question is whether another Flying Geese Pattern will occur or not. If it occurs that would be the second wave.

² Although Slovenia has not been so enthusiastic in attracting FDI, Slovenia enjoys its relatively high economic level. This country is becoming a capital-exporting country. See Koyama (2006; 2008).

The Western Balkans

After the regime change in the late 1980s to the early 1990s, in the process of the transition to a market economy, all the countries of the Western Balkans³ experienced transformational depression. In addition, there were severe ethnic conflicts in 1991-1995 and the Kosovo War⁴ in 1999. These events caused turbulence, economic stagnation, and a delay in EU accession. Compared with new EU member states of CEECs, the amount of FDI inflow in the Western Balkan countries has been quite limited. Their economies except Albania were stagnating in the 1990s. The Stabilization and Association Process, which was initiated by the EU in 1999, created brighter prospects for their EU accession.

All the countries of the Western Balkans have a common weak point, i.e., structural weakness: (1) low labor participation rates and employment rates. In the case of Croatia, for example, the labor participation rate is 50.2% (in 2003) while it is 65.9% in EU-27 (in 2008). In 2004, the employment rate in Croatia is 54.7% while it is 64.7% in EU-15; (2) high unemployment rates ranging from 8.4% in Croatia to 33.8% in Macedonia; (3) large sizes of the informal economies (they exceeded 30% of GDP in all countries of the Western Balkans). Revenues from the informal economies supplemented low wages or lack of jobs and enabled people to subsist; (4) a high share of remittance from abroad. The amount of remittance as a percentage of GDP exceeds 10% in Serbia, Montenegro, Bosnia and Herzegovina, and Albania in 2006; and (5) low saving rates. All of the countries have rather low saving rates (in 2005, gross domestic saving as a percentage of GDP ranged from -2.2% in Bosnia and Herzegovina to 23.3% in Croatia). In all the countries, investment rates (in 2005, gross domestic investment rate ranged from 15.9% in Bosnia and Herzegovina to 29.9% in Croatia) exceeded the saving rates, consequently causing chronic trade deficit and current account deficit. Therefore, their economic development has been heavily relying on foreign savings, i.e., FDI inflow, borrowings from abroad⁵.

The ratio of the populations of new EU member states of CEECs (Central Europe + Bulgaria and Romania) and the Western Balkans is 4:1 (93.33 million vs. 23.48 million). In 1995, however, the amount of FDI inflow in new EU member states was US\$11,421 million, while the amount of FDI inflow in the Western Balkans was only US\$210 million, i.e., the ratio was 54:1. In 1999, the former received US\$19,125 million, while the latter received US\$1,791 million, i.e., the ratio was 10.7:1. After 2000, FDI inflow in the Western Balkans from advanced countries (especially EU member states) increased remarkably. In 2005, new EU member states received US\$30,394 million while the Western Balkans received US\$4,409 million, and the gap further decreased to 6.9:1 (*Transition Report*, various years).

However, in contrast to new EU member states of CEECs and contrary to expectations by governments and people in the Western Balkans, not so much inward FDI flowed into the manufacturing industry, but instead, it flowed mostly into services, especially banking, telecommunication, and real estate. Greenfield investment has been small, because mostly inward FDI flowed into this region in connection with the privatization process. Since 2000, in parallel with increased FDI inflow, the economies of the Western Balkans expanded at relatively high growth rate, but it was the economic growth led by consumption. Consequently, their external debt has increased. In the case of Croatia, its external debt amounts to 98.5% of GDP in 2009 which is unsustainable level. This country is required to do switchover to export-led economic development

³ For more detailed information about the Western Balkans, see Koyama (2015), Chapter 4.

⁴ For the Kosovo War, see Koyama (2015), Chapter 3.

⁵ All data in this paragraph are quoted from Vidovic and Gligorov (2006), Kathuria (2008), and World Bank (2010).

model⁶. This requirement more or less applies to other countries of the Western Balkans. These are uneasy challenges.

The countries of the Western Balkans are placed on the periphery of Europe, and generally speaking they are poor. Among them, however, Croatia is comparatively rich. The GDP per capita in 2009 is €10,100, the highest in the Western Balkans, far beyond the level in Bulgaria (€4,500) and Romania (€5,500) which joined the EU in 2007 (Gligorov et al., 2010). Croatia failed to join the first wave. The gross labor cost in Croatia is the highest in the Western Balkans. Not only that, its labor cost is higher than that in Central European countries like Hungary and Poland (see Table 1). It would be impossible for Croatia to become a basis for production of labor-intensive industries with lower wage as a weapon. Instead, the country should aim to become a basis for production of high value added goods, but unfortunately, the author does not tell what kind of goods that should be concretely. In Albania, there is processing on commission for Italian enterprises. It seems that besides Albania, Serbia, Macedonia, and Bosnia and Herzegovina, still have a possibility to become bases for production of labor-intensive industries.

Table 1

Gross Labor Cost in the Western Balkans (All Sectors, in Euros)

Country	2003	2004	2005
Albania	134	148	161
Croatia	740	794	841
Bosnia and Herzegovina	395	402	420
Macedonia	322	335	343
Montenegro	271	303	326
Serbia	255	281	307
Reference			
Bulgaria	142	150	161
Hungary	541	578	638
Poland	497	501	586

Note. Source: Kathuria (2008, pp. 52-53).

Differences Between the Western Balkans and Asian (NIES and ASEAN) Countries

We should take into consideration several differences between the Western Balkans and Asian (NIES and ASEAN) countries: (1) a difference in times; (2) a difference in the development models; and (3) a difference in sizes of countries.

The world economy from the 1960s through the 1980s was not regulated so much by rules prescribed by the WTO [General Agreement on Tariffs and Trade (GATT)], the IMF, and the World Bank. In other words, governments' intervention policies, protection of primitive industries, etc., were tolerated. In contrast, during the period from the 1990s to the present, strict conditionality based on the Washington Consensus has been imposed on developing and transition countries by the IMF, although it was a little bit modified in a more realistic way after the Asian Economic Crisis in 1997. During the period, custom tariffs were considerably decreased. The applied tariff rate (simple average) on imports of the Western Balkans in 2005 is 5.3% for all goods, 11.2% for agricultural products, and 4.7% for industrial products (Kathuria, 2008, p. 38). If a country is not allowed to protect its domestic industries by higher custom tariffs, the exchange rate policy would be very important.

⁶ For challenges Croatia is facing, see Koyama (2015), Chapter 5.

The Western Balkan countries have attained the economic development led by consumption. It is necessary for these countries to pursue export-oriented economic development as Asian (NIES and ASEAN) countries did. For this purpose, it is necessary for these countries not only to attract foreign capitals and technologies, but also to mobilize domestic savings.

Sizes of the Western Balkans countries are very small compared with those of Asian countries. The Western Balkans in total has the population of only 23 million. However, Central European Free Trade Agreement (CEFTA)-2006 would be useful in overcoming the smallness of each domestic market and improving investment climates of the region.

Besides, as Watanabe (2001) said, in order to internalize industrialism, countries must possess suitable "social ability". It seems questionable that Albania has suitable "social ability" because of its very short history of the market economy. It seems questionable too that Bosnia and Herzegovina has suitable "social ability", because human capitals and physical capitals in the country were severely damaged by the ethnic conflicts in the first half of the 1990s and because the country still lacks cohesion. It may be said that other countries of the Western Balkans have suitable "social ability".

Conclusions

After the transition to a market economy, new EU member states of CEECs have attained the export-oriented development with foreign capitals attracted from advanced countries and succeeded to a certain extent in catching-up with advanced countries. This shows a Flying Geese Pattern.

In order for the Western Balkan countries to attain a rapid economic development and catch up advanced countries, it would be indispensable for them to do a switchover from the hitherto consumption-led economic development model to the export-led economic development model. For such a switchover, it would be advisable to make efforts to attract FDI to manufacturing industries and at the same time to effectively mobilize domestic savings.

In this paper, we have seen experiences of South Korea and other East Asian countries. As the times and the background are quite different and the governments of the Western Balkans countries are facing various constraints, the experiences of the East Asian countries cannot be applied to the Western Balkans as they are. However, in the light of the experiences of the East Asian countries, it can be surely said that governments should exhibit strong leadership in a switchover to the export-led economic development model.

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