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**Research Report**

## Partnership with newly industrializing countries

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## Partnership with Newly Industrializing Countries – Challenges to German Policy

*The newly industrializing countries (NICs) are becoming increasingly important for the stability and dynamism of the world economy. They are vital for the integration of the developing regions into the global capital, product and service markets and perform a regional locomotive function; they are driving forces of regional cooperation and integration, trigger imitation and demonstration effects and play a role in preventing and resolving regional crises. Where measures to safeguard the future of the world are concerned, they are essential partners of the industrialized countries in efforts to bring about a change of trend in the global poverty problem, a reversal in the global consumption of environmental resources and effective protection of the global eco-system. Hence the importance of partnership between industrialized countries and NICs. The main question here is what new challenges arise for the German partnership with NICs.*

- *In view of international competition and the scarcity of public resources it is important for the German outward-oriented policies that affect the NICs to be more closely interrelated. The identification of areas where government departments' interests coincide will enable synergies and multiplier effects to be achieved in policy towards NICs and the implementing agencies of different departments to be linked more closely than hitherto.*
- *It is in Germany's interests for the German business community to strengthen its position in the knowledge-intensive industrial and service sectors. In the NICs too, the new information and communication technologies are changing the environment of economic activity and triggering structural change in the economy. Involvement in the shaping of scientific and technological institutions and knowledge transfer will be conducive to an improvement in the position of the business sector. There is considerable potential here for the coordination of German outward-oriented policies and for public-private partnership.*
- *It is in the interests of both sides that Germany should support the NICs' efforts to tap the knowledge that exists in the world by enabling them to exploit its own wide-ranging experience of business-oriented technology management. Actors in the NICs should be helped to acquire skills in German enterprises and research institutions, to attract German enterprises and branches of leading research and advisory centres to their countries and to make rapid use of the knowledge acquired in numerous domestic enterprises.*
- *Only a high level of technological competence will enable the development cooperation community to participate in the shaping of NICs' education, innovation and economic systems. Financial and technical cooperation should be used primarily for the purpose of knowledge transfer and should be closely linked. The conditions attached to cooperation with NICs should be flexible, with financing on soft terms largely eschewed.*
- *It is important for Germany to be involved in the framing of EU policy towards the NICs. The EU should help to stabilize the NICs' financial environment. It should use its development cooperation to raise NICs to industrialized-country standards in the communications, information, energy and environmental sectors. It should also encourage regional integration and interregional free trade areas and publicize European regulatory concepts.*

### Relevance of the NICs in a global context

Having been highly dynamic in the technological and industrial fields for many years, five countries (the Republic of Korea, Taiwan, Singapore, Hong Kong and Israel) have crossed the threshold to the industrialized countries and become *new industrialized countries*. A further eleven countries (see Table 1) are approaching this threshold at greater or lesser speed, but have pronounced economic and social imbalances. These the economically strongest developing countries (gross national product upwards of about US \$ 100 bn in 1997), though otherwise having widely different features, are referred to here as *newly industrializing countries (NICs)*.

The group of NICs has the greatest economic potential of the developing regions, especially in the technological and industrial spheres. They account for 62 % of the population of all developing countries, 69 % of their gross national product, 65 % of their exports and 62 % of the

stock and 76 % of the inflow of foreign direct investment. They also account for 73 % of the world's poor (up to US \$ 1 per day) and for about 21 % of its CO<sub>2</sub> emissions (the developing countries as a whole producing about 25 %).

A further group of ten countries includes two with a gross national product of over US \$ 100 bn: Saudi Arabia, which is not an NIC because of the one-sided nature of its economy, and Iran, on which no reliable data are available. The other eight countries in this group, which have a gross national product of US \$ 50 – 90 bn, are economically dynamic, but also have significant structural weaknesses. The line separating this group from the NICs is fluid; they will be joined by Iran once it has come through its crisis of transition, and the Philippines and Chile are also closing the gap.



**Table 1: The NICs and a further group of dynamic countries**

	Population (millions, 1997)	GNP (US \$ bn, 1997)	Exports (US \$ bn, 1996)	Foreign direct Investment (US \$ bn, 1997)	
				Stock	Inflow
China	1,234	1,219	332	224	48
Brazil	164	773	47	126	16
Russia	147	404	81	13	6
India	961	374	32	12	3
Mexico	95	349	95	87	12
Argentina	36	306	27	36	6
Indonesia	200	222	50	62	10
Turkey	64	200	45	2	1
Thailand	61	170	71	23	4
South Africa	38	130	18	14	2
Malaysia	21	98	78	45	5
Saudi Arabia	9	130	58	40	—
Iran	61	114	19	2	—
Philippines	73	89	20	10	1
Colombia	38	87	11	12	2
Venezuela	23	79	23	14	5
Chile	15	73	15	25	5
Egypt	60	71	4	16	1
Pakistan	137	67	9	6	1
Peru	25	61	5	11	2
Ukraine	50	52	16	2	1

Sources: World Bank, UNCTAD, DAC

#### Dynamism in NICs – challenges to government, the market and society

Technological and industrial dynamism and social integration and cooperation are based on the complementary relationship of a strong and effective nation state and a vital and efficient market economy. In the NICs government has, as a general rule, imposed a macroeconomic environment that is compatible with market requirements and open to the outside world. To be able to perform its core tasks, it eases the burden on itself through deregulation, the privatization of state-owned enterprises and the introduction of new forms of public-private partnership. State reforms have made it more effective, but not sufficiently in many cases for it to gain acceptance for and ensure compliance with performance-oriented regulation. A complementary relationship between state and market that strengthens both a domestic economic system oriented towards the global frame of reference and broad social learning processes is only now being established in many NICs.

Ensuring a stable, growth-oriented macroeconomic environment poses major challenges for government in the NICs: liberalizing financial markets despite rather weak financial institutions is resulting in a tendency to delink monetary and real economics. Liberalizing the real economy may overtax domestic enterprises, especially if there is inadequate regulation. The particularly dynamic export sector, in which the rate of increase in incomes is disproportionately high, is not sufficiently integrated into the economy. Reform processes, which are meant to make the NICs more attractive to domestic and foreign investors in industry and the service sector (legislation, customer-oriented public administration as a locational advantage, mesoeconomic locational factors in the business environment), take time.

While the industrialized societies are making the transition to knowledge-based systems and information societies, the greatest weakness of the NICs is their limited ability to manage and transfer knowledge. The domestic

accumulation of knowledge is also hampered by the quantitative and qualitative inadequacy of society's inputs into the economy. The main inputs are education, technical and scientific training and research. As empirical studies and approaches to the theory of economic growth show, the ability to learn and the availability of knowledge make high economic growth possible.

The shortcomings in the management and transfer of knowledge and in society's inputs into the economy are limiting the quality of the NICs' economic growth and their contribution to reversing the trend in the global poverty problem and to changing the global consumption of environmental resources. The challenge to these countries is to use the new technologies efficiently, to develop active, learning and innovative societies to this end and to ensure sustainability by pursuing an effective environment policy. Preventive environmental protection is achieved primarily through *technological innovation*.

#### Partnership between industrialized countries and NICs

Thanks to their world market orientation, institutional advances, competitive domestic enterprises and high foreign direct investment, the NICs will probably grow more quickly than the other developing countries. This points to an increase in their share of world exports, which already exceeds the USA's (in 1997 17.2 % as against 16.5 %, intra-EU trade excluded). Their share of the global stock and inflow of foreign direct investment (19 %, 28 %) is also likely to rise further.

As German exports of capital goods show, technological and industrial development in the NICs is not being achieved at the expense of the industrialized countries. Although it puts them under additional pressure to continue generating knowledge in order to maintain and expand their competitive advantage, it also creates considerable potential for direct investment and exports. However, the competition among the industrialized countries for business with the NICs is growing. Increasingly, they are being joined by enterprises from the NICs themselves, mainly from the same region. Success in the rivalry among investors influences the development of trade flows.

As partners, industrialized countries and NICs can counter setbacks in liberalization and globalization. Together they can tap the NICs' considerable potential and also tackle social and ecological imbalances of the latter. This and support for processes of regional cooperation and integration emanating from the NICs will enable them to involve many other developing countries in global dynamism and measures to safeguard the future.

Closer cooperation among a growing number of strong nation states capable of taking action and representing, among other things, the interests of regional groups enables steps to be taken to improve the international financial and economic architecture. It creates suitable models of interaction for resolving conflicts and lays viable institutional foundations for international regulation and *global governance*. An effective global governance instrument may emerge if NICs are gradually included in the G 7, with a *G 7 plus x* (initially a G 12, i.e. the present 7 plus China, Russia, Brazil, India and Mexico) becoming the UN system's control and guidance instrument in the political, security, economic, social and ecological spheres.



### Germany and the NICs: new forms of interdepartmental and public-private division of labour

The greater emphasis on the cross-border dimension of German foreign, security, foreign trade, financial, transport, science and research and social and development policies raises the question of the need for governance. Given this differentiation of the outward-oriented policies, the division of labour among government departments, which is influenced by loose agreement among the various areas of activity and not infrequently results in an uncoordinated juxtaposition of these policies, should be replaced with a policy that is coherent and even integrated in some respects. The Foreign Office has an important task to perform in tapping the potential of Germany's outward-oriented policies for coherence, complementarity and cooperation.

A policy of this kind calls for decisions on the strategic orientation and focusing of the outward-oriented policies and an improved flow of information among the government departments and, in some cases, their implementing agencies and with the private sector. It reinforces the catalytic and market-opening effects which the public sector has on the economy and contributes to the integration of the private sector and local initiatives. Partnership with NICs calls for interdepartmental, country-specific cooperation concepts coordinated with the private sector, and this with a regional dimension on both sides. In these action-guiding concepts – established with the Foreign Office in overall control – the organization of the transfer of knowledge should play an important role. Besides the Foreign Office, the Federal Ministry of Economics and Technology and the Federal Ministry for Economic Cooperation and Development, the Federal Ministry of Education and Research should therefore be involved in interdepartmental committees, mixed commissions and regional round tables.

### Economic cooperation

The NICs account for about 11 % of Germany's imports, 12 % of its exports (1997) and 7 – 8 % of its foreign direct investment (1996). Since the transition and financial crises their need for products and processes of the manufacturing, energy and environmental technology sectors has again increased. As there is a growing tendency for the NICs to develop industries producing consumer durables and capital goods, they are of considerable interest to the strong sectors of the German economy (mechanical and electrical engineering, chemicals, automobile manufacture).

However, it is important for the German business community to strengthen its position:

- This is primarily true of direct investment in the knowledge-intensive industrial and service sectors, in which US enterprises are well represented in NICs.
- The expansion of local production networks based on a division of labour tends to trigger further direct investment and additional exports.
- The regionalization of markets creates new investment opportunities; enterprises in some industrialized countries are keen on joint investment with NIC enterprises in countries bordering the NICs.
- Participation in the privatization of state-owned enterprises and in the award of concessions for public physical infrastructure facilities requires a willingness

to take risks, which is pronounced among US, French, British, Italian and Spanish enterprises.

- *German Houses* and technological institutions help to improve positions gained by the business sector. Other courageous moves to strengthen its presence in the knowledge-intensive industrial and service sectors of NICs should be considered (examples: systematic support for young technological enterprises, promotion of export-oriented joint ventures in the environmental technology field, contributions to the development of science faculties having a regional impact and enjoying a worldwide reputation).
- A combination of scientific, technological, environmental and development cooperation and public-private partnerships would strengthen local public and private governance and problem-solving capacities.

### Scientific and technological cooperation

Besides economic cooperation, one of the main elements of partnership is scientific and technological cooperation. The Federal Ministry of Education and Research and the Federal Ministry for Economic Cooperation and Development can further improve the conditions for economic linkages with the NICs and for their knowledge-intensive growth, which is closely linked to the efficiency of their domestic innovation systems. Thus scientific and technological cooperation can support knowledge transfer to public institutions and small and medium-sized enterprises, and coordinated development cooperation can support the development of research and technology policy and of the implementing agencies. Both should encourage concentration on a limited number of leading topics, incentives in science, application-oriented R & D institutions, market-oriented contract research and demand-oriented technology transfer.

Broadly based cooperation with an NIC may pivot on an institute geared to multiplier effects, such as the German-Brazilian Technology Institute, which seeks to reduce the shortage of university-trained engineers and skilled workers and to provide continuing training and serves as a technology transfer centre (information and technology exchange), a model factory (demonstration laboratory) and a means of exhibiting and certifying products. It may act as the starting point for advice on systems geared to educational reforms, business-oriented technology management or the development of regional or national SME-oriented business promotion. Scholarships for advanced training in technology-oriented courses in Germany can be agreed with such institutions.

### Development partnership

A withdrawal of development policy from the NICs, the most important motive forces of the developing regions, would not be helpful for either side or for the other developing countries. Development cooperation confined to the distribution of subsidies to poor small countries, hinterland areas and population groups and to scattered local activities would have little relevance to the triggering of dynamism in the developing regions or to global problems, especially poverty alleviation. If only because of their growth-encouraging economic imbalances, the NICs in particular are likely to suffer from social and ecological distortions that exacerbate global problems and may even threaten political stability. Furthermore, the dynamism of



most other developing countries depends on the locomotive function of the NICs.

**Significance**, as one of the main criteria of development policy, means: strategic relevance especially through contributions to the integration and dynamism of politico-institutional and social systems, breadth of impact and sustainability in technological, social and ecological terms and visibility at subnational regional, national and supranational regional level owing to a clear, unmistakable profile oriented towards the donor country's own supply-side strengths.

Of significance are professional contributions to the orientation and operability of the two basic institutions, the nation state and the private sector. This is especially true of involvement in the establishment of policies, institutions and instruments in the area of society's inputs into the economy. It is these inputs in particular that help to alleviate poverty, to put women on an equal footing in society and to reduce population growth. In a situation in which the accumulation of technological knowledge has become the main factor of production statements like those made by some development cooperation actors that knowledge transfer is waning in importance as a task for development cooperation are unfounded. Unless specific knowledge is accumulated, social change comes to nought.

#### Example of a priority programme

It should become possible for small and medium-sized enterprises on both sides to take part in international learning processes, in which their participation is currently limited because of shortages of information and high transaction costs. This is true of enterprise-oriented service providers and of firms that have obtained concessions for public infrastructure services. Some of these enterprises can be integrated into international technology networks under specific ("two plus two") scientific and technological cooperation programmes.

The Federal Ministry for Economic Cooperation and Development has begun to reduce project aid for individual measures and the number of partner institutions and countries and to focus development cooperation on a few priority programmes in each country. It would be wise to implement only one high-quality priority programme in each NIC (examples: *education, science and research policy, SME-oriented business promotion, protection of the urban-industrial environment*).

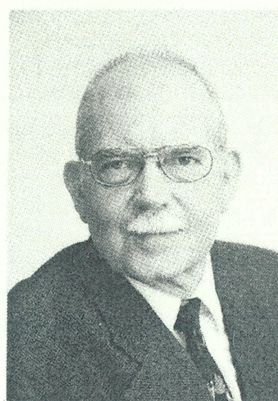
#### Strategic partnership between the EU and the NICs

The problems facing Germany's outward-oriented policies are repeated in escalated form at EU level (diversity of cross-border approaches, weakness of foreign policy's capacity to exercise control).

The EU, a potentially important global actor, must, however, establish closer relations with the NICs (examples: international free trade areas, which will, however, call for a more liberal EU agricultural policy; regionally pooled scientific and technological cooperation in selected spheres; the promotion of regional integration and of fewer, globally relevant priority programmes that also combine Member States' development cooperation activities and private-sector measures designed, for example, to raise China and Brazil to industrialized-country standards in the communications, information, energy and environmental sectors).

The EU and its Member States should urge the multilateral institutions (IMF, World Bank, regional development banks) to establish a more stable financial framework for NICs. In particular, the NICs should be immunized more effectively against speculative attacks (starting points: *viable indebtedness, informative risk indicators, transparency of the debt situation*).

The EU and its Member States should attach greater importance to the regulatory dimension. Since the mid-1970s *libertarian liberalism* has played an important regulatory role in the NICs. They should be encouraged to seek viable development concepts and strategies, e.g. to familiarize themselves with Europe's regulatory concepts and institutions – in other words, a form of *liberalism that claims to be egalitarian and sustainable*.



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