Executive Summary

Part I

Analysis: *Success Stories – the Lessons of East Asian Development & their Applicability Elsewhere*

East Asia's remarkable success has stimulated reflection about its relevance for other countries. The paper argues that these economies do not provide a "model" which can be copied: each country has followed a different path, and has also had unique initial conditions. But they do provide an ***example*** – of self-reliant development, emerging from poverty and backwardness and achieving structural transformation in a matter of three decades; and many features of their experience provide policy lessons which can be learned from and adapted to different circumstances.

The four East Asian economies principally focused on – Hong Kong, Korea, Singapore, Taiwan – have had some common features: high levels of physical and human capital accumulation, and a relatively stable macro-economic environment – with low rates of inflation, non-negative real interest rates, and competitive exchange rates. Human resources have played an important part, both in skills for industrial technology development, and in the high quality of government. Apart from these factors, the driving force in growth was the promotion and achievement of rapidly increasing levels of exports of manufactures.

The four economies have made use of government intervention to differing degrees. The instruments have included selective import protection, subsidised and directed credit, promotion of investment in specific sectors and products by foreign and domestic firms, and strong incentives to exporters (ranging from tax-rebates and subsidies, to prestigious awards and other forms of public recognition). In the vast majority of areas, though, protection, tax-breaks and subsidies were always of limited duration, subject to market disciplines, and conditional on the attainment of export success.

Except in Hong Kong, the financial sector was not in the main "liberal" according to prevailing orthodoxies, at least until relatively recently. Public ownership of banks, public direction of credit, and public control over uses of private savings were all common. But they were skilfully managed, and again governed by objectives of commercial viability; they also operated within the framework of macro conditions already described.

Intervention had other aspects: public expenditure on research and development, and on technological support to business including SMEs; considerable consultation and discussion between government, business and academe on a range of policy and management issues; and a high degree of shaping of education and training policy and practice in both public and private sectors to meet industrial goals. Health and family planning policies complemented those in education and training, contributing to longevity, productivity, and declining population growth.

What can Commonwealth developing countries learn from this experience? Some features – certain forms of protection and of incentives to exports – are now restricted by the WTO. While export promotion by other means is still possible and important, for many countries exports of services, non-traditional agricultural products and manufactures require targeting. East Asian practices to attract foreign investment can profitably be studied by other countries. Methods of consultation between government and business can be adapted in a variety of ways. Other countries can also learn from the East Asian experience of human development, and make more concerted efforts to ensure its contribution to humanitarian and productive objectives.

The necessary conditions for doing these things successfully include: the capacity to sustain a stable and sound macro-economic and policy environment over a long period; a well-trained and effective bureaucracy; and the political conditions which ensure that public policy serves economic objectives, not partisan political goals and self-interest.

Part II
Anti-poverty Strategies: *Growth, Employment and Human Development*

It is argued that a strategy for growth, employment and human development *is* an anti-poverty strategy. Growth is a necessary, but not a sufficient condition for mitigating poverty; it has to be well-distributed growth, with prices and policies conducive to the generation of employment. Getting the macro "fundamentals" right and the ability to manage external shocks are both critical to growth. Promotion of the private sector, exports, and the capacity to adopt improved technologies are further key features. The greatest problems confront the poorest countries where governmental capacity is limited, and where debt and a vulnerable primary-product export "basket" create difficulties for achieving external balance. These are also the countries with least to gain from the Uruguay Round.

A range of measures can help to generate employment. For many countries, raising levels of agricultural employment is a prime requirement. Numerous countries have still to complete the reform of past policies which have prevented the attainment of efficiency and equity in agriculture. Pursuing such reform, together with measures to promote SMEs, will do much for rural employment (and urban employment). Credit, appropriate financial intermediation, technology imports and technological support are critical factors here. Micro-finance such as that provided by the Grameen Bank in Bangladesh or SEWA in India are of particular importance to the rural poor and in the urban informal sector.

The influence of labour market factors is also reviewed. Past policies have attempted to protect labour and enhance worker security, often at the expense of employment. The more these – important – goals can be achieved by means that do not discourage firms from hiring labour, the better for employment. Rapidly rising demand for labour, which is made possible when exports grow quickly, can help labour to be more tolerant of the lack of formally defined security; but well-designed regulatory and other policies can play a positive role.

Technology acquisition and adaptation are facilitated in particular by buyer-supplier relationships in exporting and by foreign direct investment. The latter is also influenced by macro and policy stability, and nowadays also by the availability of low-cost skilled labour, rather than low-cost labour *per se*. Greater pragmatism on the part of governments is now in evidence in creating regimes for multinational investment; and multinational corporations themselves are now more sensitive than in the past to the interests of host countries. While the distribution of foreign direct investment is still heavily skewed towards a few countries, there are numerous countries where such investment now provides a significant amount of employment.

There is much new work on human development; it is not widely known, and potentially of considerable value to countries seeking to renew their human development policies. Human development is the third key strand of anti-poverty strategies. A range of information can be brought to bear to assist the determination of priorities, going well beyond the familiar rate-of-return findings which may be somewhat misleading. Interactions among health, education and nutrition have to be captured.

Much more attention than in the past needs to be paid to the *quality* of services, which is not to be seen as an alternative to increasing quality, but as complementary to it. Private and NGO provision of services play major parts in most countries and also require more attention as opposed to exclusive concentration on public provision. Improving the position of women in all aspects of social and economic development is of over-riding importance; without that, most of the goals of human development will remain out of reach.

Funding human development is not beyond the capacity of many countries, other than the very poorest; but they have to have the political will to correct the maldistribution of public expenditures where they are excessively weighted towards tertiary education and health, benefiting a small (and often relatively well-off) section of the population. Greater efficiency in the management and use of resources in these fields can also yield dividends. It is emphasised that human development should not be seen as "welfare", but as productive investment, most of which has a high payoff for individuals and society. In many instances, governments quickly recoup outlays in the form of saved expenditure in the near term.

Part III
Policies for International Co-operation

Aid available for long-term development is shrinking, in the wake of reduced appropriations by some donors, and competing demands, not least for relief assistance. This makes enhancing the effectiveness of international co-operation all the more important.

The paper suggests that there is relatively little scope at present for major change in the country-allocation of aid. It puts forward for consideration proposals which would:

- enhance recipient ownership of and commitment to aid activities
- improve the functioning of technical co-operation and institutional development
- improve the sustainability of aid activities, i.e. their capacity to survive after donor funding has ended
- enhance aid co-ordination, particularly by drawing aid recipients more fully into aid processes
- continue the reconsideration of structural adjustment policies in the light of their less than ideal record hitherto
- assist human development, by helping countries to formulate new strategies and promote skill development, by assisting financing, by helping countries get user fees right, and avoid their use in ways which penalise the poor, and by other measures
- strengthen governmental capacity, by assisting civil service reform, the improvement of transparency and accountability, and domestic capacity building
- and strengthen the private sector with a variety of old and new measures, including:
  - enhancing donor support for small- and medium-scale enterprises, and for micro-finance, through such means as the new Consultative Group to Assist the Poorest (CGAP);
  - support for privatisation programmes, such as the Commonwealth Private Investment Initiative and other measures;

- new instruments in the World Bank group: a new operating unit within the International Finance Corporation (IFC) for project development promotion; a heightened role for the IFC as the private sector partner for the World Bank group; an expanded programme of intermediary financing; and "mainstreaming of guarantees", a measure to extend the Bank's guarantee capacity to portfolio investors and banks for public sector infrastructure financing.

If aid shortages concentrate both donors' and recipients' thinking on how to strengthen indigenous capacities for development, that might not be altogether a bad outcome.

Plan of the Paper

In Part I, the paper sets out an account of the lessons of East Asian development, and the possibilities of applying them elsewhere. Part II considers anti-poverty strategies under three headings: growth, employment and human development. Finally Part III looks at the implications of all the foregoing for international co-operation policies.