Appendix

Commonwealth Round Table on Growth and Poverty Alleviation in East Asia and other LDCs

A Note on the Commonwealth Round Table

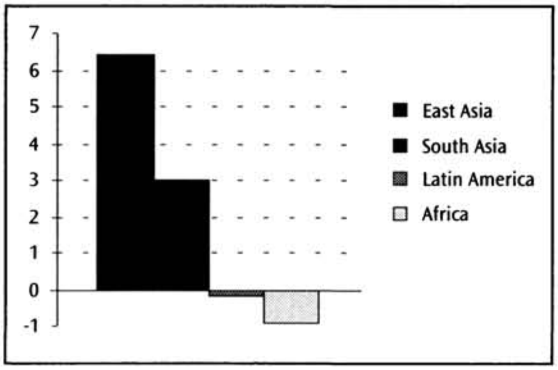
Mr. Ivan Mbirimi and Dr. Ganeshan Wignaraja, Commonwealth Secretariat

A round table conference was held in London on 25 January 1996 to discuss Professor Cassen's paper on "Strategies for Growth and Poverty Alleviation" and to examine whether East Asia's development experience could be replicated by other developing countries. The round table involved senior Commonwealth Secretariat staff and experts from the Universities of Oxford, Cambridge, Sussex, the London School of Economics, the Overseas Development Institute and the British Cabinet Office (*see* the list of participants below). It was chaired by Sir Humphrey Maud, the Deputy Secretary-General (Economic & Social Affairs) of the Secretariat. The agenda included an introduction to the issues by Mr. Rumman Faruqi, Director of the Economic Affairs Division of the Secretariat; keynote presentations by Professor Robert Cassen and Dr. Sanjaya Lall of Oxford University and Professor John Toye of Sussex University; and a discussion between the participants. The main points from the presentations and the discussion can be briefly considered under three headings: (1) East Asia's economic success; (2) ingredients in East Asia's success; and (3) lessons for Africa.

East Asia's Economic Success

The round table noted that the rise of the four East Asian "dragons" (Korea, Taiwan, Singapore and Hong Kong) is a spectacular post-war development achievement. Within a quarter of a century, each economy transformed from a subsistence trading and agricultural base into an industrial powerhouse. In the 1980s East Asia emerged as the best performer in the developing world in terms of rapid per capita income growth (*see* chart 1), sustained industrial deepening and diversification and a dramatic increase in living standards. The round table emphasised that today, these economies are competing overseas with the likes of Japan, the US and the UK. It was also emphasised that success in per capita income growth and poverty reduction in the first tier dragons has spilt over into a second tier of East Asian dragons (Malaysia, Thailand and Indonesia) but slow progress on both counts has been recorded in other developing regions. Africa's weak performance in the 1980s and 1990s was mentioned as a cause for concern in international policy circles.

Chart 1 **Per Capita Income Growth in LDCs, (% p.a) 1980-93**



Ingredients in East Asia's Success

The round table noted that there is little agreement in policy circles on the factors which underlie East Asia's success and there is even less agreement on whether this experience can be replicated in Africa. In an attempt to build a consensus on these issues, the round table examined opposing viewpoints. The round table recognised that East Asia was fortunate to have good initial conditions for rapid development such as a booming world economy, a close proximity to the expanding Japanese market, substantial international trading experience and large inflows of foreign aid. While acknowledging the contribution of these factors, the round table concluded that a major explanation for East Asia's performance was the adoption of a coherent strategy for growth and poverty alleviation in the early 1960s that was sustained to date. Box 1 shows the six ingredients in East Asia's common strategy.

Lessons for Africa

There was a consensus among round table participants that the inward-oriented development strategies pursued by African countries in the past had failed to deliver sustained growth and poverty reduction. Amongst other things, Africa's inward-oriented strategies resulted in poor per capita growth, declining industrial and agricultural growth, a sluggish export sector and a tendency for income distribution to concentrate. Round table participants also felt that several aspects of East Asia's development strategy, adapted to different initial conditions and historical circumstances, were relevant to African countries.

- First is a strong commitment to achieving **macro-economic stability and rapid growth**. Macro-economic management should be geared towards high savings and investment rates, low budget deficits and moderate inflation rates. Macro-economic stability and rapid growth are fundamental influences on private sector expansion, employment creation and poverty reduction.

- Second is the encouragement of **domestic savings**. Amongst other things, this may require agrarian reform, investments in human capital and use of corporate fiscal incentives to encourage the growth of corporate profits and savings.

- Third is the adoption of an outward-looking **industrial strategy**. The catalytic role played by foreign investment – in accessing capital, technology and marketing-know-how – to drive industrialisation in Africa is widely recognised. So too is the need to formulate the relevant promotion policies and soft infrastructure to attract foreign investment into the industrial and service sectors in Africa. Far more controversial, however, is industrial policy for domestic industry. The use of selective industrial policies practised in East Asia may be more difficult in the 1990s given the move towards global economic liberalisation embodied in the Uruguay round and the creation of the World Trade Organisation which is less tolerant of protection and subsidisation of industry. The success of selective policies also depends on the government's ability to collect, monitor and analyse information – such a capacity may be weak in several African countries. In this context, a gradual but credible approach to trade liberalisation with a strong export push may be appropriate.

- Fourth is **investments in human capital**. With a few exceptions, education enrolment rates at all levels are low across Africa, firm-level training is limited to a few large enterprises and governmental capacity to monitor and analyse information is weak. The creation of appropriate skills in industry and government is thus a vital pre-condition for sustainable development in Africa.

- Fifth is **the creation of technology institutions**. In view of low levels of technological capabilities in African manufacturing, there is an urgent need to

Box 1:

Elements in East Asia's Success

- **A stable, predictable macro-economic environment**

  Budget deficits were kept low, inflation was tightly controlled, a competitive real exchange rate was maintained and debt crises were avoided – in order to encourage savings and investment and rapid growth.

- **Encouragement of domestic savings**

  These countries achieved impressive rates of savings and investment by historical standards. Good initial conditions (i.e., land reform and thus relatively equal income distribution and favourable human capital due to educational investments) stimulated the growth of savings and investment. However, growth of corporate profits and savings were the crucial element in the rapid increase in domestic savings. In turn, corporate fiscal incentives were widely used to promote growth of corporate profits.

- **Selective outward-oriented industrial policies**

  Moderate infant industry protection and an aggressive export push were employed to create competitiveness and force domestic firms into overseas markets. As industries matured and entered export markets, new industries were promoted. Foreign investment was selectively targeted through a combination of promotion and a comprehensive set of soft infrastructure policies (particularly, specialised technical skills, technological institutions, export marketing agents and other business services). The emphasis given to "creating winners", of course, differed between individual countries – Hong Kong was the least interventionist, Singapore in between, and Korea and Taiwan were the most interventionist.

- **Investments in human capital**

  As early as the mid-1960s, these countries achieved almost universal primary enrolment; one third secondary enrolment; and their tertiary enrolment, particularly in science and engineering subjects, were the highest in the developing world. There was also a strong emphasis on vocational training and the creation of industry-specific training institutions.

- **Creation of a comprehensive network of technology institutions**

  To upgrade production skills in manufacturing pertaining to improving process quality, productivity and new product development. Industry-specific technological institutions were also created to lower barriers to entry in high-technology industries and extension services were used to encourage small and medium enterprises.

- **Programmes to reduce poverty**

  These countries emphasised health care, education, land reform, a green revolution in agriculture and financial support for micro-enterprises.

boost quality awareness, productivity improvement and the creation of new products for export. Existing technology institutions may need to be reformed and new institutions may need to be established to deal with these issues. The establishment of private sector providers of technology import services needs to be encouraged.

- Sixth is a **programme to develop the agricultural sector and reduce poverty.** Rural poverty in Africa is widespread and an agriculture-led development policy (incorporating land reform, technological change and micro-finance) is a valuable supplement to poverty reduction through rapid growth. Development of the agricultural sector and processed primary exports in many African countries will in turn provide inputs for industrial development in the form of surplus labour, capital for investment, foreign exchange and a market for industrial goods.

In the final analysis, the round table felt that individual African countries may need to re-examine their own experience in the light of East Asian development practise and draw relevant lessons. In doing so, they should set realistic objectives for long-run development and maintain a consistent strategy. African countries should also bear in mind changed global economic circumstances in the 1990s and the limitations that they impose on national economic policy.

Opening presentation

Professor Robert Cassen, Queen Elizabeth House and St Antony's College, University of Oxford

The East Asian countries have drawn attention because of their successful transformation. Korea's per capita income was $325 in 1960, and is about $8,000 today. How did they do it, and can other countries follow their example?

Some of the means they employed were fairly conventional: paying attention to the macro-economic fundamentals was one: low domestic and foreign deficits; competitive exchange rates; for the most part, low inflation rates, and high rates of investment in both physical and human capital; and, usually, positive real rates of interest. But some of their methods were *not* in line with current orthodoxies: public ownership of banks, directed and often subsidized credit; selective import protection; and a range of government measures to accelerate technological capability and promote exports, as well as, in some cases at least, a good deal of government guidance or influence on investments by private and foreign companies.

Whether other countries can follow in their footsteps is an open question. The Uruguay Round certainly provides opportunities. But the WTO restricts some of the export promotion methods used in East Asia: Bank/Fund structural adjustment programmes have tended to insist on import liberalisation, ignoring arguments for selective protection. Besides, there may not be room for any large number of countries to expand exports of manufactures on the East Asian scale. They will also have to target exports of services and agricultural commodities.

Finally, it must be said that other countries have tried some of the measures the East Asians used without obtaining the same results. East Asian governments, when they interfered with market principles, nevertheless subjected private sector companies to market tests. Profitability and export success had to be achieved, or privileges were withdrawn. These are things other countries have mostly *not* done when they followed interventionist policies.

As the paper puts it, the essential conditions for doing what the East Asians did included the capacity to sustain a stable macro and policy environment over long periods; a well-trained and effective bureaucracy; and the political conditions which ensured that public policy served economic and not partisan political goals.

The paper reaches two conclusions: there is much to learn from the East Asian experience, and countries can certainly adapt some of their methods to their own circumstances and make use of them. And secondly that any country can be inspired by their example, and move away from poverty and lack of development in a few decades, largely by their own efforts. We may hope that the new emphases in economic policy in a large number of countries may already have begun this process. But if we are looking for areas to apply the lessons, I might single out, first, examining carefully the implications of the WTO and Bank/Fund structural adjustment for exporting and other aspects of the East Asian story; and second, ways of providing technological support as these countries have done, particularly to small and medium enterprises.

Strategies for Growth and Poverty Alleviation

Clearly what has been learned from East Asia is important for promoting growth in general. Getting the macro-fundamentals "right" is one of the keys. A recent research finding is that the capacity to cope with exogenous shocks is crucial for growth; countries with high deficits and inflation in normal times will not be able to manage shocks; nor will they have the stable economic climate which attracts investors. Otherwise, the key engines of growth in the 20th century, in addition to exporting, have been the private sector and technology.

The paper notes that while many countries have introduced liberalising reforms, private investment has been slow to pick up. This is partly because of the retrenchment which has commonly accompanied reforms, but partly also because it takes as much as five years for investors to become confident that the policies and conditions for investment are there to stay. The more pervasive the pre-reform constraints on the private sector, the harder it is to move forward. In the enthusiasm for market reforms, it should not be forgotten how important governments are for creating the infrastructure and institutions that permit the private sector to flourish. For several countries, strengthening governmental capacities will be crucial. Just to give an example, it is government that leads the privatization process. (And here I might emphasize something the paper raises and which a number of Commonwealth countries have found to be important, that is, measures to attract widespread participation in shareholding and overcome some of the political difficulties of privatization.)

Apart from purchasing **technology** from abroad and developing it domestically, the principal sources of new technology are from investments by foreign firms, and from supplier-relations with foreign buyers in exporting. A great deal can be done to give support to technological development for large, medium and small firms by following best practice elsewhere, and the paper refers to this. Part of this development also depends on education and training, to which I come in a moment.

Growth does not automatically generate high levels of **employment,** the second part of an anti-poverty strategy. There are numerous lessons from employment experience. For many countries, agriculture must remain a significant source of employment; doing better in this respect often means removing the obstacles which have inhibited agricultural growth in the past, and eliminating subsidies to inputs – electricity for example – which substitute for labour. Encouraging small and medium scale enterprises, and better approaches to rural credit and micro-finance, are also important ingredients.

Labour-market factors matter too. In general research does not find that repressing union activity and labour has played a positive part in employment. What has been negative have been attempts to improve job security and conditions by measures which discourage firms from hiring labour.

Last but far from least, **human development**. A large range of evidence has begun to show how important health and education have been for economic growth. A major emphasis of the paper is that financial authorities should not think of these sectors as 'welfare', or as satisfying primarily humanitarian concerns. They do of course have that role. But they can also be highly productive investments. Many public expenditures in health and education will be recouped quickly by governments through reduced demands on services in the fairly short term. It is hard for countries to shift out of exporting primary products and into manufacturing without a strong base in human resources. Foreign direct investment today is increasingly attracted by low-cost **skilled** labour, not low-cost labour as such. In fact, provided other economic circumstances are moving in the right direction, human development can itself be an "engine of growth".

International Co-operation

Lastly the paper turns to international co-operation. If aid for long-term development is going to continue to shrink, it is all the more important that it concentrate on measures to make it more effective in contributing to the growth, employment and human development policies which the paper describes as the three pillars of an anti-poverty strategy. The specific measures are spelled out in the paper, and listed succinctly on the last page of the Executive Summary, and I will not rehearse them now. I am sure colleagues are keen to get on with the discussion. I will only add that donors and recipients alike are concerned about the performance of aid, especially, in some countries, increasing dependency on aid rather than increasing capacities to develop without it. If shrinking aid makes for concentration on how to redress this state of affairs, higher effectiveness may compensate for lesser quantity.

Comment by Prof John Toye

Institute of Development Studies, Sussex

I find it difficult to put a markedly different spin on the ball, because the paper which Robert wrote is very excellent in many ways. It is a very comprehensive paper and it covers a lot of ground. I think of it as almost an encyclopaedia of what one might want to know in this area. And it manages to be encyclopaedic at the same time as being very concise. But since the discussant's job is to put a different spin on the ball, I went through the paper very carefully, looking for propositions with which I could disagree. I have to say that I found hardly any propositions with which I disagreed. The paper is excellent both as a synthesis of academic wisdom on these questions and also as a very helpful guide to the relevant literature, so that those who want to follow up particular points can get into that literature. It also contains a number of interesting ideas about the question of what can be done in learning the lessons of the East Asian experience. So what can I do? I felt that what we have here is a canvas filled with a large number of small dots of truth. I propose to join up some of the dots in my own way and so draw my own picture. Relying rather heavily on Robert's paper, I am going to give some slight differences of emphasis, some areas of light and shade in this. On the whole, my spin is a little bit more pessimistic than what we have heard from Robert, both in the paper and his comments this morning. I apologise for that, but I must say what I think is right.

One part of the paper that I would pull out for special emphasis is the rather brief section – "Japan: a note". It seems to me that Japan needs much more than just a note. I see the East Asian miracle not exactly in the way that Robert has done. I don't find the Hong Kong or Singapore experience particularly relevant to the question of how other developing countries can go forward. They are rather special cases of small city states which you would expect to be doing a lot of exporting and to be well in touch with international currents through trade and other mechanisms. While it is interesting to hear about them, they are not the heart of the East Asian miracle.

I also disagree with the term 'miracle'. I don't disagree that there has been an extraordinary growth in the way that Robert has said. The facts are there but whether it is a miracle, i.e. something which cannot be explained by normal means of explanation, I doubt. My explanation would put Japan very much at the heart of this experience and the countries that I would focus on are Japan itself, Korea and Taiwan but also the coming third tier of Indonesia, Malaysia and Thailand. There are various ways of describing the dynamics of this experience and various metaphors have been used. The Japanese described it as the 'flying geese pattern'. This is a process whereby, having modernised the Japanese economy, a structured transition takes place within the neighbouring area. Japanese industries which have been superseded in the modernising process are decanted in a co-operative way to neighbouring countries. I have just been reading a fascinating book on this by Dennis McNamara who describes the process by which over the last 25 years the Japanese textile industry has been deliberately wound down and transferred through various mechanisms to neighbouring countries. This is part of a deliberate process, which the Japanese are quite clear about, and which has enormously benefited their neighbours in terms of a continuing self-reinforcing dynamism of growth in the area.

But there is no Asian model, which applies to all the growing countries of the region. All of these experiences are different from one another and Robert brought out in this paper some of the differences. The difference is marked between the use of the very small number of large corporations in Korea and the small enterprise focus of development in Taiwan. But there are other models in the third tier as technology, investment, orders and sub-contracting, cascade down to the third tier of countries. So there is no one model. What there is, is a dynamic process which can be called 'flying geese', or 'cascading' or whatever. If that is the case then that seems to me to reduce further one's estimate of the possibilities of replicating this in Africa. There is no regional growth point in Africa from which such a cascading process can begin. There is no good neighbour who is sufficiently organised, not only to achieve its own modernisation, but then also to organise a dynamic process of cascading of growth to those nearby. One possible exception, of course, might turn out to be South Africa. But unless you can get that growth pole in the South African area, it is difficult to think of this kind of systematic long-term spread effect to neighbouring countries.

There is another point that I would like to flag, which is prompted by the reference in Robert's paper (page 6) to economists' conventional notion of the factors of production as land, labour and capital. One has to think of the factors of production in a new way. In his remarks, Robert referred to Adrian Wood's work on the new basis of comparative advantage. The underlying idea here is that nowadays capital is mobile, and can be attracted in the right conditions. It's not a fixed given which determines comparative advantage. The factors which are relatively fixed are land and skills. This highlights, even more strongly than Robert puts it himself, the role which skill formation needs to play in a process of growth through expanding manufacturing exports. I am far less convinced than Robert is that agricultural exports will play the same role in a growth process, at least the rapid growth process. In the long run they may, but in terms of the sort of growth rates we are looking at in the East Asian case, the dominance of manufacturing exports seems to me to be very strongly indicated.

What else can be said of the ingredients of the so-called "miracle"? I am fascinated by the story of the role of the government and I accept what Robert has said, and what Robert Wade said also, about the precise ways in which the government has intervened. I would stress that it hasn't all been beneficial and that even with the human skills which were available in Korea, the government did encourage the over-extension of certain industries, such as ship building and heavy chemical industries, in the 1970s. That was partly what precipitated the brief crisis for which adjustment was required between 1979/83. The story has not been one of the unqualified success of government intervention. Governments, even the

Korean government, can make mistakes about which the right industries for the country are.

Interestingly, the Korean government is by no means a text book case of good government. It is a highly repressive regime which now appears, from reports of the trials of the Presidents of the country, to be extremely, grossly corrupt. What is interesting about this is that the corruption seems to have been very direct (i.e. give me a large brown envelope) and not a form of corruption which was operated indirectly through wholesale distorting of the economic system. I think it characteristic of a lot of developing countries to construct systems of economic management which are basically there to generate rent. If you have a system which is so blatant that you simply demand payments, you don't necessarily need to go through an indirect route to get the pay-offs to the right people. It may be a blessing in disguise that some Asian authoritarian governments practised direct rather than indirect corruption.

Coming back to the question of what are the factors which give comparative advantage today, I would like also to mention factor number four – something called social capital which is now coming into vogue. I have a feeling that social capital may be a concept which has been overdue for recognition in the vocabulary of economists. Social capital is essentially the social networks of trust, the density and nature of such networks, which lie outside market and government relationships, and which then condition the effectiveness with which both government and market operate. There are few empirical studies of social capital in developing countries. The best we have is of Italy by Robert Putnam, which itself is still controversial. I suggest on the research front that this is a very important area. Social capital is a kind of mediating factor in the nature of society. This is something distinct from human capital formation as such. It is to do with the way in which people interact with one another, whether on a horizontal plane, as it were, across society or whether interactions are channelled in a vertical linkage of patrimonialism or patriarchy. This could be vital in understanding why a given economic strategy works out differently in Asia and in Africa.

Now I think that I have probably used up my time. I have more comments to make but I don't want to trespass too much on your goodwill.

Comment by Dr Sanjaya Lall

Queen Elizabeth House, University of Oxford

Thank you very much. I find myself in a very difficult position. I start by saying that Robert's paper is excellent – it is wide ranging, it is comprehensive, it is practical and it is wise. As with John Toye, I have not much to say on the content of the paper itself. Some of the things I was going to say have already been said by John Toye, so I find myself in a doubly difficult position. So I will talk about two things which might stimulate discussion: (1) what was the East Asian strategy; and (2) what does it mean for non-East Asian countries, in particular Sub-Saharan African countries.

There was no single East Asian model but rather a series of very different models, governments, and political economies addressing very different objectives. Now how do economists deal with this? Economists when they talk about government policies, view the need for intervention as being driven by market failures. Market failure is a very impressive term. Economists immediately think they know what the other person is talking about. Market failures are deviations from a competitive market equilibrium. Non-economists of course, are totally confused by all this, they are very impressed and view what economists are saying as being correct. However, market failure is the wrong word to use. We are really talking about overall government policy which is not simply market failure, but something much broader. So the use of the market failure terminology in describing what the East Asians were doing is really rather confusing. To deal with market failures, there are three major kinds: externalities (when prices don't capture what really is going on), public goods, (something which has no price and therefore the government is forced to provide it), and the regulation of monopoly (enforcing of competitiveness). These are relatively trivial policy issues. The policies which the East Asian countries adopted were not dealing with market failures in this rather static sense. There were elements which all governments were doing, and upsetting the rules of the game in the process, such as providing infrastructure. Yes, these were addressing market failures in the trivial sense. But what they were doing was really quite different. There are five points I wish to make on this.

First, is that each of the four East Asian dragons/tigers, adopted very different strategies which had nothing to do with addressing market failures in the static sense. So we must talk about government strategies to improve markets. They were creating new markets, altering the structures of markets, creating new endowments and institutions within which markets functioned, and they were really changing the whole social structure within which the markets were operating. By no conceivable means can we, as economists, talk about this as a process of correcting market failures.

Let me give you an example: each of these countries started with a simple industry – the most prominent being garments. Garments were the easiest industry to get into – with three months of training, a literate labour force and a few technicians, a country can export garments efficiently in the world market. Once you start doing this, is there a market failure involved? Hong Kong says that the market has determined that we should be in a simple area of labour-intensive products like garments, leave it to the market and there we will stay. A smaller economy, Singapore comes along and says no we do not want to be in garments at all. We see that, ten years down the road, garments are going to be uncompetitive. It is a very easy industry to get into and therefore we should aim for something much more complex. Let us go for capital-intensive industries like petro-chemicals, ship repairs, etc. Ten years later, they say even this is not enough, let us go for high-technology electronics. There is no market failure involved. It is a question of strategy. Take Korea, which started with garments, and said we do not want to be in garments at all, we prefer to be in heavy industry. But unlike Singapore, which depended on multinationals, we want to build up our own technology base. So, from garments they go into textiles, from textiles, they go into textile machinery, and from textile machinery they go into machinery making and electronics in general. We do not want to depend on multinationals, therefore, we have to create very large firms. We have to create a domestic technology base, we have to do research and development, etc. They were not addressing market failures. The same markets existed. They all started the same way. Addressing different objectives – they were changing the whole structure within which the economy operated. So that is the first point – we are talking about industrial strategy and not market failures.

Secondly, the most important point, is that each country had a very different strategy, as I indicated. Hong Kong had a strategy of "laissez-faire"; it started with unique initial conditions, took off, did very well for a while industrially and then started declining. Hong Kong is presently undergoing the most massive de-industrialisation of any of the tigers. Initially, the other economies' industries remain at 30-40 per cent of GNP and continue to grow 7-10 per cent per annum. Hong Kong's industry is growing at only 1 or 2 per cent. Manufactured exports are declining in real terms by 10 per cent per annum. In contrast, Singapore, a much smaller economy with much higher wages, has not suffered de-industrialisation. Its manufactured exports are growing at double digit figures. Unlike Hong Kong, Singapore adopted free trade, combined with massive interventions to attract foreign investment and to direct them into particular industries. Where foreign investment would not come in, the Government of Singapore created public enterprises to act as a catalyst to foreign investment inflows. Then you have Korea and Taiwan which went much further and limited foreign investment to very high-technology industries, and created other industries with national enterprises. Very different strategies with very different implications – each for very different structures of industries, very different structures of exports and, in the long term, probably very different propensities to continue growing at a high rate. Today, we find Hong Kong declining, Korea and Taiwan maintaining the highest rate of growth and Singapore nearly there.

The third point relates to what the World Bank called functional or market-friendly interventions. The World Bank now admits that there is a role for governments but that they should be non-selective – one should not pick winners. Functional interventions are very important for providing good infrastructure, good macro-economic management, basic skills and so on. They are necessary conditions for growth, but not sufficient. Functional interventions by themselves (like in Hong Kong) are not enough because you get to a certain point beyond which your static comparative advantage runs out – simply creating skills is not enough. One then has to go in for much more selective promotional policy, either within a free market, like Singapore, or much more targeted and interventionist, like Korea or Taiwan.

The fourth lesson from the larger economies, like Korea and Taiwan, is that it becomes very important to build a domestic technology base. Large economies cannot be driven, like Singapore, purely on the basis of foreign investment. They have to start building a domestic technology base which, for a long time, means not innovating on the frontiers of technology. The ability to diversify on the basis of imported technology is a very different proposition to doing R & D. It is to use imported technology effectively – to make VCRs, microwave ovens, colour televisions on the basis of technology innovated elsewhere. Needless to say, to develop a domestic technology base requires considerable government intervention.

I suppose the fifth lesson, which follows from this, is that the NICs were not picking winners but they were creating winners. They were not addressing market failures in which the market has a mass of information which governments find it impossible to process. The neo-classical view that governments can never really be more efficient than markets, simply because there is too much information around, is probably true in a static sense. But when a country changes the parameters within which markets operate, it does not face the same sort of problems. What these countries were doing was guiding the economy into hi-tech, high skill industries (like electronics), and they are doing it in a coherent fashion. They were creating all the conditions which were required for firms to become efficient. So it is not just protecting hi-tech industries. You offer a bit of protection and you offset protection by forcing firms to export. In order for the firms to export efficiently, you create a base of skills – these skills are not generic skills (high school/graduates) – they are very specific, targeted skills in the particular industries that they were setting up. It is a very coherent, integrated strategy of making things happen. Its feasibility is shown by the East Asian experience – whether it is easy or not is very difficult to say. Picking winners is wrong and is very difficult. Creating winners is difficult but it is possible; it is a necessary part of the development strategy. So what does all this mean now for non-East Asian countries, especially Sub-Saharan Africa?

First, of course, past patterns of interventions were wrong. There is no excuse for going back to old-fashioned import substitution with an enormous inward-looking public sector. Countries have to liberalise and they have to globalise. The content of liberalisation and globalisation are not very clear; there are many different ways to approach this argument objectively. To become efficient in world trade, implies growing rapidly with an expanding, efficient manufacturing sector. How do we do this? One set of prescriptions is structural adjustment, a big bang opening of the economy and letting markets do all the work. Based on the theory that markets are ultimately very efficient and governments are basically very inefficient, you open and liberalise and you become an East Asian tiger. Experience does not bear this out in Latin America or Sub-Saharan Africa. It is difficult to talk about Asia because this region was never really liberalised in this fashion. The Asian pattern of liberalisation has always been a much more controlled pattern, with a very large role for governments.

I was looking at the case of Ghana which has the longest history of structural adjustment in Sub-Saharan Africa (about 8-12 years, depending when you date structural adjustment). It has the longest history of consistent structural adjustment in Africa, they have devalued, privatised, opened up foreign trade and they have done everything by the book. What has been the result? An initial burst of economic growth of 10-12 per cent, while excess capacity was being used up, and imports were coming in to feed existing capacity. Once competing imports start to be liberalised and excess capacities are used up, the rate of growth goes down to 5 per cent. For the past five years, they have been growing at 1 to 2 per cent. In per capita terms, there was a decline in manufacturing growth. Is there a surge in manufacturing exports? Resources released from inefficient activities automatically seeking out efficient activities, going into labour-intensive products, as one would expect? No. The textiles garment industry and the footwear industry were devastated. In fact, every industry in which Ghana should be following Hong Kong is declining. The few manufactured exports which are growing are resource based. These have always existed, and show very little sign of dynamism. Total manufactured exports from Ghana two years ago were less than $15 million, it is not doing a tiger. Why? Because the government opened up very quickly without preparing industry to compete overseas. Even in a simple labour-intensive industry (like textiles and garments), a lot of work is needed before you become a Hong Kong. Hong Kong had very unique circumstances before it took off, even with labour-intensive industry. What happens is that big bang liberalisation realises comparative advantage, but it realises static comparative advantage. It does not redo the process of dynamic growth. And the process of dynamic growth requires functional interventions, building skills and so on, but it requires so much more. It requires economising on scarce resources – marshalling the skills , technology and management in order to go into a few activities which have a chance of making it in the world market.

The lesson that one draws from this is that liberalisation is necessary but in the process of liberalisation one has to be selective. It is not a sudden opening up to market forces, because market forces are very cruel; they can destroy a lot of industry which basically is viable. In addition, the realisation of comparative advantage is very static and there are cases in Latin America where, over a long term, comparative advantage had developed much more slowly than East Asia. The story of East Asia is that governments compressed and made dynamic the process much faster than market forces would.

The third lesson is that you must liberalise more gradually. But just slowing down the process of liberalisation alone is not going to help anyone. Simply protecting inefficient industries for another 10 or 15 years is a total waste of natural resources. Liberalisation has to be geared to and integrated with the programme of building supply-side capabilities – building skills, technology, institutions and whatever firms need in order to become efficient in whatever industry they happen to be in or the next stage of industrialisation. In short, there needs to be a coherent strategy. Markets themselves will not produce the strategy. One is talking about competitiveness but not competitiveness strategy in the way Michael Porter goes around advocating to developing countries. Large numbers of companies, like the Monitor Groups, are selling competitiveness packages to different developing countries. Lots of business school jargon but not much economic content in it because they do not have the economic analysis behind it. Where do markets function, where do they not function, what is the role for government in creating strategy? I think it is a very important area of work for research on what develops competitiveness in the context of liberalisation and globalisation.

The fourth point, the most important aspect of adjustment, often neglected, is the building of government capacity. Industrial capacity will not come unless there is the capacity to design and administer the right kinds of policies. Building government capacity is partly the structural adjustment prescription of downsizing government and firing inefficient bureaucrats, but this is the negative side. The positive side is that you have to develop government capacity in terms of the information available in order to devise effective policy. What did the East Asian actually do, how did they support their industries, how did Taiwan with its nearly one million small to medium enterprises manage to get them into export markets at the frontiers of technology and keep them there? What kind of support was needed? Do we understand this? We know that Taiwan, for instance, had the world's most effective system of supporting small to medium enterprises. A lot of institutions provided capital, technology, training, skills, but we do not know the details. I think there is an enormous amount of work in terms of research to understand what they did. It is an enormous amount of work on the part of governments to understand what other governments did – information and, of course, building skills, building the capabilities, insulating them from political influence, we all know, but I think the basis of adjustment must be to build up government capabilities.

The final point is how much scope is there left for replicating the East Asian diverse strategy? I think Robert's paper touched on this but didn't really discuss it. The new emerging rules of the game – the World Trade Organisation, Structural Adjustment, pressures from donors and so on – are really narrowing very much the scope for industrial interventions as they were practised 20 years ago, and much of it is very healthy. Of course, a lot of interventions were disastrous. But it is narrowing the scope compared with what Korea, Japan and Taiwan did and, to some extent, that is very undesirable. How much scope is there left? We are faced with this juggernaut of liberalisation rolling along and it is very difficult to turn it back. I think on the whole, the effects of liberalisation are more positive than negative. But we have to retain some scope for interventions in trade, which is most hit by the rules of the game. There is also lots of scope for domestic policy interventions. This is, again, an important subject but I don't know enough about it and I think a lot of work needs to be done.

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