Indira Gandhi National Open University
School of Social Sciences

BECE-016

ECONOMIC DEVELOPMENT: COMPARATIVE ANALYSIS AND CONTEMPORARY ISSUES

Models of Development in the Twentieth Century II

3

"शिक्षा मानव को बन्धनों से मुक्त करती है और आज के युग में तो यह लोकतंत्र की भावना का आधार भी है। जन्म तथा अन्य कारणों से उत्पन्न जाति एवं वर्गगत विषमताओं को दूर करते हुए मनुष्य को इन सबसे ऊपर उठाती है।"

— इन्दिरा गांधी

"Education is a liberating force, and in our age it is also a democratising force, cutting across the barriers of caste and class, smoothing out inequalities imposed by birth and other circumstances."

— Indira Gandhi

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BECE-016
Economic Development: Comparative Analysis and Contemporary Issues

Block

3

MODELS OF DEVELOPMENT IN THE TWENTIETH CENTURY II

UNIT 10

The Mixed Economy Approach 5

UNIT 11

The East Asian Experience (Asian Tigers) 16

UNIT 12

Models of Development: The Indian Experience 38

UNIT 13

The Latin American and African Experiences 52

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BLOCK 3 MODELS OF DEVELOPMENT IN THE TWENTIETH CENTURY II

In the previous Block, you were introduced to models of economic development in the twentieth century, and experiences of various countries and contemporary issues relating to capitalistic and socialistic approaches to development.

Unit 10 enunciates the mixed economy approach along with its concepts and salient features. It makes a critical appraisal of the working of the mixed economy approach and also illustrates the features of PPP. Further, discussions are made in recent PPP approach and their appraisal in the mixed economy.

Unit 11 expounds the experience of four Asian Tigers (Hong Kong, Singapore, South Korea and Taiwan) in the export-driven model economic development.

Unit 12 deals with articulation of Indian approach to development. It also helps to identify the features of public and private sector in which issues faced by dynamic private sector is discussed. Developmental strategy under different five year plans is also represented. Further the concept of inclusive growth strategy adopted in the 11th five year plan is also analysed.

Unit 13 attempts to bring out the developmental models adopted by Latin American countries and African countries.

UNIT 10 THE MIXED ECONOMY APPROACH

Structure

10.0 Objectives

10.1 Introduction

  10.1.1 Meaning

  10.1.2 Salient Features of Mixed Economy

  10.1.3 Merits of Mixed Economy

  10.1.4 Critical Appraisal of the Working of Mixed Economies

10.2 Public Private Partnerships

  10.2.1 Meaning

  10.2.2 Main Features of Public Private Partnerships

  10.2.3 Various Forms of PPP

  10.2.4 Strengths of Public Private Partnerships

  10.2.5 Need for Public Private Partnerships

10.3 Let Us Sum Up

10.4 Key Words

10.5 Some Useful Books

10.6 Answer or Hints to Check Your Progress

10.0 OBJECTIVES

After reading this unit you will be able to:

- explain the basic concepts of mixed economy and the salient features of mixed economy;
- to make an Critical Appraisal of the Working of Mixed Economies;
- to analyse the concept of PPS and its features; and
- to discuss recent mixed economy policy approach in the form of PPS and appraisal of their significance.

10.1 INTRODUCTION

In the present day world certain developing economies while retaining their basically capitalist framework have adopted comprehensive economic planning. In these economies objective and strategies of development have been laid by the state. In the field of production though market has been allowed to play an important role, at the same time priorities of production are determined by the state. These are truly speaking, mixed economies.

10.1.1 Meaning

In a mixed economy, both public and private institutions exercise economic control. The public sector functions as a socialistic economy and the private sector as a free enterprise economy. All decisions regarding what, how and for whom to produce are taken by the State. The private sector produces and distributes goods and services. It manufactures consumer and capital goods in the interest of public

welfare. A mixed economy possesses the freedom to hold private property, to earn profit, to consume, produce and distribute and to have any occupation. But if these freedoms affect public welfare adversely, they are regulated and controlled by the State.

Mixed economy implies demarcation and harmonisation of the public and private sectors. In it, free functioning of the market mechanism is not permitted and the government intervenes or regulates the private sector in such a way that the two sectors become mutually re-inforcing. A mixed economy represents an achievable balance between individual initiative and social goals. Planning and market mechanisms are so adjusted that each is used for realising the objectives of the economy to which it is most suited. There is understood be a commitment on the part of both the sectors to national objectives and priorities.

Ownership of sectors is used by some to classify them. A system comprising cooperative organisations would be called a cooperative commonwealth. A system of joint sector organisations gives another type of mixed economy. A system, in which both public sector and private sectors are present, is the mixed economy of the conventional type. This mixed economy could be an ad-hoc or a systematic type depending upon the extent of coverage by the public sector of core sector of the economy. The other consideration would be the extent to which the two sectors have been integrated and harmonised with the policy objectives of the economy as a whole.

It would be an economy that shows concern for the welfare objectives of the weaker sections through a combination of public distribution system, poverty alleviation programmes as also the production priorities based on a market economy. It could also be an economy that emphasises the social objectives of equity, employment, self-reliance, etc. There would be a varying degree of the mix of planning and market economy in each type of mixed economy.

At times, it is held that every economy is a mixed economy and that the concept of mixed economy is neither precise nor worthwhile. It has, however, to be appreciated that the concepts of planned economy and market economy have definite ideological and operational profiles. The concept of mixed economy represents a middle position between these two extremes. This concept is flexible and has its own means and methods of approaching economic, political and social issues.

10.1.2 Salient Features of Mixed Economy

To have a better understanding of the concept of mixed economy, let us examine its meaning and features.

The main features of mixed economic system are:

1) *Private ownership of means of production and profit induced commodity production:*

   In a mixed economy people enjoy the right of property through constitutional provisions. Obviously in mixed economies, major part of production is done for the market and the activities of the production are motivated primarily by profit.

2) *Co-existence of Public and Private Sectors:*

   In a mixed economy, both the public and the private sectors initiatives will be there. The most strategically and nationally important sectors of the economy will be reserved for the public sector. The rest will be left for private operation. While the public sector will have social welfare as the prime motive, the private sector will function with profit motive.

3) *Decisive role of Market mechanism:*

Market mechanism has a predominant role in a mixed economy. In such an economy markets exist for products and productive factors. However market mechanism is not free from state control. Often legislative measures are undertaken to provide regulatory system for industrial activity in the country.

4) *Consolidation of merits of Capitalism and Socialism:*

As seen above, both capitalism and socialism have merits and demerits. Mixed economy is expected to retain only the merits of the two systems. For instance, the government is expected to allow private investment, but the government also controls monopolies.

5) *Economic Planning:*

Economic planning is another important feature of the mixed economy. Planning will direct the relative roles of public and private sectors and their respective jurisdictions.

Other features of mixed economy are:

- balance between the market economy and the planning mechanism;
- a clear demarcation of the boundaries of public sector and private sector so that the core sector and strategic sectors are invariably in the public sector;
- while profit motive influences decision-making in the private sector, the economic viability criteria for investment decisions in the public sector is based on social cost-benefit analysis;
- the ownership of means of production as between public sector, private sector, joint sector and cooperative sector is so decided that there is a balance between personal and social incentives and sectional and general interests;
- there is occupational freedom and freedom of consumer's choice;
- the government intervenes to prevent undue concentration of economic power, and monopolistic and restrictive trade practices;
- the government endeavours to take care of the consumption levels and objectives of the weaker sections of the society through public distribution system, poverty alleviation programmes etc.;
- social objectives of equity, employment, balanced regional development, family welfare is emphasised;
- the doctrinaire rigidities of socialism are avoided and a pragmatic approach to decision-making for promoting economic growth is usually adopted; and,
- mixed economy is not merely an economic concept and the rights of the individual are respected and protected subject only to the requirements of public law and order.

10.1.3 Merits of Mixed Economy

The main advantages of mixed economic system can be summarised under the following heads:

1) **Efficient resource utilisation**

The resources are utilised efficiently as good features of both capitalism and socialism coexist. If there is misallocation of resources, the State controls and regulates it. This ensures the efficient utilisation of resources.

2) **Prices are administered**

The prices are not fixed always by forces of demand and supply. In the case of goods which are scarce, the prices are administered by the government and such goods may also be rationed.

3) **Social Welfare**

In a mixed economy, planning is centralised and there is overall welfare. Workers are given incentives and reward for innovations. There is social security provided to the workers. Inequalities of income and wealth are reduced.

10.1.4 Critical Appraisal of the Working of Mixed Economies

A mixed economy, despite the fact that it has overcome certain weakness capitalism is exposed to certain criticisms. They are as follows:

1) **Less firm framework of the mixed economy and its vulnerability**

The political factor is for more dominant and causes an unwarranted change in the form of mixed economy. This can be easily understood by examining Indian case. After independence, political forces favoured creation of large scale public sector which played strategic role in the economic development. Presently government has been selling public sector units to private companies at throwaway prices. The regulatory system is more or less dismantled and role of planning is very much reduced. All these developments are important and are a pointer to imminent changes in the form of mixed economy in the country.

2) **Lack of Co-ordination**

The coordination between the public and private sectors is poor in a mixed economy. Public sector spends huge public resources for infrastructure. The private sector aims at profit maximisation by using infrastructure created by the public sector. But they lack social responsibility and fail to spend for public causes like health, education. The private sector also dislikes any restriction imposed on it by the government.

3) **Concentration of Economic Power**

Transformation of capitalistic economy into mixed economy in underdeveloped economies is often motivated by the objective of economic growth which over time results in growth of monopolies and concentration of economic power.

4) **Red-tapism and delay by Public Sector**

There is every chance that the public sector works inefficiently. There is too much of red-tapism and corruption leading to delays in decision-making and project implementation. They result in inefficiency and also affect production.

5) **Denial of Social Justice**

The mixed economy framework generally tends to favor relatively rich on account of their strong economic position. It is found that in countries having mixed economy, governments has failed to remove poverty and concentration of income and wealth.

6) **Economic Fluctuations**

The mixed economies experience economic fluctuations. On the one hand, the private sector does not operate under very rigid conditions prescribed by the government. On the other hand, the public sector too does not operate

under very rigid conditions enforced by the planned economy. The lack of policy coordination between private and public sector results in economic fluctuations.

7) **Built-in-tendency to Slide Back**

The mixed economy is viewed by many simply as variant of capitalism which has a built-in-tendency to slide back and finally emerge as a pure market economy. This view is corroborated by the experience of the Indian economy in recent years. India which began as mixed economy has resorted to the policy of privatisation since the early 1990s. It is now gradually getting transformed into a purely capitalistic economy.

It is incorrect to regard every country as a mixed economy just because some features of capitalism or socialism are present in that system. By this test, USA is a capitalist country and erstwhile USSR and China can be classified as socialist countries. The mere presence of some characteristics of a mixed economy is not enough. These are not their dominant characteristics. Countries like Sweden, Norway, Austria, France, India, and Israel are mixed economies. A mixed economy must have the structural characteristics and also profess the social democratic ideology. Countries that put greater stress on decentralised socialist market tend to approximate to or are approaching a mixed economy in the allocative aspect. Capitalist countries that put more stress on an egalitarian distribution of property and incomes (Japan, South Korea, Taiwan and Singapore) are approaching the mixed economy ideal from the other end.

Thus, even though mixed economy is a mixed form of capitalism and socialism, it has an identity of its own. The evils of extreme economic systems of pure capitalism and pure socialism are avoided in a mixed economy. It presents a middle path.

Check Your Progress 1

1) What is mixed Economy?

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2) What are the Basic features of mixed Economy?

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3) Explain the merits and demerits of Mixed Economic System.

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10.2 PUBLIC PRIVATE PARTNERSHIPS

Since the 1990s, there has been a rapid rise of PPPs across the world. Governments in developing as well as developed countries are using PPP arrangements for improved delivery of infrastructure services. Governments are building infrastructure for transport (roads, railways, toll bridges), education (schools and universities) and healthcare (hospitals and clinics), as well as waste management (collection, waste-to-energy plants), and water (collection, treatment, and distribution). PPP is becoming the preferred method for public procurement of infrastructure and infrastructure services projects throughout the world.

10.2.1 Meaning

Public Private Partnerships generally a medium to long term relationship between the public and private sectors (including the voluntary and community sector), involving the sharing the risks and rewards and the utilisation of multi-sectoral skills, expertise and finance to deliver desired policy outcomes that are in the public interest. In other words, they refer to long-term, contractual partnerships between the public and private sector agencies, specifically targeted towards financing, designing, implementing, and operating infrastructure facilities and services that were traditionally provided by the public sector. These collaborative ventures are built around the expertise and capacity of the project partners and are based on a contractual agreement, which ensures appropriate and mutually agreed allocation of resources, risks, and returns. This approach of developing and operating public utilities and infrastructure by the private sector under terms and conditions agreeable to both the government and the private sector is called PPP or P3 or Private Sector participation (PSP).

10.2.2 Main Features of Public Private Partnerships (PPP)

Following are the important features of PPS:

1) **Roles and responsibilities of public sector**

   PPPs do not mean reduced responsibility and accountability of the government. The government remains accountable for service quality, price certainty, and cost-effectiveness (value for money) of the partnership. Government remains actively involved throughout the project's life cycle. Under the PPP format, the government role gets redefined as one of facilitator and enabler. The public sector contributes assurance in terms of stable governance, citizens' support, financing, and also assumes social, environmental, and political risks.

2) **Role and responsibilities of private sector**

   The private sector plays the role of financier, builder, and operator of the service or facility. PPPs aim to combine the skills, expertise, and experience of both the public and private sectors to deliver higher standard of services to customers or citizens. The private sector brings along operational efficiencies, innovative technologies, managerial effectiveness, access to additional finances, and construction and commercial risk sharing.

3) **High priority, government-planned project**

   The project must have emerged from a government-led planning and prioritisation process. The project must be such that, regardless of the source of public or private capital, the government would still want the project to be implemented quickly.

4) **Genuine risk allocation**

Shared risk allocation is a principal feature of a PPP project. The private sector must genuinely assume some risk.

5) **Mutually valuable**

Value should be for both sides, which means government should also genuinely accept some risks and not transfer the entire risk to the private sector, and vice versa.

10.2.3 Various Forms of PPP

In a PPP, the 'private' partner could be a private company, a consortium, or a non-governmental organisation (NGO). Typically, a PPP project involves a public sector agency and a private sector consortium which comprises contractors, maintenance companies, private investors, and consulting firms. The consortium often forms a special company or a 'special purpose vehicle' (SPV). The SPV signs a contract with the government and with the subcontractors to build the facility and then maintain it. To enable the flow of private funds and resources into public infrastructure and services, the PPP is operationalised through a contractual relationship between a public body (the conceding authority) and a private company (the concessionaire). This partnership could take many contractual forms, which progressively vary with increasing risk, responsibility, and financing for the private sector. However, the most common partnership options are (i) Service Contract, (ii) Management Contract/Lease; (iii) Build Operate Transfer (BOT), (iv) Concession, (v) Joint Venture and (vi) Community-based provision.

Most contracts take the form of 'Concession' and Design, Build, Finance, and Operate contracts, to cover the finance, design, management, and maintenance obligations. These contracts are usually financed by user fees or tariffs or by government subsidies. The public sponsor of the PPP decides the degree of private participation required a particular project. This decision is usually based on the government's objectives of undertaking the project, the degree of control it desires, and the ability of the PPP consortium to deliver the required service. It is also influenced by the provisions of the existing legal and regulatory framework, the structuring of the project to attract private resources, and the potential to generate future cash flows.

10.2.4 Strengths of Public Priveate Partnerships

The emergence of PPPs is seen as a sustainable financing and institutional mechanism with the potential of bridging the infrastructure gap. PPPs primarily represent value for money in public procurement and efficient operation. Apart from enabling private investment flows, PPPs also deliver efficiency gains and enhanced impact of the investments. The efficient use of resources, availability of modern technology, better project design and implementation, and improved operations combine to deliver efficiency and effectiveness gains which are not readily produced in a public sector project. PPP projects also lead to faster implementation, reduced lifecycle costs, and optimal risk allocation. Private management also increases accountability and incentives performance and maintenance of required service standards. Finally, PPPs result in improved delivery of public services and also promote public sector reforms. The strengths of PPS can be summarised as follows;

- Robust and dynamic structure;
- Government in an enabler role;
- Government ownership is high;
- Governance structure ensures consumer and public interests are safeguarded;

- Commercial interest protected;
- Domicile risks to parties that are well equipped to deal with them;
- Transparent and well-conceived contracts;
- Documentation recognises rights and responsibilities of all project-related parties;
- Concerns of all stakeholders addressed;
- Involves participation of a large number of institutions: government, politicians, banks, financial institutions, investors, contractors, consumers, NGOs, etc.

10.2.4 Need for Public Private Partnerships

The major challenge faced by most of developing countries is limitations of government resources and capacity to meet the infrastructure gap. Globally, governments are increasingly constrained in mobilising the required financial and technical resources and the executive capacity to cope with the rising demand for water supply, sewerage, drainage, electricity supply, and solid-waste management. Rapid economic growth, growing urban population, increasing rural-urban migration, and all-round social and economic development have compounded the pressure on the existing infrastructure, and increased the demand-supply gap in most of the developing world. Countries and governments, especially in the developing world, are experiencing increasing pressure from their citizens, civil society organisations, and the media to provide accessible and affordable infrastructure and basic services. While the infrastructure gap is rising, government budgetary resources are increasingly constrained in financing this deficit. The pressure has also come from the international compact on Millennium Development Goals (MDGs), under which a country progresses in terms of access to safe drinking water, sanitation, health, etc. is being monitored. Rising costs of maintaining and operating existing assets, inability to increase revenue and cut costs and waste, and rising constraints on budgets and borrowing, do not allow governments to make the required investments in upgrading or rehabilitating the existing infrastructure or creating new infrastructure. Need for PPS arises mainly due to following reasons.

- **Need for new financing and institutional mechanisms**

The political economy of infrastructure shortages, constrained public resources, and rising pressure from citizens and civil society have combined to push governments and policymakers to explore new ways of financing and managing these services. Governments have been pushed to exploring new and innovative financing methods in which private sector investment can be attracted through a mutually beneficial arrangement. Since neither the public sector nor the private sector can meet the financial requirements for infrastructure in isolation, the PPP model has come to represent a logical, viable, and necessary option for them to work together.

- **Access to project finance**

The foremost benefit of adopting the PPP route is the ability to access capital funding from the private sector, considering that funding is getting increasingly limited from public sector budgets. Thus, PPPs allow governments to overcome their budgetary and borrowing constraints and raise finance for high-priority public infrastructure projects. Essentially, governments are able to use private finance through PPPs to build infrastructure projects that would previously have been built by the public sector using public sector finance. PPP projects also leverage available public capital by converting capital expenditure into flow-of-service payments.

- **Rigorous risk appraisal and optimum allocation**

The high degree of economic externality of public infrastructure, and the commercial and socioeconomic risks involved in developing and operating them, has made it difficult to appropriate returns from infrastructure investments. The long gestation period of infrastructure projects also requires sustainable financial and operational capacity. Therefore, there is increasing reluctance in both the public and private sectors to absorb all the costs and assume all the risks of building and operating these assets alone. Since the private sector assumes the risk of nonperformance of assets and realises its returns if the assets perform, the PPP process involves a full-scale risk appraisal. This results in better cost estimation and better investment decisions.

Check Your Progress 2

1) What is PPP?

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2) Explain the strengths of PPP?

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3) Explain the main features of Public Private Partnerships.

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4) What are the major forms of PPP?

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10.3 LET US SUM UP

The objective of the unit was to familiarise the learner with concept of mixed economic approach of development. The first part of this chapter clearly explains the mixed economic system. It traces out the features and advantages of mixed economy. The later part of the unit looked at the concept of Public Private Partnerships in detail.

Mixed economies are those economies which are characterised by the existence of public sector and private sectors and possibly joint sectors. A mixed economy represents an achievable balance between individual initiative and social goals. Planning and market mechanisms are so adjusted that each is used for realising the objectives of the economy to which it is most suited. There is a commitment on the part of both the sectors to national objectives and priorities. Ownership of sectors is used by some to classify them. A system of joint sector organisations gives another type of mixed economy. It would be an economy that shows concern for welfare objectives of the weaker sections through a combination of public distribution system, poverty alleviation programmes as also the production priorities. It could also be an economy that emphasises the social objectives of equity, employment, self-reliance, etc. A mixed economy despite the fact that it has overcome certain weakness of capitalism is exposed to certain criticisms.

The PPP is a mixed economic approach towards development, gained momentum in 21st century in most of the developing countries. PPP is a system in which a government service or private business venture is funded and operated through a partnership of government and one or more private sector companies. The government remains accountable for service quality, price certainty, and cost-effectiveness (value for money) of the partnership. The private Sector plays the role of financier, builder, and operator of the service or facility.

10.4 KEY WORDS

Mixed Economy : mixed economy is an economic system where both public and private institutions exercise economic control.

Public Private Partnerships : refer to long-term, contractual partnerships between the public and private sector agencies, specifically targeted towards financing, designing, implementing, and operating infrastructure facilities and services that were traditionally provided by the public sector

Public sector : is that part of economic and administrative life that deals with the delivery of goods and services by the government.

10.5 SOME USEFUL BOOKS AND REFERENCES

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10.6 ANSWER OR HINTS TO CHECK YOUR PROGRESS

Check Your Progress 1

1) In a mixed economy, both public and private institutions exercise economic control. The public sector functions as a socialistic economy and the private sector as a free enterprise economy. All decisions regarding what, how and for whom to produce are taken by the State. The private sector produces and distributes goods and services. It manufactures consumer and capital goods in the interest of public welfare. For details see sub-section 10.1.1

2) A mixed economy is an economic system that incorporates aspects of more than one economic system. This usually means an economy that contains both privately-owned and state-owned enterprises or that combines elements of capitalism and socialism, or a mix of market economy and planned economy characteristics. For details, see sub-section 10.1.2

3) a) Efficient resource utilisation b) Prices are administered c) Social Welfare (sub-section 10.1.3). For the demerits of mixed economy, see the sub-section 10.1.4

Check Your Progress 2

1) For the answer to questions 1, 2, 3, and 4 see the sub-section 10.2.1, 10.2.2, 10.2.3, 10.2.4, and 10.2.5.

UNIT 11 THE EAST ASIAN EXPERIENCE (ASIAN TIGERS)

Structure

11.0 Objectives

11.1 Introduction

11.2 Export-Driven Model of Economic Development

11.3 Criticism of the Export-Driven Trade Model

11.4 The Common Characteristics of the Four Asian Tigers

11.5 Economy of Hong Kong

11.6 Economy of Singapore

11.7 Economy of South Korea

11.8 Economy of Taiwan

11.9 Let Us Sum Up

11.10 Key Words

11.11 Some Useful Books

11.12 Answer or Hints to Check Your Progress

11.0 OBJECTIVES

After going through this unit, you will be able to:

- to explain the concept of Export-Driven Model of Economic Development;
- to discuss the role of export in the development of an economy; and
- to evaluate the experience of Asian Tigers.

11.1 INTRODUCTION

The term Four Asian Tigers or East Asian Tigers refers to the economies of South Korea, Hong Kong, Singapore, and Taiwan officially known as China respectively. These regions were noted for maintaining high growth rates and rapid industrialisation between the early 1960s and 1990s. In the early 21st century, with the original four Tigers at fully developed status, attention has increasingly shifted to other Asian economies which are experiencing rapid economic transformation at the present time. Abandoning import substitution, the model advocated in the developing world following the two world wars, the Four Asian Tigers pursued an export-driven model of economic development with the exportation of goods to highly-industrialised nations. Domestic consumption was discouraged through government policies such as high tariffs. The Four Asian Tigers singled out education as a means of improving productivity; these territories focused on improving the education system at all levels; heavy emphasis was placed on ensuring that all children attended elementary education and compulsory high school education. Money was also spent on improving the college and university system.

Since the Four Asian Tigers were relatively poor during the 1960s, these nations had an abundance of cheap labour. Coupled with educational reform, they were able to leverage this combination into a cheap, yet productive workforce. The Four Asian Tigers committed to egalitarianism in the form of land reform, to promote property rights and to ensure that agricultural workers would not become disgruntled. Also, policies of agricultural subsidies and tariffs on agricultural products were implemented as well.

11.2 EXPORT-DRIVEN MODEL OF ECONOMIC DEVELOPMENT

Export-Oriented Industrialisation (EOI) sometimes called export substitution industrialisation (ESI) or export led industrialisation (ELI) is a trade and economic policy aiming to speed-up the industrialisation process of a country through exporting goods for which the nation has a comparative advantage. Export-led growth implies opening domestic markets to foreign competition in exchange for market access in other countries. Reduced tariff barriers, floating exchange rate (devaluation of national currency is often employed to facilitate exports), and government support for exporting sectors are all an example of policies adopted to promote EOI, and ultimately economic development. Export-Oriented Industrialisation was particularly characteristic of the development of the national economies of the Asian Tigers: Hong Kong, South Korea, Taiwan and Singapore in the post World War II period. The purpose of international institutions such as the World Trade Organisation, work in favour of such trade strategies and promote multilateral trade policy rules to put every nation on the same level playing field. It has been mostly successful, although it can be sensitive to the market. The 1998 economic crisis hurt the economies of countries that used export-oriented industrialisation. It is criticized for its lack of product diversity, which makes the economies potentially unstable. Export-oriented industrialisation is often contrasted with import substitution industrialisation. It grew as a reaction to import substitution.

The past half century has witnessed an unprecedented rate of world economic development. One stylised fact found by many empirical studies is that most high growth episodes are usually characterised by high export growth, which leads many people to the conclusion that the export sector has played a leading role in the growth process. For example, Balassa (1978) and Ram (1985) found that exports played an important role in promoting economic growth by conducting cross-country comparison or regressing GDP growth on different export variables. Especially after the very success of the Asian Tigers (Hong Kong, Korea, China and Singapore) in pursuing an export-driven model of economic development, many countries followed their pattern and directed, as a result, a great deal of attention to the exportable sector when designing economic policies. Successful growth episodes exhibiting high export growth are therefore usually labeled "export-led growth". If "export-led growth" was the true explanation for those high GDP growth episodes accompanied by high export growth, we should have been able to observe real exchange rate appreciation in all such episodes (due to the influx of foreign exchange) as a result of booming exports. The data show, however, that this real exchange rate appreciation has only occurred in around half of those so-called "export-led growth" episodes. The real exchange rate actually depreciated in many episodes characterised by high economic growth together with high export growth, which leads to doubts as to how safely such episodes can be claimed as "export-led growth". This further leads to the question whether some forces other than booming exports can generate high growth of both exports and GDP.

Although it is not easy to find simple factors that are shared by the episodes of many different countries' successful economic development, one point widely

agreed among economists is the importance of trade liberalisation, which allows the country to make most of its own comparative advantage in the international market. One measure of the degree of such openness is the course of its exports. Table 1 presents data on GDP growth and export growth in a large number of high-growth episodes, covering the period 1958-2004 depending on the data availability of different countries.

A high-growth episode is defined as one where GDP growth averaged over four percent a year for a period of at least five years (Harberger, 2005), and, throughout the whole period of high growth episode, there cannot be any negative growth rate for any year. In all, 81 high growth episodes are identified, 24 episodes in 11 OECD countries, 24 episodes in 11 Asian countries, five episodes in five African countries, and 28 episodes in 16 Latin American or Caribbean countries.

Table 1: GDP and Export Growth in High Growth Episodes

Country	Period	GDP Growth (%)	Export Growth (%)
South Korea	1999-2004	6.09%	7.95%
HongKong	2000-2004	4.76%	4.55%
Singapore	1987-1997	9.08%	13.95%
Taiwan	2008	5.50 %	NA

Most of these high growth episodes display average GDP growth rates between four and seven percent a year. A few countries, such as the Asian Tiger, have averages between seven to ten percent. In nearly all these high growth episodes, high GDP growth is found to be usually accompanied by a surge in exports.

An even more striking fact is that exports grew faster than GDP during those high growth episodes. In most of high growth episodes exports grow at a much faster rate than GDP. This strong link between export growth and GDP growth has led many people to believe that the main engine of high economic growth in those countries is an export boom, most likely driven either by a technological advancement in the export production, or by an increase in the world price of the main export commodities.

To explain the faster rate of export growth than GDP growth, one can think of a technological improvement in the exportable sector. The production of exportable goods then enjoys a competitive advantage in the international market

Given the country is not big enough to affect the world price, the profit margin for producing the exportable goods simply rises. More exportable goods will be produced by existing firms, and more producers will be attracted to enter the exportable industry by the profit opportunities. Labour, capital, and other resources will be pulled into the exportable sector from other main sectors, which makes the exportable production typically grow more than GDP itself.

The increase in the main export products influences the economy in a similar way In such circumstances, the economic growth is truly initiated by the exportable sector. This is the main story of the "export led" growth in which exports are strongly correlated with economic growth.

If export-led growth was the leading phenomenon among those high GDP and high export growth episodes, economic theory predicts that such export boom leads to an appreciation of the real exchange rate because more foreign currency is received as proceeds from exports.

If people spent all of the incremental foreign currency on tradable, the increments of supply and the demand of foreign currency in real terms would be the same, and the real exchange rate would not change. But what is much more likely is that a part of the incremental foreign currency will be spent on non-tradable, in which case the real exchange rate appreciates as people exchange foreign currency for domestic currency in order to consume home goods.

Therefore, if a technological advance in the exportable sector or an increase in the main export products is the dominant force driving the high GDP growth, we should have been able to observe real exchange rate appreciation in all those high growth episodes. The lack of evidence of real exchange rate appreciation in many episodes in which both GDP and exports grew dramatically leads to doubts as to how such episodes could appropriately be labeled as "export-led growth", implying that their main driving force comes from the export sector.

The model shows that productivity improvement in either of the tradable and the non-tradable sectors may result in high economic growth together with higher exports. The model also indicates that when TFP (Total Factor Productivity) is not directly measurable, which is a common data problem in many developing countries, the real exchange rate can serve as a good indicator to distinguish between episodes of "exports driving growth" and those of "growth driving exports". In episodes of "exports driving growth", the real exchange rate should appreciate; and in episodes of "growing driving exports", it should depreciate. People's demand for imports increases, bidding up the real price of foreign currency.

This, in turn, stimulates the expansion of the export sector. Thus exports grow in order to pay for the increased imports; exports can grow faster than GDP if the income elasticity of demand for imports is sufficiently high.

The data show that among episodes characterised by high GDP growth together with even higher export growth, about half of them are consistent with the "export-led growth" hypothesis; most of the other half was more likely led by productivity improvement in the non-tradable sector.

11.3 CRITICISM OF THE EXPORT-DRIVEN TRADE MODEL

The Four Asian Tigers were strongly affected by the 1997 Asian financial crisis, which impacted each Tiger to varying degrees. While Taiwan was not as strongly affected, South Korea experienced a major economic bust. However, following significant economic reforms, South Korea paid off its IMF debts within 3 years and resumed its role as the world's fastest growing economy, rising to join the top ten economies in the world by 2007. This achievement is often called the Second Miracle on the Han River. Taiwan, on the other hand, stayed as the 16th largest economy in the world. Because of the focus on export-driven growth, many of the Tigers became caught up in a game of currency devaluation. The current criticism of the Four Asian Tigers is that these economies focus exclusively on export-demand, at the cost of import-demand. Thus, these economies are heavily reliant on the economic health of their targeted export nations. In addition, these nations have met difficulties after they lost their initial competitive edge, cheap productive labour. China, India and much of Southeast Asia have now emerged as fast-growing economies based on cheap labour, largely replacing the Tigers.

Some economies were becoming overheated, stock prices were overvalued, property prices were sky-high and investors were jittery and nervous. Because of the

structural weaknesses in the regulatory framework, once capital flight began, the stock market nosedived and the major Asian currencies depreciated significantly. This caused social unrest, political instability, regime change and financial bailing out by the International Monetary Fund. This also gave impetus to some Asian governments to impose capital controls to restrict currency outflows and maintain monetary and financial stability. Taiwan created legislation requiring all outgoing capital transfers to be declared, though there were no direct restrictions.

Since the crisis most of the Tiger economies have become financially stable with resilient institutions and companies and regulatory frameworks in place to prevent another crisis. This has also shown many Asian governments that the easy and predictable prosperity of export-led growth and cheap labour costs won't last forever. To better compete with the emerging manufacturing giants like China they will have to create new industries, move up the value-adding chain and create stronger service sectors in their economies.

The East Asian Tigers were strongly affected by the Asian Economic Crisis, which impacted each Tiger to varying degrees. While Taiwan was not as strongly affected, South Korea was badly battered by the crisis. Because of the focus on export-driven growth, many of the Tigers got caught up in a game of currency devaluation.

The current criticism of the East Asian Tigers is that these economies focus exclusively on export-demand, at the cost of import-demand. Thus, these economies are heavily reliant on the economic health of their targeted export nations.

In addition, these nations have met difficulties after their initial competitive edge, cheap productive labour, no longer exists, especially with the emergence of India and China.

11.4 THE COMMON CHARACTERISTICS OF THE FOUR ASIAN TIGERS

- Developed economies with high GDP per capita and high HDI
- Focused on exports to richer industrialised nations
- Trade surplus with aforementioned countries
- Sustained rate of double-digit growth for decades
- High level of U.S. treasury bond holdings
- Motivated and skilled workforces
- High savings rate

In addition, we also find undervalued currencies and protected their markets by imposing high tariffs. In these countries also we find the authoritarian governments that maintained strong oversight on capital flows and transfers. However, despite the fact that in these countries governments that weren't very democratically Western in nature, but generally politicians weren't greedy and corrupt, and were efficient in investing in the nation's education, healthcare, housing and infrastructure. As of 2007, the world ranking of the GDP (nominal) of South Korea, Taiwan, Hong Kong and Singapore is 13th, 24th, 37th and 45th, respectively. In the same year, the world ranking of the GDP per capita (nominal) of Singapore, Hong Kong, South Korea and Taiwan in 21st, 26th, 28th, and 37th respectively.

Check Your Progress 1

1) Explain the Export-Driven Model of Economic Development.

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2) What are the major criticisms of the export-driven trade model?

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3) Explain the common characteristics of the four Asian Tigers.

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11.5 ECONOMY OF HONG KONG

Hong Kong's highly favorable geographical position and entrepot trading opportunities are wealth-generating assets. It has a superb sheltered natural harbor. For centuries, this had made Hong Kong a major heaven for pirates before it became a British colony in 1841. Under British administration, it soon developed into a thriving legitimate international port. By the late 20th century, Hong Kong was the seventh largest port in the world and second only to New York and Rotterdam in terms of container throughout. The Kwai Chung container complex was the largest in Asia; while Hong Kong shipping owners were second only to those of Greece in terms of total tonnage holdings.

In addition to geographical position, another major natural industrial-commercial asset of Hong Kong has been human resources. The population of the territory was less than six million in the late 20th century. However, there was an abundance of labour close by in the region that could be readily tapped through direct external investment and outsourcing. In Hong Kong itself, a skilled, adaptable, and hard-working labour force coupled with the adoption of modern British/ Western business

methods and technology ensured that opportunities for external trade, investment, and recruitment were maximised.

Since the 1970s, the economy of Hong Kong has been governed both under British and Chinese rule under an economic policy dubbed Positive non-interventionism espoused by former financial secretary John James Cowperthwaite. Traditionally, the Hong Kong government has raised revenue from taxation and the sale of land but not engaged in industry and commerce for profit. From its revenues, the government has built roads, schools, hospitals, and other public infrastructure facilities and services. It has also operated a welfare insurance scheme.

However, the authorities have generally avoided owning and running business enterprises, engaging in trade protectionism, or imposing regulatory controls of the kind that have so distorted industrial-commercial activity and generated high costs and inefficiency elsewhere. There has been relatively little popular pressure for higher government spending. Over the decades, successive political administrations have managed to avoid running up large budget deficits; and by restraining public borrowing, credit expansion and inflation have been held in check.

Measuring discrepancies between the rich and poor with the Gini Coefficient indicates that the wealth gap continues to widen in Hong Kong since the new millennium. As of 2006 Hong Kong's measurement is at 53.3, which means the difference between the rich and poor is far greater than that of the People's Republic of China. Many of the financial tycoons also oppose universal suffrage, since the large number of poor would vote for populists who promise costly social programmes history.

Hong Kong seems likely to remain a highly free market-enterprise society. Such things as political production planning and price and import controls are fundamentally incompatible with the kind of globally open, competitive economic environment in which Hong Kong firms and industries operate.

History

During Hong Kong's time as a British Colony, Positive non-interventionism was the economic policy of Hong Kong. It was first officially implemented in 1971 by John James Cowperthwaite, who observed that the economy was doing well in the absence of government intervention. The policy was continued by subsequent Financial Secretaries, including Sir Philip Haddon-Cave. Hong Kong's model allowed for the flexibility and renovation of any given industry in a very short time.

Because of this, a 1994 World Bank report stated that Hong Kong's GDP per capita grew in real terms at an annual rate of 6.5% from 1965 to 1989. This consistent growth percentage over a span of almost 25 years is remarkable for any economic analysis. By 1990 Hong Kong's per capita income officially surpassed that of the ruling United Kingdom.

By the late 20th century, many other countries in Asia and elsewhere had effectively made the transition from statistic-collectivism to modern market capitalism. However, Hong Kong still stood out in terms of its high levels of business-economic freedom, growth, and prosperity. Not just foreign direct investors but indigenous firms have been greatly aided by Hong Kong's international openness and dependence on trade.

After a slump caused by the region wide Asian financial crisis that began in 1997, Hong Kong's economy had been on the rebound. Real GDP growth was 4% in

1999 and reached double digits in the first half of 2000. The unemployment rate increased from 2.2% to 6.3% due to the Asian financial crisis. After peaking at 7.9% in 2003, the unemployment rate eased back to 4.0% in 2007. The banking sector remains solid, and the government is committed to the US-Hong Kong linked exchange rate

Transformation

Hong Kong's economy has transformed and re-adapted itself to different periods of time.

Period	Dominating Sector	Description
Pre-War	Trade	In 1895 Hong Kong's trading port was 4th largest in the world. The economy revolved around international trading.
1950-1970	Manufacturing	Manufacturing was the largest share of the economy, led by textiles. Business services such as wholesaling, retailing, foreign trade and hotels and restaurants was the second largest sector, followed by finance.
1980-1990	Finance	In 1981, financial services including real estate, insurance, brokering and banking, moved into the lead for the first time. Business services again took the lead in 1984 and retained that position until the end of the colonial era.
Post-Handover	Services	Since 1997, the economy has been led by two engines, the business and financial services sectors which together account for half of all economic activity.

Hong Kong deliberately began collecting and regularly publishing economy-wide data much later than its East Asian peers. The earliest gross domestic product estimates (for 1961 and subsequent years) were only released in 1973 and other basic data such as for the balance of payments were not compiled until 1999. Any GDP formed prior to this period was based on international trade statistics that came after 1971.

The below Table 2 shows the change in real and nominal GDP and Table 3 gives clear picture of the economy.

Table 2: Tends in real and nominal GDP

Year	Real GDP	Nominal Growth	Change in Deflator
1960s	8.7%	12.7%	3.7%
1970s	8.9%	19.2%	9.5%
1980s	7.4%	16.9%	8.9%
1990s	3.5%	9.0%	5.3%
2000s	4.7%	2.8%	-1.8%

Table 3: GDP and trade statistics

GDP (Nominal) (2007)	$383.3 billion (ranked 24th)
GDP (PPP) (2007)	$695.4 billion (ranked 19th)
GDP per capita (Nominal) (2007)	$16.590 (ranked 40th)
GDP per capita (PPP) (2007)	$30,100 (ranked 34th)
GDP growth rate (2007)	5.7% (official data)
GDP by sector (2007)	Services (primary) (71.1%) industry (secondary) (27.5%) agriculture (tertiary) (1.4%)
Current account balance (2007)	$31.7 billion (ranked xth)
Exports (2007)	$246.7 billion f.o.b.
Principal exports (2002)	Electronic and electrical products, metals, textiles, plastics, chemicals, auto parts
Main destinations of exports (2007)	China 32.3%, US 12.8%, Hong Kong 8.8%, Japan 6.4%, Singapore 5%
Imports (2007)	$219.3 billion f.o.b.
Principal imports (2002)	Electronic and electrical products, machinery, petroleum, precision instruments, organic chemicals, metals
Main origins of imports (2006)	Japan 22.1%, US 13%, China 10.9%, South Korea 7.3%, Saudi Arabia 4.8%, Singapore 4.5%

Since the 1997 handover Hong Kong's economic future became far more exposed to the challenges of economic globalisation like competition directly from mainland China. Shanghai claimed in particular to have a geographical advantage, and a municipal government that dreams of turning the city into China's main economic center by as early as 2010. The target is to allow Shanghai to catch up to New York by 2040-2050, with the eventual projection that China will be Asia's most prosperous economy by 2040. Hong Kong, on the other hand, continues to have a more positive and realistic approach. It is sustainably the international financial center in China. Until then, Hong Kong is expected to have higher overall economic figures yearly. Hong Kong's principal trading partners remain to be China, United States, Japan, Taiwan, Germany, Singapore, and South Korea.

Check Your Progress 2

1) Explain how Hong Kong's economy has transformed and re-adapted itself to different periods of time?

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2) Discuss the change in real and nominal GDP of Hong Kong's economy.

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11.6 ECONOMY OF SINGAPORE

The economy of Singapore is a highly developed capitalist mixed economy. While government intervention is kept at a minimum, government entities such as the sovereign wealth fund Temasek control corporations responsible for 60% of GDP. It has an open business environment, relatively corruption-free and transparent government stable prices and one of the highest per capita gross domestic products (GDP) in the world. Exports, particularly in electronics and chemicals, and services provide the main source of revenue for the economy, which allows it to purchase natural resources and raw goods which it does not have. Singapore could thus be said to rely on an extended concept of entrepot trade, by purchasing raw goods and refining them for re-export, such as in the wafer fabrication industry and oil refining. Singapore also has a strategic port which makes it more competitive than many of its neighbours to carry out such entrepot activities. The Port of Singapore is one of the busiest in the world, surpassing Rotterdam and Hong Kong. In addition, Singapore's port infrastructure and skilled workforce, which is due to the success of the country's education policy in producing skilled workers, is also fundamental in this aspect as they provide easier access to markets for both importing and exporting, and also provide the skill(s) needed to refine imports into exports.

On 14 February 2007, the Singapore government announced that economic growth for the whole year of 2006 was 7.9%, higher than the originally expected 7.7%. This is a trend of gross domestic product of Singapore at market prices estimated by the International Monetary Fund.

Table 4: Growth of GDP and Exchange Rate

Year	Gross Domestic Product ($ millions)	US Dollar Exchange
1980	25,117	2.14 Singapore Dollars
1985	39,036	2.20 Singapore Dollars
1990	66,778	1.81 Singapore Dollars
1995	119,470	1.41 Singapore Dollars
2000	159,840	1.72 Singapore Dollars
2005	194,360	1.64 Singapore Dollars
2007	224,412	1.42 Singapore Dollars
2008	235,632	1.37 Singapore Dollars

The government promotes high levels of savings and investment through a mandatory retirement savings scheme known as the Central Provident Fund, and large portions of its budget are expended in education and technology, with the former having a current rate as of 21% in 2001 compared to spending in the United

States of 4%. However, the figures may be misleading as the majority of US education funding comes from the state level, not federal.

It also owns Temasek Holding companies (THCs, Companies that are linked to the government's investment arm) – particularly in manufacturing – that operate as commercial entities and account for 60% of GDP. As Singapore looks to a future increasingly marked by globalisation, the country is positioning itself as the region's financial and high-tech centre in competition with other East Asian cities. Singapore's strategic location on major sea lanes and industrious population has given the country an economic importance in South-east Asia disproportionate to its small size.

Upon separation from Malaysia in 1965, Singapore was faced with a lack of physical resources and a small domestic market. In response, the Singapore Government adopted a pro-business, pro-foreign investment, export-oriented economic policy combined with state-directed investments in strategic government-owned corporations. Whilst nominally socialist in the 1960s, the ruling party increasingly became openly capitalist but self-described itself as 'pragmatic', a euphemism for capitalism with authoritarian social controls.

Singapore's economic strategy proved a success, producing real growth that averaged 8.0% from 1960 to 1999. The economy picked up in 1999 after the regional financial crisis, with a growth rate of 5.4%, followed by 9.9% for 2000. However, the economic slowdown in the United States, Japan and the European Union, as well as the worldwide electronics slump, had reduced the estimated economic growth in 2001 to a negative 2.0%.

The economy expanded by 2.2% the following year and by 1.1% in 2003 when Singapore was affected by the SARS outbreak. Subsequently, a major turnaround that occurred in 2004 allowed it to make a significant recovery of 8.3% growth in Singapore, although the actual growth fell short of the target growth for the year more than half with only 2.5%. In 2005, economic growth was 6.4% while there was 7.9% growth in 2006. Singapore's largely corruption-free government, skilled workforce, and advanced and efficient infrastructure have attracted investments from more than 3,000 multinational corporations (MNCs) from the United States, Japan, and Europe.

Foreign firms are found in almost all sectors of the economy. MNCs account for more than two-thirds of manufacturing output and direct export sales, although certain services sectors remain dominated by government-linked corporations.

Manufacturing and financial business services are the twin engines of the Singapore economy and accounted for 26% and 22%, respectively, of Singapore's gross domestic product in 2000. The electronics industry leads Singapore's manufacturing sector, accounting for 48% of Singapore's total industrial output, but the government is also prioritising development of the chemicals and biotechnology industries. To maintain its competitive position despite rising wages, the government seeks to promote higher value-added activities in the manufacturing and services sectors. It also has opened, or is in the process of opening, the financial services, telecommunications, and power generation and retailing sectors to Foreign Service providers and greater competition. The government has also attempted some measures including wage restraint measures and release of unused buildings in an effort to control rising commercial rents with the view to lowering the cost of doing business in Singapore when central business district office rents tripled in 2006.

Singapore's total trade in 2000 amounted to US $373 billion, an increase of 21% from 1999. Despite its small size, Singapore is currently the fifteenth-largest trading

partner of the United States. In 2000, Singapore's imports totaled $135 billion, and exports totaled $138 billion. Malaysia was Singapore's main import source, as well as its largest export market, absorbing 18% of Singapore's exports, with the United States close behind. Re-exports accounted for about 43% Singapore's total sales to other countries in 2000. Singapore's principal exports are petroleum products, food/beverages, chemicals, textile/garments, electronic components, telecommunication apparatus, transport equipment. Singapore's main imports are aircraft, crude oil and petroleum products, electronic components, radio and television receivers/parts, motor vehicles, chemicals, food/beverages, iron/steel, textile yarns/fabrics.

Singapore continues to attract investment funds on a large-scale despite its relatively high-cost operating environment. The U.S. leads in foreign investment, accounting for 40% of new commitments to the manufacturing sector in 2000. As of 1999, cumulative investment for manufacturing and services by American companies in Singapore reached approximately $20 billion (total assets). The bulk of U.S. investment is in electronics manufacturing, oil refining and storage, and the chemical industry. More than 1,500 U.S. firms operate in Singapore.

Table 5: Trends in the foreign trade

Year	Total trade	Imports	Exports
2000	$273	$135	$138
2001	NA	NA	NA
2002	$432	NA	NA
2003	$516	$237	$279
2004	$629	$293	$336
2005	$716	$333	$383
2006	$810	$379	$431

All figures in billions of Singapore dollars, except those in last Colum

The government also has encouraged firms to invest outside Singapore, with the country's total direct investments abroad reaching $39 billion by the end of 1998. The People's Republic of China was the top destination, accounting for 14% of total overseas investments, followed by Malaysia (10%), Hong Kong (8.9%), Indonesia (8.0%) and U.S. (4.0%). The rapidly growing economy of India, especially the high technology sector, is becoming an expanding source of foreign investment for Singapore. The United States provides no bilateral aid to Singapore, but the U.S. appears keen to improve bilateral trade and signed the U.S.-Singapore Free Trade Agreement.

Check Your Progress 3

1) Discuss the changes in the foreign trade policy of the Singapore.

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2) Examine the role of FDI in the growth of the Singapore Economy in recent years.

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3) Evaluate the Singapore's economic strategy of growth followed since 1999.

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11.7 ECONOMY OF SOUTH KOREA

In recent years South Korea's economy moved away from the centrally planned, government-directed investment model toward a more market-oriented one. South Korea bounced back from the 1997 Asian Financial Crisis and carried out extensive financial reforms that restored stability to markets. Growth plunged by 6.6% in 1998, then strongly recovered to 10.8% in 1999 and 9.2% in 2000.

These economic reforms, pushed by President Kim Dae-jung, helped Korea maintain one of Asia's few expanding economies, with growth rates of 10.8% in 1999 and 9.2% in 2000. Growth fell back to 3.3% in 2001 because of the slowing global economy, falling exports, and the perception that much-needed corporate and financial reforms have stalled. Led by industry and construction, growth in 2002 was 5.8%, despite anaemic global growth restructuring of Korean conglomerates (chaebols), bank privatisation, and creating a more liberalised economy with a mechanism for bankrupt firms to exit the market remain Korea's most important unfinished reform tasks. Growth slowed again in 2004, but production expanded 5% in 2006, due to popular demand for key export products such as HDTVs and mobile phones.

South Korea relies largely upon exports to fuel the growth of its economy, with finished products such as electronics, textiles, ships, automobiles, and steel being some of its most important exports. Although the import market has liberalised in recent years, the agricultural market has remained largely protectionist due to serious disparities in the price of domestic agricultural products such as rice with the international market. As of 2005, the price of rice in South Korea is about four times that of the average price of rice on the international market, and it was generally feared that opening the agricultural market would have disastrous effects upon the South Korean agricultural sector. In late 2004, however, an agreement was reached with the WTO in which South Korean rice imports will gradually increase from 4% to 8% of consumption by 2014. In addition, up to 30% of imported rice will be made available directly to consumers by 2010, where previously imported rice was only used for processed foods. Following 2014, the South Korean rice market will be fully opened.

Korea was heavily affected by the economic crisis of 2008. Following the bankruptcy of a major Korean institution, the Korean lost up to 30% of its value, and the Government of Korea was forced to introduce a major stimulus package to stimulate the economy.

The economy of South Korea is the third-largest in Asia and the 13th-largest in the world by GDP (PPP) as of 2007. In the aftermath of the Korean War, South Korea grew from a poor developing country to a wealthy developed country. From the mid- to late- 20th century, it has enjoyed exponential economic growth, with one of the fastest growth rates in modern world history. The South Korean economy focused on heavy industry and automotive industry during the 1970s and 1980s. With government support, POSCO, a steel-production company, was established in less than three years, forming the first backbone of the South Korean economy for decades to come. Today, POSCO is the world's third-largest steel producer. South Korea has a strong reputation for being the world's largest shipbuilder, with multinational enterprises such as Hyundai Heavy Industries and Samsung Heavy Industries consistently dominating the global shipbuilding market. The car manufacturing industry has grown equally rapidly and is rivaling the top established global car brands today, led by Hyundai Kia Automotive Group, making South Korea the world's fifth largest car manufacturing nation.

The economy began to reach maturity in the 1990s as growth slowed, although to a still-robust rate, averaging 6.5%. Chaebol like Samsung, Hyundai and the LG Group began to expand globally. During this period, early government investment in the consumer electronics and semiconductor industries occurred, in preparation for the foreseen digital age, which formed a vital foundation for the South Korean information technology industry. The rapid economic growth of the late 1980s was boosted by the 1988 Summer Olympics in Seoul and the co-hosting of 2002 FIFA World Cup, which gave international recognition for the nation, as well as South Korean goods and services. In 1996, South Korea became a member of the Organisation for Economic Co-operation and Development (OECD), a milestone in its development history.

Like other developed nations, the service sector has grown to comprise about two-thirds of GDP. At the same time, living standards and in particular the education level in South Korea rose exponentially to become equivalent or higher than that of other developed Western European and North American countries, with South Korea's HDI being rated at "High" with 0.921 by the Human Development Index in 2007, owning a 99% adult literacy rate. In the most recent Quality-of-Life survey conducted by the Economist Intelligence Unit, South Korea came 30th, only one rank below the United Kingdom. During this period, South Korean workers' income and wealth increased considerably, leading labour-intensive industries to move to neighboring developing countries, such as China or Vietnam. However, South Korea still maintains the highest working hours in the world, with many workers living without weekends or holidays until they retire.

South Korea has been referred to as one of the Four Asian Tigers and a newly-industrialised country during its exponential growth periods in the late 20th century but the country gained 'developed' status since the 21st century and is now defined as a High Income Nation according to the World Bank. Today, the United Nation rates South Korea as a Prosperous Economy and the country became both part of the CIA and IMF list of advanced economies. As part of the world's top 20 largest economies, the country formed the G20 Industrial Nations and became the only developed country to be chosen as a Next Eleven country by Goldman Sachs in 2005. In addition, the economic boom in South Korea consistently required a large workforce, which allowed South Korea to maintain one of the lowest unemployment rates in the world, along with well balanced income equality.

Upon entering the 21st century, South Korea produced a 'National IT Project' to become the world's leading IT nation in just 5 years. With public funds, the government began to actively support South Korea's native IT industry, led by flagships Samsung Electronics and LG Electronics. International success was seen in the following years, with South Korea surpassing the United States and Japan

in becoming the world's leader in the semi-conductor (eg.RAM & Flash Memory) and digital display (eg.LCD & Plasma Panels) industries, as well as consumer electronics such as TVs or Mobile Phones. Telecommunication technology thrived in South Korea as it became the most wired & wirelessly connected country in the world, having the 2nd highest broadband users worldwide. Nationwide 100 Mbit/s High-Speed Internet Access, Interactive Full High Definition TV Broadcasting, DMB, WiBro and 4G technology rolled out since 2000, which are a few of the nation's ambitious plans to set benchmarks in the global information technology industry.

In addition to its highly advanced IT infrastructure, the government is now beginning to invest in the robotics industry. With the aim of becoming the "World's Number 1 Robotics Nation" by 2025, there are plans to put one robot in every household by 2020. There are other ambitious plans to expand or create other sectors of the economy, including the financial, biotechnology, aerospace etc.

South Korea's real gross national product expanded by an average of more than 8% per year, from US$3.3 billion in 1962 to US$204 billion in 1989. Per capita annual income grew from US$87 in 1962 to US$4,830 in 1989. The manufacturing sector grew from 14.3% of the GNP in 1962 to 30.3% in 1987. Commodity trade volume rose from US$480 million in 1962 to US$127.9 billion for the year 1990. The ratio of domestic savings to GNP grew from 3.3% in 1962 to 35.8% in 1989.

The most significant factor in rapid industrialisation was the adoption of an outward-looking strategy in the early 1960s. This strategy was particularly well suited to that time because of South Korea's poor natural resource endowment, low savings rate, and tiny domestic market. The strategy promoted economic growth through labour-intensive manufactured exports, in which South Korea could develop a competitive advantage. Government initiatives played an important role in this process. The inflow of foreign capital was greatly encouraged to supplement the shortage of domestic savings. These efforts enabled South Korea to achieve rapid growth in exports and subsequent increases in income.

By emphasising the industrial sector, Seoul's export-oriented development strategy left the rural sector relatively underdeveloped. Increasing income disparity between the industrial and agricultural sectors became a serious problem by the 1970s and remained a problem, despite government efforts to raise farm income and improve rural living standards.

In the early 1980s, in order to control inflation, a conservative monetary policy and tight fiscal measures were adopted. Growth of the money supply was reduced from the 30 percent level of the 1970s to 15%. Seoul even froze its budget for a short while. Government intervention in the economy was greatly reduced and policies on imports and foreign investment were liberalised to promote competition. To reduce the imbalance between rural and urban sectors, Seoul expanded investments in public projects, such as roads and communications facilities, while further promoting farm mechanisation. These measures, coupled with significant improvements in the world economy, helped the South Korean economy regain its lost momentum in the late 1980s. South Korea achieved an average of 9.2% real growth between 1982 and 1987 and 12.5% between 1986 and 1988. The double digit inflation of the 1970s was brought under control. Wholesale price inflation averaged 2.1% per year from 1980 through 1988; consumer prices increased by an average of 4.7% annually. Seoul achieved its first significant surplus in its balance of payments in 1986 and recorded a US$7.7 billion and a US$11.4 billion surplus in 1987 and 1988 respectively. This development permitted South Korea to begin reducing its level of foreign debt. The trade surplus for 1989, however, was only US$4.6 billion dollars, and a small negative balance was projected for 1990.

Table 6: Trends in GDP, Exchange Rate and Inflation from 1980 to 2005

Year	Gross Domestic Product	US Dollar Exchange	Inflation Index (2000=100)
1980	38,774,900	605.85 Won	33
1985	84,061,000	869.51 Won	46
1990	186,690,900	707.59 Won	60
1995	398,837,700	771.27 Won	82
2000	578,664,500	1,130.95 Won	100
2005	812,196,561	1,024.11 Won	117

In recent years South Korea's economy moved away from the centrally planned, government-directed investment model toward a more market-oriented one. South Korea bounced back from the 1997 Asian Financial Crisis and carried out extensive financial reforms that restored stability to markets. Growth plunged to 6.6% points in 1998, then strongly recovered to 10.8% in 1999 and 9.2% in 2000.

For purchasing power parity comparisons, the US Dollar is exchanged at 841.39 Won only. This implies that for 2006, with exchange rates of 945 per dollar, and nominal GDP over 850 trillion won, the GDP will reach over $900 Billion (US dollars).

South Korea's Trade

In 2006, South Korea's exports reached US$325.5 billion, an increase of 14.4% over 2005. Major exports were electric products, mainly semiconductors, automobiles, wireless communication devices, vessels, petroleum oils. Exports also included computers, liquid crystal devices and optical instruments, plastics, tankers and auto parts.

Imports increased by 18.4% to reach US$309.4 billion in 2006. Major import items included industrial raw materials such as crude and petroleum oil, semiconductors, liquefied natural gas, petroleum products, computers, tankers, semiconductor manufacture equipment, copper goods, coal, and aluminum.

In 2007, Korean trade continued to grow. According to Korea's Ministry of Commerce, Industry and Energy (MOCIE), Korea's exports reached US$371.8 billion, and imports were at US$356.7 billion, registering increases of 14.2% and 15.3% respectively from 2006. Exports of general machinery, liquid crystal devices and ships drove the growth. Imports growth was driven by raw materials, capital goods and consumer goods.

Table 7: South Korea's Trade (in billions of US$)

	1990	1995	2000	2002	2003	2004	2005	2006
Exports	65.02	125.06	172.27	162.47	193.82	253.85	284.42	325.47
Imports	69.84	135.12	160.48	152.13	178.83	224.46	261.24	309.38

Source: *Asian Development Bank*

China has taken over the U.S. to become by far the most important destination for Korean exports. In 2006, China took 21.3% of Korea's total exports. Other major destinations included the U.S. (13.3%), Japan (8.2%), Hong Kong (5.8%) and Taiwan (4.0%). These top five destinations represented 52.6% of Korea's total exports.

In 2006, South Korea's exports to Mexico registered the biggest growth rate among its top ten export destinations, with an increase of 65.9%. Other big increases occurred for Singapore, Hong Kong, and India, with growth rates of 28.1%, 22.2% and 20.3% respectively over 2005.

Japan is South Korea's most important supplier with 16.8% of all imports. Other major suppliers include China, the U.S., Saudi Arabia, and United Arab Emirates. Imports from Kuwait, United Arab Emirates, Saudi Arabia, and China increased by 36.1%, 29.1%, 27.6%, and 25.6% respectively over 2005.

Check Your Progress 4

1) Explain the trends in South Korea's Trade.

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2) Give an account of the progress of the economic reforms of South Korea after Asian financial crisis.

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3) Discuss the developments in the monetary policy of South Korea in recent years.

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11.8 ECONOMY OF TAIWAN

Taiwan officially known as Republic of China has a dynamic capitalist economy with gradually decreasing guidance of investment and foreign trade by the government which governs the island. In keeping with this trend, most large government-owned banks and industrial firms have been privatised. Real growth in GDP has averaged about 8% during the past three decades. Exports have grown even faster and since World War II, have provided the primary impetus for industrialisation. Inflation and unemployment are low; the trade surplus is substantial; and foreign reserves are the world's fourth largest. Agriculture contributes 3% to GDP, down from 35% in 1952, and the service sector makes up 73% of the economy. Traditional labour-intensive industries are steadily being moved off-shore and replaced with more capital- and technology-intensive industries. Taiwanese investors and businesses have become major investors in mainland China, Vietnam, Thailand, Indonesia, the Philippines, and Malaysia. The tightening of labour markets has led to an influx of foreign workers, both legal and illegal. Because of its conservative financial approach and its entrepreneurial strengths, Taiwan suffered little compared with many of its neighbours from the

Asian financial crisis in 1997-1999. Unlike that of neighbouring Japan or South Korea enterprises in Taiwan largely consists of small and medium-sized businesses – with one in seven people an owner of business.

Taiwan has transformed itself from a recipient of U.S. aid in the 1950s and early 1960s to an aid donor and major foreign investor, especially in Asia. Private Taiwanese investment in mainland China is estimated to total more than $100 billion, and Taiwan has invested a comparable amount in South East Asia.

Taiwan has historically benefited from the flight of many well-educated, bourgeois Chinese to settle on the island: during early Qing Dynasty, the preceding Ming dynasty supporters survived for a brief period of time in exile in Taiwan, and in 1949, as the Chinese Communist Party gained control of mainland China, two million Kuomintang (KMT) supporters fled to the island.

Taiwan, and for that matter all four of the Tigers, benefited economically from previous foreign rule or influence, whether it was British commerce in Hong Kong and Singapore, or Japanese industrialisation and American land reform in Taiwan. In a sense, Taiwan benefited from Marx's export of the dialectic through imperialism. Furthermore, each of the tigers was an artificial polity severed from larger neighbours-Communist China in the case of Taiwan and Hong Kong, Malaysia for Singapore. Likewise, South Korea was a product of postwar division and bloody civil war. Each therefore felt acute insecurity, which was translated into political structures that restricted civil liberties and subordinated short-term social well-being for economic growth.

The Americans deserve credit for reforming landownership in Taiwan, a crucial step in modernising the economy, as well as its direct aid, which constituted more than 30% of domestic investment from 1951 to 1962. Land reform, government planning, US aid and investment, and free universal education brought huge advancement in industry and agriculture, and living standards.

Once again, the transformation of Taiwan's economy cannot be understood without reference to the larger geopolitical framework. Although aid was cut back in the 1970s, it was crucial in the formative years, spurring industrialisation and security and economic links were maintained. Uncertainty about the US commitment accelerated the country's shift from subsidised import-substitution in the 1950s to export-led growth. Like Korea, Taiwan moved from cheap, labour-intensive manufactures, such as textiles and toys, into an expansion of heavy industry and infrastructure in the 1970s, and then to advanced electronics in the subsequent decade.

Table 8: GDP - real growth rate from 2003 to 2008 (%)

Year	GDP - real growth rate	Rank	Percent Change	Date of Information
2003	3.50 %	85		2002 est.
2004	3.20 %	101	-8.57 %	2003 est.
2005	6.00 %	51	87.50 %	2004 est.
2006	4.00 %	118	-33.33 %	2005 est.
2007	4.60 %	114	15.00 %	2006 est.
2008	5.50 %	92	19.57 %	2007 est

Foreign trade has been the engine of Taiwan's rapid growth during the past 40 years. Taiwan's economy remains export-oriented, so it depends on an open world

trade regime and remains vulnerable to downturns in the world economy. The total value of trade increased more than fivefold in the 1960s, nearly 10-fold in the 1970s, and doubled again in the 1980s. The 1990s saw a more modest, slightly less than twofold, growth. Export composition changed from predominantly agricultural commodities to industrial goods (now 98%). The electronics sector is Taiwan's most important industrial export sector and is the largest recipient of U.S. investment. Taiwan, as an independent economy, became a member of the World Trade Organisation (WTO) as Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu ("Chinese Taipei" – a name forced on by the pressure from PRC government) in January 2002.

Taiwan is the world's largest supplier of contract computer chip manufacturing (foundry services) and is a leading designer and manufacturer of CD panel, DRAM computer memory, networking equipment, and consumer electronics. Textile production, though of declining importance as Taiwan loses its competitive advantage in labor-intensive (cheap-labour) markets, is another major industrial export sector. Imports are dominated by raw materials and capital goods, which account for more than 90% of the total. Taiwan imports most of its energy needs. The United States is Taiwan's third largest trading partner, taking 15% of Taiwanese exports and supplying 10.9% of its imports. China has recently become Taiwan's largest import and export partner. In 2006, the PRC accounted for 22.5% and 11.9% of Taiwan's exports and imports respectively (excluding Hong Kong) (According to the CIA World Factbook). This figure is growing rapidly as both economies become ever more interdependent. Imports from China consist mostly of agricultural and industrial raw materials. Exports to the United States are mainly electronics and consumer goods. As Taiwanese per capita income level has risen, demand for imported, high-quality consumer goods has increased. Taiwan's 2002 trade surplus with the United States was $8.7 billion.

The lack of formal diplomatic relations between the Republic of China (Taiwan) with Taiwan's trading partners appears not to have seriously hindered Taiwan's rapidly expanding commerce. The Republic of China maintains cultural and trade offices in more than 60 countries with which it does not have official relations to represent Taiwanese interest. In addition to the WTO, Taiwan is a member of the Asian Development Bank as "Taipei, China" (another name forced on by the PRC) and the Asia-Pacific Economic Cooperation (APEC) forum as "Chinese Taipei" (for the same reason as above). These developments reflect Taiwan's economic importance and its desire to become further integrated into the global economy.

Taiwan now faces many of the same economic issues as other developed economies. With the prospect of continued relocation of labor-intensive industries to economies with cheaper work forces, such as in China and Vietnam, Taiwan's future development will have to rely on further transformation to a high technology and service-oriented economy. In recent years, Taiwan has successfully diversified its trade markets, cutting its share of exports to the United States from 49% in 1984 to 20% in 2002. Taiwan's dependence on the U.S. market should continue to decrease as its exports to Southeast Asia and China grow and its efforts to develop European markets produce results. Taiwan's accession to the WTO and its desire to become an Asia-Pacific "regional operations center" are spurring further economic liberalisation.

Check Your Progress 5

1) Write a note on growth of exports of Tiwan.

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2) Explain the major economic issues faced by Taiwan economy as other developed economies.

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11.9 LET US SUM UP

This unit helps the reader to understand the export-led growth model adopted by four Asian tigers. The first part of this unit focuses on the export driven model of economic development and its criticisms.

The later part of this unit examines the role of exports in the development of Asian tigers and the economic status of these economies.

The term **Four Asian Tigers or East Asian Tigers** refers to the economies of **South Korea, Hong Kong, Singapore, and Taiwan**. These regions were noted for maintaining high growth rates and rapid industrialisation between the early 1960s and 1990s. In the early 21st century, with the original four Tigers at fully developed status, attention has increasingly shifted to other Asian economies which are experiencing rapid economic transformation at the present time.

Export-led growth implies opening domestic markets to foreign competition in exchange for market access in other countries. Reduced tariff barriers, floating exchange rate (devaluation of national currency is often employed to facilitate exports), and government support for exporting sectors are all an example of policies adopted to promote EOI, and ultimately economic development

The current criticism of the Four Asian Tigers is that these economies focus exclusively on export-demand, at the cost of import-demand. Thus, these economies are heavily reliant on the economic health of their targeted export nations. In addition, these nations have met difficulties after they lost their initial competitive edge, cheap productive labour. China, India and much of Southeast Asia have now emerged as fast-growing economies based on cheap labour, largely replacing the Tigers.

Since the 1997 handover Hong Kong's economic future became far more exposed to the challenges of economic globalisation competition directly from mainland China. Shanghai claimed in particular to have a geographical advantage, and a municipal government that dreams of turning the city into China's main economic center by as early as 2010. The target is to allow Shanghai to catch up to New York by 2040-2050, with the eventual projection that China will be Asia's most prosperous economy by 2040. Hong Kong, on the other hand, continues to have a more positive and realistic approach. It is sustainably, be the international financial center in China. Until then, Hong Kong is expected to have higher overall economic figures yearly. Hong Kong's principal trading partners remain to be China, United States, Japan, Taiwan, Germany, Singapore, and South Korea

The economy of Singapore is a highly developed capitalist mixed economy. While government intervention is kept at a minimum, government entities such as the sovereign wealth fund Temasek control corporations responsible for 60% of GDP.

It has an open business environment, relatively corruption-free and transparent, stable prices and one of the highest per capita gross domestic products (GDP) in the world. Exports, particularly in electronics and chemicals, and services provide the main source of revenue for the economy, which allows it to purchase natural resources and raw goods which it does not have. Singapore could thus be said to rely on an extended concept of entrepot trade, by purchasing raw goods and refining them for re-export, such as in the wafer fabrication industry and oil refining.

In recent years South Korea's economy moved away from the centrally planned, government-directed investment model toward a more market-oriented one. South Korea bounced back from the 1997 Asian Financial Crisis and carried out extensive financial reforms that restored stability to markets. Growth plunged by 6.6% in 1998, and then strongly recovered to 10.8% in 1999 and 9.2% in 2000. These economic reforms, pushed by President Kim Dae-jung, helped Korea maintain one of Asia's few expanding economies, with growth rates of 10.8% in 1999 and 9.2% in 2000.

Taiwan has a dynamic capitalist economy with gradually decreasing guidance of investment and foreign trade by the Republic of China (ROC) government which governs the island. In keeping with this trend, most large government-owned banks and industrial firms have been privatised. Real growth in GDP has averaged about 8% during the past three decades. Exports have grown even faster and since World War II, have provided the primary impetus for industrialisation. Inflation and unemployment are low; the trade surplus is substantial; and foreign reserves are the world's fourth largest.

11.10 KEY WORDS

Four Asian Tigers or East Asian Tigers : refers to the economies of South Korea, Hong Kong, Singapore, and Taiwan.

Export-led growth : implies opening domestic markets to foreign competition in exchange for market access in other countries.

Competitive Advantage : is, in very basic words, a position a firm occupies against its competitors.

Comparative Advantage : refers to the ability of a person or a country to produce a particular good at a lower marginal cost and opportunity cost than another person or country. It is the ability to produce a product most efficiently given all the other products that could be produced.

11.11 SOME USEFUL BOOKS AND REFERENCES

1) Konya, L (2004) "*Export-Led Growth, Growth-Driven Export, Both or None? Granger Causality Analysis on OECD*", Applied Econometrics and International Development, Vol.- 4, 10th Issue

2) Chen, Shyh-Wei, (2007) "*Exactly what is the link between export and growth in Taiwan? New evidence from the Granger causality test*" Economics Bulletin, Vol. 6, No. 7 pp. 1-10

3) Marin, D. (1992), *Is the Export-led Growth Hypothesis Valid for Industrialized countries*? The Review of Economics and Statistics.

11.12 ANSWER OR HINTS TO CHECK YOUR PROGRESS

Check Your Progress 1

1) Export-led growth implies opening domestic markets to foreign competition in exchange for market access in other countries (see section 11.2).

2) The current criticism of the Four Asian Tigers is that these economies focus exclusively on export-demand, at the cost of import-demand. (see section 11.3).

3) To explain common characteristics of the four Asian Tigers, refer section 11.4.

Check Your Progress 2

1) To explain the transformation of the Hong Kong Economy refer section 11.5.

2) To explain the Change in real and nominal GDP of Hong Kong Economy refer section 11.5.

Check Your Progress 3

1) To answer question No.1, 2 and 3 refer section 11.6.

Check Your Progress 4

1) To answer question No.1, 2 and 3 refer section 11.7.

Check Your Progress 5

1) To answer question No.1 and 2 refer section 11.8.

UNIT 12 MODELS OF DEVELOPMENT: THE INDIAN EXPERIENCE

Structure

12.0 Objectives

12.1 Introduction

12.2 Mixed Economy Approach to Development: Private and Public Sectors in India

12.2.1 Role of Public Sector

12.2.2 Role of Private Sector

12.2.3 Issues Encountered in the Development of a Dynamic Private Sector

12.3 Five Year Plans and Development Strategy

12.3.1 Growth Models in Indian Planning: Earlier Plans

12.3.2 The Tenth Five Year plan

12.3.3 The Eleventh Five Year Plan (2007-2012) Inclusive Growth

12.4 Inclusive Growth: Meaning and Conceptual Issues

12.4.1 Policy Ingredients of Inclusive Growth

12.5 Let Us Sum Up

12.6 Key Words

12.7 Some Useful Books

12.8 Answer or Hints to Check Your Progress

12.0 OBJECTIVES

After going to this unit you will be able to:

- to articulate Indian approach to development;
- to identify characteristics of the public and private sector and issues those are encountered in the development of a dynamic private sector in economic development;
- to delineate the developmental strategy under different five year Plans; and
- to analyse the concept of Inclusive growth strategy adopted in 11th five year plan.

12.1 INTRODUCTION

India being predominantly agrarian economy adopted different approaches to achieve faster economic development through five year and annual plans. The various reform measures introduced since 1990s changed the dimensions of economic development. Indian planners adopted different strategies under successive five year and annual plans. The present five year (11th) plan adopted inclusive growth as major strategy to achieve economic growth and prosperity.

12.2 MIXED ECONOMY APROACH TO DEVELOPMENT: PRIVATE AND PUBLIC SECTORS IN INDIA

India after the independence followed mixed economy approach to development of the economy. Till 1990s public sector played a prominent role. The various reform measures introduced since 1990s provided greater role to private sector in the functioning of the economy.

12.2.1 Role of Public Sector

Prior to Independence, there was practically no such thing as the public sector in India. Railways, posts and telegraphs, ordnance factories and a few assorted factories constituted the public sector. Only after the Industrial Policy Resolutions of 1948 and 1956, the government made concerted efforts to make the public sector the dominant sector in the Indian economy. It was supposed to have control over "the commanding heights" of the economy. Among the important objectives assigned to the public sector are:

1) To help in the rapid economic growth and industrialisation of the economy and create the necessary infrastructure for economic development
2) To earn return on investment and thus generate resources for development
3) To promote redistribution of income and wealth
4) To create employment opportunities
5) To promote balanced regional development
6) To assist development of small-scale and ancillary industries; and
7) To promote import substitution, save and earn foreign exchange for the economy.

The following table gives us an idea of the growth of public sector enterprises in India.

Apart from the normal government activities and departmental undertakings, basic and heavy industries like steel, heavy electrical and non-electrical machinery, machine tools, etc., were developed in the public sector. These were industries which would take a long time to fructify and were risky. It was felt that, by and large; private industry would not be attracted to them or would only be prepared to come on terms which would not be acceptable to the nation. Existing units in the private sector were left untouched with the exception of banking, insurance, oil, coal and power. Many of the sick units providing employment on a large scale were also nationalised.

Financial performance of public sector enterprises has been quite disappointing. Excluding the oil sector, which is highly profitable, the other public sector enterprises have been incurring net losses or making only a marginal profit. Even if the oil industry is included, the overall ratio of net profits after tax as a percentage of net worth are just about 4.5 per cent in 1990-91 as against 5.4 per cent in 1989-90. The sectors which have been heavily losing include fertilizers, heavy engineering, consumer goods, urban transportation, coal, textiles, and contract and construction.

Some of the factors which are responsible for the poor performance of the public sector are as follows:

i) Administered pricing policy of the government in respect of urban transportation, coal, fertilizer industries, etc. is fully responsible for non-recovery even of costs of production. The concerned public enterprises can hardly be called inefficient, even though they are unprofitable.

ii) The nature of a large number of enterprises is such that they have long gestation periods and quite often there are heavy cost overruns because of the gestation periods and intervening inflation.

iii) Excessive manpower recruitment due to political decisions.

iv) Under utilisation of capacity.

v) Excessive government controls in the matter of investment decisions, fixation of selling prices, wages and income policies, location decisions and personnel policy.

The failures of the public sector are largely rooted in the political and bureaucratic controls clamped on the enterprises. Unless genuine autonomy is given to the professional management of the public sector in all matters which are properly speaking business decisions, there is hardly any future for the public sector.

12.2.2 Role of Private Sector

The concept of mixed economy adopted by India implied the rejection of the idea of immediate nationalisation of the private sector. It further implied a regulated private sector and a fast expanding public sector, especially in basic and heavy industries such as steel, engineering, fertilizer, power and transport. The private sector is dominant in agriculture and allied activities in retail and most of the wholesale trade, cottage, rural and small scale industries, most of consumer goods industries like textiles, jute, cement, sugar, radio receivers and numerous other consumer goods industries. A number of capital goods industries such as engineering, chemicals, electronics, etc., are also in the private sector. Most of the professional services are in the private sector. It can be said that private sector in India including agriculture and trade, contributes nearly 80 per cent to the national income whereas the public sector contributes the balance 20 per cent of the national income. Private sector in India can be divided into two parts: (a) the organised sector and (b) the unorganised sector. The organised sector is modernised, adopts capital intensive methods of production, and has easy access to the capital markets and banks. It uses modern means of communications, and adopts all methods to manipulate demand to suit its needs. Profit motive is the basis of all the activities of this sector. The main method of planning for this sector is to so organise the economy that the producers get sufficient facilities and inputs, and find it most profitable to so conduct their activities as to reach the plan production targets. More risky and long term gestation projects and infrastructure are left to the public sector. In an open economy, the most intensive competition could come from abroad for goods produced by the organised sector. In its desire to industrialise rapidly, India wanted to develop many industries which could not stand competition from abroad. Exchange scarcity and the need to conserve foreign exchange led to import controls. Import substitution was encouraged irrespective of the comparative advantage. Industries needing imports for their production were permitted on condition that they indigenised rapidly and costs hardly entered into consideration. Unorganiased private sector is spread over a vast area and it has been difficult to enforce policy interventions. Secondly, due to lack of awareness, education and training, and the absence of catalytic agencies, this sector has not been able to take full advantage of the facilities extended to them. Thirdly, organised sector often competes and also complements the unorganised sector. The unorganised sector often is a poor-technology, poor-remuneration sector and is often exploited in trading, credit, etc. Radical policy changes are, therefore, called for to make this sector viable.

12.2.3 Issues Encountered in the Development of Dynamic Private Sector

The focus of post-reform policy in India also has been to attract private investments in expanding India's infrastructure. However, the results of these reform measures have, at best been mixed. Existing imperfections in the financial sector has constrained the funding of projects in India. At the same time, the lack of or slow pace of reforms in key infrastructure areas means that most of these sectors continue to be relatively weak investment avenues. In some sectors private investment is supported by government guarantees, which is nothing but taxpayer financing in a 'disguised' or 'off-balance sheet' form. Following are the important aspects which become obstacle in the development of private sector in India:

- Imperfections in the Financial Sector and Inadequate Financial Sector Reforms
- Inadequately Developed Market for Long-Term Debt
- The Problem of Non-Performing Assets
- Large Government Debt Holdings
- Inadequately Developed Secondary Corporate Debt Market
- Fragmentation of Equity Markets
- Issues Related to Internal Control and Regulation
- Costs of Inadequate Infrastructure
- Poor Public Sector Administration & Governance
- Corporate Governance
- Competition Policy
- Slow pace Legal and Judicial reforms
- Infrastructural constrains etc.

A good investment climate is essential for increasing PSP in its economy. Amongst the several constituents of a good investment climate are factors like a vibrant financial sector that is able to raise and efficiently allocate resources, a public administration system that designs and implements policies measures that facilitate smooth private sector activity and a legal system that upholds private property rights and allows businesses to operate in a free and fair environment.

Check Your Progress 1

1) Explain the important objectives assigned to the public sector in India.

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2) What are main defects of public sector in India?

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3) Discuss the various issues encountered in the development of a dynamic private sector in India.

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12.3 FIVE YEAR PLANS AND DEVELOPMENT STRATEGY

India's development strategy, like that of most other developing countries, has evolved over successive plan periods, reflecting the growing strength of our economy, structural transformations taking place in the domestic economy and also developments in the world economy. In the early stages of development planning, government was viewed as the principal actor in development exercising strict control over private investment, ensuring a dominant role for the public sector in all important industries. Trade policy tended to be inward oriented focusing on industrial development through import substitution which was encouraged through a tight control over imports and maintenance of high tariffs. The limitations of this strategy became evident by the end of the 1970s and early 1980s when it became clear that these policies reduced efficiency and competitiveness and growth was much lower than targeted. While government was over-active in industry, it was under-active in many other areas, especially relating to social development and this was reflected in a very slow pace of improvement in critical social indicators.

Some efforts were made to reform the system in the second half of the 1980s to address the shortcomings in our development strategy. However it was not until 1991 that a wide ranging programme of economic reforms aimed at decontrolling and debureaucratising the economy was initiated. These reforms have been pursued by successive governments since 1991 and enjoy a broad base of support. They have also yielded good results thus far. There is no doubt that the Indian economy has responded well to the change in policy direction and the growth rate increased from 5.8% in the Seventh Plan (1985 to 1990) to 6.8% in the Eighth Plan. And yet there are many dimensions in which performance has lagged behind expectations. Faster growth has not reduced poverty as much as it should have, nor has it created the number of high quality jobs we need to satisfy the aspirations of our increasingly educated youths. Growth has not been as regionally balanced as it should have been. The deficiencies in social development indicators have also continued and our low level of social development is today a major constraint on reaching a growth rate of 8 per cent, which should be our medium term target. The Ninth Plan was implemented at a time when we were about to enter the new millennium. The international environment was also full of uncertainties in the aftermath of the East Asian crisis. It is appropriate at this critical period to articulate a development strategy which reaffirms and builds upon what has worked well; initiates corrective steps where needed, and takes new initiatives to meet the new challenges which face the economy in the years ahead. The first five year plan was formulated according to the goals of social and economic policies are prescribed in the Directive Principles of the Constitution.

12.3.1 Growth Models in Indian Planning: Earlier Plans

The model of the first five year plan set out in 1952 was based on a simple application of Harod-Domar Model. The Second five year plan model was based

on the Mahalonobis four sector model. This model divided Indian economy into four sectors: the capital good sector, the consumer good sector, small or household consumer goods producing sector and service sector. The basic strategy was to increase investment in heavy industries and also heavy expenditure on services, to increase purchasing power and create fresh demand and on the other hand increase the supply of consumer goods by increasing investments and production. Third plan model was based on the same growth model as in the second plan, but there was greater inter industry consistency in its formulation. This plan model emphasises interdependence of agriculture and industry, of economic and social development, of national and regional development and of mobilisation of domestic and external sources.

Fourth Plan was prepared by Alan S. Manne and Ashok Rudra was built in 1965 to provide framework for the setting up of actual plan targets with 1960 as base year and 1970 as terminal year. It was a 30 sector consistency models based on the conventional Leontief inter industry open system. Fifth plan model was based on the documents "Technical note on the approach to the fifth five year plan of India 1974-79" prepared by the perspective planning division of the Planning Commission. The model was built around the twin objectives of removal of poverty and the attainment of self-sufficiency by 1979.

Sixth plan model was based on another Technical note and it was prepared by the perspective planning division of India, planning commission. The macro structure of the model had been prepared on 89 sector classifications of the input-output table. The macro and sectoral structure of the Seventh plan has basically formulated on the sixth plan model. The central element in the development strategy of the Seventh Plan was generation of productive employment. This has achieved through increase in cropping intensity made possible by increased availability of irrigation facilities, extension of new agricultural technologies to low productivity regions and to small farmers, through measures to make the rural development programmes more effective in the creation of productive assets, through the expansion of labour intensive construction activities for providing housing, urban amenities, roads and rural infrastructure, through the expansion of primary education and basic health facilities and through changes in the pattern of industrial growth.

The Eighth Plan Model was based on the Technical note and was prepared by the perspective planning division, planning commission. The analytical model consisted of a macro economic model, an input output model, an investment model and five sub models relating to agriculture, industry, trade, consumption and financial services. Eighth Five Year Plan was launched in the backdrop of widespread changes which have altered the international social and economic order. The ninth plan model was based primarily on the Eighth Plan Model. The Approach Paper to the Ninth Five Year Plan, adopted by the National Development Council, had accorded priority to agriculture and rural development with a view to generating adequate productive employment and eradication of poverty; accelerating the growth rate of the economy with stable prices; ensuring food and nutritional security for all, particularly the vulnerable sections of society; providing the basic minimum services of safe drinking water, primary health care facilities, universal primary education, shelter, and connectivity to all in a time bound manner; containing the growth rate of population; ensuring environmental sustainability of the development process through social mobilisation and participation of people at all levels; empowerment of women and socially disadvantaged groups such as Scheduled Caste, Scheduled Tribes and Other Backward Classes and Minorities as agents of socio-economic change and development; promoting and developing people's participatory bodies like Panchayati Raj institutions, co-operatives and self-help groups; and strengthening efforts to build self-reliance. These very priorities constitute the objectives of the Ninth Plan.

12.3.2 The Tenth Five Year Plan and Developmental Strategy

The Tenth Five Year Plan, covering the period 2002-03 to 2006-07, represent but another step in the evolution of development planning in India. In 55 years that have passed since our Independence, the challenges, the imperatives and the capabilities of the nation has undergone profound change. The planning methodologies have attempted to keep pace with the emerging requirements and to guide the economy through the vicissitudes of national and global events, with greater or lesser success. The Tenth Plan carries on this tradition in the context of the objective realities of Indian economic life as they are manifested today. It provided an opportunity, at the start of the new millennium, to build upon the gains of the past and also to address the weaknesses that have emerged. There has been growing impatience in the country at the fact that a large number of our people continue to live in abject poverty and there are alarming gaps in social attainments even after five decades of planning. The developmental strategy can be summarised in following heads.

1) **Redefinition of role of government**

An important aspect of the redefinition of strategy that is needed relates to the role of government. This redefinition is necessary both at the Central Government level and also at State Government level. This is not to say that government has no role to play, or only a minimalist role, in promoting development. On the contrary, Government has a very important role indeed, but a different one from that envisaged in the past.

2) **Reappraisal of macro-economic management**

With the growing importance of the private sector in economic matters, and the consequent increase in the sensitivity of the economy to business cycle fluctuations, both the role and the manner of macro-economic management demand a reappraisal. It is, therefore, imperative that a reformulation of the fiscal management system be undertaken expeditiously to make it more appropriate for the changed context.

3) **Focus on Regional Targets**

The Indian Central Plans have traditionally focused on setting only national targets. However, recent experiences suggest that the performance of different States varies considerably, and cognizance has to be taken of this issue.

4) **Break-Up of the Broad Developmental Targets**

In order to emphasise the importance of ensuring a balanced development for all States, the Tenth Plan includes a State-wise break-up of the broad developmental targets, including targets for growth rates and social development, which are consistent with the national targets.

5) **Attaining Equity and Social Justice**

Although growth has strong direct poverty reducing effects, the frictions and rigidities in the Indian economy can make these processes less effective, and the Tenth Plan must therefore be formulated in a manner, which explicitly addresses the need to ensure equity and social justice. A three pronged strategy for attaining equity and social justice along with high rates of growth is proposed for the Tenth Plan period.

12.3.3 Eleventh Five Year Plan (2007-2012) - Inclusive Growth

India's commitment to planned economic development is a reflection of the society's determination to improve the economic conditions of the people and an affirmation of the role of the government in bringing about this outcome through a variety of

social, economic, and institutional means. The Eleventh Five Year Plan provides a comprehensive strategy for inclusive development, building on the growing strength of the economy, while also addressing weaknesses that have surfaced.

The Eleventh Plan seeks to remedy these deficiencies by seeking to accelerate the pace of growth while also making it more inclusive.

The objective of inclusiveness

The objective of inclusiveness is reflected in the adoption of 26 other monitorable targets at the national level relating to: i) Income and poverty, (ii) education, (iii) health, (iv) women and children, (v) infrastructure, and (vi) environment. Some of these national targets have also been disaggregated into 13 state level targets and it is expected that the state governments design policies and programmes to achieve them.

The strategy for achieving faster growth with greater inclusiveness involves several interrelated components. These are:

i) a continuation of the policies of economic reform which have created a buoyant and competitive private sector capable of benefiting from the opportunities provided by greater integration with the world,

ii) a revival in agricultural growth which is the most important single factor affecting rural prosperity,

iii) improved access to essential services in health and education (including skill development) especially for the poor, which is essential to ensure inclusiveness and also to support rapid growth,

iv) a special thrust on infrastructure development which is a critical area for accelerating growth,

v) environmental sustainability which is becoming increasingly important,

vi) special attention to the needs of disadvantaged groups, and

vii) good governance at all levels, Central, state, and local.

As in most market economies, the dominant impulse for growth will come from the private sector. India is fortunate in having a strong private sector capability ranging from agriculture, which is entirely dependent on private farmers, most of who have modest land holdings, through small and medium entrepreneurs in industry and services to larger domestic corporate entities, many of which benefit from FDI to varying degrees. The Eleventh Plan must ensure a policy environment that is supportive of this vibrant and globalised private sector which has an important contribution to make in India's future development.

Emphasising the importance of the private sector is not to downplay the role of the government. On the contrary, apart from the usual role of government in providing a stable macroeconomic policy, the Eleventh Plan envisages a very large role for public policy in a number of sectors. As pointed out earlier, the strategy for delivering faster and more inclusive growth will require an expansion in the role of government in several areas. The Eleventh Plan envisages an expansion in the size of the Plan (Centre plus states) from 9.46% of GDP in the Tenth Plan to 13.54% of GDP in the Eleventh Plan. Part of this increase will come from expanded budgetary support from the Plan and the rest from the internal and extra budgetary reserves of the public sector at the Central Government and the state government levels.

The increase in budget resources depends critically upon the ability of both the Centre and the states to maintain the high growth in tax revenues observed in

recent years. This will depend to some extent upon the pace of growth since rapid growth will produce buoyant revenues, but it will also depend significantly upon the continuation and deepening of tax reforms. The strategy of simplifying the tax structure and streamlining tax administration has generated better compliance in both the Centre and the states which is reflected in the rising share of taxes in GDP. This trend must be made to continue.

Another important element in mobilising resources for public investment is the ability to contain subsidies and use the resources thus saved to undertake much needed public investment. A comprehensive revision of subsidies in the system, including hidden subsidies of one type or another, with a view to rationalising them to retain only those aimed at the truly vulnerable, is needed.

The present subsidies on petroleum products are particularly relevant in this context. A second aspect of the changed role of government in the Eleventh Plan is that the public sector will increasingly concentrate in areas that lie in the domain of the state governments, and within the states in the domain of Panchayati Raj Institutions. This is especially true of elementary education, health, rural drinking water, rural sanitation, child nutrition, housing for the poor, the national employment guarantee, and schemes for watershed management. Programmes in these areas are implemented at the local level and often depend critically upon local level authorities and the system of governance and accountability should therefore be at the local level. The 93rd and 94th Amendments to the constitution were landmark steps in empowering the Panchayats and urban local bodies and to give full effect to these amendments it is necessary to transfer functions, functionaries, and funds to the PRIs. While the functions to be transferred have been clearly identified, the actual progress made in transferring the functionaries and funds remain limited. It is also necessary to build capacity at the local level. NGOs can play an important role in building capacity or in encouraging empowerment o participation or ways should be found of engaging the NGO community more actively in local level programmes.

12.4 INCLUSIVE GROWTH: MEANING AND CONCEPTUAL ISSUES

Inclusive growth means growth with equal opportunities. Inclusive growth therefore focuses on both creating opportunities and making the opportunities accessible to all. Growth is inclusive when it allows all members of a society to participate in and contribute to the growth process on an equal basis regardless of their individual circumstances. The importance of equal opportunities for all lies in its intrinsic value as well as instrumental role. The intrinsic value is based on the belief that equal opportunity is a basic right of a human being and that it is unethical and immoral to treat individuals differently in access to opportunities. The instrumental role comes from the recognition that equal access to opportunities increases growth potential, while inequality in opportunities diminishes it and makes growth unsustainable, because it leads to inefficient utilisation of human and physical resources, lowers the quality of institutions and policies, erodes social cohesion, and increases social conflict. Inclusive growth based on equal opportunity differentiates inequalities due to individual circumstances from those due to individual efforts.

In sum, an inclusive growth strategy encompasses the key elements of an effective poverty reduction strategy and, more importantly, expands the development agenda. A poverty reduction strategy based on a single and absolute income criterion ignores the issue of inequalities and the risks associated with them. In contrast, an inclusive growth strategy addresses circumstance-related inequalities and their attendant risks.

Inclusive growth is not based on a redistributive approach to addressing inequality. Rather, it focuses on creating opportunities and ensuring equal access to them. Equality of access to opportunities will hinge on larger investments in augmenting human capacities including those of the poor, whose main asset, labour, would then be productively employed.

12.4.1 Policy Ingredients of Inclusive Growth

Given that inclusive growth focuses on both creating economic opportunities and ensuring equal access to them, an effective inclusive growth strategy should have two anchors:

A) High and sustainable growth to create productive and decent employment opportunities, and

B) Social inclusion to ensure equal access to opportunities by all.

A) **High and Sustainable Growth**

High and sustainable growth is the key to creating productive and decent employment opportunities. The economies can successfully sustain growth do so by continuously adapting and changing their structure. Incrementally, but steadily, they latch on to and master new and more productive activities, reaping gains along the way. The transformations associated with sustained fast growth often entail a shift of output from agriculture to both industry and services. One reason for this is that industry has been where opportunities for productivity growth have been located. While services have played an important role in mopping up surplus labour from agriculture, this has often meant employment in low-productivity, informal activity.

For low-income developing countries where the level of extreme poverty is still high, a key challenge will be to eradicate extreme poverty by accelerating the process of transition. These countries will transform their rural and agriculture-dominated economies into ones with higher agriculture productivity, and industry and services sectors playing a much greater role in terms of both output and employment. Integration with their regional counterparts and the global economy would enable them to participate in international production networks and benefit fully from their cost advantages. For low-middle-income countries would need to tackle three important transitions:

i) transition from diversification and producing a broader array of goods, to specialisation and a focus on those goods in which a country has a global comparative advantage;

ii) transition from accumulation or investment that simply requires more savings and more buildings, to innovation that requires the ability to do things differently; and

iii) transition from basic skills or education to advanced skills or tertiary education, or one where the educational system delivers a much broader array of skills required for the labour).

While this needs to be continued and deepened, these countries should pay more attention to domestic economic integration, including the integration between urban and rural sectors.

Continued efforts are required in improving domestic and regional connectivity and expanding the capacities of urban cities and towns to accommodate migrant workers through public investment, public and private partnerships, and public policies.

With climate change and global warming becoming issues of global concern, government intervention in environmental control is a necessary condition for sustaining economic growth in developing Asia, given its significant externalities.

The central role of the government is to develop and maintain an enabling environment for business investment and private entrepreneurships by eliminating impediments and distortions created by market failures, institutional weaknesses, and policy shortcomings.

This would require the government to invest in physical infrastructure and human capital, build institutional capacities, maintain macroeconomic stability, adopt market friendly policies, protect property rights, and maintain rules of law. In setting policy and reform priorities, the government should identify the binding constraints to growth and target its efforts and resources at relaxing the binding constraints.

B) **Social Inclusion**

Promoting social inclusion requires public interventions in three areas:

i) investing in education, health, and other social services to expand human capacities, especially of the disadvantaged;

ii) promoting good policy and sound institutions to advance social and economic justice and level playing fields; and

iii) forming social safety nets to prevent extreme deprivation.

While (i) and (ii) are essential to equalise opportunities, (iii) is needed to cater to the special needs of people who cannot participate in and benefit from the opportunities created by growth for reasons beyond their control and to alleviate transitory livelihood shocks.

a) **Expanding Human Capacities**

Expanding human capacities to participate in new opportunities mean, investing in education, health, and other social services and other social services such as water and sanitation. Growth provides resources to permit sustained improvements in human capacities, while expanded human capacities enable people to make greater contributions to growth. Government – both central and local – has a critical role to play in investing in education, health, and other social services, because of their public goods nature and strong externalities, and in making these services equally accessible by all. The role of government is to ensure that these social sectors have adequate funding, good physical infrastructure, strong institutional capacities, sound policy frameworks, and good governance. Therefore, equal access to social services needs to be complemented by supply-side policies to ensure efficiency and quality of public services and demand-side policies to avoid moral hazard behaviour and wastages.

b) **Good Policies and Sound Institutions**

Promoting social inclusion requires good policy and sound institutions. The social and economic injustice is often reflective of bad policies, weak governance mechanisms, faulty legal/institutional arrangements, or market failures. In developing countries, factor market (land and credit) failures are particularly acute. The central role of the government in promoting social and economic justice is to address all these market, institutional, and policy failures. A key element of promoting social and economic justice should be to ensure that men and women can earn a fair level of income from their work and enjoy decent working conditions.

c) **Social Safety Nets**

Promoting social inclusion also requires the government to provide social safety nets to mitigate the effects of external and transitory livelihood shocks as well as

to meet the minimum needs of the chronically poor. Such shocks are often created by ill health, macroeconomic crises, industrial restructuring, and natural disasters.

Social safety nets serve two main purposes. First, by providing a floor for consumption, they are a coping mechanism for the very poor and the unfortunate. Second, they could provide insurance against risk to enable vulnerable people to invest in potentially high-return activities to lift themselves up by their bootstraps, i.e., social safety nets serve as springboards to enable vulnerable people to break out of poverty. Social safety nets typically take the following forms:

Labour market policies and programmes aimed to reduce risks of unemployment, underemployment, or low wages resulting from inappropriate skills or poorly functioning labour markets;

i) social insurance programmes designed to cushion risks associated with unemployment, ill health, disability, work-related injuries, and old age, examples being pensions, health and disability insurance, and unemployment insurance;

ii) social assistance and welfare schemes such as welfare and social services, and cash or in-kind transfers intended for the most vulnerable groups with no other means of adequate support, such as single-parent households, victims of natural disasters or civil conflicts, handicapped people, or the destitute poor; and

iii) child protection to ensure the healthy and productive development of children, examples being early child development programmes, school feeding programmes, scholarships, free or subsidised health services for mothers and children, and family allowances or credit .

Check Your Progress 2

1) Explain the growth models adopted in earlier plans in India.

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2) What is Inclusive growth?

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3) Explain the Policy ingredients of Inclusive growth.

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12.5 LET US SUM UP

This unit helps the reader to understand the various approach adopted by India to achieve faster economic development and welfare. The first part of this unit focuses on the mixed economic approach adopted by India and the relative role of public and private sector in India. The later part of this chapter examines the various development models and strategies adopted in Indian planning. The last part of this unit explains the concept of incursive growth and its various policy ingredients.

Prior to Independence, there was practically no such thing as the public sector in India. Only after the Industrial Policy Resolutions of 1948 and 1956, the government made concerted efforts to make the public sector the dominant sector in the Indian economy. It was supposed to have control over "the commanding heights" of the economy. The concept of mixed economy adopted by India implied the rejection of the idea of immediate nationalisation of the private sector. It further implied a regulated private sector and the fast expanding public sector, especially in basic and heavy industries such as steel, engineering, fertilizer, power and transport. The private sector is dominant in agriculture and allied activities in retail and most of the wholesale trade, cottage, rural and small scale industries, most of consumer goods industries like textiles, jute, cement, sugar, radio receivers and numerous other consumer goods industries.

India's development strategy, like that of most other developing countries, has evolved over successive Plan periods, reflecting the growing strength of our economy, structural transformations taking place in the domestic economy and also developments in the world economy. The Tenth Five Year Plan, covering the period 2002-03 to 2006-07, represents but another step in the evolution of development planning in India. In the 55 years that have passed since our Independence, the challenges, the imperatives and the capabilities of the nation have undergone profound changes The Eleventh Five Year Plan, provides a comprehensive strategy for inclusive development, building on the growing strength of the economy, while also addressing weaknesses that have surfaced. Inclusive growth means growth with equal opportunities. Inclusive growth focuses on both creating opportunities and making the opportunities accessible to all. Growth is inclusive when it allows all members of a society to participate in and contribute to the growth process on an equal basis regardless of their individual circumstances.

12.6 KEY WORDS

Private Sector : It is that part of the economy which is both run and managed by private with profit motives.

Inclusive growth : Inclusive growth means growth with equal opportunities. Inclusive growth therefore focuses on both creating opportunities and making the opportunities accessible to all. Growth is inclusive when it allows all members of a society to participate in and contribute to the growth process on an equal basis regardless of their individual circumstances.

Sustainable development : It is a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but in the indefinite future.

12.7 SOME USEFUL BOOKS

1) Dutt R, Sundaram KPM (2000), "*Indian Economy*", S. Chand and Company, New Delhi.

2) Gandhi Jagadish. P (2008), "*Inclusive Growth in Globalised India: Challenges and Options*", Deep and Deep Publications.

3) Ahulwaalia I.J and IMD. Little (eds), (1999), "*India's Economic Reforms and Development (Essays in honour of Man Mohan Singh)*", Oxford University Press, N. Delhi.

4) Bardhan K (1999), "*The Political Economy of Development in India*", Oxford University Press, N. Delhi.

5) Bava R.S and Raikhy (eds), (1997), "*Structural changes in Indian Economy*", Guru Nanak Dev University Press, Amirtsar.

6) Bramananda PR and Panchamuki (eds) (2001), "*Development experience in the Indian Economy: Inter-state Perspectives*", Bookwell, Delhi.

7) Dantwala. M.L.(1996), "*Dilemmas of Growth: the Indian Experience*", Sage Publications, New Delhi.

8) www.worldbank.org.in

9) www.rbi.org.in

12.8 ANSWER OR HINTS TO CHECK YOUR PROGRESS

Check Your Progress 1

1) To help in the rapid economic growth and industrialisation of the economy and create the necessary infrastructure for economic development. 2) To earn return on investment and thus generate resources for development etc. (see the sub-section 12.2.1)

2) To explain the various defect of Public sector in India (refer sub-section 12.2.1)

3) a) Imperfections in the Financial Sector and Inadequate Financial Sector Reforms.

   b) Inadequately Developed Market for Long-Term Debt c) Issues Related to Internal Control and Regulation etc. (See sub-section 12.2.3)

Check Your Progress 2

1) For the growth models adopted in earlier plans in India refer sub-section 12.3.1.

2) Inclusive growth means growth with equal opportunities. Inclusive growth therefore focuses on both creating opportunities and making the opportunities accessible to all. Growth is inclusive when it allows all members of a society to participate in and contribute to the growth process on an equal basis regardless of their individual circumstances. (See sub-section 12.4.0)

3) Given that inclusive growth focuses on both creating economic opportunities and ensuring equal access to them, an effective inclusive growth strategy should have two anchors: (A) High and sustainable growth to create productive and decent employment opportunities, and (B) Social inclusion to ensure equal access to opportunities by all. (see sub-section 12.4.1)

UNIT 13 THE LATIN AMERICAN AND AFRICAN EXPERIENCES

Structure

13.0 Objectives
13.1 Introduction
13.2 Latin American Experiences
13.2.1 Growth of Latín American Economies
13.2.2 The Role of the State in Economic Developemnt
13.2.3 The Develpment Model
13.2.4 The FDI-Growth Nexus in Latin American
13.3 African Experiences
13.3.1 Trade Liberalisation
13.3.2 Export Performance following Trade Liberalisation
13.3.3 Export Structure
13.3.4 Globalisation and the African Development Experience
13.4 Pro-Poor Economic Growth Models
13.4.1 Pro-Poor Growth: Historical Context of the New Thinking on Development
13.4.2 Pro-Poor Growth: Policy Framework
13.5 Let Us Sum Up
13.6 Key Words
13.7 Some Useful Books
13.8 Answer or Hints to Check Your Progress

13.0 OBJECTIVES

After reading this unit you will be able to:

- explain the development model adopted by Latin American countries; and
- to analyse the developmental model adopted by African economies.

13.1 INTRODUCTION

In this chapter an attempt is made to understand the developmental model adopted by Latin American and African economies. The first part of this unit explains the growth of economy, role of the state and development model adopted by Latin American economies. The later part of this unit is reserved to explain and to examine the development expereince of African economies.

13.2 LATIN AMERICAN EXPERIENCES

Latin America is a region characterised by consistently highly potential economic and social development, but it faces serious difficulties in accomplishing this task. Throughout the last decades, it has experienced several lapses of some economic growth, always followed by moments of stark recession. Such economic growth cycles have always been tremendously difficult to maintain and, most of all, to

shift the positive results of Latin American economies to social development on the continent. In a certain way, the economic history of South America has been a permanent alternation of cycles. This problem of inconsistent economic growth inhibits long-lasting ways of implementation of social plans that are not welfarist on the part of most Latin American governments. Long-term planning becomes unfeasible to enforce whenever economic imbalances generate an environment of constant uncertainty. These uncertainties do not relate to Latin American governmental policies only, but mostly to political decisions that are always dependent on the financial possibilities offered at a given moment. Thus, it is possible to understand a little why, regardless of relatively stable phases of economic development, governments prefer to act in a welfarist and populist way. Society, in turn, mostly intellectually underdeveloped, believes that a patronising state is what they need to escape from poverty and develop socially.

13.2.1 Growth of Latin American Economies

During the period of 2005-06 to 2008-09, emerging economies in Asia have grown 7.7% per annum on average. Europe has grown 5% over the same period, whereas Latin America did not exceed 4.5%. Even though this growth rate is not sensational, it is interesting to point out this growth trends because of volatility of Latin American economies. From a collective point of view, it is a good result for Latin America. However, some disparities exist as to countries such as Chile, which has grown at almost 7%, and Brazil, which ended 2005 with a meagre 2.5% GDP growth rate. Despite being regarded as satisfactory for governments and international economic monitoring agencies, it has been very difficult to reflect this result in investment in social areas in Latin America. At present 2/5th of Latin Americans live under the poverty line, whereas 1/6th are in a situation of absolute poverty.

Table1: Economy of Latin America (GDP and GNI Percapita)

Rank	Country	2006 GDP millions of US dollars	2007 GNI per capita, Atlas method (current US$)	Rank	Country	2006 GDP millions of US dollars	2007 GNI per capita, Atlas method (current US$)
—	World	48,144,466	7,995	17	Bolivia	10,828	1,260
—	Latin America	3,027,344	5,801	18	Jamaica	10,565	3,330
1	Brazil	1,067,706	5,860	19	Honduras	9,016	1,590
2	Mexico	840,012	9,400	20	Paraguay	8,773	1,710
3	Argentina	212,702	6,040	21	Bahamas	6,223	17,160
4	Venezuela	181,608	7,550	22	Nicaragua	5,369	990
5	Chile	145,205	8,190	23	Haiti	4,473	520
6	Colombia	135,075	4,100	24	Barbados	3,386	8,080
7	Peru	89,316	3,410	25	Suriname	2,112	4,730
8	Puerto Rico	86,500	10,950	26	Belize	1,213	3,760
9	Ecuador	40,447	3,110	27	Antigua and Barbuda	962	11,650
10	Guatemala	35,304	2,450	28	Saint Lucia	933	5,520
11	Dominican Republic	31,600	3,560	29	Guyana	870	1,250
12	Costa Rica	21,384	5,520	30	Grenada	529	3,920
13	Trinidad and Tobago	19,935	14,480	31	Saint Kitts and Nevis	487	9,990
14	Uruguay	18,591	6,390	32	Saint Vincent and the Grenadines	466	4,210
15	El Salvador	18,341	2,850	33	Dominica	300	3,560
16	Panama	17,113	5,500				

Source: World Bank 2009

The first table is a list of Latin American economies sorted by their GDP at market or government official exchange rates (nominal GDP). The data here is an estimation for the year 2006 produced by the International Monetary Fund in April 2007. The second list represents the GDP per capita. These figures do not include Cuba. In 2006, Latin America's as shown share of world GDP was 6.3%. This lists include countries which some consider not to be part of Latin America; the precise listing of Latin American countries is disputed. The group of countries shown is described as the "Western Hemisphere" by the IMF.

13.2.2 The Role of the State in Economic Development

The lack of consistency and durability in social and economic development in Latin America – mostly in South America – has political, economic and social reasons that are interconnected, replicate a model of disadjustment that feeds on itself and perpetuates, and are lost in the history of the colonisation. South America may be seen as a failed State-funded enterprise, where Creole elites have reproduced the model of servile relationship with the State marked by spoliation and unfairness towards the less favoured and politically disarticulated classes. We can see an alliance between the State and the elites to exploit public resources: The State through corporatism and the elites by means of exemptions, subsidised credits and benefits to supply the State (which is the big economic agent in the region). The elites defend themselves from the State because the latter may punish them by way of selective taxation and non-participation in the benefits as well as by the huge power of direct (with direct investment, such as Petrobras, Furnas, PDVSA) or regulatory (rules, laws, bureaucracy etc) intervention in the economy. According to Luiz Fernando Figueiredo, former director of monetary policy of the Brazilian Central Bank under president Fernando Henrique Cardoso, "the decisions concerning pension plans, labour law, welfarist, patronising, discouraging efficiency gains and, consequently, productivity gains, are responsible for the difficulty the State has in maintaining steady and sustainable economic growth."

State intervention in Latin America is visible. Sometimes, it is suffocating. Due to the power of interference held by the State, its actions and decisions either harm or benefit private enterprise a lot. A relationship of dependence is established in which the State can either help or hinder. It can hardly ever be fair and balanced. For instance, according to the World Bank, you need 63 days on average to open a firm in Latin America, whereas the same task can be accomplished in 19.5 days in the OECD. The number of procedures in Latin America is 11.4, whilst there are 6.5 in the OECD. This difficulty for private enterprise to meet its potential eventually reflects in the swelling of the State machine by means of more and more civil servants. Direct interventions in economic development implemented by the State by means of companies such as Petrobras and PDVSA generate a sentiment of a patronising State in society. In Brazil, for instance, 40% of the GDP is directed for public expenditures, whereas emerging economies in Asia use approximately 25% to this end. These heavy expenditures by the State eventually suffocate the participation of private investment and the attraction of foreign investment which maintains its effort in 20% of the GDP.

13.2.3 The Development Model

According to Luiz Fernando Figueiredo, "most Latin American states opt for adopting a model closer to European welfare than to macroeconomic liberalism, as adopted by Asian countries that are growth leaders in the modern world." This growth model, which is already under crisis in Europe, works very precariously in Latin America, since we do not have enough funds to promote efficient and comprehensive welfare. The social gap is widened by this failed process that leads whoever has financial conditions to invest in private education and healthcare, whereas most of the population, who cannot afford such things, is dependent on public investments in health, education and security, for instance.

Such difference between economic growth and social development results also from the lack of articulation between intellectuals and politicians, with rare confluences between them. We often see an archaic intellectual direction within Latin American academic circles. The ideological pattern of education, due to historical reasons, is aimed at the intensive use of the State to solve economic and social development issues and, given the State's relevance and society's dependence thereon, the centre of economic and social development is the State rather than free enterprise. It is as if free enterprise complements the State's efforts in promoting wealth, rather than the opposite.

The ability to link up the economic development of a country to its social development is the responsibility of governments and of the society that elects them. However, in Brazil, for instance, the State attracts and demobilises society by means of cheap welfarist schemes such as Bolsa Família (a monthly allowance given by the federal government to families earning less than the minimum wage) and expensive welfarism with subsidised credits and specific tax exemptions.

Curiously, in this part of the world, intellectual capital shifted to economic growth is much more advanced than any other capital. Perhaps intellectual capital aimed at the arts is the only one to have such a distinction. This is not enough to bring prosperity and put the continent on the track of the expected growth. The brilliant economists, old-fashioned social thinkers and mediocre governors who are, in many cases, corruptible; combination represents what Latin America is. They also have realised that the application of sustainable development is not assigned to the economic area only, because it is necessary that intellectual development specialise in the management of society, something that is paramount. The elites do not want to engage in direct administration of power, but rather to deal with the State by means of other instruments: campaign financing and corruption. The State rewards them by offering different types of licences: Bolsa Família, subsidised credit, tax exemptions, licenses, authorisations etc.

What one sees is lack of articulation among three sectors that should be working towards both economic and social development: (i) the political sector, by means of the State machine and political institutions; (ii) the economic sector, with the private sector starting to invest in science and technology and investing in human resource, like major firms in first world countries do to obtain qualified human resources; and (iii) the university sector, which is supposed to graduate people able to enter the job market with a curriculum in line with contemporary world needs.

A first piece of criticism often made is by saying that such type of directing would prioritise the formation of technicians only, lagging behind in terms of scientific formation and basic research. Many times the Brazilian 1970's case is cited, when there was investment in education in the areas of engineering, but little in humanities, encompassing philosophy, sociology, political science, anthropology, history, human geography and other derived disciplines, besides lagging behind in basic research. This is a clear mistake. What one sees is that, in developed countries, companies need people that are more and more specialised and, most of all, capable of producing knowledge and developing technology, something that is possible only in universities with the necessary infrastructure, or in high-capacity laboratories.

13.2.4 The FDI-Growth Nexus in Latin American

Latin American (LA) countries adopted outward-looking development policies in response to the severe debt crises of the 1980s. Since then, they have tried to attract foreign direct investment (FDI) as a key strategy to promote growth and development. At the end of the 1990s, FDI accounted for more than 80% of the net private capital flows into the region (Levy Ygati et al. 2007). FDI from North

America (NA) and Western Europe (EUR) is of capital importance culminating in 70-80% of the stocks in the large LA countries.

Recently, Western Europe has become the largest direct investor in South America, ahead of North America (UNCTAD 2004; Vodusek 2004). Consequently, several questions arise: To what extent can FDI flows into LA contribute to growth? Which conditions must be met for FDI to be beneficial for growth? Are growth effects different when source countries differ; in particular, does it make a difference whether FDI comes from EUR or NA? The theoretical literature proposes many arguments for FDI having a positive impact on growth.

First, FDI is considered to act as the main channel for international technology transfers. It increases the productivity of the host country through direct and indirect effects: productivity effects in the recipient firm and productivity spillovers to upstream and downstream industries. Second, foreign firms are supposed to increase competition thus inducing local firms to become more productive. Third, foreign firms are assumed to invest in training of the work force thereby improving qualifications in the country. There are relatively few studies that analyse the FDI-growth nexus for LA. On a macroeconomic level, De Gregorio (1992) investigates growth determinants for the period 1950-85. He finds that FDI inflows are a significant determinant for GDP per capita growth, having a 3-6 times higher impact than regular investments. Bengoa and Sanchez- Robles (2003) examine the relationship between economic freedom, FDI, and per capita growth in a panel for the period 1970-99. They also find a significant positive impact.

The growth was high in LA in the 1960s and 1970s but faded due to the debt crises of the early 1980s. In the wake of economic reforms with the aim to reduce government interventions and induce economic liberalisation and macroeconomic stabilisation in line with the Washington consensus, growth has gained momentum since the first half of the 1990s. Economic liberalisation also entailed an opening towards FDI. Since then, the attraction of FDI is one of the key strategies to promote growth and development in LA.

Consequently, the total stock of FDI rose steeply at a rate of around 30% per year since the mid 1990s (Levy Yegati et al. 2007). In 2003, the stock of FDI as share of GDP reached 84% in Bolivia, 74% in Chile, and 63% in Panama.

As it is evident now, the increase in FDI affected all LA countries. NA- and EUR-FDI accounted for the major share of FDI stocks culminating in 70-80% in the large LA countries. In some of the smaller LA countries the share of EUR- and NA-investors is lower due to intra- LA-FDI. While NA-investment has always played an important role in LA, EUR-FDI surpassed NA-FDI stocks in South America in the 1990s. In 2003, EUR-FDI dominated in Argentina, Bolivia, Chile, Colombia, Ecuador, Peru, Paraguay and, slightly, in Brazil. Concerning EUR-FDI, we observe that all major EUR countries have been investing in LA to a similar extent. Only recently, Spain increased its share substantially in some countries, such as Argentina, Chile, and Peru. One can observe clear differences between EUR- and NA-FDI in LA. The potentially different growth effects on varying motives, types, and sectors of FDI and the arising implications for productivity growth is captured in the above analysis.

Check Your Progress 1

1) Write a note on growth of Latin American economies.

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2) Briefly explain hte development model adopted by Latin American Countries.

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3) Discuss the FDI- Growth Nexus in Latin American economies.

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13.3 AFRICAN EXPERIENCES

The economy of Africa consists of the trade, industry, and resources of the peoples of Africa. As of July 2005, approximately 887 million people were living in 54 different states. Africa is the world's poorest inhabited continent. Though parts of the continent have made significant gains over the last few years, of the 175 countries reviewed in the United Nations' Human Development Report 2003, 25 African nations ranked lowest amongst the nations of the world. This is partly due to its turbulent history. The decolonisation of Africa was fraught with instability aggravated by cold war conflict. Since mid-20th century the Cold War and increased corruption and despotism have also contributed to Africa's poor economy.

The biggest contrast in terms of development has been between Africa and the economies of East Asia and Latin America. The economies of China and India have grown rapidly, while Latin America has also experienced moderate growth, lifting millions above subsistence living. By contrast, much of Africa has stagnated and even regressed in terms of foreign trade, investment, per capita income, and other economic growth measures. Poverty has had widespread effects, including low life expectancy, violence, and instability, which in turn have perpetuated the continent's growth problems. Over the decades, there have been many unsuccessful attempts to improve the economies of individual African countries. However, recent data suggest some parts of the continent are experiencing faster growth. The economies of the fastest growing African nations experienced growth significantly above the global average rates. The top nations in 2007 include Mauritania with growth at 19.8%, Angola at 17.6%, Sudan at 9.6%, Mozambique at 7.9% and Malawi at 7.8%.

Economic growth in sub-Saharan Africa (SSA) is expected to moderate in the face of the financial turmoil and high energy and food prices, even though many SSA countries are benefiting from terms-of-trade gains resulting from the surge in other commodity prices. Overall, growth is projected to decline from near 7 % in 2007 to just over 6 % in 2008-09. However, there are important crosscountry variations. Despite a weakening external environment, economic expansion in oil-exporting countries is expected to soften only moderately in 2008-09, with growth declining to about 7½ % from near 8% in 2007, owing to a near 75% improvement in the terms of trade in 2008. For oil importers, the terms of trade would remain broadly stable in 2008, with higher oil prices offset by higher export prices for metals, coffee, cocoa, and cotton.

Table 2: Economy of Africa. Real GDP, Consumer Prices (Annual Averages[1]), and Current Account Balance (% of GDP[2])

	Real GDP				Consumer Prices[1]				Current Account Balance[2]			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
Africa	**6.1**	**6.3**	**5.9**	**6.0**	**6.3**	**6.2**	**10.2**	**8.3**	**2.9**	**0.4**	**3.0**	**0.2**
Maghreb	**4.3**	**4.3**	**5.5**	**4.9**	**3.1**	**3.0**	**4.3**	**4.0**	**13.9**	**12.1**	**15.5**	**10.3**
Algeria	2.0	4.6	4.9	4.5	2.5	3.6	4.3	4.0	24.8	22.8	28.1	19.8
Morocco	7.8	2.7	6.5	5.5	3.3	2.0	3.9	3.5	2.2	–0.1	0.4	–0.3
Tunisia	5.5	6.3	5.5	5.0	4.5	3.1	5.1	4.5	–2.0	–2.6	–3.4	–3.5
Sub-Sahara	**6.6**	**6.9**	**6.1**	**6.3**	**7.3**	**7.1**	**11.9**	**9.5**	**–0.3**	**–3.0**	**–0.7**	**–2.4**
Horn of Africa[3]	**11.3**	**10.6**	**8.4**	**7.2**	**9.1**	**11.0**	**19.5**	**20.9**	**–13.4**	**–10.4**	**–6.3**	**–6.5**
Ethiopia	11.6	11.4	8.4	6.5	12.3	15.8	25.3	40.8	–9.1	–4.5	–5.0	–5.2
Sudan	11.3	10.2	8.5	7.7	7.2	8.0	16.0	10.0	–15.2	–12.6	–6.3	–6.7
Great Lakes[3]	**7.1**	**7.0**	**6.5**	**7.6**	**10.4**	**9.2**	**15.7**	**7.9**	**–4.3**	**–4.5**	**–6.2**	**–7.8**
Congo. Dem. Rep.of	5.6	6.3	10.0	10.3	13.2	16.7	17.5	15.1	–2.4	–1.8	–1.9	–12.6
Kenya	6.4	7.0	3.3	6.4	14.5	9.8	25.0	6.5	–2.3	–3.1	–6.1	–4.5
Tanzania	6.7	7.1	7.5	8.0	7.3	7.0	9.2	6.5	–7.7	–9.0	–9.8	–10.0
Uganda	10.8	7.9	9.8	8.1	6.6	6.8	7.3	7.8	–3.5	–2.8	–3.4	–5.8
Southern Africa	**11.0**	**12.9**	**10.6**	**9.4**	**11.5**	**10.0**	**11.3**	**9.4**	**12.8**	**6.7**	**9.6**	**8.3**
Angola	18.6	21.1	16.0	12.8	13.3	12.2	12.1	9.3	23.3	11.3	18.0	15.9
Zimbabwe	–5.4	–6.1	...	...	1,016.7	10,452.6	...	...	–7.0	–3.5	...	...
West and Central Africa	**3**	**5.1**	**5.4**	**6.8**	**6.8**	**4.6**	**9.3**	**8.3**	**4.5**	**–0.8**	**3.1**	**–0.4**
Ghana	6.4	6.3	6.5	5.8	10.2	10.7	16.8	13.3	–9.0	–10.9	–13.1	–13.2
Nigeria	6.2	5.9	6.2	8.1	8.3	5.5	11.0	11.1	9.5	2.1	6.2	0.6
CFA franc zone[3]	**2.8**	**4.2**	**4.3**	**5.6**	**3.2**	**1.4**	**5.6**	**4.1**	**0.1**	**–2.4**	**2.5**	**0.7**
Cameroon	3.2	3.5	3.8	4.6	5.1	0.9	4.1	2.1	0.6	–1.9	1.3	–1.1
Cote d'Ivoire	0.7	1.6	2.9	4.7	2.5	1.9	5.6	5.7	2.8	–0.7	3.8	–0.6
South Africa	**5.4**	**5.1**	**3.8**	**3.3**	**4.7**	**7.1**	**11.8**	**8.0**	**–6.5**	**–7.3**	**–8.0**	**–8.1**
Memorandum												
Oil importers	5.9	5.3	5.0	5.0	6.3	6.6	10.9	8.5	–3.8	–4.9	–5.7	–6.3
Oil exporters5	6.5	7.9	7.4	7.6	6.4	5.5	9.2	8.0	13.1	7.9	13.5	8.1

Source: *IMF 2008*

Trade

Seen in a historical context, Africa's trade has gone through three distinct phases. Prior to the early 1960s, when many African countries gained independence, African trade policy was defined by the colonial Powers. Trade was essentially a two-way relationship between African countries and their metropoles, whereby primary commodities were exported and manufactured products imported. The trade structure of African countries during this period was driven by the interests of the colonial Powers.

In the period from the 1960s to the 1980s, the trade policies of many countries in Africa were informed by the doctrine of import-substitution industrialisation. For example, Burundi, Ethiopia, Ghana, Madagascar, Nigeria, Senegal, Sudan, the United Republic of Tanzania, and Zambia all adopted inward-oriented policies with significant trade restrictions. This strategy advocated the protection of the domestic market from foreign competition in order to promote domestic industrial production. Import-substitution industrialisation was widely accepted in the 1960s and 1970s as a viable policy package to help developing countries achieve structural transformation and lessen their dependence on primary products. As a result trade policies in most African countries during this period were characterised by extensive State involvement in the economy, both in production and in marketing.

Additionally, the domestic market in these countries was shielded from foreign competition through a number of policy measures. Non-tariff measures (NTMs) such as quantitative import restrictions and government licences were used profusely to restrict imports. Tariff structures were often highly complex, with a large number of tariff rates, and tariffs were high. Exports were often restricted by a number of export taxes and strict rules and regulations.

The domestic causes which were responsible for the African crisis, the domestic "policy inadequacies and administrative constraints" that were singled out, overvalued exchange rates and trade regulations featured prominently, as well as excessive taxation of agricultural exports through marketing boards. Substantial currency devaluation and trade liberalisation, along with the dismantlement of industrial protection measures, were advocated as policies urgently needed to halt the crisis and achieve accelerated development.

As of the mid-1980s, and often as part of the structural adjustments programmes, the African countries gradually started to liberalise their trade policies. This unilateral liberalisation trend is ongoing and indeed picked up speed with the establishment of the World Trade Organisation (WTO) in 1995 and the multilateral trade obligations enshrined in its agreements for African countries that are members.

13.3.1 Trade Liberalisation

In view of the continued deterioration of Africa's economic performance since the 1970s, the overarching objective of economic reforms was to achieve higher rates of economic growth by increasing the efficiency of resource allocation, in particular by aligning domestic prices more closely with international prices. African countries needed to dismantle import controls such as foreign exchange rationing due to short-run balance-of-payment deficits, as well as long-term protection measures, including tariff and non-tariff barriers. The measures to liberalise imports revolved around three key policies: reducing the overvaluation of African currencies and eliminating foreign exchange rationing; dismantling non-tariff measures by reducing the list of products requiring import licensing; and reforming the tariff system by reducing tariff dispersion and lowering the overall level of tariffs (World Bank, 1994). Additionally, regulatory barriers such as the granting of monopoly privileges were addressed in some cases of trade liberalisation.

13.3.2 Export Performance Following Trade Liberalisation

It was expected that trade liberalisation would have an influence on the relative importance of trade in the economy. One expected reaction was a rise in imports as a proportion of GDP. With the reduction of barriers to imports the domestic price of imported products goes down, making these products comparatively more attractive. Additionally, the removal of quantitative barriers increased the availability of these imported products in the domestic economy of African countries. A look at the trade performance of African countries before and after liberalisation reveals that imports did increase as a proportion of GDP following trade liberalisation. The median ratio of imports to GDP in Africa, which was 31% preceding liberalisation, increased to 34% thereafter. This 10% increase is considerably smaller than the increase noted in non-African developing countries following liberalisation, which could be due to the already high levels of imports as a share of GDP in African countries prior to trade liberalisation. Imports in African countries were also constrained by the lackluster export performance of the continent following trade liberalisation. The comparison of export performance prior to and following trade liberalisation shows only a limited response in Africa. The importance of exports in Africa, expressed as a percentage of GDP, improved by only about 11 % after liberalisation. This is much smaller than in the non-African developing country group, where the median ratio of exports to GDP responded to liberalisation with an increase of 50%. It is important, however, to note the heterogeneity of

trade performance among African countries. The export-to-GDP ratio of oil exporters is 46% higher than that of non-oil exporting countries, irrespective of trade liberalisation.

Overall, the comparison shows a slight deterioration in the trade balance following trade liberalisation. In African countries, the trade balance following liberalisation was equivalent to –7.7% of GDP, down from –6.6% prior to it. Both these values are higher than the developing-country average. This is despite the fact that import-to-GDP ratios rose by 62% in non-African developing countries following trade liberalisation. The main difference is that, in these countries, the increase in imports was compensated by a sharp rise in exports. In Africa, the more limited export response was responsible for the increased trade deficits.

These are mainly countries that experienced political unrest during the period 1995-2006 such as the Central African Republic, Eritrea and Liberia. Export volumes increased between 1995 and 2006, which partly explains the rise in the total value of exports noted above. This increase is however; noticeably lower than the increase in the value of exports. Indeed, at 6% per annum, the increase is below the world average for the period and far below the developing-country average. There are various reasons for the increases in export volumes. Mozambique and Sierra Leone, for example, saw large increases as a result of the resumption of export production in post-conflict periods.

Equatorial Guinea and Sudan had high figures thanks to large increases in oil exports. Lesotho, meanwhile, was able to exploit trade preferences to increase its production of manufactures, especially textiles, for export. The countries hat experienced falls or very low increases in export volumes again include some countries that have suffered from political instability, such as Guinea and Zimbabwe. Nigeria's export volumes also stagnated over the period, due mainly to political unrest in the oil-producing Delta region. The fact that export values increased faster than export volumes suggests that much of the increase in export values in Africa was due to rising prices rather than to increased export volumes. Indeed, the price of a unit of exports increased by a yearly average of 6% for Africa over the period 1995-2006. This increase is over four times higher than the world average and nearly three times higher than the developing-country average. The largest increases were almost exclusively in oil-exporting countries such as Algeria, Angola, the Congo, Equatorial Guinea and Nigeria. The countries that experienced falls in the unit price of their exports, on the other hand, were those that are not principally exporters of minerals or fuel. They include Burkina Faso, Burundi, Lesotho, Senegal and Uganda. The effect of the recent rise in commodity prices on the export prices of African countries is striking. Indeed, while for Africa as a whole, export unit prices fell by 2% per annum between 1995 and 2001, they increased at a yearly rate of 17% between 2002 and 2006. In summary, it appears that the notable increase in export values over the period 1995-2006 was driven largely by the price increases rather than volume increases. The low volume effect indicates weak export response following trade liberalisation. Instead, it is only the rise in world export prices, over which African countries have little control that has allowed African exports to perform better than those of the rest of the world in value terms.

13.3.3 Export Structure

The trade structure of African countries did not change much following trade liberalisation. Most countries in the region remain essentially primary product exporters, with only a handful of countries (such as Lesotho, Mauritius and Tunisia) drawing a significant part of their export revenue from manufactured products. This leaves the majority of African countries dependent on volatile global commodity prices. In comparative terms, sub-Saharan Africa is the region of the developing world with the highest dependence on primary product exports,

especially fuel. However, a large majority of African countries are not fuel exporters. If the average African country's experience is considered, rather than Africa as an economic entity, African countries remain predominantly non-fuel primary product exporters. The factors reviewed so far help to explain the evolution of the structure of trade following trade liberalisation. It is apparent that there has been little response from either manufacturing exports or from primary product exports if fuels are excluded. The rise in exports as a share of GDP that is noticeable as of the late 1990s is almost exclusively accounted for by the increase in the export of fuels. Fuels are, however, among the commodities that are least affected by trade restrictions. This lack of diversification in terms of export sectors is mirrored by the lack of diversification in export products. African economies display very low levels of export diversification, with no discernible trend away from this situation. Most African countries have not managed the transition from traditional exports to more dynamic export sectors with higher earnings. Historically, it appears that episodes of diversification in Africa have been sporadic and short-lasting, the gains of one period often being reversed in the next (Economic Commission for Africa and African Union, 2007). The period following trade liberalisation, the export concentration index for Africa increased by 80%, from a value of 0.21 in 1995 to 0.38 in 2006. This implies that African countries have become increasingly dependent on a limited number of commodities. In comparison with other developing regions, the export concentration index in Africa is very high. Export diversification is very low in Africa. African countries remain principally primary commodity exporters and the dependence of African countries on a small number of export products has increased in the period following liberalisation. Many countries in the region are at present less able to withstand price shifts for a few key commodities than they were prior to liberalisation. The main trends in the destination of African exports do not appear to have been strongly affected by African countries' efforts to liberalise trade. Although there has been some diversification in the destinations of African exports, reducing the importance of European countries as export markets, this is part of a long-term trend. The greater importance of Asia as a market for African exports reflects strong growth in that region rather than changes in African countries' trade structure.

13.3.4 Globalisation and the African Development Experience

Despite its widespread usage, there is no universally accepted definition of the term "globalisation". But at the core of it is the change that has been occurring at the global level, which in many ways has been beyond the control of individual nation states and their economic managers. By a broad consensus, the process is deemed to yield substantial benefits to all nations, provided there is a commitment and general will at the global level. While it offers unprecedented opportunities for growth, globalisation also comes with costs, which can be challenging to poor countries that do not have the structural and policy foundations in place to take advantage of more open trade, investment and financial flows. These countries, mostly located in Africa, also usually have inadequate capacity to manage the process, which makes them more vulnerable to inherent potential forces of political and economic destabilisation. Notwithstanding the professed and well-known potential benefits from globalisation, the trade and development experience of many developing countries, and particularly those in Africa, has been to the contrary. While there is no doubt that the process has intensified the global interdependence of economies, the nature of that interdependence has been worrisome to African countries for many reasons.

Africa's share of global exports of goods and services has declined trend-wise from 4.2% in 1985 to a mere 1.8% in 1999.Despite the free trade era being championed by the World Trade Organisation, industrialised countries have protected themselves against the most dynamic exports of African countries, including textiles and clothing, agriculture, and processed raw materials, to the

detriment of Africa. Huge surpluses of products like sugar, dairy and beef accumulated under high tariff walls in industrialised countries, are often disposed of by resorting to subsidised exports, to the disadvantage of African producers, as they displacing developing countries' products in third country (export) markets and in the domestic markets of developing countries themselves;

Trade restrictions, including antidumping regulations and technical barriers to trade in industrialised countries cost Sub-Saharan African countries $20 billion annually in lost exports, more than total overseas development assistance flows. While the WTO environment is expected to increase world income by 1% annually over the next decade, it is projected to result in a loss of real income of one-tenth of 1% for Africa due to loss of preferences, when the agreements are fully implemented in 2010.

Notwithstanding the dramatic increase in global foreign direct investment flows, foreign direct investment in Africa has increased only modestly in recent years. The ratio of FDI to GDP has declined in about half of the African countries, in-spite of the fact that the rate of return on foreign direct investment is higher than in other developing regions and the extensive macroeconomic policy reforms undertaken in the last decade. FDI flows to Africa, amounting to $4.76 billion in 1997 represented a minuscule 3% of global FDI flows. Moreover, the flows are concentrated towards a few countries. Only about 20 countries are beneficiaries of FDI, with Nigeria, Egypt, Morocco, Tunisia and Angola together accounting for two-thirds of flows.

13.4 PRO-POOR ECONOMIC GROWTH MODELS

The South Africa embarked on its second decade of democracy, announcing objectives that included halving both the unemployment rate and the poverty rate by 2015. Meeting these objectives poses major policy challenges. Halving the current unemployment rate requires that the economy generate about 3.7 million new employment opportunities during the next six years. This is one and a half times the number of jobs that were created between 1995 and 2004. At the same time, halving the current poverty rate requires serious economic restructuring and commitment of resources.

13.4.1 Pro-Poor Growth: Historical Context of the New Thinking on Development

Development theory and practice have gone through important changes during the last 25 years, with the emergence of such concepts as 'human development', 'sustainable development' and 'pro-poor growth'. New thinking in development theory and practice has gradually shifted the focus towards the welfare of current and future generations. In this context, increasing attention is paid to the analytical, empirical and policy links between growth, income distribution and poverty.

A) **Mutual Benefits**

During the 1950s, the development debate centred on industrialisation, informed by the 'catching up' (or modernisation) perspective of development, whose underlying notion was mutual benefit. The issue of how to industrialise led to an important debate on the roles of market and planning, the desirable degree of openness to trade and investment, the correct blend of capital intensive and labour intensive technology, whether to prioritise industry or agriculture, and whether to move through an unbalanced or balanced growth trajectory. Hotly debated issues included the relative role of the state, balanced or unbalanced growth, and whether the path to industrialisation should be gradual or would depend on a 'big push'.

The development debate gradually shifted to deeper questions during the 1960s. There were those who argued that, within the current socio-economic system, a poor country's path to development was inherently in conflict with the interests of developed countries; moreover, that the underdevelopment of a large number of countries was part of the historical processes of development of developed countries. Thus, the future 'development' of poor countries is achievable, but necessitates a degree of separation from the dominant world economic system (Wallerstein 1979, Amin 1988). On the other hand, the mainstream side of the debate believed that the underlying interdependencies between developed and underdeveloped countries did not amount to a systemic impediment to the development of the latter. They believed in mutual benefit, and their mantra was that a 'rising tide would raise all boats'.

B) **Goal of Development**

A new debate began to emerge, with different views on how the goal of development could be reached. Streeten (1981) and Stewart (1985) advocated the attainment of basic human needs as a primary rather than a secondary objective of development; others focused on the problems of individual and group poverty rather than the underdevelopment of nations (e.g. Lipton (1977)). The common characteristic of these approaches was to view development in terms of "what happens to people rather than to abstractions like nations" and to define human well being as the purpose and goal of development. This reverses the earlier idea that welfare is a by-product or necessary outcome of economic development, as defined earlier. It argues instead that the need for economic development should be justified by its contribution to welfare. At the end of the last decade of the 20th century, the world's political leaders committed themselves to a set of goals at the Millennium General Assembly in 2000. The principal objective of what became the Millennium Development Goals (MDG) was to bring about a significant reduction in human poverty. Therefore, a hallmark of the 1990s was to highlight the importance of eradicating poverty.

Despite its success in redefining the principle objective of development, the usefulness of HD as a developmental approach depends on analysis that explains how the current socio-economic system can be steered to respond effectively to human needs and provide for human wellbeing. Thus, the recent emergence of a massive literature on pro-poor growth and pro-poor economic policies can be viewed as a response to calls for policy frameworks that internalise the realisation of HD objectives.

C) **Pro-Poor Economic Growth and Policies**

The historical context that underlies the literature on pro-poor growth and policies includes the widely recognised increased poverty and inequality outcomes of the trickledown development approach and the policy practices of structural adjustment programmes over the last three decades. However, the new literature represents a highly heterogeneous effort by both mainstream and non-mainstream analysts to define what is meant by 'pro-poor', and to incorporate the analysis of poverty in the traditional discourse on macroeconomic issues and policies.

13.4.2 Pro-Poor Growth: Policy Framework

From the previous discussion it is clear that, the combined goals of halving the unemployment and poverty rates depend on both the magnitude of the growth rate (the higher the growth rate, the larger the decline in poverty) and the distribution of the benefits of growth (poverty declines faster when more growth benefits go to the poor than to the non-poor). Therefore, achieving high growth rates does not necessarily translate into a high reduction in poverty. On the other hand, the scenarios clearly highlight the relative importance of policy interventions to foster

pro-poor growth and outcomes. The aim is to present an economic policy approach that can be considered a pro-poor approach, since it internalises the requirements for fostering growth that delivers proportionally greater benefits to the poor than to the non-poor. This is important as many discussions on pro-poor policies effectively reflect the orthodox macroeconomic policy prescriptions. In these presentations, it is usually the requirements of the orthodox macro economic framework that is prioritised and allowed to define a poverty reduction agenda. Moreover, in many instances they also ignore or insufficiently integrate policy issues related to high employment creation. Therefore, to overcome the intellectual hurdles of mainstream views and policy prescriptions, they were to open up the space to design a developmentally suitable policy framework. Our aim is to present a basic guideline that will inform the specifics of a pro-poor set of policies. To the extent that halving the poverty and unemployment rates depend on the macroeconomic policy framework, the approach to industrial development, labour market reforms and the establishment of comprehensive social security system, our basic policy guideline needs to reflect the coordination of these policies.

Pro-Poor Macroeconomic Policies

In South Africa, macroeconomic policy was significantly biased towards stabilisation and liberalisation from 1996 to 2001. In recent years, however, fiscal policy has become relatively less restrictive. The importance of growth and redistribution for employment creation and poverty reduction underscores the pertinent role of macroeconomic policy framework to foster high rates of growth and channel a disproportionate share of its benefits to the poor.

The central aim of a pro-poor fiscal policy should be to help establish a growth path that embodies simultaneous progress towards minimising income inequality and achieving full employment. Its necessary elements are (a) counter-cyclical: A major challenge is to avoid pro-cyclical fiscal policy, either to cushion the impact of adverse shocks, or to adapt to government revenues that are pro-cyclical, drop during recessions and increase during expansions. In this context, how can the government establish a counter-cyclical fiscal policy? On the one hand, this requires that the monetary authorities support the pro-poor fiscal policy goal and, together with the fiscal authorities, design a coordinated counter cyclical macroeconomic policy framework for the country. On the other hand, it is necessary to establish the needed 'fiscal space' to sustain strong public investment and expanded social security programmes over economic cycles. The following suggestions are made:

a) To create a fiscal stabilisation fund that could be used to smooth public spending over economic cycles (Islam 2003). This can be financed from excess revenues that are collected by the government during a given year (e.g. SARS's overshooting of its projected tax collection) or during periods of growth (e.g. current fiscal surplus) or during commodity price boom (e.g. rise in gold prices).

b) Strong public investment: another defining element of a pro-poor fiscal policy is a strong public investment programme. Given the historical under-investment in new infrastructure and the low maintenance of existing social infrastructure, many of the capital inputs required – education, training, communications, transportation and other elements of social and physical infrastructure – have a significant 'public good' character that precludes their being adequately supplied by private firms. Only the public sector (at national, provincial and local levels) can realistically be expected to take responsibility for the necessary social and infrastructure investment. Public sector investment can become even more pro-poor by, for example, ensuring that such investment is relatively less capital intensive than private sector investment. This helps increase the employment-creating thrust of the growth process. To foster such an South Africa. An important guiding principle is that increasing expenditure on social

sectors, especially in terms of a relative increase in allocations to these sectors, is almost always pro-poor. At the same time, it helps increase both the rate and sustainability of the country's long-term growth.

c) Measures to reorient the private sector: The third element of a pro-poor fiscal policy includes government procurement policies and investment incentive measures to increase the volume of private sector investment, influence the composition of investment, and increase the chances of future growth patterns being redistributive and job creating. Pro-poor investment needs to go beyond the public sector. There is a need to reward investment by businesses whose activities reflect support for a more broadly based transformation of ownership, improved income distribution and a reduction in the unemployment rate. Specific criteria can be developed to determine the eligibility and extent to which businesses can be given differential tax incentives, access to subsidies and access to government procurement. If the above fiscal policy measures are to produce the desired outcomes, monetary policy authorities need to balance their concern for inflation with a concern for economic growth. Ensuring the monetary policy commitment to foster growth is of prime importance. This is because, as a major macroeconomic instrument, monetary policy has limited influence in terms making growth pro-poor. However, in support of an expansionary fiscal policy, it can indirectly foster growth that is pro-poor. As a general rule, if inflationary pressures are weak, this support should take the form of low interest rates and an expanding monetary supply, which is also the basis for supporting a counter-cyclical macroeconomic policy. For a growth accommodating monetary policy, the interest rate should be used as a longterm investment instrument rather than for short-term stabilisation. More specifically, to sustain economic growth, the long-term interest rate should not be greater than the maximum sustainable rate of growth of per capita income.

In addition to its potential impacts on growth, relatively lower interest rates under nominal GDP targeting have further positive developmental effects. For example, to the extent that government bonds are held by the relatively prosperous portion of the population, lowering interest rates can improve income distribution; at the same time, lower rates reduce the size of domestic debt service in the budget, thus helping establish additional fiscal space for pro-poor government expenditure. In addition to the above guideline for monetary policy, government can increase the portion of deficit that is money financed. This is considered the least anti-poor method of financing deficits, since with bond financing the deficit redistributes public revenue from the population as a whole to the wealthy in the form of interest payments. At the same time, to deal with balance of payments constraints, monetary authorities need to consider the adoption of a policy of managed currency depreciation in order to establish a stable and moderately undervalued real exchange rate that helps generate extra exports. Finally, the above macroeconomic policy framework for pro-poor growth requires adopting a guarded approach to capital mobility. Domestic and international supporters of the 'Washington Consensus' have long advocated deep economic integration, including both trade and capital account liberalisation in South Africa.

Employment Generation Policies

The findings of the economic scenarios in section 4 make it clear that, in order to halve both the unemployment and poverty rates by 2015, the labour market needs to become-poor (in terms of the allocation of new jobs and the evolution of wages) and the employment intensity of economic growth needs to increase substantially. Using policies to transform the economy so as to generate about 3.7 million new jobs (that are also pro-poor in terms of allocation and rewards) during the next 15 years presents a significant challenge to policymakers. The following policy

suggestions are offered in order to help develop a country specific package of measures to achieve the above objectives. Adopting policies to increase the labour intensity of production: Central to a successful re-orientation of the economy is the need to ensure that the general production processes become significantly more labour intensive. Examples of policy measures in this area include:

a) The promotion of employment-intensive social and infrastructural investments. ILO (2000) proposed a public investment policy that stresses 'labour-based' rather than 'equipment-based' production methods.

b) The identification of targeted, time-structured and conditional incentives to promote labour-intensive production in the private sector.

c) The withdrawal of explicit or implicit subsidies that systematically favour capital intensive and/or large-scale enterprises.

d) The adoption of tax and incentive measures to engender structural transformation of employment towards manufacturing and other non-farm sectors.

e) Agricultural interventions to promote increased acreage under labour-intensive crops.

f) The promotion of alternative ownership and production arrangements, such as cooperatives and equity arrangements that use labour-intensive methods of production. In a number of these areas, the restructuring of diverse public enterprises can lead the way. Moreover, government procurement policy, at both national and provincial levels, should put greater stress on procuring goods and services from companies that seek to use labour more extensively in their areas of activity. Overall, commitment to halving the unemployment and poverty rates should reward sectors of the economy on the basis of their contributions to these national developmental goals and not on the basis of their industrial competitiveness on the global market. Adopting measures to enhance the economy's capacity to utilise more labour: It is necessary to develop sector strategies that aim directly at promoting labour absorption. Such sector strategies should not be seen as separate from an employment strategy, but as vehicles for the realisation of the employment promotion objective. Sectoral strategies need to be internally coherent, as well as in terms of how they link together nationally and regionally. Supportive policies in this regard generally focus on the following: enabling polices; pricing; inputs; innovation and technology; information; infrastructure; the development of regulatory regimes and institutions; incentive structures; the identification of specific activities or groups to be targeted, and resource mobilisation. Examples of relevant policy measures in this regard are:

- The facilitation of access to credit by disadvantaged individuals and communities through the reform of financial institutions, a lowered interest rate and/or the selective promotion of prescribed asset and/or investment policies.
- Land reform through restitution, tenure reform and redistribution.
- Design of projects that target poor labour tenants, farm workers, women and emerging farmers, giving them access to land for residential and productive use.
- Targeted provision of subsidised credit and extension services for labour-absorbing large, medium and small-scale activities that enhance employment creation.

- Use of an employment subsidy programme to encourage the private sector to increase its employment of first time jobseekers, and the retraining and/or hiring of retrenched employees.

Promoting sectoral programmes with high level of employment multiplier: Employment opportunities can be expanded through the promotion and consolidation of value chains or sectoral linkages as new economic activities are promoted. Pro-active policy measures include:

- Support for the development of activities that fill gaps in the value chain (distribution, marketing, financial intermediation, input provision, research and development, technological capabilities, etc.) for select activities in agriculture, manufacturing and services.
- Tight coordination of public investment projects to maximise their impact on mutually re-enforcing activities in the private sector.
- Development of regional clusters of economic activities, especially in depressed areas of the economy.
- Special employment and public works programmes for those who cannot immediately be absorbed into productive employment. Such public works should focus on carefully chosen activities of a 'public good' nature, which will enhance social infrastructures that support private sector productivity.

Trade and Industrial Policy

Further liberalisation of the economy – in terms of flows of goods, services and capital – must be carefully managed and sequenced. There is a need for critical assessment of the underlying tenets of the argument for liberalisation, and a need to monitor carefully its speed and extent in the context of creating jobs and achieving a higher standard of living for the country's disadvantaged majority. Such analysis is vitally important, particularly given the experience of countries that have, in the last two decades, adopted full-scale economic liberalisation. In this context, there is a good case for protecting or supporting sectors that generate large positive externalities such as technological spillovers. By encouraging import substitutes, protection can expand the domestic traded goods sector. The means of expansion operates by reducing the propensity to import, thereby reducing leakage from the domestic economy. The objective of protection in an economy with underemployment is to reduce the propensity to import competitive goods, not to reduce the actual volume of imports. If the policy is successful, the rise in domestic incomes should encourage more imports of complementary and subsequently competitive goods.

In the direct and indirect formulation of industrial policy, the following needs to be given the highest priority: (a) meeting basic needs; (b) generation of employment; (c) education and training; (d) sectoral policy; (e) infrastructural provision and measures to ensure spin-offs; (f) reform of the financial system to secure finance for industry; (g) monitoring and control of foreign investment flows, particularly outward investments by conglomerates of South African origin; (h) minimum labour standards and the narrowing of wage differentials; (i) macroeconomic policy; (j) regional integration; (k) restructuring of state assets, and (l), the reform of institutions that make industrial policy, so that the allocation and coordination of responsibilities across government departments is rationalised and coherent.

Comprehensive Social Security System

In March 2002, the report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa was delivered to Cabinet. It provides a comprehensive attempt to bring together the different elements of a fragmented

social security system in order to provide recommendations that could ultimately lead to comprehensive social protection. The simulation results of our policy scenarios in section 4 support the main conclusions and recommendations of the Committee's report, particularly the Committee's position that an appropriate social security system for South Africa must prioritise the needs of people without any income or with insufficient income, and must encompass those engaged in informal sector. This, for example, implies an extension of the child support programme to poor children aged between 14 and 18 years who are not currently covered by the grant. It also implies an extension of the social security system to provide income support to poor adults or to poor unemployed adults aged between 18 and the retirement age for households where no-one is employed. In addition to expanding the scope for the eligibility for social grants, the real value of social grants (after adjustment for inflation) also needs to increase in the medium term. The combination of both measures is needed to ensure that the government's social grant System contributes effectively to the fight against poverty.

Check Your Progress 2

1) Write a note on Globalisation and the African Development Experience.

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2) Explain the pro-poor growth model with referente to African economies.

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3) Discuss the policy frame work of Pro-poor development model.

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13.5 LET US SUM UP

The first part of this section explains developemental experience of Latin American and African economies. Latin America is a region characterised by consistently highly potential economic and social development, but it faces serious difficulties in accomplishing this task. Throughout the last decades, we have experienced several lapses of some economic growth, always followed by moments of stark recession. Most Latin American states opt for adopting a model closer to European welfare than to macroeconomic liberalism, as adopted by Asian countries that are growth leaders in the modern world. Latin American (LA) countries adopted outward-looking development policies in response to the severe debt crises of the 1980s. Since then, they have considered the attraction of foreign direct investment (FDI) as a key strategy to promote growth and development.

The economy of Africa consists of the trade, industry, and resources of the peoples of Africa. As of July 2005, approximately 887 million people were living in 54 different states. Africa is the world's poorest inhabited continent. Though parts of the continent have made significant gains over the last few years, of the 175 countries reviewed in the United Nations' Human Development Report 2003, 25 African nations ranked lowest amongst the nations of the world. The later part of this Section summarises the debate on pro-poor growth and provides a formal presentation of the channels through which growth and poverty are linked. It develops a measure of the contribution of each channel to changes in poverty, and an aggregate measure of their overall effect on poverty.

13.6 KEY WORDS

Fiscal policy : It refers to government attempts to influence the direction of the economy through changes in government taxes, or through some spending.

Monetary Policy : Monetary Policy which attempts to stabilise the economy by controlling interest rates and the supply of money.

Social Security : A government program that provides economic assistance to persons faced with unemployment, disability, or agedness, financed by assessment of employers and employees.

Berg Report : World Bank document of 1981, known as the Berg Report. It assess the causes of the African crisis.

The CFA franc : Currency for 13 West and Central African countries (the CFA zone), has been tied to the French franc via a fixed exchange rate arrangement since 1948.

FDI : Foreign Direct Investment

ODA : Official Development Aid

13.7 SOME USEFUL BOOKS AND REFERENCES

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4) Ackah C and Morrissey O (2005). "*Trade policy and performance in sub-Saharan Africa since the 1980s*". Economic research working paper 78. Tunis. African Development Bank.

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13.8 ANSWER OR HINTS TO CHECK YOUR PROGRESS

Check Your Progress 1

1) Over the last four years, emerging economies in Asia have grown 7.7% per annum on average. Europe has grown 5% over the same period, whereas Latin America did not exceed 4.5%. Even though this growth rate is not sensational, it is valid due to the volatility of Latin American economies. (see sub-section 13.2.1)

2) Refer sub-section 13.2.3

3) To answer the third question refer sub-section 13.2.4

Check Your Progress 2

1) The countries mostly located in Africa, also usually have inadequate capacity to manage the globalisation process, which makes them more vulnerable to inherent potential forces of political and economic destabilization. Notwithstanding the professed and well-known potential benefits from globalisation, the trade and development experience of many developing countries, and particularly those in Africa, has been to the contrary. While there is no doubt that the process has intensified the global interdependence of economies, the nature of that interdependence has been worrisome to African countries for many reasons. (See sub-section 13.3.4.)

2) To explain the pro-poor growth model see sub-section 13.4.

3) To answer fourth question refer sub-section 13.4.2

NOTES

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