ASIAN POVERTY: WHAT CAN BE DONE?

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Thank you for the opportunity to return to the University of Queensland to present this 11th Memorial Lecture in honour of Colin Clark. I first began my own studies of the economics of development in the Department of Economics in this university in 1966, so it is a source of pride to me to know that Colin Clark -- one of the greatest scholars of the economics of growth and development of the 20th Century -- was so closely associated with this Department of Economics for so long. My tribute to him today will be to focus my discussion on several of the great classical topics concerning growth, development and poverty. He spent much of his life working on these issues. I feel sure that he would have approved of this choice of topic.

What should the state do about poverty? This question has been at the heart of economic public policy debate ever since Adam Smith's treatise on *The Wealth of Nations* was published in 1776. And since mass poverty in developing countries is still the single most important economic and social problem in the world, the question remains a key issue for governments and international donor agencies across the world.

For much of the 1990s, policy discussions within the international development community reflected evolving views about the appropriate role of the state. Throughout the decade, the broad thrust of policy in many developing countries was to move away from interventionist and state-controlled policies towards market-oriented approaches. This shift in emphasis, over time, had far reaching implications for policies and operational programs in both developing countries and of international donor agencies. By the end of the decade, the international development dialogue -- both globally, and in Asia -- had widened considerably. And the number of actors had grown significantly as well. In short, the operations of what some call the international 'development industry' became markedly more complicated during the 1990s.

Against this background, I will first make some comments about mass poverty in Asia before turning to review growth performance across the region. Later, I will make some observations about recent international debates about growth.

The main arguments of the paper will be that, first, the rate of long-term economic growth -- that is, the quantity of economic growth -- is the most important variable which influences the level of poverty in developing countries, and that, secondly, a recent emphasis on the quality of growth may be adding unhelpful complexity to the policy agenda in developing countries.

Mass poverty

It is important, when we are discussing poverty in developing countries, to understand that the phenomenon of poverty in the developing world is generally very different to the type of poverty we usually talk about in rich OECD countries. And because the type of poverty is different, then the responses needed are different.

In Western countries, deep and persistent poverty is not a widespread phenomenon. Rather, poverty is generally found in certain segments, or pockets, of society. This is usually localised or segmented poverty, because it is found in certain groups which can be defined by region, by age, or by social group. In contrast, in many parts of Asia, mass poverty is the main economic problem. That is to say, in many countries in Asia, large parts of the population (sometimes over 40% or 50%, depending on the particular poverty line chosen) live in deep poverty. This type of poverty is, in a number of ways, very different to the type of poverty which exists in rich countries.

One main difference is that the phenomenon of mass poverty across a nation affects the society as a whole, and not just individuals or small groups. Thus the social externalities of mass poverty are an extremely important phenomenon and have far-reaching effects. As a result, poor societies affected by mass poverty often operate in quite different ways to rich societies where localised poverty is the problem. Examples of what I have in mind are the adverse impact on labour productivity of nation-wide dreadful working conditions, and the damage done by widespread insecurity and weak law.

Since the type of poverty differs greatly between rich and poor countries, so the appropriate response to the issue differs (Figure 1). In rich countries, well-targetted anti-poverty interventions are a sensible approach to segmented poverty. Targetted anti-poverty programs are generally affordable, and the administrative capacity of agencies implementing these programs are generally reasonably effective. These conditions rarely apply in developing countries, so mass-based rather than targetted responses are the best antidote to poverty in poor countries.

Growth in Asia

Against this background what, then, have been the trends in growth rates in different countries (measured in average annual growth per capita) across Asia? It is useful to look at performance in recent years, since 1995, in the context of the long term growth performance over the previous 25 years since 1970 (Figure 2).

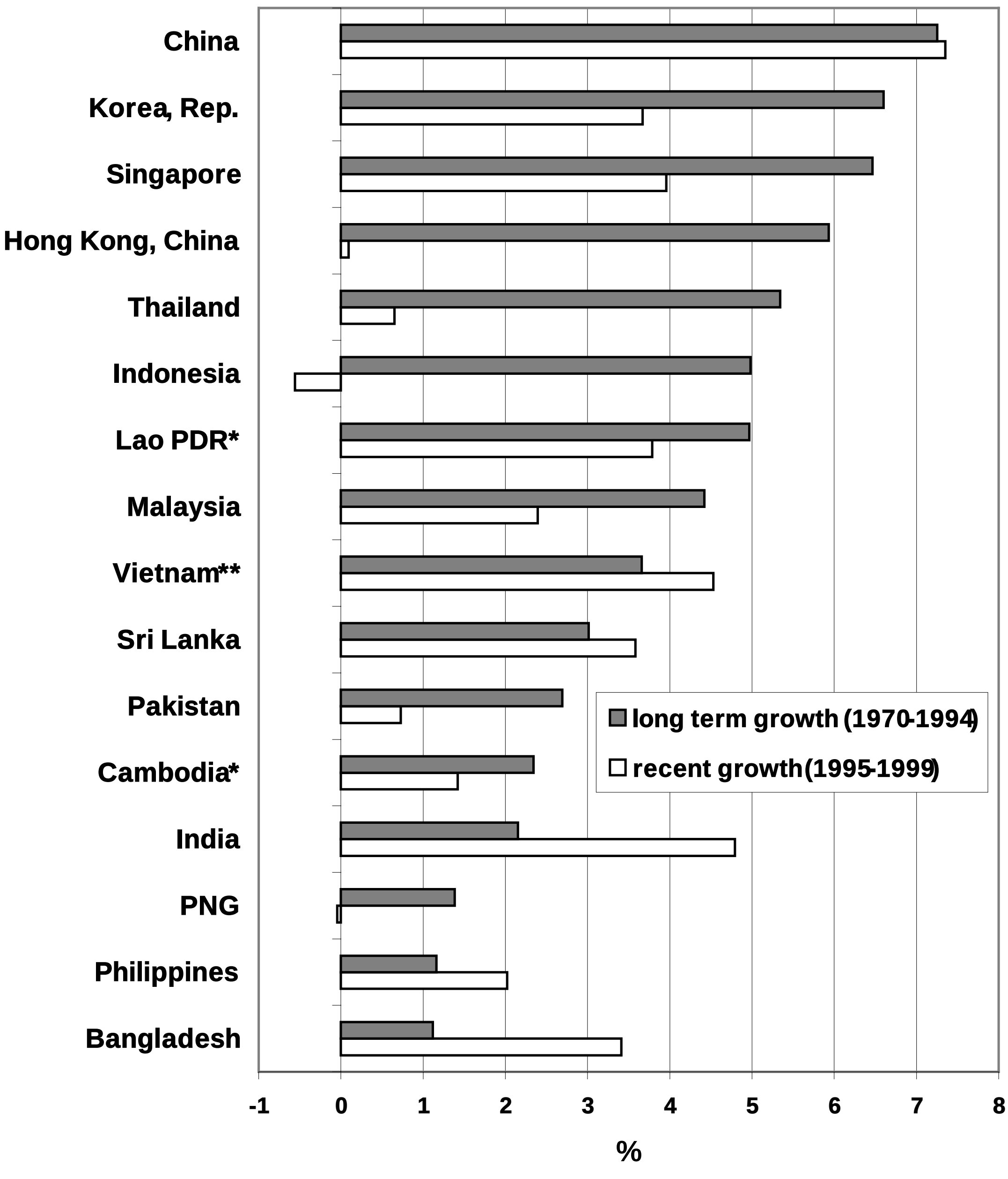
The really good news is that the two giants of the region, China and India, have been doing well in recent years. These two countries combined have a total population of over 2.2 billion people, almost 40% of world population. Strong economic growth across such a large share of the world's population suggests that significant gains are being made in reducing the numbers of people living in the most absolute poverty across the globe.

Of course, the longer term growth performance as between China and India differs significantly. The annual average growth of income in China has been around 7% per capita for the last three decades. This is a remarkable growth performance. It is an important phenomenon which deserves closer examination from the economics profession than has hitherto been the case. As a person who has worked in the aid industry for many years, I note with some humility that the international aid process appears to have been largely irrelevant in promoting this progress in China.

FIGURE 1: Factors affecting a policy response to poverty in rich and poor countries

Rich countries	**Developing countries**
(a) Most poverty is localised, affecting identifiable and relatively small segments of the population	(a) Mass poverty affects a substantial proportion of the population – in some cases over 50% of the people, depending on the poverty line chosen
(b) Targetted anti-poverty interventions are affordable, both in terms of the direct cost to the national budget, and in terms of the other indirect and often considerable non-budgetary costs (such as the indirect costs of rules and regulations introduced to assist poor groups)	(b) Targetted anti-poverty interventions impose costs which are difficult to bear, both in terms of the charge on the national budget, and in terms of the other indirect non-budgetary costs (such as indirect costs of regulations which often transfer costs from one poor group to other poor groups)
(c) Transfers per capita to targetted groups are often large	(c) Transfers per capita to targetted groups are generally small
(d) The administrative capacity of official agencies is generally reasonably effective. There is therefore a reasonable likelihood that anti-poverty programs will be implemented in a relatively efficient way	(d) Administrative capacities of many official agencies are weak. Excess administrative strains often mean that (1) programs are poorly implemented, and (2) artificial goals – which sometimes create incentives for corruption – tend to be adopted

FIGURE 2: Average annual GNP per capita growth rate, 1970-1999 (%)



* long term growth = 1990-1994

** long term growth = 1985-1994

Source: World Bank **World Development Indicators 2001**

The long-term growth performance in India shows a quite different pattern. For the long period between 1970 and 1995, the per capita growth rate was much lower than in China – around 2% per annum, fully 5% points lower than in China. This is a large difference. It reflects a disappointing set of economic policies in India during the period. It explains why China is currently seen as a rising economic power whereas India is yet to achieve that status. It also helps explain – and this is the encouraging side of the story – why India's top economic policy-makers were so keen to introduce important economic reforms in the early 1990s, and why India's long-term prospects are encouraging provided pro-growth policies continue to be consistently implemented.

Indonesia is the third largest developing country in Asia. In the 25 years to the mid-1990s, Indonesia's economic performance was very good. High growth throughout most of the Soeharto era (Hill, 1996) translated into rapid job growth (Manning, 1998), and many social policies were pro-poor. But Indonesia, along with Thailand and South Korea, was badly hit by the 1997-98 economic crisis. The aftermath of the economic crisis, combined with the uncertain policy environment in Indonesia in recent years, has had a sharp impact on overall growth performance. Income per capita fell markedly during 1998 and 1999. Although overall growth has returned to around the 4% level during the past year or so, income per capita today is probably no higher than in 1995. Looking ahead, a central question for economic policy-makers in Indonesia now in the new Megawati Government is whether ways can be found to lift economic growth back towards the high-growth trajectory (5% per capita on an annual basis, or around 7% overall) which the Indonesian economy is clearly capable of sustaining. An alternative scenario, where continuing uncertainty at home (as occurred in Indonesia during the period 1950-1965) retards growth for a prolonged time, would probably lead to rising levels of measurable poverty, especially in over-crowded Java (current population, around 120 million)

Three other broad features of the growth performances shown in Figure 2 are worth noting. First, in the other main developing countries in the region where high growth was maintained for a long period (South Korea, Thailand, and Malaysia), most economic observers are agreed that the high-growth policies brought widespread improvements in social conditions for the mass of the population. In South Korea, for example, a study sponsored by the UNDP (1998) concluded that

> Korea's success in reducing poverty was not due to explicit anti-poverty policies the government pursued, but rather the indirect effect of high economic growth. The most potent factor in reducing poverty has been the generation of abundant job opportunities for low-income households as a result of high economic growth. (p. 22)

Second, long-term growth performance has been sluggish in at least four countries (Pakistan, PNG, the Philippines, and Bangladesh), and one might hope for stronger performance in Sri Lanka as well. To be sure, the picture varies somewhat across these countries – recent growth in Bangladesh has shown improvement, and internal conflict and insecurity has held back growth in several of the countries – but taken as a group, it seems clear that unless greater priority is given to the need for strong, sustained economic growth, mass poverty in these countries (total population around 350 million) will persist for many decades to come.

Third, there are encouraging signs to suggest that sustained development has begun to get underway in Viet Nam, Laos and Cambodia. For much of the 1970s and 1980s, regional instability held back the growth process in these countries. Prospects have improved markedly during the 1990s. The overall growth rate in Viet Nam has been moving up towards 5-6% in recent years. Growth rates in Cambodia and Laos, where the development process is at an earlier stage than in Viet Nam, have been slightly lower. In all three countries, policy makers now give high priority to the need to promote economic growth.

Recent debates about growth in Asia

From one point of view, it might seem clear enough from this brief survey of growth performance in Asia that the main emphasis of development policy should continue to be on the need to promote high, sustained economic growth. A reasonable target for many of the lower-income developing countries in Asia might be to aim for an overall average growth rate of around 7% per annum (that is, around 5% per capita), and to hope to sustain that rate for perhaps four or five decades to come. Outcomes of this kind will be needed to achieve significant reductions in mass poverty across the region.

On the other hand, there are significant groups – both within industrialised countries, and within developed countries as well – who are uncomfortable with an emphasis on a such a strong pro-growth approach. Throughout the 1990s, the debate about what type of growth was needed in Asia passed through a number of significant stages, reflecting to no small degree events across the region. Indeed, the debate is still evolving as policy-makers and observers attempt to evaluate the implications of the Asian crisis and other developments. The main stages of the debate were the following:

- Celebration of the 'Asian Miracle' (up until early 1997)
- Reaction to these celebrations, and criticisms of the 'Asian Miracle' model
- The Asian economic and financial crisis (1997-98), and subsequent debate about the causes of the crisis
- Emergence of a 'new paradigm'
- Most recently, some admission by authorities that significant errors of judgement may have been made during the course of the crisis, and debate about certain aspects of the 'new paradigm'.

Perhaps the main result of this debate has been that during the 1990s, the emphasis on the need for better quality growth has become more prominent in debates about the growth process in Asia, especially at the international level.

The current state of play in the international debate is that many observers – especially in industrialised countries – believe that the quality of growth is just as important as the quantity of growth. This marked change in emphasis, for example, has been reflected in international discussions about development policy in major multilateral institutions such as the World Bank and the Asian Development Bank. It will therefore be useful to review recent discussions about development policy within these institutions.

New donor agenda

Nick Stern, Chief Economist of the World Bank, provided a succinct summary of recent changes in the international donor agenda when he commented that 'ideas have changed, institutions have changed.' These changes are important. Both of them have brought greater complexity to the international development debate.

<u>Ideas</u>. The first change, the change in ideas, is reflected, for example, in the recent work and publications of both the Asian Development Bank (ADB) and in the World Bank. As so often in the past, the central issue that both institutions have been grappling with is: What can be done to accelerate efforts to reduce global poverty?

In the ADB, during 2000 member countries (both donors and borrowers) agreed on a change in the strategic focus of the Bank's work. Whereas previously the ADB had five strategic development objectives (economic growth, human development, poverty, women, and the environment), the new mission statement for the ADB emphasised a Poverty Reduction Strategy which put the 'elimination of poverty as its principle raison d'etre' (ADB 1999).

The Poverty Reduction Strategy defines a 'clear and single-minded mission' for the ADB. The new 'overarching goal' is to concentrate on the reduction of poverty in the Asia-Pacific region. To operationalise the anti-poverty objective, the ADB announced a focus on three key areas:

- Pro-poor sustainable economic growth
- Social development
- Good governance.

But in addition to this approach, in recent discussions the ADB's donor member countries urged the ADB to tackle a wide range of other issues. The list included supporting the private sector, strengthening the rule of law, promoting international standards for corporate governance, combating infectious diseases and HIV/AIDs, mainstreaming gender, environment, and core labour standards, supporting sub-regional cooperation, combating money laundering and drug trafficking, and reinforcing good governance across the Asia-Pacific region. All in all, this agenda amounts to a notably complex program (Eccles and Gwin 1999).

Similar trends are evident in the World Bank. The World Bank's 2000 *World Development Report* (released September 2000) also focused on the theme of poverty. The WDR gave considerable emphasis to the complexity of the task of reducing poverty in developing countries. The three key themes that World Bank authors emphasised were:

- Opportunity
- Empowerment
- Security.

By opportunity, the World Bank intended to emphasise the importance of economic growth, markets, and structural economic reform (supply side changes) in developing countries. By referring to empowerment, the World Bank had in mind the need for participants in civil society in developing countries (rather than elites) to set priorities for development. And by security, the World Bank was intending to underline the desirability of establishing emergency, humanitarian, social relief, and other programs which would provide basic social welfare safety nets for the poorest groups in developing countries.

In explaining this new approach, the World Bank emphasised that one of the main lessons of the 1990s was that earlier approaches to tackling poverty had been over-simplistic. Earlier approaches had focused on the promotion of economic growth, and had tended to emphasise the quantitative aspects of the growth process. But more recent experience, the World Bank suggested, indicated that the qualitative aspects of growth were just as important as the level of economic growth itself. Issues such as strengthening the participation of the poor in political processes and reducing social barriers that weaken poor people need to be a central part of development policy as well.

<u>Institutions</u>. The most important aspect of the second change which Nick Stern referred to – institutional change – has been the recognition of 'civil society' as an

equal participant alongside the public and the private sectors. This means that it is now widely accepted that there is (or, at least, should be wherever possible) a trilogy of participants in discussions about development policy at both national and international levels:

- the state
- the private sector
- civil society.

The more prominent role accorded to civil society participants in recent years has changed both the nature of the international development dialogue as well as the way that development agencies operate (*Economist*, January 29 and September 23, *2000)*. Not only have civil society groups pressed for a widening of the development debate, they have joined vigorously in discussions about the appropriate roles for the state and the private sector. In practice, civil society groups such as NGOs have often been quite critical about the activities of both government and private sector institutions. The result is that the increased involvement of civil society organisations in the development debate has at times led to sharp exchanges within the world development industry.

These changes in the international development community about ideas and about institutions (summarised in Figure 3) are controversial. They have, not surprisingly, been viewed in different ways in developed and developing countries. The arguments in support giving higher priority to the 'new challenges' are set out in detail in the most recent *World Development Report*. In response, some observers have suggested that the international development agenda is turning into a 'Christmas tree' of issues, and have wondered whether the 'policy zoo' is not becoming too crowded. They question whether the increased policy complexity implied will be effective. Commenting on the latest WDR, *The Economist* (September 23, 2000) suggested that the increased complexity

> … may distract governments and the Bank alike from the simpler pro-growth tasks that they already appear to find impossibly difficult

FIGURE 3: Summary of traditional and new approaches to poverty alleviation

	Traditional approaches (1970s, 1980s, to early 1990s)	New approaches (late 1990s)
Ideas	'Old challenges' -- Growth Markets Infrastructure Other issues include: Sectoral emphasis (such as agriculture, forestry, fisheries, transport) Trade promotion Rural development Population and family planning	'New challenges' -- Good governance Rule of law Corruption Other issues include: Environment Decentralisation Human rights Democracy Core labour standards Corporate governance
Institutions	State Private sector	Inclusive of civil society: community groups, NGOs, religious groups, worker groups, students, etc
Summary	State-directed rapid growth	Pluralistic development, with new role for the State ('State should steer, not row') and an emphasis on the quality of growth

and observed that 'whether the developing countries will benefit is very much in doubt'.

The questions under debate are important ones. They involve difficult economic, political, and social issues. Indeed, one way or another, many of the issues bear on the highly controversial subject of 'How should a country be run?' In reviewing recent changes in ideas and institutions, the following sections will consider certain aspects of this controversial subject in more detail.

Old challenges

Growth One central issue in the current international development debate, as so often in the past, is the priority to be given to economic growth.

On one hand, there are those who argue that high priority needs to be given to economic growth. On the other, others emphasise the qualitative aspects of growth as well as various non-economic goals. Those who support this approach often incline towards interventionist programs of public policy. And between these two camps are those who emphasise the need for growth but, significantly, attach various 'but' qualifications to their pro-growth comments. A notable aspect of recent trends in the global development dialogue has been for the proportion of participants in this latter, third group to grow. As just one example, James Wolfensohn, President of the World Bank, noted in the Forward to the World Development Report 2000 that

> … traditional elements of strategies to foster growth … are essential for reducing poverty. *But* we now also recognize the need for much more emphasis on laying the institutional and social foundations for the development process and on managing vulnerability and encouraging participation to ensure inclusive growth. (emphasis added)

At the simplest level, the debate is arguably a straightforward one. The central issue is seen by many as the choice to be made between the priority to be given to growth versus social goals (equity, the environment, and so on).

However the debate is clearly not a straightforward one. On one hand many economists are irritated by the debate and even choose to abstain from the discussion because they believe that, especially in the longer-term, it is generally not necessary to choose between economic and non-economic priorities. Most economists would argue that policies supportive of ‘good growth’, which pay proper attention to negative externalities, are what developing countries need to reduce mass poverty in a socially responsible way. On the other hand many other observers -- especially participants in civil society such as NGOs, trade unions, religious organisations, and so on -- have little patience with the argument that in the longer-term, growth and development guarantee the achievement of key social goals. For one thing, they are not prepared to wait for 'the longer-term'. And for another, they point to Soeharto's New Order Indonesia, or to Marcos' Philippines, or indeed the global impact of Western materialism and capitalism, and declare them all obvious failures!

The differences of emphasis in this debate about growth have important policy implications. If the achievement of strong, sustained growth is central to overcoming poverty, then it becomes of key importance for the management of economic policy in developing countries to focus on the growth objective. *The Economist* (May 25, 1996) spelt out the issues succinctly:

> Understanding growth is surely the most urgent task in economics. Across the world, poverty remains the single greatest cause of misery; and the surest remedy for poverty is economic growth. It is true that growth can create problems of its own (congestion and pollution, for instance) ... But such ills pale in comparison with the harm caused by the economic backwardness of poor countries ... The cost of this backwardness, measured in wasted lives and needless suffering, is truly vast. ...
>
> To its shame, economics neglected the study of growth for many years. Theorists and empirical researchers alike chose to concentrate on other fields, notably on macroeconomics. ... But over the past ten years or so, this has changed. Stars such as Robert Lucas of the University of Chicago, who last year won the Nobel prize in economics, have started to concentrate on growth. As he says of the subject, “the consequences for human welfare ... are simply staggering. Once one starts to think about them, it is hard to think of anything else.”

Furthermore, one main lesson of recent economic history in the Asia-Pacific region is that the forward momentum of a strong, sustained national growth policy is not easy to maintain. Indeed, there is no shortage of worrying examples across the Asia-Pacific region where the growth process has faltered in recent decades. The most dramatic example, of course, is Indonesia in 1997-98, but there are quite a few other examples as well (Figure 2).

The second reason that there is a need constantly to focus on the importance of good strong growth is that across the Asia-Pacific region it is still easy to point to many examples of economic policies which both retard economic growth and exacerbate inequality. Many of these policies are, essentially, anti-market policies. The widespread provision of very large hidden subsidies to public utilities across much of the region is one instance of anti-market policies which do much harm. There are many other examples across the region of interventionist policies of this kind as well. Generally speaking, policies of this sort are anti-growth, and both directly and indirectly hurt the poor.

In order to promote strong and sustained growth across the Southeast Asian region, a renewed commitment to policy reform designed to promote sensible market-friendly policies is required. This topic, therefore deserves additional comment.

Markets. At one level, there now appears to be a broad consensus amongst economic policy makers in the Asia-Pacific region that market-friendly policies are desirable. At another level, however, there is much resistance. In particular, many civil society groups question the desirability of market-oriented policies. They ask -- often while demonstrating outside high-level international economic conferences -- what evidence there is that the benefits of such changes as globalisation and new ICT (information and communication technology) reforms will bring tangible benefits to the poor.

One of the main problems concerns public understanding about the operations of markets. Discussions about the effective operation of markets can be either simplistic -- or sophisticated. A good deal of recent discussion about the operation of markets in Asia – including some advice from donor agencies and international organisations – has been rather simplistic. It is important to avoid oversimplification for two reasons.

First, oversimplification can undermine support for pro-market policies; and second, it is generally not helpful to good policy making.

The reason that oversimplification can undermine support for pro-market policies is that the oversimplification of complicated issues often encourages unrealistic expectations. In fact, it is hard to think up a more effective way of undermining support for any policy in any country in the world than first building up hopes -- and then dashing them! Some good examples can be found, unfortunately, in the operation of financial and foreign exchange markets in Asia recently. As is well known, volatile capital flows contributed greatly to instability in regional foreign exchange markets during the 1997-99 period. Amongst other things, as a consequence Southeast Asian financial markets were subject to extreme stress during the regional crisis. This extreme volatility, and the enormous economic damage that was caused, is hardly likely to encourage enthusiastic support for pro-market policies across the region in future.

The second problem with oversimplifying discussions about market-friendly economic strategies is that it is generally not helpful to good economic policy making. The task of 'getting markets to work' is often extremely difficult (Dumol 2000). This generalisation appears to be true for many different types of markets across Asia. Whether one is talking about factor markets, goods markets, or financial or foreign exchange markets, the generalisation appears to hold – many markets across Asia do not work very well. Indeed, the task of 'getting markets to work' is surely one of the major challenges for economic policy-makers during the next decade or so in the region.

These issues were touched upon in *The Economist* (January 30, 1999) in a major survey of global finance issues. The survey provided a useful summary of the numerous current proposals for market-oriented reform of the architecture of the international financial system. One of the main points made was that much of what the survey called the 'grand talk' about plans for a new global architecture is likely to come to nothing. In fact, *The Economist* argued that the risk is that the talk 'will achieve little and may even be counterproductive'. *The Economist* warned, for example, of the dangers of attempting to set unrealistic regulatory standards for financial and corporate governance around the world. Furthermore, the survey noted that (Survey, p. 11)

> …these debates have an Alice-in-Wonderland quality to them. The IMF does not have nearly enough people to track how far countries comply with a broad array of financial-market standards. … Likewise, banking supervisory agencies in rich countries have no surplus of trained staff to send off to emerging economies. Unless and until regulators are trained in far greater numbers, detailed international supervision of all emerging economies' financial standards is impossible.

The Economist concluded that (Survey, p. 18)

> With the best will in the world, it will take years for many emerging markets to improve their bank supervision, and even longer for them to strengthen their banks.

Although these comments were made about regulatory problems in financial and foreign exchange markets, they apply equally well to regulatory problems in many other types of markets across Asia.

<u>Infrastructure</u>. One notable feature of the current international development debate, especially on the donor side, is that relatively little attention is being given to infrastructure. To some extent, this reflects the widespread view that 'softer' priorities – such as investments in education and health, as well as an emphasis on institutions and governance -- have been neglected in the past. But it also reflects the greater influence of civil society in the international development debate. Many NGOs, for example, have long been critical of the 'big projects' (such as roads, power stations, and dams) that organisations such as the World Bank and ADB have traditionally supported.

Whilst it is clear that proper attention – more than in the past – must be given to the social and environmental impacts of large infrastructure projects, there may now be a risk that the continuing urgent need for infrastructure investments in developing countries is being underestimated. Many developing countries in Asia are still acutely short of most types of modern infrastructure. Huge amounts of financing will need to be mobilised, and (what is not so easy) well spent, to meet infrastructure needs across the region. An example of the type of gap that exists can be seen in the electric power sector in Indonesia where consumption of electricity per person is currently around 300 kwh per annum. In many rich countries, average annual consumption per person is 9,000 kwh per annum or more. This means that on average, electric power consumption per person in rich countries is roughly 30 times the current level in Indonesia. Since there are close links worldwide between average energy consumption and living standards, it is clear that developing countries in Asia will need to make very large investments in the power sector alone in coming decades. And when one considers the need for infrastructure investments in other sectors such as water, sewerage, roads and transport, health and education, it can be seen that the infrastructure challenge is immense.

No less than in the past, a range of key issues, all involving government policy, will need attention in providing infrastructure across the Asia-Pacific region in the coming decades. Some the main matters include the following.

- Financing
- Project design and implementation
- Pricing and subsidies
- Sustainability and maintenance.

In addition to these priorities, international experience elsewhere suggests that encouraging a pro-market approach so that utility managers are subject to healthy competitive pressures is likely to lead worthwhile efficiency gains in many countries in the region.

The three main topics discussed in detail so far -- growth, markets, infrastructure -- have been key issues in the international development debate for the last 50 years. More recently, so-called 'softer' issues -- such as good governance, the rule of law, and corruption -- have been attracting strong interest. The next sections will consider some aspects of these newer issues.

New challenges

Good governance. The issue of good governance has become a central topic in the international development debate in recent years. During the 1990s, most of the main multilateral organisations active in the Asia-Pacific region -- the World Bank, the ADB, the IMF, the UNDP, and the Development Assistance Committee of the OECD, amongst others -- adopted policy statements on governance issues.

In essence, the approach which underpins most discussions about good governance is clear enough and surely uncontroversial -- it is that there is considerable waste of resources (including aid resources) in many developing countries, that this waste greatly hampers efforts to promote development, and that much of the waste occurs because of poor government. More broadly, it is important to appreciate that an essential part of the concern about the need for good government reflects an approach to development which emphasises organisation rather than the availability of resources as a key factor in determining whether countries succeed in promoting growth and development. As David S. Landes put it his landmark study of *The Wealth and Poverty of Nations* (1998),

> It is not want of money that holds back development. The biggest impediment is social, cultural and technological unreadiness -- want of knowledge and know-how. In other words, want of the ability to use money.

The World Bank has summarised this approach by noting that ‘The essence of governance is sound development management’.

What precisely is good governance? Numerous definitions have been provided, but the current international consensus centres on four main pillars.

- Accountability -- the need for public officials to be held responsible for delivering agreed outcomes.

- Predictability -- the need for a stable, open and widely understood set of rules of the game.

- Participation -- to ensure ownership and beneficiary support for development initiatives.

- Transparency -- to promote the disclosure of appropriate information to encourage openness.

The challenge is to translate these broad principles into meaningful action.

The need to strengthen the rule of law, and the associated problem of corruption, are currently also the focus of much attention in many countries. These topics therefore warrant additional comment.

Rule of law. It is widely agreed that the rule of law is weak in many developing countries. Across the Asia-Pacific region, from many countries there are numerous reports of problems in law-enforcement institutions (both the military and policy) at almost every level. As just one example, a recent detailed study in Thailand provided extensive evidence of these problems in five sectors (Phongpaichit et al 1998)

From the point of view of economic policy, several main observations need to be made. The first is that the problems which arise from the weaknesses in the rule of law affect a very large number of economic activities in many developing countries in the Asia-Pacific. And in some important respects, these problems appear to have become more serious in recent years as an unintended consequence of the region-wide (indeed world-wide) trend to reduce state-interventionist economic policies in favour of market-oriented approaches.

The weaknesses in the rule of law are so widespread that it is no exaggeration to say that economic laws and regulations of all kinds are continuously flouted in most industries in most developing countries in the Asia-Pacific. And naturally, economic actors -- producers and consumers, as well as the regulators themselves -- typically adopt a range of strategies in response to the weak legal environment. In some cases, the weaknesses in the legal system allow suppliers to ignore environmental, labour, or consumer protection laws, and thus externalise costs which should be borne internally to the firm. In other cases, parties to economic transactions who are aware that they cannot rely on the formal legal system to enforce the law of contract look for market-based solutions to the uncertainty they face, such as by purchasing private sector law enforcement services (which may, in turn, be provided on either a legal or non-legal basis).

Second, policy-makers (including international advisers) would best allow for the fact that it is not possible for the situation to change quickly. Furthermore, unrealistic expectations about the likely effectiveness of reforms are unlikely to contribute to good policy-making. Across the region, law-enforcement institutions (including the military) are so underdeveloped that in some instances it will take many years and very considerable expenditure to strengthen them.

Third, under these circumstances, the appropriate approach for policy-makers to take is to design policies based upon the realistic assumption that laws are weak. One implication for economic and sectoral policy-makers aiming to encourage market-based reforms is that it would be desirable to frame policies on a 'minimalist' approach that relies on the minimum degree of legal and regulatory supervision. In practice, for the time being it will often be desirable to avoid attempting to introduce economic regulations in cases where the regulations simply cannot be enforced. An implication for policy reform in the legal sector is that, as a recent ADB study of the role of in Asia put it, (Pistor and Wellons 1999):

> … law and legal institutions should not be viewed as technical tools that once adopted will produce the desired outcome. The point that law is embedded in culture has often been made especially with respect to the Asian economies. … to be effective law has to be embedded in the overall economic policy framework

The ADB study warned against ‘the blind transplantation of legal institutions without due consideration for the relevant economic framework within which they shall operate.'

Corruption. The phenomenon of widespread corruption, which is closely related to weaknesses in the rule of law, is a topic that attracts much attention in developing countries in the Asia-Pacific region. In recent years, partly in response to the increased priority being paid to good governance issues, the international development community has also been taking steps to strengthen anti-corruption programs in developing countries.

To listen to some of the more extravagant claims from international civil society groups as well as from some international organisations, it would be easy to form the impression that until recently the issue of corruption received little attention within the Asia-Pacific region. Such an impression would be incorrect. In fact, across the region in recent decades, there are few public policy issues which have received more attention than the topic of high-level corruption. Gunnar Myrdal wrote, famously, in detail about the issue in *Asian Drama* (Myrdal 1968) drawing on numerous Indian studies. In Indonesia the *Komisi Empat* (Commission of Four) reported on corruption in Pertamina and other government agencies in the late 1960s (Mackie 1969) and numerous other Indonesian commentators have often discussed the topic (Lubis and Scott 1985). Elsewhere there have been many reports and studies about the problems arising from corruption in most other countries in the region (Sainath 1996; Alatas 1999).

One main policy lesson arising from experience across the region is that corruption is very hard to deal with. The first step, therefore, in preparing a sound anti-corruption policy is to recognise the complexity of the phenomenon. It is often hard to define corruption precisely, it is often extremely difficult to collect meaningful evidence, and it is often hard to obtain convictions, especially within weak legal environments which are themselves subject to corrupt processes. The question therefore arises: Given that resources to tackle the problem are quite limited, what can be done?

International experience suggests that a package of measures is needed. The set of measures suggested recently by well-known Indonesian lawyer Todung Mulya Lubis (Lubis 2000) indicates the outline of the type of approach which many anti-corruption campaigners support. Lubis suggested that stronger advocacy in support of reform, firmer rules governing the behaviour of the judiciary and other legal officers, new law enforcement institutions and new laws, improved salaries, and stronger civil society were all needed to reduce corruption.

Similarly, the detailed Thai study noted earlier (Phongpaichit 1998) emphasised the need for a package of reforms to improve the police force in Thailand. The proposed package consists of five measures:

> 'Raise salaries. Reduce levels. Decentralize. Impose punishments. Establish outside monitoring.'

The authors noted that 'The process of reform will not be simple, fast, or smooth. But it has to start.'

Conclusion

In the late 1960s, the new President of the World Bank Robert McNamara called on the international community to give higher priority to the issue of world poverty. He pledged that under his leadership, the World Bank itself would focus on the goal of reducing mass poverty in developing countries. More recently, after a period of relative neglect, the issue of poverty has again been attracting much attention amongst the international development community.

Whilst it is agreed that the issue of mass poverty is a key global social and economic issue, there is less unanimity on the question of appropriate policy responses. This paper has summarised some emerging differences of view within the international development community about the types of approaches needed to design more effective programs to tackle poverty. Advocates of change argue that new social coalitions, more participatory approaches, and a sharper direct focus on the goal of eliminating mass poverty are needed across the international community. More cautious observers, reflecting what Martin Krygier (1998) has referred to as the 'methodological wisdom of conservatism', wonder whether the changes implied in the new agenda may not be too ambitious. Krygier summarised this cautious approach to social change as follows:

> Society is complex; life is hard; value what works; you’re not that smart; be careful.

Practical experience during the next few years will help clarify whether the advocates of change can design effective programs to promote widespread reform in developing countries. If the new approaches do not succeed, the international development community will need, once again, to ponder the difficult question of what the state should do to eliminate mass poverty across our planet.

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