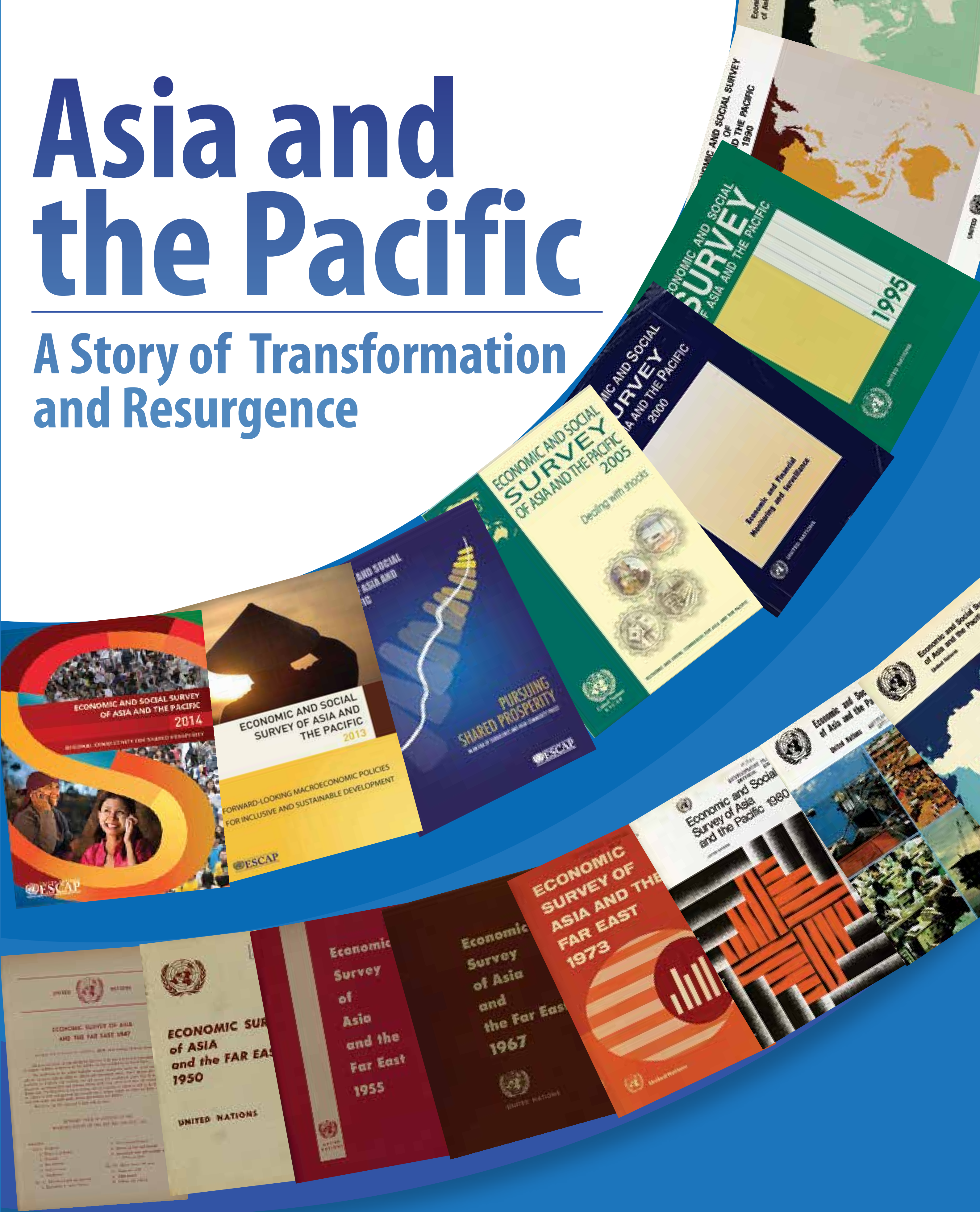
Asia and the Pacific

A Story of Transformation and Resurgence



ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC 1947-2014

UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

ESCAP is the regional development arm of the United Nations and serves as the main economic and social development centre for the United Nations in Asia and the Pacific. Its mandate is to foster cooperation between its 53 members and 9 associate members. ESCAP provides the strategic link between global and country-level programme and issues. It supports Governments of countries in the region in consolidating regional positions and advocates regional approaches to meeting the region's unique socioeconomic challenges in a globalizing world. The ESCAP secretariat is in Bangkok. Please visit the ESCAP website at www.unescap.org for further information.

The shaded areas of the map indicate ESCAP members and associate members in 2014.

The shaded areas of the map indicated the geographical scope of the ECAFE in 1948.

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Foreword

While the Asia-Pacific region has become the world's growth pole and is poised to reclaim global economic leadership in the twenty-first century, there remains an important question on addressing the challenges of shared prosperity and sustainable development. Will the growth of the Asia-Pacific region positively transform the lives of all people from Bangkok to Beijing, from Ankara to Almaty and from Suva to Seoul?

ESCAP – and its predecessor – ECAFE has long been ahead of the curve in answering that question and in shaping ideas about economic and social development in the region, primarily through its annual *Economic and Social Survey of Asia and the Pacific*, and by facilitating the creation of a development consensus for the region.

The role of the secretariat in that regard had an early genesis. At the second session of the Commission, held in Bangkok from 24 November to 6 December 1947, member States requested the secretariat "to publish a comprehensive annual survey of economic conditions and problems of the countries within the scope of ECAFE".

The present publication is aimed at providing a first-hand account of what has been happening from that time until today – a period of unprecedented economic and social transformation in the Asia-Pacific region – as reflected in the findings and analysis contained in individual issues of the *Survey* since 1947.

As the flagship publication of ESCAP, the annual issues of the *Survey* chronicle how understanding of complicated issues has been improved and how policy choices and the trade-offs in advancing social equity and development have been effected in fulfilment of the core United Nations principles in support of member States.

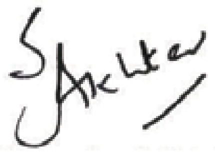
Initially, the *Survey* contained a detailed narration of Asian reconstruction efforts and needs following the end of the Second World War, as well as a description of regional development aspirations and endeavours. As the region continued to chart out the development discourse, the *Survey's* analytical narrative shows how the region was transformed from one typified by pervasive hunger and deprivation to what is often called the "Asian Miracle", which lifted billions of people out of extreme poverty and greatly improved their health and livelihoods. The *Survey* also underscored several powerful arguments about how the region shifted from being at the geopolitical periphery to become a centre of gravity for the global economy. In short, the *Survey* presents a compelling analytical story about the unfolding Asian drama.

This publication showcases the ways in which ESCAP research and analysis have offered a balanced view of the changing development paradigms, such as the relative roles of the State versus the market, export promotion versus import substitution and the "trickle-down theory" versus growth with equity, all of which aspects have influenced the choreography of the Asian drama.

In particular, this publication highlights issues which are crucial in contemporary policymaking discussions in the corridors of capitals in the Asia-Pacific region, namely (a) realizing the vision of the founding fathers in the service of peoples in the region; (b) regional and subregional economic cooperation and integration; (c) challenges and policy options for economies in transition and countries with special needs; (d) the quest for sustainable development, especially regarding the relinking and rebalancing of economies, societies and habitats; and (e) lessons in policymaking and learning from the experiences of ESCAP member States.

Given the emerging development priorities and strategies for the next phase of global and regional development beyond 2015, this is a very timely publication, allowing as it does, for comprehensive reflection on these traditions and the vision of the United Nations secretariat for the future development of the Asia-Pacific region.

It is my sincere hope that readers will find the publication interesting, informative and useful.



Shamshad Akhtar
Under-Secretary-General of the United Nations and
Executive Secretary, United Nations Economic and Social
Commission for Asia and the Pacific

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The publication of the present volume is part of the "intellectual history of ESCAP" project for celebrating the seventieth session the United Nations Economic and Social Commission for Asia and the Pacific. The project also included digitization of all past issues of the flagship publication of ESCAP, entitled *Economic and Social Survey of Asia and the Pacific* (and its predecessor publication, *Economic Survey of Asia and the Far East*). The "intellectual history of ESCAP" project was initiated and led by Noeleen Heyzer, Under-Secretary-General of the United Nations and former Executive Secretary of ESCAP (August 2007 - January 2014). The project received constant encouragement from Shun-ichi Murata Deputy Executive Secretary of ESCAP.

The lead consultant for this volume was Emeritus Professor Amiya Kumar Bagchi of the Institute of Development Studies Kolkata, India. The project, involving digitization of past issues of the *Survey* and the publication of the present volume, was accomplished within the Macroeconomic Policy and Development Division of ESCAP under the substantive research supervision of Anisuzzaman Chowdhury, Director, Macroeconomic Policy and Development Division, with the support of Aynul Hasan, Muhammad Hussian Malik and Syed Nuruzzaman. Sudip Ranjan Basu provided overall project coordination.

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Contents

Explanatory notes

Groupings of countries and territories/areas of the ESCAP region referred to in the publication are defined as follows:

- ESCAP region: Afghanistan; American Samoa; Armenia; Australia; Azerbaijan; Bangladesh; Bhutan; Brunei Darussalam; Cambodia; China; Cook Islands; Democratic People's Republic of Korea; Fiji; French Polynesia; Georgia; Guam; Hong Kong, China; India; Indonesia; Iran (Islamic Republic of); Japan; Kazakhstan; Kiribati; Kyrgyzstan; Lao People's Democratic Republic; Macao, China; Malaysia; Maldives; Marshall Islands; Micronesia (Federated States of); Mongolia; Myanmar; Nauru; Nepal; New Caledonia; New Zealand; Niue; Northern Mariana Islands; Pakistan; Palau; Papua New Guinea; Philippines; Republic of Korea; Russian Federation; Samoa; Singapore; Solomon Islands; Sri Lanka; Tajikistan; Thailand; Timor-Leste; Tonga; Turkey; Turkmenistan; Tuvalu; Uzbekistan; Vanuatu; and Viet Nam;
- East and North-East Asia: China; Democratic People's Republic of Korea; Hong Kong, China; Japan; Macao, China; Mongolia; and Republic of Korea;
- North and Central Asia: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Russian Federation, Tajikistan, Turkmenistan and Uzbekistan;
- South and South-West Asia: Afghanistan, Bangladesh, Bhutan, India, Iran (Islamic Republic of), Maldives, Nepal, Pakistan, Sri Lanka and Turkey;
- South-East Asia: Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste and Viet Nam;
- Pacific: American Samoa, Australia, Cook Islands, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, Micronesia (Federated States of), Nauru, New Caledonia, New Zealand, Niue, Northern Marina Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu;
- Developing ESCAP region: ESCAP region excluding Australia, Japan, New Zealand and North and Central Asian economies;
- Developed ESCAP region: Australia, Japan and New Zealand;
- Least developed countries: Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao People's Democratic Republic, Myanmar, Nepal, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu;
- Landlocked developing countries: Afghanistan, Armenia, Azerbaijan, Bhutan, Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Mongolia, Nepal, Tajikistan, Turkmenistan and Uzbekistan;
- Small island developing States: Cook Islands, Fiji, Kiribati, Maldives, Marshall Islands, Micronesia (Federated States of), Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu and Vanuatu;
- Pacific island developing economies: Pacific excluding Australia and New Zealand.

In most cases, countries are referred to by their official names at the time a particular issue of the *Survey* was published as follows:

- The term "Asian republics" in the text refers to six of the successor States of the former Union of Soviet Socialist Republics, namely Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. The term "Central Asian republics" in the text refers to Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.
- British North Borneo is currently the state of Sabah, East Malaysia. The Federation of Malaya was granted autonomy within the British Commonwealth on 31 August 1947;

independence was granted on 31 August 1957; it was reconstituted as Malaysia on 16 September 1963. Mention of "Malaya" etc., prior to those dates refers to Malaysia (including Singapore prior to 9 August 1965, the date when the latter declared its independence). The Federation of Malaya refers to a federation of 11 states comprising nine peninsular Malay states: Johor, Kedah, Kelantan, Negeri Sembilan, Pahang, Perak, Perlis, Selangor and Terengganu, plus the British settlements of Malacca and Penang before 16 September 1963.

- Brunei and Sarawak refers to a date prior to 16 September 1963 when Sarawak together with Sabah and Singapore became a state of Malaysia.
- In June 1989 Burma became Myanmar; mention of "Burma" in the text refers to a date prior to 18 June 1989.
- In October 1970 the country "Cambodia" formally became the "Khmer Republic, which was replaced in January 1976 by Democratic Kampuchea; mention of either of these names refers to "Cambodia" prior to the previously mentioned dates.
- On 22 May 1972 Ceylon became Sri Lanka; mention of "Ceylon" in the text refers to a date prior to 22 May 1972.
- Formosa is now referred to as Taiwan Province of China.
- On 1 July 1997 Hong Kong became Hong Kong, China; mention of "Hong Kong" in the text refers to a date prior to 1 July 1997.
- Indo-Chinese Federation or French Indochina (comprising modern-day Cambodia, the Lao People's Democratic Republic and Viet Nam) refers to a date prior to 1954.
- On 9 September 1948 Korea was divided into two: the Democratic People's Republic of Korea north of an area near the 38th parallel and the Republic of Korea south of that line; mention of "Korea" in the text refers to what was one country prior to its division on 9 September 1948.
- On 2 December 1975 Laos became the Lao People's Democratic Republic; mention of "Laos" in the text refers to a date prior to 2 December 1975.
- On 20 December 1999, Macao became Macao, China; mention of "Macau" or "Macao" in the text refers to a date prior to 20 December 1999.
- Netherlands East Indies became Indonesia on 21 November 1949.
- Pakistan was created in August 1947 by the partition of Great Britain's Indian empire. Initially, it consisted of two parts separated by Indian territory: West Pakistan (coterminous with today's Pakistan), and East Pakistan (today's Bangladesh). On 26 March 1971, East Pakistan became Bangladesh; mention of "Pakistan" prior to that date refers to the two parts of the single State.
- Siam changed its name to Thailand on 11 May 1949.

ESCAP is not accountable for the accuracy or authenticity of any quotations from non-United Nations sources identified in this publication. Questions concerning such quoted materials should be addressed to the sources directly.

Bibliographical and other references have not been verified. The United Nations bears no responsibility for the availability or functioning of URLs.

Many figures used in issues of the *Survey* refer to fiscal year; they have been assigned to the calendar year which covers the major part or second half of the relevant fiscal year.

Growth rates are on an annual basis, except where indicated otherwise.

Reference to "tons" indicates metric tons.

References to dollars ($) are to United States dollars, unless otherwise stated.

The term "billion" signifies a thousand million. The term "trillion" signifies a million million.

In dates, a hyphen (-) is used to signify the full period involved, including the beginning and end years, and a stroke (/) indicates a crop year, fiscal year or plan year.

Abbreviations

ACPR	Advisory Committee of Permanent Representatives and Other Representatives Designated by Members of the Commission
ADB	Asian Development Bank
APCICT	Asian and Pacific Training Centre for Information and Communication Technology for Development
APCTT	Asian and Pacific Centre for Transfer of Technology
APTA	Asia-Pacific Trade Agreement (formerly Bangkok Agreement on Trade)
ASEAN	Association of Southeast Asian Nations
CAPSA	Centre for Alleviation of Poverty through Sustainable Agriculture
CHINCOM	China Committee
CSAM	Centre for Sustainable Agricultural Mechanization
ECAFE	United Nations Economic Commission for Asia and the Far East
ESCAP	United Nations Economic and Social Commission for Asia and the Pacific
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
HDI	human development index
IHP	United Nations Intellectual History Project
IMF	International Monetary Fund
ITO	International Trade Organization
LDCs	least developed countries
LLDCs	landlocked developing countries
MDGs	Millennium Development Goals
MITI	Ministry of International Trade and Industry of Japan
NGO	non-governmental organization
NIC	newly industrializing country
NIE	newly industrializing economy
OECD	Organisation for Economic Co-operation and Development
R&D	research and development
SARS	Southeast Asia Treaty Organization
SIAP	Statistical Institute for Asia and the Pacific
SIDS	small island developing States
Survey	*Economic Survey of Asia and the Far East* (up to 1973), *Economic and Social Survey of Asia and the Pacific* (from 1974)
TRIMs	trade-related investment measures
TRIPS	Trade-Related Aspects of Intellectual Property Right
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

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Tables






Introduction

When people think about Asia, they have to think about the earliest footprints of what has been called “civilization”. They think about Assyria, Nineveh, Sumer, Persepolis, Sian, Mohenjo-Daro, Jerusalem, Mecca (Makkah), Pataliputra, Bagan, Borobudur, Angkor Wat, Beijing and Edo. Asia gave birth to: Zoroaster, the founder of the Zoroastrian faith; Siddhartha Gautama, on whose teachings Buddhism is founded; Confucius, the promulgator of an essentially secular morality that has influenced all of East Asia; Jesus, on whose teachings Christianity is based; and Muhammad, the founder of Islam – not to mention an acephalous faith, such as Hinduism. Asia originated the modern system of numbers, and most likely algebra and algorithms. Through transoceanic, transmontane and many other routes and devices of trade, Asia connected the continents of Africa and Europe, and Asians crossing over the Bering Strait peopled the Americas.

In recent memory, however, just before the establishment of the United Nations Economic Commission for Asia and the Far East (ECAFE) in 1947, Asia had been rendered a wasted continent – plundered by colonialism, ravaged by wars of conquest and resistance, depleted by famines, spoiled by millennial systems of injustice, characterized by inequality between men and men, and men and women, and damaged by the systematic denial of all that makes human existence truly human. ECAFE and its morph, the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), devised and provided a forum for negotiations and cooperation for the slow but sure awakening of the peoples of Asia - who comprise the majority of mankind – to their predicament and their potential.

From its inception, that Commission has watched over Asia and the Far East during a period in which the economy, politics, demography and societies of this vast region were undergoing major transformations – transformations that are still changing the human and even physical topography of the largest continent on Earth. In many ways these transformations are leading to changes in the styles of living and patterns of interaction among human beings all over the world. However, those changes are also symptoms of the continual resurgence and resilience of Asia and its gradual approach to the position of leadership in human history that had been lost after the rise of the countries along the North Atlantic seaboard in the late eighteenth to nineteenth centuries.

One of the main preoccupations of the Commission since its inception has been to bring to the doorstep of the developing region of Asia and the Pacific the benefits of the industrial revolution while narrowing the current divide between rich industrialized countries and poor agrarian economies. It is useful to be reminded that the region had earlier undergone two revolutions in human history that altered the way people led their lives and reproduced subsequent generations. The first of these was what Vere Gordon Childe (1936) called the “Neolithic revolution” through which men and women learned how to domesticate useful plants that became sources of carbohydrates and other nutrients, and to tame animals for food (in the form of milk and meat) for traction and for clothing (in the form of wool and other animal hair and skins). The second was what that same scholar in 1950 termed the “urban revolution”. With that development, people created large agglomerations of houses, which are now called cities. The cities were both the cause and consequence of specialization in crafts, knowledge of various kinds, administration and the exercise of political and military power.

From the beginning of the second millennium of the Common Era, if not earlier, Asia has been home to the majority of mankind. China and South Asia (from the eastern border of present day Afghanistan to the western border of Myanmar) have long been the two most populous areas of the world. Down to the middle of the eighteenth century, these two areas almost certainly constituted the two largest manufacturing hubs and the two largest economies in the world overall. However, by the end of the Second World War, most economies in Asia and the Pacific, excluding Australia and New Zealand, had become much poorer than countries along the North Atlantic seaboard. The Commission as an organization has watched – not simply as a passive institutional observer but more often in a proactive role – the rapid or the slow resurgence of some of those impoverished economies as they began to attain a semblance of prosperity and equality with the more affluent economies of Western Europe and North America. The Commission has furnished an inclusive forum for confidence-building, and it has analysed the problems of development of member States and supported them with technical assistance. Thus, the life history of ESCAP also has to reflect the struggles and tribulations, the ascents and the slippages in the journey towards that resurgence. Over the past six decades, the Asian and Pacific region has become differentiated between economies which are approaching or even outpacing the prosperity of a typical country in the European Union and, sadly, those countries which continue to be the habitat of many groups who have yet to complete even the Neolithic revolution. Many such groups are being dragged into urban slums by the pulls of the market and the inadequacy of State action. Faithfully recording their fates and chalking out better futures for them are also part of the mandates of ESCAP.

In one of the latest volumes of the United Nations Intellectual History Project (IHP), a distinction is made between "three United Nations":[1] the first one being the formal organization of the United Nations and its subsidiary bodies; the second, the staff members of the United Nations; and the third, non-governmental organizations, academics, consultants, experts and others who engage with the United Nations and try to influence the agenda of the "first United Nations" and implementation of that agenda. This brief tract is written from the standpoint of the second and third United Nations in the hope that it will positively inform the agenda and policies of the ESCAP.

The main sources of data and information used in writing the present account were annual issues of the *Economic and Social Survey of Asia and the Pacific (Survey)* and its predecessor publication prior to 1973, the *Economic Survey of Asia and the Far East (Survey),* supplemented by the policy statements of the executive secretaries delivered at the annual sessions of the Commission and the theme studies prepared for those sessions. In addition to the preface or foreword to each of issue of the *Survey* penned by various executive secretaries, the annual reports of the Commission to its parent body, the United Nations Economic and Social Council, would indicate how a particular executive secretary regarded the work that was presented in the *Survey*. This is the reason why the discourse in the earlier issues of the *Survey* is sometimes supplemented by information contained in annual reports and policy statements of executive secretaries.

The present work is divided into three parts containing a total of 15 chapters. Part one deals with the genesis of the United Nations and its subsidiary organization, ESCAP. Part two provides a succinct narration of development experiences of the region and Part three deals with thematic issues.

Chapter 1: Prologue: visions and negotiations deals with how ECAFE and the Economic Commission for Latin America and the Caribbean were created – through a joint movement of the Latin American and Asian members of the United Nations. This was one of the earliest examples of interregional collaboration at the level of the United Nations. The basic thrust of the work of the Commission, such as the protection of human rights and continuous development of the human capacities of the peoples of the region, is also outlined in this chapter. It is seen there

[1] For a detailed treatment of this division, see Jolly, Emmerij and Weiss (2009), pp. 32-33.

and in chapter 12 that specific plans were formulated by some of the most populous member States for advancing the goal of structural transformation of their economies by changing the relative proportions of income generated and employment provided by agriculture and industry. Central planning as well as other modes for guiding an economy and society – with an eye towards raising the living standards of ordinary people in different countries – were systematically appraised as short-term problems that were enveloped in long-range visions of transformation.

Chapter 2: Realizing the vision of the founding fathers reflects on how the executive secretaries guided the development discourse captured in various issues of the *Survey* and the work of the Commission's secretariat, as well as the deliberations of member States at annual sessions of the Commission. They are all intertwined and therefore no attempt has been made to surgically separate them.

Chapter 3: Unfavourable initial conditions takes up the dramatic story of how ECAFE, in the middle of an Asia which was still fighting the colonialism of European powers, experiencing devastating civil wars and becoming centre stage in the cold war that was breaking into hot wars, tried to live up to its mandate of watching over all of Asia irrespective of political affiliations. This chapter also briefly summarizes the kind of institutions the Commission created, the information it sought to generate and the technical assistance it provided, often in collaboration with member Governments or international agencies.

Chapter 4: Japan: the leader of post-war East Asian industrialization contains a discussion of the rise of Japan from the devastation of the Second World War to its current position as the second largest economy in the world. The rapid rise of Japan was noticed with genuine hope in various issue of the *Survey*. The first Executive Secretary, P.S. Lokanathan, played a significant role in bringing Japan into the community of nations when the country was still under the administration of the Allied Powers. He realized the importance of Japan's engagement for the economic transformation of the region.

Chapter 5: The newly industrializing economies of East Asia deals with how the Republic of Korea, Singapore and Taiwan Province of China, following Japan, also became industrialized economies. Both Hong Kong, China; and Singapore grew to become two of the world's most affluent cities. One of the open secrets in their progression is that these stories of success in terms of both economic growth and human development were the result of deliberately flouting the canons of free trade and free finance, actions however not explicitly dealt with in the *Survey*. The initial projections were made by Japanese planners and authorities under the Supreme Commander of the Allied Powers, and aid from the United States of America flowed freely to bolster these economies of the Pacific rim as a bulwark against Communism. However, the United States strategy was complemented – often going against the advice of the American authorities – by the domestic strategies of those economies. These included a strict monitoring of foreign direct and portfolio investment so that until the 1990s no foreign company controlled any major industry in any of these economies (the only exception was nuclear power plants in the Republic of Korea). These strategies also enabled those economies to retain policy autonomy in monetary and fiscal policy. Two critical areas in which the domestic authorities or, in the case of Japan, the *keiretsu* (business groups) in collaboration with the Ministry of International Trade and Industry (MITI), exercised control involved the allocation of foreign exchange, which was a critical bottleneck for all those three economies in their initial years of struggle, and raising capital from banks and secondarily from stock markets. The Republic of Korea, in order to qualify for membership in the Organisation for Economic Co-operation and Development (OECD), introduced capital account convertibility only in 1993.

Chapter 6: South-East Asia: "miracles', crises and resilience turns to South-East Asia, in particular the island countries of Indonesia and the Philippines, and the continental lands of Malaysia, Thailand and Viet Nam. Development challenges facing some other countries in South-East Asia, namely Cambodia, the Lao People's Democratic Republic and Myanmar, are reflected upon in chapter 9. Except for Thailand, the major countries in South-East Asia share a common history of colonial rule, and all of them formally or informally came under Japanese occupation during the Second World War. Their subsequent histories have been very diverse. Viet Nam became fully independent as a united nation only in 1975, when the last United States troops left Saigon, which was then renamed Ho Chi Minh City. Until that time only the Republic of Viet Nam (that is, the anti-communist regime what was called in the press "South Vietnam") could figure in the *Survey* accounts, because the Democratic Republic of Vietnam (that is, the communist regime what was better known as "North Vietnam") was not a member of the United Nations. The Philippines and Thailand alternated between formal democracies and military rule, and Indonesia was under a military government from 1965 and never had real democracy until 1998. Malaysia, a British colony until 1957, is a constitutional monarchy, yet it has an unbroken history of formal democracy which has so far been largely successful in navigating complex ethnic issues. All these separate histories, along with their geographical characteristics and social structures, have had an effect on the economic and human development of those countries. Owing to their very nature, the *Survey* could not capture the full complexity of those countries, but their problems were generally reflected in the analyses that the *Survey* provided.

Chapter 7: The ascent of China treats the almost unique story of the rise of China to the position of the world's fastest-growing economy, overtaking Japan as the second largest economy on Earth. That story is doubly important not just because China remains the most populous country in the region – and in the world – but also because, through its trade and two-way foreign investment flows, it has emerged as the most important economy in the whole of the Asian and Pacific region. The initial years of China's story might not have been unique in the sense that in many ways it followed the planning model of the former Union of Soviet Socialist Republics (USSR). But some of the basic foundations of China's development since 1978/79 were laid in the years between 1949 and 1978 – something that is often overlooked in many analyses, including most of issues of the *Survey*. This applies not only to the way China utilized its huge workforce to build up infrastructure, especially in rural areas, but also to the strategies it adopted in absorbing and upgrading technologies – a matter to which some issues of the *Survey* might have paid special attention. Nevertheless, it should be mentioned that, even though China was a charter member of the United Nations, between 1949 and 1971 it was not recognized as a member of the Organization nor of ESCAP; yet, an effort was made in the *Survey* to continue to monitor China's development, and that was not an easy task owing to China's closed-door policy at that time.

Chapter 8: South Asia: a subcontinental saga takes up the story of South Asia (excluding Afghanistan), an area which now contains a population that is larger than that of China. The three continental countries and the island country of Sri Lanka share the common characteristic that they were all part of the British Empire until 1947 (Sri Lanka, until 1948). However, they also share, to a greater or lesser degree, a history of diverse linguistic groups, different religious affiliations and different ethnic identities, as recognized by themselves or as ascribed by others. They also share unfortunate histories of violent conflicts around those issues. Sri Lanka, however, stands out in one respect. It had paid attention to education and health care quite early in the history of its independence, and as a result, its human development index (HDI) is far higher than those of its continental neighbours. Its HDI, at 0.608, was higher than that of its neighbours in 1990; its HDI in 2012 was 0.715 – far higher than that of Bangladesh, India and Pakistan in the same year. All four countries had programmes of economic development (or planning) at one phase or another during the post-independence years, and all of them have undergone structural adjustment and liberalizing, market-oriented economic reforms, some of which the Governments have voluntarily undertaken. However, their progress in industrialization, as measured by the increase in the proportion of workers engaged in industry, remains stuck below 20 per cent after 65 years of independence from colonial rule. The *Survey* and ESCAP studies have shed light on the stinginess of expenditure on health care and education in India and Pakistan, with its attendant effect on economic development, but they did not devote a great deal of attention to the reasons for such systemic failure.

Chapter 9: Economies in transition and countries with special needs deals with what the Commission classifies as economies in transition, and one subgroup - "countries with special needs". Economies in transition refer to those which were previously part of the USSR and have been undergoing market-oriented reforms since its break-up in 1991. In addition to Mongolia and a number of central Asian former Soviet republics, Cambodia, the Lao People's Democratic Republic and Viet Nam in South-East Asia have also been undergoing market-oriented reforms. The term "countries with special needs" refers to "least developed countries" (LDCs) (as classified by the United Nations), "landlocked developing countries" (LLDCs) and "small island developing States" (SIDS). The special problems of the small island developing States are discussed separately in chapter 10. Some of these are overlapping categories: Afghanistan, the Lao People's Democratic Republic and Nepal are simultaneously landlocked and least developed countries. For purposes of paying special attention to the special needs of less developed countries, the United Nations classification of "least developed" rather than "less developed" is certainly useful. However, it has to be remembered that, with the exception of the East Asian newly industrializing countries, in every Asia-Pacific developing country, there are areas and groups of people who are as deprived of the basic requirements of human development as those in most of the "least developed" countries.

Chapter 10: A trans-Asia of islands and people struggling to attain their human potential takes up the special problems of the island economies, which stretch from Maldives in the Indian Ocean to Samoa in the Pacific. These have to do with their problems of communication, their vulnerability to natural disasters and the effects of climate change, the fact that many of them have had no experience of urban life or even settled agriculture, and finally their extremely weak bargaining power vis-à-vis profit-hungry commercial enterprises. Their vulnerability has increased because of climate change and the incursion of large foreign companies taking over their marine resources and disturbing their ecology in various ways. Various issues of the *Survey* have underlined the problems of devising proper governance structures for some of these very small economies, and these are drawn upon for suggesting ways forward.

Chapter 11: Changing unfavourable conditions contains a discussion in some detail, with analysis, on how the countries in the region tried to change the initial and subsequent unfavourable conditions affecting development, such as inequitable agrarian relations, natural disasters and macroeconomic imbalances. This chapter also treats how demographic challenges of one kind or another were dealt with by the member States in the region.

Chapter 12: Evolving development paradigm traces the evolution of the development paradigm in its different aspects alongside the actual process of development of the ESCAP region. Discussions in the *Survey* on the relative roles of the State versus the market, export promotion versus import substitution, trickle-down versus growth with equity, and attempts to create a new international economic order are covered in this chapter.

Chapter 13: Regional and subregional economic cooperation contains a discussion on different aspects of the forms of regional and subregional cooperation that have evolved in the ESCAP region. Enhancing regional economic cooperation is the main mandate of ESCAP; since the Commission's inception, it has played an important role in creating regional institutions to support economic cooperation and integration. The *Survey* provided compelling reasons for such regional institutions and enhanced regional economic cooperation and integration. The chapter also contains reflections on complex geopolitical factors and missed opportunities.

Chapter 14: Quest for sustainable development: relinking economy, society and habitat discusses how the critical issues of sustainable development are tackled. On those issues, the *Survey,* especially those in the last few years, have made a meaningful contribution to the public discourse. Sustainability involves the survivability of human beings, the resources, including the flora and fauna, the land they use and the long-run viability of the human habitat in this "spaceship earth". For example, issues of the *Survey* 1949, 1959, 1971, 1979 and 1998 unremittingly emphasized social justice and equity as well as environmental issues in the development discourse. The latest issues of the *Survey* have devoted close attention to problems of inclusive growth and the ways in which the insecurity of millions has increased because of the greater frequency and intensity of natural disasters, and the food-fuel inflation that has been aggravated by unregulated financial innovations and their virus-like spread. Innovations in the use of renewable resources and minimizing the use of non-renewable energy sources have been bruited in the *Survey* and associated documents.

Chapter 15: Lessons learned: Policymaking in context and learning from experience, domestic and regional attempts to pull together some of the lessons learned from the *Survey*. It may be seen that there is continuity in the agendas projected in various issues of the *Survey,* although there may have been different views about how to implement a specific agenda. As the Asia-Pacific region has been transformed into the most dynamic region in the global economy, the *Survey* deliberated on both the successes and the failures in the various subregions within this vast part of the world.

Some preliminary remarks

This account has been designed along two axes. The first axis is that of particular subregions or countries (China, for example, has been given special prominence, because of its rise from war-ravaged, desperately poor status to become the largest economy in the Asia-Pacific region). The second axis is that of particular themes or ideas. Those ideas are often developed in relation to particular subregions, because they appear to have a special significance for that subregion. For instance, ecological issues have been more extensively treated in the context of Pacific island economies because the sustainability of their development critically depends on tackling ecological issues on an urgent footing. Of course, ecological issues are important for all countries whether they are developed, developing or least developed, so those issues may also come up elsewhere. It should also be noted that the discussion here has not followed strictly the subregional country classifications of ESCAP. The groupings of countries for this study are based on the similarities of their level of development and experiences. Because of shared history and geography, it is natural that there would be some overlaps between the country groupings in this study and the ESCAP subregional country classifications. In most cases, countries are mentioned by the names that existed at the time a particular issue of the *Survey* was published.

Although the main focus is ESCAP and its work as reflected in the *Survey*, it should be noted that the *Survey* has provided an avenue for inter-United Nations agency collaboration. Therefore, the views expressed in the *Survey* on a particular issue would also reflect the work of relevant United Nations agencies. In that sense, it is the United Nations which the *Survey* ultimately represents. Since 1996, the Secretary-General began writing the forewords for each issue of the *Survey*.

Finally, it should be made clear that this is a highly selective account of the intellectual history of ESCAP and United Nations ideas in context, highlighting contributions and reflecting on apparent failures. However, no attempt has been made to assess the impact of those ideas on the actual development of Asia and the Pacific, which would be a task only a Fernand Braudel – one of the greatest historians of our times – could take up over a lifetime.

PART ONE: THE GENESIS


U.S.A.
UNITED KINGDOM
USSR
CHAIRMAN


UNITED NATIONS
ECONOMIC COMMISSION FOR ASIA AND THE FAR EAST
29TH SESSION 1973


ECAFE 25TH
NATIONAL PROGRESS THROUGH

Prologue: visions and negotiations

1

A. Birth of the United Nations

The story of the United Nations has been told in many places. Under the United Nations Intellectual History Project, several volumes have been published providing the details of its establishment (Emmerij, Jolly and Weiss, 2001; Berthelot, 2004; Jolly and others, 2004; Toye and Toye, 2004; Jolly, Emmerij and Weiss, 2009). Thus, only a brief account of the origins of the United Nations and its mandates is in order.

The United Nations Organization came into existence on 24 October 1945 when the Charter of the United Nations, which had been signed on 26 June 1945 by representatives of 50 countries,[1] was ratified by the five major powers (China, France, the Union of Soviet Socialist Republics, the United Kingdom of Great Britain and Northern Ireland, and the United States of America) and the majority of other signatories.[2]

B. The mandate of the United Nations and its subsidiary organizations

Articles 55 and 56 (in chapter IX) of the Charter of the United Nations provided the colonies of the imperial powers with a basis for joining the United Nations at par with those powers. Article 55 reads as follows:

> With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations shall promote:
>
> a. higher standards of living, full employment, and conditions of economic and social progress and development;
> b. solutions of international economic, social, health, and related problems; and international cultural and educational cooperation; and
> c. universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion.

Article 56 reads as follows: "All Members pledge themselves to take joint and separate action in cooperation with the Organization for the achievement of the purposes set forth in Article 55".

1 Although Poland, which had not been represented at the United Nations Conference on International Organization when it met in San Francisco from 25 April to 26 June 1945, signed the Charter of the United Nations at a later time, it is considered one of the Organization's original 51 Member States. See also www.un.org/en/aboutun/history / (accessed 1 July 2014).

2 Ironically, most colonized territories, including India, were represented by the officials of the respective governing imperial powers, which had suspended whatever civil and political rights their subjects had enjoyed before the Second World War. In the case of India, however, the Indian National Congress sent Vijayalaxmi Pandit, sister of the first Prime Minister of independent India, Jawaharlal Nehru, to represent the views of the Indian people, and she obtained a hearing about the country's right to freedom. She also campaigned against the racist policies of the Government of the Union of South Africa, whose Prime Minister, Jan C. Smuts, had played a very important part in the deliberations of the Allied powers (Bhagavan, 2010).

These aspects are ironic in that the representatives of Western imperial powers and the apartheid Government of the Union of South Africa signed an important intergovernmental instrument guaranteeing universal human rights. The decolonization of Asia and most parts of Africa later, and to some extent the emerging post-war vision of a "new world order", laid the groundwork for the peoples of those countries to strive to attain the goals set forth in the Charter of the United Nations.[3]

Article 61 (in chapter 10) of the Charter of the United Nations describes the composition of the Economic and Social Council. Articles 62 to 67 are concerned with the Council's functions, powers and voting, and Articles 68 to 72 cover procedures, including the establishment of commissions. It was on this authority that the Council's subsidiary regional structure, one for Europe and later one each for Asia and the Far East, Latin America and Africa, was established.[4]

On 20 March 1947, the decision was made to set up the Economic Commission for Europe, and Trygve Lie, the first Secretary-General of the United Nations, chose Gunnar Myrdal, economist and then Swedish Minister of Foreign Trade, to be the head of that Commission. Myrdal took up his post on 10 April 1947.

C. From ECAFE to ESCAP

The Working Group on Asia that had been set up to explore the possibility of creating a similar commission for Asia and the Far East was unable to gather the necessary data on war devastation. Further, European countries, with the exception of France, and four other developed countries, namely Australia, Canada, New Zealand and the United States, opposed the creation of economic commissions for Asia or Latin America without a thorough prior investigation. However, China, India and the Philippines in Asia, and Latin American countries, voicing their demands in the General Assembly, called for the creation of economic commissions for Asia and for Latin America to be set up on the same lines as the Economic Commission for Europe.

[3] The idea of universal rights is, of course, an ancient one. It can be found explicitly or implicitly in the scriptures of all the great religions and the works of many great poets and writers. Yet, the attempt to make them justiciable perhaps started with the writings of the leaders of the European Enlightenment, such as Jean-Jacques Rousseau, Marquis de Condorcet, Thomas Paine and Mary Wollstonecraft, and their partial embodiment in the declarations of human rights by the framers of the constitution of the United States and the revolutionaries assembled in the French National Assembly after the political revolution of 1789. The past rulers of France, former Great Britain and other European powers routinely violated those rights in the case of non-white colonies governed by them, and the United States violated them in the case of both their direct colonies and their African American residents. The experience of Nazism in Europe perhaps alerted the Allied powers about the dangers of such systematic violations. Leaders of liberation movements in Asia and Africa made the claim for universalization of human rights a major plank in their struggle. For example, the famous Indian National Congress Resolution of 8 August 1942, in which the Government of the United Kingdom of Great Britain and Northern Ireland was told to "quit India", contained the following passage:

> The freedom of India must be the symbol of and prelude to the freedom of all other Asiatic nations under foreign domination. Burma, Malaya, Indo-China, the Dutch Indies, Iran and Iraq must also attain their complete freedom. It must be clearly understood that such of these countries as are under the Japanese control now must not subsequently be placed under the rule or control of any other colonial power… [T]he Committee is of opinion that the future peace, security and ordered progress of the world demand a World Federation of free nations, and on no other basis can the problems of the modern world be solved. Such a World Federation would ensure freedom of its constituent nations, the prevention of aggression and exploitation by one nation of another, the protection of national minorities, the advancement of all backward areas and peoples, and the pooling of the world's resources for the common good of all. On the establishment of such a World Federation, disarmament would be practicable in all countries, national armies, navies and air forces would no longer be necessary, and a World Federal Defence Force would keep the world peace and prevent aggression.

An independent India would gladly join such a World Federation and co-operate on an equal basis with other nations in the solution of international problems (Azad, 1988; see also Bhagavan, 2010, p. 318).

[4] The Economic and Social Council was established in 1945 under the Charter of the United Nations. That instrument was amended in 1965 and 1974 to increase the number of members from 18 to 54. The Council's membership is based on geographic representation: 14 seats are allocated to Africa, 13 to Western Europe and other areas, 11 to Asia, 10 to Latin America and the Caribbean, and 6 to Eastern Europe. Members are elected for three-year terms by the General Assembly. Four of the five permanent members of the Security Council have been continuously re-elected because they provide funding for most of the Council's budget, which is the largest of any United Nations subsidiary body. Decisions are taken by simple majority vote. The presidency of the Council changes annually.

The personal diplomacy of P.C. Chang, leader of the Chinese delegation to the United Nations and simultaneously, China's ambassador to Chile, brought the Asians and Latin Americans together. This interregional collaboration among the developing countries ultimately led to the establishment of the Economic Commission for Asia and the Far East (ECAFE), and the Economic Commission for Latin America, to be followed thereafter by the Economic Commission for Africa.

The terms of reference of ECAFE, as adopted at the fourth session of the Economic and Social Council on 28 March 1947, amended at the fifth session of the Council on 5 August 1947 and again amended at the seventh session on 2 August 1948, provided that "The territories of Asia and the Far East… shall include in the first instance, British North Borneo, Brunei and Sarawak, Burma, Ceylon, China, India, Indo-Chinese Federation, Hong Kong, Korea, Federation of Malaya[5] and Singapore, Nepal, Netherlands Indies, Pakistan, Philippine Republic and Siam"[6]. At the second session of the Commission held in Baguio, the Philippine Republic, between 24 November and 6 December 1947, a resolution on statistical and economic documentation included an instruction to the secretariat "to publish a comprehensive annual survey of economic conditions and problems of the countries within the scope of ECAFE"[7].

The ECAFE secretariat pointed out that although the countries within the scope of ECAFE should strictly speaking, include only those set forth in the terms of reference, for the purpose of the *Survey*, it would cover a wider region:

> However, in an economic survey of a region to which Japan and Korea properly belong, both geographically and economically, their omission would present a wholly partial and misleading picture, thereby raising difficult problems of presentation and treatment. The Secretariat, in undertaking the compilation of the present Survey, has thought it advisable to include these two countries because of their important place in relation to the rest of the economy of Asia and the Far East. Where they have been included, this region is referred to as AFE region (Asia and the Far East), not as ECAFE region with its limited connotation (*Survey* 1947, Preface).

ECAFE[8] was renamed the Economic and Social Commission for Asia and the Pacific (ESCAP) in 1974 through Economic and Social Council resolution 1895 (LVII) of 1 August 1974. The adding of the words "Social" and "the Pacific" to the name of the Commission is instructive as it will be seen throughout this study that the Commission since its inception has been consistently raising and analysing social issues together with various economic challenges facing the countries and territories in this vast region of the world.

1. Evolution of activities

Although the main thread running through the activities of the Commission's Substantive Division responsible for economic monitoring and analysis has remained the preparation of the Economic (and later Economic and Social) *Survey*, the associated efforts and emphasis have changed over time and spawned a number of related activities in order to raise the quality and the relevance of the *Survey* in accordance with the changes occurring within and outside the economies of the region. In 1954, it was found necessary to establish a Research Section within

5 For details, see Explanatory notes.

6 Nepal was included in paragraph 2 by the Economic and Social Council resolution 144 A (VII) at its seventh session. Korea was included in paragraph 2 by the Council at its eighth session (resolution 187 B (VIII)). With the partition of India, Pakistan became a territory within the scope of this paragraph. The quotation and its footnotes are from Economic and Social Council Supplement No.13, E/1329 (E/CN.11/190) and E/1329/Add.1 (E/CN.11/190/Add.1).

7 ESCAP resolution E/CN.11/63(III).

8 The secretariat for the Commission initially had been set up in Shanghai, China, but in 1949, it was moved to Bangkok.

the Research and Planning Division and set up the Economic Development Branch in 1962, the role of which was to explore various economic paradigms and planning methodologies under experimentation in the region. After changing the name of the Commission from ECAFE to ESCAP in 1974, increased attention was paid to the interaction between economic and social problems in Asia and the Pacific. To facilitate this new role, the Development Planning Division was established in 1976, and the Poverty Reduction Section was established in 2003. Over the 60 years of its evolution since 1954, there has been a manifold expansion of ECAFE/ESCAP and new divisions were created to deal with socioeconomic trends, transport development, countries with special needs and many other issues as they evolved out of the work of ECAFE/ESCAP or out of the demands of member States. Annex II.a contains an organizational chart of the evolution of the structure of the Division which has been responsible for preparing the *Survey*. The evolution of the lead Division's responsibility since 1947 is given in the operational chart in annex II.b.

The evolution of activities was also often helped by collaboration with other institutions. For example, the Special Economic Studies Section was established in 1962; it was succeeded by the Regional Centre for Economic and Programming (1969/70). The salient feature of that activity was the Expert Group on Programming Techniques, which commissioned studies on various issues of planning and education, undertaken both by the Development Planning Division staff and external consultants. That group worked in collaboration with the Nobel Laureate Professor Jan Tinbergen and his colleagues at Erasmus University. The Asian Planners Conference also conducted several studies on planning methodology and implementation in the 1950s and 1960s.

In the formative period of ECAFE and later, visionary leaders of Asian countries, such as Jawaharlal Nehru of India, S.W.R.D. Bandaranaike of Sri Lanka and the leaders who created the Association of Southeast Asian Nations (ASEAN) and extended it across ideological borderlines, or those who were involved in putting together the Chiang Mai Initiative (later broadened and renamed the Chiang Mai Initiative Multilateralization), had a broad vision of the heights to which Asia could ascend. For instance, in 1947 at the First Asian Relations Conference, Jawaharlal Nehru said:[9]

> There was a widespread urge and an awareness that the time had come for us, peoples of Asia, to meet together, to hold together and to advance together. It was not only a vague desire but a compulsion of events that forced all of us to think along these lines… As we meet here today, the long past of Asia rises up before us, the troubles of recent years fade away, and a thousand memories revive… Today this isolation is breaking down because of many reasons, political and other. The old imperialisms are fading away. The land routes have revived and air travel suddenly brings us very near to each other. This Conference itself is significant as an expression of that deeper urge to the mind and spirit of Asia which has persisted in spite of the isolationism which grew up during the years of European domination. As that domination goes, the walls that surrounded us fall down and we look at each other again and meet as old friends long parted.

[9] Asian Relations Organization (1948).

> In this Conference and in this work there are no leaders and no followers. All countries of Asia have to meet together on an equal basis in a common task and endeavour…
>
> We have no designs against anybody; ours is the great design of promoting peace and progress all over the world. For too long we Asia have been petitioners in Western courts and chancellories. That story must now belong to the past. We propose to stand on our own feet and to co-operate with all others who are prepared to co-operate with us. We do not intend to be the plaything of others.
>
> In this crisis in world history Asia will necessarily play a vital role. The countries of Asia can no longer be used as pawns by others; they are bound to have their own policies in world affairs…
>
> All over Asia we are passing through trials and tribulations… Let us not be disheartened by this: this is inevitable in an age of mighty transition. There is a new vitality and powerful creative impulse in all the peoples of Asia. The masses are awake and demand their heritage. Strong winds are blowing all over Asia. Let us not be afraid of them but rather welcome them for only with their help can we build the new Asia of our dreams. Let us have faith in these great new forces and the things which are taking shape. Above all let us have faith in the human spirit which Asia symbolised for these long ages past.

Take another example; in 1955 at the historic Bandung Conference, which truly sowed the seed for "South-South Cooperation", President Soekarno expressed a vision for peace and progress in the following words:[10]

> Look, the peoples of Asia raised their voices, and the world listened. It was no small victory and no negligible precedent! The five Prime Ministers did not make threats. They issued no ultimatum, they mobilised no troops. Instead they consulted together, discussed the issues, pooled their ideas, added together their individual political skills and came forward with sound and reasoned suggestions which formed the basis for a settlement of the long struggle in Indo-China.
>
> …They were not seeking advantage for their own countries. They had no axe of power-politics to grind. They had but one interest – how to end the fighting in such a way that the chances of continuing peace and stability were enhanced…
>
> … Make the "Live and let live" principle and the "Unity in Diversity" motto the unifying force which brings us all together – to seek in friendly, uninhibited discussion, ways and means by which each of us can live his own life, and let others live their own lives, in their own way, in harmony, and in peace.
>
> If we succeed in doing so, the effect of it for the freedom, independence and the welfare of man will be great on the world at large. The Light of Understanding has again been lit, the Pillar of Cooperation again erected.

Thus, in its first decades, ECAFE concentrated on constructing regional systems and procedures. At its fifteenth session in 1959, ECAFE initiated the development of the Asian Highway network. To take another instance from the early years, in 1959 Sri Lankan Premier Bandaranaike articulated for the first time the idea of creating a regional development bank for Asia and the Pacific. In December 1963, the First Ministerial Conference on Asian Economic Cooperation, held in Manila

10 Indonesia, Ministry of Foreign Affairs (1955).

and chaired by the Philippine Secretary of Commerce and Industry, Cornelio Balmaceda, adopted a resolution calling for the establishment of the Asian Development Bank (ADB).[11] ADB, by far the most important of the new regional institutions, was established in 1965. Other significant organizations included: the Asian Institute for Economic Development and Planning (established in 1964); the Asian Statistical Institute (1970), which is now known as the Statistical Institute for Asia and the Pacific (SIAP); the Asian Clearing Union (1973); the Bangkok Agreement on Trade (APTA) (1976); and the Asian Reinsurance Corporation (1979). In the area of commodities, several trade institutions were created, covering coconuts; natural rubber; pepper; and coarse grains, pulses, roots and tubers. The Asian Rice Trade Fund was set up in 1973, but it failed to muster sufficient funds to ensure its operations.

The contributions of ECAFE/ESCAP have been recognized by the authors of United Nations intellectual history project:

> One of the ESCAP's most important and successful activities was the establishment of the Mekong Committee to oversee the international management of water resources in the Mekong Basin. This initiative brought together the government representatives of the four countries involved – the Khmer Republic, Laos, Thailand, and Vietnam. Subsequently, the committee became the Mekong River Commission and was set up outside of the UN. Other early regional initiatives included those for the Trans Asian Railway, the Asian Telecommunications Network, and, in the late 1970s, the Indian-based Asian Pacific Centre for the Transfer of Technology. In 1974, the prime minister of Sri Lanka used ECAFE's annual forum to propose the creation of a world fertilizer fund – an idea that was subsequently agreed upon at the World Food Conference later that year. This fund continues today as the International Fertilizer Supply Fund, managed by the Food and Agriculture Organization (FAO) (Jolly, 2009, p. 2).
>
> There were, however, "some paths not taken" – for instance, the creation of an Asian Payments Union in 1972, proposals for which were drafted by Robert Triffin, the architect of the European Payments Union. In the 1990s, there were proposals for an Asian Reserve Bank, which also did not come to fruition (ibid., p. 1).

ESCAP delivers advisory and technical services in specific areas through regional institutions, supervised by substantive divisions and in close collaboration with subregional offices. These regional institutions are:

- APCICT - Asian and Pacific Training Centre for Information and Communication Technology for Development (Incheon, Republic of Korea)
- APCTT - Asian and Pacific Centre for Transfer of Technology (New Delhi, India)
- CAPSA - Centre for Alleviation of Poverty through Sustainable Agriculture (Bogor, Indonesia)
- CSAM - Centre for Sustainable Agricultural Mechanization (formerly UNAPCAEM) (Beijing, China)
- SIAP - Statistical Institute for Asia and the Pacific (Chiba, Japan)

[11] Resolution 62 (XXI): Asian Development Bank – "Recalling resolution 45 (XIX) on regional economic co-operation adopted at the nineteenth session of the Commission in March 1963 and the programme of regional economic co-operation adopted by the Ministerial Conference on Asian Economic Co-operation in December 1963… Calls upon the Governments of member countries to give urgent consideration to the proposal and to provide every assistance to the Executive Secretary in regard to this project".

Given the vast coverage and diversity of the Asia-Pacific region's development experience, ESCAP received a new mandate in 2008 from the General Assembly to establish a number of subregional offices to strengthen its development activities and advisory capacities by addressing specific key priorities, including poverty reduction and sustainable development, of member States in the respective subregions.[12] ESCAP therefore divided the vast Asia-Pacific region into the following five smaller subregions:

a. **East and North-East Asia** encompases China, the Democratic People's Republic of Korea, Japan, Mongolia, the Republic of Korea and the Russian Federation. The populations of these countries often share a common culture and historic links which have often created tensions among them. The ESCAP Subregional Office for East and North-East Asia is located in Incheon, Republic of Korea;

b. **North and Central Asia** includes Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, the Russian Federation, Tajikistan, Turkmenistan and Uzbekistan.[13] These countries, which joined ESCAP after the dissolution of the former Union of Soviet Socialist Republics, have rich natural resources, such as oil, gas and minerals. The ESCAP Subregional Office for North and Central Asia is located in Almaty, Kazakhstan;

c. **South and South-West Asia** comprises Afghanistan, Bangladesh, Bhutan, India, the Islamic Republic of Iran, Maldives, Nepal, Pakistan, Sri Lanka and Turkey. Despite its diversity, it is characterized by considerable ethnic and cultural homogeneity, as well as a large and prosperous agricultural sector. The ESCAP Subregional Office for South and South-West Asia is located in New Delhi, India;

d. **South-East Asia** consists of Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste and Viet Nam. The ESCAP secretariat is in Bangkok, Thailand;

e. **The Pacific** comprises American Samoa, Australia, Cook Islands, Fiji, French Polynesia, Guam, Kiribati, Marshall Islands, Micronesia (Federated States of), Nauru, New Caledonia, New Zealand, Niue, Northern Marina Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. The subregion contains also two large developed countries, Australia and New Zealand. The ESCAP Pacific Office is located in Suva, Fiji.

2. Countries with special needs

Among the member countries of the Commission, the least developed countries, landlocked developing countries and small island developing States face not only extreme poverty but also other problems resulting from limited human resources, and economic vulnerability to exogenous changes and remote geographical location. In recognizing the necessity to direct its resources to the special needs of these groups of countries, the Commission established a unit for the effective delivery of advisory and technical services to countries with special needs.

The Commission brings the particular concerns of these groups of countries to the attention of its members through the Special Body on Least Developed and Landlocked Developing Countries and the Special Body on Pacific Islands Developing Countries; these monitor economic development in least developed countries and Pacific island developing countries to ensure follow-up on the effective implementation at the regional level of the internationally agreed programmes of action for these groups of countries.

[12] General Assembly resolution 63/260.

[13] Afghanistan participates in activities relating to Central Asia as a member of the United Nations Special Programme for the Economies of Central Asia, or SPECA.

The secretariat also coordinates its activities with the priority groups of countries; the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States; the United Nations Department of Economic and Social Affairs; the United Nations Conference on Trade and Development, Geneva; the United Nations Development Programme; and other United Nations agencies and bodies, and global and regional institutions such as the Asian Development Bank (ADB), the South Asian Association for Regional Cooperation (SAARC), the Association of Southeast Asian Nations (ASEAN), the Economic Cooperation Organisation (ECO) and the Pacific Islands Forum Secretariat (PIFS).

D. ESCAP in the twenty-first Century

The Commission has come a long way from the time of its difficult birth in June 1947. As with any other vibrant organization, it has continually reinvented itself. This process has been made necessary owing to the resurgence of much of the region that ESCAP watches over. That resurgence has, paradoxically, created many new problems while enabling some new solutions for old ones. ESCAP still has to engage in discourses, give advice and provide technical assistance for dealing with old problems, such as lack of literacy and health care, unemployment, gender bias, poverty, inequality in its many dimensions and manifestations – regional, interclass, interethnic and gendered. It has engaged in its triple functional capacity, with relatively new types of insecurity, such as that generated by demographic shifts, greater frequency of natural disasters and disasters caused by unthinking human interventions in the environment. The human rights of the disabled (or "differently abled") have occupied more space in ESCAP activities than ever before. All these activities have been supported by the member States and in fact, in many cases suggested through the initiatives of those members.

An important factor in the transition of ECAFE from the initial situation, in which non-regional members – most of whom were former colonial powers – outnumbered regional members and tended to dominate the decision-making process, to its coming of age as a regional commission, which articulated the aspirations of the regional members whose numbers steadily increased and represented the majority, was the flexibility shown by the non-regional members even in the early years. This delicate question, which often gave rise to suspicions about the remnants of colonialism in Asia, was finessed through the following concluding statement at the seventh session of the Commission in 1951:

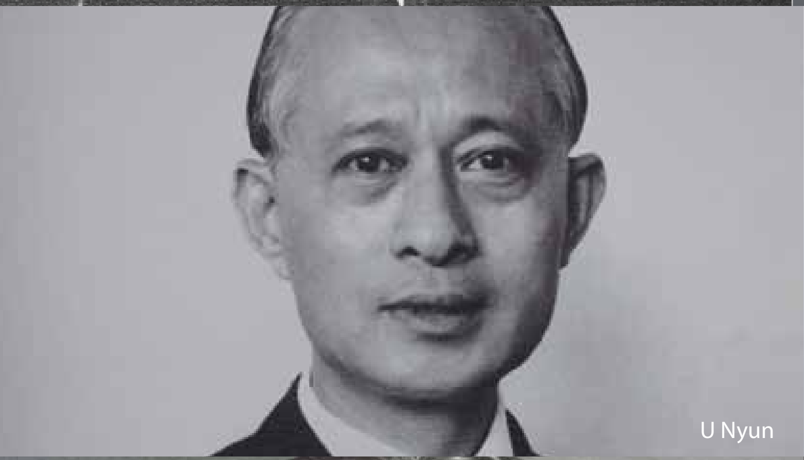
> Member governments feel …that the time has come when clearer recognition should be given to the principle that member countries belonging to the region should take their own decisions in the Commission on their own economic problems; and that in doing so they should take full account of the views of the associate members in the region, to be ascertained when not known by referring any specific resolution to a committee [associate members being entitled to vote in committees but not in the Commission]. In pursuance of this principle the member countries of the Commission not in the region would be willing as a general rule to refrain from using their votes in opposition to economic proposals predominantly concerning the region which had the support of a majority of the countries of the region. The Commission does not consider a more formal expression of this conclusion to be necessary and notes with satisfaction that all members are agreed on the principle which governs their cooperation.[14]

[14] *Annual Report of the Economic Commission for Asia and the Far East* (1951), Economic and Social Council, Official Records (13th session), Supplement No. 7, paragraph 341. quoted in Schaaf (1953). C. Hart Schaaf was the first Deputy Executive Secretary of ECAFE and later headed the Mekong Committee.

Regional cooperation among member States has grown in many directions, such as trade, banking, technical and financial assistance for the building of industry and infrastructure, and transfers of technology. The growth of the region in population numbers and gross domestic product (GDP), and the recognition of the sheer diversity of the region have led to the creation of the previously mentioned subregional offices and institutions. This journey is all the more impressive because, as will be shown later, Asia after the Second World War was not only ravaged by that conflict, but also was still involved in several other wars. Enemies who had fought one another, inflicting enormous damage on both the combatant sides, have come together to cooperate with one another in most fields of human endeavour. ESCAP played a critical role by offering an inclusive and neutral venue where countries could come and discuss their common challenges. This indicates that ESCAP has adhered to the basic mandate of the United Nations, namely to take human beings forward in all dimensions of their capacity, in peace and mutual cooperation.


P. S. Lokanathan


Chakravarthi V. Narasimhan


U Nyun


J.B.P. Maramis


S.A.M.S. Kibria


Rafeeuddin Ahmed


Adrianus Mooy


Kim Hak-Su


Noeleen Heyzer


Shamshad Akhtar

Realizing the vision of the founding fathers

2

A. The challenges, and the dynamism of executive secretaries

Gunnar Myrdal, the first Executive Secretary to be appointed as the head of a regional commission, in this case, the Economic Commission for Europe, was a charismatic economist and global statesman. Myrdal through his books and official publications (see, for example, Myrdal, 1957), left his mark on the thinking about developing economies and the causes and consequences of inequality between nations and regions. He also made major contributions to the history of economic thought and to macroeconomic theory, for which he won the Nobel Prize in Economics. However, as Berthelot (2004, p. 2), one of the authors under the United Nations Intellectual History Project and a former Executive Secretary of the Economic Commission for Europe, pointed out: "Most innovators stand on the shoulders of their (often forgotten) predecessors, and diligent scholars usually have little difficulty in historical precedents for even the most radical of 'new' ideas".

In Myrdal's case, for example, in the eighteenth century, Josiah Tucker had anticipated the core of Myrdal's powerful ideas about "spread effects" and "backwash effects". Moreover, as Noeleen Heyzer, the first female Executive Secretary of ESCAP, pointed out in one of her policy statements, Myrdal was wrong in his prediction about Asia: "In 1968, the Swedish economist and Nobel Laureate, Gunnar Myrdal, published his book, *The Asian Drama*, which predicted a future for Asia of poverty and deprivation, but which concluded that 'The drama is still unfolding…history is within the power of man [and woman] to shape"' (Executive Secretary's policy statement, 2013).

A globally famous executive secretary of another regional commission also was perceptive: Raul Prebisch, along with Hans Singer, formulated the Prebisch-Singer hypothesis. Roughly speaking, it posited that the terms of trade of primary products relative to manufactures have a secular tendency to decline; hence, countries specializing in primary products, principally agricultural commodities, are likely to lose when they trade with industrialized countries. This hypothesis has spawned an enormous literature, which now covers the spectrum of lower value added manufactures and has been used as an argument for the industrialization of developing countries. However, it can be argued that the need for the industrialization of developing countries had been realized by many economists and nationalists fighting for the liberation of their countries long before the landmark publications of Prebisch (1950) and Singer (1950).

Moreover, the basic socio-political conditions for implementing the Prebisch programme were not realized in Latin America, at least until the industrialization of Chile in the post-Pinochet period.[1] Ironically enough, that programme was realized in Japan, the newly industrializing economies of East Asia and China; none of these economies waited for the Prebisch-Singer formulations to begin their transformation.

Except for P.S. Lokanathan, the first Executive Secretary of ECAFE, and to some extent, U Nyun, the third and the longest-serving Executive Secretary of ECAFE, the subsequent executive secretaries received "bad press" from De Silva (2004, p. 133), the lead author on ESCAP in the United Nations

[1] See Bagchi (1982, chapter 3).

Intellectual History Project. According to De Silva, during the first 15 years, "ECAFE was a key factor in Asian relations. There was a strong political dimension to its activities during that period. If it can be so described, this was the period when ECAFE was engaged in the higher realms of international diplomacy". He added that "during the first twenty-five years of the Commission's existence", that is, roughly until the end of U Nyun's incumbency as Executive Secretary, a culture of regionalism unfolded. De Silva concluded his evaluation with this statement:

> As the UN became more inclusive, …, ESCAP became more the creature of UN processes of global decision-making, ESCAP virtually abandoned its 1960s and 1970s role of being a catalyst for institutional forms of regional cooperation. New ideas for such institutions – for example, the Asian Monetary Fund, or the ASEAN Swap arrangements of 1977 – emerged from outside ESCAP, unlike the proposal for the Asian Reserve Bank in the early 1970s. The "UN-ization" of ESCAP, instead of making it a more autonomous, indigenous regional institution, has diminished its role.… Since the early 1980s, the Advisory Committee of Permanent Representatives has increased its monitoring and surveillance of the secretariat, and this has directly led to the downgrading of ESCAP (De Silva, 2004, p. 167).

As will be seen, this judgement is quite wrong; the executive secretaries exercised their leadership function throughout the history of ECAFE and ESCAP. However, they did not perform their functions from ivory towers, but operated on and through a matrix of political and professional networks. The nature of those processes has been captured well in a volume of the United Nations Intellectual History Project that distinguished between "three United Nations":[2] the first being the formal organization of the United Nations and its subsidiary bodies; the second, the staff members of the United Nations; and the third, the NGOs, academics, consultants, experts and others who engage with the United Nations and try to influence the agenda of the first United Nations and the implementation of that agenda.

The Asia-Pacific region has had the good fortune of having a rich reservoir of eminent public servants, economists, administrators and activists to choose from for the secretariat's stewardship and the Commission's leadership. P.S. Lokanathan (1947-1956), C.V. Narasimhan (1956-1959) and U Nyun (1959-1973) laid a firm foundation for building the future platform for regional cooperation among newly independent and developing States in the Asia-Pacific region. For example, the first Executive Secretary, P.S. Lokanathan, bypassed ECAFE rules and acted on his own initiative to encourage the acceptance of Japan's application for associate membership in 1952 when anti-Japanese sentiments were very high in the region. This opened the door for Japan's full membership in 1954.[3] A combination of diplomatic and economic savvy by these leaders in the organization's first two decades saw it through its most critical period and set the tone for its future expansion. The *Survey* has served as the region's voice and provided a forum for debating the diverse initiatives and activities that emanated from politicians, professionals and civil society activists.[4]

2 Jolly, Emmerij and Weiss (2009, pp. 32-33).

3 See Lim (2013).

4 The annual reports of the Economic Commission for Asia and the Far East (for example, that for the fifth and sixth sessions of the Commission submitted to the Economic and Social Council (E/CN.11/241 of 23 May 1950) made it clear that all the details of the Commission's work were prepared under the relevant executive secretary's guidance, with the approval of the Commission. These also included the contents of the *Survey*. So it is legitimate to take individual issues of the *Survey* as a reflection of the executive secretaries' perspectives on the issues discussed.

Apart from the political diplomacy exercised by the first three executive secretaries, those men actively engaged themselves with the Commission and the secretariat on important policy issues facing the region. Among such issues were the inequality between developed and developing countries and the inequality within nations; these issues figured prominently both in the policy statements of the executive secretaries and in various issues of the *Survey*. While those men did not formulate any overarching theory, such as the Prebisch-Singer hypothesis, they recognized the continued tendency of prices for primary products to nosedive in any cyclical crisis and the necessity of vigorously developing manufactures in the largely agrarian Asian economies. They also argued for the formation of international marketing boards and funds to stabilize prices of primary commodities and to protect the export revenues of primary commodity producers. They responded to the emerging challenges of their time, with the help of a highly qualified professional staff and the regional and international expertise available to them. Of course, their own perceptions and predilections, based on their specific national and professional backgrounds, also played a role in articulating these responses.

The unstable political situation and a volatile economic environment in the global economy continued to produce challenges that required the launching of new initiatives and protecting, consolidating and expanding the institutional structure already established. The 1970s were a rather volatile period in the global economy because of the sudden breakdown of the Bretton Woods System that governed the international economy and the occurrence of the 1973 "oil crisis" when petroleum prices were increased several-fold, which created severe problems for oil-importing countries in the ESCAP region. With the exception of Brunei Darussalam, Indonesia, the Islamic Republic of Iran and Malaysia, the region had no significant oil exporters. The recycling of "petrodollars" and the sudden increase in bank rates by the United States in the 1980s gave rise to an international debt crisis involving many developing countries in the region. These actions created serious challenges for macroeconomic management and often necessitated resort to the International Monetary Fund and the World Bank lending, which came with severe conditionalities.

J.B.P. Maramis (1973-1981), the Executive Secretary who succeeded U Nyun, continued to urge "the early implementation of the Integrated Programme for Commodities", which "was of special significance to the ESCAP region". He also mentioned that "[i]n addition to greater co-operation among producer countries, international efforts were required to prevent the deterioration in the terms of trade of primary commodities from hampering development efforts" (Executive Secretary's policy statement, 1979). On other matters, however, he was more in favour of conforming to the market rather than trying to govern it for developmental ends. He thought that transnational corporations could make a major contribution to the advancement of developing countries (Executive Secretary's policy statements, 1979 and 1980), exactly at a time when the United Nations Conference on Trade and Development (UNCTAD) was focusing on transfer pricing and its impact on intrafirm trade, as well as policies on the transfer of funds and technologies practised by transnational corporations, as important barriers against the creation of a new international economic order. He also pointed to the need of developing countries in Asia and the Pacific to conform to the concept of comparative advantage. The secretariat, however, remained cognizant of the need to utilize the State as a complement to and regulator of the market and brought out clearly both the power and limits of State action in several contexts.

S.A.M.S. Kibria (1981-1992), successor to Mr. Maramis, was among the more activist executive secretaries of ESCAP. He found himself in the midst of ideological battles being fought in the declining years of the cold war. Forces that were urging that the market – right or wrong – should be allowed to dictate all developmental decisions were becoming triumphant, and the protagonists of central planning were in retreat. The Washington Consensus was in full battle cry during Mr. Kibria's tenure; he demurred, but only to a limited extent.[5] However, he encouraged the secretariat to conduct well-researched analyses of inequality and deprivation that directly affected the region.

Mr. Kibria continued to highlight the region's paradox of remarkable progress being achieved in some Asian countries, along with the existence of a vast number of people who lived in hunger and poverty; he took a number of initiatives in order to focus the attention of the Commission and people in general on social and human development issues which are discussed elsewhere. His main focus, however, was on the inequitable global trade regime, which prevented the member countries from taking full advantage of the opportunities made possible because of globalization.

Mr. Kibria observed that North-South negotiations on most major financial and economic issues, including trade, remained in a state of limbo. The immediate prospects for trade liberalization to foster sustained growth and diversification of manufactured exports from developing countries to developed country markets appeared less bright, because of strong protectionist resistance that existed even two years after the severe recession in the early 1980s. There was also some likelihood that the industrial nations might increasingly trade among themselves because of new demand patterns. Thus, beyond liberalizing their own trade regimes and using hard bargaining on export sectors under restraint, promising trade options for developing countries at that point seemed to lie in new products and - potentially more important - in new supplementary markets. In that regard, Mr. Kibria urged the developing member countries to give more serious consideration to taking advantage of the clearly evident scope for significantly expanding intraregional trade.

In 1987 on the occasion of the fortieth anniversary of the establishment of the Commission, Mr. Kibria assigned the secretariat to undertake, in consultation with distinguished international experts, a wide-ranging exercise, involving all the substantive divisions of ESCAP, to restructure the secretariat in conformity with the changing needs of the member countries. The resulting future work programmes of ESCAP were outlined as follows:

> The collection, analysis and dissemination of economic and social data; human resources development; the development, transfer and adaptation of new technologies; further strengthening of the developing countries' capacity to deal with transnational corporations; and acceleration of industrial growth by mobilization of domestic resources, technical and economic co-operation among developing countries, and foreign investment; the promotion of growing intraregional trade and strengthening of the related institutional arrangements; the modernization and expansion of the transport and communications infrastructure; research and other measures to aid in the social dimensions of development; the promotion of an integrated multi-sectoral approach to environmental protection in the region; measures to help make the most efficient use of existing conventional energy resources and increase them wherever possible, while assisting in exploiting the potential of new and renewable energy sources; the intensification of secretariat activities on behalf of the region's least developed, land-locked and Pacific island economies; the stimulation of regional research and development on important advanced technologies, such as the dramatic possibilities emerging from biotechnology, genetic engineering, lasers and fibre optics… (Executive Secretary's policy statement, 1987).

[5] The term Washington Consensus was coined in 1990 by John Williamson (1990) to describe a set of 10 relatively specific economic policy prescriptions that he considered as constituting the "standard" reform package promoted for crisis-affected developing countries by institutions based in Washington, D.C., such as the International Monetary Fund, the World Bank and the United States Department of the Treasury. The prescriptions encompassed policies in such areas as macroeconomic stabilization, economic opening with respect to both trade and investment, and the expansion of market forces within the domestic economy.

Although Rafeeuddin Ahmed (1992-1994), who succeeded Mr. Kibria as Executive Secretary in 1992, endorsed the importance of intra- and interregional trade in the dynamic growth and expansion of trade of the developing economies in the ESCAP region, he was not too sanguine about its prospects. Mr. Ahmed doubted the capacity of most countries outside of those in East and South-East Asia to participate effectively in such trade. Instead, he emphasized the need for mobilizing resources for development and expanding the export of traditional and new products, and the need for regional cooperation to achieve those objectives. Mr. Ahmed was also one of the first to question the growing arms build-up and spiralling military expenditures in the region, which in some countries had outstripped the growth rate of their GDP during the 1980s. Often the consequence had been unsustainable fiscal deficits, a reduction in social sector expenditure and a decline in growth rates (Executive Secretary's policy statement, 1993). However, this lead on how military expenditure diverted resources and political attention from the real issues of economic and human development was not followed up in later ESCAP documents.

The Asian financial crisis of 1997/98 occurred under the watch of Adrianus Mooy (1995-2000), a former governor of the Central Bank of Indonesia, who succeeded Mr. Ahmed. Although his policy statement that had been presented a few months before the eruption of the crisis in early July 1997 might have given the impression that Mr. Mooy, along with many other financial experts in the region, seemed unaware of the coming financial storm, the analysis in *Survey* 1997 did point out the risk involved in financial sector deregulation, especially of capital flows. It also pointed to the risk associated with the rise in securitized financing, which a decade later would play a key role in the collapse of some major financial institutions in 2008 leading to the global financial crisis of 2008/09.

> Since the late 1970s and the early 1980s, most of the developed countries have removed existing statutory regulations governing their financial institutions, particularly those relating to controls on the movement of funds, interest rates and the separation of areas of business of commercial banks from those of securities firms… Tremendous growth in the activities of the financial markets has resulted since then; however, traditional bank lending declined in favour of various forms of securitized financing (*Survey* 1997, p. 7).
>
> Another element of risk has now been introduced through the financial sector, which is becoming more open externally. Greater freedom has been given to domestic commercial banks to establish credit lines abroad and to domestic nonbank borrowers to participate in foreign capital markets; at the same time, foreign investors have been allowed greater freedom to participate in the domestic capital market. Such openings make the domestic financial and capital markets more sensitive to changes in international interest rates, the perception of credit risks by foreign financial institutions and other creditors, and the speculative moves that market players can trigger. … several countries [in the ESCAP region] which have further liberalized the financial sector have felt the underlying pressures in recent years (ibid., p. 16).

Unfortunately, the underlying pressure referred to in *Survey* 1997 soon exploded – within a few months of the release of the document in April that year. This was as close as one could get in terms of forewarning the onset of the 1997/98 Asian financial crisis, when most other regional and international financial institutions were upbeat about the region and advocating rapid financial sector deregulation. Even at the height of the crisis in September 1997, the International Monetary Fund (IMF) was arguing for capital account liberalization at the annual IMF-World Bank joint meeting in Hong Kong, China.[6]

[6] See "Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund", International Monetary Fund, Press Release No. 97/44, 21 September 1997. Available from www.imf.org/external/np/sec/pr/1997/pr9744.htm (accessed 1 July 2014).

Survey 1997 also contained a cautionary note regarding the agreement provisions of the World Trade Organization (WTO), as far as the developing economies were concerned. Many of these fears proved to be understatements rather than exaggerations of the perils faced by developing economies under WTO regime.

The Executive Secretary's policy statement for 1998 contained an analysis of the problems that led to the 1997 Asian financial crisis, which started in Thailand, and quickly embroiled Indonesia, Malaysia, the Republic of Korea and many other economies of Asia and the Pacific.[7] Furthermore, the Executive Secretary's policy statement for 1999 called for a regional framework and the creation of an Asian fund to forestall future crises and create a lender of last resort for the members of the Asia-Pacific region. A year later in 2000, affected countries established the Chiang Mai Initiative for bilateral swaps among members of ASEAN, China, Japan and the Republic of Korea to manage regional short-term liquidity problems.

Kim Hak-Su (2000-2007), Mr. Mooy's successor as Executive Secretary, would lead ESCAP into the new millennium by turning towards development issues that had received inadequate attention in earlier decades and had emerged in global discussions more recently. In 2001, he expressed his vision for ESCAP towards 2005 "as comprising the transfer of proven best practices in poverty eradication in the region to developing members and associate members in different environments; reversing the weakening positions of developing members arising from the process of globalization and strengthening their negotiating position" (Executive Secretary's policy statement, 2001). In this case, his knowledge of the positive aspects of the experience of the Republic of Korea can be clearly seen in the policy advocacy emerging during his tenure.

In the Executive Secretary's policy statement for 2002, he stressed the need for "investment in human capital and … a shift to higher levels of technology", as well as the social and economic empowerment of women as a key component in sustaining development. He urged that Governments employ robust social protection to counter the effect on the poor of the Asian financial crisis and other likely downturns. In 2003, Mr. Kim informed the Commission that "ESCAP's work was concentrated on three key thematic areas: poverty reduction, managing globalization and addressing emerging social issues" (Executive Secretary's policy statement 2003).

During this period, ESCAP was assisting its members in formulating and implementing policies following the rights-based approach. Disability and widowhood had been mentioned as meriting special attention in *Survey* 1982; however, these issues acquired new salience in the early twenty-first century discourses of the Commission. Action plans on ageing and disabled persons and a regional strategy covering such issues as hunger, HIV/AIDS and the socioeconomic implications of epidemics such as the severe acute respiratory syndrome (SARS) and avian influenza were also initiated in 2004 (Executive Secretary's policy statement, 2004).

In 2006, Mr. Kim highlighted short-term risks that "included still higher energy prices, the possibility of global current account imbalances unwinding suddenly, higher interest rates, disruptive exchange rate adjustments and the threat of avian influenza" (Executive Secretary's policy statement, 2006). According to him, "Other challenges to be addressed included rising inequality, high levels of youth unemployment and child labour. Sustaining the current high momentum of GDP growth was important, but growth alone would not be able to solve those problems" (ibid.).

The same themes also found place in the Executive Secretary's policy statement for 2007. In addition, Mr. Kim stressed that "inequality and discrimination against women in labour markets

[7] See ESCAP, 1999.

and education alone had cost economies in Asia and the Pacific almost $80 billion per year… Reducing gender inequality, providing safe drinking water and improving sanitation would be crucial first steps in achieving the Millennium Development Goals" (ibid.). He noted that considerable fiscal space existed for countries in the region to increase investments in health, and they needed to be combined with more efficient use of existing resources.

Noeleen Heyzer, the first woman to head the ESCAP secretariat (2007-2014), succeeded Mr. Kim. During her tenure, the region experienced a period of extreme turbulence and insecurity. She tried to reset the agenda for the region's development in order to ensure that the neglected and unfinished social and human development aspects would receive a new focus and that the second-generation problems relating to the environment, gender and governance would be attended to as well. Ms. Heyzer's appointment as Executive Secretary put the face of women on the agenda of a region where women have suffered grave injustices and discrimination. She was equally proactive in seeing the region find its rightful place in world affairs.

In her first policy statement, Ms. Heyzer recalled the vision and hopes of the founding fathers of ESCAP, whose determination had enabled the developing countries in the region to have their own regional platform. Ms. Heyzer said that she had been guided by the founders in her endeavours to work towards fulfilling the true promise of their dream of a Commission that would link the countries of the region in advancing together (Executive Secretary's policy statement, 2008). She observed:

> [A]s Asia and the Pacific emerged as a major actor on the global stage and the world applauded the region for its economic miracles, the region faced an imminent crisis of rapidly rising inequalities. Income disparities had led, inter alia, to serious social and environmental inequities. An increasing proportion of the poor in the region lived in areas where the environment was under stress. In many countries, the poorest people might use less energy, but actually pay proportionately more than the rich for energy services. Those high levels of inequality were diminishing prospects for growth and eroding social cohesion in the region (Executive Secretary's policy statement, 2008).

Ms. Heyzer, while celebrating the region's emergence as a "a major actor on the global stage" that was applauded for its "economic miracles", identified four kinds of imbalances in the Asia-Pacific region that needed to be addressed if the region was to achieve the Millennium Development Goals. The first was the considerable economic imbalance across the region as epitomized by the fact that, while the region was the most dynamic in the world, it still had 640 million people living on less than $1 a day. The second kind of imbalance noted by the Executive Secretary was social imbalance along the fault lines of ethnicity, religion and class, together with systemic discrimination and violence against women and girls. Social exclusion and discrimination prevented access to basic services and put many communities at risk. The third kind of imbalance pertained to ecological issues. The region was suffering from a mounting ecological burden that exceeded its ecological carrying capacity. The fourth kind of imbalance identified by Ms. Heyzer was "empathy imbalance" as a result of the lack of empathy or understanding on the part of a significant section of bureaucracy to the needs and aspirations of the marginalized and the disadvantaged and to the struggles of common people to secure their entitlements and rights. She called for reversal of policies that caused these imbalances and action to remove them (Executive Secretary's policy statement, 2008).

The official beginning of the recent global financial crisis was 15 September 2008, when Lehman Brothers Holdings Inc. filed for bankruptcy protection; this was the second most serious challenge to the economies in the region after the 1997/98 Asian financial crisis, even though its epicentre was outside the region. In her address to the Commission in 2009, Ms. Heyzer noted that the region was facing a triple threat from finance, food and fuel shortages. In addition to the Great Recession triggered by the global financial crisis and the food crisis triggered by the previous year's food/fuel price spiral, climate change threatened to disrupt weather patterns and was expected to further disrupt agriculture and water security across the region.

However, Ms. Heyzer reminded the Commission that times of uncertainty could sometimes be turned into times of opportunity. She proposed several measures that provided an opportunity to shift thinking from traditional, sectoral approaches to one that was more integrated, more comprehensive and more coordinated. She supported financial stimulus packages adopted by some developing countries in the region to counter the contractionary effects of the 2008 global financial crisis and advised that they be used to correct the major imbalances in the region's development to which she had drawn attention in her earlier policy speeches. She further argued for "a more inclusive and sustainable development paradigm, for which fiscal stimulus packages and policy reforms provided an excellent opportunity" (ibid.). She pleaded for a more rapid closing of the gaps in achieving the Millennium Development Goals for which funding could be mobilized through various sources, including the fiscal stimulus packages. Ms. Heyzer also emphasized the need for large infrastructure investment on regional and subregional projects, along the lines of the Mekong Project and the Asian Highway and the Trans-Asian Railway initiatives, undertaken by the Commission in the past. She pointed out: "The challenges of growth, inclusion and sustainability are not mutually exclusive. Interlinked and interwoven, they cannot be separately addressed. Instead they require integrated and multisectoral approaches" (Executive Secretary's policy statement, 2012). She also called for greater attention to be paid by ESCAP to the least developed countries and Pacific island countries, which were more vulnerable to both natural hazards and economic risks than other developing countries in the region.

Perhaps, Ms. Heyzer's most abiding contribution as the head of the ESCAP secretariat was her call, reiterated in her 2013 address to the Commission, for a new paradigm of development in order to bring about the next great transformation:

> We are looking for new drivers of growth, struggling to close infrastructure and development gaps, address jobless growth and unemployment (especially amongst our youth), and build stronger, more accountable institutions. We are also striving to make our cities safer and more sustainable, and to rebalance our economies towards better quality inclusive growth, without forgetting our oceans, our agriculture, and our rural areas… This transformational change towards inclusive and sustainable development will not prove easy. Great transitions demand even greater collective leadership. … … In our consultations on the post-2015 development agenda it has become clear that our region is seeking a new social contract between States and their people, and between States and the market.
>
> …This social contract has to promote people's engagement, translating growth into productive employment for all. It has to adopt policies for the fairer distribution of wealth, economic assets, and opportunities – where there is better resource management and better financial governance, including at the global level, greater accountability of both the public and private sectors, and providing human security and quality services so that all people can live in dignity and freedom from want, from fear, and from discrimination" (Executive Secretary's policy statement, 2013).[8]

The succeeding Executive Secretary Shamshad Akhtar set an agenda to take ESCAP to a new height in the area of sustainable development to achieve the global vision "the future we want" as enunciated by the world leaders at the Rio+20 Conference. In her first town hall meeting

[8] For further details on Ms. Heyzer's stewardship, see ESCAP, 2014.

Ms. Akhtar laid out her vision for ESCAP and promised to re-energize ESCAP to best fulfil its duty to member States and their citizens. She emphasized that "ESCAP's driving principle must be better client service… – ultimately, the people of Asia and the Pacific". She envisioned that under her leadership, ESCAP would "build on its comparative advantages, devise sharper strategies, work collaboratively with regional institutions and financing agencies, focus on engagement, and concentrate on development outcomes and impact".

Ms. Akhtar has elaborated her priorities to improve the effectiveness of ESCAP at her opening address to the 70th Commission Session as follows: First, to accord priority to enhancing the secretariat's capacity to support member States in evidence-based policy-making across the full range of development sectors covered by ESCAP. Second, to work closely with member States to further enhance ESCAP's unique intergovernmental platform with a view to building consensus, so that Asia-Pacific voice in global debates is even stronger, and adopting regional norms, standards and agreements to accelerate the achievement of the internationally-agreed development goals. She would also like to explore how innovative and bold partnerships between government and civil society, including the private sector, can be catalyzed to support the region's inclusive and sustainable development agenda.

In terms of substantive focus areas, according to Ms. Akhtar, MDG acceleration, as well as sustainable development beyond 2015 and the financing for it, would be urgent priorities for ESCAP. Another area of urgent focus would be regional economic cooperation and integration. As a matter of fact, this has been one of the main mandates for ESCAP. Ms. Akhtar reminded that "Forging intergovernmental agreements and protocols is ESCAP's core business. This is the ideal platform to build regional economic cooperation and integration as the best path forward for Asia and the Pacific – not only to bring the region closer together, but as a mechanism for sustained growth and more inclusive prosperity"[9] (See annex I for the list of Executive Secretaries and Deputy Executive Secretaries of ECAFE/ESCAP).

B. Economic and Social Survey and Theme Study

In compliance with a resolution adopted by the Commission at its second session, the secretariat has been monitoring and analysing the region's economic and social development since 1947 through its annual flagship publication, initially entitled *Economic Survey of Asia and the Far East* until 1973, after which it was renamed the *Economic and Social Survey of Asia and the Pacific*. The subsequent chapters will reveal the depth and breadth of analysis of issues and related policy recommendations contained in the *Survey*. They will also show that ESCAP has been ahead of the curve in analysing most current and emerging development challenges. Through the *Survey*, the agenda was set for policy priorities. The *Survey* contained warnings about the consequences of policy failures and forewarned of challenges ahead while emphasizing the need for regional cooperation in dealing with many of the common problems and development challenges faced by economies in the region.

The first issue of the *Economic Survey for Asia and Far East* was produced for the third session of ECAFE when the Commission met in Shanghai, China, in 1948; it covered a variety of subjects: population, national income, land utilization, agricultural production, mining and industry, labour, finance and international trade, and transport and communication. It contained a general review of the situation in Asia under each of the above-mentioned subjects. The statistical and factual data sets were generally drawn from official sources. Although the *Survey* covered conditions in member countries only, which in 1947, comprised a dozen countries, consisting mostly of imperial powers and their colonies in Asia, the countries of Japan and Korea, both of which were not yet members, and according to strict terms of reference, should not have been covered in

9 www.unescap.org/speeches/vision-escap-and-asia-pacific-leadership-shaping-post-2015-development (accessed 1 July 2014).

the annual *Survey* (as was the case with China following its revolution in 1949), all were included in the *Survey*'s coverage because the secretariat recognized their importance to the region.

The scope of the *Survey* was gradually widened to cover more subjects and more countries as the process of post-war economic integration and decolonization gained momentum. With the achievement of independence by former colonies, the need for autonomous economic development and rise in per capita incomes became an urgent priority - in addition to monitoring current economic conditions – which were the main preoccupation addressed in issues of the *Survey* in the early post-war years, with inflation and food shortages being the main concern in the war-torn economies of the region. Since the 1957 issue, the *Survey* has, in addition to a review of the current situation in the region, contained a study or studies of some major aspect(s) or problem(s) of the economies in Asia and the Pacific (A complete list of these topics and major issues is provided in annex III.a).

In addition to various special topics and issues examined in the *Survey*, the secretariat and the Advisory Committee of Permanent Representatives and Other Representatives Designated by Members of the Commission (ACPR) in 1983 proposed that "theme topics" should be taken up at Commission sessions as the need arose (E/ESCAP/300). The findings would be contained in a separate publication, known as Theme Study, the topics for which would be determined by ACPR usually from a list suggested by the secretariat. Recently, it was decided – in response to the recommendations emanating from an independent evaluation of the conference structure of the Commission – that the Theme Study should be merged with the *Survey* starting in 2014 (See annex III.b for a complete list of the Theme Study topics).

Initially, the studies were conducted as inter-agency papers prepared in cooperation with the International Labour Organization (ILO), the United Nations Development Programme (UNDP), the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the United Nations Industrial Development Organization (UNIDO). A major focus of the early issues of the Theme Study was technology diffusion or the promotion of activities facilitating dissemination of new technology, which remained relatively weak area in most ESCAP countries. The major issue in the theme topics selected by the Commission between 1989 and 1991 concerned the question of restructuring the developing economies of Asia and the Pacific in the 1990s in the context of emerging global challenges and the past achievement of such economies in diversifying themselves. The Theme Study undertaken between 1992 and 1995 were focused on various aspects of regional cooperation. While the Theme Study 1996 was on sustainable development and poverty alleviation in Asia and the Pacific, the topics considered in the Theme Study from 1997 through 2000 were focused on the prospects and challenges in the twenty-first century, including that of globalization.

The Theme Study prepared for successive sessions of the Commission over the past decade have had a common underlying theme – addressing development challenges posed by livelihood, food, health, environmental and energy insecurity, and the need for Asia-Pacific countries to work together, learning from successful examples within the region, if they are to achieve and sustain robust growth.

C. Development goals

Almost from the inception of the Commission, the executive secretaries, the authors of individual issues of the *Survey* and several distinguished advisors and consultants have emphasized that it was necessary for incomes per capita in Asian countries to grow faster than in the developed countries in order to reduce the gap between them and to enable the possibility of "catching up" in the shortest time possible. In the 1950s, economic growth in Western Europe was rapid, made possible by the massive capital inflows under the Marshall Plan, whereas most Asian countries were troubled by the negative legacies of colonialism. Most of them faced severe balance of payments problems and shortage of capital inflows, besides other constraints, such as low investment-to-GDP ratios and inflationary pressures resulting from shortages of essential commodities, and therefore grew slowly. For example, in the annual report to the Economic and Social Council for 1957/58, C.V. Narasimhan, the second Executive Secretary of ECAFE, observed that "the gap between the level of economic development of the advanced countries and the underdeveloped countries was widening" (Executive Secretary's policy statement, 1958). The rapid rise of Japan, however, was perceived as a genuine ray of hope in various issues of the *Survey* for that period.

1. Not GDP alone

In ECAFE, it was also recognized that economic growth as such would not deliver real benefits and human rights unless the peoples of Asia and the Pacific advanced in education, health conditions and human dignity, the lack of which they suffered from during the colonial and pre-war periods. Although the word "social" was added to the title of the *Survey* of the Asia-Pacific region only from 1974, when the focus of the Commission was broadened from Asia and the Far East to cover all of Asia and the Pacific, from the 1950s the executive secretaries and the secretariat had been acutely aware of the need for social development to accompany, or to be the result of, economic growth. There was some debate about whether social development should accompany or follow economic development, with no conclusive agreement on the tolerable extent of the lag between them.

For example, *Survey* 1957 included a detailed discussion of expenditures on economic and social development in mainland China and pointed to the problems created by increases in military expenditures in many economies, including Indonesia, Pakistan, the Philippines and Taiwan Province of China. However, it was also emphasized in that issue that most Governments were increasing expenditures for economic, social and military purposes, and that such increases were often causing inflation and deficits in their balance of payments. That view was reinforced during the heyday of the Washington Consensus, which brought forth severe reductions in social expenditure, especially on health and education[10].

In *Survey* 1958, considerable attention was paid to social development and sustainability:

> Industrialization has always brought with it a host of social problems, many of them centering around excessive urbanization – although in Asia the process of urbanization, fed by factors like insecurity and poverty in the countryside, has actually outstripped industrialization. To temper, and try to forestall, these problems is imperative. The historic evils of the industrial revolutions in the West and elsewhere should not be repeated. In rural areas, continuation of land reform movements – on which some further progress occurred in 1958 in some countries – is often essential if farmers are to have adequate incentives. Moreover, investments in health and education can be among the most productive investments that society can make. Thus, a narrow concern with maximizing savings at any cost, or with using existing savings for directly productive purposes, would evidently be short-sighted. On the other hand, to become so preoccupied with social services and amenities as to leave inadequate resources available for raising productivity would be equivalent to trying to eat the fruit before planting the tree (*Survey* 1958, p. 5).

Survey 1979, made a definitive statement about the objectives of development:

[10] In Bangkok in May 1992, ESCAP held a regional seminar on the social costs of economic restructuring, the papers and proceedings of which were published as *Development Paper* No. 15.

> The experience of the 1970s has given rise to a near-unanimous consensus about the major objectives of economic policy in the developing countries. It is reflected both in the resolutions of all recent conferences organized by United Nations bodies and in the latest development plans of ESCAP countries. The Ad Hoc Intergovernmental Meeting of those countries on strategies for the 1980s held in September 1979 succinctly listed these 'major goals' as: (a) high growth, (b) fuller employment, (c) distributive equity, (d) fulfilment of basic mass needs, (e) fuller people's, women's and youth's participation in development, (f) self-reliance.
>
> These goals remain the basic guideposts in the formulation and evaluation of all aspects of the development strategy for the ESCAP countries in the 1980s (*Survey* 1979, p. 96).

In fact, social issues not only remained on the agenda during the periods beyond the 1980s, but also gained more prominence as can be judged from special topics of the *Survey* in the 1990s and 2000s. For example, *Survey* 1993 contained a review of social progress in the region, as well as emerging social problems, such as drug abuse and crime. It was observed that social progress lagged behind the region's economic transformation. The special focus of *Survey* 1995 was on social security, such as financial security in old age, benefits for invalidity, employment-related injury, sickness, maternity and medical care. It was observed that, "[d]espite the rapid pace of economic growth, the region remains beset with many social problems… [and] social security coverage in the region remains rather limited… The poor and vulnerable segments of the population are largely excluded" (*Survey* 1995, p. iii). *Survey* 1999 contained an examination of the social impacts of the 1997/98 Asian financial crisis in the ESCAP region. In the foreword, Secretary-General Kofi Annan noted: "[The] crisis… has had its most devastating impact on society's margins: the millions of poor and vulnerable men, women and children who are in no way responsible for the fallout but who have nonetheless seen their hopes dashed and their families thrown into terrible hardship and even destitution" (*Survey* 1995, p. iii).

As a follow-up, *Survey* 2000 highlighted the importance of social security and safety-nets in mitigating social impacts of economic crises and natural disasters. *Survey* 2001 focused on the potentially adverse consequences of the prevailing demographic dynamics, such as population size and growth, age composition, urbanization and international migration, on poverty, the environment, labour supply and employment, education, health and savings in order to draw policymakers' attention to related concerns. It also contained an examination of the policy challenges posed by rapidly spreading HIV/AIDS in the region and concluded that, if the spread of the HIV infection was not controlled effectively, this would have serious socioeconomic implications, particularly because HIV/AIDS is concentrated among individuals in their prime productive age.

The special focus of *Survey* 2002 was the feasibility of achieving the Millennium Development Goals in the region. *Survey* 2003 highlighted the critical role of public expenditure to achieve education and health goals, showing that public expenditure on health as a share of GDP was negatively correlated with the infant mortality rate and positively correlated with life expectancy at birth. It was also found that public spending on education as a percentage of GDP was positively associated with both adult and youth literacy rates. Better utilization of resources would strengthen those relationships. *Survey* 2003 thus emphasized the importance of mobilizing domestic resources to enhance public spending on health and education. It was observed that, "The most obvious public source of finance is tax revenues, which are reliable and sustainable" (*Survey* 2003, p. 246).

In *Survey* 2004, the multidimensional nature of poverty was examined more closely along with the policies needed to tackle that issue. It was concluded that "[b]road-based economic growth is integral for sustained poverty reduction. The multidimensional nature of poverty makes it essential to address cross-cutting development issues along with growth". It added that, "In addition to sustained growth, measures designed specifically to increase access to economic opportunities for the poor are necessary if the benefits of growth are to be distributed equally and poverty is to be eliminated on a sustainable basis" (*Survey* 2004, p. 291).

In *Survey* 2005, there was an examination of the issues related to ageing, such as impact on the labour force and social security payments and how the countries in the region could deal with them. In addition to highlighting the need for reforms related to pension and old-age income security, it was also emphasized that the nature of the work environment and jobs should be adjusted so that people could remain in the workforce in their older ages. Finally, stress was put on the importance of promoting healthy ageing, meaning healthy diets, physical activity, the prevention of unhealthy and risky behaviour, and health education.

Gender inequality was the special topic for deeper analysis in *Survey* 2007. In addition to social and personal costs, it was estimated that the region was losing between $42 billion and $47 billion per year because of restrictions on women's access to employment opportunities – and between $16 billion and $30 billion per year because of gender gaps in education. *Survey* 2008 was focused on unequal benefits of growth. In the foreword, Secretary-General Ban Ki-moon noted: "Despite good economic performance and efforts by Governments to foster social development, there are a number of fault lines in the region. Over 600 million of the world's poor still live in Asia, nearly two thirds of the global total, and mainly in rural areas. Other statistics are equally staggering. Ninety-seven million children remain underweight. Four million children die before reaching age five… poverty, unemployment and inequality is of deep concern, highlighting the need for sound policies to share prosperity and the fruits of high growth" (*Survey* 2008, p. iii).

Employment creation, especially in countries with fast growing working-age populations, also featured prominently in *Survey* 1982, 1984, 1985 and 1992. *Survey* 1999 and 2001 contained analyses of the impacts on employment of the 1997/98 Asian financial crisis. They documented the rise in child labour and worsening of labour conditions, in particular for women. They also highlighted the fact that output recovery may not translate into employment recovery.

While stressing the need for productive employment creation, the complexity of the problem was also recognized in various issues of the *Survey*. For example, in *Survey* 1985 it was noted:

> Unemployment is not merely a question of waiting for such a job during a period of temporary inactivity, but a more complex and pervasive problem… Yet the importance of gainful employment is far greater in a developing country since the dependency ratio, the number of mouths a breadwinner has to feed, is much higher while the earnings, related to labour productivity, are much lower. The connection between unemployment and poverty is not only close but multiplicative: the unemployment of one person can lead to the poverty of an entire household (*Survey* 1985, p.93).

Survey 1985 (p. 95) raised questions about the adequacy of conventional concepts and statistics pertaining to unemployment, "… the measurement of unemployment based on concepts relevant to developed market economies greatly underestimates the severity of the problem in developing countries. 'Open unemployment', or unemployment officially recorded using traditional concepts of measurement, is low in most developing countries even in comparison with developed countries". It was concluded that: "open unemployment is conceptually an inadequate tool for analysing the problem in developing countries, and its application leads to greatly understating the magnitude of the problem". It noted that a "more promising and relevant concept is that of underemployment, which treats the problem of both the insufficient volume of work during particular periods of activity and that of a basic imbalance between labour and other factors of production".

2. Equitable distribution

From very early on, it was recognized by the Commission that equitable distribution of income and wealth was important. Therefore, *Survey* 1950 devoted a section to "trends towards equitable distribution of income and wealth" where it was noted that "[s]o long as the people are unable to share sufficiently the fruits of economic progress there is apt to be little incentive for them to exert their maximum effort" (p. 180). After analysing development plans of various countries, it was stated in that "[i]n the post-war years several countries in the region have taken measures to attain a more equitable distribution of wealth and income, although the measures to date for most of the countries cannot be considered commensurate with the tasks to be fulfilled" (*Survey* 1950, p. 180). These countries included China, India, Myanmar and Pakistan.

Land reform was identified in *Survey* 1950 as the most important measure for bringing about equitable distribution of income and wealth. "As the great majority of the population in the region is employed on the land and the bulk of the national income is derived from agricultural activities, any attempt to bring about a more equitable distribution of wealth would naturally start with agrarian structure and land tenure" (*Survey* 1950, p. 180).

> Another development towards a more equitable distribution of wealth and income is in the fields of agrarian credit and interest. In most parts of the region, more than half of the farming population (sometimes as much as three-fourths or even more than nine-tenths) are heavily in debt and usurious rates of interest (ranging from around 20 to over 200 per cent per annum – usually 30 to 50 per cent) are charged by the money-lenders. Not only is a considerable share of the current income of the farming population given to the creditors in the form of interest, but failure to pay interest and principal has constituted a major cause for the increasing alienation of agricultural lands from the cultivators to the non-agriculturists" (*Survey* 1950, p. 181).

While ESCAP had raised the critical role of credit and interest rates in addressing the issue of poverty and inequality more than half a century ago, it has only been since the 1990s that some aspects of the issue have attracted the attention of policymakers owing to the popularity of the microcredit movement. However, the question of exorbitantly high interest rates and perpetual debt trap still remains unresolved. The issue became more entrenched with financial sector deregulation since the 1980s as part of structural adjustment programmes which required States to stop subsidizing rural and agricultural credit through specialized banks and institutions.

An alarm was raised in *Survey* 1969 at the failure to address poverty and inequality despite economic progress and a warning was issued about its consequences.

> Despite the welcome improvement in growth rates, the poverty of the masses cannot be ignored. The situation is serious in many countries: the persistence of poverty in the backward rural areas of the ECAFE region and its congested cities, in particular, can threaten the very foundations of society, if remedial measures are not initiated in time. … [A] more equitable distribution of the gains of development is at least as important as the gains themselves… without a broad under-current of support for, and a sense of participation in, the national effort to create a more prosperous and equitable society, the very basis for that effort may be undermined (*Survey* 1969, p. 2).

It was observed in *Survey* 1970 that "[o]n account of the inequitable sharing of gains from development, a number of developing ECAFE countries experienced social discontent of varying intensity during the First Development Decade" (p. 1). It also noted that "[t]he major policy issue which confronts the developing ECAFE countries in the Second Development Decade is how to bring about a better blend between economic growth and social justice" (p.1).

In *Survey* 1979, the discussion was widened concerning inequality beyond income and wealth at the country level to cover many other dimensions, including inequalities between countries, especially developed and developing countries. For example, it recognized the following:

> In the case of distributive equity, …some documents [national development plans] emphasize the reduction of disparities in the interpersonal distribution of income and wealth; others accent the reduction of international, interregional and rural-urban inequalities. Still others stress the equitable distribution of land (by means of land reform) or food (by means of subsidies) or services, namely, health, education, water supply, transport and sanitation. The central focus of all discussions is that in the 1980s the world's poor, the 'target groups', must be given a fair share of the growing stock of assets and the flow of goods and services (*Survey* 1979, p. 96).

The issues of the *Survey* since 2010 have contained concerns about growing inequality in many countries in the region. They identified growing inequality as one of the major structural impediments for sustained and shared prosperity between and within countries, especially during the recent global economic slowdown. Income (expenditure) inequality was found to constrain the expansion of domestic effective demand and paradoxically correlate with current account imbalance as well as rising household debt, both sources of macroeconomic instability. *Survey* 2013 contained estimates of reductions in social development and per capita income gains due to rising income (expenditure) inequality. It was found that inequality is negatively associated with public social protection expenditure and tax-GDP ratio; hence, *Survey* 2013 advocated that there should be public provisioning of basic services, such as education, health and social protection, as well as employment guarantees. *Survey* 2013 provided estimates of public investment requirements for a basic package of such programmes to be achieved by 2030; analysis found that such a package would be affordable for most countries without jeopardizing inflation or public debt stability, while countries with special needs would require development partnership.

3. Concern for the vulnerable

A review of the *Survey*, the policy statements of the executive secretaries and the reports presented during the Commission sessions revealed an increase in the importance of the social perspective in the analytical and advocacy work of ESCAP throughout the decades. By the 1980s, the social pillar had crystallized as complementary to the economic pillar. After 1974, when "the practice of producing an integrated coverage of both economic and social developments" in the *Survey* had been initiated, there had been a notable increase in the frequency of discussion of such issues as ageing, youth and disability. In recognizing the three groups as disadvantaged, *Survey* 1981 reflected the extent of the shift in the thinking about these issues.

Survey 1981 contained what was up to that point the most extensive discussion of disability, cast from the point of view of the relationship between the multidimensional nature of poverty and social problems. "Most disabled people," it was stated, "live in rural areas…they are [thus] usually extremely poor and almost completely cut off from medical services". It also contained a call for "rehabilitation identification", the "creation of job opportunities" and the "provision of accommodations and work places adapted to physical limitation", arguing that such initiatives should be regarded as a redistribution of income to relieve poverty (*Survey* 1981, pp. 148-149).

The human condition and its vulnerability to natural causes and social injustice are a central concern of ESCAP. Obstacles faced by disabled (differently abled) persons, and how to address those problems, were naturally a vital component of that concern. *Survey* 1980 pointed out that most disabled people lived in rural areas, and that their problems received little attention. It was argued that special accommodation and proper medical attention were needed for them. *Survey* 1995 and 2004 went further and highlighted the social exclusion of differently abled persons; it was argued that social inclusion and gainful employment should be made part of the development agenda. In *Survey* 2010, attention was drawn to the greater risk of disabled persons falling into the poverty trap, and a number of recommendations were made on social protection measures to pre-empt that risk.

Ironically, the attainment of greater longevity in the ESCAP region has led to an increase in the number of elderly persons (people aged 65 years and older), and with that, the problems of disability caused by old age have been aggravated. With support from the Governments of China and Japan – countries where ageing and disability had become serious problems – action plans were initiated in order first to sensitize the Governments of countries in the region about disability issues, including problems faced by persons infected with HIV and those living with AIDS, and then to formulate disability-inclusive development plans. At the initiative of ESCAP, in 2006 Governments of countries in the region joined others around the world in adopting the Convention on the Rights of Persons with Disabilities. Data collection, advisory work and technical assistance relating to disability-inclusive development have now become a regular part of the work of ESCAP.

4. Caring for the environment evolves into the goal of sustainable development

In *Survey* 1958, reference was made on at least three occasions to problems affecting the environment. While discussing the economic development of China, it quoted Shao Li-tzu on the need to propagate medical theories of contraception in order to limit the pressure of population on the environment (p. 81). It referred to the plan of the Government of Indonesia to increase irrigation and prevent soil erosion as means to increase agricultural productivity (p. 117). In referring to developments in the Republic of Korea, it was stated (p. 142) that considerable improvement had been observed in the forestry situation where the country faces "deforestation with its accompanying evils, erosion and flooding, as a result of continuous over-cutting, particularly in the vicinity of larger cities".

Concern about the environment became more general from the late 1970s. For example, in *Survey* 1978 it was argued that new directions and development strategies were needed for the coming decades, and the following were highlighted:

> [T]he adoption of policies which are consistent with ecologically sound resource and environment practices. The environment should be used in this sense for the benefit of mankind considered as a whole and not exploited wastefully and harmfully by small and privileged sections of the population. The environment must also be cared for in a manner which will preserve its quality for future generations. The cost of preventive action today can be viewed as a sound investment in the future when contrasted with the cost of remedial action at a latter point in time. Such issues are of immediate concern to the developing countries of the ESCAP region where environmental problems of great importance exist. These include issues of marine, river and urban pollution; the depletion of fish stocks, of tropical hardwoods and of the supplies of firewood; and the rapid degradation of land (through erosion, desertification and salinization), which is probably the region's most valuable natural resource. These issues…require remedial action at either the national, subregional or regional level (*Survey* 1978, p. 162).

As will be discussed in more detail in chapter 10, the engagement of ESCAP with issues of economic and ecological sustainability acquired new intensity after the Pacific Liaison Office had been established in 1980; it was upgraded to become the Pacific Operations Office in 1984.

Survey 2001 contained an examination of the linkages between poverty and the environment, in which it was noted that "poverty has an interrelationship with the environment; the poor are considered both victims and agents of environmental damage" (*Survey* 2001, p. 145). It was observed:

> The increase in total area used for agriculture in the region has contributed significantly to the loss of natural vegetation and has created severe environmental problems on steeply sloping land and fragile land. Further deforestation is taking place as a result of cutting fuel wood for domestic consumption by rural dwellers. The intensive use of land for agricultural purposes has risen significantly with the expansion of irrigation, improved varieties of seeds yielding crops with shorter maturity periods, greater mechanization and increased use of chemical fertilizers and pesticides. The irrigation dams have had environmental consequences in terms of loss of wild life habitat and agricultural land owing to flooding. Excessive exploitation of groundwater creates problems of land subsidence, salt-water intrusion and groundwater pollution. The excessive use of fertilizers and pesticides is also a source of health and environmental problems (*Survey* 2001, pp. 146-147).

It was also noted that the poor are "highly vulnerable to natural calamities, environmental degradation and ecological disasters. …The vulnerability of the poor to such risks is heightened because of their poverty. This has a cumulative negative influence on the productivity of the poor. Similarly, soil degradation reduces the income of poor farmers and their capacity to provide basic care for the members of their families" (p. 147).

> Poverty is also a contributor to environmental degradation. The poor often lack resources and, in their efforts to survive, end up degrading their environment. When good-quality land is not available, they move into marginal lands or publicly owned forests, where they cut down the trees to make land cultivable. Similarly, their cultivation of steeply sloped and erosion-prone hillsides and overgrazing of these areas can cause floods and inundation in downstream areas. Because of fragile and limited resources, poorly defined property rights, and limited access to credit, the poor are unable or unwilling to invest as much as they should in environmental protection (*Survey* 2001, p. 147).

In the context of the above and a year after the adoption of the Plan of Implementation of the World Summit on Sustainable Development (Johannesburg Plan of Implementation) in 2002, *Survey* 2003 revisited the environment-poverty nexus and policy options. It was observed in that issue:

> While the linkage between economic growth and poverty reduction is generally obvious, the relationship between economic growth and improvement in the environment remains unclear. In recent times, the fast economic growth in many countries, including developing countries of the Asian and Pacific region, where two thirds of the world's poor live, has often been accompanied by a range of adverse environmental impacts. Apparently, there is a trade-off between economic growth and environmental improvement; achieving both of these goals simultaneously may not be easy… (*Survey* 2003, pp. 267-268).

In recognition of this difficult task, *Survey* 2003 contained an examination of various policy options which were classified into two broad groups: (a) those which were aimed at reducing the adverse environmental impacts of economic growth, leading to a consequent beneficial impact on the poor; and (b) those which are targeted specifically at the poor and have a positive impact on the environment.

As the above discussion reveals, development objectives are no longer confined to economic growth from which everything else would follow. In the twenty-first century, as the effects of climate change in increasing the frequency and intensity of natural disasters, such as cyclonic storms and perhaps earthquakes and tsunamis, have come to affect the lives of millions of people in the ESCAP region, the goal of sustainable development now occupies centre stage on the ESCAP agenda. Ms. Heyzer epitomized the paradigm shift when she said that the slogan "grow first, and distribute and clean up later" was a dead end. Given the importance of the goal of development with equity and ecological balance, chapter 14 has been devoted to its analysis.

D. Continued relevance of ESCAP

The above brief summary of the intellectual contributions of ESCAP to the development discourse reveals that ESCAP was ahead of the curve in many respects. It may not have used the terminologies of today, such as sustainable development and its three pillars – economic, social and environment – or inclusive and pro-poor growth, yet it certainly was aware of these issues. Without doubt, its analyses have improved the understanding of such issues while the United Nations articulates sustainable development goals and the development agenda beyond 2015. ESCAP analysis correctly identified both domestic and external causes of poverty, inequality and deprivation, as well as obstacles in addressing them. In their constant vigil and efforts to realize the visions and dreams of the founding fathers of the United Nations, the executive secretaries of ESCAP and the secretariat issued warnings about the dire consequences of policy failures, and they formulated policy recommendations for dealing with both the structural causes of underdevelopment and emerging challenges. As the subsequent chapters will reveal, ESCAP remains very much a relevant and integral part of the remarkable transformation of the region. It is committed to support countries with special needs and work with member States to achieve sustainable development for all in line with the principles laid down in the Charter of the United Nations, which expresses the determination of the peoples of the world to "promote social progress and better standards of life in larger freedom" and to "employ international machinery for the promotion of the economic and social advancement of all peoples" (Preamble).

PART TWO:
DEVELOPMENT PERFORMANCE OF THE REGION






Unfavourable initial conditions

3

A. Devastation of war

The modern development journey of the economies in the Asia-Pacific region truly began after the Second World War. That also meant a very difficult starting point as, "[t]hroughout the region, the war has left a bundle of political problems and almost every country without exception has had to pass through similar trials in their transition to self-government and independence" (*Survey* 1947, p. 2). "More than three years after the end of the war, countries find that in no branch of their economy have they attained prewar levels" (*Survey* 1948, p. xii).

The first *Survey* (1947) provided detailed records of pre- and post-war economic and social conditions in the countries where data were available. It noted:

> The standard of living of the people of this region which at all times has been very low has become lower in the years during and after the war… Transport was one of the things damaged in nearly all countries of the region… The railway lines that were displaced have not been opened to traffic and only about 53 per cent of the pre-war railways in six war-devastated countries of the region (Burma, China, Indo-China, Indonesia, Malaya and the Philippines) were open to traffic in 1946-7 (*Survey* 1947, p. 5).

In that same issue, separate chapters were devoted to estimates of national income, land utilization and crop production, population growth and movements, and mining and industry; a heroic effort was made to collate and make sense of the data generated from different sources. In the chapter on mining and industry, a separate section was devoted to the extensive damage caused by the war:

> In China…where severe fighting continued throughout the whole period of the war, about 90 per cent of the machine and light-metal industries was reported to have been lost, along with 70 per cent of the productive capacity of the coal, electric power, and iron and steel industries. In Burma, also a scene of severe fighting, the railway system was completely destroyed, and most of the oil refineries and installations were destroyed by the British authorities on their withdrawal in 1942. A similar situation obtained in Indonesia where the Dutch authorities deliberately destroyed equipment in the oil, tin, and shipping industries as well as the harbour installations in the face of Japanese invasion in 1942. In Malaya, most of the dredges were rendered unserviceable by the retreating British troops and practically all bridges were destroyed in 1942. Similarly, the Philippines suffered large-scale physical damage as a result of both Japanese and Allied military campaigns (*Survey* 1947, p. 79).

That issue of the *Survey* also contained a list of the damage caused by aerial bombing and overexploitation and overworking of industrial equipment in countries such as India and Ceylon. It contained tables on pre-war and post-war production of coal, petroleum, electricity etc., and on different countries' capacity for textile production. Some of these figures are detailed in a later chapter on Japan and how it recovered from the war and became by the 1970s the leading industrialized country in Asia.

Yet, in that first issue of the *Survey*, the positive impact of the war was recognized, as it had weakened the colonial powers and accelerated the independence of former colonies. "In any case, the war has greatly altered the situation. The changed political status of Asian countries combined with the reduced economic strength of their former metropolitan powers and the increased desire to promote greater interregional trade, has brought the countries of Asia together much closer" (*Survey* 1947, p. 1).

However, many newly independent countries in the region also suffered from internal strife and civil war, largely due to colonial legacies.[1]

> Independence, unfortunately, was accompanied by communal conflicts between the two states [India and Pakistan]. Mass migrations, reaching into many millions, took place in the last part of the year, when non-Muslims from Western Pakistan moved in large convoys to East Punjab in India, and Muslims in East Punjab in turn crossed the frontiers to reside in Western Pakistan. Communist infiltration into China and Korea, struggle for self-government in Indonesia and Indo-China, and communal conflicts in the newly founded dominions of India and Pakistan – all these combined to exert a hindering influence on post-war attempts at economic rehabilitation and development (*Survey* 1947, p. 3).

The newly independent countries' search for development solutions was also hampered by the cold war between two superpowers that lasted until the collapse of the Union of Soviet Socialist Republics (USSR) in 1991. A number of countries in the region gravitated towards the two camps and eventually fought with each other, often actively supported by the superpower with which they were aligned. In the very first issue of the *Survey*, this unfortunate development was noted: "The developments in Asia and the Far East were necessarily affected by the overall uncertainty prevailing in the world situation, which arose from the tense relation that existed between the two world powers, the United States and the Soviet Union" (*Survey* 1947, p. 3). "The mobilization of domestic resources and the attraction of foreign capital for investment are hardly possible" when countries were either in the middle of civil strife or at war with one another (*Survey* 1949, p. xvii).

Soon after the end of the Second World War, Korea was divided into two: the Republic of Korea (initially called the Provisional Government of the Republic of Korea, or popularly "South Korea"), supported by the United States, and the Democratic People's Republic of Korea (initially called the Provisional People's Committee for North Korea, or popularly "North Korea"), at one time supported by the People's Republic of China and the former Soviet Union. The two sides fought a devastating war between 1950 and 1953.

The origin of those hostilities can be traced to other political arrangements, some having taken place 35 years previously when the Korean peninsula had been annexed to Japan, which ruled it from 1910 until the end of the Second World War. Following the surrender of Japan in September 1945, United States administrators divided the Korean peninsula along the 38th parallel, with United States military forces occupying the southern half and Soviet military forces occupying the northern half. The so-called Korean War was primarily the result of this political division following an agreement made earlier among the victorious allies. Although the Korean War benefited some countries in the region, it caused serious dislocations for both the southern and northern portions of what had once been a single country. Besides losing access to natural resources and energy sources which were located mainly in the area to the north, the newly created Republic of Korea had to deal with the settlement of a large number of refugees (approximately 4 million) from the Democratic People's Republic of Korea.

[1] The end of the Second World War in the Pacific did not mean a clear-cut shift from war to peace. Instead, it saw a drawn-out and turbulent time of transition, shaded into a long period of national struggle and decolonization across Asia. For an excellent account of this, see Baylay and Harper (2007).

However, even more devastating for the region was the warfare in Indochina. The First Indochina War between French and Vietnamese forces lasted from the end of 1946 to August 1954. Subsequently, Viet Nam, along with former parts of French Indochina, namely, Laos and Cambodia, suffered grievously during the Second Indochina War between United States and Vietnamese forces, which started at a low level in 1955 but became extremely intense until the time it suddenly ended in 1975. In addition, Cambodia suffered from a state of civil war from the early 1970s until the 1990s.

B. Colonial history and institutional legacy

At the very beginning of their journey on the path to development, the region's developing countries had to confront the legacy of colonial rule, which they had struggled to overthrow through peaceful means, as well as, in some cases, by resorting to force. Problems were created by the refusal of some colonial powers to cede independence to their former colonies, and civil wars were often triggered as a result of the support of a colonial or imperial power for a collaborationist regime. These struggles often caused havoc to already fragile economies, some of which had directly borne the damage of war waged by the imperial powers for their territorial gain.

China has been the most populous country of the world for the last two millennia and was almost certainly the largest economy globally until the eighteenth century. China was devastated by the aggression of the Western powers from the time of the first Opium War, which ended in 1842, when China had to open up so-called treaty ports to trade with the Western powers and cede Hong Kong to the British. From the 1880s, Japan joined the Western powers as an aggressor in China. In 1895, China had to hand over the island of Formosa to Japan. After the fall of the Qing Dynasty, China became divided among different warlords, even as the communist movement developed among the peasants and workers of China. From 1931, Japan attacked and tried to conquer vast regions of China. With the defeat of Japan in the Second World War, a civil war erupted in China, with the Communist Party and Guomindang Party as the combatants; it ended in a communist victory in 1949. One index of China's more than century-long sufferings is that, according to an estimate by the great Chinese demographer, Ho Ping-Ti, China had the same population in 1953 as it had in 1853.

The island of Formosa (including the Pescadores) and Korea both came under Japanese rule from the end of the nineteenth century – Formosa in 1895 and Korea in 1910. Although Japanese colonial rule deprived the native populations of all higher positions in administration and business as well as higher education, its rule left behind a legacy of infrastructure, communication facilities and productivity-enhancing technologies to augment the productivity of the land – built in Japan's own self-interest – which proved to be prime assets in the post-occupation development of these economies.[2]

The Japanese also left behind a particular pattern of governance, which the Koreans and the Guomindang Party emulated. They were swift and decisive in adopting policies which they considered to be in their domestic interest, even when their major donors recommended contrary policies. Two other Japanese legacies that helped these economies to spur their development were: (a) a strict control over foreign direct or portfolio investment, so as not to allow any foreign enterprise to be a major player in the domestic economy; and (b) an emphasis on absorbing any foreign technology they had bought or borrowed and upgrading it to suit their own requirements as quickly as possible.[3]

2 For additional details, see Cumings (1984); Myers and Peattie (1984); and Robinson (2007).

3 See Bagchi (1987a; 1987b; 2002).

In 1750, the British conquest of India (meaning the area currently comprising Bangladesh, India and Pakistan in this context) and the European imperialist assault on China, China produced 32.8 per cent and India 24.5 per cent of the manufacturing output of the world; by 1913, as result of the workings of imperialism and the industrialization of the leading capitalist economies, those shares had gone down to 3.2 per cent in the case of China and 1.4 per cent in the case of India.[4] Even with China being the world's fastest-growing economy through the 1990s and beyond, the proportion of China's manufacturing output to the global manufacturing output in 2003 was only 11.5 per cent and that of the Indian subcontinent (consisting of Bangladesh, India and Pakistan) was about 2.5 per cent, according to the World Bank (2005). Thus, the divergence still persists.[5]

Nevertheless, in *Survey* 1948 it was noted that in 1931 India ranked second to Japan in industrial development (p. 3). The partition of India in 1947 not only caused the dislocation of a large number of people, but also seriously affected the complementarities of the two economies – India and Pakistan – that had then become separated. That issue of the *Survey* highlighted the difficult initial condition for both India and Pakistan, ravaged by the trauma of partition:

> India and Pakistan had to face extensive communal riots immediately after partition. Inflation, shortages, … and deterioration of capital equipment – all these have contributed to continued economic instability… Shortage of capital equipment and technical personnel is another handicap to the newly independent countries. Repatriation of metropolitan staff and replacement by local staff, for example, have resulted in an acute shortage of competent technical personnel in civil service (*Survey* 1948, p. 33).
>
> This partition entailed considerable dislocation, of which the most spectacular was the mass transfer of population across the frontiers of the two countries during the latter part of 1947.
>
> Economically, the two new countries, although differing in resources and development, were highly complementary to each other. Both were still agricultural, but India had developed industries which, like jute and cotton, drew heavily on Pakistan for raw materials, as well as for foodstuffs for the working population. In return, Pakistan received manufactured articles from India…
>
> The complementary economic character of the two countries was seriously affected by the partition through the creation of trade barriers and the break-up of the whole system of communications. The transfer of great numbers of population from Western Punjab, Northwestern Frontier Province and Sind resulted in temporary suspension of many of the industrial, banking, and commercial establishments in Western Pakistan, and many of the farm lands formerly cultivated by the Pakistan peasants in East Punjab and Delhi had to be resettled by Indians. Meanwhile, India had to spend a large part of its exchange resources, accumulated during the war, in the purchase of food (*Survey* 1948, pp. 35-36).

4 See Bairoch (1982) and Simmons (1985).

5 See Bagchi (2008, p. 18).

A further dislocation affected the subcontinent in 1971 when Bangladesh separated from Pakistan following a nine-month-long war of independence. One estimate puts the total loss of physical assets at about $1.7 billion. About 10 million people fled to India and about 20 million were dislocated internally during the war. The dislocation caused a serious shortage of food, amounting to 3 million tons. The public expenditure on relief, reconstruction and rehabilitation between January 1972 and June 1973 amounted to about $400 million. The economy contracted by about 12 per cent between 1969/70 and 1972/73.[6]

Sri Lanka also suffered from a prolonged civil war, from 1983 to 2009. According to an estimate of the Central Bank of Sri Lanka, the war reduced the country's growth rate by 2-3 per cent per annum over the period of conflict.[7] A comprehensive present value (1996) estimate of the economic cost of the war for the 1984-1996 period (discounted at 5%) places it at 1.7 times Sri Lanka's 1996 GDP.[8] A simple extrapolative exercise shows that, in the absence of that war, Sri Lanka's per capita GDP in 2002 would have been approximately $1,500 instead of only about $900.

Among South-East Asian countries, Thailand remained formally independent throughout the nineteenth and twentieth centuries. During the Second World War, it was effectively occupied by Japan, but it retained its armed forces and the basic structure of administration. During the French and United States wars against Viet Nam, Thailand sided with the United States and gained economically from that country's military expenditures. Thailand's formal independence gave a degree of policy autonomy to the Government, which benefited Thai farmers and workers.

In the evolution of feudalism, an interesting contrast can be observed between the case of Thailand on the one hand and the Philippines on the other, based on their experience with the colonial legacy. Thailand remained *de jure* independent, but the economy *de facto* was similar to a colonial economy. Under the unequal Bowring treaty which the British persuaded Thailand to sign in 1855, the country was prohibited from imposing high import duties (maximum 3 per cent on imports and exports); hence, it was impossible to create domestic industries. Further, the country was severely weakened by the limited revenue that the Government could gain from trade taxes.[9] As a result, because the *Sakdina* (Thai system of social hierarchy, or social order) did not create any institution to nurture a local entrepreneurial class, the vacuum was filled by an influx of Chinese merchants who became very active in all aspects of life, economic and otherwise. On the other hand, the Philippines had been a Spanish colony for more than 300 years, from approximately 1565-1570 (the conquest period) to 1898. The Spaniards implemented a feudal landed system. Many landholdings of the peasants were either appropriated through land grabbing and indebtedness, or being sold to the elite class. The feudal landed system became the precursor of the current unequal land system in the Philippines.

C. Endemic poverty

Poverty was widespread in the region during the colonial and immediate post-war periods. "The standard of living of the people of this region which at all times has been very low has become lower in the years during and after the war" (*Survey* 1947, p. 5). The first few issues of the *Survey* provided estimates of the standard of living in the region which revealed the extent of poverty.

6 See Islam (1974).

7 See Central Bank of Sri Lanka (1998).

8 See Arunatilake, Jayasuriya and Kelegama (2001).

9 See Ingram (1971) and Feeny (1982).

A rough indication of the relative poverty of the region may be obtained from national income statistics. "The *Economic Survey of Asia and the Far East, 1947* contained the following estimates of per capita income for selected countries in terms of 1946 U.S. dollars: Ceylon $91, Philippines $88, India $43, Indonesia $35 and China $23; the equivalent figure for Japan was put at less than $100. By comparison the per capita income of the United States in 1946 was $1,269 and that of the United Kingdom £165 or about $660 (*Survey* 1948, p. 9)".

In addition to domestic structural factors, such as high population growth rates and low agricultural productivity, *Survey* 1948 attributed the relative poverty situation in the region to the international economic and political order.

> The increased wealth of the nineteenth and twentieth centuries has been highly concentrated in a few countries, and only a small proportion of it has been created in countries of Asia and the Far East… The United States, Great Britain, France and Germany, representing 13 per cent of the world's population, owned almost 50 per cent of the world's goods, and more than two-thirds of the world's income was reserved for less than one-third of the world's population (*Survey* 1948, p. 8).

Survey 1950 linked the low level of savings and capital formation to low level of income: "… over-all poverty, as expressed in the low level of national income of Asian countries", which "means that the resources available for both social and physical investment are limited" (*Survey* 1950). Mr. Lokanathan in his preface to *Survey* 1950 provided the following assessment on the prospects of the countries in the region:

> In the face of the … region's low level, both per capita and aggregate, of savings and capital formation, it would be totally unrealistic to talk in terms of a rapid increase in the standard of living and welfare of the peoples of Asia and the Far East. It would in fact take all the presently available resources of the countries of the region in the next five years to ensure at least maintenance of per capita production and consumption levels. Even this limited goal cannot be attained without the continuous and systematic efforts of the peoples and Governments of the region, supported and encouraged by the active assistance of countries outside the region which are in a position to grant loans and other forms of aid, and not least of the United Nations, the specialized agencies and other international bodies (*Survey* 1950, p. xviii).






Japan: the leader of post-war East Asian industrialization

4

The rapid transformation of Asia following the decolonization that took place after the Second World War has been a unique experience in human history. The rise of Asian countries is unprecedented in the history of the world. Those countries comprise the first group of non-European economies to have come out of a state of underdevelopment, and they are now challenging the supremacy of the North Atlantic seaboard countries in all areas of economic and human development. The policies pursued by these countries in their remarkable journey of transformation are also distinctive in the history of the development of non-European countries. The story of the resurgence of Asia after the Second World War starts with the rise of Japan like a phoenix out of the ashes of the war and continues with the advancement of the newly industrializing economies of Hong Kong, China; the Republic of Korea; the city state of Singapore; and Taiwan Province of China, followed by the astonishing growth and development of China itself. This chapter deals with this dramatic story, reserving the ascent of China and the stories of the newly industrializing economies and South-East Asia for subsequent chapters.

A. Japan after the war: the predominance of agriculture and the pressure for reindustrialization

In 1947, Japan had "52 per cent of its population engaged in agriculture, 22 per cent in manufacturing, and 7 per cent in trade and commerce", according to *Survey* 1948. "This predominance of agriculture in Asian countries is in striking contrast to the industrially advanced countries such as Great Britain, the United States, Germany and France, where the proportions of gainfully employed population in agriculture were respectively 6 per cent (1931), 17 per cent (1940), 26 per cent (1939) and 36 per cent (1931)" (*Survey* 1948, p. 3). However, the predominance of agriculture was much higher in other countries in the region than in Japan. As noted in *Survey* 1947 (p. 4), "Japan was the one country before the war in which the proportion of income derived from manufacture was appreciably higher than that contributed by agriculture. In every other country, the contribution made by agriculture to the national income is large, ranging from 52 per cent in India to about 76 per cent in Indonesia". Thus, in *Survey 1948* all the economies in the region, except Japan, were properly regarded as agrarian.

A year earlier, *Survey* 1947 provided the following assessment of the pre- and post-war Japanese economy:

> In 1940 the total national income for Japan Proper was placed at 39.8 billion yen, or U.S. $9.33 billion according to the then prevailing rate of exchange (1 yen equals 23.44 U.S. cents). The civilian population for that year was 71,420,000 and the armed forces 1,694,000, giving the total population of Japan Proper in 1940 of 73.1 million.

> The per capita income for Japan Proper was thus U.S. $128 in 1940. As the U.S. wholesale price level during 1940-46 rose by 54 per cent (from 91 to 140), the 1940 per capita income of U.S. $128 in Japan Proper would be worth U.S. $197 in 1946. However, Japan's national income must have been considerably reduced today, as compared with that for 1940. The Japanese index of industrial production, as compiled by the SCAP [Supreme Commander for Allied Powers], showed a steady increase from 1932 up to 1941, the year of Pacific War. Ever since, there has been a continuous drop. The year of Japanese surrender saw the index more than halved, from 154.8 in 1944 to 61.5 in 1945. It was further halved in 1946, to 32.5. Not until 1947 did it begin to rise again, to 40.9. The 1946 index, as compared with the 1940 index, is only one-sixth. … the national income of Japan must have been considerably reduced in 1946. It would perhaps be plausible to conclude that by 1946 Japanese national income had been more than halved, and that, in view of the increase in Japanese population, the per capita income had gone down even lower. At 1946 prices the estimated per capita income for 1940 was equivalent to U.S. $197. In actuality it was perhaps less than half that figure in 1946 (*Survey* 1948, pp. 15-16).

In *Survey* 1955 (p. 132), it was noted that the continuing pressure of the population in agriculture caused the "average area cultivated per family to decline from a little over one hectare in pre-war years to less than 0.9 hectare by 1954". Although the country's draft six-year plan contained a proposal to limit the increase in the number of people "gainfully engaged in agriculture to 4.3 per cent over six years between 1954 and 1960 as compared with the expected increase in aggregate employment of 12.7 per cent over the same period", the population pressure in agriculture was thought likely to remain very high. This situation underlined the need for a higher pace of industrialization as well as greater labour absorption in the industrial sector.

Survey 1948 (p. 34) underscored the challenges to the post-war revival of the Japanese economy and noted their likely impact on the developing countries of the region: "Japan's industrial production at present (December, 1948) is only 32 per cent of the peak level attained in 1941 or 64 per cent of the level in 1930-34" and "two-thirds of its large cotton textile capacity was destroyed during the war". It was observed that Japan would need to generate a high level of exports to "pay for the raw materials and food which previously came in large part from the yen *bloc* of the Japanese Empire".

B. Post-war industrialization: the Japanese miracle

The phenomenal industrial growth of Japan between 1955 and 1965 is often characterized as the "Japanese miracle", coming as it did in the wake of almost total destruction of its industrial capacity.

1. Boost from the Korean war

By 1953, the prospects for Japan's industrial resurgence had received an unplanned boost from the entry of United Sates and its allies into the Korean War on the side of the Republic of Korea in June 1950. *Survey* 1954 contained a record of that phenomenal growth:

> The recovery was rather slow until the middle of 1950 when the annual rate of manufacturing production was still more than 20 per cent below the pre-war level. However, a remarkable period of expansion ensued under the stimulus of the Korean War boom. For example, actual capacities of production increased between the 1949 and 1953 (year-end) by sizable proportions for many industries, such as cotton spinning (by 107 per cent), pig iron (by 124 per cent), steel ingots (by 65 per cent), zinc (by 95 per cent), ammonium sulphate (by 32 per cent), caustic soda (by 50 per cent), cement (by 39 per cent), pulp (by 84 per cent), and synthetic fibres (by 195 per cent) (*Survey* 1954, pp. 11-12).

That issue of the *Survey* highlighted in particular Japan's impressive gains in two key industries, textiles and steel, after the Supreme Commander for Allied Powers removed some restrictions on increasing their production.

> In *Japan,* the cotton textile industry at the end of the war had only 2 million spindles as compared with 12.2 million in the pre-war peak year (1937). During the (Allied) occupation, the total number of spindles was limited to 4 million. But rapid progress was achieved following the removal of this limitation in 1950, and the number increased from 3.7 million spindles at the end of 1949 to 6.4 million in 1951 and 7.6 million in 1953. The total production of milled-cloth stood at 2,350 million metres in 1953 and Japan became the world's largest exporter of cotton cloth in that year. The rapid increase in spindleage was accompanied by improvement in quality and rationalization of equipment and increase of labour productivity, with the result that production of cotton cloth increased by 205 per cent during the five-year period between 1948 and 1953. Of the major manufacturing industries of Japan the cotton textile industry appears to have maintained best its international competitive strength. Total exports of cotton cloth in 1954 are estimated at 1,150 million metres (*Survey* 1954, p. 13).

In *Survey* 1954, it was also noted that impressive gains were being made in Japanese steel production which helped the country to regain its position as the region's leading steel producer with 7.6 million tons or 70 per cent of the region's total output in 1953.

> More remarkable was the expansion witnessed in the wake of hostilities in Korea, as can be seen from the increase in actual capacities of pig iron and steel ingots by 124 per cent and 65 per cent respectively between the end of 1949 and the spring of 1954. Current actual capacities (4.5 million tons for pig iron and 9.9 million tons for steel ingots) are still below the war-time peaks, although the annual output in 1953 was the highest on record for both products. One of the basic weaknesses of the industry is its dependence on rather distant foreign sources of raw materials, particularly iron ore and coking coal. Recently the industry has passed through a three-year rationalization programme, which includes installation of modern equipment with a view to improving the yield and quality of iron and steel products (*Survey* 1954, p. 14).

2. United States support amid suspicion

The somewhat hesitant recovery in the early post-war period was restrained by the Allies' occupation of Japan and Western suspicion about the possibility of a revival of Japanese militarism. Notwithstanding the lingering hostility against the Japanese and fears about too rapid a revival of their economy, the United States was also concerned that the slowing of the Japanese recovery could turn the poverty-stricken Japanese population towards communism. The Government of the United States, under the auspices of the Supreme Commander of Allied Powers, decided to help rather than hinder Japanese industrial development, hardly anticipating that Japan in later years could become its industrial rival. The United States also found it expedient to encourage Japan to become a major supplier of industrial goods for its Korean War campaign and paid the Japanese Government large sums for special procurements which reportedly amounted to 27 per cent of Japan's total export trade.[1]

The United States also helped Japan, which had been ostracized by the global community until 1951, in the restoration of sovereignty to the Government of Japan. This enabled Japan to become a full member of the United Nations system, including a member of ECAFE from 24 June 1954. By the late 1960s, Japan had risen from the ashes of the Second World War to achieve an amazingly rapid and nearly complete economic recovery.

3. The role of the State and a policy dilemma

Japan's post-war recovery and industrialization was consolidated in the late 1950s by deliberate interventions by the Japanese Government in order to boost industrial production. The economic miracle was spurred mainly by Japanese economic policy, in particular through the role of the Ministry of International Trade and Industry (MITI).[2] In *Survey* 1958, the following account of the Government's role was outlined:

> In Japan, the Government has been engaged in organizing extensive industrial research ever since the Meiji restoration. In 1948, the various institutes and laboratories were consolidated into one body, which in 1952 became known as the Agency of Industrial Science and Technology, controlled by the Ministry of International Trade and Industry. During 1950-1953, the Agency awarded 278 research subsidies for ¥200 million, and on its recommendation the Japan Development Bank granted ¥483 million loans for the manufacture of laboratory tested products. In 1953, the Agency employed about 1,600 full-time graduate research workers (*Survey* 1958, p.80).

In referring to the 1954 report of MITI, entitled "Japan: Ten-Year History of Postwar Economy, and its 1957 report, entitled Japan: Postwar Economic History", *Survey* 1958 contained the following observation:

> The Government of Japan granted large subsidies to various key industries during the early postwar period of rehabilitation from 1947 to 1949. The coal mining industry received ¥58.3 billion, iron and steel ¥15 billion. In 1950-1951, in order to stimulate the modernization of machinery and equipment, industrial enterprises were allowed to speed up the rate of depreciation and to increase the proportion of profits allocated to reserves (*Survey* 1958, p.71).

[1] An important contributory factor in the rapid revival of the Japanese economy was the stimulus provided to the Japanese textile industry by the lifting by the Supreme Commander of Allied Powers of the restrictions on the expansion of its spindle and looms capacity, which was severely curtailed towards the end of the war by their conversion into materials for weapons, and many spinning and weaving mills became factories producing aircraft or ships. The United States decision was based on the need to export the huge surpluses of raw cotton amassed by the United States Government under the so-called New Deal during the Great Depression. See Takeshi Abe, "Changes in the Japanese cotton spinning industry in wartime and the postwar occupation period", Discussion Paper 05-19 (Toyonaka, Osaka, Graduate School of Economics and Osaka School of International Public Policy (OSIPP), Osaka University, 2005).

[2] See Johnson (1982).

In *Survey* 1957 (p. 2), it had been noted that the advance stage of development of the Japanese economy was making it "so dynamic and so industrially advanced that in a number of ways its perspectives are unique as far as the ECAFE region is concerned". According to that issue of the *Survey*, its extraordinary growth… "creates a dilemma. If the maximum attainable growth of output is permitted, dependence on foreign raw materials creates serious balance of payments difficulties. Yet if potential growth is held back very much, not only is the standard of living kept from rising as fast as might be wished but serious unemployment or underemployment results". It also contained the following observation :

> For the Japanese economy, 1957 was a time for pause and re-orientation. During the preceding two years, the economy had been running continuously at high speed. The scale of economic activities, as measured in terms of real national income, had expanded at a remarkably rapid rate – by 11 per cent in fiscal year 1955 and 9.8 per cent in fiscal year 1956. This was by far the highest increase among industrial countries. In 1956, industrial production had risen by 23 per cent over the previous year, and in July 1957 it was still running at 14 per cent above the level reached twelve months earlier. In the latter half of 1956, however, there were indications that this rate of expansion could not be maintained if the country were to avoid serious consequences such as bottleneck inflation and growing deficits in the balance of payments… This rate of economic growth is, of course, attributable in large degree to the simple process of recovery from a very low level in the immediate postwar period, when over a quarter of the national wealth had been destroyed. The process was helped by the excess of imports over exports made possible by United States aid (*Survey* 1957, p.44).

In the same issue of the *Survey* (pp. 52-54), it was also noted that a distinctive feature of Japan's post-war industrial transformation, namely the composition of the manufacturing sector, revealed a marked shift to heavy or producer goods industries. "In its modern industrial sector, Japan has broadly succeeded in catching up with the most advanced modern technologies". Even though it was still considerably short of its pre-war level, it was well ahead of China and India, the only other two Asian economies with a substantial manufacturing sector in the pre-war period.

However, by the early1960s Japan's industrial growth entered a new era. *Survey* 1962 (p. 11), noted that "manufacturing production in Japan grew by 16 per cent in the first half of 1962 as against 22 per cent in 1961 and 28 per cent in 1960. This extraordinary growth had to be checked because of balance of payments difficulties". The rise of Japan as a major industrial power has made that country responsible for three fifths of the ECAFE region's manufacturing production.

The detailed narratives on Japan's spectacular industrial growth from the 1950s to the 1970s, as recorded in the ECAFE *Survey*, have been well-supported by authoritative histories of Japan by academic researchers. For example, Kōsai (1988, p. 494) wrote: "From 1945 to 1973, the Japanese economy maintained an annual growth rate of nearly 10 per cent. Real GNP per capita in 1946 declined to 55 per cent of the 1934-6 level as a result [of social and economic disorder], and it did not recover that level until 1953".

While various issues of the *Survey* have, presented a faithful account of Japan's post-war industrial growth, they seem to have paid insufficient attention to the institutional structure that made the Japanese miracle a reality. In particular, they did not adequately highlight the way in which the Japanese organized their whole economy by restructuring the pre-war *zaibatsu* (business conglomerates) into the *keiretsu* (grouping of enterprises) relationships around the main bank and firms which they financed and monitored. The distinguishing characteristics of the Japanese economy during the "economic miracle" years included: the cooperation of manufacturers, suppliers, distributors and banks in closely knit groups called *keiretsu*; the powerful enterprise unions and *shuntō* (annual wage bargaining exercises); good relations with government bureaucrats; and the guarantee of lifetime employment (*shūshinkoyō*) in large corporations and highly unionized blue-collar factories. The economic miracle was spurred mainly by Japanese economic policy, in particular through MITI.[3] With the progress of market-oriented liberalizing reforms, these relationships have become more fragile but have not vanished altogether.

The second area to which more attention could have been paid in the *Survey* is the close relationship that obtained between the office and the factory, between the research wing of a firm or a conglomerate and the production units of the firm and the conglomerate. This contrasts with the situation in many developing countries which maintain an elaborate office for the owners and managers of the firms even when they are doing badly in business. Moreover, in many developing countries, while research is conducted in government-funded laboratories, there is no compulsion on those laboratories to commercialize new discoveries or inventions nor is there a compulsion for the commercial firms to use the products of those firms.[4]

Finally, Japan has tried hard to pursue what are called "positive adjustment policies". That means that when an industry is facing a decline because of competition from lower-cost producers, the groups of firms concerned, often with direct help from MITI or some other government agency, shift to higher value added products in the same line of production and/or innovate better methods of production for the same commodities.

The third area to which the *Survey* did not pay adequate attention is the heavy environmental damage that Japan's post-war industrialization inflicted. As pointed out by Bronfenbrenner and Yasuba (1987, p. 122), "Japanese firms were permitted to pollute the environment quite freely until the early 1960s. Osaka, for example, was called 'Smokeopolis' by its citizens… Foreign observers stated that by the late sixties, Japan had become one of the most polluted countries in the world… Social attitudes changed quickly after Minamata, causing changes in abatement policy. The policy itself became more drastic than elsewhere, under the so-called PPP or polluter pays principle. …sulfur dioxide air pollution and organic water pollution abated quickly after 1970 in large cities".[5]

C. Japan: locomotive of Asian industrialization

That Japan was technologically the most advanced country in the ECAFE region, despite the wartime devastation was recognized by United Nations agencies, especially ILO, with which the Commission closely collaborated on training programmes:

[3] See Johnson (1982).

[4] For details, see United Nations (1991).

[5] The reference to "Minamata" is shorthand for a neurological syndrome caused by severe mercury poisoning. What is popularly called "Minamata disease" first occurred in a city of the same name, where wastewater containing methylmercury accumulated in fish and shellfish and poisoned people and animals consuming such seafood products. The pollution stared in the 1930s and continued into the late 1960s.

> Early in the life of the Commission, working relations were established with the ILO and a report was prepared on technical training facilities in Asia and the Far East. In 1949 the ILO set up an Asian field office on technical training, which took over the work hitherto done by the ECAFE secretariat in this field. Co-operation continued with ILO, and also UNESCO, in the preparation of a report on fields of economic development handicapped by lack of trained personnel. Negotiations with SCAP [Supreme Commander for Allied Powers] in 1949 resulted in a statement by SCAP on the conditions under which Japanese technicians could be employed abroad, and since then a number of countries of the region have availed themselves of this possibility.[6]

Although Japan's industrial pre-eminence was recognized, *Survey* 1958 duly took note of other Asian countries' industrial development: "Today, China… and India remain among the countries most actively developing their manufacturing industries, along with Hong Kong, southern Korea, Pakistan and the Philippines. Capital goods industries have developed in some countries, especially Japan, mainland China and India" (p. 4). The complementary relationship between Japan and other Asian countries had also been recognized in *Survey* 1948:

> [T]he industrial development of the light consumer goods industries in other countries of Asia may well reduce the dependence of these countries on Japan for these types of goods. On the other hand, the desire for industrial development on the part of all countries of Asia and of the Far East might result in a heavy demand for Japanese machine tools and industrial machinery and equipment. To survive economically, Japan's exports must be large in order to pay for the raw materials and food which previously came in large part from the yen bloc of the Japanese Empire (*Survey* 1948, p. 34).

A study on restructuring developing economies (Theme Study 1990) also drew upon the powerful example for restructuring contemporary economies in the region provided by the strategy of industrialization followed by Japan and later by some East and South-East Asian developing economies (often called first- and second-generation newly industrializing economies). Japan did this by systematically following four phases in the product cycle: the import of a new product, which generated new demand and opportunity, followed by import substitution, exportation and reimportation of the commodity that other developing countries had become more competitive in producing. This catching-up product cycle process was first formulated by a Japanese economist as an explanation for the Japanese industrial growth strategy which was later termed as *genko keitai* or the "wild flying geese" pattern.[7]

The flying geese model has been in vogue to explain the emerging international division of labour among countries in the different phases of development.[8] In its stylized version, the "flying geese" model refers to a continuous shifting of comparative advantage from developing economies at a higher stage of development to those at a lower stage. This is achieved by increasing complementarity as the former vacate the production and export of relatively less sophisticated industries in favour of less developed Asian economies.

[6] Report of the ECAFE (seventh session) to the ECOSOC, Lahore, Pakistan, 28 February-7 March 1951 (Official Records of the Economic and Social Council, 1951, Supplement No. 7 (E/1981-E/CN.11/306).

[7] Akamastu (1962).

[8] For an illustrative attempt, see Chen (1988).

That Theme Study 1990 also identified the mechanism through which the division of labour will be achieved, including rises in the unit labour cost in labour intensive and technologically less advanced industries, the relocation of industries, the direct investment and technology transfer, the involvement of transnational cooperation and the provisio of market access to other developing countries. The study contained analyses of the differences in the initial conditions and diversity of structural changes and the growth experience of the developing ESCAP region by creating four distinct categories or groups of economies: [9]

(a) The newly industrializing economies, namely Hong Kong, China; Singapore; and Taiwan Province of China, with common characteristics of small or medium size, weak natural resource base, no labour surplus and high foreign trade orientation;

(b) South-East Asia: Indonesia, Malaysia, the Philippines and Thailand. These are generally medium-sized natural resource based economies initially with a high share of primary commodities and exports;

(c) China[9] and South Asia: This group is characterized by generally low per capita income, large size, labour surplus, moderate natural resource endowment and high dependence on agriculture and other primary commodities;

(d) Least developed, and Pacific island and small island economies. These are geographically handicapped economies and require substantial infrastructure for economic development.

However, there was a complete failure in the *Survey* to appreciate the role that the "Plaza Accord"[10] had played in Japan's rise as an important player in the international monetary system and in the industrialization of South-East Asian economies, in particular Indonesia, Malaysia and Thailand. The *Survey* between 1986 and 1990 did not include any discussion of the Plaza Accord. In the market intervention that occurred following the Accord, the exchange rate value of the dollar against the yen declined by 51 per cent between 1985 and 1987. The strengthening of the yen against the dollar prompted Japan to shift its manufacturing to locations in South-East Asia, such as Malaysia and Thailand. More importantly, the signing of the Plaza Accord was significant in that it reflected Japan's emergence as a real player in managing the international monetary system. Unfortunately, however, the recessionary effects of the strengthened yen in Japan's export-dependent economy created an incentive for the expansionary monetary policies that led to the Japanese asset price bubble of the late 1980s, the bursting of which led to the longest prolonged recession in Japanese history.

9 *The inclusio*n of China in this group from today's vantage point may raise eyebrows. However, China's growth potential was generally underestimated by analysts at that time. Also, China can be said to have followed a restructuring path which was close to that outlined in the Theme Study 1990.

10 Signed on 22 September 1985 at the Plaza Hotel in New York City between the Governments of France, former West Germany, Japan, the United States and the United Kingdom in order to depreciate the United States dollar in relation to the Japanese yen and German mark by intervening in currency markets.





渋谷センター街
澤之鶴
三平酒家
渋谷店
Merry
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Cafe
Miyama


1895063 百万円
5835 百万円
13298 百万円
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TOPIX

The newly industrializing economies of East Asia

5

A. Learning from Japan

In most ESCAP studies and the *Survey*, Taiwan Province of China and the Republic of Korea, along with Hong Kong, China; and Singapore, have generally been grouped together as first-generation newly industrializing economies because of their fast-track export-based industrialization, the development of which most closely resembled that of Japan. However, it seems more reasonable to treat only the first two economies as belonging to this category. The other two are much more special cases that illustrate the phenomenon of the East Asian "miracle economies"; moreover, Singapore belongs to a different geographical subregion, namely South-East Asia. Both Hong Kong, China; and Singapore were, at least initially, entrepôt and enclave economies, a large portion of whose exports consisted of re-exports from neighbouring countries, as they were major centres in the region for shipping. Being small, both in population and area, their GDP was derived mainly from services rather than industry or agriculture. As such, they have often been considered as atypical examples of East Asian development, unlike the Republic of Korea and Taiwan Province of China, both of which were heavily influenced in their development strategy by the Japanese occupation that began towards the end of the nineteenth and early twentieth centuries.

However, they did not strictly fit the "flying geese" pattern that has often been used to illustrate the Japanese and East Asian growth pattern – as referred to in a previously mentioned ESCAP study – but often "leap-frogged" into higher niches. For instance, when the Republic of Korea initiated its heavy chemicals, automobile-manufacturing and machine-building industries in the late 1970s, most economists were sceptical about the viability of those undertakings. However, by the late 1980s Korean cars were selling well in Europe and North America; Hyundai is now considered one of the leaders of the global automobile industry. Likewise, Taiwan Province of China now leads the world in electronics hardware, and the companies dominant in it were either government-owned to start with or enjoyed strong governmental financial backing.

Freed from the weight of landlord power, both the Republic of Korea and Taiwan Province of China moved firmly along the path of classic capitalist development. They followed Japan in initially moving into textile exports at the low value end, gradually moving into higher value added products and then diversifying into other products, so that textile production and exports became relatively marginal as the economy moved into the more sophisticated categories of manufactures. Various issues of the *Survey* tracked the changing pattern of exports in Japan and the newly industrializing economies. *Survey* 1967 grouped the ECAFE economies (except for Japan) into two groups, those with rapid growth of exports and those with slow or negative growth, between 1960 and 1966. It brought out the fact that the Republic of Korea and Taiwan Province of China had the fastest growth of exports. Between 1960 and 1966, the compound rates of growth in the exports of these economies were 40.1 and 21.8 respectively. However, the commodity concentration of exports of Taiwan Province of China had declined far more than that of the Republic of Korea, thus demonstrating that the former had achieved greater diversification of exports than the latter (*Survey* 1967, part I, chapter 1).

The Viet Nam War in the late 1960s – unlike the Korean War in the early 1950s – benefited mostly the more industrialized Asian economies, such as the Republic of Korea and Taiwan Province of China, along with Japan: "Increases in the direct exports to the Republic of Viet-Nam reflect only a part of the trade effect of intensified hostilities there".

> It was stated that Taiwan Province of China and the Republic of Korea are increasingly engaged in a processing trade with Japan, the rising volume of which reflects the impact of the hostilities in Viet-Nam on the Japanese economy. The direct measure of the effect on the economy of Japan is merged in Japan's direct exports to the Republic of Viet-Nam and in the value of United States procurements. The sum of these, in 1967, amounted to about $750 million and the increase in them, since 1965, to $882 million. This is not a large sum in the context of the Japanese economy, except that a reduction of this inflow may occur at the very time that Japan had to embark on a gradual reduction of the large external deficit of 1967 (*Survey* 1967, pp. 9-10).

Later issues of the *Survey* recorded the impressive success of newly industrializing economies and some South-East Asian economies in the 1970s when most developing countries, including those in South Asia, were performing very poorly due mainly to the changed international environment following two oil price shocks and the breakdown of the Bretton Woods system.

> In macro-economic terms the development of the group of seven countries and areas in east and southeast Asia was very successful during the 1970s. Of the seven, Hong Kong, Indonesia, Malaysia, the Philippines, the Republic of Korea, Singapore and Thailand, five recorded higher rates of growth in gross domestic product during the period 1970-1976 than they did during the 1960s. All of them surpassed the Second United Nations Development Decade (GDP growth) target of 6.0 per cent for the later period, ranging from the Philippines with 6.3 per cent to the Republic of Korea with 10.3, with an over-all average of 7.2 per cent. Moreover, there are indications that this performance will be sustained for the remainder of the decade (*Survey* 1978, pp. 5-6).
>
> In all but the Republic of Korea and the small urban economies of Hong Kong and Singapore, population growth rates were as high as in South Asia. Even so, average annual *per capita* growth rates in gross national product during the period 1960-1976 ranged from a low of 2.4 per cent in the Philippines to 7.3 per cent in the Republic of Korea. Encouragingly, there is clear evidence of a decline in population growth rates in the 1970s in all seven of them… (*Survey* 1978, p. 6).

B. Conscious policymaking

Both the Republic of Korea and Taiwan Province of China have shown how to retain policy autonomy in the presence of a dominating power, and in a situation in which United States-led globalization is sweeping the world. It is often said that all the three economies – the Republic of Korea, Singapore and Taiwan Province of China – built their growth by exporting labour-intensive products. However, this is stating only a half-truth.

The story of the evolution of the most important of the labour-intensive industries, cotton textiles, is instructive in understanding the changes in the pattern of comparative advantage in the region. It can be said that down to the 1780s, South Asia was the principal exporter of cotton textiles to the rest of the world. Britain began to become an industrialized economy by substituting for imports of South Asian cotton textiles, and then went on to become the principal exporter of cotton textiles to the rest of the world, including South Asia, which became its biggest customer.[1] The British used both colonial control and new technology to attain that position.

Then the Japanese began their drive for industrialization, and in the 1930s emerged as the largest exporter of cotton textiles in the world. Again, they partly used their colonial possessions and initially cheap – mainly women's – labour to be able to overtake the British in foreign markets and the South Asians in their home market. They also used better technologies than the British in getting to be the more powerful exporters. After the Second World War, their initial export drive was directed towards cotton textiles, for which they obtained help from the United States in many directions.[2] However, they soon moved into the higher value added subgroup of textile products and diversified into machinery and steel. Higher levels of investment, better coordination by the Government (in the form of MITI) and business groups (*keiretsu*) all played a part in this process.

Taiwan Province of China, with its better-educated and more skilled personnel, followed Japan first, and the Republic of Korea followed Japan along the same route later. In none of these cases was a passive adaptation to the global market on the basis of cheap labour enough for a sustained industrialization drive. In every case, strategies, investment and well-directed research and development (R&D) played their part.

In respect of the absorption and upgrading of technology, all the three economies have lessons to teach. To illustrate the point, the case of the Republic of Korea can be contrasted with that of India. Up to the 1980s, whenever, a Korean firm had a licence for new technology from abroad, it had to furnish a target date after which it would not need any foreign exchange to pay further royalties. It was also directed to approach the Korea Advanced Institute of Science and Technology for making adaptive changes. Thus scientific and technical personnel and the firms worked together to ensure that, after a specified time, the technology would become Korean, and no longer Japanese or American.

In contrast with this approach, Indian firms were allowed to go on paying fees for the same – very often obsolete – technologies, for which they rarely had patents, but only blueprints and designs. There was no compulsion on them to consult the State-funded R&D institutions. When the Government tried to make the government institutions earn their keep and become profitable by commercializing their inventions, there was no corresponding compulsion on business firms to really upgrade and absorb the technologies through directed R&D activities. One result of this major policy difference was that India, with a much larger population and much better initial position in science and technology, is now far behind the Republic of Korea in many areas of research and technological innovation, and still remains primarily an agrarian economy.

With the many similarities that the Republic of Korea and Taiwan Province of China shared, there were also some significant differences in both the initial conditions of the two economies and the policies that they pursued. Among the important similarities was the fact that in both economies, all banks were in the public sector and their governments exercised tight control over the allocation of foreign exchange and domestic credit. This is in sharp contrast with Japan. The first noteworthy advantage that Taiwan Province of China had over the Republic of Korea was that it had started with a much better educated workforce since many of the skilled professionals from mainland China had migrated to Taiwan Province of China after the communist victory in

1 See Bagchi (2010) and Parthasarathi (2011).

2 See Rosen (2002, chapter 3).

1949. The Republic of Korea was handicapped in this regard as Japan, when it had been the colonial power in that country, did not focus on eliminating the very high degree of illiteracy there. The second major policy difference between Taiwan Province of China and the Republic of Korea was that, while the latter encouraged the growth of large firms which led to a Japanese style concentration of economic power in the hands of a few *chaebol* firms, Taiwan Province of China pursued a banking policy which favoured small and medium-sized firms. This difference possibly contributed to more equitable distribution of income and greater resilience in times when the Taiwanese economy faced crises compared with that of the Republic of Korea.

The *chaebols* of the Republic of Korea became major players in export markets for automobiles and electronic equipment in Europe and the United States and contributed to the country's faster growth. However, the United States began pressuring the Republic of Korea to open up its markets to multinationals from the North Atlantic countries. Partly because of that pressure and because Japan, the only Asian member of OECD until 1992, was the main supplier of advanced technology to the Republic of Korea, the latter wanted to become a member of OECD and "graduate" into the developed country category. Even though such membership necessitated giving up of some of the concessions available to it as a developing country, becoming an OECD country would enable the Republic of Korea to sit at the same table with Japan for bargaining purposes.

Ironically, that membership in "the rich man's club" also required the Republic of Korea to open up its capital account to full convertibility, which later contributed to its entanglement in the Asian financial crisis of 1997/98 as well in the 2008/09 global financial meltdown. In contrast, Taiwan Province of China had never introduced full capital account convertibility, and many observers attribute its relative immunity to financial crises to this characteristic.

As mentioned previously, although geographically Singapore is part of South-East Asia rather than East Asia, in terms of the basic orientation of its economic strategy, it belongs in the same league as the Republic of Korea and Taiwan Province of China rather than that of Indonesia, the Philippines and Thailand. The *Survey* reflected this distinction from time to time. As the Republic of Korea and Taiwan Province of China, the Singapore Government controlled the supply and allocation of foreign exchange and bank credit. In addition, the Singapore Government also controlled the allocation of its extremely scarce land and housing. *Survey* 1982, in the course of discussing the problem of furnishing housing of satisfactory quality for the growing population of Asia and the Pacific, also gave a brief account of the policy pursued by the Singapore Government: "Under a public housing programme in Singapore, nearly 360,000 housing units were completed over the period 1960-1980; as at the end of March 1981 about 69 per cent of the population were living in flats built by the National Housing Board. …The difficulties of land acquisition have been less in Singapore because 70 per cent of the island's land area is owned or controlled by the Government or quasi-government organizations" (*Survey* 1982, p. 95).

Singapore also consciously followed a policy of continual restructuring of income-generating sectors and technologies as the economy developed. Singapore, which had by 1984 emerged as the State with the highest per capita income in the developing economies of Asia and the Pacific (except for Brunei Darussalam, with its enormous oil resources), went through a sharp and short growth recession in 1985. In *Survey* 1985, a box I.6 was devoted to analysing that recession under the heading, "Recession in Singapore: the anatomy of structural change" (*Survey* 1985):

The structural transformation of the mainly entrepôt trading economy of Singapore in 1960 to a largely manufactures producing and service economy has been the basic factor behind the success story of achieving the highest per capita income among developing economies of the region, with the exception of Brunei Darussalam. Singapore's success has been based on its ability to perceive the emerging opportunities in international trade and commerce and to adjust its economy through disciplined economic management. Thus it shifted from entrepôt trade to labour-intensive domestic manufactures such as food processing, textiles and garments manufactures in the initial phase and later to the more capital-intensive and higher value-added industries such as petroleum, chemicals, machinery and transport equipment. More recently it has concentrated on developing tradable services, especially tourism, transport and communications, financial and business services. In manufacturing, a significant new development in recent years has been the emergence of more skill-intensive, high-tech industries (*Survey* 1985, p. 44).

One of the key characteristics of the period of ascent of the East Asian newly industrializing economies was that the State intervened directly or indirectly in wage determination, so that the growth of wages did not outrun productivity. This kind of State-guided wage determination also prevailed in Singapore. However, that a policy of wage repression could not only be inequitable but also be counterproductive from the point of view of efficiency was pointed out in the same box in *Survey* 1985. Singapore kept wages depressed through the establishment in 1972 of the National Wage Council, which was empowered to fix wages. The rate of growth of wages in Singapore thus was lower than that in Hong Kong, China; the Republic of Korea; and Taiwan Province of China. However, lower wages led to inefficient uses of labour and lowered productivity. The Government of Singapore then revised its policy and raised wages steeply in order to force business enterprises to be more careful in the use of labour and shift to more skill- and capital-intensive sectors of production or technologies.

Thus, the commonly held view that the second-generation newly industrializing economies – the Republic of Korea, Singapore and Taiwan Province of China – were laissez-faire does not fit with the reality. On the contrary, the Government's role was pervasive in both product and factor markets, especially in terms of capital and labour. As was the case in Japan, active government policies played a major role in the industrialization and structural transformation of these economies.






South-East Asia: "miracles", crises and resilience

6

South-East Asia is one of the most resource-rich regions of the world, rich in fertile river valleys, forest resources, minerals and oil, and in seafaring and trading traditions. Those traditions and resources have, in recent decades, attracted large flows of foreign investment – both portfolio and foreign direct investment (FDI) – but have also facilitated the development of regional transnational firms linking the different economies in the region and beyond.

These economies are often placed in the same league as the East Asian newly industrializing economies – Hong Kong, China; the Republic of Korea; Singapore; and Taiwan Province of China. During the 1997/98 Asian financial crisis, their openness to unfettered capital inflows in the wake of rapid globalization of financial markets was severely tested and many of them went under. However, the resilience of these economies and their peoples has restored growth, and much better regulatory and democratic controls have been put into place in the region. The analyses of the *Survey* illuminate their fascinating development experience. The focus here will be mainly on Indonesia, Malaysia, the Philippines, Thailand and Viet Nam. While Viet Nam's experience will be discussed more fully in the next chapter on the economies in transition, it is included here as a comparator with its neighbours and the four founding members of ASEAN,[1] an Association which it joined in 1995.

These five South-East Asian economies are diverse in many ways; Indonesia, Malaysia, the Philippines and Thailand are multi-ethnic; Viet Nam is relatively homogenous; Indonesia and the Philippines are archipelagos; Viet Nam is a riparian land; and they all have different histories. For more than two decades, Indonesia and the Philippines were ruled by strongmen. Thailand has tried to establish a democratic polity, but it has experienced a series of coups d'état, counter coups and coup attempts, and Viet Nam had gone through prolonged warfare before being unified as one country in 1975. Yet, they have all succeeded in varying degrees. As a latecomer, Viet Nam's march towards sustained progress seems more confident and durable. The others suffered repeated crises and remain vulnerable; the Philippines was an early starter, yet it lags the most. These variable experiences, especially in comparison with the East Asian newly industrializing economies and China are mainly due to the differences in their policy choices; however, the legacies from their past inevitably have had some effect on the differential outcomes.

A. Varied history, institutions and prospects from the Second World War to the 1970s

The Thai economy stagnated for nearly 100 years (1855-1949). The growth rate of per capita income over this period averaged just 0.2 per cent per year.[2] According to *Survey* 1955 (p. 3), Thailand's real per capita GDP in 1938 was 812 baht, which fell to 705 baht in 1948 and recovered to 1,274 baht in 1950. *Survey* 1955 summarized Thailand's economic situation and prospects as follows:

1 The fifth founding member of ASEAN is Singapore.

2 See Manarungsan (1989).

> Of Thailand's total land area of 51.2 million hectares, forests occupy 29.9 million hectares while cultivated area accounts for 9.39 million. Area under rice is reported as constituting about 64 per cent of the total cultivated area. Over 50 per cent of the national income is derived from agriculture, forestry, fishery and livestock. As the country has been mainly dependent upon rice which accounts for 45-50 per cent of Thailand's total export earnings, a fall in rice exports such as was experienced in 1953-54 greatly affects the economic situation of the country. The need for a diversification of the economy had been felt for some time, but only since the fall in world demand for rice and since the shortage of foreign exchange became more evident in 1953 has there been a strong move toward the encouragement of other export crops, and toward promotion of selected industries, to help alleviate the shortage of foreign exchange. The government has also directed its import restriction policy toward protection of home industries Industrial expansion, however, remains hampered by lack of capital, enterprise, managerial and technical skill and cheap fuel. Locally manufactured goods will not have an assured domestic market until they can compete in cost and quality with imported goods of similar type.
>
> On 21 October 1955 the Government issued a notification under the Industrial Promotion Act of 1954 outlining its policy on foreign investment in industries. It stated that investments in industries, whether Thai or foreign, can be made freely in any concern wholly Thai or jointly owned with foreign interests. The Government will not interfere in the normal operation of an industrial enterprise and will not give special privilege to any person or government organization which is engaged in a similar business. The business activities listed as reserved for the state include only production of armaments (including explosives but excluding production of fireworks), cigarette production, railways, ports, and civil aviation within the country (*Survey* 1955, p. 180).

As mentioned previously, the *Sakdina* system did not create any institution to nurture a local entrepreneurial class. Chinese merchants were very active in the Thai economy in all aspects of life. "In Thailand, the number of immigrant Chinese reported on each census day is 260,000 in 1919, 445,000 in 1929, and 524,000 in 1937, representing 2.8, 3.9, and 3.6 per cent of the total population of the country in the respective years" (*Survey* 1950, p. 44). In that issue it was also noted that, "the Chinese immigrants and their capital formed the basis for development of industries other than agriculture" (pp. 56-57).

Malaysia's historical march towards economic growth started with rubber plantations in the early twentieth century, after some decades in the late nineteenth century of trying one plantation crop after another without much success. By 1929, British Malaya had attained the highest per capita GDP of any country (or territory) in Asia.[3] The development of the automobile industry in industrial countries, especially in the United States, created an almost insatiable demand for natural rubber for the production of tyres and, combined with the expansion of the tin mining industry, these industries made Malaya one of the most prosperous economies in the colonial world.

Malaya attained independence in 1957, and was transformed into the Federation of Malaysia in 1963 with the addition of the states of Sabah, Sarawak and Singapore in the confederation. In 1965, Singapore left the Federation and became an independent State. In *Survey* 1955, the following assessment was made of the Federation of Malaya:

[3] See Drabble (2000).

> The Federation's prosperity is dependent upon two primary exports – rubber and tin – the result of private development and utilization of existing economic resources. Their predominant role could only be altered at considerable cost, in the short run at least, to the country's national income. The decision has been made and registered in the country's development plans to continue this predominant role while attempting, at the same time, to encourage diversification in agriculture and light industry. But today Malaya's natural rubber producers face severe competition from the now privately owned synthetic industry at a time when their trees are old and production costs correspondingly high (*Survey* 1955, p.154).

A report of a mission of experts concluded: "In spite of the age of her trees and the competition of synthetic rubber, Malaya can continue to prosper and her output of rubber can be increased, but only if vigorous and united action is taken now – the key to the problem is replanting (*Survey* 1955, p. 154).The high dependence of the Malayan Federation on rubber was also highlighted in a later issue of the *Survey*: "nearly one-third of the whole gross domestic product of the Federation of Malaya has been attributable to exported rubber" (*Survey* 1957, p. 113).

Malaysia's growth was not very spectacular during the early years of independence; its per capita GDP grew by only 1.6 per cent between 1955 and 1964 (*Survey* 1965, table I.2), much below the Republic of Korea's 2.3 per cent, Thailand's 2.9 per cent and Taiwan Province of China's 4.5 per cent. There was also an interesting observation about the Federation of Malaya in *Survey* 1961 referring to its accumulation of large foreign reserves:

> The large accumulation of reserves by the Federation of Malaya was in part due to the legal requirement of covering currency issues fully with foreign assets. A large accumulation of foreign assets is, however, no indication of the strength of an economy. In fact, since the increase of foreign reserves is not available for domestic investment, an excessive accumulation of exchange reduces development below the potential maximum and should, therefore, be regarded as a misallocation of resources (*Survey* 1961, p. 50).

Two years after Singapore's departure from the Federation, the problems faced by Malaysia were summarized in *Survey* 1967 as follows:

> The size of the development task increased with the formation of Malaysia in 1963, and the acquisition of the Borneo territories of Sabah and Sarawak. The separation of Singapore from the Federation in 1965 reduced financial resources and added further burdens in the form of a duplication of harbour facilities and competing industrial establishments (*Survey* 1967, p. 85).

The Filipino elite and masses together launched a moderately successful revolution against the Spanish authorities and a Philippine republic was proclaimed on 12 June 1898. However, the Spanish-American War of 1898 brought the United States into the country before the Filipino revolutionaries were able to wrest complete control. The United States invasion led to the bloody Philippine-American War, which ended with the Americans taking over the country; it remained under United States sovereignty until 1946.

The United States implemented "free trade" in the country; however, the only products, apart from subsistence crops, were export crops and those produced by scattered manufacturing sectors. The agrarian and land problems were not tackled and the inequitable situation persisted.

The Philippines attained independence on 4 July 1946 in the wake of the defeat of the Japanese army by United States and Filipino guerrilla forces in 1945.

In *Survey* 1955, the prospects for the Philippine economy were assessed as follows:

> The economy of the Philippines, influenced to a considerable extent since the second world war by the special economic relationship with the United States laid down in the Bell Trade Act of 1946, is due to undergo a gradual but fundamental change as a result of the revision of that Act in mid1955. While United States citizens still have equal rights in the Philippines, as before, in the exploitation and development of resources and in the undertaking of other business …the free trade arrangement between the two countries is to be gradually eliminated. The gradually increasing tariff on US imports is expected to have a far reaching effect on various aspects of the economy, government revenue, the pattern of trade, foreign and domestic investment in local industries and other matters (*Survey* 1955, p.171).

A little later, *Survey* 1961 contained the following assessment:

> When the Philippines gained independence, it started with severe handicaps: the economy was a shambles, shortages of the barest essentials of living were pressing, and production was disorganized. Thus production in 1946 was only 40 per cent of the 1938 level; in mining it was 2 per cent, in manufacturing 21 per cent and in agriculture 58 per cent, production of export crops having been hit harder than that of food. On the other hand, there were some initial elements of strength: a population with a literacy rate of 60 per cent (since raised to 75 per cent), and a large reservoir of trained manpower with high technical aptitude. Foreign exchange resources from invisible earnings were large (*Survey* 1961, pp.74-75).
>
> The close integration with the American economy has been substantially reduced, and further separation will come almost automatically as the Trade Agreements run their course. Economic development - higher incomes, increased employment, industrialization - could have moved faster, but it has, at least, not been markedly slow as compared with other Asian countries (ibid., p.80).

In *Survey* 1967, the Philippine economy's structural problem was very succinctly identified. The terms of trade of the country improved in 1967. However, "Of total exports, 85 per cent consisted of coconut products, sugar, hemp, lumber and copper concentrates and only 6 per cent were in the form of manufactured goods. …The main problem of the economy is not only the failure of external capital to come in but, more seriously, the persistent flight of private capital. The adoption of a floating exchange rate has not altered this situation" (*Survey* 1967, pp. 89-90).

Indonesia, the most populous country in the region, was a Dutch colony until the very end of 1949. It is the world's largest archipelago, consisting of more than 17,000 islands and prone to destructive seismic and volcanic upheavals. It was a gigantic task to keep a population of over 100 million united and moving towards a better standard of living in a country which the Dutch left with low levels of education and extremely few technically qualified persons or those with administrative experience. As the country also has an ethnically diverse population, it was to be expected that serious troubles would break out, especially when many of the global influences tended towards encouraging both vertical and horizontal inequality. *Survey* 1961 contained the following assessment of the Indonesian economy:

> Indonesia suffered heavy economic damage during the war. Much capital had been destroyed, and what equipment remained had been overworked and worn out. The struggle for independence during 1945-1949 distracted attention from the task of reconstruction, and gave Indonesia a relatively late start on making good war damage. Food production in particular was slow in regaining its prewar level. Though a few export commodities made a quick recovery, sustained generally by the Korean War boom, the output of other important export crops failed to show any improvement, and remained markedly below prewar levels. Other sectors of production also failed to achieve any significant expansion. On the whole, although the economy made (*sic)* appreciable growth during the early independence period while it was rehabilitating prewar production capacity, the expansion was not sustained. In recent years, growth has slowed down to such an extent that the economy seems to be heading for stagnation (*Survey* 1961, p.109).

Indonesia went through severe economic and political instability in the early 1960s, which saw growth plummeting and inflation soaring. The crisis climaxed in 1967 when President Soekarno was forced to give up his power in what some consider a coup. In *Survey* 1967 the following assessment was made of the country's economic situation:

> The major tasks of Indonesian economic policy in recent years have been to curb inflation and to restore a measure of orderly development. The economic environment of the year 1967 was far from favourable to the pursuit of these ends. Drought reduced agricultural outputs and the international prices of rubber and tin, which are Indonesia's two main export commodities, fell significantly. That the Government did nevertheless succeed in slowing down the rise in prices was due to external assistance to the tune of $200 million for use in 1967 as well as to the Government's apparent willingness to subordinate the objectives of economic rehabilitation and growth to the requirements of financial stability. Compared with the price increases of 600 per cent and above in 1965 and 1966, in 1967 the general price index rose by only 112 per cent. With better crops, inflation might have come close to petering out in the first half of 1968. The rate of depreciation in the external value of the rupiah and the rate of growth of the money supply similarly declined (*Survey* 1967, p. 83).

In sum, "In Indonesia, stabilization appears to have met with a good measure of success, but this may have been purchased at the expense of growth of output in 1967" (*Survey* 1967, p. 1).

In a later *Survey*, another of Indonesia's structural disadvantages – a serious imbalance in the distribution of its population as between different major islands of the archipelago – was also recognized:

> …its people are very unevenly distributed over the land area. Two thirds of them are concentrated in Java, which has only 7 per cent of the land area and so a very high density of population. Yet, in the other islands, there are big tracts of land which are lightly peopled or still uncultivated. For decades, the Government has sought to relieve overcrowding and poverty in Java by having people move to these other islands, but organization and financial deficiencies have inhibited success. Recently the oil boom has much increased public revenues so that Repelita III (the third five-year plan for 1979-1984) has an aim of moving half a million people to 250 new settlements in Sumatra, Sulawesi, Kalimantan or other islands (*Survey* 1981, p. 67).

As had been mentioned previously, Viet Nam, along with former parts of French Indochina, namely Cambodia and the Lao People's Democratic Republic, suffered grievously from the United States-led warfare until April 1975. Cambodia, in addition, suffered from a state of civil war until the 1990s.

In *Survey* 1955, the following hopeful assessment was made of the Republic of Viet-Nam after the end of the French-Indochina war and French colonial rule in 1954, and the adoption on 20 July in the same year of the Geneva Accords, "which brought to an end the war in the Indochinese peninsula, Viet-Nam was partitioned at the 17th parallel. Soon afterwards, in late December 1954, were signed the Paris Agreements, abrogating the former quadripartite agreements between Cambodia, Laos, Viet-Nam and France". It continued:

> Thus, with the end of war and the establishment of independence the Republic of Viet-Nam, geographically known as South Viet-Nam, is turning a new page in history. Problems, new and old, are pressing for solution. Following closely partition came the influx of refugees from North Viet-Nam, which added to the problem of unemployment already existing in urban and rural areas (particularly in the Saigon Cholon area). New arrangements, as provided for in the Paris Agreements, relate to customs, external trade, currency exchange, and monetary institutions. This calls for rearrangement of the existing financial and business structure. Finally, there is the major problem of rehabilitating and developing the war torn economy, deprived for the time being of its former industrial basis in the north (*Survey* 1955, p. 187).

Even without documenting the damage wrought by the continued hostilities between the northern and southern parts of Viet Nam and eventual involvement of the United States, one can easily say that the "new page in history" was a very difficult one. After reunification of the country in 1975, the communist government tried to collectivize land and nationalize private enterprises in the southern part on the same lines as in the northern part of Viet Nam. Since private enterprises were often owned by ethnic Chinese, one result was a mass outflow of refugees, by land and by sea ("boat people"), to neighbouring Asian countries in the late 1970s.

Survey 1981 recorded that Viet Nam's reunification was marked by a "broad framework" towards a "system of State control and planning, to promote agricultural collectives, to transform private industry, to redeploy labour from overcrowded cities to 'new economic zones' in lightly settled areas, and to coordinate the economic activities of the more agricultural regions of the country" (*Survey* 1981, p. 76).

Already in 1979, Viet Nam was moving towards dismantling the "bureaucratic centralism and subsidy system", because of the urgent need to improve the living standards of the peasants and equip them with the resources and incentives for improving productivity. In 1982, the Fifth Party Congress approved moves away from heavy industry towards more stress on light industry, agriculture and exports. *Doi Moi*, Viet Nam's famous "economic renovation" set of reforms, validated the move towards a market economy promoted by the Communist Party.[4] The economic reforms were generated from inside and not under donor pressure. A United States trade (and investment) embargo on Viet Nam was lifted in 1994. In 1995, Viet Nam joined ASEAN. It was observed in *Survey 1982* that "[m]easures to increase economic efficiency and output, including those designed to improve the terms of trade in favour of rural producers, [had] enabled the Lao People's Democratic Republic and Viet-Nam to approach self-sufficiency in agriculture".

4 This point is well argued by Beresford (1993) and McCarty and Steley (2004).

There were three main areas where later developments were built on earlier ones.[5] First, there was Viet Nam's long record of investment in human capital, both in education and in the provision of health care. In 1990, the adult literacy rate for men in Viet Nam was already 94 per cent and 87 per cent for women. Beyond this, Viet Nam had invested substantially in higher education, and there was a cohort of officials well trained, for example, in agricultural techniques and engineering — generating a "receptivity to technical change".[6] Second, the collectivization of land in the 1950s in the northern part of the country had provided more equal peasant holdings than in many developing countries, on the basis of which the *doi moi* de-collectivization provided incentives to increase output. Third, despite the war, there was a legacy of infrastructure in the northern part that had been developed with Soviet help, such as electric power, and in the southern part by the United States.

B. Growth and crises: South-East Asia from the 1980s

Indonesia, Malaysia, the Philippines and Thailand were firmly on an accelerating growth path in the 1970s, despite difficult international conditions. According to *Survey* 1975 (table 4), both Indonesia and Malaysia grew by more than 7.5 per cent between 1973 and 1975. During the same period, the average annual growth rates of Thailand and the Philippines were 6 per cent and 4.6 per cent respectively.

A snapshot of these economies growth performance can be found in the following assessment in Survey 1981:

> … all but Indonesia were classed, in 1979, by the World Bank as middle-income developing countries. Indonesia's per capita GNP, in 1980, was $ 428, well above the south Asian level, and grew by 5.3 per cent a year during the 1970s, mainly because of the country's fortunate position as a major oil exporter. Thailand, with a per capita GNP of $ 682, and the Philippines, with one of $ 750, were towards the lower end of the ranking for middle-income countries. Yet Thailand's per capita growth rate in the 1970s was 5.3 per cent a year, and that of the Philippines was 3.6 per cent, largely because these countries have begun vigorous industrialization. Manufacturing now contributes a quarter of GDP in the Philippines and has been growing by 7 per cent a year; in Thailand it contributes over a fifth of GDP and has been growing by 11 per cent a year. In Indonesia, by contrast, the proportion for manufacturing is one seventh, but its growth rate has been over 12 per cent.
>
> Malaysia had a considerably higher per capita GNP of $ 1,669, growing by 5.5 per cent a year. It, like Indonesia, has been helped by discoveries of oil and natural gas, and, like the Philippines and Thailand, is vigorously industrializing. Manufacturing contributes one fifth of its GDP and has been growing by over 12 per cent a year. (*Survey* 1982, p. 64).

The 1980s was a difficult period for all four countries. Malaysia was "adversely affected in 1985 by the collapse in the export demand for electronic components" (*Survey* 1985, p. 37) and its GDP contracted by 1 per cent.

5 See Van Arkadie and Mallon (2003).

6 See Van Arkadie (2005, p. 125).

> "As these difficulties began to surface… Malaysia and Thailand [were] concerned about their current account deficits and the rising debt burdens…" (*Survey* 1985, p. 37). Indonesia's growth rate fell from about 8 per cent in 1980 and 1981 to 2.2 per cent in 1982 and hovered around 4.5 per cent during the period 1983-1985. The Philippines economy continued to slow and contracted by over 4 per cent during 1984/85. The current account problems were exacerbated by large fiscal deficits which were dealt with by "reducing the public sector's direct role in economic activity, often cutting back substantially on current as well as development expenditure" (*Survey* 1985, p. 37).

Thailand had to go to IMF and the World Bank for balance of payments support and adjustment assistance in 1984 as unfavourable terms of trade led to the largest trade deficit (9.8% of GDP) that the country had ever experienced since the Second World War. The Philippines, too, had to seek support from IMF. Balance of payments problems in the first half of the 1980s led to liberalization of these economies, which included further deregulation of the financial sector, allowing borrowings from foreign banks and off-shore financial markets.

There was a recovery in the second half of the 1980s, but the first Persian Gulf War and the consequent rise in oil prices, which was a boon for Indonesia and Malaysia, adversely affected net oil-importing countries, such as the Philippines and Thailand.

> The Philippines, which was struggling to consolidate a recovery from the negative growth effects of its large external debt through painful structural adjustments, found it extremely difficult to sustain the robust rates of growth recently achieved. Thailand, however, was able to cope with the crisis much better with the continuing strength of its exports, relatively lower dependence on energy imports, and strong domestic consumption and investment expansion (*Survey* 1990, p. 29).

While the problems of the Philippines continued in the early 1990s – its economy contracted in 1991 – Indonesia, Malaysia and Thailand grew by between 7 and 8 per cent before the Asian financial crisis broke out in Thailand in July 1997, which quickly engulfed Indonesia, Malaysia, the Philippines, the Republic of Korea and Singapore. Indonesia was the most adversely affected, with its growth rate plummeting from about 8 per cent in 1996 to a 14 per cent contraction in 1998. Ironically, in its 1993 publication, *The East Asian Miracle : Economic Growth and Public Policy*, the World Bank included Indonesia in the list of high-performing East Asian economies due to its impressive growth record since the mid-1980s.

> The sudden reversal of economic growth as a result of the crisis dealt a blow to employment prospects and, in fact, caused a major reduction in the labour force employed by the private sector… The increases in unemployment rates were extremely large in the span of one year: over 130 per cent in Malaysia and Thailand, … and over 350 per cent in Indonesia. The numbers of unemployed in 1998 varied between 600,000 in Malaysia, 1.5 million in …Thailand, and 20 million in Indonesia (*Survey* 1999, p. 118).

Survey 1998 (pp. 87-88), identified one of the causes that triggered the crisis as "the deterioration of the current account of the balance of payments… There was some concern that the slowdown in export growth in 1996 reflected a structural problem and was not merely cyclical…" It went on to note: "The method of financing the deficit also matters. Generally speaking, the greater the importance of private sources in financing and the greater the share of short-term debt in financing, the more unfavourable is the perception of the sustainability of the deficit". In *Survey* 1999, further emphasis was placed on the issue of capital account liberalization:

> One of the issues that has come to the fore is the speed and the sequencing of capital account liberalization. One concern in this context is the state of preparedness needed to benefit from open capital accounts while minimizing potentially disruptive consequences. A related issue is the question of reliance on external resources to finance high level of investment and growth. There is no question that a major part of the explanation for the crisis lay in dependence on easily reversible, short-term external capital to finance long-term investment. The crisis has also shown the immense importance of paying close attention to the *quality and composition of growth, not only to its rate*. The high rates of growth, particularly in the years immediately prior to the crisis, were the result of unsustainable bubbles in the stock and property markets financed by the upsurge in short-term capital inflows (*Survey* 1999, pp. 133-134; emphasis added).

Despite significant reforms since the 1997/98 financial crisis, these "miracle economies" still suffer from some fundamental weaknesses. As highlighted in Survey 2014, these weaknesses include, high inequality, low tax efforts and public social protection expenditure compared to their levels of GDP and high public and household debts. These factors interact to make economies vulnerable to crises.

> Indonesia has weathered the global slump better than its South-East Asian neighbours. With a population of 226 million, Indonesia has a large domestic market base. Exports account for only 27% of GDP…The Philippines, despite a trade profile that is heavily vulnerable to shocks, has just barely been able to withstand the global downturn, partly as a result of services exports, such as business process outsourcing, and more importantly the large flows of foreign exchange through remittances (*Survey* 2008, pp. 103-104).

Although these countries have recovered from the initial shock of the 2008/09 global financial crisis, their economies continue to remain prone to crisis. For example, the Indonesian rupiah fell dramatically in 2013 and early 2014, with the market being focused on the possible reversal of monetary easing in the United States and the consequent prospect of capital outflows. The rupiah continued to depreciate against the United States dollar amid a widening current account deficit during the second quarter of 2013. The Thai baht and the Filipino peso have also experienced similar trends since June 2013.

C. Viet Nam's resilience

The core of Viet Nam's economic strategy since the early 1990s has been its rapid integration into the global economy: the development of a diversified portfolio of oil, manufactured and agricultural exports, and the attraction of direct foreign investment. This has been combined with successful domestic agricultural growth and a continued role for State-owned enterprises while encouraging the growth of the private sector. Gross capital formation, largely from domestic sources – despite substantial inflows of direct foreign investment – rose from just over a quarter of GDP in the mid-1990s to more than a third of GDP in the early 2000s.

Viet Nam's reform measures in the 1990s, underpinned by pro-peasant land reforms of the earlier period, began yielding dividends in terms of sustained growth. Over the period 1990 to 2008, its

7.5 per cent average annual rate of real GDP growth was exceeded in the global economy only by China and (marginally) by Ireland. With sustained high growth, "Viet Nam was able to cut the incidence of poverty by a third between the mid-1980s and 2000, one of the fastest rates on record for any developing country" (*Survey* 2002, p. 147) and "Viet Nam had achieved the target of halving extreme poverty for all practical purposes by 2000" (ibid. p. 194).

Viet Nam remained relatively unaffected by both the 1997/98 Asian financial crisis and the 2008/09 global financial crisis, although it experienced some slowdown (*Survey* 1998; 2002; 2010). Viet Nam's relative resilience lies in its greater dependence on domestic sources of growth despite its openness. In *Survey* 2006, it was observed:

> With a growth rate of 8.4 per cent, Viet Nam was the fastest growing economy in South-East Asia in 2005. Growth in Viet Nam remained dependent on domestic demand rather than exports; this was reflected in increasing import demand for capital and intermediate goods for the public sector. Private domestic consumption remained strong, with retail sales including sales from rapidly increasing consumer durable outlets rising nearly 20 per cent in 2005. Manufacturing was the main driver of the economy, and industrial production registered a growth rate of 10.7 per cent in 2005 (*Survey* 2006, p.104).

In *Survey* 2013 (p. 156), it was noted that Viet Nam could avoid the contagion of the 1997/98 Asian financial crisis due to controls on its capital account.

D. Policy lessons

Clearly, there are great variations among South-East Asian economies. What is remarkable about them is their resilience. Despite being prone to repeated crises and external shocks, they generally recovered quite quickly. Only Indonesia took a bit longer in the wake of the 1997/98 Asian financial crisis as it triggered systemic transition. It is now also recognized that Indonesia's recovery was complicated by the mismanagement of IMF.

Although generally these "miracle" South-East Asian economies are lumped together with the first-generation newly industrializing economies, their development experiences and strategies differ markedly from those of East Asian economies, including China. To begin with, East Asian economies began with thorough land reforms which reduced inequality significantly. As a result, the fruits of growth were shared much more widely than in South-East Asian countries where asset, especially land, concentration has been historically high (see, e.g. *Survey* 1977 and 1979). Gini coefficients for China, Japan, the Republic of Korea and Taiwan Province of China were about 0.3 when those economies began their development drive. Only Singapore had a higher Gini coefficient of about 0.4, which matched roughly with the Gini coefficients for Malaysia, the Philippines and Thailand.

One of the consequences of the failure to implement comprehensive land reform and inability to address high inequality in South-East Asian countries is high conspicuous consumption. This often results in massive imports of luxury consumption goods and current account deficits. This problem is exacerbated if residents are allowed to borrow overseas. The crisis-prone South-East Asian economies' frequent current account problems and real estate bubbles can be attributed to this phenomenon. Additionally, as was highlighted in *Survey* 2013, rising inequality is an impediment to the expansion of the domestic market needed to insulate the countries from external demand shocks.

The experiences of these countries also reveal that open and liberalized foreign direct investment policies do not necessarily resolve their foreign currency constraint. In order to reap sustained benefits from FDI, countries must retain policy space to direct FDI towards greenfield projects and to achieve structural transformation. For example, even though Viet Nam has liberalized its FDI policies to satisfy WTO and the terms of bilateral free trade agreements, it still maintains policy independence to promote technology transfer. It also refrains from the race to the bottom and tries to attract FDI through high-quality human resources rather than low-cost labour. Furthermore, to attract FDI, countries do not have to give up their policy autonomy to manage short-term capital flows.






The ascent of China

7

China has been the most populous country in the world for at least the last two millennia and was almost certainly the largest economy globally until the eighteenth century. China's modern rise can be dated from the end of its civil war and the establishment of the People's Republic of China on 1 October 1949.

As mentioned earlier, the *Survey* tracked China's economy even when it was not formally a member of the United Nations (it was recognized as a member on 25 October 1971). China's tremendous efforts at building infrastructure, by using its abundant labour force, laid the foundation for its growth spurt when it decided to open up its economy under its own terms and conditions. Several major changes in policy since 1979 have maintained China's position as the fastest-growing economy in the world. Various issues of the *Survey* have tracked its growth and the problems created by that growth and scrutinized the policies that have addressed those problems.

A. Beginning amid adversity

Despite the destructive experiences of Japanese and Western incursions and the lengthy civil warfare in China, the country emerged as the second largest economy in the world in 2010. Since the 1990s, China has remained the fastest-growing economy in the world, with a steady rise also in most components of human development. While media attention has been focused on China's growth performance only since the time it "opened up" to the world, the foundations of that soaring performance were laid soon after the victory of the Communist Party in the civil war, immediately following the end of the Second World War. Import substitution, and technical and material help from the USSR, as well as the revolutionary transformation of the social structure of the country, all played a major role in this new beginning. Under central planning, the pattern of foreign trade was controlled, with emphasis being given to the import of capital goods and the export of primary products in order to pay for the imports.

The redirection of China's trade and resource inflows away from the Western block led by the United States was largely forced on the country by the cold war turning hot. As mentioned in *Survey* 1957:

> There has been no trade of consequence with the United States since 1951. This change in the direction of trade is accounted for partly by the fact that countries with centrally planned economies have, as a matter of policy, co-ordinated their economic development, and partly by the United Nations resolution adopted after the outbreak of the Korean war recommending the application by every State of an embargo on the export of strategic materials to mainland China, and other trade measures adopted by CHINCOM countries (*Survey* 1957, p. 101).[1]

[1] CHINCOM is the acronym that was used for "China Committee", the United States-sponsored body that supervised measures through which Western trade with China was embargoed. The resolution referred to in the quote was passed when the Union of Soviet Socialist Republics was boycotting the United Nations Security Council in 1950 over Chinese issues.

As was the case with Japan up to the beginning of the 1960s, Taiwan Province of China up to the end of the 1960s and the Republic of Korea until the 1970s, China also needed external assistance in the 1950s, and it was provided almost exclusively by the Soviet bloc (*Survey* 1957, p. 103). However, most of the assistance that the People's Republic of China received was loans and it was quick to pay them back. After the Sino-Soviet split in 1960, China was entirely on its own.[2]

B. Tracking China's rise since reforms

The close attention paid to the way China was tackling its development challenges was revived in the 1980s, after the reforms that had been initiated in 1978. The first set of reforms included the "opening up" of China – strictly under the control of the Government – and the reforms introduced in the agricultural sector, spreading gradually to all the areas of economic activity.

In the *Survey* of the early 1980s, China's inability to feed its people was noted as was its need to obtain some United Nations food aid. It also noted China's initial balance of payments difficulties and the rapidity with which the Government tackled them, the inflationary pressures resulting from supply and demand mismatch and policy initiatives to eliminate the mismatch.

Survey 1983 devoted box I.11 to "Recent fiscal and financial reforms in China". Picked out were certain salient features of such reforms: (a) decentralization of powers for raising revenues and spending them (with the central Government making transfer payments to correct imbalances between surplus and deficit provinces); (b) greater autonomy of State enterprises to retain profits and invest them; (c) introduction of a credit system to finance investments and monitor them; and (d) several other changes in financial institutions, including greater decentralization of banking functions and the institution of the "responsibility system" for bank branches. The same issue of the *Survey* also contained box II.3 devoted to the "household responsibility system" in Chinese agriculture.

> This was the principal component of the so-called "agricultural responsibility system". It was also reported that the household responsibility system had been adopted by 93 per cent of China's production teams in the countryside as of early 1983. Under that system, a household was assigned responsibility for cultivating a fixed area of land. The household in turn would agree to meet certain obligatory deliveries to the State and the collective. These deliveries consisted of three elements: (a) a mutually agreed quota of produce to be handed over to the collective at a predetermined price; (b) an agricultural tax of 2 per cent of the gross produce; and (c) a levy to provide collective welfare services for the team. Inputs were supplied by the production team, and farm assets were owned by the team. The land continued to be owned by the State. Households could sell above-quota produce at an open market generally at a higher price than that fixed by the State. It was claimed that the introduction of this system resulted in the rate of agricultural growth being far higher, at 7.5 per cent per year over the period 1978-1982, than previously, that is, at 3.5 per cent per year over the period 1953-1981 (*Survey* 1983, box II.3, p.92).

[2] See Lardy (1987a; 1987b).

Survey 1984 included box II.2 devoted to financial reforms and domestic resource mobilization in China. The reforms included raising rates of interest on term deposits, and allowing banks to give a larger value of credit than had been planned if they could mobilize more resources of their own. There was also provision for bonuses to be paid to bank employees on the basis of the profitability of banks. Extensive arrangements were made for training personnel working in banks.[3]

In *Survey* 1985 a question was asked: "Is growth too fast in China?" (box I.7), a question which was asked repeatedly by Chinese planners and China-watchers in later years. "The growth rate of total product of society in real terms continuously increased from 4.6 per cent in 1981 to 13 per cent in 1984. Similarly, the growth rate of real per capita product of society more than trebled, from 3.2 per cent in 1981 to 11.9 per cent in 1984" (*Survey* 1985). This astonishing acceleration in rates of growth was driven by continually increasing rates of investment and human effort, unleashed by the structures of incentives created by the reforms summarized above. The rates of investment were pressing against an inadequate infrastructure of transport, electricity and other energy sources and were creating bottlenecks and inflation. The Chinese authorities took corrective action in the shape of taxes on bonuses of cadres and officials, restraint on wage increases, hikes in interest rates on bank deposits and so on. *Survey* 1985 pointed to the much higher proportion of investment going into manufacturing than in the accelerating growth phases of Japan and the Republic of Korea. In those countries, infrastructure, including residential housing, absorbed a larger proportion of investment than in China. Thus, both the unprecedented nature and the difficulties of the growth were signalled in various issues of the *Survey*.

In box II.3, "Upgrading rural technology: the experience of China and India", *Survey* 1995 contained information on some basic strategies:

> China adopted the SPARK programme in 1985… for the introduction of better production techniques in the rural economy. More than five million rural technical and managerial personnel have been trained as a core force and 'tinder' to propagate the 'SPARK' technologies. More than 100 kinds of technical equipment for rural use have been developed and introduced… Between 1978 and 1992, the number of township and village enterprises increased from 1.5 million to 20.8 million and the total labour force employed in these enterprises rose from 28.3 million to 105.8 million. The gross output value increased from 49.3 billion to 1797.5 billion yuan renminbi during this period (*Survey* 1995, box II.3, p.59).

Thus, the tremendous dynamism of China's economy, driven by a strategy of continual change, was well captured by the *Survey*.

Long before the 1978 U-turn in Chinese policies, China had attached engineering educational and R&D institutions to machine-making enterprises (*Survey* 1995, box II.3).[4] They were even larger in number than centrally affiliated R&D institutions. When the post-1978 reforms started,

3 In May 1986, ESCAP organized a two-week travelling seminar in China, in which senior planning experts from nine ESCAP developing countries participated in order to familiarize themselves with the ongoing economic reforms in China. The seminar was inaugurated by Zhu Rongji, then Vice-Chairman of State Economic Commission (later rising to become China's Prime Minister), in Beijing where the first three sessions were held, followed by one session each in Changzhou, Wuxi and Suzhou. The last two sessions were held in Shenzhen, the showcase of China's modern manufacturing prowess, built with the help of capital and technology of outsourced industries from developed countries and migrant workers from the Chinese hinterland. The proceedings of the seminar, including papers on the major features of the Chinese economic reforms then being undertaken in China, which were presented by Chinese experts, and accounts of the visits to major industrial and rural centres, were published in ESCAP, 1989.

4 Also see Dean (1972); Gu (1999, chapter 14).

in the mid-1980s, the Chinese authorities created a market for technology: the term "technology market" refers to a range of technology-related transactions. These are categorized in the law of technology contracts as:

- Contractual development of technology;
- Technology transfer;
- Technological consultancy; and
- Technological services, such as designing, engineering, testing and providing services for computer applications.[5]

From 1987, China began to develop the so-called spin-off enterprises through the "Torch" programme and other initiatives. These were created by "spinning off an organized part of an institute's assets, spinning off individual talent and transforming an internal institute department to engage in commercial activities while remaining as an integral part of the parent institute".[6]

China then went on to create private enterprises by allowing entrepreneurs of various kinds to take over State enterprises.[7] The State science and technology institutions still play a major role in R&D, and most of the R&D budget is spent on applied research and experimental development.[8] By now China spends about 1.5 per cent of its very large GDP on R&D, and can claim many achievements, including development of the currently fastest supercomputer in the world. Other countries can learn from China with regard to how to access, absorb and develop technologies that they may require.

China's leaders have been calling for increasing the share of consumption in China from at least the beginning of this century. Yet, for various reasons, such as the incentive structure which rewards expansion in investment and output and the precautionary motive for saving, which has been strengthened by contraction of public expenditure on education, health care and pensions (*Survey* 2007, box 1.4), the rates of investment and saving have remained very high, often exceeding 40 per cent of GDP. In this connection, a simulation exercise was carried out in *Survey* 2013, in which the results of China buying more goods for consumption from the Asia-Pacific region have been shown to be highly positive for economies in the region, as well as for the welfare of the Chinese people.

While the issues of the *Survey* cited above and *Survey* 2006 had been focused on the expansionary effects of Chinese growth on the other economies of the region, ESCAP has not been blind to some of the problems created by Chinese institutional structures. For example, in *Survey* 2006 (box III.2), the plight of immigrants from rural areas or small towns to the fast growing poles of development was highlighted. Under the *hukou* system, only legal residents in a place can be entitled to local jobs, housing, schooling, health care and, in rural areas, to farming land. Thus, immigrants may lose their entitlement to land; at the same time, they may be denied access to all the other amenities available to legal residents. This system is also a "factor contributing to rural unemployment and underemployment and to rural-urban inequality" (*Survey* 2006, p. 170).

5 Gu (1999, p. 20).

6 Ibid., p. 75.

7 See Oi and Walder (1999).

8 See Sinha (2012).

C. Lessons for others

The lesson from the experience of China's journey for at least all large countries is that they should never be dependent in the long run on inflows of foreign funds, loans, grants, foreign direct investment or portfolio investment for meeting their foreign exchange needs. Foreign direct investment is useful if it brings in new technology and its inflow and outflow can be regulated by the host country. In order to do that, the host country needs to generate a positive balance in its current account. It has been claimed for the liberalization of trade and finance in many countries that, for example, India got rid of the foreign exchange constraint on growth. India's most recent experience suggests that it was at best a temporary loosening and not a long-term solution. One reason why the Republic of Korea and Taiwan Province of China drove "all out" to expand their exports while keeping firm control over the allocation of foreign funds and allocation of finance between different sectors or business entities, was that they did not want donor countries to dictate their policies. In China's case, that lesson is even more starkly apparent.

China's story is especially instructive in several different ways. First, just as in the case of the Republic of Korea and Taiwan Province of China, but even more strongly, China has shown repeatedly its ability to follow its own policies even under very adverse circumstances. It was able to overcome many of the constraints imposed by CHINCOM, the committee set up by the United States to impose an embargo on all trade with China on the part of its allies. The two ports of Macau and Hong Kong, both at the time under foreign occupation, were used as China's window of trade to the world. The prosperity of Hong Kong, China came largely to depend on two-way flows of trade and investment with China.

Even more importantly, for the twenty-first century, the second lesson to learn from China is how to negotiate globalization. The so-called opening up of China took place under its own steam, not under the compulsion of international financial institutions or donors. When China joined WTO, the United States was as keen for China to join as China was. By then Chinese manufactures had established themselves as the fastest-growing exporters in the world, and China had accumulated the largest foreign exchange reserves globally. In the analysis of international trade, Chinese strategies should be analysed for the benefit of other large countries. *Survey* 2013 included box I.3 to analyse "the impact of a rebalancing China on Asia-Pacific economies".

Third, China's R&D strategies are highly instructive for all countries. One lesson is that production sites and sites of research for new technologies should be intimately linked. Further, they should also be linked to institutes of higher education, such as universities and scientific research institutions, so that producing enterprises can get easy access to any promising innovations, and reciprocally, scientists and technologists interested in applied problems can remain in touch with the needs of the producers. In *Survey* 1991, box II.6 also included a description of initiatives in India to upgrade rural industrial technologies. Unfortunately, because of the lack of sustained institutional support, most Indian rural enterprises still remain confined to low productivity and low value added corners of the domestic and global markets.[9]

[9] See Basu (2009).






South Asia: a subcontinental saga

8

> …India and Pakistan are still below $500 whereas those for East Asian developing countries range from over $2,000 for Thailand to as high as about $8,500 in the Republic of Korea. Given the vastly divergent economic development among the groups of countries, it would be a common myth to presume that the discrepancy in development is somehow inherited by the respective groups of countries. Contrary to this general perception, it is quite an enigma to note that, this had not been the case in the past. In fact, economic development measured in terms of GNP per capita in the 1960s for all these countries was quite similar and comparable to the extent that all the countries, with the exception of Malaysia, were below the $200 mark. Not only that, the Republic of Korea had a per capita income of only $130 in 1966, which is even lower than that of Cambodia at that time… (ESCAP, 2001, p.4).

The above quote from the ESCAP study captures the development saga of South Asia. In this context "South Asia" includes Bangladesh, India, Pakistan and Sri Lanka, but excludes Afghanistan, Bhutan and Nepal, which along with Bangladesh, are included in the category of economies with special needs, formally called least developed countries. India, Pakistan and Sri Lanka became independent in 1947/48. Prior to that time, India and Pakistan had been part of the British Raj.

All four countries of the subcontinent have had a chequered history in terms of economic and human development. India has had a history of unbroken parliamentary democracy, except for about 21 months of "emergency rule" in the period 1975-1977. Sri Lanka faced internal conflict and a change in the system of government, but it remained a formally democratic country. Bangladesh and Pakistan have gone through several phases of single-party and/or military rule, but are now both under a formally democratic set-up. In these countries, their rates of economic and human development advanced following independence compared with that under the colonial regime. Sri Lanka's achievements in life expectancy and adult literacy are as high as those indicators in developed countries. Both India and Pakistan have enjoyed several phases of high GDP growth, as has Bangladesh in the twenty-first century.

As the opening quote from the above-mentioned ESCAP study reveals, despite their difficult beginning, the level of development measured in GNP per capita of the subcontinental countries in the 1960s was similar to, if not better than, that of some of the fast-growing and successful economies of East and South-East Asia. However, the subcontinent is still home to the largest number of poor, accounting for about half the world's population living on less than $1.25 a day – the international poverty line. Concomitant with their high level of poverty, these countries lag in terms of human development, although Bangladesh and Sri Lanka have made some good progress. Inequalities in income and assets as well as gender disparities remain endemic and are fundamental obstacles to inclusive and sustainable development in South Asia, as well as to the welfare of their people. In this chapter, the hopes generated at the time of independence of three subcontitental countries are tracked, including those of Sri Lanka, and attention is given to how the development spurts that followed failed to take off.

A. Experiment with a mixed economy

From the 1950s, South Asia has been the subject of numerous experiments with a combination of State plans and market mechanisms. In India, elements of planning had been in place even before independence. Progressive impoverishment under British rule induced many policymakers in India, including at least one high-ranking British official, to propose government planning for economic development. The Government of British India had already taken some initiatives in this direction in the last days of its rule. Formal, but very loosely implemented, planning started in India from 1951.

According to *Survey* 1948 (p. 68), "In India there was substantial recovery from the post-war depression of 1946-47 and from the dislocations consequent upon the achievement of independence and the partition. However, in spite of record levels in a number of machinery and chemical products during 1948, many basic industries did not reach their wartime levels of output". In *Survey* 1960 (p. 28), it was observed that "India appears to have become a significant exporter of manufactured goods; the share of manufactures had steadily risen to 44 per cent in the first half of 1960". In the 1950s, India was often held up as a model of planned development in a mixed economy. *Survey* 1957 devoted a chapter to "Planned development in a mixed economy (India)". It was pointed out that the Indian Government had set a "socialist pattern of economy" as the goal of the country, which meant that the private sector would continue to operate but the public sector would have the task of developing the basic industries with an accelerated rate of investment. In *Survey* 1960, some assessment of the first five-year plan was provided: "India… has emphasized the expansion of food grain production in order to meet first the quantitative or calorie deficiency in the national diet. Under its first five-year plan (April 1951-March 1956), it achieved considerable success; actual food grain (cereals and pulses) production reached 67 millions tons – a 27 per cent increase instead of the modest 14 per cent that had been planned" (p. 13).

The Indian second five-year plan got off to a quick start, but strains were quickly evident in the form of depletion of foreign exchange reserves and price rises for some essential commodities. *Survey* 1960 (p. 14) noted the failure to reach the food grain production target in the second five-year plan period: "it was becoming clear that the progress made would fall short of the targets. On the other hand, attaining of the food grain targets remained critically important for stability of internal prices as well as for balance of payments".

In 1966, Executive Secretary U Nyun held up India as a pioneer in two areas:

> After the Second World War and the achievement of independence, India had pioneered two currents of thought and action vital to the processes of economic and 'social' growth and of regional co-operation which the Asian countries had since developed, mainly through the activities of the Commission. India had been the first country in Asia to adopt economic development planning as a matter of high policy and had also pioneered the first Asian Relations Conference to promote mutual understanding among Asian countries. Only during the current decade had countries moved towards a stage where comprehensive development planning could be regarded as an indispensable instrument for achieving the desired economic and social growth (Executive Secretary's policy statement, 1966, paras. 323-324).

From 1969, the whole banking system came to be publicly owned, except for the subsidiaries of a few foreign banks. During the period from 1969 to 1990, the Government of India also directed a certain proportion of bank credit to be allotted to so-called priority sectors, namely agriculture and various kinds of small-scale businesses and industries. India recorded rapid growth between 1955/56 and 1964/65, and again during the 1980s, under a regime that loosely controlled foreign exchange allocation, industrial investment and the raising of finance from the stock market. Agricultural growth powered by the so-called green revolution accelerated as a result of the extension of rural credit to rich and middle-sized farmers at low rates by the nationalized banks and by the supply of subsidized electricity and other inputs.

Ironically, India was entering into a deep economic crisis just as Executive Secretary U Nyun was lauding the country's pioneering role, largely as a result of two successive wars, one with China in 1962 and the other with Pakistan in 1965, and two successive years of poor harvests – in 1965 and 1966. The growth rate in per capita GDP was quite low, at about 0.8-1.2 per cent in the first three decades after independence. The agricultural sector grew by nearly 3 per cent in the 1950s, followed by about 1 per cent in the 1960s. Agricultural growth recovered to about 2 per cent per annum in the 1970s, and it grew by more than 3 per cent in the 1980s.

Survey 1978 contained a quote from the Planning Commission of India to indicate the degree of disappointment the planners felt about the failure to achieve planned objectives, particularly in the areas of poverty and inequality:

> "[A]ssessment of India's economic development over a quarter of a century of planning has indicated some fundamental failures … the most important objectives of planning have not been achieved, the most cherished goals seem to be almost as distant today as when we set out on the road to planned development" (*Survey* 1978, p. 10).

It was emphasized in *Survey* 1978 that this was "far from an isolated example" of disappointment with the failure to achieve cherished goals.

At the time of independence, Pakistan had a very rudimentary infrastructure. The level of social development was similarly low. Pakistan's first five-year plan covered the period 1954/55-1959/60. "Public investment in Pakistan increased sharply in the immediate post-Independence years, but subsequently slumped and remained more or less stationary until 1957. At constant prices, public investment increased by one and a half times from the first year (1955/56) to the fourth year (1958/59) of the first five-year plan" (*Survey* 1960, p. 72). Pakistan adopted a more ambitious second five-year plan (1960/61-1964/65). *Survey* 1960 (p. 43) noted that "[t]he second plan investment is 64 per cent larger than that of the first plan".

Pakistan experienced a sharp rise in per capita income growth from 0.6 per cent in the 1950s to 3.8 per cent in the period 1960-1970, despite an annual population growth rate of nearly 3 per cent. However, it faced setbacks following its break-up in 1971, with per capita income growth declining to 1.3 per cent during the period 1970-1977. Since then the growth experiences of Pakistan have been variable. Pakistan's development suffered from a great deal of political instability and military conflicts with India resulting in a persistently high level of defence spending. Additionally, there was a rather inequitable distribution of the benefits of growth, serious neglect of the social sectors and poverty alleviation, and excessive reliance on external resources for financing domestic capital. "By the end of the 1990s, the sustainability of Pakistan's level and pattern of growth was under serious pressure. The build-up of external debt threatened a serious external crisis. The neglect of human resources and infrastructure investment was hampering investment, growth and structural change, and Pakistan was losing its market share in the international markets".[1]

[1] See Hasan (2008).

In summarizing the performance of South Asian economies in the 1970s, *Survey* 1979 observed:

> [I]t is… disturbing to see the relatively poor growth of the agricultural sector during the 1970s… Comparing the period 1970-1976 with that of the 1960s, there was an appreciable fall in the rate of increase in agricultural output in Bangladesh, India, Pakistan and Sri Lanka… The fact remains… that agricultural production for the decade is well below that necessary to deal with problems of over-all growth, employment and poverty reduction" (*Survey* 1979, p. 6).

Sri Lanka also pursued a mixed-economy model — similar to that of India and Pakistan — until it embarked on liberalization reforms in 1977. As an island economy without many natural resources, Sri Lanka remains a country highly vulnerable to external shocks. The terms of trade deterioration for plantation exports had a major impact on overall growth during the first two decades after independence. For example, in *Survey* 1967, it was observed that:

> Ceylon's economic record in 1966 and in the first half of 1967 was strongly coloured by the severe deterioration in its terms of trade and by a decline in the export volumes of tea and coconut. Export prices fell about 5 per cent between 1965 and 1966… The economy of Ceylon has a high direct dependence on exports; the net export content of commodity production in 1966 stood at 28 per cent, and at 32 per cent in the better year 1965. It is also exceptionally vulnerable to changes in a very few commodity markets and, given the oligopolistic situation in tea which accounts for 60 per cent of Ceylon's exports… (*Survey* 1967, pp. 76-77).

Sri Lanka's economic structure remained virtually stagnant until the 1960s, with the share of agriculture in GDP declining marginally from 35.6 per cent in 1950 to 30.3 per cent in 1970 and the manufacturing share remaining at about 17 per cent. By 1970, the national saving rate was only 15 per cent of GDP, and the investment rate was 18.9 per cent of GDP; public investment constituted 14.5 per cent of GDP.

One distinctive feature of Sri Lanka has been its reasonably high social expenditure, averaging 7-10 per cent of GDP. Allocations for free education, health services, food subsidies, and subsidized credit to improve living standards and ensure minimum consumption levels of households were regarded as fundamental for human welfare. These measures have no doubt contributed to Sri Lanka's relatively high basic needs indicators at a low per capita income level. Sri Lanka ranks higher in the Human Development Index than other South Asian countries.

Bangladesh's experiment with a mixed-economy model lasted for a much shorter period (1972-1975). However, that was also the period when the country was trying to emerge from the devastation of its war of independence. Its efforts were seriously hampered by developments both at home and abroad. When the country was trying to cope with the first oil price shock, using whatever little foreign currency it had – mainly aid money – it was severely affected by a devastating flood in 1974. This was followed by one of the worst famines since 1943. To what extent the flood and international events contributed to this famine remains a controversial issue; however, they resulted in the death of a large number of people and left an equally large number permanently impaired due to deprivation of nutrition.

One may attribute the variable growth performance of the subcontinental countries to their experiment with a mixed economy. However, *Survey* 1960 provided a proper perspective. It was observed: "[w]hile the governments of these countries, particularly in India and Pakistan, have endeavoured to play the leading role in the process of economic growth, 80 per cent or more of their allocable national resources have been left in the hands of the private sector for consumption and investment" (*Survey* 1960, pp. 66-67).

B. Liberalization reforms

All four countries in South Asia faced severe balance of payments problem in the 1970s as a result of two oil price shocks. The breakdown of the Bretton Woods system of dollar parity with gold in 1973 exacerbated their payments problems.[2] An examination of balance of payments figures presented in *Survey* 1979 shows that all four countries had experienced declines in foreign exchange reserves, India's being the worst ($1,657 million) (*Survey* 1979, table II-22). The debt service ratios of Bangladesh in 1977 stood at 11.7 per cent, India's at 10.5 per cent, Pakistan's at 13.6 per cent and Sri Lanka's at 14.6 per cent. These figures were about double the debt servicing ratios of East and South-East Asian countries (*Survey* 1979, table II-25).

The relatively better performance of East and South-East Asian countries during the 1970s was used as an argument to support market liberalization in the subcontinent. Starting with Sri Lanka in the late 1970s, Bangladesh, India and Pakistan began embracing liberalization reforms. From 1991, India embarked on liberalization of foreign trade and investment and internal production, producing mediocre results at best in terms of GDP growth. Indian growth rates picked up from 2004 to 2011, coming only second to China's GDP performance during that period. There has been a misleading idea in many quarters that the Indian rates of growth were very low before the period of liberalization. In fact, however, India's rates of growth of per capita income were quite respectable (exceeding 3 per cent) in the pre-liberalization period, particularly in the 1980s.[3] A structural break occurred in the trend of per capita incomes; Indian per capita incomes began to increase from the 1950s.[4]

India seems to have moved into a moderate growth phase after acceleration during the period 2004-2011, with a large foreign debt to be serviced and GDP growth rates falling back to about 5 per cent. Similar stories can be told about Pakistan. The annual per capita GNP growth rate revived after 1977 and averaged 3.3 per cent until 1987, but fell to about 1 per cent during the period 1988-2000. There was again a recovery and Pakistan enjoyed an annual average rate of per capita GNP growth of about 3 per cent, but it was not sustained – since 2008 per capita GNP growth hovered barely around 1 per cent. "Pakistan received debt relief from the Paris Club of creditors" in 2001 (*Survey* 2002), yet it needed IMF support in 2009 to cope with the balance of payments problems caused by the 2008/09 global financial crisis.

In the case of Sri Lanka, although liberalization began in 1977, the pace slowed after 1983 due to the country's long civil war. A second wave of liberalization began in 1989 and a third wave in 2002/03. Sri Lanka's average growth rate was 5 per cent during the period 1984-2001 and averaged 6 per cent during the period 2002-2012. However, it remains to be seen whether this growth rate can be sustained in light of the stagnation of its manufacturing sector. Manufacturing's share in GDP – about 16 per cent – hardly changed since 1950, and the sector is dominated by low-skilled activities, such as the production of ready-made garments. The main contributors to GDP in Sri Lanka are remittances and low-productivity services, such as tourism. The lack of diversification and the country's openness continue to keep Sri Lanka highly

2 The system dissolved between 1968 and 1973. In August 1971, U.S. President Richard Nixon announced the "temporary" suspension of the dollar's convertibility into gold. While the dollar had struggled throughout most of the 1960s within the parity established at Bretton Woods, this crisis marked the breakdown of the system. An attempt to revive the fixed exchange rates failed, and by March 1973 the major currencies began to float against each other.

3 See Sivasubramonian (2000, table 9.3).

4 See Hatekar and Dongre (2005).

vulnerable to external shocks. For example, its GDP growth rate plummeted from 6 per cent in 2000 to about 0.9 per cent in 2001. While *Survey* 2002 recognized the impact of "renewed civil unrest and associated loss in consumer and investor confidence", it attributed the sharp decline in growth to "a slowing world economy" (*Survey* 2002, p. 109). At the same time, inflation shot up from about 6 per cent to 13 per cent. In that same issue (pp. 111-112) it was also noted: "Sri Lanka in particular experienced a comparatively large decline or contraction in export earnings attributable to a less auspicious exogenous environment…" and "Sri Lanka …[was] granted loan packages by IMF for stabilization and adjustment purposes". It again had to seek help from IMF in 2009 in the wake of the 2008/09 global financial crisis (*Survey* 2010).

Bangladesh has also experienced growth spurts; the annual growth rate of GDP averaged more than 5 per cent since 1991. As was the case in Sri Lanka, the main drivers have been ready-made garments and remittances. However, this growth has been accompanied by a sharp rise in inequality and asset concentration which may have had an adverse impact on the durability of growth.

Rising inequality is a common phenomenon in the subcontinent since the time of liberalization reforms, and can be a serious impediment for the sustainability of growth (*Survey* 2013). "South Asia has the highest proportion of working poor in the world at 67.3% in 2011… In absolute terms, the number of working poor has gone up from 361 million people in 1991 to 422 million in 2011 due to the failure to create a sufficient number of productive and decent jobs" (*Survey* 2013, p. 116).

The above discussion is not meant to imply that countries should not liberalize at all. Instead, it is intended to dispel the common perception that liberalization is a panacea for permanently resolving foreign exchange problems and achieving sustained inclusive growth. As the experience of East Asia, including China and Japan, that was highlighted in previous chapters indicates liberalization has to be synchronized with a deliberate change in the internal social structure underpinned by the abolition of landlord power and by other social reforms in order to benefit ordinary people. There also has to be a firm movement towards making literacy universal, along with basic health care and social protection, in order to enhance capacity-building. Various issues of the *Survey* and policy statements of executive secretaries, especially in the 1980s and since 2008, have repeatedly emphasized these points.

C. Understanding the causes of South Asia's development problems

Since the 1970s, the performance of South Asia was subjected to reproving notes in various issues of the *Survey*. For example, *Survey* 1979 listed the reasons for the disappointing growth performance of South Asia compared with that of East and South-East Asia:

> … (a) low saving and investment rates, (b) low (and in some countries even falling) productivity of investment, particularly, public investment, due to bad project designs, long gestation lags, unutilized capacities and managerial inefficiencies, (c) recurring shortages of agricultural and industrial inputs… (d) restricted participation of the vast small farm sector in the green revolution due to the failure to implement land reforms and other institutional reforms, (e) continuing high population growth rates, (f) declining foreign assistance/investment ratio, (g) declining terms of trade, increasing barriers faced by exports and (h) the aggravation of these long-term difficulties by the energy crisis and stagflation in the developed countries (*Survey* 1979, p. 83).

In lamenting the failure of subcontinental South Asia, the previously quoted study (ESCAP, 2002) posed a probing question:

> [W]hat factors led to this exceptional economic development for some countries (i.e., East Asian developing countries) in the last three decades in terms of increasing their GNP per capita income by as much as over 65 times for the Republic of Korea, 13 times for Thailand and about 10 times for Malaysia while, during the same period for Asian least developed countries and South Asian developing countries, only a meagre increase of 2 to a little over 5 times took place? (ESCAP, 2002, pp. 4-5).

What conclusions and lessons can be drawn from that study as they relate to public policy? First of all, the study found out empirically that in the past three decades, among other things, the countries in Asia with broad-based healthy human capital, such as East Asian developing countries, grew faster than the ones where these elements were missing, that is, Asian least developed countries and South Asian developing countries. Thus, the empirical results in that study corroborate the premise that there is an important link between healthy human capital and rapid economic development of a country.

Second, the ESCAP study also found that, under similar economic predicaments with comparable per capita incomes in the 1960s, some countries, such as East Asian developing countries, were investing far more in human capital and health sectors on a per capita basis than other countries, such as the Asian least developed countries and South Asian developing countries. This result substantiated the point that it is the commitment and priority of a nation rather than other economic factors alone that enabled East Asian developing countries, as compared with Asian least developed countries and South Asian developing countries, to invest and build up their human capital base even when they were all equally opulent or equally penurious.

Third, it is important to acknowledge the fact that there is a distinction between investments in human capital versus physical infrastructure, particularly in terms of their gestation period. In this context, the finding of that ESCAP study upholds the view that, while it is possible to cut down the gestation period of physical infrastructure investments with additional investments, the same outcome may not be possible for human capital investment. Thus, unlike physical infrastructure investment, human capital development investment is a long-term as well as continuous proposition (ibid., p. 12).

The incentive and the ability to spend adequately on social sectors, such as education and health, depend critically on the geopolitical situation and the political structure of particular countries. The latter aspect is also causally connected with the transformation of an economy into an industrialized entity. However, it must be added that India and Pakistan did not enjoy the geopolitical advantage that Japan, the Republic of Korea and Taiwan Province of China did, namely easy access to Western bloc markets and technology, and the willingness of the United States to fill their external balance gap, at least until that country became too deeply embroiled in the Viet Nam War. However, easy access to foreign aid is not enough for a country to industrialize or go forward in major areas of human development if the internal social structure remains mired in landlordism and clientelism. The experience of the Philippines was tragic in that regard.

What is most disappointing about the subcontinental story is the poor record of human development in all the three countries, especially in the key sector of education. In the *Human Development Report 2013*, South Asia is ranked just above sub-Saharan Africa both in respect of its HDI index and its per capita income. The expectation of life in Bangladesh, India and Pakistan ranged from 65.2 to 69.2 years, whereas in many countries of the world, including the Republic of Korea, it exceeds 80 years. (Japan now has the highest average longevity in the world, at 83.6 years.)

What are the reasons for the unacceptable performance of the three subcontinental countries? In fairness, Governments in South Asia face many difficulties; it must be remembered that the subcontinent is home to a larger population mass than that of China, and that population is far more diverse in terms of language, religion, ascribed ethnicity and so on. In addition, those countries have often been faced with difficult geopolitical situations and an unfavourable external economic environment. However, that still leaves much to be explained. Perhaps the single most important reason has to do with the failure to carry out pro-peasant land reforms, and related to that, the refusal of the Governments to tax the rich and to spend the revenues for making literacy universal, and following that, primary health care, with the resultant inability to spend enough on social development.

There is almost a laboratory case in the subcontinent validating at least part of the above claim. The small Indian state of Kerala elected a communist government in 1957, and that government, before it was toppled, began the process of redistribution of land to the actual cultivators and also initiated moves to make primary education universal. It built on earlier social movements empowering the castes that were low in the hierarchy. Even though governments changed in that state, these initiatives could not be reversed. Already by the middle of the 1970s, the Indian state of Kerala had achieved much higher standards of literacy and health than most other Indian states, some of them with much higher incomes per capita. In 1975, the United Nations, in collaboration with the Centre for Development Studies in Thiruvananthapuram, Kerala, published a report on that state's development (United Nations, 1975). The Centre was founded by Professor K.N. Raj, formerly of the Delhi School of Economics, who also served on the prestigious United Nations Committee for Development Planning (renamed in July 1998 as the Committee for Development Policy) and also served on many expert groups of the United Nations, including those of ECAFE. This was effectively one of the first human development reports in the world, following the seminal attempt by the United Nations to measure the level of living index in 1966.[5] An almost similar story can be told about the very small Indian state of Tripura, which has succeeded in improving its literacy rate to 87.5 per cent compared with the all-India figure of 74 per cent, and reducing the infant mortality rate to 29 deaths per 1,000 live births, which is below the all-India figure of 44.[6] Of course, land reform in one part of the country is not enough if the policies of the central Government and developments in other parts of the country tend to exclude the poor from formal credit and independent access to markets. The disappointing results in the Indian state of West Bengal, where only partial land reforms were carried out, should be understood in this way. On the other hand, Bangladesh's relatively better performance in social and human development indicators perhaps can be attributed to the abolishment of the *zamindari* (landlord) system in the early 1950s.

5 See Drewnowski and Scott (1966).

6 The figures are for 2011 and the source of the data is National Health Mission, Ministry of Health and Social Welfare, Government of India. Available from http://nrhm.gov.in/nrhm-in-state/state-wise-information/tripura.html#health_profile (accessed 1 July 2014).


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Economies in transition and countries with special needs

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While the Asia-Pacific region hosts some of the most dynamic emerging economies in the world, it is also home to countries with special needs and economies in transition, as well as some post-conflict and fragile States. In addition to providing such economies with technical assistance to help them integrate with dynamic regional economies, ESCAP devotes special attention to such States in its annual *Survey* and provides in-depth analyses of the socioeconomic problems that these countries face, as well as policy options for their consideration. This chapter draws on *Survey* analysis in considering the challenges and policy options for economies in transition and countries with special needs.

A. Economies in transition

All the countries which had centrally planned socialist economies, such as the USSR or China prior to 1979, but had adopted many market-oriented reforms are generally labelled as "economies in transition" or even "emerging economies", which in the World Bank parlance covers an overlapping but not identical set of economies. However, it is necessary at the outset to distinguish between those economies which were part of the USSR until 1991 and those which were outside that set. The first issues to be dealt with will be the typical problems of the latter group of economies, as reflected in various issues of the *Survey* and the policy statements of executive secretaries; then the problems faced by the successor States of the USSR will be addressed.

One of the problems the three transition economies in South-East Asia – Cambodia, the Lao People's Democratic Republic and Viet Nam – faced was an exodus of people. According to *Survey* 1990, "During the past 14 years, over 2 million people are estimated to have left Cambodia, the Lao People's Democratic Republic and Viet Nam" (p. 105). They also had to deal with damages left behind by wars and conflicts. For example, as reported in *Survey* 1995, land mines were a serious problem for Cambodia.

In *Survey* 1991, a box was devoted to "The economic and social reconstruction needs of Cambodia". It was noted: "In 1979, currency, banking and commercial transactions were restored. Centrally planned resource allocation, introduced in the early 1980s, was gradually abandoned by 1987. The segment of the economy not controlled by central planning has increased greatly in importance and now accounts for an estimated three quarters of domestic production" (*Survey* 1991, p. 57). It was further noted: "Since early 1990, the situation in Cambodia has undergone positive changes. With a peace agreement signed in October 1991 and being implemented through international mediation, the prospect of peace has emerged in Cambodia after more than 20 years of continuous warfare" (ibid., p. 57). It was concluded:

> Despite a slow but remarkable economic recovery since the early 1980s, the social and economic reconstruction needs of Cambodia are still very high. The most immediate development strategies should focus on improving the country's transport network (especially its road infrastructure), a prerequisite for further economic development. To meet basic consumption requirements of the population the main emphasis also has to be given to the agricultural sector through the provision of both infrastructural investment and technical assistance. High priority should be accorded to human resources development in the longer run. That implies that emphasis should be given to training and the enhancement of health and education services. Owing to the poor performance of the economy, and the lack of internal savings as a source of investment finance, Cambodia's future development would be highly dependent on foreign investment and international aid. These, however, can only be provided if political stability is fully assured (*Survey* 1991, p. 58).

Further backdrop for introducing liberalizing reforms can be found in *Survey* 1991:

> The problem of countries such as Viet Nam, Mongolia, and, to a lesser extent, the Lao People's Democratic Republic is exacerbated by the dissolution of the Soviet Union and changes in Eastern Europe. They are suffering production and employment cutbacks in State-owned enterprises as a repercussion of the breakdown of subsidized imports from the former CMEA countries and from a collapse of their established export markets. In Viet Nam, for example, employment in the State sector decreased by more than 120 thousand in the first half of 1991 compared with the same period of 1990 (*Survey* 1991, pp. 107-108).

Survey 1991 noted rapid growth of small private manufacturing enterprises in response to the economic reforms in the Lao People's Democratic Republic. Construction, electricity, gas and water registered rapid growth. Both Cambodia and the Lao People's Republic have been growing at around 8 per cent since the late 1990s. However, Cambodia suffered more than the Lao People's Democratic Republic during the 1997/98 Asian financial crisis and the 2008/2009 global recession. Both have declared their intention to graduate from least developed country status.

Viet Nam's reform efforts from the late 1970s have been briefly narrated in chapter 6. Some details of these reform measures were presented in the *Survey* of the early 1980s. In 1980, Viet Nam was adversely affected by both a typhoon and drought, and rice output suffered badly. To tackle that problem, "[a] variety of measures were introduced to improve the food situation. Acreage of dry crops was increased, and family farming was encouraged". Viet Nam had already introduced a system of contract farming to replace an earlier system of State farms.

The characteristics of the new system were as follows:

> a. Allocating plots of land for two to three years to labourers in return for a specified amount of produce supplied to the State;
> b. Performance by work teams of soil preparation, supply of seed and fertilizer, irrigation, drainage and crop protection;
> c. Contracts to individual workers for transplanting, cultivation, crop tending and harvesting;
> d. Allocation of that part of the harvest which meets the quota set according to work points on the previous collective system;

> e. Distribution of the remainder of the harvest to contract workers on a percentage basis (often 100 per cent).
>
> Associated steps include replacement of the progressive tax on co-operatives by a fixed one, stabilization of State purchases of farm products up to 1985, and provision of greater autonomy to collectives (*Survey* 1981, p. 76).

Despite the shortage of such inputs as fertilizer and fuel, and the unfavourable weather conditions that occurred at times, the new policy led to an all-time high in food output at 15 million tons. When assessing the performance of Viet Nam in those years, however, it should be remembered that Viet Nam was still an agrarian economy which had been ravaged by a quarter-century of one of the most brutal wars in history. It had very little large-scale industry at the time. It produced and exported coal, but the mining equipment was obsolete. It received aid from the Soviet Union and the countries grouped under the Council for Mutual Economic Assistance (commonly referred to as Comecon),[1] as well as France and Sweden. In State-run industries, incentives for higher productivity were being provided through piece-rates and bonuses.

A decade later, *Survey* 1992, which was published soon after the break-up of the Union of Soviet Socialist Republics, contrasted the constraints on the Central Asian republics that had been formed after the dissolution of the USSR with the greater autonomy enjoyed by the Lao People's Democratic Republic, Mongolia and Viet Nam, especially in terms of their monetary policy, since they had their own national currencies and banks.

> Mongolia, nevertheless faced similar economic instability, involving rapid inflation, high unemployment, shortages of basic foods, and declining living standards, which have posed difficulties in implementing economic reform. The main issues facing the country's economic managers are to achieve equilibrium in the external sector at a reasonable social cost, to improve supplies of consumer staples in the market, and to reduce the budget deficit as much as possible (*Survey* 1992, p. 82).
>
> Viet Nam faced similar macroeconomic imbalances and was confronted with structural adjustment costs associated with the ongoing process of economic reform… Viet Nam has achieved a considerable measure of success over the years, especially in stimulating agricultural production, reducing inflation, stimulating private investment, including foreign direct investment (FDI), and balancing its external account…Viet Nam, by virtue of its earlier start and close interface with neighbouring countries, has achieved a larger measure of success in stabilizing and stimulating its economy than any of the other economies in transition (ibid., pp. 82-84).

According to *Survey* 1992, all the countries would need external assistance to tide them over the period of transition. It was strong on the issue of the allocative efficiency of a "proper" price system:

[1] Original members were Bulgaria, Czechoslovakia, Hungary, Poland, Romania and the USSR. Albania joined in 1949 but ceased taking an active part in 1961. The German Democratic Republic became a member in 1950 and the Mongolian People's Republic in 1962.

> Price reform is central to the transition process. The artificial price structure inherited from the central planning regimes is not conducive to efficient resource allocation and improved productivity. Even if freeing prices had no immediate impact on output, it could lead to better utilization of existing output; for example, creating a housing market could allow better allocation of the existing housing stock with indirect benefits, such as aiding labour mobility. During the transition process, however, price changes and the accompanying change in the output mix will impose costs on some groups. Thus, Governments face political pressure to postpone increases in the prices of basic consumer goods or inputs, and yet to allow pensions, wages and other sources of income to increase, whether or not they are justified by the budget situation or by productivity. In sum, price liberalization is fundamental to the establishment of a market-based economy, but it is politically difficult to implement (*Survey* 1992, p. 86).

While price reforms may be necessary, it is difficult to know what the correct prices are. The Little-Mirrlees dogma that the correct prices are prices in the global market is empirically invalid because there is no single set of international prices for any goods. Second, many of the international prices, especially for the staples of developing economies – agricultural goods – are distorted by the enormous subsidies paid to the farmers in the European Union, Japan and the United States. Third, China, the most dynamic and successful economy in transition, took a long time to introduce any kind of price reform for most of its agricultural and industrial commodities. Fourth, the abolition of the rather small subsidies given to farmers and ordinary consumers in developing countries and the introduction of user charges for water, health care and education have had serious regressive effects in a world which is already so inequitable and unequal.

The initial advantages of being able to pursue relatively autonomous policies led to the Lao People's Democratic Republic and Viet Nam to be listed in the *Human Development Report 2013* (table 3.1, p. 64) among 26 selected developing countries which registered large reductions in HDI shortfall or high rates of growth in gross national income (GNI) per capita over the period 1990-2012. Viet Nam's HDI rose from 0.439 to 0.617, and its GNI per capita increased by 5.9 per cent per year. In the case of the Lao People's Democratic Republic, HDI increased from 0.379 to 0.543, and GNI per capita increased by 4.4 per cent per year. Using a slightly different data set, contained in the *World Development Indicators 2011*, it may be seen that the average annual growth rates of Viet Nam's GDP over the periods 1990-2000 and 2000-2009 were 7.9 per cent and 7.6 per cent respectively, and the corresponding growth rates of the Lao People's Democratic Republic were 6.4 per cent and 5.9 per cent. Both the Lao People's Democratic Republic and Viet Nam experienced the rapid fertility transition characteristic of East Asia and most of South-East Asia: the average annual population growth rates of the Lao People's Democratic Republic and Viet Nam during the period 1990-2009 were 1.5 per cent and 2.1 per cent respectively. The two rates were expected to decline to 1.0 per cent and 1.8 per cent respectively by 2015, again highlighting the problems of ageing even in poor developing countries.

The picture appears to be very different in the republics which formerly had been part of the USSR. Using ESCAP data and taking together Armenia, Azerbaijan and the Russian Federation along with the Central Asian republics, one gets the picture portrayed in table 9.1.

Table 9.1 Central Asia, average annual growth rates (%) for GDP and populations, 1990-2015

	Real GDP		Population	
	1990-2000	2010-2013	1990-2009	2010-2015 (projected)
Armenia	2.1	4.4	-0.63	0.26
Azerbaijan	5.6	3.3	1.23	1.22
Kazakhstan	2.2	6.4	-0.16	1.07
Kyrgyzstan	0.5	3.8	1.01	1.10
Russian Federation	0.2	3.3	-0.15	-0.10
Tajikistan	-0.2	7.2	1.40	1.46
Turkmenistan	1.7	11.3	1.68	1.25
Uzbekistan	3.2	8.3	1.54	1.15

Source: ESCAP. Available from www.unescap.org/stat/data (accessed 1 July 2014).

Table 9.1 indicates disastrous outcomes in respect of GDP growth in the 1990s for all the countries listed, and they were almost certainly the outcomes of market-oriented reforms. *Survey* 1992 and 1995 identified most of the factors causing serious dislocation in the republics that were trying to introduce market-oriented reforms, and that analysis will be used below. However, the population dynamics since the start of the reform process should be scrutinized. They were also fairly calamitous for Armenia, Kazakhstan and especially the Russian Federation. All the former Soviet republics had experienced a fertility transition before the break-up of the USSR, and many of their fertility levels had dropped below the replacement level. In the case of the Russian Federation, the main driver of population decline was the increase in adult, especially male, mortality owing to substance abuse induced by unemployment and the loss of social security.

However, it appears that the decline in the Russian population has plateaued; the population figure for 2012 exceeded that for 2006.[2] The economic decline of the Russian Federation was almost certainly caused by the "shock therapy" method chosen to introduce market reforms. Unlike China, which chose a "gradualist" path, there was no advance preparation in the building of new institutions and networks to support the reforms in the Russian Federation. The whole system of exchanges, of which banking was a part, collapsed in the Russian Federation, causing both declines in aggregate demand and shortages of most commodities plus very high rates of inflation.[3]

Survey 1992 and 1996 contained an analysis of the problems of the Central Asian republics, and those problems would also apply, *mutatis mutandis*, to the Caucasian republics that were members of the USSR:

> Unlike Mongolia and Viet Nam, which could deal freely with their problems of macroeconomic instability by using their national monetary and fiscal instruments, the Asian republics faced a major constraint on macroeconomic management. This arose from their low degree of autonomy in matters of monetary policy and continued membership of the rouble zone, with the Russian central bank (Gosbank) having the sole authority to issue the currency. Following the dissolution of the USSR, the Russian Federation assumed jurisdiction over the Gosbank. The Russian Federation controlled the currency issue but, because all republics retained control over domestic credit creation and because there is no balancing mechanism for inter-republic trade transactions, no institution in the republics could exert effective monetary control.

[2] See Adomanis (2013) and Trading Economics (2013).

[3] See Brus (1995) and Sapir (1996).

> The result was an explosive increase in the money supply and hyperinflation… membership of the rouble zone posed two serious problems. First, the multiplicity of credit issuing institutions meant that even if the Russian Federation were committed to the stabilization of the rouble, its monetary policy could be undermined by the other republics. Credit expansion in the Russian Federation itself, however, remained strong, fuelling inflation that spilled over to other republics. Second, intrarepublic trade was being disrupted by delays in payments. More generally there was a shortage of cash, as the Gosbank could not print enough notes. Many republics reacted to the cash shortage by issuing "coupon" money or other money substitutes, adding to the monetary chaos (*Survey* 1992, p. 82).

Compared with the more industrially advanced members of the former Soviet Union, "the Asian republics favoured a more expansionary monetary policy, more favourable terms of trade for energy exporters and a slower pace of price liberalization for essential commodities. Thus, the Asian republics faced a more complicated task of achieving macroeconomic stabilization than, for example, the Lao People's Democratic Republic, Mongolia and Viet Nam, which had initiated reforms earlier and within fully established national structures" (*Survey* 1992, p. 82).

Thus, while the Central Asian republics tried to pursue a more gradualist method for introducing market-oriented reforms, they were hamstrung by the policies pursued by the Russian Federation, and suffered hyperinflation and severe output declines.

> After several difficult years of decline in output and income, which still continues in most cases, the Russian Federation and some of the Central Asian republics can finally expect to see an end to that recession as the year 1995 closes. … Real achievements in economic stabilization have been made in Armenia, Kyrgyzstan, the Russian Federation and Uzbekistan. However, Armenia is the only country among the economies in transition to have recorded a positive rate of economic growth in 1995. In the Russian Federation, too, output was stabilizing and beginning to grow in some sectors. The fall in GDP and industrial production in 1995 slowed in all the Central Asian republics compared with 1993 and 1994, except in Tajikistan and Azerbaijan, where the decline in GDP continued approximately at the 1994 rate. Uzbekistan and the Russian Federation experienced the lowest rates of decline in GDP. Rates of inflation still run high, though they are coming down in all of these countries. Kyrgyzstan recorded the lowest rate of inflation at 150 per cent in 1995 (*Survey* 1996, p. 43).
>
> In the Central Asian republics, Governments were previously fully responsible for the provision of free education, health care, housing and social security allowances. However, the severe budgetary constraints of recent years have led to the adoption of economy measures, which include the establishment of various contributory insurance schemes (for example, pension and social insurance funds) outside the government budget. In some countries, user charges and fees have been introduced for educational and medical services. In some countries, privatization of housing has started. Thus, the involvement of the State in the provision of social services is being somewhat reduced. However, in the foreseeable future, Governments are expected to continue to play a crucial role in the financing and provision of these services (ibid., p. 146).

It had been noted at the outset how in Asia and the Pacific differentiation has occurred between fairly prosperous economies and a spectrum of increasingly less-favoured economies and people, at the tail-end of which are people who are being drawn into urban slums even before they have had a chance to properly complete the Neolithic revolution.

Although the people of none of the Central Asian republics fall into the last category, the information shown in table 9.2 would indicate that they are also greatly differentiated among themselves and their immediate neighbour, the Russian Federation. The size of the latter economy is, of course, about 150 times that of the smallest economy – Tajikistan – and its per capita income is 8 times that of Tajikistan. Among the Central Asian republics themselves, Kazakhstan is by far the largest economy, with a per capita GDP that exceeds that of all the other economies in the North and Central Asian subregion. Naturally, new economic links are being forged among these republics, and ESCAP has tried to foster those links in various ways, with the Asian Highway project being one of the most prominent among those initiatives.

Table 9.2 Economies of North and Central Asia, and the Russian Federation

	2012 GDP (millions of 2005 PPP prices)	2012 GDP per capita (in 2005 PPP prices)
Azerbaijan	82 474	8 860
Kazakhstan	201 120	12 360
Kyrgyzstan	11 592	2 118
Russian Federation	2 178 439	15 216
Tajikistan	15 379	1 920
Turkmenistan	47 184	9 121
Uzbekistan	92 161	3 229

Source: ESCAP. Available from www.unescap.org/stat/data (accessed 1 July 2014).

B. Least developed countries and landlocked developing countries

ESCAP groups together "least developed countries", "landlocked developing countries" and "small island developing States" as countries with special needs. All the three subcategories, however, are themselves heterogeneous in terms of income per capita, the human development index and ecological conditions. Some of the ESCAP ideas entering into the diagnosis and policy advice relating to the small island developing States will be analysed in the next chapter. Here the focus is on the landlocked and small least developed countries. The justification for doing so is that the more populous least developed countries have many problems that are common to all developing countries. Small landlocked countries and small least developed countries have again the most problems in common, such as lack of adequate infrastructure, a very small domestic market and weak formal institutions.

The least developed countries are themselves highly diverse in character. Some of them are highly commercialized; some still have community structures and land rights not defined as exclusive private property. Bangladesh, for example, is labelled as a least developed economy, but its problems have much more in common with those of India and Pakistan than those of the Lao People's Democratic Republic or Nepal, two other least developed countries, but unlike Bangladesh, they are landlocked. Two of the least developed countries, Cambodia and the Lao People's Democratic Republic, have undergone communist revolutions. Another least developed country, resource rich Myanmar, was a closed economy that experimented with a socialist economy under military-led governments until very recently. It may be possible in countries with community structures, and in the wake of the abolition of landlordism, to put much of the construction effort into building schools and public health centres, as well as into new, organic methods of farming, which would raise the standard of living of the people, without attracting at once the evils of urban slums and exploitation by predatory capital.

In *Survey* 1978, it was observed that, owing to the "relative lack of progress in the land-locked and least developed countries of the ESCAP region and the continuing particular problems of the island economies of the South Pacific" in the decades of 1970s, it was "essential that the new international development strategy should contain special provisions which cater for the interests of these groups of countries" (p. 162).

In *Survey* 1989, there was a focus on the serious problems of growth and transformation in the region's least developed and Pacific island developing economies in the context of the Commission's continuing theme topic in 1990, "Restructuring the developing ESCAP economies in the 1990s". In the preface to that issue of the *Survey*, Mr. Kibria expressed concern about "the extremely slow pace of development in the least developed and Pacific island economies, many of whose difficulties were compounded by natural disasters".

Past and then current structural problems confronting these countries were examined along with their prospects for overcoming them and joining the vibrant mainstream of Asian and Pacific development. It was also recognized that the structural problems of those countries differ significantly from those besetting other developing countries in the region. It was noted that there were "considerable possibilities for their regeneration, though they would still need a strong supportive stance from the international community, including the region's developed and other developing countries".

While *Survey* 1989 recognized the need for diversification and industrialization, it was circumspect about the export-oriented industrial development strategy "for both domestic and external reasons" (p.159). Due to a lack of institutional and productive capacity,

> [I]t does not always follow that an era of high growth will be ushered in by a policy regime supportive of creating favourable conditions for private, including foreign, capital investment. On the contrary, such a policy regime may trap the least developed countries in a situation of low and even declining investment ratios, inadequate social expenditure, low growth and continuing social strife, all of which act as disincentives to FDI as well as to potential domestic investment, and hence as further 'depressors' of growth (*Survey* 1989, p. 159).

It was emphasized that there was a need for improving agricultural productivity, investing in education and human resources development and developing technological capability through either direct purchase of licensing or negotiating with foreign investors when granting FDI approval. It was also observed that, if "the production structure of the least developed countries fails to adjust by undertaking some degree of import substitution, persistent imbalance in the trade account will result" (p. 158).

Landlocked countries and least developed countries need infrastructure, but what kind of infrastructure do they need and how should it be built? *Survey* 1996, had some critical remarks concerning the spate of hotel building and other urbanizing activities that were taking place in least developed countries to the neglect of agriculture.

> With agriculture providing the largest share of GDP and serving as the main source of employment, higher overall growth and alleviation of poverty cannot be attained with stagnation in that sector. Agriculture did not perform well in the least developed countries over the last five years. In many instances, it expanded at rates below the rate of growth of the population.

> The spate of hotel-building, tourism infrastructure and catering facilities, and the ready-made garment manufacturing gave a boost to urban activities recently and have tended to accentuate the rural-urban disparity in incomes in several countries. This has been a matter of considerable concern in Cambodia where agriculture performed rather poorly. Similar concerns have also arisen in Nepal where dualistic tendencies in the country intensified. A re-emphasis on the urgent need for broad-based agricultural development in the least developed countries is thus clearly appropriate (*Survey* 1996, p. 25).

It was also pointed out in *Survey 1996* that, when construction activities are carried out in least developed countries through foreign investment and when tourism from affluent countries provides a major share of foreign exchange, least developed countries become prey to all the ill-effects of downturns in the affluent economies and declines in foreign investment. Apart from these wrenching "stop-go" effects of a move towards tourism-cum-foreign investment dependence, in least developed countries the ecological risks are badly ignored in such strategies of economic development. Only one such risk will be mentioned here: the building of four-lane highways to attract tourists but totally neglecting the protection of hillsides against unregulated construction. This situation led to huge landslides and caused floods and thousands of deaths recently in the Himalayan rage in India.[4]

Similar dangers await most least developed countries with hills and mountains that can attract tourists and pilgrims. In parts of the world, such as Japan,[5] organic farming and ecologically protective forestry and herbariums are being developed to protect hillsides and generate income for users. ESCAP has already taken up the promotion of green growth. Ecologically protective and income-generating farming, forestry and herbariums in hilly areas of least developed countries could easily be included among recommended practices. A regulatory regime could be evolved around them.

C. Policy lessons

The preceding discussion brings out a number of important policy lessons. First, a gradual approach to reforms with careful sequencing is superior to a "big-bang" approach. Such an approach can minimize both economic and social costs. Second, economic policies, especially when introducing reforms, must not be chosen on the basis of economic efficiency alone. They must also consider social consequences – an important lesson from the point of view of strengthening the social pillar of sustainable development, as emphasized in *Survey* 2013. Third, there is no "one-size-fits-all" policy package. Policies should take into account country-specific circumstances.[6] Finally, least developed countries and landlocked developing countries need special measures, which the United Nations recognizes by grouping them as "countries with special needs". ESCAP analyses, as documented in the *Survey*, by and large reflected the above lessons.

To the east of the Asian and Australian continents lies the vast Pacific Ocean, the area of which (165.25 million sq.km.) covers a third of the Earth's surface and exceeds the total land area of the entire globe.[7] The islands in this ocean have been a source of great inspiration and experimentation for scientists, artists, anthropologists and environmentalists. They are also of concern to ESCAP, which faces a daunting task in terms of monitoring, observing, analysing and giving advice useful to the developing countries and territories located in this vast body of water.

4 See Bandyopadhyay (2013).

5 See Fujimoto (2012).

6 Interestingly, the Articles of Agreement of the International Monetary Fund (article IV) also recognize this principle.

7 *Encyclopedia Britannica*.






A Trans-Asia of islands and peoples struggling to attain their human potential

10

Survey 1998 (box II.1) brought out further unique features of Pacific island economies and some of the reasons they are of concern to ESCAP.

> The five northern Pacific island economies, Guam, the Marshall Islands, the Federated States of Micronesia, the Northern Mariana Islands and Palau, are scattered and sparsely populated. They are located east of the Philippines and north of Papua New Guinea. They range from Palau, which consists of a string of islands with a total land area of about 500 sq km and a population of only 18,000 to the Federated States of Micronesia, which consists of four main islands in a vast area of 3 million sq km, of which 700 sq km is land, and has a population of 112,000. Guam is a single island of 550 sq km with a population of 112,000. Guam is a single island of 550 sq km with a population of 145,000, the largest population among these economies. Marshall Islands has a population of 60,000. It has one of the fastest population growth rates in the world, estimated at 4 per cent a year.
>
> All of these economies have a long association with the United States and remain exceptionally dependent on aid from that country. The Marshall Islands, the Federated States of Micronesia and Palau signed compacts of Free Association with the United States that gave them political independence, the first two in 1986 and Palau in 1993. By contrast, Guam is an unincorporated United States territory under the general supervision of the Department of the Interior, which gives it less autonomy. The Northern Mariana Islands became a Commonwealth of the United States in 1975, and more than half of its budget is funded by the United States…
>
> These economies have very high GDP per capita, ranging from $1,450 in the Marshall Islands to $10,830 in Guam, much of which reflects arrangements under compact funding. Their economic growth, however, has been unfavourable, with the Marshall Islands and the Federated States of Micronesia recording negative average growth during the period 1990-1994…
>
> The range of exports is extremely narrow, consisting, except for the Northern Mariana Islands, primarily of marine products, handicrafts and some agriculture produce. Fishing license fees are a primary source of foreign exchange, but the indigenous industry is undeveloped…
>
> The potential for economic growth of these economies lies primarily in fishing, tourism and, to a lesser extent, manufacturing and agriculture. Opportunities are limited because of the narrow resource base, small domestic market, limited domestic capital and skilled human resources, distance from main markets, rapid population growth rates and the dominant public sector…

> None of these economies has developed fisheries to the extent that might have been expected given the substantial size of their economic exclusive zones. Domestic commercial fisheries remain poorly developed; major markets are remote; labour costs are high and transport difficulties increase costs. The local fishing industry remains primarily dependent on the activities of overseas fishing companies, with limited gains to the national economies… (*Survey* 1998, box II.1, p.34).

Limited domestic markets and narrow scope for diversification make island economies extremely vulnerable to external shocks. For example, *Survey* 1992 observed that the global "recession in 1991 had an adverse impact on the external accounts of most Pacific island countries. For some, the problems were further compounded by natural disasters such as cyclone damage. As a result, the current account balance of payments of most island countries deteriorated" (p. 71).

A. Colonial legacy and socioeconomic imbalances

As observed in *Survey* 1989, the structure of the Pacific island economies is greatly influenced by the "nature of the colonial and postcolonial relationships between Pacific island countries and metropolitan powers" (p. 163). The evils of colonialism and the military conflicts that devastated major population centres of mainland and marine Asia did not spare the Pacific islands, as the history of sugar cane plantations in Fiji would testify. They were owned by British colonizers and operated with South Asian indentured labour. The use of Pacific islands for testing nuclear explosions was another horror, as was the totally unregulated exploitation of the peoples and resources of the islands until recent times. Climate change and the greater frequency of storms and typhoons in recent years have given new urgency to the need for securing the present and the future of Pacific islanders.

The Pacific islands and small island developing States in United Nations parlance are ecologically special in themselves and for the welfare of other people in the world. A tsunami that starts in the depth of the Pacific not only could cause immense damage in Japan, one of the most technologically advanced countries in the world, but it could also sweep into a watery grave thousands of the people living on sparsely populated islands. Since the sea level of the Pacific and other oceans is rising as a result of climate change, the risk of such calamities has also been mounting.

B. Engagement of ESCAP in the Pacific

To support Pacific island developing States ESCAP established ESCAP Pacific Operations Centre (EPOC) in 1984 in Port Vila by combining the operations of the Pacific Liaison Office based in Nauru and the United Nations Development Advisory Team based in Fiji. EPOC was relocated to Suva in 2005 to enable more effective collaboration with regional partners, such as key development partners of Pacific island developing States, including donor governments, subregional organizations and United Nations Specialized Agencies and Bodies in the Pacific. The mission of the Centre was restated to focus on supporting Pacific island developing States in their efforts to attain Millennium Development Goals through the implementation of the Mauritius Strategy. The evolution of EPOC is summarized as follows:

In the 1980s, EPOC was often concerned with national development planning as in Tonga, or state-level development plans as in the Federated States of Micronesia. Activities in social development included a regional conference on disability services. On the statistical front, EPOC has, for example, helped develop the consumer price index for Tuvalu. Towards the end of the 1980s EPOC was doing more work on gender – for example a report on the Department of Women and Culture in Fiji, the Development Strategy for Women in Palau, and a project on the National Council of Women in the Solomon Islands. Then in the 1990s EPOC became closely involved with the development of the financial sector – assisting in the establishment of national provident funds, financial services commissions, development funds and microcredit schemes – and even, as in Tonga, national reserve banks (ESCAP, 2007a, p. 68).

The ESCAP Pacific Operations Centre assists Pacific island developing States by:

- conducting research on economic and social issues relevant to policy makers;
- promoting regional cooperation and sharing knowledge and good practices;
- providing regional advisory services on economic and social policies;
- building institutional capacity through training workshops;
- assisting policy implementation through pilot projects.

Priority concerns of Pacific countries are brought to the attention of the Commission through the Special Bodies on Pacific Island Developing Countries and Least Developed Countries.

C. Inadequacies of neo-liberal policies

Various issues of the *Survey* in the 1980s and 1990s are full of narratives on the ineffectiveness and, in most cases, counterproductive nature of the typical prescriptions of the "Washington Consensus". *Survey* 1987, for example, showed that for least developed and Pacific island economies per capita income growth was lower than 2 per cent, with some of the smaller Pacific island economies even experiencing declines in income.

Most of the Pacific island economies, like the least developed countries, also suffer from severe structural disadvantages and resource limitations. Agriculture, dominated by tree crops, fisheries and forestry products, and minerals are the mainstay of most of these economies. Exports consist mainly of agricultural and mineral products, the demand for and the prices of which considerably influence the overall performance of these economies. They are also heavily dependent on imported petroleum products as their major source of energy. Their efforts to develop alternative sources of energy following the previous oil shocks have met with limited success, except in Fiji and Papua New Guinea which have concentrated on hydropower development (*Survey* 1990, p. 42).

It was also pointed out in that issue that "[i]n contrast to the improved performance of many of the other Pacific island countries, in Papua New Guinea the GDP growth rate was reduced to 1.4 per cent in 1989 from 3.1 per cent in 1988…". This happened despite the fact that:

> Papua New Guinea has been forced to adopt restraint in government expenditure as part of its overall economic strategy in recent years in the light of decreasing foreign budgetary aid and high debt commitments. The country's successive Governments have established a tradition of sound economic management which has resulted in a steady, if small, growth in incomes, a low rate of inflation, a stable monetary environment and a sustained level of debt service. In recent years, the fiscal deficit has been restrained and attempts have been made to broaden the tax base in order to raise additional revenue. Government borrowing has also been restricted and private liquidity has been tightened… The need for further restraint upon expenditure has been necessitated by the closure of the Bougainville mine in May 1989, coupled with a serious decline in world prices for the country's major commodities during the year" (*Survey* 1990, p. 46).

As a result, Papua New Guinea went through major structural reforms from 1999 with the assistance of IMF and the World Bank. The structural reform programme included the privatization of State-owned enterprises, the introduction of a competition policy, a tariff reduction programme, financial reforms, reforms aimed at improving other aspects of the business environment and infrastructure improvement programmes. However, "despite the recent economic recovery, Papua New Guinea's per capita income of approximately US$ 403 in 2003 has not improved much…this has not translated into improvements in our social indicators. Papua New Guinea's global human development index (HDI) ranking dropped from 128 out of 175 countries in 1994 to 145 out of 179 countries in 2005… In fact, PNG lags behind other regions of the world, except Sub-Saharan Africa… [S]ome 53 percent of the population now live below the international poverty line… In 1996, some 25 percent of our people lived below the poverty line, but in 2006 this rose to 37 percent".[1]

Survey 1997 showed how difficult it is to design governance structures for small island developing States that can include proper banking and financial systems that are capable of monitoring currencies and fund flows. In *Survey* 1998 it was noted that, even with small size of their public sector, such States have had to downsize their public sector and cut down wages. How can good governance and such draconian adjustment policies be compatible? The deficits of these island States would vanish if they could do their own fishing and control their own natural resources, instead of being compelled to hand over fishing and resource-extraction operations to foreign companies.

As in other parts of the world, some of these Pacific island economies have been used as tax havens by the rich in developed and developing countries. Most Governments have turned a blind eye to these activities in return for nominal pecuniary gains. They attracted the attention of the G7 Governments only when evidence of the laundering of drug money or money earned illicitly from the arms trade surfaced in these economies. Coordinated action to rein in money laundering began seriously only after G8 countries set up the Financial Action Task Force on Money Laundering. Several of the Pacific island economies were subjected to sanctions when it was found that developed country banks and finance companies had been using them for money laundering. In *Survey* 2001, box II.2 was devoted to a discussion of the efforts to curb money-laundering activities in Pacific island countries.

[1] Papua New Guinea, *PNG Vision 2050: National Strategic Plan Taskforce* (Fiji, Pacific Islands Forum Secretariat, 2010). Available from www.treasury.gov.pg/html/publications/files/pub_files/2011/2011. png.vision.2050.pdf (accessed 1 July 2014).

D. The Mauritius Strategy

By 2005, a consensus was reached among United Nations bodies and concerned Governments that something was very wrong with the neo-liberal strategies being applied to "blue economies", and the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States was adopted by 129 countries and territories at an international meeting held in Port Louis, from 10 to 14 January 2005.

To quote an ESCAP brief: "The Mauritius Strategy covers climate change and sea level rise; natural and environmental disasters; waste management; marine and coastal resources; freshwater resources; land; energy; tourism; biodiversity; transport and communication; science and technology; trade; education; sustainable production and consumption; health; knowledge management; culture; and the need for building capacity to implement sustainable development policies" (ESCAP, 2007b, p. 1).

In recognizing the threat to human security and livelihood posed by climate change, leaders of the Pacific Island Forum, which includes all the independent and self-governing island countries in the Pacific together with Australia and New Zealand, in 2005 crafted the Pacific Plan for Strengthening Regional Cooperation and Integration, a comprehensive subregional programme to support national efforts that address the harmful impacts of climate change. The climate change objectives of the Pacific Plan are:

a. Develop and implement national sustainable development strategies, using appropriate cross-cutting and Pacific-relevant indicators;
b. Improve natural resources and environmental management by implementing the Pacific Island Energy Policy and associated strategic action plans to provide affordable and environmentally sound energy for the sustainable development of all Pacific island communities;
c. Develop adaptation and mitigation proposals linked to the Pacific Climate Change Framework 2006-2015;
d. Facilitate international finance for sustainable development, biodiversity and environmental protection and climate change in the Pacific, including through the Global Environment Facility (*Survey* 2009, box 4.1, p. 113).

In the 2008 report of the Pacific Plan it was noted that, apart from collecting data and organizing training programmes for sensitizing islanders to the impact of climate change on their habitats and for preparing them to take measures to minimize the damage caused by natural disasters, "the Global Environment Fund was offering countries in the Pacific $100 million over the next four years to work on climate change adaptation and mitigation". However, "the cumbersome approval process of the Global Environment Fund had been a source of concern to Pacific countries" (*Survey* 2009, box 4.1, p. 113). It should also be pointed out that $100 million in research funds for such a vast area and a deep problem is quite inadequate for the intensive research needed, especially if the researchers have to be paid the salaries of typical donor countries.

ESCAP held an expert group meeting on Mauritius Strategy implementation in Pacific small island developing States in Suva in June 2007.[2] Recommendations of that meeting included the following:

[2] www.unescap.org/EPOC/meetings/EGM-MauritiusStrategy/English/MSI-DraftReport.pdf.

> Governments to make full use of national sustainable development strategies (NSDSs) as the main mechanism for implementing the requirements – including reporting requirements – of international and regional frameworks, such as the Mauritius Strategy, the Pacific Plan, the United Nations Development Assistance Framework and the Millennium Development Goals; … ESCAP to explore ways of strengthening Mauritius Strategy implementation, monitoring and reporting, including developing templates to capture both quantitative and qualitative indicators.

An ESCAP document provided the following examples of national sustainable development strategies:

> One example is the restructured energy policy and implementation of a biofuel project in Fiji, which are helping to cushion the effect of rising fuel prices. Another example, the Samoa Waste Management Strategy, has made use of local knowledge to put the cost of managing waste back on to producers and users. Biofuel projects in American Samoa, Cook Islands and Vanuatu have also proved their feasibility and delivered benefits for people. The Kiribati climate change adaptation project showed how environmental considerations may be incorporated into national planning and budgetary processes. It further demonstrated the importance of national resource allocation processes in implementation of the Mauritius Strategy (ESCAP/PIDC, 2006, p. 3).

E. Challenges in designing national development strategies

The intractability of the issues of development faced by the people of Pacific island economies and of least developed countries under a free market perspective was underscored in another document prepared by ESCAP: "That a new economic paradigm is needed is shown by the increasingly evident limitations of conventional economic growth strategies to deliver long-term prosperity and stability to the majority of people. Economic models based on low-cost labour and inefficient resource use are not economically, socially or environmentally sustainable" (ESCAP, 2010, p. vii).

The problems of the Pacific island economies are connected with the much broader issues of sustainable, inclusive and resilient development, which have been emphasized by ESCAP. It would be pertinent to end by quoting from a recent document prepared by the ESCAP Pacific Operations Centre:

> Natural capital in many Pacific island countries has steadily eroded over the past few decades due to poor waste management; overexploitation of natural resources; abundance of invasive species; and increasing damage from natural disasters and climate change. Resource-extractive activities, including commercial fishing, logging and mining, have resulted in extensive environmental degradation and loss of biodiversity.
>
> … [T]he number of species under threat and the increases in those numbers between 2008 and 2010. The loss of natural capital undermines food, water and nutritional security. In particular, the degradation of oceans due to overfishing, pollution and other factors (for example climate change-induced damage to coral reefs) diminish the productive capacity of marine environments as a source of income, cultural identity and food security. This was found to be the case as early 20 years ago. Additionally, deforestation destroys the capacity of trees to mitigate climate change through obstructing or capturing carbon emissions (ESCAP-EPO, 2012, p. 7).

The document gives a list of hundreds of species of mammals, invertebrates, fish, insects and plants that are threatened with extinction. It also warned pertinently that: "Unregulated mining activities and marine-based waste disposal further threaten natural capital. Across the Pacific, there is a noticeable escalation of mining projects and penetration into new and more remote areas by foreign mining companies, including experimental sea-bed mining operations due to start production in the next few years". It argued for the establishment of

> [R]egulatory frameworks for mining activities, which ensure the mitigation of negative environmental impacts and increase economic and social benefits to local economies. Apart from launching the Cook Islands national regulatory framework for sea-bed mining, a first in the Pacific islands region, the 2012 PIF Meeting also saw the signing and exchange of eight (8) Maritime Boundary Agreements between the Leaders of Cook Islands, Niue, Kiribati, Tokelau, Tuvalu, Nauru and the Marshall Islands. Such frameworks and agreements will provide the foundation for improved governance, protection, conservation and management of resources within respective national jurisdictions (ESCAP-EPO, 2012, pp. 7-8).

F. Development alternatives for small island developing States

Some of the small island States have prospered in ways which may not be good for most other countries. For example, they have become centres of off-shore banking and have served as tax havens, both of which facilities have been used by the world's rich to salt away their fortunes, thus increasing global inequality and putting many of the wealthy beyond any national jurisdiction. Again small States may not always be harmonious, as interethnic conflicts in many small States bear unfortunate witness to. On the other hand, however, building bridges across religious, linguistic and ethnic affiliations and providing a broad range of social protection measures have generally helped economic and human development in small States from the Caribbean to the Pacific.[3]

In box II.2, entitled "Options for the integration of Pacific island countries with global and regional economies", contained in *Survey* 1997, it was noted that, among other things,

> [T]here are strict limits on the possibilities for the integration of the Pacific island economies with the world and regional economies. The need to replicate the very sizeable supervisory and regulatory institutions which lie at the heart of the macroeconomic fundamentals required for integration is constrained by human resource scarcities. The requirements in the area of fiscal policy in terms of the design and implementation of a broad-based tax system which is not based on trade-related taxes of various sorts cannot easily be met in small and undiversified economies. The design of a modern financial system to encourage savings and investment through a diversity of modalities is limited by the exceedingly small number of players which can be accommodated in small economies and make the development of national capital markets infeasible. Thus, to impose the usual set of institutions on these economies seems not to be a desirable option and considerably more thought needs to be put into the most appropriate conduct of market institutions in these countries. The option of strengthened subregional economic coordination and cooperation has thus become imperative (*Survey* 1997, box II.2, p. 30).

In *Survey* 1988 (box II.1), it was stated that "[i]t is important for these economies to develop and promote their tourism industry as well as to explore new initiatives. Such initiatives could include

3 See Prasad, Hypher and Gerecke (2013).

the development of high-value niche products, such as ecotourism and the establishment of trust funds. Trust funds have proved to be very useful for managing aid and other inflows over longer periods of time in countries such as Kiribati, Tuvalu, and recently, Palau".

The suggestion of *Survey* 1998 was that there should be a trust fund for stabilizing and moving island States forward in terms of income, education and health care. What would be needed is a mini-United Nations of such island economies, and funding for governing such a confederation should be provided by the larger economies of the world. The ecology of these island economies is vital for minimizing the ill effects of climate change and the demonic footprints of unregulated resource extraction by profit-hungry companies with full support of their host States.

The analysis in this chapter has clearly emphasized the uniqueness of the problems faced by these small, isolated economies in the midst of a large ocean and still largely under the influence of colonial metropolitan powers. Their developmental problems are paradigmatically quite different from those of other economies in East Asia (including China), South Asia, South-East Asia and Central Asia, as discussed in previous chapters. The scope for Pacific island economies' structural transformation following the traditional route – from agriculture to industry and to services sector is thus considerably limited. In larger Pacific economies, however, policy options "for economic restructuring are broadly similar to those available for Asian least developed and other developing countries" (*Survey* 1989, p. 163).

A major distinctive feature of Pacific island economies, in contrast with most commodity-producing-and-processing economies of the region is their heavy dependence on "what are in essence external rental incomes – budgetary support, emigrants' remittances, interest on investments, resource rents (for example, fishing and site-leasing fees), and tourism (which can be regarded partly as rents of location)…Related to this is the question of how these rental incomes are to be disbursed among the population, bearing in mind incentive effects on local production as well as realization of external rents, and the desire to preserve the traditional mode of production and the cultural values that it embodies" (*Survey* 1989, p. 163).

The small size of Pacific island economies is a major hindrance to their ability to plan on their own or to have an effective bargaining position with foreign investors. An attempt should, therefore, be made to bring all the island States together and persuade them to form a regional monetary and fiscal authority which would set norms for raising revenues, public expenditures on infrastructure, health, education and environmental protection, especially if Papua New Guinea and Timor-Leste could be persuaded to join such an arrangement. Such a body would have an umbrella research organization that would monitor and help minimize the effect of climate change and help develop affordable energy, clean potable water and adequate housing for the islanders. That body would also help preserve old community structures, which have protected a human environment for centuries and are now under threat of destruction under the impact of socially irresponsible commercialism.

Finally, the habitat of the island peoples should be treated as a global public good and the peoples should be empowered to become custodians of that ecological space, a space that can give those peoples a dignified standard of living without breaching their freedom. While these small island States are threatened by climate change, the livelihoods of their people must be protected and their human development must be advanced, making sure that they are not forced to abandon their habitats and cultures and are not left at the mercy of profit-hungry transnational corporations or volatile financial flows. The analyses provided in the annual issues of the *Survey* can be a pointer to the ways to construct a global public-good umbrella over the people of those islands. The United Nations should declare small island economies to be a public good and raise a global fund of at least $100 billion for looking after their requirements in sustainable dignity. A confederation of such island nations could be formed through democratic negotiations, and the fund should be under the control of that confederation.

PART THREE: THEMATIC ISSUES


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China
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홍콩, HANG SENG
Hongkong
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일본, NIKKEI 225
Japan
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싱가폴, STI
Singapore
5,255.60
호주, ALL ORDS
Australia

Changing unfavourable conditions

11

A. Land reforms

A key policy issue confronting developing countries in the ECAFE region was the concentration of landholdings, which constituted a serious obstacle to their development. In *Survey* 1950, land reform was prominently signalled as a foundational requirement for equitably redistributing income and empowering the majority of the people in the predominantly agrarian economies of the ECAFE region; the two most successful instances of land reform to date were cited, namely the measures instituted by China and Japan:

> In many countries of the region it has been increasingly recognized that the concentration of wealth, especially land ownership, in the hands of a small number of persons and the high rents for agricultural land and usurious rates of interest present handicaps to economic development because they tend to deny the great majority of the people the opportunity and resources to improve production, thus weakening their initiative. So long as the people are unable to share sufficiently the fruits of economic progress there is apt to be little incentive for them to exert their maximum effort…The most important measure in this direction has been land reform. As the great majority of the population in the region is employed on the land and the bulk of the national income is derived from agricultural activities, any attempt to bring about a more equitable distribution of wealth would naturally start with agrarian structure and land tenure. In the last few years large-scale programmes of land redistribution, involving transfer of ownership of land from the landlords to the tillers, with or without compensation, have been taken in a number of countries in the region, notably China and Japan. In the mainland of China, by June 1951 land distribution has been completed in areas having a total population of about 270 million, or about two-thirds of the rural population of China. In Japan, land distribution was completed in 1949… By 31 March 1949, about 1.8 million hectares of cultivated land (one-third of Japan's total) had been purchased by the government, and 3 million farmers (representing half of all farm households) had acquired land under the reform programme. As a result, about 70 per cent of the cultivators are now owner-farmers and only about 5 per cent own less than 10 per cent of the land they operate. The size of the tenant-operated land has been reduced from 46 to 12 per cent of the total cultivated land (*Survey* 1950, pp. 180-189).

In a detailed 'Note on Land Reform' (pp. 182-191), *Survey* 1950 also contained accounts of land reforms in Burma, the Democratic People's Republic of Korea, India, Pakistan, the Philippines and the Republic of Korea. Cited were the measures taken by various Governments to extend cheap credit and lighten the debt burden of the peasants, who were being charged usurious rates of interest by moneylenders; they often lost their land to non-cultivators and that process contributed further to the concentration of land in a few hands. As an example of how the Governments tried to redress this situation, *Survey* 1950 cited, among others, the case of China: "In certain areas, notably in those under the administration of the Central People's Government of the People's Republic of China, all debts incurred by the farmers prior to a certain date were cancelled" (ibid., p. 181).

As for China's neighbours, the following points were noted in *Survey* 1950. In the Republic of Korea,

> [T]here was a high concentration of land ownership, as evidenced by the fact that two-thirds of the rural land was in the hands of 2.5 per cent of the total farm families and that about nine-tenths of the rural land was owned by a little over 20 per cent of total farm families. About half of the farming population did not own any land; another third were part-tenants, owning only a very small area of land. Rents averaged 55 to 60 per cent of the total yield, and the tenants, after deducting rents and cultivation expenses, were left with only 20 to 25 per cent of the crop. In North Korea, land reform began in March 1946 and was a rather thorough-going operation; it involved the confiscation of nearly 1 million hectares of land owned by the landlords and rich peasants for redistribution to 725,000 landless peasants and small holders. The peasants received the right to cultivate but not to own the land and are required to pay a land tax amounting to 27 per cent of the rice crop. In South Korea, no concrete step was taken before the middle of 1949, except that some 240,000 hectares of land owned by the Japanese were confiscated and sold to 500,000 tenants in 1948. In June 1949, the Land Reform Law was promulgated, and under its provisions some 0.7 million hectares were to be taken over and distributed to the tenant farmers" (*Survey* 1950, p. 189).

In the same issue of the *Survey*, it was claimed that "In *India,* over two-thirds of the farming population [were] tenant cultivators and agricultural labourers, only a small per cent being rent receivers" (ibid., p. 186, emphasis original). The three major types of land tenure in India were also described, namely the permanently and the temporarily settled *zamindari* and the *ryotwari* systems. The term *zamindari* refers to a revenue-farming system in which very often there were many intermediaries between the cultivator and the *zamindar*, the titular owner of the land. Parenthetically, the following was observed: "Prevalent in certain parts of Uttar Pradesh, Punjab and Madhya Pradesh was the *mahalwari* system (a joint village system) under which a village area is jointly owned by a group of families and the individual cultivators are jointly and severally liable for land revenue". It was further noted: "Under the *ryotwari* system, the right of ownership belongs mainly to the actual cultivator or occupant, who is responsible for the payment of land revenue. In recent years, however, some *ryotwari* land has become concentrated into large estates and there is a tendency to lease out part of them to small tenants" (ibid., p. 186). "While it [was] the declared policy of the Government of India (and of the Congress Party) to carry out programmes of agrarian reform, land reform legislation [had] been left mainly to the individual provincial governments. The laws introduced in the various provinces have applied almost entirely to *zamindari* lands and have two principles in common: the abolition of intermediaries between the State and the cultivator, and the payment of compensation to landowners" (ibid., pp. 186-187). However, it was also observed:

> The present programmes of land distribution, if fully implemented, will affect half the total cultivated area of the country. However, the enforcement of various land-reform programmes, especially land-reform acts seeking to abolish the *zamindari* system, has been delayed by legal difficulties, as well as by the large amount of compensation involved and by other handicaps. Even without these difficulties, the full implementation is likely to take a number of years and it is therefore too early to estimate its effects at this stage" (*Survey* 1950, pp. 187-188).

For other countries such as Pakistan and the Philippines, the following was noted in *Survey* 1950:

In *Pakistan,* land tenure is similar to that in India, with the *zamindari* system prevailing in East Pakistan and the *ryotwari* system in West Pakistan. As in India, land-reform measures are left almost entirely to the provincial governments. In East Pakistan, land reform has been concentrated on the abolition of the *zamindars* and other intermediaries between the state and the cultivator. The East Bengal State Acquisition and Tenancy Bill of 1950 provides that the actual cultivators will be brought into direct relation with the Government by the acquisition of all rent-receiving interests in land (i.e. by the abolition of all intermediaries between the Government and the cultivators) so that the government as a sole landlord may be in a much better position than any individual landlord to initiate development measures with a view to improving the conditions of the tillers of the soil and increasing agricultural production… In West Pakistan, land reform measures have been concentrated on improving the tenure system and giving the cultivators security of tenure…(p. 190).

In the *Philippines,* the distribution of land ownership is quite uneven, as evidenced by the existence of a great number of large estates. About 35 per cent of the farming population are tenants, who normally pay half of the crop as rent. In 1946, the '70-30 Crop-Sharing Law' was promulgated, aiming at limitation of rural rent to 30 per cent of the crop, provided that all expenses of cultivation are borne by the tenant. This law, however, has not been implemented to any great degree". (*Survey* 1950, p. 190).

In *Survey* 1957 (p. 70), it was pointed out while discussing India's second five-year plan that "the land reforms visualized in the plan involve certain ceilings on land holdings, security of tenure, and restriction of rents". Those reforms were never implemented in the major, landlord-dominated states of India. In Pakistan also, landlords remain the dominant element in the country.[1]

Wars between neighbours and increased military expenditures have often led to an alliance between security forces and the elite, including landlords, to the detriment of the social development of these countries.[2] In several parts of South Asia, when absentee landlords had to leave their land, lawyers and businessmen bought up huge quantities of land; when capitalist farming took off, it led to concentration of land in fewer hands. All these developments created an agrarian proletariat and a landless mass of insecure tenants in land-poor countries.[3] The combination of landlordism and openness has always led to strategies that become a barrier to even a dynamic private enterprise economy, as was illustrated by the history of Latin America in the nineteenth century,[4] and as has again been proven by the stalling of growth in India and Pakistan in recent times.

In *Survey* 1975 (chapter 2), there was a discussion of the social, political and economic arguments for egalitarian small-scale peasant agriculture. A separate chapter (chapter 6) was devoted to land reform in which the following was noted: "The case for land reform in developing ESCAP countries is based on the need for an egalitarian farm structure which maximizes incentives to individual operators" (p. 140). It dealt with farm size and distribution of farm units as well as the complicated issue of land tenure, identifying two aspects of the aims of tenure reform: to

[1] See Griffin and Khan (1972). Land reforms in Pakistan, including those introduced by Gen. Ayub Khan and Z.A. Bhutto, under the cover of Martial Law, which were generally considered modest, have been stymied by the 10 August 1989 majority judgment of the Supreme Court *Shariat* Appellate Bench, declaring the imposition of a maximum ceiling for a landowner's holding was un-Islamic. For a comprehensive historical review and the evolution of Pakistan's land reforms, see Gazdar (2011).

[2] See Vanaik (1999); Khan (2011); Rahman (2012).

[3] See Griffin and Khan (1972); Sen (2002); Hossain and others (2002); Swaminathan and Rawal (2011).

[4] See Bagchi (1982, chapter 3).

improve income distribution and to provide greater security for the producer. Also discussed in that chapter were various approaches to land reform measures, including programmes of land consolidation, to tackle fragmentation of holdings for improving farm efficiency in the Asian and Pacific region.

The chapter also documented how efforts at land reform were blocked by powerful interests. For example, it cited a situation in Sri Lanka: "Reportedly, landlords used force to evict tenants where the latter resisted pressure. The police powers of the State and the elaborate law and order machinery drawn up failed to prevent these mass-scale, forcible, illegal dispossessions" (*Survey* 1975, p. 142).

On the important question of the relationship between land reforms and productivity, it was observed in *Survey* 1978:

> There is considerable scope for improved productivity in agriculture as the result of institutional reform. While the empirical evidence concerning the relation between increased output and land reform is ambiguous, the consolidation of land holdings and the up-dating of land records to establish land and cultivation rights would greatly increase the profitability of investment in innovative, small scale technologies such as tube-wells and pumps. It would also permit more efficient land levelling, soil preparation, planting and harvesting (*Survey* 1978, p. 7).

In *Survey* 1978 it was also sadly noted that many of these reforms were "largely thwarted by an array of vested interests" (p. 11). The Philippines' attempts at land reform were blocked by vested interests. Although Thailand's land reform legislation of 1975 – a historic first for the country – was hailed as "revolutionary", the essential goal of redistributing land from large-scale land owners to small-scale farmers and tenants was never met.[5] Malaysia's land reform also cannot be regarded as comprehensive.[6] In the case of Indonesia, the "New Order" regime of Soeharto considered land an economic asset that is indispensable for integrating the Indonesian economy into a capitalist economic system. A manifestation of this policy was the deregulation of the country's land market in favour of private, particularly foreign, investors. Viet Nam is the only country that matches with East Asian countries in this regard. It implemented deep land reform in the northern part of the country during the 1950s and in the southern part immediately after unification in the mid-1970s.

In *Survey* 1996 (pp. 105-108) the issue of land reform was revisited, combining it with issues related to the development of land markets in Indonesia, special economic zones and urban areas in China and the difficulties of implementing land reforms in South Asia. In that issue, three types of land ownership in the ESCAP region were distinguished: private ownership, communal land and State-owned land. It was pointed out that, in the former colonial countries in South and South-East Asia,

> [P]roperty rights per se are not the issue: problems arise from the skewed distribution of the size of landholdings and lack of access to land for many of the rural population. Many South and South-East Asian countries have undertaken and are still implementing land redistribution policies designed to provide ownership of land to poor rural households. So far, land reform policies have had mixed results. This is partly due to the fact that inadequate attention is paid to the institutional aspects of implementation so that, through various means, large landowners have managed to dodge the rules (for instance, by splitting the single large ownership land title into smaller units using their relatives as the legal owners) (*Survey* 1996, p. 106).

5 See Ramsay (1982).

6 See Drury (1988).

In turning to Pacific island countries, it was noted that, in those countries,

> [C]ommunal land constitutes a major portion of land tenure, often over 80 per cent of the total land mass of a country. Under communal ownership, decisions on use are taken by a community, not an individual, and land alienation (private land ownership) is difficult. In some cases where this is granted, only indigenous people have the right to apply. Lease of communal land is possible, but this often creates complications as the ownership structure is seldom clear. In Vanuatu, for example, investors are reported to face major problems in land development after a leasing deal is made with one party since, once the project looks successful, other clan members may claim a share in the proceeds from it. There are claims, however, that communal land ownership is conducive to a more equitable distribution of the economic benefits from it than private ownership when few individuals hold large portions (*Survey* 1996, p. 106).

As noted in chapter 10, the problems of the people living in Pacific island countries have often been aggravated by the entry of foreign investors into those islands: the islanders have been turned into insecure miners or urban dwellers, and have gained little in terms of their own standard of living; on the other side, both the terrestrial and aquatic environments, including biodiversity, have been already badly eroded through unregulated operations of private corporations.

Turning to the issue of property rights, which has been a hardy perennial in the literature of institutional economics, two points can be made. First, there have been repeated complaints by many economists about the fuzziness of property rights in China, since that country began moving in the direction of "market socialism". However, despite those problems, China has been and remains the fastest-growing economy in the world, with a steady rise in the standard of living of the Chinese people.

Second, the only countries in which land has become the operational holding of either the families of actual cultivators or their cooperatives are China, Japan and Viet Nam, as well as the newly industrializing economies of East Asia. (The situation in Cambodia and the Lao People's Democratic Republic is unclear). These are also the only countries or areas in which the Government either directly confiscated the land of the landlords or bought it from landlords at lower than market prices and redistributed it to the tenants or small peasants on very favourable terms. It is this kind of land reform which laid the basis for the transformation of those countries or regions as rapidly industrializing economies.

B. Sectoral diversification and structural change

The first industrializing countries of the world that succeeded in transforming the occupational structures of their economies and raising the per capita incomes of their people above those of the rest of the world were all located along the North Atlantic seaboard. Most Asian countries had been directly or indirectly colonized by North Atlantic powers. The occupational structures of those countries changed perversely as a result of deindustrialization and the lack of technological change in agriculture during the colonial period. The newly independent or about to be liberated countries of Asia and the Pacific were determined to improve the living standards of their people through structural transformations and enhanced productivity of workers in all sectors. The *Survey* reflected this vision and action plans from the very beginning.

The various issues of the *Survey* and the Theme Study research emphasized the multiple objectives of economic development, which included the structural transformation of the economy, improvement in standards of living and fairness of income distribution as key components. They were focused on a key problem facing the developing economies of the region – unemployment. They distinguished between open unemployment, disguised unemployment and seasonal employment. For example, in *Survey* 1949 it was stated: "In many countries of the region there is surplus population in relation to existing resources. This does not show itself mainly in the form of unemployment as in more highly industrialized countries, but much more frequently in the form of chronic underemployment which affects a large proportion of the agricultural community" (*Survey* 1949, p. 84).

Drawing upon the seminal work of Sir William Arthur Lewis in development economics, a discipline that was then still in its infancy, various issues of the *Survey* stressed the necessity of industrialization to draw off surplus labour and structurally transforming the economy.[7] In the *Survey* 1950 a detailed discussion was provided of the objectives of economic development: "An analysis of the economic policies and development plans of the ECAFE countries reveals that their general objectives include increase in national income and improvement in the standard of living, achievement of a balanced and diversified economy, and in some countries, also a more equitable distribution of wealth and income" (*Survey* 1950, p. 171). It also contained quotes from the policy statements of a number of member Governments, including for example, that of the Government of Burma, "that economic development of the country should be such as 'to lay the foundations of a balanced economy and increase… national wealth in a manner which will secure for the villager a higher standard of living' and create an economy which will ensure that 'a fair share of the fruits passes on to the common man'" (ibid., p. 172).

In the same issue of the *Survey* there was an elaboration on what was meant by the lack of balance in ECAFE economies: "The lack of balance in the economy of the ECAFE countries finds expression in the preponderance of agricultural and other extractive production, in the undiversified production in the majority of countries, and in the great reliance on exports and/or foreign assistance for maintaining the level of economic activity" (ibid., p. 173). In a clear reference to the malign influence of metropolitan country policies on the developing ECAFE region, it was added:

> To a much greater degree than before contact with the West, agriculture has become dominant in the production and employment of the ECAFE countries, due to a decline in the relative contribution of handicraft and cottage industries without a compensating development of modern industries. There has also been a shift in agriculture to the production of commodities for export, and the economic activity of some ECAFE countries has become more and more concentrated in a small number of export products (*Survey* 1950, p. 173).

The issue of industrialization and diversification as reflected in the *Survey* is taken up in the next chapter in the context of export orientation versus import substitution.

C. Demographic challenges

With the highest proportion of the global population living in the Asia-Pacific region, population growth has been a major impediment to raising per capita incomes. As a result, this issue has received high priority in the secretariat's work programme since the beginning. The Commission's work on population had been well ahead of that of other regional commissions and United Nations agencies. In the 1950s, well over a decade before the establishment of the

[7] See Lewis (1954).

United Nations Fund for Population Activities (UNFPA, now called the United Nations Population Fund), ECAFE worked on population issues and policies, organizing seminars in Indonesia in 1955 and in India in 1960. The 1963 Asian Population Conference in New Delhi was one of the first occasions when population was discussed at an inter-country level. Since 1979, ESCAP had prepared and distributed on a large scale population information throughout the region and organized Asian and Pacific Population Conferences every 10 years. Although it is not possible to estimate the impact of these activities on population policies and growth rates, it should be noted that Asia has experienced the world's largest reductions in total fertility rates – from 5.0 to 1.9 children per woman – over the period from 1970-1975 to 2000 -2005 in East Asia and the Pacific and from 5.5 to 3.2 in South Asia. However, as the rapid fertility transition brought down the proportion of youth in the total population, many countries started encountering new demographic problems, such as ageing of the population.

Demographic change has many dimensions. In *Survey* 1979, it was noted: "compared with 1960, the proportion of the population of working age (15-59 years) had declined by 1977 in the developing economies of the region, except in Hong Kong, Malaysia, the Republic of Korea, Singapore and Sri Lanka, where increases were recorded" (p. 95). However, it appears that in the same issue of the *Survey* there was a failure to link declines in the dependency ratio in exceptional countries of the region to growth in literacy, declines in infant mortality and increases in life expectancy.

A major failure of demographic analysis in the 1960s was its inability to predict rapid fertility transition in East Asia. It failed to perceive what Professor Amartya Sen has termed the problem of "missing women". It seems that ECAFE had been primarily concerned about birth control without deliberating much on coercive methods that were often used to attain lower fertility in some countries. Such issues have acquired some prominence in the twenty-first century but hardly surfaced in the Asian Population Conferences organized in the last century. In more recent years, however, problems of ageing, with low levels of fertility having produced adverse impacts on the proportion of younger people available to care for the elderly, have come to occupy a special place in deliberations and advocacy on population issues.

It should also be noted that, in common with many other bodies, some issues of the *Survey* simplistically linked unemployment and poverty to population growth. For example, in *Survey* 1979 (p. 86), it was stated that "the already overwhelmingly large absolute numbers of poor in 1970 have almost certainly increased because of high population growth rates …". In fact, the *Survey* by and large maintained a Malthusian perspective until about the early 1980s, attributing food insecurity, poverty, inequality and unemployment to high rates of population growth in the countries of the region. Among the statements of the executive secretaries in the late 1940s down to the 1960s, one often gets a Malthusian emphasis on curbing the growth of population. This concern was almost certainly reinforced by the views of the major donor countries that population growth in the developing world was a threat to global prosperity and peace. More sophisticated analyses of the population issues have shown that the Malthusian factor can be overcome by a variety of instruments, including technology, education and greater awareness about aspects of human reproduction.

Most of the countries in the Asia-Pacific region have had a youthful population until quite recently, partly because they suffered from both high levels of fertility and mortality. Associated with the high proportion of the youthful population in many ESCAP countries is the high incidence of illiteracy and low rates of school enrolment, especially among females. Although the level of literacy in most countries has shown some upward trends, it still remains low in many ESCAP member countries. Another issue is the serious problems of unemployment for both youth and older adults.

In fact, a recurring theme in many issues of the *Survey*, especially those of 1949, 1950, 1958, 1961 and 1965, was the reduction in educated unemployment by providing more educational facilities. In *Survey* 1965, however, a rather misleading and elitist view of the supposed conflict between quantitative and qualitative dimensions of education was taken. The *Survey* generally failed to reflect the lessons learned from the rapid gains in literacy achieved by Japan, the Republic of Korea and Taiwan Province of China, the education policies of which were generally non-elitist.

Labour market issues as they related to the participation of female and older persons were examined in *Survey* 2005. It was observed that "[i]n many countries in the region the participation of women in the labour force is constrained by factors such as lack of flexibility in career and child-rearing, the lack of day-care facilities for children, the lack of home care for older persons and social norms which lead to gender bias in education and employment. Removal of these constraints alone could neutralize a large part of the negative impact of ageing on labour markets" (*Survey* 2005).

> Labour markets should also respond to the needs of older workers as the older workforce will become an important component of the labour force in the years to come. Job redesign, the reorganization of the division of labour and the provision of a flexible working environment to meet the aspirations of older persons and make the best use of a growing number of older workers could be effective policy responses to an ageing workforce (*Survey* 2005, p. 243).

The issue of youth unemployment featured regularly in the *Survey*, particularly after the 1997/98 Asian financial crisis, gaining more prominence during the post-2008/09 global financial crisis as both the crises disproportionately affected youth. For example, in *Survey* 2005 the following was observed:

> In the area of employment, an urgent issue of concern is youth unemployment, which has increased sharply both in Asia and the Pacific and worldwide over the past decade. Across the globe, some 88 million young people between the ages of 15 and 24 are unemployed, representing nearly half the world's jobless. Of this total, 38 million are in the Asian region and regional trends are further causes for worry (*Survey* 2005, p. 41).

Issues related to youth unemployment, underemployment, working poor and jobless growth were dealt with extensively in *Survey* 2006. In addition to the rapidly growing labour force, declining labour demand owing to technological changes and the considerable downsizing of public sector employment following privatization were identified as the prime causes.

Education reform to address the issues of skill mismatch, agricultural and rural industry promotion, as well as that of small and medium-sized enterprises were some of the policies suggested for addressing youth unemployment. As the experience of the Republic of Korea showed, raising the age of compulsory education could help reduce child labour. This could also raise real wages as the supply of labour shrinks when children are withdrawn from the labour market. However, compulsory education up to a certain age can work only when it is publicly provided free of cost.

In *Survey* 2012 (p. 42), the following was noted: "The post-crisis environment continues to be a major hurdle for young people to find employment in their chosen fields as the hiring intentions of managers and businesses continue to be driven by cautious optimism". It was also argued that "[n]ational employment strategies should be directed in a way that encourages employers to hire young people and to set up apprenticeship programmes to increase skill levels among youth. Due recognition should be given to the potential for youth to contribute to reviving economic growth, capitalizing on their skills, drive and talent for innovation and creativity" (*Survey* 2012, p. 43).

The following was concluded in *Survey* 2013: "Job guarantee schemes for the educated unemployed youths linked to active labour market programmes would contribute to improving the skill set of these workers, thereby improving their employment prospects. This would also create a 'reserve army' of skilled workers for the private sector to draw from" (pp. 160-161). It was estimated that the public investment needed to provide a job guarantee to the formal sector for 100 days in 10 countries, at a wage rate equivalent to respective national poverty lines, would range from 1 to 8 per cent of GDP, depending on the nature of the country's demography.

D. Financing for development

War-ravaged countries and former colonies needed resources for reconstruction and improving living conditions, and those needs were tracked in various issues of the *Survey*. *Survey* 1950 in a chapter, entitled "Financing of economic development", outlined the complexities of the problem:

> The financial aspects of economic development may be conveniently reviewed by analysing the financial requirements involved in current development programmes, the nature and extent of external financing, its relation to internal finance and the development of existing institutions, and the government's role in mobilizing and channelling savings into economic development projects (*Survey* 1950, p. 126).

It also referred to an ECAFE working party on industrial development, which "placed the cost of the various national plans covering periods from two to ten years at $13,600 million, corresponding to an annual figure of $2,300 million. Of the total, about one-half was required in foreign exchange" (pp. 126-127). In the field of agriculture, that same issue quoted an FAO estimate of the investment required at $10,000 million for the ECAFE region. The chapter also contained detailed figures of finance obtained through various sources – government borrowing (from non-bank, public and central banks), private capital flows (FDI) and official flows (aid and grants).

In view of the current debate about public debt and deficits, it would be pertinent to quote from *Survey* 1950 on the role of government:

> Governments have an important influence on the formation and mobilization of domestic capital through their budgetary and investment operations and policies. These have a direct bearing upon the magnitude and composition of national income and therefore of capital formation. Furthermore, governments mobilize a substantial amount of the necessary resources, especially in the field of agricultural development and long-term non-agricultural investment, including much industrial finance. State enterprises require the investment of substantial funds and may themselves be sources of further capital. In addition many of the most urgent and basic needs for capital investment are "social overhead costs" which must be incurred in order to permit further economic expansion. Governments must invest large sums to obtain adequate knowledge of the natural resources of the region (*Survey* 1950, p. 136).

Having emphasized the role of government, this and subsequent issues of the *Survey* highlighted the importance of domestic resource mobilization as the primary source of development finance. *Survey* 1960, for example, could be considered quite critical of the Governments of countries in the region for their failure to raise domestic revenue. Although in that issue of the *Survey* it was recognized that a certain amount of deficit financing was unavoidable given the large investment requirement and small revenue base, the tendency to spend on unproductive sectors such as defence, which was adding to inflationary pressure, was also lamented. On the issue of revenue collection, attention was drawn to substantial tax evasion and proposed stricter supervision of high-paying self-employed professionals and the setting up of special tax courts to deal expeditiously with the specific problems of tax evasion.

The subject of financing development and the issue of government's role in directing financial resources were revisited in *Survey* 1966, 1984, 1991, 2001 and 2014. In view of the severe decline in external finance caused by the international debt crisis, *Survey* 1984 highlighted the urgency of domestic resource mobilization. It was found that several countries in the region experienced a marked drop in domestic savings ratios in 1982 (p. 131). It was also found that "the main source of finance for investment in developing countries in the ESCAP region in recent years has been domestic" (p. 133). In that issue it was also noted that the largest contributor to domestic savings was the household sector, with government savings being the lowest and the corporate sector being an erratic contributor.

Survey 2001 provided the regional perspective on the subject of "financing for development", a year before the International Conference on Financing for Development, which was held in Monterrey, Mexico, in March 2002. It was noted that the Washington Consensus approach to the mobilization of development finance through market-oriented reforms, such as deregulation of the financial sector, liberalization of trade and introduction of value added tax to compensate for the abolition of trade-related tax and reductions in personal and corporate tax rates, came

> [U]nder serious questioning. Many developing countries were not adequately prepared in terms of institutional and human resources capacity to deal with the inevitable challenges associated with its implementation, especially against the backdrop of the globalization of financial markets which was occurring with phenomenal speed. This was starkly demonstrated by a series of financial crises during the 1990s in Asia and elsewhere. The idea of relying on exports to generate resources also did not evolve in the way anticipated, with the WTO outcomes not being as favourable to developing countries as had been expected… In the light of these factors, the time is ripe for a new look at the issue of financing for development, using a more holistic approach and reaching agreement on a set of options appropriate for today's global economic setting (*Survey* 2001, p. 165).

It was further observed in that issue of the *Survey* 2001:

> In general, the degree of economic security in a country is crucial to its success in raising resources to finance its development… [T]he increasing globalization of the world economy has brought with it serious implications for the economic security of countries. The increasing mobility of factors of production coupled with the lowering of the degrees of freedom for national macroeconomic policy independence has led to the necessity of developing and implementing universal codes of conduct for business and financial markets (*Survey* 2001, p. 167).

Countries generally race to the bottom with offers of tax concessions before eventually accepting low common denominator codes of conduct to attract FDI. This has seriously reduced the fiscal space of Governments as well. A key recommendation of *Survey* 2014 is regional cooperation on tax issues by setting up an Asia-Pacific tax forum under the auspices of ESCAP. The forum would monitor tax legislation and regulation across the region, share regional best-practice and create mechanisms to address issues ranging from avoiding tax competition for foreign investment, double taxation and preventing illicit fund transfers.

E. Development with stability: challenges for macroeconomic policies

Monitoring the macroeconomic developments and suggesting policy options for both structural transformation, and price and income stability have been a main focus of the *Survey*. Thus, key macroeconomic indicators, such as fiscal deficits, public debt, current account deficits and inflation, always featured in every issue of the *Survey* since 1947. They raised alarms whenever any of these key macroeconomic variables showed signs of instability or unsustainability. However, it was also recognized in the *Survey* that there were trade-offs and interlinkages in dealing with these variables. In *Survey* 1949, for example, the following was noted:

> Attempts are being made to increase tax revenue and to cut expenditures. These policies on the other hand conflict with the urgent needs of the countries within the region to raise the existing levels of productivity by large capital outlays. Even in the case where governments have been successful in obtaining foreign loans or grants for capital equipment, additional heavy domestic expenditure is required to execute such programmes, … in the field of capital expenditure for developmental programmes, … the creation of new productive facilities through increased production of goods would ultimately alleviate the inflationary pressures, though for the time being it would tend to increase them… It is obvious that external loans will be necessary to stabilize the public finances of most of the countries, both in order to carry out properly their development plans and to raise the level of production (*Survey* 1949, pp. 186-188).

Survey 1950 (p. 105) recognized the importance of reducing inflationary pressures and "assumed that an anti-inflationary policy would have to include fiscal measures. To devise a proper fiscal policy, again knowledge of income aggregates and the composition of such totals by income groups, sectors, types of final expenditures, etc. is indispensable. A knowledge of the incidence of particular types of taxes on consumption, saving and investment is also required".

In the Introduction to *Survey* 1957, the interrelationship between the long-term objectives and the short-term fluctuations in economic activity was clearly stated:

> [I]t is … essential to keep the economic development goals and purposes of the countries of the ECAFE region constantly in mind. The days are gone when fluctuations and 'cyclical' movements were the main economic interest in Asia. The 'secular' trend is the main economic interest now. What the fluctuations do is to modify (and, for the most part, to hamper) progress towards the longer-term goals of plans. They are thus important, but they are not of primary importance in themselves (*Survey* 1957, p. 1).

The difficulties faced by most countries in the region in collecting tax revenues, such as low per capita income and a rudimentary tax collection system, were highlighted in *Survey* 1959. On the other hand, the following aspects were explained:

> Most countries in the region face the myriad demands on their resources that arise from newly won independence, all seemingly of equal urgency and merit. As a rule, expenditures rise faster than revenues, and the shortfall in the latter is made up by monetary expansion, usually in the form of central bank credit. Practically, all ECAFE countries … chronically incur budget deficits. Avoidance of central bank financing is difficult for countries without adequately developed financial institutions and even for countries that have acquired some financial sophistication, since most governments prefer the ease with which they can extract finance from central banks to the difficulties involved in going to the money market for funds. Thus, management of the public debt as an effective tool of fiscal policy hardly exists in many countries of the region (*Survey* 1959, p. 37).

On the expanded role of fiscal and monetary policies and their complexity it was observed in *Survey* 1960: "The task for fiscal and monetary policies has also been enlarged in scope and, in coping with the expanded responsibilities of the public sector, has grown more complex…The foremost among the economic tasks set for fiscal policy in the postwar period, in conjunction with other aspects of economic policy, has been to see to it that greater resources are freed to finance aggregate 'non-consumption'…" (p. 4).

The evolution of thinking about macroeconomic policies, especially in the case of fiscal policy, was captured in *Survey* 1982:

> The application of fiscal policy in developing economies has evolved along somewhat different lines. In the first place, the imperatives of development have required the application of revenue and expenditures measures to meet longer-term objectives. In this context, stabilization has been one of a variety of objectives pursued by fiscal policy makers, and even this objective has been pursued with longer-term development interests in mind. Secondly, the institutional constraints, inadequate internal integration and external vulnerability of developing economies warrant a great deal of selectivity in the application of fiscal measures. As a result, the application of fiscal policy for development has departed significantly from the aggregative perspective conventionally assumed in the developed world…[permitting] the developing ESCAP region to evolve a distinct development-oriented fiscal policy frame… (*Survey* 1982, pp. 99-100).

"Forward-looking" macroeconomic policies that would balance stabilization and development needs were advocated in *Survey* 2013. It provided illustrative examples by using data from 10 selected countries in the region on how fiscal policy could be used to achieve the goal of inclusive and sustainable development.

A number of Asia-Pacific countries began adopting an inflation-targeting framework for monetary policy, especially after the 1997/98 Asian financial crisis. *Survey* 2001 contained a very balanced and circumspect analysis of the pros and cons of such a framework, especially in developing countries.

> The adoption of some form of inflation targeting… raises a number of policy concerns. For one thing, the exchange rate itself is a major element in inflation. Given the high share of imports in production cost and/or consumption in most countries, the exchange rate cannot be excluded entirely from the policy matrix. Another concern is whether the inflation target range adopted is the 'right' one. This issue has three aspects: (1) whether the authorities can live with it in the context of the evolving domestic political and social conditions; (2) whether the target is consistent with the needs of longer term structural change in the economy, involving shifts of resources between different uses; and (3) whether the authorities have adequate flexibility and instruments to deal with unexpected shocks, such as the recent rise in oil prices. Moreover, a mechanical adherence to inflation targeting could lead to frequent modifications in the monetary policy stance and to possible fluctuations in the inflation rate itself in the interim period leading up to the targeted horizon. In other words, the efficacy of the new policy approach remains to be tested with no guarantee that it will lead to a superior outcome in terms of investment and output levels over the medium term. It also remains to be seen whether inflation targeting would be conducive to greater stability in the financial and stock markets themselves. Market participants will need time to become accustomed to that new policy framework where it is being implemented (*Survey* 2013, pp. 14-16).

In fact, the experience of the United Kingdom, the United States and eurozone countries since 2007 has demonstrated that inflation targeting offers no guarantee against financial instability. Moreover, inflation targeting, especially in situations of supply shocks and increases in energy and food prices, has unacceptable distributional implications: the equity of distribution of income advocated in most issues of the *Survey* would be further damaged by inflation targeting.

Macroeconomic policy making has become more challenging with the liberalization of capital account. Policymakers were warned in *Survey* 2001 about the volatility of external private capital flows "characterized by a high frequency in the reversibility of flows, or by a high variability in the volume of inflows… The volatility of capital flows can contribute to an unstable investment environment detrimental to growth and development…" (p. 220). Therefore, four policy measures were suggested with regard to external private capital flows of any sort. First, the approach to the liberalization of the capital account needed to be one of caution and proper sequencing. Second, countries needed to review the consistency of their monetary, exchange-rate and capital account policies to avoid overvaluation. Third, there needed to be more prudent management of external private capital inflows in order to minimize considerably the risks involved. Fourth, countries that decided to encourage external private capital flows needed to strengthen the domestic financial and corporate sectors and encourage the move to flows with longer maturities than bank loans or equity participation. The issue of managing short-term capital flows also received prominence in *Survey* 2010 and subsequent issues in the wake of the 2008/09 global financial melt-down.

The analyses and recommendations of ESCAP on macroeconomic policies have consistently promoted a balance between short-term stability and long-term development. In fact, the "rethinking" of macroeconomic policies that IMF has called for in the wake of the 2008/09 Great Recession reaffirms the long-held position of ESCAP that macroeconomic stability is a necessary but not a sufficient condition for long-term development. The significance of this realization is even higher in the light of the quest of countries for inclusive, resilient and sustainable development, as highlighted in *Survey* 2013.


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Evolving development paradigm

12

A. Planning vs. market mechanism

1. The long-term objectives of planning

In view of the political, economic and social turmoil in which ECAFE was born, it would be natural to expect that the first consideration of all the developing countries in the region would be to bring back a semblance of stability but on the basis of a very different platform on which that stability was to be based. The Asian member countries of ECAFE were determined to head towards the goal of a long-term improvement in the standard of living of their people, although the strength of that determination differed from country to country. ECAFE acted partly in a promotional role by articulating the concrete correlatives of that vision of progress and tried actively to sketch out the possibilities and the difficulties in realizing that goal.

In looking back from the beginning of the second decade of the twenty-first century, one feature of the *Survey* and the discussions at the official sessions of the Commission that strikes the reader was the determination of the participants of the newly liberated countries, or the countries recovering from the devastation caused by wars and civil wars, to forge ahead. Another striking feature of those discourses was the consensus among the major participants regarding the desirability of industrialization as the vehicle of advance. A third area of consensus was their view that the State must play a leading role in plans for the future. A straightforward implication of that role was the necessity of planning, if all these dreams for the future were to be realized. The Indian planner, P.C. Mahalanobis, and the Chinese research director of ECAFE, H.D. Fong, were of the same view in this regard.

Wightman (1963), the author of the first history of ESCAP, considered central planning to be a Western idea. In fact, there was a long tradition of considering national economic planning to be necessary for raising colonized or laggard economies to a better standard of performance in many countries, including British India and Republican Turkey. The inspiration had been partly derived from the rapid industrialization of Wilhelmine Germany during the late 1800s and early 1900s; it had acquired the status of an axiom for most nationalists after the industrialization of Soviet Russia.[1] The Russian economist Grigori Feldman produced the first rigorous central planning model in 1928. Mahalanobis independently produced a planning model in 1953, the structure of which was very similar to that of the Feldman model.

The People's Republic of China adopted the Soviet-style planning model in its first five-year plan (1952-1957). However, soon after China had adopted the second five-year plan, Mao Zedong, Chairman of the Communist Party of China, severely criticized several key features of Soviet-style planning. Yet, even in the period of the Cultural Revolution, the Chinese economy was run basically according to the pattern prescribed in the Feldman-Mahalanobis model.[2]

1 See Bagchi (1982, chapter 9).

2 See Perkins (1991, pp. 487-488).

Since national economic planning has acquired a "bad odour" from the time that a market fundamentalist mentality began to suffuse the thinking of many social scientists, it is necessary to mention that planning had once been considered necessary by practically everybody who was involved in economic decision-making in the Asia-Pacific region. It should be borne in mind that it was not only China and India but also Taiwan Province of China and the Republic of Korea, the pioneering newly industrializing economies of East Asia, that had formulated explicit five- or four-year plans as a key part of their development strategies. Thus, it is a misnomer and gross misrepresentation of reality when the transformation of these economies is attributed to the adherence to policies promoting unfettered markets and their so-called efficient resource allocation.

During the incumbency of the first three executive secretaries, four Asian Planners Conferences were held under the auspices of ECAFE, starting in New Delhi in October 1961 and ending in Bangkok, from 22 November to 1 December 1971. The first conference was attended by Mahalanobis and V.K.R.V. Rao as alternate representatives of India, and Jan Tinbergen as the representative of the Netherlands.[3] The findings of the Asian planners conferences included analyses of not just the allocation of resources to economic sectors narrowly conceived but also the allocation of public expenditures between social and so-called productive sectors. After discussing the idea advanced in a United Nations publication (ECE, 1961) that human capital accounts for a larger part of growth in per capita incomes, rightly pointing out that technical progress is generally embodied in physical capital and that "learning by doing" involves actual operation of capital equipment, *Survey* 1957 – arguing that the ECE evidence applied only to developed and not to underdeveloped economies - came down wrongly on the side of emphasizing investment in physical capital. It regarded expenditure on social services as only complementary to physical investment. Unfortunately, it also underplayed the role of research in the adaptation of technology: adaptation often requires more expenditure than buying or obtaining licences of technology from advanced economies.

The issue of expenditure on social sectors came up again in the report on the fourth Asian Planners Conference, and especially in a study that ECAFE had commissioned from Hansen (1971). Hansen confronted the issue of the so-called trade-off between economic development, meaning a rise in per capita incomes, and social justice or equality, a trade-off posited by Sir William Arthur Lewis. Hansen pointed out the numerous pitfalls in the conventional measures of national income and their growth. He identified, for example, "activities that inflict direct suffering upon a population (armies persecuting minorities or repressing opposition, or waging wars against neighbours; security police, etc.) have no value whatever to add to measured national income" (ibid., pp. 7-8). Hansen took social justice to mean egalitarianism and confined his discussion mainly to economic egalitarianism. According to him, social justice had to be considered along three dimensions: non-human wealth, income and opportunity. "Wealth does not only bring income; it also brings power" (ibid., p. 8). Opportunity is as much a matter of human dignity as of income. In underdeveloped countries, the major source of inequality is the distribution of landownership. "Actions for improved social justice may take the form of land reform with land redistribution (with or without compensation to the old owners)" (ibid., p.8).

This was a path-breaking analysis coming out of the "third United Nations" within ECAFE. Unfortunately, the interconnectedness of the issues of expenditures on social sectors, the critical importance of pro-peasant land reforms and the role of advances in education, health care and incentives released by land reforms and universalization of education did not find traction in many of the countries' actual action programmes, despite frequent in-depth analyses of these issues in the *Survey*.

3 See E/CN.11/571, 12 October 1961.

2. Limits to State action and some requirements for effective State action

The years from the 1950s to the end of the 1960s witnessed probably the most sustained advocacy contained in various issues of the *Survey* and the policy statements of executive secretaries on State action for advancing economic and social development in the ECAFE region. However, so-called mixed economies became discredited because of the inability or unwillingness of the Governments to tackle the deep problems of social inequality and regain policy autonomy by freeing themselves from the favour of the major donor countries. Moreover, the largest centrally planned economy in developing Asia – China – seemed to be involved in endless internecine struggles between fervent followers of Mao Zedong and their opponents.

It was not accidental that the last Asian Planners Conference organized by ECAFE took place in 1971. The market fundamentalists, strongly backed by such organizations as OECD and the World Bank, argued against practically all forms of State activism in the economy and society. Fortunately, there were professionals in the Commission who knew that the alternative to central planning could not be completely deregulated private enterprise. *Survey* 1979 included a practically textbook account of the role and the limits of action of the State:

A. The role of the state

248. The steering of the development process remains inescapably the responsibility of the State. The elements of any development strategy are in fact addressed to the State.

249. Even in market economies, the State has to create and maintain the physical, fiscal/monetary and institutional environment for private enterprise to maximize the growth of output.

250. Second, it has to establish, own and operate production/infrastructure/service units which are essential for the country but would not attract private enterprises: (a) in highly capital-intensive and technology-intensive sectors, such as metallurgy and heavy machinery, basic chemicals, railway and air transport, power and communications, and (b) in sectors with financially low or negligible or privately "uncollectable" return, such as large-scale irrigation, road construction, health, education, supplemental nutrition, water supply, sanitation and housing for the poor.

251. Third, the State has to regulate actual and potential monopoly power (created by economies of scale in relation to market size) which may be used to exploit workers and consumers, reduce potential output levels, raise costs, and inhibit technological change.

252. Fourth, some regulation of the inflow of foreign investment, outflow of profits and the terms on which technology is imported (particularly through transnational corporations) is indispensable if basic development objectives are to be effectively pursued.

253. Fifth, where growth of output per se does not reduce poverty and unemployment fast enough, the whole gamut of special measures proposed for such situations, for example, multisectoral area planning, public works, public distribution, dispersal of infrastructure, expansion and targeting of social services, land reform, protection and promotion of labour-intensive sectors, credit and input reservation etc., have to be implemented by the state.

254. Under a socialist government, the State will, of course, take on a greater share of the responsibilities but the few forms of State action listed above would be unavoidable even in most market economies.

B. Deficiencies of the state apparatus

255. The deficiencies of the traditional State machinery are too well known to need detailed reiteration. Briefly, the bureaucracy has an excessive number of staff tiers, so that decision making is extremely slow. Decisions are over centralized at the top; therefore, information with which decisions are made flows up slowly through the numerous tiers. Final decisions again flow down slowly through the same tiers. Supervision and evaluation of field action are poorly organized. Numerous new agencies are often set up to perform vaguely defined, overlapping and uncoordinated functions. As a result, there is considerable over-staffing and the mushrooming of unproductive, non-developmental public expenditure.

256. An overwhelming majority of staff are 'generalists' with ordinary college or school education. Their intellectual equipment normally does not include adequate specialized knowledge of developmental subjects such as science, technology, mathematics, statistics, economics, management science or business administration. Thus, there is a serious mismatch between the knowledge they have and the knowledge they need for their developmental tasks. Consequently, their policy decision and field operations often remain amateurish, inefficient and irrational.

257. Finally, staff motivation is not 'client-oriented'; it is rather 'elite-oriented' or 'favour-oriented'; it is, in any case, not oriented to the service of the poor in the rural areas and the urban slums. Whatever the administrators deliver to the people, and especially to the poor people, is delivered as a 'favour for subjects' rather than as a right of the people. Therefore, delivery systems are often ineffective or inequitable.

C. Decentralization

259. The basic need is to reduce the over centralization of State decisions and move the apparatus toward an 'optimum' mix of centralized and decentralized decisions. This formulation is better than the unqualified demand for decentralization, for it recognizes that some decisions cannot be efficiently decentralized. But some decentralization seems to be necessary in favour of (a) lower levels of the main administration hierarchy itself, (b) regional and subregional administrative authorities, (c) autonomous authorities, boards and corporations charged with the task of regional or sectoral development and (d) people's organizations (local councils, unions, associations and co-operatives)(*Survey* 1979, pp.128-129).

However, while decentralization of authority is desirable in most contexts, apart from the central or provincial authorities having to coordinate actions spanning more than a few lower-level units and allocating resources accordingly, there must be mechanisms for redistributing resources, including working people from richer to the poorer lower-level units. Otherwise spatial inequity itself can pose serious problems. This inequity has been especially glaring in large countries such as China, India, Indonesia and Pakistan. One reason for the break-up of Pakistan was the glaring inequality in incomes and resource flows between East and West Pakistan – a phenomenon that Mahbub-ul-Haq, a prominent Pakistani economist and a pioneer in developing the Human Development Index, had analysed (Haq, 1966). China also experienced problems when some provincial or county-level administrations had gathered too much fiscal power, and the Central government found it difficult to transfer resources to regions which were remote from coastal areas or that had too many units of declining industries. A continual monitoring of spatial and horizontal inequalities would be needed, because some disadvantaged groups might be concentrated in particular locations. In order to even out the inequities there should be flexibility between centralization and decentralization.

In sum, while realizing that most developing economies in the region were inherently "mixed economies" in character – neither dirigiste nor free-market – the secretariat was aware of the need to utilize the State as a complement and regulator of the market. This is well illustrated in *Survey* 1979, in which readers got almost a set piece on the power and the limits of State action.

3. Managing liberalization

As liberalization gathered pace in the 1990s, attention was paid in various issues of the *Survey* to policy challenges, especially in the area of macroeconomic management. For example, in *Survey* 1991 a part was devoted to "Challenges of macroeconomic management in the developing ESCAP region". Some of the questions treated there provide a template on how some countries in the region were able to take advantage of the accelerated flows of finance and technology occurring under neoliberal reforms while others could not, or not to the same extent.

> More open trade, together with actual or potential competition through foreign investment and technology transfers and acquisitions, helps bring internal price signals ever more closely and flexibly into line with rapidly changing world market opportunities over time… Greater openness to trade and increased domestic competition imply a different role, in both nature and scope, to be played by government.
>
> It is now apparent that the enlarged size and diversity of the public sector have made it far more complicated to manage resources efficiently in many developing economies. In addition, an improved balance between the public and private sector provision of goods and services generates positive externalities well beyond the measurable costs of government involvement; enhanced local dynamism and entrepreneurship, plus technological and organizational innovations, are among the indirect benefits of liberalizing regulation.
>
> Nevertheless, experience so far has also indicated that development can be managed, and the government role is selectively larger and more visionary than just merely to remove existing market distortions, and to provide supportive *institutions and critical public* goods. The market mechanism, in particular, is deficient as a guide to the dynamic trajectories of comparative advantage. Indeed, the evolving patterns of industrial specialization among the newly industrializing economies (NIEs) and the ASEAN-4 (Indonesia, Malaysia, the Philippines and Thailand) underline three points of interest. First, future comparative advantage can be enhanced by government promotion under a long-term industrial development strategy. Second, temporary import protection is necessary to ensure that the prevailing or initial resource endowments and market conditions do not obstruct the development of industries strategically characterized by significant but prospective gains of scale and scope, including cumulative learning curve economies. Third, induced changes in the level and composition of aggregate demand are important particularly in the larger economies in the longer run as an approximate matching between the patterns of supply and demand, including both domestic and external markets, is one of the requisites for balanced and sustainable restructuring. Economic deregulation, including the liberalization of external sector transactions and a more selective and visionary role for government, constitutes two important elements of the "new" conventional wisdom in development policy thinking. Another element is the maintenance of a stable macroeconomy to facilitate the reform process (*Survey* 1991, pp. 122-124).

This analysis can be combined with disquisitions in earlier issues of the *Survey* on the importance of genuinely pro-peasant land reforms, and how the determination of China, Japan, the Republic of Korea, Taiwan Province of China and Viet Nam to rid themselves of dependence on foreign aid as soon as possible by generating a steady stream of balance of payments surpluses, would enable them to acquire control of policy levers. Finally, various issues of the *Survey* also stressed that liberalization did not have to be dictated by the market, characterized by wholesale privatization. For example, Viet Nam maintained a strong State-owned enterprise sector. Instead of privatizing such enterprises, it introduced management reforms to improve their efficiency and productivity. Strong State-owned enterprises provide healthy competition for the private sector, whereas a strong private sector forces such enterprises to be efficient.

B. Trickle down vs. growth with equity

1. Poverty and inequality

From the start, rapid economic growth in excess of population growth was seen as both necessary and sufficient for improving the living standards of the mass of population living in poverty. However, in the light of the experience of the First United Nations Development Decade (1961-1970), the International Development Strategy for the Second United Nations Development Decade[4] called for the achievement of a more equitable distribution of income and wealth in order to promote both social justice and efficiency of production, a substantial rise in the level of employment, the achievement of a greater degree of income security, the expansion and improvement of facilities for education, health, nutrition, housing and social welfare, and the safeguarding of the environment.

In response, *Survey* 1971 focused on the relationship between economic growth and social justice, the continued persistence of widespread unemployment and underemployment, and problems associated with income distribution. It examined the problem of possible conflicts between growth and social justice targets and concluded that,

> While it is widely contended that there is a necessary trade-off between growth and social justice … there may be complementarities between these targets so that measures to promote social justice may serve as a vehicle for growth. Even where such complementarities are not present, however, trade-offs can often be avoided or at least mitigated by the application of appropriate policy instruments. The improvement of policy instruments, and the need for innovations in the field of both institutions and instruments, is therefore emphasized (*Survey* 1971, p. 2).

Survey 1971 also found that "income distribution, in the absence of special measures, may tend to become more unequal during the first phases of industrialization" (p. 2). Subsequently, in *Survey* 1974 a radical change was called for in development strategies and planning:

[4] See General Assembly resolution 2626 (XXV).

> The longer-term problems of the region call for fundamental changes in development strategies and, in particular, for 'planning for the masses'. Existing approaches to development planning have shown themselves no match for the acute problems facing the region. In some countries, a staggering proportion of the population, involving hundreds of millions of people, is at the margin of subsistence. It is difficult to avoid the prognosis that the situation could easily deteriorate as populations grow unchecked and crises continue in food supply and other areas. This will cause further appalling deprivation and, for millions of people, death. The situation is sufficiently desperate to make apparent the need for urgent and radical solutions involving a radical reorientation of development strategies and policies. These new strategies and policies would retain some of the present goals of economic growth, but must involve their complete refashioning in all spheres to direct their thrust to the lower end of the income scale and, necessarily, to place far more emphasis on local and decentralized efforts and people's participation.
>
> The urgent need for this sort of approach has been receiving increased attention in the region. In particular, there is an emerging consensus of the need for social, political, cultural and economic factors to be considered together, for impediments to popular participation to be removed, for institutions to be reorganized, and for realistic assumptions about motivations and probable roles, as well as for less exaggeration of the trade-offs between economic growth on the one hand and social justice, income distribution and employment on the other. However, although this emerging consensus of need is reflected in current development plans in some developing countries of the ESCAP region, it has not yet been translated into effective action in most cases (*Survey* 1974, p. 10).

Survey 1974 also contained directions on how growth could be made pro-poor. In addition to emphasizing bureaucratic reforms and decentralization, the following were highlighted:

> One reason for this is the absence of a fully acceptable analytical framework to deal with the interrelationship involved, or even of more than fragmentary statistics on the characteristics of the poor. Elements of the new approach which are generally applicable, in spite of different constraints among the region's many countries, include: the specification of the basic goal of planning as being the raising of the living standard of the 'bottom 40 per cent' far more than that of the 'top 20 per cent'; the corresponding reallocation of investment; the reordering of consumption and production priorities; the restructuring of trade to suit the new needs; a new emphasis on domestic technology; the retention of industry as the dynamic sector, but with changes in the output-mix, over-all factor proportions and the balance between small-scale and large-scale industry; and the rapid transformation of agriculture and heavy investment in rural communities to raise productivity and expand employment through revised technologies, complementary mechanization, integrated public works programmes, land redistribution, product diversification, promotion of agro-related industry, etc.

> No less important than the revised approaches in these various areas is the need for effective policy instruments. Many underlying conditions must be altered to make the new approaches operational, and the sensitive and firm use of the full gamut of direct and indirect measures available to Governments will be necessary. Few new policy instruments will be required, but the effectiveness of those used must be markedly greater than has been the case in the past. Moreover, the appropriate measures to achieve each objective may differ from country to country. The instruments of intervention will be necessary to bring about the necessary changes in production patterns and facilitate mass consumption, to mobilize and transfer resources without inflationary pressure, to affect spending patterns, and to provide public goods, including drastically reoriented education policies aimed at the development and mobilization of human resources (*Survey* 1974, p. 10).

Survey 1982 (box II.16) contained a sophisticated critique of the "trickle-down" thesis, "that the only adequate solution to problems of equity, especially the elimination of absolute poverty, in the long run rests with economic growth". In the early days of ECAFE, it was widely accepted that, given the low average level of living in most developing ESCAP countries, short-run redistribution policies of the kind prominent in public revenue and expenditure patterns of industrial countries would do little to assist the poor. Increasing the share of the poor in total consumption would only reduce the capacity of the better-off to save, and this would impair the capital accumulation process essential for growth.

Three points were made as a critique of that view. First, it assumes a degree of homogeneity and mobility of the population, which does not prevail in developing economies. Second, the trickle-down thesis ignores the fact that investing in education, health care, or for that matter, in rural infrastructure can promote both growth and equity. Third, the implementation of policies inspired by the trickle-down thesis may involve an indefinite deferring of the benefits of growth for the poor, and may be politically unsustainable. As a corollary of this critique, *Survey* 1982 also contained an extensive critical review of fiscal policies in countries, such as India and Sri Lanka, which provided numerous exemptions in the name of promoting savings or investment and thereby depriving the public exchequer of revenues that could have been spent on much-needed human and social overhead capital.

In view of the fact that development is now defined in a much broader sense to include environmental and social pillars as integral parts, in *Survey* 2001 (p. 166), it was concluded "that economic growth is a necessary but not sufficient condition for development". In the part entitled "Poverty reduction strategies: tackling the multidimensional nature of poverty" (pp. 241-291) of *Survey* 2004, there was a comprehensive discussion of concepts, definitions, measurement and development strategies relating to poverty reduction in the countries of the ESCAP region.

Four approaches to defining poverty were highlighted in *Survey* 2004: the monetary approach; the capabilities approach; the social exclusion approach; and the participatory approach.

The *monetary approach* is most commonly used to define and measure poverty. A poverty line is defined in terms of the monetary income sufficient to attain a minimal standard of living. *The capabilities approach* pioneered by Professor Amartya Sen emphasizes that income is only valuable in so far as it increases the capabilities of individuals and thereby permits functioning in a society. "The ultimate objective is capabilities such as the ability to lead a long life, to function without chronic morbidity, to be capable of reading, writing and performing numerical tasks and to be able to move from place to place. In accordance with this approach, a person whose capabilities or functioning falls below a minimum acceptable standard is poor" (*Survey* 2004, pp. 242-243).

The *social exclusion approach* emphasizes relations among individuals.

> Social exclusion occurs when individuals or groups are unable to participate fully in the society in which they live. As a result of exclusion, the incomes, capabilities or other characteristics of the poor become unacceptably distant from the norms of their community or reference group. In accordance with the exclusion approach, poverty is a social construct and has little to do with the fulfilment of an individual's minimum needs.
>
> The *participatory approach* takes into account the views of poor people themselves. The people themselves decide what it means to be poor, and that determines the magnitude of poverty. Here the perspective is that of the poor; it is not imposed from outside. The approach relies on the contextual method of analysis and this helps in understanding the poverty dimensions within the social, cultural, economic and political environment of a locality. Hence, poverty outcomes may not be quantified and standardized (*Survey* 2004, p. 243).

Despite decades of rapid economic growth, according to *Survey* 2004, poverty remained endemic in the region:

> Income poverty is the most serious problem faced by many developing countries of the region. Based on the dollar a day poverty line, more than two thirds of the world's poor live in Asia and the Pacific. The incidence of poverty in the region decreased from 37 per cent in 1990 to 25 per cent in 1999…However, some 767 million were still living on less than one dollar a day in 1999…If the poverty line is raised to two dollars a day, Asia and the Pacific become home to around three fourths of the world's poor. More than 2 billion people were living on less than two dollars a day in the region. The comparison of this figure with that based on one dollar a day shows that far more than 1 billion people have incomes of between one and two dollars a day (*Survey* 2004, pp. 244-245).

It was also noted that "The incidence of poverty tends to be much higher in rural than urban areas… With rapid urbanization and migration of poor people from rural to urban areas in search of job opportunities, urban poverty may emerge as a serious problem in the future. In addition to rural-urban differences, remote areas and regions of countries can have a higher incidence of poverty" (Survey 2004, pp. 248-249).

It was noted in *Survey* 2004 that while dollar poverty lines are useful for making international comparisons, national poverty lines are more useful in evaluating poverty trends over time within a country. "The countries may prefer poverty estimates based on these poverty lines for evaluating the impact of national poverty reduction strategies" (*Survey* 2004, p. 247).

In recent years, it has been suggested in the *Survey* that policymakers should clearly chart out the implications of their development strategies with regard to "pro-poor growth" and "inclusive growth". Very often analysts and policymakers confine their attention just to pro-poor growth, but as pointed out in *Survey* 2013:

> [T]he inclusiveness of growth and development would mean not only social inclusion and a reduction of inequality of opportunities and income but also a reduction of people's vulnerability to crises, disasters and misfortune. This is a much broader concept than, for example, pro-poor growth, which targets only a subset of vulnerable people. In this case, the focus is on preventing people from falling back into extreme poverty by helping them regenerate their livelihoods after they are hit by shocks. Thus, there is a close affinity between resilience and the inclusiveness of the development process (*Survey* 2013, p. 6).

2. Social services and public expenditures on education and health

A major source of inequality and poverty stems from the level and composition of public services, especially on health and education. Concerns reflected in various issues of the *Survey* about the role of social services in economic and human development were discussed previously. However, there were fluctuations in the way this issue was treated. For example, in *Survey* 1958 (pp. 2-6) member States were warned not to be so preoccupied with social services as to underinvest in directly productive sectors. In *Survey* 1961 (p. 8), it was noted that Ceylon spent a higher proportion of its GDP on education and health than all other countries in the region. However, *Survey* 1979 (p. 128) underscored the point that where growth of output per se does not reduce poverty and unemployment fast enough, the whole gamut of special measures proposed for such situations, for example, multisectoral area planning, public works, public distribution, dispersal of infrastructure, expansion and targeting of social services, land reform, protection and promotion of labour-intensive sectors, credit and input reservation, have to be implemented by the State.

In *Survey* 1992 some worry was expressed that, in the wake of the break-up of the USSR, Central Asian republics had to bring down their expenditures on social sectors; however, it was noted reassuringly that "in the foreseeable future, Governments are expected to continue to play a crucial role in the financing and provision of these services". As discussed in Chapter XIII, a study on the least developed countries carried out by the secretariat (ESCAP, 2002, p. 4) pointed out that a country such as the Republic of Korea, starting with a very low income, had done far better in areas of economic and human development than the subcontinental South Asian countries. It was concluded that this very fact might explain why the Republic of Korea surged ahead of the South Asian countries.

In *Survey* 2003 considerable attention was devoted to the question of access to public services and the underprovision and iniquitous distribution of public expenditure on health and education. In generalizing the findings, the following was observed in *Survey* 2003:

> It needs to be emphasized that the public sector still plays a major role in the provision of education and health services in most countries of the region. The achievements of the education and health sectors are also linked to the public expenditure devoted to them… The relationships between public education expenditure as a percentage of GDP and the adult literacy rate as well as the youth literacy rate appear positive, that is, countries with higher public expenditure on education have achieved better outcomes. The relationship between public health expenditure and life expectancy also looks positive, whereas the relationship with the infant mortality rate appears negative, as can be expected (*Survey* 2003, pp. 235-236).

Despite these findings and overlooking the lessons from the rapid rise in human development indicators in countries as different socio-politically as the Republic of Korea and Viet Nam, *Survey* 2003 repeated the conventional alibi that, "owing to the limited resources of Governments in developing countries, the universal provision of education and health care is almost impossible", adding that "[t]he public provision (free or subsidized) of other education and health services should respond to the needs of marginalized and disadvantaged groups" (p. 226).

As a counterpoint *Survey* 2013 (p. 52) pointed out that the Asia-Pacific region had the lowest tax burden among all the developing regions in the world, and that the progressivity of taxes was low in the region, which derived a larger share of its tax revenues from indirect value added taxes than was the case for OECD countries. Intercountry comparisons revealed a negative relationship between inequality and tax burdens, and inequality and public social expenditure. It therefore was recommended that larger public expenditures be made on social services and environment-friendly programmes as a means of raising effective demand and employment (*Survey* 2013, pp. 52-53).

C. Export orientation vs. import substitution

As noted previously, the majority of countries in the region at the time of independence were primarily agrarian and primary commodity exporters. The quest for development and structural transformation began with import-substitution of simple consumer goods, such as textile products, in line with the dominant strategy of the time. However, the dependence of those countries on primary exports continued.

Survey 1959 contained an examination of the trends during the period 1928-1957 in order to identify problems and prospects of primary exports. The following interesting facts were recorded:

- the demand and supply conditions affecting the primary commodities in the world market had a more acute impact on the primary exporting countries of the ECAFE area, so that they fell behind, not only the industrial countries, but also the rest of the primary exporting countries of the world, in the volume of exports and in their value measured in terms of manufactured goods;
- deterioration in the terms of trade since 1951;
- violent short-term fluctuations in the earnings of their primary exports;
- great instability not only in terms of foreign exchange but also in terms of import capacity;
- the composition of the primary commodities of the region is such that it renders the export proceeds of the region more susceptible to fluctuations than those of world primary commodities as a group;
- imports have grown faster than the export-based capacity to import;
- the ECAFE region — a net exporter of food grains in the twenties — has become a net importer;
- the primary exporting countries are almost completely dependent upon industrial countries to supply their increasing need for capital goods imports to sustain their development programmes (*Survey* 1959, p. 3).

In the light of the above, *Survey* 1959 concluded:

> Because of this rather unfavourable outlook, a further assessment was made of the prospects of expanding exports of manufactured goods and service earnings, and of developing alternative markets, and the conclusion was reached that the economic development of the region can hardly be export-orientated; for the region as a whole, a trend towards import substitution of food, other consumer goods and even producer goods, appears unavoidable (*Survey* 1959, p. 4).

Interestingly, the findings contained in *Survey* 1959 were consistent with the Prebisch-Singer hypothesis advanced in the context of Latin American economies. As mentioned previously, even though ESCAP did not popularize any such theories or hypotheses, its analyses and policy recommendations contributed significantly to the evolution of thoughts and policy development in the region.

In examining the prospect for export-led manufacturing sectors, it was recognized in *Survey* 1959 that the region enjoyed a comparative advantage because of low wages in simpler types of labour-intensive manufactures, such as cheaper lines of consumer goods. However, it was noted that barriers against their export had been created by protectionism in the industrial countries of the West. Examples of protection in the United States against imports of textiles from Hong Kong, India, Japan and Pakistan were cited, as well as the imposition of quotas "voluntarily" by Japan on its exports to the United States, for cotton textiles, silk goods and flatware. "In the light of these experiences it would seem wise to temper any undue enthusiasm as to the possibilities of alternative exports of manufactures of consumer goods to the industrial countries" (*Survey* 1959, p. 97), and the following assessment was provided for the period until 1975:

> A major implication of this outlook is that the development of the region can hardly rely exclusively on exports even in the countries with favourable export prospects. The momentum provided by the expansion in the export industries will be too small to bring about an adequate increase in total output. Rising exports are unlikely to play a leading role in the development process of most countries of the region…
>
> Building up a producer goods industry is by no means easy and may, in the short run, even aggravate foreign exchange difficulties. But it would appear that they have no other choice if a reasonable rate of growth of the national product is to be attained. For most other countries, it will be an easier and less costly adjustment to expand their food production and consumer goods industries to the required extent (*Survey* 1959, p. 101).

Obviously, the above was proven wrong by the phenomenal transformation of a small number of countries in East Asia, including Japan, based on their comparative advantage of cheap labour for producing and assembling simple consumer goods for export, primarily to the United States and later to Europe. (The secret to their success has been discussed previously in relevant chapters and need not be repeated here.) One factor that played a significant role in opening up the United States market was the changed geopolitical reality after United States involvement in the so-called Korean and Viet Nam wars. The United States wanted to see those front-line countries succeed in order to blunt the attraction of a socialist State emerging in those economies.

Moreover, by the early 1960s, the United States reached full employment and experienced inflationary pressure caused partly by rising wages. This helped subdue the sentiment against "cheap labour sources". When large retailers/manufacturers, such as K-mart and Sears, were looking to relocate their production and assembly plants to cheaper locations, it was natural for them to choose those countries which were protected by the United States defence forces. Of course, such locations were also attractive because of their political stability and the presence of disciplined and educated workforces, without the menace of labour unrest.

The principle of walking on the two legs of import substitution and export promotion was generally upheld in the *Survey* as strategies of industrialization. After it was noted in *Survey* 1963 (p. 1) that both industrialization and economic diversification were means of raising living standards of the people, the following was stated:

> Industrialization is seen as a means towards this end and so is economic diversification; when linked with trade, they constitute a powerful triad of forces for economic growth. Their role in raising income and reducing dependence upon hard-hit traditional lines of production and export, as well as in nurturing new skills and techniques, is clearly recognized by the developing countries in their growth strategies, and the twin techniques of import substitution and export diversification are being vigorously used to assist in achieving these aims (*Survey* 1963, p. 1).

It also pointed out in *Survey* 1963 (p. 3) that the successful pursuit of the two-legged strategy required constant monitoring and flexibility in policymaking, as circumstances changed.

Survey 1978 contained an examination of industrial strategies in countries of the region; it was reported that a number of countries had recognized some distortionary effects of import-substitution which adversely affected both production efficiency and the stability of their long-term industrial structure. The linking of import substitution to exports was advised in that issue, as was moving from the first stage import substitution of simple consumer products to the "second-stage import substitution", seeking to replace imports of intermediate goods by domestic production (*Survey* 1978, pp. 45-46).

In this context, import substitution was favoured in *Survey* 1978 to build the productive capacity needed to eventually gain competitiveness in producer goods exports. Thus, along with supporting import-competing industries, a number of countries also designed incentive policies for the export sector, which included export processing zones. In other words, along with the need for import replacement, there had been recognition of the important role which exports can play in sustaining production and investment.

D. Labour market flexibility vs. protecting labour standards

Since ECAFE was focused on the advance of all the people in the region, it had to deal with the welfare of workers in industry as well as in agriculture. The ways in which Governments of countries in the region handled industrial relations was scrutinized in *Survey* 1950 (p. 91); it was observed that "it is essential to organize a system of industrial relations which will provide a favourable atmosphere for the development of labour standards and in particular help to achieve the objectives of economic development programmes". It was commented further that,

> [T]o promote the welfare of the region's working population, it is not sufficient merely to create opportunities for productive employment and to improve the employment services and facilities for technical training. There is also a need to improve directly the labour and social standards of the workers through legislative action (*Survey* 1950, p. 80).

In that same issue, there was also recognition of the tension between employment protection, and employment demand and productivity. "A more fundamental problem for Asian countries now engaged in acceleration of economic development is to achieve an appropriate balance between efforts for maximum output and measures designed to give to workers adequate protection in hours of work and related matters" (*Survey* 1950, p. 82). It was further noted that "A more fundamental aspect of wage policy for Asian countries is the need to establish a proper relationship between wages and productivity in the process of economic development" (ibid., p. 86).

Many of the labour market issues analysed and policy recommendations offered in *Survey* 1950 (pp. 85-86) are still relevant. These included need for devising "effective measures to ensure a minimum living wage for workers in the industries" in the light of widespread "malpractices in respect to wage payments" and low levels of wages; "rationalization of the wage structure" and "the fixing of wage differentials on a scientific basis" to address wage differentials among different occupations unrelated to productivity and skills; and special attention to "wages in unorganized industries, such as agriculture, handicrafts, commerce and domestic service".

Another highly relevant observation was made in *Survey* 1950:

> By raising workers' efficiency as a result of better nutrition and health and by stimulating their incentive for greater effort, increased wages can bring about a substantial increase in labour productivity. The extent to which this can be promoted by appropriate systems of wage payment deserves careful investigation. On the other hand, in distributing the fruits of increased productivity resulting from economic development, it is equally essential to recognize the need for careful planning so as to ensure that the need for an immediate rise in workers' standard of living is properly balanced against the need for rapid capital formation (*Survey* 1950, pp. 85-86).

Recent issues of the *Survey*, especially since the Asian financial crisis of 1997/98, examined the policies concerning labour in a wider context of reforms and structural adjustment. They recognized the need for labour market flexibility in addressing, underemployment and youth unemployment and problems of international competitiveness.

Importantly, the *Survey* did not contain interpretations of labour market flexibility just in terms of downward flexibility of wages and lowering of labour standards, as is often insisted by neoclassical economists. For example, in *Survey* 2004 (p. 264), it was noted that "labour-market reform [is] a complex exercise as some policy measures are politically sensitive and [this] highlights the need for constructive social dialogue to identify ways of making the labour market more flexible, while protecting the workers' rights. Social considerations that underlie labour-market regulation would need to be addressed through effective social safety nets for those affected by such reforms".

Contrary to the orthodoxy of neoclassical economists who attribute unemployment to labour market rigidity, *Survey* 2004 (p. 264) identified that "expanding populations, employee lay-offs and dislocations through the privatization of public enterprises, public service reforms and private sector responses to market behaviour, the increasing share of the ageing population and budgetary constraints" were contributory factors to unemployment and other labour market problems.

In *Survey* 2006, there was recognition of the importance of better corporate responsibility in providing opportunities for the training and retraining of workers, collaborating with the public sector in enabling unemployed youth to obtain training and by ensuring workplace safety and the welfare of employees. *Survey* 2006 also examined the issue of labour market rigidity and identified difficulties, such as moving from one job to another because of firm-specific training, strict regulations controlling firing and the non-transferability of pension benefits, as main contributory factors. According to *Survey* 2006, firm-specific training highlighted the need for minimum standards of educational attainment and technical skills. Strict firing regulations could be resolved by relaxing hiring and firing regulations, while providing relatively strong income protection for laid-off workers at the societal level. The non-transferability of pension benefits could be addressed by introducing contributory pension and retirement schemes.

An argument was also made in *Survey* 2006 for active labour market programmes that would include retraining, career guidance and counselling, facilitating job searches and well-designed public works programmes. Among active labour-market policies, direct subsidies for job creation appeared to be the most effective in generating employment. In addition, the importance of unemployment benefit schemes which provide two important services was underscored. First, such schemes serve as a safety net for workers during short spells of unemployment, enabling them to search for jobs or train for new ones. Second, they facilitate flexible employment adjustment by firms during times of shock and structural change.

Examples of the Republic of Korea's employment stabilization programme were cited in that issue; these were designed to harmonize efficiency and equity in the labour market through assistance with employment adjustment, regional employment stimulation and employment facilitation and the provision of labour market information and job placement services. These measures were aimed at minimizing job mismatch and encouraging employers to avoid massive layoffs, promote the employment of disadvantaged workers and create jobs in depressed regions.

Another programme in the Republic of Korea that it cited was the partnership between industry, university and government to address the skill mismatch problem. It was noted that the Government of the Republic of Korea encourages industries and universities to work together to meet the future demand for skills. Universities that establish new departments to meet industrial needs through contracts with companies become eligible for governmental financial support for facilities and research costs. The Government also established a system to evaluate whether college curricula meet industrial demands. Policy measures are devised to encourage employers to expand investments in youth employment and to use human resources more effectively.

Survey 2006 re-emphasized several issues relating to rural employment that had come up in the earlier issues of the *Survey*:

> Land reform, extension services, provision of credit, crop diversification and rural infrastructure development would play a critical role in this respect. Improved marketing facilities and cooperative organizations could also be effective instruments in advancing rural employment (*Survey* 2006, p. 184).
>
> Social dialogue, involving employers, unions and even government, is a key instrument for overcoming an employment crisis. A compact between the employees and employers…could include agreements on wage moderation (to accommodate macroeconomic stability), tax cuts, employment benefits and job security. Such social dialogue entails a compromise between profit maximization by firms and optimum wages by employees through a common understanding and partnership (ibid., p. 186).

The issue of labour standards came up again in *Survey* 2009, which devoted considerable space to the impact of the global financial crisis of 2008 on the condition of workers: "Apart from an increase in formal unemployment, there will be a rise in informal employment. Notably, it is expected that migrants will return to rural areas, where they will remain underemployed, while wage competition in urban areas may cause an increased neglect of labour standards, as well as an increase in income inequality between top executives and employees" (*Survey*, 2009, p. 13).

Survey 2013 noted the introduction or upward adjustment of the minimum wage in a number of countries in the region to boost domestic demand in response to weak and falling external demand due to the ongoing economic crisis in eurozone countries and the tepid recovery of the United States economy. Adjustment of the minimum wage was also seen as a tool to address rising inequality and to restructure the manufacturing sector towards higher value added activities. *Survey* 2013 presented the results of a simulation exercise of upward adjustment of the minimum wage in Thailand to affirm longer-term positive impacts, but it also cautioned about the pace of implementing minimum wage policy and the need to complement it with carefully designed adjustment measures – almost echoing the position of *Survey* 1950.

E. New international economic order vs. Washington consensus-style Globalization

1. New international economic order

Although many developing countries became independent during the era following the Second World War, international economic relations did not change much from largely centre-periphery mode. The Bretton Woods system to guide post-war economic revival was designed mainly by former colonial powers, and it did not truly address the aspirations of developing countries. The creation of the "international trade organization" (ITO) to complement the International Monetary Fund and the World Bank never happened despite successful negotiation on a draft ITO charter in 1948. In the absence of ITO, countries turned, from the early 1950s, to the only existing multilateral international institution for trade, the General Agreement on Tariffs and Trade (GATT) to handle problems concerning their trade relations.

Developing countries in general faced unfavourable international conditions in their quest for industrialization and development. Ironically, their difficulties mounted with the sudden breakdown of the Bretton Woods system in 1973, even though it had not been designed with the problems of developing countries in mind, and the oil price shocks in the 1970s. Therefore, at the sixth special session of the General Assembly in 1974:

> Member States of the United Nations solemnly proclaimed their united determination to work urgently for the establishment of a New International Economic Order based on equity, sovereign equality, interdependence, common interest and co-operation among all States, irrespective of their economic and social systems which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and the developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations…[5]

An overview of the development experiences of developing countries in the Asian and Pacific region in the 1960s and 1970s was provided in *Survey* 1979.

[5] General Assembly resolution 3201(S-VI).

> Depending upon the relative importance of international economic transactions in their economies, all countries were affected by the abrupt fluctuations which marked the international economy in the 1970s. These disturbances included the boom and subsequent collapse of commodity exports during the first half of the decade, the large rise in the price of petroleum in 1973-1974 and subsequent further periodic sharp increases in price, the collapse of the international monetary system, the international food crisis and the cycle of boom and recession with persistent inflation in the developed market economies (*Survey* 1979, p. 92).

In its resolution 180 (XXXIV) the Commission requested the executive secretary to prepare a regional input to the formulation of a global strategy for the 1980s. In a later resolution, 199 (XXXV), elaborating on resolution 180 (XXX), the secretariat's attention was directed more specifically to those issues concerning the New International Economic Order. In response, the secretariat prepared a draft report based on 54 studies comprising individual country reports, sectoral reports and subregional studies on cross-country topics. The draft report was reviewed in 1979 by an expert group on development policy and planning. The revised draft and a summary thereof were presented for discussion at the Ad Hoc Intergovernmental Meeting on Strategies for the 1980s, held in Bangkok from 10 to 14 September 1979.

> The emphasis throughout the report is on determining the nature of the major problems to be faced, the stated objectives of the Governments concerned, the policy imperatives and what might be done in an international context to complement these policies and attain the objectives. Consequently, except in certain instances, where the case for separate treatment is very strong, the report has not followed the more conventional sectoral approach but has instead focused on and stressed the importance of gearing policies in all sectors towards the primary objectives of achieving fuller employment, reducing poverty and achieving greater equity (*Survey* 1979, p. 81).

Unfortunately, the global economy that emerged in the 1980s was quite different from that envisaged under the 1974 New International Economic Order. It was dominated by a group of powerful countries, with the emphasis on minimizing the role of Governments in terms of wealth generation and redistribution. Government development policy became subject to externally imposed conditionalities, as well as market requirements. Essentially, Governments were increasingly expected to leave decisions regarding their policies and institutions to the judgment of donors, creditors and market interests.

The world has witnessed unprecedented economic globalization since the 1980s in terms of movements of goods, finance and labour. With rapid globalization, the world has become much more interdependent. This has created tremendous opportunities for innovation as well as serious challenges in the uneven distribution of benefits and costs. These aspects have also heightened the risk of social, economic and environmental shocks spreading from one country to another with adverse effects and increased economic insecurity. The poorest and most vulnerable populations of developing countries, in particular, have borne the brunt of external shocks.

2. Challenges of globalization

In his policy speech on the occasion of the fiftieth anniversary of ESCAP, Adrianus Mooy took note of the increasing trend towards globalization of economic activities in the global economy and the challenges being faced both by the Commission and the region's developing economies. He expressed concerns about the pace of globalization and highlighted the need for developing countries in the region to evolve a shared proactive agenda to ensure that their interests were adequately addressed, especially in the light of the fact that "a vast number of countries and areas in the region, in particular the least developed, landlocked and Pacific island countries and the economies in transition, remained marginal to the process of integration. Widespread poverty still affected a sizeable proportion of the region's population" (Executive Secretary's policy statement for 1997, paras. 40-43, p. 53). In looking for ways to find a fitting role for ESCAP in the complex evolving situation in the region, the Executive Secretary stressed the need "for continuing efforts to strengthen existing arrangements for regional and subregional economic cooperation. ESCAP could contribute to that effort by bringing countries together to share their experience and know-how" (ibid., p. 53).

However, in the meantime developed economies and transnational corporations domiciled in them felt increasingly threatened by the rise of competition in the fields of many commodity and services sectors, such as pharmaceuticals, automobiles and telecommunications, and began preparing for a version of GATT which would be more favourable to their own interests. This resulted in the formation of the World Trade Organization (WTO), which brought under its jurisdiction many subjects, such as intellectual property rights and regulatory regimes for investment flows that had never been part of any multilateral trade agreement prior to 1994.

Most of the risks attendant on liberalization and openness that conformed to the provisions of the WTO agreements for dealing with trade in goods and services, relevant aspects of intellectual property, dispute settlement and trade policy reviews were duly recorded in *Survey* 1997. The provisions of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) would inhibit adaptation or even innovation activities because of the power of "corporate feudalism" exercised by the patent-holding corporations, as Sir John Sulston, a Nobel laureate in physiology and medicine, pointed out. The provisions of trade-related investment measures (TRIMs) would badly damage the policy autonomy of countries which could not put any local component requirement on foreign investment. GATT provisions would destroy many service industries in poor developing countries.

As pointed out previously *Survey* 1997 rightly sounded a cautionary note for the developing countries regarding WTO agreement provisions:

> The developing countries in the region have generally made voluntary moves towards policy liberalization in wide areas of trade, investment, finance and the services, with the expectation that such liberalization would have a favourable long-term impact on their economies… However, to some extent, the pace and pattern of the reforms and adjustments are subjected to the imperatives of the external circumstances. It has not been easy for the countries to adjust to the changes in the external environment, such as wide fluctuations in the exchange rates of major currencies, the oil shocks or precipitous declines in non-oil commodity prices in the past. The conditionalities that donors and financing agencies insist on have been another external imperative. In the current phase, the demand for changes seems to be much more extensive than at any time before, originating from trade partners through bilateral pressures, from multilateral organizations through conditionalities for assistance or from the need to comply with multilateral agreements…
>
> The developing countries' trade regimes, for example, would have to become significantly more open than in the past within a relatively short period of time under the commitments for reduction of trade barriers in the Uruguay Round. Competition both in the export and the domestic markets will be much more intense. Policy instruments that were used earlier to pursue export-led strategies may no longer be feasible…

> The agreements reached under the Uruguay Round on TRIMs and TRIPs would impose additional obligations on the developing countries. The TRIMs agreement, for instance, effectively prevents the application of trade-related performance requirements, such as local content and trade balancing, to foreign-owned enterprises. Such policies played a significant role in the FDI policies of some of the fast-growing economies of East and South-East Asia…
>
> Similarly, there is a concern that the TRIPs agreement may reduce the developing countries' access to technology and increase its cost. Moreover, compliance with the agreement will require changes in domestic legislation in wide range of areas covering, *inter alia,* patents, trade marks, copyright, industrial design and protection of trade secrets. Many low-income countries with limited administrative capacity and legal expertise may find it costly to make the necessary changes…
>
> Although the agreements reached under GATS are limited in scope, they will increase the pressure on developing countries in WTO and other forums to open their markets further in many service areas. As indicated above, the share of developing countries in the ESCAP region in world trade in services is currently small. Some of the countries are fast developing capacities in certain services, such as computer software. They have to ensure that their nascent domestic facilities are not overwhelmed by competition from the powerful transnational corporations. As mentioned above, transnational corporations have been entering domestic service industries in wide-ranging areas, either through fully owned subsidiaries in developing countries or through local partnerships and other contractual arrangements…
>
> Despite some provisions in the Uruguay Round aimed at restraining the use of non-tariff barriers, many developing countries are concerned that such barriers may continue to be applied for protectionist purposes, limiting market access to their exports. These barriers could arise from, *inter alia,* anti-dumping actions, domestic subsidies, safeguard measures, technical standards and labour welfare criteria (*Survey* 1997, p. 15).

The *Survey* and policy statements of executive secretaries in the 1980s and 1990s paved the way for ESCAP to project a visionary future for the twenty-first century. *Survey* 1998 contained an account of the reasons for the development of the 1997/98 Asian financial crisis, some of which had been singled out in *Survey* 1997. Noeleen Heyzer's Preface to *Survey* 2009 highlighted the triple threats that the Asian and Pacific region was facing as a result of the full unleashing of turmoil caused by free-wheeling finance crafting new financial innovations that rewarded the finance industry, as well as the price rises for food and other essential commodities that threatened the food security of many people, especially the poor, and the ecological instability that was wreaking havoc in the Asian and Pacific region.

Following the Great Recession of 2008/09, various issues of the *Survey* have contained suggestions on ways to deal with free-wheeling finance and associated negative outcomes: capital controls can be fruitfully employed to rein in hot money; microfinance can serve in the absence of a banking system that would extend credit to the poor; and the need to remain vigilant to ensure that such an approach does not become a new form of usurious moneylending.[6]

6 See Chowdhury (2009).


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Regional and subregional economic cooperation

13

A. The initial phase

It could be argued that regional economic cooperation was the ultimate raison d'être of ECAFE. Previous chapters have shown how most developing countries in Asia and the Pacific, many of which had been either formal or informal colonies of European powers or Japan, took their destinies into their own hands, and through a half-century of effort forged alliances that enabled much more intimate economic cooperation and relations among themselves than ever before. If those national, subregional and regional relations were to benefit everybody, many of the sources of inequality and deprivation of capability would have to be tackled through concerted action.

In the beginning, the prospects of such an arrangement looked rather remote in a region so vast in geographical expanse, ethnicity and immense diversity in physical, cultural, economic and social terms. Nonetheless, in the very first issue of the *Survey*, the possibility of writing a new chapter in the economic history of the region was proffered:

> With the establishment of the Economic Commission for Asia and the Far East a new chapter opens in the economic history of the countries included in its territorial scope. For the first time a forum is provided by the United Nations at which the accredited representatives of the governments of the region can meet together to discuss common economic problems, establish agreed principles of action and carry out, if they choose, the policies determined by mutual agreement. Such a thing has not been known in the past (*Survey* 1947, p. 1).

The very fact that such diverse countries sent representatives to meet in an august assembly every year, systematically examine the problems they were facing and set out mechanisms for their solution paved the way for closer cooperation in the economic and social spheres. The evolution of regional cooperation in the ECAFE/ESCAP region has been a slow-moving and difficult task that has occurred in fits and starts, rather than as a smooth and a steady process. While the main objective in the establishment of ECAFE was to rehabilitate the war-devastated economies of the region and to set them on the path to sustainable development, the increasing interdependence of the economies of the world made it imperative for countries in geographical proximity with each other to cooperate among themselves. The success of regional cooperation in Europe also had a conducive effect in this regard. An ECAFE study prepared for the first session of the Asian Economic Planners pointed out that the success of European economic cooperation had such an impact on the prevailing pattern of thinking that even the international institutions embodying the ideal of multilateralism had largely come to accept regional arrangements, although with certain qualifications. Western Europe itself was then on the move towards a higher form of cooperation – economic integration – and many other regions were following its example.

This trend is partly based on the fact that recent technological changes have broadened the scope of the economies of large-scale production, involving the need for forming a larger and stable market. From this point of view alone, it seems that economic integration or cooperation on a regional scale rather than on a global scale had become one of the major goals of economic policy at that time. Indeed, it can be said that regional arrangements are no longer a matter of choice. They are imposed by the requirements of technology and interdependence of economies in the contemporary world. ECAFE, however, did not blindly follow the example of Europe nor was the situation right for such an endeavour. Analogy is not always a useful guide to practice.

In the formative period of ECAFE, the developing countries in the region were faced with the challenge of transforming their economies from being predominantly producers of primary products which were exported to industrial countries in return for a large part of their requirements for consumer goods and most of the equipment and raw materials needed for industrial development. About two thirds of the region's international trade was with countries outside the region. Asia was a major supplier of rice, rubber, tea, jute and jute products, and a substantial contributor towards trade in oil, oilseeds, cotton, hides and skins. Individual ECAFE developing countries depended on a narrow range of these commodities for the bulk of their export income; therefore, fluctuations in global prices were of vital concern to them. In the initial period, regional cooperation among ECAFE countries was confined to stabilizing the prices of these commodities through the process of joining international commodity agreements with major countries producing the commodity of their specialization.

B. In the shadows of the Cold War

In the post-war period, the motivations for regional cooperation in Asia, particularly in East and South-East Asia, emanated from security rather than economic concerns, although they did have considerable economic consequences. Soon after the eruption of the Korean War in 1950, much of the region was covered by the security umbrella furnished by the United States and the Western Allies, with due support being provided in the form of military and economic aid in return for the support of countries in the region during the Korean War. Those economies also benefited from the ensuing economic boom. Regional cooperation during the cold war was not voluntary in character, but was the outcome of a top-down approach conceived and enforced by the United States with the authority it had gained during the Second World War; arguably regional cooperation was the Asian extension of American security interests. United States military expenditures in Japan averaged $560 million per annum from 1950 to 1960, and some regarded the impact of the Korean War on Japan as the equivalent of the Marshall Plan in Europe.

Although Japan was the main beneficiary of the military and economic aid, the Republic of Korea and Taiwan Province of China also received considerable volumes of United States military and economic assistance. The effect was dramatic for Japan; by the 1980s, it had become the world's second largest economy. It has been argued that the Korean conflict "transformed the contents and structure of economic relations in East Asia".[1]

The Korean War was a major event affecting United States-East-Asian political and economic relations and served to demarcate economic policies for several decades. The Korean War created increased dependence of the United States and pre-empted Japan's cultivation of economic ties with China.

1 See Forsberg (2000).

When the cold war was extended to South-East Asia in the 1960s with the United States intervention in a civil war under way in Viet Nam, which had been justified by pursuit of the "domino theory",[2] relatively small South-East Asian States, such as Malaysia, the Philippines and Thailand, embraced the United States and its military and economic aid along with the policy package for economic development that was based on the operation of free markets both for domestic and external economic activities. Although military and economic aid furnished the necessary attraction for South-East Asian countries to accept United States supremacy in the region and join the American-led military alliance known as the Southeast Asia Treaty Organization (SEATO),[3] it also promoted – if inadvertently – economic, social and cultural links among these countries, which resulted in the formation of ASEAN in 1967 comprising Indonesia, Malaysia, the Philippines, Singapore and Thailand. ASEAN was more recently expanded to include Brunei Darussalam, Cambodia, the Lao People's Democratic Republic, Myanmar and Viet Nam. The objectives of ASEAN include accelerating economic growth, social and cultural development among its members, protection of regional peace and stability, and provision of facilities to member countries.

ASEAN now covers a population of over 600 million people and has a combined GDP of over $2.3 trillion. It is one of the world's most dynamic regional conglomerations and has attracted countries from all over the globe wishing to have economic relations with its member countries. After the 1997/98 Asian financial crisis, the Association took steps to bring about further integration in the region. Beginning in 1997, the bloc began creating organizations within its framework with the intention of achieving that goal. The first of these was ASEAN Plus Three, which resulted in China, Japan and the Republic of Korea joining the Association's inner circle as "dialogue partners". Another body, the East Asia Summit, which is convened annually after meetings of ASEAN leaders, was established by the ASEAN Plus Three countries in 2004. The East Asia Summit now has 18 countries as members. This new grouping may have a role to play in the planned establishment of an "East Asia community", which supposedly is being patterned after the now-defunct European Community, the predecessor of the European Union. The ASEAN Eminent Persons Group was created in 2005 to study the possible successes and failures of that approach as well as draft a charter for such a community. ASEAN is moving towards a deeper integration with the target of a fully functioning ASEAN Economic Community by December 2015.

ESCAP has been involved with ASEAN for quite some time. In 2002, ESCAP signed a memorandum of understanding with the ASEAN Secretariat for collaboration in research and capacity-building. In 2006, ASEAN was given observer status at the United Nations General Assembly, and in reciprocity, the Association awarded the status of "dialogue partner" to the United Nations. There is now a comprehensive partnership agreement between ASEAN and the United Nations under a memorandum of understanding signed in 2007.

C. China's role in regional cooperation in Asia and the Pacific

As China has grown in economic power, its links with the regional economies have also grown to their mutual benefit. The *Survey* has traced that movement. For example, in *Survey* 2002, box IV.4 was devoted to the topic of "China's development cooperation programmes with the least

[2] The theory was explained by United States President Dwight D. Eisenhower during a news conference in 1954; he referred to the "falling domino" principle in explaining how, if one country came under the influence of Communism, then surrounding countries would follow suit, with one State after another becoming communist.

[3] The treaty was signed in Manila on 8 September 1954 by representatives of Australia, France, New Zealand, Pakistan, the Philippines, Thailand, the United Kingdom and the United States. The treaty came into force on 19 February 1955. Despite its name, most of the members of SEATO were from outside the subregion, with the exception of the Philippines and Thailand. Part of Pakistan's territory at that time (then East Pakistan, now Bangladesh) fell under the treaty's domain, but Pakistan withdrew from the treaty in 1968. The headquarters of SEATO was in Bangkok.

developed countries of the region". In that box, China's scholarships for students from many of such countries were noted. China's technical assistance in strengthening the industrial capacity and infrastructure of least developed countries in South Asia and cooperation agreements with South-East Asia's least developed countries, Cambodia, the Lao People's Democratic Republic and Myanmar were also mentioned.

In *Survey* 2003, box II.8 to was devoted to the subject of "Closer economic cooperation between ASEAN and China".

> Total trade between China and ASEAN grew at an average annual rate of 20.4 per cent from 1991, when total trade amounted to only $7.9 billion, to reach $39.5 billion, in 2000, when ASEAN became China's fifth-largest trading partner. This does not take into account the important but largely undocumented border trade between China and the new ASEAN-4, Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam.… Against this background, the leaders of China and ASEAN took a decision at the summit held in Bandar Seri Begawan in November 2001 to launch negotiations for the creation of a free trade arrangement (FTA) within 10 years, and a Framework Agreement on Comprehensive Economic Cooperation between the Association of Southeast Asian Nations and the People's Republic of China was signed at the summit held at Phnom Penh in November 2002 (*Survey* 2003, boxII.8, p.186).

D. Asian monetary cooperation: a missed opportunity

As discussed elsewhere, the 1997/98 Asian financial crisis was a watershed event for East Asian and South-East Asian economies. After achieving record high growth rates from the mid-1980s to mid-1990s, some of the major economies in the region, namely Indonesia, Malaysia, the Republic of Korea and Thailand, suddenly decelerated to much lower growth rates; in the case of Thailand, its growth rate was negative in 1997. In 1998 there was a collapse in all these major economies, and negative growth rates in double digits were recorded in Indonesia and Thailand, while in Malaysia and the Republic of Korea the negative growth rates nearly reached the double-digit range. Although the contagion affected most other economies in East Asia and South-East Asia, as well as China, the deceleration in the growth rate was much less perceptible in most cases; and in China, growth remained above 7 per cent throughout the crisis (1997-2000).

The experience of the crisis severely shook the region's sense of self-confidence and belief in the robustness of their economies. After three decades of prosperity, the East-Asian subregion saw the effects of the decline. There were student demonstrations and civil strifes in Indonesia, strikes against layoffs in the Republic of Korea and public protests against IMF conditionalities in Thailand. The incumbent Government was overthrown in Indonesia. The root cause of the crisis was blamed by many analysts, including Professor Joseph Stiglitz, on the hasty and unregulated liberalization of capital accounts, ostensibly to sustain the high growth rate of East Asian economies. The intervention of IMF in the early stages of the crisis, by offering bailout packages to the affected countries along with the conditionalities to adopt contractionary fiscal policies, further aggravated the decline in the growth rate of these countries and aggravated the crisis. The Governments of various countries in East Asia saw the crisis as an outcome of speculative forces working in the globalized financial system, with individual countries being unable to defend the pegged rate of exchange for their currencies. This perception was in contrast to the understanding of the major advanced economies and the multilateral financial institutions, which thought that the crisis was the result solely of domestic causes: a combination of crony capitalism in the region and lack of financial sophistication in East Asia.

The first regional response in resolving the Asian financial crisis came from Japan, at that time the world's second largest economy and a country then perceived as Asia's economic leader. Japan proposed the creation of a regional mechanism for intermediating regional savings; this idea was publicly put forth in Hong Kong, China. Japan proposed that $100 billion be used to form an "Asian monetary fund" to finance economic assistance packages for the crisis-ravaged economies in Asia.[4]

The main resistance to the proposal came from the United States, which opposed the exclusion of IMF and principal shareholders in the United States, because Japan wished to isolate Asia from a "perceived agenda of liberalization and globalization that benefited American commercial interests".[5] As pointed out by Joseph Stiglitz, the main motivation for the United States opposition to the idea of an Asian monetary fund arose from its fear that it would undermine the influence of IMF over which the United States had virtual control. "With Japan and possibly China as likely major contributors to the Asian Monetary Fund their voices would predominate providing a real challenge to American leadership and control", he stated.[6] Another reason for its opposition to the original $100 billion Asian monetary fund proposal was that the United States remained in denial about the possibility of several countries in the region going into a deep recession or ultimately a depression, even though Indonesia's GDP was predicted to plummet by 10-15 per cent. The crisis was clearly not a short-term business cycle; it was a crisis that was systemic in nature. After being rebuffed by the United States, Japan again made a less ambitious offer by scaling down the fund to $30 billion under the Miyazawa Initiative. Even this was not acceptable to the United States because of its insistence that, as envisaged in the Miyazawa Initiative, the money should not be spent to stimulate the economies by fiscal expansion but instead it should be used for financial restructuring – effectively, to help bail out American and other foreign banks and other creditors.

Three years after the crisis broke out, ASEAN members plus China, Japan and the Republic of Korea finally got together to quietly begin the creation of a more modest version of the Asian monetary fund under the Chiang Mai Initiative, named after the northern Thai city where it was launched. The failure of the Asian monetary fund to materialize and provide a mechanism for dealing with the capital needs of the affected countries and thereby protect their vulnerable economies – many of them belonging to ASEAN – from speculative attacks on their currencies led to the formation of the previously mentioned ASEAN Plus Three process. The Chiang Mai Initiative was multilateralized in 2010 when the bilateral swap mechanism was found inefficient in the wake of the 2008/2009 global financial crisis. However, sharp currency depreciations in various countries in 2013 exposed the inadequacy of the Chiang Mai Initiative Multilateralization, when countries needing currency support had to seek ad-hoc regional sources of funds through numerous bilateral swap agreements. Furthermore, the Chiang Mai Initiative Multilateralization does not cover the entire Asia-Pacific region. A truly regional agreement could offer better protection.

Besides currency support, the region also needs financial intermediation mechanisms to address its infrastructure needs, especially involving more than one country. It should be mentioned here that in light of the region's enormous infrastructure gap and huge pool of savings the Theme Study 2006 (p. 152) recommended to set up "a new institution, such as an Asian investment bank, similar to the European Investment Bank …, for cross-border financial intermediation". This Theme Study was conducted in response to the observation of member States at the 2005 Commission Session that a new financial institution was needed to close the region's large

4 See Cumings (2006).

5 See Cumings (1998).

6 See Stiglitz (2002).

development gaps. The idea of an Asian infrastructure investment bank was again discussed at the 2013 Ministerial Meeting on Regional Economic Cooperation and Integration organized by ESCAP and has gained momentum with the proposal from China for such a financial institution.

E. Intraregional trade

At the dawn of the establishment of ECAFE, intraregional trade among the member countries and areas was virtually non-existent. In the first annual *Survey* the following observation was made:

> Economic and trade relations have undoubtedly existed between them but these have largely been of a bilateral nature, confined to groups of countries within close proximity to one another. Thus, India and Burma, India and Ceylon, China and Hong Kong, have had a considerable degree of intimate trade relationship; the only exception was Japan, which sought to play a dominant role as a supplier to the region of consumer and capital goods, in return for the import of food and raw materials. In general, the economic bond that knit these countries together in their trade and other economic relationships was not based on geography but on political ties resulting from the metropolitan-colonial orientation. In the production and export of several commodities, their economies were largely competitive. The countries have thus largely been mere aggregates of separate entities with loose political and economic ties with one another (*Survey* 1947, p. 1).

However, from the very start intraregional trade was recognized as an important vehicle for progress and raising living standards. Thus, several executive secretaries and representatives of various Governments of countries in the region stressed the necessity of increasing the degree of integration among the different States in the region through technical cooperation, linking of river valley projects, negotiations on conflicting interests and intraregional trade. For example, Mr. Kibria in his policy statement presented at the Commission session in 1985 urged the developing member countries to give more serious consideration to the clearly evident scope for significant expansion of intraregional trade. In 1986, Mr. Kibria noted in his policy statement that there were no areas of greater potential self-reliance offering mutual benefits more substantial than those accruing from concerted efforts to strengthen intraregional cooperation in trade, the main engine of economic growth for most member countries. He strongly felt that the time had come for the region's developing countries carefully to assess their external trade problems and long-term trends and take steps to build up supplemental commercial links among themselves. In that context, he observed that almost half of the exports of developing Asian and Pacific countries in recent years had been absorbed within the region and that intraregional exports had grown considerably faster than those with the rest of the world, reflecting not only continued dynamism but also a wide range of promising complementarities in levels of development and industrialization, patterns of production and comparative advantage, resource endowments and technological capacity (Executive Secretary's policy statement for 1986, para. 161).

In his Foreword to *Survey* 1992, Mr. Ahmed observed: "There is increasing recognition of the imperatives of regional cooperation in a wide range of activities as a means not only to provide a further boost to the economic and social development of the region as a whole but also to enable the lagging economies to become more active participants in that process".

Intraregional trade grew very slowly at first, partly because of political conflicts but mainly because most of the economies had a narrow range of exportable commodities, either primary commodities or low value added manufactures, such as textiles, in which the countries competed with one another in extra-Asian markets. It is only when Japan became an industrialized economy and when Hong Kong, the Republic of Korea and Taiwan Province of China developed a diversified range of manufactures that intraregional trade took off. The rise of China as the world's second largest economy further boosted intraregional trade.

The emergence of the "Factory Asia" phenomenon, with China as the leader and Hong Kong, Japan, the Republic of Korea and Taiwan Province of China, as well as countries in South-East Asia, becoming active participants, led to the growth of intraregional trade in the Asia-Pacific region. In 2000, intraregional exports accounted for 40 per cent of the Asia-Pacific region's total exports, while the European Union and the United States each accounted for about 20 per cent. By the end of 2011, intraregional exports constituted more than 50 per cent of the total exports of the region, while exports to the European Union and the United States had decreased to 12 per cent and 19.5 per cent respectively. The share of intraregional imports also increased, albeit by a smaller margin, from 51 per cent to 53 per cent during the same period.

Issues of the annual *Survey* were used to regularly monitor the development of intraregional trade, analyse obstacles to further development and offer policy recommendations. For example, the special issue of *Survey* 1992 was "Expansion of investment and intraregional trade as a vehicle for enhancing regional economic cooperation and development in Asia and the Pacific".

As far back as 1948, a working group of experts was set up to examine and report on the financial arrangements needed to facilitate intraregional trade. Later in 1954, a proposal for the formation of an Asian payments union to support greater intraregional trade was also examined by a group of central bank experts. The work of ESCAP in promoting intraregional trade resulted in the signing in 1975 of the Asia-Pacific Trade Agreement (APTA), previously named the Bangkok Agreement. APTA is a preferential trade arrangement that is aimed at promoting intraregional trade through the exchange of mutually agreed concessions by member countries. Open to all developing member countries of ESCAP, which serves as its secretariat, APTA is a truly region-wide trade agreement spanning East and South Asia, with potential for being expanded to include other subregions, such as Central Asia and the Pacific. It is also the first multilateral agreement among the developing countries in the region to adopt common operational procedures for certification and verification of the origin of goods. APTA, which covers a region encompassing more than half the world's population, received its new name in November 2005 and entered into force in September 2006.

In August 2011, the Participating States entered into the Framework Agreement on the Promotion and Liberalization of Trade in Services, following the Framework Agreement on the Promotion, Protection and Liberalization of Investment and the Framework Agreement on Trade Facilitation that had been adopted in December 2009. All three framework agreements have been duly signed and ratified by all Participating States of APTA.

F. Regional connectivity

As with intraregional trade, ESCAP has long been promoting regional connectivity. For example, in the annual report of ECAFE for 1950, reference was made to a working paper of the secretariat which dealt with the need for an Asian and Far Eastern railway association and the possibility of cooperating through such an organization collectively with other international railway organizations. It was also as early as in 1959 when ECAFE initiated the development of an Asian Highway network.

With the increased levels of intraregional trade, the Commission's early initiatives on the Asian Highway and Trans-Asian Railway networks were revitalized in 1992 through the Asian Land Transport Infrastructure Development (ALTID) project. Three components of that project are among the most notable initiatives that had been taken for promoting interregional infrastructure, namely the Asian Highway, the Trans-Asian Railway and facilitation of land transport. The ALTID project was endorsed by the Commission at its forty-eighth session in April 1992. The project was necessitated by the rapid growth of intraregional and interregional trade of ESCAP countries from the 1980s; that growth was accelerated by the cessation of hostilities within the region, the "opening up" of China and the adoption of free market policies by the successor States of the USSR after its break-up in 1991. The ALTID project bore fruit when the intergovernmental agreements on the Asian Highway and Trans-Asian Railway networks entered into force in 2006 and 2009 respectively. The Intergovernmental Agreement on Dry Ports was adopted in 2013, thus reinforcing the vision of ESCAP of an international integrated multimodal transport and logistics system in Asia and the Pacific.

With recognition of regional transport connectivity as a key to regional cooperation, particularly to address the needs of landlocked and transit developing countries, during the sixtieth session of the Commission, which was held in Shanghai, China, from 22 to 28 April 2004, member States signed the Intergovernmental Agreement on the Asian Highway Network. At the Ministerial Conference on Transport, held in Busan, Republic of Korea, in 2006, member States adopted the Busan Declaration on Transport Development in Asia and the Pacific (E/ESCAP/63/13, chapter V) and signed the Intergovernmental Agreement on the Trans-Asian Railway Network. In June 2006, ESCAP established the Asian and Pacific Training Centre for Information and Communication Technology for Development (APCICT) in Incheon, Republic of Korea, and convened the first session of its Governing Council.

Cooperation between ASEAN and the United Nations to support the implementation of the Master Plan on ASEAN Connectivity was identified by the Third ASEAN-United Nations Summit in October 2010 as a key area for joint action; it was included in the ASEAN-United Nations comprehensive partnership framework signed by the United Nations Secretary-General and the ASEAN Heads of State.

Naturally, new economic links are being forged among these countries, and ESCAP has tried to foster those links in various ways, with the Asian Highway and Trans-Asian Railway projects being among the most prominent of those initiatives. In 1998, the United Nations launched the Special Programme for the Economies of Central Asia (SPECA) to strengthen subregional cooperation in Central Asia and the integration of those economies into the global economy. ESCAP, in collaboration with ECE, continues to play a vital role in taking SPECA forward.

Unique constraints and challenges facing island and archipelagic developing countries were recognized at the Ministerial Conference on Transport in 2012. Therefore, interisland shipping was included as one of 10 thematic areas in the Regional Action Programme for Transport Development in Asia and the Pacific, phase II (2012-2016).[7] As a follow-up to the above-mentioned matters, in 2013 ESCAP held the High-level Meeting on Strengthening Inter-island Shipping and Logistics in the Pacific, which resulted in the adoption of the Suva Declaration on Improving Maritime Transport and Related Services in the Pacific. The implementation of the provisions of the Suva Declaration would strengthen connectivity in small island States thus leading to enhanced economic integration and social development.

Many initiatives of ESCAP have been strengthened by the overall policy directives towards attaining inclusive and sustainable development. For example, the important role of dry ports

[7] See Commission resolution 68/4.

in integrating modes of transport, reducing border-crossing and transit delays, facilitating the use of energy-efficient and lower-emission means of transport and creating new opportunities for the growth and establishment of development clusters was stressed by the Forum of Asian Ministers of Transport held in Bangkok in 2009. In her opening statement at the Ministerial Conference on Transport in 2012, Ms. Heyzer said:

> The intergovernmental agreements on the Asian Highway and Trans-Asian Railway networks have also become leading examples of how shared, cross-border challenges can best be addressed by regional solutions. The next critical step in deepening regional cooperation on sustainable transport is the Intergovernmental Agreement on Dry Ports, which will supplement and integrate the physical road and rail networks we have already established. By linking landlocked countries to our more prosperous coastal regions, the dry ports will help to cement the dynamism of our regional economy, and spread the fruits of growth.

With the economies in Asia and the Pacific having recovered strongly in 2010 from the recession of 2008/09, *Survey* 2011 covered fresh challenges to sustaining dynamism and inclusive development. Highlighted, among other issues, was the importance of greater regional connectivity through transport, energy and ICT networks for the Asian-Pacific region to continue to move towards exploiting the potential of regional economic integration.[8] In her speech on regional integration at the fourth East Asia Summit in October 2009, Ms. Heyzer introduced a balanced and integrated approach to "connectivity" and emphasized that shared understanding among countries and equitably negotiated agreements and standards would provide the mechanisms to encourage neighbours to work and cooperate with one another. Following the success of intergovernmental agreements on the Asian Highway, Trans-Asian Railway and dry ports, this broader and balanced approach to "connectivity" later led to new ESCAP initiatives on an "Asian Energy Highway" project[9] and the Trans-Eurasian Information Super Highway project.[10]

G. Regional economic cooperation and integration

In 1960, resolution 31 (XVI) on regional economic co-operation was adopted at the sixteenth session of ECAFE. The need for regional co-operation in trade as a means of achieving a satisfactory rate of economic growth of the developing countries was confirmed by the Commission in a resolution adopted at its session in 1963. The ECAFE secretariat was requested to convene a meeting of high-level representatives of member and associate countries of the region to review the progress achieved so far and to formulate and adopt positive measures for concerted regional action.

The First Ministerial Conference on Asian Economic Cooperation was held in Manila under the auspices of ECAFE in December 1963. It endorsed a proposal to establish a regional development bank for Asia. The Second Ministerial Conference on Asian Economic Co-operation, held at Manila in December 1965, adopted a resolution on dynamic Asian Economic Co-operation. It recommended that a study group be constituted among the regional countries to examine the financial aspects of trade expansion and the need for a payments arrangement to prevent imbalances such as might arise from expanded intraregional trade. The Third Ministerial Conference on Asian Economic Cooperation, held at Bangkok in December 1968, adopted a

8 See the Executive Secretary's Preface to *Survey* 2011.

9 See Commission resolution 68/11.

10 See Commission resolution 69/10.

resolution on strategy for integrated regional cooperation and decided to establish a continuing Council of Minister for Asian Economic Co-operation to give continuous guidance and review the progress of regional economic co-operation.

To celebrate the fiftieth anniversary of that important conference, ESCAP member countries have requested the Executive Secretary through Resolution 68/10, "Enhancing regional economic integration in Asia and the Pacific", to "support the convening of the First Asia-Pacific Ministerial Conference on Regional Economic Integration in 2013". This conference is mandated "to review the theme study for the sixty-eighth session of the Commission".

The Theme Study 2012 presents a comprehensive view of regional economic integration based on four pillars: (i) markets integration, (ii) seamless connectivity, (iii) financial cooperation, and (iv) addressing shared vulnerabilities and risks. In this context, the Theme Study 2012 argued that deepening economic integration and cooperation in the region could be (i) mutually beneficial to all countries and (ii) instrumental in the achievement of key developmental goals. For such potential to be fulfilled, however, the way in which regional integration and cooperation are undertaken is critical. The Ministerial Meeting in response to Resolution 68/10 took place in Bangkok on 17-20 December, 2013. The agreed Ministerial Bangkok declaration requested the Executive Secretary:

a. To accord high priority to the agenda for regional economic cooperation and integration in the work of ESCAP;
b. To support the work of the four area-specific expert working groups including the preparation of their terms of reference in consultation with members and associate members and convene the intergovernmental open-ended preparatory meetings for the second Ministerial Conference on Regional Economic Cooperation and Integration in Asia and the Pacific referred to in operative paragraph 3 above;
c. To ensure effective coordination with United Nations and multilateral agencies concerned, including relevant subregional technical organizations within their respective mandates and core competencies, in supporting the implementation of the regional economic cooperation and integration agenda;
d. To convene the second Ministerial Conference on Regional Economic Cooperation and Integration in Asia and the Pacific in 2015 to review the progress on the agenda of regional economic integration outlined in … the present Declaration, consider the recommendations of the intergovernmental open-ended preparatory meetings and decide on follow-up actions.

The Bangkok Declaration has been endorsed by the Commission at its seventieth session in May 2014 through a resolution.[11] It is a historic achievement for ESCAP and will define its work in coming years. This is likely to lead to the ultimate fulfilment of the dream of the founding fathers, a flourishing Asia-Pacific shed of its colonial shackle and standing firm together, helping one another in sharing prosperity. Only then the twenty-first century will be Asia-Pacific's.

[11] See Commission resolution 70/1.


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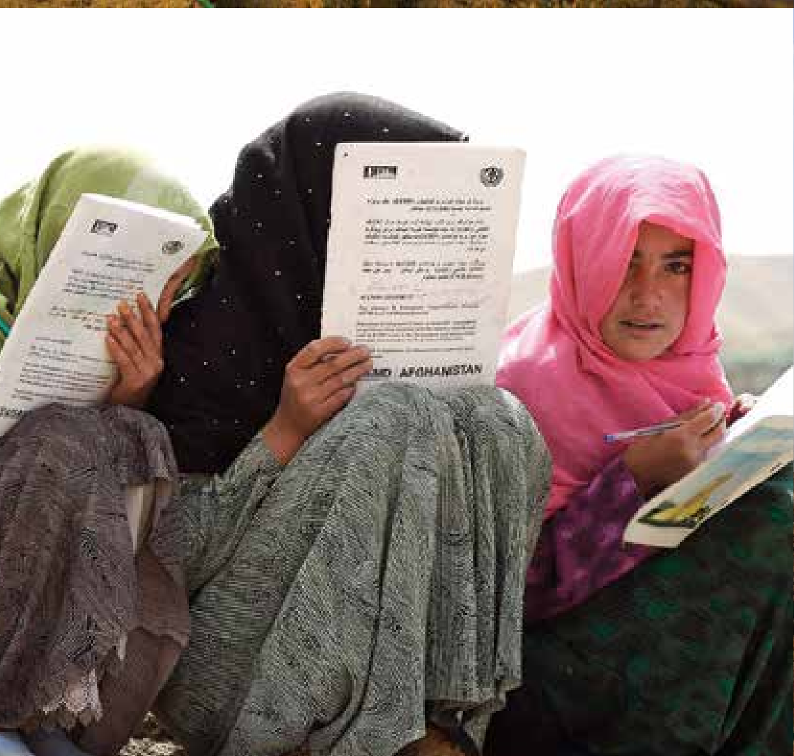
AFGHANISTAN


Quest for sustainable development: relinking the economy, society and habitat

14

That mankind has faced many challenges in the past is an understatement. Survival and further advance of the human race have always depended on adequate response. Such has been the case in the years from 2004, which posed a triple threat for the ESCAP region. In 2004, South and South-East Asia suffered the effects of a devastating tsunami which caused fatalities in the hundreds of thousands in India, Indonesia, Sri Lanka, Thailand and beyond, and caused enormous damage to housing and infrastructure. The ESCAP region was faced with extensive fallout from the failure of Lehman Brothers in September 2008, which officially signalled the onset of the most severe financial crisis since the 1930s. It was also the period when the combination of steep price rises for essential agricultural products and massive investment in biofuels and trading in commodity futures posed intricate regulatory challenges. *Survey* 2009 contained a brilliant analysis of the nature of the triple threat, and that analysis has been followed up in subsequent issues of the *Survey*.

This chapter will be focused primarily on the theme of sustainable and inclusive development. It will provide, principally on the basis of the *Survey*, an analytical narrative of how the concepts of growth with equity, broad-based growth, pro-poor growth, inclusive growth, and inclusive and sustainable development were employed over time in the *Survey*. This chapter will also contain a reflection on the *Survey*'s analysis of the role of agriculture, in particular the "green revolution", and the subsequent decline in public agricultural investment and extension services in food security and malnutrition, as well as liberalization and deregulation, in increasing economic insecurity and vulnerability.

The problems of sustainability of resource-intensive industrialization had been raised by several thinkers from the second half of the twentieth century.[1] The United Nations took official notice of the problems of environmental sustainability with the adoption of the Report of the World Commission on Environment and Development: Our Common Future,[2] commonly known as the Brundtland Report.

A new awareness was created about issues of sustainability with the publication of the Brundtland Report, and the demonstration by climate scientists that the world was experiencing an irreversible increase in land and ocean temperatures, with possible calamitous consequences for all inhabitants of the Earth, but especially for people living in tropical and subtropical areas. The world's biodiversity has already been severely affected with the disappearance of hundreds, if not thousands, of all kinds of life – flora and fauna living on land, in water and on ocean floors.

Even before the publication of the Brundtland Report, ESCAP had convened, for the first time in 1985, the Ministerial Conference on Environment and Development in Asia and the Pacific (MCED), which brought to the forefront of the regional agenda-setting process the issues of environment and development. Since that first meeting, MCED forums have served as a platform whereby high-level/senior ministerial delegates examine, deliberate and articulate

1 They included economists Kenneth Boulding and Nicholas Georgescu-Roegen, and the scientist James Lovelock.

2 See A/42/427, annex.

forward-looking responses to the region's most pressing challenges in the field of environment and development. Periodic reports by the Environment and Development Division of ESCAP and those ministerial conferences have kept information circulating among member States and beyond on many aspects of sustainable development, including energy security. From the time of the fourth MCED (2000), which was held in Kitakyushu, Japan, ESCAP began to circulate such information among different countries, facilitating understanding of the environmental challenges facing the region. The fifth and sixth conferences were held in the Republic of Korea and Kazakhstan respectively. National leaders, who would ultimately carry out environment-improving policies, were thus brought into close contact with the sustainable development agenda.

The United Nations Conference on Environment and Development, known popularly as the "Earth Summit", which was held in Rio de Janeiro, Brazil, in June 1992, recognized that the quest for sustainable development encompasses economic, social and environmental dimensions. While each has a distinct focus, these three areas are mutually reinforcing and interdependent. When global leaders gathered again in Rio de Janeiro, this time in 2012, to review the progress made over the previous two decades, they reaffirmed their commitment to strengthening the three pillars – economic, social and environment – of sustainable development.

In *Survey* 1992, the question of ecological degradation was brought up in the context of the former Soviet republics in Central Asia. However, as noted previously, it seemed to have been suggested in *Survey* 1992 that the central problem of those republics was to find "right prices", almost implying that environmental concerns could be tackled with the help of so-called right prices, or the right social rate of discount, as had been called for in the *Stern Review: The Economics of Climate Change*.[3]

Following the World Summit on Sustainable Development, which had been held in Johannesburg, in August and September 2002, *Survey* 2003 contained an examination of the sustainable development plans that had been formulated by a number of countries; it contained the following observation: "Achieving economic, social and environmental objectives for a country requires coordination between many agents, namely, government, producers, consumers and domestic and foreign investors; policies, namely, sectoral, fiscal and monetary, and trade policies; and institutions, including regulatory agencies and the judiciary" (p. 278). This could only be done through national long-term plans for achieving sustainable development.

When global leaders gathered in Rio de Janeiro in 2012 to review the progress made over the preceding 20 years, they reaffirmed their commitment to strengthening the three pillars of sustainable development. However, both the events and the thinking in the ESCAP region had been moving ahead, especially since 2004, to bring about a paradigm shift from the "business-as-usual" approach, and this was reflected in various issues of the *Survey*. The issue of inclusive and resilient sustainable development received much more prominence in the light of evidence of growing economic inequality and the increasing frequency of extreme weather conditions, as well as severe natural disasters in the region.

3 Available from http://mudancasclimaticas.cptec.inpe.br/~rmclima/pdfs/destaques/sternreview_report_complete.pdf.

As the Secretary-General Kofi Annan pointed out in the Foreword to *Survey* 2005:

> Between the earthquake in Bam, Islamic Republic of Iran, in December 2003 and the earthquake and tsunami disaster of December 2004 – the period covered by this report – the Asia-Pacific region withstood a wide spectrum of shocks. These ranged from avian influenza to persistent high oil prices, from the spread of HIV/AIDS to cyclones, typhoons, floods and drought. The tsunami catastrophe alone is estimated to have taken more than a quarter of a million lives, while severely damaging the physical and social infrastructure of the affected countries, as well as export-oriented sectors such as fisheries, agriculture and tourism. Yet in the same year, ESCAP economies grew at their fastest pace in four years, with broad-based growth accompanied in most cases by low inflation (*Survey* 2005, p. iii).

Even as the Secretary-General had lauded the growth that the ESCAP region was experiencing in aggregate, things were beginning to change in the global economy and in most economies in the ESCAP region by 2008, especially after Lehman Brothers filed for bankruptcy protection in September that year. Moreover, between 2006 and 2008, natural disasters had also severely battered several economies in the region.

> The number of deaths in Asia and the Pacific in 2008 reached 232,500 persons, accounting for a staggering 97.5% of such fatalities worldwide. One of the deadliest storms ever to occur in the North Indian Ocean Basin, Cyclone Nargis, made landfall in Myanmar's Ayeyarwady Delta on 2 May 2008 and left a heart-wrenching trail of death and destruction – 84,500 people dead and 53,000 missing (*Survey* 2009, p. v).

ESCAP (2006) report pointed to the rather grim situation of environmental stress, even as many parts of Asia and the Pacific were experiencing rapid growth.

> The Asian and Pacific region is the most disaster-prone region in the world, accounting for around 80 per cent of all natural disasters worldwide and some 90 per cent of deaths from natural disasters since 1900. Among the most destructive and frequent hazards have been flash floods, earthquakes, storm surges and droughts. Prolonged droughts in South Asia (mainly in Afghanistan, Pakistan and India) have compromised food security and caused widespread famine and food shortages. From 2000 to 2004, over half a billion people (one in eight persons) across Asia and the Pacific were affected by drought. An almost equal number were affected by flooding in the same time period. Over 176,000 persons were listed as killed and almost 50,000 missing in the December 2004 tsunami in the Indian Ocean and South-East Asia, while over 79,000 persons died in the October 2005 earthquake in Pakistan (ESCAP, 2006, p. 17).

Although the value of human lives cannot be calculated in monetary terms, damage to infrastructure and output can be. Such estimates were contained in *Survey* 2009 (table 3.1). They showed that floods, cyclones and the like caused extensive damage during the period 2006-2008 valued at $4,134 million in Myanmar, $2,742 million in Bangladesh and $210 million in Indonesia. Those estimates did not include the value of the damage to housing, which was calculated at $647 million in Bangladesh and $105 million in Indonesia.

The massive tsunami of March 2011 that destroyed so many coastal areas in Japan, also resulted in the Fukushima Daiichi nuclear disaster at the Tokyo Power Company's nuclear power plant, and threatened Tokyo with radiation exposure. It should be mentioned that the threat of nuclear waste from that plant polluting coastal waters and spreading further into the Pacific Ocean has not yet gone away. That disaster occurred in one of the most technologically advanced countries in the world, which shows that nuclear power, however cheap it may seem to be under certain conditions, can pose imponderable threats to human security.

In ESCAP (2006), it was pointed out that countries within the region differed in respect of efficiency, as measured by carbon dioxide (CO_2) emissions; instead of a sectoral, an economy-wide approach was therefore advocated.

> The region's economies are taking widely differing growth paths, with varying environmental consequences. Delinking economic growth from resource use, pollution and irreversible ecosystem change is a critical requirement of environmental sustainability. A closer look at the trends of CO_2 emissions as compared with GDP trends shows that some countries, e.g. China and Malaysia, have managed to slow the rate of CO_2 emissions while their economies continue to grow. In others countries, notably Thailand and India, the growth of CO_2 is tightly linked to GDP growth. Pollution control as a key determinant of environmental performance is also found to improve as incomes increase, as shown by the Environmental Performance Index (ESCAP, 2006, p. 17).

The trouble with this formulation is the lack of recognition that much of the improvement in the environmental performance of affluent economies has often been achieved by such economies relocating their polluting industries to poorer countries. Moreover, rich economies may extract resources from poor ones without caring about how those activities are adversely affecting the environment of the poor country. Furthermore, as the discussion in chapter 9 shows, many of the Pacific economies may never make it into the "high-growth league" under the current regime which is dominated by varieties of the Washington Consensus or neo-liberal economics. Waiting for that distant day of their turn-around with prevailing policies may be inviting further disaster for them and for the world.

By 2009, Ms. Heyzer was sounding warnings, as was the *Survey*, about the triple threat to development in the region – "a Great Recession in developed countries, food and fuel price volatility and climate change calamities" (*Survey* 2009, p. V). In *Survey* 2009, it was noted that, of the three threats, the first two were very much the result of human actions that can be directly observed, and the third was also the outcome of the unthinking interference with nature that mankind had been perpetrating, especially since the start of the resource-intensive industrial revolution. As was expressed in ESCAP (2006, p. 30): "The distinction between natural and human-made disasters is becoming increasingly difficult to make in South-East Asia, as the loss of protective natural features increases vulnerability to natural disaster (as shown by the December 2004 tsunami)".

The sustainability of development and its inclusiveness, and the ability of the people to be resilient in the face of natural disasters have figured prominently in the *Survey* and the policy statements of executive secretaries since 2009. Conversely, the malign effects of stock market turbulence, unregulated capital movements and social and economic inequalities have also been analysed in those discourses. For example, in *Survey* 2009 there was a call for "an Asia-Pacific framework for inclusive and sustainable growth and development" (pp. 164-169). Several points were highlighted as the "beams" of the framework:

> 1. The role of government as planner will need to be given a new priority, as will the need for regional cooperation…
> 2. To protect the Asia-Pacific economies from the risk of a major recession, the intergovernmental coordination of monetary and fiscal policies is essential…
> 3. A world finance mechanism, either through reform of the current architecture, or through the creation of a new organization that balances efficient decision-making with global representation, through a variable geometry configuration of decision-making and consensus building, is certainly needed…
> 4. Actions taken at the regional level can enhance coherence in multilateral economic governance and serve as building blocks for a truly inclusive multilateral system of economic governance (*Survey* 2009, pp.164-166).

In the issues of the *Survey* from 2009, there were calls for new foundations for a green revolution in agriculture, because the twentieth century green revolution was not truly "green" in its instruments: it used non-renewable resource-intensive, water-polluting fertilizers and insecticides; exhausted natural soil nutrients; and created scarcity of water, not only by demanding too much water for the use of fertilizers but also by greatly reducing the water-retaining capacity of the soil. The unthinking introduction of genetically modified crops increases all the above-mentioned hazards and poses unforeseeable hazards for the whole ecological system, as was clearly recognized in the following passage from *Survey* 2010:

> While the Green Revolution of the last century achieved significant yield increases in the Asia-Pacific region, it brought concomitant problems from its high inputs of irrigation, chemical fertilizers, pesticides and insecticides, and its excessive energy use. As Asian and Pacific economies rebalance, a second green revolution is needed that can move agriculture from high chemical and water inputs to knowledge-intensive and sustainable agriculture. The second green revolution should integrate the region's unique traditional knowledge with advances in science and agricultural engineering, including plant genetics, plant pathology and information and communication technology. The approach should emphasize ecological sustainability with integrated pest and soil fertility management, minimum tillage and drip irrigation (*Survey* 2010, p. 153).
>
> The institutions that could provide critical help for farmers include those supporting extension education, post-harvest processing, credit and marketing, and communication connectivity including mobile phones… A key element here would be a system that could help small farms benefit from economies of scale in marketing and assist them in meeting international standards. That role used to be played by parastatals, howsoever inefficiently, many of which were dismantled as a part of liberalization, privatization and deregulation policies under structural adjustment programmes (ibid., pp. 153-154).

In that issue of the *Survey* 2010, a case was also made

> for gearing industrial policy to promote investment in environmentally friendly technologies and products. Such investments are critical, particularly during the early phases of development and deployment of new technologies. Green technologies need to be sustained until they take root. They also need complementary investments along the entire supply chain… Government support should cover the development and commercialization of environmentally friendly technologies that lead to affordable products and improve the wellbeing of the poor and rural populations. Rural solar electric systems for homes, popularized by Grameen Shakti in Bangladesh … is one such technology. The Governments of Japan, China, India and the Republic of Korea, among others, have adopted measures to support development of such innovations as a part of their national action plans on climate change. China has become a top investor in clean energy, with investments soaring by more than 50% in 2009 to reach $34.6 billion; far ahead of the second largest investor, the United States, at $18.6 billion (*Survey* 2010, p. 155).

Regulations and deterrent measures can help:

> Governments worldwide promote energy conservation through taxes on fuels, personal vehicles and high parking charges while subsidizing public transport systems. Sometimes regulations and standards are adopted to promote environmentally friendly practices and products. Cases in point are standards of energy efficiency indicated on electric appliances, or of emissions imposed on vehicles, or decrees requiring compliance with new norms. In New Delhi, for example, conversion of the entire fleet of public transport to a cleaner fuel, compressed natural gas (CNG), led to significant improvement in air quality (*Survey* 2010, p. 156).

The resource-intensity of growth is environmentally hazardous not only for countries that are excessively dependent on such resources; a boom in their demand can severely hamper even long-term growth as conventionally measured. In taking account of the erosion of the natural resources induced by the commodity boom and the environmental damage that it causes could lower real economic growth further. By contrast, when natural resources are wisely used to promote manufactures, and currently, to promote green growth, they can be a blessing.

> [T]he problem is that resource-abundant economies are tempted to rely too long on a limited number of primary exports. This delays economic diversification into other primary products, and slows both industrialization and urbanization. It also tends to leave the rural areas with surplus labour, which raises both income inequality and social tensions. Even when a developmental state tries to boost industrialization by protecting infant industries, the process is likely to be hijacked by an elite oligarchy (*Survey* 2012, p. 151).

Of course, if slowing down urbanization means a proliferation of hamlets of poor, semi-bonded miners, for example, that would be a deplorable development. However, if urbanization, even with industrialization, leads to the further advance of this "planet of slums" (to use the title of a book by Mike Davis), then there is something very wrong with that industrialization process; the concept of sustainability must also address the eradication of such a possibility – a point emphasized more than half a century ago in *Survey* 1958 (p. 5).

The work of ESCAP on sustainable development in its three dimensions – economic, social and environment – continues unabated. In 2012, ESCAP produced the *Low Carbon Green Growth Roadmap for Asia and the Pacific*,[4] which contains more than 100 practical examples from the region to help member States implement sustainable development strategies. ESCAP also provided some guidelines on the framework for sustainable development in *Survey* 2012 in advance of the United Nations Conference on Sustainable Development, which was held in Rio de Janeiro, in June 2012.

One of the problems with strategies "inspired" by the Washington Consensus is that they do not connect with or are not embed into appropriate macroeconomic policies. Sustainable, inclusive growth must, on the other hand, be both a driver and a result of appropriate macroeconomic policies. This requirement was explicitly spelled out in *Survey* 2013:

> The current issue of the *Survey* estimates, as an illustrative example, the public investment needs to deliver a package of policies to promote inclusive and sustainable development in 10 Asia-Pacific countries: Bangladesh, China, Fiji, India, Indonesia, Malaysia, Philippines, Russian Federation, Thailand and Turkey. The package includes the following six elements:
>
> - A job guarantee programme that is available to all participants in the informal sector for 100 days per year and pays benefits equivalent to the national poverty line;
> - A universal, non-contributory pension for all aged 65 or older valued at the national poverty line;
> - Benefits to all persons with disabilities between the ages of 15 and 65 equivalent to the national poverty line;
> - Increasing the share of public health expenditures of GDP to 5% by 2030;
> - Universal enrolment in primary education by 2020 and in secondary education by 2030; and
> - Three energy goals to be achieved by 2030: (i) universal access to modern energy services, (ii) doubling the global rate of improvement in energy efficiency, and (iii) doubling the share of renewable energy in the global energy mix.
>
> The overall investment requirements to implement such a policy package vary across countries, with median values of 5.8% of GDP by 2020 and 8.2% of GDP by 2030… In addition, a long-term macroeconomic simulation exercise shows that governments can pursue inclusive and sustainable development while maintaining fiscal sustainability and price stability at the same time. This suggests that there is not necessarily a trade-off between economic growth, social development and environmental sustainability. The three pillars of sustainable development can support and strengthen each other, thus challenging the "grow first" paradigm (*Survey* 2013, p.x).

It was mentioned in the same issue of the *Survey* 2013 that least developed countries would need support from development partners; however, with greater domestic resource mobilization, the investment is affordable for most countries without jeopardizing price or public debt stability. For achieving inclusive and sustainable development, the following was argued in *Survey* 2013:

[4] Available from www.unescap.org/sites/default/files/Full-report.pdf.

> [T]here is no intrinsic harm in having relatively high levels of debt when it supports spending on productive uses… Therefore the growth-inhibiting effects of a given percentage increase in debt-to-GDP ratio can be easily overcome by a given percentage increase in growth-promoting variables achieved through public spending in areas such as education, health, physical infrastructure and energy efficiency. This highlights the key point that policymakers should be concerned with the composition of debt-financed spending rather than the aggregate level of such debt (*Survey* 2013, p. 64).[5]

The thinking and recommendations of ESCAP are in consonance with some of the best evidence available about organic agriculture compared with the conventional ways of increasing the productivity of agriculture, which often also impoverishes poor farmers and increases the concentration of land ownership through the nexus of the high cost of inputs, the volatility of prices and the credit constraints faced by poor farmers.[6] The Food and Agriculture Organization of the United Nations (FAO), with which ESCAP interacts closely, has also carried out studies on the ability of framers in other parts of the world, such as in sub-Saharan Africa and Ethiopia, to withstand droughts and the high cost of purchased inputs by resorting to organic agriculture.[7] A succession of transformations – the Neolithic revolution, the urban revolution, the industrial revolution and the so-called "green revolution" – starting from the 1950s really consisted of by-products of resource-intensive industrial advances; they were not sustainable, especially in dry areas, hilly areas or small island economies. Those transformations did permanent damage, even in areas where yields responded to the high-yielding or genetically modified varieties, by disturbing the ecology, denuding the soil of organic nutrients and creating water scarcity. What is needed now is the next "great green transformation".

Fortunately, the work of ESCAP is also in consonance with developments in the overall geopolitical economy. The leaders of the two largest economies in the world, China and the United States – both ESCAP members and the two largest emitters of greenhouse gases in the world – are reputed to have arrived at an agreement about many issues concerning climate change. Further afield there has been a similar development. Alarmed by the drastic reduction in the price of solar panels produced by Chinese manufacturers, the European Union reportedly has come to some sort of price stabilization agreement with China. As long as such developments do not lead to innovation-blocking cartels, they may serve as examples to other countries taking up the green innovation challenge. Wind power, tidal power and the selective use of hydropower can be progressively used at least to considerably slow down the process of global warming. The benefits of organic farming can be reaped both by farmers and ordinary consumers, the former in the form of higher and more stable real incomes, and the latter in the form of healthier living conditions.

However, the realization of those dreams requires the kind of paradigm shift in the concept of development that has been called for in recent issues of the *Survey* and various ESCAP documents, as well as statements of executive secretaries. Even more importantly, the people of the world – member States, along with the private sector and other stakeholders – have to implement that paradigm by determinedly creating institutions and implementing strategies informed by that paradigm. These issues will be taken up for further discussion in the final chapter.

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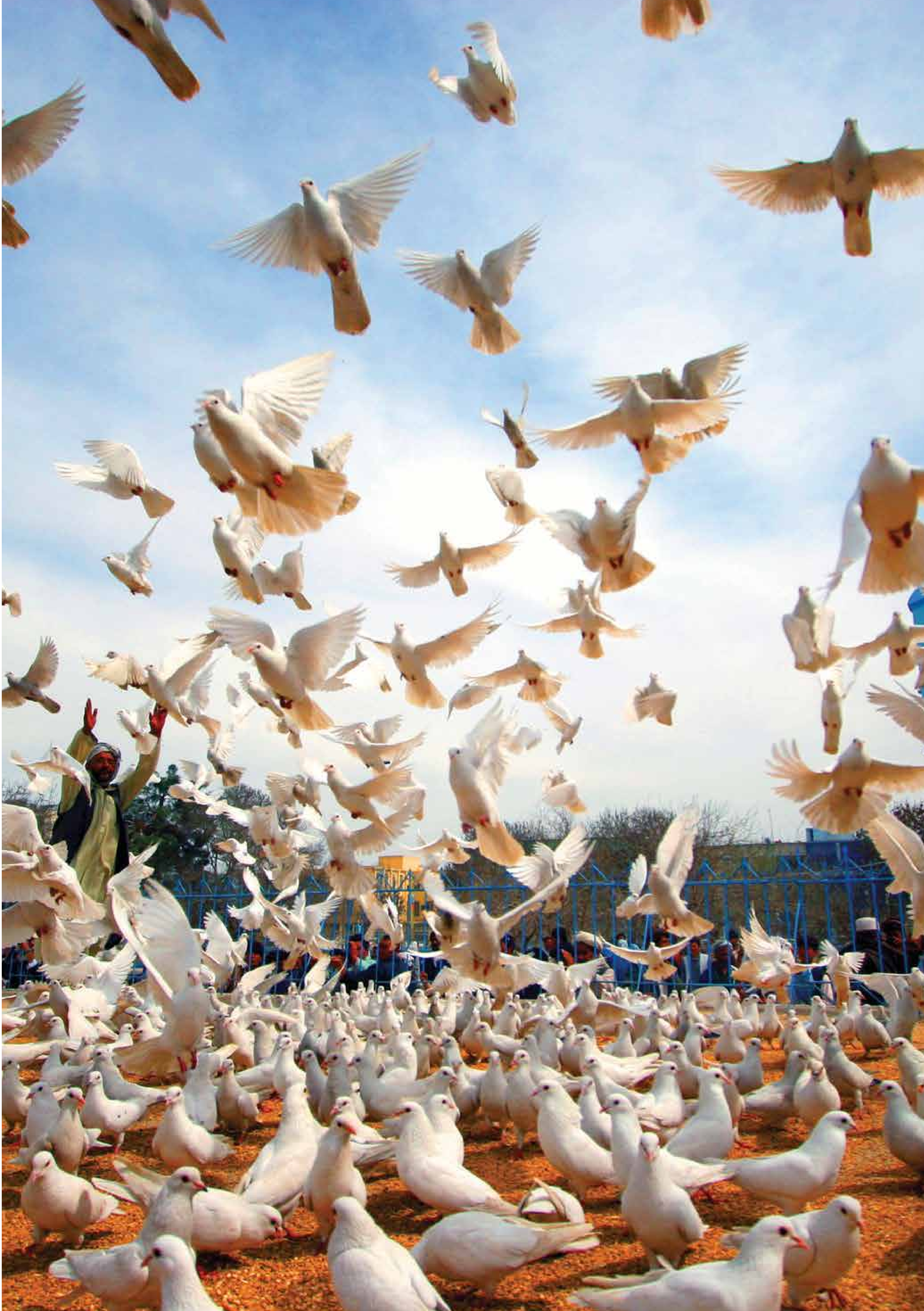
5 See also Chowdhury and Islam (2010) and IMF (2010).

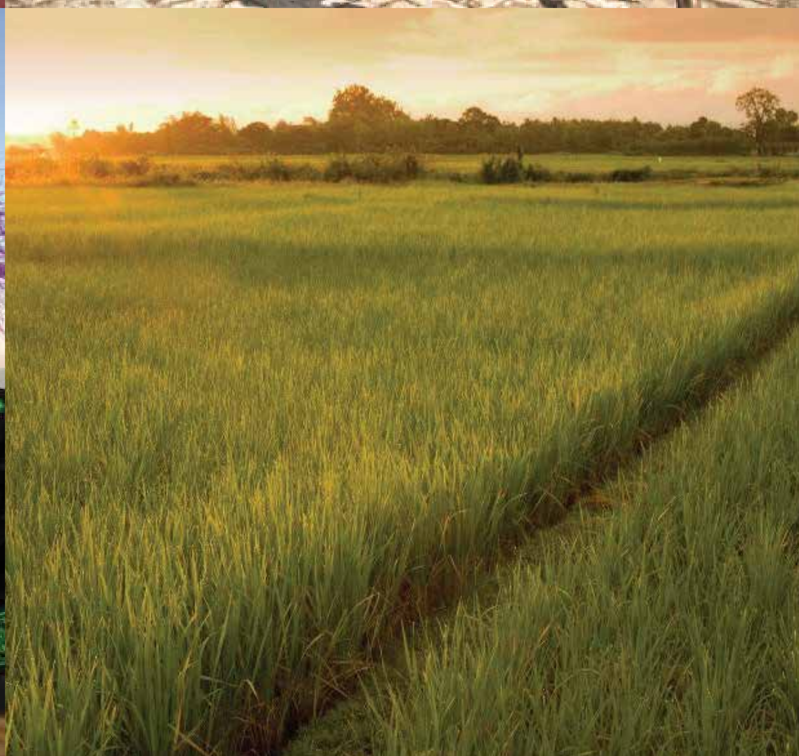
6 See Badgley and Perfecto (2007); Badgley and others (2007).

7 See Ching, Edwards and Scialabba (2011); Auerbach (2013).







Lessons learned: policymaking in context and learning from experience, domestic and regional

15

The rise of Asia from the ashes of colonialism and the assault of European powers and the enormous destructiveness of the Second World War and the subsequent civil wars compounded by external intervention represents perhaps the greatest change in the economic and political structure of the world since the advent of the industrial revolution in Western Europe and North America. It has been shown in this volume how the *Survey* has tracked that rise – with only a few gaps in time – almost every inch of the way. It has also recorded how the executive secretaries and the ECAFE/ESCAP secretariat, in collaboration with the larger world of academics and other professionals and civil society activists, have tried to facilitate that re-emergence with patient diplomacy, advice and responsiveness to the demands of member States which have themselves recognized the need for continual improvement in human development and access to all areas of human rights.

During this process of great transformation, the internal structures of all the Asia-Pacific economies have undergone very significant changes, as have their economic relations with one another and their relations with the natural environments. In this journey, except for the People's Republic of China, the Democratic Republic of Viet Nam and the former Soviet republics, all the other economies in Asia and the Pacific following the Second World War began as "mixed economies", with various degrees of admixture of the public sector and private property. Even Japan, which perhaps came closest to being a private enterprise economy, had a strong presence of the Government as the regulator of private enterprises.

There has been a major change in formal terms in this regard over the last three decades: all the economies of Asia and the Pacific can now be characterized as mixed economies, as the former Soviet republics, Cambodia, China, the Lao People's Democratic Republic and Viet Nam also use the market mechanism in one form or another. However, not all mixed economies have done equally well in advancing the economic and human development of their citizens. China; Hong Kong, China; Japan; the Republic of Korea; Singapore; and Taiwan Province of China have all managed to change their economic structure in such a way that the principal part of both their GDP and their national or regional employment originates in manufacturing and services but not in agriculture. In the process, all these economies have increased their per capita incomes several times over what they were in the 1950s. China; Hong Kong, China; Japan; the Republic of Korea; Singapore; and Taiwan Province of China are among the high- or middle-income economies of the world.

These high-performing economies share several characteristics. First, land is no longer controlled by big or small landlords or landlord clans in these economies. A number of issues of the *Survey* emphasized the importance of carrying out pro-peasant land reforms from the beginning down to very recent times. Some of the Asian economies have been also innovative in providing equitable access to land and housing. In Singapore, for instance, the Government controls the land for residential housing and appropriates the rent to be used for public purposes. While Japan, the Republic of Korea and Taiwan Province of China provided actual cultivators with access to land by giving them exclusive property rights, China and Viet Nam both retain ownership of the land but lease it out for agricultural, industrial or residential purposes. Chapter 7 traces the changes effected in China since the beginning of economic reforms in 1978. In Viet Nam, a series of laws, namely the family law of 1986, the land law of 1993 and the civil law of 1995, have brought about a situation in which households that have obtained the right of use of land can exchange, lease, mortgage or even sell that right under proper legal limits. Through these laws, there has also been an effort to promote gender justice by requiring that both husband and wife in a household have equal land use and "that all acts of trade related to land and housing should have the agreement of both husband and wife".[1]

Pro-peasant land reforms are not just a redistributive measure, but are combined with appropriate institutional support, such as cheap credit, easy access to markets for farm produce and inputs, such as water, seeds and fertilizers, as well as power; they can release the entrepreneurial energy of peasant households and cooperatives. They also abolish the non-market, coercive powers of landlords. Land reforms have not only generated higher rates of agricultural growth in East Asian economies but also, by getting rid of the unproductive expenditures of rentiers, they have been instrumental in raising rates of investment to unprecedented levels. In China and Viet Nam and other East Asian newly industrializing economies, rates of investment have often exceeded 35-40 per cent of their respective GDPs.

There have long been struggles for pro-peasant land reforms in all parts of East, South-East and South Asia. Chapter 11 furnishes a record of how the *Survey* and other associated documents of ECAFE/ESCAP have analysed both the actual outcomes of successful land reforms and the need for such reforms in other agrarian economies. However, in many countries, in the absence of thoroughgoing land reforms, other innovative measures have delivered advances in human development. In Bangladesh, for example, at a conference organized by the International Economic Association soon after independence, there were debates about the necessity of land reforms for effecting structural change.[2] No basic land reform measures were subsequently carried out. However, through innovative community health care and other initiatives of the Government and non-government organizations, the infant mortality rate and maternal mortality rate of Bangladesh have been brought down below those of India, a country with a higher per capita income, as highlighted in the various issues of the *Asia-Pacific Regional MDG Report* published jointly by ESCAP, ADB and UNDP. Indonesia, Malaysia and Thailand have been also able to use their resource bases to raise their indices of economic and human development.

Despite all these achievements, the problems related to landlord power constraining economic and human development have not vanished from all member States of ESCAP. Particularly problematic for the full delivery of human development and the full realization of human rights has been the emergence of what Yong (2005) has characterized as a "landlord-military complex", in the context of the north-western part of colonial South Asia, straddling both India and Pakistan. Such a complex has often led to serious violations of human and gender rights, such as the so-called "honour killing" of the bride and the groom when their family or clan members disapprove of the marriage.

The high-performing economies, led by the newly industrializing economies followed by China and Viet Nam, have been able to access FDI partly to augment their domestic resources but increasingly to use FDI as a vehicle for transferring new technology. Even under WTO restrictions and global capital mobility, those economies have managed to impose conditions on foreign capital that enable them to absorb the foreign technologies and go forward under their own steam. One factor which has enabled them to do all that is their control over foreign exchange resources. The drive for exports in these cases has been motivated by their determination to gain control of their balance of payments by generating a current account surplus on a sustainable basis. Details of such policies have been provided in chapters 4-7, and some lessons have been drawn in chapters 11 and 12.

[1] See UNCHS (1999, p.16); Menon and Rodgers, 2012; and also chapter VI, sect. C of the present volume.

[2] See Robinson and Griffin (1974).

Such export-led attainment of policy autonomy is not possible for small Pacific island States and landlocked developing countries. Since most of these countries are also in areas which are especially vulnerable to the effects of climate change and at the same time repositories of biodiversity and species threatened with extinction (as discussed in chapters 9, 10 and 14), the global community in general and the more favourably situated Asia-Pacific economies in particular have to provide them with umbrellas of protection and with additional resources which those vulnerable countries could use under federal and democratic principles. Fortunately, in the history of the various bodies spanning different countries, a vibrant tradition of cooperation across ideological divides has grown up (see chapter 13 in particular).

One of the salient lessons to be derived from the monitoring of Asia and the Pacific by ECAFE/ESCAP is that policymaking is always contextual and is bound to vary with time and place. However, such contextual policymaking seems to yield best results when it is informed by a long-term vision. Throughout the history of Asia and the Pacific there are both examples of signal success in cases of contextual policymaking informed by a long-range vision and failures when policymaking is just an ad hoc affair and takes the path of least resistance without a clear vision of where the economy is headed.

For example, economists have refused to examine the macro social and political factors leading to the current state of inequality in the world, including in the Asia-Pacific region. As documented in *Survey* 2010, *Survey* 2013 and *Survey* 2014, in many ESCAP member States, inequality of incomes has become worse since the 1990s. In fact, in many Asia-Pacific countries the usual measures understate the degree of inequality. Furthermore, wealth inequality in every country is far greater than income inequality. According to *Survey* 2014, the net wealth of only about 49,000 ultra-wealthy individuals – having assets worth at least $30 million each – in the region of over 4.3 billion people, is 17 times more than the combined GDP of the Asia-Pacific least developed countries. It was also highlighted in *Survey* 2013 that inequality has increased not only vertically – in terms of income and social classes – but also horizontally – as between agricultural and non-agricultural sectors and between urban and rural areas.

In the post-crisis global and regional economic environment, *Survey* 2013 and *Survey* 2014 contained a list of major structural impediments to the continued progress of developing Asia-Pacific economies; in one form or another, growing inequality turns out to be the largest impediment. As was noted in these issues of the *Survey*, indicators of both economic and social development show a negative relationship with the rise in inequality. Lack of tax progressivity hampers public expenditures, raises the degree of inequality and again has negative impacts on all indicators of human development. Low tax revenues resulting from basically regressive tax systems constrain the development of infrastructure in many countries and impede the access of vulnerable groups to essential services, such as clean drinking water, public schools and colleges, health centres and markets. As revealed in *Survey* 2014, increases in inequality have been associated with the rise in household debts. It has also been alerted in *Survey* 2014 that debt-finance consumption and luxury imports by the well-off may tighten the foreign exchange constraint on growth and skew the pattern of investment in the wrong direction. Increases in inequality have also led to the more intensive use of non-renewable resources and energy since these items were added to the typical consumption baskets of the rich. Resources used to produce such items are far more intensive in terms of non-renewable resources than the consumption baskets of the poor, especially in poor economies.

ESCAP had repeatedly stressed the importance of striving to lessen the inequality between and within economies. The call by the General Assembly for a New International Economic Order (1974) was only a response to what Asian, African and Latin American nations had been struggling for ever since the end of the Second World War. In formulating policies to address rising inequality, it is necessary to distinguish between factors which are specific to countries that have yet to be industrialized and factors peculiar to economies in transition, of which China is a very special case, as well as factors specific to developed industrialized countries.

Curiously enough, market-oriented reforms combined with WTO provisions have led to universal distress for poor farmers and residents in rural areas. The poor and vulnerable groups who are far more exposed to natural disasters than before are less able to be resilient in the face of such disasters because of the deprivations listed previously. It is no consolation that similar phenomena are observed throughout the world.

It was mentioned in *Survey* 2013 that inequality (measured by Gini coefficient) is negatively correlated with both tax-GDP and public social security expenditure-GDP ratios.[3] It was also reported that the tax-GDP ratio in the Asia-Pacific region is the lowest among the developing regions even though the region has been the fastest growing in the world. Therefore, the way forward would be to widen the tax net and increase the progressivity of the tax structure and use the proceeds to fund public expenditures on social services and green technology to boost both effective demand and protect the environment from unthinking assaults on it.[4] Such a course of action would also enable measures such as a minimum wage for all workers and unemployment insurance for the involuntarily employed. Thus, the special focus of *Survey* 2014 is on various options to raise progressivity of tax as well as tax revenues.

In the *Survey* issues of the 1990s, value added taxes have sometimes been welcomed in the name of efficiency, entirely neglecting the equity angle, and often without realizing that lowering taxes on the rich in low-investment economies spurs the consumption of luxury goods, much of which has a high import content. However, the need to have compensatory measures to offset regressive nature of indirect taxes, including value-added tax has been highlighted in *Survey* 2014. The justifications for various tax concessions, especially to foreign investors, have also been questioned in *Survey* 2014, showing that they cost more to the national exchequer than they bring benefits to the economy. In that context, according to *Survey* 2014, a fresh look at Nicholas Kaldor's proposals for an interlocking system of taxes in a developing country should be of interest again. Incidentally, Nicholas Kaldor, a Cambridge economist, had worked during 1947-1949 as the first Director of the Research and Planning Division of the Economic Commission for Europe, when Gunnar Myrdal was its Executive Secretary.

These tax proposals will reinforce the message of *Survey* 2013 that Governments can spend more on social sectors and promote more inclusive growth. One of the under-researched areas is how to promote more investment, and of the right kind in all developing economies. The stress is still on saving as if it is a world of Say's Law[5] where the increased supply of savings is assumed to lead to increased investment and hence higher growth. As argued in the *Survey* 2013 and *Survey* 2014, enhanced government revenues can support public investment led inclusive and sustainable development.

The *Survey* and ES's policy statements reminded the readers and listeners that the Commission was committed to purse the goals of the United Nations declaration that rights must be

3 This finding corroborates with the finding of Atkinson, Piketty and Saez (2011) who showed that the drivers of inequality have been capital gains, unbounded personal salaries and bonuses of top executives of corporations, a drastic lowering of taxes on the rich and a severe cutback of public expenditures on education, health care and social security, all of which benefit the poor. The slogan of austerity, which defies all canons of macroeconomics, has been further used to cut back the incomes of the poor and not-so-poor and has exacerbated the global recession through effective demand failures.

4 Piketty, Saez and Stantcheva (2011) have argued that the optimum rate of taxation on top personal incomes would be 80 per cent.

5 French economist Jean-Baptiste Say is most commonly identified with Say's Law, which states that supply creates its own demand. Say's Law was severely criticized by John Maynard Keynes.

universalized. That means striving to carry out a hugely encompassing organizational, technological and political agenda.

The ECAFE/ESCAP was faithfully carrying out its advisory and advocacy role in practically all these fields. Its work in the field of collecting, filtering and arranging the Asia-Pacific economic statistics was of a pioneering nature. This volume has shown how the Commission sought to advance the cause of social development and regretted its sluggishness among many member nations, and showed how social development had also led to the economic advance of such members as Republic of Korea and Singapore, or a constituent such as Taiwan Province of China, or more recently, People's Republic of China. With the intellectual and political capital at its disposal, the Commission can play a leadership role in further pushing forward the majority of mankind to a better destiny.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Annex

Annex I Executive Secretaries and Deputy Executive Secretaries of ECAFE/ESCAP

Annex II.a Organizational chart of ECAFE/ESCAP division responsible for producing the *Survey*

Annex II.b Director/Chiefs/Officers-in-Charge of ECAFE/ESCAP Division responsible for producing the *Survey*

Annex III.a List of major aspects or problems of economics examined in the *Survey*

Annex III.b List of the Theme Study topics

Annex I

Executive Secretaries of the Economic Commission for Asia and the Far East (ECAFE), and the Economic and Social Commission for Asia and the Pacific (ESCAP)

Ms. Shamshad Akhtar (Pakistan)
Term in office: 2014-present

Ms. Noeleen Heyzer (Singapore)
Term in office: 2008-2013

Mr. Kim Hak-Su (Republic of Korea)
Term in office: 2000-2007

Mr. Adrianus Mooy (Indonesia)
Term in office: 1995-2000

Mr. Rafeeuddin Ahmed (Pakistan)
Term in office: 1992-1994

Mr. S.A.M.S. Kibria (Bangladesh)
Term in office: 1981-1992

Mr. J.B.P. Maramis (Indonesia)
Term in office: 1973-1981

U Nyun (Burma)
Term in office: 1959-1973

Mr. Chakravarthi V. Narasimhan (India)
Term in office: 1956-1959

Mr. P. S. Lokanathan (India)
Term in office: 1947-1956

Deputy Executive Secretaries of the Economic Commission for Asia and the Far East (ECAFE), and the Economic and Social Commission for Asia and the Pacific (ESCAP)

Mr. Shunichi Murata (Japan)
Term in office: 2011-present

Mr. Nagesh Kumar (India)
Term in office: 2010

Mr. Shigeru Mochida (Japan)
Term in office: 2005-2010

Ms. Keiko Okaido (Japan)
Term in office: 2002-2005

Ms. Kayoko Mizuta (Japan)
Term in office: 1998-2000

Ms. Seiko Takahashi (Japan)
Term in office: 1991-1995

Mr. Nagai Shigenobu (Japan)
Term in office: 1990-1991

Mr. Koji Nakagaha (Japan)
Term in office: 1982-1990

Mr. Princy H. Siriwardene (Sri Lanka)
Term in office: 1974-1982

Mr. A. Rashid Ibrahim (Pakistan)
Term in office: 1959-1961

U Nyun (Burma)
Term in office: 1958-1959

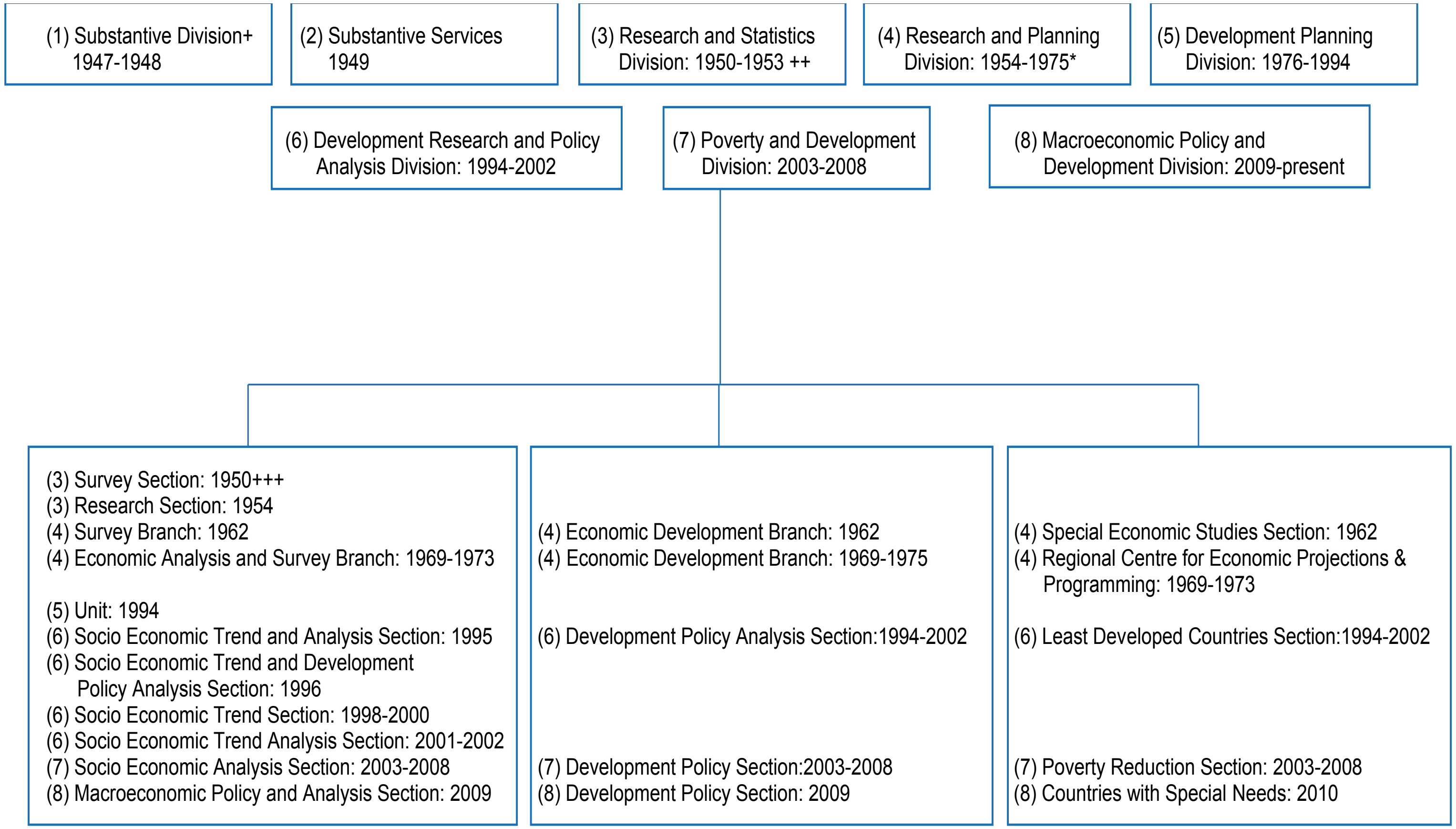
Mr. M.A. Dollinger (France)
Term in office: 1955-1958

Mr. C. Hart Schaaf (United States)
Term in office: 1949-1955

Mr. Emerson Ross (United States)
Term in office: 1947-1949

Annex II.a

Organizational chart of ECAFE/ESCAP division responsible for producing the *Survey* since 1947



Source: Information obtained from the United Nations secretariat records.

Notes: (1)…(8) denote the name of the Division and the corresponding Sections, Branches and Units from 1947 to 2013.

+ Provided the Commission and any committees which may be set up with factual information and analyses of the economic situation in Asia and the Far East and to assist the Commission in the study of specific problems.

++ Carried on periodical research and analysis of economic development and problems of the ECAFE region. Compilation and tabulation of statistical data on the countries of the region. Furnished the other divisions with current factual information required for the carrying out of their work programmes. Provided assistance to governments upon request. There was a Statistical Section in the Research and Statistics Division.

+++ Prepared the annual *Economic Survey of Asia and the Far East and the Quarterly Economic Bulletin* containing a quarterly review of regional economy.

*1962, two other branches were Statistical Compilation and Analysis Section, and Statistics Development.

Annex II.b

Director/Chiefs/Officers-in-Charge of ECAFE/ESCAP Division responsible for producing the *Survey*

Year	Division	Director/Chief/Office-in-Charge	Nationality
1947-1948	Substantive Division	Mr. Hsien Ding FONG	China
1949	Substantive Services	Mr. Hsien Ding FONG	China
1950-1953	Research and Statistics Division	Mr. Hsien Ding FONG	China
1954-1975	Research and Planning Division	Mr. Hsien Ding FONG (1954, 1959 -1963) Mr. John H.G. PIERSON (1955-1958) Mr. H. KITAMURA (1963-1969) Mr. V.M. BHATT (1970-1971) Mr. Girgis Abdou MARZOUK (1972-1973) Mr Ryokichi HIRONO (1973-1975)	China United States Japan India Egypt Japan
1976-1994	Development Planning Division	Mr. Ryokichi HIRONO (1976) Mr. Tsuneo NAKAUCHI (1977-1978) Mr. Ian A MCDOUGALL (1979-1981) Mr. Edward VAN ROY (1982-1983) Mr. Geedreck USWATTE-ARATCHI (1984-1986) Mr. Syed M. NASEEM (Jan. 1987-Sep. 1992) Mr. Azizul A.B.M.M.A. ISLAM (Jan. 1993-1994)	Japan Japan New Zealand United States Sri Lanka Pakistan Bangladesh
1995-2002	Development Research and Policy Analysis Division	Mr. Azizul A.B.M.M.A. ISLAM (1995-Apr. 2001) Mr. Raj KUMAR (Apr. 2001-2002)	Bangladesh Malaysia
2003-2008	Poverty and Development Division	Mr. Raj KUMAR (2003-Jun. 2005) Mr. Ravindra RATNAYAKE (July 2005-June 2008)	Malaysia New Zealand
2009 - present	Macroeconomic Policy and Development Division	Mr. Shigeru MOCHIDA (2009) Mr. Nagesh KUMAR (May 2009-Oct. 2011) Mr. Aynul HASAN (Nov. 2011-Jun. 2012) Mr. Anisuzzaman CHOWDHURY (Jul. 2012- present)	Japan India Canada Bangladesh

Source: Information obtained from the United Nations secretariat records.

Annex III.a

List of major aspects or problems of economies examined in the *Survey*

Survey has, in addition to a review of the current situation of the region, contained a study or studies of some major aspect or problem of the economies of the Asian and Pacific region, as specified below:

Year	Key issues
1947	Population; land utilization; major economic sectors
1948	Population; lalient changes since the war; major economic sectors
1949	Factors and problems underlying post-war economic development
1950	Land reforms; financing of economic development
1951	International trade and payments; financial resources for development
1952	Production; monetary and fiscal developments
1953	The regional situation; public finance; policies for development
1954	Industrial production and transport; Progress of development programmes
1955	Post-war economic progress; development planning and implementation
1956	Salient features of economic development plans; country surveys
1957	Post-war problems of economic development
1958	Review of post-war industrialization
1959	Foreign trade of ECAFE primary exporting countries
1960	Public finance in the post-war period 1961: economic growth of ECAFE countries
1962	Asia's trade with Western Europe
1963	Imports substitution and export diversification
1964	Economic development and the role of the agricultural sector
1965	Economic development and human resources
1966	Aspects of the finance of development
1967	Policies and planning for export
1968	Economic problems of export-dependent countries; implications of economic controls and liberalization
1969	Strategies for agricultural development; intraregional trade as a growth strategy
1970	The role of foreign private investment in economic development and cooperation in the ECAFE region;problems and prospects of the ECAFE region in the Second Development Decade
1971	Economic growth and social justice; economic growth and employment; economic growth and income distribution
1972	First biennial review of social and economic developments in ECAFE developing countries during the Second United Nations Development Decade
1973	Education and employment
1974	Mid-term review and appraisal of the International Development Strategy for the Second United Nations Development Decade in the ESCAP region, 1974
1975	Rural development, the small farmer and institutional reform
1976	Biennial review and appraisal of the International Development Strategy at the regional level for the Second United Nations Development Decade in the ESCAP region
1977	The international economic crises and developing Asia and the Pacific
1978	Biennial review and appraisal at the regional level of the International Development Strategy for the Second United Nations Development Decade
1979	Regional development strategy for the 1980s
1980	Short-term economic policy aspects of the energy situation in the ESCAP region

Year	Key issues
1981	Recent economic developments in major subregions of the ESCAP region
1982	Fiscal policy for development in the ESCAP region
1983	Implementing the International Development Strategy: major issues facing the developing ESCAP region
1984	Financing development
1985	Trade, trade policies and development
1986	Human resources development in Asia and the Pacific: problems, policies and perspectives
1987	International trade in primary commodities
1988	Recent economic and social developments
1989	Patterns of economic growth and structural transformation in the least developed and Pacific island countries of the ESCAP region: implications for development policy and planning for the 1990s
1990	Infrastructure development in the developing ESCAP region: needs, issues and policy options
1991	Challenges of macroeconomic management in the developing ESCAP region
1992	Expansion of investment and intraregional trade as a vehicle for enhancing regional economic cooperation and development in Asia and the Pacific 1993: Fiscal reform; economic transformation and social development; populationdynamics: implications for development
1995	Reform and liberalization of the financial sector; social security
1996	Enhancing the role of the private sector in development; the role of public expenditure in the provision of social services
1997	External financial and investment flows; transport and communications
1998	Managing the external sector; growth and equity
1999	Social impact of the economic crisis; information technology, globalization, economic security and development
2000	Social security and safety nets; economic and financial monitoring and surveillance
2001	Socio-economic implications of demographic dynamics; financing for development
2002	The feasibility of achieving the Millennium Development Goals in Asia and the Pacific; regional development cooperation in Asia and the Pacific
2003	The role of public expenditure in the provision of education and health; environment-poverty nexus revisited: linkages and policy options
2004	Poverty reduction strategies: tackling the multidimensional nature of poverty
2005	Dynamics of population ageing: how can Asia and the Pacific respond?
2006	Emerging unemployment issues in Asia and the Pacific: rising to the challenges
2007	Gender inequality continues – at great cost
2008	Unequal benefits of growth – agriculture left behind
2009	Triple threats to development: food, fuel and climate change policy challenges
2010	Multiple imbalances and development gaps as new engines of growth; a regional policy agenda for regaining the dynamism
2011	Regional connectivity and economic integration; building the productive capacity of the least developed countries
2012	Pursuing shared prosperity in an era of turbulence;living with high commodity prices
2013	Forward-looking macroeconomic policies for inclusive and sustainable Development. Investing in inclusive and sustainable development.
2014	Domestic resource mobilization: options for expanding fiscal space.

Annex III.b

List of the Theme Study topics

Commission session	Year	Theme topics
40	1984	Technology for development
41	1985	Technology for development
42	1986	Human resources development
43	1987	Human resources development
44	1988	Human resources development
45	1989	Restructuring the developing ESCAP economies in the 1990s
46	1990	Restructuring the developing ESCAP economies in the 1990s
47	1991	Industrial restructuring in Asia and the Pacific, in particular with a view to strengthening regional cooperation
48	1992	Regional economic cooperation in the ESCAP region: prospects, priorities and policy options
49	1993	Expansion of investment and intraregional trade as a vehicle for enhancing regional economic cooperation and development
50	1994	Infrastructure development as key to economic growth and regional economic cooperation
51	1995	Strengthening of regional cooperation in human resources development with special reference to the social implications of sustainable economic growth in Asia and the Pacific
52	1996	Sustainable development and poverty alleviation in Asia and the Pacific
53	1997	Asia and the Pacific into the twenty-first century: opportunities and challenges for ESCAP
54	1998	Asia and the Pacific into the twenty-first century: status of and prospects for social development
55	1999	Asia and the Pacific into the twenty-first century: information technology, globalization, economic security and development
56	2000	Development through globalization and partnership in the twenty-first century: an Asia-Pacific perspective for integrating developing countries and economies in transition into the international trading system on a fair and equitable basis
57	2001	Balanced development of urban and rural areas and regions within the countries of Asia and the Pacific
58	2002	Sustainable social development in a period of rapid globalization: challenges, opportunities and policy options
59	2003	Integrating economic and social concerns, especially HIV/AIDS, in meeting the needs of the region
60	2004	Meeting the challenges in an era of globalization by strengthening regional development cooperation
61	2005	Implementing the Monterrey Consensus in the Asian and Pacific region: achieving coherence and consistency
62	2006	Enhancing regional cooperation in infrastructure development, including that related to disaster management
63	2007	Development of health systems in the context of enhancing economic growth towards achieving the Millennium Development Goals in Asia and the Pacific
64	2008	Energy security and sustainable development in Asia and the Pacific

Commission session	Year	Theme topics
65	2009	Towards sustainable agriculture and food security in the Asia-Pacific region
66	2010	Addressing challenges in the achievement of the Millennium Development Goals: promoting a stable and supportive financial system; and green growth or environmentally sustainable economic growth, including through technology and financing
67	2011	Beyond the crises: long-term perspectives on social protection and development in Asia and the Pacific
68	2012	Enhancing regional economic integration in Asia and the Pacific
69	2013	Opportunities to build resilience to natural disasters and major economic crises
70	2014	Regional connectivity for shared prosperity

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