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Global Economic Trends and Social Development

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Acronyms

ASEAN	Association of South-East Asian Nations
CIS	Commonwealth of Independent States
EAP	economically active population
EU	European Union
FDI	foreign direct investment
G-7	Group of Seven
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
ICT	information and communication technology
ILO	International Labour Organization
IMF	International Monetary Fund
MFA	Multi Fibre Agreement
NAIRU	non-accelerating inflation rate of unemployment
NIC	newly industrialized country
OECD	Organisation for Economic Co-operation and Development
POC	Province of China
PPP	purchasing power parity
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
US	United States
USSR	Union of Soviet Socialist Republics
WIDER	World Institute for Development Economics Research
WTO	World Trade Organization

Summary/Résumé/Resumen

Summary

This paper reviews the policy debate on development issues and examines the economic prospects for developing countries at the beginning of the twenty-first century. It is specifically concerned with the question of whether developing countries will be able to meet the employment and poverty reduction goals set by the World Summit for Social Development, held in Copenhagen in 1995. What policies at the national and international level will be most helpful in this respect?

The introductory part of the paper notes that the Social Summit coincided with one of the worst financial crises up to that time in developing economies—Mexico's "Tequila Crisis" in 1994 and 1995. It is suggested that, notwithstanding that crisis, the immediate economic prospects for developing countries in 1995 appeared much brighter than they do today in the wake of recent economic and financial crises in Asia, Latin America and Russia. The paper notes that, in contrast to the uneven economic performance of the economies of developing countries in the period since the Social Summit, the policy debate has in many ways taken a definite step forward.

The main part of the paper provides a systematic investigation of the factors that determine whether or not developing countries will be able to eradicate poverty and achieve full employment with rising productivity and real wages. The paper looks specifically at the following aspects. First, it considers the economic record of developing countries and policy issues raised by this analysis. Second, it examines the complex interrelationships between economic growth, unemployment, poverty reduction and income inequality, both conceptually and empirically. This analysis gives attention to the notion of full employment, the relationship between technical change and unemployment, the economic significance of the information and communications technology revolution, and labour market theories of unemployment and inflation. Third, the paper looks at the changed historical conjuncture for economic development and for the development policy debate. The following themes and related analytical and policy questions are emphasized:

- *Liberalization and globalization*—Contrary to theoretical expectations, why has the actual experience of many developing countries with liberalization and globalization been negative rather than positive, i.e. why has it often resulted in crises rather than faster growth? Also, are these failures simply a matter of incorrect policies, or are there more fundamental flaws from the perspective of developing countries, with respect to the institutional arrangements of the world economy under liberalization and globalization?
- *Washington Consensus*—Has the Washington Consensus failed? What lessons should be learned from the implementation of that policy programme?
- *Asian financial and economic crisis*—A very important and influential thesis concerning the Asian crisis suggests that the failure of Asian

countries during 1997-1999 can be ascribed mainly to the *dirigiste* and corporatist model of capitalism that many of these countries were following. The paper examines this thesis critically.

A central policy implication of these analyses is that developing countries need to attain a trend increase in their growth rates, possibly to their pre-1980 long-term rates of about 6 per cent per year. This would enable them to achieve and maintain meaningful "full employment" in the spirit of the Social Summit, with rising real wages and increasing standards of living. Although faster growth will help to reduce poverty, the latter is affected by other important variables as well—notably inflation, inequality of income and asset distribution, instability of economic growth and government fiscal policies. Women, in particular, are adversely affected by macro-economic instability. In the absence of adequate social security systems, the burden of women's paid as well as unpaid work increases during economic downturns. What is required, therefore, to meet the employment and poverty reduction goals of the Social Summit is not only fast growth, but also better quality growth.

The last part of the paper highlights the shortcomings of the present institutional arrangement of liberalization and globalization. It indicates why and how these arrangements make it difficult for developing countries to achieve high rates of economic growth. Indeed, it is suggested that this regime is sub-optimal for both developing and developed countries.

It is argued that, today, the main constraints on faster long-term economic growth in both developing and developed countries do not lie on the supply side but on the demand side. In principle, the world has the technological and intellectual capacity, as well as the human and material resources, to achieve the fast growth required to fulfil the aims of the Social Summit. The paper suggests that such growth will, however, only be realized in practice if the alternative strategy outlined is adopted. This involves the pursuit of faster growth of real world demand through co-ordinated expansion by industrialized countries and the introduction of special and differential treatment for developing countries in a number of key spheres.

In brief, an essential argument of this paper is that, instead of the present organization of the world economy, a global Keynesian regime of managed world trade and controlled global capital movements is more likely to benefit both developed and developing countries. Together with genuine international co-operation as well as more harmonious relations between employers, employees and governments nationally, this would deliver both fast growth and high quality growth. Such growth would help bring full employment and rising wages in both groups of countries. In analytical terms, the paper stresses the significance of co-ordination failures on the demand side as the main obstacles to economic progress, rather than supply-side deficiencies. In order for the rate of growth of real world demand to be compatible with production possibilities on the supply side, new institutions are required to resolve the co-ordination problems on a sustained, long-term basis.

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Résumé

Ce document, qui fait le point sur le débat politique relatif aux questions du développement, examine aussi les perspectives économiques des pays en développement au début du XXIème siècle. L'auteur se pose plus précisément la question de savoir si les pays en développement seront en mesure d'atteindre les objectifs d'emploi et de réduction de la pauvreté que le Sommet mondial pour le développement social a fixés à Copenhague en 1995. Quelles politiques seront le plus efficaces à cet égard aux niveaux national et international?

L'auteur constate dans l'introduction que le Sommet social a coïncidé avec l'une des pires crises financières que les économies en développement aient connues jusque-là—la "crise de la tequila" mexicaine en 1994 et 1995. Malgré cette crise, les perspectives économiques immédiates des pays en développement en 1995 semblaient, selon lui, bien meilleures qu'elles ne le sont aujourd'hui, après les crises économiques et financières qui ont ébranlé récemment l'Amérique latine, l'Asie et la Russie. L'auteur note que, contrairement aux résultats inégaux obtenus par les économies des pays en développement dans la période qui a suivi le Sommet social, le débat sur les politiques a, à bien des égards, résolument avancé.

L'essentiel du document fournit une investigation systématique des facteurs qui feront que les pays en développement seront ou non capables d'éradiquer la pauvreté et d'atteindre le plein emploi avec une productivité et des salaires réels en hausse. Il s'intéresse plus précisément aux aspects suivants. Premièrement, il examine les statistiques économiques des pays en développement et les questions de politique que soulève cette analyse. Deuxièmement, il étudie les rapports complexes existant entre la croissance économique, le chômage, la réduction de la pauvreté et les inégalités de revenus sous un angle à la fois conceptuel et empirique. L'auteur analyse ainsi la notion de plein emploi; le rapport entre l'évolution des techniques et le chômage; l'importance économique de la révolution technologique qui s'est produite dans les domaines de l'information et de la communication et les théories du marché du travail sur le chômage et l'inflation. Troisièmement, l'auteur se penche sur le changement de la conjoncture historique et les conséquences à en tirer pour le développement économique et dans le débat sur les politiques de développement. Il s'attarde sur des thèmes qui l'amènent à traiter de diverses questions d'analyse et de politique:

- *Libéralisation et mondialisation*—pourquoi, contrairement aux prévisions théoriques, de nombreux pays en développement ont-ils vécu la libéralisation et la mondialisation de manière plutôt négative? Pourquoi, par exemple, celles-ci ont-elles plus souvent entraîné des crises qu'une accélération de la croissance? Ces échecs sont-ils simplement le fait de politiques mal adaptées ou serait-ce plutôt que les mécanismes institutionnels de l'économie mondiale à l'heure de la libéralisation et de la mondialisation présentent, du point de vue des pays en développement, des vices plus profonds?
- *Le consensus de Washington*—le consensus de Washington a-t-il échoué? Quelles leçons faudrait-il tirer de l'application de ce programme politique?

- *La crise financière et économique en Asie*—selon une thèse très importante et influente sur la crise asiatique, l'échec des pays asiatiques pendant la période 1997-1999 est à imputer essentiellement au modèle *dirigiste* et corporatiste du capitalisme que suivaient beaucoup de ces pays. L'auteur procède à la critique de cette thèse.

Il ressort de ces analyses que les pays en développement ont besoin de taux de croissance tendanciels plus élevés, si possible d'environ 6 pour cent, ce qui correspondrait à leurs taux à long terme d'avant 1980. Ils pourraient ainsi parvenir et se maintenir au "plein emploi" productif au sens où l'entendait le Sommet social, c'est-à-dire accompagné de salaires réels et de niveaux de vie en hausse. Une croissance plus rapide contribuerait à réduire la pauvreté mais celle-ci est aussi la résultante d'autres variables importantes, notamment l'inflation, l'inégalité des revenus et de la répartition des avoirs, l'instabilité de la croissance économique et les politiques budgétaires gouvernementales. Les femmes, en particulier, subissent le contre-coup de l'instabilité macro-économique. Faute de systèmes de sécurité sociale suffisants, la charge de travail des femmes—travail rémunéré et non rémunéré confondu—augmente dans les périodes de récession économique. Pour atteindre les objectifs d'emploi et de réduction de la pauvreté fixés par le Sommet social, il faut donc non seulement une croissance rapide mais aussi une croissance de meilleure qualité.

La dernière partie du document met en lumière les carences des mécanismes institutionnels actuels de la libéralisation et de la mondialisation. Elle indique pourquoi et en quoi ces mécanismes empêchent les pays en développement d'atteindre des taux élevés de croissance économique, suggérant qu'en fait le régime actuel laisse à désirer aussi bien pour les pays en développement que pour les pays développés.

L'auteur explique que les principaux obstacles à une croissance économique plus rapide à long terme, dans les pays en développement comme dans les pays développés, se situent du côté non pas de l'offre mais de la demande. Le monde a, en principe, les capacités technologiques et intellectuelles et les ressources humaines et matérielles qu'il faut pour parvenir à la croissance rapide nécessaire à la réalisation des objectifs du Sommet social. Il estime que cette croissance ne deviendra réalité qu'avec l'adoption de la stratégie de substitution qu'il esquisse dans le document. Cette stratégie consiste à chercher à accélérer la croissance de la demande mondiale réelle par une expansion concertée de la part des pays industrialisés et l'introduction d'un régime spécial et différencié pour les pays en développement dans un certain nombre de domaines clés.

Pour résumer un argument essentiel de cette étude, disons qu'un régime keynesien mondial, dans lequel le commerce mondial serait géré et les mouvements mondiaux de capitaux maîtrisés, allié à une coopération internationale véritable et à des relations plus harmonieuses entre employeurs, employés et gouvernement au niveau national, a plus de chances de déboucher sur une croissance à la fois rapide et de qualité. Cela contribuerait au plein emploi et à la hausse des salaires dans les pays développés comme dans les pays en développement. Dans son analyse, l'auteur souligne l'importance des défauts de coordination du côté de la demande qui sont pour lui, plus que les carences de l'offre, les principaux obstacles au progrès économique. Pour que le taux de croissance de la demande mondiale réelle soit compatible avec les possibilités de production du côté de l'offre, il faut de nouvelles institutions qui s'attachent constamment à résoudre les problèmes de coordination à long terme.

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Resumen

En el presente documento se estudia el debate sobre políticas en materia de desarrollo y se analizan las perspectivas económicas de los países en desarrollo a principios del siglo XXI. Se aborda en particular la cuestión de si estos países serán capaces de lograr los objetivos en materia de empleo y de reducción de la pobreza establecidos por la Cumbre Mundial sobre Desarrollo Social, celebrada en Copenhague en 1995. ¿Cuáles son las políticas más convenientes que deberían emprenderse al respecto a nivel nacional e internacional?

En la parte introductoria del documento se señala que la celebración de la Cumbre Social coincidió con una de las crisis financieras más graves a las que las economías en desarrollo se habían enfrentado hasta entonces—la "Crisis del Tequila" de México de 1994 y 1995. Se indica que, a pesar de dicha crisis, las perspectivas económicas inmediatas de los países en desarrollo en 1995 parecían mucho más brillantes que en la actualidad, tras las crisis económicas y financieras de Asia, Latinoamérica y Rusia. Se observa que, a diferencia de los irregulares resultados económicos obtenidos por las economías de los países en desarrollo desde la celebración de la Cumbre Social, el debate sobre políticas ha avanzado en muchos aspectos de un modo definitivo.

En la parte central del documento se ofrece un estudio sistemático de los factores que determinan si los países en desarrollo serán o no capaces de erradicar la pobreza y lograr el pleno empleo, aumentando la productividad y los salarios reales. En particular, se analizan los siguientes aspectos. En primer lugar, se consideran los antecedentes económicos de los países en desarrollo y las cuestiones políticas destacadas en este análisis. A continuación se facilita un estudio, tanto conceptual como empírico, de las complejas interrelaciones existentes entre el crecimiento económico, el desempleo, la reducción de la pobreza y la desigualdad de salarios. Se centra fundamentalmente en la noción de pleno empleo; la relación entre el cambio técnico y el desempleo; la importancia económica de la revolución tecnológica en el ámbito de la información y las comunicaciones; y las teorías del mercado de trabajo sobre el empleo y la inflación. En tercer lugar, se analiza la evolución de la coyuntura histórica en lo que concierne al desarrollo económico y al debate sobre políticas en materia de desarrollo. Se destacan los siguientes aspectos y las cuestiones analíticas y políticas relacionadas:

- *Liberalización y mundialización*—Contrariamente a las expectativas teóricas, ¿por qué la experiencia concreta de muchos países en lo que concierne a la liberalización y la mundialización ha sido más bien negativa que positiva? Es decir, ¿por qué ha terminado a

menudo en una crisis, en lugar de en un crecimiento más rápido? Asimismo, ¿estos fracasos son simplemente debidos a políticas incorrectas, o hay otros defectos más importantes desde la perspectiva de los países en desarrollo en lo que respecta a los acuerdos institucionales de la economía mundial en el marco de la liberalización y la mundialización?

- *Consenso de Washington*—¿Ha fracasado el Consenso de Washington? ¿Qué conclusiones deberían extraerse de la aplicación de dicho programa de políticas?
- *Crisis económica y financiera de Asia*—Una tesis de gran importancia y trascendencia sobre la crisis de Asia señala que el fracaso de los países asiáticos en 1997-1999 puede atribuirse fundamentalmente al sistema *intervencionista* y corporativista establecido en muchos de estos países. En el documento se realiza un estudio crítico de esta tesis.

En estos análisis se llega a la importante conclusión política de que los países en desarrollo necesitan lograr un aumento coyuntural de sus índices de crecimiento, si es posible hasta alcanzar sus índices a largo plazo anteriores a 1980 de aproximadamente 6 por ciento al año. Esto les permitiría lograr y mantener un "pleno empleo" significativo, en el espíritu de la Cumbre Social, aumentando los salarios reales y el nivel de vida. Si bien un crecimiento más rápido contribuirá a reducir la pobreza, esta se ve afectada asimismo por otros factores importantes—concretamente la inflación, la desigualdad de salarios y de distribución de bienes, la inestabilidad del crecimiento económico y de las políticas fiscales gubernamentales. En particular, la inestabilidad macroeconómica afecta negativamente a las mujeres. En defecto de sistemas de seguridad social adecuados, el trabajo remunerado y no remunerado de las mujeres supone una carga aún mayor en los recesos económicos. Por lo tanto, a fin de cumplir los objetivos de la Cumbre Social en materia de empleo y de reducción de la pobreza, no sólo es necesario lograr un crecimiento rápido, sino también una mejora de la calidad.

La última parte del documento pone en evidencia las desventajas del acuerdo institucional actual sobre la liberalización y la mundialización, y señala por qué y de qué modo estos acuerdos impiden que los países en desarrollo logren un alto índice de crecimiento económico. Se indica que este régimen es inapropiado tanto para los países en desarrollo como desarrollados.

Se defiende que los principales factores condicionantes de un crecimiento económico más rápido a largo plazo en los países en desarrollo y desarrollados no se basan actualmente en la oferta, sino en la demanda. En principio, el mundo dispone de los medios tecnológicos e intelectuales, y de los recursos humanos y materiales para lograr el rápido crecimiento necesario para cumplir los objetivos de la Cumbre Social. No obstante, se indica que dicho crecimiento sólo se logrará en la práctica si se adopta la estrategia alternativa propuesta en el documento. Esta estrategia consiste en lograr un crecimiento rápido de la demanda del mundo real mediante la expansión coordinada por parte de los países industrializados y la introducción de un trato especial y diferencial de los países en desarrollo en una serie de ámbitos clave.

En resumen, uno de los argumentos esenciales del presente documento defiende que probablemente se logre un crecimiento más rápido y de mejor calidad mediante la aplicación de un modelo keynesiano general de comercio mundial dirigido y movimientos controlados de capital mundial, así como mediante una cooperación internacional genuina y unas relaciones más armoniosas entre empleadores, trabajadores y gobiernos a nivel nacional. Esto fomentaría el pleno empleo y el aumento de los salarios tanto en los países en desarrollo como desarrollados. En términos analíticos, en el presente documento se subraya la importancia de los fallos de coordinación en lo que concierne a la demanda, puesto que más bien estos que las deficiencias en lo que concierne a la oferta constituyen los principales impedimentos para el progreso económico. Para que el índice de crecimiento de la demanda mundial real sea compatible con las posibilidades de producción en lo tocante a la oferta, es necesario establecer nuevas instituciones encargadas de resolver los problemas de coordinación de un modo continuo y a largo plazo.

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I. Introduction

The World Summit for Social Development, held in Copenhagen in 1995, concluded that poverty reduction and full employment were crucial aims for developing countries. The Summit recognized that a necessary condition to meet these objectives was an appreciable increase in the trend rates of growth experienced over the 1980s and 1990s in these countries. It was implicitly acknowledged that high economic growth is not in itself sufficient to achieve all the goals set by the Summit. The quality of growth also matters—that is, whether it entails, among other things, a more equal distribution of income, more and better paid jobs, more gender equality and more gender inclusiveness.[1] All were regarded as significant objectives in their own right, to which the World Summit attached great importance.

Newly industrialized countries (NICs) in East and South-East Asia seemed to be a striking exception to the need for higher trend growth rates because they had already been experiencing near double digit rates for a considerable period. At the time of the Summit the prospects for attaining the necessary growth (even if not at the East Asian rates) in the rest of the developing world seemed bright. In the event, this promise was not fulfilled in most countries, not least because of the subsequent Asian and Brazilian financial crises. Further, the current prospects are not encouraging for many developing countries, as outlined briefly in the next section.

The central purpose of this paper, however, is to examine whether developing countries will be able to expand at a sufficiently fast rate in the medium to long term so as to fulfil the poverty reduction and employment growth goals set in Copenhagen. It will be argued here that such growth rates are certainly feasible on the supply side. Humanity has the resources as well as the know-how required to reduce poverty and to provide productive jobs for all those who wish to have them. However, for such growth to be realized it would be necessary to remove the constraints on the rate of growth of *real* demand in developing countries and in the world economy as a whole. It will also be suggested here that the removal of these constraints is not just a technical question of changing fiscal or monetary policies in particular countries, but rather of carrying out major institutional changes both within national economies and in the international economy. Thus the emphasis in this paper is on the medium- to long-term growth of real demand rather than simply short-term changes in monetary demand.

The paper includes the following specific analyses:

- An examination of the economic record of developing countries of the 1990s from a historical perspective and an outline of the policy issues raised by such an analysis.
- A review of the complex interrelationships between economic growth, unemployment, poverty reduction and income inequality—both conceptually and empirically. Special analytical attention is accorded to the notion of full employment, the relationship

[1] There may well be a trade-off between the quantity and quality of growth—an issue that will be discussed later.

between technical change and unemployment, the economic significance of the information and communications technology revolution, and labour market theories of unemployment and inflation.

- An overview of the changed historical conjuncture for economic development and for the development policy debate. The following themes and related analytical and policy questions concerning the development policy debate receive particular attention:
    - *Liberalization and globalization*—Two important questions are examined here. First, why, contrary to theoretical expectations, has the actual experience of many developing countries with liberalization and globalization been negative rather than positive, i.e. why has it often resulted in crises rather than faster growth? Second, are these failures simply a matter of incorrect policies or are there more fundamental flaws from the perspective of developing countries with respect to the institutional arrangements of the world economy under liberalization and globalization?
    - *Washington Consensus*—Has the Washington Consensus failed? What lessons should be learned from the implementation of that policy programme?
    - *Asian financial and economic crises*—A very important and influential thesis concerning the Asian crisis suggests that the failure of Asian countries during 1997–1999 can mainly be ascribed to the *dirigiste* and corporatist model of capitalism that many of these countries were following. This thesis will be critically examined here.

It will be appreciated that many of the above issues—although listed under separate headings for expository convenience—are analytically interconnected. These interrelationships will become explicit in the course of the analysis. Further, it may be observed that almost any of these topics could be the subject of a long treatise; within the confines of a paper, however, their treatment must necessarily be brief.

II. The Financial Crises and the Global Economy in 1995 and 2000

The 1995 Social Summit occurred at the time of one of the most serious financial crises in developing economies, namely the Mexican "Tequila Crisis" of 1994–1995. The significance of that crisis was underlined by the fact that it required a huge US-led International Monetary Fund (IMF) rescue package of $50 billion[2]—the largest bailout in the IMF's history up to that point. The IMF justified the size of its assistance to Mexico on the grounds that the country's financial meltdown posed a serious danger to the global monetary system. The

2 All references to dollars are to US dollars.

Fund believed that the crisis could lead to the imposition of exchange controls by Mexico, which were likely to be imitated by other developing countries. This would constitute a grave setback for the movement towards current and capital account liberalization that many developing countries were implementing and which the Fund favoured.

In the event, the Mexican crisis proved to be short-lived at least in terms of restoring the stability of the exchange rate (albeit at a much depreciated value) and of the financial markets, as well as in broader macro-economic terms. After growing at a rate of 4.4 per cent a year in 1994, Mexican gross domestic product (GDP) contracted by 6.2 per cent in 1995; but, in 1996, a positive growth rate of 5.2 per cent was recorded. Similarly, in Argentina—the economy most affected by the contagion from Mexico—the growth rate of GDP declined from 8.5 per cent a year in 1994 to minus 5.8 per cent in 1995, and then recovered to a positive rate of 4.8 per cent in 1996.[3]

Following the crisis, annual GDP growth for Latin America as a whole declined from 5.2 per cent in 1994 to 1.2 per cent in 1995; by 1996 it had recovered to 3.6 per cent. The impact of the crisis on the GDP growth of developing countries as a whole was, however, minimal. These countries registered an average yearly GDP growth rate of 6.7 per cent in 1994, 6.1 per cent in 1995 and 6.6 per cent in 1996.

Notwithstanding the Mexican crisis, however, the overall prospects for developing countries—and indeed for the world economy as a whole—seemed much brighter in 1995 than they do today. This is due to several factors. First, at that time the East and South-East Asian NICs were achieving historically unprecedented long-term rates of economic growth. Even countries in South Asia with previous records of moderate growth—for example, India—appeared to be successfully moving towards a higher growth path following the adoption of economic liberalization policies in the early 1990s. Furthermore, by the mid-1990s, there were strong and promising signs of economic recovery in a number of sub-Saharan African countries after the dismal overall economic performance of that region in the previous decade.

Moreover, the global economic outlook—which depends basically on economic growth in advanced countries, because of their far greater weight in the world economy than that of developing countries—was arguably more favourable at the time of the Social Summit than it is today. This was partly because the economy of the United States was experiencing fast economic growth in 1995 after recovering from the recession of the early 1990s. Most analysts agree that, despite its strong performance over the last five years, prospects for the US economy today are much less clear. The economy suffers from important imbalances—an enormous current account deficit, a possible

[3] The data cited in this section come from IMF (1999). Despite the V-shaped quick economic recovery in Mexico, many other effects of the financial crisis continue to influence the course of events in the country. A cause as well as a consequence of the financial crisis was the banking crisis. The restoration of the domestic banking system has required a $60 billion bailout by the Mexican government. This has inevitably raised serious distributional questions and continues to be a source of political controversy. For an analysis of the Mexican crisis of 1994-1995, see for example Calvo and Mendoza (1996). See also World Bank (1998b); UNCTAD (1999).

stock market bubble, extremely high indebtedness of US households, etc.—which many economists think could result in a hard landing.[4] Similarly, although the growth rate of the Japanese economy in 1995 was only 1.5 per cent, it had not yet gone into the full-blown stagnation and decline of the late 1990s.

In contrast to the uneven real economic performance of the developing countries in the period since the Social Summit, the policy debate on development issues has in many ways taken a definite step forward. The excesses of marketization and the adverse consequences of the diminished role of the state are increasingly recognized in the crumbling Washington Consensus. At the same time, however, the serious financial and economic crises in Asia have cast doubt on the merits of the *dirigiste* Asian model of development for achieving fast economic growth and for catching up with the West.

III. Economic Development in the South in the 1990s: A Long-Term Perspective

Tables 1 to 5 provide comparative information on the economic performance (growth of GDP and GDP per capita) of the different parts of the world economy—and of the world economy as a whole—for various periods during the last four decades. The main purpose of the exercise is to examine the economic record of developing countries in the 1990s, in a long-term historical perspective. The data in these tables come from three different sources—the IMF, UNCTAD and the World Bank. Although the statistics on GDP growth for individual countries are broadly compatible between the three agencies, there are some differences with respect to the regional groupings and the broader aggregates (mainly because of the different countries included in the various groups by the agencies). Wherever these differences are relevant they are indicated in the text.[5]

The following are the main points that emerge from these tables:

- Among developing countries, the East Asian and Pacific economies have been the most dynamic group during the 1965-1996 period. Not only did this group of countries achieve very fast economic growth during 1965–1980, but it also recorded a trend increase in the 1980s and 1990s in these already high growth rates. It is no exaggeration to say that the sustained economic growth of these

[4] See UNCTAD (1999); Godley (1999); Howes and Singh (forthcoming).

[5] Table 1, based on World Bank data (**World Development Report**, various issues, Oxford University Press, New York), provides long-term information on various countries and country groups from the mid-1960s to the mid-1990s (the time of the Social Summit). Table 2, based on IMF data, gives statistics on GDP and on GDP per capita growth for different income and regional groupings from 1990 to 1998 and projections for the years 1999 and 2000. Table 3 is on a much more disaggregated basis and covers a longer time period for selected Asian and Latin American countries. Tables 4 and 5 report UNCTAD data for the 1990s. Table 4 contains aggregate data, and table 5 shows disaggregated data for individual developing countries in each region, including sub-Saharan Africa and the crisis-affected Asian countries.

countries, including that of Japan (during the second half of the twentieth century) is the most successful example of fast industrialization and long-term growth in the entire history of mankind. I have already noted (1997a) that in 1955 the Republic of Korea was unequivocally an industrially backward agrarian economy. It was acknowledged to have such little scope for development that in the 1950s the US Congress denied it funds for developmental purposes (Krueger, 1995). The country's net value per capita manufacturing output was $8 per year, compared to $7 in India and $60 in Mexico. Since then the Republic of Korea has transformed itself into an industrial giant. It is arguably the most advanced country in the world in electronic memory chip technology. Before the Asian crisis, the Republic of Korea expected to become the fourth largest car producer in the world by the year 2000. It is, thus, highly significant that a country with such an outstanding record of economic success for a long period should have become, so suddenly, a leading victim of the Asian financial crisis.

- It is important to note that between 1965 and 1980, as table 1 indicates, the Latin American economies expanded at a rate not far below that of the East Asian countries—an average of 6 per cent per year for the former group compared with a little over 7 per cent for the latter. Indeed, as table 3 demonstrates, during that period the fast growing Latin American economies such as Brazil and Mexico could not be distinguished statistically from East Asian NICs. However, in the 1980s, "a great continental divide"[6] emerged among developing countries: economic growth collapsed in Latin America and in sub-Saharan Africa during the "lost decade" of 1980s as a consequence of the debt crisis. However, Asian countries, not only in East but also in South Asia, continued to prosper. The reasons for the Asian economic success and the Latin American failure during the 1980s have been important subjects of debate among development economists. Protagonists in this debate have been the IMF, the World Bank (1991) and a number of orthodox economists, on one side; and Taylor (1988), Fishlow (1991) and Singh (1992; 1993), on the other. The former group suggests that the poor economic performance of the Latin American and sub-Saharan African countries in the 1980s was essentially due to their own incorrect economic policies and structures (including, particularly, an excessive role of the state and the lack of openness to the world economy). The latter group has argued that the Latin American and African failures were basically due to the debt crisis, which was caused by external shocks beyond the control of these countries. When these shocks are properly measured, their combined magnitude for Latin American countries was much greater than for the Asian countries.[7]
- In the event, the Latin American countries accepted the orthodox analyses of their economic failure and fundamentally changed their

[6] This is the phrase used in Singh (1986:277).

[7] See also Krueger (1995); Balassa et al. (1986).

economic policies towards the end of the 1980s. They adopted the policies of the so-called Washington Consensus and greatly reduced the role of the state and enhanced that of the market (including, in particular, external markets). Similar policies were implemented under IMF and World Bank structural adjustment programmes in African countries. The merits and flaws of these policies will be commented upon in the following sections. An important consequence of the adoption of the orthodox policy package by Latin American countries was the enormous expansion of private capital inflows. Having been starved of foreign exchange for much of the 1980s, the availability of foreign private capital (portfolio, long-term bank debt and foreign direct investment) was, at one level, of great benefit for the balance of payments-constrained Latin American economies. This revived economic growth in Latin America in the 1990s and, notably, brought about stabilization after episodes of hyperinflation in many countries in the 1980s.

However, these unregulated, often huge private capital flows have proved to be a mixed blessing: they have led to frequent crises.[8] By the time of the Social Summit, many Latin American countries had successfully achieved price stabilization but not fast long-term economic growth (see tables 3, 4, 5 and 6). The region's performance in this respect during the 1990s was much below its achievement in the *dirigiste* pre-1980 period: as table 2 indicates, the growth rate in the 1990s was only 3.2 per cent compared with 6 per cent before 1980.

The sub-Saharan African economies have not been favoured by international investors, and have thus continued to languish in a low level equilibrium trap despite all the structural adjustment programmes of the Bretton Woods institutions. For many African countries, growth rates in the 1990s hardly improved over those recorded in the lost decade of the 1980s.

- China and India deserve special mention in this account of long-term economic development in the South. Since 1980, under Deng's policies of measured opening to the world economy, marketization and decentralization, China has achieved extraordinary economic growth. When the Republic of Korea grows annually at 8–10 per cent for a long period, the world takes note as such growth rates have never been experienced before. However, when China—with more than a billion people—expands at a double-digit rate of economic growth for nearly two decades, it is an epoch-making event. Similarly in the 1990s, the Indian economy has done much better than before, achieving an appreciable trend increase in its modest growth rates of the 1970s and 1980s. It is highly significant that neither country succumbed to the recent Asian financial crisis.
- A result of the extraordinary economic growth over a prolonged period in East Asia was—until the recent financial crisis—a huge improvement in the standard of living of the people of the region.

[8] See Singh and Weisse (1998).

Poverty fell sharply between 1975 and 1995 in many leading East Asian countries (see table 7). Indonesia's achievement has been particularly notable: the number of people living in poverty (based on $1 per person per day poverty line at 1985 PPP prices) fell from over 87 million in 1975 to under 22 million in 1995; on the headcount index the proportion of people living in poverty decreased from 64 per cent of the population to 11 per cent. Life expectancy, which is normally regarded as a leading indicator of people's health and quality of life, improved dramatically in Indonesia from 48 to 65 years, indeed, it rose considerably in all countries of the region.

A comparative perspective of income poverty in different developing regions during the mid-1990s is provided in table 8. Table 9 gives a similar analysis of the various indicators of human poverty in different regions, also at about the time of the Social Summit. Indicators of the gender gap in the different regions are provided in table 10. It is interesting to observe that, among developing countries, East Asia (excluding China) has the highest value of the gender-related development index, while South Asia and sub-Saharan Africa record the lowest.

Table 11 provides information on living standards, poverty and real wages in Latin America between 1980 and 1995. It shows that despite economic recovery in Latin American countries in the 1990s, real wages in manufacturing had not recovered to their 1980 level by 1995. Real minimum wages in 1995 were 30 per cent below the 1980 level. The percentage of poor households rose from 35 during 1980 to 39 in the 1990s, after having fallen for many years up to 1980. Other important information in this table and in table 12 about employment and unemployment and the informal sector will be commented on in the next section.

- How does the Asian economic and financial crisis affect the short-term prospects for economic growth and poverty reduction for various groups of developing countries and for the world economy as a whole? The data presented in tables 1–5 suggest that advanced economies—particularly the United States—were hardly affected by the Asian economic crisis. Indeed, there are reasons to suggest that the US economy may have gained from the crisis both by the flight of capital to the US that took place in its aftermath, and by an improvement in the terms of trade following the massive currency depreciation of the East Asian currencies. This is widely thought to have contributed to containing inflation in the United States, despite the high level of activity in the economy.[9]

  Turning to the crisis-affected Asian countries, these have clearly sustained huge economic losses in real terms (see table 5). In 1998, GDP in Indonesia fell by almost 14 per cent, in Thailand by 8 per cent, in the ASEAN-4 by 9 per cent and by over 5 per cent each in the Republic of Korea and Hong Kong. However the recovery of these economies has followed a V-shaped pattern, as had Mexico

[9] See UNCTAD (1999); Godley (1999); Howes and Singh (forthcoming).

earlier. Thus, even as early as 1999, the Republic of Korea was expected to have a positive growth of 6 per cent; Malaysia of 2 per cent in 1999 and over 6 per cent in the year 2000; Thailand of nearly 4 per cent in 1999 and in 2000. Even Indonesia—which suffered not just a huge economic loss as a result of the crisis but in effect the disintegration of its social fabric—is expected to have growth of over 3 per cent in 2000. (These are the most recent IMF projections and are subject to the qualifications noted above concerning the risks with respect to the future course of the US economy in particular.[10])

Latin American countries have somewhat poorer prospects during 2000-2001 because they have been affected by the contagion not only from the Asian financial crisis, but also most significantly from the financial crises of Brazil and Russia. Many Latin American countries took pre-emptive action to avoid the financial crisis by raising real interest rates. As a consequence the rate of growth of GDP in Latin America as a whole fell from 5.2 per cent in 1997 to 2.3 per cent in 1998, and was –0.5 per cent in 1999. The IMF (1999) forecasts a moderate growth rate of 3 per cent in 2000, well below the long-term trend growth of 6 per cent before the debt crisis of the 1980s.

The Asian crisis has had important negative effects on people's standard of living, unemployment, real wages, poverty and other social variables. These effects have been studied extensively in World Bank (1998a), ILO (1999) and Singh (1999a). The World Bank's (1999b) most recent projections on the impact of the crisis on poverty in three affected Asian countries are summarized in table 13. The Bank estimates that the number of people in poverty in East Asia fell from 440 million in 1993 to 345 million in 1995. It observes that this improvement almost certainly continued up to the time of crisis. The financial crisis put an end to the long period of rapid growth, however, and led to the significant increase in poverty indicated in table 13.[11]

- Considered in a long-term perspective, developing countries have, in general, made significant economic and social progress—despite all the setbacks of the lost decade of the 1980s in Africa and Latin America, the Tequila Crisis in the mid-1990s and the Asian crisis towards the end of 1990s. The record is stronger when viewed over the last half-century as a whole than when viewed over the more recent period (Patel, 1992). Since 1950, economic development in the South has led to major changes in the structure of the world economy, as well as in the national economic structures of the developing countries themselves. At the beginning of the period, the global economy divided itself more or less neatly into two groups of countries: major producers and exporters of manufactures of capital goods and technology (the North); and major producers and exporters of agriculture and raw materials (the South). As a consequence of industrialization and fast economic

[10] The data in this paragraph come from The Economist (1999).

[11] See World Bank (1999b).

growth, particularly in the Asian NICs, the structure of the world economy at the turn of the new millennium is radically different. Many developing countries today have become important producers and exporters of manufactured products (see table 14). Although the North is still the major exporter and producer of technology and capital goods, it no longer has a monopoly. In relation to the Social Summit, however, the important policy question is whether developing countries have undergone adequate structural change and acquired the necessary capabilities for rapid economic progress in order to meet the employment and poverty reduction objectives of the Summit. To address this issue, it is necessary to study the relationship between economic growth, poverty, employment and inequality—a subject to which we turn in the next section.

IV. Economic Growth, Unemployment, Poverty and Income Inequality

There are complex interrelationships between economic growth, employment and unemployment, poverty, and income distribution. These require careful conceptual and empirical analysis in order to draw useful conclusions for policy makers.

The Copenhagen Declaration and full employment

Commitment 3 of the Copenhagen Declaration enjoined participating nations to commit themselves to the goal of full employment and to pursue policies and programmes that would help achieve this objective.

This affirmation of the commitment to full employment is significant for several reasons. First, there is a close relationship between employment and poverty reduction at the micro- and macro-economic levels. At the micro-economic level, a reasonably remunerative job may help to keep a family above the poverty line. At the macro-economic level, the relationship between employment and poverty is more complex as it is mediated through a third variable—economic growth. Fast economic growth may help both to reduce poverty and to increase employment, as discussed below.

The second reason why the full employment commitment is important is summed up well by the President of the World Bank, James Wolfensohn:

> While microeconomic management is never perfect—there will always be some fluctuations in output and employment—the most effective safety net is a policy which maintains full employment. Deep recessions and depressions have adverse effects on virtually every one of the elements of the development strategy: health deteriorates, schooling is interrupted and poverty increases. Formal safety nets are but an imperfect stop gap measure in addressing the failures of effective macro policies to maintain the economy at full employment. (1999:12)

Third, employment is important not only because of its relationship to poverty but also because unemployment leads to social exclusion and is deeply damaging to the status of the citizen. It lowers self-esteem, is demotivating and results in social degradation. There is also evidence that it is injurious to health and may increase criminality.[12] As OECD observed with respect to current mass unemployment in industrialized countries, apart from being an enormous economic waste, a high level of unemployment brings about:

> … unravelling of the social fabric including a loss of authority of the democratic system and it risks resulting in the disintegration of the international trading system (1994:9).

Fourth, as implied in the above OECD statement, emphasis on employment is also important from an international perspective. Both rich and poor countries are presently faced with enormous employment challenges, although these take different forms depending on wealth. It will be argued in this paper that the best solution to this common concern lies in international co-operation between North and South.

Fifth, there is an intellectual reason for welcoming the Copenhagen commitment to full employment. There is widespread pessimism not only among the public at large, but also among professional economists that full employment is no longer a practical proposition. Changes in the nature of work and technology are thought to have made the concept of full employment obsolete. This thesis will be challenged below.

Economic growth, full employment and poverty

The first question that arises here is what constitutes full employment. In this respect, there are difficult but rather different conceptual as well as empirical issues for both advanced and developing countries. In the case of advanced countries, many economists define full employment in terms of the "natural rate of unemployment" or the "non-accelerating inflation rate of unemployment" (NAIRU). However, this involves mixing together two related but independent objectives—full employment and price stability.[13] Following Beveridge (1944), full employment is best viewed as the absence of involuntary unemployment. In more practical terms, he suggests that full employment exists only when unfilled vacancies are somewhat greater than the numbers unemployed and that "jobs are at fair wages, of such a kind and so located that the unemployed men can be expected to take them" (Beveridge, 1944:18).

For developing countries, the concept of full employment raises even thornier issues. This is largely because most of them do not possess a system of social insurance against unemployment. Consequently, the measured rate of unemployment tends to be quite low because, without social security, people are obliged to work regardless of how productive or remunerative the work may be. Therefore, in developing countries, involuntary unemployment normally takes the form of either underemployment or low productivity work in the informal sector. Therefore, assessing whether the Copenhagen goal of full employment in developing countries is being met requires a comprehensive

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[12] See OECD (1994); Clark and Oswald (1994).

[13] See Meade (1993); Singh (1995b).

and nuanced analysis of employment, unemployment, underemployment and productivity, as well as real wage growth. The distinction between the formal and informal sectors is also significant.[14]

In analytical terms, it may be useful to think about the relationship between economic growth and employment in the following way. Abstracting from cyclical considerations, for there to be long-term full employment, employment would need to expand at much the same rate as the labour force, say, "n". Further, if it is also desired that there should be a steady increase in real wages and productivity at the rate "p", then output must grow approximately at a rate of "n + p". A growth rate below (n + p) would result either in less than full employment or in a fall in the rate of growth of productivity—or a combination of the two. In developing countries, reduced economic growth often leads to a fall in productivity rather than a decrease in employment because of the existence of the informal sector. The latter is characterized by a more or less fully flexible labour market. The informal sector acts as a sponge to absorb labour, leading to reduced productivity and low quality jobs. In the formal sector, because of its relatively less flexible labour market, lower economic growth leads to reduction in employment rather than lower real wages and productivity. Indeed, informal sector employment may increase rather than decrease in response to a reduction in the rate of growth of production (owing, say, to an external shock). This is for two reasons: the unemployed from the formal sector may enter the informal sector leading to a reduction in productivity and real wages; because of lower real wages the participation rate in the informal sector increases further as families attempt to maintain their standard of living.

Evidence from developing countries on output, employment and productivity growth is compatible with this conceptualization of segmented labour markets and the behavioural distinction between the formal and informal sectors. Thus, as table 11 shows, lower long-term economic growth in Latin America in the 1980s and 1990s (following the debt crisis) resulted both in reduced real wages and productivity growth, and in a huge increase in informal employment. Tokman (1997) notes that 80 per cent of the new jobs in Latin America between 1985 and 1995 were in the informal sector.

The experience of the fast growing Asian economies during the 1980s and 1990s, but prior to the financial crisis, stands in striking contrast to that of the Latin American countries. As table 12 suggests, in the Asian countries with much faster economic growth, employment as well as real wages expanded rapidly, at almost 5 per cent per annum. Further, the formal sector expanded at the expense of the informal sector and a number of these hitherto labour surplus economies became significant net importers of labour from neighbouring countries.

The above analysis has the following implications for the Social Summit objective of full employment in developing countries. The labour force in the South, as a whole, is growing at an average rate of about 3 per cent per annum—more so in Latin America and sub-Saharan Africa and less in Asia. Apart from providing jobs for those who are presently involuntarily

[14] See Singh and Zammit (1995); ILO (1995).

unemployed and underemployed, the bigger challenge is to create sufficient productive work and remunerative employment opportunities for this fast growing labour force. On the basis of past statistical data, it has been estimated that in order to meet this challenge GDP in developing countries would need to grow at the rate of 5-6 per cent per annum. In view of the fact that on average the share of labour in national income is about 50 per cent in developing countries, this rate of growth would imply constancy of factor shares. It would also imply a long-term growth of productivity and real wages of the order of 2–3 per cent per year.

Fast economic growth should therefore not only lead to more jobs, but also to more productive and remunerative—i.e. better—jobs. This would help reduce poverty directly.

In addition to lowering poverty through the creation of good jobs, fast economic growth also helps to reduce it in other important indirect ways. Economic growth generates increased government revenue—which makes it possible for increased spending on health, education and other poverty-reducing measures. In the 1960s and 1970s the relationship between economic growth and poverty was the subject of considerable controversy—whether or not growth trickled down to the poor. The data for the 1980s and 1990s indicate a more robust negative relationship between the two variables, in the sense that growth in GDP is associated with a reduction in the numbers of people falling below a poverty level defined in absolute terms (Ravallion, 1995; World Bank, 1990; 1995).[15] With respect to cyclical changes in economic activity and poverty, Morley's 1994 study shows that poverty rose in 55 out of 58 recessions in Latin American countries in the 1980s and fell or remained unchanged in 25 out of 32 recoveries. There is also evidence showing that recessions were associated with higher income inequality in Latin America as well (World Bank, 1998b).

World Bank studies indicate that there are wide inter-country differences in the elasticity of poverty reduction with respect to economic growth. For the late 1980s, and assuming distributional neutrality, the value of this elasticity has been estimated to be 3.5 in Malaysia, 3.5 in Thailand, 2.8 in Indonesia, less than 2 in most of sub-Saharan Africa, and less than 1 in Brazil (World Bank, 1998a). These inter-country differences arise from the fact that variables other than growth also affect poverty. Research suggests that the most important of these are inflation, and particularly unanticipated inflation; inequality of income distribution; public expenditure; stability of economic growth; and initial distribution of land and other assets (including human assets such as education). As regards inflation, the World Bank (1998b) suggests that high and variable inflation (i.e. unanticipated inflation) is particularly damaging to the poor, who lack both institutional and market mechanisms for protecting their consumption. Workers are obliged to accept large wage cuts, unemployment and low paid jobs in the informal sector because of the absence of social safety nets. The Bank's research indicates that even short-term reductions in overall

[15] There is an extensive literature on what constitutes poverty, but, for practical purposes, a dollar a day, measured in PPP-adjusted 1985 dollars, is often taken as the line defining an internationally comparable minimum level of private consumption per person to cover minimum food and non-food requirements.

activity (such as those in cyclical recessions) may have permanent adverse effects on the poor (World Bank, 1999b).

Evidence presented in section III showed that the fast-growing Asian countries greatly increased people's standard of living and reduced poverty up to the time of Asian crisis. On the other hand, during the 1980s and the 1990s, the stagnant or slow growing economies in Latin America registered increased poverty. The World Bank (1999b) has recently estimated the GDP growth rates required by different developing regions to meet a modest international development target of poverty reduction—to reduce by half the number of absolutely poor people (those living below $1 a day in 1985 PPP prices) in the world by the year 2015 (see table 15). The Bank economists noted that with pre-Asian crisis GDP growth rates, and assuming no rise in inequality, most of the developing world was on track to achieve the target. But, following the Asian crisis, the projected GDP growth rates for 1997–2000 for most regions are below the required rates. The East Asian growth rate was adequate before the crisis but it may not be sufficient to make up for the increase in poverty caused by the crisis.[16]

Economic growth, technical change and employment

It is commonly believed that the fast pace of technical progress and changes in the nature of technology have been the major causes of unemployment in both advanced and developing countries. It is further suggested by many economists that economic growth no longer leads to more jobs, but rather to no jobs at all, or even to a reduction in jobs;[17] that is, the employment elasticity of growth is zero or negative. The technology thesis as well as that of jobless growth have been examined in detail in ILO (1995) and Singh (1995b; 1999b). This research shows that neither of these hypotheses is compatible with available evidence. The most important points with respect to advanced countries may be summarized as follows:

- Although some evidence suggests that there has indeed been an acceleration in technical progress because of the information and communication technology (ICT) revolution, at a broad macro-economic level, the huge increase in unemployment observed in industrialized countries cannot be attributed to the faster pace of technological change. This is because there has been a trend fall rather than a trend increase in average productivity growth in advanced countries. The evidence suggests that the growth rate required in industrialized countries before their economies start creating net new jobs was less in the period 1974–1995 than during 1960–1973 (ILO, 1995). What this indicates is that the potential of new technology is not being realized and being transferred into faster productivity growth, as one would normally expect.
- Econometric evidence for a cross-section of advanced industrialized countries suggests an increase over time in the employment elasticity of output growth rather than a decrease, as the hypotheses of jobless growth imply (Boltho and Glyn, 1995).

[16] See World Bank (1999b).

[17] See, for example, UNDP (1998); Grunberg (1996).

With respect to developing countries—which are generally not using the most advanced technology in any case—there is no systematic evidence of a fall in employment elasticity of economic growth over time. There are nevertheless apparent anomalies that require comment. First, there is evidence for the Latin American countries that, despite the revival of economic growth in the 1990s, employment in the formal sector has increased very little. Frenkel (1998) ascribes this phenomenon to greater competition following the liberalization of trade in Latin American countries in accordance with the policies of the Washington Consensus. Similarly, the apparent recent decline in employment elasticity of manufacturing growth in the formal sector in India can plausibly be ascribed to previous overstaffing due to lack of competition. Although the Indian economy is still relatively more closed to external competition than are those of the Latin American countries, there has been extensive internal liberalization in India, which could produce the observed outcome. These issues, however, require further research.

It is nevertheless important to reflect on the fact that the scholars of technical change regard present ICTs on a par with the major technological revolutions of the last two centuries, such as the steam engine and electricity (Freeman, 1989). The significance of ICTs derives in part from the fact that they can be widely used in many different spheres of the economy—as could electricity and the steam engine. However, ICTs are not merely an input to various industries, they are an ever-increasing number of direct outputs (e.g. the Internet). More importantly, the trend rate of growth of productivity of ICTs has been far faster than that of previous technological innovations. The productivity of ICTs has been increasing at a phenomenal rate of 25 per cent per annum over the past two decades. Whereas it took 50 years for the price of electricity to be halved from the time of its first commercial use, in the case of ICTs such price reduction has been achieved in a fraction of that time. The classic illustration of the phenomenon is that a computer that cost 10 million dollars in 1980 would cost less than two thousand dollars today and provide the same computing power. From the perspective of economic development, the important point is that a huge new resource is now available that is capable, in principle, of benefiting and raising the standard of living of all of humanity, but its potential is not being fully utilized.

Flexible labour markets

It is important to note that the analysis of employment in terms of economic growth as outlined above is only one of several different analytical approaches to the employment question.[18] Orthodox economists usually look at this issue from the perspective of the flexibility of the labour market—the NAIRU approach. There is a vast literature on the subject, mostly concerned with advanced economies.[19] However, following this approach, the international agencies draw the same policy implications for developed as for developing countries. Unemployment as well as other unfavourable labour market outcomes are ascribed to imperfections and lack of flexibility in labour markets.

[18] For differing approaches of the main schools of economic thought on the question of unemployment, see Singh (1995b).

[19] For different views on the subject, see the special issue of the **Journal of Economic Perspectives**, Vol. 11, 1999.

As a cure-all, both advanced and developing countries are asked to carry out labour market reforms.

Stiglitz (1997), Eisner (1999), Galbraith (1997), and Howes and Singh (forthcoming), among others, have pointed out serious theoretical and empirical difficulties with respect to the NAIRU approach. However, because it has been widely adopted for policy purposes—particularly by the Bretton Woods institutions—it may be useful to review here some of the empirical evidence that is incompatible with the NAIRU thesis:

- Considering developing countries first, the unfavourable labour market outcomes in sub-Saharan Africa or Latin America in the 1980s and 1990s described earlier can hardly be attributed to imperfections or rigidities in their labour markets. There is enough empirical evidence, suggesting that even though these markets may suffer from many rigidities and imperfections at any point of time, they have proved to be dynamically highly flexible. For example, in Mexico real wages fell by more than 50 per cent in the 1980s following the debt crisis of 1982. With the resumption of economic growth in the 1990s, real wages rose. Similar movements in real wages and economic activity have also occurred in other Latin American and in sub-Saharan African countries.
- The differing labour market outcomes between the Latin American and Asian economies summarized in tables 11 and 12 would also be difficult to ascribe to differences in the flexibility of the labour markets in the two regions. Real wages rose in leading Asian NICs by nearly 5 per cent per annum between 1980 and 1990; manufacturing employment did not, however, fall on account of rising real wages, but, in fact, recorded an appreciable increase (also at a rate of about 5 per cent per annum). Similarly, in Latin America both real wages and employment fell during the 1980s. The observed positive relationships between real wages and employment in the Latin American and Asian countries run contrary to labour market approaches to the employment question, which would suggest a negative relationship between the two variables.
- With respect to advanced economies, proponents of the labour market flexibility doctrine set great store by the fact that the unemployment rate in Europe is much higher than that in the United States. This is ascribed to more flexible labour markets in the latter. That this view is oversimplified is suggested by the data on unemployment rates in industrialized countries over a longer time period (for the last four decades), presented in table 16, which show that the German unemployment rate from 1964 to 1973 was on average only 1.1 per cent of the labour force. The corresponding US rate at the time was over 4 per cent. Compared with the US labour market, the German labour market was relatively much *less* flexible during this period than it is today. With respect to employment, the generally superior European performance in the 1960s and early 1970s compared with the

> United States was due to the fact that these economies were growing, at that time, at a much faster rate than the US economy.[20]

NAIRU-type labour market theories of employment and inflation have similar difficulties in explaining long-term changes in these variables in industrialized countries. Thus during the 1930s labour markets were highly flexible, yet that period was characterized by mass unemployment and low inflation. The "Golden Age" of the 1950s and 1960s provided more or less full employment in the West European economies, yet the inflation rate remained low. Most recently the United States has been able to have very low unemployment rates—much below those suggested by the NAIRU approach—and still maintain price stability.[21]

The evidence outlined above—together with the analytical work referred to earlier—suggests that theories of labour market flexibility do not provide an adequate or a robust foundation for policies to tackle unemployment.

Inequality, poverty and growth

The question of inequality has received very little attention from economists over the last two decades. There are subtle ideological and sociological reasons for this neglect, which need not detain us here.[22] More significantly, from the perspective of this paper, at a policy level this omission has been justified on the grounds that income distribution for most countries remains stable for long periods. Therefore for short- to medium-term policy analysis, this variable can be assumed to be given and policy makers can concentrate on questions of growth and poverty reduction.[23]

But this argument has serious limitations, as has been pointed out by Kanbur and Lustig (1999). First, it is incorrect to assume that income inequality remains stable over time. Empirical evidence from a wide range of countries with reliable data for the last decade suggests considerable changes in the Gini coefficient.[24] Second, even if the Gini coefficient[25] remained stable, the neglect of income distribution would not be a correct approach to policy. This is because actual policy measures to promote growth and poverty reduction have distributional consequences, even in the short run that cannot simply be ignored.[26]

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[20] See Singh (1995b; 1999b).

[21] See Howes and Singh (forthcoming); Eisner (1999); Galbraith (1997).

[22] See Atkinson (1997); Kanbur and Lustig (1999).

[23] See Li et al. (1998).

[24] Kanbur and Lustig observe: "one result that becomes immediately apparent is that, while rising inequality is by no means the norm, there have been very sharp upward movements in a number of countries. In 11 countries …, Gini coefficient has increased between five and nine percentage points; in seven countries, between ten and nineteen percentage points; and in two countries, by more than twenty (!) percentage points. These changes occurred in a span of a decade or less. Clearly, monitoring the evolution of the Gini coefficient is no longer as unexciting as 'watching the grass grow'." (1999:9)

[25] The Gini coefficient is a summary measure of inequality commonly used in economic literature. A value of 1 indicates total or maximum inequality and that of zero, perfect equality. Thus the higher the value of the Gini coefficient, the greater the inequality.

[26] The technical argument here is that policy cannot be based simply on a reduced form equation, which neglects an important structural variable. Policy analysis requires either a more

Turning to the theoretical and empirical controversies on the relationship between inequality and growth, some aspects were examined in a previous subsection. *A priori*, the relationship between two variables can be modelled in a number of different ways, most of which are plausible. Empirically, the experience of East Asian countries has received a great deal of attention in the literature. These countries have managed to achieve, as seen earlier, historically unprecedented sustained fast growth; they have, however, also evidently enjoyed much more equal income distribution than most. The significant point here is that fast economic growth does not appear to have worsened income distribution; the issue nevertheless remains controversial. As was observed elsewhere (Singh, 1995a), although income distribution may not have become more unequal, there is evidence as well as good reason to suggest that the wealth distribution in these countries has worsened over time. If this hypothesis is confirmed in further work, it has important implications for certain political economy interpretations of East Asian success.

Summary

To sum up, this section has examined the complex interrelationships between economic growth, employment, poverty and income distribution that policy makers need to take into account. With respect to the Social Summit, a central policy implication of the analysis is that developing countries need to attain a trend increase in their growth rates, possibly to their pre-1980 long-term rates of about 6 per cent per year. This would enable them to achieve and maintain meaningful full employment in the spirit of the Copenhagen Declaration with rising real wages and increasing standards of living. Although faster growth will help to reduce poverty, the latter is affected by other important variables as well—notably inflation, inequality of income and asset distribution, instability of economic growth and fiscal policies of the government. Women in particular are adversely affected by macro-economic instability as, in the absence of adequate social security systems, the burden of women's paid as well as unpaid work increases in economic downturns.[27] So what is required for meeting the employment and poverty reduction goals set out at the Social Summit is not just fast, but also better quality growth.

There can clearly be tension between the quantity and quality of growth with respect to poverty reduction. Obviously, high quality growth is better than low quality growth in that a great deal of low quality growth is needed to achieve the same level of poverty reduction. To illustrate this point, between 1950 and 1980, Brazil and Mexico are generally regarded as having achieved fast but low quality growth, in the sense that they had a very unequal distribution of income and assets, and there was considerable inflation. Nevertheless, this growth did lead to a sizeable reduction in absolute poverty in both countries. However, high quality growth may in itself induce more growth through the principle of "shared growth"—that is, if the fruits of growth are seen to be more equally shared, this may lead to more social cohesion, and social and economic stability—hence greater investment and still faster economic growth. So

comprehensive structural model or, as Kanbur and Lustig (1999) emphasize, nuanced case-by-case analysis.

[27] For a detailed discussion of this issue, see Singh and Zammit (forthcoming).

countries should strive to achieve high quality growth to the extent that their institutions permit.

A very important analytical and policy question is whether a trend increase in economic growth of the size required to meet the Social Summit goals is possible for developing countries under the new institutional arrangements of liberalization and globalization of the world economy. This question will be taken up in the final section. Before that, other issues in the development policy debate relating to the new global economic environment, the reasons for the Asian crisis, the Washington Consensus and the new international financial architecture will be briefly reviewed.

V. Changing Historical Conjuncture and the Development Policy Debate

It was seen earlier that developing countries as a whole achieved unparalleled material progress between 1950 and 1980, growing at an average annual rate of 6 per cent. Since the end of this Golden Age, the average growth rate has been slower and more unstable. This is largely due to the debt crisis in sub-Saharan Africa and Latin America in the lost decade of the 1980s, and the economic and financial crises in Asia and Latin America in 1990s. It is important to appreciate that the Golden Age of the South's development between 1950 and 1980 took place during a particularly propitious historical conjuncture:

- In the period 1950–1973, the advanced industrialized countries were experiencing an unprecedented boom—their own Golden Age. During this quarter of a century, West European economies grew at a rate of nearly 5 per cent per annum, which was twice the rate they had experienced for any sustained period over the previous two centuries. As seen earlier, not only did they have more or less full employment over this long period, but countries like France and Germany had over-full employment in the sense that an additional 10 per cent of the labour force came from abroad.[28]
- There was contention between two systems: the liberal democratic capitalist West and the single-party planned economic regimes in Eastern Europe and the USSR. This contention provided space for developing countries to pursue their own industrialization projects, often with tangible assistance from both sides in the Cold War.
- The global economic environment, shaped in part by these forces, was also very helpful to developing countries. Not only did the US-led world monetary and financial system, subject to regulation by capital controls, provide a stable framework for expansion of trade, but the trading system itself was also in many ways positively helpful to developing countries. Although the latter complained at the time about the inequities of the trading regime, the truth of the

[28] For a fuller discussion of these issues, see Glyn et al. (1990); Singh (1995b; 1999b); Kindleberger (1992).

matter was that GATT provided a more favourable environment for industrialization in developing countries than any system before or since. The industrialized countries, for example, agreed to the principle of discrimination against themselves, in the sense that developing countries (including Japan up to the late 1960s) were allowed to restrict imports from developed countries while being given more or less free access for their exports.[29]

- The rules of the game also permitted developing countries to pursue national industrial policies that enabled many of them to create a substantial export capacity, further assisting their industrialization.[30]

During the last 20 years and at the dawn of the new millennium, this situation has changed dramatically. In particular:

- Not only has the Cold War come to an end, but also the new trading regime under WTO has whittled away the concept of special and differential treatment for developing countries and instead increasingly enshrined the concept of reciprocity and national treatment. This will make it progressively difficult for developing countries to use protection or state industrial policy as instruments of industrialization.[31]
- The internal and external financial liberalization that began with the industrialized countries in the 1970s has been increasingly emulated by developing countries during the 1980s and 1990s, often under the structural adjustment programmes imposed by the Bretton Woods institutions. There have also been parallel movements in the domestic economies of both developing and developed countries that have greatly enhanced the role of the market and seriously diminished that of the state—through deregulation, privatization and liberalization of the product, labour and capital markets.
- The project of liberalization and globalization—essentially, free trade and free capital movements—has made rapid progress in incorporating developing countries. This has been due partly to the response of the Latin American countries to their economic failure of the 1980s and partly to the changed balance of world power following the fall of the Soviet Union in 1989. It may be further assisted by the apparent failure of state-directed capitalism in the recent Asian crisis. Thus, Alan Greenspan, the respected chairman of the US Federal Reserve, has remarked in relation to the Asian financial crisis that "… in the last decade or so, the world has observed a consensus towards, for want of a better term, the Western form of free-market capitalism as the model which should govern how each individual country should run its economy… We saw the fall of the Berlin Wall in 1989 and the massive shift away

[29] The MFA was an obvious exception to this rule but it does not invalidate the statement in the text.

[30] See Amsden (1989); Wade (1990); Singh (1995a; 1995b); Chang (1994).

[31] See, however, Singh (1998a).

from central planning towards free market capitalist types of structures. Concurrent to that was a really quite dramatic, very strong growth in what appeared to be a competing capitalist-type system in Asia. And as a consequence of that, you had developments of types of structures which I believe at the end of the day were faulty but you could not demonstrate that so long as growth was going at 10 per cent a year" (Greenspan, 1998, cited in Singh, 1999a:1).

- As we begin the twenty-first century, developing countries are faced with a powerful thesis that only one form of economic organization is viable in the long run—the liberal capitalism of the Anglo-Saxon variety. This thesis is being increasingly accepted by the international community, in part because of the overwhelming hegemony of the United States in international politics and economics in a uni-polar world. Hence the emphasis, for example, in the leading proposals for a new international financial architecture on transparency, competition policy, changes in fundamental micro-economic behaviour of corporations and banks towards the UK-US pattern.[32]

An important question for Geneva 2000—the five-year review of implementation of the outcomes of the Social Summit—will be whether these proposed new institutional arrangements strengthening liberalization and globalization are likely to help or hinder achievement of full employment and poverty reduction.

VI. World Economic Integration under Liberalization and Globalization

Proponents of liberalization and globalization claim that these help the integration of the world economy—which, in turn, generates fast economic growth (through better allocation of resources and promotion of technical change on account of greater competition, among other factors). Many economists also suggest that free trade and capital movements lead to convergence of real wages and productivity between and within countries (Sachs and Warner, 1995).

Table 17 summarizes information on the integration of the world economy during the last four decades through trade, flows of foreign direct investment (FDI) and bank loans. An important point that emerges from this table is that the world economy was integrating quite rapidly even before liberalization and globalization. The volume of world exports expanded at a far faster rate during 1964–1973 than during the 1980s and 1990s. Since world real GDP also expanded at a much faster rate during 1964–1973 than it has done subsequently, this suggests that the causation may run from growth of production to growth of trade rather than the other way round. Information given in tables 18 and 19 lends further support to this theory. The two tables

[32] See Chang and Singh (1999).

suggest that tariffs and the non-tariff barriers to trade have been declining in Latin America and East Asia since 1980. In the early 1980s, they were twice as high as in the early 1990s in the two regions; they are likely to have been higher still during the period 1964–1973. Notwithstanding these greater restrictions, trade expanded at a much faster rate in that period than it has done subsequently, suggesting that faster growth has led to faster trade rather than the other way round.

Thus it is not the case that during the last two decades the pace of world economic integration has necessarily increased—but it has taken a new form under the regime of freer trade and capital flows represented by liberalization and globalization. The main stylized facts about the new form of world economic integration are:[33]

- Private capital flows have replaced multilateral and bilateral aid to developing countries as the main vehicle of capital transfer from rich to poor countries. Between 1984–1989 and 1990–1996, net official flows fell by nearly 50 per cent, while net private flows rose by 700 per cent.
- There has been a huge increase in portfolio flows as well as FDI during the last 15 years. Portfolio equity flows were negligible in the 1970s and 1980s, expanded rapidly in the 1990s and comprised about 15 per cent of the total capital flows in 1996.
- FDI and portfolio flows have, however, gone only to a very small number of developing countries. Fourteen countries accounted for 95 per cent of private flows to developing countries.
- Even those countries that have been major recipients of private capital inflows in the recent period have had to contend with the high volatility of these flows. This volatility has invariably proved to be highly disruptive.

Yet the experience of both developed and developing countries under liberalization and globalization has so far been disappointing. As Felix (1995) and Singh (1997) note, leading industrialized countries have been operating under a regime of more or less free trade, and more or less free movements of capital, since the early 1980s. But, contrary to expectations, the performance of the real economy of the advanced countries during this period has been less than impressive, as is indicated by the following facts:

- GDP growth in the 1980s and 1990s under liberalization is much lower than that achieved in the illiberal and regulated Golden Age of the 1950s and 1960s.
- There has been a comprehensive failure of GDP growth in the later period: 21 out of 22 OECD countries had a lower GDP growth in the second period compared to the first.
- There has been much greater variability of financial variables, such as exchange rates, and real variables, such as GDP and its components, during the 1980s and 1990s.

[33] See Singh and Zammit (forthcoming); Stiglitz, 1994; World Bank, 1999a.

- Productivity growth during the 1980s and 1990s has been half of what it was in the Golden Age.
- The critical failure, however, is with respect to employment: many European countries have been afflicted by mass unemployment, with unemployment rates in the double digits.[34]

Turning to developing countries, Rodrik (1999b) has carried out the closest direct test of the hypothesis that capital account liberalization in these countries leads to fast economic growth (or that capital controls diminish economic performance). This cross-section study, based on a sample of 100 countries over the period 1975–1989, finds no relationship between the capital account regime and three indicators of economic performance: per capita GDP growth, investment to GDP ratio, and inflation. Further, Sachs and Warner's (1995) influential study of the time suggesting that economic openness leads to faster economic growth has been sharply criticized by Rodriguez and Rodrik (1999), particularly on the grounds that the measures of openness used by Sachs and Warner are flawed. Indeed, the IMF, itself a strong advocate of free trade and free capital movements, arrives at the following overall assessment of the empirical evidence on this question:

> These studies provide useful insights into the consequences of capital account liberalization. At best, however, they provide mixed support for the hypothesis that capital account liberalization has a positive effect on economic growth. (1998b:20)

In principle, free capital movements should smooth out income and consumption over time for individuals and countries, but in practice the experience has been quite the opposite. Financial liberalization, both in developed and developing countries (particularly the latter), has invariably been associated with financial crisis (see Demirgüç-Kunt and Detragiache, 1998; World Bank, 1998b; IMF, 1998a; 1999). Similarly, the Sachs and Warner proposition that economic integration through free trade and capital movements leads to convergence has found little support in more recent work (see, for example, Rodriguez and Rodrik, 1999; Slaughter, 1998; UNCTAD, 1997). Using superior empirical methodology, Slaughter's main empirical result is that "trade liberalization did not trigger convergence in any of the four cases [that he studied]. If anything, trade seems to have caused income divergence" (1998:1).

Why has the liberal economy not delivered? Why is there such divergence between theoretical expectation and empirical reality? This subject has received a great deal of attention from economists in the last decade or so. As Chakravarty and Singh (1988) noted, the case for trade openness is, in principle, very robust. Advantages of openness go much beyond the comparative static benefits of trade emphasized in orthodox analysis. Trade openness may also benefit the economy in one or more of the following ways:

- It may enable a country to concentrate its relatively specialized resources in areas of production where the world demand is highly income- and price-elastic.

[34] See Singh (1997), which considers and rejects alternative hypotheses for the poor performance of industrialized countries during the 1980s and 1990s.

- It may lead to diffusion of knowledge, which can bring about considerable upgrading of the quality of local factors of production.
- It may lead to increased competitive pressure, which may eliminate Leibenstein's X-inefficiency.[35]
- Trade may lead to changes in income distribution, which can bring about a greater share of investment in national output.
- Openness may accelerate a Schumpeterian process of creative destruction (in simpler terms, technological progress) and thereby generate faster economic growth.

However, for these benefits to be realized, the role of the government and the question of co-ordination failures are critical. Evidence from the outstanding economic successes of East Asian economies indicates the positive role of the government in institutionalizing learning from the outside world through trade (see Freeman, 1989; Aoki et al., 1997; Singh, 1995a; 1999c). Further, the free trade model assumes that there is always full employment in all participating countries—a very tall order indeed in the real world. John Maynard Keynes was concerned with the possibilities of co-ordination failures at the international level leading to sub-optimal equilibrium of world demand, output and employment. He observed:

> … the problem of maintaining equilibrium in the balance of payments between countries has never been solved … the failure to solve the problem has been a major cause of impoverishment and social discontent and even of wars and revolutions … to suppose that there exists some smoothly functioning automatic mechanism of adjustment which preserves equilibrium only if we trust to matters of *laissez faire* is a doctrinaire delusion which disregards the lessons of historical experience without having behind it the support of sound theory (Moggridge, 1980:21-22).

During the 1950s and 1960s in industrialized countries, the problem of payments imbalances between countries was resolved at high rates of growth of world demand, output and employment. This has not been the case under financial deregulation and freer movements of capital. Theoretical work on financial flows indicates that the case for free movements of capital is far from being robust. Free trade in financial instruments is fundamentally different from free trade in goods. This is because the former is subject to asymmetric information, agency problems and adverse selection. Some of these problems can occur in trade in goods as well. But they are central to finance. Moreover, in the orthodox model, price formation in the currency or stock markets is based on rational expectations; the model assumes that the prices generated by this process are always "fundamentally efficient" in Tobin's (1984) sense. This view ignores important features of real world financial markets, such as speculation, noise trading and other psychological variables that lead to the observed herd behaviour and contagion, and, through these, to bubbles.

Significantly, the role of variables of mass psychology is fully recognized in historical studies of financial markets and financial crises. Kindleberger (1984),

[35] Leibenstein's X-inefficiency refers to the inefficiency involved when a firm does not minimize costs of production. This situation may arise when there is inadequate competition to oblige producers to minimize costs.

a leading financial historian, suggests that international capital flows have historically been subject to periodic but unpredictable bouts of euphoria and pessimism. Although ignored by adherents of the orthodox model, the importance of these psychological factors is also underlined by market participants and keen observers. In this context, it is useful to reflect on Alan Greenspan's analysis of the US stock market crash of 1987 and the Asian financial crisis of the late 1990s. Greenspan observed:

> At one point the economic system appears stable, the next it behaves as though a dam has reached a breaking point, and water (read, confidence) evacuates its reservoir. The United States experienced such a sudden change with the decline in stock prices of more than 20 per cent on October 19, 1987. There is no credible scenario that can readily explain so abrupt a change in the fundamentals of long-term valuation on that day. Such market panic does not appear to reflect a simple continuum from the immediately previous period. The abrupt onset of such implosions suggests the possibility that there is a marked dividing line for confidence. When crossed, prices slip into free fall—perhaps overshooting the long term equilibrium—before markets will stabilize.
>
> But why do these events seem to erupt without a readily evident precursor? Certainly, the more extended the risk-taking, or more generally, the lower the discount factors applied to future outcomes, the more vulnerable are markets to a shock that abruptly triggers a revision in expectations and sets off a vicious cycle of contraction.
>
> Episodes of vicious cycles cannot easily be forecast, as our recent experience with Asia has demonstrated. The causes of such episodes are complex and often subtle. In the case of Asia, we can now say with some confidence that the economies affected by this crisis faced a critical mass of vulnerabilities; *ex ante*, some were more apparent than others, but the combination was not generally recognized as critical (1998:3-4).

Chang and Singh (1999) combine these perceptions concerning the irrational exuberance and pessimism of the markets with the structural factors present in most developing countries to argue that unregulated capital flows are much too risky for these economies. The latter are subject to frequent internal and external shocks, including large and frequent terms of trade shocks. Moreover, the process of economic development is inevitably uneven, producing winners and losers, which often leads to social strife. With the knife edge quality of the confidence factor, such strife may panic skittish investors in Chicago and New York, not to speak of the rich in developing countries themselves. It is, therefore, not at all surprising to find that capital movements between the rich and the poor countries frequently run contrary to the predictions of the orthodox model. Capital does not always move from the rich countries, where its marginal product is thought to be low (because of capital abundance), to poor countries, where the marginal product should be higher owing to capital scarcity. Thus, we find that in recent years savings have been flowing from developing countries to the United States rather than the other way round. Similarly, prior to the Asian crisis, the major recipients of capital inflows were Asian economies, many of whom did not need these inflows as they already had very high savings and investment ratios (for example, the Republic of Korea and Thailand). On the other hand, the African countries with low savings and investment rates that really do need the capital do not receive it under the current regime of largely unregulated capital flows.

VII. The Asian Economic Model and the Crisis

It has become customary for US commentators to blame the serious financial crisis in Asia on the *dirigiste* capitalism that many of these countries traditionally followed. Unfortunately for the crisis-stricken countries, this view is endorsed, as we saw earlier, by Alan Greenspan and other eminent US officials, as well as by the IMF. It is argued that, although the crisis may have been triggered by short-term macro-economic imbalances, its fundamental causes were structural and micro-economic. The close relationship between governments, corporations and banks, it is suggested, led to crony capitalism and a disregard for profits in corporate investment decisions. This resulted in overinvestment, which, together with the high debt-to-equity ratios of Asian corporations, made them highly vulnerable to interest rate or exchange rate shocks. Hence the crisis and the IMF policy recommendations that the affected countries fundamentally change their economic organization, the relationship between government and business and their labour laws so as to alter the micro-economic behaviour of economic agents.

The IMF theory, although plausible, is far from convincing. It has been examined at length in Singh (1998b; 1999a) and in Singh and Weisse (1999). Other studies, notably by Feldstein (1998; 1999), also bear on this thesis. A critical weakness of the theory is that it cannot explain why these countries were so extraordinarily successful during the three decades prior to the crisis.

Singh (1999a) and Singh and Weisse (1999) note that the Bretton Woods institutions' analysis of the Asian model underwent three major transformations between 1991 and 1997. In a major study intended to represent what Bank economists had learned from four decades of development experience, it was argued that the outstanding economic success of the East Asian countries was due to their "market friendly" approach to development, with only minimal role for the government (World Bank, 1991). Further, it was suggested that these nations owed their success to their close integration with the world economy. This analysis was sharply challenged by a number of independent scholars who pointed out that, contrary to the World Bank's assertions, the state had played a vigorous role in these economies through industrial policies. Moreover, although these economies had export orientation, they continued to maintain extensive import controls. Thus the critics argued that, instead of close integration, the Asian countries had a *strategic* integration with the world economy—i.e. they opened up their economies to the point where it was useful for them to do so (Singh, 1995c).

In response to these criticisms, the Bank's second stage study (World Bank, 1993) fully accepted that the government had a large role in these economies, but insisted that the industrial policies were largely ineffective. At the policy level, the Bank made no concessions at all, emphasizing that the essential lesson of the East Asian experience was to get the prices right and to follow the country's comparative advantage. However, at the theoretical level, the World Bank represented a major advance in the thinking of its economists. For example, the close business-government relationships of the East Asian economies were rationalized in terms of the so-called deliberation councils, which, it was suggested, in the real world of incomplete and missing markets improve welfare by co-ordinating investment decisions. Similarly, the performance standards imposed by these governments on business were interpreted in terms of export contests and contingent contracts, which were conducive to economic efficiency.[36]

At the third stage, following economic crisis in East Asia, it is now being suggested by the IMF that the governments of these countries intervened too heavily all along—which, it is also suggested, was the fundamental cause of the crisis. Deliberation councils are now interpreted as crony capitalism. Export contests are, presumably, now regarded as distortions to the market mechanism.

The analysis of the crisis by Singh (1999a) and Singh and Weisse (1999) comes to rather different conclusions concerning the culpability of the East Asian model. These conclusions may be summarized as follows:

- By comparative international standards, the crisis-affected Asian economies all had strong fundamentals, as indicated below:
    - High long-term rates of growth of GDP.
    - Low, single-digit rates of inflation.
    - Very high domestic savings and investment rates.
    - Fiscal soundness with low public debt-to-GDP ratios.
    - Export orientation and high rates of growth of exports.
- Although the affected Asian countries had strong fundamentals, they suffered to varying degrees from short-term imbalances, such as overvalued exchange rates or low central bank reserves relative to the country's short-term liabilities. This required some macro-economic adjustments and restructuring of debts. However, these were problems of liquidity rather than solvency. In view of their long record of fast economic growth and export orientation, all these countries had the ability to service their debts in the medium to long term.
- The IMF's pronouncements that the crisis was structural and required fundamental changes in the organization of these economies were unhelpful. They panicked investors and helped convert a relatively minor liquidity crisis into a crisis of solvency.
- Many of the macro-economic imbalances, as well as other often-cited instances of misallocation of resources (e.g. the property bubble in Thailand), were not caused by too much government interference but by too little. In the period preceding the crisis, both the Republic of Korea and Thailand had undertaken extensive financial liberalization with the result that the governments were no longer co-ordinating allocation of resources. This led to overinvestment in certain sectors and the observed fall in the profitability of investment.
- It is generally agreed that the proximate cause of the crisis was the sudden reversal of external capital flows to Asian countries. From 1994 to 1996 net private capital inflows to Asian countries more

[36] See also Aoki et al. (1997); Singh (1999c).

than doubled, rising from $40.5 billion to $90.3 billion. However, in 1997 there was a net outflow of over $100 billion—equivalent to 10 per cent of the GDP of these countries. The overall evidence supports Radelet and Sachs' (1998) contention that this was a classic case of a panic run on the bank, where each bank considered only the short-term illiquidity of the countries concerned and consequently withdrew its funds, worsening the crisis for both borrowers and lenders.

- It is significant that, despite some liberalization, both China and India maintained extensive capital controls, and thereby escaped the Asian financial crisis. This is despite the fact that the Indian fundamentals were much weaker than those of the crisis-affected Asian countries. Further, although China had stronger fundamentals, it had nevertheless suffered recent reduced economic growth and considerable slowing export growth.
- On the basis of the above analysis, rather different policy conclusions from those of the IMF (1999) have been drawn here. It is suggested that, in view of the depth of the crisis, the affected countries should not only maintain the close government-business relationships of the Asian model, but, indeed, extend them to involve trade unions and other groups in civil society. The crisis is more likely to be resolved by co-operation and equitable sharing of the burdens of adjustment than by the social conflict that is likely to follow from introducing at external behest deep structural changes in political and economic organization.

VIII. The Washington Consensus

At the time of the Social Summit in 1995, the Washington Consensus held sway. Although its chronicler, John Williamson (1997), lists a whole checklist of policies on which the great and the good in Washington agreed, its essential points were macro-economic stabilization, reducing the role of the state in economic activity and enhancing that of the market, and seeking close integration with the world economy through trade liberalization and removal of barriers on international capital flows. Many of the issues relevant to discussion of the Washington Consensus are clearly the same as those arising in the discussion of liberalization and globalization. Its treatment here will, therefore, be brief.[37]

The central point of the critics of the Washington Consensus relates to the fact that, although it may have helped achieve price stabilization, it has not succeeded in restoring long-term economic growth. The rate of growth of Latin American economies under the Washington Consensus during the 1990s was only 3.2 per cent (see table 2), compared with a growth rate of 6 per cent achieved between 1950 and 1980. If growth continues to be elusive, it is questionable whether and at what point the architects of the Washington Consensus would concede that the experiment has failed (Singh, 1997). John

[37] For a fuller discussion see, among others, Stiglitz (1998).

Williamson (1997) responded by suggesting that, in view of the fundamental institutional changes required by these policies, five more years are necessary to assess the validity of this programme. There is, however, no reason to believe the situation will change fundamentally in the next two years when Williamson's time limit expires—particularly as all the proponents of the Consensus can offer is more of the same. Burki and Edwards (1996), for example, suggest deeper second-generation reforms, particularly to the labour market to restore economic growth. They admit, however, that such reforms would be much more difficult to carry out than the first-generation reforms already implemented.

At the same time, an alternative hypothesis (Singh, 1997) was put forward to explain the continued slow growth in Latin America in the 1990s. It was suggested that it was due to the fact that the Latin American countries opened up too much and too suddenly to the international economy, in both financial and product markets, and were unable to sustain the desired current account balance at the socially necessary GDP growth rate of 5–6 per cent per annum. These issues will be taken up further in the final section as they have a bearing not only on the Latin American economies, but also on developing economies in other regions.

IX. Meeting the Copenhagen Targets in the New Millennium

The analysis of sections III and IV concluded that, in order to achieve and maintain meaningful full employment in developing countries with modestly rising productivity and real wages, developing countries would need to achieve a trend increase in their annual growth rates to 5-6 per cent. The discussion of the last three sections has indicated why it would be difficult for them to do so in the new millennium under the present institutional arrangements of liberalization and globalization.

It is important to reflect on the fact that the main constraints to faster long-term growth in developing countries, particularly those in Asia and Latin America, do not currently lie on the supply side. After all, these countries did achieve such growth rates in the pre-1980 period (and in the case of the Asian countries, subsequently, until the current financial crisis). Most of them are better prepared now—in terms of infrastructure as well as human capital—than before to be able to use the latecomers' advantage of catch-up. The situation may be different in sub-Saharan Africa where years of slow growth may have led to considerable deterioration in infrastructure, but even many of these countries are likely to possess better human capital now than before 1970 when African countries were growing at a respectable rate of about 5 per cent per annum.

However, all countries are faced today with slow-growing and fluctuating aggregate demand. This is due, in part, to a range of factors connected with liberalization and globalization that have been explained before. As noted in that analysis, in a regime of unregulated capital movements there are important structural reasons why developing countries are likely to be subject to stop-go cycles of variable aggregate demand so as to be able to maintain the level of the current account balance expected by the market. In a fresh analysis of external constraints on developing countries, UNCTAD (1999) suggests that, contrary to the expectations of the proponents of liberalization and globalization, today, these countries can achieve sustainable current account balances only at much lower growth rates than before. UNCTAD economists ascribe this phenomenon to the much greater increase in the propensity to import than in the corresponding propensity to export for developing countries following trade liberalization. These countries are, therefore, much more dependent on external capital inflows to achieve desired rates of growth. However, for most countries, under a regime of unregulated capital flows, the required inflows are either not available or subject to wide fluctuations.

So, from the perspective of developing countries, what is required is fast growth of real aggregate demand as well as more stable demand (compatible with a sustainable current account balance). One way of achieving greater demand is through application of the orthodox prescription of labour market flexibility. This may, however, help increase demand in a single country through reduced wages and prices—but there is a fallacy of composition in the view that this proposition is valid for all countries. For if each country tries to improve its competitive position by reducing wages the net result may be the kind of competitive devaluation that occurred in the 1930s—and hence even greater instability for the international economy. Such a strategy would also lead to a competitive erosion of labour standards and would be socially divisive. If implemented by both industrial and developing countries, it would pit First World workers against each other as well as against Third World workers.

It is true that under certain conditions greater labour market flexibility may reduce fluctuations in aggregate demand. However, by definition, this will be at the expense of greater fluctuations in labour market outcomes, which may be socially unacceptable in themselves. A better method for reducing these fluctuations would be to maintain capital controls.

Similarly, instead of labour market flexibility, a better way to increase the equilibrium (i.e. compatibility with the country's sustainable current account balance) rate of growth of aggregate demand in developing countries would be to increase exports through greater access to advanced country markets. However, in view of the current high unemployment rates in many industrialized countries, such a proposal may not be practical. An alternative proposal—feasible as well as Pareto superior—is for industrialized countries to increase the trend rate of growth of real demand in their economies through co-ordinated expansion. This would increase employment and/or real wages in industrialized countries and also lead to an increase in exports and sustainable growth of demand in developing countries. It has been suggested earlier that, because of the powerful new ICTs, whose potential is very far from being realized, the growth of industrialized countries is also unlikely to be constrained on the supply side. Indeed, a faster rate of growth of aggregate real demand would lead to a greater and deeper use of the new technology in various sectors of the economy. This should result in a virtuous circle of increased demand, increased growth of output and increased productivity—as is normally the case with the introduction of technological innovations.

However, as emphasized in the introduction to this paper, industrialized countries cannot effect a trend increase in the rate of growth of real aggregate demand by simply using normal fiscal and monetary policies. In order to be effective and not lead to further payments disequilibria between leading industrialized countries, it would be necessary for the demand expansion to be *co-ordinated*. Moreover, past experience suggests that there will still be some need for restrictive institutional mechanisms at the national level, so that an increase in aggregate monetary demand translates itself into an expansion of real demand, and is not simply dissipated by a rise in wages and prices. Thus, despite the recent price stability in the industrialized countries, pay co-ordinating mechanisms may be necessary to ensure that increased aggregate demand does not lead to rising prices.

To put it another way, even if one accepts the labour market flexibility doctrine and the notion of a negatively sloped demand curve for labour, what is being suggested here is that a rightward shift of the curve is a Pareto superior alternative from which both rich and poor countries gain. However, to achieve this expansion in the rate of growth of demand in real terms and on a long-term basis, important institutional changes (either new mechanisms or renewal of and re-dedication to existing ones) will be required.[38]

Paradoxically, for the reasons outlined earlier, the implementation of this alternative policy programme (which would permit developing countries to restrict trade as well as capital flows to the desired levels) may also promote greater integration of the world economy, particularly through expansion of trade, than under liberalization and globalization. This is mainly because the rate of growth of world demand and world production would be greater in the former case than in the latter.

X. Conclusion

The central arguments of this paper can be summed up as follows:

- First, in the light of current macro-economic trends in both advanced and developing countries, the short-term prospects for reducing poverty and achieving full employment are far from encouraging.
- Second, even the prospects of achieving the Social Summit aims in these areas in the medium to long term are not at all promising if the present regime of liberalization and globalization continues. It has been suggested that this regime is sub-optimal for both developing and developed countries.
- Third, in principle, the world has the technological and intellectual capacities and the human and material resources to achieve the fast growth required to fulfil the Social Summit aims.

[38] These institutional mechanisms have been discussed more fully in Singh (1995b; 1997).

- Fourth, however, this will only be realized in practice if the alternative strategy outlined in the paper is adopted. This involves the pursuit of faster growth of real world demand through co-ordinated expansion by industrialized countries and the introduction of special and differential treatment for developing countries in a number of key spheres.

In brief, the paper has argued that a global Keynesian regime of managed world trade and controlled global capital movements—together with genuine international co-operation and more harmonious relations between employers, employees and governments nationally—are more likely to deliver fast *and* high quality growth. This would help bring about full employment and rising wages in both developed and developing countries. In analytical terms, the paper has stressed the significance of co-ordination failures on the demand side as the main obstacles to economic progress rather than supply-side deficiencies. In order for the rate of growth of real world demand to be compatible with production possibilities on the supply side, new institutions are required to resolve the co-ordination problems on a sustained, long-term basis.

This paper has not considered the crucial question of whether the fast growth proposed to meet the employment and poverty objectives would also be caring of the environment and the world's finite natural resources. This is a vast subject to which justice cannot be done here. Nevertheless, a fundamental economic point that has been made bears re-emphasis: it is the nature and quality—rather than the pace—of growth that should be at issue in this debate. Increased economic activity can lead to environmental degradation and excessive resource depletion. On the other hand, it could instead promote environmental improvement—e.g. reviving dead rivers—as well as sustainable and balanced resource use. Essentially, patterns of demand and hence patterns of production and employment may need to change, and governments and civil society will need to play a role in steering these in new directions.

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Table 1: Trends in GDP growth: Selected developing regions and industrialized countries, 1965–1996 (average annual percentage growth)

Region / country	1965–1980	1980–1989	1990–1996
Low income economies (excluding China and India)	4.8	2.9	1.4
• China	6.8	10.2	12.9
• India	3.6	5.8	3.8
Middle income economies	6.3	2.2	0.2
Latin America	6.0	1.7	3.6
Sub-Saharan Africa	4.2	1.7	0.9
South Asia	3.6	5.7	3.9
East Asia and Pacific	7.3	7.9	9.4
All low and middle income economies	5.9	3.1	1.9
High income economies	3.8	3.2	1.7
• United States	2.7	3.0	2.5
• Japan	6.6	4.1	1.2
• Germany	3.3	2.2	1.1
World	4.1	3.1	1.8

Source: World Bank, **World Development Report**, various issues, Oxford University Press, New York. Note: The World Bank defines income groups according to GNP per capita in 1994 as follows: low income $725 or less; middle income $8,955 or less; high income $8,956 or more.

Table 2: Growth of output and output per capita for advanced economies, developing countries and countries in transitions (10-year averages)

	1981–1990	1991–2000	1991	1992	1993	1994	1995	1996	1997	1998	1999
World	3.4	3.1	1.8	2.7	2.7	4.0	3.7	4.3	4.2	2.5	2.3
Advanced economies	3.1	2.3	1.2	1.9	1.2	3.2	2.6	3.2	3.2	2.2	2.0
United States	2.9	2.6	-0.9	2.7	2.3	3.5	2.3	3.4	3.9	3.9	3.3
European Union	2.4	1.9	1.7	1.1	-0.5	3.0	2.4	1.8	2.7	2.8	1.8
Japan	4.0	1.0	3.8	1.0	0.3	0.6	1.5	5.0	1.4	-2.8	-1.4
Developing countries	4.2	5.4	4.9	6.7	6.5	6.8	6.1	6.5	5.7	3.3	3.1
Regional groups											
• Africa	2.5	2.8	1.8	0.2	0.7	2.2	3.1	5.8	3.1	3.4	3.2
• Asia	6.9	7.3	6.6	9.5	9.3	9.6	9.1	8.2	6.6	3.8	4.7
• Middle East and Europe	3.0	3.5	2.7	7.0	4.0	0.6	3.7	4.7	4.4	2.9	2.0
• Western hemisphere	1.6	3.2	3.9	3.3	3.9	5.2	1.3	3.6	5.2	2.3	-0.5
• Countries in transition	2.1	-3.2	-7.4	-11.7	-6.4	-7.5	-1.1	-0.3	2.2	-0.2	-0.9
Output per capita											
• Advanced economies	2.4	1.7	0.4	1.2	0.6	2.5	1.9	2.5	2.6	1.7	1.5
• Developing countries	1.9	3.6	2.9	4.1	4.5	4.9	4.3	4.8	4.1	1.6	1.5
• Countries in transition	1.4	-3.2	-7.6	-11.9	-6.5	-7.5	-1.1	-0.1	2.2	-0.3	-1.0

Source: IMF (1999).

Table 3: GDP growth rates in Asian and Latin American countries, 1955–1998 (annual percentage)

	1955–1960	1960–1970	1970–1980	1980–1990	1990–1995	1996	1997	1998
Asia								
• China	-	5.2	5.8	9.5	12.4	9.6	8.8	7.8
• India	-	3.4	3.6	5.8	4.5	7.5	5.6	5.8
• Indonesia	-	3.9	7.6	6.1	7.0	8	4.6	-13.7
• Korea, Republic of	4.5	8.6	9.5	9.4	7.4	7.1	5.5	-5.8
• Malaysia	4.0	6.5	7.8	5.2	8.7	8.6	7.8	-6.7
• Pakistan	3.4	6.7	4.7	6.3	4.7	5.2	1.3	-3.3
• Philippines	4.4	5.1	6.3	0.9	2.2	5.7	5.1	-0.5
• Sri Lanka	-	4.6	4.1	4.0	4.5	3.8	6.4	5.0
• Taiwan, POC	-	-	-	-	6.4	5.7	6.9	4.9
• Thailand	6.8	8.4	7.2	7.6	8.3	5.5	-0.4	-9.4
Median	**4.4**	**5.2**	**6.3**	**6.1**	**6.7**	**6.2**	**5.5**	**-1.9**
Latin America								
• Argentina	3.1	4.2	2.2	-0.4	6.0	4.8	8.6	3.9
• Bolivia	-	5.2	4.8	-0.1	3.8	4.7	4.2	4.7
• Brazil	5.5	5.4	8.4	2.7	2.7	2.8	3.2	0.1
• Chile	4.0	4.5	2.8	4.1	7.4	7.4	7.1	3.4
• Colombia	3.8	5.1	5.9	3.7	4.5	2.1	3.1	0.6
• Ecuador	4.5	-	8.8	2.0				
• Mexico	5.9	7.2	5.2	1.0	1.5	5.2	7.0	4.6
• Peru	4.1	4.9	3.0	-0.3	5.5	2.5	7.2	0.7
• Venezuela	6.3	6.0	5.0	1.0	3.2	-0.4	5.1	-0.7
Median	**4.3**	**5.1**	**5.1**	**1.5**	**4.1**	**2.8**	**5.1**	**2.0**

Source: Singh (1997), updated with data from the World Bank (**World Development Report**), various years; IMF (1999).

Table 4: World output, 1990–1998 (percentage change over previous year)

Region / country	1990–1995[a]	1996	1997	1998[b]
World	1.9	3.3	3.3	2.0
Industrialized countries	1.7	2.9	2.9	2.2
•United States	2.3	3.4	3.9	3.9
•Japan	1.4	5.0	1.4	-2.8
European Union	1.3	1.6	2.5	2.7
•Euro area	1.4	1.4	2.3	2.8
•Germany	1.7	0.8	1.8	2.3
•France	1.1	1.1	2.0	3.2
•Italy	1.1	0.9	1.5	1.4
•United Kingdom	1.2	2.6	3.5	2.1
Transition economies	-8.2	-1.5	1.4	-1.3
Developing countries	4.9	5.8	5.4	1.8
Latin America	3.3	3.6	5.4	2.1
Africa	1.1	3.9	2.7	2.9
Asia	6.4	7.1	5.8	1.6
•China	12.4	9.6	8.8	7.8
•Other countries	5.1	6.4	5.0	-0.3
Memo item: developing countries, excluding China	4.0	5.2	4.8	0.8

Source: UNCTAD (1999). Notes: a.) Annual average; b.) Estimated.

Table 5: Growth in developing countries, by region, 1990–1998 (percentage change over previous year)

Region / country	1990–1995[a]	1996	1997	1998[b]
Latin America	3.3	3.6	5.4	2.1
•Argentina	6.0	4.4	8.0	4.2
•Bolivia	3.8	4.4	4.2	4.5
•Brazil	2.7	2.9	3.8	0.2
•Chile	7.4	6.8	6.4	3.3
•Colombia	4.5	2.1	3.5	0.2
•Mexico	1.5	5.5	7.1	4.8
•Paraguay	3.2	1.1	2.4	-1.0
•Peru	5.5	2.2	7.8	0.8
•Uruguay	3.6	5.0	5.0	2.5
•Venezuela	3.2	-0.9	5.5	-0.7
Africa	1.1	3.9	2.7	2.9
•Algeria	0.4	5.5	1.1	3.4
•Cameroon	-1.4	4.0	5.1	5.0
•Cote d'Ivoire	1.1	5.2	6.5	5.5
•Egypt	1.4	3.2	5.3	5.5
•Ghana	4.3	5.0	4.3	3.8
•Nigeria	2.7	3.8	3.8	2.4
•South Africa	0.8	2.5	1.7	0.1
•Uganda	7.5	6.0	5.5	4.0
•Zimbabwe	0.8	6.6	3.2	1.0
Asia	6.4	7.1	5.8	1.6
•Newly industrialized economies	6.9	6.3	6.0	1.8
•Hong Kong, China	5.5	4.5	5.3	-5.1
•Korea, Republic of	7.4	7.1	5.5	-5.5
•Singapore	8.5	6.9	7.8	1.5
•Taiwan, POC	6.4	5.7	6.8	4.8
•ASEAN-4	7.0	6.9	3.7	-9.0
•Indonesia	7.1	7.8	4.9	-13.7
•Malaysia	8.7	8.6	7.7	-6.2
•Philippines	2.2	5.8	5.2	-0.5
•Thailand	8.3	5.5	-0.4	-8.0
•ASEAN-4 (plus Rep. of Korea)	7.2	7.0	4.6	-7.3
•South Asia	4.5	7.3	4.7	5.7
•Bangladesh	4.1	5.4	5.9	5.7
•India	4.5	7.8	5.0	5.8
•Nepal	5.0	5.3	4.0	1.9
•Pakistan	4.7	5.2	1.3	5.4
•Sri Lanka	4.5	3.8	6.4	5.3
•West Asia	2.5	5.6	4.8	2.0
•China	12.4	9.6	8.8	7.8

Source: UNCTAD (1999). Notes: a.) Annual average; b.) Estimated.

Table 6: Rates of inflation in Asian and Latin American countries, 1960–1994 (average annual percentage growth of consumer price index)

	1960–1970	1970–1980	1980–1990	1990–1994	1995	1996	1997	1998
Asia								
• China	-	-	5.8	10.8	16.7	8.4	2.8	0.8
• India	7.1	8.5	7.9	10.1	10.2	9.0	7.2	3.0
• Indonesia	-	20.5	8.4	7.4	9.4	7.9	6.6	60.7
• Korea, Republic of	17.4	19.8	5.1	6.3	-	-	-	-
• Malaysia	-0.3	7.5	1.6	3.7	3.4	3.5	2.7	5.3
• Pakistan	3.3	13.5	6.7	10.8	12.4	10.3	2.5	7.8
• Philippines	5.8	13.2	14.9	9.6	8.1	8.4	6.0	9.7
• Sri Lanka	1.8	12.6	11.0	9.5	7.7	15.9	9.6	5.0
• Taiwan, POC	3.5	12.2	-	-	-	-	-	-
• Thailand	1.8	9.9	3.3	4.4	5.8	5.9	5.6	8.1
Median	3.4	12.6	6.7	9.5	8.1	8.4	6.3	7.9
Latin America								
• Argentina	21.7	130.8	395.1	27.6	3.4	0.2	0.8	0.9
• Bolivia	3.5	22.3	318.2	10.9	10.2	12.4	4.7	6.5
• Brazil	46.1	36.7	284.4	1231.5	59.6	11.1	7.9	3.5
• Chile	33.2	185.6	20.5	15.3	8.2	7.4	6.1	5.1
• Colombia	11.9	22.0	24.8	23.8	20.9	20.8	18.5	18.7
• Ecuador	-	14.4	36.7	41.0	22.7	24.4	30.6	36.1
• Mexico	3.6	19.3	70.4	13.1	35.0	34.4	20.6	16.7
• Peru	10.4	30.7	233.7	83. 0	11.1	11.5	8.5	7.3
• Venezuela	1.3	12.1	19.3	34.2	59.9	94.9	50.0	35.8
Median	11.1	22.3	70.4	27.6	20.9	12.4	8.5	7.3

Source: Singh (1997), updated with data from the IMF's **World Economic Outlook** (various years).

Table 7: Living standards in East Asia, selected years, 1970–1996

Country	Number of people in poverty (millions)		Headcount Index (per cent)		Life expectancy (at birth)		Infant mortality rate (per 1000 live births)		Net primary school enrolment (per cent)	
	1975	1995	1975	1995	1970	1996	1970	1996	1970	1995
China	568.9[a]	269.3	60[b]	22	62	70	69	33	76	99
Indonesia	87.2	21.9	64	11	48	65	118	49	76	97
Korea, Republic of	-	-	-	-	61	72	46	9	>99	100
Malaysia	2.1	<0.2	17	<1	62	72	45	11	84	91
Philippines	15.4	17.6	36	26	57	66	71	37	>99	100
Thailand	3.4	<0.5	8	<1	58	69	73	34	79	88

Source: World Bank (1998b). Notes: a.) Data are for 1978 and apply only to rural China; b.) All estimates of poverty are based on $1 per person per day poverty line at 1985 PPP prices.

Table 8: Income poverty in developing countries, 1993 (poverty line at $1 a day a person, 1985 PPP)

Region or country group	People below the poverty line (per cent)	Number of poor people (millions)
Arab states	4	11
East Asia and South-East Asia	26	446
East Asia and South-East Asia (excluding China)	14	94
Latin America and the Caribbean[a]	24	110
South Asia	43	515
Sub-Saharan Africa	39	219
Developing countries	32	1,301

Source: UNDP (1997). Note: a.) Poverty line at $2 a day.

Table 9: Human poverty in developing countries (millions, unless otherwise indicated)

Region or country group	Illiterate adults	People lacking access to health services	People lacking access to safe water	Malnourished children under 5	Maternal mortality rate (per 100,000 live births)	People not expected to survive to age 40
	1995	1990–1995	1990–1996	1990–1996	1990	1990s
All developing countries	842	766	1,213	158	471	507
Least developed countries	143	241	218	34	1,030	123
Arab states	59	29	54	5	380	26
East Asia	167	144	398	17	95	81
Latin America and the Caribbean	42	55	109	5	190	36
South Asia	407	264	230	82	554	184
South-East Asia and the Pacific	38	69	162	20	447	52
Pacific	38	69	162	20	447	52
Sub-Saharan Africa	122	205	249	28	971	124

Source: UNDP (1997).

Table 10: Indicators of the gender gap

	Sub-Saharan Africa	South Asia	East Asia	East Asia (excluding China)	Latin America and the Caribbean	All developing countries	Eastern Europe and CIS	Industrialized countries	World
Life expectancy (years)									
Female	51.5	61.2	71.3	74.9	72.1	63.5	72.9	77.8	65.4
Male	48.5	60.7	66.9	68.0	65.9	60.6	63.2	70.2	61.8
Adult literacy rate									
Female	44.4	34.3	72	95.1	84.9	60.3	98.1	98.5	70.8
Male	64.3	61.6	90	98.2	87.3	78.4	98.1	98.5	83.5
Combined primary, secondary and tertiary gross enrolment ratio									
Female	38.4	43.2	55.9	76.4	68.6	51.6	76.5	83.9	57.1
Male	46.6	59.6	61.9	82.2	69.0	60.3	73.3	81.5	63.9
Earned income share									
Female	35.5	25.3	37.7	28.1	26.9	31.7	40.2	37.7	33.3
Male	64.6	74.8	62.3	72	73.1	68.4	59.9	62.4	66.9
Gender-related development index*	0.374	0.412	0.626	0.823	0.729	0.555	0.749	0.856	0.637

Source: UNDP (1999). Note: * The gender-related development index (GDI) captures inequalities between women and men by adding three equally weighted indices—differences in life expectancy, educational attainment and income.

Table 11: Latin America: Economic activity, employment, wages and poverty, 1980–1995 (annual rates of growth and index)

Indicator	1980	1985	1990	1995
Economic activity				
GNP	-	0.6	1.9	2.9
GNP per capita	-	-1.6	-0.1	1
Inflation	-	134.8	487.5	279.4
Population and employment				
Population	-	2.1	1.9	1.8
EAP total	-	3.5	3.1	2.6
EAP urban (%)	66.9	70	72.8	75.3
Non-agricultural employment	-	3.5	4.4	3
Rate of open unemployment	6.7	10.1	8	7.8
Informality (%)	40.2	47	52.1	55.7
Public employment (%)	15.7	16.6	15.5	13.6
Wages				
Real wages in manufacturing	100	93.1	86.8	96.3
Minimum real wages	100	86.4	68.9	70.1
Poverty				
Percentage of poor households	35	37	39	-
Urbanization of poverty	-	91.3	82.9	NA

Source: Tokman (1997).

Table 12: Labour market indicators for selected Asian economies

Country	Unemployment rate			Annual employment growth rate		Annual labour force growth rate		Annual GDP growth rate		Annual growth rate of real wages in manufacturing
	1987	1993	1996	1987–1996	1993–1996	1987–1996	1993–1996	1993–1997	1997	1990–1996
China	2.0	2.6	3.0	2.2	1.7	1.5	1.1	10.4	8.8	5.5
Indonesia	2.6	2.7	4.1	2.2	2.3	2.4	2.7	7.1	4.6	-
Korea, Republic of	3.1	2.8	2.6	2.6	2.3	2.5	2.2	7.5	5.5	7.1
Malaysia	7.3	3.0	2.5	3.8	4.4	3.3	4.2	8.7	7.5	4.6
Philippines	9.1	8.9	7.4	3.1	3.9	2.9	3.4	5.0	5.1	-2.0
Thailand	5.9	1.5	1.1	1.7	0.1	1.2	-0.1	5.6	-0.4	3.3

Source: ILO (1998).

Table 13: Impact of the East Asian crisis on households (using national poverty lines[a])

Poverty incidence	Indonesia	Thailand	Republic of Korea (urban)
1997[b]	11.0	11.4	8.6
1998	19.9	12.9	19.2
Change in average standards of living 1997/1998 (per cent)	-24.4	-13.6	-21.6

Source: World Bank (1999b). Notes: a.) Poverty lines of around $1/day in Indonesia, $2/day in Thailand and $4/day in the Republic of Korea; b.) Poverty incidence for Thailand as of 1996.

Table 14: Share of different regions in world manufacturing output since 1970 (percentage)

Country / region	1970	1980	1990	1995
Industrialized countries[a]	88.0	82.2	84.2	80.3
Developing countries	12.0	17.2	15.8	19.7
• Latin America	2.4	4.9	2.0	2.6
• North Africa and West Asia	0.9	1.6	1.8	1.9
• South Asia	1.2	1.3	1.3	1.5
• East Asia[b]	4.2	6.8	7.4	11.1
• Sub-Saharan Africa[c]	0.6	0.5	0.3	0.3

Source: Kozul-Wright (1997). Notes: a.) Including the former socialist countries of Eastern Europe and also South Africa; b.) Including China; c.) Excluding South Africa.

Table 15: Actual and projected regional per capita growth rates to reduce poverty by half by the year 2015

	Per capita growth rate needed to reduce poverty by half		Real consumption per capita growth rate (%)	
			Actual	Projected
Regions	($1/day)	($2/day)	(1991–1995)	(1997–2000)
East Asia	1.2	1.9	6.9	2.0
Europe and Central Asia	0.8	1.2	0.7	0.4
Latin America and the Caribbean	1.8	2.7	2.0	0.3
Middle East and North Africa	0.3	1.2	1.1	-1.4
South Asia	1.3	4.5	1.9	3.7
Sub-Saharan Africa	1.3	4.5	1.9	3.7

Source: World Bank (1999b).

Table 16: Standardized unemployment rate, 1964–1999 (average annual percentage)

	1964–1973	1974–1979	1980–1989	1990–1999
United States	4.5	6.7	7.3	5.8
Japan	1.2	1.9	2.5	3.0
Germany	1.1	3.2	7.0	9.0
United Kingdom	3.0	5.0	9.0	7.3
Total of G-7 countries	3.1	5.0	6.9	7.1
Total EU 15	2.7	4.7	9.0	10.3
Total OECD	3.0	4.9	7.2	7.4

Source: Compiled from OECD (1995) and IMF (1999).

Table 17: Indicators of the growth of international economic activity, 1964–1994 (average annual percentage changes)

Period	World export volume	World FDI flows	International bank loans	World real GDP
1964–1973	9.2	-	34.0	4.6
1973–1980	4.6	14.8	26.7	3.6
1980–1985	2.4	4.9	12.0	2.6
1985–1994	6.7	14.3	12.0	3.2

Source: Rodrik (1999a).

Table 18: Weighted average tariffs by region and sector (per cent)

Product category	Primary products	Manufactured products	All product categories
Latin America and the Caribbean			
• 1980–1983 (4-country average)	16.8	23.6	21.3
• 1984–1987 (11-country average)	21.1	25.1	23.9
• 1988–1990 (9-country average)	17.3	22.7	20.9
• 1991–1993 (9-country average)	9.8	12.5	11.6
East Asia			
• 1980–1983 (5-country average)	10.5	21.6	18.2
• 1984–1987 (7-country average)	10.0	18.1	15.8
• 1988–1990 (7-country average)	11.1	18.0	15.7
• 1991–1993 (7-country average)	9.9	17.1	14.7
Sub-Saharan Africa			
• 1980–1983 (13-country average)	24.4	32.8	30.2
• 1984–1987 (13-country average)	20.1	23.5	22.6
• 1988–1990 (10-country average)	18.9	22.5	21.3

Source: Rodrik (1999a).

Table 19: Weighted average incidence of non-tariff measures by region and sector (per cent)

Product category	Primary products	Manufactured products	All product categories
Latin America and the Caribbean			
• 1984–1987 (4-country average)	42.8	28.4	32.9
• 1988–1990 (9-country average)	48.6	20.9	30.3
• 1991–1993 (9-country average)	16.1	1.8	6.6
East Asia			
• 1984–1987 (7-country average)	31.1	23.1	25.6
• 1988–1990 (7-country average)	18.8	8.3	11.8
• 1991–1993 (7-country average)	11.2	5.5	7.4
Sub-Saharan Africa			
• 1984–1987 (13-country average)	48.4	42.7	45.5
• 1988–1990 (10-country average)	47.4	45.4	46.1

Source: Rodrik (1999a).