Global economic trends, development and social policy at Copenhagen plus five

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GLOBAL ECONOMIC TRENDS, DEVELOPMENT AND SOCIAL POLICY AT COPENHAGEN PLUS FIVE

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GLOBAL ECONOMIC TRENDS DEVELOPMENT AND SOCIAL POLICY AT COPENHAGEN PLUS FIVE

I. Introduction: Copenhagen 1995, the financial crisis and the global economic outlook

The World Summit for Social Development in Copenhagen in 1995 took place during the course of one of the most serious financial crisis in developing economies, namely the Mexican crisis of 1994-1995. The significance of that crisis was underlined by the fact that it required a huge US-led IMF rescue package of 50 billion US dollars – the largest bail-out in the IMF history up to that point. The IMF justified the size of the Mexican assistance on the ground that country's financial melt-down posed a serious danger to the whole world monetary system. The Fund believed that the crisis could lead to the imposition of exchange controls by Mexico which were most likely then to be imitated by other developing countries. This would constitute a grave set-back for the movement towards current and capital account liberalization which 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 percent p.a. in 1994, Mexican GDP contracted by 6.2 percent in 1995 but in 1996, a positive growth rate of 5.2 percent was recorded. Similarly, in Argentina, the economy most affected by the contagion from Mexico (hence the name 'teqila crisis'), the growth rate of GDP declined from 8.5 percent p.a. in 1994 to minus 5.8 percent in 1995 and then recovered to a positive growth rate of 4.8 percent in 1996.[8]

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

Nevertheless, notwithstanding the Mexican crisis, the overall prospects at the time of Copenhagen 1995 for developing countries and indeed for the whole world economy seemed much brighter than they do today. This was due to several factors. Firstly, at that time, the East and South East Asian newly industrializing countries (NICs) were continuing to achieve historical unprecedented long term rates of economic growth. Even countries in

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[8] The data cited in this section comes from IMF (1999). Despite the V-shape economic recovery in Mexico many other effects of the financial crisis still continue to influence the economic 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 dollars bailout by the Mexican Government. This inevitably has raised serious distributional questions and continues to be a source of political controversy. For analyses of the Mexican crisis of 1994-95, both theoretical and empirical, see in particular the special issue of the Journal of International Economics, Vol. 41, Nos. ¾ November 1996. See also World Bank (1998) and UNCTAD (1999).

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 new economic policies of liberalization in the early 1990s. Further, in Sub-Saharan Africa by the mid-1990s, there were strong and promising signs of economic recovery in a number of countries after the dismal overall economic performance of that region in the previous decade and in the first half of the 1990s.

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 much more favourable at the time of the Copenhagen Summit 1995 than it is today. This was in part because, the US economy at that time was experiencing strong economic growth after recovering from the recession of the early 1990s. Most analysts agree that the prospects for US economy today are much more clouded (because of the enormous current account deficit, a possible stock market bubble the unprecedently high indebtedness of the US household sector etc.)[2] Similarly, the Japanese economy in 1995 experienced a growth rate of only 1.5 percent but the country had not yet gone into the full blown stagnation and decline of the late 1990s.

Although the economy of either developing or developed countries is not performing as well at Copenhagen plus four as it did in 1995, the policy debate on development issues has in many ways marked a definite step forward. The excesses of marketization and the adverse consequences of the diminished role of the state are being increasingly recognized in the crumbling Washington consensus in the recent period. 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.

II. Analytical issues

It was recognized in the analyses presented at Copenhagen in 1995 that in order to meet the Social Summit objectives of poverty reduction and full employment in developing countries, it is a <u>necessary</u> condition for the most of these economies to achieve an appreciable increase in their trend growth rates of the 1980s and the 1990s.[3] The East and South East Asian NICs were a striking exception to this requirement since they were already achieving near double digit rates of long term economic growth.

The central issue examined in this paper is whether developing countries at Copenhagen plus five can expand at a sufficiently fast rate in the medium to long term to fulfil the poverty reduction and employment growth goals set in Copenhagen in 1995. 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 actually realized this would require an amelioration of the constraints on the rate of growth of <u>real</u> demand in developing countries as well as in the world economy as a whole. However, it will be suggested here that the removal of these constraints is not just a technical question of

[2] See further UNCTAD (1999); Godley (1999) and Howes and Singh (Forthcoming)

[3] It is not a sufficient condition since the quality of growth as well as other characteristics of the economy e.g. the rate of inflation and fiscal policy remain relevant. These issues are discussed further below.

changing fiscal or monetary policies in particular countries but rather of carrying out major institutional changes and institutional renewal both within national economies and in the world economy as a whole. This is the reason for the emphasis in this paper on the long term growth of real demand rather than cyclical movements in nominal demand.

Indeed throughout this paper the medium to long-term economic trends in developing countries are the main objects of analysis rather than the immediate outlook (although that also receives some attention). The paper includes the following specific analyses:

i) It examines the economic record of developing countries in the 1990s in a long term historical prospective and outlines the policy issues raised by such an analysis.

ii) It reviews the complex inter-relationship between economic growth; unemployment, poverty, reduction and income inequality both conceptually and empirically. Special analytical attention is accorded to the notion of full employment, to the relationship between technical change and unemployment, to the economic significance of the information and communications technology and to labour market theories of unemployment and inflation.

iii)It sets out the changing historical conjuncture for economic development and for the development policy debate on the eve of the new millenium. The following subjects and related analytical and policy questions in relation to the development policy debate receive particular attention:

a) Liberalization and Globalization: An important question examined here is firstly why, contrary to theoretical expectations, the actual experience of many developing countries with liberalization and globalization has been negative rather than being positive, i.e. it has often resulted in crises rather than faster growth. Secondly, it is asked whether these failures are a matter simply 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.

b) Washington Consensus: Has the Washington Consensus failed? What lessons should be learnt from the operation of that policy programme? What should be the main elements of a suitable post Washington Consensus policy programme for developing countries ?

c) Asian Financial and Economic Crises: A very important and influential thesis concerning the Asian crisis suggests that the failure of Asian countries during 1997-99 can be ascribed mainly to the dirigiste and corporatist model of capitalism which many of these countries were following. This thesis will be critically examined here.

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

III. Economic development in the south in the 1990s: a long term perspective

Table 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 the 1990s, in a long term historical perspective. The data in these tables comes from three different sources – the IMF, the World Bank and UNCTAD. Although the statistics on GDP growth etc. 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 become relevant will be pointed out in the text.[4]

The following main points emerge from these tables:

i) Among developing countries, the East Asian and Pacific economies have been the most dynamic group throughout the 30-year period 1965-1996. Not only did this group of countries achieve very fast economic growth during 1965-1980, it also recorded a trend increase in the 1980s as well as in the 1990s in these already high growth rates. It is no exaggeration to say that the sustained economic growth of these countries including that of Japan (during second half of this century) is the most successful example of fast industrialization and long term growth in the entire history of mankind. Singh (1997) notes, in 1955 Korea was unequivocally an industrially backward agrarian economy. It was acknowledged to have such little scope for development that the US Congress in 1950s denied it funds for developmental purposes (Krueger, 1995). Korea's net value per capita manufacturing output was 8 US dollars per year compared to the level of 7 US dollars in India and 60 US dollars in Mexico. Since than the economy has transformed itself into an industrial giant. It is arguably the most advanced country in the world in Electronic Memory Chip Technology (DRAM). Before the Asian crisis, Korea expected to become the 4th largest car producer in the world by the year 2000. It is, therefore, most significant that a country with such an outstanding record of economic success for a long period should have become so suddenly at the end of 1990s a leading victim of the Asian financial crisis.

ii) It is important to note that between 1965 and 1980, as Table 1 indicates, the Latin American economies expanded at a rate not that far below that of the East Asian countries – at an average rate of 6 percent p.a. compared with a little over 7 percent for the latter group. Indeed as Table 3 demonstrates during that period, the fast growing Latin America economies such as Mexico and Brazil could not be distinguished statistically from East Asian NICs. However, in the 1980s, "a great

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[4] Table 1, based on world bank data, provides long term information on various countries and country-groups from mid the 1960s to the mid-1990s (the time of the Copenhagen Summit). Table 2, based on IMF data, gives statistics on gdp and on gdp per capita growth for different income and regional groupings from 1990-1998 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 the Asian and Latin American countries. Table 4 & 5 report UNCTAD data for the 1990s. Table 4 contains aggregate and Table 5 much more disaggregated data for individual developing countries in each region including Sub-Saharan Africa as well as the crisis affected Asian countries. The remaining tables are self-explanatory.

continental divide"[5] 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 the development economists. Leading 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 suggest 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 of economists have however argued that the Latin American and the African failure was basically due to the debt crisis which was caused by external shocks outside the control of these countries. When these shocks are properly measured, their combined magnitude for these countries was much greater than that for the Asian countries.[6]

iii) In the event, the Latin American countries accepted the orthodox analyses of their economic failure and fundamentally changed their economic policies towards the end of the 1980s. They adopted the policies of the so-called Washington Consensus and greatly reducing the role of the state and enhancing that of the market (including in particular that of external markets). Similar policies under the IMF and world bank structural adjustment programmes were implemented in African countries. The merits and flaws of these policies will be commented upon in section VII below. However, an important consequence of this adoption of the orthodox policy package by Latin American countries was an enormous expansion of private capital in flows. Having been starved of foreign exchange for much of the 1980s the availability of foreign private capital (portfolio as well as long term) was 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 hyper inflation in many countries in the 1980s.

However, these unregulated, often huge private capital flows proved to be a mixed blessing as they led to frequent crisis.[7] However, by the time of the Copenhagen Summit in 1995, many Latin American countries had successfully achieved price stabilization but not fast long-term economic growth. The region's performance in this respect during the 1990s has been much below its achievement in the dirigiste pre-1980 period: as table 2 indicates the growth rate in the 1990s has only been 3.2% compared with 6% before 1980.

The Sub-Saharan African economies have not been favoured by international investors so that they have continued to languish in a low level equiliblium trap despite all the structural adjustment programmes of the Bretton Woods institutions. The African growth rate in the 1990s have hardly improved over that recorded in the lost decade of the 1980s.

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[5] This the phrase used in Singh (1986).

[6] See further Taylor (1988), Fishlow (1991), Singh (1992, 1993), World Bank (1991), Krueger (1995), Blassa (1986).

[7] See further Singh and Weiss (1998)

iv) China and India. These two countries deserve special mention in this account of economic de ian 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 has sucumbed to the recent Asian financial crisis.

v) As a result of the extraordinary fast economic growth for a prolonged period in East Asia, there has been, until the recent financial crisis, a huge improvement in the standard of living of the people of the region. Poverty fell sharply between 1975 and 1995 in many leading East Asian countries (see Table 7). Particularly notable has been the achievement of Indonesia where the number of people 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 1985; on the head count index the proportion of people living in poverty decreased from 64 percent of the population to 11 percent. Life expectancy at the birth, which is normally regarded as a leading indicator of the people's health and quality of life, improved dramatically in Indonesia from 48 to 65 years and it rose considerably in all counties of the region.

A comparative perspective on 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 Copenhagen 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, whilst 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. The Table shows that despite economic recovery in Latin American countries in the 1990s, real wages in manufacturing had not recovered by 1995 to their 1980 level. Real minimum wages in 1995 were 30 percent below the 1980 level. The percentage of the poor households rose from 35 during 1980 to 39 in 1990s after having fallen for many years up to 1980. Other important information in this Table about employment and unemployment and the informal sector will be commented on in the next section.

vi) How does the Asian economic and financial crisis affect the prospects for economic growth and poverty reduction for various groups of developing countries and for the world economy as a whole? The data presented earlier in Table 1-5 suggests that advanced economies, particularly the US was hardly hit at all 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 in its aftermath as well as by an improvement in the terms of trade following the massive currency depreciations of the East Asian currencies. This is widely thought to have contributed to containing inflation in the US despite the high level of activity in the economy[9].

Turning to the crisis-affected Asian countries, these have clearly sustained huge losses to their real economies (see Table 5). In 1998, GDP in Indonesia fell by 14 percent, in Thailand by 8 percent, in ASEAN-4 as a whole by 9 percent and by over 5 percent each in Korea and Singapore. However the recovery of these economies has followed

[9] See further UNCTAD(1999), Godley (1999), Howes and Singh (forthcoming)

a V-shape pattern, mentioned earlier with respect to Mexico in relation to the Tequila crisis of 1995. Thus, even as early as 1999, South Korea is expected to have a positive growth of 6 percent; Malaysia of 2 percent in 1999 and over 6 percent in the year 2000; Thailand of nearly 4 percent in 1999 and in 2000. Even Indonesia, which suffered not just a huge economic loss as a result of the crisis but in effect a disintegration of its social fabric, is expected to have a positive growth of over 3 percent in the year 2000. (These are the most recent IMF projections and are subject to the qualifications noted in section I concerning the downside risks with respect to the future course particularly of the US economy.[9])

Latin American countries have poorer prospects during the next two years because they have not only been affected by the contagion from the Asian financial crisis but also most significantly from those of Russia and Brazil. 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 percent in 1997 to 2.3 percent in 1998 and –0.5 percent in 1999. IMF projections forecast a moderate growth rate of 3 percent in 2000, well below the long-term trend growth of 6 percent before the debt crisis of the 1980s.

With respect to the social consequences of the Asian crisis, as expected, there have been important negative affects of the contraction of the real economy in the crisis-affected countries on people's standard of living, unemployment, real wages, poverty and other social variables. These effects have been extensively studied in World Bank(1998), ILO-ARTEP (1999), Singh (1999), and ILO(1999). The World Bank group's most recent projections on the impact of the crisis on poverty in three affected Asian countries are summarised in Table 12. The group 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 and led to the significant increase in poverty indicated in Table 12[10].

vii) Despite all the setbacks of the lost decade of the 1980s in Latin America and Africa, of the Tequila crisis in the mid 1990s and the Asian crisis at the end of 1990s, developing countries have in general made enormous economic and social progress. Overall economic growth has not been as rapid during the last twenty years as it was in the "golden age" of the South's development between 1950 and 1980.[11] Nevertheless, during the last half century, economic development in the South has led to major changes in the structure of the world economy as well as in their own national economic structures. At the beginning of the period, the global economy divided itself more or less neatly into two group of countries: one which were major producers and exporters of manufactures of capital goods and technology (the North), and the other which were major producers and exporters of agriculture and raw materials (the South). As a consequence of industrialisation and of fast economic growth, particularly in the Asian NICs, the structure of the world economy on the eve of new millenium is radically different. Many developing countries today have

[9] The date in this paragraph comes from "The Economist", Sep. 25-Oct 1, 1999, p.136.
[10] See further World Bank (1999).

[11] For stimulating analysis of the South's economic performance during this period, see Patel (199 ?)

become important producers and exporters of manufactured products (see Table 13). 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 Copenhagen 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. For this purpose 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 inter-relationships between economic growth, employment and unemployment, poverty and income distribution. These inter-relationships require careful conceptual and empirical analysis in order to draw useful conclusions for policy.

IV(a) 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 which would help achieve this objective.

This affirmation of the commitment to full employment is significant for several reasons. Firstly, there is close relationship between employment and poverty reduction both 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, namely economic growth. It will be indicated below how fast economic growth may help both to reduce poverty and to increase employment.

The second reason, why the full employment commitment of Copenhagen 1995 is important is summed up well by the President of the World Bank Mr 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".

Thirdly, 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 (1994)

[12] See further OECD (1994), Clark and Oswald (1994)

observed with respect to current mass unemployment in industrial countries that apart from being an enormous economic waste, high levels of unemployment bring 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".

Fourthly, as implied in the 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 in the two groups of countries. It will be argued in this paper that the first best solution to this common North South concern lies in international cooperation between the North and South.

Fifthly, there is an intellectual reason for welcoming Copenhagen commitment to full employment. There is wide spread 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.

IV(b) Economic Growth, Full Employment and Poverty

The first question which arises here is what constitutes full employment. In this respect, there are difficult but rather different, conceptual as well as empirical issues, both for advanced and for developing countries. In 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 of full employment and price stability.[13] Following Beveridge, full employment is best viewed as the absence of involuntary unemployment. In more practical terms Beveridge (1944) suggested 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".

For developing countries, the concept of full employment raises even thornier issues. This is largely because of the fact that most of these countries 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 under-employment or low productivity work in the informal sector. Therefore, to assess whether the Copenhagen goal of full employment in developing countries is being met, requires a comprehensive and nuanced analysis of employment, unemployment, underemployment, productivity growth as well as that of real wages. 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

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[13] See further Meade (1993), Singh (1995)

[14] See further Singh and Zammit (1995), ILO-ARTEP (1990).

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 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 decrease in employment because of the existence of the informal sector. The latter is characterised by more or less fully flexible labour market. Informal sector acts as a sponge to absorb labour, leading to reduced productivity and low quality jobs. On the other hand in the formal sector, because of the 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 behavioral distinction between the formal and informal sectors. Thus as Table 11 earlier indicated lower long-term economic growth in Latin American in the 1980s and 1990s (following the debt crisis) has resulted both in reduced real wages and productivity growth and a huge increase in informal employment. Tokman(1997) notes that 80 percent of the new jobs in Latin America during 1985 to 1995 have been in the informal sector.

The experience of the fast growing Asian economies during the 1980s and 1990s but prior to the financial crisis stand in striking contrast to that of the Latin American countries. As Table 11a suggests that in the Asian countries with much faster economic growth, employment as well as real wages expanded at a very fast rate of almost 5 percent per annum. Further the formal sector expanded at the expense of 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 Copenhagen Summit objective of ‘full employment’ in developing countries. Labour force in the South as a whole is on average growing at a rate of about 3 percent 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 unemployed and underemployed, much 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 to 6 percent per annum. In view of the fact that on average the share of labour in national income is about 50 percent in developing countries, this rate of growth will imply constancy of factor shares. It will also imply a long-term growth of productivity and real wages of the order of 2-3 percent per annum.

Fast economic growth should therefore not only lead to more jobs but also more productive and remunerative jobs 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 reducing it in other important indirect ways. Economic growth generates increased government revenues, which makes it possible for there to be spent on health, education and other poverty reducing measures. Empirically, there is a well established relationship between economic growth and poverty. Ravallion (1995) estimated that in the late 1980s the elasticity of poverty reduction with respect to growth in mean incomes (assuming distributional neutrality) was 3.5 in Malaysia 3.5 in Thailand 2.8 in Indonesia, less than 2 in most of the Sub-Saharan Africa and less than 1 in Brazil. Further Morlay's (1994) study shows that poverty rose in 55 of the 58 recessions in Latin America during the 1980s it fell or remained unchanged in 25 of 32 recoveries.

The reason, why the income elasticity of poverty reduction with respect to economic growth varies between countries is because research suggests that there are variables other than growth which also affect poverty. The most important of these are: (a) Inflation and particularly unanticipated inflation; (b) Inequality of income distribution ; (c) Public expenditure; (d) Stability of economic growth; (e) Initial distribution of land and other assets (including human, e.g. education). With respect to inflation, World Bank (1998) rightly 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 the social safety nets.

Evidence presented in section III suggested that fast growing Asian countries were able to greatly increase the standard of living of the people and reduce poverty up to the time of Asian crisis, the stagnant or slow growing economies in Latin America, on the other hand, during the 1980s and the 1990s registered increased poverty. The World Bank has recently estimated the GDP growth rates required by different developing regions to meet the international development target of poverty reduction which is to reduce by half the number of absolutely poor people (people living below US dollar one a day) in 1985 prices in the world by the year 2015. (see table 13a).The Bank economics noted that with pre-Asian crisis GDP growth rates, and assuming no rise in inequality, most of the world was on track to achieve the international development target. However following the Asian crisis the projected GDP growth rates for 1997-2000 for most regions are below 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.[15]

IV(c) Economic Growth, Technical change and Employment

It is commonly believed that the fast pace of technical progress and a change in the nature of technology have been the major causes of unemployment both in 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, even to a reduction in jobs[12], i.e.; the employment elasticity of growth is zero or negative. The technology thesis as well as that of jobless growth have been examined in details in ILO (1995) and Singh (1995,1999). This research shows that neither of these hypothesis is compatible with available evidence. The most important points with respect to advanced countries may be summarized as follows:

[15] See further World Bank (1999).

[12] See for example UNDPs <u>Human Development Report</u>-1998; Grunberg (1996).

(1) Although there is evidence to suggest that there has indeed been an acceleration in technical progress because of the information and communication technology (ICT) revolution, at a broad macroeconomic 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 advance countries. The evidence suggests that the growth rate required in industrial countries before their economies start creating net new jobs has been less in the period 1974 to 1995 than during 1960 to 1973 (ILO, 1995). What this indicates is that the potential of new technology is not being realised, and being transferred into faster productivity growth, as one would normally expect.

(2) Econometric evidence for a cross section of advanced industrial countries suggests an increase over time in the employment elasticity of output growth rather than a decrease as the hypotheses of the jobless growth imply (Boltho and Glyn 1995).

With respect to developing countries which generally are 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, which 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. Frankel (1998) ascribes this phenomenon to greater competition following the liberalization of trade in Latin American countries in the recent period 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 overmanning due to lack of competition. Although the Indian economy is still relatively much more closed to outward competition than that 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 the present ICT technology on par with the major technological revolutions of the last two centuries, such as steam engine and electricity (Freeman 1999). The significance of ICT technology derives in part from the fact that it can be widely used in many different spheres of the economy as is the case with electricity and steam engine. However, the ICT technology cannot only be used as an input to various industries, but unlike electricity, it also has an ever-increasing number of direct outputs (e.g. internet). More important the trend rate of growth of productivity of ICT technology has been far faster than that of previous technological innovations. ICT productivity has been increasing at a phenomenal rate of 25 percent 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 case of ICT such price reduction has been achieved in a fraction of that time. The classical illustration of the phenomenon is that a computer that cost ten million dollars in 1980 would cost less than two thousand dollars today to provide the same computing power. From the perspective of economic development the important point is that a huge new resource is now available which in principal capable of benefiting the whole humanity and raising its standard of living, but its potential is not being fully utilized.

IV(d) 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 the several different analytical approaches to the employment question[13]. Orthodox economists look at this issue usually 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[14]. However the international agencies, following this approach, draw the same policy implications from the analysis for developed as for developing countries. Unemployment as well as other unfavourable labour market outcomes are ascribed to imperfections and the lack of flexibility in labour markets. As a cure-all, both advanced and developing countries are asked to carry out labour market reforms in order to make them more flexible.

Stiglitz (1997), Eisner (1999), Solow (1994), Galbraith (1997) and Howes and Singh (forthcoming) among others have pointed out the serious theoretical as well empirical difficulties with respect to the NAIRU approach. Nevertheless as it has been widely adopted for policy purposes particularly by the Bretton Wood institutions; it may be useful to review here some of the empirical evidence which is not compatible with the NAIRU thesis.

(1) Considering developing countries first, 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, which suggests 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 percent in the 1980s following the debt crisis of the 1990s. With the resumption of economic growth in the 1990s, real wages rose. Similar movements in real wages and economic activities have also occurred in other Latin American and in sub-Saharan African countries.

(2) The different labour market outcomes between Latin American and Asian economies summarized in Table 11 and 11a 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 at a fast rate of nearly 5 percent 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 (again at a rate of about 5 percent per annum). Similarly in Latin America both real wages and employment fell during the 1980s. These 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 as these would suggest a negative relationship between the two variables.

(3) With respect to advanced economies, the proponents of the labour market flexibility doctrine set great store by the fact that unemployment rate in Europe is much higher than that in United States. This is ascribed to more flexible labour markets in the US compared with Europe. This view however is oversimplified as is suggested by the

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[13] For differing approaches of the main schools of economic thought of the question of unemployment, see Singh (1995)

[14] For different views on the subject special issue of the *Journal of Economic Perspective*(1997) ; Vol11, No.1.

data on unemployment rates in industrial countries over the longer time period (for the last four decades) presented in Table 14a. The Table shows that German unemployment rate during the ten-years period 1964 to 1973 was on average only 1.1 percent of the labour force. The corresponding US rate at the time was over 4 percent. The German labour market was anything relatively much less flexible during this period compared with US labour market than it is today. The generally superior European performance with respect to employment in the 1960s and early 1970s compared with the US was due to the fact that these economies were growing at that time at a much faster rate than the US economy[15].

NAIRU type labour market theories of employment and inflation have similar difficulties in explaining long term changes in these variables in industrial countries. Thus during the 1930s the labour market 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 for nearly a quarter century and yet the inflation rate remained low. Most recently the US has been able to have very low unemployment rates, much below those suggested by the NAIRU approach, and still maintain price stability[16].

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

IV(e) 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 however need not detain us here[17]. More significantly, from the perspective of this paper, at a policy level this omission have been justified on the ground 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[18].

This argument however has serious limitations as has been rightly pointed out by Kanbur and Lustig (1999). Firstly, 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 over the brief period of ten years[19]. Secondly even if gini coefficient remained stable, the neglect of income distribution will not be a correct approach to policy. This is because actual policy measures

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[15] See further Singh (1995,1999).
[16] See further Howes and Singh (forthcoming, Eisner (1999), Galbraith (1997).
[17] See further Atkinson (1997), and Kanbur and Lustig (1999)
[18] See further Li, Squire and Zou (1998).
[19] Kanbur and lustig (1999) 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 eleven countries shown in the table, 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."

to promote growth and poverty reduction have distributional consequences, even in the short run, which cannot just be ignored[20].

Turning to the relationship between inequality and growth, this is both theoretically and empirically controversial. A priori the relationship between two variables can be modeled 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 this 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 countries; the significant point here is that fast economic growth does not appear to have worsened income distribution. The issue nevertheless remains controversial. Singh(1995a) has observed that although income distribution may not have become more unequal, there is evidence as well as good reasons 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 the political economy interpretations of East Asian success.

IV(f) Summary

To sum up this section has examined the interrelationship between economic growth and employment, poverty and income distribution. It has attempted to cast light on the complexities of the interrelationships between these variables which policy makers need to take into account. With respect to Copenhagen Summit central policy implication of the analysis is that developing countries need to achieve a trend increase in their growth rates, possibly to their pre-1980 long-term rates of about 6 percent per annum. This would enable them to maintain meaningful 'full employment' in the spirit of Copenhagen 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 distribution, instability of economic growth and fiscal policies of the government. Women particularly are adversely affected by the macroeconomic 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[21]. So what is required for meeting the employment and poverty reduction goals of the Copenhagen 1995 is fast growth but also better quality growth as outlined above.

A very important analytical and policy question is whether such a trend increase in economic growth is possible for developing countries under the new institutional arrangements of liberalization and globalization of world economy. This question will be taken up in last section. Before that other issues in the development policy debate relating to liberalization and globalization, the reasons for Asian crisis, the 'Washington consensus' and new international financial architecture will be briefly reviewed.

[20] 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 comprehensive structural model or as Kanbur and Lustig (1999) emphasizes nuanced case-by-case analysis.

[21] For detailed discussion of this issue, see Singh and Zammit (Forthcoming)

V. Changing Historical Conjuncture and the Development Policy Debate

It was seen earlier that developing countries as a whole achieved unparallel material progress between 1950 and 1980, growing at an average rate of 6 per cent per annum. Since this "Golden Age" the average growth rate has been slower, mainly 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 Latin America and Asia in 1990s. It is important to appreciate that the Golden Age of South's development between 1950 and 1980 took place during a particularly propitious historical conjuncture:

i) the advanced industrial countries were in the period 1950-73 experiencing an unprecedented boom, their own golden age. During this quarter century West European economies grew at a rate of nearly 5 per cent per annum, which was twice the rate that they had ever experienced before for any sustained period over the previous two centuries. As seen earlier, not only did they experience more or less full employment over this long period but countries like Germany and France had over-full employment in the sense that an additional 10 per cent of the labour force came from abroad.[22]

ii) There was contention between two systems: the liberal democratic capitalist West and the single-party planned economy regimes in Eastern Europe and the USSR. This contention provided space for developing countries to pursue their own industrialisation projects, often with tangible assistance from both sides in the cold war.

iii) The global economic environment, in part, shaped 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, provided a stable framework for expansion of trade, the trading system itself was 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 matter is that GATT provided a more favourable environment for industrialisation in developing countries than any system before or since. The industrial countries, for example agreed to the principle of discrimination against themselves, in the sense that developing countries (including Japan upto the late 1960s) , were allowed to restrict imports from developed countries while being given much freer access to restrict their exports.[23]

iv) The rules of the game also permitted developing countries to pursue national industrial policies which enabled many of them to create a substantial export capacity, further assisting their industrialisation.[24]

During the last 20 years and on the eve of the new millenium, this situation has changed dramatically. In particular:

1. Not only has the cold war come to an end, but the new trading regime under the WTO has whittled away the concept of special and differential treatment for developing countries and enshrined instead the concept of reciprocity and national treatment. This

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[22] For a fuller discussion of these issues, see Blyn *et al* (1990), Singh (1995, 1999), Kindleberger (1992)
[23] The MFA was an obvious exception to this rule but it does not invalidate the statement in the text.
[24] See further Amsten (1989); Wade (1990); Singh (1995a, 1995b); Chang (1994).

will make it progressively more difficult for developing countries to use protection or state industrial policy as instruments of industrialisation.[25]

2. The internal and external financial liberalisation which began with the industrial 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 other parallel movements in the domestic economies of both developing and developed countries which has enhanced greatly the role of the market and seriously diminished that of the state- through deregulation, privatisation and liberalisation of the product, labour and capital markets.

3. The project of liberalisation and globalisation which essentially consists of free trade and free capital movements has, in the recent, made rapid progress in incorporating developing countries, partly as a result of the debt crisis of the 1980s and 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 observed as follows in relation to the Asian financial crisis: "…in the last decade or so, the world has observed a consensus towards, a 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 breakdown on the Berlin Wall in 1989 and the massive shift away 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 percent a year".

4. So, as we enter the 21st century, developing countries are faced with a powerful thesis that there is only one form of economic organisation which is viable in the long run, namely the liberal capitalism of the anglo-saxon variety. This thesis is being increasingly accepted by the international community, in part, because of the overwhelming US hegemony 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, on changes in fundamental micro- economic behaviour of corporations and banks towards the UK-US pattern.[26]

The question for Copenhagen 2000 will be whether these proposed new institutional arrangements strengthening liberalisation and globalisation are likely to help or to hinder the achievement of the Summit goals of full employment and poverty reduction. This question will be answered, first, indirectly below, by reviewing some of the main issues in the evolving development policy debate . It will then be taken up directly in the last section.

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[25] See, however, Singh (1997).
[26] See further Chang and Singh (1999).

VI. World Economic Integration under Liberalisation and Globalisation

The proponents of liberalisation and globalisation claim that these help the integration of world economy which, in turn, generates fast economic growth (through better allocation of resources, 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 Warmer, 1995).

Table 15 summarises information on the integration of the world economy during the last four decades through trade, FDI flows and bank loans. An important point that emerges from this table is that the world economy was integrating quite rapidly even before liberalisation and globalisation. The volume of world exports expanded at a far faster rate during 1964-73 than they have during the 1980s and 1990s. Since world real GDP also expanded at a much faster rate during 1964-73 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 table 16 and 17 lends some further support to this point. The two tables suggest that the tariffs and the non-tariff barriers to trade have been declining in Latin America and East Asia since 1980; In the early 1980s, these were twice as high as in the early 1990s in the two regions. These are likely to have been higher still during the period 1964-73. Not withstanding these greater restrictions on trade, the latter 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 increased but that it has taken a new form under the regime of freer trade and capital flows represented by liberalisation and globalisation. The main stylised facts about the new form of world economic integration are:[27]

1. 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 1984-89 and 1990-96, net official flows fell by nearly 50 percent while net private flows rose by 700 percent.
2. There has been a huge increase in portfolio flows as well as FDI during the last 15 years. Portfolio equity flow were negligible in the 1970s and 1980s, expanded rapidly in the 1990s and comprised about 15 percent of the total capital flows in 1996.
3. FDI and portfolio flows have, however, gone only to a very small number of developing countries. Fourteen countries accounted for 95 percent of private flows to developing countries.
4. Even those countries who have been major recipients of private capital inflows in the recent period have helped to contend with the high volatility of these flows, which have invariably proved to be highly disruptive.

However, the experience of both developed and developing countries under liberalisation and globalisation has so far been disappointing. As Feelix (1996) and Singh (1997) note, leading industrial 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. However,

[27] See further Singh and Zannit (forthcoming).

contrary to *apriori* expectations, the performance of the real economy during this period has been less than impressive as is indicated by the following facts:

- GDP growth in the 1980s and 1990s under liberalisation 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 also been during this period much greater variability of both financial variables, such as the exchange rates, and real variables such as GDP and its components.
- 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 with mass unemployment, with unemployment rates in double digits.[28]

Turning to developing countries, Rodrik (1999) has carried out the closest direct test of the hypothesis that capital account liberalisation 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 1975-89, finds no relationship between the capital account regime and the following three indicators of economic performance: a) per capita GDP growth, b) investment in GDP ratio and c) inflation. Further Sachs and Warner's (1995) influential study of the time that economic openness leads to faster economic growth has been sharply criticised by Rodriguez and Rodrik (1999), particularly on the grounds that the measures of openness used by Sachs and Warner are flawed. Indeed the IMF which is a strong advocate of free trade and free capital movements, itself arrives at the following overall assessment of the empirical evidence on this question: "These studies provide useful insights into the concequences of capital account liberalisation. At best, however, they provide mixed support for the hypothesis that capital account liberalisation has a positive effect on economic growth"

In principle, free capital movements should smoothe out income and consumption over time for individuals and countries, but in practice, the experience has been quite the opposite. Financial liberalisation, both in developed and developing countries (particularly the latter) has invariably been associated with financial crisis (see further Demirguc-Kunt and Detragiache, 1998; World Bank, 1998; IMF, 1998). 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 concludes that the main empirical result of his analysis is that "trade liberalisation did not trigger convergence in any of the four cases (which he studied). If anything, trade seems to have caused income divergence.

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[28] See further Singh (1997) which also considers and rejects alternative hypothesis for the poor performance of industrial countries during the 1980s and 1990s.

Why hasn't the liberal economy 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 comparitive static benefits of trade emphasised an orthodox analysis. Trade openness may also benefit the economy in one or more of the following ways:

1. It may enable a country to concentrate its relatively specialised resources in areas of production where the world demand is highly income and price elastic.
2. It may lead to diffusion of knowledge which can bring about considerable upgrading of the quality of local factors of production.
3. It may lead to increased competitive pressure which may eliminate Leibenstein's X-inefficiency.
4. Trade may lead to changes in income distribution which can resolve in bringing about greater share of investment in national output.
5. Openness can accelerate a Schumpeterian process of creative destruction and thereby generate faster economic growth.

However, for these benefits to be realised, the role of the government and the question of coordination failures is critical. Evidence from the outstanding economic success of East Asian economies indicate the positive role of the government in institutionalising learning from the outside world through trade (see further Freeman, 1989; Aoki *et al*, 1998; Singh,1995a and 1999). 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 Mayard Keynes was concerned with the possibilities of coordination 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)

During the 1950s and 1960s in industrial countries, the problem of payments imbalances between countries was resolved at high rates of growth of world demand, output and employment. This is not been the case under financial deregulation and freer movements of capital. Theoretical work on financial flows indicate 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 financial markets, such as the currency or the stock markets are 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 the real world financial markets, such as speculation, noise trading as well as other psychological variables which lead to the observed herd behaviour, contagion and through these to bubbles.

Significantly, the role of these variables of mass psychology is fully recognised in historical studies of financial markets and financial crises. Kindleberger, a leading financial historian suggests that international capital flows have historically been subject to a periodic but unpredictable bouts of euphoria and pessimism. Although ignored by the adherents of the orthodox model, 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 percent 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 suggest 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 stabilise."

But why do these events seem to erupt without 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 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 recognised as critical."

Chang and Singh (1999) combine these perceptions concerning the irrational exhuberance 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 gainers 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 the recent period 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, Thailand or Korea). On the other hand, the African countries, with low savings and investment rates, who really need the capital do not receive it under the current regime of largely unregulated capital flows.

VII. Asian Economic Model and the Crisis

It has become customary for US commentators to blame the serious financial crisis in Asia on the dirigiste model of capitalism which many of these countries have traditionally followed. Unfortunately for the crisis stricken countries this view is endorsed, as we saw earlier, by Alan Greenspan and other high 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 the government, the corporations and the banks, it is suggested, led to crony capitalism and a disregard of profits in corporate investment decisions. This resulted in over investment which together with the high debt-equity ratios of Asian corporations made them highly vulnerable to interest rate or exchange rate shocks. Hence the crisis and the IMF policy recommendations for the affected countries which require fundamental changes in their economic organisation, the relationship between government and business, labour laws so as to alter the micro economic behaviour of economic agents.

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

Singh (1999) notes, that the Bretton Woods institutions' analysis of the Asian model have undergone three major transformations between 1991 and 1997. In a major study, World Bank (1991), which was supposed to represent what Bank economists had learnt from four decades of development experience, it was argued that the outstanding economic success of the East Asian countries was due to the fact that the governments followed a 'market friendly' approach to development with only a minimal role of the government. 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, 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 upto the point where it was useful for them to do so.

In response to these criticisms, at the second stage, the Bank's new 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, emphasising that the essential lesson of the East Asian experience was still to get the prices right and to follow the country's comparitive advantage. However, at the theoretical level, World Bank (1993) represented a major advance in the thinking of the Bank economists. For example, the close business-government relationships of the East Asian economies were rationalised in terms of the so called 'deliberation councils' which, it was suggested, in the real world of incomplete and missing markets improve welfare by coordinating 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.[29]

At the third stage, with the economic crisis in East Asia, it is now being suggested by the IMF that the government in these countries intervened too heavily all along which, it is 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 the authors mentioned earlier comes to rather different conclusions concerning the culpability of East Asian model. These conclusions may be summarised as follows:

1. The crisis affected Asian economies, all had, by comparitive international standards, 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

2. Although the affected Asian countries had strong fundamentals, they suffered to varying degrees from short term imbalances, such as, over-valued exchange rates or low value of central bank reserves relative to the country's short term liabilities. This required some macro economic adjustments and re-structuring of debts. However, these were problems of liquidity rather than solvency. In view of their long time record of fast economic growth and export orientation, all these countries had the ability to service their debts in the medium to long term.

3. IMF's pronouncements of the period suggesting that the crisis was structural which required fundamental changes in the organisation of these economies were unhelpful. These panicked the investors and helped convert a relatively minor liquidity crisis into a crisis of solvency.

4. 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 Korea and Thailand had undertaken extensive financial liberalisation with the result that the government was no longer coordinating allocation of resources. This led to over investment in certain sectors and the observed fall in the profitability of investment.

5. It is generally agreed that the proximate cause of the crisis was the sudden reversal of the external capital flows to Asian countries. From 1994 to 1996 net private capital

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[29] See further Aoki et al (1998) and Singh (1999c)

inflows to Asian countries more than doubled, rising from 40.5 billion dollars to 90.3 billion dollars. However, in 1997, there was a net outflow of over 100 billion dollars which was equivalent to 10 per cent of the GDP of these countries. The overall evidence supports Radelet and Sachs (1998) 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, making the crisis worse for both borrowers and lenders.

6. It is significant that neither India nor China which despite some liberalisation maintained extensive capital controls escaped the financial crisis. This is despite the fact that the Indian fundamentals were much weaker in those of the crisis-affected Asian countries. Further, although China had stronger fundamentals, it had nevertheless suffered, in the most recent period, reduced economic growth and considerable slowing down of the growth of its exports.

7. On the basis of the above analysis, Singh (1999b) draws rather different policy conclusions from those of the IMF. He suggests 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 to extend them to involve trade unions and other groups in civil society. The crisis is more likely to be resolved by cooperation and equitable sharing of the burdens of adjustment rather than by social conflict which is likely to follow from introducing at external behest deep structural changes in the political and economic organisation of country.

VIII. Washington Consensus

At the time of Copenhagen Summit in 1995, the Washington Consensus still held sway. Although its chronicler, John Williamson, lists a whole checklist of policies on which the great and the good in Washington agreed, its essential points were: a) macro economic stabilisation; b) reducing the role of the state in economic activity and enhancing that of the market; c) seeking close integration with the world economy through trade liberalisation as well as removal of barriers on international capital flows. Many of the issues in relation to this subject, that is, the Washington Consensus, are clearly the same as those which arise in the discussion of liberalisation and globalisation. Its treatment here will, therefore, be brief.

The central point of the critics of the Washington Consensus relates to the fact that although it may have helped achieve price stabilisation, 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 percent (see table 2), compared with a growth rate of 6 percent achieved between 1950 and 1980. Singh (1997) pointedly asked that if growth continues to be elusive, at what point would the architects of the Washington Consensus concede that the experiment has failed. John Williamson 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. Edwards and Burki, for example, suggest deeper second generation reforms, particularly to the labour market to restore economic growth. They, however, admit that such reforms would be much more difficult to carry out than the first generation reforms already implemented.

Singh(1997) put forward an alternative hypothesis to explain the continued slow growth in Latin America in the 1990s. He suggested that it was due to the fact that the Latin American countries opened up too much and too suddenly to the international economy, both in the financial and product markets, and were unable to sustain the desired current account ballance at the socially necessary GDP growth rate of 5-6 percent 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 Millenium

To conclude this essay it will be useful to return to the central policy conclusions in relation to Copenhagen Summit which emerged from the analysis of sections III and IV. This suggested that in order to achieve and to maintain meaningful "full employment" in developing countries in the spirit of Copenhagen with modestly rising productivity and real wages, developing countries would need to achieve a trend increase in their growth rates to 5-6 percent per annum. The discussion of the last three sections has indicated why it would be difficult for them to do so in the new millenium under the present institutional arrangements of liberalisation and globalisation.

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. These countries, after all, did achieve such growth rates in the pre-1980 period as well as in the case of the Asian countries, also 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 late comers 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 the 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 percent per annum.

However, these countries are faced today with slow-growing and fluctuating aggregate demand. This is due to various factors connected with liberalisation and globalisation which 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 current account balance. In a fresh analysis of external constraints on developing countries, UNCTAD (1999) suggests that contrary to the expectations of the proponents of liberalisation and globalisation, these countries can, today, achieve sustainable current account balances only at a 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 liberalisation. 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 are 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 the 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 competitive devaluations of the kind which occurred in the 1930s and hence even greater instability for the international economy. Such a strategy will also lead to a competitive erosion of labour standards and would be socially divisive. If both industrial and developing countries implemented it, this will 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. compatible 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 industrial countries, such a proposal may not be practical. An alternative proposal which is feasible as well as being Pareto superior is for industrial countries to increase the trend rate of growth of real demand in their economies through a coordinated expansion. This would both increase employment and/or real wages in industrial 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 availability of the powerful new technology of ICT, whose potential is very far from being realised, the growth of industrial 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 of productivity as is normally the case with the introduction of new technological innovations.

However, as emphasised in the Introduction to this essay, industrial 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 industrial countries, it would be necessary for the demand expansion to be coordinated. 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 not just be dissipated by a rise in wages and prices. Thus, despite the recent price stability in industrial countries, pay coordinating mechanisms may be necessary to ensure that increased aggregate demand does not lead to rising prices.

To put it in other 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 institutional mechanisms or renewal and rededication of existing ones) will be required.[30]

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 liberalisation and globalisation. 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 main burden of this essay has been to argue that, in the light of the current trends in the world economy, the prospects of meeting the targets of Copenhagen Summit in the new millenium under the present institutional arrangements in the world economy are not very encouraging. An alternative strategy of a trend increase in world demand through coordinated expansion by industrial countries, together with provision for special and differential treatment for developing countries in certain spheres, has been proposed instead. This would not only help bring full employment with rising real wages in developing countries, but also in industrial economies. It would also lead to greater world economic integration through faster expansion of world trade than would otherwise be the case.

[30] These institutional mechanisms have been discussed more fully in Singh (1995, 1997).

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Tables

Table 1: Trends in GDP growth: Selected developing regions and industrial countries 1965-96 (Average annual percentage growth)

Region / country	**1960-85**	**1980-89**	**1990-96**
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
US	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

Note: The World Bank defines income groups according to GNP per capita in 1994 as follows:
Low income $725 or less
Middle income $8955 or less
High income $8956 or more

Source: World Bank (1992, 1996) ; IMF (1996)

Table 2: Summary of growth of output and output per capita for advanced economies developing countries and and countries in transitions (Ten year averages)

	1981-90	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 tarnsition	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, 1955-98 (Annual percentage)

	1955-60	1960-70	1970-80	1980-90	1990-95	1996	1997	1998
Asia								
China	-	5.2	5.8	9.5	12.4	9.6	8.8	7.8
India	-	3.4	3.6	5.3	4.5	7.8	5.0	5.8
Indonesia	-	3.9	7.6	5.5	7.0	6.9	3.7	-9.0
Korea	4.5	8.6	9.5	9.7	7.4	7.1	5.5	-5.5
Malaysia	4.0	6.5	7.8	5.2	8.7	8.6	7.7	-6.2
Pakistan	3.4	6.7	4.7	6.3	4.7	5.2	1.3	5.4
Philippines	4.4	5.1	6.3	0.9	2.2	5.8	5.2	-0.5
Sri Lanka	-	4.6	4.1	4.0	4.5	3.8	6.4	5.3
Taiwan POC	-	-	-	-	6.4	5.7	6.8	4.8
Thailand	6.8	8.4	7.2	7.6	8.3	5.5	-0.4	8.0
Median	**4.4**	**5.2**	**6.3**	**5.3**	**6.7**	**6.3**	**5.3**	**-6.9**
Latin America								
Argentina	3.1	4.2	4.4	-0.4	6.0	4.4	8.0	6.0
Bolivia	-	5.2	4.4	-0.1	3.8	4.4	4.2	3.8
Brazil	5.5	5.4	2.9	2.7	2.7	2.9	3.8	2.7
Chile	4.0	4.5	6.8	4.1	7.4	6.8	6.4	7.4
Colombia	3.8	5.1	2.1	3.7	4.5	2.1	3.5	4.5
Ecuador	4.5	-		2.0				
Mexico	5.9	7.2	5.5	1.0	1.5	5.5	7.1	1.5
Peru	4.1	4.9	2.2	-0.3	5.5	2.2	7.8	5.5
Venezuela	6.3	6.0	-0.9	1.0	3.2	-0.9	5.5	3.2
Median	**4.3**	**5.1**	**3.6**	**1.0**	**4.1**	**3.6**	**5.9**	**4.1**

Source: Singh, 1997; Updated with data from the World Bank (world development reports), various years and IMF's world economic output May, 1999

Table 4: World output 1990-98 (Percentage change over previous year)

Region / country	1990-95[a]	1996	1997	1998[b]
World	1.9	3.3	3.3	2.0
Industrialized countries of which	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
Of which				
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 of which	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
Of which				
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

Note: a: Annual average, b: Estimated
Source: UNCTAD 1999

Table 5: Growth in developing countries, by Region, 1990-98
(Percentage change over previous year)

Region / country	1990-95[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'lvoire	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 industrializing economies	6.9	6.3	6.0	1.8
Hong Kong, China	5.5	4.5	5.3	-5.1
Republic of Korea	7.4	7.1	5.5	-5.5
Singapore	8.5	6.9	7.8	1.5
Taiwan Province of China	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

Note: a= Annual average; b Estimate
Source: UNCTAD 1999

Table 6: Rates of Inflation in Asian and Latin American Countries, 1960-94 (Average annual percentage growth of consumer price index)

	1960-70	1970-80	1980-90	1990-94	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	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 IMF World economic outputs various years

Table 7: Living standards in East Asia, selected years, 1970-96

	Number of people in poverty (million)		Headcount Index[a] (percent)		Life expectancy (at birth)		Infant mortality rate (per 1000 live births)		Net primary school enrollment (percent)	
Country	**1975**	**1995**	**1975**	**1995**	**1970**	**1996**	**1970**	**1996**	**1970**	**1995**
China	568.9*	269.3	60[a]	22	62	70	69	33	76	99
Indonesia	87.2	21.9	64	11	48	65	118	49	76	97
Korea, Rep. 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

Note: All estimates of poverty are based on $1 per person per day poverty line at 1985 PPP prices.
a. Data are for 1978 and apply only to rural China

Source: World Bank 1998c

Table 8: Income poverty in developing countries

Region or Country Group	People below the poverty line (percent) 1993	Number of poor people (millions) 1993
Arab states	4	11
East Asia and South East Asia	26	446
East Asia and South East Asia (excl. China)	14	94
Latin America and the Caribbean	24	110
South Asia	43	515
Sub-Saharan Africa	39	219
Developing Countries	32	1301

Source: UNDP (1997) ; p. 27.

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	**1990-95**	**1990-96**	**1990-96**	**1990**	**1990s**
All developing countries	842	766	1213	158	471	507
Least developed countries	143	241	218	34	1030	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) p. 27

Table 10: Indicators of the gender gap

	Sub-Saharan Africa	South Asia	East Asia	East Asia (excl. China)	Latin America and Caribbean	All developing countries	Eastern Europe and CIS	Industrial 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: Human Development Report, 1999, p. 224.

Table 11: Latin America: Economic Activity, Employment, Wages and Poverty, 1980-95 (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
Nonagricultural 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 household	35	37	39	-
Urbanization of poverty	-	91.3	82.9	Na

Source: Tokman (1997)

Table 12: Impact of the East Asia crisis on households (Using national poverty lines[a])

Poverty incidence	Indonesia	Thailand	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 (percent)	-24.4	-13.6	-21.6

Note: [a]Poverty lines of around $1/day in Indonesia, $2/day in Thailand and $4/day in Korea.
[b]Poverty incidence for Thailand as of 1996.

Table 13: 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 of which:	12.0	17.2	15.8	19.7
Latin America	2.4	4.9	12.0	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

Note: a Including the former socialist countries of Eastern Europe and also South Africa
b Including China
c Excluding South Africa

Source: UNIDO data base (Kozul-Wright R, 1997)

Table 14: Actual and projected regional per capita growth rates

	Per capita growth rate needed to reduce poverty by half		Real consumption per capita growth rate (%) Actual	Projectected
Regions	**($1/day)**	**($2/day)**	**(1991-95)**	**(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: The World Bank

Table 15: Indicators of the growth of international economic activity, 1964-94 (Average annual percentage changes)

Period	World Export Volume	World FDI Flows	International Bank Loans	World Read GDP
1964-73	9.2	..	34.0	4.6
1973-80	4.6	14.8	26.7	3.6
1980-85	2.4	4.9	12.0	2.6
1985-94	6.7	14.3	12.0	3.2

Source: J. Perraton, et al., "The Globalization of Economic Activity", New Political Economy, Vol. 2, No. 2, July, 1997

Table 16: Weighted average tariffs by region and sector (Percent)

Product Category	Primary Products	Manufactured Products	All Product Categories
Latin America and the Caribbean			
1980-83 (4 – country avg.)	16.8	23.6	21.3
1984-87 (11 – country avg.)	21.1	25.1	23.9
1988-90 (9 – country avg.)	17.3	22.7	20.9
1991-93 (9 – country avg.)	9.8	12.5	11.6
East Asia			
1980-83 (5 – country avg.)	10.5	21.6	18.2
1984-87 (7 – country avg.)	10.0	18.1	15.8
1988-90 (7 – country avg.)	11.1	18.0	15.7
1991-93 (7 – country avg.)	9.9	17.1	14.7
Sub-Saharan Africa			
1980-83 (13 – country avg.)	24.4	32.8	30.2
1984-87 (13 – country avg.)	20.1	23.5	22.6
1988-90 (10 – country avg.)	18.9	22.5	21.3

Source: Reproduced from Rodrick, 1999

Table 17: Weighted average incidence of non-tariff measures by region and sector (Percent)

Product Category	Primary Products	Manufactured Products	All Product Categories
Latin America and the Caribbean			
1984-87 (4 – country avg.)	42.8	28.4	32.9
1988-90 (9 – country avg.)	48.6	20.9	30.3
1991-93 (9 – country avg.)	16.1	1.8	6.6
East Asia			
1984-87 (7 – country avg.)	31.1	23.1	25.6
1988-90 (7 – country avg.)	18.8	8.3	11.8
1991-93 (7 – country avg.)	11.2	5.5	7.4
Sub-Saharan Africa			
1984-87 (13 – country avg.)	48.4	42.7	45.5
1988-90 (10 – country avg.)	47.4	45.4	46.1

Source: Reproduced from Rodrick, 1999

Table 11a: Labour market indicators for selected Asian and Pacific economies

	Unemployment rate			Annual employment growth rate		Annual labour force growth rate		A g
	1987	1993	1996	1987-96	1993-96	1987-96	1993-96	1993
China	2.0	2.6	3.0	2.2	1.7	1.5	1.1	10.
Indonesia	2.6	2.7	4.1	2.2	2.3	2.4	2.7	7.
Korea, Rep. of	3.1	2.8	2.6	2.6	2.3	2.5	2.2	7.
Malaysia	7.3	3.0	2.5	3.8	4.4	3.3	4.2	8.
Philippines	9.1	8.9	7.4	3.1	3.9	2.9	3.4	5.
Thailand	5.9	1.5	1.1	1.7	0.1	1.2	-0.1	5.

Source: ILO (1999) World Employment Report