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Private Sector Development Programmes: Comparative Case Studies of Selected Countries in Asia and Latin America

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PRIVATE SECTOR DEVELOPMENT PROGRAMMES: COMPARATIVE CASE STUDIES OF SELECTED COUNTRIES IN ASIA AND LATIN AMERICA

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AICO	ASEAN Industrial Cooperation Scheme
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BOLT	Build, Operate, Lease and Transfer
BOO	Build, Operate and Own
BOT	Build, Operate and Transfer
CEPT	Common Effective Preferential Tariff
ECA	Economic Commission for Africa
EEC	European Economic Community
EPZ	Export Processing Zone
ESCAP	Economic and Social Commission for Asia and the Pacific
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
IDA	International Development Association
IDB	Inter-American Bank
ILO	International Labour Office
IMF	International Monetary Fund
MIGA	Multilateral Investment Guarantee Agency
NAFTA	North American Free Trade Association
NIE	Newly Industrialized Economy
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
R & D	Research and Development
SAARC	South Asian Association for Regional Cooperation

SMEs	Small and Medium-Sized Enterprises
SOEs	State-Owned Enterprises
TFP	Total Factor Productivity
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organization

EXECUTIVE SUMMARY

The study reviews the experiences of relatively successful Asian and Latin American countries in promoting private sector development and identifies areas in which African countries can draw lessons and best practices for promoting their private sectors as engines of growth. Chapter 1 covers the factors influencing private sector development; chapter II examines selected case studies; and chapter III attempts to draw some positive lessons and best practices for Africa.

There was no uniform model of development applied throughout Asia and Latin America. However, in explaining the robust growth in many Asian and Latin American countries until the recent financial crisis, various studies have pointed out how central to the performance of most of these economies was the emphasis on stability-oriented macro-economic policies. Other crucial factors included strategic and sustained policy reform and continued inflows of foreign capital to priority enterprises and sectors. Policies were backed with well-targeted government interventions, private sector initiatives, and public-private partnership. Another significant trend was the attention given to provision of support facilities for business, infrastructure and human resources development, basic services, research and development (R&D) and to other areas key to private sector development.

Many Asian and Latin American developing economies have demonstrated the importance of a catalytic role for government, in building on past investments in human, physical, and institutional capital, and in initiating and supporting comprehensive, integrated private sector development programmes that foster economic growth and industrial development. The private sector was seen as the important factor for growth and economic stability, and strategic productive sectors were targeted, stimulated and supported accordingly. Industrial and technological development depends crucially on provision of basic infrastructure and human capital.

Many Asian countries constructed their strategic policy framework around a well-developed, long-term vision for their economies. They then designed and implemented policies for an integrated approach to realization of this vision, explicitly taking the view that what was good for the private sector was also good for them in terms of taxes, public welfare, economic growth, etc. Therefore, the State's role became one of doing everything necessary to ensure the private sector's success. The central features of the high-growth Asian economies were:

- High rates of investment;
- Well-defined pro-savings policies and programmes,
- Human capital formation;
- Export promotion; and
- Stable macro-economic conditions.

Although the scope, sequencing and speed of reforms differed from country to country, comprehensive reform programmes included almost all facets of the economy, such as factor markets, industry, trade, agriculture, infrastructure, financial and public sectors. The basic objectives of the reforms were to:

- Reduce the scope of the public sector;
- Create an enabling environment for private sector participation;
- Encourage government-private sector partnership for dynamic overall growth; and
- Enhance the international competitiveness of domestic industries, particularly Small and Medium-Scale Enterprises.

Government developed mechanisms for working with private sector representatives to design effective government policies. In most cases, this partnership evolved out of an import substitution strategy, accompanied by some protection of infant industries and development of SMEs, human resources and infrastructure. This period was followed by local manufacturing of equipment, in targeted sectors.

Similarly, by the 1990s, many Latin American countries made major shifts towards the private sector as a result of market-friendly economic reform and regional integration policies. Support for an economic role for public sector enterprises and a strong State role in social development shifted to promotion of private initiative and profitability. The main features of these policies were:

- Trade and financial deregulation of economic activity;
- Opening up toward foreign markets;
- Reduction of the relative involvement of the State and reformulation of its functions; and
- Stabilization policies for lowered inflation rates, as seen in Latin America.

Latin American countries also implemented various private sector development policies mainly directed at supporting SMEs. In general, private enterprise promotion placed emphasis on domestic market development. The programme was aimed at six identified priority areas, namely, financing, technical assistance,

technological development, capacity building, domestic market-oriented production, and export promotion.

An important mechanism that contributed to the high growth of most Asian and Latin American countries was export/investment-led growth supported by low production costs. East Asian economies began their take-off to rapid growth with an edge over many other developing countries in human capital and maintained that edge through explicit policies of investment in education and health. However, critical to their superior growth performance was their ability to supply their work forces consistently with rapidly increasing amounts of physical capital. Most of the strategies focused on both small- and large-scale enterprises.

However, given the fact that African countries today have limited market size, scanty infrastructure support, a weak financial sector, low purchasing power and other factors restricting the growth of large-scale private sector development, the focus should be on small and medium enterprises. This approach can help to achieve such objectives as:

- Contributing significantly to the economy in terms of outputs of goods and services;
- Offering an excellent breeding ground for entrepreneurial and managerial talents;
- Creating jobs at relatively low capital cost;
- Providing opportunities for developing and adapting appropriate technology;
- Networking for viable opportunities for domestic joint ventures as well as ventures with foreign businesses.

The existence of a dynamic local business sector creates a supportive environment through efficient networks of local suppliers, service firms, consultants, partners and competitors. It is therefore necessary to concentrate efforts on development of local entrepreneurship, critical shortage of which is often a great handicap to economic development. In Africa, where women dominate in the informal and micro-enterprise sectors, and are also to be found in small- and medium-sized private sector activities, special policies and support services should be packaged to meet their specific needs. In addition to creating favourable conditions for their graduation from informal and micro-enterprises to small-scale enterprises, support to women should address the technological requirements for upgrading their activities in food processing, and in agricultural and household production. Priority should also be given to the development of services and institutions that will enhance women's access to productive

resources, particularly financial, land and other facilities including extension and quality control.

As was done in some South Asian countries, international development organizations can play key roles in capacity building. Shortage of skilled and technical human resources proved to be the major constraint to the digestion of new technologies in Asian developing countries. Multilateral agencies, including the International Development Association (IDA), can help developing countries by providing financial and technical support and investment guarantees for the development of infrastructure and human resources. They can also play a more catalytic role in mobilizing funds from a wide range of private sources.

Each country covered in this study has its unique characteristics. Therefore, it cannot be assumed that success stories mentioned should be automatically replicated. However, certain positive lessons that African countries might find useful in their effort to accelerate their economic growth and development are summarized and presented below:

- Building private-public sector partnership through the formation and empowerment of deliberation councils;
- Ensuring a stable political and macro-economic environment, with low inflation, low external debt and competitive exchange rates;
- Undertaking economic reforms, that reduce the scope of public sector involvement in the economy and that create an enabling environment for the private sector;
- Devising a production orientation with an export-push strategy, and openness to foreign technology investment;
- Accelerating human resource development, by increasing the percentage of public expenditure on basic and higher education and by focusing on technical vocational training;
- Acknowledging the importance of information and communication technologies;
- Support to SMIs, by strengthening local entrepreneurs with adequate training and assistance;
- Implementing pro-savings policies through easy access to credit, real positive interest rates and tax incentives and subsidies;
- Institutionalizing a competent economic bureaucracy, with clear objectives and full understanding of the effects of particular instruments; and
- Regional integration for facilitating free flow of goods, services and capital and for promoting and protecting intra-regional joint ventures and resource use.

INTRODUCTION

A. Background

1. African countries, as they enter the next millennium, must think strategically in terms of how to meet the challenges and opportunities offered by the new international economic environment. This reality has, in a number of ways, defined how African countries should now engage with partners. It dictates the need to move away from state-dominated economic development that has caused marginalization of the productive sector. As a result, many African countries are turning to the private sector for turnaround of their economies. However, the reality on the ground is that the private sector in most African countries is weak and still in its embryonic stage of development. It needs a positive environment and comprehensive support to flourish and gain a competitive edge in the new international economic environment of globalization and liberalization. The efficiency issues need to be comprehensively and systematically addressed.

2. African countries are aware of this situation and they are aggressively seeking ways to address growth and sustainability of the African private sector, in particular, its industrialization. They launched the industrial development initiative, which focuses on the need for concerted regional efforts to achieve African industrialization. It was also seen as addressing the larger picture of private sector development.

3. The United Nations Economic Commission for Africa (ECA), in close collaboration with the Organization of African Unity (OAU), and the United Nations Industrial Development Organization (UNIDO) took on this challenge, promoting the region's industrialization through the UN-sponsored Industrial Development Decade programme for Africa (IDDA). This programme has the primary objective of promoting the continent's industrialization as a means of attaining national and collective self-reliance and high sustainable economic growth.

4. A programme evaluation conducted in 1997 highlighted a number of conceptual and implementation shortcomings and called for a much more comprehensive approach. It was recommended that the objectives should be reviewed and refocused with the full involvement of the private sector. Recent economic reforms that have put the private sector at the centre of development agendas lead to reduction of the State's direct participation in economic development.

5. A careful examination of this recommendation and the evolving situation presented by the gradual withdrawal of the public sector from production leads to the conclusion that the strategies and programmes of action adopted should foster private-sector-led industrialization rather than industrialization as a fundamental for private sector development. This trend needs to be supported and consolidated through various actions, policy measures and programmes to strengthen the private sector as an engine of growth.

B. Purpose and methodology of the study

6. This study seeks to define the role that the private sector in Africa can play in the development process especially in relation to the daunting task of poverty alleviation. It tries to achieve this objective by drawing lessons from Asian and Latin American countries that have been successful in accelerating their respective economic development through effective involvement of the private sector. It also suggests appropriate policies, approaches and supporting measures that are required for sustainable development of the private sector in African countries. Thus, the study attempts to review the experiences of relatively successful Asian countries and of Chile in Latin America in promoting private sector development, and to identify lessons and best practices that can inspire and guide the formulation of private sector development programmes in Africa. The countries included in this study are Chile, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan and Thailand. The Asian and Latin American experiences are relevant to Africa for many reasons. First, many of these countries were, in the 1960s, in an economic situation similar to that of many African countries and had comparable resource bases. Second, they have had similar political histories and development challenges.

7. The question then becomes, how does one account for the miracle of East Asian development in such a short time? More importantly, how did the policies and strategies enhance private sector development? Asian developing countries have shown remarkable economic growth, outperforming by a wide margin other developing countries, particularly many African countries. This paper therefore uses comparative case studies in selected Asian and Latin American countries, exploring how African countries can benefit from the experiences of the countries under review. Table 1 compares growth in GDP per capita in Asia and Africa between 1961 and 1997.

Table 1. Growth in GDP per capita in Asia and Africa in 1961-1997 (Per cent)

Region	1961-1972	1973-1980	1981-1990	1991-1997
Africa	1.3	0.7	-0.9	-0.5
East Asia	7.0	7.1	9.4	8.0
Southeast Asia	3.2	4.9	4.3	4.5
South Asia	1.3	1.6	3.3	2.5

Source: Bank Economic and Social Database (BESD), World Bank, 1998.

8. In recent years, some Asian and Latin American developing economies have shown remarkable economic vigour and dynamism. Building on past investments in human, physical, and institutional capital, that growth was the result of an ambitious, comprehensive, and integrated programme. Reforms liberalized agriculture, redirected a large part of savings to the provinces, removed price controls, made economic zones attractive manufacturing platforms for export, gradually liberalized trade and started to revamp the tax and financial systems.

9. A number of factors, such as sustained policy reforms and strategic interventions for creating a conducive environment, supported economic growth and industrial development. A careful review of these strategies and approaches and how they contributed to Asia's private sector development, are important starting points. First, such a review contributes to understanding the thinking and the criteria used in driving private sector development in that region. Second, positive as well as negative lessons can be drawn from these experiences. This paper is therefore divided into three chapters. Chapter I covers the factors influencing private sector development; chapter II offers selected case studies while chapter III focuses on the lessons to be learnt.

I. KEY ELEMENTS OF PRIVATE SECTOR DEVELOPMENT IN SOME ASIAN AND LATIN AMERICAN COUNTRIES

10. Various studies have attributed the outstanding industrial performance and rapid private sector development in East Asian countries to the following factors:

- The macro-economic environment within which private sector development took place;
- The strategic policy framework adopted; and
- The role of international organizations.

A. Macro-economic environment.

11. The spectacular growth of Asian economies resulted from high rates of investment; well-defined pro-savings policies and programmes and human capital formation; export promotion; and stable macro-economic conditions. Additionally, government policies and institutions played a crucial role in fostering these elements. Policy reform has been the central theme of developing economies since the 1980s and many Asian countries undertook comprehensive reforms. The basic objectives of the reforms were to reduce the scope of the public sector, create an enabling environment for private sector participation and encourage government/private sector partnership. Actions were also aimed at enhancing the international competitiveness of domestic industries and imparting dynamism to the overall growth process.

12. These objectives were made attainable by adoption of a macro-economic framework for promoting integrated policies and strategies. Although the scope, sequencing and speed of reforms differed from country to country, the comprehensive reform programmes included almost all facets of the economy, such as factor markets, industry, trade, agriculture, infrastructure, financial and public sectors. The introduction of sustained reform programmes to stimulate internal and external competition and private sector investment by locals and foreigners was forcefully approached. Private sector development was part of an overall strategy for economic development. For many Asian and Latin American countries, the private sector was seen as an important factor for growth and

economic stability. In this respect, stimulation of the productive sectors, primarily the private, was given strategic attention.

13. For example, the World Bank's 1994 study of "The East Asian Miracle: Economic Growth and Public Policy" concluded that a combination of fundamentally sound development policy and selective interventions had been crucial to East Asia's success. This prudent application of limited policy interventions and focus on fundamentals are approaches worth exploring by Africa in its drive to promote a viable economic environment. The fundamentals focused on the following:

- Managing monetary and fiscal policy to ensure low inflation and a competitive exchange rate;
- Concentrating public investment on education in primary and secondary levels of schooling;
- Fostering effective and secure financial systems to encourage savings and investment;
- Limiting protection so that domestic prices remain close to international prices;
- Supporting agriculture by assisting the adoption of green revolution technologies, investment in rural infrastructure and limiting taxation on agricultural goods;
- Taking steps to reduce financial repression, improve supervisory and regulatory reforms and address financial distress in the banks.

14. The policy side of the equation included a number of well-thought-out policy actions covering:

- Policies leading to rapid increase in living standards;
- Building of an institutional framework covering the legal, political and social fundamentals, the proper functioning of markets and support to private sector initiatives;
- Liberalized exchange rates;
- Removal of import restrictions and a gradual reduction in tariffs; and

- Removal of price controls on agricultural and most manufactured products.

15. Similarly, many Latin American countries, mainly in the 1990s, came up with a policy supportive to the private sector. All the countries in the region implemented market-friendly economic reforms with different levels of intensity. As a result, economic policies which had hitherto been geared to development of public sector enterprises and strengthening of the State in social development activities were substituted for others aimed at promoting initiative and profitability in the private sector. This process was followed by non-protection, particularly of the local industry, through the opening up of the national economies, trade the context of an accelerated process of capital movement at the global level.liberalization and major deregulation. All this has to be seen in

16. The main features of these policies consisted of trade and financial deregulation of economic activity, opening up toward foreign markets, reduction of the relative involvement of the State and reformulation of its functions. In this connection, the reforms generally included a more favourable treatment of foreign investors, giving them equal conditions of work or even better conditions of work than those offered to national investors. In general, these government policies strengthened the private sector through intensive capital flow from transnational corporations (TNCs) and from major local enterprises. It is important to note that the prevailing political situation during this period, characterized by the existence of democratic forms of government, with officials elected in electoral processes, gave legitimacy to decision-makers and fostered economic stability.

17. As a result of the stabilization policies, inflation rates in Latin America went down considerably. Macro-economic stabilization stemmed from tax adjustment and structural reform policies. The tax adjustments included those dealing with cuts in public expenditure or its readjustment so as to promote economic efficiency in terms of growth in GDP and productivity. At the same time, they were meant to ensure an increase in revenue receipts, through tax reforms, and improvement and simplification of the taxation system. The process of tax adjustment was promoted by a regular flow of excess capital in the global market. Capital was attracted to the region by the opportunities offered by the privatization of public enterprises and the high output offered in the new capital markets which emerged from the structural reforms. A number of subsidies were removed. They had been formally included in the national budget and designed for laying down industrial development policies, promoting

agricultural production or guaranteeing the provision of basic services, as well as stimulating or sustaining the viability of the regional economics.

B. Strategic policy framework

18. A good number of Asian and Latin American countries adopted an integrated approach targeting private sector development. In the case of many Asian countries, the strategic framework was built around a well-developed, long-term vision for their economies in which the private sector was to play a crucial role. Successive governments set out with determination to design and implement multi-faceted policies to realize this vision. Although the private sector was considered pivotal, its development was addressed as part of an overall strategy for sustainable development and embraced other elements such as health, education infrastructure and environmental protection which are considered crucial to sustainability of private sector development efforts. Likewise, if the private sector was to be the engine of growth, then progress on the macro-economic front had to be buttressed with structural and institutional reforms, in order to:

- Improve the business environment which had been harsh for some time;
- Reduce the drain of public enterprises;
- Build robust financial systems; and
- Increase the supply and quality of human resources and physical infrastructure.

19. Many East Asian governments explicitly took the attitude that what was good for the private sector was also good for them in terms of taxes, public welfare, economic growth etc. Therefore, the role of the State with respect to the private sector that evolved was to do everything necessary to ensure the sector's success, and to work with its representatives to design government policies accordingly. In terms of export development strategy, it was not simply a question of reluctantly removing barriers to trade, or grudgingly handing over tax rebates. The East Asian countries put the development of exports as the central economic strategy, in the belief that this would be the source of economic success in other spheres. The translation of this took many forms in the various stages of the private sector development process. In most cases, this started from an import substitution strategy accompanied by some protection of the infant industries as well as development of small and medium enterprises (SMEs),

human resources and infrastructure development and local manufacturing of equipment by targeted sectors.

20. Latin American countries also implemented various private sector development policies mainly directed at supporting SMEs as a priority. In general, the private enterprise promotion programme placed emphasis on development of markets. In this respect, deregulation of the market was given particular attention. State controls were eliminated with the aim of promoting foreign investment in the primary sectors, such as agricultural production including fisheries and agriculture-based industries. The programme was aimed at six priority areas: financing, technical assistance, technological development, capacity building, domestic market-oriented production and export promotion. The area of financing created subsidies, credit facilities, external funds distribution mechanisms and financing networks through various financial instruments including the use of credit cards.

21. In effect, all of the above led to a number of strategic interventions, systematically applied to address the issues and the constraints to private sector development. These included:

- Reinforcement of the catalytic role of government;
- Public sector reforms including privatization and /or commercialization of public enterprises;
- Promotion of public/private sector partnership in strategic areas;
- Adoption of specific measures to restructure the financial sector and services to stimulate financial sector response to private initiatives;
- Pro-savings and pro-investment policies;
- Adoption of production strategies that are either oriented towards domestic or export markets and trade openness, along with policies geared towards attracting foreign direct investment (FDI) and advanced technologies;
- Development of infrastructure and services;
- Provision of a wide range of support services and facilities;

- Support to SMEs; and

- Acknowledgment of the important role of regional integration and cooperation in the region's private sector development.

22. The paper begins with a quick examination of the measures which constituted the strategic policy framework. It then reviews how these elements contributed to the general success of Asia and Latin America's private sector development. The discussion will provide useful lessons for Africa in its quest to accelerate its economic development

1. Catalytic role of government

23. Government's role was confined mostly to enabling the growth and performance of the sector. This has taken many different forms covering regulatory, policy response and strategic interventions including major structural reforms and direct participation through state-owned enterprises (SOEs). The role of the public sector as outlined here required a strategy to refocus the role of government, from that of owner and operator to that of policy maker and regulator, working closely with the private sector in developing a competitive, outward-looking economy. Fundamental to the success of this orientation are government's efforts to build competent and agile institutions that can help the private sector respond quickly to changing economic and market conditions. In this respect, the backbone of government's support mechanisms is development of an efficient physical infrastructure, human capital, an efficient legal and institutional framework with a clear set of civil, commercial and criminal laws, a competent economic bureaucracy and a non-discriminatory and independent regulatory authority.

24. In the area of regulatory and policy response, governments followed free-enterprise and free-trade policies based on a philosophy of minimum interference with market forces and maximum support for business. Most countries of Asia adopted policies that facilitated private sector development, such as a non-discriminatory taxation system, low corporate tax rates and other incentives. Moreover, they paid particular attention to host country factors, which are crucial for portfolio investment. These fall into three groups, namely, the degree of political and macro-economic stability and prospects for growth; the host country's commitment to the process of economic and financial liberalization and reform; and the state of development of the host country's stock exchange and institutional and regulatory framework.

25. The direct participation of government was seen as a necessary step in the private sector development process, especially during the infancy stage when investment resources were mostly available in the public domain. See table 2 below.

Table 2. Public and private investment as percentage of GDP and GDI in groups of countries in 1980-1993

Country groups	1980-1985	1986-1993	1980-1993
South Asia:			
GDFI/GDP	19.3	20.4	19.9
PVTI/GDP	9.7	11.1	10.5
PUBI/GDP	9.6	9.3	9.4
PVTI/GDI	50.1	54.4	52.6
PUBI/GDI	49.9	45.6	47.4
East and South East Asia:			
GDFI/GDP	28.0	30.6	29.5
PVTI/GDP	18.6	23.0	21.1
PUBI/GDP	9.4	7.5	8.3
PVTI/GDI	66.5	75.3	71.5
PUBI/GDI	33.5	24.7	28.5
Latin America and Caribbean:			
GDFI/GDP	20.7	19.8	20.2
PVTI/GDP	13.7	14.6	14.2
PUBI/GDP	7.0	5.3	6.0
PVTI/GDI	66.2	73.4	70.3
PUBI/GDI	33.8	26.6	29.7
Europe, Middle East and North America:			
GDFI/GDP	21.2	20.0	20.5
PVTI/GDP	9.9	10.7	10.4
PUBI/GDP	11.3	9.4	10.2
PVTI/GDI	46.9	53.2	50.5
PUBI/GDI	53.1	46.8	49.5
Sub-Saharan Africa:			
GDFI/GDP	20.6	16.9	18.5
PVTI/GDP	9.4	9.4	9.4
PUBI/GDP	11.3	7.5	9.1
PVTI/GDI	45.4	55.7	51.3
PUBI/GDI	54.6	44.3	48.7

__Notes:__ GDP stands for gross domestic product, GDI gross domestic investment, GDFI gross domestic fixed investment, PUBI public investment and PVTI private investment.

__Source:__ J. D. Glen and M. A. Sumlinski. "Trends in private investment in developing countries", Discussion Paper No.25, International Finance Corporation, 1995.

2. Public sector reforms

26. Reforms should be progressive and goal-oriented with very firm commitment to bring about structural changes. Reforms were aimed at addressing various inefficiencies in the public sector. These included public sector involvement in production and in enhancement of the role of the private sector in the economic development process. Later however, government's involvement in productive activities was revisited, with the aim of reducing State and public sector involvement.

27. One form of public sector reform for efficiency gain was through privatization and/or commercialization of public enterprises. This included divestiture of government equities in public enterprises, outright sale or privatization of many enterprises, and restructuring and liquidation of the loss-making ones. Privatization also included leasing, partial divestiture, management contract or concession-type arrangements such as build-operate-transfer (BOT), build-operate-own (BOO), build-operate-lease-transfer (BOLT) and build-operate-own-transfer (BOOT), etc.

3. Public/private sector partnership

28. Close cooperation and active collaboration between business and government have been hallmarks of East Asia's industrialization success. These partnership arrangements were formalized through various mechanisms. In each case, partnership was targeted at specific areas in which close cooperation and collaboration was seen as a necessary vehicle for facilitating progress. It was seen as a particularly useful tool for facilitating policy-making, for nurturing trust, for developing cooperative relations and for involving the private sector in selected areas of comparative advantage. Formal institutions, called deliberation councils, facilitated the policy-making process in a number of Asian countries. These councils generally consist of high-ranking government officials, representatives of the business community, academia, consumer groups and labour organizations. A council serves as a forum through which government officials and private sector groups can interact repeatedly in policy formulation.

4. Financial sector reforms

29. An important criterion to observe in efforts towards private sector development is the responsiveness of the financial sector. In this respect, restructuring of the financial sector to foster turnaround in economic activity is the first order of business. To build a basis for strong economic activity

sustained over an extended period, major efforts are needed to restructure the financial and corporate sectors. Besides the needed restructuring and recapitalization of the banking system and the non-financial corporate sector, financial reforms are required to sustain private sector development needs. Similarly, other forms of financial intermediation covering stock market capitalization, other forms of equity markets, money and bond markets, etc., are all necessary financial instruments for enhancing the financial sector's participation in private sector development. There is a clear need for stronger prudential, supervisory, accounting, and legal standards, as well as improved corporate governance and the establishment of more transparent relations between government, banks, and corporations.

30. At any rate, the emphasis and motivation behind financial sector reforms differ in content and objectives between the countries of Asia and Latin America. In the case of Latin America, the main stress was on creation of a capital market with institutional funds. This made the investment trends more predictable and curbed the volatility of foreign capital invested in the region. It was clear from these experiences, particularly in Chile and Argentina, that mainly investors, capital market institutions and insurance companies benefited. It may be said that liberalization has been a clear policy of private sector development, which has created massive capital and speculative investment with high volatility. The historic experience of the Credit Union in Argentina, at present reduced to very few entities, shows that it is possible to formulate private sector policies for the private banking sector under non-profit forms intended mainly for small- and medium-scale enterprises and for cooperatives. Still, with regard to Argentina's private banking sector, there was the introduction of a credit card organized under a cooperative form and the organization of the cooperative entities associated with foreign state enterprises for the provision of private retirement and pension services.

31. Asian countries, on the other hand, showed superior growth performance through financial sector reforms aimed at mobilizing both domestic and foreign physical capital. There was a simultaneous rise in domestic savings rates and inflows of foreign capital (see tables 3 and 4). Several financial policies such as keeping inflation rates low, encouraging positive real interest rates, and a fast pace of financial deepening contributed to the sound economic conditions which prevailed in Asia until the recent financial sector crisis.

5. Pro-saving and pro-investment policies

32. While the practice of domestic savings mobilization was more widespread and systematically followed in Asian countries, only a few countries,

namely Chile and Argentina, adopted policy measures aimed at mobilizing domestic savings, which in turn provided funds for capitalization. These countries took strategic steps and designed savings mobilization schemes around retirements and pension benefits. As regards pro-investment policies, one of the main characteristics of the economic strategy in Latin America in the last decade has been related to the flow of foreign capital, mostly of private origin. This explains the significant rise in the net flow of foreign direct investment (FDI) to Latin America, which rose from $US8,061 million in 1990 to $US23,643 million in 1995.[1]

33. East and Southeast Asian governments boosted savings through a combination of fundamental and interventionist policies. The former included maintaining macro-economic stability, primarily controlling inflation, and ensuring the security of banks. Low to moderate inflation rates and largely positive real interest rates lowered the risk of holding financial assets, and hence encouraged financial savings. In several East Asian economies, the public sector created, owned, and managed financial institutions to encourage intermediate savings, particularly where financial institutions were weak or did not exist. These institutions included postal saving systems, development banks, and state-run commercial banks. In Korea, Malaysia, Singapore and Taiwan Province of China, postal saving systems were established to encourage small savers by offering a secure and convenient way to deposit their savings through extensive post office networks. In these four economies, as well as in Indonesia and Thailand, development banks provided long-term credit to priority industries, small firms, agriculture, housing and poorer borrowers.

34. Counterparts to the rapidly rising investment rates were, of course, rapidly rising saving rates and inflows of foreign capital[2]. Several factors such as a stable macro-economic environment, especially low rates of inflation, positive real interest rates, and a fast pace of financial deepening, contributed to the rise in domestic savings. Perhaps most important was the pace of economic growth, which, by raising income levels above subsistence, led to higher aggregate saving rates. The region's demographics, in particular, its relatively low dependency ratios, were also conducive to high rates. In some Asian countries, well-developed mandatory savings schemes have been in existence since the 1960s and 1970s and may have also generated high propensities to save.

[1] ECLAC. *Latin America Economic Report 1996*, table I, page 2.
[2] See tables 3 and 4.

Table 3. Gross domestic savings as a share of GDP in Asia and Africa
(Per cent)

Region	1967-1973	1974-1980	1981-1990	1990-1997
GrossDomestic Savings				
Sub-Saharan Africa	15.7	20.7	12.6	15.9
East Asia	21.1	28.4	33.2	33.5
Southeast Asia	18.9	28.1	31.9	32.0
South Asia	14.4	17.1	19.1	22.0
Gross Domestic Investment				
Sub-Saharan Africa	17.3	17.9	19.1	16.6
East Asia	25.4	27.0	27.7	31.6
Southeast Asia	20.1	21.0	22.1	27.5
South Asia	16.2	16.5	17.0	21.0

Source: Bank Economic and Social Database (BESD), World Bank, 1998.

35. In South Asia, major economies grew by about 5.5 per cent a year, permitting real per capita incomes to increase by about 3.5 per cent a year. Fueling the growth were savings and investment rates of around 20-25 per cent, mainly from domestic sources, building on strong legal and political traditions and a growing pool of technical skills, Deregulation and trade reform increased internal competition, reduced production costs, and improved product range and quality. The increased private activity in Asia has stimulated the financial sector and is beginning to attract substantial foreign investment, particularly in infrastructure and the stock market. East Asian governments also guided the financial sector by way of tax incentives and subsidies, and by rationing access to limited credit and foreign exchange. At times, East Asian governments also limited lending for consumer spending, housing, real estate, and equity purchases. The restrictions on lending for consumer spending and housing encouraged households to save before making large purchases, while the restrictions on lending for real estate and stock market investments discouraged speculative borrowing.

Table 4. Investment-GDP ratios in selected countries (Per cent)

Country	1960-1969	1970-1979	1980-1989	1990-1996
China	35	35	34	39
Hong Kong SAR	18	24	28	30
Indonesia	18	19	27	32
India	16	18	22	24
Japan	35	34	30	30
Korea	18	28	30	37
Malaysia	15	23	30	38
Philippines	19	25	23	23
Singapore	23	41	42	35
Taiwan Province of China	25	29	24	24
Thailand	22	25	28	41
Brazil	17	22	21	20
Chile		12	18	25
Mexico	17	22	22	22
Germany	26	23	20	22
Italy	27	26	23	19
Spain		24	22	22
United Kingdom	19	20	17	16
United States	21	20	20	17

Source: Dr. Tarun Das. Promoting the Industrial Investment-Technology Transfer and Growth Nexus towards Greater Regionalization and Complementation of Manufacturing Production and Technology Upgrading, United Nations, New York,1997.

36. The aggressive approach and systematic targeting of FDI by both Latin American and Asian countries explain the wide gap in net flow of FDI between 1990 and 1995[3]. For the same period, securities in Africa increased by 1,112 million in 1990 and 3,300 in 1995. In both cases, the amounts tripled but with major differences in absolute values. Asia was the main region of destination since it rose from $US18,302 in 1990 to $US 65 million in 1995.

[3] Table 5 provides the FDI flow.

Table 5. Net flow of FDI in developing countries (Millions of dollars)

	1990	1995
Africa	1 112	3 300
Latin America	8 061	23 643
Asia	18 302	65 000

Source: Latin America Economic Report 1996, ECLAC.

6. Development of infrastructure and services

37. Efficient physical infrastructure and services are critical overheads that investors seek. For the more dynamic traded goods and services, telecommunications are the most important facilitator of investment. Equally important is the availability of high quality telecommunications, services, and transport systems, energy supply and other utilities. Private sector participation in management, financing or ownership, will, in most cases, be needed to ensure a commercial orientation in the development of infrastructure and services. Public-private partnership has promise in financing new capacity and services. Guarantees from host governments, multilateral institutions and export credit agencies play an important negotiating and legal role in mitigating the policy uncertainties and commercial and foreign risks inherent in large-scale infrastructure financing.

7. Provision of a wide range of support services and facilities

38. Investors aiming at technological and organizational innovations are attracted to those countries which have a trained and skilled workforce and fairly high educational standards. The availability of well-educated human resources is more important than the availability of natural resources in industrial technology development. Various case studies done recently by the Asian Productivity Organization (APO) also found that shortage of a skilled, technical workforce is the major constraint to digestion of new technologies in Asian developing countries.

39. Human capital formation advanced at a rapid pace, both quantitatively and qualitatively, in almost all the fast-growing East Asian economies. As early as 1965, primary school enrollment rates were already higher in this region than in many other developing countries. Hong Kong SAR, Korea, Singapore, and the Philippines had achieved universal primary education and even Indonesia, a

populous nation and, at the time, one of the poorest developing countries, had a primary school enrollment rate of over 70 per cent. Not only enrollment rates, but also the quality of education improved significantly during the past three decades in most of the East Asian economies, as average expenditure per pupil rose and pupil-teacher ratios were reduced.

40. There is a high correlation between Research and Development (R&D) expenditure and technological capability because a new technology, which depends upon R&D activities, must be developed domestically as a country attains technological maturity. The newly industrializing economies (NIEs) spent more and more on their own technology development as imported technologies became more costly and increasingly difficult to obtain from developed countries due to growing technology protectionism.

41. This points to the overriding importance to developing countries of investing more in development of human resources, R&D, as well as in provision of a wide range of support services and facilities to the private sector. This should include services and facilities for training, product design and development and building of strategic alliances for technology transfer. It also highlights the risk of marginalization for the least developed countries with low levels of skilled labour and other constraints. The existence of a dynamic local business sector creates a supportive environment through efficient networks of local suppliers, service firms, consultants, partners or competitors. It is therefore necessary to concentrate efforts on the development of local capacities in these areas.

8. Small and medium enterprises (SMEs) development

42. Small enterprises provide a source and training ground for entrepreneurship and business management skills development for medium and large undertakings. SMEs constitute a dynamic force in the economic development of both Asian and Latin American countries; they provide a sound market environment for economic growth, reduce rural-urban disparities and can swiftly adapt relatively simple but advanced technology. A dynamic SME sector not only helps to generate employment but also earns foreign exchange, upgrades the quality of the labour force, diffuses technological know-how, and utilizes rural savings, surplus labour and local raw materials that may otherwise remain idle. SME involvement spreads over a wide range of productive activities covering textiles, garments, wood products, food processing, leather products, manufacturing, export and wholesale.

9. Production orientation

43. Examination of production orientation in Asian and Latin American countries reveals marked differences in approach. While Asian countries emphasized export-oriented production, Latin American countries focused their production on satisfying local consumption and the domestic market. According to David Dollar, the crux of this explanation is that outward-orientation policies, reflected in the level of the real exchange that encouraged exports, fostered the development of the tradable sector in Asia, whereas inward orientation and an overvalued real exchange rate encouraged growth of the non-tradable sector in Latin America, and in Africa as well. [4]

10. Asian export push/investment-led growth:

44. The mechanism that contributed to the high growth of the Asian economies and the subsequent development of the private sector can be attributed to the export push/investment-led growth and trade openness, and supported by low production costs. Furthermore, the adoption of an export orientation strategy along with policies geared towards attracting FDI, provided opportunities for addressing the many deficiencies in the private sector. These were vigorously applied through a number of incentive-based strategies such as preferential financing and tax incentives for exports, subsidized export-marketing efforts and export-related infrastructure. These promoted creation of international trading companies, and particularly in the Southeast Asian economies, provision of incentives for foreign investment directed towards exports. The expansion of intra-regional trade was also part of the effort of opening trade. A large part of this trade consisted of trade in intermediate goods, allowing economies to generate economies of scale. Export processing zones (EPZs) were developed to provide preferred customs treatment to goods entering the area compared with goods entering non-zone parts of countries.

45. The export-push approach provided a mechanism by which industry moved rapidly toward international best practice and technology. Export-push strategies were, however, implemented in different ways by the East Asian countries[5]. Export targets provided a consistent yardstick to measure the success of market interventions. The more recent export-push efforts of the Southeast

[4] David Dollar. "Outward-oriented developing economies really do grow more rapidly: Evidence from 95 LDCs, 1976-1985" in *Economic Development and Social Change*, vol. 40, no. 3, April 1992..

[5] World Bank. *The East Asian Miracle: Economic Growth and Public Policy*, Oxford University Press, 1994.

46. Asian NIEs relied less on specific incentives and more on gradual reductions in import protection, coupled with institutional support to exporters and a duty-free regime for inputs into exports. Thus, despite high effective rates of protection, exporters had access to imports at close to world prices through a variety of channels, including free trade zones, export processing zones, bonded warehouses, duty drawbacks, and tariff exemptions. Also East Asian governments typically provided preferential financing and tax incentives for exports, subsidized export-marketing efforts and export-related infrastructure, promoted the creation of international trading companies, and, particularly in the Southeast Asian economies, provided incentives for foreign investment directed towards exports.

47. EPZs are the most common form of sub-national zones that provide a preferred customs treatment to goods entering the area compared with goods entering non-zone parts of the country. These preferences are normally restricted to export activities. EPZs also give preferences or privileges relating to the establishment of foreign-owned enterprises and to non-trade-related instruments of government policies such as tax holidays or deferments, duty drawbacks or exemptions for raw materials, reduced rates in taxes and duties for capital goods, investment subsidy, preferences in government loans. EPZs and other economic zones are generally equipped with good infrastructure and support facilities.

48. A closely related form of sub-national zone is the financial service zone, such as a financial offshore centre. These zones essentially provide preferences for the finance service industries, analogous to those provided for manufactured goods in export processing zones. Most science and technology parks in Asia have concentrated primarily on attracting foreign investors. Sub-national zones are, therefore, an integral part of the wider pattern of intra-Asian trade development.

49. Latin American countries promoted domestic market-oriented policies as a way of realizing various economic objectives. In particular, they were used to open up the economy, to combat the excessive flow of imports that, in a number of cases, substituted for local production, and to introduce productive restructuring measures all aimed at strategic entrepreneurship development. Other reasons for this emphasis were for resolving the perennial problem of unemployment and for meeting the basic product needs of the countries of the region such as food, clothing and footwear. With this in mind, support for the domestic market as the main area of ensuring economic development and guaranteeing the quality of life of the population was strengthened through

appropriate agriculture and small-scale industrial policies, among other measures. Export promotion polices went hand in hand with domestic market-oriented production and were seen as complementary to each other. Strong domestic markets improved joint-venture arrangements and access to export markets.

11. Technology - FDI- Nexus

50. The role of FDI was defined as a channel for addressing critical areas of need in the industrial and infrastructure development of Asia. In short, FDI was objective-driven and was considered critical in introducing widespread technological change, improving the agility and competitiveness of firms, and providing access to skills and global markets. Host country and home country policies played a crucial role in sustaining FDI flows. There are also a complex set of economic, political and social factors and provisions that foreign investors look for beyond the array of incentives offered. The objectives of FDI could be classified according to the development stages of countries, *viz.*:

- Factor-driven: attracting FDI in processing, textiles and minerals exploitation;
- Investment-driven: bringing FDI to heavy and chemical industries, power and construction, transport and telecommunications;
- Innovation-driven: FDI for electronics, information technology, and bio-technology; and
- Wealth-driven: attracting FDI to meet domestic demand and also encourage outward FDI flows.

51. In recent years, FDI has been encouraged by economic reforms and particularly by liberal FDI regimes in terms of currency convertibility, free repatriation, fewer performance criteria, tax holidays and other incentives, relaxation or abolition of screening requirements and limits on foreign equity, among others. The macro-economic policy framework and reforms constitute only some of the factors, albeit vital ones, for encouraging foreign investment. The country's economic potential, human and natural resources, political stability and other factors that affect the risk and profitability of investment are equally important. Membership in bilateral tax treaties, and multilateral and regional investment guarantee arrangements are also seen as an important

element in providing a stable and attractive framework that reduces perceived risks.

52. Asian economies achieved high economic growth by introducing capital and technology from advanced countries, while enjoying the benefits of the huge markets that these advanced countries offer. During the 1990s there was a significant change in the composition of external financial flows to the developing countries. Foreign investment comprising FDI and portfolio investment increased five and a half times, surpassing other types of capital flows and constituting 54 per cent of total capital flows to developing countries in 1996. The Asian region received the major share (50 per cent) of private finance in 1996 among the developing economies, while Latin America and the Caribbean had a share of 31 per cent. Unlike other capital flows, FDI is a "package" which contains capital but also management, technology and skills. In many countries FDI was instrumental in shaping industrial structure, technological base and trade orientation. Perhaps the most significant contribution of FDI is qualitative in nature.

53. FDI has made significant contribution to economic growth in developing countries by promoting exports and providing access to export markets. There are different types of FDI such as natural resource seeking, market seeking, technology seeking, cost reducing, risk avoiding, export orientation and defensive, competitive FDI. FDI, in general, embodies a package of growth and efficiency-enhancing attributes. FDI adds to the capital stock of the host country in many ways, through green-field FDI for establishing a new business, or ownership switching through mergers and acquisitions, or raising equity shares in joint ventures. TNCs are also important sources of capital, technology, managerial and management skills. Their presence can promote greater efficiency and dynamism in the domestic economy if pursued in a climate of mutual benefit. The training gained by workers and local managers and their exposure to modern organizational systems and methods are valuable assets that accrue to a country.

C. Role of regional integration and cooperation

54. Expanding intra-regional trade also provided an impetus for private sector development. A large part of this trade consisted of trade in intermediate goods, allowing the East Asian economies to generate economies of scale. It also entailed an increasing flow of technology associated with individual projects and embodied in the flow of capital equipment and intermediate inputs arising from projects. There are many experiences in regional integration and economic cooperation that could provide lessons for Africa. Increasing levels of intra-

regional activities are gradually shaping a truly interdependent regional economy based on the linkage of production structures and other services. Some of the main contributions of regional integration and economic cooperation include:

- Evolution of a comprehensive regional trading arrangement;

- Industrial cooperation resulting in complementary industrial activities;

- Promotion of intra-regionalinvestment in areas such as mineral exploitation and processing;

- Evolution of comprehensive forms of multi-government cooperation in a number of policy initiatives; and

- Emergence of integrated infrastructure and services in areas such as communications, regional cooperation in shipping, ports and technology transfer, and financial and development institutions such as the Asian Development Bank, Asian Clearing House, Asian and Pacific Centre for the Transfer of Technology, and the Asian Reinsurance Corporation.

55. This expansion was aided, in part, by the more advanced economies in the region, starting with Japan and subsequently Korea, Singapore, and Taiwan Province of China, investing directly and relocating firms to other East Asian economies. By the mid-1990s, about one-half of the exports of each of the East Asian economies went to other countries in the region, including Japan. Regional economic cooperation facilitates the free flow of goods, services, capital and labour across national boundaries and acts as an effective instrument for securing efficiency in the use of resources, thereby enhancing growth in all member countries.

56. Intra-regional capital flows, particularly FDI, have grown very rapidly over the past decade. The Association of South-East Asian Nations (ASEAN) covering most of the South East Asian economies, has evolved a comprehensive regional trading arrangement, the ASEAN Free Trade Area, with an explicit timetable for eliminating tariffs within the group by the year 2003 and for introducing its Common Effective Preferential Tariff (CEPT). Member countries have agreed to eliminate quantitative restrictions and non-tariff barriers on trade in products, to cooperate in some areas of service trade and to explore cooperation in some non-border issues such as harmonization of standards, reciprocal recognition of tests and product certifications, and removal of barriers to FDI.

57. The pattern of investment and production in ASEAN followed the "flying geese" pattern of evolving comparative advantage, and promoted regional integration through "production sharing" which involved the setting up of multiphase production in different countries. Technological advances lowered transportation costs and improved telecommunications networks, which made location of production more sensitive to cost differentials such as lower wages. To promote and protect intra-ASEAN investment, the ASEAN countries, since 1976, have an Agreement providing most-favoured nation treatment to intra-ASEAN investment. Other important ASEAN integration efforts relate joint resource mobilization and intra-ASEAN infrastructure.

58. As regards industrial cooperation, some positive results have been achieved in the ASEAN Brand-to-Brand complementation (BBC) in the automotive industry, which manufactures various components of a vehicle in different countries. The ASEAN Industrial Cooperation (AICO) Scheme is the latest industrial cooperation programme in the ASEAN countries, under which two participating companies from two different ASEAN countries should be involved not only in the physical movements of goods but also in resource sharing and industrial complementarity. Outputs of these companies enjoy a preferential tariff rate in the range of 0 - 5 per cent.

59. As far as the structural reforms of Latin America are concerned, beyond the country differences and nuances, they recognize the need to maintain the current trade flows and financial liberalization in the region. In this regard, the economic cooperation and integration processes among Latin American countries are being encouraged by United States-supported regional policy initiatives, such as the Initiative Proposals for the Americas (IPA) and the most recent proposal to create a Free Trade Association of the Americas (NAFTA). The integration effort also includes the Free Trade Treaty between Mexico, the United States and Canada. Also in the 1990s, all the protocols of the regional integration agreements, such as those of the Andean Group, the Central American Common Market and the Caribbean Common Market (CARICOM) were updated, taking as an example the Asuncion Treaty signed in 1991.[6]

60. The growth of economic integration in the region has brought about changes in the strategies of TNCs through the restructuring and diversification of their presence in Latin America, giving priority to export-oriented investment and the development of services, particularly in Argentina, Chile, Mexico and Venezuela. In this connection, it should be noted that the economic integration brought about in the 1990s in Latin America was closely linked to the present

[6] World Bank, 1997.

regional economic development conditions in the 1990s. These conditions are much more dependent on the power of accumulated, transnational capital than on the decisions of States as seen in their policies for encouraging domestic markets, protecting local products, and promoting the movement of goods, services and capital resulting from the trade flows and financial liberalization. As a result of the trade flow, tariff and non-tariff barriers were lowered or removed, thus promoting the movement of goods and services and further helping imports to take a new turn with the de-industrialization effect.

D- Role of international development organizations

61. International development organizations can play crucial roles in the area of capacity building. Industrial and technology development depends crucially on the development of basic infrastructure. Multilateral agencies, including the International Development Association (IDA), can help developing countries by providing financial and technical support and investment guarantees for the development of infrastructure and human resources. They can also play a more catalytic role in mobilizing funds from a wide range of private sources using all the available means.

62. Many Asian and African economies have undertaken comprehensive reforms in recent years under the auspices of the stabilization and structural adjustment programmes of the IMF and the World Bank. The broad objective of macro-economic policies is to achieve sustained growth with stability, which are essential elements for enabling a favourable environment for private investment. Although the scope, sequencing and speed of reforms differ from country to country, a comprehensive reform programme includes almost all facets of the economy, such as factor markets, industry, trade, agriculture, infrastructure, financial and public sectors.

II. SELECTED CASE STUDIES IN ASIA AND LATIN AMERICA

63. There is no uniform model of development that was applied throughout Asia and Latin America, but central to the performance of most of these economies was an emphasis on stability-oriented macro-economic policies. These policies were backed with well-targeted, strategic interventions by government on the one hand, and private sector initiatives and public-private partnership on the other. Another overriding trend was the attention given to the provision of facilities and services covering infrastructure, human resources, R&D, and other support crucial to private sector development and sustenance. The important mechanism that contributed to the high growth of most Asian and Latin American countries was export/investment-led growth, supported by low production costs.

A - Hong Kong, China

64. The return of Hong Kong to the People's Republic of China took place on July 1, 1997. The terms of the transfer, which are embodied in the Basic Law, included the establishment of the Hong Kong Special Administrative Region (SAR). The Basic Law grants the SAR a considerable degree of autonomy over economic and other policies, and includes a commitment to continuation of the existing free-market system for 50 years. Looking at Hong Kong's experience, the trend seems to focus on the macro-economic environment, foreign investment, human capital formation, provision of support to the manufacturing sector, financial facilitation and intermediation, and export orientation strategy.

1. Macro-economic environment

65. Government follows a free-enterprise and free-trade policy based on a philosophy of minimum interference with market forces and maximum support for business. In open economies, such as Hong Kong, only minimal special foreign investment laws and regulations are necessary and administrative costs are negligible. The Basic Law requires that fiscal policy should avoid fiscal deficits and respect the principle of keeping the budget commensurate with the growth rate of GDP. In 1997, a surge in land-related revenues caused the fiscal surplus to exceed the budget target of 2 per cent of GDP by a substantial margin. As a result, fiscal reserves (including the balance of the Land Fund) increased to

over 30 per cent of GDP. The Basic Law requires that Hong Kong's currency be fully backed by foreign reserves, and the exchange rate be linked to the US dollar under a currency- board type of arrangement.

2. Foreign investment policies

66. Hong Kong has been a free port and open to FDI for several decades. The favourable impact of its liberalization policy is evident from its economic progress. In spite of a lack of natural resources, it ranks third in Asia in terms of per capita GDP ($US 21,700 in 1996) after Japan and Singapore, and seventh in the world in terms of total assets. FDI is allowed in all sectors. Japan, USA and the UK are the major investors in Hong Kong. Restrictions on FDI exist only in banking where a license is required and in broadcasting where only a Hong Kong-based company can operate. There is no discrimination among overseas and domestic investors, and no special conditions for overseas investment. There is no restriction on employment of foreign labour provided there is a need to import labour from overseas. A low, simple, non-discriminatory and practicable taxation system exists in Hong Kong without any provision for tax holidays and other incentives for overseas investors. There are no customs or excise duties except on cigarettes, alcohol, petroleum and automobiles. Cigarettes carry a tax of 100 per cent while the rate on alcohol varies according to the type.

3. Human capital formation

67. The sources of East Asia's rapid and sustained economic growth have been the focus of extensive research. Central to much of this research have been attempts to measure the relative contributions of factor inputs such as physical and human capital and technological progress to the persistently high rates of growth. A commonly used approach is to estimate the total factor productivity (TFP) growth as the residual of the growth in output per worker over a weighted average of the accumulation of physical and human capital per worker.

68. TFP growth basically measures the increase in productivity brought about by technological advances and greater organizational efficiency. Human capital formation advanced at a rapid pace, both quantitatively and qualitatively. In 1965, Hong Kong SAR had achieved universal primary education. With labour costs in Hong Kong on the rise, a huge chunk of Hong Kong's manufacturing base has shifted to Guangdong Province of China. Some 75 per cent of the total investment in Guangdong is from Hong Kong. Labour-intensive industries are being shifted out and the hi-tech areas are being retained in Hong Kong. The aim is to convert Hong Kong into a science and technology island.

With the 1997 transfer of sovereignty over Hong Kong from the U.K. to China, its existing linkages with China and Hong Kong will be strengthened.

4. Provision of support to the manufacturing sector

69. The Hong Kong Productivity Council provides a wide range of support services and facilities to industry such as training, design, consultancy, strategic alliances for technology transfer, and joint product development. The Hong Kông Industrial Technology Centre Corporation facilitates technology development and application in Hong Kong's industries by its technology-based business incubation, technology transfer services and product design and development support services.

5. Financial facilitation and intermediation

70. A strong financial base exists in Hong Kong, and there is no exchange control or restriction on capital overseas. Low to moderate inflation rates and largely positive real interest rates lowered the risk of holding financial assets, hence encouraging financial savings. While nominal interest rates were low and were frequently controlled by the Government, these rates still assured positive real returns in the range of 3-6 per cent per annum. . Moreover, most East Asian governments except those in Hong Kong, Singapore, and recently Indonesia, protected financial institutions from domestic and foreign competition by restricting entry and branch licensing.

6. Export orientation strategy

71. The export-push approach provided a mechanism by which industry moved rapidly toward international best practice and technology. Export-push strategies were, however, implemented in different ways by the East Asian countries.[7] Hong Kong and Singapore established free trade regimes, linking their domestic prices to international prices. The export push was an outcome of the limited size of their domestic markets along with neutral incentives for domestic and external markets. Both economies made export credits available, although they did not subsidize them, and Singapore focused its efforts on attracting foreign investment to exporting firms.

[7] World Bank, 1994, op.cit.

B. Indonesia

72. In Indonesia, private sector development was promoted through a stable macro-economic environment, well-educated human capital and promotion of both foreign and domestic investments. The financial sector, because of its weakness, did not play its facilitation role properly. In terms of the decline in economic growth, depreciation of the currency, social dislocation and other problems, Indonesia has suffered the most among the East Asian countries by the recent financial and economic crisis in East and South East Asia. The Indonesia crisis originated from an ordinary currency problem, when the *rupiah* suffered from sudden pressure in July 1997 due to the weakening and the floating of the Thai *baht*. Despite a series of policy responses by the Government to correct the exchange and money markets, the problems spread rapidly and deeply to affect all sectors of the national economy, before finally having their impact on politics.

1. Macro-economic environment

73. The Indonesian economy is closely integrated into the world economy through trade, aid and investment flows; its heavy dependence on these flows as a source of its development funds, in particular on export earnings, has rendered it vulnerable to external shocks. To maintain internal economic stability, Indonesia adopted the balanced budget policy since 1968 until it faced the severe currency and financial crisis leading to deep-rooted economic crisis in 1997. The financial sector reforms, introduced in October 1988, liberalized the capital account of the balance of payments and encouraged competition between financial institutions. In January 1991, the authorities adopted the BIS recommendation on prudential norms and regulations in the banking industry. Essential elements of the credit policy included legal lending regulations which limited the credit allocation to insiders such as bank owners, employees, groups of companies and to individual borrowers.

2. Human resource capital

74. As early as 1965, primary school enrollment rates were already higher in this Asian region than in many other development countries. Indonesia had a primary school enrollment rate of over 70 per cent, while its secondary enrolment rate, close to 50 per cent in 1995, was higher than in other countries with comparable levels of income. However, Indonesia's institutional capability for technology development was limited due to several cultural and policy factors. The diversified geography with more than 6,000 inhabited islands and 2,000 ethno-cultural groups created problems for institutional development in

education, communications and administration. Recently, Indonesia has been attaching special importance to the development of basic infrastructure including human resources.

3. Foreign investment policies

75. Indonesia promoted foreign investments that increased non-oil exports, encouraged processing of raw materials into finished goods, used local products or components, transferred technology and skills and saved foreign exchange. Most foreign investments were structured as joint ventures to foster the development of domestic industries. In recent years, several of the East Asian economies increased portions of investment in non-traded or protected sectors, such as petrochemicals in Indonesia and Thailand, which generated low returns. Increased investment in sectors with high or excess capacity, such as semiconductors, steel, and ships also yielded low or even negative returns. However, in Indonesia, the construction and real estate sector grew at over 13 per cent annually between 1991 and 1996, rising from 9.5 to 10.5 per cent of GDP.

76. Since 1986, the Government has moved to dismantle the complex import licensing system. Tariff levels have considerably fallen since 1985, when the Government announced an across-the-board reduction in the range and level of import duties. Indonesia, in its May 1995 trade reform package, initiated a programme to top down its tariffs to 10.5 or 0 per cent by 2003. All sectors were covered except five agricultural products and alcohol, automobiles, chemicals and metals, for which, a separate timetable was set up to reduce tariffs to 10 per cent by 2003. The "strategic" commodities such as agricultural products, palm-oil based products, paper products, plastics, and automotive sectors and machinery remained subject to non-tariff barriers, high import duties or export taxes.

77. In 1994, the Government adopted policies that promoted both foreign and domestic investments. Thus, Indonesia allows foreign investors to appoint their own management, but they must use Indonesian labour except in positions where suitable nationals are not available. There is no restriction on repatriation of profits. Indonesia has bilateral agreements with a number of countries and is a signatory of the Multilateral Investment Guarantee Agency (MIGA) which protects investments against political risk. The Government introduced an across-the-board tariff reduction covering a wide range of items. This package of tariff cuts is ongoing and is to last until the year 2003. However, the weakness of

the Indonesian judiciary system and the unclear legal rights do have a negative effect on the investment climate.

78. The tax bills of 1994 to 1996 broadened value-added tax and property tax, reduced the highest income tax rate from 35 to 30 per cent, and improved tax administration by giving greater authority to tax officials to check tax returns. The list of objects of the value-added tax now includes a wide range of services, including franchising. The income tax bills reintroduce various forms of incentives for investment in remote locations, particularly in the eastern part of Indonesia, in pollution abatement and in development of human resources.

4. Export-push strategy

79. Such relatively resource-rich countries in terms of size of land and population as Indonesia have been tempted to adopt more inward- or domestic market-oriented policies compared with the Republic of Korea and Thailand. Import-substituting industrialization has discouraged the adoption and dissemination of industrial technologies appropriate for labour-surplus economies such as that of Indonesia.

80. The country has promoted foreign investments in non-oil exports, and encouraged processing of raw materials into finished goods. Indonesia has two duty-free zones at Batam Island and Surabaya. Projects in free trade zones are allowed 95 per cent foreign ownership. The fiscal incentives include reduction of the highest marginal tax rate from 30 to 25 per cent and accelerated depreciation and amortization. These also include a longer period for compensation of loss and a lower tax on dividends; exemption from import duty, import surcharge, excise and income tax for trade zones; and drawback of import duty and VAT for export manufacturers. In addition, a general exemption from import duties on capital goods and raw materials for two years of production was also allowed for all business and industrial enterprises.

5. Provision of support to SMIs

81. In Indonesia, as in most Southeast Asian countries, small and medium industries (SMIs) dominate output in a number of industrial sectors. In 1990, they accounted for 70 per cent of business establishments in Indonesia. Credit regulations mandate national banks to allocate at least 20 per cent of their credits to SMIs; and development banks provided long-term credit to priority industries, small firms, agriculture, housing and poorer borrowers. Foreign and joint-venture banks are required to channel at least 50 per cent of their credit to export-related activities.

82. There is a high correlation between R&D expenditure and technological capability, because new technologies, which depends upon R&D activities, must be developed domestically as a country attains technological maturity. The NIEs increased spending on their own technology development as imported technologies became more costly and increasingly difficult to obtain from developed countries due to growing technology protectionism. R&D expenditures were mostly funded by the public sector of Indonesia.

C. Korea

1. Sound macro-economic management

83. Stabilization and recovery were the Korean Government's top priorities in the early reform. Stability was attained through exchange rate adjustments, which restored the export competitiveness of domestic enterprises and reduced the import demands. Fiscal policy was tightened and tax reform programmes initiated.

2. Export orientation and trade openness

84. The export-push approach provided a mechanism by which industry moved rapidly toward international best practice and technology and incentives were essentially neutral between import substitutes and exports. However, many government policies assisted the export drive. Export incentives were effective among export industries and firms and one of the major factors for the success of the export push in Korea, was the Government's ability to combine cooperation with competition. Thus, despite high effective rates of protection, exporters had access to imports at close to world prices through a variety of channels, including free trade zones, export-processing zones, bonded warehouses, duty drawbacks, and tariff exemptions. Korea also constructed free export zones as part of the plan to create a favourable business environment for foreign investment in exports.

85. In addition , Korea, like many Asian countries, opened up their trade regime. Its external trade has been significantly liberalized since the 1980s, except for selected import restrictions. By 1992, the import liberalization ratio for manufactured products had risen to 99.9 per cent, and that for agricultural products to 87.1 per cent.

3. Foreign investment policies

86. Over the years, Korea liberalized foreign investment rules with a view to encouraging the inflow of foreign capital. There are no specified limits on foreign equity participation except in the case of industries on the restricted list. No minimum cash is required and FDI may be entirely in the form of patents or technology transfer. No discrimination is made on foreign companies in Korea. As a matter of fact, these enjoy a national status and obtain the same incentives, as those granted to domestic companies. In addition, foreign investors are provided with many incentives such as repatriation of earnings, protection for intellectual property rights, investment guarantees, double taxation avoidance agreements as well as tax exemptions and deductions.

87. Mergers and acquisitions of foreign enterprises are allowed subject to prior approval and the condition that they do not violate the norms of the restricted and banned sectors. The Korean Stock Exchange gradually expanded market access for foreign portfolio investments through introduction of various instruments such as investment funds for foreigners, issuance of equity-related overseas securities, operations of foreign securities companies through branch offices and joint ventures, and direct investment in the Korean stock market by foreigners. Restrictive limits on foreign ownership along with capital controls influenced the competition for foreign funds, and until the 1990s, direct and portfolio investment constituted a minor fraction of total foreign inflows. However, liberalization of the restrictions on foreign ownership has led to a significant increase in foreign portfolio investment.

88. Employment of foreigners in industry and trade is allowed. Companies are free to close down operations provided they are able to compensate the labour according to a formula set up by the Government. Foreign investors account for a major portion of investment and employment in EPZs. The electronics industry is dominant in EPZs set up in Korea.

4. Financial sector

89. The public sector in Korea created, owned, and managed financial institutions as a way of encouraging an intermediate savings culture and practice. These financial institutions included postal saving systems, commercial banks and development banks. Postal saving systems for small savers provided a secure and convenient ways to deposit savings through an extensive post office network. At the same time, development banks provided long-term credit to priority industries, small firms, agriculture, housing and poorer borrowers.

90. Government policies, such as access to easy credit through direct lending, played an important role in allowing the *chaebols* (the large conglomerates) to pursue growth and market share, with inadequate attention to profitability. Despite the drop in profits, easy access to credit induced these conglomerates to continue to invest and diversify away from core businesses into other industries, often characterized by excess capacity. As a result, by 1996, the net profits of the 30 largest *chaebols* were close to zero, with six of them filing for bankruptcy in early 1997 before the beginning of the crisis.

91. The Korean Government also guided the financial sector by way of tax incentives and subsidies, and by rationing access to limited credit and foreign exchange. For example, Korean households were encouraged to use the postal savings system because the interest on income was tax exempt. Korean companies that performed well in export markets were granted ready access to credit and foreign exchange.

5. Human resources and infrastructure development

92. Scientists, engineers and skilled workers were the main actors who made it possible for the country to achieve such a remarkable progress. Korea broadened its educational base to increase technical subjects and thereby trained the required labour force within a relatively short span of time. Even the poorest Korean families did not spare their efforts to obtain the kind of technical education needed by the economy. Formal education became important to all Koreans. The Government's investment in education has expanded several times over, yet, public expenditure on education represents only 30 per cent of the total expenditure on education, the remainder being borne by the private sector. As early as 1965, Korea had achieved universal primary education, Secondary school enrollment increased from around 35 per cent in 1965 to virtually 100 per cent in 1995.

D. Malaysia

93. With a per capita income of over $US 2,000, Malaysia is firmly placed in the middle income rank of developing countries. High income growth over the last two decades reflected the country's rich resource base and prudent macro-economic management towards achieving economic growth and structural changes.

1. Macro-economic environment

94. The economy of Malaysia has been sustaining low inflation rates. Inflation decreased from 3.7 in 1994 to 2.7 in 1997 according to the Malaysian authorities. The thrust of monetary policies in recent years was directed at maintenance of domestic price stability and of the external competitiveness of exports, while ensuring adequate bank liquidity to fund productive private sector activity at reasonable costs. Towards this end, expansion of money supply was kept in line with GDP growth, interest rates were reduced, and the exchange rate policy was geared to market forces allowing the *ringgit* to find its realistic value with key currencies.

95. Since the late 1980s, Malaysia's economy, sustained by high levels of investment and savings, has achieved considerable success, reflected in high growth and substantial eradication of poverty. However, in recent years, strong demand pressures and rapid money and credit growth led to a widening of the current account deficit and sharply buoyant asset prices. Following the float of the Thai *baht* in July 1997, Malaysia experienced considerably pressures in its stock and foreign exchange markets. The authorities' initial response focused on supporting the *ringgit* through exchange market intervention and a sharp hike in short-term interest rates. Subsequently, the authorities allowed the exchange rate to depreciate, lowered interest rates almost to pre-crisis levels and introduced a series of measures that tightened fiscal policy and postponed major infrastructure projects. Measures taken also successively increased constraints on credit growth and, more recently, raised interest rates.

2. Foreign investment policies

96. Foreign ownership is allowed if investment in fixed assets (excluding land) is at least RM50 million, or has at least 50 per cent value added, or where the products do not compete with existing domestic production, or for projects in extraction, mining or processing of mineral ores. No foreign equity limit is imposed on manufacturing projects that export 80 per cent or more of total production. As much as 100 per cent foreign ownership is allowed for high-technology projects and other priority products for the domestic market. Maximum foreign equity of 60 per cent is prescribed for sales to the domestic market.

97. Although investment is promoted in all areas, certain targeted sectors and activities such as agriculture and agro-processing, forestry, manufacturing, hotel and tourism projects and the film industry, are promoted by the Government. The Free Trade Zone (FTZ) Act of 1972 established FTZs

designed for establishments producing or assembling goods for export. Lubuan Island is being promoted as an international offshore financial centre. From 1994-95, Malaysia further liberalized foreign investment in its financial services and increased entry of foreign banks, enhanced equity participation in insurance, and liberalized the shipping, telecommunications, and transport sectors. It has also opened 64 service sectors including computers, audio-visual, transport and business services.

98. The Government enforces import controls through a system of import licensing to protect domestic producers from imports and to ensure adherence to sanitary, safety, security, environmental and copyright requirements. Import duties in Malaysia are relatively high ranging from 0 to 300 per cent though most goods fall within the 15 to 25 per cent tariff ranges. In implementing the Uruguay Round commitments for market access, Malaysia has unilaterally accelerated the tariff cuts on a number of items.

99. An analysis of the structure of employment by product group in the EPZs of selected countries indicates that there is one dominant industry in each country. In Malaysia, in the electronics industry, EPZs have the highest concentration rate of over 74 per cent. Malaysia allows free repatriation of profits and capital, and provides bilateral protection against nationalization and expropriation. The Government allows the employment of technical and skilled foreign personnel in areas where there is shortage of local talent, but it requires a training programme to transfer skills to locals. Fiscal incentives include tax exemptions. Incentives also allow full exemption from import duty on raw materials or components used for export production or for production in promoted zones; and full drawback of import duty and sales tax on parts, components or packaging materials used in the manufacture of goods exported.

3. Support to SMEs

100. In many sectors, small units exist on the strength of the costly government support programmes in terms of reservation, price and purchase preference, priority and confessional lending and fiscal concessions. In 1990, they accounted for 93 per cent of establishments in Malaysia. Postal saving systems were established to encourage small savers. Also relevant is the ASEAN-Japan Development Fund, which was launched in October 1988 under the auspices of the Japanese Government to provide SME financing (at 6.5 per cent per annum, fixed for up to five years) for new investment and expansion in the manufacturing, agriculture and tourism sectors.

101. The country's machinery and machine tool industry was characterized in the 1960s by a large number of small-scale, locally controlled firms producing simple product types. The industry was oriented almost entirely to the needs of the resource-based industries and the machine industry was not able to exploit fully the opportunities resulting from the expansion of these industries. The basic facilities and promotional support provided for the creation of inter-industry and intra-industry linkages were also inadequate. However, the easy phase of import substitution was nearly completed by 1973 when around 90 per cent of durable consumer goods and intermediate goods were produced domestically. By the late 1960s, manufacturing industries tended to become more export oriented, and external demand emerged as a source of industrial growth in the 1970s. In the first half of the 1980s, manufacturing production grew on average at a lower pace than in the preceding decade. Increased orientation towards world markets stimulated continued rapid growth of output and was accompanied by a changing composition of manufacturing production. The rapid output growth of transport equipment constitutes a special case.

102. A substantial institutional base for the support of Science and Technology (S&T) has been established since 1975. The major part of S&T activities is undertaken by government institutions as well as various university research laboratories. The former comprises six statutory and eight departmental research institutions in the various ministries. In the agricultural, forestry and fisheries processing sectors there are four institutions which are in charge of S&T as well as R&D. These are the Rubber Institute of Malaysia, the Palm Oil Research Institute of Malaysia, the Malaysia Agricultural Research and Development Institute, the Fisheries Research Institute in Pulau and finally, the Forestry Research Institute of Malaysia. The major part of industrial and mining research is carried out by four research institutions. The Standards and Industrial Research Institute of Malaysia focuses on the development of indigenous technologies. This institution is in charge of the adaptation and transfer of imported industrial technology to SMIs.

4. Financial sector

103. The focus was on facilitating the channeling of funds into productive activities; a New Investment Fund (NIF) was earlier established in September 1985. By the end of 1988, a total amount of $M 1.1 billion out of the initial M$1.7 billion was drawn by the manufacturing sector, representing 68 per cent of the total. Another important aim of monetary policy in 1988 and 1989 was to promote a more efficient and competitive banking system and to deepen money and capital markets. Besides supporting the upgrading of banking skills and techniques, the Central Bank encouraged the financial system to introduce new

instruments such as a floating rate Negotiable Certificate of Deposit (NCDs), and highly rated corporate borrowers were allowed to issue term notes by way of private placements. Furthermore, the Central Bank prepared a set of guidelines to standardize the issuance of private debt securities. Tax incentives were introduced in the 1989 Federal Government Budget to help develop a more active market in corporate bonds and unit trust, and to promote the emergence of a viable market in property unit trusts.

5. Objective-driven privatization programme

104. Among the ASEAN countries, Malaysia had substantial government participation in various infrastructure, manufacturing and service enterprises. In the early 1980s there were more than 1100 state-owned enterprises. The privatization process started in 1985 with announcement of the New Economic Policy, which aimed at encouraging greater private participation in industry and infrastructure. By 1989, 22 state-owned enterprises had been privatized, including the Malaysian Airlines System, Malaysian International Shipping Corporation, Cement Manufacture, Port Klang Container Terminal Operations, Trade Winds and several water supply projects handled by the Government. A Master Plan of privatization was also drawn up to privatize 246 enterprises by 2000. However, only 54 had been privatized by 1992. The major privatized enterprises included Telecom Malaysia in 1990 and Tenega National in 1992.

E. The Philippines

1. Macro-economic environment

105. Over the past four years, the Philippine economy has benefited from a decade of structural adjustment that focused economic policies on trade liberalization and increased domestic competition, privatization, and greater private management and investment in infrastructure. Favourable investor reaction to these changes has induced significant increases in private investment and capital inflows contributing to higher growth. In 1996, economic growth accelerated to 6.9 per cent (GNP), year-end inflation fell, investment and saving rates rose, driven primarily by the private sector, and export growth was the highest among market economies in East Asia. While fiscal restraint was maintained, the trade deficit continued to rise to 13 per cent of GNP. Private capital inflows rose to nearly 10 per cent of GNP and worker remittances amounted to another 12 per cent of GNP in 1996, contributing to the continued strengthening of the Philippine *peso* in real terms and to acceleration in credit growth.

2. Foreign investment policies

106. The country encourages investments in sectors that provide significant employment opportunities, increase the productivity of resource, improve technical skills and strengthen international competitiveness. In recent years, the Government has implemented reforms to further reduce barriers to investments and simplify regulatory and administrative procedures to encourage FDI. The foreign investment policies provide the basic rights and guarantees for the protection of foreign investments such as repatriation of equity and profits; the right to foreign loans and contracts; freedom from expropriation of property; and non-requisition of investments. Foreign investments are treated equally as domestic investments, except in the areas listed in the Foreign Investment Negative List.

107. Manufacturing, services and financial institutions are the major sectors attracting FDI inflows to the Philippines, while USA, Japan and Hong Kong have been the major sources of FDI. Asian countries accounted for 64 per cent of FDI flows to Philippines in 1994. Foreign equity contribution to total equity ranged from 41 to 53 per cent between 1986 and 1991, but the foreign equity share dropped to 26 per cent in 1992.

108. There is a high degree of correlation between foreign equity investments and technology transfer. Of the top 10 countries ranked according to size of foreign direct investments, seven are also the leading sources of technology imports: the United States, Japan, the Republic of Korea, the United Kingdom, the Netherlands, Australia and Singapore. The energy sector received the biggest cumulative foreign investments until 1995 due to the Government's efforts to promote energy development. Of the many types of technology transfers, those that involved the actual transfer of know-how, trademarks, and patents, constituted two thirds of collaboration contracts in 1986-1996. The majority of such technology is manufacturing-related.

109. Foreigners need to obtain work permits and are required to train local counterparts. They may retain top management positions if the majority of capital stock is foreign-owned. However, foreign nationals employed in supervisory, technical or advisory positions cannot comprise more than 5 per cent of total work force. The Government also allows full and immediate repatriation and remittance privileges for all types of investments. The package of incentives, which are competitive with those provided by other ASEAN countries, take the form of income tax holidays for four to eight years and duty-free imports of capital goods and components. It also includes breeding stocks and genetic materials, provision

of tax credits on capital goods bought locally and on raw materials, supplies and semi-manufactured products used in the manufacture of export products or forming parts thereof.

3. Role of special economic zones

110. The Special Economic Zones Act of 1995 created eco-zones or selected areas where there are highly developed regional growth centres with adequate infrastructure, industrial capacity and labour availability. These zones have the potential to be developed into industrial, tourist/recreational, agro-processing, commercial banking, investment and financial centres. They include the Subic Bay Freeport, Clark Special Economic Zone and three major EPZs with plans for expansion. Generally, all merchandise imports are freely allowed. However, the Government prohibits the imports of certain products for reasons of health, morality, balance of payments and national security.

4. Financial facilitation

111. The Philippines recently liberalized its financial sector to promote more innovation in terms of products, services and technology. Since 1994, foreign banks have been allowed entry and further liberalization of the sector is planned. Foreign banks are also allowed to establish subsidiaries and enter into joint ventures. The insurance and financing securities industry is generally open to foreign firms. Policies are also being adopted to liberalize and deregulate the telecommunications, shipping and energy sectors. In the Philippines, terms-of-trade shocks were the main cause of the recent banking sector distress.

5. Poverty alleviation

112. The economic turnaround of the mid-1990s has helped to improve social welfare although the incidence of poverty remains a major development issue, particularly in rural areas. About 3.5 million jobs were generated during 1993-1996, reducing the unemployment rate to 8.6 per cent in 1996 from over 10 per cent in 1991-1992. Functional literacy has risen to 88 per cent from 75 per cent in 1989. Life expectancy increased from 62.5 in 1992 to 69.5 in 1997. Over the same period, the infant mortality rate declined from 53.6 to 45.8 per cent 1,000 live births. Poverty rates declined from 40 per cent in 1996 to 36 per cent in 1994; the trend of other welfare indicators since 1994 suggests a further subsequent decline in poverty.

F. Singapore

1. Role of macro-economic environment

113. Singapore created a permissive macro-economic environment by adopting comprehensive and objective-driven socioeconomic policies and strategies. Its economic development was tied to the electronics market. Strong political support for anti-inflationary policies acted as a constraint on fiscal policies and disciplined macro-economic policies provided a stable environment for private sector decision-making. This contributed to the high rates of saving, domestic and foreign investment, and export growth that were key factors in Singapore's growth. The legal system in Singapore is highly developed and efficient. The country readily interacts with foreigners, encouraging multinationals to set up subsidiaries in the country. Initially, the Government introduced some protective measures around certain strategic activities and sectors. These covered the following:

- Quotas for protection of infant industries such as textiles;
- Import licensing to regulate trade in a limited range of goods (such as films, publications, live animals, food, ornamental fish, fresh or frozen meat, arms and explosives, medicines and drugs) for social and security reasons;
- Protection of financial institutions from domestic and foreign competition by restricting entry and branch licenses as a way of developing a strong and efficient local banking sector.

2. Public –private partnership

114. Public/private partnership was effectively used to facilitate policymaking. Singapore, like its Asian counterparts, created joint public/private sector councils. These councils were charged with the initial tasks of promoting favourable FDI policies and strategies, and a legal and institutional establishment for private sector development. Once these tasks were accomplished, the councils were called upon to establish sector-specific strategies and to respond to more sensitive issues such as privatization and tariff reforms.

3. Financial sector reforms

115. Singapore's growth was in part attributable to the explicit policies for promoting a financial sector that encourages investments. Several factors such as

the macro-economic environment, low inflation rates, positive real interest rates, and financial deepening contributed to the rapid growth which lasted until the 1998 crisis. One of the most important strategic actions was domestic resource mobilization through the development of mandatory savings schemes, in existence since the 1960s and 1970s and which have generated a high propensity to save. The Government of Singapore supported this policy move by raising income levels above subsistence and this led to higher aggregate saving rates. Postal savings systems were also established to encourage small savers. Credit facilities were made available to the productive sectors.

Singapore has been hit less hard by the regional turmoil, reflecting the country's strong macro-economic positions and sound financial sectors. A fiscal stimulus package introduced in late June 1998 was expected to help growth remain positive. Singapore's strong fundamentals included a high savings rate, large fiscal and external current account surpluses, flexible markets, and a robust reserve position. A high standard of regulation and supervision for domestic financial institutions helped to shield its financial market from the regional turmoil. Thus, foreign investors have largely remained confident about Singapore's short- and medium-term prospects.

4. Export-led growth

116. Export-push strategies developed in respond to the limited size of Singapore's domestic markets. It established free trade regimes, linking its domestic prices to international prices along with neutral incentives for domestic and external markets. Singapore focused its efforts on attracting foreign investment in exporting firms. Efforts were directed at promoting specific export industries.

5. Foreign direct investment

117. Singapore is one of the most open economies in the region and allows foreign investments in almost all sectors of the economy. In such an open economy, only minimal special foreign investment laws and regulations have been exerted, and administrative costs are negligible. It is relatively open to foreign investment in banking and other related institutions, energy, services and trading firms. It has no limits on foreign investment except in public utilities, media, transport and telecommunications. Free trade zones, which facilitate warehouses for trade and promote the handling of trans-shipment cargo, have been in operation since 1969. The country presently has six free trade zones. Tariff levels in Singapore are the lowest when compared to other ASEAN countries, with 70 per cent of its tariffs set between 0 –10 per cent.

118. An important characteristic of foreign investment in Singapore that is not shared by other ASEAN and NIEs countries is the overwhelming dominance of FDI over portfolio investments. More than 95 per cent of net long-term capital inflows into Singapore is in the form of FDI, which has been the driving force behind Singapore's phenomenal growth over the last three decades. It brought capital, technology, management expertise and access to world markets. It transferred Singapore from a labour-surplus economy to a labour-tight economy.

119. The foreign share of total investment in Singapore has been about 70 per cent in manufacturing and more than 80 per cent in services, in recent years. Foreign investment is highly export-oriented, with an 85 per cent share in manufactured exports. The country's latest strategy has been to promote outward FDI aggressively, to develop an external "wing" with strong linkages to the domestic economy. It has introduced various incentive schemes to encourage local companies to go abroad.

6. Privatization programme

120. A Public Sector Divestment Committee, established in 1986, prepared a ten-year privatization programme. The programme envisaged slow and gradual reduction of government ownership in selected infrastructure, service and manufacturing enterprises. Since 1987, government holdings have been reduced in several government-linked companies covering the shipping industry, technologies-based engineering and services group, printing, and resource development. In some cases, Government sold its shares in joint venture arrangements with foreign partners and privatized some statutory boards that were originally government monopolies.

G. Taiwan, China

1. Macro-economic environment

121. Taiwan's growth performance, until the recent economic crisis, equaled that of other economies of the East Asian region. Emphasis was placed on promoting a macro-economic environment that was conducive to production-oriented activities, including private sector development. Until the present time, the Taiwanese have concentrated on trade as an engine of growth. Some 75 per cent of their GDP originate from trade. Resigned to the fact that the Taiwanese will have to restrict themselves to the island and cannot return to the mainland, they are now investing in their infrastructure. Their aim is to convert the island into a science and technology area, as well as into an Asia-Pacific regional

operational centre for sea and air transport, manufacturing, financial services, telecommunication and the media.

2. Financial sector reforms

122. Taiwan's growth was also due to the explicit policies adopted to promote a financial sector that encourages investments. Stability in the financial sector, as in the case of Singapore, was due to several factors such as the macro-economic environment, low inflation rates and positive real interest rates. The financial deepening contributed to the rapid growth, which lasted until the 1998 crisis. One of the most important strategic actions was domestic resource mobilization through the development of compulsory savings schemes, in existence since the 1960s and 1970s. The government supported this policy and there was a steady rise in income levels and aggregate saving rates. Taiwan, like most of the other Asian countries, promoted postal savings systems. Households were encouraged to use the postal savings networks and credit facilities were also made available to a wide and selective range of productive activities.

Export push

123. Export push was implemented differently in Taiwan; incentives were essentially neutral between import substitutes and exports. Export incentives, however, were not neutral among industries or firms. Taiwan, like most other Asian countries, promoted specific exporting industries.

4. Foreign Direct Investment

124. During the period 1952-1994, Taiwan was able to attract $US19.4 billion as FDI, 86 per cent of which was private foreign investment from the developed industrialized countries. The balance of FDI came from oversees Chinese from different locations. Electronic and electrical products and chemicals were among the dominant industries accounting for about 38 per cent of the cumulative FDI inflows. The country adopted a two-track investment policy, outward and inward-looking. The inward thrust of their investment policy was in line with the long-term objectives of:

- Making the island the Asia-Pacific regional operations centre for sea and air transport, Transforming the country into a science and technology island; and
- Manufacturing, financial, telecommunications and media services.

125. Its outward policy aimed at taking advantage of investment opportunities outside of Indonesia. As such, Taiwan became a major foreign

investor with cumulative outward FDI flows of $US8.9 billion during 1952-1994. The USA and Malaysia were major destinations accounting for 28 per cent and 13 per cent respectively, of such cumulative outward FDI. Chemicals, electronics and electrical products, and banking and insurance were the major sectors accounting for up to 43 per cent the outward FDI during this period.

126. Taiwan has followed a relatively liberal policy over the past 30 to 40 years. FDI up to 100 per cent of total equity is welcomed in most areas except for the restricted the prohibited list. There are equity caps on the restricted industries which vary from sector to sector. All FDI applications are submitted for approval to the Investment Commission (IC) which grants licenses to operate in Taiwan. Foreign companies enjoy the same incentives as the domestic companies of the same type. There is no restriction on the repatriation of profits and equities. There is no restriction on mergers and acquisitions by foreign companies so long as the transactions do not violate the norms prescribed. There is no restriction on importing labour from other countries, subject to granting of a visa. Taiwan companies are free to exit provided they compensate the labour according to a formula set by the Government.

127. The duty structure in Taiwan largely conforms to Organization for Economic Co-operation and Development (OECD) regulations and the average tariff rate is around 6 per cent in nominal terms and 4.6 per cent in real terms. There are a number of foreign investment tax incentives. Foreign companies are subjected to a withholding tax of 15 per cent and a corporate tax at the rate of 20 per cent. Companies in high-tech areas or those with a lower investment have a choice between a 5-year holiday and a 20 per cent investment allowance against their income tax.

128. R&D for production equipment not produced in Taiwan is exempted from import tariffs. A two-year depreciation is allowed for instruments and equipment for R&D, with quality inspection and energy conservation services. Investment credits are given for investment in the most underdeveloped areas, and for procurement of at least $NT 0.6 million worth of automated production and pollution control equipment within a single year. Credits are also given on expenditure of $NT 3 million or more on R&D and $NT 0.6 million or more on personnel training within a single year and for promotion of the "Made in Taiwan" label.

129. Preferential loans are given at reduced interest rates and longer repayment periods, for the purposes of upgrading, procurement of domestically produced automated machines and equipment, procurement of imported automated machinery and equipment, supporting the economic revitalization

programme, encouraging private participation in infrastructure projects, and re-accommodation of foreign exchange funds. Subsidies at the rate of 50-60 per cent of investment up to certain limits are given for the development of a new product, turnkey automation, product upgrading, improvement of the process technology, and for strategic technology applications.

5. Privatization programme

130. Despite its strong private sector and export orientation, Taiwan had a number of state-owned enterprises primarily in the banking and financial sectors and also in industry. Although the privatization programme started in 1985 with the intention of selling up to 51 per cent of its equity held in the public sector companies, the privatization programme unfolded rather slowly during the 1985-1992 period due to labour problems. Privatization was basically limited to the offering of shares (5-20 per cent) in six companies in the stock market. In addition to this strategy of using the stock market, a number of other state-owned enterprises covering the banking and insurance companies, shipping industry, iron works industry and engineering were privatized through other methods including outright sales. In the case of Taiwan, where state-owned companies were highly profitable, the objective of privatization was to open up the space for the private sector to step in and to avoid competition with private sector enterprises in these fields.

H. Thailand

131. Thai policy makers have long been of the opinion that the Government should play a limited role in the economy and that the private sector should be the engine of growth. Over time, public sector activity shifted away from direct involvement in industrial production towards the provision of public infrastructure and services. Thailand has limited government ownership of industry much more than in most ASEAN countries, with major ownership only in the financial, infrastructure and service sectors. In the 1980s, government liquidated several loss-making industries and undertook to privatize certain enterprises such as Krung Thai Bank and selected infrastructure enterprises.

1. Catalytic role of government

132. The Thai Government's catalytic role focused on the creation of a macro-economic environment conducive to productive activities including private sector development. It has been providing a stable macro-economic environment as well as a sound and conducive institutional, fiscal and financial

framework, which has contributed to the high rates of savings and of domestic and foreign investment. GDP constantly rose from 1993 up to 1997. From 1994 to 1996, the inflation rate ranged from 5.1 to 5.9 per cent respectively. During the same period, FDI constantly expanded from $US1.3 to 2.4 billion.

133. The Thai Government adopted an advantageous fiscal system for the business community. In Thailand, consumption taxes (VAT), income taxes, and the taxes on international trade generate one half of the revenue. This tax system has gradually evolved toward a relatively greater reliance on consumption and personal income taxes. The reliance on taxes on international trade has been significantly reduced, coming down from 11 per cent in 1990 to 7 per cent in 1995. Exports are zero-rated. Small businesses under the threshold turnover of B. 600,000 are not expected to pay VAT, but are subject to a small business tax of 1.5 per cent of turnover. Businesses between B600, 000 and B1,200, 000 may choose between the VAT and the small business tax. The specific Business Tax provides incentives for domestic banks to adjust their assets towards equity holdings and away from loans, as the return on stocks escapes taxation under the specific business tax.

Role of the financial sector

134. At the beginning of the 1970s, the Thai financial system played a limited role in mobilizing and allocating savings because of government intervention. Local commercial banks were characterized with a high degree of concentration and foreign banks had a limited role. Lending and deposits were subject to ceilings and selective credit programmes were used to allocate credit to priority sectors. Development banks provided long-term credit to priority industries, small firms, agriculture, housing and poorer borrowers; the market for long-term capital was not well developed. The Financial Institutions Development Fund (FIDF) has been at the centre of the provision of liquidity and solvency support to Thailand's financial system as has been the agency charged with honoring the comprehensive guarantee extended to depositors and creditors in the wake of the financial crisis of 1997.

135. The Thai Government depended largely on foreign borrowing to finance domestic investment. The investment-GDP ratio between 1990 and 1996 was 40 per cent. In large part, bank lending financed investment made in the crisis economies. In Thailand, non-performing loans of commercial banks reached almost 8 per cent of total credit outstanding by mid-1996, and non-performing loans of other financial institutions were even larger. Exposure to the property sector was high, reaching about 18 per cent of total lending. In

Thailand, speculative borrowings and exchange rates were major causes of the recent banking sector distress.

Support to SMEs

136. SMEs constitute a dynamic force in the country's economic development. They provide a sound market environment for the economic growth. In Thailand, SMEs predominate in output in a number of industrial sectors and account for 98 per cent of establishments. Thai SMEs have benefited from government protection. The Thai Government uses important licensing mainly for protection of infant industries. There are local content rules on dairy products, tea and motor vehicles as a way of aiding local producers. Around 100 product categories are subjected to import licensing and about one fourth of these are agricultural commodities such as rice and sugar. Industrial products, which are covered by important licensing, include certain textile products, machinery items, motor vehicles, motorcycles, paper products, chemicals, porcelain items and building stones.

137. The Thai Government also developed a fair degree of government intervention in the trade system. Its main instrument has been tariffs. The system of protection was biased against the agricultural sector, agro-based and labour-intensive products and favourable towards capital-intensive and import-substituting industries such as automobiles and pharmaceuticals. The labour-intensive textile industry was also heavily protected.

4. Foreign investment policies

138. Thailand is a relatively open society and does not oppose foreign influence. Since 1986-1987, Thailand experienced an unprecedented economic boom led by a surge in private investment and manufactured exports. Factors that contributed to the rapid growth in Thailand included, *inter alia,* the favourable legal, fiscal and economic environment for private investors as well as its economic reforms and liberal FDI regime.

139. The Alien Business Law of 1972 allows foreign participation in certain enterprises provided that Thai ownership is more than 50 per cent. Presently, the law is under revision to further liberalize trade and industry. Currently, any firm that exports at least 80 per cent of its production may be completely foreign-owned, although full ownership may be negotiated on a case by case basis for lower levels of export obligations. Thailand has been granting customs exemptions, preferential interest rates and tax concessions to exporting enterprises. The Thai tax system has been conducive to FDI. Offshore banks

not only pay a lower corporate income tax rate but are also exempt from the specific business tax, generating additional incentives to borrow in foreign exchange rather than in domestic currency.

140. Free repatriation of profits and capital is allowed. Fiscal incentives include tax holidays for three to eight years depending upon zone, exemption or 50 per cent reduction of import duties and business taxes on imported machinery. They also include business taxes of up to 90 per cent on imported raw materials and components and additional incentives for investments in outlying areas and export firms. Thailand prefers foreign investments in activities that are labour-intensive, export-oriented, raw material-intensive, and import substituting. Investment in construction, infrastructure, R&D services, agro-industries, and telecommunications is also encouraged. Thailand also has a list of areas closed to foreign investments.

5. Financial and trade liberalization

141. Most East Asian governments, except those in Hong Kong, Singapore and recently Indonesia, protected financial institutions from domestic and foreign competition by restricting entry and branch licensing. However, since the early 1990s, the Thai financial system has been progressively liberalized. In 1990, interest rate ceilings were lifted on a wide range of deposits; banks were allowed to offer foreign currency deposit accounts and capital outflows were liberalized. In 1992 further liberalization eliminated ceilings on lending rates. Thailand intends to transform its economy into a strong regional financial centre by the year 2000 and has recently allowed more foreign banks to set up branches in the country.

142. After a period of heavy protection in the 1980s when relatively high tariff rates were adopted, Thailand has recently embarked on a tariff reduction programme in compliance with its commitment under the ASEAN Free Trade Area (AFTA). By the year 2000, tariffs on fast-tract products will be reduced from 25 per cent to 0.5 per cent. Normal-track tariffs are subject to 30 per cent taxation. In the case of 3908 items, which now attract rates up to 100 per cent, tariffs will be reduced to 30 per cent or less. The reliance on taxes on international trade has been significantly reduced. The nominal tariff rates for Thailand have come down from 11 per cent in 1990 to 7 per cent in 1995.

I. India

1. Macro-economic environment

143. India has achieved sound economic management through reforms in trade, industry, finance and the public sector, to enhance competitiveness and to strengthen the role of the private sector in selected industrial and technology development activities, in particular, in the area of computers. The Indian approach has been to achieve growth with high employment, higher real wages, less inflation and lower levels of poverty and unemployment. The reform measures also emphasized gradual, step-by-step changes and an evolutionary transition rather than a big bang or shock therapy approach. By so doing, it developed appropriate safety nets for the vulnerable and weaker sections of society that were adversely affected by reforms.

2. Financial sector reforms

144. Financial reform measures taken over the period 1991–1998 were followed by 1997–1998 capital market reforms. Financial reforms had the following objectives:

- To strengthen the banking system;
- To increase the operational autonomy of the banks; and
- To improve the functioning of money and capital markets.

145. The results achieved by these reform measures included control of inflation and easing of monetary policies through reduction of the cash reserve ratio. These measures resulted in appreciation of the Indian rupee. Bank deposits grew because of the high real interest rates. The resulting Reserve Bank's new prudential norms sought to minimize non-performing assets. The overall result was an increase in investments in government securities, bond debentures and corporate sector shares. Deregulation of the financial sector caused a shift in the mix of asset portfolios of banks towards investments in money and capital instruments such as commercial papers, shares, and debentures.

3. Investment promotion

146. Since 1991, the Government of India has designed industrial policies to encourage the private sector and foreign investment. To encourage inflows of foreign investment, measures were taken in 1998, including enhancement in

portfolio investment. The foreign investment policy allows investors to take shares in a number of private sector activities in domestic Indian companies, private sector banks, selected industries including telecommunications, infrastructure projects and industrial activities located in export processing zones or in technology and industrial parks. The new policy allows investment in electronics, mainly in the software and hardware areas. Investment is also allowed in cable TV operations, postal services and broadcasting. Investment in traditionally resident-Indian only areas, such as construction and operation of highways, bridges, sea ports and airports, oil exploration, deep-sea fishing, operation of domestic airlines and development of township and urban services, have been opened to non-resident Indians. These policies have resulted in an increase of foreign investment from $US120 million in the 1980s to an average of $8.5 billion in the 1993-1998 period.

4. Public sector reform including privatization

147. The dominant role of the public sector in private sector development, especially for industrialization, was very obvious in the case of India. The rate of public investment increased substantially from 2.8 per cent of GDP in 1950 to 11.7 in 1986. Public enterprises (PEs) have been the government's major vehicle to channel investment resources to key sectors of the economy. The number of Central Public Enterprises increased from only five with average investment of R58 million per unit in 1950 to 239, with average investment of R7275 million per unit in 1996. However, the financial performance of public enterprises did not match the increase in public investment except in the petroleum and a few other sectors. Performance fell short of expectations due to various economic and social factors. The poor performance of the public enterprises, coupled with a host of other efficiency-related problems, provided impetus for change and for greater private sector participation in critical productive activities that were once considered the domain of the public sector. Government, through public sector reforms, also tried to change its dominant involvement in public investment to one that is supportive and complementary to private investment. Since 1991, the Government has initiated multi-pronged reforms in public enterprises such as:

- Reducing the scope of public sector participation from 17 to 4 industries;
- Eliminating the privileges of PEs ;
- Divesting a large per cent of public sector equity in industries;
- Liberalizing pricing policy for selected intermediate industrial products;
- Providing more autonomy to PEs in the running of these enterprises as profit oriented concerns; and

- Restructuring PEs from a multi-dimensional approach.

148. Restructuring was initiated from many dimensions including privatization, closure and reorganization, state-level renewal funds to facilitate privatization and closure, and outright turning over of state-managed public services to the private sector. These reform measures have been reinforced with a supportive legal framework, a positive labour policy ensuring adequate protection for labour, as well as establishment of a National Renewal Fund for the training and redeployment of workers retrenched by industrial restructuring.

149. The involvement of other actors including voluntary organizations, cooperatives, community organizations and NGOs is sought to provide services more cost effectively. For example, the City and Industrial Corporation of Maharashtra, and the Rajkot Municipal Corporation involve private contractors in the maintenance of infrastructure and services such as roads, drainage, water supply, sewerage, street lighting, waste management, and in providing public transport and landscaping for New Bombay.

5. Role of small- and medium-sized industries

150. Significant attention has been placed on the development and promotion of SMIs. They dominate production in a number of industrial sectors with 821 product categories in such diversified industries as textiles, garments, plastics, chemicals, metal products, appliances and wood-based products They absorb large numbers of workers and provide employment to some 16 million people. They are used as a means of dispersing industrial activities through sub-contracting and ancillary channels. A wide range of extension services and facilities are provided through the Small Industries Services Institutes (SISIs), and Extension Centres. Some of the important activities performed by these include:

- Provision of technical assistance and guidance;
- Provision of economic and market information;
- Conducting training, seminars and workshops for development of SMIs;
- Conducting techno-economic surveys, industrial potential studies and providing testing facilities;
- Preparation of project reports for reference and use by the entrepreneurs and development agencies such as District Corporations (DIC), Small
- Industries Development Bank of India (SIDBI), State Financial
- Corporations (SFCs), various commercial banks, and state-level Small
- Industries Development Corporations, etc;

- Promoting ancillary and sub-contracting relationships between small and large industries;
- Conducting entrepreneurship development programmes and motivational campaigns for SMIs, maintaining liaisons with other development agencies of the central and state governments, SIDBI, SFCs, banks and industrial associations.

151. The Government has set up an elaborate infrastructure comprising SISIs, DICs, Technical Consultancy Organizations (TCOs), National Productivity Councils (NPCs) to provide consultancy services in a variety of areas such as project feasibility, marketing, and technical and financial management. A few industry associations are also providing consultancy services mainly to existing entrepreneurs.

152. Vocational training and skill formation have also been given particular attention in the SMI promotion. Vocational training has engaged the attention of both central and state governments to satisfy the twin objectives of meeting the growing requirements of the skilled labour force needed in the SMI sector and of promoting self-employment opportunities. Industrial Training Institutes (ITIs) set up by the state governments provide vocational training in a number of trades. At the level of central government, the Directorate General of Employment and Training (DGET) in the Ministry of Labour, that is entrusted with the task of coordinating and organizing vocational training schemes, has developed a network for providing training services.

6. Poverty reduction through human capital development

153. The Government has relied mainly on two approaches for development of human capital. The first was based on the anticipation that economic growth would have a trickle-down effect on the levels of living of all groups in society; the second required direct anti-poverty programmes. More recently, government shifted public expenditure away from investment in infrastructure and industry towards social sectors, and improved targeting of subsidies through changes in the public distribution system. The reforms benefited the poor through higher growth, reduced inflation, expansion of primary education, improvement in basic health services, extension of poverty alleviation programmes, and provision of social safety nets for workers affected by industrial restructuring. For the rural population, where agricultural performance is a key determinant of income, employment has accelerated, and real wages and terms of trade have improved. Reform of the trade regime has reduced the anti-export bias for agriculture, stimulated the growth of labour-intensive exports and generated employment.

154. Together with overall growth, the anti-poverty and employment generation schemes have helped in reducing the incidence of poverty from 55 per cent in 1973 to 36 per cent in 1993. While the rural poverty ratio declined from 56 per cent to 37 per cent during 1973-1993, the urban poverty ratio declined from 49 per cent to 32 per cent over the same period. Rapid economic growth at around 7 per cent per annum since 1993 has probably brought down the poverty ratios further during the 1994-1998 period in both rural and urban areas.

J. Chile

The macro-economic environment

155. The present macro-economic environment in Chile is a result of a rigorous reform programme implemented to redress the imbalances created by the socialist Government of Chile that took power in the early 1970s. The socialist Government started with an aggressive expansion of aggregate demand. By 1971, current government spending grew by 12.4 per cent and the fiscal deficit reached 10.7 per cent of GDP due to this demand expansion. GDP grew at 9 per cent in real terms and the money supply grew by 66 per cent in real terms. Inflation was relatively low but price controls and commodity and factor market rationing were widespread. Price controls were intensified during the next few years, with the continuation of expansionary policies. The fiscal deficit increased from 2.7 per cent of GDP in 1970 to close to 25 per cent of GDP in 1973. As the budget deficit was closely related to trade, pressures on domestic prices had to be accommodated by tighter price controls. The reform programme focused on re-establishing the competitive market pricing system as the main mechanism to allocate resources, then went on to initiate severe fiscal reform. Reforms were introduced in the following four areas:

- Public sector reforms aimed at attaining macro-economic stability and improving efficiency;
- Trade reforms intended to adjust the trade regime;
- Goods, services and labour market reforms intended to facilitate the needed drastic reallocation of resources; and
- Financial sector reforms designed to improve efficiency as well as achieve reallocation of resources to the private sector where they were most needed.

156. Private sector development through the privatization process that started in 1975 also contributed to fiscal adjustment. The process started with the sale or restoration of enterprises that had been taken over or bought during the socialist government. When the restoration of private property was completed, the

privatization of large public enterprises was initiated. This process continued until 1989.

2. Trade reforms

157. Trade reforms started with unification of the exchange rate system. This was a direct consequence of the trade polices pursued by all the successive governments of Chile in the past 40 years of the country's economic development. Imports in the past had been concentrated on intermediate goods, followed by capital goods and a few consumer goods. Non-consumer goods imports were actually non-existent. Exports were concentrated on copper. This made Chile's overall export earnings highly dependent on copper prices. An aggressive policy of achieving nominal devaluation was used to manage the devaluation problem in order to ensure the required drastic fiscal adjustment.

3. Financial sector reforms

158. Control of the entire domestic financial system moved out of public sector hands in the 1970s. Privatization of the financial institutions began with a strategy of gradual liberalization of the sector. The lack of an appropriate regulatory and supervisory framework was corrected. Chile reformed its financial sector to allow exporters easy access to credit. Taxation was changed so that no exporter had to pay tax to export products abroad. An organization was created through which entrepreneurs were able to join forces to enter markets, because a single exporter could not do it alone. The Government now helps to achieve a "critical mass" and then withdraws.

159. Chile also fostered cooperation between the government and the private sector in funding and acquiring new technologies. Before the implementation of the reform programme, there was no capital market in Chile. By 1997, the country's capital market was well established and broad based. The process of establishing a capital market was complicated because the banks were privatized simultaneously. Currently, companies can borrow money for 20 years. Companies can also issue bonds on the market. There are pension funds and institutional investors, and the market is quite sophisticated. Pension funds represent about 45 per cent of Chile's capital market; pension funds in the private sector are not enough to mobilize savings. Consumption expenditure has dropped, with the result that savings have risen to 4 per cent of GDP in private institutions.

4. Support to SMEs

160. A national programme for assisting SMEs with credit and technological support was implemented between 1991 and 1992. The programme focused on five priority areas: financing, technical assistance, technological development, capacity building and export promotion. In the area of financing, subsidies, credit facilities, external fund distribution mechanisms and a credit-card financing network were established. The Inter-American Bank (IDB), through a local agency known as Corporation de Fomento (CORFO), distributed the resources among the enterprises involved. The main credit lines were earmarked for purchase of capital goods as well as for the export of non-durable consumer goods for engineering services.

161. In 1974, Pro-Chile, a public institution to promote exports, was created. It worked in close collaboration with the various Chilean consular and commercial offices and embassies around the world, to open up markets through international trade exhibitions, information for developing businesses and other means. The technical cooperation agency (SERCOTEC) has been in existence for over forty years and has been providing technical and specialized training in non-traditional exports. On the private sector side, the Chile Foundation, a non-profit institution, was set-up to transfer technologies to Chile, for increasing the use of natural resources in the productive capacity of the country. The National Productivity and Quality Centre (NPQC) established in 1995 by the Government, the workers confederation and businesses provides training and has instituted a national prize for quality.

5. Privatization

162. Chile's privatization process actually created a new private sector and did not merely have the old sector buying up the companies. When the electric company was to be sold, there were no foreign investors interested in buying it. There was no single investor able to buy it outright. Then the Government opened the company to the public and allowed ordinary people to buy shares. Pension funds were also allowed to invest in the companies. Many of today's major private companies in Chile used to be government-owned companies. They are now private liability companies (PLCs). The Government did not have the funds to offer severance pay; therefore, the public employees were allowed and encouraged to buy shares. Privatization provided an opportunity for public employees to become shareholders.

6. Poverty alleviation

163. An aspect unique to Chile regarding private sector driven growth is that diminishing poverty is seen as a development opportunity rather than a social or political burden. The country has not perceived poverty-related social programmes as instruments that spend money on the socially disadvantaged. Chile's approach to poverty-based programmes is to target the end result. For instance, if you want to offer cheap housing loans, people who buy bigger houses should receive bigger subsidies. Poverty indicators have dramatically improved. Infant mortality for 1996 is 12 per 1,000, a very low level for a developing country. The figures on access to safe drinking water and on life expectancy show that the country has advanced with regard to poverty alleviation. Chile used to have higher infant mortality than Argentina and the USSR and now the country has lower rates. In 1970, about 21 per cent of the population lived in extreme poverty. By 1992, the level dropped to 11.9 per cent. Thus, in roughly 20 years, Chile reduced extreme poverty by almost half. This was achieved through the combination of private sector driven growth and targeting programmes to improve the well being of the very poor.

III. LESSONS FOR AFRICA

164. Given the fact that each country covered in this study has its unique characteristics with regard to past history, level of human development, resource endowment, market size, etc., one cannot expect that success stories observed can be automatically replicated. However, from the review, it is possible to point out certain positive lessons that African countries might find useful in their effort to accelerate their economic growth and development.

A. The integrated approach to private sector development

165. The integrated approach requires linking several factors in a comprehensive and mutually reinforcing manner. This approach is also tied to the formulation and implementation of a long-term vision as well as the attainment of sound economic management as the foundation for private sector development. This foundation is reinforced by measures taken by governments, the nature of public/private partnerships and the strategies adopted to generate resources and build markets. The services needed for the development, management and operation of all levels and types of businesses, particularly SMEs and SMIs and the financial and other services to expand private sector participation in African economies, have to be properly addressed

166. The East Asian governments developed long-term visions for their economies and pursued with determination the design and implementation of policies from an integrated approach. Though pivotal, private sector development was part of an overall strategy for sustainable development that embodied other elements such as health, education, infrastructure, and environmental protection. Sound macro-economic management should be sustained to avoid the stop-go policies that undermine private sector confidence. The East Asian authorities have explicitly taken the attitude that what is good for the private sector is also good for them, in terms of taxes, public welfare, economic growth, etc. The best role of the State with respect to the private sector is to do everything necessary to ensure the sector's success and to work with representatives of the private sector to design government policies and programmes accordingly.

1. Sound economic management

167. Most of the countries reviewed considered the private sector as the engine of growth. The economic management they followed was based on this philosophy. During the last fifteen years, Latin American countries adopted "market-friendly" policies intended to strengthen private initiative, without positive results. The sole operation of market forces aggravates existing social and economic inequalities and asymmetries. As the Latin American experience demonstrates, promotion of the private sector is not an uni-dimensional process to be achieved by the conventional package of policies such as deregulation, opening up of the economy, privatization and state withdrawal, but is rather a much more complex set of policies aimed at specific objectives.

2. Catalytic role of governments

168. State intervention is a crucial factor for providing an enabling business environment. Free-market policies without the strong regulatory presence of the State will not necessarily entail economic growth in developing countries. Appropriate information is expensive; technological improvements do not flow freely throughout the economic system and market opportunities are difficult to seize by small enterprises. Without a definitive government policy, the private sector becomes the monopoly sector.

3. Private-public sector partnership

169. Cooperation and close collaboration between business and government have been fostered in the form of formal and informal links with major business organizations. The main objective of these links was to assist in the design, implementation and coordination of policy measures. Formal institutions called deliberation councils have facilitated policymaking in Japan, Korea, Malaysia, Singapore and Thailand. The core efforts of institutional design have been through formal and informal ties created at the sectoral level. Sector-specific consultative agencies have also often taken a lead role in enhancing the transparency and fairness of administrative decision-making, forcing decision-makers to clarify and justify their actions. This facilitated information flows and provided a forum for solving conflicts and coordinating problems that involved economic policies. A full-blown East Asian type government/business partnership may not be feasible immediately in sub-Saharan Africa, but steps can be taken to move in this direction; a modest

attempt seems preferable to a "hands-off" approach or to the present conditions of mistrust.

170. Such a partnership strategy implies a major change in the role of government from owner and operator to policy maker and regulator. An important institutional prerequisite appears to be establishment of a competent economic bureaucracy. The complexity and difficulty of managing targeted industrial policies places great demands on the economic bureaucracy, which must be able to balance financial support for targeted industries with penalties for non-performance. There is also need for greater clarity of objectives. The success of the orientation depends on the efforts of government to build a competent and agile economic bureaucracy that has a fuller understanding of the effects of particular instruments on specific and economy-wide outcomes. The vision of an integrated approach to design and implementation is charted below:

4. Need for an objective-driven privatization programme

171. Privatization is a versatile tool that serves many objectives, such as:

- Tackling acute fiscal stringency or a resource crunch;
- Reducing state monopoly in certain sectors;
- Changing the public-private mix in a sector for more competition; and
- Improving the performance of state-owned enterprises

172. The goals may also include:

- Reducing the demand of SOEs on the limited resources that could be diverted to social programmes in education and health; and
- Reducing political meddling which is the bane of many SOEs.

173. In terms of techniques, direct sale was preferred, accounting for nearly 80 per cent of transactions and 60 per cent of revenues. In particular, direct sales targeted at pre-qualified strategic investors were the preferred means of transferring scarce management and technology skills to newly privatized medium- and large-scale enterprises in East Asia, Eastern Europe, and Latin America.

5. Export orientation strategy

174. Of the three instruments, namely trade liberalization, manufactured export promotion and openness to foreign technology and investment, only one has been used in terms of practical guidelines by policy-makers in some African countries. The pattern of trade reforms adopted by several African countries is similar to that of East Asia; it is marked by gradualism, even in the removal of non-tariff barriers. In terms of policy, one of the most significant lessons for trade reforms in African economies is the need to abolish import licensing and enhance convertibility on the current account of the balance of payment. The East Asian style of promoting manufactured exports has been initiated in some African countries. For example Kenya, Zimbabwe, and Ghana have begun to provide free trade status to exporters, pre-shipment financing, and assistance on technology and market penetration. However, most efforts are still relatively uncoordinated.

175. Of the many policies tried by the East Asian countries for accelerating growth, those associated with export push hold the most promise for other developing economies. Many Asian countries established EPZs and FTZs equipped with good infrastructure and support facilities as a mean of attracting FDI. Furthermore, export development policies such as duty drawback/duty exemption schemes have been a critical part of East Asia's success and merit consideration. There is undeniable evidence that the EPZs, although still small, have been among the most dynamic sectors in attracting FDI. EPZs accounted for more than 85 per cent of FDI in Mauritius and over 70 per cent in Mexico. FDI inflows to the oldest four special economic zones in China amounted to more than 30 per cent of FDI inflows in 1989.

176. The potential cost of inward-oriented development strategies in Africa may have been very large. It has been estimated that the adoption of Asian-type, outward-oriented policies, coupled with a stable real exchange rate, could have added 2.1 percentage points to annual African growth over the 1976-1985 period.[8]

6. The export processing zones and free trade zones

177. The processing zones have to be supported by a number of other facilitating factors. The following examples point to this fact. Mauritius, with an adequate macro-economic balance, open-trade policies, dynamic local

[8] David Dollar, 1992, op. cit.

business community, combined with strong government support, has contributed to the remarkable success of its zone. Senegal illustrates an example where even the most appealing fiscal concessions do not always attract foreign investment or ensure the success of a FTZ. The absence of a good business climate and adequate infrastructure can result in the non-achievement of the desired objective. Any attempt to use this mechanism without adequate supporting facilities are unlikely to succeed. Where the general economic climate is reasonable, the development of FTZs can be useful encouragement to the development of export-oriented industry as they can lower initial investment cost for investors and can encourage economies of scales. FTZs should be a component of a broader outward-oriented development strategy rather than a substitute for such a strategy.

7. Provide SMEs with developmental and operational support

178. SMEs have played a significant role in the economic development of Japan, Singapore, Taiwan as well as of other developed countries. SMEs can equally be a driving force in Africa if they are provided with adequate and integrated financial and technical support as well as an enabling policy and regulatory environment. A strong SME sector serves not only to generate employment but also to earn foreign exchange, upgrade the quality of the labour force and expand the base for indigenous entrepreneurs. Promotion of the private sector requires an effective set of policies targeted to protect and promote SMEs. These small firms are the major source of creation of jobs, and an adequate policy in this regard will also have a positive effect in the reduction of unemployment.

179. Priority should therefore be given to the strengthening of SMEs and cooperatives. Public financial institutions should assume new commitments towards small businesses. In collaboration with universities, research centres and other institutions, mass media, and civil society and United Nations organizations, government agencies should provide the essential technological, financial, commercial and institutional assistance. Without these packages of assistance, which include simplification of credit applications and other procedures, the formation of human resources and the dissemination of marketing know-how, SMEs cannot survive in the competition against large businesses. The existence of a dynamic local business sector creates a supportive environment through efficient networks of local suppliers, service firms, consultants, partners and competitors. It is therefore necessary to concentrate constant efforts on the development of

local entrepreneurial capabilities with special emphasis on women entrepreneurs.

8. Importance of information to private sector activities

180. One of the problems facing the private sector development policy stems from the difficulties of accessing information for decision-making, particularly for SMEs, which form the bulk of the businesses and constitute a major input into the growth of GDP and a skilled labour force. Information is expensive for small-scale enterprises and it is also well known that information is usually monopolized by large firms able to afford the high costs. For this reason, it is recommended that State policies take this situation into account and promote policies that make it easy to access information. The difficulty of accessing information and the complexity in use of the data are two factors limiting investment opportunities in the small- and medium-scale sectors of African economies.

181. It is also necessary to take into account the shortage of skilled labour necessary to ensure the proper use of the existing data, as well as poor access to sources of information from foreign markets, the Internet, the universities and the State entities themselves. For example, many SMEs do not even know about the existence of official loan schemes or technological development or various technical assistance services for which they may be eligible.

9. Increased investment in physical and human capital

182. East Asian economies began their take-off to rapid growth with an edge over many other developing countries in human capital and maintained that edge through explicit policies of investment in education. In nearly all the East Asian high performers, the growth and transformation of educational and training systems during the past three decades has been dramatic. The decision factor in East Asia's success was the allocation of a higher share of public expenditure to basic and higher education. Equally important is the availability of high quality telecommunication and transport systems, energy supply and other utilities. Besides giving priority to basic and higher education, African countries should place a strong emphasis on post-secondary education particularly on vocational training and engineering, thereby guaranteeing supply of the type of labour force that fits

with labour market needs. This issue points to the overriding importance of developing countries to target more investment to the development of human resources, infrastructure and services. It also highlights the risk of marginalization for the least developed countries, given their shortage of skilled labour and the infrastructure constraints.

183. Unlike Asia where the emphasis was on development of human capital for market need, in Latin America, the focus was on defining labour relations and labour's mediation role. The structural reforms dealt with labour regulations and it can be said that the main purpose of the market policy objectives was to ensure a major change in the legal and economic relations between capital and labour and between entrepreneurial gains and salaries. A large part of the argument in favour of the private initiative development policies is based on the limited taxation for economic growth derived from the so-called "rigidity" laid down in the labour contracts which emerged during the periods of conflict and negotiation between workers and employers. The proposal presupposes a reform toward flexibility in labour relations, with the aim of reducing labour costs through cuts in salaries, taxes and dismissal expenses. In many African countries, policies directed at suitable human capital development and enhancing labour relations are missing.

184. Multilateral agencies can help the developing countries by providing financial and technical support for the development of infrastructure and human resources. Multilateral financial and development institutions and bilateral donors have played a significant role by providing financial and technical assistance to the countries of South Asia in the areas of improved education, health services and family planning.

10. Pro-savings policies and financial facilitation

185. East and Southeast Asian governments boosted savings through a combination of measures and interventionist policies. Critical to their superior growth performance was their ability to supply their work forces consistently with rapidly increasing amounts of physical capital. The government interventions included maintaining macro-economic stability primarily controlling inflation, and ensuring the security of banks. Low to moderate inflation rates and largely positive real interest rates lowered the risk of holding financial assets, and hence encouraged financial savings.

186. The slow-growing economies need to raise their savings and investment rates from the current 12-16 per cent of GDP to at least 20-25 per

cent levels already achieved or exceeded by India, Kenya, and Zimbabwe. A high level of domestic savings channeled to finance private sector's activities will attract foreign investments in joint venture arrangements and shows that local entrepreneurs are risk takers. Initially, most of the change will have to come from reducing government divestiture. Since the private sector usually responds slowly to sustained reform, almost all low-income countries urgently need to reduce the budgetary drain of public enterprises. Major changes will thus have to be made in the size and structure of government revenue and expenditure. Raising revenue levels calls for measures to broaden the tax base by simplifying tax regimes, abolishing exemptions, reducing the discretionary authority of tax and customs administrators, and improving collection capacity. But the biggest impact will come from reducing the budget outlays on public enterprises and stopping the leakages from the banking system, which eats up most domestic savings in many African countries.

187. East Asian governments also guided the financial sector by way of tax incentives and subsidies, and by rationing access to limited credit and foreign exchange. For example, in Korea, and Taiwan Province of China, households were encouraged to use the postal savings system because interest income was tax-exempt at times, while in many East Asian countries, development banks' policy loans to priority industries were subsidized. In Korea, in particular, companies that performed well in export markets were granted ready access to credit and foreign exchange. At times, East Asian governments also limited lending for consumer spending, housing, real estate, and equity purchases. The restrictions on lending for consumer spending and housing encouraged households to save before making large purchases, while the restrictions on lending for real estate and stock market investments discouraged speculative borrowing.

188. There is a unique dimension in Latin American countries around the use of pension and retirement schemes as reliable source for mobilizing savings. This experience does not only focus on domestic resource mobilization for financing private initiatives but also on investment and management for retirement benefits in a secure way. For Argentina, the Chilean case of capitalization was the example used for the privatization of pensions and retirements, and Brazil has recently begun to study the case.

B. Political and economic stability

189. Political and economic stability is a *sine qua non* condition for any development, including private sector development. This was the main reason for the many political stability programmes adopted in most countries in

the 1980s and 1990s. It has been noted that the stability achieved was through sound anti-inflationary programmes; the latter drawn up in Argentina, Brazil, Chile and Mexico are considered to be successful. Economic stability was established on the transfer of resources from low production to higher production sectors in the area of minerals, fruits and other agricultural productions including fisheries. Therefore, a number of investments in agriculture-based industries and other industries raised the productivity of the economy as a whole. In some cases like in Chile, these processes laid the foundation of new entrepreneurial outlooks. Mexico's economic stabilization programmes of 1998 with its subsequent GDP growth was considered a model in Latin America in the early 1990s. The possibility of stabilization was estimated by Government's ability to establish fruitful dialogue with various partners including the trade union leadership. Brazil achieved its stabilization with the Cardoso plan in 1994. The private sector was seen to be favoured by these economic stabilization policies and this brought about a high transfer of resources, illustrated in the taxation systems.

190. To accompany this economic stability, political practices were adopted to promote political conditions for the active participation of citizens at large in the development of the countries. There was, for most Latin American countries, a gradual move from a Marxist-oriented political system to one that allows popular participation of all its citizens. On the economic side, there was a parallel political shift from a state-command to a market-oriented economy. Stabilization measures aimed at gradually distributing responsibilities, thus allowing the State to focus on the regulation of markets and the dynamics of private initiatives.

C. Strengthening regional integration

191. Developing countries in both Asia and Africa are going through a phase of economic liberalization, which provides a solid foundation for the success of intra- and inter-regional cooperation. The Abuja Treaty Establishing the African Economic Community provides the framework for strengthening regional cooperation in Africa. National commitment is key to the implementation of this Treaty. African countries need to make greater efforts to create a more liberal trading and investment environment, to reduce the wide disparities in the levels of income and market size, and to have cost-sharing and distribution of benefits. Economic exchange and cooperation among the economies can be strengthened by the following measures:

- Generating larger markets through closer country linkages;

- Harmonizing policies to restrict competitive overbidding while attracting FDI without unnecessary loss of resources;

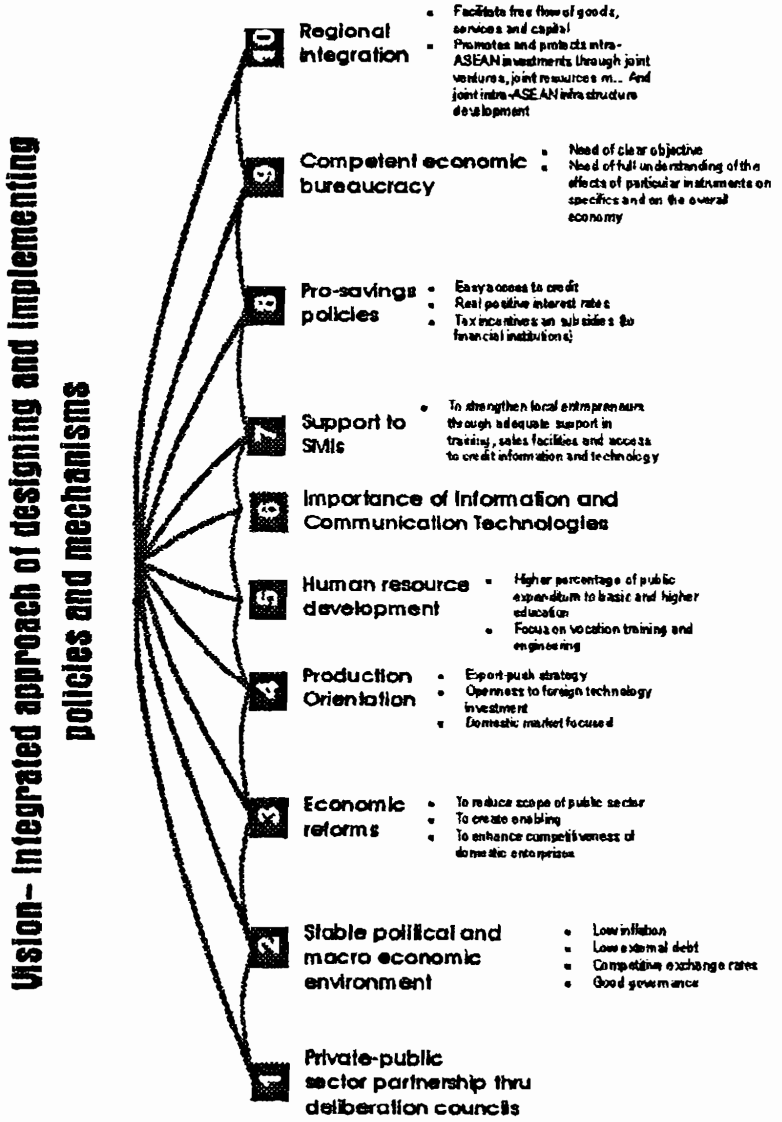
- Taking policy reforms to limit capital flight outside of the region and to increase trade and cross-border capital flows; and

- Cooperation and networking aimed at reducing the cost of information development and R&D, by pooling limited financial, physical and human resources to obtain the best possible leverage.

D. Political will

192. One of the overriding lessons learnt from the Asian and Latin American experiences is the need for political will and commitment to drive and implement the process. This commitment should be at national, subregional and regional levels and should provide the needed thrust for sustained private sector development. This spirit is in line with the need to establish a positive environment and a package of comprehensive, objective-driven assistance.

The Integreted approach, which should be driven by clear vision and strong political will and committment could be summarized as follows:



E. Lessons from the Asian economic crisis: A postscript

193. While this discussion provides positive lessons for Africa from the experiences of Asian countries, there is also need to recognize the problems they are facing lately due to some mistakes in policies. Although not the focus of this paper, the information in this postscript is useful as it could help to avert similar problems for Africa in the future.

194. The rapid economic growth in Asia tended to mask the inefficient investments, while poor data disclosure and transparency, tax loan classification and provisioning practices and regulatory forbearance masked the true extent of financial sector weaknesses. Although stock market capitalization in East Asia rose very dramatically in the 1990s until 1997, securities markets in the region are relatively young and underdeveloped for a variety of reasons. Furthermore, unlike in industrial countries, equity markets also play a limited role in corporate governance, owing to the importance of family controlled firms.

195. The practically fixed exchange rate against the dollar, coupled with higher domestic borrowing costs, provided incentives for borrowing abroad for financing domestic investment. Their strong creditworthiness ratings rendered foreign banks eager to supply such credit, although in recent years the nature of external financing has begun to shift toward short-term loans and away from FDI. The easy availability of foreign credit fueled a credit boom, which in turn was increasingly channeled into consumption and the real estate sector, generating a boom in construction as well as property prices. When market sentiment began to shift in 1996 and the first half of 1997, the authorities initially resisted allowing their currencies to depreciate, primarily out of concern over the impact on the financial system of heavy exposure to foreign exchange liabilities. Thus, the build-up to the difficulties in East Asia, which led to the present economic and financial crisis in these economies and elsewhere, can be traced to four major factors:

- High growth and commendable economic success resulted in underestimation of risk;
- Some features of the external economic environment that at first were favourable, turned sour in several respects in 1996-97; and
- Various structural weaknesses, particularly in the financial sector, made these economies, and especially their financial systems, increasingly fragile and vulnerable to adverse developments.

196. Three lessons can be learnt from the boom-bust cycle in asset prices and the subsequent currency crisis leading to wider financial and economic crisis and its management:

- The cost to the economy and financial system would have been less significant had the countries permitted greater flexibility in the exchange rate with less delay, once it was clear that investor sentiment had fundamentally shifted;

- Prudent fiscal policy does not suffice to ensure stability in the size of the current account deficit, even if entirely driven by private agents. Private agents generally respond to economic signals including the perception of official policy favouring a stable exchange rate;

- Finally, lapses in supervision of the financial system can be extremely costly to the economy. As a corollary, efforts to upgrade the regulatory and supervisory infrastructure for the financial system can be a sound investment that generates substantial payoffs in terms of economic benefits.

F. Policy lessons for crisis prevention

197. The lessons that emerge from the Asian crisis in terms of prevention mechanisms are:

- Maintenance of strong economic fundamentals through prudent macro-economic policies, exchange rate adjustments, fiscal discipline and an outward orientation remain the clearest perquisites for stability and sustained long-term growth;

- The need for a strong financial sector, adhering to international best practices on prudential regulations and guidelines, and building strong supervisory capability so that financial system maintains solvency strength and has sufficient reserves to tackle future loss of confidence;

- Disclosure of key information is required on performance, credits, profitability, etc. of both financial and corporate entities. Transparency provides markets with accurate information and creates confidence and healthy competition among economic agents;

- There is need for strong governance in the corporate sector and in public policy making to ensure the free play of market forces and to break the close links between the corporate, government and the financial sectors; and

- Proper sequencing of capital accounting convertibility with prudent management of external debt is essential. Healthy banking and financial systems, strong capital markets, lower levels of fiscal deficit, low rates of inflation and overall macro-economic stability are preconditions for ensuring full capital account convertibility.

IV. CONCLUSIONS

198. As can be summarized from the foregoing discussion, there was no uniform model of development that was applied throughout Asia and Latin America, but central to the performance of most of these economies was an emphasis on stability-oriented macro-economic policies. These policies were backed with well-targeted strategic interventions by government on the one hand, and by private sector and public-private partnership on the other. Another overriding trend was the attention given to the provision of facilities and services covering infrastructure, human resources, R&D, and other support crucial to private sector development and sustenance.

199. An important mechanism that contributed to the high growth of most Asian and Latin American countries was export/investment-led growth, supported by low production costs. Moreover, East Asian economies began their take off to rapid growth with an edge over many other developing countries in human capital and maintained that edge through explicit policies of investment in education. However, critical to their superior growth performance was their ability to supply their work forces consistently with rapidly increasing amounts of physical capital. Most of the strategies focused on small- and large-scale enterprises. However, given the fact that African countries today have limited market size, scanty infrastructure support, weak financial sector, low purchasing power and other factors restricting the growth of large-scale private sector development, the focus should be on small and medium enterprises. Such an approach can help to achieve objectives such as:

- Contributing significantly to the economy in terms of outputs of goods and services;
- Offering an excellent breeding ground for entrepreneurial and managerial talents;
- Creating jobs at relatively low capital cost;
- Providing opportunities for developing and adapting appropriate technology; and

- Networking to seek viable opportunities for intra-regional joint ventures as well as with foreign businesses.

200. The existence of a dynamic local business sector creates a supportive environment through efficient networks of local suppliers, service firms, consultants, partners and competitors. It is hence necessary to concentrate efforts on the development of local entrepreneurship, critical shortage of which is often a great handicap to economic development. In Africa, where women dominate the informal and micro-enterprise sectors, and are involved to some extent in small and medium private sector activities, adequate attention should be given to ensuring policies and support services that are packaged to meet their specific needs.

201. In addition to creating favourable conditions for their graduation to small-scale enterprises from the informal and micro-enterprises, support to women should aim at addressing the technological requirements that they need to allow them to upgrade their activities, particularly in food processing, agricultural and household production. Priority should also be given to the development of services and institutions that will assist women's access to productive resources, particularly financial, land and other facilities, including quality control.

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