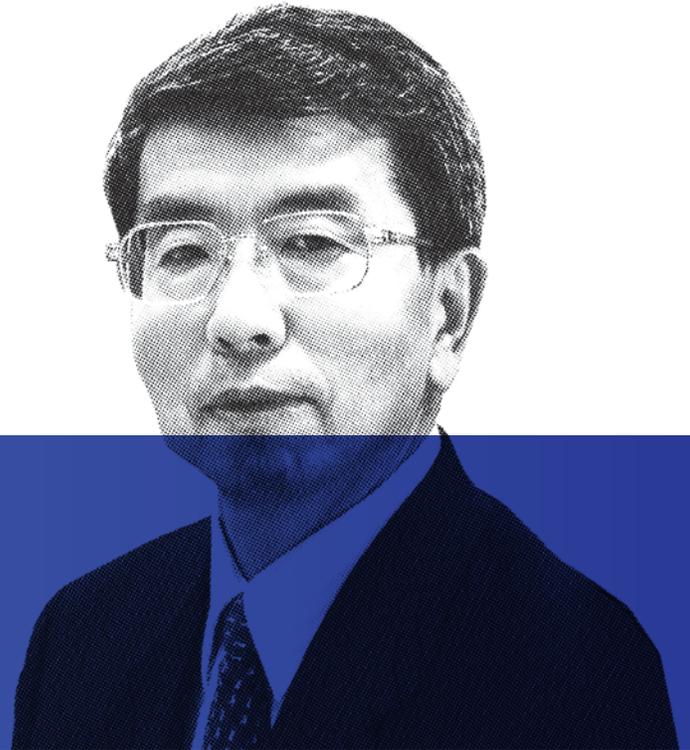


Eight Essential Conditions for Economic Development



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The fundamentals include investment in infrastructure and human capital, a market orientation, suppressing corruption and keeping the peace. That's how Asia will enjoy strong, stable growth into the future.

Once, Asia was defined by poverty. One of the most important issues for the Asian Development Bank (ADB) when it was established in 1966 was agricultural assistance, meant to safeguard a large and growing population against hunger. Nearly half a century later, Asia's amazing growth and poverty reduction have exceeded the most optimistic forecasts. The ratio of extremely poor people (with a per-capita income of \$1.25 or less a day in 2005 purchasing power parity terms) against the region's total population was 55 percent in 1990, but had dropped to 19 percent by 2010. Similarly, its share of global GDP — including Japan and Australia — increased from about 15 percent in 1970 to over 30 percent by 2013.

The 2008 global financial crisis did not derail Asia's robust momentum.

It is fair to say, however, that growth rates vary across the region. For instance, the Philippines, whose per-capita income was substantially higher than that of Thailand in 1965, now comes last among the original five members of ASEAN. In contrast, South Korea, whose per-capita income was lower than Ghana's half a century ago, has attained high-income status. While India remains a lower-middle-income country, the People's Republic of China, the region's other giant, attained upper-middle-income status through sustained high growth based on reforms after opening its economy.



Since becoming ADB president in April 2013, I have visited more than 20 developing member countries in Asia and the Pacific and had candid discussions with leaders and senior officials about their policy challenges. I have been engaged in development issues throughout my career, including at Japan’s Ministry of Finance and the International Monetary Fund. My recent encounters with leaders in Asia have increasingly convinced me that economic development depends not so much on a country’s “original characteristics” such as endowment of human capital, natural resources or cultural and social traditions, but on the right policies. I believe there are eight key conditions for development.



Infrastructure Investment

Sufficient energy, road and railway infrastructure helps countries develop industry and attract foreign direct investment (FDI). A good road network gives people access to schools and clinics and enhances job opportunities. Infrastructure is the core area of the ADB’s loans and technical assistance. In providing assistance, the ADB emphasizes adherence to international standards for environmental and social safeguards and fair and transparent

procurement processes. These standards meet the evolving and expanding needs of our member countries.

In many of the region’s developing countries, the share of public investment in total GDP stood at 5 percent or less in 2010—far lower than China’s 22 percent. In those countries, development tends to be slower. According to an ADB study last year, a 1 percentage point increase in the infrastructure investment-to-GDP ratio would raise the growth rate by 1.3 percentage points. In addition to ensuring sufficient tax revenue to build basic infrastructure, countries must mobilize private resources. In this context, the ADB is promoting

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public-private partnerships, or PPPs. In Vietnam and the Philippines, the ADB has helped draft basic laws on PPPs and set up special government agencies for them.



Human Capital

Investment in education and health to develop human capital: In most countries, primary school enrollment has improved, but low graduation rates and the variable quality of secondary and tertiary schools remain challenges. The ADB is helping several countries, including Bangladesh, with vocational training reforms, engaging the business community to ensure that training matches employment needs. The ADB is also supporting the use of information technology in health care and the transition to universal health coverage in member countries.



Macroeconomic Stability

In countries that suffer from inflation exceeding 10 percent, large fiscal deficits and high interest rates, it is obvious that savings and investment for the future are hampered. It is encouraging that in Asia, after the currency crisis of the late 1990s, governments now pay more attention to sound fiscal policy, stable monetary policy and stronger regulation and supervision of the financial sector.



Open Trade & Investment Regimes

Open trade and investment regimes and an active private sector: In the past, even some countries such as India and Indonesia, though

not formally classified as centrally controlled economies, adopted import substituting industrialization, price controls and nationalization of key industries. The catalyst was an ideological pursuit of socialism combined with anticolonial sentiment. These policies seriously damaged their economic growth. Today, there is no Asian leader who does not regard the market as the foundation of economic development. In today’s more integrated global economy, FDI and technology transfer from overseas play an even greater role than in the past.

When I met Indian Prime Minister Narendra Modi and Indonesian President Joko Widodo after they took office, they expressed deep commitment to promoting structural reforms by further opening their economies, streamlining regulations and cutting energy subsidies. In many countries, the ADB provides budget-supporting program loans tied to the implementation of structural reforms. The ASEAN Economic Community, which the ADB supports, is playing a key role in reducing tariffs, simplifying customs procedures and unifying standards in participating countries.



Public Governance

Corruption is not only unjust, it smothers growth by diverting people’s energy to unproductive activities. Good governance also means better transparency and accountability among governments and state-owned enterprises. Countries, including those in Central Asia, are increasingly aware that

these issues need to be tackled. It is also important to note that, as a 2013 ADB report indicates, the effectiveness of government in delivering its services and the quality of regulations closely correlate to the performance of its economy. In this regard, competent public officials and managers are essential.



Social Inclusiveness

In a society with great disparities between rich and poor, economic growth goals may not be shared by citizens. Income inequality nullifies the incentive to improve one's prospects by getting an education or vocational training and limits the quality of the labor force. To avert this scenario, decisive steps are needed to strengthen public education, redistribute income by tax reforms, reduce rural-urban inequality and provide farmers as well as small and midsize enterprises with access to finance. I may add that a sound middle class increases domestic consumption and fosters political stability.



Vision for the Future

In this area, South Korea and Singapore have shown how governments can make crucial contributions to national development. While the private sector is a key economic growth engine, governments have a

responsibility to examine their national comparative advantages, design a development strategy and share this strategy with their citizens. They should carefully allocate public finances to priority areas while giving appropriate guidance to business. Of course, this is not to say that governments should embrace inward-looking policies to protect domestic industries.



Political Stability

Political stability, security and good relations with neighbors: Sri Lanka's economy has expanded by 7.5 percent annually since its civil conflict ended in May 2009. Myanmar, thanks to efforts to pursue democratization and reconcile with ethnic minorities together with economic reforms, has successfully reengaged with the international community and attracted prodigious amounts of foreign investment. In the Philippines, the government recently reached a comprehensive peace agreement with Islamic groups in Mindanao, a breakthrough that raises new hopes for resurgent economic growth in that part of the country.

I expect that successful implementation of policies in these eight areas can elevate countries at least to upper-middle-income status. I have been struck by the convergence in the thinking of Asia's leaders about what needs to be done for economic development. At the same time, implementation is never easy, as reforms often widen political divisions, especially when they confront vested interests.

Making the transition further to high-income status involves another set of tough challenges. In addition to the aforementioned actions, well-designed policies are needed to promote technological innovation, elevate the skills of workers, upgrade industrial structures, and foster sustainable growth.

As Professor Akira Suehiro of the University of Tokyo has pointed out, Asia's growth model is being reshaped into a complicated network model. Industrial catch-up takes less time thanks to the IT revolution and rapidly changing production systems. The flying-geese paradigm of Asian growth, in which Japan flies fastest, may no longer capture the reality. Still, Japan's experience in building quality infrastructure, livable cities with public transport systems, a social security system for its aging society, as well as its financing, environmental protection, and disaster risk management, offer useful lessons for the ADB's developing members.

The ADB will continue to serve the region as Asia's growth story unfolds, taking into account the vital principles discussed above.

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