Supporting Sustained Economic Development

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I. INTRODUCTION

There is no magic formula for sustained economic development in poor countries. Strategies that succeed in one country may not be appropriate in another. Yet there are several broad similarities across the countries that have been most successful in achieving development over the past forty years. This Article takes a very broad overview of economic development in low-income countries over this period and makes three basic points.

First, progress in economic development around the world between 1960 and 2000 was greater than is often assumed. Many people believe that development success has been confined to a few countries in East and Southeast Asia, with little progress elsewhere. In fact, more than 20 countries that were relatively poor in 1960 and that account for nearly half the world’s population can claim reasonable success since then, with significant increases in income, improvements in health, and advances in education. The average real incomes of these countries, for example, more than tripled in real terms over just two generations, with significant increases in life expectancy and literacy rates.

Second, while the specifics varied across each country (and within each country during the process of development), there were several common elements across the development strategies pursued by the most
successful developing countries. Four key elements stand out: macroeconomic and political stability, significant investments in health and education, policies to support private sector development, and strong governance. These four "pillars of development," in one form or another, have been the cornerstones of the growth strategies of essentially all of the successful countries.

Third, although the policies and institutions of the low-income countries are central to long-term growth, the poorest countries cannot achieve sustained development without the support and cooperation of the international community. To expand the breadth and accelerate the pace of development in low-income countries, rich countries must improve both the quantity and quality of foreign assistance. They must also reduce trade distortions and further open their markets to the products sold by low-income countries.

II. SUCCESSFUL DEVELOPMENT 1960-2000: MORE THAN EAST ASIA

By most estimates, during the last half of the 20th century there were significant declines in the share of the world's population living in poverty, along with substantial improvements in health and education. While precise estimates differ, several analyses suggest that the share of the world's population living in extreme poverty fell by between one-quarter and one-half between 1960 and 2000.1 Bourguignon and Morrisson, for example, find the share of the world's population living in extreme poverty fell from 44% to 23.7% between 1960 and 1992; while the share living in poverty fell sharply, the absolute number living in poverty declined only slightly.2 Around the world, life expectancy increased from 50 to 67 years, while infant mortality rates fell from 119 to 56 per 1,000 births. Compared to previous periods in world economic history, these advances over a 40-year period are huge.

There is a widespread belief that these remarkable gains in human welfare were confined to East and Southeast Asia, with very few countries outside the region achieving any success. The Asian "tigers," indeed, are the most prominent and well-known of the success stories. Following the rebuilding of Japan after World War II, growth took off in

2. Bourguignon & Morrisson, supra note 1.
Hong Kong, Singapore, Taiwan, and Korea, with real incomes increasing (incredibly) by more than seven-fold in these four economies between 1960 and 2000. The rapid growth spread to several countries in Southeast Asia, with Thailand, Malaysia, Indonesia, and the Philippines experiencing a four-fold increase in real incomes over the same period. And, of course, China’s growth explosion after 1979 is one of the most important changes in the world economy during the last century.

However, development success has not been limited to this region. In fact, more than a dozen other countries have achieved more modest, but still important, progress. Table 1 shows 21 countries that were relatively poor in 1960 and achieved economic growth per capita of at least 2.2% per person between 1960 and 2000. I use 2.2% annual per capita growth as a baseline measure of “success” because that growth rate equals the fastest per capita growth rate ever achieved over a 40-year period by today’s world economic leaders (excluding Japan): the United States, Germany, France, and Britain. Surely any country that has outperformed the best economic growth performance of the United States over a relatively sustained period (40 years) deserves to be considered at least a reasonable success. Note that this is not to argue that some of these countries could not have done better—surely they could have. Moreover, it is true that the more recent success stories had advantages that the U.S. and European leaders did not have, especially the ability to import and adapt technologies and governance structures from richer countries. The point is a simpler one: from the perspective of the broad scope of human history, a growth rate of 2.2% sustained over 40 years, whatever its origins, translates into enormous gains in human welfare that should be considered at least a reasonable development success.

A growth rate of 2.2% per capita over 40 years means that average individual incomes in these countries more than doubled (more precisely, increased by 140%) during this period. In fact, for this group of countries as a whole, the increase was much larger, as were the accompanying gains in other indicators of development. Table 1 shows that for this group of 21 countries as a whole, average real incomes more than quintupled, life expectancy rose from 48 to 66 years, infant mortality fell from 128 to 39 per 1,000 births, and illiteracy rates fell from 49% to 21%. This group of countries includes all the usual countries from East and Southeast Asia (e.g., South Korea, Taiwan, China, Thailand), along with several others such as Botswana (the second fastest growing country in the world over the period), Mauritius, Egypt (where average incomes more than tripled), India, the Dominican Republic, Tunisia, and several others. These relatively rapidly growing countries were hardly small and insignificant: their combined population tops three billion,
constituting half of the world's population. The large population share is
-driven mostly by the inclusion of China and India in the group, but sev-
eral other large countries are also on the list, including Indonesia, Egypt,
Turkey, and Brazil. Surprisingly, even Pakistan makes the list, where
average real income has nearly tripled, life expectancy has surged from
44 to 63 years, and illiteracy has fallen from 79% to 56%. Pakistan
surely faces enormous problems, but its record on these basic indicators
of welfare exceeds the performance ever recorded over 40 years by the
United States or Europe. More broadly, there is no time in world history
where such a large share of the global population made such important
progress over a comparable period of time.

Of course, these gains were the average for the people living in these
21 countries. For some individuals and their families, the gains in in-
come, health, and education were much larger. For others, they were
much smaller. One potential worry would be if the gains of the richer
elements of these societies came at the expense of the poor. I have not
yet had the opportunity to explore the evidence for this very important
question for this group of countries. Previous research indicates that
economic growth rates tend to be relatively uniform across income levels
within particular countries; that is, the growth rate of the incomes of the
poorest 20% of the population in a given country tends to be approxi-
mately equal to the income growth rate of the population as a whole.3

This rapid growth experience undoubtedly left many people behind,
as in the United States and Europe. While not all of the three billion
people in these 21 countries benefited, the majority undoubtedly accrued
significant gains in welfare. Even if not everyone gained, there is little
doubt that poverty has been substantially reduced for billions of people
around the world during the past 40 years, both in and out of Asia.

These successes are not a reason to declare victory in the war on
global poverty, or for the world to feel self-satisfied—far from it. But
they provide clear evidence against the view that development efforts in
recent decades have met with nothing but failure outside of Asia and
hope for continued development in the future. The process of economic
development is long and difficult. The challenge going forward is two-
fold. The first task is to sustain economic growth and poverty reduction
in these countries. The second is to find ways to spread this achievement
to a wider circle of low-income countries, some of which face enormous
obstacles in initiating the process of growth and development.

3. John Gallup, Steven Radelet & Andrew Warner, Economic Growth and the Income
   of the Poor, Harvard Institute for International Development (1998); David Dollar & Aart
   Kraay, Growth is Good for the Poor, 7 J. OF ECON. GROWTH 195 (2002).
III. DOMESTIC POLICIES AND INSTITUTIONS

There is no single recipe for success in development. Each country faces different circumstances and obstacles and has varied endowments (positive and negative) of geography, resources, human capital, and other important elements. The strategy that worked in small, urban, resource-poor, strategically located Singapore is unlikely to be the optimal path for rural, resource-rich, landlocked Botswana. The highest priorities for one country are not the same as for another; moreover, the highest priorities and challenges within a country change over time and during the course of development.

Yet while the specifics differ across countries, the most successful countries share some central characteristics in their paths to sustained growth. In particular, there are four key elements common to successful development which can be thought of as pillars for an effective development strategy.

A. Macroeconomic and Political Stability

Economic and political instability undermine investment and growth and are especially hard on the poor, who are least able to protect themselves against volatility. Relatively low budget deficits over time (with corresponding high rates of government saving), prudent monetary policy, appropriate exchange rates, suitable financial markets (depending on the stage of development), and sustainable foreign borrowing are the key elements to macroeconomic stability. Such stability reduces risk for investors, whether they are multinational conglomerates or coffee farmers considering planting more trees. A broad tax base with modest tax rates allows governments to fund important social and economic programs while keeping budgets in balance. The particular mix changes over time: the poorest countries can appropriately rely on aid grants and concessional loans, then build their tax base and reduce aid flows as the economy grows. Sustained political stability is equally important; all of the success stories were politically stable for long periods of time. Although some countries experienced periods of instability, they were for the most part short-lived. Collier and others point out the insidious negative cycle of civil war in low-income countries, in which poverty increases the risk of conflict and conflict undermines growth and entrenches poverty.4

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B. Substantial Investment in Health and Education

Countries with healthier, better-educated populations record faster economic growth, productivity gains, and poverty reduction. Indeed, there appears to be a positive cycle between growth and investments in health and education: such investments lead to faster growth and higher incomes, which in turn enable larger investments in health and education. It is incorrect to believe, as some do, that better health and education are simply byproducts of the development process—they are key inputs as well.

East Asian countries made significant investments in primary education, especially of girls, which enabled their populations to become healthier and much more productive members of the workforce. This development in turn helped East Asian countries achieve a higher, more sustainable standard of living. Similarly, investments in basic health have very high economic rates of return. Radelet, Sachs, and Lee found that the difference in life expectancy at birth in 1965 in East/Southeast Asia (55 years) and sub-Saharan Africa (41 years) was associated with a difference in per capita growth rates of 1.3 percentage points per year over a 30-year period—about one-third of the total difference in growth. Accessible basic health care facilities, clean water and sanitation, disease control programs, and strong reproductive and maternal and child health programs help countries lengthen life expectancy and improve worker productivity.

The quality of service delivery is just as important as quantity. It is not enough to build schools and increase enrollment rates; teachers have to show up, be motivated, and have adequate basic supplies (e.g., textbooks) in order to do their job. The development community has recently refocused attention on the importance of basic health and education in the development process after years of imbalanced emphasis on macroeconomic policies.

C. Private Sector-led Growth, Focused on Integration with the World Economy

Development cannot happen in the absence of sustained growth of private sector enterprise. A dynamic private sector—whether small holder family farms or large manufacturing enterprises—is key to job

creation and income generation, which in turn is central to poverty re-
duction. There is great debate on how best to create a dynamic private
sector in low-income countries, particularly regarding the appropriate
role for industrial and trade policies; there is no longer much debate
about the centrality of a dynamic private sector. Although the details of
their strategies have differed, most of the successful countries have
stimulated both agricultural production and labor-intensive manufactured
and service exports. In most cases, competitive firms that are fully inte-
grated into the global economy have played a prominent role, importing
new technologies, expanding investment opportunities, and creating new
jobs. Key elements for most of the successful countries include:

- **Robust Agricultural Sector.** Although rapid economic growth
  leads to a decline in the relative importance of agriculture, a
  healthy agricultural sector is critical for poverty reduction and
  long-term growth, as well as for establishing a strong manu-
  facturing sector. The seeming paradox—which in reality is no
  paradox at all—is that strong investments and policies are
  needed in agriculture even as it declines in economic impor-
tance. A healthy agricultural sector with rapid productivity
  gains allows workers to shift to other activities in manufactur-
ing and services with even higher productivity, which in turn
  supports long-term growth. In the most successful countries,
governments removed price distortions so that farmgate prices
were kept close to world market levels and removed artificial
barriers and non-market institutions that limited farmers’
choices and opportunities. Most farmers had reasonable ac-
 access to seeds, fertilizers, and pesticides (and in many cases
governments subsidized fertilizer to ensure that farmers used
it in appropriate quantities). A key to agricultural growth and
reduction of rural poverty was construction of feeder roads so
that farmers could get their crops to market and bring in fertil-
izer and other inputs. Agricultural research allowed new seed
varieties to be adapted and facilitated the use of agricultural
products in new markets (e.g., Malaysia’s research into new
uses for rubber trees, such as furniture). And, of course, the
Green Revolution remains perhaps the best example of re-
search into new technologies (largely financed by donor
agencies). This research produced huge payoffs in new varie-
ties of seeds, fertilizers, and other inputs that led to dramatic
increases in agricultural production in Asia. This increase in
agricultural production, in turn, was at the core of the so-
called “Asian Miracle.”
• Competitive labor-intensive manufactured and service exports. Most (although not all) of the successful countries adopted strategies for diversifying from primary products to labor-intensive manufactured exports. Important elements included low (or zero) tariffs on imported inputs (especially capital goods), access to efficient port facilities, reliable roads, power, and other infrastructure, and a customs service that did not unduly delay or add to the cost of shipments. Importantly, the successful countries did not leave export diversification purely to the markets: governments in each country introduced well-run institutions, such as export processing zones (EPZs) and bonded warehouse systems, to facilitate exports. Governments recognized broad areas in which firms were likely to be globally competitive (e.g., textiles, basic electronics, food processing, and data entry activities via satellite) and created an environment that investors saw as reliable, secure, and competitive. To do so, they examined markets from the perspective of the firm and attempted to eliminate obstacles that undermined firm competitiveness, such as license requirements, slow and corrupt customs administration, high tariff rates, and poor infrastructure. In most cases, they did not try to solve these problems for the whole economy at once, but rather created an enclave (e.g., through an EPZ) where at least some firms could be competitive and then worked to see the enclave spread throughout the economy over time.

This strategy is not the same as "industrial targeting," in which government officials pick specific firms to receive special assistance and subsidies from the government (this strategy was tried in some—not all—of the successful countries and had mixed results). Rather, the enclave approach recognizes sectors in which firms could be competitive and then works to provide a strong enabling environment for the sector as a whole. This strategy was used in various forms throughout East Asia, as well as in Mauritius, Tunisia, the Dominican Republic, Costa Rica, and several other countries. Note that these countries were most successful in areas that were broadly consistent with their comparative advantage (la-

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8. A bonded warehouse is a firm that puts up a bond in lieu of paying import duties on inputs for exports. The bond is claimed only if duties become payable (e.g., if the firm fails to export). This method minimizes the need for cash transactions. Unlike an EPZ, bonded firms can locate anywhere.
Supporting Sustained Economic Development

D. Strong Institutions for Governance

The most effective governments established institutions that helped facilitate (rather than hinder) strong economic management, effective social programs, and a robust private sector. Governance in the most rapidly growing countries varied widely from very effective (Singapore and Botswana) to more mixed (Indonesia and Thailand), but was generally better than in most developing countries. In the rapidly growing Asian countries, government financial institutions, including the central bank and the budget authorities in the ministry of finance, were mostly capable. Most governments substantially improved their customs clearance procedures over time (at one point, Indonesia essentially privatized its customs clearance process), and levels of corruption, on average, were lower than in other developing countries (although they were high in several of the countries). Importantly, there was much less corruption and red tape in the most vibrant sectors of the economy, especially in the institutions working with manufactured exports (e.g., in the EPZs and duty exemption offices).

Many of the most successful countries also developed a small cadre of highly trained and effective economic technocrats who guided economic policymaking. Indonesia’s “Berkeley Mafia,” for example, was a small group of economists trained (mainly) at the University of California at Berkeley starting in the late 1950s—when Indonesia was still extremely poor, unstable, and unintegrated with the world economy—who went on to hold key positions from the early 1970s through the mid-1990s and spearheaded that country’s rapid development. Similar groups of technocrats could be found in the other successful Asian countries, as well as some countries outside the region, such as Chile. Importantly, national leaders protected these economic decisionmakers from political pressures that might have undermined difficult decisions. This made the decisionmakers more effective in macroeconomic management and in introducing reforms that affected vested interests.

In considering these broad components of economic management, three further points should be emphasized. First, the most successful countries did not get everything right all at once. South Korea and Taiwan, for example, achieved extraordinary development success during the past forty years, but they did not solve all of their problems right
away. In both countries there are still weak institutions, problems with corruption, and some specific markets that do not work well, but governments were able to put into place the most important changes that lead to remarkable growth and poverty reduction despite these weaknesses. This approach is quite different from the World Bank's "Comprehensive Development Framework" (CDF), in which countries are urged to tackle a wide range of development problems essentially all at once. None of the successful countries followed the Bank's CDF. There are two basic problems with the CDF approach. First, because of capacity constraints (especially the number of capable senior staff) it is not possible to address all major problems simultaneously; trying to do so runs the risk of not dealing effectively with any problem. Second, some tasks (such as developing infrastructure throughout the country, building a strong judicial system, or training more staff) take many years to complete. Thus, the successful countries tended to focus on solving enough problems for at least part of the economy to begin sustained economic growth. The concept of an export enclave is consistent with this approach: get one sector of the economy functioning well and then spread it over time. Shang-Jin Wei has proposed a similar approach for governance.

Second, priorities change during the course of development. Introducing a sophisticated financial and banking system may be the highest priority for a middle income country that is tapping into global financial markets, but it is likely to be a much lower priority for the very poorest countries that are concentrating on feeding their population and delivering basic services. Developing an export processing zone may be important at initial stages of development, but should phase out over time as development proceeds. Investments in increasing agricultural productivity should be the highest priority for some countries, but the importance of agriculture naturally falls as development proceeds. Thus, while the four broad policy areas outlined above are fairly robust, the precise details vary across countries and change over time within countries.

Third, the process of development is much more difficult in some countries than others. Landlocked countries that are isolated from major markets (and thus facing much higher transport costs), countries with high disease burdens (e.g., malaria, tuberculosis, or AIDS), and those with very low agricultural productivity (such as countries in the midst of the Sahara desert) all face more difficult obstacles than other countries. Intel will never build a factory in Rwanda, where the nearest port is hundreds of miles away over difficult terrain, even if the country’s policies and institutions are strong. Niger—landlocked in the middle of the Sahara—has far fewer economic options than Indonesia no matter what it does. The potential for sustained economic growth is much lower in these countries than in countries with lesser obstacles.

Empirical evidence suggests the importance of the four broad elements outlined above in distinguishing fast-growing from slow-growing economies. Table 2 is drawn from Radelet, Sachs, and Lee, who estimate the relationship between growth in real per capita GDP and 12 independent variables for 78 countries around the world (rich and poor) between 1965 and 1990. The table does not show the results of the estimation per se, but rather a “growth accounting” exercise based on the estimation results that shows the contribution of each of the variables to the differences in grow rates between East and Southeast Asia and other regions of the world (South Asia, sub-Saharan Africa, and Latin America). For example, South Asia’s average growth rate over the period was 2.9 percentage points per year lower than East and Southeast Asia’s growth rate (as shown at the top of the first column). South Asia’s lower government savings rate—a broad indicator of macroeconomic policy—accounted for 0.4 percentage points of the difference. Lower levels of education accounted for 0.2 percentage points of slower growth. Much lower life expectancy in South Asia (49 years in 1965 as opposed to 56 years in South and Southeast Asia) was associated with slower growth of 0.5 percentage points. South Asia was much less open to trade, one element of a robust private sector, and by this estimate that stance slowed growth by 1.2 percentage points per year relative to East and Southeast Asia. Finally, poorer institutional quality in South Asia slowed growth by 0.5 percentage points. Altogether, these variables accounted for 2.8

12. The institutional quality index is drawn and updated from Keefer & Knack (1995), which in turn is based on data from Political Risk Services’ International Country Risk Guide. The index is an average of five survey-based indicators of institutional quality including (i) the perceived efficiency of government bureaucracy, (ii) the extent of corruption, (iii) efficacy of the rule of law, (iv) the extent of expropriation risk, and (v) the perceived risk of repudiation of contracts by the government. Stephen Knack & Philip Keefer, Institutions and Economic Performance: Cross Country Tests Using Alternative Institutional Measures, 7 Econ. & Pol. 207 (1995); Political Risk Services, International Country Risk Guide.
percentage points of slower growth in Asia—essentially all of the actual difference of 2.9 percentage points.

IV. INTERNATIONAL SUPPORT

There is little question that the main responsibility for accelerating development lies with the governments of poor countries themselves. These governments must put in place appropriate policies and institutional frameworks and make the sometimes difficult decisions necessary to ensure full implementation. However, poor countries, especially the poorest countries, cannot achieve sustained economic development and poverty reduction without the cooperation and assistance of the international community. World leaders from both rich and poor countries recognized the need for a new two-way partnership at the International Conference on Financing for Development in Monterrey, Mexico, in March 2001. Heads of state attending the conference, including U.S. President George Bush, adopted the “Monterrey Consensus,” which contains commitments by all countries to help low-income countries achieve the “Millennium Development Goals,” a series of specific targets aimed at substantially reducing global poverty by 2015. As part of the Consensus, the industrialized countries committed to action in a range of areas, including official development assistance (ODA), trade (especially in improving market access and reducing agricultural subsidies), investment, and debt relief.

A. Official Development Assistance

Donor commitments at Monterrey came in two parts. First, donors committed to increasing the quantity of aid. The Consensus reaffirmed the international community’s goal, first made in the late 1960s, of ODA flows reaching 0.7% of donor GNP. Specifically, the heads of state agreed to “urge developed countries that have not done so to make concrete efforts towards the target of 0.7% of gross national product (GNP) as ODA to developing countries.” Current global aid falls woefully short of that level, amounting to an average of about 0.25% of donor GDP in 2004. As shown in Table 3, the United States, while providing the largest amount of ODA of any donor country, gives the second smallest amount as a share of its income. U.S. ODA was just 0.16% of US income in 2004, just slightly more than Italy. Global ODA levels fell

14. Id. ¶ 42.
sharply in the early 1990s before starting to rebound in 1997. Donors on average provided aid equivalent to 0.33% of their income in the late 1980s, but the figure now is about one-quarter lower. In July 2005 the leaders of the G-8 pledged to double aid to Africa by 2010, but it remains to be seen whether or not they will meet this commitment. The fall in donor disbursements is reflected in a sharp decline in recipients by low-income countries: aid per capita in Africa fell from $34 to $21 per African between 1990 and 2001.\textsuperscript{15}

Second, donors committed to improving the \textit{quality} of aid. The record on aid effectiveness is mixed at best. Some aid programs have been highly effective (such as programs to increase child immunization or to fight river blindness) while other aid programs have had little effect. Some aid programs can even damage recipients by distorting prices, encouraging corruption, or helping to sustain ineffective governments. Recent research has found that on average, aid aimed most directly at enhancing growth (such as to build infrastructure or to support agriculture) has stimulated growth, but it has not done so in all countries.\textsuperscript{16} The Monterrey Consensus acknowledges that donors must significantly improve the way they deliver aid to make it more effective. There are many ways that donors can improve the quality of aid.\textsuperscript{17} The key issues can be summarized as follows:

- \textit{Improve the allocation of aid.} There is a growing consensus that ODA is most effective in reducing poverty and supporting economic growth when it is aimed at countries with the deepest poverty and with strong policies and institutions that support economic development. Aid given for political purposes to countries with poor governance—such as for Cold War allies—has had little development effect, whereas aid provided to countries with better governance and a commitment to strong development policies—such as Korea, Botswana, or Thailand—has had a stronger impact. Donors have made some progress in improving the allocation of aid in recent years, but much greater progress is possible.

- \textit{Reduce the amount of \textquotedblleft tied\textquotedblright{} aid.} Most donors still require that significant amounts of aid be spent on goods and services

\textsuperscript{17} Steven Radelet, \textit{Aid Effectiveness and the Millennium Development Goals}, Center for Global Development (2004).
purchased in the donor country itself. This practice reduces the flexibility of aid, and by some estimates, adds 15–30% to the costs of aid delivery. Reducing the amount of tied aid would increase the amount of goods and services that could be purchased for a given quantity of aid, thereby improving its effectiveness.

- Improve donor coordination and harmonization. Almost every donor has its own project design system, monitoring mechanisms, and reporting requirements. Lack of donor coordination puts a heavy burden on recipient countries, which can be swamped with countless donor “missions” and endless paperwork. According to the World Bank, some recipient countries have as many as 800 donor-funded activities started each year, host more than 1,000 donor missions, and prepare over 2,400 progress reports. The Bush administration’s two new aid programs, the Millennium Challenge Account and the AIDS Emergency Plan, may add to donor harmonization problems by creating new systems on top of existing ones.

- Better align aid delivery with the realities on the ground in different kinds of recipient countries. Aid delivery mechanisms should differ significantly between well-governed and poorly governed countries. For example, in well-governed countries, donors should provide more of their aid as long-term commitments for budget support to the central government, whereas in poorly governed countries, smaller, shorter-term projects implemented by non-government organizations (NGOs) are more appropriate. Donors must hone much more differentiated strategies to match the particular circumstances of the recipient, some of which will require significant shifts in donor organizations.

B. Trade

Trade policies in rich countries are highly discriminatory against the major products produced in poor countries, especially textiles and agriculture. Rich countries continually urge poor countries to adopt more liberal trade policies, while the rich countries themselves restrict access to their own markets. The structure of tariffs and quotas in high income countries restrict trade much more from poor countries than from other

rich countries. Further opening of markets in high income countries would provide substantially increased economic opportunities for producers in developed countries. Estimates of the precise impacts vary, but most studies suggest that just the static gains (assuming changes in prices but no change in market structures) would be similar in size to current levels of foreign aid.²⁰ Two actions, in particular, warrant attention:

- **Reduce tariffs.** The United States, Europe, and Japan tend to apply higher tariffs to the products that poor countries produce than on the products rich countries produce. The average Organization for Economic Cooperation and Development (OECD) tariff on manufactured goods from low-income countries is about four times higher than on manufactured goods from rich countries. For example, Bangladesh exports about $2.4 billion to the United States each year and pays an average tariff of around 14%, while France exports $30 billion and pays just 1% in tariffs.²¹

- **Reduce export subsidies.** OECD agricultural subsidies amount to more than $300 billion per year. These subsidies give farmers in wealthy countries a significant advantage over their competitors from low-income countries. They also encourage global overproduction, which lowers world prices and reduces profits for exporters from low-income countries. For example, U.S. cotton subsidies are three times larger than the entire U.S. foreign aid budget and impose significant costs on cotton producers in some of the poorest countries in the world, including Burkina Faso and Mali. Subsidies for groundnuts, sugar, dairy products, beef, and other products have similar impacts.

**V. CONCLUSIONS**

Sustained economic development depends on, in the first instance, sensible policies and good governance in the low-income countries themselves. A combination of macroeconomic stability, investments in health and education, a supportive environment for private enterprise, and strong institutions are the key elements of an effective development strategy. The precise details, however, will differ across countries and within countries over time; there is no one recipe with universal application. In

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²¹ *Id.*
this regard, donor prescriptions are at times too precise and inflexible for local conditions.

Strong policies and institutions, however, are not sufficient in and of themselves to assure sustained development. The international community can support development through more and better foreign assistance and by opening their markets further to goods and services produced in poor countries. While development remains a significant challenge, there is reason for hope: the welfare of billions of people in some of the poorest countries in the world has improved significantly in recent decades. The challenges going forward are to continue the process of development in these countries and to spread the gains from development to those that so far have achieved much less success.
## Table 1

**High Growth Countries and Their Human Development Indicators, 1960–2001**

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita 1990 int'l dollars</th>
<th>Life expectancy at birth</th>
<th>Infant mortality (per 1,000 live births)</th>
<th>Adult illiteracy rate</th>
<th>Population (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea, Rep.</td>
<td>1,105</td>
<td>14,673</td>
<td>6.5</td>
<td>54</td>
<td>74</td>
</tr>
<tr>
<td>Botswana</td>
<td>403</td>
<td>4,552</td>
<td>6.1</td>
<td>47</td>
<td>39</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1,492</td>
<td>16,214</td>
<td>6.0</td>
<td>76</td>
<td>17</td>
</tr>
<tr>
<td>Singapore</td>
<td>2,310</td>
<td>21,011</td>
<td>5.5</td>
<td>64</td>
<td>78</td>
</tr>
<tr>
<td>Oman</td>
<td>935</td>
<td>6,926</td>
<td>5.0</td>
<td>40</td>
<td>74</td>
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<tr>
<td>Thailand</td>
<td>1,078</td>
<td>6,383</td>
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<td>69</td>
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<td>China</td>
<td>673</td>
<td>3,583</td>
<td>4.2</td>
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</tr>
<tr>
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<td>4.0</td>
<td>54</td>
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<td>2,992</td>
<td>2.7</td>
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<td>63</td>
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<tr>
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<tr>
<td>Country</td>
<td>GDP per capita 1990 Int'l dollars</td>
<td>Life expectancy at birth 1960</td>
<td>Infant mortality (per 1,000 live births) 1960</td>
<td>Adult illiteracy rate 1970</td>
<td>Population (millions) 1960</td>
</tr>
<tr>
<td>------------</td>
<td>----------------------------------</td>
<td>-------------------------------</td>
<td>----------------------------------------------</td>
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<td>---------------------------</td>
</tr>
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<td>Turkey</td>
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<td>6,033</td>
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<td>753</td>
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<td>66</td>
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<tr>
<td>Total</td>
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<td>5,826</td>
<td>1.9</td>
<td>50</td>
<td>67</td>
</tr>
</tbody>
</table>

Sources: GDP per capita data from Maddison 2003; data for Taiwan from the Asian Development Bank, 2003; all other data from World Development Indicators, 2003.
### Table 2

**Contributions to Growth Differentials Between East/Southeast Asia and Various Regions, 1965–1990 (Percent, Annual Average)**

<table>
<thead>
<tr>
<th>Contribution of Each Variable to the Difference in Per Capita Growth Relative to East/Southeast Asia</th>
<th>South Asia</th>
<th>Sub-Saharan Africa</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies, Institutions, and Human Capital</td>
<td>-2.8</td>
<td>-3.4</td>
<td>-1.8</td>
</tr>
<tr>
<td>Government Savings Rate</td>
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<td>-0.1</td>
<td>-0.3</td>
</tr>
<tr>
<td>Adult education levels</td>
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<td>-0.4</td>
<td>-0.1</td>
</tr>
<tr>
<td>Life Expectancy</td>
<td>-0.5</td>
<td>-1.3</td>
<td>0.1</td>
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<tr>
<td>Openness</td>
<td>-1.2</td>
<td>-1.2</td>
<td>-1.0</td>
</tr>
<tr>
<td>Institutions</td>
<td>-0.5</td>
<td>-0.4</td>
<td>-0.5</td>
</tr>
<tr>
<td>Other Factors</td>
<td>0.3</td>
<td>-0.6</td>
<td>-2.1</td>
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<tr>
<td>Initial GDP per capita</td>
<td>0.5</td>
<td>1.0</td>
<td>-1.2</td>
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<tr>
<td>Natural Resources Exports/GDP</td>
<td>0.1</td>
<td>-0.2</td>
<td>-0.2</td>
</tr>
<tr>
<td>Landlocked</td>
<td>0.0</td>
<td>-0.3</td>
<td>-0.1</td>
</tr>
<tr>
<td>Tropics</td>
<td>0.5</td>
<td>-0.2</td>
<td>0.0</td>
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<tr>
<td>Coastline/land area</td>
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<td>-0.3</td>
<td>-0.3</td>
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<tr>
<td>Growth in Working Age Population</td>
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<td>0.1</td>
<td>-0.2</td>
</tr>
<tr>
<td>Growth in Total Population</td>
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<td>-0.7</td>
<td>-0.1</td>
</tr>
<tr>
<td>Difference in:</td>
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<td></td>
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<tr>
<td>Predicted Growth</td>
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<td>-3.9</td>
<td>-3.8</td>
</tr>
<tr>
<td>Actual Growth</td>
<td>-2.9</td>
<td>-4.0</td>
<td>-3.9</td>
</tr>
</tbody>
</table>

Note: The ten economies in our sample from the East/Southeast Asian region are Hong Kong PRC, Singapore, South Korea, Taiwan, Thailand, Malaysia, Indonesia, the Philippines, and Papua New Guinea.
### Table 3
**Official Development Assistance Disbursements from Major Donors**

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>1,465</td>
<td>0.25</td>
<td>0.38</td>
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<td>Austria</td>
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<td>0.18</td>
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<tr>
<td>Belgium</td>
<td>1,452</td>
<td>0.41</td>
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<td>Canada</td>
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<td>Denmark</td>
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<td>0.65</td>
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<td>Germany</td>
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<td>0.33</td>
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<td>Greece</td>
<td>464</td>
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<tr>
<td>Ireland</td>
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<tr>
<td>Italy</td>
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<td>Japan</td>
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<tr>
<td>Luxembourg</td>
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<tr>
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<tr>
<td>United Kingdom</td>
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<td>0.3</td>
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<tr>
<td><strong>Total</strong></td>
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<td>0.25</td>
<td>0.33</td>
<td>0.29</td>
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</tbody>
</table>

Source: OECD