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To Him That Hath:

Social Dimensions of Economic Restructuring in ESCAP Countries

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Under the Working Paper Series, the SDPI publishes research papers written either by the regular staff of the Institute or affiliated researchers. These papers present preliminary research findings either directly related to sustainable development or connected with governance, policy–making and other social science issues which affect sustainable and just development. These tentative findings are meant to stimulate discussion and critical comment.

Preface

This document is a summary of the results reported in ten country studies commissioned by ESCAP during 1991-92. The list of contributors and the titles of their contributions is appended here. For stylistic reasons, this document does not refer to the individual country studies by name. However, the information presented here is taken either from the country studies, or from other published sources. In the latter case the source of the information is identified clearly.

List of Contributed Papers

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Norma B. Bernal
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Professor Stephen Chee
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Singapore
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To Him That Hath: Social Dimensions of Economic Restructuring in ESCAP Countries

Tariq Banuri and Martina Jagerhorn

Abstract

This paper reviews the social dimension of economic restructuring in ten selected Asian countries during the 1970s and 1980s. The review is based on the results of detailed country studies commissioned by the ESCAP secretariat. The countries selected for analysis are: China, India, Korea, Malaysia, Pakistan, Papua New Guinea, the Philippines, Singapore, Sri Lanka and Thailand.

Introduction

In contrast to earlier theories that hypothesised the existence of a trade-off between economic growth on the one hand and social or environmental improvements on the other, we find to the contrary that there is a pattern of clustering of "bads" and "goods" in country performance. We find that countries that grow faster exhibit superior indicators of human resource development; and also seem to find it easier to adjust to economic shocks through effective government policies. Finally, as a partial explanation of this phenomena, we show in section 4 that the former group of countries are also better governed, have more effective institutions of collective decision making, and have better quality infrastructure.

This is a significant finding. It suggests that the task before Asian (or other southern) countries is not that of choosing between various social objectives, such as rapid economic growth or social or environmental improvement. Rather, their task is to choose policies and to create arrangements that would place them in the superior cluster. In other words, the problem is not how to determine priorities between conflicting societal objectives, but of establishing conditions that would enable the simultaneous pursuit of all objectives.

Naturally, this creates a puzzle. If it is possible for all societal objectives to be pursued simultaneously, why have most countries failed so miserably at this task? As mentioned, the country studies carried out as a background to this project provide a tentative answer to this puzzle. It emerges from the examination of country experience that the critical factor is the very ability to pursue social goals. It also appears that the creation and strengthening of this ability is susceptible to policy. It depends on such things as an honest and efficient state machinery, the existence of non-governmental institutions not only for providing social services but also for monitoring the performance of public agencies, and a basic security of the individual as well as collective rights of the population. All these can be pursued through appropriate governmental action.

In other words, for a country to begin moving towards the achievement of social goals it is essential that government action is directed towards institutional infrastructure and governance. Conversely, to the extent that the pursuit of governance is neglected the country will remain mired in the language of trade-offs, which in the end prove to be nothing more than excuses for poor performance on all fronts.

Background

The global instability characterizing the 1970s brought to a close a quarter century period of high and stable growth. Many countries responded to the instability with both short-term macroeconomic adjustment policies and long-term economic restructuring. Yet, in most regions of the world these policies succeeded neither in restoring the previous growth path, nor in mitigating the variability of economic performance.

However, the experience of countries in the ESCAP region has diverged from the overall trend. Besides the sustained high economic growth of the region as a whole even after the external shocks; a significant development is the convergence of the growth rates of various countries. While NICs and neo-NICs (Singapore, South Korea, Malaysia, China, Thailand) continued to expand at some of the highest growth rates in the world, their growth declined somewhat from the halcyon days of the 1960s. At the same time, the slower growing countries (Pakistan, Papua New Guinea, Philippines, India) managed actually to increase their rate of growth in the post-shock period, although still below levels recorded elsewhere in the region.

Notwithstanding the convergence of growth rates, income disparities between countries in the ESCAP region have continued to widen. In 1960, Singapore was three times richer than Pakistan, the poorest country in the region. Today, affluent Singapore with a GDP per capita adjusted for purchasing power of 10,450 USD in 1989 is more than sixteen times richer than the lowest income country India. Only thirty years ago South Korea and Thailand had the same per capita income as Pakistan today.

More importantly the social, human and distributional dimensions of the ESCAP countries have not improved as drastically as the level of their income. There is still an extensive and persistent prevalence of poverty, unemployment, illiteracy, high mortality and morbidity, and inadequate supply of basic essentials like safe water, health, education, and sanitation services.

The traditional explanation of this disparity was in the form of trade-offs, namely that both ordinary growth policies and adjustment policies aimed at counter-balancing the impact of exogenous shocks, often impose social, human, environmental and distributional costs on the society; and that these costs reduce and occasionally even reverse the net benefits of the improvements in economic conditions brought about by the policies. It is also argued, quite persuasively, that the rapid urbanization and industrialization accompanying economic growth brings about industrial pollution, traffic congestion (leading to environmental degradation as well as accidents), crime, violence and drug abuse, and often uncontrollable pressures on the infrastructure (health, education, housing, sanitation). However, while the logic of this argument is quite compelling, it does not seem to explain well the experience of ESCAP countries.

In the ten countries selected for this study, we find to the contrary a strong correlation between economic growth and social and environmental indicators. A rough idea of this correlation can be found in the UNDP's human development index (HDI).[1] Pakistan and India have the lowest index (0.3) as well as the lowest income per capita; on the other hand, the three richest countries (Singapore, South Korea and Malaysia) also have the highest HDI (around 0.8) as well as the best indicators of literacy, life expectancy, and the lowest mortality rates in the region.

1. For a full technical description on the HDI, see Human Development Report 1992, 91. The HDI measures the country's deprivation of three basic varables: life expectancy, education (literacy and years of schooling), and real GDP per capita. Hence it is natural, that the income level correlates with the HDI value. Apart from this paragraph, we look at the variables separately.

It is also interesting to note that concomitant with the growing income disparities, the gaps in human development between ESCAP countries have also widened over time. The standard deviation of the HDI for the ten selected countries was 0.025 in 1970 and 0.044 in 1990. In these two decades South Korea, Malaysia, Thailand, and Singapore experienced the largest improvement in the variables measured by the index, whereas the position of Papua New Guinea, India, Philippines, and Sri Lanka has declined. In other words, countries with high initial values of HDI and per capita GDP improved the most and vice versa.

A Partial Explanation

In general, we find three possible explanations for the phenomenon of clustering described in these pages. The first, and most compelling is the quality and effectiveness of the institutions of collective decision making in the country, namely the quality of its bureaucrats. If a country has well developed institutions for the pursuit of a particular collective goal, it will not be difficult to pursue other valued objectives. As mentioned earlier, we see the pursuit of governance as susceptible to policy measures, and not in metaphysical terms--such as in some arguments that ascribe the cause of superior performance to such intangibles as political wisdom or political will, or to such irreducible elements as racial or cultural characteristics of the different populations.

A competing explanation locates the basis for superior performance in history. There is a considerable resilience in economic performance, particularly when it comes to the social sectors. Countries with enviable social statistics today had equally enviable statistics twenty or thirty years ago. Singapore had better human development statistics in 1960 than some countries do today; Korea's literacy rate in 1960 compares favourably with the present literacy rates of all but three countries in the sample; and Sri Lanka's superb performance in the social sectors goes back to pre-independence times. Similarly, low achievers are usually countries with a comparatively low starting point. As observed above, countries with a low HDI value improved the least during the last twenty years. Many of these countries also experienced low rates of growth of real GDP per capita over the same period. It is possible that the there is a learning curve in the delivery of social services.

A third explanation would rely on the availability of resources in the hands of the government. Some countries like Malaysia has a relatively high natural resource endowment, which translates not only into a high income level, but also into a strong revenue base for the government. This is clearly a factor in the consistently superior performance of Malaysia in the economic as well as social sector. Yet, without an effective governmental machinery to translate these resources into concerted civic action, the results would certainly have been far inferior. This can explain the poor performance of Papua New Guinea despite its rich resource base.

We believe that the alternative explanations complement the idea that the key issue is the quality of governance. The historical argument explains why some countries can perform well in selected areas despite the absence of overall institutional strength; thus, Sri Lanka performs surprisingly well in the social sectors because it has learned over almost a century how to deliver social services to the mass of its population. On the other hand, the historical dimension also suggests that institutions cannot be built up overnight. Countries would have to introduce long term institutional development plans, just as they used to prepare five year economic development plans.

The natural resource explanation also helps in defining the limits of the institutional argument. On the one hand, as the example of Papua New Guinea shows, institutions cannot be created simply by the infusion of resources. On the other hand, the existence of a firm resource base enables the maintenance and

improvement of an existing institutional base, as in Malaysia. In South Asia countries, it could be said that the absence of a resource and revenue base has led to the gradual degradation of the institutional base.

Macro Experience

The broad dimensions of the macroeconomic experience of the countries in the selected group are presented in Table 1. These countries fall into four distinct groups: the NICs, the neo-NICs, the populous South Asian countries, and the fragile Southeast Asian economies (Papua New Guinea, Philippines). In general, one can observe a convergence of growth rates, but a divergence of income levels and HDI levels in the region.

The NICs, which include Singapore and Korea (in addition to Hong Kong and Taiwan), registered growth rates of per capita GDP of the order of 8 per cent per annum in the 1960s and 1970s; of these, Korea maintained its growth momentum even in the 1980s, while Singapore levelled off after reaching income levels comparable to industrialized countries.

Table 1: Basic Indicators

Country	Real GDP per capita PPP $	GDP per capita ICP est	GDP growth per capita, %	Average annual rate of inflation, %		Human development index		
	1989	1990	1965-80	1980-90	1965-80	1980-90	1970	1990
Singapore	15198	14920	8.4	4.2	5.1	1.7	0.730	0.848
South Korea	6117	7190	7.9	8.6	18.4	5.1	0.589	0.871
Malaysia	5649	5900	4.9	2.6	4.9	1.6	0.538	0.789
Thailand	3569	4610	4.4	5.8	6.2	3.4	0.535	0.685
China	2656	1950	4.6	8.1	-0.3	5.8	..	0.612
Philippines	2269	2320	2.9	-1.5	11.4	14.9	0.542	0.600
Sri Lanka	2253	2370	2.2	2.6	9.4	11.1	0.573	0.651
Papua New Guinea	1834	1500	1.7	-0.6	8.1	5.3	0.342	0.321
Pakistan	1789	1770	2.1	3.2	10.3	6.7	0.226	0.305
India	910	1150	1.3	3.2	7.5	7.9	0.258	0.297

Sources: World Development Report 1992 and Human Development Report 1992

Malaysia, Thailand and China fall into a second category, often called neo-NICs, which had per capita growth rates of close to 5 per cent per annum in the 1960s and 1970s; many observers view these countries as the next generation of NICs in the sense of being capable of registering growth rates of 8 per cent or more. As can be seen from the table, China has lived up to this expectation, while the other two countries are still struggling.

The South Asian countries form the third group, with very low growth rates per capita in the 1960s and 1970s, but with a noticeable improvement in the 1980s. Finally, Papua New Guinea and the Philippines reveal a consistently poor growth record, and a significant worsening of conditions in the 1980s.

Besides the growth experience, a few other observations are important. The first pertains to the low and declining levels of inflation in the region, and the second to the wide and growing variation in human development as measured by UNDP's HDI. The latter is also brought out in Table 2, which gives figures on life expectancy, literacy and schooling. The important point to notice in these figures is the role of

historical inertia: countries that do well today were also much better off in relative terms thirty years ago. In this respect, the only true exception is provided by China, which has shown improvements in human development far above what would be indicated by its initial situation.

Table 2: Human Development

Country	Life expectancy at birth years						Adult literacy rate %				Mean years of schooling 1990		
	Total		Female		Male		Total		Females as % of males		Tot	F	M
	1960	1990	1965	1990	1965	1990	1970	1990	1970	1990			
Singapore	64.5	74.0	68	77	64	71	..	88	60	..	3.9	3.1	4.7
South Korea	53.9	70.1	58	73	55	67	88	96	86	94	8.8	6.7	11.0
Malaysia	53.9	70.1	60	72	56	68	60	78	68	81	5.3	5.0	5.6
Thailand	52.3	66.1	58	68	54	63	79	93	84	94	3.8	3.3	4.3
China	47.1	70.1	57	71	53	69	..	73	..	73	4.8	3.6	6.0
Philippines	52.8	64.2	57	66	54	62	83	90	96	99	7.4	7.0	7.8
Sri Lanka	62.0	70.9	64	73	63	69	77	88	81	89	6.9	6.1	7.7
Papua New Guinea	40.6	54.9	44	56	44	54	32	52	62	58	0.9	0.6	1.2
Pakistan	43.1	57.7	45	55	47	56	21	35	37	45	1.9	0.7	3.0
India	44.0	59.1	44	58	46	60	34	48	43	55	2.4	1.2	3.5

Source: World Development Report 1992 and Human Development Report 1992

Economic Strategies

In terms of economic strategies as well, there are considerable variations. In general, the larger countries (China, India, Pakistan) were more prone to emphasizing self sufficiency and autarchy, as well as the social objectives of development. In terms of fiscal and financial policies as well, China and India had a somewhat conservative stance. Of this group of countries, China appears to have been more successful in virtually all areas than the others. The remaining countries adopted a variety of development strategies focussing on international trade. Again, it could be said that the NICs and neo-NICs were more successful than the others.

Another point to note in this section is that these countries (with the obvious exception of Singapore) started with a very high share of agriculture in value added. The countries that are regarded as successful in economic terms (Korea, China, Thailand, and possibly Malaysia) also managed to reduce the share of agriculture to well below that of industry. The more fragile economies still reveal a rough parity between these two sectors. Table 3 brings out these data.

Table 3: Structure of Production

Country	Distribution of GDP %						Average annual growth rate %					
	Agriculture		Industry		Services		Agriculture		Industry		Services	
							1965-1980-	1980-1990	1965-1980-	1980-1990	1965-1980-	1980-1990
	1965	1990	1965	1990	1965	1990						
Singapore	3	0	24	37	74	63	2.8	-6.2	11.9	5.4	9.1	7.2
South Korea	38	9	25	45	37	46	3.0	2.8	16.4	12.2	9.6	9.2
Malaysia	28		25		47			3.8		7.1		4.2

Country	Distribution of GDP %						Average annual growth rate %					
	Agriculture		Industry		Services		Agriculture		Industry		Services	
							1965-1980-	1980-1990	1965-1980-	1980-1990	1965-1980-	1980-1990
	1965	1990	1965	1990	1965	1990						
Thailand	32	12	23	39	45	48	4.6	4.1	9.5	9.0	7.4	7.8
China	38	27	35	42	27	31	2.8	6.1	10.0	12.5	11.9	9.1
Philippines	26	22	27	35	47	43	3.9	1.0	7.7	-0.8	5.0	2.6
Sri Lanka	28	26	21	26	51	48	2.7	2.3	4.7	4.6	4.6	4.7
Papua New Guinea	42	29	18	31	41	40	3.1	1.7		2.7		1.4
Pakistan	40	26	20	25	40	49	3.3	4.3	6.4	7.3	5.9	6.9
India	44	31	22	29	34	40	2.5	3.1	4.2	6.6	4.4	6.5

Source: World Development Report 1992

Up to 1979 **China** kept the door to the outside world tightly closed and the economy was almost totally self-sufficient. The pre-1979 economic system was characterized by highly centralized planning, administrative coordination and the absolute dominance of state ownership. The period of reform started in 1979 and restructuring has taken place on two fronts: in economic institutions and the industrial structure. The theme of the reform has been the decentralization of decision-making with the purpose to become a decentralized socialist country, and the introduction of market forces as an important coordination mechanism, within the framework of public ownership.

India adopted a strategy in the mid-1950s of encouraging heavy industries through import substitution, direct industrial licensing, and an expanded role of the public both as a provider of infrastructure and active producer of industrial goods. Simultaneously, the country maintained a conservative monetary policy stance, and a low level of debt exposure. The result was, on the one hand, a low inflation rate and a low level of external and internal debt, and on the other hand, what some writers have called the Hindu rate of growth of per capita GDP of 1- 1.5 per annum.

Poverty alleviation has been a major goal of development policies since the 1950s. However, despite political support and legitimacy, the problem of absolute poverty has not been brought under control. Programmes undertaken in 1955-1965 were ineffective partly due to social and political reasons and partly due to a too centralized approach and too uniform solutions to diverse problems. Neglect of literacy and health appear more in the nature of organizational and technological failure than the ones which can be causally related to (favourable or negative) economic development. Beginning in the mid-1970s, new initiatives by the central as well as state governments helped institutionalize actions aimed at improving economic viability of target-groups mainly in rural areas, and the condition of the rural poor also benefited from improvements in public distribution and buffer-stocking of food grains.

Sri Lanka's socio-economic background at independence was promising. The living conditions were among the best in Asia, and the social welfare system was impressive for that period. Primary health care and educational services were extended to the rural areas as early as the 1930s and 1940s. The nation was relatively small in size and the substantial earnings generated from the export of tea, rubber and coconut provided a large revenue base and supported public expenditure on health, education and infrastructure. These measures contributed significantly to the exceptional performance reflected in the figures on health and education. Today Sri Lanka's welfare system include universal free education up to the tertiary level, a wide health care network of hospitals and treatment facilities, and food subsidies for the entire

population. In spite of occasional economic strain social programmes have continued with only slight changes throughout the last two decades.

Papua New Guinea is the richest country in the region in terms of natural resources. Its known resources of copper and gold are large, oil deposits are substantial, it has a vast, fertile land-area and an enormous forest cover. In 1988 almost 70 per cent of its export earnings came from the mining sector. In human development Papua New Guinea's initial conditions were not as favourable at the time of independence. Rural infrastructure, particularly roads, was highly inadequate and unevenly distributed, per capita income was low, administrative capacity, skills, and education were extremely low.

Thailand's priority goal has been economic growth without much attention paid to social policies or to possible negative consequences of economic growth. The general assumption has been that the benefits of growth will trickle-down nicely. The only social sector which has received considerable attention is primary education.

Until the early 1970s, when the unemployment problem worsened, growth without equality was the main goal of South **Korea**. In the 1960s the policy regime in South Korea was directed towards import substitution. In 1975 the opening up of the economy started. Industrialization has been the fastest in the region, both in terms of share of GNP value and in terms of share of labour force. The productive sector is fairly centralized consisting of large conglomerates. The rural development movement *Sae-Maul* increased rural income, improved income distribution, housing and living facilities, roads and land readjustments in rural areas.

The Adjustment Process

The countries in our sample were affected by a number of external shocks during the last three decades. These included the two oil shocks in 1973 and 1979, the interest rate hike also in 1979, the persistent global recession of the 1970s and 1980s, and a variety of restrictions in external financial flows. Many countries were affected more by such internal problems as droughts or floods (India, Pakistan), political crises (China, Sri Lanka, Philippines, Pakistan), and other country-specific factors that led to payments problems (Papua New Guinea, Thailand).

A number of generalizations are possible. First, the external shocks had a smaller impact on the closed populous economies (China, India, Pakistan) than on the smaller, more open economies. Second, the adverse impact of the first oil shock was also counter-balanced by a number of favourable developments, the expansion of labour migration to the Gulf countries, the inflow of remittances, the increase in domestic agricultural output and commodity prices. The result was a generally strong economic performance in the 1970s.

However, the second oil shock in 1979 slowed down the economic growth in all countries, but as the figures above demonstrate, this effect did not last very long. This was partly due to adjustment policies and partly due to the continued and heightened inflow of foreign resources into the region. China and India modified their conservative stance on payments management in the 1980s, thus attracting large volumes of foreign resources, and building up their external debt exposure for the very first time. The NICs and neo-NICs began to attract discretionary capital flows in the form of foreign investment. Last, remittance inflows continued to sustain payments levels in Asian countries throughout the 1980s.

Another element of the adjustment situation is the vulnerability to external changes. While a more detailed argument on this issue has been developed elsewhere (see Banuri 1991), a few broad trends can be identified. As Table 4 shows, China, India and Pakistan had very little trade dependency measured in terms of the ratio of foreign trade (exports plus imports) to GDP. However, the true trade dependency is measured by other indicators, such as elasticity of imports and exports. The former is higher in the case of low importing countries the bulk of whose imports are of such essential items as food or petroleum. Similarly export elasticity depends on the share of commodity exports, whereby Singapore, Korea, China and India are the least vulnerable, and Papua New Guinea the most vulnerable. Finally, vulnerability to external shocks depends on exposure to international financial markets through foreign debt. This is high in the case of Papua New Guinea, Sri Lanka, the Philippines, Pakistan, and increasingly India.

Table 4: Economic Dependency

Country	Trade dependency	Primary exports as a % of total merchandise exports		Food imports as a % of total merchandise imports		Total external debt as a percentage of GNP			Total debt service as a percentage of exports			ODA as a % of GNP
	1990	1965	1990	1965	1990	1970	1980	1990	1970	1980	1990	1990
Singapore	332	65	27	23	5	..	..	..	..	..	..	0.0
South Korea	58	40	7	15	5	20.3	48.7	14.4	19.5	19.7	10.7	0.0
Malaysia	127	94	56	25	11	9.5	28.0	48.0	3.8	6.3	11.7	1.1
Thailand	66	97	36	6	5	4.6	26.0	32.6	3.3	18.9	17.2	1.0
China	27	35	26	7	8	..	1.5	14.4	..	4.4	10.3	0.6
Philippines	42	95	38	20	10	8.8	53.8	69.3	7.5	26.6	21.2	2.9
Sri Lanka	60	99	53	41	16	16.1	46.1	73.2	11.0	12.0	13.8	8.2
Papua New Guinea	80	90	95	23	17	5.8	29.2	83.9	1.1	13.8	36.0	11.4
Pakistan	33	64	30	20	19	30.6	42.4	52.1	23.8	17.9	22.8	2.9
India	15	51	27	22	8	13.7	11.9	25.0	22.2	9.3	28.8	0.6

Sources: World Development Report 1990 and 1992, Human Development Report 1992

The response to the external shocks varied from country to country. Some governments, e.g. Malaysia, Korea, and Thailand adopted counter-cyclical adjustment policies financed by local and foreign borrowing and managed to maintain their economic growth.

Since 1987 the **Malaysian** economy has recovered strongly from the shocks combining growth with price stability (although the level of growth was slightly lower). Due to the adjustment policies Malaysia's government expenditures first expanded (as a counter-cyclical measure to combat recession) and then declined to a level even lower than before the expansion. This oscillation of government expenditures has had a negative effect on the balanced development of sectors dominated by the government (e.g. housing). The fluctuation has also harmed the public sector itself in form of management problems.

In the 1960s **India** had to adjust to the cessation of foreign aid (due to two wars), and to additional inflationary pressures due to drought. The agricultural failure initiated a transformation in the primary sector. Inflationary pressure was curbed by cutting down public investment in infrastructure and heavy industries. The instabilities starting in the mid-1960s and continuing until the first oil shock reduced the growth rate from two to one per cent.
The first oil shock was preceded by a severe drought and by another war. All three shocks contributed an increase in the inflation rate, which peaked in September 1974 at 34 per cent. The inflation caused a worsening of the barter terms of trade, and hence an increase in the current account deficit. Standard adjustment policies were adopted: a cut in demand and investments, short term financing, export

stimulation and an increase in import control. As a consequence, inflation declined to negative numbers already in 1975 and the current account turned positive a couple of years later.

The second oil shock also coincided with a severe drought in India, but the initial conditions were more favourable: price stability combined with the accumulation of both food and foreign exchange. Adjustment policies included an increase in public investment and a further relaxation of industrial and import regulations. The average annual growth rate in the 1980s rose to more than five per cent.

However, the relaxation of the conservative monetary and trade policies in the 1980s led to a swelling of the deficit in the balance of payments and the government budget. The resulting expansion in demand for borrowing has produced a new treat to the stability of the economy. As the India's economy was fairly closed since the 1950s the world recession in the early 1980s appeared to have had limited effects on the economy.

External shocks do not appear to be followed by a massive adverse impact on social development in India. However, recent structural adjustment needed to cope with the increasing external and internal imbalances, and restructuring due to the gradual deregulation are likely to involve social costs especially during the transition period.

In terms of adjustments, **China** has mainly been compelled by its own internal crises. External factors like oil crises and recessions in OECD countries did not really cause a need for economic restructuring since China at that time was dependent on the world economy only to a negligible extent.

China's average annual growth of GNP in the 1980s (except for the recession year 1989-90) was close to 10 per cent. Exports and imports grew rapidly. Yet, unlike the earlier autarkic period, considerable trade deficits were recorded during 1985-89, which were combated with a devaluation. Meanwhile, the net capital inflow increased continuously and the total debt as a percentage of GNP increased. The brisk development of the rural industry reduced the share of agriculture in total rural output. The regional economic structure was also transformed and as regional disparities widened the south-east coastal areas developed more rapidly than north-west inland areas. The reform caused at an inflation as high as 18 per cent in 1988, which was curbed by the government in three subsequent years.

The most important structural changes caused by the reform were:

1. household-based production replaced collective farming making the rural economy more market-oriented and allowing the farmers to engage in a variety of business activities besides farming. The collective authorities remained the owner of the land.
2. the market-oriented rural township and village-owned industrial enterprises became the major contributor to the country's industrial growth. This also eased the problems of unemployment and urban congestion.
3. the proportion of industrial production subject to mandatory planning has been gradually reduced. Price controls were relaxed. Fiscal and monetary policy became more influential in macroeconomic management in place of direct planning control.
4. the private business sector grew, while the proportion of the industrial state sector declined.
5. reforms in the external sector included decentralization of trade decisions, introduction of a parallel foreign exchange market, use of foreign loans, encouragement of foreign investment, and establishment of special economic zones to promote the use of foreign capital and know-how.

Sri Lanka has gone through two divergent forms of structural adjustments in the past two decades. The first was an unsuccessful attempt to construct a system with a socialist orientation in 1970-77, through nationalization, land reforms, ceilings on land and housing ownership, price controls and protectionist trade policies. The second "liberalization" regime, still in process, is aimed at creating an open competitive economy with a strong private sector. It started off by undoing past restrictive policies, dismantled regulatory mechanisms, devalued the currency, and established market incentives for investment and for improvement of food distribution.

Since independence the country experienced only modest economic growth. By the end of 1980s even liberalization did not seem to have had a significant positive impact on the well-being of the majority of the population. In fact, when the economic growth in the second half of the 1980s slowed down, it had a strong adverse effect on most of the people. The slump also increased the pressure to reduce subsidies and develop a welfare system which would support targeted poor households comparably more.

The first oil shock had a serious impact on the economy causing inflation, sluggish growth and unemployment. Sri Lanka was then heavily dependent on imports of food, fertilizers and fuel, which put pressure on prices. The adjustment policies included new rationing and an emergency food production programme, at the same time as the government budget was used to protect the domestic economy from the price escalation. At the time of the second oil shock Sri Lanka had opened up its economy to international fluctuations. The external disturbances caused a growing fiscal imbalance, high inflation and an increase in foreign debt. Due to the oil shock induced boom in the Middle East a significant number of skilled and semi-skilled workers and female household workers left for these countries, and became an important source of foreign earnings.

In **Papua New Guinea**, growth of per capita GNP has been the lowest in the ESCAP region (0.2 per cent annually during 1965-89), but the inflation rate has also been lower than in many other countries. In 1990, the government introduced a typical IMF structural adjustment programme (including devaluation and restraints on wage increases, monetary policy and government expenditure) in response to a balance of payment crisis triggered by the closure of the Bougainville Copper Mine in 1989. The devaluation led to an increase in the inflation rate. Real wages dropped. It is estimated that more than 40,000 low wage households have been seriously affected by the adjustment programme. The long term effects (e.g. the probable deterioration in health status) on the poor and other vulnerable groups are still to be seen. Historical evidence suggest that Papua New Guinea (and many other countries) have recorded a significant deterioration in the quality of e.g. health, education and transport services due to cuts in public expenditure.

In the **Philippines** the second oil shock had a profound impact. By 1982-83, the deficits in the current account and the fiscal budget had risen above eight and five per cent of GNP respectively. As a result, the country was forced to adopt an adjustment package including devaluation and demand contraction in 1982. There is clear evidence that this programme had a negative impact on the well-being of the population, in economic as well as social terms.

The crisis lead to a deterioration in all the social sectors in the Philippines. The decay was caused by three major factors. First, there was a fall in the real resources of households brought about by declining growth, less employment opportunities, falling wages and other sources of income in the face of rising inflation. Second, the real government expenditures declined in all sectors in general and in the social sectors in particular as a consequence of the government's response to economic difficulties. Third, the family support systems weakened due to an increasing labour force participation of parents and younger members of the household, in the absence of countervailing rise in community support. The impact was exacerbated by the

fact the economic and social structure of the country was weak and governance and decision-making tended to be monopolized by the rich and powerful.

While the economic damage was most intense during the mid-1980s, the entire decade was one of dismal economic performance. GNP per capita actually declined at a rate of 1.8 per cent per year between 1980 and 1989; and inflation which hit a peak of 50 per cent in 1984, remained at two-digit levels all through the 1980s, higher than in any other country in the region.

The adjustment had both an immediate impact on social indicators, and a possible long run impact because of the delayed effect of such changes as the deterioration in the quality and spread of education services. Of special concern is the adverse impact on female education; since girls are normally the first to be withdrawn from schools at times of economic austerity, this has a long run effect on the next generation, and even further, as the health of small children is strongly influenced by the level of female education.

Unemployment peaked in 1985 and affected the educated relatively more. In 1985 the amount of overseas contract workers declined by 14 per cent. However, the labour force participation rate reach new highs in 1983 and 1987-88, and is much higher than average during a longer period (1983-1989). Women's participation increased specially, although women were also amongst those most adversely affected by the crisis. It is also likely that children's participation in the labour force registered an increase because of economic compulsion and a deterioration in family and child care.

In **Thailand** the first oil shock did not have a very strong impact on the economy. Due to the second oil crisis Thailand's economic growth rate dropped a couple of percentage points during first half of 1980s and accumulated a current account deficit, which peaked in 1983 as 9.9 per cent of GNP. The adjustment policy adopted culminated in a steep devaluation in 1984. Fiscal and monetary policies were restrained for a longer period. Also trade liberalization was part of the adjustment programme.

During the adjustment process Thailand adopted a policy of export-oriented growth based on manufactured goods and services. Before the policy orientation was import substitution combined with growth based on primary exports. The country's industrial sector has been growing fast in terms of value but not in terms of labour. It has the smallest share of labour force in the region. Urbanization has been relatively slow.

In **Pakistan** the economic regime in the 1980s was characterized by structural adjustment policies, in contrast to the populist-Keynesian regime that had prevailed earlier. A number of structural adjustment programmes were put into place. However, the 1980s were also a period of strong economic performance because of a number of exogenous factors. These included a sustained inflow of remittances from the Gulf countries, and a corresponding outflow of workers; these eased the pressure on the balance of payments on the one hand, and on the domestic labour market on the other. The 1980s also witnessed a sustained inflow of official foreign resources.

In **South Korea** the first oil shock was followed by an increasing emphasis on capital-intensive heavy industries. When these selected industries were supported, this gave rise to large industrial conglomerates, which aggravated the distribution of wealth and income. Due to the negative effects of this development, the government later on de-emphasized heavy industries still keeping technology development as a top priority.

The Social Dimension

In this section, we review the experiences of the sample countries in addressing social problems, including poverty, income distribution, conflict, health, education and the environment. The objective is, first, to examine how the economic restructuring affected the social sectors, and second, to determine how some countries succeeded in avoiding or overcoming adverse social consequences.

Poverty and Income Distribution

The ESCAP region has the largest segment of absolute poverty in the world. South Asia alone contains over 60 per cent of the world's poor. It is fair to say, however, that the degree of poverty in the region is moderated by the overall equality of incomes. There have been some striking successes as well as abiding failures in addressing the problem of poverty alleviation. The adjustment programme in general have an adverse impact on the poor and thus delay the resolution of the problem.

In Papua New Guinea and the Philippines more than half of the population lived below the poverty line in 1980-89. In rural areas three out of four Papua New Guineans were absolutely poor, and the share was more than 50 per cent also in the Philippines and India. In Sri Lanka approximately one fourth of the population live in absolute poverty. Simultaneously, only one tenth of the rural population in China were absolutely poor.

There have been a number of successful attacks on the problem of poverty. It is fair to say that virtually all of them have been associated with an overall increase in income. Besides the countries that have witnessed dramatic increases in income levels (Singapore, Korea), perhaps the most successful experience is that of China, which has been able to reduce the proportion of absolute poor in its society below 10 per cent, despite a per capita GDP of less than 400 dollars. India and Sri lanka, with similar levels of income have much higher incidence of poverty. This success is even more striking when viewed in an historical perspective. For example, the percentage of rural people in absolute poverty declined from 83 per cent in 1978 to seven per cent in 1989.

A major reason for the success of the anti-poverty programme in China was the existence of an effective and decentralised targeting machinery in the form of villages and communes. The central government allocated funds through a poverty relief programme and implemented special direct aid programmes for certain chosen poverty counties. At this stage, the bulk of the remaining poverty is seen to be restricted to certain resource poor areas. This success has not been unqualified; the absolute poverty figures for individual counties may have been distorted through either overstating or understating, and in many cases relief funds were misallocated by county officials.

In Pakistan also, poverty decreased both in the 1970s and 1980s despite a low overall income level. A major cause was the overall increase in real income at rates above those in neighbouring countries. Perhaps of greater importance was the flow of migrant labour to the Persian Gulf and the return flow of worker remittances. These flows helped ease the labour market situation and provided a relief valve for political tensions, in addition to supplementing the earnings of lower and middle income groups. This phenomenon may have outweighed the more direct adverse effect on the poor of the adjustment programme, which by constraining aggregate demand curbed both development and maintenance expenditures on social services. On the other hand, however, the supply side adjustment policies of the 1980s may have helped reduce the urban bias of poverty alleviation programmes, by increasing agricultural prices that had traditionally been maintained at a low level to subsidise the urban poor.

In other countries with similar levels of income, the failure of anti-poverty programmes is demonstrated by the persistence of the problem. The adjustment programmes mentioned earlier did not help in this regard. In Sri

Lanka, poverty is likely to have increased soon after the economic reforms started in 1978, and after a brief decline after 1982, increased again in the second half of the 1980s due to civil strife and other disruptions.

In the Philippines, short term adjustment policies delayed improvement in, or at worst, aggravated the poverty situation. The incidence of absolute poverty increased during the crisis years, and peaked in 1985. As a result, the proportion of families below the poverty line was 59 per cent in 1985, ten percentage points more than in 1971. Adjustment policies hurt the poor through two different channels: through changes in the factor and commodity market, and via government expenditures. Employment declined not only in the formal sector but also in the unorganized sector, and real wages declined. Food prices rose faster than other commodities, which harmed the urban poor more than others.

Income Distribution

As mentioned, income is distributed fairly evenly in virtually all Asian countries. The most even distribution is in China, where the Gini coefficient for the whole country is less than 0.3, and for urban households less than 0.25. However, there are disparities both within and across regions. Some provinces, such as Gansu with a Gini of 0.41 are far more unequal than others; and income differentials among regions not only persist, but have actually been increasing because of the coastal strategy that has led to more rapid development in the southeast coastal areas, leaving the north and west inland areas behind. The data on income distribution in the region is presented in Table 5.

Table 5: Wealth and Poverty

Country	Income of poorest 40 per cent households as a share of total households	Population below poverty line 1980-89		Gini coefficient
	1980-99	Total	Rural	1975-88
Singapore	15.0	..	..	0.42
South Korea		16	11	0.36
Malaysia	13.9	27	38	0.48
Thailand		30	34	0.47
China		..	10	..
Philippines	15.2	58	64	0.45
Sri Lanka	13.3	..	..	0.45
Papua New Guinea		65	75	
Pakistan	19.0	30	29	0.36
India	20.4	48	51	0.42

Source: Human Development Report 1992

Korea and Pakistan rank after China with a Gini coefficient of 0.36. Income is most unevenly distributed in Malaysia and Thailand, with Gini coefficients of 0.45 and 0.47 respectively. Although Malaysia still has a very unequally distributed income compared with other ESCAP countries, it is probably the only country which has been successful in improving its income distribution significantly during the last two decades from 0.51 in 1970 to 0.45 in 1990.

Singapore, South Korea and China had more than half of their population living in urban areas in 1990. Papua New Guinea, Sri Lanka and Thailand were least urbanized, with an urban population smaller than one fourth of their total population. The growth of urban population was fastest in Papua New Guinea,

South Korea and Thailand during 1965-80, and in Malaysia, Thailand and Pakistan during 1981-90. During both period China and Sri Lanka had the slowest rate of urbanization.

In general, it could be said that there are few examples of success in reducing income inequalities. Those that have been successful, as in China, Korea, or Malaysia, derived from direct intervention of the state in the economy, rather than indirect tax-subsidy arrangements.

Before the reforms China pursued economic equality as a first priority, sometimes at the expense of economic efficiency. The reforms were designed to change the incentive structure and therefore to enlarge the income disparity in some respect. In other words, China was for some time deliberately widening the differential in income distribution in exchange for greater economic efficiency. As a result, income difference between the public and private sectors increased during the 1980s, as private businesses developed rapidly and the income of entrepreneurs in the private sector rose to two double and five times as high as in the public sector. The actual difference is, however, smaller, if benefits enjoyed by the state employees are taken into account: subsidized housing, pension programmes, free medical care, etc. While the income distribution has become more unequal between public and private workers, differentials in the public sector remained almost the same as before.

An important element of Chinese economic landscape was the strict segregation between rural and urban labour, enforced through a permanent residency registration system that restricts free movement of labour. The social inequality resulting from this policy has not changed along with other economic reform. Those born in the city as an urban resident will be endowed with the privileges of employment in the state sector, and have access to low-priced food and housing, and various other benefits. The only endowed right for rural people is that of using and sharing a piece of land in the home village. All rural labourers were in fact considered to be automatically employed by virtue of being born on their land, regardless of how many people had already crowded onto that piece of land.

Before 1978, the government usually assumed full responsibility for assigning jobs to everybody who could present an urban residence card. When no positions were available in the urban areas, the government would send to rural areas. When the Cultural revolution ended, over five million people who had been sent to the countryside were allowed to return to the cities from where they came. This resulted in a higher unemployment rate in urban areas.

While the Chinese government wants to keep the rural labour force in rural areas, people naturally tried to violate the restrictions. The higher income in urban industries encourage people to leave for the cities. In 1990 the average income in urban areas was 2.2 times bigger than in rural areas. Since the rural household contract were introduced during the early reform period, they were free to leave. However, rural residents could not become permanent urban residents even when they could find employment in the private industrial or commercial sector or in the informal sector. The number of these so called "floating people" has been increasing. They live in rather poor conditions and are not protected by any social security system. Their working conditions and wages are lower than those with a permanent urban residence, and they are unable to obtain food rationing, housing, etc. The whole system creates significant cost to rural people who attempt to get into the city. In case of unemployment, they were not counted as unemployed.

The only unemployment reflected in the official statistics has been urban official unemployment. Moreover, as it is rare for an employed person to be fired or dismissed from a job in the state sector or urban collective enterprises, the figure for urban unemployment refer mainly to those people waiting for their fist job assignment. The high urban employment rate has been pursued at the expense of efficiency

in the public sector, although the private sector has been absorbing an increasing amount of labour. The large urban-rural income disparity has been largely due to the government's policy of job-separation, which kept urban income high while preventing rural people from entering the cities to earn more money. In addition to the employment separation policy, another important element has shaped China's special pattern of urbanization, and that is the development of township and village enterprises and private business in the rural areas. The employment in the rural industrial and commercial undertakings grew fast, and by the end of 1989 its share of the total rural labour force was 29 per cent. Still, disguised unemployment in rural areas runs high. According to a study conducted in 1989, one third of 333 million labourers working in the primary sector were identified as surplus labour. As a consequence of the fast growth of the non-traditional sector, the villages and towns prospered and grew even further. Hence industrialization in China has not lead to the abandonment of a rural hinterland, instead, the rural areas have turned into urbanized industrialized areas.

China's gradual removal of price control combined with the elimination of subsidies in many sectors exerted income effects. At the removal of each price control the prices for the goods went up and approached market values. Each time, there was a certain amount of wage increase in the form of e.g. a direct food subsidy to consumers to compensate for the increase in the cost of living. The food subsidy was distributed to urban workers registered in the formal sector and was based on the average consumption of urban households. Families which participated less in the formal sector and/or had more dependant were worse off because of undercompensation. At the increase of staple food prices, the low income group and those engaged in hard labour were more adversely affected because of their higher dependence on staple food, while the high income groups were more hurt by the meat price increases. In addition, the retired were hurt more seriously, since they could not get as high compensation as the workers, who enjoyed various extra payments from their enterprises.

In the Philippines the Gini ratio declined only modestly, from 0.47 in 1965 to about 0.44 in 1988. The distribution of wealth and assets is even more skewed than the dispersion of income. Adjustment policies seem to have intensified the problem of uneven income, wealth and asset distribution. The impact on poor people was especially hard not only because their own inability to protect themselves, but also through such things as the uneven distribution of government services (health, education and housing); and the unfavourable labour market situation with falling productivity, increasing underemployment: the poor were the first ones to be laid off since they are usually the least schooled, least skilled and least productive. Adjustment programmes also led to higher (not lower) inflation which had a more acute impact on the poor, partly because of an absence of wage indexation, and partly since the poor do not have access to inflation resistant assets. Adjustment policies also did not result in a shift from relatively regressive indirect taxes towards more progressive direct taxes. Finally, although a real devaluation of the exchange rate would have favoured the poor, the nominal devaluation in the adjustment programme was not was not sufficient to bring about a real devaluation.

In Thailand income distribution became more unequal during the recession. The Gini coefficient was 0.45 in 1980-81, rose to 0.50 during the trough of the recession in 1985-86 and improved somewhat to 0.48 in 1988-89. Poverty increased in the whole country in the mid-1980s, but particularly in rural areas, where the poverty incidence increased to 36 per cent in 1985-86 compared to 27 per cent in 1980-81. In urban areas, however, poverty declined slightly in 1985-86. One reason for the different poverty experience in rural and urban areas is the big share of temporary workers in the urban areas. When they lost their job, there were very little basic social welfare services in the cities that they could rely on. But they were still able to return to their land, family and village, and this migration brought down urban poverty. The high rural poverty was also partly caused by a slump in agricultural prices.

Ethnicity and Conflicts

Another dimension of inequality is its overlap with ethnic or other forms of political conflict. In this sense, the experiences of Malaysia and Sri Lanka offer contrasting pictures. Malaysia was successful both in reducing the level of income inequality and maintaining a relatively stable political order despite the existence of fundamental ethnic divisions. Sri Lanka, on the other hand, witnessed a persistence of poverty and inequality as well as increasing ethnic tension and the rise of political violence.

Unbalanced growth may cause socio-economic instability. For example. in Malaysia growth in the 1960s was based on strong export sector of a few primary commodities. This caused socio-economic imbalances which were a major cause of Malay racial riots in 1969. After the riots the Malaysian government adopted the New Economic Policy (NEP), which extended over a period of twenty years (1970-1990). NEP emphasized growth with distribution and economic equality between races.

Malaysia has indeed been successful in implementing NEP: it experienced relatively high growth, and in addition, the government was successful in improving the relative position of the Malays. It was also successful in improving income distribution not only between racial groups, but also between urban and rural areas. Both factors have contributed to political stability in the country since the 1980s. The role of the government has been crucial to all these achievements.

Naturally Malaysia has had to endure social costs, but in general they have not been able to entirely undermine the positive aspects of the restructuring. First, the education system has been slow in adjusting to all the necessary changes. The preferential education policies might to some extent even have aggravated racial polarization in the sense that the quality of education in tertiary institutions may have been diluted. At the same time the competition between non-Malayan students became tougher. Both drawbacks have affected in particular the non-Malayan middle-class. Secondly, the fact that Malays have experienced more social and economic change than other groups have probably caused certain transitional costs to this specific ethnic group. For example drug abuse and child abuse have increased especially much among the Malay people, probably as a side effects of the faster urbanization.

Even at the time of independence in Sri Lanka there was no clear consensus among the Sinhala majority and the minorities about how the newly achieved democratic power was to be shared among them. Soon realizing that power sharing at the centre was not possible, the Tamil minority began to demand a federal system. The first outbreak of violence occurred in the mid50s when the government made Sinhala the only official language. Commencing from this point the conflict has escalated. Eventually the federal demand led to a demand for a separate state and protracted armed conflict which still continues. Successive governments have failed to manage the ethnic relations in the country which have erupted in a long lasting violent conflict hampering possible economic progress. The roots of the problem are partly in the failure to move into a system which provided for greater devolution of power.

Sri Lanka has also been fortunate not having a high migration from rural to urban areas. Maybe one of the reasons for this is the slow structural change of the economy. The share of agriculture in GNP has declined only modestly from 28 per cent in 1965 to 26 per cent in 1989, while the share of the industrial sector increased from 21 to 27 per cent. Secondly, many policies and welfare measures were designed to keep the population in the countryside.

There are emerging forms of tensions in other countries as well. In India, there are persistent conflicts between Hindus and Muslims, and Hindus and Sikhs, expressed most potently in separatist movements in Kashmir and Punjab. In Pakistan, there is continuing conflict between the Sindhis and the Mohajirs in the southern province of Sindh. In Papua New Guinea the rising unemployment in rural areas is reflected to some extent in the poor law and order situation in many rural areas, the continuing and rising urban drift, and the disorder caused by tribal disputes.

Health and Nutrition

On health and nutrition, the ESCAP region has both successes and failures. Singapore, South Korea and Malaysia have a life expectancy rate above 70 years, while Papua New Guinea forms the tip of the tail with 55 years; it is closely followed by the other poorest countries. These are also the only countries in the group where the average life expectancy of women does not exceed the national average by more than two years, and where the share of women in the population is the lowest. Other indicators regarding health and nutrition are provided in Table 6.

Table 6: Health Indicators

Country	Maternal mortality per 100000 live births	Infant mortality per 1000 live births		Under five mortality, per 1000 live births				Low birth weight babies%	Daily calorie supply, % of requirement	
	1988	1965	1990	Total	Total	Female	Male			
				1960	1990	1990	1990	1980-88	1965	1988
Singapore	14	26	7	49	9	7	10	6	87	126
South Korea	80	62	17	120	30	17	24	9	96	121
Malaysia	120	55	16	105	29	17	22	10	101	119
Thailand	180	88	27	149	34	28	38	12	95	103
China	130	90	29	203	42	29	40	9	86	111
Philippines	250	72	41	134	69	45	57	18	82	99
Sri Lanka	180	63	19	114	35	21	26	25	100	106
Papua New Guinea	700	140	57	248	80	70	84	25	72	92
Pakistan	600	149	103	276	158	151	145	25	76	92
India	550	150	92	282	142	121	116	30	89	94

Source: Human Development Report 1992

Low income Sri Lanka's and China's exceptionally high life expectancy rates are especially noteworthy. They both have a life expectancy rate above 70 years, ranking immediately after Singapore, which is number one. Sri Lanka has a lengthy history of longevity with the second highest ranking life expectancy already thirty years ago. China, on the other hand, has been the fastest in catching up with other high life expectancy countries.

Often there a big variation of life-expectancy between regions. For example in India the inter-state variation during 1981-85 ranged from 49 years for women and 51 for men for Uttar Pradesh and 72 and 65 for Kerala. Similar differences exist e.g. in Papua New Guinea, but the contrast is not as drastic.

Health development statistic reveal also a significant gap between urban and rural areas in health indicators. In India the infant mortality rate has been 113 in rural areas and 64 in urban areas in 1981-85. Kerala is again outstanding with figures one third of the whole country (34 and 26) mostly due to improved health practice combined with a very high female education rate. Even excluding Kerala the inter-state variability of the

infant mortality rate has been quite wide and the intra-state rural-urban differential was as high as 68 in Uttar Pradesh. Kerala has also recorded the highest rate of decline in infant mortality.

In the whole ESCAP region, infant and maternal mortality is highest in Pakistan, India and Papua New Guinea, and lowest in Singapore, South Korea and Malaysia. These differences can be traced in part to supply factors such as the inadequate supply of calories per person, which is also reflected in the high share of malnourished and low weight children, and the insufficient health care. The situation on the supply of health services is depicted in Table 7.

In looking for the determinants for success, a number of points are immediately apparent. First, safe drinking water is an easy and cheap method of subsidising health care; second, the government allocation for health services is a crude indicator of health care in the country; third, the quality of management of the health services so provided varies from country to country, and may improve with experience; fourth, certainly the number of health care personnel cannot be increased overnight; fifth, structural adjustment programmes often produced adverse effects on health care; and finally, that intra-country variations may be just as illuminating as inter-country comparison.

Wealthy Singapore and South Korea can offer health services to almost their entire population. Singapore, South Korea and Thailand provide safe water as well as sanitation to more than three fourths of the population.

Table 7: Health Services

Country	Percent of population with access to:				Population per doctor:		Nurses per doctor	Births attended by health personnel, %	Oral rehyd-ration therapy used
	Health services	Safe water		Sanitation					
	1987-89	1975-80	1988-90	1988-90	1965	1984	1984	1983-89	1987-89
Singapore	100	--	--	--	1900	1410	--	100	..
South Korea	94	66	79	99	2680	1160	2.0	89	..
Malaysia	--	--	--	--	6200	1930	1.9	82	20
Thailand	70	25	81	86	7160	6290	8.9	71	40
China	--	--	--	--	1600	1010	0.6	94	40
Philippines	--	--	--	91	--	6570	2.4	57	25
Sri Lanka	93	19	60	50	5820	5520	4.3	94	58
Papua New Guinea	--	20	32	56	12640	6070	6.9	20	46
Pakistan	55	25	55	18	--	2900	0.6	40	42
India	--	31	75	--	4880	2520	1.5	33	13

Source: Human Development Report 1992

Lack of easy access to safe drinking water continues to be a major problem affecting the health and well-being of people in countries like Papua New Guinea, for example, where most people do not have access to safe drinking water. More than 60 per cent of the rural population obtained their water from natural unimproved sources such as streams or rivers in 1979. In 1985, only about ten per cent of the rural population had access to reliable water supplies within easy reach of their homes. In much of the rest of the countryside drinking water was contaminated, and had to be fetched by village women over difficult terrain and long distances.

Sri Lanka has a good record of health services: the statistics shows an ability to offer health service to almost the entire population. During the last 15 years the supply of safe water has improved fundamentally in the

country. Already in 1965 Sri Lanka, apart from Malaysia, was the only ESCAP country who did not have a calorie supply deficiency. Sri Lanka is also spending the biggest share of government expenditure on health: two per cent of GNP.

Figures on government expenditure on health, education and welfare are provided later on in this chapter. China has one of the best record of health indicators; its government expenditure on health as a percentage of GNP was around 1.3 per cent both in 1960 and 1987, an average figure in the ESCAP region. Papua New Guinea has the highest public spending on health (three per cent) in 1987 (and also the second highest spending on education: five per cent). Inefficient allocation and utilization of financial resources in Papua New Guinea have probably been part of the obstacle to achieving considerable progress in health indicators. For instance, more than two fifths of the total government health expenditure during 1978-86 was spent on hospitals, despite the fact that they benefit only a small proportion of the total population. Preventive health care and rural primary health care have received less priority than curative health and urban health care.

In Sri Lanka the public health care consist of subsidized health care including hospitalization through public health facilities. Family and volunteer workers were trained in large numbers to assist in the public health clinics. Also non-governmental organizations have been playing a significant role in the supply of primary health care. An increasing share of private enterprises have been providing health services, while the public sector continue to service the relatively poor. This switch is happening partly because of the low quality of services provided by the public sector. Public health institutions have had problems related to the availability of medication and trained personnel.

In addition, in Sri Lanka there are programmes of supplementary provisions for mothers, infants and pre-school children, distress relief against calamity, drought, floods and earth slides, social security covering one fifth of the employed, and pension for all permanent public sector employees.

In India the health service infrastructure is in short supply and unevenly distributed. In general, the access to total hospitalization services and child and maternity care facilities is more inequitably distributed for the rural than for the urban population. The regional contrasts are sharp between the two extreme cases of Bihar and Uttar Pradesh on the other hand and Kerala on the other hand. The hospitalization facilities are also more equitably distributed in Kerala and inequitably distributed in Bihar. Yet, in terms of per capita public expenditure on health services, Kerala does not stand out from other states. It is the effectiveness of utilization of public funds as well as the high level of educated females and the family and community habits regarding sanitation, hygiene and health awareness in general that supposedly explain Kerala's success. In addition, Kerala is the only state where over 90 per cent of the rural population lives in large villages with 10,000 people or more, in contrast to the all-India situation, where only five per cent of the rural population live in large villages. This is important because it is much easier and more economical to set up, staff and run hospital facilities when population is concentrated in large settlements than when it is dispersed in small settlements.
For example, in contrast to the situation in Kerala, Papua New Guinea has a low population density, a rough topography, and more than four fifths of the population living in rural areas. This makes it more difficult to provide health care services at their doorstep. Besides this, a number of other inequalities across socio-economic groups affect the health sector. Groups with higher education and income, and those employed in the formal sector (12 per cent of the labour force) have much better access to improved health facilities. One of the reasons for the relative discrimination against the poor and needy is the growing political power of urban classes.

However, the central constraint in the area of health in Papua New Guinea pertains to personnel. It is one of the causes for underutilization of available physical infrastructure. Many aid-posts do not operate well because

of lack of supervision or adequately support. An important aspect of this problem is that most health centres have only male nurses and almost all aid-post orderlies are men. Naturally, this discourages many rural women from using these facilities. As a result, only one fifth of all births were attended by health personnel in the 1980s.

The proportion of births attended by health care personnel is also low in India and Pakistan, while it is highest in China, Sri Lanka and Singapore. The Philippines, Thailand and Papua New Guinea had more than 6000 people per doctor in 1984. China, South Korea and Singapore had a ratio of less than 1400. In Pakistan and China there were only 0.6 nurses per doctor in 1984 when Thailand had 8.9.

In China the economic restructuring induced by the reform caused serious costs in the form of a loss of health insurance for rural people. The collective health care system was based on the financial resources of the collective economy and enforced by the local administration embodied in the commune. In most places there are no longer a collective economy which can or will pay the health care bills of it members. The village clinics have mostly been contracted out to private doctors. The majority of rural households have to pay full costs for their medical care.

The discontinuation has contributed to the increase in the rural-urban disparity in health care conditions. While rural people have lost most of their health insurance, urban public sector workers have continued to enjoy the government's provision of free medical care. The free health care system, on the other hand, has caused a waste of resources in the public sector. Because the patient do not have care how much the bill is, hospitals can overstate the illness and make the patient buy more medicines than needed.

In the Philippines too, as a result of the economic crisis and the adjustment programme, there was a clear deterioration of the health and nutrition indicators, particularly in the first half of the 1980s. The declining rate of infant and child mortality slowed down, and temporarily even increased. There was an increase in water-borne and communicable diseases, and in the prevalence of anaemia. The trend of climbing life expectancy slowed down. The country's nutritional status was affected. The costs of medical and health care increased. The proportion of underweight and wasting preschoolers increased between 1982 and 1987. However, the proportion of underweight schoolers and stunted children continued to decline. The number of households not consuming enough calories increased. Both the quantity and quality of food intake fell. Also in Pakistan adjustment policies worsened social indicators related to health: infant mortality increased and life expectancy decreased.

In general, in the Philippines the social sectors were among the most heavily hit in the government's budget during the adjustment episodes. At the peak of the crisis, social services sustained the second heaviest budgetary cut of almost 30 per cent, next to defence whose allocation fell by 34 per cent. During 1983-85, health, social security and labour welfare, housing and community development, and other social services were all vulnerable to the fiscal squeeze caused by the adjustment programme. Housing and health were the hardest hit sub-sectors, but education, social security and labour, and other social service had been falling for three continuous years. This development is especially alarming considering that the Philippines is one of the countries with the lowest share of public expenditures both on education and health as a percentage of GNP.

Nevertheless, the cut in government expenditure had a relatively bigger impact on the high and middle income groups. The reason for this is the targeting of social spending. E.g. the health service structure emphasize on urban-biased, hospital-biased, physician oriented curative medical care (58 per cent of government total resources) instead of promotive and preventive health service (33 per cent). Programmes in nutrition and other services to the disadvantaged are the most poverty-oriented public services, nevertheless, their share of the

budget is very small. Even certain remedial measures implemented by the government during the crisis failed to carry preferential treatment for the poor.

Education

Education is another area in which selected ESCAP countries have recorded enviable progress. Table 8 provides figures on indicators in the area of primary education for the 10 countries in our sample.

Adult literacy is over 90 per cent in South Korea, Thailand and the Philippines in contrast to Pakistan, India and Papua New Guinea with 35, 48, and 52 per cent. While women are worse off than men in all countries the gap has narrowed over time, except in Papua New Guinea. Singapore ranks amazingly low on the list of both literacy rate and mean years of schooling. In fact, in the field of mean years of schooling Singapore is clearly outclassed by both South Korea, Philippines, Thailand, Sri Lanka and China. In the area of literacy Singapore is overtaken by four poorer countries.

Table 8: Education Indicators: Primary Education

Country	Primary net enrolment (relevant age group enrolled as a percentage of relevant age group)		Primary gross enrolment (all age groups enrolled as a percentage of relevant age group)				Primary completion rate, %	Primary pupil per teacher ratio	
			Total		Female				
	1975	1989	1965	1989	1965	1989	1988	1965	1989
Singapore	100	100	105	110	100	109	98	29	26
South Korea	99	100	101	108	99	109	99	62	36
Malaysia	..	..	90	96	84	96	96	29	21
Thailand	..	..	78	86	74	..	59	35	18
China	..	100	89	135	..	128	80	30	22
Philippines	95	99	113	111	111	110	70	31	33
Sri Lanka	..	100	93	107	86	106	94	..	14
Papua New Guinea	..	73	44	73	35	67	59	19	32
Pakistan	..	..	40	38	20	27	57	42	41
India	..	..	74	98	57	82	..	42	61

Sources: World Development Report 1992 and Human Development Report 1992

India has the second lowest literacy rate after Pakistan. Here, the battle against illiteracy has been an organizational failure. In forty years, literacy rates have increased only slightly from 27 per cent for males and 9 per cent for females to 54 and 40. Again Kerala represents a balanced structure of population according to educational achievements with much narrower male-female and rural-urban differences. As many as 86 per cent of urban males and 81 per cent of rural males were literate, while the numbers for females where 86 and 73.

Thailand has the second highest literacy rate in the region. For many decades the government of Thailand has paid much attention on education allocating a high share of its budget for primary education. One important aim of the six years of compulsory elementary education was to spread the Thai language and socialize the rural people to the central region dialect and culture. The government also was eager to increase literacy so that people would be able to read the government announcements.

While the enrolment rate for elementary schools is close to 100 per cent in Thailand, the drop-out ratio is also high: at every grade the average drop-out rate during 1987-88 was 7.4. Primary enrolment was 100 per cent in Singapore, Sri Lanka, South Korea, China and Malaysia in 1988-89. In Pakistan, Thailand and Papua New Guinea less than two third of the students who enrolled in primary schools completed it.

In Papua New Guinea the 1980 Census data reveal that more than half of the population in the age group 12-25 years had not had any schooling at all. The primary school drop-out rate has even increased over the years: in 1976 it was 27 per cent, but in 1988 it was as high as 38 per cent (probably higher due to underestimation). Part of the problem may be financial: except for in one province, Simbu, primary education is not free in the country. However, since even in Simbu, the drop-out rate is 49 per cent - 30 per cent higher than the country's average - it is safe to assume that parents sending children to school are experiencing other more dominating problems than the financial constraint.

The bulk of primary schools in Papua New Guinea suffer from inadequate facilities. Lack of an adequate number of teachers has been a continuing problem, in particular in remote rural schools. In 1988 more than 40 per cent of the community schools had less than four teachers, and 19 per cent of all primary students attended such schools. Another 40 per cent of all primary students attended schools with four to six teachers.

In addition, in Papua New Guinea as well and in most other countries, there are significant inequalities in access to education between provinces, between rural and urban areas and within the rural area. The differences between males and females continues to remain big. The female-male gap in education is wider for countries with low enrolment rates: the share of women privileged enough to get some education is smallest in Pakistan, followed by India and Papua New Guinea. At the primary school level the female-male gap has fortunately narrowed slightly during the last twenty years.

In India primary education facilities have expanded, but there is not much demand for the kind of education offered by the school. According to a survey conducted in 1986-87 non-availability of schooling facilities does not turn out to be an important reason for not enrolling in the school.

In China a nine-year compulsory education system was introduced in 1986 to replace the precious six-year system. However, the quality of rural education remain a problem. Rural primary and secondary schools have faced two major problems: the low quality of the facilities and the low level of qualification of teacher. Many rural schools are short of classrooms and many classrooms in use are in poor, or even dangerous, condition. Other teaching facilities are far from sufficient. The student-teacher ratio is 20 in an average urban primary school while an average rural primary school teacher teaches 34 students.

One major problem with teachers at various levels is their economic condition. In China and the average salary of a teacher is lower than the average salary for the public sector worker and much lower for a private vendor. In South Korea, on the other hand, the average salary in the public sector for school teachers (elementary, middle and high school) was 27 per cent higher than the average salary for civil servants in 1992. In China the economically unattractive position of a teaching career does not motivate talented young people to go into teaching, when even qualified teachers have left the profession to go into a higher income profession. Many teachers working in rural primary schools have no professional training. They receive a rather low salary and many of them have to engage in farming at the same time to support their families, or they might chose to transfer to other more profitable occupations, leading to further deterioration of the average teacher's qualification level.

In Sri Lanka universal free education was established already before independence. Today the public sector provides free tertiary education to qualified persons, free text books, a free midday meal, and subsidized travel for school children. Even in Sri Lanka the low quality of public education and regional disparities remained an unsolved problem. Government schools in most rural areas do not have enough resources for teaching science. Laboratories are poorly equipped or non-existent in many schools. There has been continuous difficulties in the recruitment and training of an adequate number of science teachers. However, scholarship are provided for the best rural student to central schools with better facilities.

In 1988-89 Thailand's secondary enrolment ratio (28 per cent) was even worse than India's 43 per cent. Papua New Guinea has the lowest ratio (13 per cent), while South Korea, Sri Lanka and the Philippines have a ratio above 70 per cent. In Thailand secondary education is comparatively weaker than primary education partly because it is neither free nor compulsory. Also the limited provision, particularly in rural areas, leaves large parts of the population without an entry chance. On the other hand, it is also possible that people do not press for post-primary education because the do not consider it income-increasing, which is to some extent true in the vast agricultural sector, which employed 70 per cent of the labour force in 1986-89. Yet, the fact remains that most rural people do not have a choice. The low level of education after primary schooling has become a constraint to industrialization. The government's strategy has been to switch towards service-led growth and thereby delay the decision to improve the level of higher education.

The school enrolment in primary and secondary schools is as high as 97 per cent in South Korea and the Philippines closely followed by Sri Lanka, Singapore and China, which have a ratio of at least 85 per cent. At the other extreme is Pakistan, where only 29 per cent is enrolled in primary and secondary schools, and this share has remained more or less constant during the last two decades. In Papua New Guinea, Pakistan and India, people above 25 years had an average of less than 2.5 years of schooling. South Korea has the highest average mean year of schooling: 8.8 years. Philippines and Sri Lanka rank second and third in the statistics of mean year of schooling (more than five years).

In the Philippines the adjustment programme has harmed education. Public school participation at elementary level sank and the drop-out rate increased from 1982-83 to 1983-84. There was no compensating increase in private school enrolment either. The cohort survival rate, the main indicator of the capability of the system to keep children in school, diminished was record low in 1987. Even the adult literacy rate dropped from 89 per cent in 1980 to 86 per cent in 1985 in the Philippines. Also in Pakistan adjustment policies worsened education indicators in the 80s: total primary enrolment dropped. The erosion of education not only reduces individual's real capability to earn income, but it also reinforce other negative effects of the economic crisis e.g. the increase in the amount of street children, crime, juvenile delinquency, drug abuse, prostitution and other social problems.

Papua New Guinea, Malaysia, South Korea and Singapore spend most on education in terms of public expenditure as a share of GNP in 1989. In 1960 Sri Lanka, Malaysia, Singapore and Papua New Guinea had the biggest share of public education expenditure. Public spending on primary education facilities suffer from a same kind of allocation bias as in health. Allocation of government expenditure has become increasingly more biased towards tertiary education partly at the expense of primary education. In this sense, the education system seems to discriminate more against those who are already disadvantaged and favours those who are privileged. The share of public expenditure on higher education was more than 15 per cent in Singapore, China, Philippines, Pakistan and India.

Statistics on higher education are given in Table 9. In China under the present system, all graduates from higher learning institutions are assigned a job in the public sector, unless they themselves choose another alternative. Hence, if they only can gain admission to the university, employment is guaranteed. Secondly, more non-academic jobs has become more lucrative than academic work. Both factors affects the motivation of the students.

Table 9: Education Indicators: Higher Education

Country	Secondary and tertiary gross enrolment (all age groups enrolled as a percentage of relevant age group)							Tertiary science enrolment ratio, % of tertiary	Third level students abroad, % of those home
	Secondary gross enrolment				Tertiary gross enrolment				
	Total		Female		Total		Female		
	1965	1989	1965	1989	1965	1989	1989	1987-88	1987-88
Singapore	45	69	41	71	10	8	6	29	25.3
South Korea	35	86	25	84	6	39	26	31	1.9
Malaysia	28	59	22	59	2	7	6	34	38.1
Thailand	14	28	11	..	2	16	..	25	0.9
China	24	44	..	38	0	2	1	18	3.2
Philippines	41	73	40	75	19	28	..	..	0.3
Sri Lanka	35	74	35	76	2	4	4	37	5.6
Papua New Guinea	4	13	2	10	..	2	1	11	5.7
Pakistan	12	20	5	12	2	5	3	..	9.0
India	27	43	13	31	5	6	4	32	0.5

Sources: World Development Report 1992 and Human Development Report 1992

At the secondary and higher levels in India, there has been an increase of institutions and even greater expansion of enrolment. Since institutional facilities have not been expanding at the same rate as demand, it has given rise to overcrowding in the existing institutions and the establishment of new institutions on commercial basis. The net result has been a deterioration in the quality of education.

In the labour market in India, the excess supply of higher educated persons have increased the pressure on the public sector to absorb the growing educated labour force into the public sector, since the labour absorption of the industrial sector has been very small. This has caused overmanning in the public sector and increased demand for even higher education as a mean to improve the chances of getting a white-collar job. Labour legislation has contributed to a salary level above the market clearing level, exacerbating the possibilities for labour absorption, further raising the demand for educational services, and creating a mismatch between the required education and actual education of a job.

In Sri Lanka there is a mismatch between the type of higher education demanded and supplied on the labour market. The economy has not been generating adequate employment to absorb the large number of school leavers with progressively higher level of education and correspondingly higher job expectations. This imbalance was partly the reason for the youth unrest and the socio-political upheavals in 1971 and 1987-89.

Also in China there are mismatch problems at the higher education level: on one hand, there are too many university graduates but few specialized college graduates, on the other hand, too many majoring in

scholarly studies (like literature and history) for which demand was limited. At the middle school level, the main problem is a shortage of vocational school or specialized secondary schools.

Environment and quality of life

In China the deterioration of the natural environment has been a major loss in the past decade. The forest area shrank continuously, prairie area has degenerated, the fertility of cultivated land has diminished and soil erosion accounts for one fifth of the world's total soil erosion. Environmental pollution has been enormous.

As a result of environmental policies adopted during the 70s and 80s, environmental deterioration in some areas has been brought under control. Afforestation has been speeded up. During the 80s the volume of waste water, industrial dust and residue discharge decreased and the ratio of treatment of industrial waste water and the reutilization ratio of industrial waste residues increased. The green area in cities expanded.

However, most of these improvements were achieved at a time when central decision-making still dominated the domain of environment. China still has to develop social control mechanisms which would prevent local authorities and enterprises from pursuing their interests at the expense of the environment.

In Papua New Guinea environmental concerns is one of the national goals, but it has been accorded low priority in development strategies. Mining as well as forest projects in different parts of the country have had considerable adverse effects on environment. Logging practices adopted by a large number of logging companies have been seriously questioned by both local and foreign institutions. In response to some of these criticisms, the government has prepared a plan to reduce the adverse effects of forest utilization. However, the environmental damage done by logging companies represents one of the most serious social costs of economic restructuring.

In Thailand the general living environment has declined steadily due to increased pollution. The government has not been able to control the exploitation of forest resources. Forest reserves have declined rapidly contributing to landslides.

Infrastructure

The Indian economy has retained its predominantly agrarian character, and the industrial structure has been such that its ability to absorb labour has been limited. Limited land resources combined with the multiplying population has given rise to the urban informal sector characterized by low-productivity, unorganized and mostly unskilled tertiary activities.

Due to the strategy of import substitution the technological capability that has been established in the industrial sector has been driven more by the necessity of devising production processes irrespective of costs than by product innovation directed toward improving quality or cutting down costs. Despite relaxation of the regulations that started in the 70s and accelerated in the mid 80s the industrial structure continues to be high-cost low-quality and internationally non-competitive.

In China there is currently a housing reform increasing housing rents is likely to affect those more who are able to get more housing space than others. Although the average housing space per urban resident has reached more than eight square meters in 1988, one forth of the urban population live in a space of less than four square meters. Only those who can get large rooms can enjoy government housing

subsidies but those who live in poor conditions actually receive no benefits from the government. The group with better living conditions is likely to have to pay for relatively more for their extra living space.

The Sri Lankan government has participated actively in the development of infrastructure, including housing. Several housing programmes contributed to an improvement in living conditions both in the form of direct construction and by providing small credit packages to households to upgrade housing.

Governance and Institutions

What emerges from the above discussion is that the ability to pursue both social and economic goals does depend critically upon the managerial ability of the state. This ability in turn depends upon a number of factors that are themselves susceptible to policy. First, size matters; for example, if Singapore decides to provide housing for its entire population, it has to construct half a million houses, while India would have to construct two to three million houses simply to cater to the increase in population every year. Second, and following from the first, decentralisation matters, because it can reduce the size of each decision; thus, China was able to target its poverty alleviation policies effectively because it made the individual village or commune the key decision maker. Third, participation matters, both because it improves the monitoring of service agencies, and because it induces a shift from the monitoring of inputs (preferred by service providers) to a monitoring of outputs (which makes sense to users). Fourth, information matters, especially the consonance of information and decision; again, Singapore can target policies to needy groups because decision makers have the detailed information to discriminate between the needy and the not so needy. Fifth, the integrity and efficiency of the public officials matters, and therefore so does their salary and other remuneration.

It is possible to represent these diverse ideas in one word, governance. It refers to both the nature and quality of government in the country, and the strength of institutions of collective decision making in the civil society. In other words, governance is focussed not on the government, but on the ability and motivation of whoever is in the best position to act on behalf of a collectivity. For a variety of reasons, however, it is easiest to discuss the effectiveness of the government as an institution of collective decision making, both to ask whether it has the capacity and the incentive to act in the public interest, and to examine whether it can solicit the cooperation of other segments in society.

To start with, we can ask what factors determine the effectiveness of the machinery of a government.

Scale

The size of the unit to be managed is of importance. Singapore, for example, has a population of only three million, a factor that is likely to favour the governability of the county. Singapore was able to provide public housing for virtually its entire population of 3 million. Similarly, the Korea government provided approximately 700,000 houses to its population over more than two decades. The interesting feature of this comparison is that the total number of housing units thus provided in the two countries are of the same order of magnitude. It could be argued that a single organisation could well supervise the construction of about 35,000 housing units every year, but perhaps not 350,000 units, and certainly not 3.5 million units every year.

Populous countries, however, can always be divided into smaller units in order to render each individual unit more manageable. Even so, the relative size of the management unit itself matters. A very heavy

bureaucracy, like the ones in India and the Philippines, have to suffer from inefficiency, overlaps and duplication of activities.

Spatial factors also affects the possibilities to implement policies and other decisions. Papua New Guinea has the lowest population density of the region (8.2 persons per square km). The small population is geographically fragmented and in many areas population density is much lower than the average. This is further aggravated by the rugged terrain, particularly in the highland areas (which probably explains the underdevelopment of this area compared to the others). According to the paper, all these reasons, also including the extraordinarily diverse cultures and 700 different languages or dialects, makes provision of public services and other development efforts difficult.

Another example is Kerala, the state in India with the highest human development indicators in the country. An important feature of Kerala is its spatial distribution of population. Kerala is the only state where over 90 per cent of the rural population lives in large villages with more than 10,000 inhabitants. The concentration of population in large settlements makes it much easier and more economical to set up, staff and run public service units like hospitals.

Information

A third issue of scale pertains to the nature of information available to decision makers. As mentioned earlier, it is possible to target programmes effectively if the decision maker possesses the detailed knowledge required for proper targeting. Often, however, while the required kind of knowledge is available in the public domain, it is so only at certain levels of decision making. For example, while officials of a local government may have detailed knowledge about the existence of poverty in their midst, the decision to target anti-poverty programmes may be in the hands of provincial or national governments. This means that either the decision maker would have to be equipped with the appropriate kind of information in a manner that he or she can use, or that the official who already has the requisite knowledge should be empowered and given incentives to administer the programme.

The absence of information and data on specific sectors makes regular monitoring of progress difficult. Sometimes there is not even information and data available on specific sectors. In the Philippines there are no regular data available on the distribution of land, wealth and assets in the country. In India, which has a stronger database, information is often available on the basis of sample surveys when what is needed for policy purpose are general censuses. Lack of data not only makes it difficult to judge the changes that occur within a certain time span, it also makes the targeting of specific social intervention programmes almost impossible.

Another problem is that of data hoarding. This happens because information, like other valuable commodities, can be used for personal benefit. Government officials often have better access to certain information and networks, which they are able to use for personal advantage. In Sri Lanka, for example, officials in the ministry of education are well positioned to obtain information about opportunities and scholarships, which is extremely valuable in a context where higher education is a bottleneck. This creates incentives for public officials to hoard information for personal use, and for outsiders to cultivate officials in important positions.

Another dimension of hoarding is professionalization. In Papua New Guinea for example solutions to problems are often professionalised in order to keep information from people and to enable those in power to retain their power. The doctor who knows the cure for the disease definitely has more power

than the lay-person. There seems to be an increasing tendency in many societies to confiscate information by specialists, bureaucrats and other people with power. This often means that common people are deprived of sometimes even very simple information.

There is a need for the decentralization of information, not only because it would mean decentralization of power, but also because there are high costs involved with centralized information. To give an example, if practical knowledge of preventive health care, which is generally not very expensive, could be transferred to the poor communities, the financial burden of health care would decline considerably. In 1987-89, Sri Lanka had the highest rate of use of an inexpensive therapy, the oral rehydration therapy, presumably because this information is more decentralized in Sri Lanka than elsewhere. Major health indicators, such as the infant mortality rate, show strong correlation with the information level of households and with education in general. The experience of Kerala in India indicates that health habits, health awareness and female education can contribute significantly to the improvement of health indicators.

A third dimension of information pertains to the problems themselves. Often the elite in power are isolated from the reality faced by the non-elite. In theory, the voice of ordinary Chinese people can get transmitted to those in power through the Congress and the People's Consultative Conference, through the mass media, or by hoping that one of the "reporters" would make the leadership aware of them. However, this happens only if the complaint is serious enough. In practice, the person in the street is not likely to be heard, and thus not encouraged to express his or her views.

The lack of information is one of the main barriers isolating decision-makers from societal problems. The information base is weak, inaccurate, and often centralized. Information tends to be centralized not only in the sense that decision-makers at local levels have less information as a support for their decisions, but also, information comes in a very aggregate form, which thus fails to guide local decisions. For example in the Philippines and also elsewhere in the region, there are no disaggregated data from the provincial level downwards on family income and income distribution; while there are disaggregated data on infant mortality they are widely believed to be grossly understated.

Be that as it may, this raises two interesting questions. First, what would it take to generate the appropriate kind of information; and second, why do not the larger countries set up smaller units of decision making?

Centralisation and Decentralisation

Most Asian countries are governed both from an administrative center in the country, the national government, and from regional or provincial states. In no country is there a sense that the nation is composed of independent federating units; on the contrary the individual units derive their powers from the center. This is partly the result of colonial rule, which led to the creation of national entities before (or without) a clear notion of the rights of sub-national entities. Another aspect of the domination of the centre over subordinate units is through the use of financial controls. In most cases, such as India and Pakistan, the governmental revenues of subordinate units consist of grants from higher levels of government. Until very recently in the Philippines, local governments were expected to participate in the collection of taxes, but simultaneously, the national government had the sole prerogative of allocating resources. The Chinese example, where revenues are collected by local governments and a fixed amount ceded to the national government, seems to be an exception.

As a result of all this, decision-making powers are heavily concentrated in the dominating centres at the expense of state or local governments. This is the case with Malaysia, for example. In India there is a centralized system of collective decision-making, in which the centre had traditionally been given or assuming wide-ranging powers in several spheres including revenue collection so that it has been in a stronger position vis-a-vis the states. In the 1950's the development of self-governing institutions was on the agenda in India, but it did not lead to any tangible results. Again in the 1980's efforts were made to construct a uniform three-tier institutional structure from the local village to the block (a group of about 100 contiguous villages) and further up to the district (a group of blocks). This move towards decentralization did not succeed partly because at that time many provincial governments were from parties opposing the ruling party in power in the center.

While the extent of centralization has been gradually breaking down in India, making it possible for different states to pursue somewhat different development strategies, most states have not exercised their autonomy, choosing to implement programmes initiated by the center. Thus, on the one hand, Haryana and Punjab have followed a growth-oriented policy based on agriculture, Kerala has emphasized investment in education and health, West Bengal has managed to bring about rural mobilization, and Karnataka has launched democratic decentralization. On the other hand, the capacity to raise revenues and freedom to tailor available financial allocations to their needs have been extremely limited in all states.

While decision-making in China is still highly centralized, there are important differences from the Indian case. In particular, local governments have received more financial autonomy during the reform period and their economic power has increased to some extent. After the remittance of a certain amount of budget revenue to the State Treasury, the provincial governments can make decisions on their own on issues like the local economic development plan, government expenditures, and social welfare. An interesting power that the local authorities do have is that they can block imports from other regions. This can be implemented in order to protect the regional economy.

It is clear that the balance of power between the centre and the local governments is a matter of continuous negotiation and redefinition. On the one hand are regulations that give wide ranging powers to the central government. For example, the provincial governments in China need the government's approval on investments above RMB 30 million yuan. More importantly, central authorities have the power, which they have not hesitated in exercising, to overrule local government decisions in fiscal matters, such as the decision to order local officials, during the retrenchment period in the late 1980's, to put a stop to investment projects already under construction. On the other hand, if the majority of the regions in China are against a certain policy imposed by the central government, it may not be adopted. This occurred in the late 1980's when all the regional governments opposed the center's attempt to increase its budget share. A possible synthesis of this struggle is the emergence of a coordinating rather than a dominating role for the national center. Sometimes the central government has to act as a mediator between the differing interest of the regional states.

In many countries the trend is towards the dilution of power from the center to the local governments. So it is also in Sri Lanka where some administrative power has been transferred to the provincial councils. Sri Lanka has a long tradition of democratically elected local government bodies from the village level upwards operating since the third quarter of the 19th century.

Since Papua New Guinea gained self-government status in 1973, one of its most important goals has been "decentralisation of economic activity, planning and government spending, with emphasis on agricultural development, village industry, better internal trade, and more spending channelled to local and area

bodies". After independence in 1975 the government kept its promise and decentralized the responsibility for delivery of many social services including health and education to the 19 provincial governments so that today, services affecting the bulk of the population are under the provincial government. However, whether this kind of decentralization has led to a greater participation of people as opposed to provincial bureaucrats is highly doubtful. The fact that the country claims to follow a policy based on decentralization, does not mean that it actually has been able to delegate power closer to those affected by the decisions. Nevertheless, it has certainly allowed provincial level politicians to play a much more active role in their respective provinces.

In the Philippines, both planning and implementation of social development programmes are still very much directed centrally. In spite of some efforts of decentralization in the past, regional officials have continued to serve more as an extensions of the national government.

In Thailand military has been a dominating force in decision-making for most of this century. Over the years business has gradually managed to push its way into decision-making. Under the influence of the military, the system of power has been oriented towards heavy control and decisions have been made within a system of top-down management, which has reinforced the system of strong control. The people in power have paid much attention to policies and measures aimed to suppress attempts by grass-root organizations to acquire a role in economic and social decision making, and to obstruct any direct political participation at the levels of the villages and workers' organizations.

Parallel with the modern system of decision-making Papua New Guinea also has an interesting traditional way of deciding about collective matters on the local level. Approximately 95 per cent of the country's land area is held under a complex system of customary land tenure which restricts free access to land for people outside clans. The tenure system has prevented the emergence of a landless agricultural labour class and share tenancy, although it also imposes constraints on mobilizing land for economic purposes quickly, and at times leads to serious conflict within clans regarding right of usage. Nevertheless, the system seems to have the capacity to accommodate moderate demand pressures for land without serious friction.

The examination of the sample economies shows that their overall political arrangements are centralised in character, but there is a strong gravitational pull towards decentralisation. This gravitational pull is on the one hand supported by the change in intellectual climate favouring smaller governments as well as the demands for greater democratisation of the polity; on the other hand, the pull is being resisted by central governments on a number of grounds.

It appears that the major obstacle to decentralisation may be an intellectual one, namely the absence of a clear theory that can both define the appropriate combination of centralised and decentralised authority, and also suggest steps in the process of bringing about the desired outcome.

The beginnings of such a theory can be stated very simply. The problem of excessive centralisation is that it creates what has been called elsewhere the "de-responsibilisation" of the polity (see Banuri and Amalric 1992). This refers to a situation where the decision makers, whether in the government or outside, and whether at the national, provincial or local level, see their task not as the performance of a public function, but rather the manipulation of some tier of the government. This means, for example, that the functionaries of a provincial government feel that they can benefit the province the most by obtaining the maximum concessions or the maximum resources for it from the central government. In this case, they would have very little incentive to focus their attention on the resolution of the problems facing the

province. The same logic could be applied to the residents of a community, who if they feel that the performance of all civic functions is the responsibility of a distant government, would spend their entire energies in petitioning the distant government rather than seeking to redress the problem. Indeed, this could also apply to national governments. If it is felt that the maximum benefits for the country can be obtained through increased foreign resource inflows, clearly the policies of a country would become hostage to the whims of foreign agencies.

The resolution of this problem lies not only in designating increasing tiers of government, but in trying to create conditions whereby these tiers would become responsible for the areas in which they operate. This would require first and foremost that the different tiers be treated as *governments*; in other words, that they would have a measure of sovereignty that would be inviolate, and that the foundation of their rights or any changes therein be based only their consent. Finally, it requires that they have sovereignty in terms of revenue collection. All these are in the nature of constitutional changes, rather than mere regulatory or legislative enactments.

In addition to this, as is being recognised increasingly, the decentralisation of political authority must be accompanied by the extension of commensurate powers to the judiciary (see Banuri 1992). If this is not done, "the state must fall into anarchy or depotism".

Finally, the exercise of power requires the availability of information. Decentralisation reduces the information demands at a central level, but increases them at a decentralised level. For example, countries would have to begin collecting economic and social information at disaggregated levels. It also means that data that are needed for the monitoring role of national agencies would have to be collected more carefully.

Participation and Accountability

Both the centralized and the decentralized structure of decision-making have their limitations. One flaw of the centralized system is that the limited economic power at provincial levels affects the credibility of the local government in the eyes of the local population, since the people do not believe that the local decision-makers have enough influence to solve their problems. If people in local institutions want to change things, they have to turn to the seat of power in the state capital. This leads to lukewarm participation even though there may be institutions formally functioning.

In addition to the power struggle at the regional level, there is a constant battle for power at functional levels, and frequently the two go together. It is arm-twisting not only between the politicians in power and the bureaucrat, but also between technocrats of diverse standing.

For instance, a basic weakness in the "decentralized" structure of decision-making in Papua New Guinea is a strong vertical top-down management practice (also prevailing in the center-province link). The poor coordination between the national health department and the provincial health division combined with the lack of community participation in planning and delivering services has clearly harmed the quality of services provided.

In Papua New Guinea, as in many other countries (Philippines, India) the bureaucrats have made few efforts to identify health development needs from the point of view of the target groups. Moreover, even when they are capable of identifying the needy correctly, the programmes do not necessary reach them. Under the prevailing top-down hierarchy of institutional organization, programmes begin at the initiative

of the technocrats and are implemented with accountability to the distant authority at the top, without feedback either from the grassroots or from programmes at the same horizontal level.

When it comes to education, for example, a common problem faced by the establishment in charge is a lack of understanding of the way the potential users of their services think. The officials in the institution do not understand what motivates people to chose education, and what might be the real barriers hindering education. The government may build schools and equip them with all facilities, but anyhow fail to reach a high enrolment rate perhaps because people are not convinced about the necessity of education.

A major problem with decision-making has also been the lack of community involvement on a sustainable basis. Institutions encouraging participatory and representative approaches are lacking in the decision-making processes. Often there is not even an effort made to get communities involved in neither addressing their needs nor participate in planning and decision-making. The existing institutional structure and its operation heavily depends upon governmental and bureaucratic support and very little on participatory mechanisms.

In Papua New Guinea, as in many southern countries, there is a popular belief that education is the sole responsibility of the state; this may well be part of the reason for the lack in community involvement. On the other hand, public officials do not make enough of an effort to find innovative approaches for involving the beneficiaries in the pursuit of educational development. This is particularly true when it comes to improvement of adult literacy and non-formal education.

Another area in the importance of involving people is self evident is that of environmental protection and conservation. Conservation is one of the major goals of development in Papua New Guinea, and is becoming so in virtually all other countries. Yet, the environmental damage caused say by forestry activities has been substantial and the bureaucratic institutional and numerous legislative provisions have been largely ineffective in dealing with the problem.
Given the physical and institutional constraints in this area, it is very difficult if not impossible to implement an effective system of monitoring and supervision of environmental protection without a high component of community participation. The present mechanisms leave very little room for such participation, neither in the sector of environment nor in health or education. The problems of decision-making are not limited only to defining targets or setting goals--which do not *per se* require any real commitment by those in power--but extend more importantly to the translation of goals into deeds with real effects.

In Papua New Guinea there also seems to be a deliberate delinking of health planning from other government sectors, especially from economic planning. Behind this kind of thinking seems to the desire isolate economic decisions from the influence of other sectors. Economic growth is often a high-priority goal, and other sectors in the society are not supposed to compete with it. The dominance of economic policies over e.g. social policies often leads to unsustainable and fragile decisions in the social sector.

In Papua New Guinea the "decentralized" system of education is also unable to provide adequate skills to educational planners and policy makers on a sustainable basis. It is not even able to provide an adequate number of qualified and trained personnel to the schools. The educational facilities hence suffer from worsening quality caused not only by physical contraction and, but also by a decrease in utilization rate of educational facilities.

Conflicts and Power

A common phenomena in power domination is the conflict between the national elite and certain vulnerable groups. The power of the elite derives from wealth, education and/or gender, while the vulnerable are so because of their poverty, lack of education and/or female gender. This kind of power bias affects decision-making. For example, in the Philippines the lack of political power of the poor is evidenced in the failure to introduce programmes of poverty alleviation. Similarly, Pakistan, which has the smallest proportion of women in the parliament, would be less likely than other countries to take the concerns of women into consideration while making decisions affecting their wellbeing.

Power and responsibility is also shared between the public sector and the private sector and between other institutions, e.g. non-governmental organizations. In Singapore 70 per cent of the primary health care is provided by the private sector. The government has also gradually tried to encourage (or force) individuals to bear a greater burden of the financial responsibility related to health.

The Malaysian government has for a long time emphasized the public sector's role in the development of the country, and even of the economy. Since 1986 the Malaysian government started to reduce the role of the government in the economy by emphasizing privatization, deregulation, liberation and foreign and local investment. This is likely to transfer some of the economic power from the government to the private sector. From the paper it is not clear how much of the privatization would spill over to the social sector.

In China, since everything has been under the control of the government, the development of social services has been heavily dependent on the government. In recent years the government started to involve enterprises and households in contributing financially to social development. These new arrangements are still far from being institutionalized.

In Sri Lanka, the administration system has undergone two drastically opposite changes during the past two decades. During the fist period in 1970-77 the politicians in power tried to wrest control over the economy for the public sector, and during the second period after 1977, the government was making an effort to provide more space for the private sector.

In Papua New Guinea, social development functions are carried out in different areas by institutions under government control, as well as non-government organizations. The participation of profit-oriented institutions is not very significant in the social sector in the country. In rural Papua New Guinea, and in particular among many isolated communities, churches of different denominations have played a supportive role both in health and education. Since 1972, several steps have been taken to integrate and rationalize church services with those of the government. By supporting the church network of health facilities and training the government was able to improve the outreach of the overall programmes, and to create an important link with the isolated communities. However, as the ties between churches and the government have become stronger, it looks like the churches have become increasingly dependent on the government for funds. One of the prices for this is that the church health system has become increasingly bureaucratic. The economic dependency also make the churches more vulnerable to the negative effects of the government expenditure reduction associated with structural adjustment programmes.

There are other sectors in which the strife for power can cause conflict in decision-making institutions. Ethnic, cultural or religious groups may be fighting over the right to govern. In many countries there is a constant battle over power between different parties. In others only one party is allowed. In some political

systems, a certain number of impersonal parties act as a core force. In other societies power tends to get very personified, which makes the decision-making process dependent on certain individuals and their virtues and vices.

Malaysia is an interesting example of a society, who has been able to deal with the conflicting interests of different ethnic groups. The decision-making system itself is actually very centralized, but in the center itself, groups from different walks of life are participating in the decision-making. Hence there is no strong economic, ethnic or religious elite who are in the position to dominate others. One important reason for this is the conscious effort of fostering of "political stability" in Malaysia. This strive for political stability would probably not have been successful without a certain extent of social control, which of course has its negative sides. However, it seems like people have more or less accepted this kind of social control, since the system otherwise have been functioning smoothly. Probably one of the most important factors contributing to the decision of the people to accept social control is the multi-ethnic system of power sharing. The sharing of power between diverse groups with often conflicting interests has given different group the feeling of importance and simultaneously the concrete opportunity to participate directly in decision-making. Partly because of this multi-interest-group power sharing structure the masses at the grassroots level feel that their interests are looked after.

Another important factor in the Malaysian system of governance is that people trust in those in power. People in power have generally acted responsibly. They have not heavily misused their position for example by oppressing other people or by pursuing too selfish goals. Instead, they have tried to make good decisions acceptable to all groups.

It takes a long time to build up this kind of trust in the society. For societies with a long tradition of confronting groups hurting each other it is very difficult to suddenly wipe out all fears of oppression and to create a belief that the decision-making process will become impartial and able to balance the different, sometimes conflicting interests against each other in a just manner. It takes only a few disappointments to dominate an otherwise positive experience. In many countries there seems to be this kind of psychological barriers to an effective decentralization of decision-making. The relatively rich and educated people may naturally be greedy for power and consider themselves superior to the man in the street. But also, there appear to also be a fear that people are not mature enough to handle more power peacefully. It is true that power-sharing is often not without conflicts. However, maturity to make good and responsible decisions can only come through trial and error.

One commonly used excuse by those in power is the argument of ignorant masses: the man on the street is incompetent, undereducated or in other ways incapable to make the "right" decisions. In India the centralized and discriminating system of power was justified with the argument that private initiative and market forces could not be relied upon due to underdevelopment of the markets (poor and unequally distributed infrastructure, insufficient monetization and financial institutions, underdevelopment of markets and the passivity of entrepreneurs and investors). This provided the basis for wide-ranging state intervention with comprehensive centralized economic planning as an instrument. For example the direct licensing control regime requiring case by case examination by bureaucracy was consistent with the distrust of the market forces.

In China power is concentrated into one single party, on one hand, and into the hands of a small group of people, on the other hand. In this respect the difference between the old centralized communist system and the new decentralized socialist system is small. The Communist Party continues to be the main ruling force. In addition, the most important strategic decisions are still made within the Party, where the "core"

leadership consisting of senior party members is the most influential. Under this kind of a political system the quality of the decision-making depend directly on the abilities and cohesion of the top leadership. The Congress only rubberstamps the decision, which then are implemented by the State Council. The State Council is also responsible for the daily routine decisions and, in addition, prepares drafts of laws and regulations for the approval of the Party and the Congress.

In Thailand the powerful elites have been able to carefully orchestrate the political system in such a way that only the conservative elites of the military and high bureaucracy has had the opportunity to participate in decision-making. Technocrats have been instrumental in policy planning. Social policies have more or less been imposed upon people with very little regard to their true needs and with almost no effort to involve their participation in either the development or implementation of the policy. Not that there has not been grass-root movements trying to pressure the government. For instance, workers were pressing for 36 years for a Social Security Bill. In 1990, during a brief period of the reign of a democratically elected government, the Bill was passed.

The Quality of Governance

The quality of the decisions depends on several external factors and in addition, on the incentives influencing the individuals involved in the decision making process. Among the external factors are laws and regulations, customs and other peoples expectations. Another important external force is information, which is also part of the incentive system.

Part of the incentive system has its roots in the decision-maker himself or herself. Personal resources affecting the quality of decisions are, for example, knowledge and education, values and prejudices, and a person's ambitions in life. Values, knowledge and aspirations are the result of years and decenniums spent in the grinding-machine of life.

Another part of the incentive system is the incentives of the system. These incentives include, for example, material incentives like financial compensations, non-material incentives like other peoples respect, the information available, the mental and physical support or backup offered by the organization, and lastly, the degree of power that the decision-making person has.

The available information affecting the decisions include both information on different decision options and knowledge about the possible consequences of the decisions, in other words the feedback of previous decisions. The degree centralization of decision-making determines how much power the individual decision-maker has.

How the system and its workers value itself has an important impact on the degree of responsibility the system is willing to accept. In Malaysia, for example, there is a long tradition of good civil service ethics. This practice of a high ethic-code increases the trust and respect that people have in the bureaucracy. This creates a virtuous circle: respect raises the morale of the civil servants, and the higher morale gives rise to more respect and trust. The system itself encourage the civil servants to act responsibly according to the dignified worth of their profession and fulfil the high expectations by the people. The situation in Singapore is fundamentally similar; one often hears that the reason why Singapore can function as a corporatist country is because of the honesty of its bureaucrats.

There are many examples of the other extreme, where low morale of the bureaucrats affects performance negatively, which again lead to an even lower morale. In the Philippines one of the consequences of the

structural adjustment triggered by the second oil shock was a higher tolerance of other income-augmenting activities of public servants, e.g. the selling of goods in the office. Partly this was more acceptable due to the government's inability to grant pay increases. This and many other factors directly affected the efficiency of the government.

Naturally it is easier to make good decisions if the decisions are not affected by any financial constraints. For example, countries with higher economic growth probably do have less opposition if they want to have e.g. a more equal income distribution, since the cake which has to be shared becomes bigger with growth. Here again we have the experience of Malaysia, whose continuous economic growth without doubts made it easier to achieve a better balance between ethnic groups.

The Philippines, on the other hand, who suffered a lot from the demand contractions imposed by the adjustment programme experience a clear decline in the quality of decision-making. Not only did the austerity measures result in a cut in the logistical support system, which directly harmed government servant's performance. But the public sector's performance did also suffer from damages indirectly, in the form of increased effort by civil servants to collect additional income from sources like corruption and extra jobs done in the office during working hours. In South Korea, in contrast, very few public officials take part time jobs for extra income, and in Singapore they are totally prohibited to have outside work (except in case of government doctors). In Sri Lanka additional work is widespread among public officials, and middle and high level officials increasingly engage in consulting work.

A common belief is that inadequate financial resources are the critical binding constraint on social development. This presumption is not valid in all cases. Kerala in India, and countries such as Sri Lanka have shown clearly that better social development is possible with low per capita income levels. In spite of being one of the poorest states in India, Kerala has the highest levels of life expectancy, literacy and utilization of health services, as well as the lowest levels of infant and child mortality.

In other words, our argument is that the determining factor is not the quantity of financial resources available to a country or allocated to a sector, but how efficiently these resources are allocated to achieve the targets, and the degree of commitment among the public functionaries for the achievement of the targets. Perhaps inefficient management would even become worse if there were a sudden increase in financial resources.

For example, in Papua New Guinea primary education is not free except for in one province, simbu. Simbu does have the highest enrolment rate in the country: 92 per cent compared to the average of 71 per cent for the whole country. However, the drop-out rate in simbu is 49.2 per cent, or almost a third higher than the country's average of 37.6 per cent. It is probably safe to assume that in simbu there are other more dominating restrictions to education than the financial constraint.
Decentralization was mentioned in the previous chapter, but not from the point of view of its effects on the quality of decisions. If decision-makers are far removed from the people affected by the decisions, the former's ability to make the right decisions would be considerably curtailed. This is partly due to the limited feedback on the actions.

Frequently the person monitoring the implementation of decisions is physically removed from his or her subordinates. In most countries the responsibility for ensuring the proper functioning of schools, hospitals, and water supply organizations lay with head offices of line departments situated in the capitals of the countries. This was the case until very recently in the Philippines.

The psychological distance may, however, be an even bigger obstacle to good quality decisions. For example, men in power cannot really grasp the problems that women have to confront, which are different from those men experience. Similarly, the rich cannot understand the poor. The human being also has a tendency to put other people in homogenous categories forgetting that people are different. In India many policies were watered down, because too uniform solutions were imposed on people from a different background. In rural India, for example, formal schools are by and large available. However, most of the primary schools are one-teacher schools with very inadequate teaching aids. Secondly, most villagers who themselves are uneducated are not convinced about the necessity of school education. Thirdly, there is an opportunity cost involved with joining formal schools, since children are often participating in work inside or outside the home. Lastly, teachers are often not very motivated, they come unwillingly from other (mostly urban) areas and are accountable to their superiors in the educational hierarchy rather than to the village community.

When decision-makers fail to comprehend the real needs of the people, as in the above example, the schooling facilities, such as they exist, remain underutilized. The constraints on the successful implementation of education policies are clearly institutional much more than financial. One reason for the failure is in how people think. A common misunderstanding is that social development basically mean physical infrastructure, like a school building, hence forgetting the teachers and the network supporting the teaching activity.

Effective universal primary education, however, would require not only the improvement of the existing infrastructure, but also efforts to improve the relevance of the syllabus, knowledge about the causes of non-enrolment and dropouts (which differ for boys and girls) along with measures to correct them. In addition, actions are needed to get stable and committed teachers preferably from within the area. Lastly, efforts at entrusting the monitoring of the educational services with the local community are needed. Simultaneously, it is necessary to undertake adult education programmes on a large scale so as to eradicate illiteracy and to improve the appreciation of education of the parents.

The physical and psychological distance is also likely to reduce the motivation of the decision-maker to chose the best policies. If you can see a starving child from the slums in front of you, you are likely to be more motivated to do something about the problem. Maybe you can even chose better policies in the slums than if you sit isolated in your ivory tower office in the capital city.

There are different ways of controlling the services provided by the public sector. However, often the quality control is not in the right hands. In the Philippines and India, for example, the local (village or block) level functionaries are accountable to the distant district authority, not to the local population. Consequently they end up acquiring considerable discretionary power which is prone to be misused. A top-down approach and a centralized system of decision-making is likely to create wrong kind of incentives in the control system.

In many countries with a heavy bureaucracy, like in India, the decision-making process is very slow. The slowness of decision-making discourage people both inside and outside the system. Actions are taken only if absolutely necessary. The lingering decision-making process does not only cause delays and hardship, it also encourages people to find loopholes and other ways to get ahead in the waiting lines. Sometimes this creates a completely parallel system, often illegal, sometimes based on nepotism and corruption, compensating for the flaws in the official system.

In China the state has remained the dominant sector in spite of the reforms, and government regulations over the private sector are still full of restrictions. Hence government officials hold enormous power to interfere in business activities, especially in respect of procedures required for the establishment of enterprises. This has lead to corruption. At the same time, as markets have developed and the profitability of non-state owned enterprises tend to be high, businessmen are able to pay high bribes to officials to remove certain obstacles, including taxes.

Corruption becomes increasingly attractive when the salaries of the officials are low, when the officials have a lot of power, when decision-making is not transparent enough, when the morale of the officials are low and when the administration is overburdened. A Pakistani chief justice in the high court gets a lower money salary than a secretary in the private sector. The chief justice, however, do enjoy free residential accommodation and transport, but conditions for judges at the local level is much worse. Not only are public sector salaries low compared to the private sector, they also do not keep up with inflation as well. However, in certain countries like Sri Lanka, the difference between the average salary in the public and the private sector is apparently not very significant. Table 10 reveals the massive differences in salary levels of public officials in Singapore and Korea on the one hand, and Sri Lanka and Pakistan on the other. Note in particular the high salaries of judges and magistrates in the former countries. More detailed information on this issue is given in the tables in the Annex.

In many countries, legal infrastructure is overburdened and often corrupt itself, which does not make it easy to fight corruption. In China, more than 100,000 corruption cases were persecuted in 1989 (involving bribes of more than 480 million yuan). Often it is hard to use legal procedures to protect entrepreneurs from power-abusing officials. Lack of transparency in the bidding out of contracts, land distribution and other crucial activities was noted by the Philippino author.

Table 10: Salaries in the Public Sector, USD

Profession	Singapore	South Korea	Sri Lanka	Pakistan
School teacher	574-8778	834-2323	38-163	
University teacher	3019-6988	1030-1700	125-300	
Judges and magistrates	1380-24974	1291-3100	250-425	115-560
Police	574-8778	906-2688	50-175	
Doctor	1380-6988	1258-1697	125-375	
Civil servants	405-27971	641-2922	88-375	

In China also the dual price system has given rise to corruption. When there are planned prices and market prices effective for the same goods at the same time, government officials can make profits by purchasing goods at artificially low prices and selling them at market prices. Some research results in China show that the total value of the difference between planned prices and market prices amounted to one fifth of the national income in 1988. This amount does not necessarily reflect the illegal earning of only corrupted officials, but it does give a rough idea about how wide-spread various rent-seeking practices are.

In the Philippines the slashing of public sector expenditures during the adjustment programme aggravated the problem of low salaries of public servants, which might have led to an increase in corruption. Higher corruption means not only a stick in the wheel of efficiency of government services. Corruption may also discriminate against the needy by reducing the availability and/or quality of services even further for those not able to pay bribes.

Not only is the administration in India slow, ineffective and often corrupt, but also influenced by the manner the conflicts are solved. There is something that Tendulkar calls the dependency syndrome, namely the people's ever-increasing reliance on government intervention to resolve conflicts. The long history of psychological dependency may have eroded the scope of participatory methods in collective decision making. The few existing self-governing institutions at the local level are ineffective, discouraged to take initiatives and unable to make good decisions.

The small amount of self-governing institutions below the state-level has gone hand-in-hand with the well-established distrust of the market in resolving conflicts in economic interest. The overlegislated regime of licensing and controls has not only increased the load on the judiciary but also put a lot of pressure on the enforcing machinery. Consequently, the demand for bureaucratic functionaries has been rising progressively. Similarly, the implementation of policy programmes requiring coordination between different administrative departments at the block level or below is ineffective, since the execution of collective decisions is carried out with vertical lines of control.

There is also a manpower constraint in the public sector. For example, in many countries the government has set up separate departments for environment protection, monitoring of activities relating to the environment and enforcement of environmental legislation. However, it has difficulties in finding competent people to do the job. There are not enough local people with the appropriate education and experience, and expatriates are unwanted and, in any case, too expensive.

The decision-making process also depends on the time frame adopted by the decision-makers. An interesting example is the Philippines. The economic crisis changed the government's style of decision-making: the long-term perspective formerly incorporated in planning narrowed down to a crisis-oriented, short-term view, probably at the expense of sustainable solutions.

A General Theory of Structural Change

Countries in the ESCAP region have very different experiences both in economic performance and in terms of social indicators. Some countries, for example Singapore, South Korea and Malaysia, have been doing extremely well in all areas including economic growth, human development, and adjusting to shocks. In their case we have a clustering of good performance in several different areas.

Other countries have plunged from crisis to crisis like the crow stuck in the tar either by the beak or by the tail. India, Pakistan and Papua New Guinea belong to this group which is characterized by a clustering of "bads". There is, however, one clear exception: Sri Lanka has been doing remarkably well in sectors like health and education, in spite of its low income and sluggish economic growth.

In a closer analysis of country performance we note that not only do good (or bad) performance in the economic and the social sector come together. There is also a striking clustering of excellent (or miserable) social and economic performance on one hand, and good (or lousy) governance, on the other hand.

The quality of governance emerges as a critical factor determining country experience. Governance act as a filter through which both external shocks and domestic policies are transformed into country performance. If the country has a good system of governance, it is most likely to be a good achiever in many different sectors.

The social sector does not automatically and necessary progress in parallel with economic prosperity. Most countries who have experience growth have also deliberately used their skills in good governance to transfer prosperity into social development. In fact, generally they have been pursuing economic growth, social development and other desirable goals simultaneously.

Annex I

Salaries in the Public Sector, USD

Profession	Singapore	South Korea	Sri Lanka	Pakistan
School teacher				
Non-degree, starting	574			
Degree, starting	1070			
Hons-degree	1380			
Highest rank	8778			
Starting		834		
Average		1409		
Highest grade		2323		
Non-graduate, starting			38-43	
Graduate, starting			63-75	
Highest rank			125-163	
University teacher				
Lecturer with Ph.D., starting	3019			
Full professor	6988			
Lecturer, starting		1030		
Assistant professor, starting		1111		
Full professor, starting		1356		
Average		1700		
Assistant lecturer, starting			125-150	
Professor			250-300	
Judiciary				
Magistrate	1380			
Judge	16865			
Chief Justice	24974			
Judges, starting		1291		
Judges, highest grade		3100		
Judges, average		2026		
Judges and magistrates			250-375	
High court judges and magistrates			375-425	
Civil judges				115-259
Addl.D&SJJ				151-259
D&SJJ				230-376
High court judges				503
Chief justice				560
Police				
Constable	574			
Inspector	1518			
Commissioner	8778			
Constable, starting		2362		
Constable, highest grade		2688		
Lieutenant, starting		906		
Lieutenant, highest grade		1785		

Profession	Singapore	South Korea	Sri Lanka	Pakistan

Continued…..

Constable, starting			50	
Constable, experienced			88	
Police officers, superintendent			125-175	
Doctor				
Doctor	1380			
Specialist	4615			
Senior specialist	6988			
Doctor, starting		1258		
Doctor, highest grade		1697		
Doctor, starting			125-188	
Doctor, head of regional hospital			300-375	
Civil Servant				
Clerk	405			
Administrative officer	1639			
Secretary	8777			
Highest rank	27971			
Lowest level, starting		641-1360		
Lowest level, highest grade		1360		
First level, starting		2634		
First level, highest grade		2922		
Civil servant, starting			88-125	
Civil servant, secretaries			300-375	

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