ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC

1993

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FOREWORD

The *Economic and Social Survey of Asia and the Pacific 1993* is the forty-seventh in the series of annual *Surveys* prepared by the secretariat. It provides information on recent economic and social developments in the region and analyses selected development issues.

The Asian and Pacific region has once again distinguished itself by recording a high average growth rate in 1993 despite the lingering recession in the industrialized world and low growth in other developing regions. A particularly noteworthy feature is that a number of least developed countries have significantly improved their performance; however, the economies in transition in Central Asia continue to experience contraction in output. Economic growth in the region has been assisted by a variety of reforms in areas such as trade, investment, financial and fiscal policies implemented by Governments. Major recent reforms in these areas are highlighted in the context of the discussion on macroeconomic performance.

Fiscal reform has been an important component of policy reforms. In most countries of the region, fiscal reform has achieved a substantial measure of success in augmenting government revenue, restraining the growth of expenditure, and reducing budgetary deficit. The incentive structure generated by reforms in tax bases and rates reflects the greater reliance on the private sector and more outward orientation of economies. At the same time, greater concern for the public provision of social services is evident from the changing patterns of allocation of expenditure.

The region has undergone notable economic transformation resulting from sustained high rates of economic growth for many years. A rising share of manufacturing output in gross domestic product and rapid urbanization are but two manifestations of the transformation, which has not, however, been accompanied by a commensurate increase in the share of employment in manufacturing/urban sectors. This imbalance has been partly responsible for a number of social problems in the region. The progress achieved in social development with reference to selected issues such as poverty, employment, health and education is reviewed. The challenges that remain in these fields, as well as some emerging social problems such as crime and drug abuse, and their policy implications are highlighted.

Finally, the *Survey* analyses the demographic change in respect of the rates of growth, age composition, and spatial distribution of population, and brings out their implications for education, health, employment and the environment. The emerging differentiated approaches to demographic issues in different countries, reflecting varying degrees of success in managing the transition in past years, are highlighted.

As usual, the *Survey* is published on the responsibility of the ESCAP secretariat and the views expressed do not necessarily reflect those of member and associate member Governments.

Rafeeuddin Ahmed
Executive Secretary

February 1994

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The term "ESCAP region" is used in the present issue of the *Survey* to include Afghanistan, Australia, Azerbaijan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Commonwealth of the Northern Mariana Islands, Cook Islands, Democratic People's Republic of Korea, Fiji, French Polynesia, Guam, Hong Kong, India, Indonesia, Iran (the Islamic Republic of), Japan, Kazakhstan, Kiribati, Kyrgyzstan, Lao People's Democratic Republic, Macau, Malaysia, Maldives, Marshall Islands, Micronesia (Federated States of), Mongolia, Myanmar, Nauru, Nepal, New Caledonia, New Zealand, Niue, Pakistan, Papua New Guinea, Philippines, Republic of Korea, Republic of Palau, Samoa, Singapore, Solomon Islands, Sri Lanka, Tajikistan, Territory of American Samoa, Thailand, Tonga, Turkmenistan, Tuvalu, Uzbekistan, Vanuatu and Viet Nam. The term "developing ESCAP region" excludes Australia, Japan and New Zealand.

The term "the Central Asian republics" in this issue of the *Survey* refers to Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

The designations employed in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimination of its frontiers.

Mention of any firm or licensed process does not imply endorsement by the United Nations.

The abbreviated title *Survey* in footnotes refers to *Economic and Social Survey of Asia and the Pacific* for the year indicated.

Many figures used in the *Survey* are on a fiscal year basis and are assigned to the calendar year which covers the major part or second half of the fiscal year.

Reference to "tons" indicates metric tons.

The term "billion" signifies a thousand million.

In the tables, three dots (...) indicate that data are not available or are not separately reported, a dash (–) indicates that the amount is nil or negligible, and a blank indicates that the item is not applicable.

In dates, a hyphen (-) is used to signify the full period involved, including the beginning and end years, and a stroke (/) indicates a crop year, a fiscal year or plan year. The fiscal years, currencies and 1993 exchange rates of the ESCAP economies are listed in the following table:

Country or area	*Fiscal year*	*Currency and abbreviation*	*Mid-point rate of exchange for $1 as of June 1993*
Afghanistan	21 March to 20 March	Afghani (Af)	50.600
Australia	1 July to 30 June	Australian dollar ($A)	1.488
Azerbaijan	1 January to 31 December	Russian Rouble (Rb)[a]	990.000[a]
Bangladesh	1 July to 30 June	Taka (Tk)	39.800
Bhutan	1 April to 31 March	Ngultrum (Nu)	31.340
Brunei Darussalam	1 January to 31 December	Brunei dollar ($Br)	1.60[a]
Cambodia	1 January to 31 December	Riel (CR)	3,525.000[a]
China	1 January to 31 December	Yuan renminbi (YRMB)	5.761
Commonwealth of the Northern Mariana Islands	...	United States dollar ($)	1.000
Cook Islands	1 April to 31 March	New Zealand dollar ($NZ)	1.858
Democratic People's Republic of Korea	...	North Korean Won (Won)	2.15[b]
Fiji	1 January to 31 December	Fijian dollar ($F)	1.541
Guam	1 October to 30 September	United States dollar ($)	1.000
Hong Kong	1 April to 31 March	Hong Kong dollar ($HK)	7.749
India	1 April to 31 March	Rupee (Rs)	31.340
Indonesia	1 April to 31 March	Rupiah (Rp)	2,088.000
Iran (Islamic Republic of)	21 March to 20 March	Rial (Rls)	1,612.000
Japan	1 April to 31 March	Yen (Y)	106.75
Kazakhstan	1 January to 31 December	Russian Rouble (Rb)	996.000[a]
Kiribati	1 January to 31 December	Australian dollar ($A)	1.488
Kyrgyzstan	1 January to 31 December	Som	4.9[c]
Lao People's Democratic Republic	1 July to 30 June	New kip (NK)	725.000[a]
Macau	...	Macau Pataca (MOP)	7.967
Malaysia	1 January to 31 December	Ringgit ($M)	2.580
Maldives	1 January to 31 December	Rufiyaa (Mal Rf)	11.305
Mongolia	1 January to 31 December	Tugrik (Tug)	150.000
Micronesia (Federated States of)	...	United States dollar ($)	1.000
Myanmar	1 April to 31 March	Kyat (K)	6.099
Nauru	1 July to 30 June	Australian dollar ($A)	1.488
Nepal	16 July to 15 July	Rupee (NRs)	49.010
New Zealand	1 April to 31 March	New Zealand dollar ($NZ)	1.858
Niue	1 April to 31 March	New Zealand dollar ($NZ)	1.858
Pakistan	1 July to 30 June	Rupee (PRs)	27.160
Papua New Guinea	1 January to 31 December	Kina (K)	0.980

Country or area	*Fiscal year*	*Currency and abbreviation*	*Mid-point rate of exchange for $1 as of June 1993*
Philippines	1 January to 31 December	Peso (P)	27.272
Republic of Korea	1 January to 31 December	Won (W)	803.700
Republic of Palau	...	United States dollar ($)	1.000
Samoa	1 January to 31 December	Tala ($WS)	2.573
Singapore	1 April to 31 March	Singapore dollar ($S)	1.623
Solomon Islands	1 January to 31 December	Solomon Islands dollar ($SI)	3.183
Sri Lanka	1 January to 31 December	Rupee (SLRs)	48.451
Tajikistan	1 January to 31 December	Russian Rouble (Rb)	999.000[a]
Thailand	1 October to 30 September	Baht (B)	25.25
Tonga	1 July to 30 June	Pa'anga (P)	1.398
Turkmenistan	1 January to 31 December	Russian Rouble (Rb)	996[a]
Tuvalu	1 January to 31 December	Australian dollar ($A)	1.488
Uzbekistan	1 January to 31 December	Russian Rouble (Rb)	996[a]
Vanuatu	1 January to 31 December	Vatu (VT)	122.010
Viet Nam	1 January to 31 December	New dong	10,827.000[a]

Sources: United Nations, *Monthly Bulletin of Statistics,* vol. XLVII, No. 11 (November 1993); United Nations, *Statistical Indicators for Asia and the Pacific,* vol. XXIII, No. 4 (December 1993); and national sources.

[a] September 1993. [b] July 1993. [c] August 1993.

ABBREVIATIONS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AIDS	acquired immune deficiency syndrome
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
BIS	Bank for International Settlements
CBR	crude birth rate
CIS	Commonwealth of Independent States
CPI	consumer price index
CMEA	Council for Mutual Economic Assistance
EAEC	East Asia Economic Caucus
EC	European Community
ECO	Economic Cooperation Organization
ERM	Exchange Rate Mechanism
EU	European Union
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNP	gross national product
GST	general sales tax
HIV	human immunodeficiency virus
IMF	International Monetary Fund
IMR	infant mortality rate
MFA	Multi-Fibre Arrangement
MODVAT	modified value added tax
NAFTA	North American Free Trade Agreement
NDP	net domestic product
NGOs	non-governmental organizations
NIEs	newly industrializing economies
NIS	newly independent States
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
ORT	oral rehydration therapy
PPBS	planning and programming budgeting system
SAARC	South Asian Association for Regional Cooperation
SAPTA	South Asia Preferential Trading Arrangement
SNA	System of National Accounts
SPF	South Pacific Forum
STABEX	system of stabilization of export earnings
TFR	total fertility rate
TNCs	transnational corporations
TRIPs	Trade Related Intellectual Property rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNTAC	United Nations Transitional Authority in Cambodia
VAT	value added tax
WTO	World Trade Organization

I. WORLD ECONOMIC DEVELOPMENTS AND PROSPECTS

THE LINGERING RECESSION

Output trends

The world economy has been on a recessionary course since 1990. The onset of the recession in industrialized countries coincided with rapid output decline in the eastern European and the new national economies which emerged out of the former Soviet republics as they were transforming from centrally planned to market-based economies involving changes and difficult adjustments in economic, social and political organizations and institutions as well as policies. Growth performance of the developing economies, other than those of the Asian and Pacific region, also remained weak, although some of them were slowly coming out of the debt, stagnation or decline of the 1980s through vigorous adjustment efforts. Thus the Latin American and Caribbean region improved its average growth in 1991-1992, but the African countries slipped back from a somewhat better performance in 1989-1990.

The plunge in world output growth that ensued since 1990 as a result of the diverse trends in component groups of economies seemed to bottom out in 1991 when world output nudged upwards by a mere 0.2 per cent. A 0.7 per cent growth in 1992 still implied a fall in per capita terms during that year. Although this statistic of world per capita output may be devoid of practical meaning for its failure to differentiate the impact regionally, subregionally, nationally and subnationally, it serves to highlight the depth of the crisis that the world has endured, longer than other similar ones in the recent past. The 1993 performance, with 1 per cent growth according to the latest estimates, looked better but still fell short of earlier forecasts.

A feature of the developments in the world economy over the past three to four years has been a "desynchronization" in the timing of the ups and downs in individual economies. That stood contrary to the expectation of a greater synchronization resulting from growing globalization of economic activities through international trade, investment, technology and finance. The desynchronization phenomenon, however, served to lighten the impact of the recession on the world economy as a whole.

Until 1991, the recession was largely a so-called "Anglo-Saxon" phenomenon with the economies of Australia, Canada, New Zealand, the United Kingdom of Great Britain and Northern Ireland and the United States of America clearly in the grip of recession. Most other economies were still growing. Two of the three largest economies of the world, that of Germany and Japan, were growing strongly at rates of about 5 per cent in 1990. The Japanese economy grew at 4 per cent even in 1991 when the German economy experienced a sharp slow-down to around 1 per cent growth. In 1992, the "Anglo-Saxon" economies, other than that of the United Kingdom, were set on a course of recovery although weak, but the major European economies of France, Germany and Italy weakened and many of the smaller economies went into serious recession.

In 1993, the situation worsened. With the French, German and several other European economies clearly in recession, the European Union (EU) suffered an output decline of an estimated 0.3 per cent. The economic growth of Japan, after slowing down to 1.3 per cent in 1992 from 4.0 per cent in 1991, was reduced to zero. In the United States an expected 2.8 per cent growth in the economy, almost the same as in 1992, signalled continued weak recovery. While the 1.9 per cent growth expected in the United Kingdom was similarly weak, the Canadian economy's 2.6 per cent looked better. Economic growth of industrial economies was thus restricted to 0.9 per cent in 1993, lower than the 1.6 per cent in 1992 (table I.1).

The economies of eastern Europe improved their performance with an expected slowing of the rate of fall in output in 1993. However, as the Bank for International Settlements (BIS) noted "owing to serious deficiencies and a lack of consistency in the economic policies being pursued at present the outlook for many countries remains bleak. The moulding of a new political order at a time

Table I.1. World output, 1989-1994

(Annual percentage change)

	1989	*1990*	*1991*	*1992*	*1993*[a]	*1994*[b]
World	3.2	1.6	0.2	0.7	1.0	2.5
Developed market economies	3.3	2.4	0.6[c]	1.6	0.9	2.2
Major industrial countries	3.3	2.3	0.6[c]	1.7	1.1	2.2
Canada	2.5	-0.2	-1.8	0.8	2.6	3.5
France	4.3	2.5	0.7	1.4	-0.9	1.1
Germany	3.3	4.7	1.2[c]	2.0	-1.0	1.5
Italy	2.9	2.1	1.3	0.9	-0.3	1.4
Japan	4.7	4.8	4.0	1.3	0.0	1.5
United Kingdom	2.1	0.5	-2.2	-0.6	1.9	2.6
United States	2.5	0.8	-1.2	2.6	2.8	3.1
Other industrial countries	3.7	2.5	0.7	0.8	-0.2	1.6
European Union	3.4	2.8	0.8[c]	1.2	-0.3	1.6
Developing countries	3.5	3.3	3.4	4.8	5.3	5.3
Latin America and the Caribbean	1.1	-0.1	2.8	2.2	3.1	3.0
Africa	2.9	2.9	2.1	1.6	1.9	2.5
West Asia	3.2	1.9	-0.2	5.6	3.5	3.8
South and East Asia	6.1	6.4	5.3	5.1	5.3	6.1
China	3.6	5.2	7.7	12.8	13.0	9.5
Mediterranean	0.3	1.1	-7.9	-5.1	1.1	4.6
Economies in transition	2.3	-6.3	-8.9	-16.7	-10.4	-0.8

Sources: United Nations, "The world economy at the end of 1993: short-term prospects and emerging policy issues" (December 1993).

[a] Preliminary estimate. [b] Forecast based on Project LINK. [c] Indicates discontinuity in the series: from 1991, Germany includes eastern Länder.

when the necessary economic restructuring causes severe hardship over a prolonged period is the central task facing these countries, especially the new states of the former Soviet Union".[1]

The developing countries in Africa, Latin America and the Caribbean experienced slow and faltering growth, Africa in particular slipping from its 1989-1990 performance in the subsequent two years. Wars and natural disasters affected a number of the sub-Saharan economies, in addition to their basic weaknesses – a lack of resources and infrastructure. In Latin America, structural adjustments and stabilization policies produced positive results in countries such as Argentina, Chile and Mexico. However, Brazil, the largest of the Latin American economies, still languished in recession with a contraction in output growth and high inflation rates. In 1993, growth prospects in both Latin America and Africa were better, with average growth rates rising to 3.1 per cent in Latin America and 1.9 per cent in Africa from 2.2 and 1.6 per cent respectively in 1992.

Many of the developing countries of the Asian and Pacific region repeated their earlier strong performance and some succeeded in accelerating further. China's double-digit growth rates in both 1992 and 1993 significantly boosted the region's average growth rate. India, the other large economy of the region, also recovered from its low performance level in 1991.[2] The West Asian economies recovered rather strongly in 1992 from their low points in 1991, partly as a result of the reconstruction process implemented in the aftermath of the Persian Gulf war, but the rate of growth was reduced substantially again in 1993. The developing economies in the Mediterranean region seemed to remain in deep recession, even more so than their neighbours.

1 Bank for International Settlements, *63rd Annual Report* (Switzerland, Basle, June 1993), p. 7. Also see chap. II of this *Survey*.

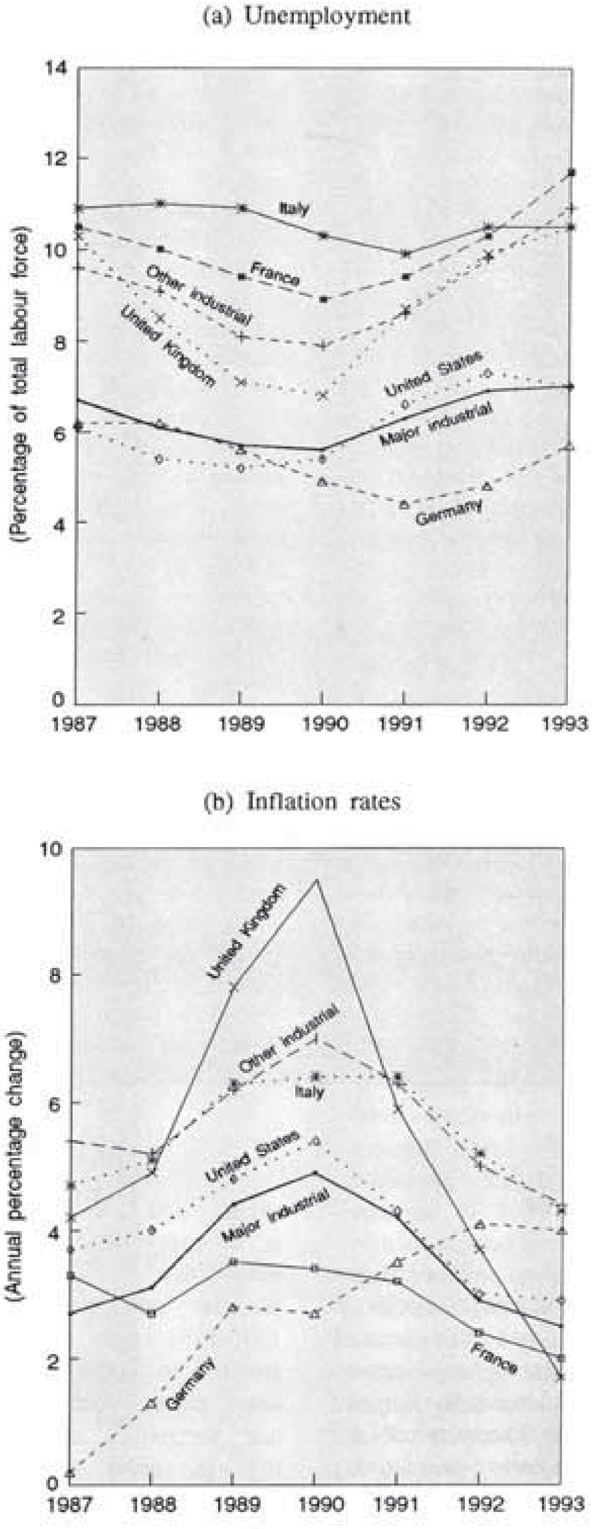
2 See this *Survey*, chap. II.

Unemployment

The industrial economies of North America, Australia and New Zealand, and Europe with the exception of Germany, have experienced persistently high rates of unemployment even during the period of robust economic growth in the 1980s. Unemployment has risen further since 1990 as is usual in a recession (see figure I.1a). In mid-1993, there were a reported 35 million unemployed people in the industrial countries, 9 million more than in 1990. Twenty-two million were unemployed in Europe.

Spain had the highest unemployment rate, 22 per cent, in the summer of 1993, followed by Ireland, Denmark, France and the United Kingdom, all of which had double-digit rates of unemployment. Unemployment in western Germany, traditionally low, was rising, and combined with the high eastern German rate, unemployment in Germany rose close to 6 per cent in 1993. In North America, the Canadian unemployment rate stood at 11.2 per cent towards the end of 1992, which was unlikely to improve much in the short term as the pace of recovery remained slow and the required industrial restructuring was being carried out. Unemployment in the United States was showing a decline as the recovery gathered pace since the second half of 1992. Unemployment was also rising in Japan, where the unique practice of life-long employment has normally kept unemployment levels low. The practice was reportedly changing and employee lay-off frequently occurring. Persistent and rising unemployment, particularly in Europe, has raised serious concerns and led to a search for viable policies (box I.1).

Figure I.1. Unemployment and inflation rates



Source: United Nations, "The world economy at the end of 1993: short-term prospects and emerging policy issues" (December 1993).

Box I.1. Unemployment in industrialized countries: the causes and the cures

The prevalence of unemployment in the industrial countries has raised serious concerns. Obviously, the first step in the search for solution of unemployment is the identification of the underlying causes. Unemployment in industrial countries is frequently attributed to economic recession depressing demand for labour. As noted in the text, the current unemployment rates and levels, although worsened by the recession since 1990, are not entirely the product of the recession. The typical monetary-fiscal stimulus to increase aggregate demand, and thereby employment, has not therefore worked satisfactorily. Furthermore, fiscal policy has remained constrained by the budgetary deficits in many countries.

Unemployment in industrial countries owes its origin, at least partly, to major technological changes which have rendered the skill levels of many workers obsolete. The relative decline of manufacturing in the economy has caused the demand for low-skilled labour to shrink both in the United States and in Europe. A similar shrinkage has occurred within the manufacturing sector itself. The problem has been further compounded by a mismatch between the educational and skill levels of young entrants in the employment market and the requirements of employers.

In so far as the unemployment problem is rooted in such a mismatch, the solution points to the need for enhanced education and training. This has been tried with some success in Sweden. A combination of training and retraining of workers with selective subsidies to encourage labour mobility and redeployment over a number of years enabled Sweden to keep its unemployment rates low. However, the recession has recently pushed the unemployment rate in Sweden to a rather high two digit level.

A basic factor responsible for persistent unemployment among the unskilled is thought to be high wage demands that do not match productivity. The availability of generous social security benefits including unemployment compensation, acts as disincentive to accepting employment at lower wages. In addition, minimum wage legislation to protect the wage levels of existing workers tends to bar young entrants who might accept lower wages to the employment market. A downward flexibility of wage levels could however increase the demand for labour and reduce unemployment. In this context, the greater flexibility of wages and less social security protection to workers in the United States are considered to have kept that country's unemployment rates lower than in Europe. Social security benefits and minimum wage laws not only persuade workers against accepting lower wages, but also impose additional costs on employers, causing a loss in their competitiveness and ability to expand employment.

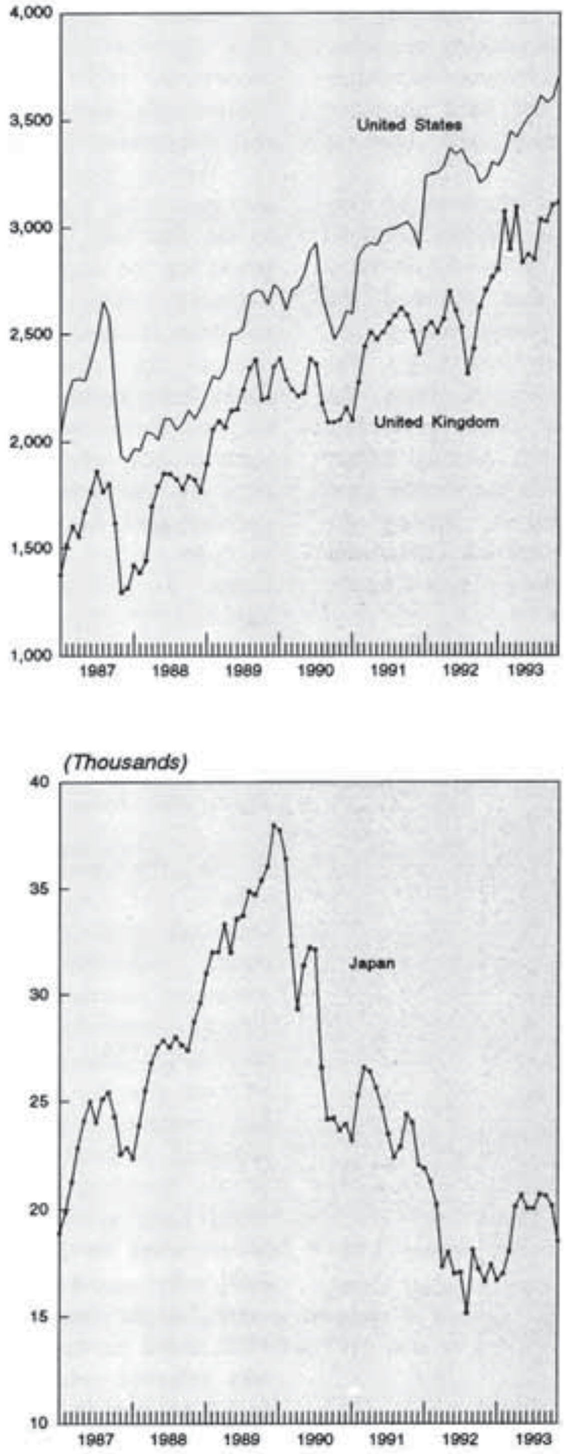
These complicated factors underlying the persistently high rates of unemployment are either overlooked or are not given due recognition. As a consequence, the loss of employment is often blamed on competitive imports of manufactures from the developing countries, thus strengthening the plea for protection. Sober thinking, however, suggests that protection can be no solution to the problem of unemployment. Rather it can do more harm in the longer term by artificially propping up inefficient economic activities and thereby constraining the development of the more competitive ones to expand employment.

Demand deflation

The recession, although experienced in different countries at different times, had the demand deflationary character in common. Growth in both consumer demand and business investment weakened and turned negative contributing to the downturn in output and employment in the economy. This has been attributed to "balance-sheet restructuring" as a consequence of the previous asset price cycle and the related rise in company and household indebtedness.[3] The set-back in property and stock markets in 1990-1991 (see figure I.2) had resulted in "debt deflation". As asset prices declined, households and companies cut back spending in order to repay debts incurred during earlier periods of higher asset prices that induced spending booms. Consumer and business confidence was shaken as the value of asset holdings shrank and real debt burden rose. Business fixed investment declined in all countries experiencing recession. A weak consumer demand, few public spending stimuli and a negative change in stock build-up combined to bring about recession in the concerned countries.

3 Bank for International Settlements, *63rd Annual Report* (Switzerland, Basle, June 1993).

Figure I.2. Stock market price movements, 1987-1993



Source: ESCAP secretariat.

Notes:	United States:	Dow Jones industrial average.
	United Kingdom:	Financial Times – 100 stock average.
	Japan:	Nikkei – 225 stock average.

Constraints on policy

Public spending as a policy variable remained constrained since most countries entered the recession with large budget deficits and, therefore, were unable to push any vigorous pump-priming packages to stimulate the economy and achieve recovery. The role of budgetary deficits remained a contentious issue. It has often been argued that the budget deficits kept the real interest rates high, in the face of falling inflation rates, which discouraged private spending, caused the recession and delayed the recovery. A reduction in budget deficits has therefore been urged, while others argued in favour of fiscal stimulus to promote recovery. The reluctance of the central bank of Germany to bring down the German interest rates which caused the stir in the European Exchange Rate Mechanism (ERM) reflected the bank's apprehension of inflation getting out of control in the face of rising budget deficits caused by large transfers to eastern Germany following Germany's unification. Other central banks have been persuaded to lower interest rates, but they have also remained cautious to prevent any possible resurgence of inflation.

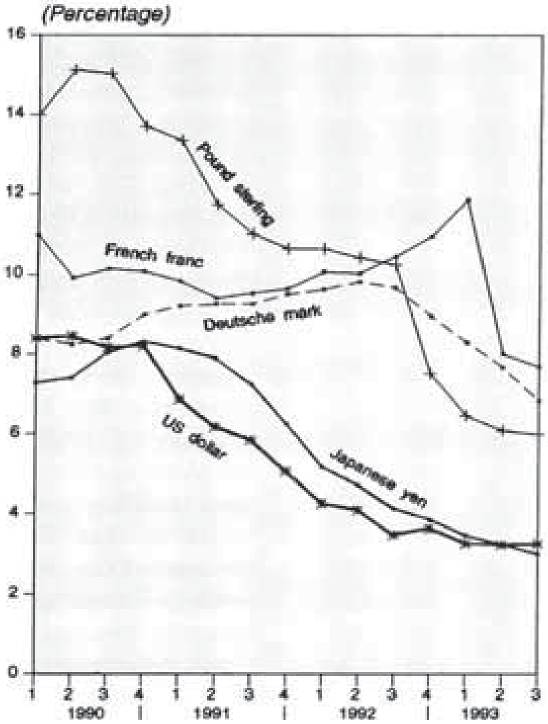
Japan, with a more comfortable budgetary situation, implemented three successive fiscal packages, the latest one in the summer of 1993 involving a $56 billion expenditure on public works and building infrastructure. The objective has been not only to stimulate the economy to fight recession but also to encourage imports that would help reduce the high balance-of-payment surpluses. A proposed stimulating government expenditure package in the early days of the new United States administration was aborted for lack of legislative support. The latest United States fiscal moves have focused on reduction in federal budget deficits over the medium term by a combination of tax increases and spending cuts. Such measures are not usual or typical in a recessionary environment. They serve to illustrate the constraint that long-term deficits in the United States budget have imposed on short-term options for making policy.

Inflation rates have remained low and were even falling in major industrial countries (figure I.1b above). Despite declining nominal interest rates, inflation-adjusted real interest rates are still found to remain high, especially in Europe. The United States and the Japanese interest rates, however, have fallen to their lowest levels in decades (figure I.3). Insufficient revival of demand to stimulate recovery in the face of such a drastic decline in interest rates has exposed the weakness in the working of monetary policy to overcome recession. The weakness has been attributed to poor consumer and business confidence.

The current situation is characterized as yet another financial or asset price inflation, reversing the deflation that followed the October 1987 plunge and a further relapse in 1990-1991. The monetary policies heralding the lowest interest rates in recent history have been causing money to flow again into the world's bond and stock markets, driving the prices of those market instruments to their highest ever levels, especially in the United States (figure I.2 above). These prices are not backed by a sufficient rise in industrial profitability. People find opportunities to make easy money in what they see as a continuously rising market while real investments lag.

The ineffectiveness of monetary policy has also been attributed to the fact that the service sector producing the largest proportion of domestic output in industrial countries is relatively insensitive to interest rate changes, while the banks have been reluctant to lend to the more responsive sectors, such as real estate and construction, as the banks had already suffered from bad debts advanced to those sectors during the earlier boom.

Figure I.3. International interest rates: London interbank offer rates on three-month deposits



Source: International Monetary Fund, *International Financial Statistics,* vol. XLVII, No. 1 (January 1994).

INTERNATIONAL TRADE, BALANCE OF PAYMENTS AND FINANCE

Trade slow-down

In the past decades, the volume of world trade has increased much faster than world output, with the result that an increasing proportion of world output came to be traded internationally. This structural feature of trade growing faster than output has continued. Nevertheless, the recession had an adverse impact on the growth of trade. Growth in world trade volume dipped to its lowest level at 2.4 per cent in 1991 when world output rose by a mere 0.2 per cent (table I.2). In 1992, a 4.6 per cent rate of growth was achieved, which slipped back to 3.0 per cent in 1993. Growth in world trade thus remained far below the rate of expansion in the latter half of the 1980s.

The slow growth in world trade, as in output, has been largely caused by sluggish performance in the industrialized countries. Their

Table I.2. Summary indicators of changes in world trade, 1989-1994

(Annual percentage change)

	1989	*1990*	*1991*	*1992*	*1993*[a]	*1994*[b]
Volume of world trade[c]	6.7	4.5	2.4	4.6	3.0	5.0
Exports						
Industrial countries	6.5	5.5	2.9	3.5	0.0	2.8
Seven major countries	7.1	5.5	2.8	3.1	0.1	2.7
Canada	1.2	5.1	0.9	8.8	7.9	5.9
France	8.2	4.8	4.8	4.7	-7.1	4.0
Germany[d]	8.0	4.5	0.2	-2.7	-5.4	1.2
Italy	9.2	3.3	0.1	3.9	7.1	4.8
Japan	4.2	5.8	2.4	1.6	0.4	-0.1
United Kingdom	4.9	6.3	3.1	3.3	4.7	4.2
United States	10.8	7.6	7.7	6.9	1.2	3.5
Other industrial countries	5.0	5.3	3.3	4.7	-0.3	3.0
European Union	7.0	5.0	2.2	2.5	-1.7	2.7
Developing countries	5.8	6.4	8.1	9.5	9.4	9.2
Africa	7.6	5.8	1.9	2.1	0.1	–
Asia	6.0	8.8	11.9	11.2	12.7	11.5
Middle East and Europe	5.5	1.4	3.1	8.4	6.9	6.9
Latin America	4.7	5.9	4.7	8.5	4.1	6.7
Imports						
Industrial countries	7.4	4.5	2.5	3.7	1.2	3.4
Seven major countries	7.0	4.8	2.8	3.5	2.4	4.0
Canada	5.4	-0.1	2.6	6.5	7.6	3.3
France	7.8	5.1	2.8	1.0	-7.6	3.3
Germany[d]	7.2	12.8	14.4	-4.3	-4.5	1.2
Italy	8.5	4.5	4.5	3.5	-0.4	3.3
Japan	7.9	5.6	3.8	-0.7	4.1	6.2
United Kingdom	8.1	1.0	-2.6	6.7	2.8	5.0
United States	3.9	1.9	0.7	10.9	8.8	4.9
Other industrial countries	8.5	3.8	1.8	4.4	-1.8	1.8
European Community	7.9	6.5	5.4	2.0	-2.9	2.3
Developing countries	8.5	7.6	9.7	10.5	9.3	9.1
Africa	3.5	2.6	-2.7	4.8	-0.5	-2.5
Asia	12.7	8.7	11.7	12.2	13.5	12.3
Middle East and Europe	3.5	7.2	4.5	2.5	2.9	5.1
Latin America	2.6	7.6	17.8	16.9	4.5	5.8

Source: International Monetary Fund, *World Economic Outlook* (Washington, DC, October 1993).

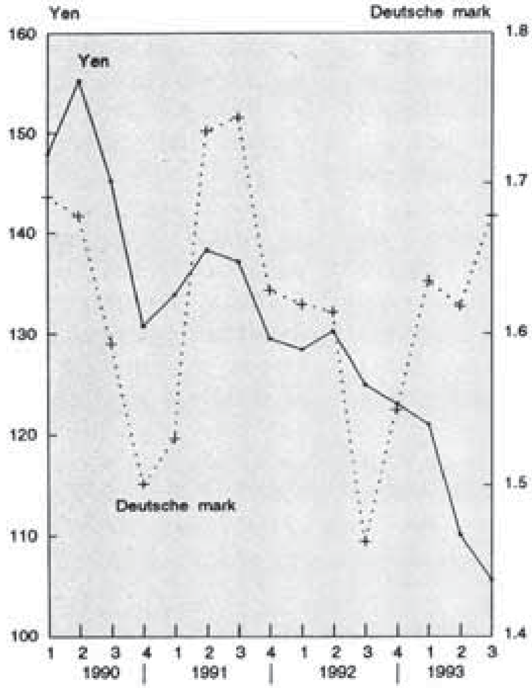
[a] Preliminary estimate. [b] Forecast. [c] World trade excludes trade among the states of the former Soviet Union but includes all other trade of the group of countries in transition. Averages of growth rates are calculated from world exports and imports. [d] Data up to and including 1990 refer to west Germany only.

exports volume rose by an average of 3.2 per cent from 1991 to 1992. In 1993, there was virtually no growth. As the dollar depreciated during the period 1991-1992 (see figure I.4), dollar value of trade showed better results. However, the fluctuations in exchange rates of major currencies, largely in response to capital flows, as the crisis within the ERM illustrated, had imposed additional costs on the conduct of world trade and may have discouraged its growth.

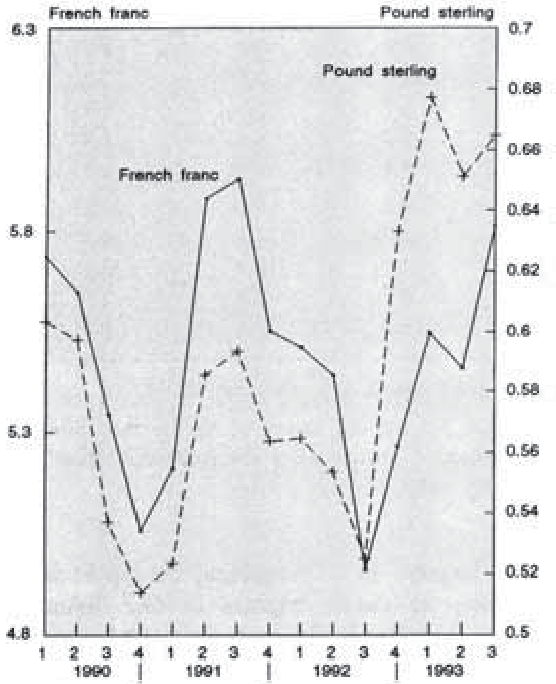
Imports, in particular, have decelerated since 1990. After remaining depressed in 1990-1991, imports in the United States had surged to a 10.9 per cent rate of growth in 1992. Imports growth also reached 6.5 per cent in Canada and 6.7 per cent in the United Kingdom, a sign of their early economic recovery. Growth

Figure I.4. Exchange rates: selected major currencies

(Units of yen and deutsche mark per US dollar)



(Units of French franc and pound sterling per US dollar)



Source: International Monetary Fund, *International Financial Statistics*, vol. XLVII, No. 1 (January 1994).

of imports slowed sharply in other major industrial countries such as France, Germany, Italy and Japan. While French and Italian imports grew by a mere 1.0 and 3.5 per cent respectively in 1992, Germany and Japan, in fact, experienced declines of 4.3 and 0.7 per cent respectively.

Further serious deceleration in imports of the industrialized countries occurred in 1993 with the average growth falling to 1.2 per cent from 3.7 per cent in 1992. Imports of the European Union declined by 2.9 per cent as a result of a 7.6 per cent fall in French, 4.5 per cent fall in German and 0.4 per cent fall in Italian imports while those of the United Kingdom decelerated to 2.8 per cent growth from the previous year's 6.7 per cent. Imports in the United States decelerated to a growth rate of 8.8 per cent from 10.9 per cent in the previous year. They rose by 7.6 per cent in Canada and by 4.1 per cent in Japan. Other smaller industrial economies registered a decline of 1.8 per cent.

The growth in the developing countries' trade was more buoyant, except for Africa. The rates of growth of 9 to 10 per cent in exports and imports of developing countries remained much above the world average as well as those of the industrialized countries, recovering from a slack during 1989-1990. Trade of Asian economies achieved faster rates of growth than those of other developing countries. Most Latin American countries also experienced a large increase in import volumes in 1991-1992 following economic restructuring, liberalization of policies, and a strengthening of domestic demand.

Payment imbalances

A solution to the long-standing problem of payment imbalances in the world economy has not yet emerged. The basic elements of the imbalance consisted of the large deficits of the United States and European Union and the large surpluses of Japan. A sign of convergence appeared in 1991 with a sharp fall in the deficits of the United States which, however, reflected transfers and other Persian Gulf war related payments to the United States. The situation has relapsed since then. Japan's current account surplus rose to a record $117.6 billion in 1992 while the United States and the European Union incurred deficits of $66.4 billion and $63.9 billion respectively. In 1993, Japan's surpluses increased to $137 billion, United States deficits increased to $111.6 billion while the deficit in the European Union fell slightly to $60.4 billion. The merchandize trade accounts are mainly responsible for the imbalances. The trade deficits in the United States exceeded its current account deficits, part of the trade deficit being offset by the invisible surpluses while trade surpluses in Japan were somewhat moderated by deficits on invisibles producing a lower current account surplus. The European Union, however, seemed to have the trade deficits reinforced by the deficits on invisibles to produce a larger current account deficit than in trade.

For the developing countries, the overall current account balance-of-payments deficits were reduced to $62.4 billion in 1992 from $82.2 billion in 1991 but they are projected to rise to $80.1 billion in 1993. The 1992 reduction reflected a sharp fall in the deficits incurred by countries in the Middle East, whereas the 1993 projected increase is due to sharp increases in the deficits of the Asian and Latin American countries.[4]

Development finance

A recent United Nations report observed that the supplies of medium-term and long-term private finance are quite abundant and available to qualifying developing countries in an increasing variety of forms and on an increasing variety of terms. Yet, too few countries are beneficiaries at this time. Most developing countries will need to rely on some measure of official finance for many years to come. Indeed, some low-income countries with low debt-servicing capacity will need to draw mainly on concessional official flows for the foreseeable future. The key question is whether the funds – public and private – will be available in adequate amounts.[5]

There has been a considerable shift in the composition of private financial flows with a sharply reduced role for bank lending and an increased role for foreign direct investment, portfolio equity and bonds. Syndicated bank lending was the common mechanism for raising private finance for the developing countries in the 1970s and early 1980s. The decline in the importance of bank lending has been a visible trend since then. The debt crisis caused this source of funds to dry up although the Asian developing countries which escaped the debt crisis could still rely substantially on them. In fact, between 70 and 80 per cent of recent bank loans to developing countries flowed to Asia.

The developing countries have received a growing proportion of their external finances from foreign direct investment and bonds and equity issues. The share of commercial bank loans in the total financial resources received by the developing countries world-wide was drastically reduced from above 45 per cent in 1981 to less than 14 per cent in 1992, with flows mainly directed to Asia as noted above. In contrast, the share of foreign direct investment (FDI) flows increased from 8.3 per cent in 1981 to 16.7 per cent in 1992, that of portfolio equity from 0.1 to 5.7 per cent, and of bonds from 1.2 to 9.4 per cent. While the share of official loans remained more or less stable at just about a quarter of the total, that of grants expanded from 7.3 per cent in 1981 to 13.1 per cent in 1992.[6]

The growing role of private flows in the developing countries' financial receipts has been facilitated both by continuing liberalization and deregulation of financial markets by the developed countries, and by liberal economic reforms, including the financial sector reforms, carried out by many developing countries. One consequence of the increasing privatization of financial flows to the developing countries has been that a greater share of the total flows has gone into a smaller group of countries, which have, by and large, succeeded in establishing creditworthiness. The poorest countries, as a group, continue to receive a diminishing share of international capital. Since the late 1980s, the poorer countries' share of total private flows shrank considerably, while the middle-income developing countries, mainly in Latin America, gained considerably. Much of the increased flows to the latter countries, however, was related to existing debt as countries embarked upon debt restructuring and reduction through rescheduling, swaps, securitization and other conversions.

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4 The figures used are those from the International Monetary Fund, *World Economic Outlook* (Washington, DC, October 1993), pp. 163-165.

5 United Nations General Assembly, "International conference on the financing of development" (A/48/367, 20 September 1993), pp. 8 and 10.

6 Based on a survey of third world finance, "New ways to grow", *The Economist*, 25 September-1 October 1993.

Foreign aid, the chief source of finance for the poorest and the least developed countries has remained subdued. By 1992 only a few donor countries had met the long-established United Nations target of 0.7 per cent of gross national product (GNP) as official development assistance (ODA). Some major donors, in fact, have retrogressed on this score. The recession and the budget deficits discussed earlier have put further pressures on aid budgets of donor countries. Aid given by some major donors has remained unduly skewed in distribution with a relatively small number of countries being the beneficiaries.

SHORT-TERM PROSPECTS AND IMPLICATIONS FOR DEVELOPMENT IN THE ESCAP REGION

A better prospect for world economic growth has been projected for 1994. The latest forecast growth in world output in 1994 has been fine-tuned to a lower 2.6 per cent from an earlier forecast of 3 per cent. All economic forecasts are subject to deviations from the actual performance due to unforeseen circumstances. The current forecasts may also be overtaken by events which the forecasters could not foresee. The political events in many of the new States emerging from the former Soviet Union including the Russian Federation, which could cause a set-back to the revival of those economies, are but one example of such upsetting developments.

The industrialized countries, however, could be said to have "hit the bottom" from which they could only be expected to go up. Corrective policies have been in place for a number of years and are being pushed further where they have not gone far enough. Interest rates in the United States and Japan, for example, have been lowered to the lowest post-war levels while keeping inflation under strict control. European interest rates also started falling after a virtual abandonment of the parity-band of the ERM in the summer of 1993 and the gradual easing of German monetary policy.

There are a number of other mitigating factors to justify greater optimism for the coming years. Thus, although the upset within the ERM may have an impact on the planned establishment of the European Monetary Union later this decade, the endorsement of the Maastricht Treaty in referenda in major Community member countries and subsequent ratification of the Treaty brought the European Union as envisaged in the Treaty into existence as of November 1993. This followed the establishment of a single European market in goods, services and production factors earlier in the year. A boost of confidence and strength is expected in Europe from the formation of the single market, further reinforced by the launching of the European Union. The prospect of coming into force of the North American Free Trade Agreement (NAFTA) following ratification by the United States Congress is also visualized as hastening North American economic recovery and strengthening its long-term prospects. The successful conclusion of the Uruguay Round of multilateral trade negotiations would also act to improve confidence world-wide which could be expected to translate into higher world output and trade growth starting in 1994 (box I.2).

The lingering recession and the worsening unemployment situation in the industrial countries have served to intensify protectionist pressures in those countries against imports affecting developing countries' exports. While the Uruguay Round, launched in 1986, lingered for seven years, trade relations in the meantime came to be "managed" under national laws. The trade and payment imbalances among nations gave a further impetus to this process. The actual or potential use of the penalty provisions of those laws have kept the highly trade-oriented economies of the ESCAP region in a state of uncertainty and suspense for a number of years, and sometimes obliged them to undertake measures which were not entirely voluntary on their part.

The conclusion of the Uruguay Round is expected to remove many of these anomalies in international trade relations and allow a freer play to trade of the economies in the region in accordance with their established competitive capabilities. However, the possible impact of European unity and NAFTA has remained a concern for the trade prospects of Asian and Pacific countries with the possibility of a growing internalization of trade and investment within those areas. Those two regions together still absorb between one third to one half of the exports of many developing countries of the region despite reduced dependence on them in recent years.

The developing countries of the ESCAP region have succeeded, by and large, in sustaining their high rates of economic and trade growth despite the recession in the industrialized countries. That could suggest that economic growth in the industrialized countries is no longer the driving force in the growth performance of the developing economies of the region. The region has undoubtedly acquired strength and a capacity for resilience. Yet it would not be wholly true to say that the region or the individual economies are not substantially affected by developments in the industrial countries who remain major trade partners.

Box I.2 The Uruguay Round concludes

After seven years of negotiations on complex issues, two more years longer than the original schedule, the eighth GATT round concluded on 15 December 1993 with the endorsement by GATT members of the Final Act of the Uruguay Round. The Act is due for final adoption at a Ministerial Meeting in Morocco in April 1994, and to become effective by mid-1995 after ratification by member states. The Act has been called the most ambitious trade agreement ever aimed, involving extremely complex negotiations.

At its launching in September 1986, 15 major issues were included in the Round for negotiations aiming, *inter alia:* further cut in tariffs reinforcing the substantial reduction achieved through the seven preceding rounds; reduction or removal of non-tariff barriers to trade; elimination of exceptions to GATT's universal coverage of goods, such as textiles and agricultural product, and bringing them within its general framework; inclusion of new items, such as trade in services, intellectual property, and trade related investment measures under GATT's multilateral rules; and reforming GATT as an institution.

Wide ranging issues under the above broad subjects were covered in 28 separate agreements. In more difficult areas, such as trade in agriculture, textiles and clothing, services and intellectual property rights, compromise agreements were reached after difficult negotiations. Some of the important highlights of the agreement are as follows.

Tariffs, which had already fallen to an average level of about 5 per cent as a result of the previous rounds of negotiations, are expected to be reduced further by an average of 40 per cent when the negotiated market access schedules come into force. Trade in agricultural products and the services will be brought within GATT framework. Subsidies on agricultural exports will be gradually reduced and protective import quotas will be replaced by tariffs. Countries will open their service sector to trade under the provision of the General Agreement on Trade in Services (GATS). However, negotiations on trade in audiovisuals such as films and television programmes, and financial services, such as banking and insurance, were to further continue. The agreements provide for greater protection of intellectual property rights such as trade marks, patents and copyrights under the Agreement on Trade Related Intellectual Property rights (TRIPs). The Multi-Fibre Arrangement (MFA), which governed trade in textile products in the past decades, will be phased out over a period of 10 years with gradual elimination of import quotas imposed under the MFA.

A new World Trade Organization (WTO) will be established to succeed the General Agreement on Tariffs and Trade (GATT). The new accords on services and intellectual property, and various GATT codes such as those on government procurement and anti-dumping, will come under the jurisdiction of WTO. Trade disputes among members will be settled by a single streamlined disputes settlement procedure, with provision for appeals and binding arbitrations.

The Uruguay Round has been called a truly global negotiation. With over 100 countries participating in the negotiations, there has been a wide representation of developing countries. An important achievement of the Round is seen in an increase in the extent to which world trade will become subject to tariff regulations, rather than arbitrary restrictions such as quota. Taking into account the tariffication measures affecting trade in agriculture, over 95 per cent of world trade in merchandise will be subject to tariff as a result of the Round. That is expected to substantially increase the transparency, stability and predictability of trading conditions.[a]

As noted before, the Final Act will not come into force until 1995; many of its provisions will come into operation gradually extending over a decade or so. The short-term impact of the agreement, therefore, can remain limited except by way of providing a boost in confidence around the world. The optimistic mood was reflected by Mr. Peter Sutherland, Director General of GATT, who concluded the session adopting the Final Act by saying that the agreement will mean "more trade, more jobs and larger income growth for all".[b] One report had projected the value of world trade growth resulting from the agreement at $200 billion annually.

The apportionment of the gains among countries of the world is likely to be unequal. There is some apprehension that the gains will be weighed more heavily in favour of the developed countries who will share 70 per cent of the expected gains.[c]

The developing countries could benefit from the expected rise in the prices of agricultural products as subsidies are reduced and protected markets are opened for imports. Among other sources of expected gains are tariff reductions, although tariffs on simple processed products were expected to continue to remain generally higher; and a freer trade in textile products, which will be moderated by the fact that the restrictive provisions of the

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[a] "News of the Uruguay Round of Multilateral Trade Negotiations", Press Release issued by the Information and Media Relations Division of the General Agreement on Tariffs and Trade (Geneva, 21 December 1993).

[b] Quoted in *Bangkok Post,* 17 December 1993.

[c] See Statement by Ambassador Luis Fernando Jaramillo, Permanent Representative of Colombia to the United Nations and Chairman of the Group of 77, at the Formal Handing Over of the Chairmanship of the Group of 77 to the Republic of Algeria (New York, 14 January 1994).

(Continued overleaf)

(Continued from preceding page)

MFA will be phased out over a longer time than was envisioned at the earlier stages of the negotiations. From the perspective of developing countries, there are a number of other concerns. These relate, *inter alia,* to the possibility of continued subsidization of domestic production of agricultural products in developed countries; the rigour with which developing countries' obligations in the area of GATS and TRIPs are enforced relative to anti-dumping rules which were used in the past by developed countries as selective protective instruments; and the lack of clarity about the scope of unilateral application of national trade laws against other countries deemed to follow unfair trade practices.[d]

[d] See *Third World Economics,* Issue No. 80 (1-15 January 1994).

Notwithstanding the various concerns, the widely shared perception is that the agreements represent a major improvement over the currently existing situation from the point of view of developing countries as a group. The extent to which individual countries can partake of the gains will depend on the speed of response and adjustment to the new sets of rules.

The "desynchronization" of the recession however has helped in offsetting the sluggish demand in some markets by relative buoyancy in others. Whereas the demand slack and protectionist pressures may have adversely affected some relatively high technology exports and their exporters in the region, low-technology labour intensive exports kept rising, particularly in the United States despite the recession, and benefited the exporters of those products. Those whose exports came particularly under pressure could also move quickly to diversify their markets, especially within the region itself.

The Republic of Korea provides the most striking example of success on this count. That country had met a serious set-back in its export trade in 1989-1990, owing to recession in demand abroad and bilateral trade pressures following large trade surpluses the country had been accumulating since 1986. It succeeded in reviving its export growth from 3-4 per cent in 1989-1990 to 10-11 per cent in 1991-1992 by dramatically increasing its share of intra-regional exports while the share going to traditional markets shrank. Thus, the share of exports to the developing economies in Asia doubled between 1988 and 1992, rising from about 13 per cent of total exports in 1988 to 26 per cent in 1992. At the same time the share of its exports going to the United States declined from above 35 per cent to less than 23 per cent and to Japan from about 20 per cent to 15 per cent. An expanding flow of investment from the Republic of Korea to the region has accompanied the trade, a factor that lay behind intraregional trade expansion of several other countries. Indonesia, Malaysia, Pakistan, Singapore and Thailand have also enhanced, to various degrees, the share of their exports within the developing ESCAP region during this period and reduced their dependence on the United States, Europe and Japan.[7]

While these successes can be built upon further, it cannot altogether remove the disquiet felt by the developing countries of the ESCAP region by the prospect of lingering recession feeding further the protectionist sentiments in the industrial countries. As noted before, the protectionist fervour in the developed countries is fueled by the high and rising rates of unemployment in those countries – a problem that must be dealt with effectively.

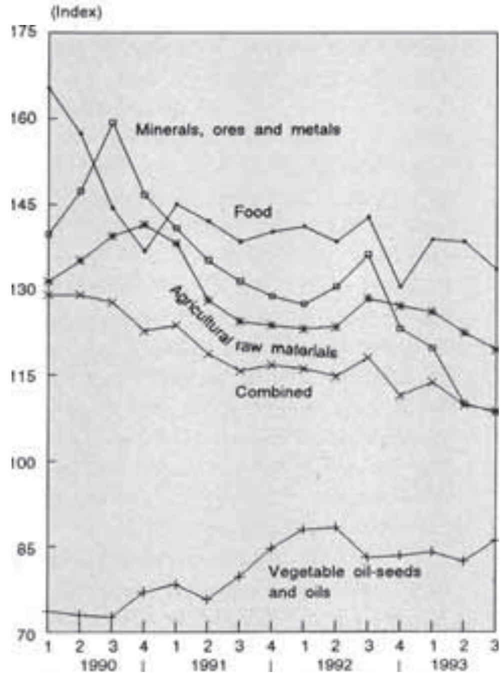
[7] See *Survey,* 1992, part one, box IV.1, pp. 60-61.

With the possibilities of domestic monetary policies being almost fully exhausted and fiscal policies remaining constrained by persistent budget deficits, trade policies remained the major option to revive world economic growth. Trade policies for that purpose must be freed further from protectionist fetters. The conclusion of the Uruguay Round of negotiations augured very well from this point of view. The trade-oriented developing economies of the ESCAP region expect to gain, as do countries elsewhere, from a further freeing of trade as envisaged in the agreements reached. The reduction in agricultural subsidies and a freer agricultural trade regime could be expected to give a boost to commodity prices which have faced downward pressures over the years (see figure I.5) and benefit the commodity exporting countries.

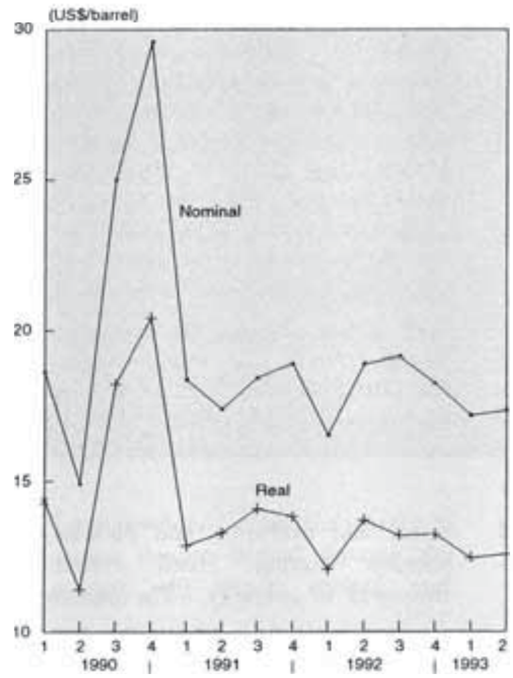
The investment and financial flows in their changing forms of FDI, portfolio securities and bonds have brought new investment capital to the developing countries, including those in the ESCAP region. A considerable liberalization of the developing country markets has facilitated these inflows. Such liberalizations however carry their own dangers about which the countries have to remain alert. For example, free financial

Figure I.5. Movements in commodity prices

(a) Non-oil commodity price indices (1985 = 100)



(b) Nominal and real prices of oil (1980 = 100)



Sources: United Nations Conference on Trade and Development, *Monthly Commodity Price Bulletin*, vol. XIII, No. 10 (October 1993); International Monetary Fund, *International Financial Statistics*, vol. XLVII, No. 1 (January 1994); and United Nations, *Monthly Bulletin of Statistics*, vol. XLVII, No. 9 (September 1993).

Box I.3. Globalization: major aspects and implications for development

A number of processes have been at work for many years to expand and strengthen links among individual economies of the world and make them more and more interdependent. With the growing participation of the developing countries in these processes, and the recent redirection of the erstwhile centrally-planned economies in favour of a far greater integration with the world market, economic activities based on the market principles are taking on a truly global character. The barriers to the movement of goods and services, capital, technology and, to a lesser extent people, have been coming down to permit greater mobility across national borders.

Reduced barriers, however, have not always affected all processes and participants evenly. The degree of freedom of movement varies between the different categories of goods, services, capital, technology and people. The developing countries have generally benefited from the liberalizing and globalizing trends in trade, investment, production and other economic activities, but they have also faced difficulties in adjusting to the fast pace of change on the course of which they can exercise little influence.

The trading of a growing proportion of world output internationally is an aspect of the globalization process. The value of free international trade is well established in theory and practice. The world economic prosperity of the post-war era is largely attributed to a freer international trading regime that negotiations under several GATT rounds had helped to bring about. The developing countries had benefited not only from the general liberalization of the trade regime, but also under special provisions granted to them under the auspices of United Nations Conference on Trade and Development (UNCTAD) as well as in GATT articles. The just concluded GATT round, in which the developing countries have widely participated, is expected to give a further boost to world trade benefiting all participants, although scepticism has been expressed that the gains on that score will be more heavily weighed in favour of the richer countries (see box I.2).

International trade and investment have been complementary activities. A large part of the present volume of world trade is investment driven. The resourceful transnational corporations (TNCs), in search of access to market and profits, internationalized production of a whole variety of components, products and services. To the extent that the TNCs treat their operations as a single accounting unit irrespective of the actual location of their operations, they operate as if in a "borderless world".[a] The TNCs have also shipped around the world large volumes of intermediate and final products produced in different locations, they themselves being both buyers and sellers. Some reports suggest that such intra-firm trade at present accounts for one third of world trade.

The developing countries had initially put up certain restrictive conditions on the foreign investors with a view to maximizing the developmental benefits of these investments. Faced with an increasing world-wide competition for investment resources, many developing countries have relaxed those restrictions in recent years to attract the sorely needed investment in their economies. As a part of the Uruguay round of negotiations, they would be required to give further concessions with regard to a variety of performance requirements of TNCs, such as the local content requirement in production and the obligation to export certain proportions of the production of foreign ventures. Intellectual property rights, such as patents and copyrights, must also be more strictly enforced locally under national laws. The required adjustments to meet these concessions will not be easy for many developing countries to make.

Technology and finance have been closely associated with investment and trade. Finance, as a facilitator to investment and trade, has been globalized to a greater degree, since the financial instruments themselves have become the object of around-the-clock-around-the-globe trading. The rapid advances in

[a] Kenichi Ohmar, *The Borderless World: Power and Strategy in the Interlinked Economy* (London, William Collins, & Co. Ltd., 1990).

flows through the liberalized market can pose a growing challenge to the conduct of monetary, fiscal and exchange rate policies, thereby putting broad reform measures in jeopardy. The bullish or bearish feelings of investors, particularly when foreign participation is involved, can severely computer and information technologies further facilitated the process of the globalization of finance. The big transnational banks and financial companies are suppliers of global finance. The developing countries have had little role on the supply side of the market,[b] although they have benefited from the borrowing opportunities that the market has offered. It also landed many of them into trouble as the debt crisis of the 1980s testified. The opening of domestic markets to foreign financial companies may eventually assist them in strengthening their domestic financial industry and enabling them to participate in the supply of global finance for which a few developing countries have already developed limited capacities. But, ensuring a continuing and orderly growth of their nascent financial industry in the face of competition from well-established institutions, a move currently underway in many countries, and a greater overall openness of the domestic market with exposer to the characteristic volatility of short-term funds will pose a difficult challenge (see box III.2).

Technology has been having a profound impact on the economic and social life of people all over the world. The pace of technological change in recent times has been unprecedentedly rapid. Those who succeed in remaining ahead in technological adaptation, innovation and development can expect to win the competition in production, trade, investment and economic growth. The present stock and production of technologies as well as technological capabilities remain unequally distributed with developing countries continuing to remain on the receiving end. In that context, foreign investment has emerged as an important mechanism for technology transfer to the developing countries.

Two points of concern arise in this context. First, the technologies that come with investment are not fully transferred and, second, imported technologies often produce disruptive impacts on local economies, depriving traditional producers of their staying power and often their livelihood.

A growing automation of industrial processes to stay ahead in competition,[c] and the application of biotechnologies are two examples of the phenomena that can have serious adverse effects on both industrial employment and self-employment in agriculture. Biotechnology, for example, can enable food and raw material importing developed countries to produce their own by removing existing natural constraints, thus depriving the poorer countries of export opportunities. Within the poor countries themselves, monopolization of biotechnological processes by local and foreign agri-business companies, backed by large capital, can throw small peasants out of their traditional vocations. Although biotechnology is said to be sufficiently versatile for adoption in the smallest of scale, ideas and techniques penetrate much more slowly into peasant communities than to big business firms and, therefore, the traditional peasant can become the victim rather than a beneficiary of the new technology. The distributional as well as the environmental impacts of technological modernization have raised serious concerns in many cases.[d]

Thus the global flows of trade, finance and technology linked through a globally competitive market process, while having their beneficial impact on local economies of the developing countries, are not an unmixed blessing. The vigour with which domestic policies can channel the positive impact of global processes and stem their negative impacts will determine the outcome in individual cases.

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[b] See *Survey*, 1992, part one, box I.1, pp. 11-12.

[c] See *Survey*, 1992, part one, box II.1, pp. 24-25.

[d] See the set of papers presented at the Year-End Conference on the Thai Economy organized by Thailand Development Research Institute at Jomthien, Pattaya, 9-11 December 1993, especially Akin Rabibhadana, "Social inequity: a source of conflict in the future"; Scott R. Christensen and Ammar Siamwalla, "Beyond patronage: tasks for Thai state"; and Rangsan Thanapornphan, "The Thai economy and society in 2550: a development strategy".

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disrupt nascent capital and financial markets of developing countries (see box I.3). The poorer least developed countries' ability to attract private capital through the market will remain limited, and, therefore, any shortfall in ODA flows would be a serious handicap for them.

II. MACROECONOMIC PERFORMANCE AND POLICIES IN THE ESCAP REGION

A PERSPECTIVE OF THE REGION

The economic performance of the ESCAP region maintained its robustness in 1992-1993, with the developing countries of the region achieving an average economic growth rate of 6.7 per cent in 1993, the same as in 1992. This performance is remarkable against the backdrop of the depressed conditions in the rest of the world economy, with recessionary tendencies prevailing especially in the industrialized countries. Although the average record of growth performance puts the ESCAP region as a whole in a bright light, the various groups of economies of the region continued to diverge in their performance. However, a larger measure of convergence has emerged among the countries of the region in the long-term approach to development policies, including an enlargement of the scope for private participation and a greater emphasis on the role of market forces in economic activities, although the short-term emphasis of policies varied according to the intensity of the immediate problems each economy.

The policy reforms being implemented by the countries of South Asia had already started showing their desired effects, with the rates of economic growth improving. Although Pakistan received a set-back in 1993 owing to extraneous circumstances, rates of economic growth strengthened in Bangladesh, India and Sri Lanka. The Islamic Republic of Iran sustained above 6 per cent growth rates. A considerable degree of success has been achieved by this group of countries in stabilizing their economies in terms of reduced budgetary and balance-of-payments deficits and inflation rates.

A further redeeming feature of the situation prevailing in the region in 1992-1993 was a substantial strengthening of the growth performance of the least developed countries of the region, with the exception of Afghanistan and Nepal. Cambodia, Lao People's Democratic Republic, Myanmar and Maldives have recorded high growth rates, although they have yet to overcome their basic structural weaknesses and the paucity of development resources. The policy reforms in a variety of areas have achieved a large measure of success.

Economic growth remained strong and steady in economies in South-East Asia, with the exception of the Philippines, which however also started to recover with positive output growth in 1993, reversing the decline of the previous two years. Economic growth in the Philippines was expected to strengthen substantially in 1994 and 1995 as the country had already successfully brought down the rates of inflation in the economy, diffused the long-standing debt problem, achieved political stability and stimulated savings and investment activities.

In East Asia, the spectacular performance of the Chinese economy has attracted worldwide attention. Its high rate of growth, however, had given rise to the concern that a resulting overheating of the economy could repeat the country's 1988-1989 experience of almost run away inflation followed by a strong brake slowing growth sharply. The country, however, succeeded in containing the situation, and with the policy pronouncements of the Government towards the end of 1993, the economy appeared well-positioned to restrain inflation without any drastic reduction in growth. Among the other East Asian economies, while Hong Kong succeeded in strengthening its economic performance with a moderation of inflation, the Republic of Korea could not measure up to its performance of past years in the face of both domestic and external constraints. The slower performance of the country's economy was the result of restrictive domestic policies targeted at controlling the rather high rates of inflation that had emerged in 1990-1991 and the recession in external demand for its exports, and some loss of competitiveness.

The Democratic People's Republic of Korea and Mongolia were facing very difficult economic situations. These countries were adversely affected by dislocations occasioned by the snapping of their links with the former Soviet Union and other eastern European countries. Mongolia also initiated major economic reforms aimed at transforming its economy from a centrally planned system to a market oriented one. The internal dislocations affected domestic production adversely and the required price adjustments resulted in high rates of inflation. The situation was further worsened owing to severe adverse weather conditions experienced during 1992/93. The Democratic People's Republic of Korea has also introduced cautious reform measures and relaxed its central planning regime. The two countries have suffered considerable decline in their output and income levels since 1990.

The small Pacific island developing economies with their agrarian structures exposed to frequent natural disasters and external demand and price fluctuations of export commodities, continued to remain vulnerable despite bold efforts aimed at stabilization and restructuring for sustained higher growth. Fiji, Papua New Guinea and Solomon Islands have achieved a considerable measure of success in that regard, reflected in a strengthening of the rates of economic growth and a moderation of inflation rates. Elsewhere success in achieving growth and reducing inflation has remained more limited.

The six Central Asian republics have been facing a daunting task as they try to revamp their institutional structures and stabilize their newly independent economies within a market-based framework, in sharp distinction from decades of development under a centralized system of planning within the former Soviet Union. The tasks facing them included a reorientation of foreign trade that was largely internal trade within the former Soviet Union; the settling of the national currency and the exchange rate questions including the role of the rouble, the former domestic currency; the establishment of a viable banking and credit network; and the restructuring, revitalization and reorientation of production and trade. These could hardly be expected to be achieved in the two years that have passed. The economic and social situation in most of the six republics has therefore deteriorated with falling output and high inflation rates.

The three developed countries of the region belonging to the world's industrialized group of countries have suffered from the recessionary symptoms that have affected all the industrialized countries at different time points since 1990 as noted in chapter I. Australia and New Zealand, which went into early recession, showed definite signs of recovery in 1993 with output growth of above 2 per

Table II.1. Forecast growth rates of gross domestic product at constant market prices, 1993-1995[a]

(Percentage)

	1993[b]	*1994[c]*	*1995[c]*
Developed countries of the ESCAP region	0.2	1.6	2.9
Australia	2.4	3.0	2.3
Japan[d]	0.0	1.5	3.0
New Zealand	3.6	2.4	2.4
Developing countries of the ESCAP region[e]	6.7	6.8	7.0
Bangladesh	5.0	5.0	5.5
China[d]	13.0	9.5	9.6
Fiji	4.5	4.8	5.0
Hong Kong	5.5	5.6	5.8
India	4.6	5.6	6.0
Indonesia	6.3	6.4	6.7
Republic of Korea	4.6	6.5	6.0
Malaysia	7.6	8.1	8.2
Nepal	2.9	4.9	5.0
Pakistan	3.0	5.0	5.4
Papua New Guinea	10.6	0.3	2.0
Philippines	1.8	4.2	5.0
Samoa	1.9	2.5	3.0
Singapore	8.1	6.3	6.7
Solomon Islands	4.8	4.5	4.5
Sri Lanka	5.8	5.9	6.0
Thailand	7.5	8.0	8.2
Tonga	2.5	3.3	3.4
Vanuatu	1.9	2.5	2.5

Sources: ESCAP estimates; United Nations, Project LINK estimates; and national sources.

[a] The estimates and forecasts for countries relate to fiscal years defined as follows: FY 1992/93 = 1992 for India; FY 1992/93 = 1993 for Bangladesh, Pakistan and Nepal. [b] Estimate. [c] Forecast. [d] Growth rates of real GNP. [e] Based on data for 20 developing countries representing more than 95 per cent of the population of the region; GDP at market prices in United States dollars in 1990 have been used as a weighting scheme to calculate the regional growth rates.

cent in Australia and above 3 per cent in New Zealand. They also succeeded in bringing down the rates of inflation to below 2 per cent annually.

In Japan, however, the economy suddenly worsened in 1992 with the economic growth rate plunging to a mere 1.3 per cent from 4.0 per cent in 1991. The economy was stagnant in 1993. The successive packages of fiscal stimulus and monetary policy incentives symbolized in the interest rates falling to the lowest level in decades apparently failed to improve the economy's performance in 1993. Recovery is still expected to be slow as the economy needs to go through a period of adjustment after years of high growth accompanied by large trade and balance-of-payments surpluses and unrealistically high asset values. The new Government elected in April 1993 initiated a number of further reform measures with a view to expediting recovery.

The prospects for the developing countries of the ESCAP region in 1994 and 1995 remained, by and large, unchanged with economic growth averaging close to 7 per cent (table II.1) according to current forecasts. Among the three developed countries, the economy of Australia is expected to strengthen further with 3 per cent growth in 1994 compared with 2.4 per cent in 1993 while that of New Zealand is expected to weaken somewhat. Economic recovery in Japan is expected to attain a greater pace but overall performance will remain weak in 1994. These forecasts, however, do not take into account the benefits resulting from the recent successful conclusion of the Uruguay Round of multilateral negotiations, which is widely expected to have a considerable stimulus on the world economy as a whole, although its practical impact could remain limited in the short term since the agreed measures were to be enforced over a period of time.

PERFORMANCE BY SUBREGION: MAJOR INDICATORS

East Asia

In East Asia, the double-digit growth rates achieved by China in 1992 and 1993, raised mixed feelings of both achievement and concern. Average growth of 12.9 per cent in two years in an economy as big as that of China could be considered to be nothing short of spectacular. At the same time, it raised concerns about the economy becoming overheated and inflation running out of control, repeating an experience the country had gone through in 1988-1989. Hong Kong and the Republic of Korea had more moderate growth rates, and yet were concerned about the overheating and excessive inflation in their own economies. Thus, the problems of managing inflation remained a major policy focus in these countries particularly in the case of China and the Republic of Korea.

Mongolia and the Democratic People's Republic of Korea continued to face serious economic problems emanating from their need for adjustment following changes from past policies and external economic linkages. Mongolia experienced a sharp decline in output during 1991-1992. Fortunately, the policy reforms adopted in the late 1980s helped to stabilize the *tugrik* and slow down inflation. In the Democratic People's Republic of Korea also, output declined in 1992. The Government was trying to redress the situation by encouraging foreign trade, especially with neighbouring countries, as well as foreign investment. In that regard, it has actively participated in activities in support of initiatives for cooperation among neighboring countries in Northeast Asia (see box II.1).

Output growth

The estimated 13 per cent growth in gross domestic product (GDP) in China in 1993 (see table II.2, pp. 29-32) was buttressed by rapid growth in industrial production. During the first half of the year, industrial output rose by a hefty 25 per cent over the same period of 1992. The macroeconomic and other regulatory measures introduced by the Government in the mid-year slowed the pace of growth to an estimated 20 per cent for the whole year. Output growth was spearheaded by the production of automobiles, home appliances and construction materials. Growth was sluggish, however, in the energy and transport sectors, raising concerns that their inadequacies could give rise to bottlenecks to further economic expansion.

The still substantial agricultural economy in China also went through some strain in 1993. Although the summer grain harvests had exceeded the previous year's levels, droughts and floods caused a decrease in sown acreage. Yet, overall agricultural growth was estimated at 4.0 per cent for the year, because subsidiary food crops, and poultry and meat production registered increases. A fast rise in the cost of living, however, put a strain on rural living standards, giving an impetus to rural people to migrate in larger numbers to urban centres in search of better economic opportunities.

The economy in Hong Kong gathered further strength during 1992-1993 as it continued to recover from its low performance levels in 1989-1990. The rate of GDP growth rose steadily from an average 3 per cent during 1989-1990 to 4.2 per cent in 1991,

Box II.1. Potential for development through cooperation among neighbouring countries in Northeast Asia

The existing diversity and complementarities among countries in Northeast Asia offer considerable potential for economic cooperation and development through their joint initiatives. A large area encompassing parts of China, the Democratic People's Republic of Korea and the Russian Federation, could be developed into a hub of economic development through joint initiatives in which capital and technological resources of Japan and the Republic of Korea could be combined with the manpower and natural resources available in the other neighbouring countries including Mongolia, to accelerate growth in the area. Among the abundant natural resources are: coal and other minerals, agricultural products, open land, and fresh water. An abundant supply of cheap labour, both skilled and unskilled is available. These endowments, of course, differ among the various countries, offering immense opportunities for exploiting the complementarities through cooperation. All the participating countries could benefit from the trade and investment flows that the acceleration of growth would both require and generate.

Several international conferences for promoting economic cooperation in Northeast Asia have been held already to explore the potential and the appropriate modalities for cooperation among the countries concerned. The ESCAP secretariat also organized an Expert Group Meeting in mid-1993 at Changchun, China to address and clarify the issues involved and assist governments in arriving at decisions on them. An important initiative is the Tumen River Area Development Programme, on which formal discussions have already taken place among the concerned countries under the auspices of the United Nations Development Programme (UNDP). China, Democratic People's Republic of Korea, Republic of Korea and Mongolia have participated fully in that initiative while Japan and Russian Federation have participated as observers.

Infrastructures, including roads, railways and ports must be a priority in any initiative for the complementary development of the concerned areas. Development of maritime transport holds large potential and would facilitate maritime trade in the area. With developments of ports and related infrastructure, China, for instance, will not have to depend on its more distant and busier ports on the Yellow Sea for exports to Japan. Similarly, trade of the Russian Federation and China with Republic of Korea could be accomplished more directly. Development in the area will help Democratic People's Republic of Korea to participate more fully in world trade while Mongolia will also have easier access to ports for its exports.

The pattern of production specialization among the countries and the likely composition of expanded trade could lead Mongolia and the relevant areas of Russian Federation, for example, to specialize in minerals and resource based products as the mainstay of their exports. China and Democratic People's Republic of Korea could develop light, labour-intensive manufactures. Republic of Korea and Japan could supply high technology goods and capital equipments needed for development.

Actions are needed in several directions in order for the trade and development potential to materialize. Apart from overcoming the transport bottlenecks posed by lack of infrastructure, other requirements are: simplification of transport regulations; legal safeguards and guaranteed access for transit trade; simplification of cumbersome customs and trade procedures; improving trade facilitation arrangements; easing constraints on manpower flows by lifting travel restrictions that exist; and coordinating export and exchange rate policies. Harmonization is needed in industrial standards (including postal and telecommunication standards), banking regulations, quarantine regulations, quality control procedures, and labelling and packaging requirements. National foreign investment laws and regulations will require modifications to enable cross-border flow of investments.

While the meetings and conferences organized so far have recognized the need for feasibility studies as indispensable before any proposal for cooperation could be seriously considered, commitment of the concerned national authorities to pursue possibilities of cooperation is a prior necessity. With a firm shared commitment, the countries could make collective efforts to raise capital, from both domestic and external sources, that will be needed to build initial infrastructures.

5.0 per cent in 1992, and 5.5 per cent in 1993. The economy's close links with the fast-growing Chinese economy obviously helped in the recovery process. It had enabled Hong Kong to cushion considerably the impact of other external factors, such as the recession in the industrialized countries and the adverse effects of the Persian Gulf war. The sluggish private sector activities in both the manufacturing and construction industries were offset by stepped up public sector construction activities involving large infrastructural projects. Growth in the various service industries, including tourism, was strong.

The slow-down of economic growth in the Republic of Korea during 1992-1993 partly reflected the impact of the stabilization policies first introduced in 1991, partly the impact of the recession abroad and partly the loss of competitiveness of certain categories of the country's exports. While the stabilization policies succeeded in reducing inflation and the balance-of-payments deficits, the demand slow-down and the slack in exports had impacted adversely on the growth of the economy. The economy grew at its slowest since 1980 with a 4.8 per cent GDP increase in 1992. A further reduced 4.6 per cent growth was estimated for 1993. During the first half of the year only 3.8 per cent growth materialized. Between 4 to 5 per cent growth was expected in the second half.

The small agricultural sector including forestry and fishery which had recovered with 5.4 per cent growth in 1992 from the set-backs of 1989-1991, again experienced an output decline by 0.5 per cent owing mainly to a decrease in rice production affected by adverse weather. Growth in the industrial sector, estimated at a moderate 5.4 per cent in 1993, was affected by both domestic and external demand slacks as was evident from a relatively low level of industrial capacity utilization (80 per cent) coupled with large inventory accumulations. Among manufacturing industries, heavy industrial goods and chemicals, such as automobiles, ships and petrochemicals, did better than light industries such as textiles, clothing and footwear.

In Mongolia the real national income decreased by 33 per cent in 1992 in the face of persistent domestic constraints and a deterioration in the external sector. The severe snowstorms in the 1992/93 winter affected agricultural production adversely. The industrial sector continued to suffer from a shortage of raw materials, spare parts and an unreliable electricity supply. In the first five months of 1993, gross industrial production fell by 18.2 per cent compared with the same period of 1992. Electricity generation fell by over 10 per cent owing to a decline in coal output and a shortage of diesel oil.

Agriculture remains the crucial sector of the Mongolian economy. The sector contributes more than 20 per cent of net material product. The production of food and raw materials for light industry is of considerable importance to the overall functioning of the economy. Mongolia regularly experiences severe weather, but the snowstorms in the 1992/93 winter were the harshest in 50 years. Over three quarters of a million livestock, including a third of the entire stock of the west and south-west region of the country were lost. The total damage has been estimated at 1.3 billion *tugriks*. Production of essentials such as meat, wool, hides and milk declined. In February 1993, the Government announced measures to help citizens set up subsidiary farms and allocated 100 million *tugriks* from budget reserves to provide seeds, poultry, bees and equipment, which were helping to restore agricultural production.

The economy of the Democratic People's Republic of Korea apparently made no progress towards growth or stability as the continuing decline in the country's real gross national product (GNP) during the period 1990-1992 indicated. GNP fell by 5 per cent in 1992 following a 5.2 and 3.7 per cent decline in 1991 and 1990 respectively. The decline in output growth was recorded in all sectors of the economy. Rising shortages of power, food, spare parts and raw materials seriously affected the national economy. Production of cereals, including rice, barley, wheat, maize and millet had dropped from about 5.1 million tons in the mid-1980s to 4.2 million tons in 1992.

Demand components

The spectacular economic performance of China was propelled by dramatic growth in investment. Investment expansion occurred in both the state and private sectors, foreign direct investment providing an additional boost. Foreign direct investment, accounting for 10 to 11 per cent of total investment, rose by 156 per cent in 1992. Its growth further accelerated in 1993. Investment in fixed assets registered an estimated 46 per cent increase in 1993. Rates of growth in overall investment reached 70 to 80 per cent in some sectors and in some regions such as the eastern and southern coastal areas, notwithstanding a rather slow rate of actual implementation of foreign investment commitments and contracts. The investment boom tended to create imbalances between the demand and supply of critical raw materials and intermediate goods. The resulting shortages gave a further fillip to price increases caused by overall demand pressures in the economy.

A rapid rise in imports reduced balance of payments surplus. Government budgetary shortfalls persisted as revenues lagged behind owing to exemptions or tax-breaks granted as well as to tax avoidance and evasions. Current government expenditure, however, was rising fast. The restraint on government capital spending on infrastructure projects helped contain the budget deficit.

The rate of growth in the money supply in the economy had been accelerating since 1990 when the restraints imposed since 1988 were eased. In 1992, the money supply increased by more than 30 per cent. The expansion of bank credit played a major role in this growth. Banks are said to have resorted to dubious means of using the money market to channel funds to non-bank financial institutions for them to on-lend to quick-yielding but sometimes speculative types of economic activities. That way the banks could bypass obligations to finance enterprises with low rates of profit-yield to banks.

Consumer demand in Hong Kong remained strong as was indicated by 9.3 per cent growth in the retail sales volume as of August 1992 on a year-on-year basis. Private consumption was expected to rise by 7.5 per cent and government consumption by 3 per cent. Growth in private investment was expected to decelerate with a 4 per cent decline in investment in construction. However, public investment was stepped up to compensate for the slack in private sector activities.

Demand slow-down in the economy of the Republic of Korea was because both consumption and investment decelerated while exports remained sluggish. Growth in private consumption slackened from 9.3 per cent in 1991 to 6.8 per cent in 1992 and further to 6.3 per cent in 1993. The most striking, however, was a contraction in fixed capital formation in the economy in 1992 and 1993. Investment, after declining by 1.8 per cent in 1992, was expected to decline again in 1993, though at a lower rate of 0.7 per cent. While the 1992 decline was led by the construction sector with a fall of 2.6 per cent, construction in 1993 was expected to revive with a growth rate of 3.5 per cent. A 3 per cent fall in investment in plant and equipment, however, was to offset the gain in construction. Growth in exports has been sustained at rates of 8 to 9 per cent between 1991 and 1993, which was a considerable improvement from the serious setbacks received in 1989-1990 but still much lower than the pre-1989 achievements.

Vital macroeconomic aggregates in the economy of Mongolia remained disturbing. The government budget deficit was rising in consequence of a 29.6 per cent increase in expenditure and 13 per cent fall in receipts in 1992. In 1993, the Government reduced considerably, as an economy measure, the subsidies that formerly made up as much as 25 per cent of government expenditure. The current account balance-of-payments deficits rose from $76 million in 1991 to $120 million in 1992.

In the Democratic People's Republic of Korea the Government's budget deficits continued to increase as a result of faster growth in expenditures than in revenue. Government expenditure rose by 3.9 per cent in 1991, 6.5 per cent in 1992 and was expected to rise by 2.9 per cent in 1993. With the sharp deceleration in output of key export commodities and the dislocation of traditional markets, the Democratic People's Republic of Korea was facing difficult external adjustment problems. Imports had to be curtailed resulting in a worsening of the supply scarcities.

Inflation

As stated above, overheating of the economies resulting from demand pressures often underwritten by monetary growth has remained a major concern for the East Asian economies. The rate of inflation in China, measured by the consumer price index, accelerated from 5.4 per cent in 1992 to an estimated 12.3 per cent nationwide in 1993 (table II.2 on p. 29). Inflation rates in urban areas and certain regions reached even higher. The rate of inflation in Hong Kong came down from 12 per cent in 1991 to 9.3 per cent in 1992. The rate, estimated at 8.5 per cent in 1993, was still rather high judged by Hong Kong's earlier record and the experience of other newly industrializing economies, such as Singapore. The lowering of the inflation rate in Hong Kong was made possible by a moderation of inflation in China following the introduction of China's austerity measures, a depreciation of the Chinese currency reducing the costs of imports from China as well as by low international prices and costs of raw material imports.

The inflation rate in the economy of the Republic of Korea was reduced from 9.3 per cent in 1991 to 4.5 per cent in 1992. A better harvest, more liberal imports of essential consumer goods, low overall demand and stable international prices of raw material imports along with monetary policy restraints helped to reduce inflation. Prices and rentals for dwelling units showed a decline in the face of strong measures taken against property speculation. Prices charged for many of the public services also remained frozen as part of the effort to contain inflation. Nevertheless, the price index in 1993 was estimated to rise at a slightly higher rate of 5 per cent.

There was a slow-down in consumer price increase in Mongolia from 26.7 per cent in January to 5.2 per cent in July 1993, as the Government enforced austere fiscal and monetary measures. The exchange rate of the *tugrik* also became more stable after the multiple rates were unified and allowed to float in the market. Viewed in the light of the runaway inflation encountered by many economies seeking to transform themselves from central planning to a market orientation, the above indication of Mongolia's success in containing inflation could be regarded as a major achievement.

Policy response

Government policies in China put priority on cooling the economy through monetary restraints as well as selected regulatory controls on prices and investment. However, policies have been characterized by a cautious stance in order to avoid the possibility of a sudden slump as happened in 1989. Among the major policy steps taken since mid-1993 were an increase of the interest rates in steps by the central bank; a request to the commercial banks to recall their interbank loans within a short and fixed time limit; and a cancellation of plans for freeing certain categories of administered prices or their upward adjustments.

In the dual track foreign exchange market, the domestic currency, yuan renminbi, depreciated rapidly in the freely operated "swap" market despite a large inflow of foreign investment and a healthy growth of exports. A speculative outflow of funds in anticipation of China's planned move towards a unified exchange rate in 1994, and current high inflation rates could have been responsible for a sudden rapid depreciation of the yuan renminbi between April and June 1993. Further depreciation of the currency was halted since the macroeconomic stabilization measures were introduced in mid-year. A unified exchange rate was announced in January 1994 with the currency depreciating substantially in its immediate aftermath.

Monetary policy in the Republic of Korea has remained largely restrictive since 1991, geared towards maintaining price stability and balance-of-payments equilibrium, both of which had sharply deteriorated in 1991. The growth in money supply, based on the M_2 measure, has been targeted at about 18 per cent, a trend since the late 1980s which was substantially exceeded only in 1990. The central bank has frequently used open market bond purchase/sales to keep the market appropriately liquid, while the commercial banks were also restrained in their lending through strict enforcement of reserve requirements and other measures. The external sector, largely through the inflow into the stock market newly opened up to foreigners, exerted an expansionary impact. The Republic of Korea traditionally maintains a balanced budget. There did not appear to be a major departure from that principle. While growth in revenue had slowed, restraint on expenditure was maintained so that the expansionary effects of budgetary operations remained minimal even though spending on social overhead capital and services was maintained.

The sharp decline in economic performance during the period 1991-1993 provided further imperatives for policy adjustments and reforms in Mongolia. Policy reforms in Mongolia started in the late 1980s with the provision of greater management autonomy to State enterprises, private sector participation in small-scale manufactures and deregulation of foreign trade. Further measures of a macroeconomic nature, including privatization, have been adopted since then. The austere fiscal and monetary stance, together with the establishment of a unified but floating exchange rate, helped the country to achieve the macroeconomic benchmarks set by the International Monetary Fund for the end of 1993. After introducing a unified floating exchange rate in May 1993, the *tugrik* had become more stable and tugrik-denominated deposits in banks increased sharply thereafter.

The Government of Mongolia also had to tackle serious social issues, faced by most of the other economies of the ESCAP region (see box II.2) which have been carrying out reforms to replace central planning and establish market-oriented economies. A steady increase in unemployment is one of the most serious issues that have been emerging in the process. In Mongolia the number of registered unemployed rose to over 60,000 in 1993. The current system of social benefits was being restructured in order to provide support for self-employment, job creation and expanded job training, and to assist the most vulnerable groups of the population.

The Government of the Democratic People's Republic of Korea was making efforts to regenerate economic activities through several measures including those which would attract foreign investors. Laws on foreign investment offer incentives for foreign-funded firms in industries producing semiconductors, refrigerators, telephones, personal computers and parts for televisions. Among these incentives are a reduction of or exemption from income and other taxes, favourable conditions for land use and a preferential access to bank loans.

The Government is also encouraging trade with its neighbours. In 1991, inter-Korean trade increased sevenfold from 1990 amounting to $170 million. The Democratic People's Republic of Korea has also signed a number of joint-venture agreements with the Republic of Korea in light industry, resource exploration and business ventures in third countries.

Box II.2. The social problems accompanying the transition to a market economy

The social problems encountered by Mongolia were typical in most of the countries seeking to transform their economies from the former central planning to market oriented regimes. Under central planning social benefits were guaranteed to most citizens in the form of guaranteed employment, pension rights, subsidized consumption, free education and health services, and so on. These were no longer sustainable from available state resources when reforms were initiated. Moreover, many of these were obstacles to the process of transition to market-oriented economies and had to be removed. The social and humanitarian problems associated with the change and the removal of hitherto enjoyed privileges posed difficult political problems for governments, which could not be ignored without severely eroding popular support for the whole process of transition.

The sharp rise in unemployment was one of the most critical problems that arose. Unemployment began to rise sharply as industrial restructuring got under way, traditional sectors of the economy were privatized, and as market forces began to change the allocation of capital and labour resources. It was further aggravated by the drastic contraction of economic activity, taking the character of a deep recession. The initial impact of falling output on employment was softened by the state enterprises still retaining employees beyond their real needs. In Central Asian republics, in particular the impact was delayed because of soft budget constraints with the state still continuing to subsidize the enterprises, slow move to privatization, and sharply falling real wages. Yet the 57,500 registered unemployed at the end of 1992 and 73,900 in the beginning of 1993 in the Central Asian republics, though a tiny proportion of (0.3 per cent) of the work force, are traumatic experiences for people who have always been used to having a regular employment and income. Unemployment could be expected to worsen with an accelerated implementation of planned programmes of privatization and other policy reforms.

To deal with the emerging problem of unemployment, the countries concerned had set up network of labour offices to provide labour market information and to help match the job-seekers with existing vacancies. Schemes were introduced to provide unemployment benefits along with "active" retraining and employment promotion measures. Initially, the unemployment benefits were set at quite generous levels, in some countries at 70 per cent of the previous wage. In view of the budget constraints and also to some extent due to abuses, the unemployment benefits have been reduced and conditions for providing them made more strict. The financial constraint also led to the curtailment of the "active" components of employment policy, i.e., retraining programmes and government-supported employment schemes.

High rates of inflation, rapidly eroding the real value of income, emerged as a major problem in the economies in transition. The rates of inflation varied from 598 per cent in Uzbekistan to 1,513 in Kazakhstan in 1992. In Kazakhstan, the consumer price index (CPI) rose 6.5 times faster than the wage index during the first three quarters of 1993. Real wages went down in 1993 by about 70 per cent in Uzbekistan from the level in 1990. Efforts made to set statutory minimum wages linked with increases in prices, often as part of tripartite agreements with trade unions and management representatives, had to be abandoned in the face of deteriorating financial situation of state enterprises and budgetary constraints of governments. For protecting the most vulnerable groups, control over the prices of selected basic goods and services like food, public transport and housing (rents) had to be retained. Since this was contrary to the establishment of a free market economy, some countries tried to combine a complete liberalization of prices of food and transportation with compensation in cash to the affected population. This had the advantage of removing the price distortions connected with price controls but put additional burden on state budget expenditures.

While price and wage reforms affected the active population, the pensioners and the children were the two most vulnerable groups who had to be protected from the serious erosion in their pension values and family allowances. Fourteen per cent of the old-age pensioners and ten thousand single-parent households in Mongolia, for example, were estimated to have been living below the poverty line in 1993. The inherited retirement systems set pensions at rather low levels in relation to earnings. The governments in all these countries tried to protect the pensioners by continuously revaluing the pensions which thus showed a less pronounced decline than the real wages. But such revaluation focused mainly on the lowest levels of pension leading to a general levelling out of pensions. On the whole, the situation of the pensioners deteriorated because the real level of their incomes was seriously eroded by inflation. Families with young children were also being protected by increased cash transfers. The family allowances, which in the past formed a relatively high proportion of family income – around 20 per cent for a family with two young children[a] – were increased periodically, but in

[a] International Labour Office, *World Labour Report 1992* (Geneva, 1992, p. 73).

(Continued overleaf)

(Continued from preceding page)

most countries no formal indexation was instituted.

The former centrally planned economies face a daunting challenge in reforming their social security and public services systems to fit the requirement of the market economy. In general, it implies a move away from the universal, state-financed and paternalistic system providing social security, health care, education and other public services towards a system that would be selective and diversified, its components to a large degree operating on a self-financing basis, and involving much greater active participation of both individuals and a broader spectrum of organizations.

The countries have already initiated steps in this general direction. In many of these countries, measures have been undertaken to separate the social security and health insurance schemes from the state budget. Completely autonomous pension funds have been set up relying on the contributions of the employers, employees and self-employed persons. Similarly, health care is being reshaped along the patterns of the self-financed medical insurance schemes. This should relieve the strain on the state budget, though the government will have to supplement the resources of these institutions during the start-up period which – especially in the case of pension funds – can be quite long. Social security and health sectors will cease to be the exclusive domain of the state, partial privatization being on the agenda in most of the countries with the aim to provide much more diversified sources of services.

Similarly in education, state monopoly has been reduced with private schools already operating. It is very likely that the trend towards at least partial recovery of the cost of educational services provided by public schools, especially by the universities, will accelerate. It should be recognized, however, that a degree of caution is needed in lessening the involvement of the state in social insurance, health care and education in order to avoid any popular backlash and erosion of support for the reform process.

South-East Asia

Economic growth in the South-East Asian countries remained strong and steady in 1992-1993. Even the three least developed countries – Cambodia, Lao People's Democratic Republic and Myanmar registered strong economic growth rates. The economy of the Philippines, plagued by a number of problems for a long time, also succeeded in reversing the downward slide it had experienced during the period 1991-1992. The 1.8 per cent rate of growth achieved by the Philippines economy in 1993 was modest, but a significant improvement from 0.3 per cent in 1992. The economies of Indonesia, Malaysia, Singapore and Thailand recorded healthy growth rates ranging from 6.3 per cent (Indonesia) to 8.1 per cent (Singapore) in 1993. These growth rates were of a similar order as in the previous year. The only significant change was in the case of Singapore where GDP growth accelerated from 5.8 per cent in 1992 to 8.1 per cent in 1993.

The economies of Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam had grown at 7 per cent or above in 1992. They are likely to perform equally well in 1993, Cambodia being the possible exception. With the withdrawal of United Nations personnel from the country, growth in Cambodia was expected to be lower.

Output growth

The economy of Brunei Darussalam is heavily dependent on the oil sector and therefore fluctuations in oil prices greatly affect the performance of the economy. After an average growth of 12 per cent in the second half of the 1970s reflecting the oil price boom, the economy experienced some contraction in the first half of the 1980s. The performance improved marginally in the second half of the 1980s when an average annual growth rate of 1.2 per cent was recorded. A better performance was expected during the Sixth National Development Plan (1991-1995).

Cambodia's economy has been buoyant in 1991 and 1992, partly resulting from the influx of some 22,000 United Nations personnel associated with the United Nations Transitional Authority in Cambodia (UNTAC). The estimated rate of 7 per cent growth of GDP in 1992 was slightly lower than the 7.6 per cent in 1991. The lower growth rate in 1992 was largely owing to a downturn in agricultural production as a result of late and insufficient rainfall. Rice production had fallen each year during the period 1990-1992. However, output of other food crops expanded in response to increased domestic demand. The construction industry was experiencing a boom and contributed to strong 15.6 per cent growth in the industrial sector in 1992. The estimated growth of the service sector was 11.2 per cent in 1992 as against 8.4 per cent in 1991.

After registering minimal growth for some years, the economy of Myanmar achieved an impressive growth rate of 10.9 per cent in 1992. The agricultural sector grew by 13.6 per cent against a 2.4 per cent decline in 1991. Good weather and successful development programmes contributed to the success in 1992. The industrial sector also witnessed growth of 11.8 per cent compared with 0.1 per cent in 1991. Significant increases were recorded in the production of foodstuffs, fabrics and textiles, garments, wood-based products, fertilizers, and oil and petroleum products. The service sector grew by 7.4 per cent in 1992, up from 0.3 per cent in 1991. The rate of growth of GDP for 1993 was targeted at 5.8 per cent.

In the Lao People's Democratic Republic, the rate of growth of GDP at 7 per cent in 1992 was well above the 4 per cent rate in 1991. This better performance of the economy can largely be attributed to the strong recovery in agricultural output, which rose by 8.3 per cent in 1992 against a fall of 1.7 per cent in 1991. As a result of a logging ban introduced in 1991, forestry output declined, but this was largely offset by a 20 per cent increase in the production of paddy. After recording an annual average growth rate of 23.7 per cent for three years, the growth rate of the industrial sector came down to 7.5 per cent in 1992 largely because of slower growth in the manufacturing and electricity production. Growth in the service sector also fell from 8.8 per cent in 1991 to 3.8 per cent in 1992. Although drought conditions prevailed in some parts of the country, the economy was expected to enjoy continued steady growth in 1993.

After growing at more than 7.0 per cent a year in 1989 and 1990, GDP growth in Indonesia has stabilized at a somewhat lower rate since 1991. In 1993, GDP was estimated to grow by 6.3 per cent. Agricultural production grew by 3.6 per cent in 1992 against 1.3 per cent in 1991, as a result of good weather conditions and an upward adjustment in some agricultural product prices. With a good rice crop in 1993, the growth in the agricultural sector for the year is estimated at 3.6 per cent, the same as in 1992. Growth in the industrial sector fell from 9.9 per cent in 1991 to 7.5 per cent in 1992 and then rose to 8.7 per cent in 1993. However, the rate of growth of manufacturing was around 11 per cent in both 1992 and 1993. The rate of growth of the service sector remained unchanged at 5.8 per cent in 1992 as in 1991. The growth for 1993 was estimated at 4.9 per cent for this sector.

The Malaysian economy has grown rapidly since 1987 and started showing signs of pressure in the form of rising, though still modest, inflation, growing labour shortages and bottlenecks in infrastructure. Growth in real GDP was, however, buoyant at 9.7 per cent in 1990, moderating somewhat to 8.7 per cent in 1991 and 8.0 per cent in 1992. The growth rate for 1993 is estimated at 7.6 per cent. GDP growth in 1993 was being supported by strong growth in manufacturing, construction and the service sectors. The manufacturing sector was estimated to maintain double digit growth at 11 per cent in 1993 as against 10.5 per cent in 1992. Construction was estimated to grow at 11 per cent, somewhat lower compared with 13 per cent in 1992. Growth in the service sector is estimated at 9.4 per cent, slightly lower than 10.2 per cent in 1992. The agricultural sector is estimated to grow at almost the same rate of 2.5 per cent in 1993 as in 1992. The mining sector contracted by 1.2 per cent for the first time since 1986. This was caused by a lower output of crude oil, in line with the objective of the National Depletion Policy to ensure extended exploitation, over time, of the nation's oil and gas reserves. Production of tin was estimated to decline by 5.6 per cent, reflecting persistent weak prices.

The economy of the Philippines slowly recovered in 1993 from its sluggish performance during the previous two years. In 1993, GDP was estimated to grow by 1.8 per cent, compared with the 0.3 per cent growth posted in 1992. The recovery in domestic production was assisted by an improved performance of the agricultural sector, which suffered from drought in the previous year. Improved weather conditions, efficient application of inputs and the rehabilitation of several irrigation facilities were expected to lead to 1.5 per cent growth of the sector in 1993, reversing the 0.4 per cent contraction in 1992.

Industry was estimated to recover moderately in 1993, with gross value added increasing by 1.8 per cent, a turnaround against the 0.5 per cent contraction in 1992. Increases in crude oil production and non-metallic mining were likely to raise the value added from mining and quarrying to 5.0 per cent. Construction was expected to show much improved growth of 3.3 per cent, buoyed primarily by government infrastructure activities. Manufacturing performance, however, remained sluggish, although slightly better than in 1992, as the power crisis limited production during the first half of the year. The gross value added for the services sector increased by 1.9 per cent compared with the previous year's marginal growth of 0.7 per cent. Transport, communications, storage and trade were expected to lead the growth of the sector.

Despite recessionary conditions in the major export markets of Singapore, the economic growth of the country, estimated at 8.1 per cent in 1993, was quite impressive. It was a major improvement over the 5.8 per cent growth achieved in 1992. The improvement in growth was export led, partly resulting from an upsurge in demand for consumer electronics, especially in the United States of America. The industrial sector was to record 8.9 per cent growth in 1993 compared with 5 per cent in 1992. All industries, except transport equipment and machinery, recorded higher growth rates. The services sector also attained a slightly higher growth at 7.7 per cent.

Thailand's economy grew at 7.4 per cent in 1992, despite political uncertainty in the country during the year and recession in major industrial economies, not far below the 7.9 per cent achieved in 1991. The growth rate of GDP in 1993 was estimated at 7.5 per cent. Prolonged drought conditions had restricted the growth of the agricultural sector to 3.1 per cent in 1992 as against 4.4 per cent in 1991. Drought conditions in the beginning of the year, low prices for most farm products and weak export demand contributed to a moderate growth of the sector estimated at 2.6 per cent in 1993.

Growth of the industrial sector fell from 12.4 per cent in 1991 to 10.6 per cent in 1992, with marginal decline in the growth of the manufacturing sector. Low industrial growth was attributed to slow recovery of the world economy, rising labour costs and some erosion of the competitive advantage of Thailand's manufacturing exports. Industrial output, however, recorded a 9.1 per cent increase in the first half of 1993 compared with 5.6 per cent in the same period of the previous year. Industrial growth for the full year was estimated at 11.0 per cent. The service sector registered a slightly higher growth in 1992 compared with 1991 despite some set-backs, especially in tourism. Further improvement in the performance of the sector was expected in 1993, bringing its estimated growth rate to 6.3 per cent from 5.9 per cent in 1992.

The economy of Viet Nam sustained a high growth rate for a second consecutive year in 1993. GDP growth, estimated at 7.5 per cent in 1993, was somewhat lower than the 8.3 per cent achieved in 1992. Growth in agriculture, estimated at 3.2 per cent in 1993, was, however, about half of the 6.3 per cent in 1992. The high growth in 1992 had reflected a recovery from the damage caused to agriculture by natural calamities in 1991. Government policies encouraging farmers to invest in production, broadening the cultivated area and increasing productivity also helped in achieving higher growth. The industrial growth rate in 1993 was estimated to be very close to the 11.2 per cent of 1992. The high growth was supported by both the state and non-state sectors. The service sector was estimated to record higher growth at 9.4 per cent in 1993 compared with 8.5 per cent in 1992.

Demand components

Domestic saving performance has been quite poor in the Lao People's Democratic Republic. Low per capita income has kept private savings low and the weak budgetary position of the Government has constrained public savings. The Government has made efforts to contain budget deficits. As a result, revenue rose by 21 per cent in 1992 to 10.9 per cent of GDP, slightly higher than in 1991. Expenditure increased by 12 per cent in 1992, to a share of 20.5 per cent of GDP, down from 21.4 per cent in 1991. The overall budget deficit, excluding grants, amounted to 8.9 per cent of GDP in 1992 against 9.5 per cent in 1991. To bring the deficit down further the Government announced new tax measures and reforms in tax collection in May 1993.

Gross domestic savings in Indonesia were expected to increase to 38 per cent of GDP in 1993 from 37.3 per cent in 1992. However, gross domestic investment was estimated to remain unchanged at 35 per cent of GDP in 1993. As a result of a less restrictive monetary policy in 1993 compared with previous years, the rate of growth of money supply and bank credit was accelerating somewhat.

With nominal GNP growing by over 12 per cent in 1993, gross national savings in Malaysia grew by an estimated 23.2 per cent to attain the level of 35.4 per cent of GNP as against 33.8 per cent in 1992. Gross investment outlay was 35.2 per cent of GNP (see table II.3, pp. 38-40). The financial position of the federal Government showed favourable trends through both revenue growth and expenditure restraints. In 1992, revenue grew by 15.3 per cent. The budget deficit was reduced because of significant reductions in current expenditure.

Growth in investment and personal consumption expenditure was fueling the recovery of the economy in the Philippines in 1993. Personal consumption expenditure, which accounts for 77 per cent of GNP, was projected to grow at 3.2 per cent or slightly less than the previous year's 3.3 per cent. Following a rising trend since the second quarter of 1992, fixed capital investment was expected to grow by 8.6 per cent led by public sector construction and expenditure on durable equipment. With the change in stocks, total investment growth was projected to reach 6.0 per cent propelled by lower interest rates, better law and order conditions, as well as vigorous efforts to attract private investment.

Public construction activities led investment during the year with the firm commitment of the Government to address the infrastructural bottlenecks, particularly in the power sector. To reduce power outages, which lasted as long as 12 hours a day during the summer months, the Government was commissioning fast-track projects with a combined capacity of 710 megawatts. The power problem was expected to be substantially solved by the end of 1993. The Government allocated half of the total infrastructure investment for the year to projects for energy, power and electrification. In 1993, as a share of GDP, investment was estimated to increase to 23.2 per cent, higher than the 22.5 per cent in 1992. Much of this increase was to come from domestic investors, particularly the public sector. Since domestic savings were expected to be the same as in the previous year, the incremental investment requirement for 1993 was to be sourced from foreign savings.

On the fiscal side, the deficit of the consolidated public sector composed of the national Government, the government corporate sector, the local government units and the government financial institutions, was expected to increase to 3.0 per cent of GNP in 1993 from 1.9 per cent in 1992. Among the public sector institutions, the national Government was to post the highest deficit followed by the central bank and the government corporate sector.

Growth in private consumption was slower in Singapore in relation to the rise in wage incomes, which resulted in higher private savings. Gross domestic savings were estimated to rise from 47.1 per cent in 1992 to 48.6 per cent in 1993. Since the fourth quarter of 1992, gross fixed investment was quite robust. Gross domestic investment was to grow to 43.2 per cent of GDP in 1993 from 40.8 per cent in 1992.

Growth in private investment in Thailand slowed since 1989. The Bank of Thailand's private investment index, a composite of construction activity, machine imports, cement, iron and steel sales, credit for the non-agricultural sector, and equity inflows, showed a significant decline from 113 in 1991 to 95 in 1992. Lower activity in the construction and capital goods sector was mainly responsible for the fall in the index. Public sector investment spending increased sharply as a result of higher spending on infrastructure projects and local development. Overall investment growth in 1992 was 7.6 ,per cent compared with above 14 per cent in 1991. Investment growth for 1993 was expected to be better. The private investment index rose by 10 per cent during the first half of 1993 compared with 5.5 per cent during the same period of 1992. Imports of capital goods also increased sharply.

The government budget has been in surplus since 1988, more because of the containment of growth of expenditure than faster growth of revenue. The fiscal surplus, however, came down to 86 billion baht in 1992 and a small deficit was indicated in 1993. The 1993 budget was passed somewhat late when the new parliament convened after the September 1992 election. The budget envisaged a deficit amounting to 26 billion baht or 0.9 per cent of GDP. Private consumption kept expanding, boosted by income and corporate tax reductions, increases in employee compensations in public and private sectors in both 1992 and 1993 and the easy availability of bank credit at low interest rates.

Domestic savings in Viet Nam, starting from almost zero in 1989, gradually grew and attained the level of about 7 per cent of GDP in 1992. A further increase in this ratio was expected in 1993. The investment ratio was estimated to grow from 12 per cent of GDP in 1992 to 14 per cent in 1993. Large increases in infrastructural investment were to occur during 1993. Government revenue increased during 1993 but at a lower rate than expenditure, resulting in a wider budget deficit compared with 1992.

Inflation

During Cambodia's troubled history of recent years, the macroeconomic balance in the economy has remained upset. Among other things, the government budget deficit has been very high. Along with non-realization of taxes, the need for relief, rehabilitation and reconstruction has caused expenditure to rise. As a result of monetary expansions and critical supply constraints, inflation has been excessively high. In 1992, the rate of inflation was 75 per cent, which however came down from 197 per cent in 1991 and 142 per cent in 1990.

The inflation rate in Myanmar was 21.9 per cent in 1992, lower than the previous year but still high. Price increases in 1992 were largely attributed to higher prices of food items, especially of rice, beans and pulses. The general price increase was expected to be moderate in 1993 in the light of better budgetary control, tightening of credit expansions, and measures to stimulate savings. The overall budget deficit of the central Government decreased from 6.4 per cent of GDP in 1991 to 3.1 per cent in 1992 as a result of faster growth in revenue than in expenditure.

The rate of inflation in the Lao People's Democratic Republic came down to 9.8 per cent in 1992 from 13.4 per cent in 1991, despite a sharp increase in liquidity in the economy. The factors contributing to lowering the inflation rate were improved supply conditions in agriculture and the continued stability of the exchange rate. The inflation rate was targeted to fall to around 7 per cent in 1993. That indicated almost complete success in stabilizing the price situation in the Lao People's Democratic Republic.

The inflation rate in Indonesia was expected to rise to 9.5 per cent in 1993 compared with 7.5 per cent in 1992. In addition to a less restrictive monetary policy, an upward adjustment in the administered prices of energy, fuels and transport services contributed to a higher inflation rate.

The maintenance of a tight monetary policy, fiscal consolidation, and the implementation of measures to promote savings and reduce inflationary pressures had a positive effect on the price situation in Malaysia. The inflation rate was estimated at 3.9 per cent in 1993 compared with 4.7 per cent in 1992. The continuing appreciation of the ringgit and reduction or abolition of import duties in 1993 on a wide range of goods were also contributing factors to a lower rate of inflation.

Inflation in the Philippines fell sharply from 18.7 per cent in 1991 to 8.9 per cent in 1992. The relative stability of food prices, particularly outside Metro Manila, as well as a contractionary monetary policy contributed to the reduction of inflationary pressures. By February 1992, inflation had reached single-digit levels with the full year inflation rate averaging 8.9 per cent. For 1993, inflation rate was projected to be close to the 7.6 per cent target set by the Government. The improved price situation can be attributed to the generally stable macroeconomic environment, and the slow recovery in domestic demand. Among the components of the consumer basket, housing and repairs continued to register double-digit inflation rates. Higher prices for fuel, light and water because of tariff adjustments during the early part of the year and exchange rate adjustments also contributed to inflationary forces.

The inflation rate for Singapore in 1993 was estimated at a low level of about 2.5 per cent, not much different from the previous year. The appreciating Singapore dollar has eliminated imported inflation in recent years. Among domestic factors exerting inflationary pressure were rising labour costs, an increase in residential property prices, and higher vehicle quota premiums.

The rate of inflation in Thailand came down to 4.1 per cent in 1992 from 5.7 per cent in 1991. This was largely attributed to a moderate slow-down of the economy. Food prices increased faster than prices of non-food items. Upward pressure on real estate and rental values subsided, especially in Bangkok. Inflation further decelerated during the first eight months of 1993 to 3.1 per cent against 4.6 per cent over the same period of 1992. During this period, food prices rose at a much lower rate than non-food prices.

An important achievement of Viet Nam in 1993 was relative price stability. The rate of inflation was brought down from 67 per cent in 1991 to 37.7 per cent in 1992 and further to 15 per cent in 1993.

Policy response

Economic policies in countries such as Indonesia, Malaysia, Singapore and Thailand had a less activist role during the latest period reviewed in the *Survey*. Economic growth, savings and investment, and foreign trade remained generally strong. Government budgets achieved better balances and even surpluses. Trade, investment and budgetary reforms carried out in the mid-1980s bore good results. In conjunction with favourable external factors for growth in trade and investment, all these economies were booming in the late 1980s. In the process, almost all of them had shown signs of emerging bottlenecks, reflected in infrastructural constraints, shortage of skilled manpower and some acceleration in the usually low rates of inflation.

Since 1990-1991, therefore, monetary policy has steered a cautious path between maintaining price stability and strong growth of the economy. However, as some of the economies showed signs of slack in 1993 partly because of recession abroad, monetary policy was eased. This was reflected in very substantial declines in domestic interest rates and the easing of credit restrictions where they existed. Government policies have, however, been more active in redressing the problems of inadequacies in infrastructure, and the social and environmental problems that ensued in the wake of the recent rapid growth of the economies.

Cambodia, Myanmar, the Lao People's Democratic Republic, Viet Nam and also the Philippines have been actively following policies of structural reform and stabilization of their economies. The measures included enterprise and farm sector reforms that sought to enlist the support and participation of the private sector, improvement in the efficiency of public enterprises, trade and tariff reforms, and monetary and fiscal reforms. Most of these countries enacted, during the course of the

Table II.2. Selected developing economies of the ESCAP region. Growth and inflation, 1989-1993

(Percentage)

		Rates of growth				Inflation rate[a]
		Gross domestic product	*Agriculture*	*Industry*	*Services*	
East Asia						
China[b]	1989	4.3	3.1	10.7	6.8	17.8
	1990	4.0	7.6	7.8	2.2	2.1
	1991	7.7	2.3	12.9	5.8	3.4
	1992	12.8	3.7	20.8	9.2	5.4
	1993	13.0	4.0	20.0	10.0	12.3
Hong Kong	1989	2.8	...	...	...	10.1
	1990	3.2	...	...	...	9.7
	1991	4.2	...	...	...	12.0
	1992	5.0	...	...	...	9.3
	1993	5.5	...	...	...	8.5
Republic of Korea	1989	6.2	–1.1	3.5	9.6	5.0
	1990	9.2	–5.1	8.7	13.1	9.4
	1991	8.5	–1.0	8.7	10.6	9.3
	1992	4.8	5.4	4.6	6.3	4.5
	1993	4.6	–0.5	5.4	7.0	5.1
South-East Asia						
Cambodia	1989	3.5	7.1	1.7	–1.1	55.0
	1990	1.2	1.2	–2.1	2.7	141.8
	1991	7.6	6.7	8.9	8.4	197.0
	1992	7.0	1.9	15.6	11.2	75.0
Indonesia	1989	7.5	3.3	7.8	9.3	6.5
	1990	7.1	2.0	9.7	7.3	7.4
	1991	6.6	1.3	9.9	5.8	9.2
	1992	5.8	3.6	7.5	5.8	7.5
	1993	6.3	3.6	8.7	4.9	9.5
Lao People's Democratic Republic	1989	13.4	9.9	35.0	12.5	62.9
	1990	6.7	8.7	16.2	-2.2	35.1
	1991	4.0	–1.7	19.9	8.8	13.4
	1992	7.0	8.3	7.5	3.8	9.8
Malaysia[c]	1989	8.7	6.0	11.0	8.5	2.8
	1990	9.7	0.3	13.2	11.8	3.1
	1991	8.7	0.0	10.3	10.2	4.4
	1992	8.0	2.6	8.5	10.2	4.7
	1993	7.6	2.5	6.9	9.4	3.9
Myanmar[d]	1989	3.7	4.4	15.4	-0.4	27.2
	1990	2.8	1.8	5.5	3.1	17.6
	1991	–1.0	–2.4	0.1	0.3	32.3
	1992	10.9	13.6	11.8	7.4	21.9
Philippines	1989	6.2	3.0	7.4	7.0	12.2
	1990	2.7	0.5	2.6	4.0	14.2
	1991	–0.8	–0.2	–2.7	0.4	18.7
	1992	0.3	–0.4	–0.5	0.7	8.9
	1993	1.8	1.5	1.8	1.9	7.6

(Continued on next page)

Table II.2 *(continued)*

(Percentage)

		Rates of growth				Inflation rate[a]
		Gross domestic product	Agriculture	Industry	Services	
Singapore	1989	9.2	-6.6	8.3	9.9	2.4
	1990	8.3	-7.6	9.1	8.0	3.5
	1991	6.7	-9.4	7.8	6.2	3.4
	1992	5.8	0.7	5.0	6.3	2.3
	1993	8.1	0.1	8.9	7.7	2.5
Thailand	1989	12.3	9.7	17.5	9.5	5.4
	1990	11.6	-3.7	16.2	13.2	6.0
	1991	7.9	4.4	12.4	5.3	5.7
	1992	7.4	3.1	10.6	5.9	4.1
	1993	7.5	2.6	11.0	6.3	3.7
Viet Nam	1989	8.0	6.9	-2.8	17.3	34.4
	1990	5.3	4.9	6.0	11.1	67.5
	1991	6.0	2.2	9.1	8.2	67.0
	1992	8.3	6.3	11.2	8.5	37.7
	1993	7.5	3.2	11.4	9.4	15.0
South Asia						
Bangladesh	1989	2.5	-1.1	4.8	3.7	10.0
	1990	6.6	10.0	6.4	3.4	8.1
	1991	3.4	1.6	4.3	3.8	8.9
	1992	4.0	3.9	7.7	3.6	5.1
	1993	5.0	4.5	8.6	4.7	1.4
Bhutan	1989	4.7	2.5	5.4	7.8	8.8
	1990	4.9	2.2	-0.0	13.1	10.1
	1991	5.0	3.4	5.4	7.1	11.8
	1992	5.0	3.4	9.1	4.2	13.0
India	1989	5.6	1.7	7.2	7.8	6.2
	1990	5.2	4.8	6.9	4.2	11.5
	1991	1.2	-1.4	0.0	4.3	13.6
	1992	4.0	4.6	1.9	5.0	9.7
	1993	4.6	3.6	4.5	5.5	9.0
Iran (Islamic Republic of)	1989	3.0	3.7	7.1	-3.0	17.4
	1990	12.1	8.1	16.5	9.8	9.0
	1991	9.8	5.1	14.3	7.6	19.6
	1992	6.6	6.5	8.4	3.5	21.6
	1993	6.2	2.0	8.1	7.0	10.0
Maldives	1989	9.3	5.4	10.0	10.9	...
	1990	16.2	9.2	17.8	18.9	...
	1991	7.6	5.8	9.3	7.9	...
	1992	6.3	6.4	8.9	5.5	...

(Continued on next page)

Table II.2 *(continued)*

(Percentage)

		Rates of growth				
		Gross domestic product	*Agriculture*	*Industry*	*Services*	*Inflation rate*[a]
Nepal[e]	1989	4.5	7.8	−0.1	...	6.3
	1990	7.9	7.4	8.7	...	11.5
	1991	4.6	2.8	7.2	...	9.8
	1992	2.1	−1.2	6.6	...	21.0
	1993	2.9	−1.2	8.3	...	11.0
Pakistan	1989	4.8	6.9	4.7	3.8	10.4
	1990	4.6	3.0	6.4	4.5	6.0
	1991	5.6	5.0	6.9	5.2	12.7
	1992	7.7	9.7	7.9	6.5	9.6
	1993	3.0	−3.9	6.2	5.1	9.3
Sri Lanka	1989	2.3	−1.1	3.4	3.2	11.5
	1990	6.2	8.5	7.8	4.2	21.4
	1991	4.6	1.9	4.1	6.2	12.2
	1992	4.3	−1.5	7.0	5.3	11.4
	1993	5.8	4.9	7.2	5.2	11.5
Pacific island economies						
Fiji	1989	12.0	11.5	10.7	12.5	6.1
	1990	4.8	−3.6	7.0	7.5	8.1
	1991	0.7	−0.6	8.8	−1.2	6.5
	1992	2.8	2.9	7.0	1.5	4.9
	1993	4.5	...	...	...	5.2
Papua New Guinea	1989	−1.4	1.4	−14.1	6.1	4.5
	1990	−3.0	2.2	−2.5	−7.4	6.9
	1991	9.5	−2.6	30.0	6.5	6.9
	1992	8.6	2.9	15.4	7.4	4.4
	1993	10.6	4.0	24.8	3.2	4.5
Samoa	1989	1.3	...	...	...	6.4
	1990	−4.5	...	...	...	15.3
	1991	−1.5	...	...	...	−1.4
	1992	−5.0	...	...	...	8.5
	1993	1.9	...	...	...	7.0
Solomon Islands	1989	4.9	...	...	...	14.9
	1990	2.3	...	...	...	8.8
	1991	3.2	...	...	...	15.1
	1992	8.2	...	...	...	10.7
	1993	4.8	...	...	...	10.0
Tonga	1989	1.6	3.9	4.3	−0.6	4.1
	1990	−2.0	−4.5	−4.5	0.4	9.7
	1991	5.3	9.7	−14.2	7.0	10.6
	1992	1.9	5.0	−3.9	0.8	7.9
	1993	2.5	...	...	...	8.0

(Continued on next page)

Table II.2 *(continued)*

(Percentage)

		Rates of growth				
		Gross domestic product	*Agriculture*	*Industry*	*Services*	*Inflation rate*[a]
Vanuatu	1989	4.5	9.4	10.4	1.9	7.8
	1990	5.2	16.8	8.1	0.9	4.7
	1991	4.1	...	...	...	6.5
	1992	0.0	...	...	...	4.1
	1993	1.9	...	...	...	7.5

Sources: ESCAP based on International Monetary Fund, *International Financial Statistics,* various issues; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (Oxford University Press, July 1993), and *Asian Development Outlook 1993* (Oxford University Press, 1993); and national sources.

[a] Refers to changes in consumer price index. [b] Gross national product. [c] Services also include electricity, gas and water. [d] Gross domestic product at 1985/86 producer's prices. [e] Industry includes services.

past three to four years, new tax, tariff and investment regulations to enhance government revenue, improve budgetary balances, and build an incentive structure to encourage private savings and investment, including foreign investment. Most of them, however, have faced an acute shortage of resources required to implement effective restructuring and adjustment measures. Monetary growth has threatened price stability as reflected in the high rate of inflation in all of these economies in recent years. Monetary institutions and policies are, however, being gradually strengthened and considerable success has been achieved in monetary and price stabilization by almost all of this group of countries.

South Asia

The South Asian countries registered a mixed record of performance during 1992-1993. Among the five least developed countries in this subregion, Bangladesh and Nepal succeeded in stabilizing their economies and moderately raising growth rates. Afghanistan was still to recover from the impact of war and internal strife. Although Bhutan remains constrained by its basic structural features of being landlocked and small, its output growth at a steady 5 per cent annually in recent years has been one of the best among this group of countries. Maldives kept up the best performance among the five, its GDP growing at rates comparable with some of the best in the whole of the ESCAP region. The other major economies of South Asia showed improvements, although Pakistan suffered a set-back in 1993 owing to the adverse effects of weather on the country's agriculture, and the political situation prevailing in the country prior to the October 1993 general elections. The extensive economic reform measures being carried out by almost all the South Asian countries appear to have started showing beneficial results although their full impact can only be felt over a period of time.

Output growth

Afghanistan requires an immediate restoration of civil order, reestablishment of transport and communication links and restoration of production in agriculture and industries to rehabilitate its economy. The United Nations had drawn up an action plan for immediate rehabilitation with a provisional cost of nearly $600 million to be implemented over a period of two years. It identified several priority actions needed to address the immediate issues. The primary task was seen as the revival of output growth and the stabilization of prices with an acceptable balance-of-payments outcome. Agricultural production was about half of its pre-war level while some crop yields were as much as 70 per cent lower. Most manufacturing enterprises ceased to operate or were producing well below capacity because of war damage and shortages of raw materials and spare parts.

The action plan aimed at a programme of crop substitution to boost food production. Reconstruction of ruined irrigation systems was regarded as crucial, and more than half the funds required were to be used for this purpose. The plan emphasized rehabilitation and reconstruction projects and restoration of energy supplies. A significant part of the planned investment is to be targeted at the electricity generation system, which has suffered widespread deterioration and destruction. About 60 per cent of the country's 2,500 kilometres of highways required major reconstruction. Regional roads were in generally poor condition. Apart from their restoration the United Nations action plan envisaged the establishment of satellite links to allow communication with major international centres and between the capital and other Afghan cities. Considerable attention is also given in the plan to health, education, housing, and water and sanitation.

The economy of Bangladesh was estimated to pick up to growth of 5 per cent in the fiscal 1993. The devastating 1991 cyclone, widespread floods in the northern parts of the country, and the difficulties associated with political transition to a democratic parliamentary system of government, had limited the economy's growth to 4.0 per cent in the fiscal year 1992.

Favourable weather conditions, coupled with the impact of the agricultural sector reform programme pursued by the Government, raised the growth rate of the sector to 4.5 per cent in 1993 from 3.9 per cent in the previous year. Production of food grains rose by more than 2 per cent to record 19.7 million tons. Cash and other subsidiary crops such as jute and sugar cane, also registered increases. Industrial growth rose to 8.6 per cent from 7.7 per cent in 1992, aided by favourable forward and backward linkage effects of higher agricultural growth.

In Bhutan, real GDP growth in 1992 was 5 per cent, the same as in 1991. Agricultural output growth, at 3.4 per cent, was also the same as in the previous year. Industrial growth was higher at 9 per cent rising from 5.4 per cent in 1991, reflecting the increased value of electricity exports to India.

In 1992, real GDP growth in Maldives is estimated to have fallen to 6.3 per cent from 7.6 per cent in 1991. A decline in fish exports was more than offset by the rebound in tourism following the end of the Persian Gulf war. The decline in fish exports reflected a slump in global demand, more intense competition from foreign producers, and falling prices in the principal European outlets. Real GDP growth is projected to be around 6 per cent again in 1993. Output in the fisheries sector should increase modestly as external demand and international prices recover, but tourism growth is projected to be lower.

In Nepal, GDP growth was 2.9 per cent in 1993 as a result of the adverse effects of a poor monsoon. While agricultural production declined, industrial output increased sharply, led by advances in construction and the export-oriented manufacturing sector. Agriculture, largely rain-fed, is heavily affected by weather conditions. Agricultural output declined by 1.2 per cent in 1993, with food grains production declining by 10.2 per cent. Production of cash crops increased by 3.4 per cent. Growth in the industrial sector at 8.3 per cent in 1993, mitigated somewhat the decline in agriculture. Production in principal industries, which increased by 16 per cent in 1992, remained at the same level in 1993, despite a decline in hydro-power generation because of the drought-induced reduction of water levels in the reservoirs. However, the production of small industries (particularly carpet and garment) increased substantially during the year. The services sector, especially tourism, showed a strong growth as tourist arrivals rose by 14.1 per cent.

There was a distinct improvement in the economic performance of India in 1992. Real GDP increased by 4.0 per cent aided by a 4.6 per cent growth in agriculture. Industrial value added rose by 1.9 per cent and the service sector grew by 5 per cent. In 1993, GDP was expected to grow by 4.6 per cent, industry by 4.5 per cent, agriculture and allied sectors by 3.6 per cent, and the services sector by 5.5 per cent in value added terms.

India had favourable monsoons for the sixth year in succession and the rainfall was generally well distributed over time and space. The overall agricultural production was estimated to rise by 3.6 per cent in 1993 on top of an increase of 4.6 per cent in 1992. Food grain production was estimated to reach the level of 188 million tons, the highest on record. The provisional indices of industrial production, available for April-August 1993, indicated a growth of 1.8 per cent aided by a growth of 1.0 per cent in manufacturing and 9.3 per cent in the electricity sector, while mining production declined by 2.5 per cent. The annual growth rate of the service sector during two consecutive years, 1990 and 1991, was about 4 per cent, but was expected to recover to 5.5 per cent growth in 1993 owing to governmental operations, trade, infrastructural and financial sector activities.

After four consecutive years of rapid economic growth averaging an annual 7.8 per cent, the economy of the Islamic Republic of Iran was expected to grow at a rate of 6.2 per cent in 1993. The rate of growth had slowed to 6.6 per cent in 1992 from 9.8 per cent in 1991.

During the period 1989-1992, agriculture and services expanded at rates of 5.8 and 4.4 per cent respectively. Government price support for major agricultural produce, financial facilities and input supplies at preferential prices helped to boost agricultural production. In the industrial sector, the average annual rate of growth in gas, water and power output was 21.4 per cent. Mining, oil and construction sectors recorded annual average rates of growth of 12.3, 11.8 and 3.6 per cent during the period 1988-1992.

As a result of a series of exogenous shocks, both domestic and external, economic growth in Pakistan decelerated in the fiscal year 1993. The first half of the fiscal year witnessed unprecedented floods which caused extensive damage to agriculture, physical infrastructure and related manufacturing activities. The worst hit was the cotton crop, which has been sustaining the country's healthy economic growth in the recent past. Furthermore, international recession adversely affected the demand for and prices of Pakistani textiles and resulted in an overall deterioration in the terms of trade. The tasks of rehabilitation and reconstruction of flood-affected people and property led to unanticipated yet unavoidable expenditures. In addition, the second half of the year was marked by political uncertainties which created a lack of confidence among domestic and foreign investors.

As a result of these factors, the growth rate of GDP in 1993 was estimated at only 3 per cent. It was expected that the economy would recover from these setbacks and regain its past trend of relatively high economic growth. On account of the good performance expected from the agricultural sector, it is estimated that the overall growth of the economy would be around 5.0 per cent in the fiscal year 1994. Improved performance from the agricultural sector was expected mainly from the high growth of cotton output (about 30 per cent) while the wheat crop was expected to register a growth rate of only 1 per cent.

The large-scale manufacturing sector was projected to grow at a rate of 7.5 per cent in 1994, reflecting the increased rate of industrial investment during the past few years. As the reconstruction activities would continue during 1994, continued strong growth (6.5 per cent) was expected in the construction sector. While the electricity and gas sector would continue to grow fast (9 per cent), the growth of value added in the transport and communications sector was likely to slow down considerably on account of the large increase in fuel prices.

In Sri Lanka, the estimated GDP growth rate of 5.8 per cent for the year 1993, based on the performance of the first three quarters of the year, was the second highest level of economic activity in the country after the 6.2 per cent in 1990. The rebound in the growth in agriculture from 1.5 per cent decline in 1992 to 4.9 per cent positive growth in 1993, was largely the direct result of a good weather pattern which prevailed during the whole year. The output of tea, paddy and other subsidiary and minor agricultural export crops increased substantially. The improved management brought in by the private management companies in plantations also contributed to the growth of the country's tea production.

Industry, accounting for approximately 30 per cent of GDP, became the leading sector of the economy. The industrial sector was estimated to grow by 7.2 per cent in 1993 as against 7 per cent in 1992. Manufacturing was expected to grow by 9.0 per cent, exceeding the overall industrial growth rate. The service sector, which accounted for nearly 50 per cent of the country's GDP, was expected to expand by 5.2 per cent, reflecting expansion in trade, tourism, banking, insurance etc.

Demand components

Savings and investment activities in the economy of Bangladesh remained low-keyed. The gross domestic savings as well as the gross investment rates, in fact, appeared to have declined in 1992. A gradual rise of the investment rate to 18 per cent by 1995, together with a pick-up in the savings rate, was expected as the present reform measures yield a higher return on investment and uncertainties give way to stable expectations. The Government budgetary situation has improved. In the 1994 budget, a gross revenue surplus of 30 billion taka has been estimated. On the expenditure side, allocations to priority sectors such as education, health and population control, and transport have been increased significantly. Special emphasis has been given to the operation and maintenance of government assets, and allocation for this purpose under various heads has been considerably increased. Monetary growth remained in check with narrow money growing by 9.8 per cent in 1993 as against 13.6 per cent the year before. M_2 rose by 10.6 per cent as compared with 14.1 per cent in 1992.

The indications are that gross domestic investment in Bhutan stagnated in 1992 from a lack of viable projects. However, private consumption remained buoyant, as indicated by an expansion in personal credit. The Government's domestic revenue did not increase substantially as an increase in tax revenue from a general revision in tax rates was largely offset by a decline in non-tax revenue mainly because of lower receipts from public enterprises. Both current and capital expenditure exceeded their original budgeted figures resulting in overall budget deficits, which were financed largely by domestic borrowing from the Royal Monetary Authority.

Broad money supply expanded by almost 30 per cent in 1991 and by 24 per cent in 1992. The surge in liquidity was caused by an increase in net foreign assets and net credit to the Government. The excessive money supply raised the demand for consumer goods imported from India, which put further pressure on dwindling rupee reserves.

The savings-investment activities in the economy of Nepal showed signs of improvement. The ratio of investment to GDP increased to 21.9 per cent in 1992 compared with 21.1 per cent in 1991. Similarly, the savings rate increased substantially to 9.5 per cent from 7.4 per cent in the previous year. Fixed capital formation, however, remained at 20 per cent of GDP in 1992, the same as in the preceding year.

Despite considerable efforts in revenue mobilization, government domestic borrowing in 1993 exceeded a target of 0.75 per cent of GDP mainly owing to a shortfall in revenue. Total public sector domestic borrowing amounted to 2.5 per cent of GDP against a target of 1 per cent, although the performance of public enterprises had improved. The revenue shortfall was occasioned by a reduction of the average duty rates on imports under tariff reforms, under civil service reform the cost of compensation packages offered to employees retiring early was another reason for an increased budget deficit. Nevertheless, both regular and development expenditures were contained within the budgeted figures. Broad money growth accelerated in 1993. The balance of payments strengthened further with a substantial increase in foreign reserves which however contributed to a rapid growth of broad money.

Savings and investment activities in the Indian economy suffered a decline. Gross domestic savings as a percentage of GDP at current market prices declined from 24.3 per cent in 1991 to 22.4 per cent in 1992 owing to a sharp fall in household savings. The gross saving rate of the public sector, however, improved marginally from 1.7 per cent of GDP in 1991 to 2 per cent in 1992. Gross domestic investment declined from 25.5 per cent in 1991 to 24.6 per cent in 1992. The brighter side of the savings-investment scene was an increase in the net inflow of foreign capital from 1.2 per cent of GDP in 1991 to 2.2 per cent in 1992. In 1993, the savings investment situation was expected to improve with gross domestic savings-increasing to 23.6 per cent of GDP and gross domestic investment increasing to 25.3 per cent with an inflow of foreign capital, estimated to reach 1.7 per cent of GDP.

Budgetary deficits have been one of India's major structural problems. The budget deficit as a proportion of GDP increased from 0.9 per cent in 1981 to 6.9 per cent in 1990. In an effort to correct the imbalance, the main thrust of economic reforms initiated in 1991 was to reduce the deficit through expenditure control and additional resource mobilization. By 1992, the deficit was reduced to 5.3 per cent of GDP and was targeted at 4.7 per cent in 1993.

Money supply (M_3) growth was modest during 1993. The expansion of bank credit by only 0.4 per cent was significantly lower than the 7.3 per cent of the year before. The end of year growth in the money supply was expected to be 10 per cent as against a target of 13 per cent.

Real domestic consumption and investment expenditure in the Islamic Republic of Iran increased by 9.3 and 19.7 per cent respectively in 1993 over the previous year. The investment GDP ratio had stood at 28.1 per cent in 1992. Also, owing to the Government's successful effort in enforcing budgetary discipline, about 93 per cent of the revenue expected in the approved budget was realized. The major factor in increasing government revenue was the rapid growth of tax revenue. However, government current and development expenditures increased rapidly. As a result, total government expenditure registered 35.7 per cent rise over the previous year. The outstanding balance of government indebtedness to the banking system grew by 11.4 per cent. Although the objective of monetary policy in 1992 was to limit the rate of growth of private sector liquidity (M_2) to about 16 per cent, it had actually reached 34.8 per cent.

The savings-investment situation in Pakistan was expected to record only marginal improvements in the fiscal year 1994. Improved returns on savings because of interest rate increases and the proposed reform of the insurance and social security system were expected to improve the rate of private savings significantly. Domestic savings would, therefore, increase to 16.8 per cent of GDP in 1994 as against 14.7 per cent in 1993 and 14.3 per cent in 1992. Similarly, gross fixed investment was expected to increase to 18.9 per cent of GDP in 1994, marginally higher than in 1993. Stringent budgetary measures would lead to a decline in public investment as a proportion of GDP, from 9.0 per cent in 1993 to 8.8 per cent in 1994. However, improved financial stability could generate significant increases in private investment.

The fiscal deficit was expected to be contained at 7.7 per cent of GDP in 1993, higher than the 6.4 per cent of 1992, partly due to contingency expenditures required to repair damage caused by floods. The Government imposed a 10 per cent cut on all expenditure in 1993, reflecting a strong commitment towards deficit reduction. Closer cash management by the Treasury and other administrative measures such as secondary clearance of already approved capital expenditure, also helped to curtail government expenditure. Revenue receipts remained at around 20 per cent of GDP.

The budget for fiscal year 1994, presented in June 1993, estimated a 16.7 per cent increase in revenue compared with the revised 1993 estimates. The total expenditure was estimated to be higher by 9.2 per cent, implying an overall reduced deficit of 5.5 per cent of GDP. Despite a large fiscal deficit, the rate of monetary expansion decelerated in 1993 owing to a contraction of net foreign assets. Monetary assets (M_2) increased by 16 per cent during the year.

An improvement in the savings-investment activities was noticeable in Sri Lanka. Gross domestic investment as a percentage of GDP showed an increasing trend, rising from 21.7 per cent of GDP in 1989 to 23.7 per cent GDP in 1992 and was projected at 24.9 per cent for 1993. The share of government sector investment, which was nearly 12 per cent of GDP five years ago, came down to 7.7 per cent in 1992 and was expected to be 9.7 per cent in 1993. Domestic savings, estimated at 15.9 per cent of GDP in 1993, was the highest rate in recent years.

Inflation

Fiscal restraint accompanied by a slow growth in money supply and a good harvest, caused the inflation rate in Bangladesh, measured by the cost-of-living index, to decline to an all-time low of 1.4 per cent in 1993 as against 5.1 per cent in the previous financial year.

In Nepal, the high rate of 21 per cent consumer price inflation in 1992 was mainly because of adjustments in the prices of goods and services provided by public enterprises, and a depreciation of the currency in the process of exchange rate reforms. The rate of inflation stabilized in 1993 at an annual average of 11 per cent.

The most important benefit of economic reforms in India has been the containment of inflation. The annual rate of inflation, which had peaked at nearly 17 per cent in August 1991, came down steadily to 9.7 per cent by the end of 1992, and was expected to be still lower in 1993. Prices of some essential goods such as rice, condiments and spices, raw cotton, oil seeds, edible oils and cement had declined in absolute terms.

The economy of the Islamic Republic of Iran encountered rising inflationary pressures in 1992 when the average consumer price index grew by 21.6 per cent compared with 19.6 per cent in 1991. The increase in the wholesale price index was even higher at 33.4 per cent in 1992 compared with 28.1 per cent in 1991. The main factors contributing to these pressures were expanded government activities and high rates of liquidity creation.

On account of the deceleration in monetary expansion, the inflation rate in Pakistan decelerated during 1993. The increase in the consumer price index was 9.3 per cent as compared with 9.6 per cent in the previous year, a further decline to 8.8 per cent was expected in 1994.

Inflation in Sri Lanka remained at the double-digit level in 1993. The Colombo Consumer Price Index was expected to rise by 11.5 per cent. The depreciation of the Sri Lankan rupee by 6 per cent against the US dollar during the year, the increase in the tariff rates on electricity by 30 per cent, and a similar increase in the tariff on water, are some of the cost-push inflationary factors operating in 1993. On the demand side, the relaxation of the credit ceiling on commercial banks exerted inflationary pressures.

Policy response

In South Asian countries generally, economic policy in recent years has focused on structural adjustment and stabilization. In Bangladesh, stabilization measures, consisting of a cut-back in the annual development programme and current expenditures, along with tight monetary management have been enforced. Privatization programmes, investment incentives to attract private investment, and the relaxation of exchange control targeting a convertibility of the taka on current accounts, were being implemented. Continued liberalization of import policy was aimed at easing the import of raw materials, intermediate goods and capital machinery, and providing incentives to exports.

Among the steps taken with a view to stimulating investment, the Government set up a Securities and Exchange Commission and abolished the Office of the Controller of Capital Issues to develop the country's capital market. Capital gains tax on share transfers have been withdrawn. Bangladeshi companies have been permitted to issue securities to foreigners and non-residents.

The financial sector has been undergoing reforms with a major focus on reform of interest rates. All lending rates are now prescribed by commercial banks themselves except for agriculture, exports and small and cottage industries, for which an interest band is prescribed by the central bank. The interest subsidy was gradually withdrawn and the interest rate was freed from various measures of control by the central bank. The central bank has used the bank rate instrument to stabilize and stimulate the economy. Towards that end the bank rate was lowered four times during 1993.

India has been implementing, since 1991, an extensive programme of economic reforms using fiscal, monetary, financial as well as industrial, trade and investment policy tools. India faced one of its worst economic crises in 1990/91, of which the financial counterpart was manifested in an almost $8 billion deficit in the current account balance of payments with foreign exchange reserves falling to an all-time low, and the government fiscal deficit rising to an all-time high. Reforms, therefore, were geared initially towards correcting the financial imbalances focusing on reducing the fiscal deficits which were also identified as being responsible for high rates of monetary growth and inflation, and large current account balance-of-payments deficits.

A rigorous scrutiny of capital expenditures envisaged under the five-year plan and a pruning of current expenditures have been a major part of the efforts to reduce the fiscal imbalance. Extensive tax reform measures with a view to enhancing revenue, along with other objectives, were introduced.[1] The measures achieved their intended effect in the targeted time. The fiscal deficit came down to 5.3 per cent of GDP in 1992/93 and has been targeted at 4.7 per cent in 1993/94. The current account balance-of-payments deficit was halved to 1.5 per cent of GDP in 1991/92 as fiscal, monetary and trade control measures restrained imports. As the initial harsh measures were gradually lifted, with the ultimate goal of establishing more liberal trade, investment and production regimes, current account of the balance of payments deteriorated to 2.6 per cent of GDP in 1992/93 and has been projected at 1.8 per cent in 1993/94. Stabilization policies were thus on course.

India has also initiated significant measures of structural reforms involving investment, trade and tariff laws and enterprise reforms that envisage privatization of public enterprises and improvement of the operational efficiency of enterprises remaining in the public sector, among other measures. The basic objectives of all measures have been to encourage private investment, including foreign direct investment, and to stimulate domestic production and foreign trade. Tariff reductions, tax reforms seeking rationalization and appropriate lowering of tax burdens, and administrative and procedural simplifications and streamlining have been geared to achieve the purpose. The exchange rate and the domestic credit regimes have been freed in a large measure from the previous controls to permit the market forces to play a greater role in the financial and capital markets. In fact, the Indian rupee, has been made convertible for all current account transactions.[2]

The efforts of the Government of the Islamic Republic of Iran to stabilize its finances and the economy, upset during the war years in the 1980s, have achieved considerable success although there were still problems. In 1989, the first year after the Iraq-Iran war ended, government revenue in the Islamic Republic of Iran as a proportion of GDP declined to 10 per cent of GDP compared with 20 per cent in 1981. The Government was obliged also to cut its expenditure by one half from a proportion of 36 per cent of GDP in 1987, the cuts falling mostly on capital expenditure. Even then revenue could finance only about 50 per cent of budgetary expenditure. A drastic fall in the oil revenue from 14 per cent of GDP in 1981 to 2.5 per cent in 1989 had led the country to its predicament. Most of the deficits were financed by the domestic banking system, predominantly the central bank. The resulting monetary growth translated into high rates of inflation and substantial balance-of-payments deficits.

Measures undertaken since then have focused on reducing the budget deficits. By 1992, revenue shortfall amounted to 6.8 per cent of budgetary expenditure. Efforts are being made towards diversification of revenue sources away from dependence on oil, which resulted in non-oil tax revenues increasing from 4.3 per cent of GDP in 1988 to 6.2 per cent in 1992 with an overall revenue-GDP ratio rising to 16.2 per cent. Expenditure control, after the drastic post-war cuts, was less successful than expected. Yet more than a percentage point reduction from 19.4 to 18 per cent was effected between 1988 and 1992. The situation in 1993 worsened somewhat as there had been a 35.7 per cent increase in expenditure owing to a rise in both capital expenditure, and current expenditure pushed up by salary and wage adjustments in the public sector. Although tax revenues also increased by 41.3 per cent, the oil sector from which the bulk of the revenue comes, continued to cause problems.

As in other countries, policies had to be weighed between the objective of stabilization and growth. Thus the monetary and financial reforms in the Islamic Republic of Iran, while seeking to reduce the liquidity resulting from excess spending over the years, also sought to remove the credit

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[1] See details in chap. IV of this *Survey*.

[2] For further details see "Economic reforms: two years after and the task ahead", Discussion Paper, Ministry of Finance, Government of India. Also *Survey*, part one, 1992.

Table II.3 Selected economies of the ESCAP region. Summary of macroeconomic indicators, 1986-1992

(Percentage)

		1986	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
East Asia								
Hong Kong	Savings/GDP	29.4	33.8	35.0	35.7	33.3	31.0	30.5
	Investment/GDP	24.7	27.6	29.9	27.7	28.4	28.0	28.8
	Current account balance/GDP	...	...	...	...	...	...	...
	Budgetary balance/GDP	1.3	2.5	3.0	2.2	0.7	3.5	2.8
	Money supply growth	23.9	46.0	8.5	6.8	13.3	19.5	21.1
Republic of Korea	Savings/GDP	34.0	36.6	38.3	35.6	36.2	36.7	35.2
	Investment/GDP	28.3	29.5	30.6	33.4	36.9	39.0	35.9
	Current account balance/GDP	4.3	7.5	8.1	2.4	–0.9	–3.0	–1.5
	Budgetary balance/GDP	–0.1	0.4	1.6	0.2	–0.7	–1.7	–0.9
	Money supply growth	16.6	14.7	20.2	17.9	11.0	36.8	13.0
South-East Asia								
Indonesia	Savings/GDP	27.3	32.9	34.0	37.5	36.7	35.4	37.3
	Investment/GDP	28.3	31.4	31.5	35.2	36.1	35.0	34.6
	Current account balance/GDP	–5.1	–3.0	–1.8	–1.4	–3.1	–3.6	–3.0
	Budgetary balance/GDP	–3.5	–0.8	–3.1	–2.0	0.4	–4.6	–3.8
	Money supply growth	14.9	9.2	13.3	42.9	15.9	12.1	7.9
Lao People's Democratic Republic	Savings/GDP	...	...	2.2	1.1	0.8	2.0	3.5
	Investment/GDP	...	...	15.1	14.5	14.5	12.7	14.0
	Current account balance/GDP	–9.2	–16.2	–17.9	–18.7	–11.6	–12.0	–8.1
	Budgetary balance/GDP	–6.5	–5.8	–20.4	–16.5	–13.5	–9.5	–8.9
	Money supply growth	69.9	82.2	75.7	107.6	12.4	5.2	24.5
Malaysia	Savings/GDP	32.1	37.3	36.3	34.5	32.6	31.1	33.8
	Investment/GDP	26.0	23.2	26.0	29.1	32.1	36.3	35.2
	Current account balance/GDP	–0.6	8.1	5.0	–0.8	–3.9	–9.8	–3.2
	Budgetary balance/GDP	–10.5	–7.7	–4.3	–5.1	–1.2	–4.4	–2.9
	Money supply growth	2.8	12.8	14.4	17.3	15.6	9.9	9.4
Myanmar	Savings/GDP	10.1	8.1	11.1	13.2	18.0	25.3	11.5
	Investment/GDP	12.7	11.6	12.8	9.4	12.5	11.2	12.0
	Current account balance/GDP	–4.7	–3.5	...	...	–2.6[a]	–1.6[a]	–0.5[a]
	Budgetary balance/GDP	–2.5	–2.2	–3.0	–4.2	–5.2	–6.4	–3.1
	Money supply growth	41.4	–42.0	–65.4	36.1	43.5	35.3	...
Philippines	Savings/GDP	19.1	21.3	21.4	20.6	18.1	18.6	20.6
	Investment/GDP	16.0	18.0	18.4	21.8	24.9	20.9	22.5
	Current account balance/GDP	2.5	–1.9	–1.7	–4.3	–6.9	–3.1	–2.6
	Budgetary balance/GDP	–5.0	–2.4	–2.9	–2.1	–3.5	–2.1	–1.2
	Money supply growth	17.4	24.6	13.7	32.8	14.3	15.9	9.1
Singapore	Savings/GDP	39.3	40.0	42.5	44.1	45.1	45.8	47.1
	Investment/GDP	38.5	39.0	36.9	35.0	39.7	38.2	40.8
	Current account balance/GDP	1.9	–0.5	3.9	9.0	5.5	8.2	6.4
	Budgetary balance/GDP	1.5	–2.7	7.0	10.4	11.3	...	...
	Money supply growth	11.8	12.3	8.4	14.9	11.0	7.7	12.7
Thailand	Savings/GDP	22.4	24.8	29.8	31.1	32.3	34.4	35.9
	Investment/GDP	21.8	23.9	28.8	31.5	36.5	39.5	39.4
	Current account balance/GDP	0.2	–1.0	–3.1	–3.9	–9.2	–8.2	–7.9
	Budgetary balance/GDP	–4.4	–2.3	0.7	3.1	4.8	4.9	3.2
	Money supply growth	19.3	29.3	12.2	17.7	11.8	13.8	12.3

(Continued on next page)

Table II.3 *(continued)*

(Percentage)

		1986	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*
Viet Nam	Savings/GDP	–2.4	–2.1	–0.2	–0.2	2.1	4.8	6.9
	Investment/GDP	11.7	10.9	14.4	11.6	11.5	11.6	12.0
	Current account balance/GDP	...	–3.8	–4.6	–7.7	–3.1	–5.6	–5.3
	Budgetary balance/GDP	–4.5	–3.6	–5.4	–7.0	–3.1	–2.9	–1.6
	Money supply growth	...	301.8	426.5	109.5	31.4	58.6	42.5
South Asia								
Bangladesh	Savings/GDP	3.2	2.8	2.2	2.5	2.3	2.8	2.6
	Investment/GDP	11.0	13.3	13.5	10.7	10.9	10.5	9.7
	Current account balance/GDP	–8.1	–5.5	–5.7	–8.3	–5.5	–3.7	–2.6
	Budgetary balance/GDP	–7.6	–8.3	–7.1	–7.3	–7.7	–6.9	–4.6
	Money supply growth	8.8	2.0	4.2	12.9	9.6	7.7	13.6
Bhutan	Savings/GDP	...	...	...	...	...	...	...
	Investment/GDP	...	30.2	38.6	33.1	33.4	35.6	35.1
	Current account balance/GDP	–42.9	–21.6	–27.7	–18.0	–19.2[a]	–26.7[a]	–26.5[a]
	Budgetary balance/GDP	–3.5	...	0.8	–9.9	–7.9	–2.5	...
	Money supply growth	5.8	14.4	30.1	32.6	–1.2	38.9	...
India	Savings/GDP	19.5	21.9	24.6	23.8	23.6	24.3	22.4
	Investment/GDP	21.6	23.6	25.0	27.1	26.3	25.5	24.6
	Current account balance/GDP	–2.2	–2.2	–2.7	–2.6	–2.8	–1.5	–2.6
	Budgetary balance/GDP	–9.3	–8.4	–8.1	–8.2	–6.9	–6.0	–5.3
	Money supply growth	16.1	13.5	16.5	18.0	14.3	22.6	12.4
Iran (Islamic Republic of)	Savings/GDP	29.3	29.8	23.5	23.1	22.9	26.3	29.1
	Investment/GDP	24.3	23.6	19.3	17.6	18.5	26.0	28.1
	Current account balance/GDP	–2.2	–0.8	–0.6	0.0	0.1	–1.1	–0.4
	Budgetary balance/GDP	–7.5	–6.7	–9.4	–3.9	–1.8	–2.3	–1.8
	Money supply growth	...	17.3	19.4	6.7	18.1	21.8	20.0
Maldives	Savings/GDP	6.8	21.6	21.3	21.6	23.0	...	...
	Investment/GDP	36.5	60.5	57.4	65.5	64.2	...	...
	Current account balance/GDP	–0.3	8.7	8.2	9.2	7.0	–6.1	–18.7
	Budgetary balance/GDP	–12.1	2.3	2.7	–4.1	–14.0	–14.8	–20.4
	Money supply growth	12.4	5.7	12.7	17.5	17.8	26.9	14.9
Nepal	Savings/GDP	11.7	12.4	11.0	9.9	7.3	7.4	9.5
	Investment/GDP	21.0	21.8	22.1	22.0	19.4	21.1	21.9
	Current account balance/GDP	–8.0	–7.2	–11.6	–10.2	–10.9	–13.0	–9.0
	Budgetary balance/GDP	–7.2	–6.6	–6.2	–10.3	–7.7	–6.2	–8.9
	Money supply growth	23.8	24.9	13.2	19.3	21.2	24.0	19.5
Pakistan	Savings/GDP	10.9	13.9	12.4	12.6	13.2	17.1	14.3
	Investment/GDP	18.8	19.1	18.0	18.9	18.6	18.7	18.7
	Current account balance/GDP	–3.6	–3.0	–5.4	–4.9	–5.4	–5.6	–5.2
	Budgetary balance/GDP	–9.2	–7.3	–6.3	–7.4	–7.1	–6.3	–6.4
	Money supply growth	18.0	19.1	9.7	14.3	17.3	20.2	21.5
Sri Lanka	Savings/GDP	12.0	12.8	12.0	12.2	14.3	12.8	14.7
	Investment/GDP	23.7	23.3	22.8	21.7	22.2	22.9	23.7
	Current account balance/GDP	–9.3	–7.6	–8.6	–8.6	–5.9	–8.8	–6.6
	Budgetary balance/GDP	–10.1	–8.7	–12.7	–8.6	–9.9	–11.6	–7.3
	Money supply growth	12.8	18.3	29.1	9.1	12.8	17.7	7.4

(Continued on next page)

Table II.3 *(continued)*

(Percentage)

		1986	1987	1988	1989	1990	1991	1992
Pacific island economies								
Fiji	Savings/GDP	23.0	17.1	16.7	18.2	19.8	16.7	19.0
	Investment/GDP	18.2	16.0	14.8	14.7	19.3	17.3	17.2
	Current account balance/GDP	–1.9	–2.4	–0.3	0.1	–5.4	–2.1	1.5
	Budgetary balance/GDP	–4.8	–5.0	–0.7	–2.9	–2.2	–2.3	–0.1
	Money supply growth	24.9	–2.2	62.2	–3.4	0.6	3.4	14.5
Papua New Guinea	Savings/GDP	11.9	14.0	18.5	11.1	16.1	17.5	19.0
	Investment/GDP	19.7	20.5	27.2	23.2	24.4	27.4	20.6
	Current account balance/GDP	–12.0	–13.2	–15.0	–16.0	–9.9	–15.5	–10.1
	Budgetary balance/GDP	–2.6	–1.1	–1.0	–1.2	–3.3	–1.8	–5.4
	Money supply growth	5.1	9.6	14.5	6.9	–0.2	21.3	...
Samoa	Savings/GDP	–19.2	–23.4	–10.4	–4.9	–6.7	–4.5	...
	Investment/GDP	25.5	29.6	27.8	27.3	27.0	29.0	...
	Current account balance/GDP	–4.5	–5.6	–5.6	–1.6	6.3[a]	–24.0[a]	–22.8[a]
	Budgetary balance/GDP	2.2	0.3	6.2	1.8	–2.0	...	...
	Money supply growth	8.4	32.6	5.2	9.8	42.6	–9.2	–11.4
Solomon Islands	Savings/GDP	–2.3	–9.8	–5.9	–12.7	...	...	...
	Investment/GDP	26.5	23.1	37.1	31.9	32.1	32.5	33.0
	Current account balance/GDP	–28.6	–30.2	–40.4	–44.9	–14.3[a]	–14.1[a]	–13.6[a]
	Budgetary balance/GDP	–6.0	–13.6	–9.5	–2.0	–9.0	–15.0	...
	Money supply growth	7.2	22.5	31.7	3.8	26.6	23.4	36.8
Tonga	Savings/GDP	–5.5	–6.5	–8.0	–5.4	–4.5	-3.5	-3.5
	Investment/GDP	23.5	21.2	21.4	21.5	22.5	24.2	22.2
	Current account balance/GDP	–3.3	–0.8	–19.5	–12.4	–14.3[a]	–14.1[a]	–13.6[a]
	Budgetary balance/GDP	–4.7	–5.8	–0.5	0.1	–1.3	–6.0	...
	Money supply growth	21.6	14.3	3.2	9.5	29.8	15.2	–12.7
Vanuatu	Savings/GDP	1.4	4.9	3.2	5.7	8.8	7.6	7.8
	Investment/GDP	29.4	33.0	27.8	33.4	40.8	35.0	36.0
	Current account balance/GDP	–21.0	–30.9	–19.6	–17.1	–13.9	2.1	3.4
	Budgetary balance/GDP	–7.0	3.8	–4.2	–8.1	...	...	...
	Money supply growth	6.4	50.1	–16.7	24.3	–10.9	12.4	...

Sources: ESCAP based on International Monetary Fund, *International Financial Statistics,* various issues; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries* (Oxford University Press, July 1993), and *Asian Development Outlook* (Oxford University Press, April 1993); and national sources.

Notes: GDP means gross domestic product; current account balance excludes official transfers; money supply refers to M1.

[a] Including official transfers.

ceilings which were used as the most important instruments of monetary control in the past. This permitted a larger proportion of the credit facilities to go to the private sector with a corresponding reduction of credit to the public sector. This was also in line with the objective of increasing the role of the private sector in the economy. Privatization of nationalized industries using the stock market for share divestitures has been pursued for the past four years.

Nepal has also been using similar structural and stabilization measures as Bangladesh and India since 1991. Budgetary imbalance, excessive monetary growth, inflation and unsustainable balance of payments have been targeted as the focus of remedial measures along with a simultaneous process of reorganizing and restructuring production. The latter objectives, however, called for substantial liberalization of tariffs and taxes which tended to aggravate financial problems of the public sector. In efforts towards monetary stabilization, the central bank issued bonds on its own account to mop up excess liquidity in the banking system which contributed to a reduction in the net domestic assets of the banking system in 1993. However, structural change and financial liberalization measures resulted in strong growth of broad money.

As part of its ongoing process of economic reforms and adjustment, Pakistan also focused on a reduction of its budgetary deficits running high at 6.3 per cent of GDP in 1990/91, which was also seen as a source of monetary expansion, high inflation and balance-of-payments deficit. Among the efforts to reduce the deficit were an expansion of the base of the tax system, a shift in emphasis favouring generalized income and consumption taxes and less foreign trade and selective sales taxes, withdrawal of many exemptions and concessions on the revenue side, and a consolidation of expenditures. With these measures, a reduction in the budget deficit to 4.8 per cent of GDP was targeted for the fiscal year 1993. However, the target was upset as a result of unanticipated expenditures related to relief, rehabilitation and reconstruction work in the wake of the damage caused by excessive rains and floods early in the year. Realization of revenue also fell short of the target. Monetary policy again had to be geared to minimizing the consequences of the budgetary deficit while catering for the credit needs of the productive sector of the economy.

Within the framework of a liberalized market economy regime with the greater participation of the private sector, a new credit/deposit ratio was introduced for commercial banks as an instrument of credit control in 1992, replacing the credit ceiling system which was abolished as a step to move towards market-oriented monetary management. An annual credit plan was implemented to ensure adequate flows of credit to the private sector for all productive activities and discourage credit flows for speculative and inessential activities. Thus monetary policy was a blend of liberalism and planned control to ensure price stability as well as expansion in production. Nevertheless, actual monetary expansion during the year exceeded the policy target as well as the rate of the previous year owing to both government borrowing and private sector credit expansion.

The latest thrust of policy reforms in Sri Lanka has emphasized a reduction in the budgetary deficit which ran at 11.6 per cent of GDP, in 1991. Budgetary reforms have continued scaling down various subsidies from the budget, a practice that was introduced since the reforms were initiated in the late 1970s. Recent measures have emphasized tax reforms aimed at broadening the tax base and rationalizing tax rates. The rates of direct taxes were lowered and the rate structure of the country's turnover tax system was rationalized with the elimination of certain rate bands to facilitate a move towards the introduction of a value added tax system early in 1994.

Monetary policy was geared to minimizing the expansionary effects of the budgetary deficit still running at above 8 per cent of GDP in 1993, the major part of which, however, was being financed by external aid and credits. As part of efforts to promote industrialization, investment and trade within a liberal framework of policy, foreign investors were granted liberal tax concessions including duty free imports. As a trade liberalization measure, tariff bands have been reduced, and the maximum tariff rate is targeted to be reduced to 35 per cent over two years while export duties are expected to be eliminated. The exchange rate is to operate at competitive market rates and the removal of exchange control on all current account transactions is expected to be effective early in 1994.

The Central Asian republics

After the dissolution of the Soviet Union in December 1991, the Central Asian republics operated as independent economic entities for the first time in 1992. The break was, of course, less clear-cut in economic areas than in the political sphere with many old links being retained. In particular, the rouble continued in use in all of these republics, and they shared in the high inflation of the rouble zone. Because economies of these republics had been closely integrated into the Soviet system, there was considerable disruption of supplies and loss of markets, which translated into substantial drops in output throughout the region. Thus, the two dominant features of economic performance in 1992 were high rates of inflation and falling output levels.

The disintegration of the Soviet Union disrupted many supply chains and reduced the output of many goods and services. In addition, some goods produced under the command system had no market after 1991. Even conceptually, it is impossible to value some of these changes; using pre-1992 relative prices would give too much weight to items whose output has fallen, while some previously produced items do not have post-1992 prices because they cannot be sold. In addition, there is a reporting bias; under the old system managers had an incentive to overstate their production levels, while in the new system producers are wary of publicizing their sales because this might attract the tax collectors' attention. On top of all this, are the difficulties of reorienting national accounts from Soviet practices to international norms and of making international comparisons when the exchange rate is changing rapidly.

Although the qualitative dimensions are clear, it is thus impossible to quantify these countries' economic performance with any precision. The establishment of independent statistical offices with responsibility for preparing accurate and timely measures of the major macroeconomic variables was not a feature of the old system and has not been a top priority of the new States. Nevertheless, some consistent inflation and output data were available for 1992.

The national governments, the International Monetary Fund (IMF) and the World Bank have been working together to construct national accounts for the former Soviet republics. To provide a benchmark for cross-country comparisons, the current best estimates of per capita GNP in the Central Asian republics in 1990 are as given in the first column of table II.4. These have been constructed to be consistent with the estimates for all countries given in the World Bank's annually published *Atlas*. In terms of these indicators, all of the Central Asian republics fall into the World Bank's category of middle income countries, although there is a big range from Tajikistan's $1,130 up to Kazkhstan's $2,600. Kazakhstan is clearly far richer than the other Central Asian republics. The other five Asian republics were the poorest of the fifteen Soviet republics.

Output growth

By these accounts, all these republics suffered large drops in output in 1991/92. In 1991, the rates of decline were generally smaller than elsewhere in the former Soviet Union, reflecting the relatively slow start to economic reforms; Kazakhstan suffered the biggest output fall in 1991, partly because of a poor grain harvest. In 1991-1992, all of the Central Asian republics experienced double-digit percentage decline in output, exacerbated in Azerbaijan and Tajikistan by civil unrest and military conflicts. The smallest decline in output was in Uzbekistan and Turkmenistan which adopted the most cautious approach to economic reform. These two countries also had the lowest rates of open inflation in 1992, as they retained a greater number of price controls and subsidies than the other republics.

In 1991, output fell slightly in Azerbaijan, Kyrgyzstan, Turkmenistan and Uzbekistan, and more substantially in Kazakhstan and in Tajikistan. At this stage, the first four republics did better than the former Soviet Union average, but largely because they had not embarked on any serious economic restructuring. In 1992, following the price reforms and introduction of other reform measures, as well as the more serious collapse of inter-republic trade, output fell more rapidly throughout the region. The decline was greatest in Tajikistan and in Azerbaijan. The cumulative decline in output over 1991-1992 was less in Turkmenistan and Uzbekistan where reform was slower, and greater in Kazakhstan and Kyrgyzstan where reform proceeded faster. The different time profile in Kazakhstan reflects in part that republic's different economic base; the important grain sector experienced a poor harvest in 1991 and a good harvest in 1992.

Under normal circumstances, changes in output per head closely parallel changes in income per head. In the former Soviet Union, however, expenditure and income changes diverged from output changes because of the disruption in inter-republic transfers and because of substantial terms-of-trade effects from adopting world prices. Both of these phenomena are difficult to quantify precisely, but the existing estimates reveal that they are likely to have been dominant in determining changes in the economic well-being of some republics between 1991 and 1993.

The magnitude of inter-republic transfers within the former Soviet Union is difficult to establish. Many enterprises were run as All-Union enterprises with centralized accounts irrespective of where actual production took place. Kyrgyzstan's gross national expenditure, divided into consumption and investment, for example, exceeded domestic output by 17 per cent in 1990, which was a very substantial "aid package". In 1991, this gap had been eliminated, even though official net transfers were more or less constant. One plausible explanation of this phenomenon is that All-Union enterprises were anticipating the break-up of the Soviet Union and began transferring resources from subsidiaries to headquarters. Whatever the explanation, Kyrgyzstan's gross national expenditure fell drastically in 1991 with the entire burden falling on consumption expenditure.

The magnitude and time path undoubtedly varied from country to country, but all of the Central Asian republics were net beneficiaries of inter-republic transfers in the former Soviet Union, and all suffered a substantial drop in gross national expenditure during the period 1991-1993. Given the dominant role of Russia within the former Soviet Union, the speed with which the transfers were cut off depended upon retaining good relations with the Russian Federation in the post-Soviet world. The Russian Federation continued to run a surplus on intra-CIS (Commonwealth of Independent States) trade in 1992, but official estimates of its magnitude vary widely (from 58 billion to 3,000 billion roubles)[3] and there is little information on the trade position of individual CIS members with the Russian Federation.

One reason why the Central Asian republics were the firmest adherents to the rouble zone was the willingness of the Russian Federation to continue extending credit to them through the monetary system. This softened the blow, but was at best only a fraction of the aid they had received up to 1990. Kazakhstan was the most favoured of the republics; according to World Bank estimates, inter-republic flows to Kazakhstan still amounted to 11 per cent of GDP in 1992. Azerbaijan and Kyrgyzstan were the least satisfied with credit availability from the Russian Federation, and credit disputes were the catalyst for their decisions to leave the rouble zone in the spring of 1993.

[3] Economic Commission for Europe, *Economic Survey of Europe in 1992-1993* (United Nations publication, Sales No.E.93.II.E.I), p. 86.

In sum, although GDP fell substantially in all of the Central Asian republics in 1992, the economic impact varied. In Turkmenistan, the huge benefit of shifting to world prices sheltered the economy, placing less pressure on the Government to undertake market-oriented economic reforms, which in turn reduced the disruption of output. Given Turkmenistan's trade/GDP ratio of 43 per cent, the shift to world prices represented a one-shot boost to GDP of over one fifth. Kazakhstan also enjoyed a terms-of-trade gain, which probably offset the loss of inter-republic transfers, but because the Government proceeded with faster economic reforms, output was disrupted and average income fell.

Kyrgyzstan and Uzbekistan were not much affected by the shift to world prices, but as relatively poor republics they undoubtedly suffered from the loss of inter-republic transfers. The disruption of trade and the pursuit of economic reforms, particularly in Kyrgyzstan, led to a sharp decline in output, which exacerbated the decline in living standards. The situation was even worse in Azerbaijan and Tajikistan, where armed conflicts added to the terms-of-trade loss and economic disruption.

Macroeconomic adjustment and inflation

The underlying inflation rate throughout the rouble zone was almost certainly in the four-digit zone in 1992. Most estimates are of changes in consumer prices; all are approximations because there are no data on consumption patterns which can be used to determine appropriate weights. In practice, government offices are calculating inflation rates on the basis of a small number of items so that there are wide variations in the figures. The inflation rates used in table II.4 are from PlanEcon, an independent research institution based in the United States which has at least tried to

Table II.4. Economic performance indicators for the Central Asian republics

	Per capita gross national product (US dollars)	*Net material product (percentage change)*		*Inflation (percentage change in consumer price index)*	*Budget deficit (percentage of gross domestic product)*	*Terms of trade impact[a] (percentage)*
	1990	*1991*	*1992*	*1992*	*1992*	
Azerbaijan	1 640	-0.4	-28.2	2 280	-4	-7
Kazakhstan	2 600	-10.3	-14.2	1 738	-6	+19
Kyrgyzstan	1 570	-5.2	-26.0	1 760	-15	+1
Tajikistan	1 130	-8.4	-31.0	1 450	...	-7
Turkmenistan	1 690	-0.6	...	980	...	+50
Uzbekistan	1 340	-0.9	-12.9	640	-12	-3

Sources: World Bank, "Measuring the incomes of economies of the former Soviet Union", World Bank Policy Research Working Papers, WPS 1057 (December 1992); United Nations Economic Commission for Europe, *Economic Survey of Europe in 1992-1993* (United Nations publication, Sales No.E.93.II.E.1), p. 73; PlanEcon Report No. 5-6, 1993, pp. 2-3; International Monetary Fund, *World Economic Outlook* (Washington, DC, May 1993), p. 59; and David Tarr, "How moving to world prices affects the terms of trade in 15 countries of the former Soviet Union", World Bank Working Papers, WPS 1074 (January 1993).

[a] Impact on domestic income of moving from Soviet prices to world prices (1990 base).

make the estimates consistent.

The monthly rate of inflation was several hundred per cent in January and February 1992 when all of the Central Asian republics followed the Russian Federation in removing many price controls and raising the remaining fixed prices. In the Russian Federation the monthly inflation rate then dropped substantially for the next four months, before starting to accelerate during the last part of the year when monetary policy became more accommodating. Kazakhstan and Kyrgyzstan, which followed the Russian Federation in substantially liberalizing prices and enjoying annual inflation rates practically identical to those of the Russian Federation, undoubtedly followed the same time path. Turkmenistan and Uzbekistan, whose initial price reforms were more cautious and which then retained widespread price controls and subsidies, had significantly lower open inflation rates. The inflation rates in Azerbaijan, which liberalized prices, and Tajikistan, which was more cautious on price liberalization, were worsened by conditions of civil war.

By the end of 1992, the Governments of the republics viewed inflation as a serious problem, although there was no consensus over how to reduce it. In October 1992, at the Bishkek summit of the Commonwealth of Independent States, the Presidents of the Central Asian republics had reaffirmed their commitment to remain in the rouble zone, but nothing had been done to reform the monetary institutions in order to permit the pursuit of price stability. By early 1993, all of the republics had national banknotes printed, so that they were prepared to introduce their own national currencies at short notice. In Azerbaijan, the *manat*, which had circulated as a parallel currency since August 1992, became the dominant means of exchange during the second quarter of 1993, taking on all aspects of a national currency by June. Kyrgyzstan introduced its national currency in May 1993 and

Box II.3. National currencies in the Central Asian republics: evolution and implications

After the Soviet Union was replaced by the Commonwealth of Independent States (CIS) in December 1991, all of the CIS members continued to use the rouble as the currency in their economies. The printing presses for rouble banknotes were located in the Russian Federation and the Central Bank of Russian Federation therefore controlled the currency supply. The central banks of the newly independent republics, however, controlled the creation of credit within their own jurisdiction

This institutional arrangement was inherently unstable because of a free rider problem; every central bank had an incentive to create credit because the inflationary consequences were diffused throughout the rouble zone. The cumulative effect of such credit creation was accelerating inflation in the rouble zone, which could only be controlled by a coordinated monetary policy. Inflation also encouraged the use of parallel currencies to supplement roubles printed in Russian Federation. Credit roubles issued by some republics faced problems of acceptability as a means of settling inter-republic payments, which resulted in market-determined discounts or premia for roubles of different republics. The rouble zone was thus not only inflationary, but also became increasingly complex which reduced its basic advantage of facilitating trade among members.

During the second half of 1992, four countries emerging out of the former Soviet Union left the rouble zone. Estonia, Latvia and Lithuania exited in order to pursue their independent macroeconomic stabilization plans; following that move, all of their currencies appreciated against the rouble and during 1993 they all reduced inflation significantly through tighter monetary policies. Ukraine left the rouble zone in formal recognition that its parallel currency had in practice depreciated against the rouble and was exhibiting all of the attributes of a separate currency. Unlike the Baltic States, however, Ukraine continued to pursue easy monetary policy in 1993 with consequent acceleration of inflation.

The six member countries of ESCAP all remained in the rouble zone through 1992. That had allowed them access to Russian credit and raw materials at rouble prices. The value of these benefits was, however, declining as rouble prices were converging to world prices and as deliveries of rouble banknotes became more erratic during 1993. Therefore they moved to create their own independent national currencies.

Azerbaijan had begun issuing the *manat* as a parallel currency, equal to ten roubles, in August 1992 but the number of *manat* in circulation initially remained small. In the spring of 1993, especially after the spread of the war from Nagorno Karabakh to undisputed Azerbaijani territory in April, the Government began to issue increased quantities of *manat*. Meanwhile, the supply of roubles dried up and the quantity of roubles available in the country dropped sharply. By early June, the *manat* was effectively the sole circulating medium and it traded at a discount from the par rate of ten to the rouble.

The other Asian republics took the precaution during the winter of 1992/93 of having banknotes printed, but none of them issued a parallel

Kazakhstan, Turkmenistan and Uzbekistan in November 1993 (see box II.3).

Prices within the former Soviet Union had remained unrelated to world prices despite discussion of price reform in the final years of the former Soviet Union. With the replacement of the Soviet Union by fifteen independent countries, there was more or less a rapid transformation to world prices for inter-republic trade. A major exception was the decision of the Russian Federation to change oil prices gradually, which was a significant incentive for oil-importing republics to remain within the rouble zone. In general, however, prices quickly converged towards world prices and individual republics experienced major changes in their terms of trade. The impact of terms-of-trade changes, however, depended crucially on the composition of imports and exports, with producers of manufactured goods losing and primary producers gaining.

The net terms-of-trade effects of the move to world prices, based on an analysis of 1990 trade flows using a 105-sector aggregation, point to the huge terms-of-trade gain accruing to Turkmenistan, whose exports are dominated by natural gas which was underpriced in the former Soviet Union. Kazakhstan also enjoyed a fairly substantial terms-of-trade gain. The other republics all suffered losses from the shift to world prices, but for Kyrgyzstan and Uzbekistan the net effect was small.

During their first full year of independence, 1992, all of the republics had a certain commonality of macroeconomic experience imposed upon them by membership in the rouble zone, but by 1993 their economies were becoming more differentiated. In 1994, these differentiating features are likely to be increased because five of the six countries left the rouble zone in 1993 and therefore now have greater macroeconomic policy independence.

Economic prospects are brighter in Kazakhstan with its

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currency. *Kyrgyzstan* was the first among them to issue a national currency and declare it sole legal tender. The *som* was released in May 1993. Residents were allowed to exchange roubles at the rate of 200 per *som* during the first week of its introduction after which the *som* was the sole legal tender. The *som* is convertible and its value market-determined. After an initial appreciation, the *som* gradually depreciated against the rouble and the US dollar over the summer, trading around 150-160 roubles by September, 1993.

Turkmenistan announced in August 1993 that it would introduce its national currency in November. This long-planned move was part of a carefully prepared strategy to cement the country's economic independence. The benefits of rouble zone membership were unimportant to a country with abundant energy resources. The *manat* was issued on November 1, with its initial value set at two per US dollar and residents were allowed to exchange their roubles at the rate of 500 for one *manat*.

In September 1993, at a summit in Moscow the leaders of Kazakhstan, Tajikistan and Uzbekistan affirmed their agreement to remaining in a renewed rouble zone. There ensued some confusion later and Kazakhstan and Uzbekistan planned a coordinated withdrawal from the rouble zone in order to minimize disruption of trade between themselves. *Uzbekistan* introduced a temporary currency in November, each *som* coupon equal in value to a rouble. *Kazakhstan* introduced the *tanga* on November 15th. Each resident was allowed a single opportunity to exchange up to 100,000 roubles at the rate of one *tanga* for 500 roubles.

Thus, by the end of 1993, only Tajikistan among the Asian republics of the former Soviet Union remained in the rouble zone. By then, the rouble zone's only other member was the Russian Federation.

What effects can be expected from monetary independence? The immediate impact will be that national authorities will be directly responsible for thier inflation rates. If governments can bring monetary growth under control, they will see inflation drop. If they do not control monetary growth, inflation will accelerate, the currency will rapidly lose value, and confidence could collapse. This need not necessarily happen since governments have now independent control on this very crucial policy instrument, although they also have very limited scope for manoeuvres given the constraints that exist.

In the absence of government security markets, monetary control essentially means reducing the fiscal deficit, which is financed by money creation. While governments will have to work on both revenue and expenditure sides of the budgetary operations, the short-run option lies primarily in reduction in expenditure which, in practice, means reducing subsidies to state enterprises and consumers. These are politically extremely difficult decisions especially against the background of over two years of declining incomes and deteriorating social conditions. Nevertheless, an independent national currency provides a major policy tool to bring about macroeconomic stability which is a basic prerequisite for accelerated long-term growth.

richer and more diversified economy and its immediate attraction to foreign investors in the energy and mining sector. In Turkmenistan and Uzbekistan economic reform is proceeding more slowly. In Turkmenistan, the Government can maintain conservative economic policies and populist measures such as free gas, water and electricity for households because its abundant natural gas can be sold at world prices (giving it a windfall gain compared with the old Soviet prices), but in Uzbekistan economic conservatism is unlikely to be sustainable as the Government runs larger budget deficits in order to support subsidies for uneconomic activities. In Azerbaijan, which had set out along the reform path in 1992, and in Tajikistan, which had not, economic policy had to take a back seat in political debates to the security situation, which, in 1993, added to the economic disruption.

Pacific island economies

Output growth

The open nature of Pacific island economies was manifested again in several ways in their recent economic performance. The effects of recession in industrialized countries, particularly in Australia and New Zealand, dampened their growth. Some island countries succeeded in significantly increasing the volume of exports to be able to sustain or improve their growth performance. This was particularly the case in Solomon Islands where the doubling of log exports in 1992, notwithstanding environmental concerns, enabled the economy to record 8.2 per cent growth during the year compared with 3.2 per cent in 1991. For other countries, the effects of national disasters, such as cyclones in Samoa and Vanuatu, and drought in Tonga, added to their problems and made it difficult to register any improvements in 1992. With the industrialized economies, particularly Australia and New Zealand showing signs of recovery, the island economies should experience improved growth performance in 1993.

Revised estimates of GDP indicated that the Fijian economy grew by 2.8 per cent in 1992, which was lower than the original estimate of 4.9 per cent, but was still better than the 0.7 per cent in 1991. Much of the expansion in 1992 was attributed to higher sugar and gold production and increased tourist arrivals. In fact, sugar production was estimated to have increased by 14 per cent, gold by 61 per cent and copra by 30 per cent in 1992. The number of tourist arrivals increased by 8 per cent. These increases were, however, partially offset by a decrease in the production of cocoa and sawn timber.

Available data suggest that economic activity in Fiji had remained strong during the first half of 1993 with a higher production of sugar and sugar cane while tourist arrivals also remained buoyant. There was a 4.3 per cent increase in tourist arrivals in the first seven months of 1993 compared with the same period in 1992. However, outlook for the manufacturing/garment exports, which had contributed significantly in the past, did not appear to be bright. This is indicated by a decline in the value of garment exports in 1992 which continued well into 1993.

Papua New Guinea achieved GDP growth of 8.6 per cent in 1992 after a 9.5 per cent growth in 1991. This strong recovery came after a 4.4 per cent cumulative decline during 1989 and 1990 following the Bougainville crises. The performance in 1992 was the result of strong growth in agriculture with an increase in both export volumes and weighted average price of export commodities, particularly forestry products, and continued growth of the mineral sector reflecting increased production in the new mines and oilfields. The agricultural sector grew by 2.9 per cent in 1992 compared with a decline of 2.6 per cent in 1991.

The revised data, valued at new base prices, indicate that the economy of Solomon Islands performed well in 1992 with an estimated real GDP growth of 8.2 per cent. This compared well with a cumulative real GDP growth of 10.4 per cent during the previous three years. Much of the growth in 1992 was attributed to log production which increased by 90 per cent. This rate of logging activities, however, raised concerns about both the long-term sustainability of the forest industry and the environmental impact. With the exception of the fish catch and cocoa, most other agricultural products registered increases in 1992. Copra production, for example, increased by 16 per cent. Palm oil products (oil and kernels) also recorded substantial increases. Production of tuna declined by 20 per cent and cocoa by 9 per cent over the previous year's level. Garments and brewery production, the only two major industries, registered growth through substantial foreign investment in both in recent years. In the services sector, the number of tourist arrivals increased by 32 per cent.

The economy of Vanuatu recorded an average annual growth rate of 5 per cent between 1989 and 1990, recovering from the devastation caused by the cyclone Uma. The economic recovery began in 1989 with improvements in both the agricultural and industrial sectors and was further aided by the increasing number of tourists visiting the country. Growth however weakened, to an estimated 4.1 per cent in 1991, largely reflecting the decline in agricultural output. The rate of growth is estimated to have been near zero in 1992. The poor performance in 1992 was attributed to the impact of three cyclones during the first half of the year, with severe impact on the production of export crops, copra and cocoa. Copra output declined by 3.6 per cent and cocoa by 37.5 per cent from the 1991 level. The low prices of these commodities worsened the situation further. Tourism improved the service sector performance while the industrial sector was boosted by building construction to repair cyclone damage.

The vulnerability of Vanuatu to natural disasters was demonstrated yet again when the cyclone Prema struck the country in March 1993, causing further extensive damage to property. In addition to natural disasters, political uncertainty and low commodity prices affected the short-term prospects of economic recovery and the economy was unlikely to grow by more than 2 per cent in 1993.

The economy of Samoa was also adversely affected in 1992 by the destruction caused by the cyclone Val. The economy had in fact been recovering steadily in 1991 following the cyclone Ofa in 1990 when the cyclone Val struck in December 1991. The decline was limited however to 1.5 per cent in 1991 compared with a 4.5 per cent decline in 1990. A further drop by 5.0 per cent in 1992 was estimated with a significant deceleration in agricultural production. An increase in construction activity reflected the emphasis placed on reconstruction and rehabilitation following the cyclone. The rehabilitation programmes continued in 1993 and combined with the expected recovery of the agricultural sector, should enable the Samoan economy to perform better in 1993.

After recording 5.3 per cent in 1991, the rate of economic growth in Tonga declined to 1.9 per cent in 1992. The impact of the recession in the country's main trading partners, as well as the effect of the drought in the first half of the year, contributed to slow economic growth in 1992. The economy is dominated by agriculture and the services, with agriculture accounting for about 40 per cent of GDP and services for nearly 50 per cent. With lower output and exports of copra and squash and tourist arrivals declining by as much as 30 per cent, GDP growth slumped. Manufacturing output also appeared to have remained stagnant.

Structural adjustment and demand management

Many island economies have been liberalizing and deregulating their economies in recent years. In the case of Fiji, these measures became pronounced in the wake of the 1987 political changes, while Papua New Guinea introduced similar economic measures following the Bougainville crises in 1989. Many island economies have also made serious attempts to reform their public sector to improve management, accountability and service delivery. These reflect efforts to reduce the burden on the limited public sector resources. Most countries have attempted to either commercialize, corporatize or privatize the public enterprises.

Public enterprises reform has mainly involved and commercialization of business functions within government departments and/or the corporatization of public enterprises as companies or statutory authorities under government ownership. It has been difficult to privatize these enterprises for various reasons including inadequate business and entrepreneurial skills, lack of understanding of the benefits of privatization and competition, the small domestic markets, and resistance to foreign ownership. Nevertheless, recent policy initiatives of island governments indicate their willingness to permit a greater role for the private sector in economic development.

Most island economies have managed to control their budget deficits in recent years by keeping them below 10 per cent of GDP. Papua New Guinea has been among the most successful in controlling its budget deficit. The Government had deliberately pursued restraint in government expenditure in the light of decreasing external budgetary aid and high debt commitments. As a result, apart from the 5.4 per cent deficit in 1992 the Government has managed to keep its budgetary deficit as a proportion of GDP resonably low in recent years.

However, because of concerns about the inability of the non-mining private sector to generate enough jobs for the rapidly growing labour force, the Government changed its policy direction in 1992 when an expansionary fiscal policy was adopted. As a result, while total revenue receipts remained more or less unchanged in spite of an increase in tax receipts by 22 per cent, total expenditure increased by 14 per cent and hence the deficit tripled. The Government continued its expansionary fiscal policy also in 1993. However, the deficit was budgeted lower than the 1991 level. The 1993 budget, designed in the light of an expected strong performance of the mining and petroleum sectors, also made allowances for substantial increases in social services and increased support for the agricultural sector. Increased revenue from the minerals sector was projected to finance around 30 per cent of government expenditure which was budgeted to increase by 10 per cent from the 1992 level.

Following the 1987 political

changes when the budget deficit reached 5 per cent of GDP, the Government of Fiji attempted to reduce its size and move towards a balanced budget as well as a reduced role of the Government in the economy. Measures taken to reduce the relative size of the Government have included restraint on government expenditure and reform of public enterprises. Although some public enterprises have been corporatized, such as the Fiji Pine Limited and Fiji Posts and Telecommunications Limited, the results have not been satisfactory and a new approach is being developed.

Fiji has managed to control its budget deficit to less than 3 per cent of GDP since 1988. In 1988, it was reduced to 0.7 per cent of GDP. Since then rapid growth in expenditure has caused the deficit to widen to above 2 per cent in 1992. In that year total expenditure increased by 13 per cent over 1991. The high priority for infrastructure expenditure, mainly for roads and bridges, to facilitate private sector development, partly accounted for the expansion. Revenue also rose by 9 per cent and the overall deficit was reduced to 0.1 per cent.

The Government of Fiji has also introduced various measures to reform and broaden the tax base. Following the Fiscal Committee report in 1989, tax reforms have been mainly directed at extending the tax base, improving incentives and reducing the scope for evasion, while at the same time achieving fairness and equity. Among other things, protective foreign trade licences have been replaced with tariffs, maximum duties on imports have been reduced from over 50 to 30 per cent, and public enterprises have been subjected to full company tax. Value added tax (VAT) was introduced on 1 July 1992. In its 1993 budget, the elected Government opted to continue with the economic policies adopted by the interim administration which had called for deregulation of the economy, restraint in government expenditure, and an appropriate wages policy that recognized the importance of international competitiveness.

Tonga adopted cautious fiscal policies throughout most of the 1980s and, as a result its overall budget deficit was reduced. The situation deteriorated in 1990 when the Government, in an attempt to redress the wage disparity that existed between the public and private sectors, awarded a 50 per cent wage and salary settlement to the civil servants. Under the terms of the award, over one half of the increase in the salaries was to be provided in 1990 and the remainder in 1991. The salary increases resulted in a 28 per cent increase in recurrent expenditure, which in the absence of an increase in additional revenue or an effective expenditure reduction in other areas, caused an overall deficit of 1.3 per cent of GDP in 1990 and 6.0 per cent in 1991. The Government, in its attempt to tackle the widening budget deficit, introduced additional revenue-raising measures in 1991 which included increased taxes on selected consumer goods and fuel, and some restraints were imposed on development expenditures and net lending. The overall deficit still persisted in 1992.

In contrast to the early part of the 1980s, Solomon Islands, with the exception of 1989, had experienced relatively large budget deficits in the latter half. The deficits rose sharply in 1991, although the Government planned for a reduced deficit. The main cause of the persistent deficits has been the inability of the Government to control its expenditure, not its failure to raise revenue. In fact, between 1987 and 1990 revenues recorded an annual growth rate of 18.3 per cent, particularly from taxes on income and international trade. There have also been substantial grants under the system of stabilization of export earnings (STABEX) since 1986, which provided the much needed additional revenue. The Government had made attempts to diversify its revenue base including the restructuring of the tax system. The Government, however, faced opposition to its reform programmes aimed at enhancing revenue and reducing expenditure. For example, the major changes planned in the area of direct and indirect taxes for industries in the 1992 budget ran into political opposition and therefore had to be withdrawn. To enhance revenues, the general levy on imports was raised by 10 per cent together with an increase in the duty on log exports. Later, the Government succeeded in getting the parliament to agree to amendments which would include a substantial reduction in personal income tax and the introduction of a broad-based goods tax at 8 per cent effective in 1993.

The Government has been less successful in controlling expenditure, particularly recurrent expenditures. Current spending has continually increased to finance mainly wage and salary increases, but also for provincial transfers and subsidies to public enterprises. The Government had attempted to reduce the size of the public service and a cut of 17 per cent was made in 1992. In 1993, a further 7 per cent reduction was effected in the public service establishment. However, the reductions made so far appeared to have been offset by the increased costs associated with the reorganization of posts and scales incorporating substantial pay rises that took effect in January 1993. The Government has financed a large part of its budget deficit from domestic credit.

In Samoa, budgetary situation has deteriorated since 1990 as a surplus in 1989 turned to a deficit in 1990 reflecting the increased government expenditure to accommodate rehabilitation needs following the destruction by the cyclone Ofa. The increase in expenditure, was not matched by increased revenues and was substantially financed by external grants, especially for designated projects. Samoa has also made use of STABEX grants which peaked in 1986 but have since declined. The Government has financed its budget deficit mainly from foreign sources in the form of both grants and concessional loans. That way interest payments have been kept at a manageable level.

Prices

The general price level in the Pacific island countries has been influenced by the developments in their main trading partners, Australia and New Zealand. Inflation rates in Australia and New Zealand have been declining since 1988. The two countries recorded low inflation rates of 0.9 and 1.1 per cent respectively in 1992, and that had a moderating influence on inflation rates in most Pacific island countries.

Solomon Islands is one country with high inflation rates. The rate, however, came down from a peak of 16.8 per cent in 1988 to 8.8 per cent in 1990. In 1992, a 10.7 per cent rate of inflation was registered. Among other factors, the persistently high inflation has been attributed to the inflationary financing of the budget deficit. In 1993, the inflation rate was projected at 10 per cent, but may fall below this figure despite the effects of taxation measures and large public service pay rises. The rate was running at 8.6 per cent at the end of August.

After peaking at 12 per cent in 1988, the inflation rate in Fiji has been declining, reaching 4.9 per cent in 1992. However, with the introduction of value added tax (VAT) in July 1992, with an estimated impact on prices of about 3 per cent, the rate was likely to be higher in 1993. In fact, the annual average rate of inflation for the 12 months to October 1993 was running at 5.7 per cent.

Papua New Guinea has had an impressive record in maintaining stability in the general price level with the inflation rate averaging under 4.5 per cent a year from 1986 to 1989. The rate, however, accelerated to 7 per cent in 1990 and 1991 following the closure of the Bougainville mine in 1989 and the subsequent 10 per cent devaluation of the local currency. Since then the rate fell back to 4.4 per cent in 1992 and a projected 4.5 per cent in 1993 as a result of the Government's pursuit of monetary prudents.

In Samoa, the inflation rate had shot up to 15.3 per cent in 1990 because of the effects of cyclones. The situation was drastically reversed with a 1.4 per cent decline in the price level in 1991 reflecting the recovery in domestic food production as well as strict monetary controls. The high liquidity accumulation in 1991, however, translated into 8.5 per cent inflation in 1992. Higher prices for local food products such as bananas, bread, fruit, and taro owing to supply shortages also contributed to the re-emergence of inflation in 1992.

Vanuatu had managed to maintain price stability with an annual average inflation rate under 8 per cent between 1989 and 1992. The 4.1 per cent rate in 1992, coming down from 6.5 per cent in 1991, was a remarkable success in a country that experienced 16 per cent inflation in 1987. The low inflation rates in Australia had a substantial influence on import prices and domestic inflation in Vanuatu.

In Tonga, the inflation rate was 10.6 per cent in 1991. The increase in indirect taxes as well as a 35 per cent wage and salary increase granted to civil servants in 1990, coupled with higher petroleum prices following the Persian Gulf war, were the contributing factors. The rate of 7.9 per cent in 1992 would have been lower but for the escalating prices of domestic foodstuffs caused by the drought at the beginning of the year.

The use of the Australian dollar as legal tender in Kiribati, as well as heavy reliance on imports for consumption especially from Australia and Fiji, should bring the domestic level of prices to resemble those in Australia. The inflation rate of Kiribati averaging 5 per cent between 1987 and 1991, was in line with that of Australia which averaged under 7 per cent during the same period. A somewhat lower inflation rate in Kiribati may be attributed to the influence of price controls on several basic goods.

The price levels in the Marshall Islands reflect developments in the United States since the United States dollar is the legal tender and imports constitute a large proportion of GDP, averaging 85 per cent in recent years. The inflation rate in the Marshall Islands therefore followed the pattern in the United States, and the rates averaged only 1.4 per cent from 1987 to 1991. However, preliminary estimates suggested that the inflation rate in 1992 reached 7 per cent. The effects of two cyclones which struck in late 1991 and early 1992 contributed to the jump in the inflation rate.

III. INTERNATIONAL TRADE AND BALANCE OF PAYMENTS: PERFORMANCE AND POLICIES

TRADE UNDERPINS REGION'S RESILIENCE

The value of exports from the developing economies of the ESCAP region, on average, grew twice as fast as the 7 per cent average growth in the value of world exports during the period 1991-1992.[1] That once again reflected the region's resilience in the current phase of downturn in the industrial countries. There are a number of factors that have enabled economies of the region to sustain high rates of growth in their exports in the face of recessions in Europe and North America, the traditional markets for their exports. The first of these factors relates to the changing character of exports from the region as well as their destinations.

The fundamental change that has occurred in the product composition of exports from the region is a decline in the dependence on the export of primary commodities except in the least developed and Pacific island economies. Manufactured goods now account for 60 to 80 per cent of the total exports of countries such as China, India, Indonesia, Malaysia, Pakistan, Philippines, Sri Lanka, Thailand, and even some least developed countries such as Bangladesh. Also the exports of manufactures from the region "have progressed far beyond the toys and textiles stage and now encompass sophisticated products"[2] including semiconductors, cars and computers. That however does not exclude substantial exports of labour intensive manufactured products represented by "toys and textiles", especially from the region's relatively less industrialized economies including the least developed ones. While the region's newly industrializing economies (NIEs) almost exclusively export manufactures, primary commodities remain the main staple of exports of most of the least developed and Pacific island economies. The product range exported from these diverse groups of economies in the region is wide indeed in the categories of both manufactured and primary products.

The market for manufactured products appeared to have been well sustained in the developed countries, despite the economic slow-down. Consumers in those countries have come to depend increasingly on supplies of many consumption goods from abroad as cheaper alternatives to their domestically produced counterparts. Competition for high-tech product exports from the region was more intense. Nevertheless, the ongoing process of restructuring and retooling including office automation and renovation, in many countries sustained demand and the export of machinery, tools and equipments and their parts, which now account for a substantial part of the export trade of several countries in the region. However, exports and prices of primary commodities, including oil and minerals, could not be well sustained. That has dampened export earnings of many countries for which commodities are the major items in the export trade.

Trade was further sustained by the successful diversification of markets, especially within the ESCAP region itself. Countries such as China, Indonesia, Malaysia, Pakistan, Republic of Korea, Singapore and Thailand had between a quarter to two fifths of their exports going to the developing countries of the ESCAP region. In the case of Viet Nam, the proportion was almost two thirds. Import demand in many of the regional economies remained strong as economic prosperity expanded the purchasing power of consumers and investment in the rehabilitation and expansion of infrastructure as well as in the productive sectors remained strong, backed by high domestic savings and continued external capital inflow.

Capital inflow into the developing economies of the region received encouragement from a variety of policy reforms including those in the financial sector, being carried out by countries, which, together with the region's general image of dynamism and stability,

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[1] For growth in world exports, see United Nations Conference on Trade and Development, *Trade and Development Report, 1993* (United Nations publication, Sales No. E.93.II. D.10), p. 3.

[2] *Economic and Social Development in Pacific Asia,* Chris Dixon and David Drakakis-Smith, eds. (London and New York, Routledge, 1993), p. 5.

boosted investor confidence. The increasing foreign participation in the region's emerging capital markets, despite their rather cautious opening to foreigners, and the current boom in most of those markets was a reflection of that confidence.

The sharp appreciation of the Japanese yen during the past year also provided an inducement for investment relocation from Japan, the major focus of direction being to the ESCAP region unlike the period after 1985 when a high proportion of Japanese investment went to Europe and North America. However, the Japanese investment outflow appeared to have been limited by cash constraints experienced by many private companies while the country's financial institutions also remained saddled with bad debts resulting from liberal lending during the earlier periods of property and stock market booms. The yen appreciation has also helped exports of countries competing with those of Japan, but at the same time has increased the burden of servicing the substantial volumes of yen denominated debts of countries in the region.

Policy reforms, particularly in relation to trade and investment, have been implemented extensively in the region for at least the past decade. The most recent changes have come about in the South Asian countries. In July 1991, India, the second most populous country in the world, introduced very liberal economic policy packages in the country's evolving course of policy-making, involving decontrol and reduction of tariffs on imports, greater incentives to exports and investment, simplification of a wide variety of procedures relating to trade and investment, and liberalization of the exchange-rate regime culminating in the floating of its currency for trade and remittance-related transactions. India had already expanded the share of its exports to the developing economies of the ESCAP region from 11 per cent in 1988 to 17 per cent in 1992. The short-term internal and external impact of India's policy changes is bound to remain limited. The longer-term impact is, however, likely to be substantial internally and, by extension, externally, especially for the region as countries outside South Asia, such as Malaysia, Singapore and Thailand broaden their existing links with India.

Bangladesh, the Islamic Republic of Iran, Nepal, Pakistan and Sri Lanka have also pursued similar measures to liberalize their trade, investment and financial regimes, including foreign exchange dealings. They also made their currencies similarly convertible for current account transactions as did India, or were on the way to doing so. In East and South-East Asia, China, Indonesia and the Philippines were continuing with extensive reforms in their trade, investment and financial regimes initiated earlier while Mongolia and Viet Nam also accelerated the pace of structural reforms in their economies.

Policy liberalization in the region also encompassed efforts to form subregional free trade areas. The ASEAN (Association of South-East Asian Naitons) Free Trade Area (AFTA) and the South Asia Preferential Trading Arrangement (SAPTA) are the most well-known. There are also other subregional or extraregional economic cooperation initiatives. The expansion, in 1992, of the Economic Cooperation Organization (ECO) involving most ESCAP member countries in North-Central Asia, the Asia-Pacific Economic Cooperation (APEC) and the East Asia Economic Caucus (EAEC) are among the arrangements with potential for enhancing trade and investment cooperation in the region. The formation of growth triangles-quadrangles (see box III.1) in several parts of the region, although mainly development oriented, would also have substantial trade and investment promotion contents and could be expected to contribute towards a further strengthening of intraregional eocnomic cooperation. The short-term impact of these proposals, however, could remain limited.

Not only exports but also imports in the region rose. In fact imports rose faster than exports in 1992 in several countries including China and the Philippines. Import growth was accelerating in several other countries in 1993 after slowing in 1992. The rapid pace of domestic economic activities and infrastructural investment projects launched in many countries in the region led to a spurt in growth of both capital and intermediate goods imports while growing consumer demand in response to rising income kept up consumer goods imports in several countries. The trade and payment balances, however, tended to improve in a number of cases. Details of trade and balance-of-payments performance during the period 1992-1993 follow.

MERCHANDISE TRADE: PERFORMANCE IN 1992-1993

East Asia

In East Asia, the economies of China, Hong Kong, Macau and Taiwan Province of China have been drawing closer together with substantial mutual flows of trade and investment among them.

The total exports of *China* grew by 18 per cent in 1992 (table III.1 on p. 56). Exports of manufactures, which accounted for almost 80 per cent of the total, grew at a rate of 22 per cent, led by an almost 85 per cent growth in the export of machinery and transport equipment. Other manufactured

Box III.l. Growth triangles: a new form of regional cooperation

During the last two decades, the Asia-Pacific region has witnessed an expansion of initiatives for regional economic cooperation. In addition to the establishment of regional and subregional organizations such as Asia-Pacific Economic Cooperation (APEC), Association of South-East Asian Nations (ASEAN), South Asian Association for Regional Cooperation (SAARC), Economic Cooperation Organization (ECO) and South Pacific Forum (SPF), localized economic cooperation zones, dubbed as growth triangles, have emerged. A growth triangle is basically designed to exploit complementarities arising from different endowments of labour, capital and natural resources in geographically contiguous areas of different countries with a view to stimulating local economies and using them as a more convenient base of operation for export industries. A significant feature that characterizes the triangles which have emerged so far is a close collaboration between the private and the public sectors to develop the potentials of the areas concerned. The private sector has provided the capital for commercial investment, and the public sector has assisted through infrastructure development, provision of incentives and the streamlining of procedures for private investment.

Growth triangles emerged apparently as a unique Asian solution to the practical problems of regional economic cooperation among countries at different stages of economic development, even with different social and economic development perspectives. Several factors have worked in favour of the emergence of these triangles.

First, a growth triangle has lower political and economic risks compared with a trading bloc approach. It has a limited geographical focus. If successful, it can be easily expanded; on the other hand, should anything go wrong, the consequences can be largely restricted to the areas concerned.

Second, the growth triangle approach is more outward looking in comparison with the trading bloc approach which focuses mainly on markets within the bloc. At the present stage of development in Asia, this is appropriate since the non-Asian market, particularly in North America and Europe, will continue to remain significant for exports from the region.

Third, the growth triangle approach is non-exclusionary in nature. It does not discriminate against countries which are not part of the region in terms of access to investment opportunities or market for goods and services. It is therefore consistent with the promotion of free trade and greater efficiency in the use of global resources.

Fourth, as the growth triangle covers only a limited area at the initial stage, it can be established at a relatively low cost, and in a shorter period of time. It also requires much less macro policy coordination among countries than required within a trading bloc.

The most successful growth triangles that have emerged so far in this region are the one linking Southern China, Hong Kong and Taiwan Province of China, and the one linking Singapore, the Johore state of Malaysia, and the island of Batam in Indonesia, known as the southern growth triangle. Their success has stimulated efforts to duplicate similar arrangements elsewhere. Among the proposals for the establishment of new ones are:

(a) The northern growth triangle which will link southern Thailand, northern Malaysia and the province of Sumatra, Indonesia, with a focus on the establishment of joint industrial estates;

(b) The Tumen River Triangle in the border regions of China, Democratic People's Republic of Korea and Russian Federation, aimed at, inter alia, transforming the area into a processing and trading zone;

(c) The golden quadrangle, which will cover Thailand, Myanmar, Lao People's Democratic Republic and southern China, focusing on the establishment of transport links among the countries;

(d) The eastern growth triangle, which will link the island of Mindanao in the Philippines with Sulawesi in Indonesia, and eastern Malaysia;

(e) The Yellow Sea triangle, linking Taiwan Province of China, the Republic of Korea and Northeast China;

A number of steps must be taken to realize the full potential benefits of the proposed growth triangles. These include removal of existing constraints on cross-border flow of goods and services as well as factors of production and the development of transport and communications links and other infrastructures. It is also necessary to ensure a prevention of possible diversion to the triangle areas of resources from other parts of the participating countries to ease any potential opposition to their establishment. A prior understanding of the distribution of potential gains among participating areas would also be needed to avoid any subsequent problem.

exports which registered an increase were food manufactures (15.6 per cent), beverages and tobacco (36 per cent), chemical and allied products (14 per cent), and textile products (12 per cent). However, exports of raw materials declined by almost 10 per cent. Export earnings from mineral fuels, lubricant and related materials, animal and vegetable oil and fats, and waxes also declined.

The rapid growth of industrial production, sustained by large volumes of foreign direct investment inflow taking advantage of cheap labour costs to produce export products, contributed to the high export performance. The gradual depreciation of the Chinese currency also improved the competitiveness of exports. Almost 45 per cent of Chinese exports in 1992 went to Hong Kong and Macau, growing by 16.5 per cent. Exports to the United States of America accounted for 10 per cent of the total and rose by 39 per cent. Exports to the European Community increased by 15 per cent and to Japan by 14 per cent. While exports to the Republic of Korea increased by 12 per cent, that country accounted for less than 3 per cent of China's exports, trade relations between the two countries being only recently established. Thus, a wide range of export products registered impressive growth in most of the major markets.

In 1993, export growth was expected to slow down for a number of reasons. These included high domestic demand and diversion of some of the export items for domestic use. Growth in total exports during the first half of the year was estimated at a mere 4.4 per cent. The overall growth rate for the year was still expected to be about 12 per cent.

Imports in 1992 increased by 26 per cent. The two major categories of imports, namely, mineral fuels including lubricants and related materials, and machinery and transport equipment registered increases of 69 and 60 per cent respectively. The growth in imports reflected the rapid pace of economic activities in the country as well as import liberalization measures implemented by the Government. These measures included a tariff reduction by an average of 7.3 per cent in 1992 affecting thousands of items of imports, as well as a reduction in the quota and licensing control on imports to a small number of around 50 items only. Imports in 1993 were estimated to grow at a rate of 21 per cent, much higher than the rate of growth in exports. That would substantially reduce the export surplus that China has experienced during the previous years.

Overall exports of *Hong Kong*, 78 per cent of them re-exports, increased by 21 per cent in 1992 and a somewhat lower percentage increase was expected in 1993. Textile products including garments, fabrics and yarn, and telecommunications equipment feature in major ways in Hong Kong's export trade. The surge in economic activities and trade in China during the period 1992-1993 benefited Hong Kong. Its export growth, was limited mainly to re-exports, as domestic exports virtually stagnated. More than 58 per cent of the 1992 exports went to Asian markets, with China taking the greater part as was confirmed by Hong Kong accounting for more than a quarter of imports in China. China remained Hong Kong's largest trading partner with 56 per cent of its re-exports originating in China and 34 per cent of them destined for China during the first six months of 1993. Much of the re-export trade involving mainland China related to outward processing as raw materials and semi-manufactured goods were exported to the mainland and the final products subsequently returned to Hong Kong. Imports, in this context, rose at a faster 23 per cent rate in 1992, turning the trade balance into a deficit again as in 1991.

The trade between Taiwan Province of China and China has been showing a similar surge as has trade between Hong Kong and China. In 1992, China's exports to Taiwan Province of China grew by 61.6 per cent, were valued at $5.9 billion and formed 7.3 per cent of China's total exports. Two-way trade reached $7.4 billion. Two-way trade between China and Taiwan Province of China increased rapidly in 1993 and was valued at $5.6 billion for the first half of the year. During this period, the exports of the Province to China increased by 148 per cent while its imports from China rose by 77 per cent. However, as in the case of other NIEs with the exception of Hong Kong, the overall export growth of Taiwan Province of China at rates of 6 to 7 per cent in 1992-1993 remained much below that achieved in the late 1980s, with more than 40 per cent of exports still going to the European Union and the United States of America. Currently one third of exports is marketed in the developing countries of the ESCAP region, reflecting the rapid surge of trade with China. Overall, imports rose at a faster rate of 8 to 10 per cent in the period 1992-1993, thereby reducing the trade surpluses that it had experienced over the past several years.

The exports of the *Republic of Korea* grew at much slower rates in recent years. In 1992, the rate of growth in exports was 6 per cent only, after reviving to about 11 per cent in 1991 from a low of 4 per cent in 1990. In 1993, it was expected that exports would grow by 7.5 per cent. Light industrial exports such as textiles, clothing and footwear tended to decrease as they faced increasing competition from exporters elsewhere, while exports of heavy industrial products such as chemicals, automobiles, machinery and equipment and electronic products increased. Imports also grew very slowly with a mere 0.3 per cent increase in 1992. The slow growth in imports continued in 1993 with a less than 2 per cent growth forecast. The country's economic slowdown, with gross domestic product (GDP) growth rate limited to less than 5 per cent in 1992 and 1993, accounted for the slow import growth. This will however have the effect of reducing the trade deficit.

Mongolia and the Democratic People's Republic of Korea have been facing difficulties with their foreign trade sector, as with their overall economic performance, partly as a result of the dislocation of their trade with the former Soviet Union and other countries of the former CMEA (Council for Mutual Economic Assistance) system. Mongolia, however, was experiencing some revival of its trade in 1993, as its exports registered an estimated 18 per cent increase during the first half of the year over the same period of 1992 compared with an import growth rate of 3.5 per cent. That indicated an improvement in the country's balance-of-payments, which recorded an estimated $170 million deficit in 1992 on current account.

Exports from the *Democratic People's Republic of Korea,* however, appeared to have been declining over the period 1990 to 1992. Exports, at approximately $1,085 million in 1990, had declined by 9 per cent in 1991 and by another 3 per cent in 1992. The total imports of the country decreased by 14.5 per cent in 1991 and by 5.2 per cent in 1992. Trade with the former Soviet Union decreased by as much as 70 per cent in 1992.

South-East Asia

In South-East Asia, Indonesia, Malaysia, Singapore and Thailand achieved strong and steady rates of growth in their trade during the period 1992-1993, but the rates achieved were more moderate than in the late 1980s. The trade sector of the Philippines picked up with an accelerated growth in both exports and imports despite the slow progress of overall economic recovery in the country. Malaysia, experienced a steady expansion in exports but a considerable deceleration in imports in spite of the strong overall growth of the economy. The import slow-down, after very rapid increases in previous years, was partly the result of a moderation in growth of both domestic investment and consumer demand. Some exports in Malaysia also were affected by weaker demand abroad and lower prices. Viet Nam has achieved substantial progress although the country's overall trade volume still remained relatively low. The trade sector of two of the least developed countries, Cambodia and Lao People's Democratic Republic remained weak, as did their economies, because of a lack of diversified production base as well as infrastructural weaknesses hampering domestic and external marketing. Lao People's Democratic Republic however had a high rate of export growth in 1992, albeit from a low base.

The export trade of *Indonesia* was buoyant in 1992, in spite of a decline in the value of oil and gas exports which still accounted for about 40 per cent of exports. The value of exports grew by almost 17 per cent, with a more than 27 per cent growth in the value of non-oil exports consisting mainly of textiles and garments, plywood and footwear. Non-oil exports were expected to grow strongly again in 1993 although the rate of growth may not be as fast as in 1992. However, world oil prices had softened further during the year and therefore earnings from oil and gas exports were not expected to pick up. Overall export growth was expected to be around 16 per cent, close to the rates achieved during the period 1990-1992.

Imports in 1992, consisting mainly of machinery and equipment, iron and steel, and organic chemicals, grew moderately at a rate of 8 per cent. An accelerated 12 per cent growth in imports was expected in 1993. The imports slow-down after 1991 was partly the result of the Government's decision to delay the implementation of some major investment projects, which was also associated with a reduced inflow of external capital.

Exports from *Malaysia* grew at the rate of 18.7 per cent in 1992. Export growth was sustained by manufactures which accounted for nearly 70 per cent of total exports. A wide range of products, including textiles and clothing, footwear, rubber products, wood products, electronic machinery, appliances and parts, transport equipment, and chemicals and chemical products, sustained export earnings, although growth in some cases remained moderate owing to slack demand in markets abroad. Earnings from agricultural and mineral exports tended to decline owing to lower prices of petroleum, rubber, sawn logs and cocoa; higher earnings from palm oil, palm kernel oil, and tin which revived slightly from its earlier depressed status, partly offset the decline in earnings from this group of products. In 1993, export growth was expected to be 15.6 per cent. Continued slack in the commodity market, weak demand for manufactures, and an appreciation of the Malaysian currency that partly resulted from the tightening of domestic monetary policies, caused export growth to slow down.

Import growth slowed sharply to 9 per cent in 1992 from 25 per cent in 1991. This was partly the result of import saturation owing to high rates of growth in previous years and partly of slower growth in investment and consumer demand in the economy. The rate of growth of imports in 1993 was also moderate at 11 per cent.

Exports of the *Philippines* expanded by 10.3 per cent in 1992 compared with an 8 per cent in 1991. Manufactured goods, led by electronics and garments, accounted for 74 per cent of total exports and grew by 14 per cent. Exports of traditional items such as sugar, forestry products, mineral products and coconut products declined owing to lower prices or a reduction in export volume. In 1993, exports were expected to grow at 11.3 per cent. Economic recovery in the United States, which accounted for 39 per cent of exports from the Philippines in 1992, was expected to strengthen demand for exports, while a resolution of the domestic power crisis and a depreciation of the Philippine *peso* were also having favourable effects on exports. Exports of manufactured goods were expected to grow by 13.2 per cent during the year while those of fruits and vegetables, particularly bananas, were also expected to improve.

By contrast, imports rose by a much higher 28.3 per cent in 1992, accounted for mainly by imports of capital goods, particularly power generating equipment as part of the effort to relieve the critical power crisis in the country, as well as office machines and telecommunications equipment. Consumer goods imports increased by around 25 per cent during the year. Raw materials and intermediate goods, which constituted the bulk of imports, also registered high rates of growth. Growth in imports, however, was expected to decelerate to 20.5 per cent in 1993. Import growth will again be led by the imports of capital goods (expected to increase by 25 per cent), raw materials and intermediate goods as the Government's efforts to overcome the country's power crisis continue and economic activities in general gain strength.

In the case of *Singapore,* exports increased at a moderate 7.7 per cent in 1992. Apart from oil and oil products and chemicals, high-tech manufactured products, such as computer disk drives, integrated circuits, personal computers and computer peripherals constituted the bulk of exports. Demand for many of these products was reviving in 1993 with an easing of the intense market competition. Exports were thus expected to grow at a faster rate of 12.5 per cent. Growth in imports appeared to remain steady between 8 to 10 per cent, declining from a rate of 22 per cent in 1990.

Exports from *Thailand* grew by 13 per cent in 1992, compared with 23 per cent in 1991. Thailand, with one of the most diversified export commodity structures and also a diversified market, could well sustain its export trade. Of the top 20 items of exports, accounting for 63 per cent of total exports in 1992, 14 were manufactured goods with garments, computers and components, gems and jewellery, integrated circuits, footwear and canned seafood, as lead exports. Rubber, rice, sugar, tapioca and frozen chicken, in that order, were leading agricultural exports. Growth in exports was restrained by a slack in demand and lower prices of agricultural products, as well as increased protectionist pressures in major markets abroad for Thai exports.

In 1993, the Government set an export growth target of about 19 per cent. The current forecast, however, indicates a much lower growth of around 9 per cent. A declining tendency in the value of agricultural exports and some items of manufactures, such as footwear and toys due to stiffer competition, limited the growth of the top 20 items of exports which, in any case, were targeted to grow at a lower rate of just above 7 per cent. Miscellaneous exports, accounting for 37 per cent of the total in 1992, were targeted to grow at 38.7 per cent in 1993. They were also growing early in the year at about half of the target rate.

Growth in imports also slackened in 1991 to 11 per cent and to about 10.8 per cent in 1992 from a high of almost 30 per cent in 1990. As in the case of Malaysia, this partly reflected import saturation following earlier high rates of growth. In 1993, imports are expected to grow faster, owing partly to strong demand for consumer goods imports.

Viet Nam achieved about 19 per cent growth in exports in 1992 reaching a value of $2.5 billion after a decline in 1991. Rice, petroleum, marine products, coffee and rubber constituted major export items, all of which registered substantial growth in 1992. However, textiles and garments also emerged as a major manufactured item in the export trade and registered a very high rate of growth although the value of exports remained small. Viet Nam targeted its exports to rise to a level of $3 billion in 1993, which the country had every expectation of being able to meet. Exports during the first nine months of 1993 were estimated to have increased by 14 per cent over the same period of 1992, with major increases registered in exports of crude petroleum, rice, rubber, marine products, textiles and garments, coffee and groundnuts.

Imports increased by a modest 7.2 per cent in 1992 after two previous consecutive years of decline. Imports, however, were increasing much faster in 1993 with a 34 per cent growth during the first nine months of the year over the same period of 1992. Imports of refined petroleum, iron and steel, and pesticides recorded the highest rates of increase.

Table III.1. Total value and annual rates of change in dollar value of merchandise exports and imports, 1990-1993

(Value in millions of US dollars and annual change in percentage)

	Exports					*Imports*				
	Value	*Annual rates of change*				*Value*	*Annual rates of change*			
	1992	*1990*	*1991*	*1992*	*1993*	*1992*	*1990*	*1991*	*1992*	*1993*
Economies in the ESCAP region[a]	893 846	9.1	11.8	11.2	...	812 576	12.1	8.4	8.2	...
Developing economies in the ESCAP region	498 928	13.4	14.2	13.9	...	529 483	14.0	14.1	13.3	...
East Asia	280 478	11.3	15.8	15.7	...	285 518	6.7	19.4	16.3	...
China	84 635	18.2	15.7	17.8	11.8[n]	80 315	-9.8	19.6	25.9	21.0[n]
Hong Kong	119 511	12.3	20.0	21.2	17.0[m]	123 428	14.3	21.5	23.1	16.6[m]
Republic of Korea	76 332	4.2	10.6	6.2	7.5[n]	81 775	13.6	16.8	0.3	1.6[n]
South-East Asia	185 734	16.9	14.4	12.0	...	200 579	25.7	12.1	10.2	...
Brunei Darussalam	2 370	18.3	21.1	-12.2	...	1 176	18.7	15.5	-0.2	...
Indonesia	34 038	15.9	13.5	16.6[m]	16.0[m]	27 311	33.5	18.5	8.4[n]	12.0[n]
Lao People's Democratic Republic	132	130.6	-22.6	16.8	...	265	40.1	5.8	-9.2	...
Malaysia	40 711	17.3	16.5	18.7	15.6[n]	39 964	29.8	25.1	9.2	11.0[n]
Myanmar	533	51.2	26.8	29.4	...	653	36.6	136.0	6.0	...
Philippines	9 752	5.7	8.0	10.3	11.3[n]	15 459	21.5	-7.6	28.3	20.5[n]
Singapore	63 516	18.0	11.8	7.7	12.5[m]	72 216	22.3	8.8	9.3	10.4[m]
Thailand	32 207	15.0	23.1	13.4	9.4[n]	41 209	29.5	11.4	10.8[n]	12.7[n]
Viet Nam	2 475	60.1	-13.2	18.6	14.0[n]	2 506	-9.9	-15.0	7.2	34.0[n]
South Asia	30 321	13.8	3.0	7.4	...	40 661	11.5	-4.0	10.0	...
Bangladesh[b]	2 176	18.2	1.9	27.3	19.5[n]	3 324	-3.1	0.4	2.2	11.0[n]
Bhutan	63	9.4	-18.6	10.5	...	90	-12.9	-17.8	8.4	...
India[b]	17 908	11.9	-1.4	2.5	20.0[n]	23 255	15.0	-12.9	14.6	10.0[n]
Maldives	40	15.6	3.8	-25.9	...	189	22.9	17.1	25.2	...
Nepal	374	31.4	24.9	43.3	...	792	18.1	10.8	4.2	...
Pakistan	7 273	15.6	17.0	12.5	-1.7[n]	9 365	3.3	15.0	10.7	8.6[m]
Sri Lanka	2 487	25.0	2.8	26.6	12.7[m]	3 646	26.1	17.1	12.6	18.9[n]
Pacific	2 395	-4.7	-9.5	28.7	...	2 545	4.7	-11.8	4.8	...
Fiji	435	11.7	-9.1	-3.5	...	624	29.8	-13.5	-4.3	...
Kiribati	5	-43.0	0.1	66.5	...	37	21.3	-3.8	43.5	...
Papua New Guinea	1 812	-10.9	12.4	41.2	...	1 522	-3.6	9.0	8.5	...
Samoa	6	-30.8	-22.2	-14.3	...	113	-2.6	28.0	17.7	...
Solomon Islands	101	-6.7	19.0	21.7	...	105	-18.6	18.7	-4.8	...
Tonga	13	20.0	16.7	-7.1	...	63	14.8	-4.8	6.8	...
Vanuatu	22	-13.6	5.3	12.0	...	81	37.1	-13.5	-1.9	...
Developed countries in the ESCAP region	394 918	4.6	9.0	7.9	5.1[m]	283 093	9.6	0.3	-0.1	2.8[m]
Australia	44 594	8.1	5.2	7.0	2.0[m]	40 331	-3.1	-0.6	5.5	4.6[m]
Japan	340 483	4.3	9.6	8.3	8.5[m]	233 548	11.4	0.8	-1.3	2.3[m]
New Zealand	9 841	1.6	7.4	1.1	7.2[m]	9 214	26.3	-9.4	8.1	6.4[m]

Sources: Data for 1990-1992 are from United Nations, *Monthly Bulletin of Statistics*, vol. XLVII, No.11 (November 1993). 1993 data are from United Nations, "Project LINK world outlook" (5 November 1993), or national sources on fiscal year basis indicated respectively with [m] and [n].

[a] Regional and subregional figures are based on those of the economies listed. [b] Fiscal year.

South Asia

The external trade sector of the South Asian countries, with the exception of Pakistan, performed well in 1992-1993. Exports and imports of Pakistan grew at very high rates in 1992. However, in 1993 the country received setbacks for a number of reasons. Trade in India was reviving in 1993 from the dislocations caused by the Persian Gulf war and the dissolution of the Soviet Union which accounted for a substantial part of its trade, as well as the short-term effects of policy changes initiated in 1991.

Exports of *Bangladesh* reached a value of $2.1 billion in 1992, as the result of a substantial advance in the country's exports in recent years. In 1992, exports registered an increase of 27.3 per cent. That record appeared to have been sustained in 1993 with a 19.5 per cent growth for the fiscal year. Bangladesh has reduced its traditional dependence on the export of jute and jute products. Ready-made garments and other textile products have emerged as leading exports with a 60 per cent share of the total. Exports of these items recorded a 22 per cent growth in the fiscal year 1993 while those of raw jute and jute goods suffered a decline owing to low prices in the international market. Imports, after a 2.2 per cent rise in 1992, were growing at 11.0 per cent in 1993. The slow growth in imports reflected mainly decline in consumer goods imports including food grains, spices, oil-seeds and pharmaceutical products.

In the case of *India,* total exports increased by 2.5 per cent in 1992. There was a more than 60 per cent decline in the value of exports to the former Soviet Union and other eastern European countries. The collapse of that trade has made India more dependent on the United States and the European markets, the two together accounting for 47 per cent of exports in 1992. Exports to those areas had increased by about 10 per cent in 1992. Export trade is well-diversified over a wide range of commodities including both primary and manufactured goods. In 1992, exports of manufactures consisting of engineering goods, textile products, leather and leather products, and chemicals, among others, had registered an increase of 6 per cent. Exports of primary products, consisting of ore and other minerals, and agricultural products declined by about 9 per cent. In 1993, exports of agricultural and marine products, leather goods, engineering goods, textiles products including ready-made garments and gems and jewelry were growing strongly and total exports, therefore, were expected to increase by 20 per cent.

Imports in 1992 increased by 14.6 per cent recovering from a decline of almost 13 per cent in 1991 under the deflationary impact of policies introduced during that year. Imports rose as policies were subsequently liberalized with the virtual abolition of import controls and a substantial reduction in import duties. Imports were expected to grow by 10 per cent in 1993.

The *Islamic Republic of Iran* has introduced various reforms in its foreign trade sector which included foreign exchange reforms and other encouragement to exports of non-oil products with a view to reducing dependence on oil which accounted for more than 70 per cent of the country's exports. As a result, non-oil exports increased by 12.4 per cent in 1992 compared with a growth in oil exports of 3.4 per cent. Exports of carpets, which constitute the major share of non-oil exports, however, fell by about 1 per cent in 1992, while exports of agricultural and industrial products and non-oil minerals recorded impressive increases. In 1993, oil exports were expected to record only a marginal increase owing to a continuing weakness in the world oil prices. Non-oil exports, however, were expected to grow by 10 per cent in 1993. Imports, after a 36 per cent growth in 1991, declined substantially by 15 per cent in 1992. A further decline of 20 per cent was expected in 1993. The decline in imports substantially reduced the country's current account balance-of-payments deficits.

In the case of *Nepal* exports grew strongly in the period 1992-1993. A 43 per cent growth was recorded in 1992. Exports received a boost from substantial policy reforms, including a depreciation of the Napalese rupee which was made fully convertible for the purpose of current account transactions early in 1993. India continues to be Nepal's major trading partner but with the recent policy reforms and a boost in industrial production in the country, Nepalese exports, including textiles and garments, are entering third country markets on a competitive basis. However, the country's total export value of $374 million in 1992 was still rather small. Imports, valued at $792 million, were more than double the value of exports. That imbalance obviously needed correction and the growth of imports in 1992 slowed down to 4.2 per cent in the wake of rates of growth of 18 and 11 per cent in 1990 and 1991 respectively.

The total exports of *Pakistan* increased at a rate of 12.5 per cent in 1992, but fell by 1.7 per cent in the fiscal year 1993. A bad cotton crop, which is a major item of export, and lower prices of other commodities as well as greater competition faced by Pakistani goods in the export market, contributed to the disappointing performance. Exports of raw cotton and rice registered substantial declines. Two other major items of exports, namely, cotton yarn, and carpets and rugs also suffered a decline. In contrast, exports of synthetic textiles, fish and fish products, leather manufactures, cotton cloth and other made-up textiles recorded increases. Imports in 1992 increased by 11 per cent. A 8.6 per cent increase was recorded in the fiscal year of 1993. The import increases were attributed largely to the import of food items including wheat, edible oil and tea, and also increased imports of petrol, oil and lubricants. Imports of machinery and industrial raw materials registered modest increases.

Exports from *Sri Lanka* increased by an impressive 26.6 per cent in 1992 and were expected to grow at about half that rate in 1993. Non-traditional exports, mainly textiles and garments, contributed to the impressive growth. However, tea, one of the major traditional exports also regained some of its lost ground that had resulted from greater competition from other producers as well as low prices in the international market. Rubber and coconut, the two other major traditional items of export, continued to face decline in prices and earnings. Import growth continued to decelerate from its high rate of 26 per cent in 1990 to a 12.6 per cent growth in 1992. Imports, mainly of capital and intermediate goods, were expected to increase faster at 18.9 per cent in 1993.

The Central Asian republics

A major challenge facing the newly independent countries of Central Asia has been the transition to open trading.[3] Their economies were trade-dependent, but heavily integrated into the former CMEA system. Already in 1991, trade within the Soviet Union was being disrupted as the republics restricted exports and insisted upon payment in hard currencies. These problems were aggravated after the disintegration of the Soviet Union at the end of 1991. Since then the newly independent countries have made efforts to maintain trade volumes and reorient trade patterns.

Aggregate trade data of these countries are subject to two statistical problems. First, the post-independence figures are not consistently collected and published. National statistics are subject to large errors and omissions reflecting an underreporting of imports and an accumulation of unrecorded foreign exchange balances. Even where a country has established a smoothly functioning statistical service, the trade figures are not consistent with the counterpart figures published by trading partners. In part, this reflects the landlocked status of all the Asian former Soviet republics and the breakdown of transport systems, which may make it difficult for trading partners to establish the national origin of imports from Central Asia or the ultimate destination of exports to that region.

The second statistical problem lies in making intertemporal comparisons of trade conducted in roubles. Since 1991, the value of the rouble has been falling rapidly, so that measures of the change in the real value of rouble-denominated trade depend crucially upon when the transactions are recorded and which price deflator is used. It is also impossible to compare the value of rouble and non-rouble trade with any confidence because the exchange rate has also been changing substantially. The following observations, based on available data much of which may be tentative, have therefore to be viewed in the light of the above qualifications.

The experience of *Kazakhstan* illustrates rapid adjustment to the new trade environment. Exports to countries outside the former Soviet Union dropped from $1,402 million in 1990 to $928 million in 1991, but then recovered to $1,489 million in 1992. Imports from outside the former Soviet Union, dropped sharply from $1,490 million in 1990 to $584 million in 1991 and $469 million in 1992. Kazakhstan's trade transition was eased by the readily exportable primary products; base metals and articles of base metals, mineral products, and chemicals and allied products accounted for most of the exports.[4]

Despite this improvement in external trade, the national accounts showed an overall trade deficit of $1,670 million in 1992 reflecting a large deficit on intra-CIS (Commonwealth of Independent States) trade. Trade with former Soviet republics has increasingly become trade with the Russian Federation (at the expense of trade with the Baltic states and the Central Asian republics), and is largely financed by correspondent account credits (overwhelmingly with the Russian Federation). According to the International Monetary Fund (IMF) balance-of-payments estimates, Kazakhstan was able to run a current account deficit equal to 10 per cent of GDP in 1992 while still increasing foreign reserves by $100 million. Access to imports from the Russian Federation and purchase on credit was the major incentive behind Kazakhstan's decision to remain within the rouble zone in the period 1992-1993.

The aggregate trade figures hide substantial changes in the external trade patterns between 1990 and 1992, with both exports

[3] See *Survey*, 1992, part one, box V.2.

[4] Figures from State Committee on Statistics and Analysis of Republic of Kazakhstan, *Statistical Bulletin* (Almaty, 1992), pp. 38-57.

to and imports from eastern Europe and Cuba dropping sharply. Imports from developing countries in Latin America and in Asia (except China) fell from about a tenth of the total to almost zero, while the share of imports coming from China soared from 3.7 to 43.7 per cent. These changes in trade patterns reflect adjustment from political obligations to market conditions, with exports going increasingly to the high income countries of western Europe, North America, the Middle East and Asia, and consumer goods imports coming increasingly from China, with the Organisation for Economic Co-operation and Development (OECD) countries' share of imports holding constant.

Kyrgyzstan and *Tajikistan*, which also have common frontiers with China, have experienced a rapid increase in border trade with China. Data on the extent of this trade are unavailable, but it is undoubtedly much smaller than Kazakhstan's trade with China. The two smaller countries' external trade has performed much more modestly than that of Kazakhstan because they do not have the same endowment of readily exportable primary products. Transport links are also poorer with no regular air service or direct rail link between China and Kyrgyzstan or Tajikistan.

Azerbaijan has also diversified the destinations of its exports. In 1991, 94 per cent of exports were sold within the former Soviet Union, while in the first three quarters of 1992 this share had been reduced to 43 per cent. As with Kazakhstan, the external exports were highly concentrated in primary product, with oil and gas accounting for over three quarters of the total. Meanwhile, the share of imports coming from the former Soviet Union fell more slowly, from 80 to 73 per cent. The recorded current account showed a surplus of over $600 million in 1992, but a large "errors and omissions" item (over $800 million) suggested that the balance-of-payment estimates need to be treated with caution.

Within the former Soviet Union, Azerbaijan's trade shifted away from the Russian Federation towards Georgia and the Central Asian republics in 1992. Apart from the redirection of oil and gas exports previously going to the Russian Federation and now going outside the former Soviet Union, these changes primarily reflect relative price adjustments in the former internal trade, with higher prices being paid for electricity from Georgia and for natural gas from Turkmenistan.

The non-oil external trade was reoriented from former CMEA countries towards neighbouring countries and China. Air-conditioners and refrigerators, for example, were exported to Turkey and the Islamic Republic of Iran. An active, but largely unrecorded, trade with China in consumer goods developed using the regular air service between Baku and Urumqi, dubbed the new silk road.

Pacific islands

The Pacific island countries' participation in the growing trade flows of the Asian and Pacific region continued to remain marginal. The depressed world prices for primary products of the island economies further worsened recently owing to the recession in the industrialized countries. In 1992 prices for cocoa, coffee, sugar, fish, copper and gold were lower than in 1991. Only copra, palm oil and log prices improved, which also encouraged some island economies to increase the production and export volumes of these products in order to maintain their overall foreign exchange earnings.

In the case of *Papua New Guinea*, the export volume of almost all its major commodities rose in 1992 with log exports increasing by as much as 51 per cent. Palm oil and coffee also recorded over 20 per cent increase in export volume. As a result, the total value of merchandise exports grew by 41 per cent. Minerals, especially gold, accounted for over 61 per cent of total exports. Crude oil was exported for the first time in 1992 and it contributed 17 per cent of the total export value. The agricultural sector earned just 12 per cent of total merchandise exports in 1992, with coffee and palm oil constituting three fifths of that.

The Government of Papua New Guinea projected the value of its exports in 1993 to increase by 34 per cent, mainly from minerals. While there was thus a significant increase in the value of exports, merchandise imports grew more slowly at 8.5 per cent in 1992.

The value of exports from *Fiji* declined by 3.5 per cent in 1992 reinforcing a decline of 9 per cent in 1991. In 1992, sugar contributed over 34 per cent of exports followed by garments contributing about 19 per cent. The total value of imports also declined by 4.3 per cent in 1992 after a 13.5 per cent decline in 1991. The garment industry's contribution to exports rose rapidly from a mere 2.6 per cent of the total in 1987, to 24 per cent in 1991 but declined to 19 per cent in 1992. The value of gold exports increased by 30 per cent in 1992 and was 9 per cent of exports. The value of imports has outweighed exports so that the trade balance has been in deficit since 1985.

Total exports of *Solomon Islands* increased substantially in 1992 after an increase of 19 per cent in 1991. Much of this was the result of the increase in the volume of timber exports by 86 per cent in 1992. With better prices of logs, the total value of timber products increased by 106 per cent from the 1991 level. While fish and fish products declined in both value and volume, the value of other major Solomon Island products, such as copra and palm oil, increased. Palm oil exports almost doubled in both value and volume in 1992. The value of imports decreased by 5 per cent compared with a rise of 19 per cent in 1991.

THE INVISIBLES AND THE PAYMENT BALANCES

The current account balance-of-payments outcome for the developing countries of the ESCAP region is determined, by and large, by their merchandise trade transactions, the balance of which usually constitutes the largest single component of the current account balance. In a number of cases, the balance of trade has improved largely because of slower growth in imports. In others, the situation has deteriorated either in the sense of a reduction in the surpluses enjoyed previously or an increase in the deficits.

Though the balance of trade remained the dominant component of the current account balance of payments, the importance of trade in services, particularly those related to tourism and travel and the sale of contract labour services abroad, has increased significantly in recent years both as a source of earnings and of outflows. The services such as shipping and transport, banking, insurance and other financial services, for which the developing countries of this region traditionally depended on the developed countries, are also evolving in a manner so that a number of countries in the region are now in a position to offer those services to the users abroad. Overall, however, the region is still extensively dependent on the services originating outside since most countries in the region have yet to develop adequate infrastructure and expertise in those areas. Most of the developing countries of the region, therefore, continue to experience deficits in the balance of payments on account of these services transactions.

Apart from the remittances from contractual labour services as well as from workers and professionals who permanently migrated and set up residence abroad, income flows relating to investment, technology transactions, as well as financial deals, are evolving with expanding streams of two-way flows. Again the region overall remains deficient as it draws in more financial investment and borrowings and technologies than it can offer to the rest of the world. However, a growing number of countries in the region have started offering their investment and technological resources to other countries both within and outside the region. These have already started appearing to show up in their balance of payments as receipts of income streams, but the total of payments of most countries far exceed receipts. Travel and tourism is the only sector where the developing countries have been receiving more than they have been paying, thus adding a surplus to the rest of the balance-of-payments accounts. This surplus is quite substantial in many cases in relation to their overall receipts and payments.

Any deficits in the current account balance of payments are financed by capital flows which differ in character among the countries of the region. The relatively less developed countries of the region, including the least developed group of countries, still depend substantially on official development assistance in the form of both grants and loans. Official loans are also a significant source of finance for most other countries of the region but more and more of them have lately resorted to market borrowings. Capital inflow in the form of foreign direct investment as well as in portfolio securities is also becoming increasingly important. Some reports suggest that market borrowings mostly by countries in East and South-East Asia in 1993 would exceed those of Latin America, usually the biggest market borrowers among developing countries. Private researchers predict that $20 to $25 billion could flow annually into security portfolios in the region's emerging capital markets (see box III.2). The following is a brief review of the evolving balance-of-payments situation of countries in the region during the period 1992-1993, for which, however, information remains yet incomplete.

East Asia

The current account balance of payments in China produced a surplus of $6.4 billion in 1992, of which $5.2 billion was trade surplus (see table III.2, pp. 63-64). The service trade balance, in which transport and shipping services are a major item is also usually in surplus. The country has been earning increasingly more from foreign contract labour services and tourism. In 1992, China signed overseas labour service contracts worth $5.3 billion of which $2.8 billion was actually realized during the year. During the year, 38.1 million tourists visited China, which earned the country $3.95 billion, a rise of 38.7 per cent over the previous year. With an expanding flow of foreign investment and borrowings, debt service and investment related payments were rising although they remained relatively low since most of these obligations are of relatively recent origin with long-term maturity, and their magnitude is still low in relation to the overall size of the economy. Almost 85 per cent of the outstanding external debt of $69.3 billion in 1992 was long- and medium-term debts. As exports grew rapidly, the debt service ratio remained relatively low at 7.3 per cent of export earnings.

Box III.2. Growing volume of capital inflows and related issues

The developing countries of the ESCAP region have been receiving a growing volume of capital inflows since 1985. The appreciation of the Japanese yen following the exchange rate agreement of that year, commonly known as the Plaza agreement, provided a stimulus particularly for Japanese investment to flow into the East and South-East Asian countries. A rapid surge in exports from the region also followed the exchange rate realignments. That had tended to turn the current account balance of payments into a surplus during 1987-1988 for several countries in the region. Capital inflows therefore slowed[a] at the time although the underlying trend for flows such as direct foreign investment, and long- and medium-term credit remained favourable and strong.

Subsequently, the recession, low profitability of investment and low interest rates prevailing in home countries, coupled with continued high rates of economic growth and macroeconomic stability particularly in the East and South-East Asian countries, attracted more Japanese, American and European capital into Asian countries. Market oriented economic reforms pursued over the years by many countries and recently implemented by many others have further enhanced the region's attraction to external capital. According to one estimate, the total volume of capital inflows to Asian countries amounted to $144 billion during the period 1989-1992 compared to $82 billion during the preceding four years (1985-1989).[b]

The developing countries of the region have been able to attract foreign capital in a variety of forms. Foreign direct investment has constituted the major share of total inflow accounting for 44 per cent of the increase during 1989-1992. Countries in the Asian and Pacific region received more than half of the gross direct investment inflows to all developing countries in 1991 and 1992 compared with about a third in the early 1980s.[c] Also, countries in the Asian and Pacific region, particularly those in East and South-East Asia, generally had no difficulty in getting access to international credit markets unlike the indebted Latin American and African countries. In fact, the Asian economies were estimated to have accounted for over 70 per cent of the medium- and long-term international bank lending directed to developing countries in 1991 and 1992.[d]

Many developing countries of the region started raising portfolio investment capital in foreign financial markets by floating "country funds" sponsored by well-known foreign financial firms. By now many of the countries have opened their domestic capital markets to direct portfolio investment by foreigners in bonds and equities issued by domestic business enterprises. Many of the fast emerging equity markets are now in the Asia and Pacific region, and have been experiencing boom in share values with hardly any lack of demand for new issues of security. Eight of the largest emerging stock markets in Asia were recently found to have accounted for 77.9 per cent of the total capitalization of the world's emerging markets valued at a total of $444 billion.[e] Some of the large corporations are even able to float their own equity issues in markets abroad.

The impact of capital inflows on domestic economies of the recipient countries in the Asian and Pacific has been mostly favourable, avoiding any of their possible adverse consequences. In view of the major share of capital coming in the form of direct investment, the debt and debt service liabilities have remained limited, though in some cases payments on account of dividends, fees and royalties have become large. Borrowing also has been well-managed in the form of imposing ceilings on total and/or any one individual borrowing, the choice of timing of debt floats, and currency composition taking into account exchange stability and interest rate advantage of individual currencies for debt denomination. Moreover, most part of the capital inflows went into financing investment as is evident from a rising share of investment in GDP during periods of capital inflow. Apart from its beneficial impact on GDP growth, capital inflows thus did not unduly inflate consumption demand, exert pressures on the exchange rate to appreciate or affect monetary stability, as could have been associated with large inflow of external capital.

Monetary policy was also used in some cases to sterilize or neutralize the credit and monetary effects of the inflows, which in any case were mediated only to a limited extent through the domestic financial markets. Direct investment, forming the major component of the inflow, generally did not go through the financial intermediation process and had fewer implications for domestic credit. However, with the liberalization of the domestic capital and financial markets, currently underway in many countries, the mediation role of the banking and other financial intermediaries in capital inflows is likely to expand. That can increase the volatility of the inflows and outflows in response to changes in basic economic indicators as well as the speculative urge of market participants. The conduct of monetary policy and financial supervision will, therefore, have to be more alert to ensure that such volatility does not have a destabilizing impact on the economy.

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[a] Measured in balance-of-payments transaction items, capital flows appear as financing the deficits in the current account and any excess as accumulation to reserves.

[b] Guillermo A. Calvo, Leonardo Leiderman and Carmen Reinhart, "The capital inflows problem: concepts and issues" in International Monetary Fund Paper on Policy Analysis and Assessment (International Monetary Fund, July 1993).

[c] United Nations General Assembly, "International conference on the financing of development" (A/48/367), 20 September 1993, p. 10.

[d] United Nations General Assembly, ibid.

[e] The markets are in India, Malaysia, Pakistan, Philippines the Republic of Korea, Sri Lanka, Taiwan Province of China and Thailand. See the *Straits Times*, Singapore, 18 October 1992. Also "Emerging equity markets: tapping into global investment flows", *ASEAN Economic Bulletin*, vol. 10, No. 1 (July 1993).

Capital inflow to the country registered a big increase in 1992. During the year, over 40,000 projects involving foreign investment, were approved, more than were approved during a previous period of 13 years. The foreign direct investment inflow recorded dramatic increase compared to 1991; long- and medium-term borrowings constituted about half of the total of other capital inflows. These trends were continuing in 1993. However, owing to a rapid increase in imports and slow growth in exports, there was a fall in the country's foreign exchange reserves.

Trade deficits in the Republic of Korea were reduced to $2.1 billion in 1992 from $7 billion in 1991. There was a further deficit of $2.6 billion on invisible trade and payments giving rise to a total current account deficit of $4.5 billion. Deficits in transport and shipping services, and royalty payments were larger in 1992 while those on investment income and travel and tourism were reduced. The decline in trade deficit helped reduce the current account deficit from $8.6 billion to $4.5 billion. In 1993, the current account balance was expected to improve further with the trade deficit estimated to be reduced to $0.2 billion only.

An $8.3 billion net capital inflow to the country was recorded in 1992. This was mainly attributed to the inflow of capital into the country's stock market, which was opened to foreigners for direct purchase of stocks as well as for expanded issues of foreign currency denominated securities by domestic business firms. The country's overall balance of payments in 1992 shifted to a $4.9 billion surplus from a $3.7 billion deficit in 1991. Foreign currency reserves stood at $16.6 billion at the end of 1992 rising by $3.3 billion during the year.

South-East Asia

The current account balance of payments of the South-East Asian countries tended to improve in most cases. The improvements occurred largely through the improvements of the trade balance owing to a slower growth of imports.

The current account deficit of Indonesia was reduced to $3.8 billion in 1992 from $4.2 billion in 1991. This occurred through an increased trade surplus of $6.0 billion from $4.8 billion in 1991. In 1993, the balance of payments was expected to improve further with the trade surplus increasing to around $9.5 billion. In 1992, Indonesia recorded a slightly lower volume of net capital inflow, amounting to $5.9 billion compared with $6.2 billion in 1991. Official capital inflow, mainly through the Intergovernmental Group on Aid to Indonesia, amounting to $5.5 billion, was however considerably offset by a $4.7 billion in debt repayment. However, there was a $4.6 billion net inflow of foreign direct investment. The country's reserve assets stood at $10.2 billion at the end of 1992. With capital inflow remaining strong, the foreign exchange reserve was expected to increase to about $12 billion in 1993.

In Malaysia the balance of payments improved significantly in 1992 as a result of a $2.85 billion surplus on trade account compared with a deficit of $167 million in 1991. The improvement in the trade balance was the result of a virtual stagnation of imports in 1992 while exports expanded. Malaysia's traditionally large deficit on the services account was also contained in 1992. Low freight and insurance payments and higher earnings from travel and tourism as well as from investments abroad (mainly Central Bank assets), kept the increase in the service deficits marginal. The current account deficit was reduced to $1.8 billion from $4.6 billion in 1991 and was expected to be reduced to $1.7 billion in 1993, the trade surpluses of $3.5 billion being offset by a $5.3 billion deficit on account of services. The large deficits on invisibles were attributed to payments for investment income, freight, insurance and contract and professional charges. Inflow of both foreign direct investment and other private long- and short-term capital remained strong.

The Philippines incurred a larger trade deficit in 1992 amounting to $4.7 billion compared with $3.2 billion in 1991 owing to a faster increase in imports than exports. The higher trade deficit, however, was considerably offset by larger net receipts on account of services and income, which more than doubled over the previous year. A 46 per cent increase in personal income, largely remittances from the Philippine workers abroad, a 65 per cent increase in travel and tourism receipts and a 19 per cent increase in investment income determined the favourable outcome on invisibles. The current account balance-of-payments deficit in the process was lowered to $1.3 billion in 1992 compared with $1.4 billion in 1991. In 1993, this deficit was forecast to increase to $1.8 billion owing to a larger trade deficit of $5.3 billion and slower growth in net receipts on services and income.

The Philippines also received a larger net inflow of capital in 1992 compared with 1991 but its size was relatively modest compared with receipts by some other countries in the region. Although gross inflows almost doubled in 1992 from 1991, they were largely offset by debt repayments and other outflows. In terms of gross inflow, foreign direct investment increased from $130 million in 1991 to $234 million in 1992. Other inflows largely related to debt conversions. Weak growth in capital inflow was projected in 1993 also, as the economy remained sluggish and some of the conditions, including the power crisis, were still unfavourable.

In Singapore current account balance-of-payments surplus was reduced to $3.2 billion in 1992 from $3.5 billion in 1991. The deficits in the trade balance, which are usually more than offset by the positive balance in the service trade, increased from $4.1 billion in 1991 to $4.9 billion in 1992 owing to a weakening of the oil trade. Net earnings from services stagnated owing to low earnings from the bunker oil services. In 1993, the trade deficit was expected to widen further. Services, however, were expected to pick up, especially from travel and tourism and shipping. They registered 9 per cent and 11 per cent growth in 1992. The current account balance consequently was expected to improve. Net capital inflow also registered substantial increase.

The current account balance of payments in Thailand in 1992 incurred a reduced deficit of $6.7 billion from $7.7 billion in 1991. The trade deficit was reduced from $6.0 billion to $4.2 billion. The deficit on account of services, however, increased from about $1.8 billion in 1991 to $2.8 billion in 1992. This was largely the result of a fall in tourism, the largest source of foreign exchange earnings for Thailand, in the aftermath of the Persian Gulf war, recession in the industrial world and partly the domestic political events during the 1991-1992 period. In 1993, the balance-of-payments situation was expected to worsen again, as the trade deficit was likely to increase above $5 billion with imports rising faster than exports. Income on services, however, was picking up with the revival of tourism. The deficits in the current account were expected to widen to $7.6 billion.

There was also a sharp reduction in capital inflow in 1992, falling off by one third compared with 1991. This fall of net capital inflow could also be attributed to the same set of factors which affected income from the services. Capital inflow was, however, picking up strongly again in 1993. Foreign exchange reserves at the end of 1992 stood at about $20 billion.

Table III.2. Balance of payments: principal components, 1990-1993

(Value in millions of US dollars)

		Trade balance	*Services and income balance*	*Private transfers*	*Balance on goods, services and private transfers*	*Official transfers*	*Direct investment and portfolio*	*Other capital nes*[a]	*Foreign exchange reserves*[b]
Bangladesh	1990	–1 587.0	–424.5	828.3	–1 183.2	785.8	3.5	694.3	602.9
	1991	–1 385.9	–361.2	901.8	–845.3	909.8	3.6	464.0	1 206.9
	1992	–1 255.9	–371.3	1 019.8	–607.4	788.2	12.4	526.0	1 783.2
	1993[c,d]	–1 461.0	31.0	1 070.0	–360.0	...	16.0	...	2 100.0
China	1990	9 165	2 558	222	11 945	52	2 416	839	28 594
	1991	8 743	3 698	444	12 885	387	3 688	4 344	42 664
	1992	5 183	63	804	6 402	352	11 156	16 486	...
Fiji	1990	–171.3	118.2	–23.3	–76.4	24.9	59.4	–30.9	227.2
	1991	–122.2	116.3	–24.9	–30.8	25.3	5.0	–17.0	248.5
	1992	–126.4	121.5	–22.8	–27.7	14.5	49.7	–8.6	294.3
India[c,d]	1990	–7 750	–2 677	2 100	–8 327	600	112	867	2 236
	1991	–3 348	–2 651	2 180	–3 819	650	200	2 020	5 631
	1992	–4 591	–3 602	2 250	–5 943	700	400	2 018	6 434
	1993	–3 171	–4 229	2 650	–4 750	750	780	–663	6 425
Indonesia	1990	5 352	–8 758	166	–3 240	252	1 000	3 495	7 353
	1991	4 804	–9 146	130	–4 212	132	1 470	4 656	9 151
	1992	6 021	–9 997	184	–3 792	113	1 686	4 177	10 181
Iran (Islamic Republic of)	1990	975	–3 148	2 500	327	–	–	354	...
	1991	–6 560	–3 849	2 500	–7 909	–	–	5 530	...
	1992[d]	–1 871	–4 780	2 000	–4 651	–	–	2 535	...
	1993[d]	2 900	–2 926	2 000	1 974	–	–	–5 532	...

(Continued on next page)

Table III.2 *(continued)*

(Value in millions of US dollars)

		Trade balance	Services and income balance	Private transfers	Balance on goods, services and private transfers	Official transfers	Direct investment and portfolio	Other capital nes[a]	Foreign exchange reserves[b]
Malaysia	1990	1 909	-3 595	3	-1 683	51	2 077	174	9 327
	1991	-167	-4 473	24	-4 616	87	4 243	1 257	10 421
	1992	2 851	-4 703	34	-1 818	90	3 010	3 319	16 784
	1993[d]	3 509	-5 341	140	-1 692	-	-	-	14 993
Maldives	1990	-63.1	67.9	-7.4	-2.6	11.2	-	1.7	24.4
	1991	-82.5	68.1	-16.6	-31.1	22.1	6.5	-0.5	23.4
	1992	-110.5	78.6	-18.9	-50.8	17.6	6.6	19.9	27.0
Myanmar[c,d]	1990	-482.8	34.4	-	-448	28.6	69.94	214.7	312.0
	1991	-411.1	106.1	-	-305	64.4	28.71	248.3	258.2
	1992	-403.0	217.0	-	-186	74.3	7.9	130.2	280.1
Nepal	1990	-448.7	51.0	60.4	-337.3	48.2	-	304.5	287.0
	1991	-482.4	66.7	53.7	-362.0	57.5	-	457.1	388.7
	1992	-375.8	65.5	45.7	-264.6	83.2	-	335.9	459.4
Pakistan[c,d]	1991	-2 483	-1 790	2 102	-2 171	613	230	1 334	529
	1992	-2 236	-2 224	2 961	-1 499	450	562	617	924
	1993	-3 365	-2 390	2 440	-3 316	358	451	1 791	344
Papua New Guinea	1989	-22.8	-419.1	-130.7	-572.6	217.3	221.3	43.7	371.7
	1990[e]	--27.1	-198.3	-81.7	-307.1	170.9	177.7	108.8	403.0
Philippines	1990	-1 939	-411	299	-2 051	135	-102	2 785	868
	1991	-3 211	1 350	473	-1 388	354	654	2 273	3 186
	1992	-4 695	2 879	473	-1 343	344	268	2 840	4 283
	1993[d]	-5 325	2 969	552	-1 804	402	962	...	4 767
Republic of Korea	1990	-2 004	-443	266	-2 181	9	706	2 263	14 459
	1991	-6 980	-1 593	20	-8 553	-173	2 875	3 950	13 306
	1992	-2 146	-2 615	257	-4 504	-25	5 245	1 909	16 640
	1993[f]	-186	-533	58	-661	4	1 511	-76	18 151
Samoa	1990	-61.15	24.20	39.72	2.77	12.68	-	9.40	64.82
	1991	-71.14	8.20	31.00	-31.94	10.57	-	18.60	64.06
	1992	-84.08	-1.75	34.75	-51.08	-	-	19.95	57.65
Singapore	1990	-5 128	7 315	-274	1 913	-169	3 038	2 378	27 535
	1991	-4 129	7 973	-340	3 504	-199	1 990	964	33 931
	1992	-4 900	8 474	-416	3 158	-230	3 098	1 120	39 661
Solomon Islands	1990	-6.76	-52.00	1.42	-57.34	33.45	12.85	1.98	16.49
	1991	-8.29	-62.41	-2.03	-72.73	35.33	18.71	5.67	7.67
Sri Lanka	1990	-472.6	-366.8	362.4	-477.0	178.1	42.5	435.6	422.0
	1991	-473.9	-398.9	401.3	-471.5	203.9	100.0	600.9	685.0
	1992	-710.9	-385.0	461.7	-634.2	182.6	146.8	368.7	899.0
	1993[d]	-686.3	-65.2	505.5	-525.0	150.9	185.9	443.8	1 217.0
Thailand	1990	-6 750	-744	26	-7 468	187	2 265	6 833	13 247
	1991	-5 990	-1 844	163	-7 671	104	1 766	9 993	17 287
	1992	-4 155	-2 850	275	-6 730	50	2 222	6 900	20 012
	1993[d]	-5 253	-2 562	172	-7 643	104	2 376	...	...
Tonga	1990	-40.45	11.90	30.57	2.02	10.47	-13.51	-0.04	30.04
	1991	-40.85	1.55	30.23	-9.07	7.07	-3.53	5.45	30.17
	1992	-36.44	-2.57	27.96	-11.05	9.64	0.79	5.42	29.62
Vanuatu	1990	-65.85	37.82	6.69	-21.34	29.36	13.19	8.92	34.69
	1991	-59.15	29.11	-19.07	-49.11	32.05	18.45	-77.64	36.69

Sources: International Monetary Fund, *International Financial Statistics Yearbook 1992*, vol. XLV and *International Financial Statistics*, vol. XLVI, No.12 (December 1993); and national sources.

[a] Not elsewhere specified. [b] End of period. [c] Fiscal year. [d] National sources. [e] Third quarter. [f] First quarter.

South Asia

The balance of payments of South Asian countries generally improved in 1992. In Bangladesh, the current balance recorded a lower $360 million deficit in fiscal 1993 compared with $607 million in 1992. The trade deficit at $1,461 million was higher than the $1,256 million in the previous year. Private transfers, mostly from remittances of Bangladeshi workers abroad, rose from $1,020 million in 1992 to $1,070 million. A small surplus of $31 million was recorded in the services also. Bangladesh continues to depend on official development assistance for financing its payment deficits and development activities generally. Aid disbursements in 1993 marginally increased to $1,667 million from $1,611 million in 1992. A net capital inflow of just about $1,000 million after deducting debt amortization and short-term capital outflow, was almost $2 million less than in 1992. Foreign exchange reserves improved to $2.1 billion from $1.8 billion in the previous year.

In India, the current account balance of payments deteriorated in 1992 with a $5.9 billion deficit, compared with $3.8 billion in 1991 when imports were low due to the impact of policy reforms and recessionary tendencies in the economy. Of the $5.9 billion deficit in 1992, $4.6 billion were merchandise trade deficits. This was reinforced by a net deficit on account of invisibles. The deterioration in the invisibles was attributed to a deceleration in tourism earnings, larger interest payments as well as payments for royalties and technical services. The outstanding external debt, estimated at $70.5 billion as of March 1993, was imposing growing debt service obligations, as indicated by a debt service ratio of 28 per cent in 1992. Private transfers, comprising mainly remittances from non-resident Indians, remained stable at the previous year's level. In 1993, the balance of payments was expected to improve with a smaller trade deficit as exports were rising faster than imports, although the services and income accounts were likely to incur larger deficits.

Official development assistance still accounts for a substantial proportion of capital receipts in India. That assistance had declined by $1 billion in 1992 from the level of 1991. Disbursement of commercial loans, mainly trade credits, amounted to $964 million in 1992 reversing a net outflow of $758 million in 1991. In the wake of sharp deterioration in the balance of payments, India had drawn $1,288 million of IMF credit in 1992 under a Standby Arrangement entered into in 1991. Foreign investment inflow to India was rising strongly, with the inflow doubling to $400 million in 1992 from $200 million in 1991. Foreign aid and investment were expected to pick up substantially in 1993 with a further doubling of foreign direct investment inflow. That would enable the country to reduce its dependence on IMF credit. Foreign exchange reserves also improved to $6.4 billion in 1992 from their lowest level of $2.2 billion reached in 1990.

In the Islamic Republic of Iran, current account of the balance of payments improved considerably in 1992 with the deficits reduced from $7.9 billion in 1991 to $4.6 billion. The reduction came largely through a reduced deficit in the trade account from $6.6 billion to $1.9 billion. The deficits on services and transfers more than doubled from $1.35 billion to $2.8 billion. Increased payments for transport, insurance and travel accounted for the increased deficits in services. The deficits have been financed largely by long-term capital inflows. In 1993, the current account deficits were expected to have a surplus of nearly $2.0 billion with an expected trade surplus of $2.9 billion.

In Nepal, the current balance of payments also improved in 1992 with a lower deficit of $265 million compared with $362 million in 1991. The improvement came largely through reduced trade deficits as imports were growing more slowly than exports. The trade deficit was partly offset by Nepal's traditional surpluses on services and income, mainly private remittances and tourism receipts.

After a trend of improvements for several years, current account balance of payments in Pakistan sharply deteriorated in fiscal 1993 to record a deficit of $3.3 billion, more than double that of 1992. The deficit in trade was $3.4 billion. Private transfers, mainly workers' remittances, totalled $2.4 billion which was almost totally offset by the net service deficit. The volume of official transfers was also lower, after the netting of which the balance-of-payments deficit stood at $2.96 billion in 1993. In fiscal 1994, a substantial increase in exports, slower growth or decline in imports, and higher workers remittances, were expected to improve the balance-of-payments situation.

Pakistan also depends substantially on official credits to support its balance of payments. These credits have tended to stagnate or decline in recent years, making the country more dependent on commercial borrowings. However, official medium- and long-term loans increased substantially in 1993, thereby reducing somewhat the dependence on market borrowing. Net market inflow of $2.24 billion, still left a $716 million deficit in the overall balance, which was financed by a large draw-down in foreign exchange reserves. The reserves thus declined to a critically low level of $344 million.

In Sri Lanka the current account balance of payments deteriorated in 1992 with an increase in the deficits from $471.5 million in 1991 to $634.2 million. The trade deficit increased from $473.9 million to $710.9 million. Higher net private transfers, mainly workers' remittances amounting to $461.7 million, contributed to the containment of the current deficits. The services also recorded slightly lower deficit of $385 million compared with $398.9 million in 1991. This improvement reflected higher earnings from tourism. On the capital account, Sri Lanka has been receiving an increasing flow of foreign direct investment, which rose to $146.8 million in 1992 from a mere $42.5 million in 1990. The other sources of capital flows to Sri Lanka are official loans and grants which, however, did not show much of a rise in recent years. Net capital receipts exceeded the current deficit giving the overall balance a surplus which increased the country's reserves.

IV. FISCAL REFORMS

Fiscal reforms, involving the revenue and expenditure operations of government, have been an important component of a broad range of economic policy reforms in the developing countries of the ESCAP region for a decade or more. These have been accelerated however in a number of cases in recent years. Fiscal reforms may have a bearing on many development issues such as economic growth and stability, allocation of resources, trade performance, employment and equity, in addition to their direct impact on the budgetary balance. The specific considerations prompting reforms in individual countries and their timing may differ. Some commonalities are however observed. This chapter briefly reviews the objectives which appear to underlie recent reforms in the region, the nature of the measures adopted to implement the reforms and their impact.

OBJECTIVES

Governments in the region, by and large, have followed conservative fiscal and financial policies, enabling them to maintain reasonable degrees of economic stability while sustaining generally satisfactory levels of economic activities. Yet, continual changes in the domestic and external economic situations have necessitated reform measures in their fiscal systems, the urgency of which has been felt at different points in time in different countries.

A common thread in the objective of fiscal reforms in many countries has been to reduce budgetary deficits. In many cases, these deficits have been responsible for inflationary pressures in the economy and large deficits in the current account of the balance of payments. This had happened particularly in cases where a large part of the budget deficits was monetized as the governments resorted to borrowing from the banking system, especially from the central bank. Budgetary deficits also tended to cause a "crowding out" effect, with government borrowing constraining the access to credit for the private sector. Furthermore, the deficits led to a growing accumulation of public debt necessitating larger expenditures for debt servicing which, in turn, tended to aggravate budgetary deficits. All these prompted governments to adopt reduction of deficit as a major goal of fiscal reforms.

The perception of the role of government in the economy has been changing in recent years. A reduction in the role of the government in directly productive economic activities is an element of the changed perception. In this context, however, one needs to distinguish between at least three different functions of government: regulatory, entrepreneurial, and as a provider of social and economic services, particularly those characterized by high externalities.

To perform the first set of these functions requires the government to maintain the necessary administrative apparatus, the cost of which places a demand on the revenue resources. At the same time, controls and regulations can have other far-reaching ramifications for the functioning of the economy. A certain measure of regulatory role of the government is inescapable even in the most efficiently functioning market economies. However, there has been a realization in recent years that governments may have been exercising rather excessive regulatory role in the economy and, therefore, a reduced role of government in this respect is desirable.

There are a number of reasons why the entrepreneurial role of the government, particularly in directly productive activities, has also come under severe scrutiny. The reduction of budget deficit is one of those. In many cases, public enterprises have been making losses requiring subsidies from the exchequer. There is the perception also that in many instances public enterprises militate against competition, and therefore, efficiency of resource allocation through, *inter alia,* the creation of barriers against entry and securing privileged access to inputs and credit thereby crowding out potential new entrants. There is also an increasing recognition that in view of limited material, financial and human resources available to governments, they should concentrate on the provision of those goods and services that the private sector is unable or unwilling to provide. This consideration has been reinforced by the emergence of resourceful private entrepreneurs in many countries of the region.

Consistent with the reordering of priorities as indicated above, the role of government in providing essential social services appears to be growing in importance. Here again, there are several underlying considerations. In many cases, the coverage and the quality of these services is inadequate. The private sector is generally unwilling to provide many of these services, such as basic education and primary health care, because of a significant divergence between private and social costs and benefits. Many of these expenditures cannot be viewed simply as welfare payment, rather these contribute to an improvement in the quality of human resources, and thus productivity and growth.

In recent years, there has been an increasing convergence among countries of the region with respect to greater openness towards exteral trade, investment and technology flows. This outward orientation involving export promotion, reduction of barriers against imports, and removal or relaxation of restrictions against the entry of foreign capital and technology requires supportive change in fiscal regimes.

RECENT REFORM MEASURES

As explained above, a reduction in budget deficit, a reorientation of the role of government in the economy and a greater openness towards the external world, appear to have been among the major objectives of fiscal reforms in the region. Governments have sought to reform both their revenue and expenditure operations to fulfil one or the other of this broad set of objectives. Revenue reforms have affected the whole revenue system or some individual revenue instruments with respect to their base and/or rate structure. Reforms of tax administration with a view to simplying procedures, improving administrative efficiency and encouraging better tax compliance have also been undertaken. Improving revenue productivity of taxes, however, has remained an overriding consideration with a view to reducing existing budgetary deficits in the short-run, while aiming to expand and improve essential public services over the longer-run.

On the expenditure side, the emphasis has been to reduce or to contain the growth of expenditures as a means to improve the budgetary balance. Efforts have been directed towards improving the efficiency and productivity of the current level of expenditures through administrative streamlining, and greater accountability. Attention has also been paid to reallocation of expenditures in the light of new priorities.

While the initiative for the major reforms was taken earlier in the 1980s in many countries in the region, the process has been accelerated more recently, particularly in South Asian countries. In Pakistan, major fiscal reforms were initiated in 1989 and in Bangladesh in 1990 fiscal years. In India, major tax changes were introduced in the 1985/86 budget but much more extensive reforms have been brought about since 1991. The Philippines embarked on a major reform programme in 1986. Indonesia, Malaysia and Thailand implemented major reform programmes since the mid-1980s. However, the process of incremental adjustments to respond to the particular circumstances faced by individual countries at a given point in time continues.

Approaches to the formulation and implementation of reforms have varied among countries not only in respect of the timing, but also in the degree of comprehensiveness. Pre-budget dialogues among policy makers, government appointed commissions and committees, and advisory groups, researchers, interest groups and international agencies, were catalytic in many reform initiatives. In Indonesia, for example, tax reforms introduced in 1983 were based on a comprehensive review by the Harvard Institute for International Development to which the task of reviewing the existing system was assigned in 1981. India, Pakistan and Sri Lanka had set up Taxation Reform Commissions/Committees to examine the question of the reforms. In these countries the scope of reforms tended to be rather comprehensive or in large packages. Although most other countries adopted a more gradual approach, in some cases major changes were introduced together in a single year. The following are the major highlights of recent major changes.

Taxes/revenues

Direct taxes

Direct taxes play a relatively less important role in revenue mobilization in a vast majority of countries of the region. The rationale for the role of direct taxes was based on a number of merits traditionally attributed to them. They were expected to produce least distortions in terms of allocation of resources. They were viewed as a potent instrument for the promotion of equity. Their potential adverse impact on incentive to save and invest has however been recognized, and exemptions, allowances and tax holidays incorporated as counter-balancing measures.

The merits of direct taxes have been increasingly questioned. It is argued that the non-distortionary effects of direct taxes are not so obvious. From the point of view of equity, direct taxes can be at best relevant for reducing the share of income and wealth that accrues to the top echelons of society. In practice, this role has been severely compromised by the provision of liberal exemptions and allowances. Moreover, a combination of high average rates, their steep progression, and too many exemptions and allowances, encourages tax avoidance and evasion, diluting the role of direct taxes both as an instrument for raising revenue and as a means of promoting specific objectives. In consequence, the trend worldwide appears to be away from progressive direct taxation, combined with exemptions and allowances, particularly as a redistributive instrument.[1]

Reforms of direct taxes exhibit several common elements. These include: a lowering of personal and corporate income tax rates; a broadening of the bases of these taxes; a reduction of the number of income brackets in personal income tax schedules; and alignment of the corporate rates with top brackets of personal income tax rates for integration of personal and corporate income taxes at least partially. These measures have aimed, *inter alia,* to create improved incentive structure for the private sector, through a reduction of average and marginal tax rates, the multiplicity of rates and the degree of progression. At the same time, they are expected to increase revenue collection through broadering of the base, enhanced compliance and improved enforcement.

Marginal tax rates, especially the highest rate for personal income tax, have been lowered in several countries. The number of income brackets to which different rates should apply has also been reduced in many cases. For example, Indonesia's reformed income tax system retained only three rates (i.e. 15, 25 and 35 per cent). In the Republic of Korea, effective 1989, the income tax rates were adjusted from a range of 6 per cent lowest and 55 per cent highest to 5 and 50 per cent respectively. The number of brackets were reduced from 16 to 8. In Malaysia, the spread of income tax rates was reduced to 5 to 40 per cent from 6 to 55 per cent in 1985 and the number of brackets was reduced from 15 to 13. In Bangladesh, the highest marginal rate of personal income tax was reduced drastically from 45 per cent to 30 per cent in 1992/93 and to 25 per cent in 1993/1994. The highest marginal tax rate was reduced to 40 per cent in India in 1992/93. In Fiji, a 20 per cent across-the-board reduction was granted on individual income taxes in 1990. These changes, lowering rates and reducing stiff progressivity, brought about more uniformity in personal income tax rates in countries of the region.

While tax rates and taxable income brackets have been reduced and simplified to serve certain objectives, the potential revenue losses have been sought to be recaptured by a broadening of the tax base. Thus personal income tax base has been broadened in many countries by a pruning of the incentive provisions, deductions and exemptions; by taxing fringe benefits that hitherto escaped taxation; by introducing or widening withholding taxes to ensure automatic tax collections; and by recourse to presumptive taxation including a minimum tax levied on certain categories.[2] Pakistan, for example, eliminated a significant number of income tax exemptions, introduced presumptive and minimum amount of taxes on certain assets, and reinforced the system of withholding taxes during 1990-1992. Agricultural income, which had been exempt from income tax, was integrated for income tax assessment purposes in 1993. India also removed certain income tax exemptions and introduced presumptive taxation for small traders since 1992/93 while abolishing the wealth tax on all productive (financial) assets.

Rates of corporate income tax also have been lowered and the tax base has been broadened in a number of countries. The use of fiscal incentives as an industrial policy instrument has been widespread in the region. These incentives in the form of tax holidays, accelerated depreciation allowances, and various deductions were intended to promote industrial investment, to attract investment to targeted sectors, and to spread industries to backward and rural areas. The incentives however have not always served their intended purpose, but caused a loss of revenue. In some cases, while the government loses revenue, the benefit of exemption does not accrue to the investor. For example, when the countries of origin of foreign investment tax their citizens' or companies' foreign incomes which are not taxed in the host country, the host developing country loses the revenue from the exemptions offered, but the investor does not gain. The existence of the multiplicity of concessions also creates loopholes for tax evasion or avoidance. Attempts have been made therefore to rationalize the incentive provisions, particularly keeping in view the general lowering of the corporate tax rates.

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1 See Richard M. Bird, "Tax reform in India", *Economic and Political Weekly,* vol. XXVIII, No. 50 (11 December 1993), pp. 2721-2726.

2 Amaresh Bagchi, "Tax reform in developing countries: agenda for the 1990s", *Asian Development Review,* vol. 9, No. 2 (1991), p. 43.

The rates of corporate income tax have come down in most countries. The rates now range from 20 to 35 per cent in East and South-East Asian countries and from 40 to 50 per cent in South Asian countries. The corporate tax rates in South Asia, though much lower than they were before, are thus higher in comparison with those of other countries in the region.

Many countries have tried to align the corporate rates with the rate of personal income tax applied to the top bracket of income, facilitating an integration of the two. For example, in Indonesia and the Philippines, the highest rates for both personal and corporate income taxes are the same at 35 per cent. Many countries are also departing from taxing dividend at both the corporate and the individual levels. Mitigation of double taxation of dividends through dividend income relief for personal income tax is provided, for example, in India, Malaysia, the Republic of Korea, Singapore and Sri Lanka.

The nature of reforms of direct taxes as described above – involving a lowering of rates and their progressivity, combined with a reduction in deductions, exemptions and allowances and broadening of the base – could be expected to have an ambiguous impact on the contribution of these taxes to revenue, which appears to be substantiated by data. An examination of the share of direct taxes in central government tax revenues of a sample of 20 developing economies in the region shows that between 1985 and 1991 there was an increase in this share in seven cases and a decrease in equal number of cases.[3] In the remaining countries, the share remained more or less unchanged.

[3] The economies are: Bangladesh, Bhutan, Fiji, Hong Kong, India, Indonesia, Islamic Republic of Iran, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Republic of Korea, Singapore, Solomon Islands, Sri Lanka, Thailand and Tonga.

Indirect taxes

Governments in developing countries have historically depended on indirect taxes as major source of tax revenues. A number of factors explain this dependence. The low level of per capita income is one explanation. At low levels of income, any reasonable threshold of exemption does not leave much to be reached by direct taxation. A large part of gross domestic product is not monetized or originates in agriculture which is difficult to tax. A large presence of small traders or family enterprises with little or no maintenance of records and with poor accounting practices was another hurdle. The potential for collection of direct taxes was further diluted by various incentives to save and invest.

These conditions have been changing in the region and should lead to a fall in the share of indirect taxes. Taking a longer run view, that appears to be the case. In the majority of cases, the share of indirect taxes in total central government tax receipts declined between 1980 and 1991, albeit modestly.[4]

Nevertheless, as of 1991, indirect taxes remained the largest source of revenue for most countries. In the South Asian countries, the share of indirect taxes was distinctly higher accounting for between 70-80 per cent of tax revenues. In the case of East and South-East Asian countries the proportion was generally of the order of 50-70 per cent. The major exceptions were Indonesia and Singapore where the share was about one third, and Hong Kong with about two fifths. The exceptions are due to the oil factor in the case of Indonesia and near non-existence of an agricultural sector in Hong Kong and Singapore.

[4] The sample of countries is the same as in the preceding footnote.

In the context of reforms, particularly relevant is the composition and structure of indirect taxes. It is these aspects which seem to have engaged the attention of governments.

Taxes on international trade, being easy to administer, have been traditionally a substantial component of government revenues in the region. However, as indicated earlier, there has been a change in the perception of the role of international trade in economic development. There is an increasing recognition that exports can be effective "engines" or at least "hand maidens" of growth. A logical policy response is to relax constraints on international trade, both exports and imports. A significant component of fiscal reforms has been to gear tax instruments towards this end.

Export duties have gradually been removed as conditions no longer suited or justified their imposition. Export duties in the past discouraged exports and encouraged production of substitutes in importing countries. The windfall gains received in years of high commodity prices justifying a tax on the exporter have also mostly ceased to exist.

Duties on imports have served to protect domestic industries while constituting a substantial source of revenue. High and widely dispersed rates of import duties, however, have often generated varying rates of effective protection for different industries giving rise to inefficiency in the domestic industrial structure. In view of this, maximum rates of customs duties have been lowered in most countries and the number of duty rates have been curtailed.

In India, for example, to reduce the high cost of imported inputs and to moderate excessive protection of domestic industry, a major thrust of reforms has been to lower the level and simplify the structure of customs duties. The rates have been reduced in stages, with the maximum rate lowered to 150 per cent in 1991, 110 per cent in 1992 and 85 per cent in 1993. Duties on capital goods have been reduced to the level ranging between 25 per cent and 35 per cent for many categories. For export schemes and certain project imports, they have been lowered even further. Similarly, the maximum duty rate in Pakistan was reduced from 225 per cent in 1988 to 90 per cent in 1992 and further to 80 per cent in 1993. Other South Asian countries have followed the same approach. Many of the East and South-East Asian countries had already reduced their import duty rates substantially in the 1980s. The process of refinement is continuing in the 1990s and is expected to receive further boost from the implementation of various proposals on trading arrangements such as the ASEAN Free Trade Area (AFTA) and "growth triangles".[5]

As regards the domestic component of indirect taxes, the reforms have been prompted by the recognition that the structure of these taxes tended to impose very high efficiency costs. The distortions caused by a multiplicity of bases and rates, concessions and preferences, levies on the basis of origin, and so on, resulted in greatly differentiated degrees of high and often unintended protection of different sectors of the economy and misallocation of resources. The multiplicity of points of levy and taxes on both inputs and final products often caused a pyramiding of tax effects, high production costs and a consequent distortion in the prices of domestic products.[6] The reform of domestic indirect taxes has also been motivated by the growing evidence that an appropriately designed indirect tax system, in combination with public expenditure programmes, could be much more effective than direct taxes in meeting equity-related concerns in developing countries.[7]

The value added tax (VAT) has been recognized as the best substitute for existing domestic commodity taxes. The VAT can combine several taxes on production and sales into a unified system with a simplified rate structure that eases the task of tax administration and collection. Moreover, it can incorporate simple differentiation in rates, exemptions or even zero-rating to take into account distributional issues.[8]

Many countries have, therefore, replaced the sales tax by the VAT. The Republic of Korea was the first developing country in the region to introduce it in 1976. Indonesia, the Philippines and Thailand followed, Thailand being the latest to introduce VAT in 1992. Malaysia Singapore and Sri Lanka also plan to introduce the VAT system in the near future.

Bangladesh introduced the VAT in 1991 on a limited base, which has been expanded over the subsequent two years. In India, the sales tax is levied only by the State governments as provided in the constitution. The excise duties levied by the Central Government have been converted into a modified value added tax (MODVAT), enabling manufacturers to deduct excise duties paid on domestically produced inputs from their excise obligation on output, thereby mitigating the distorting effects of excise duties on prices. MODVAT covered all subsectors of manufacturing except petroleum products, capital goods, textiles and tobacco. In Pakistan, the traditional sales tax was replaced in 1990, by a new value-added type general sales tax (GST). The coverage of GST has been expanded over time, mostly horizontally by bringing a larger proportion of domestic production and imports under the tax net, and since 1991/92, also vertically by expanding the tax from the manufacturer/importer to wholesalers and retailers for a limited number of products. Sri Lanka has recently announced its plan to implement VAT in early 1994. Many countries introducing VAT have however kept using the excise duty for selective application to generate additional revenue or greater progressivity in the tax system. Specific duty rates have been converted into ad-valorem rates in many cases.

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[5] See box III.1 in chap. III of this *Survey*.

[6] Kedar N. Kohli, "Financing public sector development expenditure: the Asian experience", *Asian Development Review*, vol. 5, No. 2 (1987), p. 11.

[7] See Richard M. Bird and Barbara Miller, "Taxes, prices and the poor in developing countries" in Richard M. Bird and Susan Horton, eds., *Government Policy and the Poor in Developing Countries* (Toronto, University of Toronto Press, 1989).

[8] There is a large body of literature on rationale of VAT. See, for example, Robin Burgess and Nicholas Stern, "Taxation and development", *Journal of Economic Literature*, vol. XXXI, No. 2 (June 1993), pp. 762-830; Ehtisham Ahmad and Nicholas Stern, "Taxation for developing countries" in H.B. Chenery and T.N. Srinivasan, eds., *Handbook of Development Economies* (Amsterdam, North Holland, 1989); and Ved P. Gandhi, and others, *Supply Side Tax Policy: its Relevance to Developing Countries* (Washington DC, International Monetary Fund, 1987).

Non-tax revenues

A significant thrust of reforms in the area of non-tax revenues relates to public enterprises. Governments have sought to enhance surpluses or reduce the deficits of these entities through *inter alia,* improving their operation and efficiency and increasing the unit price of supplies and services provided by them. Thus the charges for postal, transportation, telecommunications and other utility services have been raised in many countries in recent years. User charges have been introduced or are being considered also for certain types of health, education and other social services to recover part of their costs, with concessional rates only for the poor. In view of the wide ramifications of these supplies and services involving large externalities for economic and social development, there is a limit to which they can be placed entirely on a user-pays basis.

Expenditures

Effecting economy

Effecting economy in expenditure where feasible and improving the efficiency of expenditures incurred have been generally pursued to improve budgetary balances consistent with the effective delivery of essential public services. Subsidies to producers and consumers are one category of expenditure that has been targeted for reduction or elimination both as an economy measure and as a means to reduce distortions in the economy.

All South Asian countries, for example, have withdrawn or reduced subsidies on food and fertilizer as well as on other agricultural inputs as part of the recent reforms. The poorer beneficiaries of such subsidies however needed to be cushioned against the harsh impact of such withdrawal. To the extent that subsidies catered to the welfare of the poor, special provisions had to be made to mitigate excessive hardship.

Staff reductions in government departments and restraint on wages and salaries have been used to curb the tendency for current expenditure to rise. A freeze has been imposed on new hiring and salaries in a number of cases as part of the strategy. In Pakistan, for example, there was a virtual recruitment freeze for the public sector during 1990-1992. A number of government ministries or their divisions were abolished or merged with other ministries. Redeployment within and between departments was used as a rationalization measure. A pool of surplus staff was created from which any government department needing additional staff could draw. In Thailand, government pay scales were not substantially revised between 1982 and 1989, and the cost-of-living allowances were granted only to the lowest paid workers.

Public sector pay freezes have however been difficult to maintain not only because of continuing rise in cost of living but also because of a faster increases in the less regulated private sector wages and salaries. The resulting imbalances between the private and public sector wages and salary structures have compelled governments in many countries not only to lift the freeze but also to grant substantial one-time escalation in civil service wages and salaries from time to time.

Enhancing efficiency

Efficiency and productivity of general public expenditure are difficult to measure. However, efforts have been made to streamline legislative, administrative, accounting and evaluation procedures for greater effectiveness. Operation of a public expenditure programme, as in the case of its counterpart revenue programme, involves legislative, administrative and accounting processes, on the one hand, and the classification, reporting and management of data input, on the other.

The budget legislation is a political process based on the tradition of keeping expenditure of public money under public control. The effectiveness of this process, however, depends on the methods and modes of budgetary preparation, the clarity of the objectives of particular measures, the reporting of the relevant details of data and information to the legislature, and the efficiency of the legislative machinery itself. In these various respects, the trend towards increasing democratization of the governing process in the region permitting open debates on the government budget is expected to produce better results.

Once the budget is approved by the legislature, it becomes imperative to adhere to the objectives and targets set. Here the administrative, accounting and the evaluation processes come into operation. In most countries of the region, efforts have been made to streamline the administrative and accounting procedures with a view to improving the efficiency and productivity of public expenditure. However, management tools applied to evaluate the outcome of public expenditure have remained weak in many cases. A number of countries in the past have experimented with the use of performance budgeting as a management tool within the framework of the planning and programming budgeting system (PPBS). The PPBS is an ideal system in principle but countries have found practical difficulties in its adoption and application in full. However, a number of countries have adopted its elements especially for the budgeting of development/capital expenditure. Malaysia, the Republic of Korea and Thailand, for instance, used performance budgeting in modified forms and integrated it on an annual basis within a framework of medium-term planning. The experience of those countries suggests that there was a considerable improvement in terms of enforcing budgetary discipline and effective project implementation.

In countries which had introduced performance budgeting, actual release of budgetary allocations to the concerned administrative agencies was conditioned upon their past performance, measured against output. Such strict discipline governing budgetary releases from the Treasury or the Finance Ministry has been absent in many countries. Although in the case of developmental expenditures, fund releases have mostly been conditional upon the achievements of budgetary targets, such targets have been defined only in financial terms, the fulfilment of which did not necessarily reflect real achievements.

In most countries of the region the Auditor General and the Parliamentary Accounts Committee have played an important role in the process of the controlling and evaluating performance of public expenditure. Their role could be further enhanced in the latter respect by the timely presentation of the accounts, which are usually presented with a long time lag. The capacity of an audit system to undertake evaluation of the results of expenditure programme has tended to remain limited to traditional financial scrutiny and, therefore, an enhanced capacity for evaluation of programmes by agencies such as the Finance Ministry or the planning agency appears necessary.

The effectiveness of any system of management and accounting depends on the data input and its timely analysis. In this context, the computerization of the data system is of considerable importance. Countries such as Malaysia, the Republic of Korea and Thailand are known to have put in place a system which updates information on expenditure on a continuing basis. The data are used for accounting purposes and also as a tool of management for different programmes. Sanctions, including withholding of future fund allocations or release, are enforced against underperforming agencies identified through the reporting system. India, Pakistan and the Philippines have also used computerized information systems, mainly for the preparation of accounts. Bangladesh and Nepal have also tried computerization of budgetary information on a pilot basis. Other countries in the region have also been moving in the direction of computerization of their budgetary data.[9]

[9] A recent study undertaken by the ESCAP secretariat examined these various issues in considerable details. See *The Control and Management of Government Expenditure: Issues and Experience in Asian Countries*, Development Papers No. 13 (United Nations publication, Sales No. E.93.II.F.5) and "Report of the high-level expert group meeting-cum-training course on control and management of government expenditure" (DP/CMGE/Rep.).

Reforming public enterprises

Attention has been paid to public enterprise reforms which also have implications for public expenditure. Public sector enterprises including departmental enterprises, statutory corporations and cooperatives and joint venture companies with government having controlling shares, have played an important role in all countries of the region. The performance of individual enterprises varies in all countries. Some have performed well but overall performance in virtually all countries proved unsatisfactory. In Bangladesh, for example, public sector industrial enterprises reported only a 0.4 per cent profit rate in 1985/86. In India, net profit as a percentage of capital employed in public manufacturing and service enterprises was 2.8 per cent. The rate of return was much worse with the exclusion of the oil companies.[10] Similarly, in Indonesia the rate of return in 142 non-financial enterprises (excluding oil corporations) was only 1 per cent in 1985. Because of their poor savings performance, these enterprises depended on the government for their investment needs. The government also bore the losses incurred by many of them.

From the point of view of budgetary expenditure there are two main aspects of reforms of public sector enterprises: privatization, and improvement of performance of enterprises which continue to remain in the public sector. A number of measures have been taken by countries to improve the performance of the enterprises remaining in the public sector. The measures included a cutting back on staff costs, which in many

[10] Kedar N. Kohli, "The role of fiscal policy in Asian economic development", *Asian Development Review*, vol. 9, No. 1 (1991), p. 55.

cases swelled unduly in the past due to liberal hiring in the enterprises as employment outlets. Bangladesh, Nepal and Sri Lanka have recently offered voluntary retirement programmes for staff with generous one-time compensation packages to reduce overstaffing. In many countries, public sector enterprises have been placed under professional management personnel and have been given greater autonomy in management with respect to decision on prices, purchases, sales and personnel management.

Privatization has been increasingly resorted to in almost all countries of the region. Privatization broadly defined included the allowing of new entry of the private sector in sectors and areas which were long monopolized by the public sector and the financing of the existing public enterprises through the capital markets allowing participation by the private sector, contracting out managements, and complete transfer of ownership to the private sector.

Most countries of the region had initiated the privatization policies in the mid-1980s. In South Asian countries, the pace has been accelerated in recent years. In Malaysia, the privatization policy was initiated in 1983 and was followed up with a Privatization Master Plan to provide guidelines to implement the policy. Since 1985, Malaysia has sold 120 public sector companies to the private sector. The Philippines, which experienced a large increase in the number of public enterprises in the 1970s and early 1980s, started a programme of privatization in 1986. By October 1990, plans for disposal of virtually all the government-owned and controlled corporations were approved by the President of the country. Barring a small number of corporations to be retained in the public sector, others were being disposed of through mergers, conversions to private non-profit foundations, liquidations, and privatization. In Thailand, the policy was geared not so much towards privatization of existing enterprises as towards increasing the private sector's participation in new infrastructure and other ventures.

In India, up to 49 per cent of shares in selected public sector units is being allowed to be divested to mobilize non-inflationary resources for the budget, effect broad-based asset ownership, and create a greater commercial orientation of management in public sector units. Public sector enterprises are allowed to form joint ventures and to raise fresh equity directly from the market to finance their expansion plans. Other South Asian countries have also been implementing similar programmes.[11]

Reform measures in economies in transition

In consideration of different systems of classification and accounts in the economies in transition, reforms implemented by this group of countries are dealt with separately. Moreover, in these cases, the distinction between tax reforms and public enterprise reforms is more blurred. Prior to market-oriented changes in economic policies, governments of these countries derived revenues largely from surpluses of enterprises and production sectors. Agricultural surpluses were mobilized through procurement of produce at low ceiling prices, and enterprise surpluses which often did not reflect true costs or prices, were remitted to the budget. The reforms in recent years have aimed at systematizing revenue collection by shifting from such transfers of production surpluses to a clearly defined system of taxation. Appropriate fiscal institutions and tax laws are also being instituted. This has also involved a reclassification of revenue and expenditures, affecting their patterns and allocations among different levels of government as well as the production enterprises.

The reform process taking place in China since 1979, for example, resulted in a considerable devolution of power and decision-making responsibility to enterprises and provincial governments. A decline in revenue resources mobilized by the central Government in China partly reflects the reclassification of revenue from the budget to enterprise sector and reallocation of responsibilities among different levels of government and enterprises. A similar decline in budgetary expenditures reflected a parallel devolution of expenditure responsibilities.

China introduced a general tax reform in 1984. Corporate income taxes were levied on net income of state enterprises and collectives. A "profits adjustment tax" was applied to excess profits earned by some enterprises. The tax was also differentiated by the capital endowments of enterprises. Commodity taxes were converted into separate retail and wholesale taxes on intermediate and final goods, and a partial VAT was introduced to apply to selected sectors of the economy. Various low-yielding "pre-reform" taxes such as the salt tax, slaughter tax, and a market tax were left in place, but a series of ad hoc taxes on "extrabudgetary construction", wage bonuses etc. were also introduced to restrain enterprises from incurring "unproductive" expenditures. More reforms were introduced in later years to further refine the system. Yet many anomalies had remained.

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11 For more details, see *Survey*, 1992, part one, pp. 43-44.

For example, more than 20 major taxes on individuals and enterprises were levied, some of them by local governments. Income, turnover, property, agricultural production, slaughter of animals, tonnage of salt, and so on, formed tax bases. Enterprises were subjected to different tax treatment based on their ownership and/or size and location. Large and medium-sized state-owned enterprises paid a 55 per cent profit tax, while small state-owned enterprises and the collective and township enterprises paid between 10 and 50 per cent. The tax rates for private firms and foreign funded enterprises were 35 per cent and 33 per cent respectively. In special economic zones the tax rate was 18 per cent. A further major tax reform, to be introduced in 1994, is under consideration of the government. A unified income tax law is expected to be applied to all domestic, state, collective, private, cooperative and shareholding enterprises. Most of the product and business taxes are expected to be transformed into a value added tax.

Viet Nam initiated comprehensive reforms of its planned economic system in 1986. The process of reforms was accelerated since 1989. Before 1989, Viet Nam had 14 different kinds of taxes. The National Assembly in that year decided to simplify the tax system, reducing the number of taxes to nine. The intention of this reform effort was three-fold: to firmly ground taxation in the legal system, to establish equal tax treatment between state enterprises and the private sector, and to improve tax administration. The reform effort has had some success, but further reforms will be necessary for the tax system to provide an adequate basis for financing government expenditure.

In the Lao People's Democratic Republic, a comprehensive revision of tax policy was undertaken in 1988.[12] Taxes on profits, turnover and agriculture were applied. The rates were uniform regardless of the sector and the nature of the enterprise (whether state or private). A personal income tax was also levied. In the following year the range of tax sources was extended to agricultural commodities; land; royalties on mineral resources; and agro-forestry products. Import duties and income taxes were also introduced.

The termination of Soviet aid in 1991 left a void in Mongolia's revenue base. A new tax law went into effect in the country in January 1991 and a new customs law two months later. The law introduced income taxes for individuals and enterprises (including cooperatives), replacing the existing profit transfer system. The rate structure for enterprises had six brackets, with the marginal tax rate rising from 8 per cent to 46 per cent.

The Central Asian republics (Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) have introduced numerous tax changes. Main features of tax policy in these countries and the need for further tax reforms are discussed in box IV.1.

The impact

Deficit reduction

Countries in the region sought to achieve several objectives through fiscal reforms as noted in the introduction to the chapter. This section seeks to evaluate the impact of the reforms with reference to selected quantitative indicators.

Available data indicate that governments throughout the region have generally succeeded in reducing budgetary deficits, although in many cases the reforms are yet to have their full effects. In most countries, the budgetary deficits have narrowed considerably (table IV.1) in the early 1990s compared with those in the early or mid-1980s. This is particularly true in the case of East and South-East Asian economies, which had initiated reforms in the 1980s. In South Asian countries the deficits were running relatively high as late as in 1990-1991, which prompted them to implement accelerated measures of reforms beginning in 1991. By 1992, with the exception of Nepal, the deficits, expressed as percentage of GDP, started narrowing in these countries by substantial margins. Further decline is projected in fiscal 1993/94 (in India from 5.3 to 4.7 per cent and in Pakistan from 7.9 to 5.4 per cent). Some of the Pacific island economies including Fiji, Papua New Guinea and Tonga have also succeeded in narrowing their budgetary deficits.

It is noticeable however that the Pacific island economies with the exception of Fiji, are still substantially dependent on foreign aid grants for financing their budgetary expenditures. Most of the least developed countries are also in the same situation. Without such grants they would run staggeringly high levels of deficit as indicated by the figures within parenthesis in table IV.1, or forced to reduce expenditures at the expense of essential economic and social service programmes.

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12 Asian Development Bank, *Asian Development Outlook 1993* (Manila, 1993), pp. 236-242.

Box IV.1 Tax reforms in the Central Asian republics

Reform of the tax system is crucial in countries seeking transition from a centrally planned to market type economies. The Central Asian republics (Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) have faced this task and introduced major reforms. Two alternative approaches have been advocated for introducing tax reforms, as also for other reforms, in economies in transition.[a] These have been dubbed as "big bang" and "gradualism". The first approach recommends a one-shot transformation of the tax system typically prevailing in centrally planned economies, to one that fully incorporates the concerns of an optimal tax system in a market economy. That would generally imply introduction of: (i) a broad-based and, preferably, a single-rate value added tax (VAT); (ii) a short list of traditional excise taxes on selected products; (iii) a simple, single-rate corporate income tax; (iv) a personal income tax with a simple rate structure; (v) a property tax on urban properties and agricultural land as privatization proceeds; (vi) import duties with a simple rate structure and the abolition of all export duties.

It has been argued that since these countries are starting afresh, it would be easier and more efficient for them to aim directly at the ideal. In this way, the countries will be able to reform the tax structure quickly to ensure efficiency of resource allocation and equal treatment of comparable tax payers. Efficiency losses in output would be minimized.

In the circumstances prevailing in these economies, it was difficult in practice to adopt the comprehensive approach. These economies typically depended on transfers from various sectors for government revenue. Under the changed circumstances, new tax institutions would have to be created, new laws and procedures introduced, staff trained or retrained to perform new functions, all requiring time and effort. Governments in the meantime were faced with a fall in revenue, leading to growing budgetary deficits.[b] Revenue had to be protected and realized from whatever sources they came with fewer difficulties. Hence the gradual or step-wise approach was seemingly adopted by most of these countries. However, their tax systems are gradually acquiring complex character in the process with certain distortionary features entering the systems.

To replace most of the existing turnover taxes, a VAT was enacted by the republics in 1992, initially with a high 28 per cent rate for the sake of revenue. The rate has been subsequently reduced in most republics, although it is still generally high.[c] While Tajikistan and Turkmenistan have kept the rate unchanged at 28 per cent, Uzbekistan has lowered it to 25 per cent and Azerbaijan, Kazakhstan and Kyrgyzstan to 20 per cent. The high rates of the tax created pressures for exemptions and reduction of the rates, which resulted in a multiplicity of rates and exemptions.

The origin principle, under which exports are subject to VAT and imports are not, have been adopted. The standard practice is a destination-based taxation with zero rating of exports and regular taxation of imports, which effectively isolates domestic markets from foreign VAT changes. The republics could consider adopting the destination based approach. Competition for exports would require the republics to exempt exportable goods.

The list of excisable goods is being reduced over time and most excises are now set at *ad valorem* rates. The policy on excises appears to be moving in the right direction. However, additional revenue can be generated by levying duties on the imports of excisable products.

Since most enterprises are still in the public sector, enterprise profit tax laws have features commonly used for public enterprises and in heavily regulated markets. The central tax rate ranges from 18 per cent in Uzbekistan to 35 per cent in Kazakhstan, Tajikistan and Turkmenistan. Extraordinary profits are taxed differently in various republics, raising the average statutory tax rate in the range of 60-70 per cent. Special higher rates, in general, are applied to banking, insurance and other financial intermediaries. To discourage the tendency among upper-level employees to award themselves disproportionately high salaries, "excess" wages are included in the base of the enterprise profits tax in many republics. With the strengthening of private sector, some of these features will have to change. Rules for deduction of depreciation need to be simplified. There is a need to use tax incentives more carefully because these lead to exemptions and multiple rates, which erode revenue, make tax administration difficult and facilitate tax avoidance and evasion.

A common feature is the schedular character in case of personal income tax. In general, wages, dividends and interest, and entrepreneurial income are taxed

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[a] This discussion draws on a paper by Parthasarathai Shome and Julio Escolano, "The state of tax policy in the Central Asian and Transcaucasian newly independent States (NIS)", International Monetary Fund Paper on Policy Analysis and Assessment, Fiscal Affairs Department, International Monetary Fund, July 1993.

[b] Vito Tanzi, "Tax reform in economies in transition: a brief introduction to the main issues", International Monetary Fund Working Paper, Fiscal Affairs Department, International Monetary Fund, March 1991, p.1.

[c] The taxes being discussed here are those present in the early part of 1993.

differently without global assessment of overall earnings. Bulk of the income tax revenue come from wages, which are taxed at source through withholding. Tax rates for wage and entrepreneurial income are progressive with a minimum rate of 12 per cent and the maximum rates ranging from 30 per cent in Kazakhstan to 60 per cent in Azerbaijan, Tajikistan and Uzbekistan. However, most tax payers tend to fall within the 12 or 15 per cent rate bracket. Top tax rates are high in most republics and can be reduced without so much affecting revenue yield. The personal income tax laws provide numerous exemptions, special rates and privileges.

Land tax legislation is being drafted presently or has been enacted in most republics. However, agricultural income is treated favourably and there is not much of a likelihood for the land tax to be utilized in a serious manner soon. There is some evidence of utilization of an asset tax covering public and private enterprises to obtain a minimum return from past government investments.

The process of reform is bound to be complex and long for the republics. It involves tax policy-making, giving it legal backing, its implementation by the civil servants, and educating the tax payers who are unfamiliar with and unaccustomed to compliance with tax obligations. The republics have come a long way from a system of transfers to the establishment of a proper system of taxation. However, the process must continue to remove the remaining weaknesses and drawbacks.

Table IV.1. Central government budgetary balance

(Percentage of GDP)

	1980		*1985*		*1990*		*1991*		*1992*	
East Asia										
China[a]	-16.0[a]	(-16.0)[a]	-9.3	(-9.3)	-1.0	(-1.0)	-1.3	(-1.2)	-1.3	(-1.3)
Hong Kong	2.5	(2.5)	-0.4	(-0.4)	0.7	(0.7)	3.5	(3.5)	...	(2.8)
Republic of Korea	-2.2	(-2.2)	-1.2	(-1.2)	-0.7	(-0.7)	-1.7	(-1.7)	-0.9	(-0.9)
South-East Asia										
Indonesia	-2.4	(-2.4)	-1.0	(-1.0)	0.4	(0.4)	...	(-4.6)	...	(-3.8)
Malaysia	6.0	(-6.0)	-2.5	(-2.5)	-1.2	(-1.2)	...	(-4..4)	...	(-2.9)
Myanmar	1.2	(0.2)	-0.8	(-1.8)	-5.2	(-5.3)	...	(-6.4)	...	(-3.1)
Philippines	-1.4	(-1.5)	-2.0	(-2.0)	-3.5	(-3.7)	-2.1	(-2.4)	-1.2	(...)
Singapore	2.1	(2.1)	2.1	(2.1)	11.3	(11.3)	...	...	...	(...)
Thailand	-4.9	(-5.1)	-5.2	(-5.6)	4.6	(4.3)	4.7	(4.5)	...	(3.2)
South Asia										
Bangladesh	-2.5	(-0.2)	-1.5	(-3.6)	...	(-7.6)	...	(-6.8)	...	(-4.6)
Bhutan	-0.7[a]	(-23.0)[a]	-3.5	(-31.6)	-7.9	(-18.4)	-2.4	(...)	1.6	(...)
India	-6.5	(-6.8)	-8.5	(-8.7)	-6.9	(-7.1)	-6.0	(-6.1)	-5.3	(-5.4)
Islamic Republic of Iran	-13.8	(-14.2)	-3.8	(-3.9)	-1.7	(-1.7)	-2.4	(-2.4)	-1.1	(-1.1)
Maldives	-23.8	(-27.4)	-5.1	(-6.7)	-14.2	(-21.5)	-14.9	(-29.9)	-20.4	(-30.3)
Nepal	-3.0	(-6.4)	-7.6	(-9.7)	-7.7	(-9.7)	-6.1	(-8.5)	-8.9	(-10.2)
Pakistan	-5.7	(-6.5)	-7.2	(-7.7)	-7.1	(-7.7)	-6.3	(-6.8)	...	-6.5)
Sri Lanka	-18.3	(-22.2)	-9.7	(-11.7)	-7.8	(-9.9)	-9.5	(-11.6)	-7.2	(...)
Pacific island economies										
Fiji	-3.0	(-3.4)	-2.7	(-3.5)	-2.2	(-2.6)	-2.3	(-2.3)	-0.1	(...)
Papua New Guinea	-1.8	(-11.2)	-2.3	(-11.3)	...	(-10.5)	...	(-10.4)	...	(-7.2)
Solomon Islands	-3.0	(-14.3)	-8.2	(-9.0)	-9.0	(...)	...	(...)	...	(...)
Tonga	-1.5	(-15.0)	-2.6	(-26.0)	4.5	(-3.6)	11.9	(3.5)	...	(...)
Vanuatu	-3.6[a]	(-16.3)[a]	-7.0	(-11.5)	-8.1[b]	(-19.1)[b]	...	(...)	...	(...)

Sources: International Monetary Fund, *Government Finance Statistics*, tape no. GFS93101F, *International Finance Statistics* (November 1993) and tape no. IFS93323F; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries, 1993* and *Asian Development Outlook 1993*; and national sources.

Note: Figures in parenthesis indicate the balance excluding foreign aid grants.

[a] 1982. [b] 1989.

Expenditure restraint

The success in narrowing budgetary deficits came as a result of successfully restraining expenditure growth which also, albeit imperfectly, reflects the role of the government in the economy. Thus, countries such as Indonesia, Malaysia, Myanmar and Thailand experienced considerably reduced rates of growth in total government expenditures in real terms during the period 1986-1992 compared with the rates of growth during 1975-1985 (table IV.2). In fact, among the economies listed in the table, there were only three economies (Islamic Republic of Iran, the Philippines and the Republic of Korea) where the rate of growth of total expenditure in the latter period exceeded that of the earlier one. In the first two of these countries, the growth was led by capital expenditures, although current expenditure also grew at a faster rate, particularly in the Philippines.

While the growth in current expenditure was successfully restrained within East and South-East Asian economies, with the two major exceptions of the Philippines and Republic of Korea, capital expenditure has registered generally higher rates of growth as governments moved to redress the infrastructure constraints faced by their economies in the late 1980s by launching large investment projects in such areas as transport and power. The large decline in capital expenditure in Singapore reflected the completion of construction of the mass transit railway system and government housing projects.

Table IV.2. Annual trend growth rates of central government expenditure in real terms

(Percentage)

	Total expenditures[a]		*Current expenditures*		*Capital expenditures*	
	1975-1985	*1986-1992*	*1975-1985*	*1986-1992*	*1975-1985*	*1986-1992*
East Asia						
Hong Kong	12.2	6.5	10.9	7.0	15.5	5.0
Republic of Korea	8.0	11.2	8.6	10.1	3.8	10.6
South-East Asia						
Indonesia	5.8	1.0	5.7	2.1	6.9	3.0
Malaysia	8.9	4.8	8.4	4.8	8.4	19.1
Myanmar	7.7	-2.4	5.9	-2.6	17.9	-5.0
Philippines	2.1	5.2	-0.4	8.5	3.0	15.6
Singapore	10.8	-6.2	9.9	5.0	16.5	-13.0
Thailand	9.9	5.8	10.8	5.0	7.2	12.7
South Asia						
Bangladesh	7.1	4.8	5.4	7.4	9.8	2.2
India	7.1	4.6	6.9	7.0	8.6	1.4
Iran (Islamic Republic of)	-7.5	2.0	-5.9	-1.1	-11.6	11.3
Nepal	9.5	3.8	7.8	6.0	10.3	5.0
Pakistan	6.2	4.3	8.8	4.3	2.3	10.2
Sri Lanka	4.8	1.8	1.9	5.2	10.1	-6.9
Pacific island economies						
Fiji	4.7	3.8	6.2	3.5	-2.2	10.9
Papua New Guinea	0.7	-2.5	2.4	-1.9	-7.0	-17.4

Sources: ESCAP based on International Monetary Fund, *Government Finance Statistics,* tape no. GFS93101F, *International Financial Statistics Yearbook 1992* and *International Financial Statistics* (December 1993); and Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries, 1993.*

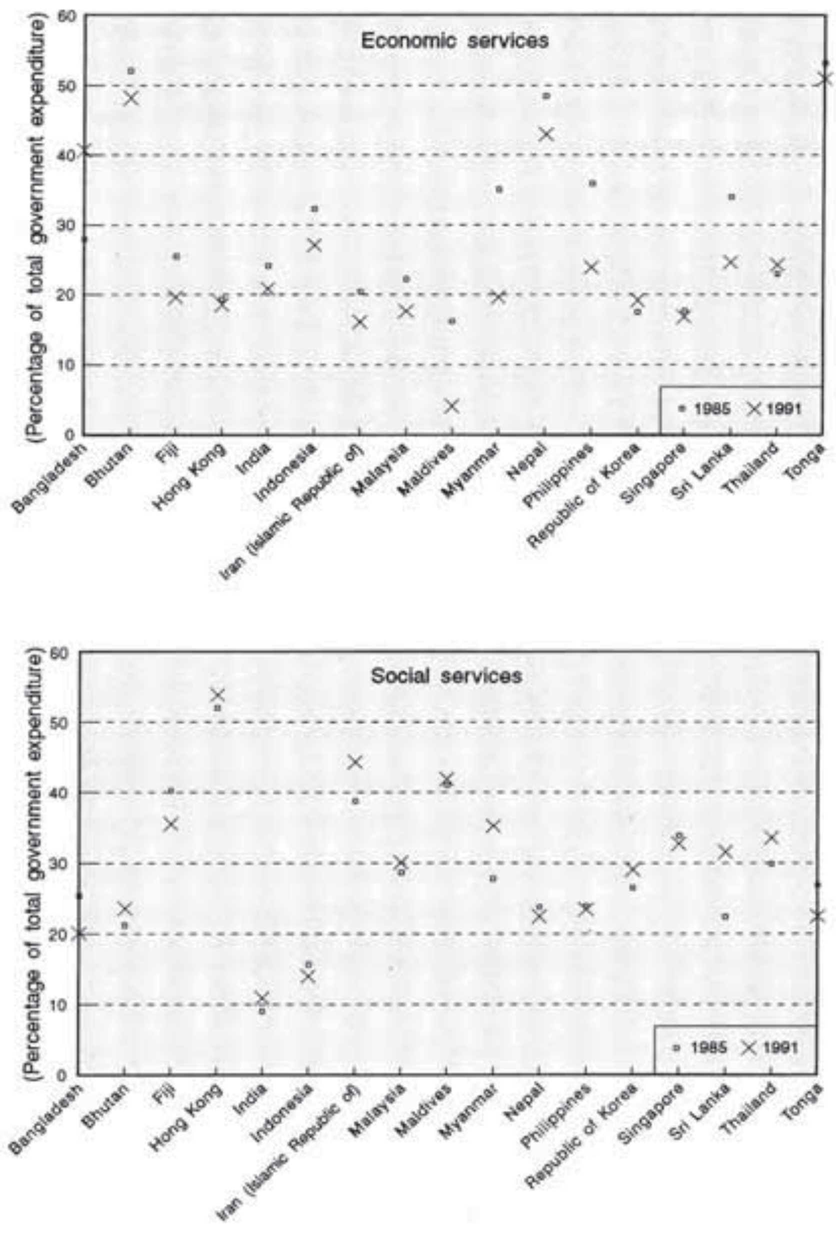
Note: Due to non-availability of data in case of some countries, the latest available yearly data have been used rather than for 1992.

[a] Including current and capital expenditure plus net lending.

In South Asian subregion, the Islamic Republic of Iran and Pakistan succeeded in restraining growth in current expenditure and accelerating growth in capital expenditure. In other countries, growth in current expenditure appears to have remained unabated and therefore the slow-down in expenditure growth came through a considerable deceleration of growth in capital expenditure. While in Bangladesh and India the rate of growth in capital expenditure was severely limited during 1986-1992, Nepal experienced a modest growth of 5 per cent per annum. In Sri Lanka, capital expenditures declined which reflected not only budgetary constraints but also a greater emphasis on private sector's role in capital investment.

The containment of the rate of growth of total expenditure partly reflects efforts to reduce the role of the government in the economy. Simultaneously, there has also been a small shift between the economic and social service categories of expenditures, reflecting the new priority of governments. The data show a relative decline in expenditure on economic services and a rise for social services (figure IV.1). This shift may be welcome. Apart from the externality aspects of these services, much of social service expenditures in the past was concentrated on building infrastructure rather than providing actual services. Thus the actual delivery of services remained inadequate both in quantity and quality, especially in the vast rural areas of the region.[13] That has often found expression in public complaints about the existence of health centres without the services of a doctor or supply of medicine; or the existence of a school building without chairs, tables, stools and blackboards, or an access road for children, to commute to and from.

Figure IV.1 Distribution of central government expenditure between economic and social services



Sources: ESCAP based on International Monetary Fund, *Government Finance Statistics,* tape no. GFS93101F; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries, 1993;* and national sources.

13 *Human Resources Development: Effectiveness of Programme Delivery at the Local Level in Countries of the ESCAP region,* Development Papers No. 16 (forthcoming).

Any notion of an excessive government in countries of the region, so far as revenue-expenditure operations are concerned, will be dispelled by comparison of the relative shares of income passing through the budgetary process in the developed countries and in the developing countries of the region including both the current and the capital components.[14] The standard of public services – general as well as social welfare – in many developing countries of the region remains poor. It may not be necessary or inevitable for the developing countries to develop the same elaborate structures of social and welfare services as most developed countries had done in the postwar period. The developing countries will however need to provide more and better services than at present, as demand for them is increasing and there are inherent reasons why the private sector is unlikely to meet the growing demand to a great extent. That does not seem to leave much scope for reducing the demand for resources for governmental use, although there may be scope for further rationalization of allocations. In this context, particular attention could be paid to the reduction of military expenditure (see box IV.2).

[14] See *The Control and Management of Government Expenditure: Issues and Experience in Asian Countries,* Development Papers No. 13, op. cit., chap. I.

Box IV.2. Reducing military expenditure in the Asian and Pacific region

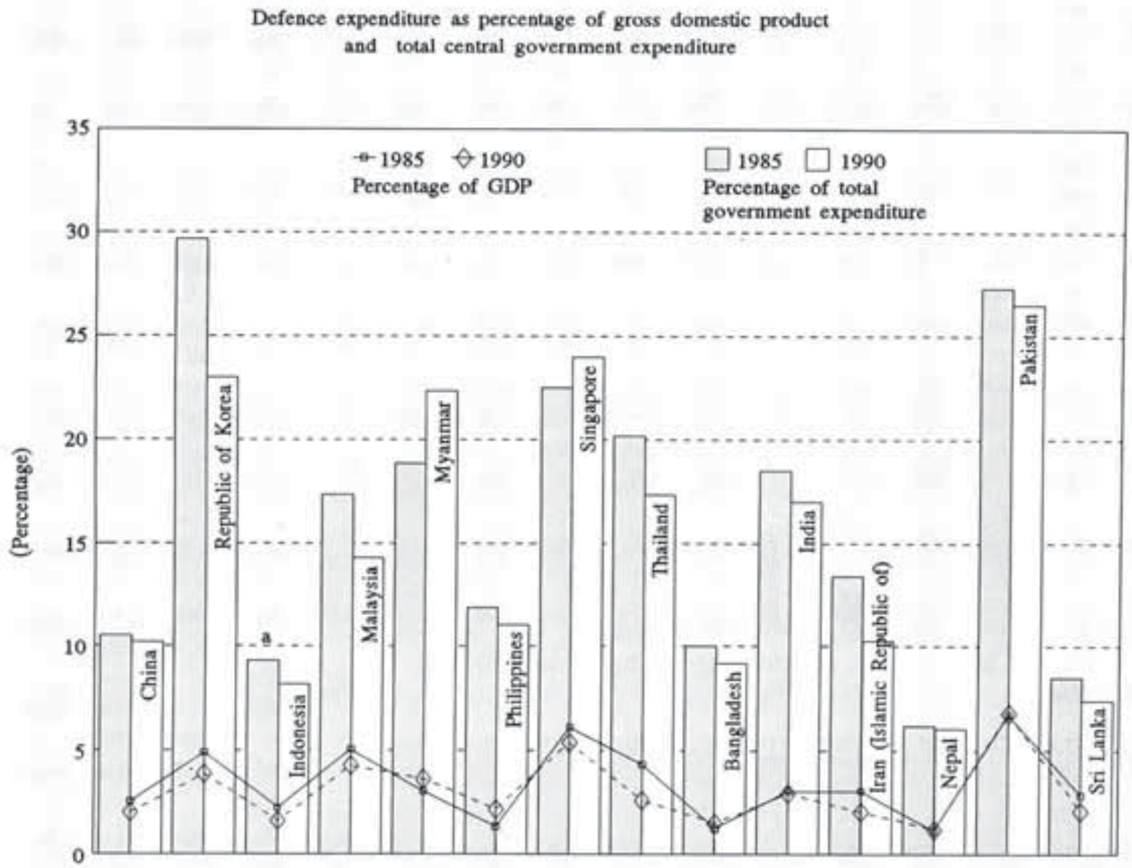
The end of the cold war has been having an impact on military spending worldwide with aggregate expenditures showing a decline in recent years. Military expenditures had grown fast during the most part of the 1980s, with a rise in cold-war tensions since the beginning of the decade. Since about 1988, expenditures have declined at the rate of approximately 5 per cent annually.[a] The downward trend was maintained even in 1991 despite the Persian Gulf war. The decline accelerated further in 1992 and 1993, with the rate approaching 9 to 10 per cent in 1993. Since 1984-1985, military spending of the developing countries has also fallen consistently, although 1991 saw an increase reflecting largely the Persian Gulf war related expenditures of the concerned countries.

Military spending in the Asian-Pacific region is yet to show a similar pattern of decline as elsewhere. In fact, the absolute level of spending appears to have shown some rise in East and South-East Asia in recent years while only a marginal decline in South Asia is noticeable. Defence expenditure relative to gross domestic product (GDP) has declined, however, in most countries of the Asian region between 1985 and 1990. Similarly, the share of defence expenditures in total central government expenditures also fell in most cases (see chart). The slow progress in reduction in military spending is possibly the result of certain residue of the cold-war tensions still remaining in the region as well as withdrawal of outside security support by cold war allies.

Under certain circumstances, defence expenditures can provide an impetus to economic growth. Those conditions do not seem to exist in the ESCAP region, especially in developing countries. Very few developing countries have an established defence-related industry, unlike in the developed countries, with extensive forward and backward linkages with the rest of the economy. Higher defence spending often results in the higher import of equipment and supplies. On the other hand, military expenditures have opportunity costs as larger military spending means lesser resources for other sectors. Apart from financial resources, skilled manpower which is in short supply in countries of the region, is often drawn into defence establishments depriving the other sectors of their services. These factors can adversely affect both the pace and pattern of economic growth.

Defence expenditures still constitute a major proportion of government spending (see chart). Its containment would go a long way in reducing fiscal deficits, a problem that many countries in the region have been seeking to overcome. The burden of military spending on the balance of payments is also a serious issue. Asia has been characterized as the fastest growing arms market in the world. Import of major conventional weapons into the developing Asian region, as a share of the world total, is estimated to have increased from 23.2 per cent in 1987 to 29.2

[a] Saadet Deger, "Military expenditure and arms trade: trends and prospects", a paper presented at the Tokyo Conference on Arms Reduction and Economic Development in the Post Cold War Era, 4-6 November 1993, p. 3.



Sources: ESCAP based on International Monetary Fund, *Government Finance Statistics,* tape no. GFS93101F and *International Finance Statistics,* tape no. IFS93323F; Asian Development Bank, *Key Indicators of Developing Member Countries of ADB* (April 1984), and *Key Indicators of Developing Asian and Pacific Countries, 1993;* and national sources.

[a] 1986.

per cent in 1991.[b] Imports have often taken place against loans and credits, thereby adding to external indebtedness. Debt servicing requirements, in turn, impose strains on the government budget and balance of payments.

Countries in the region need resources to overcome poverty, illiteracy and disease as well as other pressing social problems. Social development in the region has not been commensurate with economic progress (see chapter V). Huge resources are needed in the region to overcome the deficiencies and meet the growing demand from the populace for expanded coverage and better quality of services. Reduction in defence expenditures can release resources for more adequate funding of the programmes needed to meet such demands.

Regional/subregional cooperation could play a very important role in this respect. The perception of any threat to national security anticipated from curtailing defence expenditure can be minimized when that is undertaken by a number of countries, particularly in neighbouring areas, simultaneously. The reduction of cold war tensions and the visible desire to strengthen regional/subregional cooperation on many issues provide a congenial climate for a cooperative approach to reduction of military expenditure. In the absence of such an approach, the likelihood of any significant reduction on the basis of unilateral decision by each country is rather remote.

[b] Saadet Deger, ibid., table 5.

Revenue productivity and reorientation

The reduction of deficits is also partly due to improved revenue productivity resulting from various reforms in tax and non-tax revenues. It is interesting to observe that despite downward adjustment of rates of direct and indirect taxes, tax revenue has generally remained buoyant. In fact, the buoyancy of taxes reflecting changes in revenue relative to change in income has improved in most countries during the period 1986-1992 compared with that during 1975-1985 (table IV.3). This perhaps reflects a better tax coverage in countries through the expansion of the tax base particularly in cases where comprehensive VATs have been introduced. It may also reflect a better tax compliance as tax systems were simplified, tax administration became more efficient and tax payers became more educated and enlightened. It is also likely that the tax systems, through changes in their composition and rate adjustments, became more elastic in response to income changes even in the absence of any discretionary change in bases and rates. Whatever the explanation, governments in the region have, in fact, been able generally to mobilize a higher proportion of total income as revenue in recent years, which is reflected in the value of buoyancy coefficients exceeding unity.

As in the case of expenditure, there has been a change in the composition of revenue sources as well. A significant aspect of this change relates to the role of taxes on forign trade. The nature of reforms implemented in this respect has been elaborated earlier.

The effect of these measures can be seen in figure IV.2 which shows that in most cases, there has been a decline in the share of trade taxes. Even in cases where the share has increased, as in the case of India, this is most likely owing to an expansion in the base (mostly import). Consequently, import duty collections increased, despite a lowering of the rates, faster than revenue from other taxes. Data seem to show (figure IV.2) a declining importance of foreign trade taxes in consonance with economic policy shifts in favour of greater openness.

Table IV.3. Central government revenue buoyancies with respect to gross domestic product in selected developing economies in the ESCAP region

	Total revenue		*Tax revenue*	
	1975-1985	*1986-1992*	*1975-1985*	*1986-1992*
East Asia				
China	0.64	0.65	0.46	0.53
Hong Kong	1.09	1.13	1.09	1.17
Republic of Korea	1.06	1.08	1.04	1.07
South-East Asia				
Indonesia	1.07	0.91	1.03	1.24
Malaysia	1.19	0.91	1.09	1.00
Myanmar	1.35	0.91	0.99	0.78
Philippines	0.87	1.20	0.90	1.23
Singapore	1.30	0.75	1.10	1.44
Thailand	1.22	1.26	1.23	1.30
South Asia				
Bangladesh	1.07	1.43	1.13	1.50
India	1.08	1.00	1.06	0.99
Iran (Islamic Republic of)	0.46	1.32	0.94	1.14
Nepal	1.24	1.08	1.24	1.08
Pakistan	1.16	1.13	1.13	0.96
Sri Lanka	1.06	0.98	1.02	1.08
Pacific island economies				
Fiji	1.31	1.44	1.30	1.60
Papua New Guinea	1.13	1.17	1.23	1.16

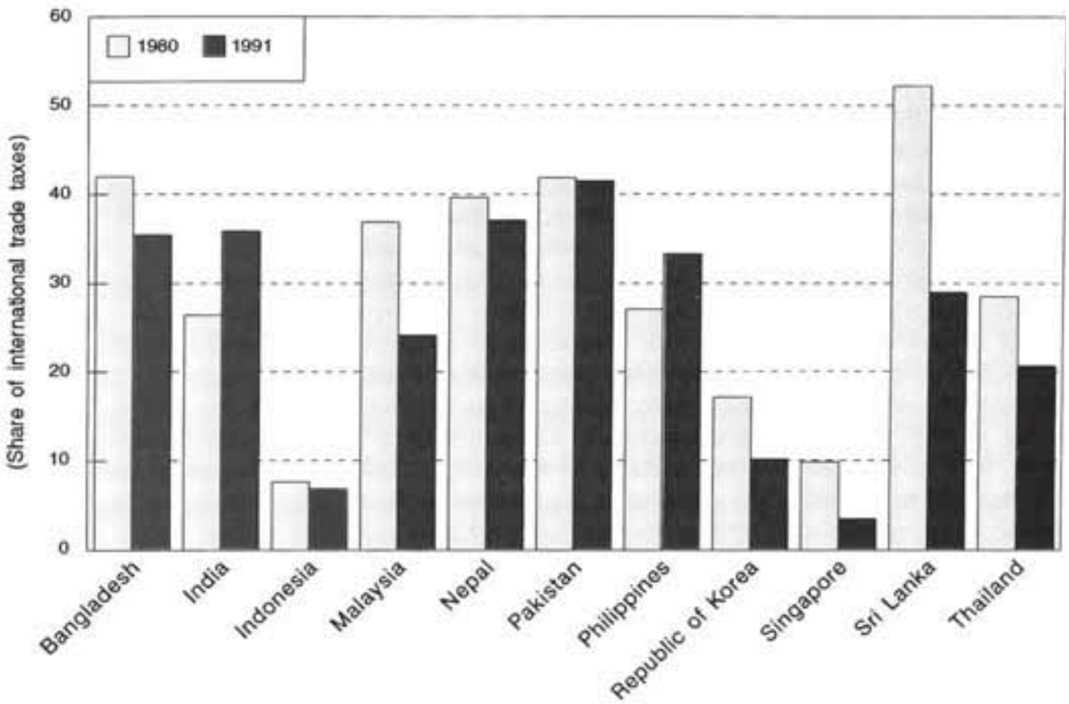
Sources: ESCAP estimates based on International Monetary Fund, *Government Finance Statistics,* tape no. GFS93101F and *International Financial Statistics Yearbook,* various issues; and Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries, 1993.*

Note: Due to non-availability of data in some cases, the latest available yearly data have been used rather than for 1992.

CONCLUDING OBSERVATIONS

As the preceding analysis has shown, significant reforms in the system of public finances carried out by countries of the region have positively contributed to the achievement of desired objectives in many cases. Reforms affect not only the finances *per se* and the way they are raised and spent, but also the scale and organization of activities that the government undertakes. Recent reforms have sought to address both these aspects. The need for reforms continually arises as both the domestic and external circumstances change affecting individual economies and societies and the government's role in that process.

Figure IV.2. Share of international trade taxes in total tax revenue of central government



Sources: ESCAP based on International Monetary Fund, *Government Finance Statistics,* tape no. GFS93101F; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries, 1992;* and national sources.

A continuous process of monitoring and analysis of the fiscal situation and the impact of revenue raising activities and expenditure allocations on the economy and society is therefore necessary. Countries in the region which do not yet possess indigenous capacities for research on fiscal issues to guide the policy makers, as available in India, the Philippines, the Republic of Korea and Thailand in their specialized institutes, need to develop those capacities.

Attention has been given to the reforms of the instruments of revenue affecting their rates and bases. Simplification in both has been a focus. Achievement of simplification and realization of its merits, however, also depend on the objectives that those instruments are called upon to serve. Keeping the objectives of a tax system relatively simple merits consideration from this point of view. Traditionally, a multiplicity of growth-promoting, allocative, distributional and stabilization objectives have been assigned to revenue instruments. That served to make the tax system complicated in respect of their base and rate schedules, in addition to creating problems for tax administration and providing incentives and opportunities for tax evasion and avoidance.

The scope for further improvements in the efficiency and capacity of tax administration may exist. Tax administration need not focus exclusively on the punitive provisions of law for the enforcement and realization of taxes. Better services to tax payers can produce good results by reducing tax evasion and avoidance and improve revenue realization. Campaigns to educate the public about tax laws and procedures should better inform the public and make them more inclined to pay taxes voluntarily. Conditions can be created for developing social norms under which wilful tax evasion is not regarded as acceptable behaviour. That would help in the development of a civil society whose members are willing to pay taxes to enable governments to perform their essential role effectively. Quality manpower for tax administration and better services to tax payers are necessary in this regard.

Despite difficulties, governments in the region have aimed to bring about economy in government expenditure and improve its efficiency and effectiveness. While this is necessary in order to avoid excessive budgetary deficits that may lead to many undesirable economic consequences, the specific mechanisms for reducing expenditure should be kept under continuous review. The fall in capital expenditures in a few countries raises a concern that this may impair their infrastructure development and the prospect for future economic and social development.

Indicators of social developments in the region still point to serious deficiencies in achievements in many countries, as the following chapters will show. Social sector spending, such as on education and health, is not merely welfare enhancing but also productive investment for development of human resources. Their expansion and improvement are recurrent needs in the region. The government's role in these activities and hence the resource needs to carry them out are most likely to increase. Governments will have to explore the possibilities of augmenting resources for these activities through continued reappraisal of expenditure priorities as well as through measures to raise more revenue.

V. ECONOMIC TRANSFORMATION AND SOCIAL DEVELOPMENT

AN OVERVIEW

Until the 1950s, the developing countries of the ESCAP region were clearly in a state of underdevelopment. The economic and social situation in those countries was then characterized by: an agrarian and cottage-based production structure with practically no modern industry and production technology; virtual non-existence of modern economic and social infrastructure; low levels of productivity in traditional production lines; low per capita incomes, and widespread poverty depriving vast segments of the population of their basic necessities of life. Hunger and malnutrition, illiteracy and disease, high birth and death rates and low life expectancy at birth were commonly observed. The list of existing economic and social malaise could be long and yet not exhaustive. Since then development has taken place and changes have occurred.

Development is a dynamic process of change that transforms through time the economic, social, cultural and political life of peoples. The major transformations that occur include the decreasing importance of agriculture with the growth of non-agricultural employment and output; increasing use of machine technology and applied science in emerging and traditional economic sectors, permitting rapid growth of production and income; growth of cities and towns with simultaneous decline of farming as the principal line of production and mode of livelihood. Industrialization and urbanization bring about change in peoples' location and habitat, their groupings and relationships, work discipline and work place, in short, in their life style. Intensification of national economic and political integration takes place through the spread of education and the establishment of a national network of increasingly complex set of economic, political and administrative institutions. The process is a long, and perhaps an open-ended one. Aspirations for development are rarely saturated. Moreover, development, being a multidimensional process, a country at the most advanced stage of development may remain underdeveloped in some respects.[1]

The processes of economic and social change are interactive, with one set reinforcing the other.[2] However, economic growth, with industry and technology as its leading components, is often seen to be the dominant factor, inducing social change as a necessary or an inevitable outcome. The primacy of economic forces led by industry, science and technology, was asserted two decades ago by a Nobel laureate in Economics, Simon Kuznets. He defined economic growth as a long-term rise in the capacity to supply increasingly diverse economic goods, this growing capacity based on advancing technology and the institutional and ideological adjustment that it demands. The major aspects of structural transformation characterizing modern economic growth included a shift away from agriculture to non-agricultural pursuits, a change from personal enterprise to impersonal organization of economic firms, with a corresponding change in the occupational status of labour, urbanization and secularization.[3] In a similar vein, one scholar has recently observed "Technology and the rational organization of labour are the preconditions for industrialization, which, in turn, engenders such social phenomena as urbanization, bureaucratization, the breakdown of extended family and tribal ties, and increasing levels of education".[4]

The validity of such generalizations without qualification is open to doubt. The interactions between economic growth and social change are complex. The nature of these interactions varies across time and space. Nevertheless, certain emerging trends in the developing countries of the region point to some of the directions indicated above.

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[1] A. Lindbeck cited in George Dalton, *Economic Systems & Society: Capitalism, Communism and the Third World* (Penguin Education, 1974), p. 219.

[2] Paul Streeten, *The Frontiers of Development Studies* (New York, Halsted Press, 1972), pp. 63-70.

[3] Simon Kuznets, *Population, Capital, and Economic Growth: Selected Essays* (New York, W.W. Norton and Company, Inc., 1973).

[4] Francis Fukuyama, *The End of History and the Last Man* (New York, Avon Books, 1992), p. 89.

During the last 30 to 40 years, the developing countries of the ESCAP region have undergone major economic and social change. Many of the economies have recorded sustained high rates of economic growth and rapid transformation in the structure of output and employment. Although agriculture still produces the largest share of output and employs the highest proportion of the labour force in many countries, manufacturing industry has emerged as the catalyst for dynamic change. Urbanization, with its associated impact on different aspects of life, has proceeded apace.

The levels of achievement have been unequal among the countries of the region. Nevertheless, conditions of life have improved in many respects all over the region, in some countries more so than in others. Mass starvation is no longer a concern. Epidemic diseases, such as smallpox, cholera and malaria which were rampant even in the 1940s and the 1950s, have been practically eliminated or dramatically reduced. Nutrition levels have improved. Infant and child mortality rates have fallen. Birth and death rates have declined and life expectancy at birth has increased. Literacy and education have spread. A sizeable section of the population in many of the countries has achieved living standards comparable to some of the best in the world.

While these are commendable achievements, it is also true that substantial proportions and staggeringly high total numbers of people in the region remain poor at a level where they cannot meet their basic needs for food, clothing, health, housing and literacy. The average level of improvements can provide little satisfaction to those who are ill-fed, ill-clothed, ill-housed, illiterate or simply ill. Although most of the earlier epidemic diseases seem to be under control, some of them have tended to re-emerge. At the same time, a new one, appearing in a pandemic form, has been posing a serious threat to public health in the region. The undercurrents of AIDS (acquired immune deficiency syndrome) virus infection and the spread of the disease indeed raise serious concerns.

Economic growth has also tended to breed new sets and/or deepen some of the old sets of problems. The growth of urban slums and squalor has resulted from the rapid pace of urbanization. With the expansion of wage employment, fear and anxiety about unemployment that could be caused by fluctuating demand for labour and/or displacement by mechanical innovations, have increased. Industrial workplaces frequently lack safety, security, and a healthy environment. A wide range of environmental concerns have ensued. Among them, atmospheric pollution poses serious health hazards to humans as well as to many other species.

The family unit, as a support mechanism for the schooling of the child and the young, coping with illness and adversity, old age and disability, has been losing its influence. Work contingencies, including mobility requirements for employment in modern economic sectors, combined with inadequate housing and accommodation in and around urban-industrial workplaces, inevitably lead to an erosion of the traditional role of the extended family. The incidences of divorce, single parenthood and parentless childhood, homelessness, and street-begging, though no new phenomena, are assuming new dimensions. Child abuse, sex abuse, drug abuse and homicidal and suicidal violence are seen as products of the decay in the family institution and of the "anomy" that the urban-industrial life gives rise to. Corruption, crime and abuses of a wide variety are attributed to a decline of both traditional institutions and social culture.[5] Alternative sets of public or private institutions to accommodate or ameliorate the problems that have tended to arise, are either in their infancy or not developed at all in many countries in the region.

Indicators to measure and quantify different dimensions of economic and social progress have long been the subject of research in the social sciences. The task of measurement and quantification, even of the material dimension of progress, is problematic, to say the least. The widely used concept of gross national product (GNP) has come under criticism as a measure of the welfare of nations or peoples, on grounds, *inter alia,* of its accounting inaccuracies and valuation deficiencies. National income accounting disregards a wide range of costs associated with the production of income. The disregard of a variety of these costs, including the damage and depletion of environmental resources, makes the gross national product "too gross".[6]

In view of the obvious limitations of the GNP measure (see box V.1), recent efforts have sought to supplement it by other indicators of the "quality of life" and "the progress of nations". Comprehensive indices of the "quality of life", of "human development" combining several indicators with

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5 United Nations, *Report on the World Social Situation 1993* (United Nations publication, Sales No. E.93.IV.2), p. 121.

6 Kenneth E. Boulding, "Fun and games with the gross national product: the role of misleading indicators in social policy", in *Business Ethics,* W.M. Hoffman and J.M. Moore, eds. (United States, McGrawhill Inc., 1990), pp. 477-481.

Box V.1. GNP: an inadequate indicator of welfare

The case against using gross national product (GNP) as a measure of social well-being has been forcefully stated as follows: "Higher GNP does not automatically result in an increase in social well-being, and it should not be used as a measuring rod for assessing economic welfare".[a] This is, to put it simply but dramatically, because GNP aggregates the dollar value of all goods and services produced, "the cigarettes as well as the treatment of lung cancer". Such a harsh judgement on GNP as a measure of the aggregate value of economic activities of a nation, which can be easily translated in per capita terms to approximate the economic well-being of the people concerned, is of relatively recent origin.

The "grossness" of GNP has, of course, been recognized for a long time. The remedy has been sought in estimating net values, allowing for depreciation of existing assets in the course of producing current outputs. The real question that has arisen is how net can it be made. The growing concern for preserving and conserving the environment has driven home the thought that the GNP exaggerates too much the value of current output and the allowance for traditional depreciation has not been enough. Part of the reason is that benefits of production and consumption activities have been frequenly optimized, treating nature's common heritage as a free gift. The use of natural assets, such as land or minerals, has thus tended to exceed the norm of social optimality that should also take into account their future availability and usability.

Depletion and degradation of natural resources in the process of their current use impose a burden on future generations. If degradation is permitted beyond a certain limit, natural regeneration may no longer be possible. In the process of evaluating economic activities, it is necessary, therefore, to appropriately evaluate the loss of value of natural resources through the accounting system. The value added method of national income accounting no doubt puts a value on many resources extracted from nature. That however represents more the costs of extraction rather than the value of resources *per se.*

It is not easy to value natural resources and environmental assets, the market for which is mostly non-existent. There are many conceptual difficulties and measurement problems including the lack of appropriate data. Yet, in spite of these problems, environmental accounting is desirable if only as a reminder of the environmental consequences of economic activities. Such accounting aims to take into account changes to environmental quality and the stock of natural resources that occur as a result of economic and social development so as to ensure sustainability to meet the needs of both the present and future generations. In the countries which are heavily dependent on exhaustible resources, it is even more essential that systems of natural resource accounting be used to alert policy makers to the potential consequences of resource depletion.

Notwithstanding the difficulties, environmental and natural resource accounting has been applied in some of the developing countries of the ESCAP region. A study in Indonesia[b] collected existing data relating to natural resources, namely petroleum, timber, and the soil types and accompanying agricultural practices. Stock and flow accounts were compiled for the first two of these resources. Then based on this information, the gross domestic product (GDP) was adjusted by deducting the value (as measured by net economic rent) of the depletion of the resources. For soil resources, an estimate of losses in agricultural productivity owing to soil erosion was arrived at. This loss was then deducted from GDP to yield the net domestic product (NDP). The study found that the NDP measured in this way grew at an annual average of 4 per cent over the years 1971-1984 as against an average annual growth rate of 7.1 per cent for conventional GDP.

The study in Papua New Guinea[c] made a wide range of estimates for the environmental impact of four primary production sectors, namely, agriculture, forestry, mining and energy. The assumptions made and methods used to arrive at monetary values of the impact of the activities varied. The results of analysis however provided a rough indication of the value for the 1986-1990 period. Subtracting the value of environmental quality degradation, the adjusted NDP ranged from 90 to 97 per cent of conventional NDP during the period. A comparison of the share of final consumption in the net domestic product and environmentally adjusted net domestic product suggested that consumption exceeded environmentally adjusted domestic production in almost all years.

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[a] William T. Blackstone, "Ethics and ecology", reprinted in *Business Ethics,* in W.M. Hoffman and J.M. Moore, eds. (United States, McGrawhill, Inc., 1990).

[b] R. Repetto, W. Magrath, M. Wells, C. Beer and F. Rossini, *Wasting Assets, Natural Resources in the National Income Accounts* (Washington, DC, World Resources Institute, 1989).

[c] Peter Bartelmus, Ernst Lutz and Stefan Scheweinfest, *Integrated Environmental and Economic Accounting, A Case Study for Papua New Guinea,* Environmental Working Paper No. 54 (World Bank, 1992).

(Continued overleaf)

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In reviewing the results of these studies, one has to keep their tentative nature in mind. The main purpose of these studies was to test the methodological approaches[d] developed by the United Nations Statistical Division in cooperation with the United Nations Environment Programme and the World Bank in actual country contexts. Given the general weakness of available data, the range of estimates produced are far more illustrative than precise. It is clear that considerably better data will be needed to improve this work.

This type of methodology is being further tested in selected countries of the region through an ESCAP project entitled Systems of Environmental and Resource Accounting. Guidelines will also be developed for the application of various methodologies to the developing countries especially in developing environmental accounts with linkages to the System of National Accounts (SNA). It is expected that the project will also contribute to the improvement of statistics relating to environmental resource depletion and degradation in the ESCAP region.

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[d] United Nations, *Integrated Environmental and Economic Accounts* (an interim report), Handbook on National Accounts Series (New York, 1992).

an appropriate set of weights attached to them, have been attempted and compiled.[7] Some of those measurable indicators, however, often closely correlate with GNP magnitudes in the same direction, pointing to the conclusion that economic growth producing higher GNP per capita results in an improvement in the quality of life.

Economic growth as conventionally measured undoubtedly contributes to a reduction of hunger, illiteracy, disease and early death. Selective evidence is, however, available to show that those improvements are possible even at relatively low levels of GNP per capita. The cases of China, Sri Lanka and Viet Nam in the ESCAP region are often cited as examples.[8]

As noted before, the interactions between economic growth and social change are complex. This chapter analyses selected aspects of economic transformation and some dimensions of the associated change in social conditions. Related policy issues are also briefly touched upon. It is not intended to be an exhaustive analysis of the issues raised or the full range of their policy implications. The following chapter also discusses the implications of the population dynamics for some of the issues.

SOME ASPECTS OF TRANSFORMATION

Income growth

The transformation that has taken place in the economies of the region over a period of 30 years is indeed remarkable. Doubts may surround the numbers cited as indicators of the exact magnitude of change, especially for purposes of comparison both over time and among countries. Nevertheless, they are reasonably reliable indicators of the direction of change. Major indicators of this transformation are growth in income and change in the output composition of the economy. The available numbers suggest at least a sevenfold increase in per capita income, even in the least developed countries of the region such as Bangladesh and Myanmar, and other relatively low-income countries such as China, India, Indonesia, Pakistan and Sri Lanka. Such a gain, in the face of huge increases in national populations, compares favourably with historical standards. The region's more buoyant economies, such as the newly industrialing economies (NIEs), and of Malaysia and Thailand, have surpassed most historical and contemporary records of economic performance. Thus, the NIEs achieved at least a 30-fold increase in per capita income in 30 years and Malaysia and Thailand achieved a 10- to 15-fold increase.

Understandably, the transformations are more advanced in these economies than in the slower growing ones. It appears that those economies which moved faster during the past 30 years had a higher and more diversified base in 1960 than the others, and this lends support to the importance of initial conditions. The slow movement of the Philippines and Papua New Guinea from a comparatively high base, and a faster movement of Thailand from a relatively low base, however, provide evidence of contrary conclusions. Undoubtedly, there is more to the achievements of each of the individual

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[7] United Nations Development Programme, *Human Development Report*, various issues (New York, Oxford University Press) and United Nations Children's Fund, *The Progress of Nations* (1993).

[8] Ibid; World Bank, *Sri Lanka: Country Economic Update Fiscal Year 93*, Report No. 11862-CE, p. 25.

economies than their initial conditions.[9] The pace as well as the pattern of transformation affecting the different sectors is important in explaining the persistence of some of the socio-economic problems, such as poverty and its various manifestations, in the countries of the region.

Composition of output and employment

A second component of the transformation process in the region relates to changes in the composition of output and employment. In 1960, agriculture was the most dominant economic sector in all economies except for Hong Kong and Singapore which virtually had no agriculture (table V.1). Hong Kong and Singapore also had the highest per capita income levels in the region in 1960. Their favourable initial characteristics could therefore largely explain their speedy transformation. In the Republic of Korea, the agricultural sector was however relatively large in terms of its share in both total income and employment. A simultaneous shrinking of the income and employment share of this sector has occurred in the Republic of Korea. The share of the sector in income declined by 28

[9] Recently a series of publications have focussed on the probable causes of success of the East Asian economies. Their conclusions seem to be that no single explanation would suffice. See, World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York, Oxford University Press, September 1993); R. Wade, *Governing the Market* (New Jersey, Princeton University Press, 1990); and *Economic and Social Development in Pacific Asia*, Chris Dixon and David Drakakis-Smith, eds. (New York, Routledge, 1993).

Table V.1. Selected indicators of structural transformation in the developing economies in the ESCAP region

	Per capita gross national product (US dollar)		*Share of agriculture in gross domestic product (percentage)*		*Share of labour force in agriculture (percentage)*		*Percentage of urban population*	
	1960	*1990*	*1960*	*1990*	*1960*	*1990*	*1960*	*1990*
Bangladesh	30	210	57.5	36.8	87	68.5	5.1	16.4
Bhutan	110[a]	190	57.9[b]	43.3	95	90.7	3.1[c]	5.3
China	74[d]	370	38.2[e]	28.4	75	49.0	18.4[f]	33.4
Fiji	240	1 860	41.4[g]	18.0	56	39.1	29.7	44.0
Hong Kong	430	11 890	3.7	0.3	8	0.7	89.1	94.1
India	60	360	49.8	28.9	74	66.5	18.0	27.0
Indonesia	80	560	53.9	21.8	75	54.7	14.6	30.5
Iran (Islamic Republic of)	190	2 500	29.1	20.6	54	25.0[h]	33.6	56.7
Malaysia	250	2 340	36.0	22.3[i,j]	63	26.1	25.2	43.0
Myanmar	50	350	32.9	57.1	68	65.6	15.0	25.0
Nepal	42	180	64.7[k]	56.0	95	91.7	3.1	9.6
Pakistan	60	390	46.2	22.7	61	49.5	22.1	32.0
Papua New Guinea	180	860	49.1[l]	28.4	89	67.1	2.7	15.8
Philippines	150	730	25.7	21.9	61	41.5	30.3	42.6
Republic of Korea	180	5 440	36.7	9.1	66	17.8	27.7	72.0
Samoa	630[m]	940	48.7[n]	46.1	69[a]	...	18.9	22.9
Singapore	450	12 430	3.5	0.3	8	0.4	100.0	100.0
Sri Lanka	60	470	31.7	23.5	56	39.9	17.9	21.4
Thailand	100	1 410	39.8	12.7	84	62.1	12.5	22.6
Viet Nam	...	...	51.4	46.6	81	71.6	14.7	22.0

Sources: ESCAP secretariat based on World Bank, *Social Indicators Data Sheets* (May 1981); World Bank, *World Tables*, various issues; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries*, various issues; ESCAP, *State of Urbanization in Asia and the Pacific, 1993* (ST/ESCAP/1300); International Labour Organisation, *Yearbook of Labour Statistics*, various issues; World Bank, *Trends in Developing Economies 1992* (Washington, DC, 1992); and national sources.

[a] 1982. [b] 1977. [c] 1970. [d] Per capita national income. [e] 1965. [f] 1964. [g] 1963. [h] 1986. [i] 1989. [j] Constant prices. [k] 1962. [l] 1961. [m] 1985. [n] 1979.

percentage points, from around 37 per cent in 1960 to 9 per cent in 1990. This was more than offset by a 48 percentage point decline in the share of employment, from 66 to around 18 per cent. The experience of the Republic of Korea may therefore serve as an example of a successful and balanced transformation.

In many other countries of the region the share of agriculture in income has declined much faster than the share of population it continued to support. The most striking example of this situation is provided by Thailand where the income share of agriculture declined to 13 per cent but the sector was still burdened with a 62 per cent share of the population in 1990. Although an explanation is provided that a significant proportion of income of the agricultural population originates in non-agricultural activities, this persistent imbalance in the Thai economy has raised concerns and recent planning exercises have called for the diversion of more resources to the depressed rural areas of the country.[10]

Most of the economies of the region still retain their large agrarian base in terms of both income and population supported. In general, agriculture supports a much higher proportion of the population than its share in national income. A relative decline in the share of agriculture in total output is reflected in a faster expansion in the corresponding shares of industry and services, generally without a similar increase in the share of the labour force they absorb. This imbalance may be greater in terms of the total population supported, since the number of dependents per productive worker in the urban non-agricultural sector is generally smaller than that in the rural-agricultural sector.

Urbanization

The growth in income and output as well as its changing composition, principally in the form of a decline in the share of agriculture in output, is usually accompanied with an increase in urbanization. Analysts differ as to whether economic development is a cause or a consequence of urbanization, but there is little disagreement that a close relationship exists between them. There are a number of reasons underlying this relationship.

The process of urbanization starts with a concentration of modern industrial and service activities in certain areas due to some locational advantages and economies of agglomeration. Economic development strengthens this process. Generally speaking, income elasticities of goods and services produced in the urban areas are higher than those traditionally produced in the rural areas. Hence, as income grows the demand for urban output expands faster. Infrastructure facilities such as ports, transport and telecommunications are more developed in urban areas and, therefore, attract new activities. Another important factor is the availability of a better educated work force and trained technical as well as managerial personnel in urban areas. Apart from such natural tendencies, many public policies adopted with a view to influencing the pace and pattern of economic growth tend to favour expansion of urban areas. The combination of these various factors causes growth of existing urban centres and the emergence of new ones.

The process has been at work in the developing countries of the ESCAP region also, where an increase in the percentage of urban population simultaneously with a notable decline in the share of agriculture in gross domestic product (GDP) has resulted. The close association between non-agricultural output and urbanization is brought out by figure V.1. Data in table V.1 show that the share of urban population in the total population has increased in all countries over the three decades between 1960 to 1990. The extent of urbanization, of course, differs between countries, depending on the rapidity with which the share of agriculture in GDP has declined as well as on other factors. It should, however, be mentioned that the figures in table V.1 may understate somewhat the true extent of urbanization, the main reason being that much of urban population growth occurs on the edges of major cities in areas still classified as rural for census purposes. The data indicate that among the more populous developing countries, the level of urbanization is high in China, India, Indonesia, the Islamic Republic of Iran, Malaysia, Pakistan, Philippines and the Republic of Korea.

Nevertheless, the Asian and Pacific region remains among the least urbanized of the world's regions. In 1990, the percentage of population living in urban areas in Asia was approximately 30 per cent, which placed it in the second lowest ranking of the seven major regions.[11]

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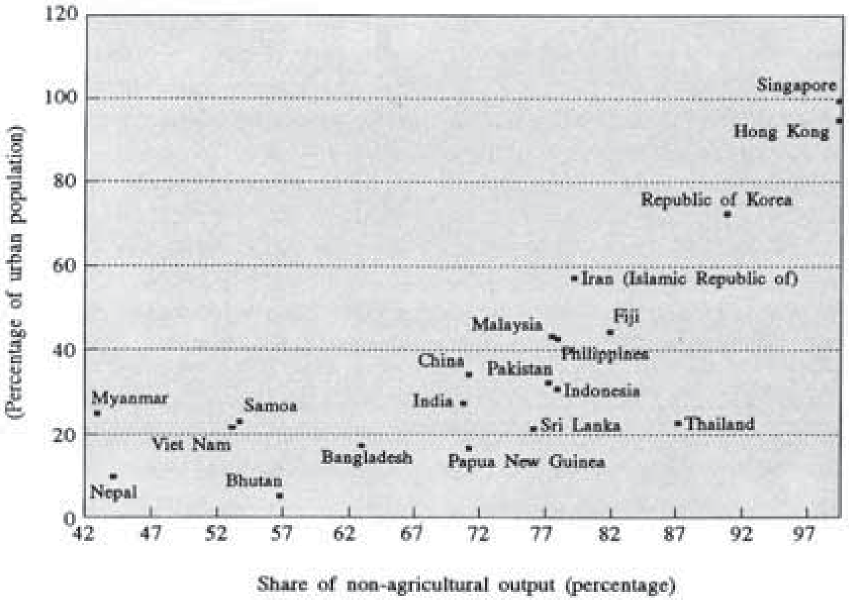
10 See the papers presented at the 1992 Year-end Conference on Thailand's Economic Structure, held at Jomthien, Pattaya, especially Chalongphob Sussangkarn, "Towards balanced development: sectoral, spatial and other dimensions", also National Economic and Social Development Board, *The Seventh National Economic and Social Development Plan*, 1992-1996.

11 Europe, North America, Union of Soviet Socialist Republics, Oceania, Latin America, Africa and Asia.

Figure V.1. Relationship between non-agricultural output and urban population, 1990



Sources: World Bank, *World Tables 1993* (Baltimore, Johns Hopkins University Press, 1993); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries, 1993* (Oxford University Press, 1993); ESCAP, *State of Urbanization in Asia and the Pacific, 1993* (ST/ESCAP/1300); and national sources.

This points to the potential for rapid advances in the level of urbanization in future, particularly if the momentum of economic growth is sustained in the region. The pace of urban growth, in fact, has picked up significantly in recent years.[12] The annual growth rate of the urban population in Asia during the period 1980-1990 was 4.7 per cent, more than double the rate of growth of the total population, and higher than the urbanization rate of 3.5 per cent during the preceding decade.

A significant feature of the urbanization process in the ESCAP region is that although the level of urbanization remains low, the region contains many of the world's largest cities. In 1990, 16 of the 30 largest, 11 of the 20 largest, and 5 of the 10 largest urban agglomerations were in Asia. The ESCAP region contains 106 cities with populations of at least one million each. Thirty-eight of these cities are in China and 24 are in India. Indonesia, Japan, Pakistan and the Republic of Korea each contains six cities with at least a million people each.

A comparison of the urban share of total population and the non-agricultural share of total income clearly shows that the urban share is much less than the non-agricultural share. All non-agricultural incomes do not accrue exclusively to the urban population; nevertheless, it is true that the smaller proportion of the population living in urban areas enjoys a much larger share of the total national income.

Such income disparity between urban and rural areas has been a major factor contributing to the process of rapid urbanization that has been taking place in the region by inducing migration from rural areas. Net rural to urban migration accounts for roughly one half of urban population growth, with the other 50 per cent caused by natural increase and the reclassification of rural areas as urban areas.

SELECTED ISSUES IN SOCIAL DEVELOPMENT

Poverty

The incidence of poverty

Among the many social goals pursued through economic growth and transformation, the alleviation of poverty features most prominently. The changes described above help to bring into relief some of the social problems, poverty among them, which remain unresolved in the Asian and Pacific region. Despite economic progress, poverty remains endemic. Nearly three fourths of the world's 1.1 billion poor people live in the ESCAP region.[13] In terms of absolute numbers, the poor are highly concentrated in the region's more populous and densely inhabited countries such as Bangladesh, China, India, Indonesia and

12 ESCAP, *State of Urbanization in Asia and the Pacific, 1993* (ST/ESCAP/1300).

13 Estimated by the World Bank on the basis of a poverty line of $370 of per capita income at purchasing power parity rate. See World Bank, *World Development Report 1990* (New York, Oxford University Press, 1990).

Pakistan. The proportion of the poor in several other countries with small to medium-size populations is also quite high.

There are difficulties in measuring, and even defining, poverty. An income/expenditure sum in money terms, considered adequate for buying at market prices a "minimum-need" basket of goods and services, is generally used to define a poverty threshold; all those with earning/spending power below the indicated threshold are considered poor. However, strict comparisons among countries are not possible owing to differences in methodology used as well as varying degrees of errors and biases in the household income and expenditure survey data used for measuring poverty. These quantitative measures also fail to take account of many other deprivations that the poor suffer.

Poverty, as measured by head-count ratios using income/expenditure thresholds, declined in all countries/areas in the ESCAP region over time (table V.2). With the exception of a few countries, the proportion, as well as the absolute number of poor, has declined. Yet the total number of the poor remains uncomfortably high in many countries. The latest data indicate that Bangladesh, China, India, Indonesia, the Islamic Republic of Iran, Nepal, Pakistan, Philippines, Sri Lanka and Thailand, together contained some 465 million poor people. This number understates the magnitude of poverty since the data include only the rural poor for Bangladesh, China and the Islamic Republic of Iran. Afghanistan, Cambodia, Lao People's Democratic Republic, Myanmar, Papua New Guinea and Viet Nam are probably other countries with sizeable populations below the poverty line; the relevant information for these countries is not available.

Poverty estimates for China are available only for rural areas. They show a sharp decline in the incidence of poverty between 1979 and 1986. Poverty has been reduced in the newly industrializing economies of Hong Kong, the Republic of Korea and Singapore to an extent where it is no longer considered as a serious problem. In South-East Asia, Indonesia brought down the poverty incidence from 58 per cent

Table V.2. Reduction in poverty[a] in selected countries/areas in the ESCAP region

	Reduction in head count index (percentage point)	*Relevant period*	*Number of poor (millions)*	
			First year	*Last year*
East Asia				
China[b]	16	1979-1986	...	74.1
Hong Kong	7	1971-1976	0.8	0.6
Republic of Korea	33	1965-1982	11.3	3.1
South-East Asia				
Indonesia	41	1970-1987	67.9	30.0
Malaysia	23	1973-1987	4.1	2.2
Philippines	25	1961-1988	21.2	29.4
Singapore	21	1972-1982	0.7	0.2
Thailand	9	1976-1988	12.9	11.5
South Asia				
Bangladesh[b]	35	1974-1989	57.9	43.0
India	22	1973-1988	298.7	239.0
Iran (Islamic Republic of)[b]	8	1965-1988	5.9	7.4
Nepal	0	1977-1989	5.3	7.4
Pakistan	34	1962-1984	26.5	18.7
Sri Lanka	10	1963-1987	3.9	4.4
Pacific island economies				
Fiji[b]	10	1965-1988	0.1	0.1

Source: ESCAP based on various national and international sources. For details, see ESCAP, "The poverty situation", *Economic Bulletin for Asia and the Pacific*, vol. XLIV, No. 2 (December 1993) (forthcoming).

[a] Poverty estimates based on country specific poverty lines. [b] Data pertain to rural areas only.

of the population to 17 per cent and the total number of the poor from nearly 70 million to 30 million between 1980 and 1987. The severity of poverty of those who still remained poor was also reduced significantly, as measured by the poverty gap.[14] Malaysia reduced the proportion and absolute number of the poor to low rates and levels between 1973 and 1987. The proportion of the poor declined in the Philippines over the period 1961-1988. However, as a result of fast population growth, the absolute number of the poor increased over the period, though the severity of poverty as measured by the poverty gap was reduced. The incidence of poverty declined in Thailand between 1976 and 1988. That, however, did not bring about a marked reduction in the absolute number of the poor.

South Asia, with the region's largest concentration of poor people, also witnessed a reduction in the proportion of the poor. However, the proportion of absolute poor in countries of that subregion was still higher than elsewhere in the region, ranging from 20 per cent in Pakistan to 48 per cent in Bangladesh. It should be recalled that the South Asian countries are among those with the highest differentials between the share of labour force employed in agriculture and share of agriculture in GDP.

For Bangladesh, only rural poverty estimates are reported officially; the data indicate a considerable improvement in the situation. Estimates show a considerable decline in poverty in India over the period 1973-1988, with the absolute number of the poor falling from around 300 to 239 million over the period. Official estimates in Nepal show no change in the proportion of the population in poverty between 1977 and 1989; however, the absolute number of poor people had increased, reflecting the rapid population growth during that period. The incidence of poverty declined considerably in Pakistan during the period 1962-1984. However, between 1979 and 1984, the proportion remained practically unchanged and the absolute number of poor increased as population expanded. Similarly, in Sri Lanka, the proportion of the poor declined substantially during the period 1963-1987, but the situation worsened between 1979 and 1987.

Admittedly, the data for this analysis are dated by some years. Meanwhile, further progress has been made by countries in the region. Nevertheless, any major decline in the total number of the poor in the region from that indicated above was unlikely, considering the sources of understatement noted earlier.

The analysis above has been in terms of country-specific poverty lines. A recent study which analyses the poverty situation in developing countries on the basis of a uniform poverty line with due account of differences in purchasing power of national currencies also generally substantiates the findings as above. According to that study, the proportion of the poor declined between 1985 and 1990 in both East Asia (comprising China, Indonesia, Malaysia, Philippines and Thailand) and South Asia (comprising Bangladesh, India, Nepal, Pakistan and Sri Lanka), but this proportion remained the highest in South Asia among five regions (East Asia, South Asia, Latin America, Middle East and North Africa, and sub-Saharan Africa).[15]

Locational characteristics

In most of the developing countries in the ESCAP region, a significantly high proportion of the poor people live in rural areas. During the 1980s, around 80 per cent of the poor in Bangladesh, India, Indonesia, Malaysia, Sri Lanka and Thailand were rural residents.[16] Within rural areas, some localities have an even higher concentration of poverty owing to the scarcity of arable land, and the incidence of droughts, floods, environmental degradation and the resulting low agricultural productivity. The incidence of poverty is much higher in remote areas of countries with insufficient access to social services and infrastructure.

Poverty, however, is neither an exclusively rural phenomenon, nor is its rigour necessarily more severe in rural than in urban areas. The urban areas generally have better health, education, water and sanitation facilities, but, the access of the urban poor to those facilities is neither guaranteed nor necessarily qualitatively better than those available to the rural poor. The urban poor suffer from squalid housing, contaminated water, chemical pollution, and a congested and unhealthy environment, conditions generally worse than those facing the rural poor. In many countries, the decline in the incidence of poverty in urban areas is not as fast as in rural areas. This is because urban poverty is partly a spillover from rural poverty through the migration of the rural poor to urban areas in search of job opportunities. One indicator of the incidence of

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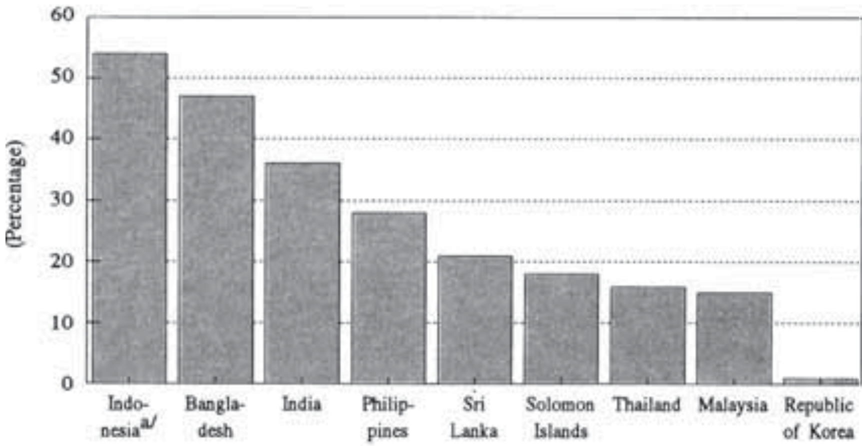
14 The gap is measured in percentage of aggregate expenditure that, if transferred to the poor, would eliminate absolute poverty.

15 Shaohua Chen, Gaurav Datt and Martin Ravallion, *Is Poverty Increasing in the Developing World?* Policy Research Working Paper series, WPS1146 (Washington, DC, World Bank, June 1993).

16 Asian Development Bank, *Asian Development Outlook, 1992* (Oxford University Press, 1992), and sources given in table V.2 of this *Survey*.

Figure V.2. Selected developing countries in the ESCAP region. Percentage of urban population in slum/squatter settlements (latest available year)



Source: ESCAP, *State of Urbanization in Asia and the Pacific, 1993* (ST/ESCAP/1300), table 2.36, p. 2-47.

[a] Living in Kampang.

poverty in urban areas is the proportion of the urban population living in slum or squatter settlements. As figure V.2 shows, the incidence of urban poverty measured by this criterion is quite high even in some middle-income countries.

Many of the poor, both in rural and in urban areas, are located where environmental degradation is common. In many countries, the rural poor live in areas that are regarded as environmentally fragile. In the urban areas, owing to ever rising prices of land, the poor are forced to live in densely packed settlements and slums where they suffer the most from urban environmental problems. They also live on the urban periphery where manufacturing and processing plants are built, and where the environmental protection measures are often the weakest.

Poverty is also seen as a contributor to environmental degradation; the poor often lack resources to avoid degrading their environment. They end up resorting to the cultivation of steeply sloped and erosion-prone hillsides, as well as to excessive tree cutting, overgrazing and overfishing. Poverty can lead to higher population growth, which, in turn, requires further exploitation of natural resources and the environment. In sum, the poor are both victims and agents of environmental damage.

Poverty alleviation: an unfinished agenda

Alleviation of poverty has been a central objective of successive development plans in most countries of the region. By and large, the national anti-poverty strategies have involved a commitment to broad-based economic growth accompanied by varying degrees and forms of consideration for the equitable distribution of the benefits of that growth. Since the inception of planned development, the five-year plans of South Asian countries have aimed at reducing poverty by achieving growth with a redistribution of income. Growth with social justice has also been the basis of the development strategies adopted by most countries in the South-East Asian subregion.

In keeping with their stated policies and goals, countries of the region had formulated a wide variety of measures to reduce the incidence of poverty. To cite a few examples, in Malaysia these measures have included increasing the access of the poor to land, physical capital, training and other public facilities in order to enable them to share more equitably in the benefits of economic growth. Development efforts in Indonesia have focused primarily on improving the productivity of the rural economy and expanding the rural social and physical infrastructures.[17]

In South Asia, poverty alleviation measures in Bangladesh have included employment promotion through the choice of technology and the allocation of resources to relatively labour-intensive sectors and activities to ensure that the benefits of growth would accrue to the poor; anti-poverty programmes have also aimed at providing training and credit support to the landless to enable them to engage in various income-generating activities.[18] India had adopted various programmes for helping the

17 World Bank, *Indonesia: Strategy for Sustained Reduction in Poverty* (Washington, DC, 1990).

18 Mahabub Hossain and Binayak Sen, "Rural poverty in Bangladesh: trends and determinants", *Asian Development Review*, vol. 10, No. 1 (1992).

Box V.2. Highlights of recommendations adopted by the First Session of the Committee on Poverty Alleviation through Economic Growth and Social Development

As rapid and sustainable economic growth is an essential condition for poverty alleviation, special attention should be paid to accelerating the pace of economic growth, particularly in rural areas, with emphasis on employment creation, reduction in population growth rates and environmental protection.

Linkages between economic growth and poverty alleviation should be identified and strengthened where such linkages are positive, particularly with a view to supporting the informal sector, in which large numbers of the poor gain their livelihood.

In countries undertaking economic reforms to accelerate growth, effective action should be taken to provide appropriate safety nets for disadvantaged and vulnerable groups in order to minimize the transitional costs to them.

Overall growth and employment creation should be complemented by target-oriented programmes focused on disadvantaged groups, including poor women and residents of backward areas, to enable them to gain equal rights and increased access to primary health care, family planning services, education, housing, transport and other services.

Considering the close linkage between strengthened efforts to reduce population growth and to alleviate poverty, a sustained and strong commitment should be made to formulating population policies and implementing family welfare programmes.

The rural poor should have greater access to income-earning assets, including capital and land, through such means of land reform as tenancy reform, land redistribution and security of tenancy rights, ensuring full participation of women in those processes.

Institutional arrangements, including national, provincial and local forums for discussion, planning, implementation and evaluation of poverty alleviation programmes, should be created and strengthened to facilitate participation and cooperation among government agencies, local authorities, the private sector, universities, non-governmental organizations and community groups and, above all, the poor themselves in formulating and implementing anti-poverty programmes.

Training and information services should be provided to support the efforts of self-help groups of the poor and to strengthen the organizational capacity of people's organizations at the grass-roots level, focusing on their capability to participate in the planning and implementation of poverty alleviation programmes.

Information should be disseminated on relevant policies and practices concerning poverty alleviation, including experiences from outside the region, to government officials at all levels, particularly local-level authorities, who are often the first point of contact for grass-roots action.

Genuine people- and demand-driven participation should be ensured, even in situations where assistance from the Government and other concerned donors play an important role.

The implementation of nation-wide poverty alleviation projects should be promoted by providing models of integrated social services to target groups or communities using national and local government as well as non-governmental resources.

Recognizing that a more open international trading system could accelerate economic growth in the region and lead to the alleviation of poverty, member States should pay the utmost attention to a quick, balanced and positive conclusion of the Uruguay Round of multilateral trade negotiations, which could increase trading opportunities, particularly for the benefit of developing countries.

In view of the fact that the external debt burden of developing countries, especially least developed countries, prevents some Governments from concentrating efforts on helping the poor, those member States that are in a position to do so should review their national policies on debt payment on a case-by-case basis and advocate the restructuring of such payments, where appropriate, so that more significant portions of national budgets can be allocated to poverty alleviation.

weaker sections of the population over the decades. Direct poverty alleviation programmes such as integrated rural development (IRD) were launched in 1980. Besides, the strategies for poverty alleviation had included the rural wage employment programme, land reforms for the redistribution of land and security of land tenures, and the minimum needs programme to increase access of the rural poor to the basic services of elementary education, primary health and drinking water.[19]

The persistence of chronic poverty in most countries in South Asia has been viewed with concern

[19] ESCAP, country statement at the Committee on Poverty Alleviation through Economic Growth and Social Development, first session, 20-24 September 1993, Bangkok.

also at the subregional level. The Heads of State and Governments of the South Asian Association for Regional Cooperation (SAARC) at the Colombo Summit in 1991, decided to set up the Independent South Asian Commission on Poverty Alleviation in order, *inter alia,* to examine the causes and consequences of the persistence of poverty in South Asia; to draw positive lessons from the "successful and sustainable" experiences on the ground; and to identify critical elements of a coherent overall strategy of poverty alleviation. The Commission recommended, *inter alia,* that each country belonging to SAARC should implement a national level plan for the poor.[20]

As a result of the various measures adopted, there has been a significant reduction over the years in the proportion of households below the poverty line in many countries of the ESCAP region. However, despite efforts spanning over three decades and despite buoyant economic growth, widespread poverty remains a harsh reality in many countries of the Asian and Pacific region. Over 50 per cent of the poor live in abject poverty. Continuing efforts are therefore needed to ensure that the benefits of development percolate adequately to the poor and disadvantaged groups.

To conclude, economic transformation in the ESCAP region has been accompanied by notable progress in poverty alleviation. The accomplishment is due to both income growth and a variety of measures adopted by governments in the region with a view to redressing poverty directly.[21] Nevertheless, there is no room for complacency in the presence of the very large numbers of poor in many countries. In order to provide renewed impetus to poverty alleviation, member Governments of ESCAP adopted a set of recommendations for action (see box V.2). Early and effective implementation of these recommendations could go a long way in alleviating poverty in the region.

Health and education

Enhanced education and better health for the people are among the basic objectives and indicators of development. Conversely, inadequacies in both are inextricably linked with poverty. As is well-recognized, accomplishments in education and health make individuals economically more productive and enable them to earn more and live better; inadequacies impair productive capacity and constrain earning opportunities. Society benefits in numerous ways from an educated and healthy citizenry and pays many penalties where the population is ill-educated and/or in poor health. Provisions for health and education are thus desired both as a means and a goal of development.

Health

There have been impressive advances in the health situation throughout the region in recent decades.[22] From distressingly low levels only a few decades ago, average life expectancy in the region rose to 63 years by 1990. The factors responsible for that improvement include rising nutritional standards, advances in fertility control, wider access to safe water, better sanitation and other primary health care-related developments. Higher literacy and health education levels, wider public access to health information, increased availability of affordable antibiotics and other pharmaceuticals are among the elements that have brought curative health within the reach of many. Health infrastructure has also improved. Health outcomes indicated by life expectancy at birth, infant mortality and under five mortality rates have shown dramatic improvements (table V.3). However, as can be seen from these data, there are many countries where the performance falls far short of the regional average.

Improvements in the health situation in the region's most populous country, China, have been particularly impressive. In China, between 1960 and 1990, there has been a drop in the under five mortality rate from 203 to 42 and in the infant mortality rate from 150 to 30. Because of the overall improvement in health conditions, life expectancy increased from 47 years in 1960 to 70 years in 1990.

China's performance owes as much to the provision of safe drinking water, improved sewage disposal and other sanitation measures as to broad immunization coverage and mass campaigns against parasitic diseases. It has much to do with the provision of basic health care and affordable drugs to even the most remote parts of the country. It also reflects the vigorous drive to reduce fertility and to increase, through legislation, the age of first delivery, as well as efforts to provide education on health and nutrition. China used a social safety net for many years that, among other things,

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20 South Asian Association for Regional Cooperation, *Meeting the Challenge: Report of the Independent South Asian Commission on Poverty Alleviation* (November 1992), p. viii.

21 ESCAP, "National policy approaches to poverty alleviation", *Economic Bulletin for Asia and the Pacific,* vol. XLIV, No. 2 (December 1993) (forthcoming).

22 *Survey,* 1992, part one, chap. VI, analyses the subject in more detail.

Table V.3. Selected health indicators in the ESCAP region, 1960 and 1990

	Under five mortality rate		*Infant mortality rate*		*Life expectancy*	
	1960	*1990*	*1960*	*1990*	*1960*	*1990*
ESCAP region	203	65	142	47	47	63
Afghanistan	262	180	215	167	33	43
Bangladesh	298	189	156	114	40	52
Bhutan	218	193	187	123	38	49
Cambodia	233	152	146	123	42	50
China	203	42	150	30	47	70
Hong Kong	64	7	44	7	66	77
India	282	142	165	94	44	59
Indonesia	225	97	139	71	41	61
Iran (Islamic Republic of)	254	59	169	46	50	66
Democratic People's Republic of Korea	120	35	85	26	54	70
Republic of Korea	120	30	85	23	54	70
Lao People's Democratic Republic	230	88	155	104	40	50
Malaysia	105	29	73	22	54	70
Mongolia	185	84	128	64	47	63
Myanmar	298	189	153	65	44	61
Nepal	...	...	187	123	38	52
Pakistan	276	158	163	104	43	58
Papua New Guinea	248	80	165	56	41	55
Philippines	134	69	80	43	53	64
Singapore	49	9	36	8	65	74
Sri Lanka	114	35	71	26	62	71
Thailand	149	34	103	26	52	66
Viet Nam	232	65	156	49	44	63

Source: ESCAP secretariat based on "Survey of the quality of life on health in the ESCAP region" by Yawarat Porapakkham, M.D., a paper presented at the Expert Group Meeting on a Survey of the Quality of Life in the ESCAP Region, Seoul, 11-15 August 1992.

guaranteed minimum food rations to the poorest even in remote rural communities.[23]

As in the case of income, there are substantial disparities in achievements in health between subregions. South-East and East Asian countries have generally achieved a health status that is much more advanced than that generally found in South Asia. Even in India, where important gains in the health sector have been reported, there exists a relatively high incidence of communicable diseases, (such as tuberculosis, diarrhoea, measles, leprosy and filariasis), diseases that reflect the generally poor socio-economic status of the population. As of 1990, the infant mortality rate was over 100 in most South Asian countries, especially the least developed ones, whereas it ranged between 7 and 23 in the NIEs. Similar disparities, though less pronounced, exist with respect to life expectancy.

Achievements in health can also be viewed from the perspective of access by populations to health infrastructure. Here again, as data in table V.4 show, there are wide differences between individual countries and subregions. The least developed countries score poorly. Moreover, there are considerable disparities between urban and rural areas; in most cases the proportion of the urban population with access to health infrastructure is substantially higher compared with the rural population.

To summarize, large disparities persist in the health sector between subregions, countries within subregions, urban and rural areas within countries, and income groups within urban and rural areas. How to redress these inequities will remain an important policy challenge in the years ahead.

23 World Bank, *World Development Report, 1990* (New York, Oxford University Press, 1990), p. 74.

Table V.4. Selected health infrastructure in the ESCAP region

	Percentage of population with access to safe water (1989-1990)			*Percentage of population with access to health service (1985-1990)*		
	Total	*Urban*	*Rural*	*Total*	*Urban*	*Rural*
ESCAP region	65	80	49	80	99	65
Afghanistan	21	39	17	39	100	30
Bangladesh	81	39	89	45	...	...
Bhutan	32	60	30	65	...	...
Cambodia	3	10	2	53	80	50
China	74	87	68	90	100	80
Hong Kong	100	100	96	99	...	...
India	75	79	73	...	...	...
Indonesia	46	60	40	80	...	...
Iran (Islamic Republic of)	89	98	76	80	95	65
Democratic People's Republic of Korea	...	...	...	...	...	...
Republic of Korea	79	91	49	93	97	86
Lao People's Democratic Republic	29	47	25	67	...	...
Malaysia	79	96	66	...	...	...
Mongolia	65	78	50	...	...	...
Myanmar	33	43	29	33	100	11
Nepal	37	66	34	...	...	...
Pakistan	56	80	45	55	99	35
Papua New Guinea	34	93	23	96	...	....
Philippines	81	93	72	...	...	...
Singapore	100	100	...	100	100	...
Sri Lanka	60	80	55	93	...	...
Thailand	74	67	76	70	85	80
Viet Nam	42	50	40	80	100	75

Source: ESCAP secretariat, based on "Survey of the quality of life on health in the ESCAP region" by Yawarat Porapakkham, M.D., a paper presented at the Expert Group Meeting on a Survey of the Quality of Life in the ESCAP Region, Seoul, 11-15 August 1992.

There are several other challenges that countries of the region will have to grapple with. One relates to the resurgence or continued high incidence of certain traditional diseases. For instance, the prevalence of malaria, which used to be very high, was drastically reduced by the 1960s, but a significant upturn seems to have taken place by the mid-1970s. To illustrate, the incidence of malaria per 1,000 population in India was 385 in 1945, fell to 0.02 in 1963 and rose to 39 in 1975. Major increases, though not quite as dramatic, have occurred in several other countries. In 11 countries of the ESCAP region (Bangladesh, Bhutan, the Democratic People's Republic of Korea, India, Indonesia, Maldives, Mongolia, Myanmar, Nepal, Sri Lanka, and Thailand), about 2.5 million new cases of tuberculosis are reported every year.[24] Malaria and tuberculosis are but two examples among a number of others.

At the same time, socio-economic transformation and accompanying industrialization and urbanization have led to the emergence of the so-called diseases of affluence such as coronary diseases and cancers. Certain agricultural developments and practices also have brought new health hazards to people. Stagnant irrigation water facilitates the breeding of the malaria-mosquito and other disease-carrying pests. The polluting effects of toxic pesticides, herbicides, preservatives and petrochemical fertilizers are contributing to the ill-health of farmers and consumers alike. There has been a rising trend also in the use of consciousness-altering substances, many of which are addictive. That

24 The World Health Organization Regional Office for South East Asia, *Collaboration in Health Development in South-East Asia 1948-1988* (New Delhi, 1992) rev. ed., p. 479.

trend is particularly serious because of its adverse impact on social organization, the family and the community, and its stimulus to crime and delinquency (see box V.3). More importantly, a new public health scourge, AIDS, which is spreading throughout the region, is causing deep concern because of its incurable nature and potentially devastating socio-economic impact.

The major source of AIDS transmission in Asia and the Pacific is heterosexual behaviour, often involving poor and very young women, grossly exploited through prostitution. Transmission through the sharing of needles among drug abusers is also a significant contributor in some areas. It is likely that there will be many millions of HIV (human immunodeficiency virus) infected people in the region by the year 2000. The resources of health systems may not be adequate even to enable AIDS victims a relatively dignified death. It is, therefore, imperative that major efforts be made to develop effective prevention strategies as there is still no known cure for the disease. The prevention of AIDS requires attitudinal and behavioural changes in heterosexual relationships between men and women. Hence, AIDS must be viewed both as a societal issue and as a health problem, with public information and other education campaigns being important means of intervention.

Thus, over the last three decades, the developing countries of the ESCAP region have achieved significant success in improving the health status of their populations. Nevertheless, many challenges lie ahead. The prevail-

Box V.3. Drug abuse, AIDS, prostitution and poverty: a complex nexus

There exist complex interrelationships among the abuse of mind-altering and habituating/addictive drugs (narcotics, barbiturates, amphetamines, volatile solvents, alcohol, tobacco etc.), prostitution, human immunodeficiency virus (HIV) infection leading to the acquired immune deficiency syndrome (AIDS), and poverty. For instance, because poverty requires that parents spend most of their time earning a living, they cannot attend sufficiently to their children. The children are thus increasingly left alone and they tend to socialize with peers. In such circumstances, children are vulnerable to drug abuse, if the peers, who become their principal role models, happen to tolerate, encourage or indulge in drugs. The use of drugs often leads, in turn, to violation of established rules and norms which results in delinquent behaviour. The influence of drugs, for example, lowers the threshold of resistance to sexually risky behaviour (for example, unprotected sexual intercourse) and causes infection with sexually transmitted diseases, including HIV-infection. Prostitution, often resorted to as a means of escaping poverty, aggravates the problem of HIV-infection. If drugs are injected intravenously (this happens often at a later stage of an addictive career) and if needles and syringes are shared, the probability of contracting infections such as HIV and hepatitis is greatly increased.

Drug abuse can be a significant contributory factor to poverty. Drugs are expensive and their purchase severely strains family finance. Resort is taken to the sale of family assets, withdrawal of children from school to work, and finally, to illicit activities including prostitution and crime. The above brief account suggests how drug abuse, AIDS, prostitution and poverty can be mutually reinforcing.

ESCAP has developed a set of activities which address drug abuse, prostitution, delinquency and HIV-infection simultaneously in a comprehensive and holistic manner, an approach that is necessary to solve these inter-related problems effectively. Rural as well as urban poor communities participate in these project activities, in which communities learn how to plan and implement preventive interventions tailored to their specific needs and local circumstances. Typically, these interventions include: the establishment of parents, women's and youth groups; provision of alternative activities to drug abuse, such as sports or income-generating and educational activities; school-based interventions, including teacher training and the establishment and involvement of parent-teacher associations; organization of community-based detoxification of drug abusers; provision of counselling for drug abusers and their famiilies; and self-help activities for the prevention of relapses by drug abusers discharged after treatment. Important aspects of these community-based approaches are the empowerment of communities, the reiteration of social norms against drug abuse as well as crime and prostitution, and the establishment of neighbourhood assistance mechanisms in times of crisis.

ESCAP has also established a regional network of national focal points for demand reduction. This project facilitates the rapid collection and exchange of information related to drug demand reduction through meetings, workshops and fact sheets. ESCAP has also launched a project on the promotion of community awareness for the prevention of prostitution.

The experience gathered through these projects suggests that poverty is a prominent causal factor underlying drug abuse, prostitution and delinquency, and that, in turn, drug abuse, prostitution and delinquency impede efforts to alleviate poverty. A comprehensive, integrated policy response is thus required.

ing inequities, persistence or resurgence of some of the earlier diseases, and the emergence of new ones, of which AIDS is the most critical, are among these challenges. In addition, the health impact of continued environmental degradation is a growing concern, as is the rising prevalence of diseases related to life styles or behaviour such as cardiovascular disease, diabetes and cancer. To meet these challenges will require appropriate policy responses in many areas – the allocation of public sector expenditure, participation of the private sector and non-governmental organizations, emphasis on primary health care, recognition of the role of traditional medicine, health-related human resources development, and public education and information.

Education

As noted before, education is an objective of both economic and social development and a means of achieving it. At the macro level, education will play an increasingly important role with the rising importance of technology in the production process. Education is a vital input for the development, adaptation, absorption and application of technology. For the individual, it enhances employment potential and increases productivity in whatever occupation one pursues. No less important is the fact that education has much to do with the formation of attitudes and aspirations necessary for modern economic enterprises and socially responsible conduct. It is not feasible to discuss educational progress in its various dimensions in this brief review. Selectively, three aspects, primary school enrolment, adult literacy rate and years of schooling, are examined in view of their usually recognized important role in socio-economic development.

Primary school enrolment and adult literacy

Data in respect of primary school enrolment and adult literacy are presented in table V.5. By and large, developing countries of the region have made considerable progress as these indicators show, but sharp disparities exist among countries and subregions. The performance in

Table V.5. Primary school enrolment ratios and adult literacy rates in selected developing countries/areas in the ESCAP region, 1960 and 1990

	Primary school enrolment ratios		*Adult literacy rates (percentage)*	
	1960	*1990*	*1960*	*1990*
East Asia				
China	122[a]	135	...	73
Democratic People's Republic of Korea	...	106[b]	...	95
Hong Kong	91	106[c]	71	90
Mongolia	79	98	...	93
Republic of Korea	96	108	71	96
South-East Asia				
Cambodia	64	...	...	35
Indonesia	67	117[c]	47	82
Lao People's Democratic Republic	25	104[c]	20	54
Malaysia	75	93	23	78
Myanmar	72	127[c]	58	81
Philippines	95	111[c]	72	90
Singapore	112	110[c]	74[d]	88
Thailand	136	85	68	93
Viet Nam	101	104[b]	87[a]	88
South Asia				
Afghanistan	9	24[c]	8	29
Bangladesh	48[e]	73	24[d]	35
Bhutan	3[f]	26[g]	...	38
India	42	97	24	48
Iran (Islamic Republic of)	42	112	15	54
Nepal	10	86[g]	10	26
Pakistan	30	37	16	35
Sri Lanka	95	107	61	88
Pacific island economies				
Fiji	85	125	...	87
Papua New Guinea	71[e]	71	32[a]	52
Samoa	81[h]	...	...	92

Sources: ESCAP secretariat based on United Nations Development Programme, *Human Development Report 1993* (New York, Oxford University Press, 1993); World Bank, *World Development Report 1978* (Washington, DC, 1978); and United Nations Educational, Scientific and Cultural Organization, *Statistical Yearbook*, various issues.

[a] 1975. [b] 1987. [c] 1989. [d] 1970. [e] 1965. [f] 1961 [g] 1988. [h] 1967.

South Asia, with the exception of Sri Lanka, generally falls considerably below that in many other countries. In Afghanistan, Bhutan and Pakistan, the primary school enrolment ratios remain abysmally low. These countries also score poorly in terms of adult literacy rates. Among other countries which have very low adult literacy rates (below 50 per cent) are Bangladesh, Cambodia, India, and Nepal.

Primary school enrolment of females continues to be generally less than that of males. However, in a very few countries of the region female enrolment equals that of male; among the notably successful countries in that respect are Fiji, Malaysia, Mongolia, Singapore and Sri Lanka. The disparity is particularly stark in Bhutan, Nepal and Pakistan where female enrolment is approximately half the male enrolment. The male-female gap in literacy rates is even wider.[25]

One of the factors underlying low literacy rates is that many of those who enrol at primary level do not complete the full course of primary education and drop out. In consequence, many of such drop-outs degenerate into functional illiterate by the time they reach adulthood. It is, of course, recognized that other factors, for example, the efficacy of adult literacy programmes, also impinge on the outcome. Nevertheless, it is not surprising that the percentage of those who complete primary school education tends to be lower in countries with low adult literacy rates.[26]

Mean years of schooling

The general status of formal education is best indicated by the mean years of schooling index. Since the index refers to the population aged 25 or above, the implication for labour productivity is obvious. The Republic of Korea stands out as the highest performer in terms of this indicator, followed by the Philippines and Hong Kong. Sri Lanka, although a low income country, also shows a high performance (table V.6). The least developed countries of the region are at the lower end of the spectrum with the exception of Samoa. Somewhat surprisingly, Singapore's score falls substantially short of the other NIEs. It should be noted that male-female disparity is particularly sharp in the case of mean years of schooling. No country/area (table V.6) reports higher average schooling for females than for males.

* * *

Although the above analysis focuses upon primary education and adult literacy, it is to be noted that access to higher levels of education is no less important. Low mean years of schooling in several countries indirectly indicates the limited access to secondary and tertiary education. However, this aspect is not being addressed in this analysis. A longitudinal view reveals a pat-

Table V.6. Selected developing economies of the ESCAP region. Mean years of schooling (25+), 1990

	Total	*Male*	*Female*
Afghanistan	0.8	1.4	0.2
Bangladesh	2.0	3.1	0.9
Bhutan	0.2	0.3	0.1
Brunei Darussalam	5.0	5.5	4.5
Cambodia	2.0	2.3	1.7
China	4.8	6.0	3.6
Fiji	5.1	5.6	4.6
Hong Kong	7.0	8.6	5.4
India	2.4	3.5	1.2
Indonesia	3.9	5.0	2.9
Iran (Islamic Republic of)	3.9	4.6	3.1
Lao People's Democratic Republic	2.9	3.6	2.1
Malaysia	5.3	5.6	5.0
Maldives	4.5	5.1	3.9
Myanmar	2.5	3.0	2.1
Nepal	2.1	3.2	1.0
Pakistan	1.9	3.0	0.7
Papua New Guinea	0.9	1.2	0.6
Philippines	7.4	7.8	7.0
Republic of Korea	8.8	11.0	6.7
Samoa	5.7	6.4	5.0
Singapore	3.9	4.7	3.1
Solomon Islands	1.0	1.2	0.8
Sri Lanka	6.9	7.7	6.1
Thailand	3.8	4.3	3.3
Vanuatu	3.7	4.3	3.1
Viet Nam	4.6	5.8	3.4

Source: United Nations Development Programme, *Human Development Report 1993* (Oxford University Press, 1993), table 5.

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25 United Nations Development Programme, *Human Development Report 1993* (New York, Oxford University Press, 1993), pp. 152-153.

26 For pertinent data, see ibid., table 14, pp. 162-163.

tern very similar to that of primary education and adult literacy – considerable improvements over time, large differences among subregions and countries, and the persistence of gender imbalances.

Educational systems in the region face many other problems, partly following from rapid expansion. Among these are geographical disparities within countries (between rural and urban areas or between provinces and districts), high rates and numbers of drop-out, grade repetition, low teacher/pupil ratio, poor physical infrastructure, and inadequate teaching material and textbooks. It is obvious that many of these problems directly impinge on the quality of education. Another major policy challenge concerns the enhancement of the relevance of the educational systems to the needs of the workplace. In this context, attention needs to be paid to the appropriate balance between different levels of education and the diversification of curricula. Finally, mention should be made of the need for mobilizing adequate resources to finance expanded coverage, improved equity and quality and greater curricular diversity, through such means as reallocation of public sector expenditure, involvement of the private sector, cost recovery and external assistance.

Other selected issues

It is not unusual that the process of economic growth and transformation is accompanied by increased social conflict, crime and violence, substance abuse, suicide and other symptoms of social afflictions. To a large extent, these and other social problems can be attributed to the perceived or real lack of individual fulfilment in the context of overall economic change and progress. A detailed discussion of these issues is beyond the scope of the present survey. Instead, an attempt is made to review the situation in respect of crime and substance abuse as symptoms of underlying social ills in the Asian and Pacific region. The review is based on results from a quality-of-life survey carried out by ESCAP. The evidence remains selective and patchy however.

Crime

Murder, robbery, theft and rape are generally considered major crimes. In the case of China, the 1986 figures indicated a rate of 0.52 per one thousand population for all major crimes. However, the Chinese courts issued warrants to arrest about 542,700 people in 1989 and about 605,000 in 1990. Of the latter, 15,719 were charged with murder, 12 per cent higher than in 1989. India reported an increase of all crimes cognizable under the Indian Penal Code, and special and local laws for the period 1988 to 1989. A quinquennial average for 1984-1989 estimated the number at 1,399,315. In Bangladesh, however, reported rates of major crimes (per 1,000 population) decreased for the period between 1981 and 1990. Murder ranked high in the crime list of Nepal, averaging 346.8 annually for the period 1986 to 1990, a high figure compared with other serious crimes of robbery with murder (annual average of 17.2) and use of poison (annual average of 13).

In Malaysia, decreasing rates per one thousand population were reported for the period from 1980 to 1989 for a number of crimes: property crimes from 2.04 to 1.39; housebreaking and theft from 1.43 to 0.98; vehicle theft from 1.13 to 0.96; robbery however increased from 0.13 to 0.29. In the Philippines, crimes are broadly classified into index crimes and non-index crimes. Index crimes include murder, robbery, physical injury, theft and rape. All other crimes are classified as non-index crimes. For the five-year period from 1985 to 1989 the figures had fallen to the lowest in 1987 only to pick up in the following two years. For 1991, crimes committed against persons reached a peak of 71,850 while crimes against property numbered 43,409. Significantly, there were 92,435 crimes solved, giving a crime solution efficiency rate of 80 per cent.[27] For Thailand, the incidence of violent crimes consistently dropped during the period from 1984 to 1987. The situation was, however, reversed for all types in the next two years, 1987 and 1988.

Data provided by the Government of the Republic of Korea in response to the ESCAP quality-of-life survey (1992) questionnaire had reported no major crimes of murder, rape and homicide in that country in the two years 1980 and 1990. Moreover, the country maintained the same number of aggravated assault per 1,000 population at 0.6 and for robbery at 0.1 for the years 1980 and 1990. The highest crime figures, concerning theft, decreased from 2.5 to 2.2 per 1,000 population during the same period. For Singapore, the incidence of murder decreased from 0.03 to 0.02, robbery from 0.55 to 0.28, and housebreaking from 1.10 to 0.59 per 1,000 population for the same 10-year interval. However, the incidence of rape and motor vehicle theft increased.

There are many questions left unanswered by the scanty data presented. Do the data represent the actual crime situation in these countries? What would be considered a "normal" crime rate? What is the extent of under reporting, considering that not all crimes committed enter the police records?

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27 National Police Commission, Philippines, 1992 (unpublished documents).

What happens after crimes are reported to the police? What is the crime solution efficiency? All these factors directly affect community stability and social order and are legitimate concerns for both governments and the citizenry.

There are two important points for consideration in understanding crime and using crime statistics. First, crime appears to be symptomatic of other problems. For instance, where there is economic backwardness, the incidence of crimes, such as theft and robbery, is usually relatively high. Second, the crime statistics can be used to plan for improvements in the quality of community life.

The control and prevention of crime require active participation of the people, for example. In some countries in the region such as China, Nepal, Philippines and Singapore, citizens volunteer their services as members of neighbourhood crime-watch groups. In contrast, community participation is sometimes threatened by the fact of criminality itself. As indicated earlier, some people do not report crimes because they lack trust in duly constituted authorities or because they fear for their personal safety and security at the hands of criminals.

There is also a wide range of economic crime and corruption committed, not by the poor to meet perceived needs, or by die-hard deviants, but by supposedly reputable people in positions of trust and authority. The popular media is often full of reports of crime and corruption in business and government. Some close observers have systematically documented their incidence in many countries in the region.[28] Even after discounting generously for any amount of "sensationalism" reflected in these reports, there remains a substantial kernel of truth in them. Criminal and corrupt practices in business and government circles can cause grievous economic losses and have an adverse effect on public morale and confidence with potential destabilizing consequences. Prevention or minimization of such crime and corruption are widely expressed concerns of governments in the region. The institutions and procedures for doing so are not always adequate, however (see box V.4).

Substance abuse

Abuse of drugs and other substances, including alcohol and tobacco, is a growing concern throughout the region. In some countries, the use of opium and cannabis is not entirely new. They were initially used as medicine or incense or were smoked or sniffed for "recreational" purposes. But the recent increase in abuse of dangerous substances in many countries in the region is of grave concern. Some relevant facts are as follows.

In Nepal there are some 25,000 estimated drug dependents, mostly young people. It has been also estimated that about 4 per cent of the student population in major campuses in Kathmandu indulge in drugs. In Bangladesh, the incidence of drug dependents rose from 5,000 in 1975 to 300,000 in 1989. A later estimate of the Narcotic Control Board's placed the number in the neighbourhood of 1.7 million. Most drug users (66 per cent) are in the age range of 31-40 years, the prime period of an individual's productive life. China reported 70,000 drug users in 1989, a figure that may not seem alarming in view of its huge population.

In India, drug abuse is a crime cognizable under the Narcotic Drug and Psychotropic Substances Act. There are no nationwide data available. Statistics compiled from special studies may be used to indicate the approximate dimensions of the problem: alcohol use varies from 23 to 74 per cent among adult males in certain areas; among the rural population of Punjab and Rajasthan the prevalent rates of opium use are 3.5 and 3.9 per cent respectively; 1 per cent of their population is addicted to cannabis; barbiturates and non-barbiturate hypnotics are popularly used by youth in the urban centres, the prevalence rate varying from 0.4 to 5.4 per cent. Between 8 and 25 per cent of medical students are users. The prevalent range of rates on the use of amphetamines is 4.3 to 11.4 per cent. Other drugs such as LSD, cocaine and *datura* are confined largely to the student population.

In Malaysia, despite the drastic penal provisions of its anti-drug laws, active abusers throughout the country numbered around 100,000 in the first quarter of 1992. Available data on narcotic abuse in Thailand relate to only admissions in hospitals. Such admissions reportedly more than doubled in a span of 11 years. In the Philippines, the number of persons arrested on drug incidents has decreased. This information is based on raids conducted by police authorities during the period 1985-1988. The real situation of drug dependency in the country, however, may be greatly underestimated by this measure as the number of raids conducted is not an adequate indicator of the incidence. Moreover, raids are usually conducted in big cities. In Viet Nam, a newspaper account on drug abuse estimated the number of abusers at 70,000 in April 1992.[29]

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28 Graham Hancock, *Lords of Poverty* (Great Britain, Macmillan London Ltd., 1989); and James Clad, *Behind the Myth: Business, Money and Power in Southeast Asia* (Great Britain, Unwin Hyman Limited, 1989).

29 "A new means of combatting drug addiction", *Vietnam Courier*, No. 30 (April 1992), p. 15, col. 3.

Box V.4. Ombudsman Commission: an instrument for the resolution of crime and conflict

Changing modern societies warrant mechanisms for the resolution of conflicts resulting from many causes including injustices, bribery and corruption. The Ombudsman mechanism could be effectively made use of in that context. The idea originated in Sweden in 1809. Finland adopted it in 1919. Since then it has been followed by a number of other countries, both developed and developing. Among them are: Australia, Canada, Denmark, Ireland, Japan, Netherlands, New Zealand, Norway, the United Kingdom and the United States; and Bangladesh, Fiji, India, Pakistan, Papua New Guinea, Philippines, Solomon Islands, Sri Lanka and Vanuatu.

These countries have adapted the Ombudsman mechanism in different ways to suit their respective needs and constitutional structures. The mode of operation also differs in many countries as seen from the variety of nomenclatures used, such as Ombudsman for Civil affairs, Ombudsman for Military affairs, Ombudsman Commission, Commission of Parliamentary (Ombudsman) Inquiries. However, the basic concept is receiving attention in many countries, one of the latest being Thailand.

Papua New Guinea is one of the few countries in the region that has introduced an Ombudsman Commission with a strong legislative mandate and wide power enshrined in the National Constitution, enabling it to intervene and safeguard the interests of the citizens from the malpractices and injustices committed in the bureaucratic and administrative processes and to enforce the Leadership Code which applies to all leaders.

The Ombudsman Commission in Papua New Guinea is unique in that the Chief Ombudsman and the other two members are appointed by the Head of State on the advice of a high-powered five member committee consisting of the Prime Minister as Chairman, the Chief Justice, the Leader of the Opposition, the Chairman of the relevant Permanent Parliamentary Committee and the Chairman of the Public Service Commission. This ingenious device, entrenched in the Constitution, is to prevent possible abuse of power, above all, by the Government itself. It ensures that the members of the Ombudsman Commission are persons of high integrity and standing as well as politically neutral. This constitutional institution is not subject to the direction or control by any one person or authority.

A Leadership Code has been introduced to combat corruption and to maintain the highest standard of integrity among leaders, to prevent abuse of power, misappropriation of public funds and immoral conduct. It is implemented and administered by the Ombudsman Commission under the Organic Law on Duties and Responsibilities of Leadership. The Constitution sets out that the persons holding the highest positions in the legislative, executive and judicial arms of the Government, including the Prime Minister and the members of the Ombudsman Commission themselves, are subject to the jurisdiction of the Leadership Code.

As the "watchdog" of the Constitution, the Ombudsman Commission of Papua New Guinea, in addition to performing its traditional role of protecting the fundamental rights and freedom of the people has been able to effectively administer the Leadership Code and bring to book people in high positions, such as a former Deputy Prime Minister and some former ministers accused of corrupt practices. Action against them, which is truly part of the Commission's achievements, showed the citizens that the persons in authority are not above and beyond the law.

The Papua New Guinea Ombudsman Commission could be a model for other countries with modifications. It could enable countries in the region to resolve many a conflict arising from craving for power and accumulation of illicit wealth by those in authority in rapidly changing political and economic environments. The fundamental rights and freedom of the people could be better protected and the quality of leadership for the betterment of communities, societies and nations could greatly improve with the effective functioning of such a constitutional mechanism.

In Singapore, notably because of its tough anti-narcotics laws and its relentless enforcement measures against drug abuse and drug trafficking, major drug syndicates have been eliminated and the drug distribution network disrupted, cutting down on abuse rates.

The social costs of substance abuse are many. Apart from its effects on the health of the users, there is also the social destabilizing effect. Lacking in reason and self-control, users pose a grave threat to public safety as well as family and community life, disrupting peace and participation in productive activities. Failing to serve as role models to the younger generation, which may include their own children, they erode the moral fabric of society. Unable to perform their parenting roles effectively, their children become ill-equipped to cope with the pressures and demands of life and the cycle is therefore prone to repeat itself through the generations.

Seen in the light of the complex factors known to be causing drug abuse, such as curiosity, peer pressure, family problems, frustration that arises from unemployment, confused situations in the academic arena, weakening of moral and social values and easy accessibility to drugs, multi-pronged actions are needed to address the problem. The issue of poverty is often intertwined with the drug problem; poverty can promote drug abuse and also act as an incentive to engage in drug trade because of the possibility of making quick money. Thus to attack the problem of drug abuse would also require fighting poverty, in addition to a variety of legal and educational measures designed to reduce the supply of, as well as the demand for, drugs.

VI. POPULATION DYNAMICS: IMPLICATIONS FOR DEVELOPMENT

There is a two-way interaction between population and development, the extent and complexity of which may vary in time and context. The size and composition of the existing population and its growth over time have an impact on development. Development itself also affects various demographic characteristics, including population growth rate. At the conceptual level, there is an agreement on the two-way interaction, but there are differences of views on their magnitude and the direction which tend to be highly context-specific.[1] The task of measurement and identification is additionally complicated by the fact that interaction between population and development is mediated through a variety of channels, such as health, education, and labour force participation. While recognizing these complexities, the present work primarily examines the emerging population dynamics in the region and its implications for selected development issues that countries will have to confront. The chapter concludes with a discussion of the major highlights of the evolution of population policies in the region.

THE DYNAMICS OF CHANGE

Growth trends

During the last few decades, the world as a whole experienced what is often termed as a "population explosion". Much of this explosive growth has occurred in the poorer parts of the world. A rapid decline in mortality and slower decline in fertility rates have been responsible for rapid population growth in the developing world during the last three decades.

The world population, after remaining static for centuries, started growing with the onset of the industrial revolution in Europe. By 1825, world population is estimated to have reached 1 billion. It doubled in the next 100 years to 2 billion in 1925. It took only 50 years for that number to double again to 4 billion in 1976, rising to 5.3 billion by 1990. If the 1950 figure of 2.5 billion is considered, the world population more than doubled in 40 years between then and 1990. A medium variant of projections places the world population figure at 7.15 billion in 2010. The progressively compressed time span in which the world population has doubled, has been a cause of world-wide concern.

Judged in a historical context, there is a major difference between developed and developing countries' experience in respect of population growth. The population growth in the developed countries occurred concomitantly with economic development. Initial population growth was primarily a result of decline in mortality brought about by improvement in food and nutrition followed by gradual advance in medicine and sanitation. In the developing countries, in contrast, the most rapid population growth has occurred after the Second World war, and was the result of steep decline in mortality caused by easy availability of and accessibility to potent drugs/medicines. Public health measures, such as mass immunization, control of smallpox, malaria, cholera and other epidemic, could be implemented by governments at relatively earlier stages of economic and social development. Therefore, while population growth rates in the developed countries did not exceed 1 per cent per annum in the early phase of their development, the rates were well over 2 per cent in many countries in the ESCAP region during the 1950s to the 1970s, and exceeded 3 per cent in some cases.

The ESCAP region currently contains around 60 per cent of the world's population. The Governments in the ESCAP region had however recognized the problem of rapid growth of population early in the 1950s and 1960s, and had established national family planning programmes to lower birth and population growth rates. Such programmes succeeded in bringing about a decline in the total

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1 United Nations Population Fund, "Population and development strategies: review of the past and future prospects", presented at Round Table on Population and Development Strategies, Bangkok, 17-19 November 1993.

fertility rate (TFR), that is, the average number of children that a woman would bear in her lifetime if she followed current age-specific fertility rates. The TFR in the ESCAP region had declined from 5.7 during the period 1960-1965 to 5.0 during the period 1970-1975 and to 3.7 during the period 1980-1985.[2] By 1993, it is estimated to have fallen to 3.1.

This substantial decline in fertility did not directly translate into reductions in the rate of population growth, however, for two reasons. First, the proportion of women who are of child-bearing age has continued to increase, and is expected to do so up to the year 2010, as a result of earlier high levels of fertility. Second, reductions in fertility were largely offset by reductions in mortality. Consequently, while the growth rate of the population of the region declined from an average of 2.4 per cent a year during the period 1965-1970 to 2.2 per cent in the period 1970-1975, it stagnated at about 1.8 per cent between 1975 and 1990. In 1993, it is estimated to have been 1.7 per cent.

In spite of a gradual slowing of the annual rate of increase, annual increments in absolute numbers in the ESCAP region are very large because of the huge size of the current population. The population of the Asian and Pacific region increased by 504 million during the 1980s and is projected to increase by 538 million in the 1990s. Between the years 2000 and 2010, another increment of 482 million is expected (table VI.1), implying an average annual rate of growth of 1.6 per cent between 1990 and 2000 and 1.3 per cent during the first decade of the twenty-first century. Of this increase about half will be contributed by South Asia. That subregion as a whole is projected to grow at an average annual rate of 2.1 per cent during the current decade. Only India (1.9 per cent) and Sri Lanka (1.2 per cent) are expected to achieve growth rates under 2 per cent.

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2 United Nations, *World Population Prospects, The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7), p. 356.

Table VI.1. Population size and rates of growth in the ESCAP region, 1980-2010

	Population in thousands				*Average annual growth rate (percentage)*		
	1980	*1990*	*2000*	*2010*	*1980-1990*	*1990-2000*	*2000-2010*
ESCAP[a]	2 507 865	3 011 852	3 550 190	4 032 277	1.83	1.64	1.27
East Asia	1 176 350	1 350 517	1 520 192	1 629 421	1.38	1.18	0.69
China	996 134	1 153 470	1 309 743	1 409 946	1.47	1.27	0.74
Democratic People's Republic of Korea	18 260	21 771	25 934	29 035	1.76	1.75	1.13
Hong Kong	5 039	5 709	6 120	6 341	1.25	0.70	0.35
Japan	116 807	123 537	128 066	130 578	0.56	0.36	0.19
Macau	323	463	602	711	3.60	2.63	1.66
Mongolia	1 663	2 190	2 830	3 543	2.75	2.56	2.25
Republic of Korea	38 124	43 377	46 897	49 267	1.29	0.78	0.49
South-East Asia	359 966	443 306	530 103	609 828	2.08	1.79	1.40
Brunei Darussalam	193	257	318	364	2.86	2.13	1.35
Cambodia	6 498	8 336	10 580	12 959	2.49	2.38	2.03
Indonesia	150 958	184 283	217 998	245 287	1.99	1.68	1.18
Lao People's Democratic Republic	3 205	4 202	5 592	7 119	2.71	2.86	2.41
Malaysia	13 763	17 891	22 263	26 138	2.62	2.19	1.60
Myanmar	33 821	41 825	51 567	61 631	2.12	2.09	1.78
Philippines	48 684	62 437	76 091	89 337	2.49	1.98	1.60
Singapore	2 415	2 710	2 976	3 158	1.15	0.94	0.59
Thailand	46 718	54 677	61 202	66 738	1.57	1.13	0.87
Viet Nam	53 711	66 688	81 516	97 097	2.16	2.01	1.75

(Continued on next page)

Table VI.1 *(continued)*

	Population in thousands				*Average annual growth rate (percentage)*		
	1980	*1990*	*2000*	*2010*	*1980-1990*	*1990-2000*	*2000-2010*
South Asia	948 770	1 191 360	1 468 952	1 757 692	2.28	2.09	1.79
Afghanistan	16 063	16 556	26 767	33 539	0.30	4.80	2.26
Bangladesh	88 221	113 684	144 265	177 491	2.54	2.38	2.07
Bhutan	1 242	1 539	1 942	2 465	2.14	2.33	2.38
India	688 856	846 191	1 018 673	1 189 396	2.06	1.86	1.55
Iran (Islamic Republic of)	39 254	58 267	77 929	104 118	3.95	2.91	2.90
Maldives	158	213	286	372	2.99	2.95	2.63
Nepal	14 858	19 571	24 858	31 047	2.76	2.39	2.22
Pakistan	85 299	118 122	154 794	197 672	3.26	2.70	2.45
Sri Lanka	14 819	17 217	19 438	21 592	1.50	1.21	1.05
Central Asia	...	57 905	...	...	...	1.57[b]	...
Azerbaijan	...	7 167	...	...	...	0.8[b]	...
Kazakhstan	...	16 777	...	...	...	0.8[b]	...
Kyrgyzstan	...	4 402	...	...	...	1.3[b]	...
Tajikistan	...	5 315	...	...	...	2.5[b]	...
Turkmenistan	...	3 673	...	...	...	2.5[b]	...
Uzbekistan	...	20 571	...	...	...	2.1[b]	...
Pacific	22 779	26 669	30 943	35 336	1.58	1.49	1.33
American Samoa	32	47	62	74	3.84	2.77	1.77
Australia	14 695	17 086	19 595	22 030	1.51	1.37	1.17
Cook Islands	18	17	17	18	−0.57	0.00	0.57
Fiji	634	726	800	885	1.36	0.97	1.01
French Polynesia	151	198	245	290	2.71	2.13	1.69
Guam	107	134	156	177	2.25	1.52	1.26
Kiribati	58	71	88	106	2.02	2.15	1.86
Marshall Islands	31	46	65	89	3.95	3.46	3.14
Micronesia (Federated States of)	76	103	145	198	3.04	3.42	3.12
Nauru	8	10	12	14	2.23	1.82	1.54
New Caledonia	140	168	193	217	1.82	1.39	1.17
New Zealand	3 113	3 392	3 710	3 987	0.86	0.90	0.72
Niue	3	2	1	1	−4.05	−6.93	0.00
Northern Mariana Islands	17	43	53	64	9.28	2.09	1.89
Palau	12	15	19	22	2.23	2.36	1.47
Papua New Guinea	3 086	3 875	4 867	6 023	2.28	2.28	2.13
Samoa	155	158	162	171	0.19	0.25	0.54
Solomon Islands	227	320	444	596	3.43	3.28	2.94
Tonga	92	96	103	112	0.43	0.70	0.84
Tuvalu	8	12	15	18	4.05	2.23	1.82
Vanuatu	116	150	191	244	2.57	2.42	2.45

Source: United Nations, *World Population Prospects, The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

[a] Not including the Central Asian republics.

[b] Average annual growth rate for 1990-1992.

As the population growth rate in East Asia declines, that subregion shares a decreased proportion of the absolute increase. The population of East Asia is expected to increase by 170 million between 1990 and 2000, representing 31.6 per cent of the growth in the ESCAP region. In the first decade of the twenty-first century, the increment in East Asia is projected to equal 109 million, or 22.6 per cent of the regional total. In contrast, the population of South Asia which increased by 243 million during the 1980s is projected to grow by 278 million during the 1990s and by 289 million between 2000 and 2010. Thus, during the 1990s, 51.6 per cent of the increase in the population of the ESCAP region would occur in South Asia and between 2000 and 2010, 60.0 per cent.

It is against the backdrop of these trends that the Fourth Asian and Pacific Population Conference, which was convened in 1992, issued the Bali Declaration on Population and Sustainable Development. That Declaration contained a section on population goals that set specific fertility and mortality targets for countries of the region. It stated, *inter alia* that "To help reduce high rates of population growth, countries and areas should adopt strategies to attain replacement level fertility, equivalent to around 2.2 children per woman, by the year 2010 or sooner."[3] According to the medium variant of the most recent United Nations projections, the ESCAP region as a whole will not achieve the target set in the Declaration. According to that projection, the region will have a TFR of a little less than 2.4 children per woman in the year 2010. While many countries in the region will achieve the target of replacement fertility, there remains a small number of populous countries which will determine the success or failure of the Bali Declaration target of replacement level fertility in the region by the year 2010. They are primarily India, the Philippines and Viet Nam where the TFR is projected to equal 2.4 in 2010, and Bangladesh and Pakistan where the projected TFR is 3.4 and 4.1, respectively, in 2010.

The age structure

The age distribution of a population has many important implications for development and national planning. In the ESCAP region fertility has been declining steadily for about three decades. Consequently, the proportion of the population in younger age groups has been declining while that in older age groups has been increasing.

This trend is expected to continue. Within this overall trend, however, there will emerge significant variation in age groups reflecting the variation in the current growth rate, age structure and magnitude of decline in fertility. The variation in functional age groups (0-5, 6-14, 15-19, 20-24, 25-64 etc.) has different implications for policy measures in various areas, such as health, education, and labour training and retraining, some of which are highlighted in the following paragraphs.

South Asian countries will experience a much slower decline in the proportion of population in the age group 0-14 by the year 2010 than those in East and South-East Asia. The implication is that in the South Asian countries, the quantitative dimensions of infant care and primary education will continue to remain major policy concerns. Of course, all countries will have to step up efforts to improve children's welfare to ensure healthier and better educated citizens in the future (see box VI.1).

At the regional level, particular mention should be made of the overall dependency ratio, which may be calculated as the population of age 0-14 years and 65 years and over, as a percentage of the population of ages 15-64. The dependency ratio for the population of the ESCAP region is expected to decline from 60.3 in 1990 to 50.9 in 2010 as a result of the change in age distribution (figure VI.1). The next two decades will witness an increase in the proportion of the population in the 15-64 year age group, which is usually active in labour market. However, the composition of the dependent population will change. In all subregions, the dependent population of the age group 0-14 will decline while that of the 65+ age group will increase. There will be, of course, variation between countries and subregions, both in respect of dependency pattern and labour market participation. Policy responses have to be tailored accordingly.

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[3] ESCAP, *Bali Declaration on Population and Sustainable Development* (ST/ESCAP/1195), p. 5.

Box VI.1. Towards a strengthened commitment for the welfare of the children

The concern for children's welfare is universal. The longer term progress and prosperity of nations cannot be sustained if the welfare of children who represent the future is not adequately catered to. The universality of the concern found its most eloquent expression in the World Summit for Children held in 1990 which set a number of targets for eliminating a variety of deficiencies suffered by children by the year 2000.[a] The Summit has provided a new impetus to the implementation of policies for improving children's welfare in the region.

The protection and development of children require a multi-sectoral approach that encompasses a number of areas such as health and nutrition, education and family planning. The following paragraphs are illustrative of recent actions taken by different countries in the region towards this end. These have taken a variety of forms, including the establishment of new institutional arrangements, the adoption of national plans of action and the introduction of specific programmes for children.

The Lao People's Democratic Republic has established a National Commission for Mothers and Children, chaired by the Vice Prime Minister for Foreign Affairs.[b] The Commission is responsible for implementing the country's programme of action with the aim of achieving the goals set by the World Summit for Children. Mongolia established a National Centre for Children in 1991 to monitor implementation of the United Nations Convention on the Rights of the Child and to serve as a lead agency for advocacy in children's affairs. In Viet Nam, an intersectoral Ministry for Child Protection and Care has been created.

Many countries in the region have adopted national plans of action for the survival, protection and development of children. China promulgated the National Programme of Action in February 1992. All provinces, regions and municipalities prepared their own plans to support the implementation of the National Programme of Action. Indonesia has signed an agreement with the United Nations Children's Fund (UNICEF) to achieve some of the goals of the World Summit by as early as 1995. Among these, are universal child immunization, elimination of neonatal tetanus and reduction of measles mortality by 95 per cent.

Vitamin A deficiency is a major affliction that children suffer from. A number of countries, such as Bangladesh, India and Philippines, have initiated programmes to distribute vitamin A capsules to children over the age of six months. Under this programme 20-25 per cent of the children in Bangladesh and India have so far been covered.

Lack of iodine in the diet severely impairs the mental and physical development of children. In countries such as Bhutan and Nepal, at least 30 per cent of school-aged children suffer from goitre, that is, enlargement of the thyroid gland caused by iodine deficiency. This deficiency can be overcome through iodized salt with little additional cost. Bangladesh, China, India and Pakistan have launched national iodization programmes. In Thailand, the Government has issued a ministerial regulation that all edible salt produced for human and animal consumption be iodized.

Children are particularly vulnerable to diarrhoeal disease which kills three million of them a year worldwide. Many of these deaths could be avoided through an increased use of oral rehydration therapy (ORT), which is virtually cost-free, involving a simple mixture of sugar and salt. Fortunately, greater attention is being paid to the use of ORT. Bhutan and the Islamic Republic of Iran are among the countries which have made rapid progress. Between 1986 and 1992, the percentage of diarroheal cases treated with ORT increased from 12 to 25 per cent in East and South-East Asia, and from 26 to 35 per cent in South Asia.[c]

A recent trend is towards making hospitals "baby friendly". The Philippines, for example, has transformed dozens of hospitals into "mother- and baby-friendly" institutions. Similar initiatives are also underway in a number of other countries.

The above are but a few selective illustrations reflecting a strengthened commitment of the countries in the region towards improving children's welfare. The importance of this commitment can hardly be overemphasized in consideration of the fact that nearly 130 million of the estimated total of 190 million malnourished, underweight children in the world still live in five of the most populous Asian countries, Bangladesh, China, India, Indonesia and Pakistan. Among the other countries with sizeable numbers of malnourished children are Viet Nam (4 million), the Islamic Republic of Iran (4 million) and the Philippines (3 million).[d] Social mobilization campaigns at all levels are essential for the success of children's welfare programmes. There is a need to launch major, periodic high-profile campaigns to raise social awareness of the programmes and their benefits to increase coverage. Services of the mass media, local governments and non-governmental organizations could also be enlisted to promote wider social mobilization.

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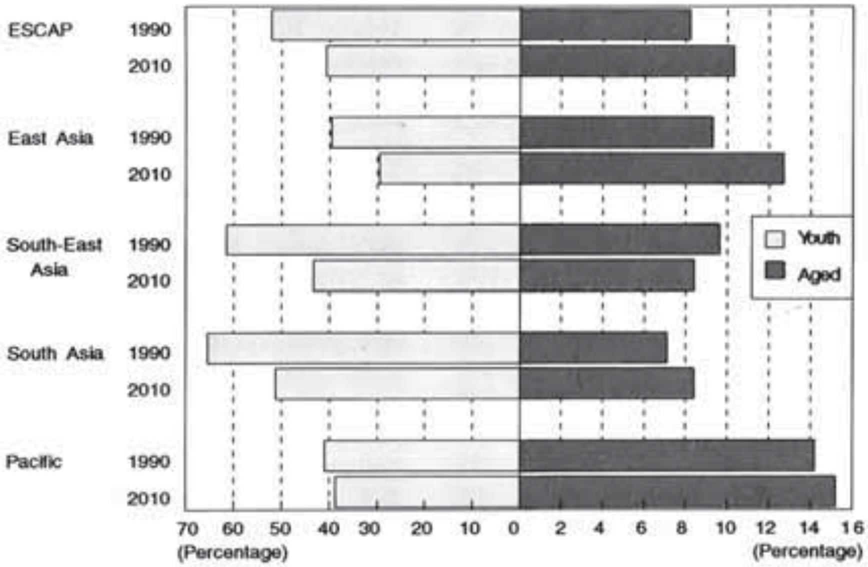
[a] See *Survey* 1992, part one, p. 103.

[b] United Nations Children's Fund, *Achieving the Mid-decade Goals of 1995: Ministerial Consultation on Goals for Children and Development in the 1990s.*

[c] United Nations Children's Fund, *The State of the World's Children, 1994* (New York, Oxford University Press, 1994), p. 17.

[d] United Nations Children's Fund, *The Progress of Nations, 1993*, p. 19

Figure VI.1. Dependency ratios by ESCAP subregions, 1990 and 2010



Source: United Nations, *World Population Prospects, The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

Notes: Youth = 0-14 years.
Aged = 65+ years.

Sex composition

In most national populations, there are about 105 or 106 male births per 100 female births. Because of higher male mortality at every age (although exceptions occur at higher levels of mortality), by age 20 the numbers of males and females nearly equal, and at older ages females predominate. The numbers of males and females in the total population are normally close to equal and the sex ratio is not an issue for development planning. One exception is Viet Nam where, because of a nearly constant state of war for three decades prior to 1975, the sex ratio at the time of the 1979 census was only 94.2 males per 100 females.[4] Another notable exception is Cambodia where, following two decades of civil strife, the sex ratio in 1992 was estimated to equal 90 males per 100 females. Among the population aged 18 years and over, the sex ratio was only about 80 males per 100 females.[5] In both Cambodia and Viet Nam, the shortage of males in the adult age groups will likely reduce marriage rates for females, affecting population growth and other socio-economic aspects. In Cambodia, there are many reports of a high proportion of female-headed households, for example, although there is no precise measure of this phenomenon at the national level.

Migration

Migration within and between countries is an important mechanism by which people avail themselves of economic opportunities which do not grow at the same rate within or between countries. The emergence of substantial income differentials provides an incentive for relocation, both inside and outside the country. This is reinforced by the demographic transition which affects the rate of population growth and its age distribution and thereby, other things remaining the same, per capita income and unemployment rates.

Internal migration facilitates the process of economic and social development because it contributes to urban growth, provides much of the workforce for industrial expansion, and increasingly permits women to participate in development. It has many other ramifications, however.[6]

In the ESCAP region, as noted in chapter V, net rural-to-urban migration accounts for roughly half of urban population growth, with the remainder deriving from natural increase and the reclassification of rural areas to urban areas as they become more densely settled. In the few countries which are already highly urbanized, rural-urban migration is no longer important. Among other elements of internal migration are rural-to-rural migration (often of a seasonal character) and urban-to-urban migration on both of which relatively little information is available.

In several countries of the region, female migration rates are growing faster than male rates. Females predominate in all internal migration in the Philippines and

[4] Viet Nam General Statistical Office, *Viet Nam Population Census – 1989, Detailed Analysis of Sample Results* (Hanoi, 1991), p. 11.

[5] Jerrold W. Huguet, "The demographic situation in Cambodia", *Asia-Pacific Population Journal,* vol. 6, No. 4 (December 1991), pp. 79-91.

[6] For an analysis of the forces underlying the urbanization process and its characteristics in the ESCAP region, see chap. V of this *Survey.*

the Republic of Korea, and also in Thailand (especially Bangkok). Women migrate as the result of a decision taken autonomously by themselves or by the family, as their status and role in the family are usually enhanced by becoming wage earners.

Rural-to-urban migration has many consequences for the development of both rural and urban areas because of the particular characteristics of the migrants. They are usually younger and better educated. Most move in order to seek employment. As such they constitute a valuable addition to the labour force in urban areas. However, to the extent that rural-urban migrants are better educated and more ambitious than those who do not move, such migration constitutes a drain on useful human resources in rural areas with detrimental effects on rural development.

In certain contexts, migration could benefit rural areas. Migrants in urban areas may remit sizeable amounts of money to their families and relatives in rural areas. Seasonal migrants may return with greater skills and capital, which can be invested in rural areas. The precise impact of migration on rural areas cannot be assessed without considerably more detailed investigation.

International migration became a significant avenue for the employment of Asian workers during the 1980s. Initially, the primary destination was the Middle Eastern countries, but recently migration between countries of the ESCAP region has been expanding rapidly. The developed and more industrialized areas of Asia and the Pacific generally have a low population as well as low labour force growth rates, while in the case of the less developed countries the reverse holds. Consequently, the developed areas tend to have labour shortages while the less developed areas have labour surpluses. In these circumstances, intraregional labour migration has become substantial. Because of immigration and employment regulations in the receiving countries, the majority of such labour migration is technically illegal.

The Bangladesh Bureau of Manpower, Employment and Training estimated that 104,000 persons went abroad for work in 1990; 147,000 in 1991; and 188,000 in 1992.[7] From Indonesia, 450,000 workers were deployed overseas between 1989 and 1993. The Philippines deployed 686,000 contract workers in 1992. The substantial amounts of foreign currency earned and remitted by the large numbers of migrant workers have become a significant component of national accounts in the labour-sending countries. On the receiving side within the region, there were an estimated 35,000 Asian labour migrants in Brunei Darussalam in 1989, more than 100,000 in Hong Kong, 500,000 in Malaysia, 161,000 in Singapore and perhaps 100,000 in Thailand.[8] In 1992, the number of clandestine labour migrants in Japan was estimated to be 280,000,[9] and in the Republic of Korea to be 70,000.[10] These are mostly workers who enter the countries on short-stay or tourist visas, find employment and overstay their visa. As of 1989, there were at least 244,000 Filipino workers in Asian countries.[11] In 1992, 69 per cent of Thai workers officially recorded went to other Asian countries (56,800).[12]

These trends may indicate that the future will witness a steady trend toward the development of an Asian labour market alongside national labour markets. The emergence of a regional labour market will have an impact on several types of national institutions. Educational and training institutes will need to prepare their students for the regional labour market. Human resources development planners will have to take into account both emigration and immigration. Private businesses may compete for staff on a region-wide basis. From the point of view of workers, employment opportunities will be greatly expanded for some, but competition for jobs will stiffen for others. National Governments will need to develop new policy and planning mechanisms and international organizations will have to play an important part in assisting Governments of the region to reach workable solutions to the problems of intraregional labour migration based on an informed analysis of the distribution of costs and benefits between the receiving and sending countries.

The sending countries stand to gain from remittances. The returning migrants can enhance the stock of human capital through skill and experience acquired abroad, and facilitate access to technology and exports through their contacts. The receiving countries are likely to benefit from diversified skills, lower labour costs, higher productivity and greater tax receipts,

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7 Based on country reports prepared for the International Labour Organisation Regional Seminar on International Labour Migration Statistics and Information Networking in Asia, New Delhi, 17-19 March 1993 and reported in *Asian Migrant,* vol. 6, No. 1 (January-March 1993), pp. 4-16.

8 Charles W. Stahl and Reginald T. Appleyard, "International manpower flows in Asia: an overview", *Asian and Pacific Migration Journal,* vol. 1, No. 3-4 (1992), pp. 417-476.

9 Hidetoshi Watanabe, "Problems of foreign workers in Japan", *Asian Migrant,* vol. 5, No. 4 (October-December 1992), pp. 115-118.

10 Newsbriefs, *Asian Migrant,* vol. 5, No. 3 (July-September 1992), p. 71.

11 Stahl and Appleyard, loc. cit.

12 Newsbriefs, loc. cit.

although there may be some pressures on public expenditure for health care, immigrant children's education and other public services. The likelihood of social tensions also has to be taken into account.

The growth trend, the age and sex composition, and the spatial distribution (in which migratory movements play a crucial part) of the population have wide-ranging socio-economic significance. These characteristics of a population, apart from its size, affect and are affected by, socio-economic developments in many crucial directions. Their implications for education, health and participation in the labour force to meet both economic and social objectives are enormous. The dynamics of population change is also closely linked to the concerns for protecting and preserving the environment.[13] In the following two sections, some of these issues and policies are examined in the context of the demographic changes taking place in the region.

IMPLICATIONS FOR SELECTED DEVELOPMENT ISSUES

Population and education

Population growth and change have a variety of direct and indirect effects on the educational development and literacy levels of the people as well as on educational planning decisions. An almost immediate effect or consequence of population increase because of high fertility is the expansion in the population of school-going age. This, in turn, results in increased educational requirements such as the provision of additional schools and classrooms, books and equipment, as well as the recruitment and training of additional teachers even if enrolments rates are to be maintained at current levels. But if enrolment rates are to be further improved as is the policy of most governments, the increase in educational requirements will be still larger than those created by demographic factors. In several countries, the enrolment ratios for girls are far below the rate for boys at all levels of education. The need to eliminate these disparities will require not only additions to existing educational facilities and services, but also in some societies, the provision of new facilities and services exclusively for females.

The massive population increase which had occurred during the past four decades resulted in equally high rates of increases in the population of school-going age, namely 6-11 years, 12-17 years and 18-23 years, which more or less correspond to the elementary (primary), secondary, and tertiary levels of education in most Asian countries. The number of persons in these age groups constitute a substantial proportion of the total population in these countries. In 1990, the share in the total population of children in the primary school-age, 6-11 years, varied from 14 to 18 per cent in 14 countries; from 10 to below 14 per cent in another five countries; and from 7 to below 10 per cent in the remaining four of the 23 countries listed in table VI.2. The proportion of children in the secondary school-age, 12-17 years ranged from about 12 to 14 per cent in a majority of the 23 countries; only in three of these countries was the proportion below 10 per cent. In most countries, the proportion aged 18-22 years was around 11 to 12 per cent, while in the Democratic People's Republic of Korea it was as high as 16 per cent. The inter-country variations in the proportions of school-age population could largely be attributed to the differences in the birth and population growth rates. In those countries and territories which have completed their fertility transition, China, Hong Kong, Japan and Singapore, the share of the school-age population is substantially lower than in countries which have yet to complete this transition or are yet to experience significant decline in their birth rates.

Almost all countries in the region have assigned high priority to achieving universal primary education by specified dates and have, over the years, made significant strides in providing increased access to primary education. Consequently, despite the high population growth which these countries experienced during the past three decades or more and the resultant concentration of population in the lower age brackets, the gross enrolment ratios at the primary or first level have recorded significant increase (see chapter V), though all those who

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13 As indicated in the introduction to this chapter, many research scholars and observers specializing in the subject of population and development hold that the direction and the magnitude of the cause-and-effect relationships among these variables are not yet fully or precisely known. See for example, United Nations Population Fund, "Population and development strategies: review of the past and future prospects"; Jere R. Behrman, "Past and current development paradigms and future directions in development policy and planning"; Nicholas Ford, "The effect of population programmes upon quality of life and sustainable development"; Wolfgang Lutz, "Analyzing the role of population parameters in sustainable national development and options for influencing them"; and Chalongphob Sussangkarn, "Population-development policy issues in Thailand: review and framework for analysis", papers presented at the Round Table on Population and Development Strategies, 17-19 November 1993, Bangkok, Thailand.

Table VI.2. School-age population as a percentage of the total population in selected Asian economies, 1990

	School-age population (percentage)			
	6-11	*12-14*	*15-17*	*18-22*
Afghanistan	14.7	6.5	6.5	11.6
Bangladesh	16.8	7.6	7.0	11.9
Bhutan	14.9	6.8	6.4	11.2
Cambodia	12.9	1.8	5.0	13.1
China	9.6	5.3	6.3	13.7
Democratic People's Republic of Korea	10.3	5.5	6.9	15.8
Hong Kong	8.6	4.6	4.7	9.6
India	14.2	6.3	6.2	11.4
Indonesia	14.0	6.9	6.9	12.3
Iran (Islamic Republic of)	18.0	7.5	6.5	11.4
Japan	7.5	4.3	4.9	9.1
Lao People's Democratic Republic	16.0	6.7	6.2	10.8
Malaysia	14.8	5.9	6.2	11.5
Mongolia	15.7	7.1	6.6	11.6
Myanmar	14.5	6.7	6.7	12.1
Nepal	16.3	6.8	6.3	10.7
Pakistan	17.1	6.2	5.9	11.1
Philippines	15.6	7.0	6.4	11.6
Republic of Korea	10.5	5.7	6.3	12.3
Singapore	8.8	4.3	4.8	10.1
Sri Lanka	13.6	6.2	5.8	11.3
Thailand	13.6	6.6	6.6	13.1
Viet Nam	15.5	7.1	6.5	12.6

Source: United Nations, *World Population Prospects, The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

enrolled did not complete the final grade (see box VI.2). The performance in regard to secondary and tertiary levels of education has also improved greatly. Education at the second and third levels is, however, still limited to only a very small proportion of the eligible population in many countries.

Apart from the difficulties created in regard to the quantitative expansion in enrolment, a rapidly increasing school-age population also makes it difficult to improve the quality of education imparted to the existing cohorts. The quality of education is a function, among other things, of the availability of an adequate number of classrooms, equipment, textbooks, and teachers. In the context of increasing enrolment and limited financial resources, many Asian countries have found it difficult to expand these minimum facilities. For instance, in Malaysia, the tremendous increase in the total number of pupils annually has resulted in some schools having to resort to holding morning and afternoon sessions. Instances have also been reported of two schools sharing the same building, one in the morning and the other in the afternoon.[14] The overcrowding of classrooms, the shortage of trained teachers, and high pupil/teacher ratios have led to a lowering of the standard and quality of education over the years in many countries of the region.

In most countries of the region, there has been significant increase in the number of primary school teachers. Nevertheless, the increase does not appear to have been adequate to cope with the rise in enrolment during this period. Consequently, pupil/teacher ratio has recorded increase in several countries, such as Bangladesh, India, Nepal, Pakistan and Philippines. Despite a decrease in other countries, the current ratios are still high in several of them.

One indicator of the pressure of the demographic change on the educational system is the implication for the number of additional teachers required. At the primary level, there are several countries in which the number of teachers will have to increase substantially by the year 2000 in order to keep the existing teacher-pupil ratio constant (table VI.3). The required increase will be most dramatic in the case of Pakistan (around 200 per cent). The other countries where large increase (30 per cent to 90 per cent) will be called for are Bangladesh, India, Islamic Republic of Iran, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal and Viet Nam. Further increase will be needed if the teacher-pupil ratio is to be improved. One could also undertake a similar analysis of secondary and tertiary levels of education which are of greater relevance to issues of technological change.

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14 ESCAP, "Studies on consequences of population change in Asia: Malaysia", *Asian Population Studies Series,* No. 118 (ST/ESCAP/244).

Box VI.2. The drop-out problem in primary education

While countries of the region have made considerable progress in enhancing enrolment ratios for primary education, many of them are still faced with serious problems in retaining students. Significantly large proportions of students drop out before completing the final grade of primary education, with the result that many are functionally illiterate. This implies a serious wastage of private as well as public resources.

Progress has been made by almost all countries during the 1980s in retaining the students until the final grade. The main exceptions were Papua New Guinea and Tonga which recorded some reduction in the percentage of students completing primary education. In Bangladesh, the retention to final grade increased from 20 per cent in 1980 to 47 per cent in 1989. Similarly, China and Indonesia were able to increase the retention rate substantially. Despite this progress, there are a number countries where the rate is still very low. It was below 50 per cent in Bangladesh and Pakistan in 1989, below 70 per cent in India, Fiji and Papua New Guinea, and below 80 per cent in Indonesia and Philippines (see table below).

Factors responsible for the drop-out rate may be classified into those "internal" and "external" to the educational system. Among external factors, the economic and social condition of the family is the single most crucial variable affecting the drop-out rate. The incidence of drop-out is higher among pupils from poor and deprived families. Poverty compels parents to withdraw children from schools and to use their labour for augmenting the family's meager resources. Children from poor homes also do not receive the nourishment they require, the resultant fatigue and poor concentration contribute to eventual drop-out of many poor children. Some additional factors are also at work in the case of girls. These include social prejudice, culturally-determined gender roles in family decisions and domestic chores (such as infant care). Another major factor is geographical location. The incidence of the drop-out rate is higher among pupils from mountainous and remote areas.

Internal factors affecting drop-out include inappropriate and irrelevant curricula, poorly trained teachers, poor methods of teaching, lack of textbooks and other educational materials, and poor physical facilities in schools. The experience of countries which have had major successes in reducing the drop-out rate suggests that remedial measures include the reorientation of teacher's training, recruitment of female teachers, provision of incentives, the improvement of physical facilities, an increased community awareness, reform in the curriculum, and adjustment of school hours. In-service training to upgrade qualifications and pre-service training are required to ensure a more effective teaching force. Female teachers, with their gentle approach to young children particularly at the primary level, can help retain children's interest in schools. The incentives in the form of free education and provision of textbooks, midday meals, clothes and scholarships can make attendance in schools attractive. Involving the community, especially parents, in primary level education may be a means of preventing drop-out. When parents are active in the educational process, it is more likely that their children will stay in school. Among other helpful measures are reform in the curricula in a manner that relates to the local environment, adjustment of school hours taking into account family work schedules, and smooth progression from one grade to another without grade repetition.

Percentage of primary school students reaching final grade

	1980	*1989*
Bangladesh	20	47
China	62	85
Fiji	43	51
Hong Kong	98	97
India	52	62
Indonesia	59	77
Iran (Islamic Republic of)	83	91
Kiribati	82	98
Malaysia	96	96
Pakistan	44	48
Papua New Guinea	64	61
Philippines	65	70
Republic of Korea	94	99
Singapore	90	100
Sri Lanka	91	97
Thailand	77	87
Tonga	100	92

Sources: United Nations Educational, Scientific and Cultural Organization, *Development of Education in Asia and the Pacific: A Statistical Review* (Paris, March 1993), and *World Education Report 1993* (Paris, 1993).

Table VI.3. Estimate of requirements for primary school teachers in 2000

	Number of teachers in 1989 or latest year available	*Pupil/teacher ratio, 1989*	*Number of teachers required in 2000*[a]	*Percentage change in number of teachers*
Bangladesh	186 872	60	353 449	89.14
Brunei Darussalam	2 842	17	2 263	-20.36
China	5 543 800	22	6 489 181	17.05
Hong Kong	19 625	27	16 320	-16.84
India	1 601 717	46	2 901 004	89.12
Indonesia	1 278 889	24	1 135 406	-11.22
Iran (Islamic Republic of)	361 878	24	555 244	53.43
Japan	454 109	21	390 296	-14.05
Lao People's Democratic Republic	20 384	27	36 037	76.79
Malaysia	112 204	21	150 540	34.17
Myanmar	116 950	43	173 889	48.69
Nepal	57 204	37	106 150	85.56
Pakistan	209 754	41	619 176	195.19
Philippines	314 838	33	329 728	4.73
Republic of Korea	134 898	36	113 334	-15.99
Singapore	9 998	26	10 187	1.89
Thailand	365 246	18	363 812	-0.39
Viet Nam	235 791	34	328 462	39.30

Sources: ESCAP estimates based on United Nations Educational, Scientific and Cultural Organization, *Statistical Yearbook 1991*, table 3.4; and United Nations, *World Population Prospects, The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

[a] Calculated on the basis of 100 per cent enrolment of the 6-11 year age group and pupil/teacher ratio of 1989.

Here again, differences between countries/subregions should be emphasized. It will be observed that in a number of East and South-East Asian countries the number of primary school teachers required at the prevailing pupil/teacher ratio will decline.

A rapid increase in population also results in high school-age dependency burdens; the ratio of school-age population to working-age population increases. This means that proportionately a smaller number of workers will bear the burden of maintaining an increasingly larger proportion of school-going children. This increased dependency burden combined with low level of family income tends to force children out of school and into the labour force even before they become literate. Efforts to prevent children from leaving schools may have however the additional effect of reducing or eliminating the participation of the school-age population in economic activity, thereby increasing the cost of education while limiting the capacity to pay for it.[15] Thus, the paradox of the age-structure resulting from high fertility is that while, on the one hand, it creates a demand for substantial expansion in available educational facilities and services, on the other hand, it restricts the capacity for supplying the increased educational needs.[16]

Projections indicate that the size of the school-age population will increase substantially over the years in many developing Asian countries, thereby posing major problems for these countries. In the first instance, the absolute number of enrolment must increase substantially in order to keep the proportion of children attending educational institutions merely constant at current level. This alone would mean that much more than at present should be spent on education in the future. But if countries were to plan for increasing the proportion enrolled, or improving the quality of education imparted, or increasing the years of schooling, or developing and expanding higher education, far more investment in education will be needed. In other words, the developing Asian countries will have to devote an increasing share of the available resources to

15 J.E. Vaizey, "Demographic considerations in integrated planning of educational levels", United Nations, *Proceedings of the World Population Conference*, Belgrade, 30 August – 10 September 1965, vol. IV (New York, 1967).

16 S. Selvaratnam, "Population change and education", *Asian Population Studies Series*, No. 92 (ST/ESCAP/685).

creating additional educational facilities for the new population even while endeavouring to clear the backlog of illiteracy and inadequate schooling.

High rates of population growth, which usually occur with the presence of high rates of female illiteracy, can have some detrimental effects on education through the biological mechanism. In countries with rapidly growing population, women generally closely space child-birth and risk giving birth to babies with low birth-weight which, in conjunction with other deprivations, may inhibit educational attainment.

Education, especially female education, also has a reverse impact on population increase through fertility. The extent of schooling received by females may affect their fertility by raising the age at marriage, reducing the demand for children (because educated women face greater opportunity costs in having children) and facilitating knowledge of contraception methods. In addition, female education may be particularly important for lowering infant mortality, increasing the quality of child rearing, the likelihood that a woman will work outside the home, the use of family planning, and hastening fertility decline. It has been observed that a marked under-investment in female education in some developing countries in South Asia is a major cause of the relatively lower effectiveness of their family planning programmes.[17] Empirical evidence generally show a close relationship between female literacy and a decline in fertility.[18]

17 Gavin W. Jones, "Population dynamics and educational and health planning", background paper No. 8 for International Labour Organisation, Training in Population, Human Resources and Development Planning (1990).

18 Wolfgang Lutz, op. cit.

Population and health

The linkages between population and health can be examined at two levels. First, there are the implications of population change on health service requirements. Second, there are the implications of population-related factors such as fertility, family planning practices, birth intervals etc. on morbidity and mortality. There is still a serious scarcity of research on the latter.

With regard to the implications of population change on health services requirements, at least three aspects of the change are worth considering. One is the growth of the size of the population. Even though a number of the countries in the ESCAP region have succeeded in moderating fertility in the recent past, population size is still expected to grow in the near future because of the inherent momentum of population growth resulting from earlier high fertility. Such an increase in population size clearly means increased requirements of all types of health-care services.

Second, the change in fertility and mortality in the recent past has an impact on the age-sex structure of the population. Such a changed structure has a bearing on the nature of health-care services that will be required. In countries where fertility and population growth still remain high, a large proportion of the population will consist of infants and young children with particular health needs. Moreover, the continued high fertility means a greater demand for health services for pregnant mothers. However, in countries that have succeeded in reducing fertility, the resulting age structure is one where the proportion of the older age group is increasing. These older age groups have different health needs from those of infant and young children. Thus the structure of health services needs to be modified to take account of this changing age structure and its associated morbidity and mortality patterns.

Third, changes in the geographic distribution of the population are likely to have implications for determining health-care service requirements. In countries where a large proportion of the population remains in the rural areas, the task of providing greater access to health services will remain difficult. In some situations where the pressure of population growth is pushing the population to more remote areas in search of a livelihood, the provision of health services will be even more troublesome. Moreover, in such areas the population may be exposed to new types of health risks, i.e., malaria and other tropical diseases. It is to be noted however that the health needs of the population as influenced by population factors do not automatically translate into effective demand for health-care services partly because of low levels of income. Among other determinants of effective demand are education, health knowledge and beliefs, and the money and time costs of access to health services. The lack of effective demand, in turn, may cause the underprovision of health services.

Over the past few decades, many countries in the ESCAP region have achieved considerable progress in providing medical and public health services to their people. There have been significant increases in the number of health institutions and facilities as well as health manpower. Several public health measures and programmes were also undertaken to control or eradicate various diseases and to improve the general sanitation levels of the population.[19]

19 See *Survey*, 1992, part one, chap. VI. Also chap. V of this *Survey*.

Nevertheless, in many developing countries in the region, the past expansion in health facilities and services has not been adequate to keep pace with the rapid population growth. The level of the facilities and services per capita is still very low as denoted by some key indicators. For instance, the population/physician ratio, a conventional indicator of the medical facilities available to a people, has been improving over the years in many countries. Yet, as of late 1980s or early 1990s, in several countries, such as Afghanistan, Bangladesh, Bhutan, Indonesia, Maldives, Nepal, Papua New Guinea, Philippines, Solomon Islands, Sri Lanka and Vanuatu, these ratios remained high with one physician serving on the average over 5,000 persons. In contrast, in the newly industrializing economies, these ratios are very low ranging from about one physician per 750 people in Singapore to 900 persons in Hong Kong and to 1,000 persons in the Republic of Korea.[20]

The implications of demographic change for resource requirements in the health sector are illustrated in table VI.4 which shows the percentage increase in the number of physicians required

[20] Though the physician-population ratio is a good indicator of the level of medical facilities available to the people, it is not possible to fix a norm a priori as to the most desirable physician/population ratio for a country. The adequacy of the number of physicians in a country has to be determined in relation to a number of factors such as their geographical and functional distribution, the level of medical technology, availability of equipment and institutional facilities, supporting paramedical staff and alternate medical services.

Table VI.4. Estimate of number of physicians in 2000

	Number of physicians	*Population/ physician ratio*	*Year*	*Number of physicians required in 2000*[a]	*Percentage change*
Afghanistan	2 957	5 148	1987	5 199	75.84
Australia	32 788	489	1986	47 656	45.35
Bangladesh	20 006	5 649	1990	25 538	27.65
Bhutan	157	9 100	1989	213	35.93
Brunei Darussalam	171	1 456	1989	218	27.72
China	1 058 000	1 077	1990	1 216 103	14.94
Fiji	352	2 099	1990	381	8.28
Hong Kong	6 260	919	1990	6 659	6.38
India	331 600	2 355	1987	432 558	30.45
Indonesia	25 752	6 786	1989	32 125	24.75
Iran (Islamic Republic of)	18 350	2 847	1988	27 372	49.17
Japan	201 700	608	1988	210 635	4.43
Malaysia	7 012	2 533	1990	8 789	25.34
Maldives	40	5 330	1990	54	34.15
Myanmar	12 427	3 353	1990	15 379	23.76
Nepal	951	19 895	1990	1 249	31.38
New Zealand	9 453	349	1989	10 630	12.46
Pakistan	51 883	2 127	1990	72 776	40.27
Papua New Guinea	361	10 083	1989	483	33.71
Philippines	9 620	6 104	1988	12 466	29.58
Republic of Korea	39 769	1 066	1989	43 993	10.62
Samoa	40	4 075	1989	40	0.00
Singapore	3 573	757	1990	3 931	10.03
Solomon Islands	32	8 813	1986	50	57.44
Sri Lanka	2 456	6 844	1989	2 840	15.64
Thailand	12 713	4 343	1989	14 092	10.85
Tonga	43	2 395	1989	43	0.00
Vanuatu	20	7 340	1990	26	30.11
Viet Nam	22 700	2 916	1990	27 955	23.15

Sources: ESCAP estimates based on United Nations, *Statistical Yearbook for Asia and the Pacific, 1992* (United Nations publication, Sales No. E/F.93.II.F.1), and United Nations, *World Population Prospects, The 1992 Revision* (United Nations publication, Sales No. E.93.XIII.7).

[a] Calculated on the basis of the population/physician ratio of the latest available year as indicated in the relevant column.

in the year 2000 with the present population/physician ratio. If the countries lagging behind were to improve this ratio to close to that of the newly industrializing economies, the required increase would be phenomenally large.

It should be noted that the number of physicians used as the denominator to derive the physician/population ratio includes only those medical practitioners trained in the western system of medicine. But in most countries of the region there are a large number of physicians practising the traditional or indigenous systems of medicine, rendering medical care to a substantial proportion of the population particularly in the rural areas. If these traditional medical practitioners were also included in the denominator, then the population/physician ratio in most countries would improve. Further, since population/physician ratios are national average, they do not give any indication of the wide variation in the quantity and quality of services available to people in different parts of a country and in different income groups.[21]

Although ageing is an emerging issue in several Asian countries, adequate programmes and policies do not seem to have been formulated to cater to the specific health needs of the growing number of elderly persons in these countries. Available data indicate that in most countries, the youngest and the oldest groups constitute a very sizeable proportion of admissions to hospitals and medical institutions. For example, in Singapore, elderly persons accounted for 18 per cent of all admissions into government hospitals in 1986 although they constituted only 8 per cent of the total population.[22] Yet, in many countries while pediatric clinics, wards and hospitals have been set up to take care of children, no such specialized facilities have been provided to meet the health-care needs of the elderly. Nevertheless, some countries such as China, India, Indonesia, Philippines, Thailand and Viet Nam are providing for increased geriatric medical services in hospitals and clinics. For instance, in Thailand, the Ministry of Public Health has set up health-care units for the elderly in 17 general hospitals outside Bangkok and in seven hospitals in Bangkok; there are also plans to set up geriatric clinics in both government and private hospitals all over the country.[23]

The existing health problems in many Asian countries have been the result partly of rapid increase in population which has paradoxically been caused by the provision of improved and expanded health services. The problem has also been complicated by the fact that funds available for the development and expansion of the health services have been very limited. The scarcity of resources dictates tighter priorities in health planning and greater attention to cost-effective delivery. In several countries, health services followed the systems of developed countries centred on hospitals and curative services, with inadequate emphasis on primary care and preventive medicine. This accentuated the consequences of resource constraints and reduced the impact of the actual expenditure. Faced with financial and other constraints, many developing countries of the region have now adopted the concept of primary health care in order to reach the goal of "Health for all by the year 2000". Public health care is intended to counter the relatively costlier urban-oriented and hospital-based health care characteristic of these countries. Among the activities undertaken under public health care are immunization against common infectious diseases, prenatal care, attendance at birth by skilled personnel, care of newborn and infant children, control of endemic, vector-borne diseases, treatment of injuries and health education. Several governments in the region are also adopting the primary health-care approach as a means of improving the health-care service delivery to the elderly.

Population and employment

The level of employment is determined by the demand for and the supply of labour. Population change affects both the demand for and the supply of labour, but the effect on the latter is more direct and obvious.

The supply of labour is determined by the size, age-sex composition, spatial distribution of the working age population, and the likelihood of the working age population to participate in economic activities (so-called labour force participation rate or activity rate). The participation rate in turn is determined by a host of factors such as health and education level of the population, income endowment or property incomes, and the wage rate. The participation rate is generally different by gender and rural/urban residence. Males normally exhibit uniformly high rates over a broad age range, while females'

[21] For data on rural-urban disparity, as measured by selected health infrastructure indicators, see table V.4 in chap. V.

[22] Paul P.L. Cheung and S. Vasoo, "Country study on the elderly in Singapore".

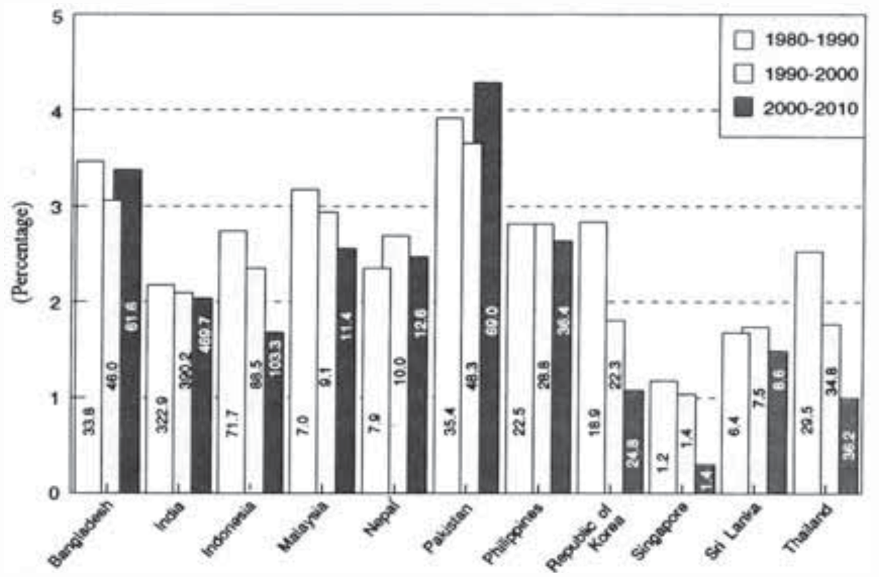
[23] S. Selvaratnam, "The situation of the elderly in Asia and the Pacific: a regional profile", ESCAP, *Studies on the Integration of the Ageing in Development: Legislation, Social Security and Social Services* (ST/ESCAP/763).

participation rates vary from country to country and from time to time. Therefore, the sex composition of the working age population is also an important determinant of the size of the labour force.

Given the participation rates, an important consequence of rapid population growth is the large increase in the number of young persons who will be reaching working age after a certain time lag (10-15 years). Population increase affects the size of the labour force in the short as well as the long run. In the short run, the decline in mortality results in an increase in the survival of the existing labour force. In the long run, the large number of births occurring as a result of high fertility will tend to increase the number of persons seeking employment about 15 years later.

The rapid increase in population which had taken place in most Asian countries in the 1950s and 1960s resulted in an expansion of the labour force in the 1970s and 1980s, and the continuing high fertility in many of the countries is the cause of a large number of persons now entering the labour force every year. In most Asian countries the current rates of increase in the labour force are estimated to be higher than their respective rates of population growth. For instance, in India the total labour force is estimated to have increased by about 2.17 per cent a year between 1980 and 1990 compared with an average annual growth rate of 2.06 per cent for the total population. In the Philippines, while the total population has been increasing at about 2.49 per cent a year, the labour force grew at an average annual rate of 2.82 per cent during the same period (figure VI.2).

Figure VI.2. Estimate and projection of annual average growth of labour force, selected ESCAP economies, 1980-2010



Source: John Bauer, "Projected labour force trends in Asia and their implications", *Analysis of Population Trends and Projections in Asia, 1980-2010,* part two (Honolulu, East-West Population Institute, 1990).

Note: Numbers inside the bars indicate the absolute size of the labour force in millions in the terminal year of the decade.

Because the number of entrants to the labour force reflects fertility approximately 15 years earlier, labour force growth rates will remain higher than population growth rates for sometime to come and countries will face challenges in generating adequate employment opportunities. In the period 1980-1990, the growth rate of the labour force in the region exceeded that of the total population by 0.5 percentage points.[24] The later the fertility declines, the longer the discrepancy between the two rates will persist. In East Asia, where fertility declined earlier, the labour force growth rate exceeded the population growth rate by 0.9 percentage points during the period 1980-1990, but during the 1990s the two rates will be nearly identical. In South-East Asia, where fertility has declined relatively recently, the labour force growth rate is projected to remain 0.4 percentage points higher than the population growth rate from 1980 to 2010. Fertility has declined even more recently in South Asia so the growth rate of the labour force did not exceed that of the total population significantly until 1990. The difference will reach 0.4 percentage points after the year 2000 and will persist longer.

In countries where fertility had earlier fallen rapidly, such as the Republic of Korea and Singapore, labour force growth is already slowing. These countries are facing shortages of workers and rising wages, causing investment in labour-intensive industries to shift to other Asian countries with

[24] ESCAP, "Population situation, policies and programmes in Asia and the Pacific", *Population Research Leads,* No. 36 (1990).

surplus labour. Several countries in Asia are expected to face declining growth in the labour force. Thus, in Indonesia, for example, labour force growth will begin to slow from 2.74 per cent during the period 1980-1990 to 2.35 per cent during the period 1990-2000 and to 1.68 per cent during the period 2000-2010. In Thailand, the rate will decline from 2.53 per cent in 1980-1990 to 1.77 per cent in 1990-2000 and to 1.00 per cent in 2000-2010. In the Philippines, however, the labour force will grow steadily over the next two decades (2.82 per cent until the end of 2000) before declining to 2.64 per cent in 2000-2010. The differential rates of growth are likely to have an impact on the pace and pattern of intraregional migration.

Apart from rapid growth, there are at least two other features that are noticeable with regard to the relationship between the labour force and population dynamics. First, the labour force, as with the population stock, tends to become younger in countries with high growth rates. In Bangladesh, for example, a 1983/84 labour force survey reported that about 38 per cent of the country's labour force was in the age group 15-29 years, and that the annual growth rate of the youth labour force averaged 4.1 per cent compared with 2.6 per cent for the total labour force.[25] Second, rapid fertility decline means that women spend less time in family-building roles and more time participating in economically productive activities.[26] This factor is partly responsible for the noticeable expansion in the female labour force in several countries recently.

In many countries, the expansion in the number of jobs or employment opportunities has not been commensurate with the addition to the labour force. This has resulted in open unemployment and widespread underemployment in the rural as well as urban areas.[27] In countries such as Bangladesh and Pakistan where the growth rate of the labour force will remain around 4 per cent by the end of the century, the gross domestic product (GDP) will have to grow by about 10 per cent simply to absorb the increased number seeking work since the elasticity of employment expansion in relation to output growth is usually around 0.4. The creation of full employment in these countries will, therefore, be a formidable task.

A mention should also be made of the fact that the current pattern of the educational attainment of the labour force varies among countries. With a few exceptions, countries with a high labour force growth also have lower educational level of their labour force, as indicated by the mean years of schooling of the populations in 25+ age groups (for relevant data, see table V.6 in chapter V). This implies that the countries concerned will not only have to create many more employment opportunities, but will also have to devote a greater share of resources to enhance the educational attainment and productivity of the labour force.

Agriculture has traditionally been the main source of employment and livelihood for the vast majority of people in Asian-Pacific countries. Although over the years there has been a decline in the proportion of the agricultural labour force, in many countries a high proportion of the total labour force is still engaged in agriculture (see chapter V) and the number of persons dependent per hectare of cultivated land continues to rise. The increasing pressure of the rural population on arable land has been aggravating the problems of fragmentation and subdivision of cultivable land resulting in smaller and more uneconomic land holdings to the detriment of agricultural productivity. It must, however, be acknowledged that in some countries, demographic pressures appear to have had some positive effects, inducing more intensive land use through irrigation and multiple cropping, for example, and increased efficiency in the traditional agricultural systems. Nevertheless, it has to be recognized that it will not be easy to sustain these developments indefinitely in view of the anticipated large increase in the rural population and rural work force.

Several Asian countries have attempted to solve the problem of the increasing pressure of the population and workforce on land and agriculture through "colonization" or new agricultural settlement programmes. In those countries with relatively favourable land-man ratios, an outlet for the excess rural population and workforce was created through planned shifts to areas within the country where new and unused land resources were available. For example, countries such as Indonesia, Malaysia, Thailand and, to some extent, Sri Lanka have tried to relieve the increasing pressure on agricultural land through schemes of planned movement to new agricultural settlements. But in most

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[25] Bangladesh Bureau of Statistics, *Final Report: Labour Force Survey 1983-84* (Dhaka, June 1984).

[26] S. Selvaratnam, "Population and status of women", *Asia-Pacific Population Journal,* vol. 3, No. 2, June 1988 (ST/ESCAP/636), p. 10.

[27] For instance, although the Bangladesh Second Five-year Plan envisaged the creation of 3-7 million jobs between 1980/81 and 1984/85, the estimated new employment was 3.2 million indicating a further deterioration in the unemployment situation.

countries, new lands are less likely to be available, and the possibility of loss of good arable land to urban areas, housing for the growing rural population, industries, highways etc. is increasing with the growing population. Consequently, there is not only a fragmentation of existing land holdings but also increasing landlessness, unemployment, underemployment, and heavy rural to urban migration.

In many of the countries, the heavy pressure exerted by rapid population growth on the rural agricultural sector combined with the inadequate development of rural areas resulted in a high exodus of rural workers to urban centres. Studies for several countries have conclusively shown that it is largely the young, the able-bodied and the better educated among the rural inhabitants who emigrate, leaving noticeable gaps in the agricultural and rural labour force. Because farming is essentially a family enterprise in most countries, the outmigration of the able-bodied workers leaves behind only the relatively less productive older and younger persons in the rural areas. These developments adversely affect productivity which is already low in the rural agricultural sector.

At the urban destinations, the rural migrants add to the already serious problem of urban unemployment. The experience of most developing Asian-Pacific countries during the past two decades indicates that the increase in urban employment opportunities, particularly in the organized sector, has not kept pace with the expansion in the urban work force, thus resulting in a sizeable backlog of unemployed in the urban areas.[28]

As noted earlier, the demographic structures in most countries have a built-in potential for a further rapid increase in the workforce over the coming years. The rapid expansion in the rural workforce anticipated over the immediate future will further increase the already acute pressure on arable land and complicate the increasing problems of rural unemployment and underemployment. This will result in further increase in the flow of rural to urban migrants aggravating the already serious problems of unemployment, housing and other infrastructure facilities in the urban areas.

In contrast, a declining rate of population growth, fertility and mortality, causes workforce ageing and declining rates of growth in the labour force. Table VI.5 shows how the projected age structure of the labour force changes under the current assumptions of fertility decline in different countries. The proportion of the labour force in the older age group (aged 45-64) increases in all countries while the proportion of the labour force in the younger age group (aged <25) decreases in almost all countries except Nepal (in 2000). The changing age composition of the labour force will have to be taken into account in planning for education, training and retraining.

28 For example, in India, the Sixth Five-year Plan estimated that only about 12 per cent of the increase in the labour force is absorbed in the organized sector, while in Bangladesh only 2 per cent of the labour force is employed in modern industries. See also chap. V of this *Survey*.

Table VI.5. Age composition of the labour force, selected countries, 1980, 2000 and 2010

(Percentage)

	1980				*2000*				*2010*			
	<25	*25-44*	*45-64*	*65+*	*<25*	*25-44*	*45-64*	*65+*	*<25*	*25-44*	*45-64*	*65+*
Bangladesh	37.7	38.0	19.3	5.0	34.1	45.9	16.6	3.4	26.5	47.9	22.5	3.1
India	30.5	43.4	22.4	3.7	25.4	48.7	22.2	3.7	20.5	49.5	26.8	3.2
Indonesia	31.2	43.2	22.0	3.6	24.3	50.6	21.7	3.4	16.5	49.1	31.4	3.0
Malaysia	31.8	46.7	18.7	2.8	23.9	53.1	21.4	1.6	18.1	52.3	28.1	1.5
Nepal	36.3	40.8	19.2	3.7	37.1	39.5	19.4	4.0	29.1	45.2	21.0	4.6
Pakistan	36.6	41.5	18.7	3.2	31.0	49.5	18.3	2.2	23.4	54.2	20.8	1.6
Philippines	32.3	45.4	19.1	3.2	27.1	49.4	21.1	2.4	20.4	52.0	25.5	2.1
Republic of Korea	29.9	45.4	22.3	2.4	17.3	54.1	26.9	1.7	14.4	43.9	39.6	2.1
Singapore	35.9	47.4	15.1	1.6	19.5	53.2	25.3	2.0	19.2	43.3	33.3	4.2
Sri Lanka	28.1	48.5	20.5	2.9	22.4	50.7	24.2	2.7	16.5	52.2	29.0	2.3
Thailand	37.3	42.7	18.4	1.6	26.5	51.3	20.5	1.7	19.2	46.4	32.3	2.1

Source: John Bauer, "Projected labour force trends in Asia and their implications", *Analysis of Population Trends and Projections in Asia, 1980-2010,* part two (Honolulu, East-West Population Institute, 1990).

Population and the environment

Environment problems can hardly be separated from population dynarrics. Economic activities to raise the standard of living of an increasing population involve the depletion of resources and degradation of the environment. In turn, depletion of resources and/or environmental degradation adversely affect development, welfare level, and population trends. Sustainable development and the ability to meet the future demands of growing populations require appropriate development policies and management practices to arrest avoidable depletion and degradation of air, water, land and mineral resources.

The linkage between environment and population is shown through a simple analytical framework in which deterioration in environmental quality is determined by per capita consumption of goods, the size of the population and the technology that produces the goods and services.[29] Other things remaining the same, population size adversely affects the environment in this calculation. The size of population assumes even greater significance in consideration of the fact that an increase in per capita consumption is the basic objective of all development programmes, especially in developing countries. The relationship as postulated above is obviously an oversimplified view of reality in which a variety of cultural, institutional and policy elements mediate the relationships. In consequence, the relationship between environment and the three determining variables mentioned above is not linear, but eventually the other elements operate through one of the determining variables. The size, growth rate and distribution of population are, therefore, matters of concern in the context of the environment. Population-related factors can affect the environment in a number of ways. Some selective mechanisms are discussed below.

An ESCAP study has shown that high population growth has been one of the major causes of deforestation in the region. The effect of population on deforestation is through the pressure on the demand for food and fuelwood. During the 1977-1987 period, the growth rate of fuelwood and charcoal production varied from 4.9 per cent a year in the Republic of Korea to 9.6 per cent a year in Pakistan. The major factor affecting this growth is population increase as fuelwood is consumed primarily domestically by the rural dwellers. The cutting of fuelwood, including wood for charcoal, is a significant factor in causing deforestation in tropical Asia. There are 12 countries in Asia which have less than 1.5 hectares of forest land per capita and 80 per cent or more of their total wood production is consumed as fuelwood.[30]

Between 1975 and 1986, 1.8 million hectares of the region's closed forest cover were lost annually. During the period 1986-1990, the rate of deforestation is estimated to have increased to 4.7 million hectares a year. Meanwhile, the majority of developing countries has undergone extensive land degradation.

The existing large population base and its high growth have intensified the practice of high-yielding, modern input-intensive agriculture, which has caused several environmental problems. Excessive exploitation of groundwater has created problems of land subsidence, salt-water intrusion and groundwater pollution in over one third of the countries of the region. The use of agrochemicals has increased substantially. Fertilizer use in the developing countries of the region increased from 22 million tons in 1977 to 51 million tons in 1991. Pesticide consumption has been growing at the rate of 5-7 per cent a year. Pesticide and toxic chemical concentrations in human bodies have increased.[31] Among the other effects of growing rural populations are the expansion of cultivation into increasingly marginal and fragile land and shortened periods for which the land is kept fallow. These practices lead to soil erosion and loss of fertility.

Environmental problems are not confined to rural areas. The rapid growth of cities owing to increasing population has placed serious strains upon inadequate urban water supply and sewerage systems, while air pollution is increasing, particularly because of the growing number of cars, buses and trucks.

Inland waters in the region are being increasingly polluted by domestic sewage, industrial effluents, and run-off from land-use activities. The population increase in cities was too rapid to permit the adequate development of sewerage facilities. Inadequate facilities led to the fouling and pollution of land, water and air, and often to epidemics. The rapid growth of the urban population and industrialization have resulted in the emission of new effluents which have polluted water. These effluents may contain non-degradable and toxic materials such as heavy metals, acids and other corrosive chemicals, as well as synthetic organic compounds. Without adequate waste treatment, many new industries in the ESCAP region have exacerbated water pollution.

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29 P.R. Ehrlich and A.H. Ehrlich, *The Population Explosion* (New York, Simon and Schuster, 1990).

30 ESCAP, *State of the Environment in Asia and the Pacific* (ST/ESCAP/917), p. 12.

31 See *Survey*, 1992, part one, p. 29.

Population growth and industrialization, through the increase in motor vehicle traffic and manufacturing plants, combined to pollute the air of urban areas. In several countries, the problems of air pollution were now spreading into rural areas, reflecting the rather recent trend of building large-scale industries away from urban areas of high population density. As greater decentralization of industry occurs, that trend could be expected to increase.

It should be emphasized, however, that it is not just population growth that is putting pressures on environmental resources; rather, population growth in conjunction with other processes. The consumption needs arising from an increased population could have been met without environmental degradation on the scale that has taken place in the region with appropriate policies and technologies.

Based on a study of Colombia, India, Indonesia, Philippines and the United States of America, it was found that the impact of technology and per capita income on environment is more than that of population growth.[32] Another study found that environmental quality is largely governed, not by population, but by the nature of production technologies. According to this study of 65 developing countries, population growth is responsible for between 24-31 per cent of the environmental impact.[33]

It has been argued that population growth has played a sizable role in causing global warming and the build-up of greenhouse gases in the atmosphere. If there had been no population growth, there would be far less build-up of carbon dioxide.[34] The importance of developing alternative technologies in the face of rising population and environmental deterioration can be hardly overemphasized. Alternative technologies are also becoming available now. Developing countries however require much greater financial support than is currently available to make effective use of the new technologies without impairing their growth and development targets.

Environmental deterioration in turn can have a feedback effect on the population by possibly contributing to poorer physical and mental health, to accidents, and to negative effects on human productive capacity. Adverse changes in morbidity and mortality could thus result from the deterioration in environmental conditions.

Environmental problems are increasingly visible and serious in the region. The above paragraphs have analysed some of the mechanisms through which population factors might have contributed to these problems. Nevertheless, one has to admit that not enough is known about the complex interrelationships between population and the environment, especially in Asia and the Pacific. Thus one of the priorities for population and development planning in this region should be action-oriented research into the linkages to provide the foundation for informed national and regional development policies.

POLICY APPROACHES

Stemming growth

Governments in the ESCAP region have been willing to set ambitious targets for themselves in their population programmes. At the Third Asian and Pacific Population Conference held at Colombo in 1982, the participating Governments urged countries "... to review and modify existing targets and goals in the implementation of population and development programmes for reducing birth and death rates so as to attain low levels as early as possible and to attain a replacement level of fertility by the year 2000".[35] The total fertility rate (TFR) for the ESCAP region is projected to decline from 3.2 in 1992 to 2.8 by the year 2000. That would still remain above the replacement level of fertility, and therefore the target to attain replacement level fertility was deferred by a decade to year 2010 or sooner.[36] The revised target is well within reach for most countries of the region.

Population policies in the ESCAP region currently need to address issues differently for countries which are at very different stages of the demographic transition from high to low fertility and mortality. From this point of view countries and areas might be grouped into four rather approximate categories in terms of demographic situations and population policy. The first group comprises mostly countries in South Asia where fertility is relatively high and population policies stress family planning as a means of reducing it.

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32 Ronald G. Ridker, "Resource and environmental consequences of population and economic growth" in *World Population and Development: Challenges and Prospects,* Philip M. Hauser, ed. (New York, Syracuse University Press, 1979), pp. 99-123. It may be possible, however, to argue that government intervention, technology or per capita income are all influenced by population pressure.

33 Paul Harrison, "Beyond the blame-game: population-environment link", *Populi,* vol. 17, No. 3 (1990), pp. 14-21.

34 United Nations Population Fund, *Population, Resources and the Environment* (1991), p. 15.

35 ESCAP, *Asia-Pacific Call for Action on Population and Development* (Bangkok, 1982), p. 9.

36 ESCAP, *Bali Declaration on Population and Sustainable Development*, op. cit, p. 5.

A second group comprises many countries of South-East Asia that have achieved considerable success in lowering fertility. Population policies in those countries now reflect an integrated view of development and are directed toward the family, health issues, role of women, and human resources development as well as toward moderating fertility. A third group of countries and areas in East Asia, and Singapore in South-East Asia, have achieved replacement level or lower fertility and their population policies have become concerned with issues deriving from the resultant age structure, such as immigration to relieve labour shortages and population ageing. The fourth group is made up of countries and areas with small populations and some isolation imposed by geography, i.e., the small-island and land-locked countries. Environmental issues are paramount for several countries in this group. All of them however continue to recognize that the effectiveness of policies depends on complex sets of socio-economic factors rather than on family planning *per se,* which is still emphasized in many cases.

The countries in South Asia with high fertility have set numerical targets for family planning programmes. The targets range from mild to extremely ambitious. In Bangladesh, where the TFR declined from 7.0 in 1975 to an estimated 4.6 in 1990, the goal is to achieve a TFR of 2.2 by 2005. The family planning programme will need to recruit 18.5 million new users of contraception by 2005 to reach that fertility goal. The considerable success achieved to date by the family planning programme has been attributed to a high level of political commitment, an increased number of field workers, improvements in the logistics and supply system, increased allocation of resources, involvement of non-governmental organizations (NGOs) and the private sector, and enlarged international support.[37]

India is the second most populous country on earth. The Eighth Five-year Plan (1992-1997) aims to reduce the crude birth rate (CBR) to a level of 26 births per 1,000 population at the end of the plan, from about 30 in 1990. The plan also aims to lower the infant mortality rate (IMR) to 70, and envisages that replacement level fertility will be achieved during the period 2011-2016. India has strengthened the National Family Welfare Programme and is formulating a national population policy.

The Government in Nepal has established ambitious population goals. It plans to reduce the TFR to 4.0 in the year 2000, from 5.8 in 1990; to reduce the IMR from 102 to 50 in the same period; and to increase the average expectation of life at birth from 50 to 65 years. Achieving the fertility goal will require that the contraceptive prevalence rate reaches 41 per cent of eligible couples by the end of the century, from 20 per cent in 1990. The Government plans to achieve its goals through direct and indirect measures, including expansion of health and family planning programmes, poverty alleviation, improvements in education, and promotion of women's development.

The Government of Pakistan has established the admittedly ambitious target of reducing the TFR to 4.72 in 1998, from an estimated 5.90 presently. The Government plans to accomplish this by allocating increased resources, following a multisectoral approach to population policy, promoting community involvement, and providing home delivery of family planning services.

Sri Lanka and several countries in South-East Asia currently have total fertility rates between 2.2 and 3.6. They have been implementing family planning programmes for over two decades and have achieved the major goals. These countries are now far along the line in integrating population and other development policies. Their policies explicitly recognize the linkages between population, poverty alleviation, health, education, and the role of women. The policies stress the quality of family planning services, family welfare and improved living standards. References to the environment and sustainable development are also beginning to appear in these policy statements.

The population policy in Indonesia is designed to lower fertility to the replacement level by the period 2005-2010. Integral elements of that policy include extending compulsory education from six to nine years, expanding employment opportunities for women, increasing per capita income, and promoting the norm of a small, happy and prosperous family.

Vision 2020 is a 30-year perspective plan for Malaysia that incorporates economic, social and demographic factors. It projects that the economy will grow at an average annual rate of 7 per cent and the population will equal 32 million in the year 2020. The plan recognizes that families will be smaller and more prosperous at the end of the plan, with high levels of economic activity by both husbands and wives. The plan will attempt to ensure that family values will not be sacrificed to economic gain. It will attempt to maintain family cohesion and give attention to the nurturing of children and the care of the elderly.

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37 Unless otherwise specified, the sources of information on national population policies used in this section are country reports presented at the Fourth Asian and Pacific Population Conference, Bali, Indonesia, 19-27 August 1992.

The National Family Planning Programme in Thailand has met its quantitative targets over the past two decades and the TFR in 1993 was at the replacement level of 2.2 children per woman. One important reason for the success of the programme is that it is well integrated in the work of the Family Health Division of the Ministry of Public Health. During the Seventh Plan period, 1992-1996, the programme will attempt to expand coverage among adolescents and ethnic minorities, to improve the quality of services, and to improve its own management, training and information systems, particularly at the regional level.

The TFR in Sri Lanka in 1993 was 2.5 children per woman, much lower than in any other country in South Asia. Similar to Thailand, Sri Lanka may now concentrate on improving the quality of family planning services and reaching particular target groups, such as adolescents. During the 1990s, the main programme strategies are: a close integration of family planning and maternal and child health services; improved availability and accessibility of contraceptive services; provision of quality services; education of adolescents; information, education and communication support for family planning; involvement of the community; and improved supervision and monitoring.

Singapore and several countries and areas in East Asia have reduced fertility to below the replacement level and their population policies now focus more on issues deriving from the age structure resulting from low fertility.

The TFR in China was 2.2 in 1993. That country continues to pursue family planning to reduce fertility, with emphasis on delayed marriage, birth control and prolonged birth spacing. China is also formulating plans for dealing with population ageing. It has established a National Committee on Ageing and is preparing plans for establishing a social security system.[38]

The TFR in Singapore is fluctuating around 1.8, and has been below the replacement level since 1975. As a result the Singapore Government is now tackling the issues of the ageing of the workforce, increasing welfare and health-care costs and labour shortages. The Government announced a new population policy in 1987 intended to increase fertility. The policy features the slogan, "Have three, or more if you can afford it." It also provides income tax rebates for third and fourth children, subsidies for child-care centre fees, subsidies for delivery fees, and special leave schemes for married female civil servants.

A number of small-island and land-locked countries in the ESCAP region have population problems specific to their geographical setting. The population of Maldives was estimated to be only 231,000 in 1992, but one quarter of the population lived in Malé, the capital. This population concentration has led to beach erosion, problems of sewage disposal, and destruction of protective reefs around that city. As a result, flooding and tidal swells during storms are more prevalent than during the past. The Government is attempting to lower fertility with an integrated family planning and maternal and child health programme, and to reduce the concentration of population in Malé.

Population issues in Vanuatu are similar to Maldives'. The 1989 population was 139,000, but the indigenous population grew at an annual average rate of 2.8 per cent between 1979 and 1989, and the urban population grew at a rate of 7.5 percent. The Government has responded with a Family Health/ Family Planning Programme that is attempting to formulate a national family health policy, increase knowledge about family health, and improve family planning services.

In several areas with small populations, international migration is a major determinant of population growth. This is true for Brunei Darussalam, the Cook Islands and Tonga, among others. As international migration is greatly influenced by economic conditions and by regulations in the receiving countries, sending country policies do not greatly affect it. Consequently, policies in the sending countries are aimed more at ameliorating any negative impact that emigration may have. In situations of significant emigration, family planning programmes are implemented more to improve family health than to control population growth.

Spatial distribution

Since the Bali Declaration on Population and Sustainable Development a much more accommodating approach to urbanization has become acceptable policy. The Declaration *inter alia* states: "Governments should reassess policies relating to urbanization and seek to implement policies that recognize that urbanization is inevitable. These policies should stress human resources development and be concerned with the environment and sustainable development and improvements in the quality of life in cities and the countryside, particularly in slums and other disadvantaged areas."[39]

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[38] *World Population Policies,* vol. 1, "Afghanistan to France" (United Nations publication, Sales No. E.87. XIII.4), pp. 127-128.

[39] *Bali Declaration on Population and Sustainable Development,* op. cit., p. 8.

The Declaration also urges that the spatial implications and environmental consequences of major sectoral policies be fully assessed as part of the national development planning process. The Declaration recommends the decentralization of more decision-making power and resources to regional and municipal bodies. It further calls for greater involvement of the private sector in spatial development, more research on urbanization and migration, and better monitoring of international migration, with the development of appropriate policies.[40]

Countries in the ESCAP region have generally established policies concerning spatial distribution but not migration *per se,* except for those that have active programmes of rural resettlement. The most explicit spatial distribution policies are usually phrased in terms of regional development, rural development, or decentralization of industry. China attempted to develop small and medium-sized cities while restricting migration to the largest cities. Restrictions on migration have been subsequently relaxed in an effort to reduce the rural labour surplus.

The Republic of Korea attempted to disperse population from the Seoul metropolitan area during the 1970s by designating growth poles, or intermediate centres, which would redirect population movement. The Government considered that this approach had only limited success and in the 1980s shifted to a policy of promoting balanced regional development, primarily by encouraging industries to locate outside the Seoul area.

Beginning with the Fifth National Development Plan (1982-1986), the Government of Thailand has attempted to slow the growth of the Bangkok Metropolitan Area by shifting industry to the surrounding provinces, particularly along the eastern seaboard. The Sixth (1987-1991) and Seventh (1992-1996) Plans have continued the stress on decentralizing activities to areas outside Bangkok. Indonesia, Malaysia, Sri Lanka and Viet Nam have implemented large-scale rural resettlement programmes not only to influence population distribution, but also to improve the use of natural resources and to develop lagging regions. The largest of these, the transmigration programme in Indonesia, has moved about 6 million persons, mostly from Java, to the outer islands over the past 20 years.

The slow pace of rural development is the impetus for both rural-to-urban migration and international migration because the rural residents seek better economic opportunities in cities or overseas. The small-island countries, notably the Cook Islands and Tonga, recognize that most of the conditions determining the level of international migration lie outside the scope of their own economic and social policies.

Several larger countries in the region, including Bangladesh, India, Pakistan, Philippines, Sri Lanka and Thailand, have viewed international labour migration as a means of earning foreign exchange and of relieving unemployment in the domestic labour market. Their response has been to promote the placement of their workers in overseas labour markets and to train potential migrants in the skills needed. They have set up the government machinery necessary to process labour migrants and have enacted a number of regulations concerning the recruitment and placement of migrant workers.

Because of low rates of population growth but high rates of economic growth, several countries and areas in the region have become destinations for intraregional labour migration. These include Brunei Darussalam, Hong Kong, Japan, Malaysia, the Republic of Korea, Singapore and Thailand. A rapid expansion of this intraregional labour migration has occurred recently and receiving countries have not yet adopted comprehensive policies commensurate with the economic importance of the movement. These are slowly emerging however.

The Government of Japan is evolving policies on labour migrants with three major thrusts: to control undocumented workers; to find ways to accept foreign workers without adversely affecting the domestic labour market and social welfare; and to create employment opportunities for foreign workers in their own countries through international cooperation. About 25 per cent of the population of 261,000 in Brunei Darussalam are temporary residents, primarily migrant workers. Because of the heavy reliance on migrant labour, the Government has established policies and procedures to control it. Work permits and employment passes are issued by the Immigration Department upon recommendations from the Labour Department. The Government protects foreign workers through a number of measures. For example, employers are required to provide housing to foreign workers and to pay a deposit to a fund for ensuring that the workers will have a ticket to leave the country upon completion of assignment.

Role of women

The role and status of women has long been an especially important issue in the population field because numerous studies have indicated that the status of women (particularly their education and occupation) is a major determinant of levels of fertility and infant and

[40] Ibid., pp. 7-8.

child mortality. The central importance of women to the family need not be elaborated. The role of women has been made an integral component of the national population policy in many countries of the region. This was also recognized in the Bali Declaration, which urged Governments to adopt and implement national policies and programmes to ensure equal opportunities for females in all sectors of social and economic development as well as in political participation.

The types of governmental and legal action taken by countries to ensure equal rights for women may be illustrated by those in the Republic of Korea. A sectoral plan on the status of women was included in the Sixth Five-year Socio-economic Development Plan (1987-1991). A ministry was established in 1988 to deal with women's affairs. The Equal Employment Opportunity Act was enacted in 1987, and the Family Law was revised in 1989 and went into effect in 1991 to enhance women's rights in civil matters. The Seventh Five-year Plan (1992-1996) includes a number of programmes and measures with special emphasis on education, employment, social services and welfare for women. Similarly, in Malaysia a Secretariat for Women's Affairs was established in 1983. The National Policy for Women was adopted in 1989. The Sixth Malaysian Plan (1991-1995) contains a chapter on women in development.

While most, if not all, countries of the region have established some combination of such bodies, laws and programmes to enhance the status of women, the extent to which they are incorporated into the national population policy varies. In the countries cited above, the measures occupy a central place in population policy. Some Governments emphasize programmes designed to assist women directly, while others stress the more indirect approach of improving female education.

In India, women's development corporations have been set up in 11 states and one Union Territory to promote economic activities, organize training and generate employment for women. The Integrated Rural Development programme benefited 3.4 million women during the Seventh Plan (1987-1992). By 1990, women comprised a quarter of the beneficiaries of the programme. The Viet Nam Women's Union implements an income-generation programme in rural areas. The Government of Nepal is formulating policies to increase female school enrolment, to increase the involvement of women in development programmes, to recruit more women as health service providers, and to expand credit and other financial resources aimed at promoting the self-employment of women in off-farm activities. The Government of Thailand views the lack of education as a critical impediment to expanding women's participation in development activities. It, therefore, has introduced measures, such as scholarships, to increase the number of women attaining higher education.

In some countries, many measures to improve the status of women are in the recommendation stage and have not yet become full elements of population policies or programmes. The Ministry of Population Welfare of Pakistan recommended an integrated approach in development planning to support women in their productive and reproductive roles and as equal partners in development. The Ministry also urged that the level of education of women be improved and that women be trained in areas usually dominated by men, such as engineering and business management. It recommended that women receive basic health education, especially in the areas of nutrition, safe water supply, sanitation, immunization and communicable diseases.

The Government of Sri Lanka has integrated population and women's policies and programmes by placing the Population Division in the Ministry of Health and Women's Affairs. That Ministry is well-placed to recommend a number of measures that simultaneously would affect women and the population as a whole. For example, it urges the expansion of family planning programmes to remote areas, the incorporation of family health education into the secondary school curriculum, nonformal health education, and a strengthening of the rights and privileges of working women in the workplace.

In Singapore, there exist many agencies, laws and programmes to promote the rights and status of women, but they are not incorporated into the national population policies. Instead, as was noted above, the country is currently following policies designed to increase fertility. As such, the policies are supportive of women who wish to bear and raise children. The policies include tax incentives and subsidies for bearing children, and the expansion of nursery and child-care facilities.

CONCLUDING OBSERVATIONS

To conclude, countries and areas in Asia and the Pacific have for some decades implemented population policies. The success in implementation of those policies has given rise to a common trend, a falling growth rate despite significant reductions in the mortality rate. This trend will continue into the next century. However, different initial conditions and varying degrees of success across countries have brought about increasing differentiation in terms of the rates of growth and of decline in the fertility rate.

Such differentiation has led to differences in the stock and composition of populations, giving rise to different pressures for spatial distribution. The nature of demand placed on various aspects of development such as education, health, employment and environment arising from the demographic transition also presently varies across countries or subregions. Some of these differences have been highlighted in the preceding analysis.

One emerging common feature is that as knowledge of population and development interactions has advanced, population policies in most countries of the region are being increasingly integrated with other social and economic development policies. Currently, countries in the region are paying greater attention to the linkages between population and the environment. It is expected that over the next decade, population policies will become better integrated with environmental policies also as knowledge of the synergies involved improves.

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