

A Framework for Supporting Sustained Economic Development

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Abstract: This paper explores, at a very broad level, some of the similarities across low-income countries that have achieved success in economic development since 1960. I identify 21 countries that were relatively poor in 1960 that have recorded economic growth of at least 2.2% per person per year (the maximum 40 year average of the U.S. ever recorded in its history), along with significant increases in life expectancy and declines in infant mortality and illiteracy. For this group of countries as a whole, which together account for half of the world's population, average incomes have quintupled, life expectancy has increased 17 years, and illiteracy rates have fallen from 49% to 21%. Although there is no single development formula that is appropriate for all countries, four core elements stand out as being consistent across the most successful developing countries: (i) macroeconomic and political stability, (ii) significant investments in health and education, (iii) a reasonable environment for the private sector, and (iv) relatively strong governance. The precise details of each country's strategy differed significantly, but these four characteristics are strongly associated with growth among poor countries. Finally, although the main responsibility for accelerating development lies with the governments of the low-income countries themselves, the international community can play a strong role in supporting sustained growth. In particular, increases in the quantity and improvements in the quality of foreign assistance can help, along with greater access to the markets of the industrialized countries.

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

First, progress in economic development around the world between 1960 and 2000 was been greater than is often assumed. Many people believe that development success has been confined to a few countries in East and Southeast Asia, with little progress elsewhere. In fact, approximately 25 countries that were relatively poor in 1960 and that account for nearly half the world' population can claim reasonable success since then, with significant increases in income, improvements in health, and advances in education. Their average real incomes, for example, more than tripled in real terms over just two generations, with significant increases in life expectancy and literacy rates.

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

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

Successful Development 1960-2000: More than East Asia

By most estimates, during the last half of the 20th century there were significant declines in the share of the world's population living in poverty, along with substantial improvements in health and education. While precise estimates differ, several analyses suggest that the share of the world's population living in extreme poverty fell by between one-quarter and one-half between 1960 and 2000 (Bhalla, 2002; Sala-i-Martin, 2002; Bourguignon and Morrisson, 2002). Bourguignon and Morrisson (2002), for example,

find the share of the world' population living in extreme poverty fell from 44% to 23.7% between 1960 and 1992. (While the share living in poverty fell sharply, the absolute number living in poverty declined only slightly.) Around the world, life expectancy increased from 50 to 67 years, while infant mortality rates fell from 119 to 56 per thousand births. Compared to previous periods in world economic history, these advances over a forty-year period are huge.

There is a widespread belief that these remarkable gains in human welfare were confined to East and Southeast Asia, with very few countries outside the region achieving any success. The Asian "tigers," indeed, are the most prominent and well-known of the success stories. Following the rebuilding of Japan after World War II, growth took off in Hong Kong, Singapore, Taiwan, and Korea, with real incomes increasing (incredibly) by more than seven-fold in these four economies between 1960 and 2000. The rapid growth spread to several countries in Southeast Asia, with Thailand, Malaysia, Indonesia, and the Philippines experiencing a four-fold increase in real incomes over the same period. And of course China's growth explosion after 1979 is one of the most important changes in the world economy of the last century.

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

A growth rate of 2.2% per capita over 40 years means that average individual incomes in these countries more than doubled (more precisely, increased by 140%) during this period. In fact, for this group of countries as a whole, the increase was much larger, as were the accompanying gains in other indicators of development. Table 1 shows that for this group of 21 countries as a whole, average real incomes more than quintupled, life expectancy rose from 48 to 66 years, infant mortality fell from 128 to 39 per thousand births, and illiteracy rates fell from 49% to 21%. This group of countries includes all the usual countries from East and Southeast Asia (e.g., Korea, Taiwan, China, Thailand, etc.), along with several others such as Botswana (the fastest growing country in the world over the period), Mauritius, Egypt (where average incomes more than tripled),

India, the Dominican Republic, Tunisia, and several others. These relatively rapidly growing countries were hardly small and insignificant: their combined population tops 3 billion, constituting half of the world's population. The large population share is driven mostly by the inclusion of China and India in the group, but several other large countries are also on the list, including Indonesia, Egypt, Turkey, and Brazil. Surprisingly, even Pakistan makes the list, where average real income has nearly tripled, life expectancy has surged from 44 to 63 years, and illiteracy fell from 79 to 56 percent. Pakistan surely faces enormous problems, but its record on these basic indicators of welfare exceeds the performance ever recorded by the U.S. and Europe. More broadly, there is no time in world history where such a large share of the global population made such important progress over a comparable period of time.

Of course, these gains are the average for the people living in these 21 countries. For some individuals and their families, the gains in income, health, and education, were much larger. For others, they were much smaller. One potential worry would be in the gains of the richer elements of these societies came at the expense of the poor. I have not yet had the opportunity to explore the evidence for this very important question for this group of countries. However, previous research indicates that economic growth rates tend to be relatively uniform across income levels within particular countries. That is, the growth rate of the incomes of the poorest 20% of the population in a given country tends to be approximately equal to the income growth rate of the population as a whole (Gallup; Radelet and Warner, 1998; Dollar and Kraay 2002).

There were undoubtedly many people left behind by this rapid growth experience, as there have been in the United States and Europe. It is true that not all of the 3 billion people in these 21 countries have benefited from these changes. But the majority undoubtedly have accrued significant gains in welfare. Even if not everyone has gained, there is little doubt that poverty has been substantially reduced for billions of people around the world during the past 40 years, both in and out of Asia.

These successes over the past 40 years are not a reason to declare victory in the war on global poverty, or for the world to feel self-satisfied. Far from it. But they provide clear evidence against the view that development efforts in recent decades have met with nothing but failure outside of Asia, and provide hope for continued development in the future. The process of economic development is long and difficult. The challenge going forward is two-fold. The first is to sustain economic growth and poverty reduction in these countries. The second is to find ways to spread this achievement to a wider circle of low-income countries, some of which face enormous obstacles in initiating the process of growth and development.

Domestic Policies and Institutions

There is no single recipe for success in development. Each country faces different circumstances and obstacles, and has different endowments (positive and negative) of geography, resources, human capital and other important elements to work with. The strategy that worked in small, urban, resource poor, strategically located Singapore is

unlikely to be the optimal path for rural, resource rich, landlocked Botswana. The highest priorities for one country are not the same as for another; moreover, the highest priorities and challenges within a country change over time and during the course of development.

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

1. ***Macroeconomic and Political Stability.*** Economic and political instability undermine investment and growth, and are especially hard on the poor, who are least able to protect themselves against volatility. Relatively low budget deficits over time (with corresponding high rates of government saving), prudent monetary policy, appropriate exchange rates, suitable financial markets (depending on the stage of development), and sustainable foreign borrowing are the key elements to macroeconomic stability. Macroeconomic stability reduces risk for investors, whether they are multinational conglomerates or coffee farmers considering planting more trees. A broad tax base with modest tax rates allows governments to fund important social and economic programs while keeping budgets in balance. The particular mix changes over time: the poorest countries can appropriately rely on aid grants and concessional loans, and then build their tax base as aid flows as the economy grows. Sustained political stability is equally important: all of the success stories were politically stable for long periods of time. Although some countries experienced periods of instability, they were for the most part short-lived. Collier (1999) and others have pointed out the insidious negative cycle of civil war in low-income countries: poverty increases the risk of conflict, and conflict undermines growth and entrenches poverty (World Bank, 2003).
2. ***Substantial Investment in Health and Education.*** Countries with healthier, better-educated populations record faster economic growth, productivity gains, and poverty reduction. Indeed, there appears to be a positive cycle between growth and investments in health and education: investments in health and education lead to faster growth and higher incomes, which in turn enables larger investments in health and education. It is incorrect to believe, as some do, that better health and education are simply by-products of the development process – they are key inputs as well.

East Asian countries made significant investments in primary education, especially of girls, which enabled their populations to become healthier and much more productive members of the workforce, which in turn helped them achieve a higher, more sustainable standard of living. Similarly, investments in basic health have very high economic rates of return (Bloom, Canning, and Jamison, 2004). Radelet, Sachs, and Lee (2001) found that the difference in life expectancy at birth in 1965 in East/Southeast Asia (55 years) and sub-Saharan Africa (41 years) was associated with a difference in per capita growth rates of 1.3 percentage points per year over the thirty years period – about one-third of the total difference in growth. Accessible basic

health care facilities, clean water and sanitation, disease control programs, and strong reproductive and maternal and child health programs help countries lengthen life expectancy and improve worker productivity. The quality of service delivery is just as important as quantity. It isn't enough to build schools and increase enrolment rates: teachers have to show up, be motivated, and have adequate basic supplies (e.g., textbooks) in order to do the job (World Bank, 2004). The development community has recently refocused attention on the importance of basic health and education in the development process after years of imbalanced emphasis on macroeconomic policies.

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

Development cannot happen in the absence of sustained growth of private sector enterprise. A dynamic private sector – whether small holder family farms or large manufacturing enterprises -- is key to job creation and income generation, which in turn is central to poverty reduction. There is great debate on how best to create a dynamic private sector in low-income countries, including the appropriate role for industrial and trade policies, but there is no longer much debate about the centrality of a dynamic private sector. Most of the successful countries have stimulated both agricultural production and labor-intensive manufactured and service exports, although the details of their strategies have differed. In most cases, a prominent role has been played by competitive firms that are fully integrated into the global economy that are able to import new technologies, expand investment opportunities, and create new jobs. Key elements for most of the successful countries have included:

- **Robust Agricultural Sector.** Although rapid economic growth leads to a decline in the relative importance of agriculture, a healthy agricultural sector is critical for poverty reduction and long-term growth, as well as for establishing a strong manufacturing sector. The seeming paradox – which in reality is no paradox at all – is that strong investments and policies are needed in agriculture, even as it declines in economic importance. A healthy agricultural sector with rapid productivity gains allows workers to shift to other activities with even higher productivity in manufacturing and services, which in turn supports long-term growth. Although agricultural performance was uneven across countries, in the most successful cases governments removed price distortions so that farmgate prices were kept close to world market levels, and removed artificial barriers and non-market institutions that limited farmers' choices and opportunities. Most farmers had reasonable access to seeds, fertilizers, and pesticides (and in many cases governments subsidized fertilizer to ensure that it was used in appropriate quantities). A key to agricultural growth and reduction of rural poverty was construction of feeder roads so that farmers could get their crops to market and bring in fertilizer and other inputs. Agricultural research allowed new seed varieties to be adapted, and facilitated the use of agricultural products in new markets (e.g., Malaysia's research into new uses for rubber trees, such as furniture). And, of course, the Green Revolution remains perhaps the best example of research into new technologies (largely financed by donor agencies). These investments produced huge payoffs in new varieties of seeds, fertilizers and

other inputs that led to dramatic increases in agricultural production in Asia, which in turn was at the core of the so-called “Asian Miracle.”

- Competitive labor-intensive manufactured and service exports. Most (although not all) of the successful countries adopted strategies for diversifying from primary products to labor-intensive manufactured exports. Important elements included low (or zero) tariffs on imported inputs (especially capital goods); access to efficient port facilities; reliable roads, power, and other infrastructure; and a customs service that did not unduly delay or add to the cost of shipments. Importantly, the successful countries did not leave export diversification purely to the markets: governments in each country introduced well-run institutions to facilitate exports such as export processing zones and bonded warehouse systems.¹ Governments recognized broad areas in which firms were likely to be globally competitive – e.g., textiles, basic electronics, food processing, and data entry activities via satellite – and created an environment that investors saw as reliable, secure, and competitive. To do so, they examined markets from the perspective of the firm, and attempted to eliminate obstacles that undermined firm competitiveness, such as license requirements, slow and corrupt customs administration, high tariff rates, and poor infrastructure. In most cases, they did not try to solve these problems for the whole economy at once, but rather created an enclave (e.g., through an EPZ) where at least some firms could be competitive, and then worked to see the enclave spread throughout the economy over time.

This strategy is not the same as “industrial targeting,” in which government officials pick *specific firms* to receive special assistance and subsidies from the government (this strategy was tried in some – not all – of the successful countries, and had mixed results). Rather, in this strategy the government recognizes sectors in which firms could be competitive, and then works to provide a strong enabling environment for those firms. This strategy was used in various forms throughout East Asia, as well as in Mauritius, Tunisia, the Dominican Republic, Costa Rica, and several other countries. Note that these countries were most successful in areas that were broadly consistent with their comparative advantage (labor intensive manufactures), and much less successful in areas far from their comparative advantage (more capital intensive activities). In other words, government actions pushed in the same general direction as market forces and were designed to make markets work better (e.g., inside an EPZ) rather than pushing against basic market forces.

4. ***Strong Institutions for Governance.*** The most effective governments established institutions that helped facilitate (rather than hinder) strong economic management, effective social programs, and a robust private sector. Governance in the most rapidly growing countries varied widely from very effective (Singapore, Botswana) to more mixed (Indonesia and Thailand), but generally was better than in most developing countries. At lower growth rates, the quality of governance was weaker,

¹ A bonded warehouse is a firm that puts up a bond in lieu of paying import duties on inputs for exports. The bond is claimed only if duties become payable (e.g., if the firm fails to export). This method minimizes the need cash transactions. Unlike an EPZ, bonded firms can locate anywhere.

but still generally better than for most low-income countries. In the rapidly growing Asian countries, government financial institutions generally were capable, including the central bank and the budget authorities in the ministry of finance. Most governments substantially improved their customs clearance procedures over time (at one point, Indonesia essentially privatized its customs clearance process). Levels of corruption, on average, were lower than in other developing countries (although they were high in several of the countries). Importantly, there was much less corruption and red tape in the most vibrant sectors of the economy, especially in the institutions working with manufactured exports (e.g., in the EPZs and duty exemption offices).

Also, many of the most successful countries developed a small cadre of highly trained and effective economic technocrats that guided economic policymaking. Indonesia's "Berkeley Mafia," for example, was a small group of economists trained (mainly) at the University of California at Berkeley starting in the late 1950s (when Indonesia was still extremely poor, unstable, and un-integrated with the world economy) that went on to hold key positions from the early 1970s through the mid-1990s and spearheaded that country's rapid development. Similar groups of technocrats could be found in the other successful Asian countries, as well as some countries outside the region, such as Chile. Importantly, these economic decision makers were protected by their presidents from political pressures that might have undermined difficult decisions, which made them more effective in macroeconomic management and in introducing reforms that affected vested interests.

In considering these broad components of economic management, three further points should be emphasized. First, the most successful countries *did not get everything right all at once*. Korea and Taiwan, for example, achieved extraordinary development success during the past forty years, but they did not solve all of their problems right away. In both countries there are still weak institutions, problems with corruption, and some specific markets that do not work well, but governments were able to put into place the most important changes to launch remarkable growth and poverty reduction *despite* these weaknesses. This is quite different from the World Bank's "Comprehensive Development Framework" in which countries are urged to tackle a wide range of development problems essentially all at once. None of the successful countries followed an approach similar to the Bank's CDF. There are two basic problems with low-income countries trying to solve all major problems at once. First, because of capacity constraints (especially the number of capable senior staff) it isn't possible to address all major problems simultaneously, and trying to do so runs the risk of not dealing effectively with any problem. Second, some problems (such as developing infrastructure throughout the country, building a strong judicial system, or training more staff) take many years to solve. Thus, the successful countries tended to focus on getting *enough* things right for at least *part* of the economy to get sustained economic growth started. The concept of an export enclave is consistent with this approach: get one sector of the economy functioning well, and then spread it over time. Shang-Jin Wei (2000) has proposed a similar approach for governance. He suggest that countries establish a Special Governance Zone (SGZ): a geographically limited area within a country in which the government introduces a comprehensive package of civil service reforms, redefines

the role of the government in the economy, strengthens the rule of law, and enhances citizen's voice.

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

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

Empirical evidence suggests the importance of the four broad elements outlined above in distinguishing fast-growing from slow-growing economies. Table 2 is drawn from Radelet, Sachs, and Lee (2001), which estimates the relationship between growth in real per capita GDP and 12 independent variables for 78 countries around the world (rich and poor) between 1965-90. The table does not show the results of the estimation per se, but rather a "growth accounting" exercise based on the estimation results that shows the contribution of each of the variables to the differences in grow rates between East and Southeast Asia and other regions of the world (South Asia, sub-Saharan Africa, and Latin America). For example, South Asia's average growth rate over the period was 2.9 percentage points per year lower than East and Southeast Asia's growth rate (as shown at the top of the first column). South Asia's lower government savings rate – a broad indicator of macroeconomic policy – accounted for 0.4 percentage points of the difference. Lower levels of education accounted for 0.2 percentage points of slower growth. Much lower life expectancy in South Asia (49 years in 1965 as opposed to 56 years in South and Southeast Asia) was associated with slower growth of 0.5 percentage points. South Asia was much less open to trade, on element of a robust private sector, and by this estimate that slowed growth by 1.2 percentage points per year relative to East and Southeast Asia. Finally, poorer institutional quality² in South Asia slowed growth by 0.5

² The institutional quality index is drawn and updated from Keefer and Knack (1995), which in turn is based on data from Political Risk Services' *International Country Risk Guide*. The index is an average of five survey-based indicators of institutional quality including (i) the perceived efficiency of government

percentage points. Altogether, these variables accounted for 2.8 percentage points of slower growth in Asia -- essentially all of the actual difference of 2.9 percentage points.

International Support

There is little question that the main responsibility for accelerating development lies with the governments of poor countries themselves, which must put in place appropriate policies and institutional frameworks and make the sometimes difficult decisions necessary to ensure full implementation. However, poor countries themselves, especially the poorest countries, cannot achieve sustained economic development and poverty reduction without the cooperation and assistance of the international community. World leaders from both rich and poor countries recognized the need for a new two-way partnership at the International Conference on Financing for Development in Monterrey, Mexico, in March 2001. Heads of State attending the conference, including U.S. President George Bush, adopted the “Monterrey Consensus” that contains commitments by all countries for specific actions to help low-income countries achieve the “Millennium Development Goals,” a series of specific targets aimed at reducing global poverty substantially by 2015.³ As part of the Consensus, the industrialized countries committed to taking steps in a range of areas, including trade (especially in improving market access and reducing agricultural subsidies), investment, debt relief, and official development assistance (ODA).

Official Development Assistance

Donor commitments at Monterrey came in two parts. First, donors committed to increasing the *quantity* of aid. The Consensus reaffirmed the international community’s goal, first made in the late 1960s, of ODA flows reaching 0.7% of donor GNP. Specifically, the heads of state agreed to “urge developed countries that have not done so to make concrete efforts towards the target of 0.7% of gross national product (GNP) as ODA to developing countries” (paragraph 42). Current global aid falls woefully short of that level, amounting to an average of about 0.23% of donor GDP. As shown in Table 3, the United States, while providing the largest amount of ODA of any donor country, gives by far the smallest amount as a share of its income. US ODA was just 0.13 percent of US income in 2002. The next lowest level amount the donor countries was Italy at 0.20 percent, more than half again the US level. Moreover, global ODA levels have been falling sharply during the 1990s. Donors on average provided aid equivalent to 0.33% of their income in the late 1980s, but the figure now is about one-third lower. U.S. foreign assistance has fallen from 0.19% of US income to its current level of 0.13%. Even the Bush administration’s new proposals to increase aid to fight HIV/AIDS and for the Millennium Challenge Account will not restore US aid to its Cold War levels. The fall in donor disbursements is reflected in a sharp decline in recipients by low-income countries:

bureaucracy, (ii) the extent of corruption, (iii) efficacy of the rule of law, (iv) the extent of expropriation risk, and (v) the perceived risk of repudiation of contracts by the government.

³ The text of the Monterrey Consensus can be found at <http://www.un.org/esa/ffd/0302finalMonterreyConsensus.pdf>

aid per capita in Africa fell from \$34 to \$21 per African between 1990 and 2001 (UNDP, 2003).

Second, donors committed to improving the *quality* of aid. The record on aid effectiveness is mixed at best. Some aid programs have been highly effective (such as programs to increase child immunization or to fight river blindness) while other aid programs have had little effect. Some aid programs can even be damaging by distorting prices, encouraging corruption, or helping to sustain poor governments in power. The Monterrey Consensus acknowledges that donors must significantly improve the way they deliver aid to make it more effective. There are many ways that donors can improve the quality of aid (Radelet, 2004). The key issues can be summarized as follows:

- ***Improve the allocation of aid.*** There is a growing consensus that ODA is most effective in reducing poverty and supporting economic growth when it is aimed at countries with the deepest poverty and with strong policies and institutions that support economic development. Aid given for political purposes to countries with poor governance -- such as for Cold War allies -- has had little development effect, whereas aid provided to countries with better governance and a commitment to strong development policies -- such as Korea, Botswana, or Thailand -- has had a stronger impact. Donors have made some progress in improving the allocation of aid in recent years, but much greater progress is possible.
- ***Reduce the amount of “tied” aid.*** Most donors still require that significant amounts of aid be spent on goods and services purchased in the donor country itself. This practice reduces the flexibility of aid, and by some estimates, adds 15-30% to the costs of aid delivery. Reducing the amount of tied aid would increase the amount of goods and services that could be purchased for a given quantity of aid, thereby improving its effectiveness.
- ***Improve donor coordination and harmonization.*** Almost every donor has its own project design system, monitoring mechanisms, and reporting requirements. Lack of donor coordination puts a heavy burden on recipient countries, which can be swamped with countless donor “missions” and endless paperwork. According to the World Bank, some recipient countries have as many as 800 donor-funded activities starting each year, host more than 1,000 donor missions, and prepare over 2,400 progress reports.⁴ The Bush administration’s two new aid programs, the Millennium Challenge Account and the AIDS Emergency Plan, may add to donor harmonization problems by creating new systems on top of existing ones.
- ***Better align aid delivery with the realities on the ground in different kinds of recipient countries.*** Aid delivery mechanisms should differ significantly between well-governed and poorly governed countries. For example, in well-governed countries donors should provide most of their aid as long-term commitments for budget support to the central government, whereas in poorly governed countries, smaller, shorter-term projects implemented by non-government organizations (NGOs) are more appropriate. Donors must hone much more differentiated strategies to match the particular circumstances of the recipient, some of which will require significant shifts in donor organizations (Radelet, 2004).

⁴ See “Aid Harmonization for Increased Development Effectiveness,” <http://www1.worldbank.org/harmonization/>

Trade

Trade policies in rich countries are highly discriminatory against the major products produced in poor countries, especially textiles and agriculture. Rich countries continually urge poor countries to adopt more liberal trade policies, while the rich countries themselves restrict access to their own markets. The structure of tariffs and quotas in high income countries restrict trade much more from poor countries than from other rich countries. Further opening of markets in the high income countries would provide substantial increased economic opportunities for producers in developed countries. Estimates of the precise impacts vary, but most studies suggest that just the static gains (assuming changes in prices but no change in market structures) would be similar in size to current levels of foreign aid (UNDP, 2003). Three areas, in particular, warrant attention:

- **Reduce tariffs.** The U.S., Europe, and Japan tend to apply higher tariffs to the products that poor countries produce than on the products rich countries produce. The average OECD tariff on manufactured goods from low-income countries is about four times higher than on manufactured goods from rich countries. For example, Bangladesh exports about \$2.4 billion to the U.S. each year and pays an average tariff of around 14%, while France exports \$30 billion and pays just 1% in tariffs (UNDP, 2003).
- **Eliminate quotas.** Rich countries have promised to phase out by 2005 the multi-fiber agreement, which has imposed stringent quotas on developing country textiles exports for many decades. This change will help some low-income country producers and hurt others (especially less competitive producers from countries with larger quotas), but overall will be a large benefit to poor countries. Doubts remain, however, about the seriousness of the OECD countries to fully phase out these quotas by 2005.
- **Reduce export subsidies.** OECD agricultural subsidies amount to more than \$300 billion per year. These subsidies give farmers in wealthy countries a significant advantage over their competitors from low-income countries. They also encourage global overproduction, which lowers world prices and reduces profits for exporters from low-income countries. For example, United States cotton subsidies are three times larger than the entire U.S. foreign aid budget, and impose significant costs to cotton producers in some of the poorest countries in the world, including Burkina Faso and Mali. Subsidies for groundnuts, sugar, dairy products, beef, and other products have similar impacts.

Conclusions

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

regard, donor prescriptions are at times too precise and do not leave enough flexibility for local conditions. However, strong policies and institutions are not sufficient, in and of themselves, to assure sustained development. The international community can support development through more and better foreign assistance, and by opening their markets further to goods and services produced in poor countries. While development remains a significant challenge, there is reason for hope: the welfare of billions of people in some of the poorest countries in the world has improved significantly in recent decades. The challenges going forward are to continue the process of development in these countries, and to spread the gains from development to other countries that so far have achieved much less success.

Table 1: High growth countries and their human development indicators, 1960-2001

Country	GDP per capita			Life expectancy at birth			Infant mortality			Adult illiteracy rate			Population	
	1990 int'l dollars			(per 1,000 live births)			(per 1,000 live births)			Adult illiteracy rate			(millions)	
	1960	2001	growth	1960	2001	change	1960	2001	change	1970	2001	change	1960	2001
1 Korea, Rep.	1,105	14,673	6.5	54	74	19	85	5	-80	13	2	-11	25	47
2 Botswana	403	4,552	6.1	47	39	-8	118	80	-38	54	22	-32	0	2
3 Taiwan	1,492	16,214	6.0		76			6			9		11	22
4 Singapore	2,310	21,011	5.5	64	78	15	35	3	-32	27	7	-20	2	4
5 Oman	935	6,926	5.0	40	74	33	212	12	-200	81	27	-54	1	2
6 Thailand	1,078	6,383	4.4	53	69	16	103	24	-79	20	4	-15	26	61
7 China	673	3,583	4.2	36	70	34	132	31	-101	47	14	-33	667	1,272
8 Malaysia	1,530	7,756	4.0	54	73	18	73	8	-65	42	12	-30	8	24
9 Mauritius	2,777	11,318	3.5	59	72	13	67	17	-50	33	15	-18	1	1
10 Lesotho	458	1,705	3.3	43	43	0	137	91	-46	36	16	-20	1	2
11 Cape Verde	508	1,812	3.2	52	69	17	108	29	-79	61	25	-36	0	0
12 Tunisia	1,343	4,710	3.1	49	72	24	170	21	-149	73	28	-45	4	10
13 Indonesia	1,019	3,256	2.9	41	66	25	128	33	-95	44	13	-31	94	209
14 Egypt, Arab Rep.	991	2,992	2.7	46	68	22	189	35	-154	68	44	-25	26	65
15 Pakistan	647	1,947	2.7	44	63	20	139	84	-55	79	56	-23	46	141
16 Dominican Republic	1,302	3,651	2.5	52	67	15	102	41	-61	33	16	-17	3	9
17 Swaziland	935	2,610	2.5	40	45	4	150	106	-44	51	20	-32	0	1
18 Sri Lanka	1,300	3,562	2.5	60	73	13	83	17	-66	20	8	-11	10	19
19 Yemen, Rep.	964	2,594	2.4	36	57	21	220	79	-141	86	52	-34	5	18
20 Turkey	2,247	6,033	2.4	50	70	19	163	36	-127	44	14	-29	28	69
21 India	753	1,957	2.4	44	63	19	146	67	-79	67	42	-25	435	1,032
Average Total	1,180	6,155	3.7	48	66	17	128	39	-87	49	21	-27	66	143
													1,393	3,011
United States	11328	27948	2.2	70	78	8	26	7	-19				181	285
World	2,605	5,626	1.9	50	67	16	119	56	-63				3,021	6,130

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

Table 2. Contributions to Growth Differentials Between East/Southeast Asia and Various Regions, 1965-90 (percent, annual average)

Contribution of each variable to the difference in per capita growth relative to East/Southeast Asia

	South Asia	Sub-Saharan Africa	Latin America
Policies, Institutions, and Human Capital	-2.8	-3.4	-1.8
Government Savings Rate	-0.4	-0.1	-0.3
Adult education levels	-0.2	-0.4	-0.1
Life Expectancy	-0.5	-1.3	0.1
Openness	-1.2	-1.2	-1.0
Institutions	-0.5	-0.4	-0.5
Other Factors	0.3	-0.6	-2.1
Initial GDP per capita	0.5	1.0	-1.2
Natural Resources Exports/GDP	0.1	-0.2	-0.2
Landlocked	0.0	-0.3	-0.1
Tropics	0.5	-0.2	0.0
Coastline/land area	-0.3	-0.3	-0.3
Growth in Working Age Population	-0.3	0.1	-0.2
Growth in Total Population	-0.2	-0.7	-0.1
Difference in:			
Predicted Growth	-2.5	-3.9	-3.8
Actual Growth	-2.9	-4.0	-3.9

Note: The ten economies in our sample from the East/Southeast Asian region are Hong Kong, PRC, Singapore, Korea, Taiwan, Thailand, Malaysia, Indonesia, the Philippines, and Papua New Guinea.

Table 3. ODA Disbursements from Major Donors

	\$ million		Per cent of GDP				
	2001 actual	2002 actual	1987-1991 average	1992-1996 average	2000	2001	2002
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Australia	873	989	0.38	0.33	0.27	0.25	0.26
Austria	533	520	0.18	0.18	0.23	0.29	0.26
Belgium	867	1 072	0.44	0.36	0.36	0.37	0.43
Canada	1 533	2 006	0.46	0.41	0.25	0.22	0.28
Denmark	1 634	1 643	0.92	1.02	1.06	1.03	0.96
Finland	389	462	0.65	0.40	0.31	0.32	0.35
France	4 198	5 486	0.60	0.58	0.32	0.32	0.38
Germany	4 990	5 324	0.40	0.33	0.27	0.27	0.27
Greece (c)	202	276	..	0.15	0.20	0.17	0.21
Ireland	287	398	0.18	0.25	0.29	0.33	0.40
Italy	1 627	2 332	0.35	0.25	0.13	0.15	0.20
Japan	9 847	9 283	0.31	0.26	0.28	0.23	0.23
Luxembourg	139	147	0.23	0.37	0.71	0.76	0.77
Netherlands	3 172	3 338	0.93	0.81	0.84	0.82	0.81
New Zealand	112	122	0.24	0.23	0.25	0.25	0.22
Norway	1 346	1 696	1.12	0.97	0.76	0.80	0.89
Portugal	268	323	0.23	0.28	0.26	0.25	0.27
Spain	1 737	1 712	0.16	0.25	0.22	0.30	0.26
Sweden	1 666	1 991	0.90	0.91	0.80	0.77	0.83
Switzerland	908	939	0.32	0.36	0.34	0.34	0.32
United Kingdom	4 579	4 924	0.30	0.30	0.32	0.32	0.31
United States	11 429	13 290	0.19	0.14	0.10	0.11	0.13
TOTAL	52 335	58 274	0.33	0.29	0.22	0.22	0.23

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