ISSUES IN DEVELOPMENT
Discussion Paper

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Reflections on South Asian prospects in East Asian perspective

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ISBN 92-2-110049-9

Preface

A wide gulf separates South Asia, where one half of the world's poor lives, from East Asia, where one of human history's most remarkable struggles against poverty has been waged over the past four decades. This contrast raises the inevitable question as to what lessons in the East Asian experience may be of value to the countries in South Asia in *their* struggle against poverty. The question is all the more important as the world of the 1990s is far different from the world of the 1950s and 1960s when most East Asian countries initiated their successful development efforts. It is with a view to assessing the replicability of this experience in the context of rural South Asia that the ILO has commissioned this paper by Professor Ashwani Saith within the framework of its work on comparative experiences of development.

The present global context is characterized by the ascendancy of market-led, export-oriented development strategies, justified in part by the experiences of several East Asian countries in the post-war period. Considering a number of key elements of the East Asian development model, Professor Saith argues that while there is much in the East Asian experience which is highly instructive, the new orthodoxy mistakes symptoms and outcomes for causes, overlooks some crucial structural and circumstantial factors, and consequently draws the wrong lessons from those remarkable episodes. In doing so, it overlooks some crucial constraints which a similar strategy could encounter in the South Asian region. Among the more important constraints are the sluggish growth of the world economy, the limited prospects for substantial increases in foreign direct investment, and the difficulties of further increasing the flexibility of labour markets.

In view of such constarints, Professor Saith explores supplementary, if not alternative, policy options for the regeneration of dynamic growth processes that are sustainable and equitable. These options involve wider, domestic, bases of growth, in particular in the case of the larger South Asian economies. The role of agriculture in this context is discussed in some detail and a strong, but revised role for the state is noted.

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I. The fundamentalist narrative

Development models: The end of diversity

This paper is intended to provide a policy-oriented review of the question of rural poverty in Asia within the frame of reference set by the present global context. It is obvious that one key element of the latter is the emergence and rise to unconditional dominance of the discourse and strategy of free-trade, market-led, globally-oriented economic development. For a boxful of reasons -- not to be opened here -- the socialist alternative has been unable to live beyond the life expectancy of the average soviet worker who ushered it in. The third-world *alternative*, or à la Gerschenkron, alternative *route* to capitalist development, has likewise managed to resist collapse for not much longer than the longevity of *its* average citizen. These systems, tottering as they were in most of the countries practising them, did not fall without some pushing. Enforcement of stabilization, structural adjustment and economic and political reform programmes across the board in these countries is viewed, in neo-Schumpeterian style, as the first painful stage of a process of creative destruction of the distorted structures and barriers of the past.

The key features of these related programmes are well known and do not need detailed recounting. The basic manifesto could be rendered thus. State intervention in markets, whether through interference with price formation processes, or with the free flow of resources between users and uses, has to be rolled back; state ownership in the enterprise sector needs to be phased out through programmes of privatization; overvalued exchange rates and other external sector distortions have to be removed so as to allow an accurate and effective transmission of international economic signals to domestic resource users; bloated, rent-seeking government bureaucracies and administrative structures need to be cut down to size; institutional and other rigidities in factor and product markets need to be overcome -- this could involve sorting out labour aristocracies and their selfishly protective unions in the organized sectors of the economy; subsidization of social services has to be cut out as well and be replaced by cost-recovery systems; other forms of subsidization also need to be phased out, e.g., those which characterize agriculture globally; the free flow of capital internationally has to be underwritten (though similarly strong statements about simultaneously lifting restrictions to the international mobility of labour have yet to be noticed); and these economic freedoms have to be backed up by civil society institutions associated with a pluralistic electoral democracy; which in turn emphasizes respect for human rights, understood here to mean not the unquestionable right, albeit nominal, of every citizen to the fulfilment of basic minimum material and social needs of life but the right to participate in the electoral process.

Structural adjustment and economic reforms have the objective of restoring or, more accurately, converting the economy to a free-market situation. This conversion is itself deemed to constitute a full-blown development strategy, indeed the optimal one at both national and global levels. Leaving aside internal disagreements concerning the optimal sequencing of the various components of different packages, or of gradualism versus the big-bang, it is held as an axiomatic truth that the post-reform economy would achieve dramatic growth through the removal of the old inefficiencies. Resources would flow from a protected and inefficient public sector (administration and enterprises) into a competitive private sector, as a result of an economic reform package; from the protected domestic market into exports, once price distortions and trade restrictions in the external sector were dismantled; and from distortion-subsidized capital-intensive industries into labour-intensive ones, once domestic factor price and related distortions were removed and factor market rigidities, especially those in the labour market, were swept away.

It is useful to make a distinction between the period and act of adjustment and the open ended period thereafter. The former could well lead to a reduction in output, especially when

accompanied by sharp stabilization programmes which curtail government spending. The rewards come later, in the form of a growth performance which combines speed, efficiency and equity. Notionally then, there are two different sources of growth which are released. The first involves moving from a point within the production possibility set onto the point of economic efficiency on the frontier; this implies the adoption of undistorted prices as signals, and allowing the market to redeploy domestic resources according to these criteria. The second, and more important one, posits a rapid shifting out of the frontier on account of a superior efficiency of capital. This gain could be augmented to the extent that reforms induce a higher rate of domestic investment or inflows of foreign private capital. The revised role of the state has therefore to be focused on this agenda, a liberal variation on the Marxian theme of the withering away of the state.

Global medicine also best for alleviation of poverty

This model of the open, undistorted market as an optimal development strategy is also held to be the best method of poverty alleviation. The new orthodoxy also calls for a change of the norms of social values, away from an ethos of "paternalistic egalitarianism" to a new crisp-cash culture of private incentives and individual rewards, assuming implicitly that this is the only reliable and efficient way of motivating people. However, it is at pains to argue that the difference with alternative systems is not with the goal of the removal of poverty, but with the inefficient and misguided means adopted in the past for achieving this objective, namely, through extensive state intervention in a protected economy. On the one hand, it encourages the enhanced use of labour, the abundant factor, through reducing its relative price; on the other, it provides the conditions for a faster, longer-term growth rate of the economy. The two conditions together maximize the speed at which unemployed and underemployed labour are absorbed in the efficient, dynamic, productive core of the economy. Thus both the pace and, as importantly, the *nature* of the growth process (the latter attribute defined in terms of the linkages of the growth with the capabilities of the poor) favour the poor.

The model is, par excellence, trickle-down. If the socialist and the Lewis-Mahalanobis type industrialization strategies provided the first generation of Industry-led Trickle-down model, and the Mellor-Lipton-Adelman-Ahluwalia strategy argued, whether explicitly or implicitly, for an Agriculture-led Trickle-down growth process, this new thinking is explicit about a third generation Export-led Trickle-down strategy.

The reasoning is straightforward. Correction of factor price distortions will make labour-intensive exports more profitable and competitive and this will accelerate the overall growth rate of the economy leading to a faster take-up of surplus labour. Alongside this, the withdrawal of the public sector from the "commanding heights" of the economy, and its displacement by the private sector will boost the efficiency of capital, thus again raising the growth rate. Economic reforms and an open economy will induce foreign direct investment (FDI) (which by definition is held to be both competitive and export oriented) and this will raise the rate of investment in the economy, thereby again imparting an expansionary impulse. All these factors will raise the rate of labour absorption in the economy, and thus hasten the arrival of the turning point in the labour market. For all this to happen, though, it is crucial that the labour market be flexible and unregulated, with no downward institutional stickiness in the wage rate, and no obstacle to the free transfer of resources -- labour, capital and other -- from the old sectors being competed out to the new ones being ushered in in the global investment process. The focal point for all this remains the labour market. Since the reforms work generally in favour of the interests of capital, it is in the labour arena that difficulties are expected. And so the success of the export drive, amongst other things, gets linked closely to the creation of labour market flexibility.

In a sense, this is paradoxical, since this makes the success of export-led growth in alleviating poverty contingent upon reducing the returns to labour. The answer, within the paradigm, is that doing this widens the access to employment and retains labour-based international competitiveness for longer. When the surplus-labour slack has been roped in, the tightness of the labour market begins to raise the supply price of labour, thereby adding a second factor -- apart from increasing levels of employment -- in the trickle down process.

The argument thus becomes circular: cheap, flexible labour becomes critical for the success of the export-led strategy; in turn, this export success is the springboard for overall macroeconomic growth; when this occurs, the flow of benefits to labour are increased. It follows that if there is a policy recommendation for labour to be held as long as possible to low remuneration levels, this is in its own longer term interest. In a sense, this argument is analogous to the waiting game to which the poor were subjected under Lewis-Mahalanobis industrialization strategies -- the difference is in the leading sector which was to act as the prime mover of the development process: under Mahalanobis it was the inward looking capital goods sector; here it is the outward oriented export sector.

In a more pragmatically inclined version, an additional trickle-down channel is provided which runs from the public exchequer to the poor in the form of specially targeted poverty-alleviation programmes. The volume of flows in this channel depends directly on the buoyancy of government revenues, which in turn depends on the pace of economic growth rather than on cripplingly high tax rates. So in the end, the second fail-safe channel is also dependent for its effectiveness on the success of the overall macroeconomic strategy, i.e., on the success of export-led growth.

Universalizing the East and South-East Asian model

The validity of this view is then usually claimed citing the well-known East and South-East Asian (ESEA) success stories. The case is generally strengthened by reference to the exceptional dynamism of the post-reform Chinese economy. The new, universally-recommended strategy to poverty stricken developing economies thus becomes one of the meticulous emulation of the key principles on which these Asian successes are said to have been based; this standardized prescription and blueprint of market economy and society provides economic substance to the one dimension of globalization. The uniqueness of this solution implicitly precludes the possibility of other "alternatives", since these would all be deviations from the inviolable principle of the free market, and hence axiomatically less efficient than it. Superior symptoms could perhaps be generated, but since these would involve unsustainable state intervention, they could not be more than temporary in nature. As such, the way to the future for the lagging (mostly South) Asian economies lies through taking to the proven path of labour-intensive, export-oriented, market-led growth as exemplified first by Japan, then by the four East Asian tigers, and more recently by their three South-East Asian cubs.

The remarkable statistics of the growth trajectories of these three generations leave little room for querying their success whether in terms of sustained high rates of growth of per capita GDP (Table 1), or in terms of the sharp reduction in the incidence of poverty (Table 2). The adequacy of this performance with respect to meeting the incremental food and employment requirements of the population is considered in Table 3. With the inevitable odd exception of particular subperiods, the numbers bring out a sharp contrast between South Asia and East or South-East Asia. It is clear both the notional relative food gap as well as the employment gap have poor values for most South Asian economies for most subperiods, whereas the opposite is true for the other economies. The drift of the relative food gap into negative values in the East Asian

economies is more a sign of maturity than an indication of weakness; more relevant are the impressive positive values in the earlier decades of their industrialization drive. The Chinese trend in the values for the relative food gap could provide legitimate grounds for some apprehension, however; it is arguable that it is premature.

On account of their geographical proximity, their earlier intellectual and systemic resistance to the use of the market as a development agent, and the persistence of structural economic problems alongside significant levels of poverty, the South Asian economies have had this global message brought home to them with special vigour. The market-led, labour-intensive, export-led growth model being advocated and now assiduously followed in South Asia derives its legitimacy and attractiveness partly from the perceived failures of the state in the past "four lost decades" of Nehruvian-Mahalanobis type of planned development, and partly from the projected and anticipated successes of the market in creating the successes of the East.

The rest of the paper is structured as follows. It will be argued in the following section that while there is much in the East Asian experience which is highly instructive, the grand narrative of the new orthodoxy provides a serious misreading. It mistakes symptoms and outcomes for causes, overlooks some crucial structural and circumstantial factors, and consequently draws the wrong lessons from those remarkable episodes. In doing so, it overlooks some crucial constraints which a similar strategy could encounter in the South Asian region. The obstacles in the way of the successful replication in the South Asian environment are discussed in Section III. To the extent these qualifications or objections are valid, there emerges the need and the space to explore supplementary, if not alternative, policy options for the regeneration of dynamic growth processes that are sustainable and equitable. Some missing and alternative strategic elements are addressed in Section IV which also comments on the population question.

The central motivation of this paper is in assessing the adequacy of the new growth strategy with respect to the alleviation of poverty. It is not intended to provide yet another foray into the statistics on poverty in order to come to fine judgements about levels and trends. In this regard, very broad stylized and indicative conclusions drawn from the data are adopted. The focus is at a strategic rather than at a programmatic level. It will be obvious that in the present context, the route to identifying and analysing strategic and policy issues pertaining to rural poverty must traverse wider macroeconomic and even global terrain. Such a macro approach to this sector-specific question is deemed necessary and unavoidable. The alternative of limiting the canvas to a discussion of specific programmes of intervention for the alleviation of rural poverty has its role, but if not located and interfaced with such a broader approach, it could be blinkered, passive, and even counterproductive.

II. East Asia: Some heretical verses

The visible hand of the state

The operation of the free market was as much a myth in East Asia as it was anywhere else in the world. The role of the state in initiating and managing the development process was so pronounced in this region that it became a point of issue only when neo-liberal development thinking adopted the East Asian successes as an example of market-based export led growth. There is now a mushrooming literature which incontrovertibly demonstrates the far-reaching nature of state intervention as a key ingredient of the "market" miracle. It is only in the fundamentalist narrative now that the original fallacy is still maintained. The state was fully implicated in the business of picking winners and losers, and in managing the market. The point is that it did the job well, not that it left it to an abstractly defined market where state intervention does not exist by

definition.

A related notion worth noting is the role of competition. If competition was important, it was not so much between large numbers of internal producers fighting each other as much as between monopolistic internal producers competing, with a good deal of non-market backing, in external markets. This point again should surprise few, and would hardly be worth making except in the context of the extreme received interpretations of the miracle.

Again, the grand narrative creates the illusion that these economies eschewed import substitution behind tariff barriers altogether, and effectively grew from the start on the basis of an internationally competitive export drive. This is false as well. An extensive period of import substitution preceded the shift into exports. Korea is as good an example of the relevance of the infant industries argument, or of a government picking industrial winners as can be found; as such it is odd to cite it as an example of the opposite. The lesson to learn is not that import substitution is a bad thing; rather, the question to ask is how the East Asian economies managed a relatively smooth switch from the import substitution phase to the export oriented one. Posing the question thus, say, in the Indian context, would sharpen the understanding of the factors which prevented this from happening at an appropriate period. Thus, the fundamentalist re-writing of the history of the Indian (or any other) import substitution drive as four lost decades reveals a lack of understanding of the linkages between these two phases of industrialization in the South Asian context.

Three observations are necessary with respect to the key issue of successful switching from import-substituting to export-led growth. First, South Korea and Taiwan, Province of China, both enjoyed special trading privileges with the United States, one of their main markets for exports. This was again a political factor. Second, Korea and Taiwan, Province of China, were both second round travellers on the product cycle and had the benefit of following the original Asian pioneer, Japan. In the massive transfer of Japan's vast export markets in textiles (and subsequently electronics, etc.) to Korea and Taiwan, Province of China, some credit no doubt accrues to the recipients of the Japanese hand-me-downs. But the major factor behind the Japan's loss of competitiveness in these labour-absorbing industries was the fact that from the late-1950s, Japan had reached the Lewisian turning point in the labour market. Not without Japanese assistance and investment, the space vacated by Japan was taken over by the two followers. At that point in time, there was no other credible claimant or competitor in South-East Asia. What is of prime significance is the size of this (and later, other) inherited or transferred export markets relative to the size of the industrial sector and the economy as a whole. The transformative power of this export legacy was quite phenomenal, as indeed it had been in the Japanese case many decades earlier. The combined population of the two receiving countries was then little more than one-half that of Japan. The third point is a speculation over the role of the size of the economy. Extremely small economies encounter difficulties arising from the mismatch between the scale requirements of efficient production in many industries and the smallness of the local market. On the other hand, in very large economies export inertia could arise from the easy outlet that domestic markets can provide, whether with natural or other protection. It is worth asking whether many South East Asian economies avoid both these problems. Any entrepreneur planning an investment would, from the stage of product selection and project design itself, have constantly to use international competitiveness as a criterion, since not doing so would imply loss of long term growth.

A relevant factor with regard to market openness is the question of non-price trade barriers. The East Asian cases have all benefited in one form or another from the prevalence and the artful maintenance of such obstacles to competitive imports. This brings in a key point which is also side-tracked in the neo-liberal rendering: viz., that while foreign competitive imports faced such

barriers, the East Asian cases experienced a highly favourable external economic environment, comparatively speaking, in their crucial phases of industrialization. This took several forms, some of which have been replicated in the second generation South-East Asian cases, but few if any of which are in evidence in contemporary South Asia. First, there was favourable access to the markets of the capitalist world, particularly from the USA. Second, South Korea and Taiwan, Province of China, were recipients of an extraordinarily high and (with the exception perhaps of Israel) unprecedented inflow of foreign resources. This inflow was politically motivated, not spontaneously or commercially attracted. With the Korean War and partitioning, the south was shorn of almost all industrial strength; it also suffered from mass poverty. Having the space to build afresh with the assistance of foreign aid and technical support has been deemed to have been an advantage, rather like that thought to have been gained by parts of Western Europe, especially West Germany, through the Marshall Plan. Korea thus created its new points of comparative advantage, and they were not all labour-intensive sweatshops either. Third, there were no effective restrictions with respect to the protection of intellectual property rights vested in advanced economies. Indeed, some crucial spin-offs in the export market were in the booming "fake" parts industries. The skill creation contributions of this phenomenon were significant. Fourth, within the framework of the product cycle, the process of the transfer of technology was relatively unproblematic.

Most importantly, these two economies had the advantage of being early followers when they did not have to contend with a host of close competitors. For instance, the textile markets inherited by South Korea and Taiwan, Province of China, were divided up largely between themselves. This is in sharp contrast to the situation now. Thus, the export industries which were successively transferred from Japan to South Korea and Taiwan, Province of China, could therefore set up a much more powerful motive force in the industrialization drive than is the case with successively later generations of followers.

Quiet contributions of an unsung hero: Agriculture

Given the up-front visibility of the differentials in the relative performance of South Asian as against ESEA economies with respect to exports, the no less significant experience of agricultural growth has faded into the background. Of course, the GDP share and/or rate of growth of the non-agricultural sector could be so high as to reduce the issue of agricultural growth to a secondary level. But this can hardly be said to hold for the Asian region at present, leaving out the city-states. (For Korea and Taiwan, Province of China, what is perhaps more important is their agricultural performance at a somewhat earlier stage, when the GDP share of this sector was more comparable with that observable currently in South Asian economies.) In general, agricultural growth has far closer linkages with the alleviation of rural poverty. The question is the extent to which the relatively rapid decline in rural poverty in several Southeast Asian economies can be attributed to export performance. The folklore of export-led growth makes hardly a reference to any significant contribution from agriculture in this process. A brief comparative review of the experience provides some clear conclusions.

Taking paddy yields as one important indicator, it turns out that some of the poorer South Asian economies, Bangladesh, India and Nepal, had some of the highest growth rates of increases of yield over the 1980s. In general, there is strong suggestion of an inverse relationship between the initial level of the rice yield, and its rate of growth, though there are some poor performers off this line.

This impact has to be read against changes in the per capita availability of arable land (Table 4). For Bangladesh, India and Nepal, much of the beneficial impact of the yield is eaten

away by a sharp reduction in this variable. For Sri Lanka, Pakistan and Myanmar, the much lower increases in yield are compounded by equally rapid declines in land availability per head of agricultural population. Within the Southeast group of four, The Philippines shows a pattern similar to Sri Lanka, Pakistan and Myanmar. The real contrast is provided by the three success stories, Malaysia, Indonesia and Thailand: here, per head land availability *rose* by 18.8, 11.8 and 23.9 per cent over the 1965-88 period. The strongest performer then was Indonesia, with an increase of rice yields of 2.8 per cent per annum and a rise in land availability of 0.5 per cent per annum. Korea shows the highest rate of increase of land per head of agricultural population, but this is no doubt strongly assisted by the drop in the absolute size of the agricultural population.

Agricultural performance in terms of the annual growth of agricultural production per capita provides some evidence of a break when comparing South with South-East and East Asia (Table 5). For South Asia, of the six countries, only Pakistan displays positive rates for each of the three decades. Of the 18 entries, as many as eight are negative, and only four equal or exceed 1 per cent, the highest being 1.8 per cent. In contrast, for the seven countries listed in the ESEA group, there is only one negative reading; as many as 16 are equal to or above 1 per cent; as many as nine equal or exceed 2 per cent. The figures, indicative as they are, speak for themselves.

What is also important to realize is that (at least) in the cases of South Korea and especially Taiwan, Province of China, there was sustained high growth in agriculture for several decades prior to the point of industrial take-off in the post-War period. This agricultural foundation was part of the develop-and-exploit orientation of Japanese colonialism, where these two "agricultural provinces" were explicitly developed as agrarian supply bases for feeding the agricultural needs of Japanese industrialization. After the end of the colonial period, these relatively well-developed rural sectors served national industrialization strategies instead of the colonial rulers. The contrast could not be sharper with South Asia where meticulous empirical work points inescapably to a steady per capita deterioration in agricultural supply capabilities from the 1900-1920 period. The rural sector inherited by South Asian countries at the point of independence was far less productive, was on a downward trajectory, and had much lower levels of potentially investible surpluses per capita than in the other cases.

Relatedly, the East Asian success stories mostly had a serious land reform which removed obstacles for further agricultural growth, divided erstwhile rents partly into surplus transfers into industrialization and partly into boosting the peasants' living standards, and which created a more egalitarian agrarian institutional structure so that future agricultural growth could trickle down much more effectively to the rural poor through production-side effects, instead of having to rely on the unreliable labour market effects. This also created the base for domestic rural and local industrialization oriented towards the home economy, a sector which enjoyed natural protection from competitive imports.

The land reforms had their origins in the external domain as well, and could ironically be regarded as one of Communist China's lasting contributions to the East Asian miracle. The political thrust for reforms died in the context of The Philippines and the contrasting implications and outcomes for this country only underscore this point.

Where such land reforms have not been enacted, other special factors have fortuitously worked in favour of agricultural growth and the alleviation of rural poverty. For instance, the South and East Asian regions show divergent trends with respect to the availability of cultivable land per capita. In some other countries, sluggish rural performance was boosted by the discovery of oil. This allowed a significant transfer of resources into agricultural production subsidies; and the ensuing economic boom took up a good deal of the slack in the agricultural workforce through

the expansion of the rural non-farm sector in rural towns. Both Indonesia and Malaysia display such features.

Malaysia provides the example of yet another circumstantial factor which has contributed heavily to its growth and poverty alleviation. This is the tremendous availability of exportable natural resources, especially when reckoned on a per capita basis. Successive waves of contributions from tin, rubber, palm oil and oil kept up the buoyancy of the Malaysian economy.

Relatedly, with respect to the contribution of the growth process to the alleviation of rural poverty it is worth remembering the role of these factors other than the export-led growth process. In Malaysia, the quasi-rents of mineral and other agricultural exports made it feasible for subsidizing the poorer peasant rice sector with a clear impact on the incidence of poverty. In South Korea, the benefits of successful industrialization could also be utilized for rural subsidization.

The rates of investment, not the ICORs

The narrative argues that a major factor underlying the superior performance of the East Asian cases was the efficiency of capital. Thus, high rates of investment in India did not convert in the end into a correspondingly high rate of growth of GDP; in other words, inferior capital efficiency was reflected in a higher incremental capital-output ratio (ICOR) for the economy as a whole. The problem therefore was not so much the inability to squeeze higher rates of investment out of the economy but rather in making these investments pay. In turn, this difference in efficiency is explained in terms of the closed protected nature of the Indian economy contrasted with the openness of the ESEA economies. While there is much evidence for the inefficient ways of Indian industry, this argument needs to be looked at more carefully with respect to its interpretation of the ESEA experience.

The nature and pattern of modern technological change has rendered invalid the Lewisian dictum that a savings rate of 10-12 per cent formed the crucial threshold for breaking through economic stagnation. In general, domestic savings rates have far exceeded this level even in very many poor countries. The trouble has been largely with higher than expected incremental capital-output ratios, implying relatively low growth rates of income.

There are good reasons for not using ICORs as indicators of investment efficiency, whether in inter-temporal or in cross-country comparisons. ICORs tend to vary across countries depending on the stage and level of development, with a tendency to decline after the initial hump of the industrialization and infrastructural development drive has been accomplished. In the short term, ICORs are susceptible to variations in capacity utilization due to demand or supply side factors; they fluctuate with the size of harvests as a consequence of climatic factors; and they reflect other windfall gains or accidental losses of national income. Notwithstanding this caution, however, it is still useful to compare the rough orders of magnitude of ICORs as well as the rates of investment between the sub-groups of South-East and East Asian economies and the South Asian ones. What transpires is that the noticeable differences in growth rates of GDP between the groups are positively correlated more with differences in the investment rates and do not reflect lower ICORs, the latter showing relatively insignificant variation across the two groups over time. Without necessarily giving the investment process in South Asia a clean bill of health, the data do point to the importance of the role of resource mobilization. In some cases such as Thailand, the rate of investment rises into the mid-30s range, emulating the almost unprecedented rates displayed by China (before and after the reforms). Indeed, for the most recent years, the Thai investment rate has been in excess of 40 per cent of GDP!

Of course, one of the factors which accounts for the much higher savings and investment rates in ESEA economies is the far greater level of per capita incomes. However, this factor is only permissive in character; for this potential for high marginal rates of savings and investments to be actualized, there have to be dynamic investment agents, opportunities and processes. This introduces the role of foreign capital flows.

Data also reveal that the relative dependence on foreign savings for financing these high investment rates was not significantly higher, implying that while foreign funds received *per capita* were far higher than in South Asia, their ratio to domestically raised resources was not dramatically different across the two regions. Indeed, some South Asian countries received far more foreign resources per unit of domestic finances raised than any of the ESEA economies. There would thus appear to be different relationships linking foreign and domestic resources in the two cases. It could be hypothesized that in some of the South Asian economies, foreign resources do indeed seem to act as an alternative for domestic resource mobilization. In the ESEA cases, in contrast, it may be hypothesized that foreign resource inflows induce higher rates of domestic savings and investment, through some kind of a crowding-in effect involving a complementarity between the two types of resources. To some extent this is related to the much higher percentage of foreign resource flows that take the form of foreign direct investment in the ESEA group. To the extent that the buoyant domestic resource mobilization performance is connected with the latter phenomenon, it could still be argued that the growth process has been triggered or induced, even if not directly financed, by foreign resource inflows. It would also appear that foreign direct investments are more export oriented in ESEA and as such do not have the effect of displacing domestic production, and also that there is high rate of plough back into further investment as against repatriation. Thus, foreign capital inflows do not appear to have a predatory character. The explanation for such a successful linkage would then have to be sought both in the domestic as well as in the external economic, institutional and political environment of these economies, and the manner of their integration within the Japanese regional economic network. It is worth noting that the time profile of exports shows rather low annual growth rates for the 1950-60 decade for the four NICs (-to-be), and between 1950-60 and 1960-70 for the South East Asian group of countries that were to form the next generation of NICs. Indeed, for these two decades, their export performance is scarcely distinguishable from that of the South Asian economies deemed to be in the vice of planners marked with export pessimism. However, exports take off in the 1960s for the four NICs, and during the 1970s for the South-East Asian economies. The South Asian group also performs much better during the 1970s, but its rates only attain about half the level of the South-East Asian rates. These discontinuities in export performance in the ESEA sub-regions tend to mirror those in the inflow of foreign capital. In the South-East Asian case, this takes the form of FDIs. (See tables 6 and 7.) The evidence suggests then that the South Asian performance fell back not during the high years of the Nehruvian inward looking strategy, but rather later when foreign resource inflows first from Japan, and subsequently from Japan as well as the first generation NICs, triggered off rapid export and GDP growth in the region.

From the South Asian point of view, the relevant question then becomes how to induce such FDI inflows, and how to create an environment where these inflows do not substitute for domestic investment, but act as the agents for widening and deepening it.

Uncounted costs

Finally, the undoubtable success in terms of GDP growth rates has to be tempered with some of the uncounted social costs such as environmental degradation, human rights abuses, the sex industry and tourism in some countries, etc. Just because these are not reckoned with in the conventional framework of national accounting does not mean that they are invisible, or that they

are psychic, or that they do not have implications for the maintenance of the growth rate itself. On environmental degradation, in particular, there are several aspects to list here. For one, there is an inherent tendency for the neo-liberal growth model to accelerate natural resource exports, such as forest products, marine resources, etc. There is only a check for short term profitability, not for sustainability. Studies show that if such environmental costs are endogenized in an appropriate accounting framework, the corrected growth rate would be very considerably lower. There is already considerable evidence which shows that the market model has made the concern for sustainability a bad joke, if not a nightmare in many locales. Paradoxically, the more heavily such exports (e.g., timber) figure in the growth process, the more efficient it appears to be in terms of incremental capital output ratios, since it does not take much "to generate value added" in logging than a truck and a chain saw. A parallel argument holds validity concerning pollution, though here there might be little to choose between dirty import-substituting and dirty export-oriented industrialization.

Over-explanation, mis-attribution

The popular version of the story of export-led growth is now an indispensable part of the folklore of development. The difficulty is that this narrative conceals at least as much as it reveals. It suppresses crucial dimensions of the structural, spatial and temporal specificity of this experience, and this renders it a flawed basis for policy deductions of universal applicability. The object here is not the reinstatement of what has been polemically labelled export pessimism, but rather an enquiry into the replicability of the ESEA experience in the contemporary South Asian context. This is a crucial question, since in the new policy regime, exports are meant to act as the engine of growth in the post-adjustment phase. In turn, it is this which is meant to act as the key conduit for the trickle-down effects through which poverty would be alleviated.

It has been argued here that the diagnosis and treatment that have been advertised universally in the name of the East Asian miracle cure to chronic underdevelopment are the equivalent of quack-doctor prescriptions. The undesirable side-effects are side-tracked; in itself, this may not be such a serious problem in the (cynical) sense that many a country would willingly take on these harsh consequences if they could be guaranteed the rest of the cure as well. More significantly, the East Asian cases are treated as laboratory experiments capable of being replicated universally on the basis of a formula. This ignores the significance of historical, structural and circumstantial pre-history of success. And most significantly, the lessons that are not drawn from the ESEA experience are far more important. It is therefore possible to reconstruct alternative stories of the same phenomenon which bear little resemblance to the story of the miracle. One such has been roughly sketched here.

III. South Asia: Convert and pray

Exports: From pessimism to euphoria?

The major South-East Asian economies all display substantial degrees of export success, much of it obtained by virtue of being the third generation in the product-cycle market-inheritance game, though the transformative power of this round has been weaker, since there has been a larger number of claimants vying for a share of the transferred market. The issue at stake is whether the South Asian economies, which have been characterized on the whole by export

sluggishness, will be able to emulate the experiences of the pioneers to any appreciable extent. Viewing this pragmatically as an empirical issue, there could be several reasons for finding the current claims for the export-led growth model somewhat unrealistic in the South Asian context. Given the centrality of exports in the generation of fresh growth impulses in the economy, and hence driving the trickle-down mechanism for poverty alleviation, some elaboration of these reasons is necessary.

Slow aggregate demand trends

The starting point must be the persisting sluggishness of the world economy, and the sobering, and regularly postponed, forecasts of slow fitful recovery. Over the period 1981-88, world GDP per capita grew at a slow 1.2 per cent per annum; since 1990, the rate has been negative. At present, the prognosis is cautiously better, but fears over the return of inflationary tendencies are likely to severely regulate the pace of economic expansion in the foreseeable future in the OECD countries. While the outcome of the Uruguay Round is expected to impart a boost to world trade, some of these gains are likely to be one-off; others -- such as textiles which are of great interest to the developing economies -- might have a lengthy transition still ahead of them; and in some other areas, there could be adverse consequences for the poorer nations (as for instance in some areas of technology control and transfer).

From the point of view of an individual country, what would matter more would be the performance of the importers of its products. Here, there is a considerable divergence: the best performers are predictably Japan, China and ESEA economies, with Africa and the Economies in Transition doing the worst. Thus, while a South-East Asian economy with Japan as its main importer would be doing exceptionally well in terms of the aggregate market demand impulse, a country such as India, would be desperately squeezed with slow growth in Western developed economies, and on account of the collapse, since 1990, of its exports to the Eastern Europe and erstwhile USSR bloc. To state that a country such as India should be penetrating the high growth region is only to restate the problem, not to provide a solution. Similar though not identical constraints apply in varying degrees to the other South Asian economies as well. A recent issue of the United Nations *World economic survey* notes "a proliferation of regional trade blocs and … efforts to strengthen them" (United Nations, 1993, p. 58). Over the 1970-91 period, the ASEAN bloc's share of world exports rose from 2.0 to 4.6 per cent, and the share of intra-ASEAN trade in the bloc's total trade rose from 12.8 to 19.3 per cent. (Op. cit., table III.3, p. 82). Including Japan in this formation would have significantly increased these levels, since it forms the single largest export market for most of the ASEAN economies, and since its share of the world exports has risen at a relatively faster rate.

Although, world trade has tended to grow at a much faster rate than world output, there has been a steady decline in the elasticity of world trade with respect to world output. From a level of 1.64 in the 1951-70 decades, it fell to 1.30 for 1971-80, and then to 1.12 for the quinquennium 1981-85. It rose dramatically to 2.37 for 1986-92, but this could have much to do with production collapse in Economies in Transition, Africa, etc., with inflows partly compensating for output declines. These figures only imply that trade volumes fluctuate more than output.

Restructuring: Winners and losers

However, it might be more interesting to compare the elasticity of apparent consumption of specific commodity groups with respect to the total consumption, with the elasticity of external imports of the same commodity group from the group of developing economies with respect to the apparent consumption in the group of developed economies. The estimates for the developed economies as a group throws up some insights. For instance, for the 1980-89 period, it shows that when the total apparent consumption rose by 1 per cent, that of textiles rose by just 0.86 per cent,

or less than in proportion. This would imply an income-inelastic situation for one of the major export items of the developing economies. However, the data also show that external imports of textiles would have grown at 1.76 per cent, implying the operation of a process of switching from consumption based on domestic production to one based on imports; this could be read as evidence of the ongoing international restructuring of the textile industry. For "clothing," the figures are 1.03 and 1.71, again implying restructuring within a market whose size grows at the same rate as total consumption in the developed economies. "Manufacturing" throws up similar elasticities as well: 1.08 and 1.72. Two other commodity groups which are of great importance for developing economies provide cause for concern. For "food, beverages and tobacco," the elasticity of apparent consumption with respect to total consumption is 0.93, whereas that of external imports is 1.07; this would suggest no restructuring. The alarming case is of "agricultural products," where the two numbers turn out to be 0.72 and -0.31, indicating a market which grows less than proportionately with income, and within such a sluggish market, an active process of restructuring *away* from the external imports. Finally, for all external imports into the developed economy group, the elasticity with respect to total apparent consumption of all items was 1.04, suggesting that as far as developing economies were concerned, the rate of growth of the market in the developed economies was likely to be roughly the same as the rate of growth of output there. The recessionary impulse had in the aggregate been transmitted to the developing economy group, though clearly some commodity groups had benefited from international restructuring, while at the lower end, others, especially agricultural products, had suffered net displacement.

It is clear that economies which have substantial and increasing shares of manufactured items in their export structures would have gained in net terms, while those specializing in agricultural and food related items would have lost out. Not surprisingly, within the Asian region, the gainers are mostly in the ESEA group, with their much higher shares of textiles, manufactured equipment (especially, electronics and office equipment). The worst outcome is reserved in general for the African economies with their heavy dependence on agricultural exports. For the South Asian economies, the results are not encouraging. One conclusion which emerges is that in order to break the relative stagnation that would be imposed by agricultural exports, it is necessary to win in the competitive international restructuring game in manufactures, given the fact that the total market size for such exports to the developed economies will grow roughly at the same rate as their total output, i.e., hardly at all for the foreseeable future. The market shares competition has therefore to be won within a zero-sum context, and against incumbents who already control fair chunks of the market through ongoing technology-production-marketing chains.

Two other observations are necessary. The first concerns food and primary sector exports. A comparison of the years 1983-86 with 1961-64 as base shows a deteriorating trend with regard to shares of world food imports and exports. The share in exports of the developing economies dropped from 35 per cent to 25 per cent, while that of the developed market economies rose from 56 per cent to 70 per cent; for imports, the reverse pattern emerges, with the share of the former group rising from 27 per cent to 41 per cent, with that of the former dropping from 58 per cent to 40 per cent. Of course, if the entire developing economies group was diversifying away from food exports into high value items, this would hardly be cause for concern. However, if this shift was good for the labour rich developing economies, the opposite trend in the rich economies is clearly bizarre. In reality, the situation in the developing world is heterogenous. While the stronger economies do indeed show a drift away from agricultural exports, some of the poorer economies (especially African ones) are still locked in this trap. (The share of Africa in developing economies exports for food, agricultural raw materials, ores and metals as well as fuel, fell steadily over the 1980s.)

The second point is that the success of relocated manufactured exports was further rewarded

by shifts in the terms of trade, especially since 1981. This tendency has had a polarizing effect and has emphasized the predicament of some of the economies which have effectively lost out on both counts.

Restructuring and relocation

It is useful to distinguish between two phases or generations of export restructuring within the product cycle. The first involves textiles, clothing and garments. For this category of export, the key mechanisms for transfer were unit labour cost distances, facilitated market entry and the necessary infrastructural absorptive capacity. On the whole, this type of transfer of export shares could occur without the need for direct foreign investment in dedicated plant and equipment on the part of the senior partner or erstwhile "competitor". Thus, a large number of countries in South and West Asia, Africa and Latin America have followed South-East Asia and entered the textile and garments export market largely on their own initiative and have chipped away at the market share of the prime transferees. This market, large but slow growing in aggregate terms, nevertheless could offer opportunities to new entrants partly through the possibility of further restructuring in the developed world should trade barriers be really dismantled, but partly also through the likelihood of the earlier entrants' loss of competitiveness over time, and their conversion from being heavy exporters to net importers. However, this fight for market expansion is likely to be an exceedingly scrappy one, since none of these potentially favourable tendencies seems at present to have much strength.

The difficulty for countries outside the golden trade triangles of the East Asia stems from the need to go beyond garments and textiles and enter the next generation of exports (within the product cycle sequence). It is here that constraints arise. The successful transfer and absorption of capacity to produce and export manufactured articles based on technological systems more advanced than those generally operative in the recipient economies almost always involves direct investment in plant and equipment, skill formation and training, etc., on the part of the transferring country. As such, it involves a relationship which is a patron-client one in essence, and while resting on a mutuality of interests, gives the patron economy the whip hand with respect to all strategic choices. Above all, it is the patron country which chooses where to invest. The embodied technological features of this capital investment form the essence of the relationship; the financial aspect of the transaction constitutes the derivative and passive dimension. Apart from the chosen few economies in South-East Asia, the others presently stand at this spot, hoping to convince Japan or successful, senior followers to give them a ride to the next stage on the path of export-led growth. Data reveal clearly the active participation of South Asian economies in the first category of transferred exports, viz., garments and textiles; equally clearly, they also show their relative inability, thus far, to attract foreign direct investments with respect to the second category of exports.

There would appear to be a clear pecking order, with well-planned successive waves widening the contours of the region that is incorporated into this pattern of export transfers through foreign direct investment, mostly from Japan, but increasingly also by the four NICs. The pace and extent of such incorporation is determined not by the clamour of would-be recipients competing desperately to make themselves more attractive than the next in line, but by the internal compulsions of the process of technological change and growth at the economic core of the formation. As such, the scale of outgoing FDI is largely immune to demand for it in the region and elsewhere; it is influenced more by the compulsions of technological competition on a global scale, and also on the pace, pattern and future possibilities of internal *social* reform and restructuring within the developed economies.

For the time being the great absorbers of relocated investments are Thailand and Malaysia,

with Indonesia and possibly The Philippines (given satisfactory political pre-conditions) competing with other newly emerging hot locations, viz., China and Vietnam. There is little evidence that the pattern of outward mobility of capital from the ESEA core is about to incorporate South Asia in the near future.

South Asia: Waiting to enter the galaxy

The prospects for a sustained high-growth export performance by South Asian economies depends very much on their ability successfully to enter the gravitational system of a major economic core, preferably that of the rising sun. The summons might well come in due course, but the question is whether South Asian citizens should be asked to hold their breath for it. Making this the central plank of a national economic strategy could involve considerable downside risks. Indeed, it is arguable that the new orthodoxy has reduced the question of development strategy into an attempt to create the pre-conditions (e.g., well developed power, transport and communications infrastructure, flexible and appropriately skilled human resources, etc.) required for attracting the kind of export-linked FDI which would provide the motive power of growth. It is tantamount to preparing and polishing the chassis, and then waiting for a Toyota engine to drop into place. In this connection, three observations need to be recorded.

First, from the Japanese (and also the NIEs) point of view, the South Asian economies could only stand way down in the queue. On the one hand, the absorptive capacity of the favoured South-East Asian economies is far from exhausted. Even as Thailand and Malaysia tighten up in this respect, the availability of China, and not insignificantly Vietnam, has effectively removed any such absorption constraint forcing the core's FDI further west. These systems have a great deal of cultural and historical affinity (perhaps with some changed polarities!); these economies are also not locked in unpredictable and simmering conflicts with their neighbours; they exhibit strong internal governments backed up unequivocally by regional and international communities; there is a far greater degree of internal homogeneity and internal political strife and secessionist movements are virtually unknown (though not without a couple of extraordinary exceptions "generously" condoned by the same partners); provincial politics are subordinated to a strong central directive will; and there have been long and undisrupted periods of continuity in internal power structures; their bodies politic have come to the know and accept the fundamentally derivative nature of the growth process in these economies, a recognition which adds stability to the whole process. In all these respects, most South Asian economies present diametrically opposite features. This is not to reject the potential viability of a few off-shore types of export bases, nor of specific collaborations with local capital for taking advantage of the local market. However, FDI on any scale resembling that in South-East Asia and China seems, for good reasons, to be a relatively remote possibility. It should be noted that these factors mostly concern structural political features, and not alleged labour market rigidities. Multinational companies universally have usually found a way of making their mutually accommodating arrangements with representatives of labour; the uncertainty arises more from the nature of the institutional structure and the political process. On extensive past experience this dimension has been rendered more, rather than less volatile by the adjustment and reform packages which undoubtedly remove other economic hurdles to FDI. It is also worth noting that the South Asian region falls outside the contours of the traditional Japanese perception of its region or area of interest, influence and dominance.

Is EEC a likely substitute?

Secondly, at the present juncture, there are also good reasons not to be too optimistic about European FDI into the South Asian region. Apart from the applicability of many of the difficulties listed, other factors also prevail. For one, these economies have been locked in recession, and recovery has been continually postponed. Their "normal" growth rate has also been much lower than that in Japan, and relatedly, the scale and intensity of the need to relocate has been much weaker. This is exemplified by the situation with respect to agricultural protection in OECD countries, which in 1990/91 amounted to no less than 180 billion US dollars, measured in terms of agricultural producer subsidy equivalents, a sum three times the total net ODA in 1991 of 60.9 billion. The situation is expected to change with the Uruguay Round, but the pace of subsidy withdrawal is also constrained by the low growth, its even lower employment-generating potential, and the weakness of social mechanisms and institutional policy initiatives which could lead to a dispersed absorption of unemployment in society. If anything, the political thrust at present is to revise institutions in ways which further polarize the societal perception and status of the employed and the unemployed. This restricts the extent of market space opened up for the absorption of primary and other exports from developing economies. Again, the opening up of cheap-labour East and Central European economies might provide some favoured venues for relocation within a medium-term time frame. From the South Asian perspective, this gloomy prognosis with respect to North America and West Europe acting as an alternative gravitational systems to Japan is significant since these regions are far more important in its trade than Japan, despite recent shifts in trade flows in favour of the Asian region.

Why are NRIs not like OCs?

The third observation concerns the comparison that is often (wishfully) drawn between the dynamic and catalytic role of the overseas Chinese (OCs) community in the FDI and export performance of China in the last five years, and that of non-resident South Asian communities. Specifically, a similar role should not be expected of the non-resident Indian (NRIs) community for several, albeit somewhat speculative reasons. Apart from the fact that political uncertainties would act as disincentives as much in their case too, three inter-related factors may be cited.

First, the overseas Indian communities are dominated by professionals and those who have moved up the economic ladder after an original entry as cheap labour. Commercial and service sector interests are also strong, but they are often location specific, and small-scale; self-employment and the family run commercial enterprise provide the archetypical form. As such, most of them do not fall into that category of entrepreneur engaged in FDI operations.

Secondly, while it is true that a new class of big-time South Asian entrepreneurs has emerged especially in Europe, in contrast to the Chinese case, there is little synergy between these interests and those of Indian industrialists operating in India. The two markets and arenas of investments are relatively unconnected, in that they cannot be seen to form a single, even if emerging, economic entity with like-minded governments and relatively open trade based on mutual preferences between them.

Finally, the NRI industrial investor planning FDI in India with the Indian market in mind would not be entering virtually virginal territory as far as competition is concerned, but would be stepping into a minefield of bureaucracy, wider political uncertainty interfaced with active local political engagement, and above all, heavily entrenched vested industrial interests. Finding and sustaining a successful niche in this world could be a daunting task. The environment which the OC encounters in China presents a dramatic contrast in most of these respects. It is not surprising then that the non-resident Asian community has preferred taking the rentier option. Here as well, while capital inflows have been quite substantial, they have been seduced with unrealistically high incentives. India Development Bonds issued overseas, for instance, offered rates of 13 per cent in

contrast to the 7-8 per cent prevailing at that time in European markets, even leaving out of account the expectation of a long term drop in rates. The fledgling and flawed Indian capital market provides a dangerous avenue for the overseas rentier/investor, and the entry has been effected through specialized fund management devices. But such capital is essentially short term and its success depends on spotting the local winners. This type of money has augmented the flow of foreign exchange generated by migration to the Persian Gulf countries. Apart from the known volatility of such flows, it should be clear that such finance does not act as the prime mover of exports per se. With the current exception of Thailand, all other South-East Asian economies still show a highly erratic and jumpy performance with respect to the net inflow of short-term capital, with heavy outflows almost as pronounced as inflows. Should full convertibility be introduced across South Asia, it is not unlikely that the volume of domestic capital wanting `out' might swamp that of external capital wanting `in'; it is perhaps with this possibility in mind that such full convertibility is non-existent in South Asian economies.

Labour-intensive: But where?

Before concluding this argument on exports, a few cautionary remarks are also necessary concerning some easy assumptions made about the nature of export-led growth which might deserve more attention in the South Asian context than they received in the prior East or South-East Asian ones. The first is the question of the legendary labour-intensity of such exports. While garment exports certainly are labour-intensive, the successive generations of export items (along the product cycle sequence) are quite different. While assembly lines mass-producing electronic goods with standardized technology might be treated, within the framework of comparative advantage, as having become too labour-intensive, for the receiving country, say, Bangladesh or India, they might legitimately be regarded as being relatively capital-intensive when compared with several sectors of the domestic economy. This point has salience with respect to the employment creation capacity of such enterprises, where the label of labour-intensity applied in the first sense is mechanically held to imply that these enterprises would also be more labour-absorbing per unit of capital, than other domestic lines. Following this (questionable) line of reasoning could generate undue optimism concerning the incremental employment impact of export-led growth.

Relatedly, the total direct and indirect impact on employment could also be exaggerated to the extent that such investments, while being platformed in a cheaper-labour economy, have backward linkages which continue to be embedded in the parent economy. Many second and third generation export items are very import-intensive. The Malaysian case provides a good, documented illustration which contrasts sharply with the example of textiles and garments to which alone the South Asian economies have had serious exposure thus far. A consequent feature of such investments, at least for a prolonged initial phase, is the concentration of the impact in small parts of the economy, with the induction of some cheap labour from other regions and the resulting remittances forming the transmission mechanism. Such an effect could hardly have been noticeable in the city-state NICs; it was also absent in Taiwan, Province of China, on account of its well-known exceptional feature of dispersed infrastructural development. However, in virtually all the other cases, this effect has been pronounced, most recently in the Chinese case, where the export boom has been almost entirely restricted to the coastal provinces and a few other special sites.

Labour: Finding a scapegoat?

It is taken as read that labour was relatively overpriced prior to the adoption of structural adjustment policies. The correction of relative price distortions in the factor markets is meant to serve as the prime mechanism both for the generation of efficient growth, as well as the absorption of labour. Indeed, the removal of factor price distortions and the restoration of full flexibility to the labour market is taken as a crucial component of the trickle-down mechanism. Labour market

reforms are thus characterized as the key to unlocking a labour-intensive (and hence poverty-alleviating) growth process.

While this proposition appears simple enough, there is much in the current debate around it that is simplistic. There are two distinct questions here. The first concerns the extent and nature of labour market rigidities pertaining both to the formation of wages, but also to labour hiring and firing norms and practices, labour mobility, social security and protection, organization and unionization, etc.; the second concerns the relative overpricing of labour.

Make labour flexible

The first issue concerning labour market rigidities needs rather more careful consideration before being accepted as a valid cause of industrial (or agricultural) inefficiency or, viewed from the opposite angle, as a key component of the solution. The catch-all term of "labour-market rigidity" needs to be unpackaged, and its several dimensions reviewed separately. All actions and features which are deemed to interfere with the open-market, unfettered and unencumbranced striking of contracts in the labour market have been labelled "rigidities". Some of these could be structural in nature; others could be creations of governmental action, though it must not be too quickly assumed that such intervention has always rendered labour *more*, rather than less, expensive; some could reflect more customary or traditional (i.e., non-market) social arrangements; yet others could be the products of concerted organized intervention by labour organizations and unions. Some of these "rigidities" could well have been constitutionally codified and thus enjoy legal sanction, reflecting a more basic (though not necessarily harmoniously derived or maintained) social contract, if not consensus.

It is possible to view all these "rigidities" through the eyes either of the employer, or of the employee. Doing so might reveal that for any particular transaction, what was regarded by the one as a welcome feature of flexibility was treated by the other as a burdensome restriction. It is also useful to pose the question in a temporal, if not a historical, context. Doing this would reveal that the very characteristic of the labour market which was treated by employers as a vital element of flexibility in one specific structural configuration was regarded by them as a counterproductive feature of instability or mobility in a subsequent context.

There could be several reasons for arguing that the existence of labour market rigidities in South Asia is largely a myth, or at the very least a gross exaggeration.

First, it is necessary to adopt an appropriate macro perspective. For the sake of argument, "the" labour market may be divided into three separate but linked segments. By far the largest of these is the rural labour market where various forms of labour and categories of employment overlap and interact with increasing fluidity. One significant indication of this is the widening of intra-rural migration, sometimes of a long-distance variety. There is also tremendous inter-activity and inter-occupation mobility at the lower end of the rural labour force. So there is little problem of inflexibility here, unless it takes the form of debt-bonded or other unfree forms of labour. The urban labour force may conveniently but approximately be divided between the "organized" and the "unorganized" segments. In the former could be placed the employees of large scale manufacturing, services and public administration. Small-scale manufacturing and other amorphous service activities would constitute the third component. In most of the South Asian economies, the share of the labour force in the organized sector is but a minor fraction of the total labour force of these economies. The rural labour segment dwarfs the urban segment; in turn, the urban organized segment is but a small proportion of the total urban work force. The workers in the rural sector, the urban small scale sector and informal sector, petty services, trade and commerce, are all generally beyond the purview of any nominal or effective legal or union protection. They are

essentially unorganized, with very few exceptions. They are also highly mobile spatially and in terms of activities and forms of employment. As such, for the overwhelmingly large proportion of the workforce, the argument of labour market rigidity simply does not apply.

Second, even within the organized manufacturing sector which falls within the ambit of labour laws, the effective power of labour unions is varied. More often than not, organized labour has a temporary disruptive capability, but there is little evidence that union actions have led to extra-market increases in wages or perks.

Third, the formal or legal declaration of rights for workers does not necessarily mean that they are observed, or that they can be legally enforced by the courts through actions by the workers, since the legal system in these economies is a law unto itself. For instance, the existence of the statutory minimum wages is often cited as evidence of labour market rigidities without any accompanying evidence to show that these minimum wages are actually above what the market would throw up, or even if such minimum wages *are* in fact higher, that they are ever really enforced.

Fourth, even in the organized manufacturing sector, in the context of which the existence of labour market rigidities is most often presumed, it is overlooked that most large enterprises circumvent such problems through the device of sub-contracting parts of the production process to auxiliary units which operate with impunity outside the scope of factory labour laws.

Fifth, there is evidence of increased recourse to casual labour in the production process; such labour is fully, perhaps overly, flexible.

Sixth, wherever possible, production is carried out on a piece rate of wage payment, implying that at least the relationship between time, productivity and payment is amenable to the use of "incentives". In the rural and to some extent in the urban small-scale or informal sectors, there are interlocking markets; these usually allow the employer to extract superior net terms for labour than might otherwise have been possible.

Seventh, for the vast sea of self-employed labour, flexibility is built in through the ex-post determination of the implicit wage rate. Studies of the returns to self-employment generally come up with the finding that the implicit returns to labour are well below the poverty line equivalent.

Eighth, there is evidence that when long-standing institutional wage payment arrangements throw up wage rates which conflict with what might have been labour-market outcomes, the former are steadily eroded. The *bawon* system in Indonesia is a case in point. The traditional open access system of rice harvesting involved a wage payment in the form a fixed share of the amount of rice harvested by the worker, and free gleanings for the children of the worker. Two factors altered this long-standing arrangement. One was the increased supply for labour, with reports that a one-hectare field of paddy was harvested in 20 minutes. The other problem was that with such acute pressure at the time of harvesting, it had become difficult to monitor the wage payment arrangement. Two adaptations have emerged in consequence. The first is the use of uniformed specialized harvesting teams, which is tantamount to the termination of the institution of *bawon*. The second is that the landowner limits the access to employment to selected workers, who are then required to provide free labour in other, especially weeding, operations, which implies a reduction of the real harvesting wage rate in response to labour supply outstripping labour demand. Even independently of this, there is evidence that the long term upward drift of rice yields has been accompanied by a reduction in the "traditional" share of harvest labour, reflecting the conditions of labour supply and demand in the region. Institutional arrangements, therefore, also respond to

market conditions, and embody greater flexibility than might be attributed to them by casual observers.

Ninth, there is evidence of spontaneous as well as organized spatial labour mobility in the form of in-migration into regions where the local labour market develops signs of tightness generated by market conditions or interventions by labour organizations. Evidence in this regard is available from Kerala, Gujarat and Punjab. In these situations, in-migrants tend to receive lower than locally going wage rates, and suffer conditions which are categorically inferior.

Tenth, in several instances where labour organization has tabled demands and adopted an "uncooperative" stance, the response has been brutally repressive. The Indian railway workers strike is one large-scale case in point; another small-scale, but regularly repeated, case is provided by the rural violence against *harijan* communities in rural India -- much of this violence being an assertion or a "reminder" of the virtually absolute power of the local landed classes.

All this is not to deny the potentially restrictive effects of labour organization in confrontational environments (Kerala, West Bengal, etc.). But these are end points of long historical processes which have had powerful emancipating impulses, and also, these are exceptional to the regional scene.

It is also necessary to point out the widespread prevalence of labour market rigidities of a different kind, viz., those involving the repression of workers' freedom of choice with regard to work. In Asia at present, there are likely to be far more workers in this category who suffer acute forms of distress and destitution than those who are alleged to be cocooned in protected labour aristocracies. No matter if they represent yet another form of market imperfection, more often than not involving power of a countervailing nature, trade unions and collective bargaining are very much part of the constitution of capitalism; coerced, or effectively bonded labour is not.

Much of the attack against labour market inflexibilities in South Asia has been focused on the case of "sick industries". It is argued that these survive on the basis of a soft budget constraint, and that the formulation and implementation of an "exit" policy, whereby these industries would be closed down, is blocked by the unionized labour aristocracy which mans these enterprises which are largely in the public sector. There is undoubtedly some truth in this charge, enough to give it sufficient plausibility to use it as a basis for a generalized assault on the rights of labour across the entire economy. As such, a few comments on this phenomenon are called for.

In India in 1990, there were 244 Central Government public enterprises. Of these, 47 were modestly profitable and 84 were running at a loss, the latter being largely in the mining and manufacturing sectors. High profit earners were in petroleum, high loss makers were mostly in fertilizers. In addition there were another 800 State Government public enterprises, no doubt many of them loss-making.

Perhaps part of the problems arise from the unwarranted overextension of the public sector rather than from labour per se. Sickness is also on account of bad management and asset stripping; it has been argued that there are greater incentives for investors and entrepreneurs to set up new enterprises rather than to sustain their profitability. The point is that while sickness might well be a part of the industrial culture of controls, etc., the culprit could as often be management as labour. Again, with respect to the fertilizer producing enterprises which run at heavy losses, it needs to be investigated to what extent this financial outcome is related to the virtual (controlled) stagnation of fertilizer prices over the decade. Here, enterprise losses could have more to do with subsidizing and appeasing the farmer lobby rather than on account of labour aristocracies. It has not so far

been pointed out, for instance, that labour organization and militancy are especially strong in this branch of industry. Once enterprises are financially sick, however, the "protection of jobs" becomes the visible symptom and provides the legitimacy for attacks on labour organizations.

So, while it would be incorrect to deny the prevalence of some labour market inflexibilities in the organized sector, it would be simply misleading and incorrect to characterize the entire labour market in this manner. Indeed, one must go further and explore the implications of such inflexibilities as do exist for the new growth process. It is alleged that such rigidities prevent the free flow of resources, not just labour, from outdated inefficient sectors and activities to new, efficient ones. They also stand in the way of the formulation and implementation of an appropriate "exit" policy for sick enterprises. What proponents of this view often overlook is that this alleged constraint is irrelevant as far as new investments are concerned. Over a five to ten year projected period of industrial modernization largely through fresh domestic and FDI investments in new activities and sectors, the restrictive effect would in any event be limited to a small and declining proportion of the industrial sector. This is not to disregard the acute and ubiquitous problems of efficiency and accountability which saturate some non-industrial sectors of the organized services, public utilities and government administration, though even here the question must also be asked whether the rot does not really start closer to the top than to the bottom, and whether the real problem here is not one of accountability and corruption involving virtually the entire hierarchy rather than the abstractly and narrowly defined issue of labour market inflexibility. Such problems of efficiency, accountability and corruption in services, utilities and administration have to be taken seriously, if not on a war-footing, in their own right. While being located outside the commodity producing sectors, their influence permeates every nook and cranny of the rest of the economy. However, this is better described as a crisis of civil society institutions than labelled as a problem of organized labour, this labelling then being conveniently used as a pretext for legitimizing bouts of trades union or labour bashing. That said, there is a need for the representatives of labour to reflect on the lessons of the Kerala and West Bengal experiences of stalled industrialization. While labour can demand higher wages and benefits, it cannot force capitalists to invest. Within the framework of Indian polity, the lessons are as obvious as the outcomes might have been predictable.

It should follow then, that the labour market, while obviously reflecting the structural segmentations which would inevitably characterize economies industrializing from an agricultural base, is far from rigid. And given the low growth rates of agricultural employment and low absorption in organized sector and the consequent crowding into informal, unorganized sector, labour market flexibility is structurally guaranteed for the foreseeable future. Further, such rigidities as do prevail in the organized sector might well be of a far lower magnitude than those which mark significant parts of the labour-intensive, export-oriented organized and informal sectors. In some situations, removing labour market rigidities of both kinds could well have a negative net effect on competitiveness. In any event, the argument that labour market rigidities are blocking the drains of trickle-down in South Asian economies seems to be sufficiently dubious to raise suspicions of other (not so) hidden agendas.

Make labour cheap

The second major issue with respect to the labour market concerns the level and growth of wages. The treatment of this question also needs to be examined more carefully. Factor *relative* price distortions could have more to do with the pricing of capital than with wage formation. Indeed, the general case has been one of the subsidization of capital, whether as an outcome of overvalued exchange rates, or of subsidized credit often provided at exceptionally low (even negative) real rates of interest, or through subsidies on electricity or fuel supporting capital-intensive technology and mechanization. Defining the issue of factor price distortions essentially in

terms of the labour-market could therefore be erroneous or tendentious. But the narrative also asserts that labour is overpriced partly on account of the organization and unionization of labour, and partly on account of social regulations and legislation (e.g., minimum wage legislation, various other benefits and "perks", etc.) which reflect societal concerns and concessions with regard to the welfare of labour. It is argued that the net effect is to substantially raise the unit cost of labour to industry, and thereby to reduce the competitiveness of exports which, in turn, weakens and imperils the entire growth strategy. There are several difficulties with this line of argument.

To begin with, real wage rates in the poorer South Asian economies are a minor fraction of those ruling in the labour markets of even South-East Asia, let alone East Asia, Japan, or Western developed economies. There is thus little justification for placing the burden of achieving competitiveness on further reductions in the real wage in the poorer South Asian countries, especially when they are viewed as a bloc.

Further, for the newer categories of manufacturing sector exports, the share of labour in the total cost of production is also a small fraction, often ranging between 10 and 20 per cent. Therefore, cutting real wages could not be expected to make serious contributions to competitiveness.

A central flaw in this line of reasoning derives from its erroneous conflation of two variables, the wage rate and the unit cost of labour. It is implicitly assumed that a higher wage would imply either a cut in profits and therefore incentives for the producer, or a loss of competitiveness and output should increases in wages be passed on through higher prices (assuming realistically that demand is price-elastic). But neither effect is a logically necessary outcome of higher real wages.

Let W_m stand for the money wage, W_r for the real wage, P_f for the price of food, P_i for the price of the industrial product, U for the unit product cost of labour, L for the total labour used in production and O for the volume of output of the industrial product. Assume for simplicity that workers consume only food and bargain in terms of money wages with the objective of increasing their real wages. The following relationships hold:

$$U = W_m.L/P_i.O$$

$$\text{or} \quad U = (W_m/P_i).(L/O) \qquad (1)$$

$$W_m = W_r.P_f \qquad (2)$$

$$U = W_r.(P_f/P_i).(L/O) \qquad (3)$$

The erroneous argument is based on (1) above. If it is assumed that P_i, L and O are all constant, then it follows that any increase in W_m would lead to an increase in U. And assuming P_f to be a given, workers would bargain in terms of W_m in order to raise W_r. In this scenario, indeed, any increase in money wage rates would have negative consequences for profits, competitiveness and output. It could be argued that in the short term this zero-sum characterization could have some relevance.

However, a better basis is provided by (3) above. It shows clearly that the relation between the unit cost of labour in terms of the industrial product and the real wage is moderated by two other arguments. The first, (P_f/P_i), represents the terms of trade between wage goods (here, food only) and industrial output; the second term, (L/O), stands for the physical productivity of labour.

Let us consider each in turn briefly.

The terms of trade could move in favour of the industrial product in question even in a situation where an additional wage demand is passed on the market through a cost-plus pricing set-up. However, to what extent this protects unit labour costs from rising also depends upon the impact that a rise in the relative price of the industrial product has on its demand, and consequently on the level of output, O. Should the latter be depressed, the improvement in the terms of trade factor would be moderated or nullified by a deterioration in the labour productivity variable. Or the employment level could also be adjusted downwards, with the net result that while unit labour costs were held steady, the level of employment would deteriorate. These scenarios are not very encouraging.

However, it is also possible for the terms of trade to improve for the industrial product on account of a relative decline in P_f in relation to P_i. In one sense, this seems counter-intuitive, since normal expectation would be for relative prices of agricultural products such as food to rise on account of the operation of diminishing returns in agricultural production. The exceptions to this Ricardian scenario are also well-known. The green revolution was supposed to lead to precisely such a relative price shift on account of the heavy impact on agricultural production and marketing, and indeed there is some evidence that such really was the effect of the spurt in agricultural production and productivity. Should this occur, unit wage costs could decline even in the face of improving real wages. Further, the positive output effect in agriculture could lead to a benevolent expansion of industrial markets, thus creating a force in favour of higher levels of output (and possibly labour productivity) in the industrial sector. Of course, it is also possible to achieve the terms of trade effect, though not the same demand-side impulse, if resort to international trade could lead to a reduction in the relative price of food; there is evidence of several different channels through which this happened in the past. A case will be made later for placing a greater emphasis on agricultural and rural development. The potentially beneficial effect of such a policy on medium and longer term competitiveness would be an extra bonus over and above the other independent arguments advanced in favour of such an emphasis. It is arguable that the East and South-East Asian cases, with the exception of Japan after the turn of the century, relied most heavily on domestic agricultural development for making export competitiveness compatible with steady or rising real wage rates in industry.

The second possibility arises from the potential for improving the ratio O/L. This draws attention both to the micro-issues such as management and labour techniques, organization of production processes, etc., as well as to the macroeconomic environment within which the enterprise or industry must operate. At the micro-level, it has become customary to point, if not wag, the accusatory finger at labour, though there are profound reasons for believing that management attitudes and practices are equally to blame for plant-level inefficiencies. The instance of the "sick industries" provides an outstanding illustration of this anti-labour bias. In any case, few doubt the possibility of achieving significant gains in productivity under altered management-labour institutional regimes or specifications. The low level and/or growth rates of O/L could also have more to do with macro-level structural and infrastructural bottlenecks and economic policy constraints than with the "inflexibility" of labour at plant or industry level. Thus, power shortages could act as a severe constraint on industrial production; and governmental restrictions and controls could add to the gestation time of investments or lead to a squeeze on imported raw materials thereby causing plants to operate with considerable excess capacity. All such factors are neither of the making nor within the control of labour. Yet, addressing these could provide a margin of productivity increase permitting a simultaneous reduction in unit labour costs alongside an increase in real wages.

Two other observations are necessary to register in order to further balance the simplistic equation of competitiveness with low, or the lowering of, wages. The first of these is empirical and corroborative. For India, data suggest that in the factory sector, the average increase in real wages in the past twenty years has been approximately 2 - 3 per cent per year. Such a rate of increase is hardly the stuff of which "aristocracies" are made. Furthermore, while the industry-level picture is not unexpectedly mixed, it is arguable as a general conclusion that product wages have grown at a rate lower than labour productivity. Several of the exceptions turn out to be older industries where modernization processes have been tardy (and not on account of labour).

The other point concerns the notion of efficiency wages. The narrative of cheap-labour based export-led growth does not have much room for such an argument. On the other hand, there is a fresh reading of the East Asian experience which tends to place emphasis on the dimension of high levels of human resource development as being instrumental for success.

IV. Agnosticism

Globalization and spatial patterns

The first dimension of globalization is international connectedness. There is little scope here for the discourse or strategies of autarky or delinking. Some key parameters of the performance of developing economies are set by the rate of growth of the world economy, in particular the core formed by the developed economies. Fast growth here has several implications. First, it would suck in imports from the developing countries. Second, to the extent that this growth would involve technological advancement, these economies would vacate certain market spaces which could be inherited, or taken over by economies situated at the next rung of the ladder of development, à la the product cycle. Third, where such growth is rapid, it could encourage the developed economies to reduce or remove the barriers to imports of other commodities, since the negative employment consequences of such a step could be more readily absorbed in other industries. Fourth, where the provision of external assistance is linked to GDP, such growth would lead to a pro-rata increase in the availability of scarce foreign exchange resources for developing economies.

However, globalization involves more than this unidirectional relationship. It implies a global matrix of cross-national flows of resources in the form of information, technology, finance and investment capital, skills and labour. It assumes and aspires to achieving the highest speed and degree of freedom with respect to mobility.

Another feature is the universal subscription to global norms and rules of the game, even at a point of time where there is no real agency which can monitor the global game for conforming to these rules, and no real process for controlling or penalizing transgressors. This tension provides a momentum for global economic management. Within the developed economies, the process is in an embryonic stage; the present manifestations of it are in the form of apex political controls within regional blocs. However, in the case of the developing world, global economic policing is much more a reality, with international development and financial agencies acting as monitors and implementors of global reform programmes.

Thus globalization implies an end to the notion of alternatives in development, unless these be alternatives which are minor variations on, and embedded squarely in the free-market system. The manner in which this consensus was reached or enforced is irrelevant; the significant fact is that at the present conjuncture it is a reality to live in and to contend with, and to attempt to shape within its inherent limits. Optimistically, the demise of the global alternatives could paradoxically

open up some fresh political space within which it might be possible to redefine some institutional parameters. For instance, since the case for land reform need no longer be conflated with that for a systemic rejection of capitalism, global decision-makers might more readily appreciate its functional potentialities for growth and the politically stabilizing influence of its distributional effects. On the other hand, on past experience (especially of American land reforms in Asia), the system has rarely yielded voluntarily to such changes without resistance. It remains realistic to argue that institutional changes in favour of the poor would need to have adequate political thrust behind them.

There is a political analogue to this economic process, in the form not of world government, but of the development of effective global reach on the part of the remaining super-powers involving the political incorporation and insertion of UN bodies and processes into this new political mapping centred not on New York, but on Washington. As such, the inherent logic of globalization would regard the nation state as little more than an administrative (in)convenience in the business of global economic and political management. The increasing tendency to locate cultural and ethnic legitimacies at sub-national levels has further undermined the authority of national governments in the developing economies where international NGOs frequently hold more sway, even if covertly, than government administrations.

Globalization has also meant the end of strategisation of development issues at a national level. In its place has been installed the notion of simultaneous global development within an integrated economic system characterized by a matrix of resource flows across countries and regions. The impression, if not the promise, is conveyed that if, or rather when, the pre-conditions for entry into this global arena are met, the new member will enjoy access to this global network and accelerate the local growth process. Instead of bilateralism, this global framework would underwrite a new and efficient international economic order which would maximize global welfare, and implicitly the welfare of all who walked the globe.

This impression of being connected globally is conveyanced to the most distant peasant with cosmic ease through the new instruments of communicating an emerging instant-mix of crass "culture" beamed from the control rooms of media empires. If you can view advertisements for Coke, MacDonald's and Levi's both on your shared small screen and also on the high street of your hinterland township, surely you must be "connected"! The cultural vulnerability and the illusions created by its exploitation are overpowering.

In reality, even a cursory examination of the direction and relative strengths of resource flows would suggest that such notions are quite fanciful. At the level of trade, investment, finance, technology, information and labour, there remain tremendous asymmetries in access and control between the club of rich nations and those at the lower end of the spectrum.

The global economic playing field is hardly level; its gravitational contours are heavily biased in favour of directing resources in the form of capital, technology and skills into the hot arenas of accumulation. Even the small-time elite of the poorer countries can join in gambling their investible surpluses on the stock exchanges of East Asia instead of being locked into local investment choices. In this sense, globalization could be good news for the recipient country. But an unemployed worker or a marginal peasant in a poor South Asian or African economy would be justified in thinking differently. For him or her, globalization, instead of opening up new opportunities and attracting in international capital, could well have unlocked the door for such domestic investible resources as were around to fly out to greener pastures. Should the worker or peasant have had the real option of following this global flow of capital to the arenas of accumulation to share in the incremental value added, there could still be some compensation.

However, just as globalization has opened doors and access to superhighways for finance capital, it has slammed them shut in the face of migrants wishing to participate as workers in this new world.

It follows then that the outcomes of globalization in terms of access to, and realization of opportunities, and of the net receipt of resource flows, depend not just on the provision of free and unfettered access to all comers, but on being deemed attractive enough for others to accept this invitation. It also follows that for a country such as Vietnam, on the brink of admission into the ESEA circle, globalization might bring a real prospect of accelerating growth through a new inflow of foreign capital. But for a sub-Saharan economy, this prospect might be as distant as the sighting of migratory birds flying over the desert. It is arguable, of course, that eventually the contours of economic growth would ripple outwards from the distant centres of accumulation, and in the fullness of time this poor economy would also be awash with foreign resources; it would have reached the head of the development queue.

Much therefore hangs on the position of an economy in the development queue, and also on the speed at which the queue moves. The latter depends very much on global economic phenomena, especially on economic, political and social conditions within the developed economies. The former does offer some possibilities of queue jumping: through political ingratiation, through the fortune of strategic geo-political location, etc. However, realistically, the likelihood of a long wait to receive the attentions of global capital opens up both a strategic policy space as well as the necessity to think in national terms or regional terms, even if within the parameters of the new global framework and rules of the game. The need could emerge to generate an endogenous growth process based on local resources and initiatives, even if to shorten the time to the point of incorporation into the global or regional orbit around some major economic planetary system.

Following this line of argumentation, it could be argued, at a supreme level of generalization, that for many poor African economies, globalization only provides a new context and international environment, but does not offer a sufficient strategy of growth. In contrast, many South-East Asian (and other similarly placed) economies, globalization does generate a net inflow of resources and accelerates the growth process sharply. In such economies, there might be some justification in not seeking an alternative basis for growth. The South Asian economies are ranged in the interim space.

The purpose of this exploration has been to consider the strength and nature of factors which could constrain South Asian success at the South-East Asian export and FDI game. The idea is not to provide a defence of "export pessimism". Recognizing the constraints is the first requirement of addressing them. Further, to the extent that such reflection does moderate the current premature euphoria in official and international policy circles over FDI and export-led growth, it automatically underscores the necessity of considering supplementary, if not alternative, policy options which involve wider, domestic, bases of growth, in particular in the case of the larger South Asian economies. It is in this context, that the relative policy neglect of agriculture calls for urgent review.

Agriculture: As you sow, so shall you reap

What impulses might the adjustment and the reform processes impart to the agricultural sector in South Asian economies? This is a vital question. It is now common ground that faster agricultural growth would have some beneficial impact on rural poverty. It is striking that this issue has received hardly a mention in the policy efforts of reforming agencies or governments. One possibility could be that since the proponents of adjustment generally believe it to have

universal validity, the earlier analysis of the likely impact on African agricultures is implicitly being carried over and being held applicable, also for South Asian agricultures. The adjustment and reform processes as they have been designed and implemented by international agencies have not so far shown any sensitivity to or accepted the relevance of the varying socio-economic structures or other differences thought by many analysts to be partial determinants of the nature of the economic process. In the African context, the state-induced or -created market distortions were held, with considerable justification, to be responsible for a range of powerful disincentives acting on peasant producers. As such, their removal could be expected to provide a positive impulse to the rural sector. Whether such a price impulse could overcome the prevailing infrastructural and other supply-side constraints, including some powerful ones that were created by the adjustment process itself, remains an open question still, and recent experience does not provide grounds for excessive optimism. Such disagreements apart, it can hardly be said that the rural sector did not receive the central attention that it would deserve in the African context.

In contrast, this relegation, if not outright neglect, of agriculture at the policy level in the South Asian context is ground for concern. There are plausible reasons for expecting the likely outcomes, in so far as they can be gauged at this stage, to be quite different in most South Asian agricultures from those thought to be valid for most African countries. This could be true for both the impact on the growth rate of agricultural production as well as on the incidence of poverty.

Focusing on the production aspect, the first point is that the extent of exchange rate overvaluation in pre-adjustment African economies was in general greater than that prevailing in South Asian economies. Exchange rate corrections would then generate a correspondingly smaller impulse. Secondly, this impulse would apply to a significantly smaller proportion of the agricultural sector, both because agricultural exports form a comparatively smaller percentage of agricultural GDP in South Asian economies, and also because these economies in general have a smaller share of total GDP produced in the agricultural sector. Thirdly, while African peasants have usually been taxed by governments in the process of inter-sectoral surplus transferal, South Asian landowners have in general been subsidized by the state, though there are crop, and region specific exceptions and variations. This reflects the position of strength of the rural surplus producers in local and national political processes. It is true of course that several South Asian export crops have stiff export duties (or implicit taxes) imposed upon them, e.g., basmati rice and cotton in Pakistan, tea in Sri Lanka, etc. But producers also benefit substantially from other programmes of heavy input subsidization. Subsidies on water, electricity, fertilizers and credit have been high almost across the board. In net terms, the aggregate impact of adjustment on price incentives could well be marginal. Certainly it would stand in sharp contrast to the archetypical African case where parastatals form virtual monopolies and agents of surplus transfer into government coffers. It is not impossible that in particular situations, subsidy removal could lead to some loss of international competitiveness. Fourthly, as elsewhere, public finance distress could lead to cuts in development outlays for agriculture, since this always appears to be a soft option, so long as other subsidy measures are protected. In this respect, the experience of the South Asian economies might well be better in a comparative sense, though it could still involve some atrophying in agriculture. Fifthly, unlike Africa, subsidy withdrawal and reduction in government expenditures could well reduce, rather than increase incentives for private investment by the larger landowners.

Turning to the potential impact on poverty, other than through the production effects, the net outcome depends on the incidence of landless and other food-deficit households who rely on the market for food purchases, and on the extent to which relative food prices increase. South Asian economies display far higher levels of landlessness and near-landlessness than African or South-East Asian economies. It is also now common ground that food inflation widens and intensifies

poverty. Food price rises consequent upon subsidy withdrawal, and due to a curtailment of the operation of the public food distribution system, could well have a sharp negative effect on the poor and near-poor. One widely encountered feature of the African economies is that households, including those below the poverty line, combine an inter-sectoral portfolio of economic activities. Thus, recent migrants have close connections with the family back in the rural sector. The result is that such households are thereby also less vulnerable to sharp fluctuations in any particular part of the economy. Landlessness effectively precludes such a strategy of balancing.

Thus far, the catalogue of likely outcomes has on the whole been unfavourable with respect to agricultural production or poverty alleviation. However, one countervailing positive force, at least from the point of the rural poor, is the increase in incentives for labour-intensive production processes on account of the elimination of the artificially low price of capital. The effect would operate through making mechanization more expensive. To the extent that agricultural production and processing techniques are responsive to such price changes, a positive effect should certainly be expected. However, some evidence cautions against overoptimism on this score. For instance, tractorization and the mechanization of harvesting, even while being labour-displacing and not land-augmenting, have the independent objective of reducing risks related to the timely availability of adequate labour at peak times in the agricultural calendar. Another more powerful example concerns rice milling. Studies reveal that even after all inputs, including electricity, are "correctly" priced, mechanized rice milling -- which is known to have powerful labour-displacing effects -- remains clearly more profitable than the hand-pounding of rice by women using the traditional *dhenki* in rural Bangladesh. In other words, techniques could well be unresponsive even to moderate factor price changes when only a limited number of options exist as against the infinite range of technical possibilities postulated in theory. Further, it needs to be remembered that capital price corrections would also raise the price of credit, and also the price of current capital in the form of production inputs such as fertilizer. Any reduction in the use of these divisible *land-augmenting* and hence *labour-absorbing* inputs would imply a negative impact on employment. The net result of these opposed tendencies is an empirical matter, but there are plausible a priori reasons for not expecting adjustment to unleash any powerful process of labour absorption and poverty reduction through its agriculture-related effects.

This conclusion, tentative as it must be, would be less cause for concern if the agricultural sector had posted a strong performance in the recent past. However, this has not been the case for most South Asian countries. Table 3 provides a quick assessment of the adequacy of the performance using two simple, but sturdy, yardsticks. The first is the requirement of the food balance: the rate of growth of food production should be able to meet food demand, i.e., to cover the needs of the additional population at the same rate, and then to meet the demand arising on account of an increase in per capita income in the economy. A notional level of the income elasticity of food demand has been posited for economies, making arbitrary adjustments for the negative relationship between this elasticity and the level of per capita income of the economy. The second criterion pertains to the maintenance of the employment balance: growth must occur at a rate which is capable of absorbing additions to the labour force, clearly a minimum requirement in a region where at least three economies have a great deal of accumulated underemployment and slack in the rural sector. Here, it is necessary to specify assumed values for the overall elasticity of employment with respect to output. The exercise is done using economy-wide, rather than agricultural/rural growth rates. The results are merely indicative; nevertheless, they do provide a robust guide to the issue of adequacy. The bottom line must be that agricultural performance of the past two decades has been inadequate when judged against the requirements of maintaining the food or the employment balance.

This notwithstanding, another possible argument for not paying attention to agriculture

could be that it had been overtaken by the non-agricultural sectors as the prime generators of (the growth of) GDP. Should the industrial sector (or exports in general) have been large enough, and growing fast enough, it could be argued that the relative decline of agriculture reflected the expected outcome of a healthy process of structural change in the economy as a whole, involving the shift of resources away from low to high productivity sectors. This argument is also difficult to sustain in the South Asian context.

A third basis for condoning agricultural neglect could apply to situations where agricultural households were participating substantially in non-agricultural activities as well. In this case, an overall shift in resources from the agricultural sector to the industrial sector would only alter the composition and sources of income for agricultural households. While such an assumption (of a multi-sectoral portfolio of economic activities for the agricultural household) might carry considerable credibility in the African rural context, South Asian agricultures are characterized by a much sharper separation. This argument also applies to the level of the region. In South Asia, several provinces or regions are primarily agricultural in nature, and any such bias in resource allocation and performance would affect them disproportionately. Hence, there are serious distributional grounds for questioning this line of reasoning, and especially so where the consequences could be adverse for the rural poor, or for regional/ethnic relations.

It follows that there remain strong grounds for thinking sectorally with regard to agriculture due to both its potential contributions to growth and separately on account of its positive labour-absorption and distributional roles. Further, an autonomous agricultural-demand-led growth circuit would provide some insurance against the possibility, even if not likelihood, of the flashy export-demand-led connection blowing a fuse.

The case for the restoration of agriculture to the policy agenda has thus far been at an aggregated sectoral level. In this sense, it is analogous to arguments made in favour of agricultural trickle-down as against industrial trickle-down. It is necessary, however, to go further and to identify some features which the agricultural growth process would need to possess, especially if it was to serve as a key instrument for the alleviation of rural poverty.

There are several considerations here. First, in economies where the rural sector is characterized by high poverty and landlessness, the trickle-down effects of production-oriented strategies generate benefits which are concentrated on landowners; from the vantage point of the landless poor, the labour market related trickle-down effects are just too weak to make any appreciable dent on poverty.

Second, the answer in such situations has frequently been sought in promoting the rural non-farm economy. However, this sector of the economy is the most difficult to dynamise precisely where it is most needed, since it draws its force from prior dynamism in the mainstream industrial or the agricultural sectors. It should be remembered that the rural poor are already usually heavily involved in rural non-farm work; the problem is not extending this sector horizontally, but improving the terms at which the poor can obtain gainful employment in it.

Thirdly, hope has been pinned on the impact of new technologies, including especially biotechnology. While there are many potential gains here, it is not obvious how the landless population could have access to its benefits. Indeed, in the case of crops where there are demand constraints, sharp increases in productivity could lead to a deterioration in the terms of trade, and also lead to a net displacement of labour previously employed in producing the crop using traditional or pre-bio technology.

Fourth, the initiation of rapid agricultural growth is likely to demand a heavy injection of public resources and state action. At present there appears to be little evidence of government policy support for such programmes which would have to include major infrastructural and human resource investments for an extended period. Unfortunately, there are no strong grounds for assuming that in the absence of such action by the state, private sector agents will step in to meet this gap.

Fifth, the contention of the reformers that factor-price corrections, viz., the reduction of the relative price of labour, would benefit the poor through lowering the capital-intensive mechanization is questionable. The effect emerges from following the smooth curves of production functions in neo-classical textbooks rather than any corroboration from production techniques in reality. There are good empirical grounds for rejecting this claim as grossly exaggerated. From the point of view of the landless, this factor substitution effect is unlikely to substitute for a lack of growth.

It is not surprising then that some fundamentalists have given up claiming that the new growth process in itself would be an adequate strategy for removing poverty and made a case for targeted poverty alleviation programmes and interventions. The difficulty is that there is little political muscle or commitment behind this need and fund allocation and utilizations reflect the electoral cycle and the imperatives of the political popularity stakes. In addition, there are severe financial constraints, and such funds as are allocated have to work their way through a very leaky polito-bureaucratic channel before they trickle down to the intended beneficiaries. Further, it is well established that these funds have a very high rate of wastage on account of corruption and inefficiency at the project level. The cost-effectiveness of such programmes with respect to poverty alleviation is therefore quite low.

If agriculture is to grow and provide an independent internal basis for development, it would require a heavy dose of public resources, and this calls for appropriate prioritization. More importantly, if such growth is to reduce poverty, it is imperative to find ways of generating this growth process through the poor themselves as far as possible. Such an approach calls for thinking creatively and innovatively about the rural institutional environment. The case for conventional land reform might have been weakened by the progressive sub-division of holdings and the reduction of erstwhile kulaks to the ranks of ordinary peasants. However, other types of agrarian reforms, incorporating some elements of a redistributive land package, are also possible both at the level of production and local-level resource management and government. Should some land rights, and rights to the exploitation of public infrastructure (created through anti-poverty schemes) be vested in the rural poor themselves, they would have the productive base for economic diversification and expansion of group level activities. An inventorization of traditional as well as recent NGO-initiated proto-typical experiments in this area will only underscore the potentialities of such measures.

Consider the case of the construction of some minor irrigation works under the aegis of an anti-poverty programme funded with public money. Apart from the leakages above the project level, the poor really only gain in the construction phase of the project, and subsequently only marginally from the incremental labour demand generated by the availability of the scheme. Because there is seldom any cost recovery from the rich who gain from this windfall, they are also not involved in the planning or maintenance of the scheme, or in ensuring that it is properly constructed to the right design and materials specifications. As a result, there are tremendous losses in terms of the effectiveness of the scheme from the production as well as the poverty alleviation points of reference. This could be altered dramatically through institutional interventions which insert the rural poor into the picture in the form of lessors, or owners, of the works with the right

to charge for its usage, a right backed up by the authority of the state.

A second illustration is provided by the celebrated case of the *dhenki* and the devastating labour displacement effects caused by its replacement by small scale electrically powered rice mills. Even at undistorted prices, the latter are far more profitable than the former. A pure market solution would thus lead, as indeed it is doing, to a widening and intensification of poverty on this account, with the worst effects borne by the poorer of the poor from whose ranks the female *dhenki* workers were drawn. However, should the rights of ownership of a rice mill be vested in the set of women workers who were likely to be displaced, the benefits of high productivity and poverty alleviation could be combined simultaneously.

Various other forms of local level group-based institutional innovations can be envisaged in order to combine resource effectiveness at a micro-level with the objective of poverty alleviation. Such schemes could also be extended in scope to the introduction of accountability in social service delivery systems at the local level. In all such cases, however, the democratic character of these institutional interventions can be maintained only if their introduction is on the basis of the mobilization of the main constituency to which they are intended to cater, viz., the poor themselves. Should national governments and the representative organizations of the poor not be able to override entrenched landed interests, there would be little scope for such a path. On the other hand, if the land question is inserted with appropriate delicacy and political balance into such a package, it could be made into a non-zero sum game. In such an event, the rural rich might also stand to gain from such a change, and condone it.

It needs mentioning that such infrastructural and environmental programmes could have a major impact on agricultural productivity, and also release some of the burden for public financing of these schemes. To this extent they would automatically be counter-inflationary. Indeed, these schemes could be made essentially self- and pre-financing, so as to make them only minimally dependent on the public exchequer.

Finally, it needs to be emphasized again that such a strategy does not constitute an alternative to the export-led growth model. It can be combined with it. In doing so, the down-side risks of the latter are reduced, and the economy adds to its capability of reaching the poor across a broader interface. In the fundamentalist vision, the focal point has been the fat urban upper-middle class, said in India to number between 200 to 300 million; the aspirations and markets created by the insatiable needs of this stratum form the basis of the new growth strategy. However, this growth process has only tenuous links to the poor, especially in the rural sector, and such a strategy, especially if it were successful, would widen the social and economic gulf between these sections of the population. The other approach indicated here shifts, or develops a second, centre of gravity much further down and attempts to generate a growth process around the 400-500 million persons not found attractive by the managers of international capital. The balance of the argument thus far weighs heavily in favour of the favoured emerging elite; this paper is an attempt to highlight the short-sightedness and some fallacies of this approach, and to give voice to a voiceless position.

It should be obvious that analogous to this argumentation on agriculture, it would be possible to formulate other approaches with respect to the less glamorous sections of industry. Implicit in such thinking is a revised, but strong role for the state. There is also a far greater emphasis on human development, not in the form of resources functional to a narrow elite-oriented growth process, but as an objective in its own right. While recognizing the need to maintain fiscal discipline, it must also be recognized that a balance can be achieved at different levels of resource mobilization, and such an effort would be indispensable if the growth process is to be more broadly

based than the one likely to be installed on the basis of FDIs.

The population question: Some home truths

Finally, a brief unavoidable word concerning the issue which will not really go away soon enough by itself, no matter what the theories of demographic transition might promise in their optimistic reading. Without entering into the many complexities of the relationship between the rate of growth of population and economic performance, a few points need to be registered. In the long sweep, all economies can expect to transit through the various stages of the demographic cycle, and this would apply also to the Asian economies being considered here. However, the parameters of this cycle are influenced by structural, historical and social factors, as well as by policy interventions, with the result that a cross-sectional snapshot could not be expected to throw up any well-ordered ranking between population growth rates and the level or growth rates of per capita income and its correlates.

This is apparent in the Asian region. At the two ends, this correlation is indeed visible, with Taiwan, Province of China, and Korea displaying the lowest population growth rates of 1.6 and 1.5 per cent and the highest per capita income, and Bangladesh and Nepal, the two poorest economies registering the highest rates, with one exception. A closer look however confirms the absence of orderliness. Malaysia and The Philippines have rates well in excess of those for India and Sri Lanka despite enjoying per capita income levels 3 to 5 times higher. China also provides an example of a sharp intervention in the "spontaneous" unfolding of the demographic cycle. Similar rank reversals are also present when one considers the rates of growth, rather than the level of income. The population growth factor could not easily be ascribed a strong role in explaining the differential economic performance of South as against South-East Asian economies. It may also be recalled that some of the spectacular successes, e.g., Korea, Taiwan, Province of China, and China, are the results of growth processes which became operational several decades ago when the population growth rates in these countries were even higher than those of Nepal and Bangladesh today.

That said, it is also difficult to argue that a reduction in the growth rate of population on account of policy interventions in, say, Bangladesh or Nepal, would have a deleterious effect on the growth rate of GDP. In fact, there are good reasons to argue the opposite. Higher rates would reduce the proportion of income which could be treated as an investible surplus, whether at the level of the government (e.g., through the need for the horizontal expansion of social service investments) or that of the household. This involves the assumption, quite plausible in such labour-surplus economies, that the availability of additional labour would not, in itself, constitute a basis for any expansion of the GDP, viz., that population growth was largely dysfunctional with respect to output growth. If agriculture was characterized by diminishing returns, for instance, a higher population growth rate would require a disproportionate investment of resources to maintain per capita output. This could lower the rate of expansion of the non-farm sector, which in turn would weaken the impulse for overall GDP growth, urbanization, widening and deepening of education, etc., all factors which are meant to drive the economy through the demographic cycle. There is a danger, at low levels of income, of getting trapped in such a retrogressive combination of factors.

In a poor economy the crucial need is to achieve growth rates of agriculture which are well in excess of the population growth rate. Given the difficulty of achieving the former, and the rather strong upper bounds to it, some of the task of developing such a healthy differential must be borne by accelerated reductions in the growth rate of population. This applies with particular force in countries with high rates of population growth.

The Asian group reveals a considerable diversity of experience with regard to interventions in this sphere. Some, like Malaysia, have flouted, at least for a phase, the dictates of the flow relationships discussed above, and derived policy guidelines with reference to socio-racial factors and also the gap between the current population stock, and the projected ultimate carrying capacity of the land. Others like China have moved dramatically from a past policy which conceptualized the large stock of population as a resource to a draconian package of birth control. Singapore has adopted policies which (questionably) link fertility incentive structures with social engineering. While the need for reduction in the population growth rate is recognized almost universally, policies for accelerating the decline have largely focused on supply side family planning interventions. Too little attention has been paid to the other "policy" insights that can be derived from the variations in population outcomes with respect to social variables, in particular the welfare and decision-making status of women in controlling fertility decisions, especially in patriarchal societies. In this context, far greater attention and resources need to be diverted to human development, focusing especially on the position of women. Here there is a potential clash between private and social returns to investment. In a labour-surplus economy, the conflict between labour-market and educational participation at the level of the individual or household could act as an obstacle. The methodology of new theories of household economics is pitched at this level, and runs the risk of throwing up contrary policy deductions which could argue in favour of restricting educational expenditures, for instance. Such deductions would be singularly misguided since they would leave the external effects, operative over the long run, completely out of the reckoning. Finally, it must be emphasized that few such interventions are likely to work when there is sustained economic stagnation; just as additional population does not constitute a sufficient condition for accelerating growth, neither does additional educational attainment in a stagnating economy. The impact of policy and social interventions depends crucially on the pace of economic transformation. As such, population policies are unlikely to be able to act as the prime movers of growth; however, once an independent basis of fast growth is established, such policies could act as growth accelerators over the medium and longer terms. Unfortunately, since the connection between policy and outcome is not immediately obtained, such policies and their resource requirements, tend to be accorded low priorities. This is also apparent in the current phase of adjustment, which could set the clock back by a decade on this crucial front on account of its negative consequences for the funding of governmental social sector expenditures. The poorer economies, which most need to intensify such policy efforts, are precisely the ones whose capacity is likely to be most eroded.

However, resource constraints are only a part of the problem. Apart from obvious supply-side programmes, it would be far off centre to address the population issue via that concerning the empowerment and the emancipation of women. What is called for is a societal response, which embraces areas such as the health and education of females, from the girl child to the adult woman; which includes the question of representation and empowerment; which attacks patriarchical ideological attitudes and (anti-) social practices in all walks of life but first of all within the family and household itself. The dramatic speed with which the significant gains of the socialist era have been reversed in China demolishes any illusions about linearity or permanence in the achievement of gains in this struggle. All this has direct implications for the issue of population, since all too often, in societies and systems dominated by patriarchy, birth control becomes a short cut which introduces new forms of interference and violence against women's bodies and democratic rights. The unsavoury adjuncts and outcomes of the draconian one-child family programme in China provides one example of this, where the "social" need for population control and the patriarchical attribute of "son preference" generates a high-tension equation which is balanced through various forms of violence against women. There is an urgent need to think innovatively and boldly, but above all democratically, in this area.

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