"Lessons for Economic Growth"

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The question of how countries can achieve sustained economic growth is one of the most important issues in development. However, it is not always easy to determine the relevance of models of growth from one region to another. Although there are standard factors that contribute to economic growth such as labour, capital and technology, the complexities and nuances of each country's development process warrant specific consideration. This lecture will consider the type of policies that have fostered economic growth in the Asian economies before turning to discuss the need for not only economic reforms, but also legal and other non-economic considerations.

Keeping in mind the difficulties of generalisation, I will first examine some of the features of the successful developing Asian countries, particularly the East Asian "Tiger" economies, and China. To the extent that their experiences fill in some of the details that contour economic models, there may be aspects of their success that are worth considering. The East Asian "Tigers" are the most successful recent examples of development of small countries. For a large country, China has been a remarkably successful and stable economy in transition. The four original "Tigers," Hong Kong, Singapore, South Korea and Taiwan, achieved growth using an export-oriented growth strategy whereby governments utilised targeted industrial policy to promote investment in technological sectors geared at exports to a global market characterised by greater competition and more demand. The new "Tigers" of Malaysia, Indonesia, Thailand and the Philippines followed a similar path, upgrading their manufacturing capabilities in low technology manufactures to high tech goods with increasing shares in global market shares. This "opening" strategy does not entirely mirror the experience of China, whose "open door" policy in the 1980s was only one part of its reform path. China, due in part to its initial conditions, mixed market incentives successfully within a centrally planned economy. Agricultural reform, creation of a non-state sector in urban areas and the promotion of export-oriented areas such as Special Economic Zones represent the three prongs of China's gradualist reform path.

Although there are country-specific nuances, this is the first shared characteristic of these countries. Their reform strategy was to introduce reforms gradually rather than to undertake a rapid liberalisation in markets and in trade. This stands in contrast to the former Soviet Union and numerous other developing countries. A second factor is the focus on attracting Foreign Direct Investment (FDI) and fostering private enterprises, which led to the creation of a dynamic, private sector. Although public investment is useful in developing physical infrastructure which can support growth, private investment is both more fiscally sustainable as well as more conducive to improving productivity, which is a key parameter of long-run growth. Moreover, FDI is the classical vehicle for conveying more advanced technologies to developing countries, allowing for the adoption of more efficient production methods by host economies. Finally, a key aspect is the success of these countries in using the global marketplace and its significant amount of demand to stimulate domestic industries to develop scale economies and improve their competitiveness. Their "opening" has been directed by policy, though, which raises questions about welfare losses and the feasibility of other countries to replicate this successfully.

I have touched on the economic facets of growth, but as mentioned earlier, development is a complex concept. Sustainable development also depends on improved consumption, investment in human capital, fiscal discipline and consideration of the factors of stability, health, and natural resources. A final word to conclude my comments will relate to the need for a legal and regulatory framework to underlie efficient markets. Theoretical economic models are predicated on well-defined property rights and prices serving as efficient signals of scarcity. Moreover, confidence in contracting encourages transactions and a low risk of expropriation will increase investment in the longer term. Rules and regulations concerning corporate governance will ensure the viability of firms to obtain funding and produce goods and services. These are particularly necessary in a global environment characterised by international economic law and an emerging rules-based regime of trade and financial regulation.

Although lessons are difficult to draw from one region to apply to another, some traits of Asia's success may be useful to consider. Although any implications drawn for the economies of this region must take into account traits such as the resource-rich nature of some countries and each of their unique, initial conditions and histories. Also, we have learned from past experience is the need for institutions to accompany economic changes both to foster long-run growth and to avoid short-term financial destabilisation which have affected even successful developing countries, *e.g.,* the recent East Asian financial crises. Therefore, to achieve stable economic growth, not only must economic factors be considered, non-economic and legal reforms must also not be neglected. The East Asian success has not been without its pitfalls, but their experience may be useful in some ways to other emerging markets, particularly those interested in gaining shares in the global manufactures market and attracting more advanced technologies to facilitate economic growth.