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**POLICY ISSUES FOR THE ESCAP REGION: IMPLICATIONS OF RECENT
ECONOMIC AND SOCIAL DEVELOPMENTS**

(Item 2 (a) of the provisional agenda)

**REPORT ON THE CURRENT ECONOMIC SITUATION IN THE REGION
AND RELATED POLICY ISSUES**

Note by the secretariat

SUMMARY

Although the global economy lost momentum in 2002 in the face of weak investment activity in the private sector compounded by mounting geopolitical uncertainties, the ESCAP region remained largely unaffected. Developing economies of the region exceeded 2001 GDP growth by nearly 2 percentage points in 2002. Developed economies of the region also improved upon their 2001 performance in 2002, although Japan remained in recession. Over the region as a whole, inflation declined further in 2002 from an already low level in 2001. Higher GDP growth in the region was achieved partly through easier domestic monetary and fiscal policies and partly through higher intraregional trade flows. For 2003, prospects are beset by a range of uncertainties, principally the aftermath of military action in Iraq, the Korean situation, the impact of SARS (severe acute respiratory syndrome) in East and South-East Asia and prospects for the developed economies, including particularly the United States of America and Japan, given the strong downward pressure on the dollar exchange rate.

In the face of these uncertainties, it is nevertheless vital to stress the importance of long-term social issues such as education and health. The last two decades or more underline the positive impact of education and health on the economic development of countries and the well-being of societies and individuals. Moreover, the provision of education and health services are key elements for reducing poverty in developing countries. While the public sector remains the major provider of education and health services, additional resources need to be raised to expand the provision of such services using a number of channels. These include the private sector, communities, non-governmental organizations, foreign bilateral donors and multilateral organizations. An integrated approach to the provision of education and health services is recommended and in order to achieve better results in their delivery, more efficient utilization of resources is also important.

Along with the economic and social challenges facing the region, Governments also have to deal with environmental problems and the environment-poverty nexus. While rapid economic growth is seen as a central element in achieving poverty reduction, experience shows that growth is often accompanied by environmental deterioration that hurts the poor. Environmental policies have thus sought partly to attenuate the adverse effects of growth on the environment and partly to directly address the problems of the poor in ways that simultaneously have a positive impact on the environment. However, despite an array of policies and programmes used to attain these twin objectives, the track record thus far is not satisfactory. Greater effort is needed in building environmental awareness, decentralizing responsibilities and improving coordination between agents, policy makers and institutions to improve the effectiveness of environmental policies.

The present document is based on the *Economic and Social Survey of Asia and the Pacific 2003* and updates the information and data included in document E/ESCAP/1266.

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I. IMPLICATIONS OF RECENT ECONOMIC AND SOCIAL DEVELOPMENTS

1. The secretariat analyses recent economic and social developments in the region in the annual *Economic and Social Survey of Asia and the Pacific*. It also seeks to focus attention on the policy implications these developments are likely to have for Governments in the region. The 2003 *Survey* looks at short-term trends in the global economy in 2002, prospects for 2003 amid growing geopolitical tensions and uncertainties and the challenges that lie ahead for the ESCAP region. The *Survey* also considers longer-term social issues of relevance to the region, such as education and health services, and examines the policy options available to Governments for expanding the provision of such services. Finally, it looks at the linkages between environmental issues and poverty and makes policy recommendations in this regard.

2. In March 2002, the secretariat had noted discernible signs of recovery in the global and regional economies following the sharp slowdown in 2001. In the event, while the global economic recovery petered out in 2002 after an encouraging first quarter, the developing economies of the ESCAP region were able to maintain a relatively strong momentum of growth. GDP growth in 2001 by this group of economies was exceeded by nearly 2 percentage points in 2002. Indeed, at 5.1 per cent, it was the fastest-growing group of economies in the world in 2002. All the different subregions improved their growth performance in 2002 relative to 2001. The most impressive improvements in 2002 were recorded by East and North-East Asia and South-East Asia (see table).

3. The improved growth performance was based partly on the stimulus provided by easier macroeconomic policies, principally lower interest rates, and partly on the growth in intraregional trade. Macroeconomic easing was facilitated by the low inflationary environment; the collective rate of inflation in developing economies of the ESCAP region declined from 3.5 per cent in 2001 to 2.3 per cent in 2002. International trade by developing countries of the region exceeded world trade growth in 2002 in value terms (plus 2.1 per cent up to August 2002 on a year-on-year basis versus minus 2.4 per cent on the same basis for the world as a whole). However, the increase was offset to some extent by price declines in manufactured goods so that, notwithstanding the improvement in some commodity prices, on an overall basis developing economies of the ESCAP region suffered terms-of-trade losses during the year.

4. In the later part of 2002, geopolitical uncertainties emanating from the possibility of military conflict in Iraq, the knock-on effects of the terrorist attack in Bali and the situation in the Democratic People's Republic of Korea served to further undermine already low corporate confidence across the globe. Although GDP growth in the region remained largely unaffected by these developments, the uncertainty they generated was discernible in most of the stock markets of the region. By and large, stock markets tended to weaken in 2002, with minor upward rallies. There were few signs of a revival in corporate investment spending. Furthermore, as oil prices rose by some 50 per cent by the

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end of December 2002 on a year-on-year basis and little evidence of durable growth in the United States of America, Japan and the European Union (EU), which together account for more than 50 per cent of the exports from the region, the outlook for regional growth in 2003 became less favourable.

5. By mid-2003, after the SARS (severe acute respiratory syndrome) crisis broke in East Asia the region was in the grip of a daunting array of uncertainties that render an assessment of the outlook for 2003 problematic in the extreme. Externally, although the situation relating to Iraq has become clearer, demand for the region's exports in the developed economies remains weak as corporations continue to postpone new investment expenditures. Further, the world's financial markets (equities, bonds and foreign exchange) remain vulnerable to the strong crosswinds of low and fragile investor confidence aggravated by the rapid depreciation of the United States dollar. This could manifest itself in heightened risk aversion and exaggerated volatility in asset prices and trading volumes. A probable consequence of this could be greater instability in exchange rates, with investment funds flowing into safe haven-type outlets, such as precious metals, with deleterious effects even on trade-related cross-border financial transactions. Internally, a prolonged period of uncertainty would clearly have an adverse impact on business and consumer confidence, while the emerging security and health issues could deflect Governments in the region from focusing on development issues and implementing their reform agendas owing to a narrower concern with security and health matters in the short term.

6. If other things remain the same, however, or if the uncertainties mentioned above resolve themselves quickly and tourism, trade and financial flows are not disrupted for a prolonged period, the underlying strength of the region suggests that the developing economies of the region should be able to maintain their current growth momentum in 2003 broadly unchanged with the possible exceptions of East and South-East Asia. But, in order to achieve this, major policy issues and challenges have to be confronted by the Governments of the region. It should be stressed here that the balance of probabilities at the time of writing remains significantly weighted on the downside until the geopolitical situation and associated uncertainties are resolved. In the following paragraphs the recent performance and prospects for each subregion and the common policy issues and challenges facing the ESCAP region as a whole are discussed.

7. In the least developed countries (LDCs), GDP growth generally slowed in 2002. This was primarily caused by a slowdown in export growth and not, as in the past, by any adverse domestic developments. LDC exports are mainly destined for developed country markets and are still concentrated in a relatively narrow range of items, although newer exports such as garments have made a major contribution to export and GDP growth in Bangladesh in recent years. Tourism was also adversely affected as concerns about security kept tourists away from several of the LDCs, and especially countries such as Nepal, where the security situation worsened. On the plus side, inflationary pressures remained muted, with the exception of Myanmar. For the future, taking the

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LDCs as a whole, much depends upon the recovery of global growth in 2003 and more particularly upon growth in the developed countries.

8. As in the case of the LDCs, the Pacific island economies did not match the rest of the ESCAP region in showing a significant improvement in GDP growth in 2002. However, taking the economies as a whole, most of which have a narrow production and low population base, GDP stopped contracting and positive growth was attained in all the economies with the exception of Papua New Guinea. The most visible turnaround occurred in Solomon Islands, where GDP grew in 2002 after experiencing a contraction of 13 per cent in 2001. The lacklustre GDP performance contributed to problems in macroeconomic management. As a result, the inflation rate went up in all the main economies except Fiji, Tonga and Vanuatu. Despite the fact that the Pacific island countries are away from the areas of tension, tourism displayed a mixed trend; it recovered in Fiji but not in other tourism-dependent economies. For 2003, overall prospects are for GDP growth to exceed the performance in 2002. The Pacific island economies are substantially influenced by developments in Australia and New Zealand, which are expected to achieve GDP growth in 2003 at, or close to, that achieved in 2002.

9. The economies of Central Asia were little affected by the global downturn in 2001 and the pace of GDP growth remained broadly stable in 2002. Growth in the subregion was achieved on the back of growing investor and consumer confidence, which attracted enhanced external capital to resource-rich economies such as Kazakhstan and facilitated greater macroeconomic stability, particularly exchange rate stability, as production increased and inflation declined in virtually all the economies of the subregion. Against the overall trend, GDP growth tended to ease somewhat in 2002 relative to 2001 in the three largest economies, but was still maintained at a respectable pace. Central Asia remains heavily dependent upon the Russian Federation and strong growth in that country since the 1998 financial crisis has led to higher trade flows within the subregion on a more sustainable basis. The Russian Federation has been recognized as a market economy and its entry into the World Trade Organization should boost not only its own development but also that of the Central Asian economies, by locking them more firmly into the international economy. Prospects for 2003 are, however, subject to the uncertainty prevailing in the global economy at the present time. In particular, much will depend on the course of energy prices over the coming months.

10. In South and South-West Asia, GDP growth picked up in 2002 compared with 2001. This was mainly on account of the recovery of Sri Lanka and Turkey from negative growth in 2001 and higher growth in Pakistan and the Islamic Republic of Iran. India, the largest economy in this subregion, saw a marginal decline in its GDP growth rate in 2002 relative to 2001; unfavourable weather affected agricultural production and was essentially responsible for the small overall decline in the GDP growth rate. Inflation in the subregion remained unchanged; it went up in the Islamic Republic of Iran but came down modestly from a very high level in Turkey and in Sri Lanka. On the

external trade front, excepting India and Turkey, export growth remained subdued. However, with improved inflows of remittances and foreign capital, the foreign exchange reserve position improved significantly in nearly all countries of the subregion. In the case of India and Pakistan, higher inflows of foreign resources led to balance-of-payments current account surpluses. In 2003, the prospects are for a pickup in the overall GDP growth rate, especially in India, Pakistan and Sri Lanka. However, uncertainties remain: these are primarily external and could affect export growth adversely if growth in the global economy remains tentative or if prolonged military hostilities take place in Iraq. While the economies of the subregion are primarily domestic demand-driven, net exports make a significant contribution to GDP performance at the margin. In addition, other than the Islamic Republic of Iran, the subregion is a heavy importer of energy and higher energy prices would be a negative development for both growth and inflation in the subregion.

11. South-East Asia improved its rate of GDP growth from 2.3 per cent in 2001 to 4 per cent in 2002. Growth was strong in Malaysia and Thailand, driven, for the most part, by buoyant consumption aided by an upturn in electronics and electrical goods exports. Higher commodity prices were another positive feature in the subregion. These factors also applied to Viet Nam, where GDP growth remained buoyant in 2002. Growth was less strong in the Philippines and Indonesia, where the incidence of terrorist attacks tended to dampen business investment expenditure. However, the attacks had a minimal impact on tourism in the subregion, which accounts for 4-5 per cent of GDP in South-East Asia generally. Slower growth in the global economy in the second half of 2002 caused export growth to taper off in these economies and this phenomenon was responsible for the modest increase in output in Singapore in 2002 following a contraction in 2001. The outlook for 2003 is clouded by uncertainty on the external front. Even though exports to China increased rapidly in 2002 and should continue to grow in 2003, this may not be sufficient to offset the lack of robust growth in the United States, Japan and the EU. Domestically, strong consumption growth facilitated by easier macroeconomic policies is likely to be sustained but could come up against rising personal debt levels and the need to begin fiscal consolidation as a result of the rising public debt in several economies. Subject to these caveats and to the uncertainties in the international situation, especially the decline in tourism on account of SARS, the subregion could enjoy strong growth in 2003.

12. East and North-East Asia was the best performing subregion in 2002, led by strong growth in China and the Republic of Korea. Mongolia, the smallest economy in the subregion, also improved its GDP growth rate in 2002. In China, growth was particularly robust in the first half of the year. Both domestic demand and exports supported growth in the subregion. Domestic demand is mainly investment-driven in China, but rapidly rising middle-class incomes are boosting personal consumption expenditure as well, leading to the production of a wide array of consumer goods and a surge in foreign direct investment. In the Republic of Korea, domestic demand is both investment- and consumption-driven, the latter by the more liberal availability of personal credit from the financial

system. Exports increased sharply in the first half of 2002 as a result of the upturn in the information and communication technology sector. In the case of China, there was strong growth of imports from the region, with eight economies increasing the volume of exports to China by around 50 per cent in the first half of 2002. Growth was less strong in Taiwan Province of China and barely perceptible in Hong Kong, China. The former economy remains closely tied to the dynamics of boom and slowdown in the global high-tech industry, while the latter, which is now primarily a service-oriented economy, has been affected by the slowdown in cross-border financial transactions. Rising unemployment and falling property prices in Hong Kong, China, have shaken consumer confidence and, as in Japan, the economy has become mired in deflation, prices having fallen for four straight years. Deflation also affects China to some extent and Taiwan Province of China has seen no rise in prices for three years. Prospects for the subregion in 2003 are that GDP growth rates will be broadly maintained. This is likely to be the case in both China and the Republic of Korea. In Hong Kong, China, and Taiwan Province of China, however, SARS will almost certainly have a significant negative impact.

13. Of the three developed countries of the region, in 2001 and 2002 Japan experienced its third and severest recession for several years. Australia and New Zealand, however, with buoyant domestic demand, showed relatively strong growth at the upper end of growth within the OECD economies. This was despite drought in Australia, which reduced agricultural output substantially. There was deflation in Japan, while price pressures remained mild in Australia and New Zealand. The consensus view is that the Japanese economy appears to have bottomed out in 2002 and could see positive growth, albeit at a modest pace in 2003, as measures to speed up reforms in the banking sector begin to take effect. In Australia and New Zealand, strong domestic demand should preserve the current momentum of growth. However, with a deteriorating external environment and other uncertainties already referred to, there are risks on the downside. These are already reflected in lower consumer confidence in the two economies and a slower pace of output growth in the second half of 2002.

II. POLICY ISSUES AND CHALLENGES

14. The relatively short military conflict in Iraq with little or no disruption in the energy markets means that one major uncertainty has been removed. However, the SARS crisis has been an unexpected negative development in East and South-East Asia although its precise impact is not known at this stage. Furthermore, the situation in the Democratic People's Republic of Korea or a major terrorist attack could markedly worsen prospects in the region as a whole. Against this background, the following paragraphs discuss the policy issues and challenges facing the region.

15. Given the continuing absence of any evidence of a strong pickup in the global economy, particularly in the United States and Japan, sustaining growth in the region will depend primarily upon

growth-stimulating domestic policies. Any impetus from higher intraregional trade flows would enhance the effects of such policies.

16. Sustaining a high momentum of growth is needed not merely for its own sake but to address the issues relating to poverty in the region and simultaneously assist economies in the region in continuing to make progress in tackling corporate and financial sector reform. In this regard, it should be stressed that higher public expenditure on domestic law and order and security and on public health following the SARS outbreak, while clearly diverting resources from other uses in the short term, is actually essential for development owing to its positive impact on levels of confidence in the relevant economies. It is particularly important in economies that have significant tourism sectors.

17. Domestic demand stimulus measures have relied on a mixture of fiscal and monetary policies. There is no doubt that with levels of public debt exceeding 50 per cent of GDP in most economies of the region the question of fiscal consolidation has to be tackled in earnest before too long. In the case of monetary policy also, as a result of falling inflation, interest rates have reached quite low levels so that the scope for further reduction is limited in most countries. Given the varying positions of individual economies of the region in this context, any general policy recommendation would clearly be inappropriate. However, there would appear to be a strong case for Governments to put both fiscal and monetary policies within a medium-term framework in which short-term flexibility can be combined with medium- or longer-term discipline. Countries could begin implementing a programme of refinancing older, higher-cost debt with lower-cost debt, given the lower interest rates currently available, and anchor it within a credible debt target, measured as a ratio to GDP, to be achieved, say, over the next five years taking into account currency and other risks.

18. With regard to monetary policy and the use of inflation targeting, there is some concern that the authorities may be erring on the side of keeping inflation low and thus sacrificing growth to some extent. Since very low rates of inflation, or even deflation, rather than high inflation, are prevalent in a number of economies in the region and could potentially be as intractable as high inflation, the need for more flexible monetary policies is obvious. In particular, low inflation caused by a collapse in demand following the bursting of an asset bubble is likely to require rather more aggressive policy interventions than incremental adjustments in interest rates.

19. The programmes of reform of the corporate and financial sectors that have been formulated in several countries over the last five years must continue to be implemented with renewed vigour. The problem of corporate restructuring involving major balance-sheet adjustments in terms of lower debt-to-equity ratios has made only slow progress thus far. This problem is intimately related to the non-performing-loan problem in banks, which, in turn, is an impediment to the revival of credit demand in many economies of the region. Ideally, both of these problems need to be substantially reduced over the next three to five years. It is worth noting that levels of investment in the private sector are still

below pre-1997 levels in South-East Asia. Without a pickup in private investment, long-term growth is likely to be jeopardized.

20. The reform effort applies equally to improved standards of governance and more efficient delivery of services in the public sector. Governments in the region need to instil much greater discipline, higher standards of accountability and more effective utilization of the limited resources available to them for the provision of public services. Waste and corruption not only lead to the poorer delivery of services but also lower the morale of providers and users alike and undermine productivity in the economy.

21. By the same token, as emphasized in the past, countries dependent upon official development assistance (ODA) need to redouble their efforts to improve the utilization of external assistance by drawing up realistic projects for such funding and improving their aid management skills. The improved climate for ODA flows may suffer major harm if aid utilization skills do not match up to much higher expectations in the future.

22. One of the central challenges of globalization is that countries have to compete for markets. Globalization manifests itself in intensified competition among firms on a transnational basis, necessitating efficiency in the utilization of both capital and human resources. Governments must strive to provide a stable macroeconomic environment, realistic exchange rates and improvements in the physical infrastructure to enable firms to compete, and the firms themselves must promote innovation, improve product and service quality and become more receptive to change.

23. The momentum of trade liberalization, including action in trade facilitation, should be maintained. It is widely accepted that regional trading arrangements can be a useful complement to the multilateral trading system and enhance its effectiveness. Nevertheless, the recent increase in bilateral trade agreements in the region should not serve to reduce the commitment of Governments to promote the multilateral objectives of the Doha Development Agenda, which is in some danger of missing deadlines in key areas of negotiations.

24. The current weaknesses in the global economy and concerns with security and health issues such as terrorism and SARS and the use of the international financial system by terrorists require significantly enhanced cooperation at the regional level in the exchange of information, intelligence and policy-making in the area of security and public health issues. In previous years the need for vigilance in pre-empting financial crises and containing their contagion has been stressed. Policy coordination to enhance growth is another area deserving attention and such coordination could be promoted initially through the various subregional organizations in the ESCAP region. An area where this would be particularly appropriate is developing policy responses to the unravelling of the global balance-of-payments position involving major exchange rate adjustments in the months ahead. Following SARS, there is also an urgent need to establish robust mechanisms for the prevention and control of epidemics through intergovernmental cooperation in the area of public health.

III. THE ROLE OF PUBLIC EXPENDITURE IN THE PROVISION OF EDUCATION AND HEALTH SERVICES

25. Generally speaking, the education sector claims the largest share of public expenditure devoted to social services in the developing countries of the region. Out of 32 economies for which data are available, 15 devoted more than 15 per cent of total public expenditure to education in 2000. Most economies in the region were able to raise the share of public expenditure going to education between 1980 and 2000. For health, a comparison of the shares of expenditure on health in total public expenditure between 1980 and 2000 presents a mixed picture. Out of 18 economies for which data are available, 10 show an increase and the remainder a decrease.

26. The public sector remains a major provider of education and health services in the developing countries of the ESCAP region. By and large, countries with higher public expenditure on education and health show better outputs and outcomes in this regard. But, equally, better results also depend on the more effective and efficient utilization of the available resources. Therefore, not only are additional resources needed to expand the provision of education and health services but measures to enhance their effective utilization and maximize their positive impact, particularly on marginalized groups, are also important.

27. While improving the education and health of people is a desirable end in itself, its positive impact on the overall development of a country can be far-reaching. The provision of education and health services is a key element in any policy to promote broad-based economic growth. The main asset of the poor is their labour and both education and health services clearly improve labour productivity and the earnings of workers.

28. Education is considered a major remedy for many problems faced by the developing countries. The linkages of health to poverty eradication and long-term economic growth are strong and education and health are important tools to empower poor people and overcome exclusion based on gender, location and other correlates of poverty. Key policy issues relevant to expanding resources for education and health and improving their effectiveness and efficiency are highlighted below.

Policy issues

29. The public provision of education and health services may be considered using a combination of the rights-based and needs-based approaches. Owing to the limited resources available to Governments in developing countries, the universal provision of education and health services is almost impossible. However, basic education and primary health care command general support under the rights-based approach. As a result, the public provision (free or subsidized) of education and health services can respond to the broad needs of society and, more particularly, those of marginalized and disadvantaged groups.

30. Huge financial resources are needed for expanding and improving the quality of education and health services in most countries of the region. Such resources can be obtained by shifting them from other sectors with low productivity.

31. Education and health services are in the nature of public goods and their economic and social benefits extend beyond the persons directly receiving them. The role of the public sector will remain important in the provision of such services. As such, more public resources are needed to expand access to them and improve their quality.

32. The most reliable and sustainable public source is tax revenue. Countries in the region have been reforming their tax systems and many of them have introduced value added taxes. Improving tax administration and expanding the tax base could generate additional revenue in the future.

33. Generally speaking, education and health services are provided by the public sector either free or at a nominal charge. Modest user charges for an improved quality of service can be introduced to reduce the burden on the public sector. For equity considerations, however, mechanisms need to be devised so that the poor are not barred from using these services because of lack of income.

34. The active involvement of the community and non-governmental organizations (NGOs) can augment resources for education and health. Communities can make contributions in kind and/or in cash. NGOs have been active in the education and health sectors in a number of developing countries; they can mobilize resources from within and outside a country and can also provide leadership for advocacy in highlighting the important role of education and health in society.

35. In addition to mobilizing extra resources, the impact of education and health services can be enhanced through the utilization of public resources more effectively and efficiently. Improving the quality of services, enhancing access to education and health for marginalized groups, prioritization of expenditure within sectors and good governance merit special consideration in this regard.

36. Private sector participation improves quality, raises efficiency and augments the supply of education and health services. This, in turn, allows an enhanced allocation of public resources in rural and remote areas as well as urban slums, where such services are poorly provided and are most needed. As such, participation of the private sector should be encouraged and, at the same time, Governments should have in place a proper regulatory regime to maintain standards in education and health services.

37. Governments of many developing countries have borrowed heavily in the past and a major part of their revenue is currently spent on debt-servicing, including the servicing of foreign debt. As a way of augmenting resource availability, from the donors' side, rich countries could assist developing countries in the provision of education and health services through debt reduction. At the same time, from the recipients' side, more effective utilization of aid in developing countries could foster a more positive climate of public opinion in the donor countries with donor Governments becoming more

supportive of debt relief and of increased ODA funding in developing countries for education and health.

38. Despite the improved coverage of education and health services in most countries, certain segments of the population have not benefited enough and access to these services has remained unevenly distributed. Three main groups, people living in rural and remote areas, poor people generally and women, need to be specially targeted to achieve more equitable results in this respect.

39. Additional public resources should be devoted to the provision of education and health services in rural and remote areas. The balanced development of rural areas would also help in managing rural-to-urban migration. Within urban areas, slums and localities of poor people should be targeted for enhanced public spending on education and health.

40. Education and health indicators, as measured by national averages, are not satisfactory in many countries. The situation of the poor is likely to be much worse in these countries, since the poor tend to have limited access to education and health services, which in turn keeps them poor and the vicious cycle of poverty continues. Therefore, the children of the poor should be given special incentives in the form of assistance through scholarships, free textbooks and uniforms to improve their access to education.

41. Gender inequalities remain serious in many countries. Certain affirmative measures can help in enhancing female access to education. Particularly in rural areas, there is a need to make parents aware of the importance of girls' education through publicity campaigns. As with the children of the poor, scholarship schemes, free textbooks and other supplies for girls could be used to encourage them to attend school. Enhancing the representation of women in management positions in the education and health sectors could help in looking after the concerns and needs of women more effectively.

42. Even with a fixed quantum of resources, improved outcomes can be achieved through the reprioritization of expenditure within the education and health sectors according to needs and importance. Developing countries need quality education at all levels, including tertiary education, to absorb new technologies. Information and communication technology needs to be promoted in education at all levels. However, for countries with low enrolment ratios, higher priority should be given to achieving universal primary education, followed by improvements in secondary and higher education.

43. Within the health sector, greater emphasis tends to be given to curative rather than preventive services. However, preventive measures to improve health, such as access to safe drinking water, adequate sanitation and mass vaccination against communicable diseases, are also very important. These can reduce the need for curative services. The priority in public health expenditure should be to provide primary health care to all, particularly in rural and remote areas and for disadvantaged groups.

44. In many countries, the education and health sectors are under enormous stress due to population pressure. One of the most important health interventions is greater attention to reproductive health, not only to control the spread of sexually transmitted diseases such as HIV/AIDS, but also to limit fertility through the provision of family planning services, including access to contraception.

45. By improving governance, significant resources can be saved and utilized for improving access to, and the quality of, education and health services. More effective implementation of checks and balances and greater decentralization in the provision of education and health services can help in controlling waste and leakage of resources.

46. While better education and health outcomes contribute to economic growth, the causality also runs in the reverse direction. Financial resources for education and health can be made available more easily in a growing economy. Therefore, policies aimed at broad-based growth should be vigorously pursued.

IV. ENVIRONMENT-POVERTY NEXUS REVISITED: LINKAGES AND POLICY OPTIONS

47. The tension between growth and environmental objectives can be resolved by designing and implementing environmental policies which have a beneficial impact on the poor and poverty reduction policies and programmes which contribute to the improvement of the environment. This overview seeks to survey selected policies and programmes that have been implemented in this area in the Asia-Pacific region and analyses them to find ways to increase their effectiveness.

48. The eradication of poverty is a major development challenge. Rapid economic growth is often seen as a key element in achieving poverty reduction. However, experience shows that rapid economic growth is often accompanied by environmental deterioration that adversely affects the poor.

49. Environmental deterioration, such as depletion of natural resources, raises atmospheric pollution, reduces biodiversity, dries aquifers, pollutes aquatic and marine ecosystems and increases the production of waste matter, which has adversely affected the poor because of their locational disadvantages, higher dependency on environmental resources and insufficient assets for coping with environmental hazards.

50. Despite the existence and use of a large number of policies and programmes, the track record in improving the state of the environment in the region does not speak highly of their efficacy. The reasons for the limited success of environmental policies are embedded in the prevailing economic concepts relevant to the environment, which make the associated policies difficult to implement. The relatively intangible nature of environmental costs, the negative externalities associated with such

costs and the existence of the free-rider problem are reasons for market failure and effectively restrict the role of public policy in this area.

51. For many developing countries, enhancement of economic growth is often the major macroobjective of economic development. It is assumed that sustainable poverty reduction will take place through the trickle-down effect of economic growth. Based on this premise, an effort is made to sustain the tempo of economic growth and policies and programmes are formulated to mitigate the adverse environmental impact of economic growth and reverse environmental degradation. Given the background of possible positive linkages between the livelihoods, income and health of the poor and the environment, such actions would strengthen the trickle-down effect of economic growth and lead to a reduction in poverty. Experience shows, however, that the linkages are more complex and require well-designed policy interventions.

52. To begin with, it is necessary to secure stakeholders ownership through vigorous awareness-building campaigns. Decentralizing the responsibility for designing and implementing environmental policies and programmes, improving coordination between agents, policy makers and institutions and establishing and maintaining good standards of governance are other critical requirements. Their combined impact on poverty is a further element. Policies and programmes relevant in this regard are explained in the following paragraphs.

Policy options

53. Environmental policies can be classified into two broad groups: (a) those which aim at reducing the adverse environmental impact of economic growth, ultimately leading to an improvement of the environment in general and consequently having a beneficial impact on the poor, and (b) those which are specifically targeted at the poor and simultaneously have a positive impact on the environment.

54. Within the first group, sustainable development plans and policies aim to minimize the adverse environmental impact of economic growth by promoting conservation measures, reducing pollution and using clean production technologies. The objectives of the plans and policies are to ensure that economic growth and development take place with minimal damage to the environment.

55. At the same time, sectoral plans and policies have been developed to address concerns regarding agricultural land and water. Multisectoral and multidisciplinary action plans are being implemented to rehabilitate degraded water quality and ensure the provision of a safe drinking water supply in many countries of the region.

56. Command and control systems utilize the power of the State to force consumers and producers to adhere to environmental norms and good practices. A number of countries have used licences and quotas to control deforestation and regulate effluents, emissions and disposable wastes.

57. Market-based fiscal incentive-disincentive systems influence the behaviour of producers and consumers by providing them with a choice as to the extent and nature of responses for reducing environmental damage and are the easiest to administer; they also lead to revenue generation. Major market-based instruments which have been used in the countries of the region are environmental taxes, user charges, targeted subsidies and deposit return systems.

58. The existence of functioning institutions and horizontal and vertical linkages between them are crucial for formulating and implementing effective environmental plans and policies. Although there is room for improvement in the mechanisms for coordination, modalities for horizontal coordination on environmental matters already exist in many countries in the Asia-Pacific region.

59. To strengthen vertical coordination, provincial-level environmental agencies have been set up in many countries and local governments have been given the responsibility of formulating and implementing local environmental protection plans.

60. Among policies directed at reducing poverty and improving the environment, the provision of property rights to resources such as land, water and trees has played an important role in poverty eradication by simultaneously providing a motivation for resource conservation in rural areas. Social forestry is a very effective modality for poverty eradication and improvement of the environment, and a large number of countries in the region have adopted this policy to improve the environment and simultaneously provide a means of livelihood to the rural poor.

61. Implementation of anti-corruption measures and disaster management plans and policies are associated with strong beneficial impacts on the poor. Corrupt practices can be reduced by providing quality information on the state of natural resources. Effective publicity relating to corrupt practices, anti-corruption laws, the existence of environmental protection agencies and laws and ensuring that violators of laws are punished can reduce unsustainable management of natural resources, especially forestry resources.

62. Natural calamities, such as cyclones, typhoons, flood and mud slides, tend to occur fairly regularly and affect many countries in the region. These can best be managed through the formulation of disaster management plans. The elements of such plans are improved forecasting, the setting-up of early warning systems and the maintenance of uninterrupted communication between potential disaster-prone communities/areas and Governments. Wide publicity concerning warnings of any impending calamity and various types of disaster preparedness and relief measures, such as making essential goods and services available at reasonable prices (or for free) in disaster-struck areas, and ensuring the timely availability of medicines and medical assistance following a natural calamity, are other elements of disaster management plans.