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Summary of the economic and social survey of Asia and the Pacific 1998

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I. Recent economic performance and problems

A. Growth and stability

1. World economic growth remained strong in 1996-1997, averaging more than 3 per cent. A trend that began after the 1991-1993 recession thus continued. World trade growth, on the other hand, slowed considerably in 1996, though it picked up again in 1997. The world financial markets remained buoyant, with inflation and interest rates in the developed countries remaining low and the stock markets rising. Increased volatility in both the stock and foreign exchange markets, however, accompanied those trends.

2. The slowdown in world trade, particularly in sectors of major export interest to the developing countries of the region, was a factor in sharply widening the current account balance-of-payment deficits of a number of countries in the region. Although the volume of capital flow worldwide continued to rise, the inflow of capital to the developing countries of the Economic and Social Commission for Asia and the Pacific (ESCAP) region tended to decline in 1996-1997. The trade slowdown and the reduced financial flows to the region are two major elements in the international economic situation that have adversely affected the economies of the region and led some of them into serious crisis.

3. Although the trade slowdown affected most economies, the reduced private-sector financial flows affected the East and South-East Asian economies the most. The reduced aid flows, on the other hand, impinged most on the least developed and the Pacific island economies.

4. The economic performance of the least developed countries of the region (other than the five in the Pacific) generally strengthened during 1995-1996, and remained relatively strong in 1997. Under diverse circumstances and local conditions, the growth prospects remained uncertain in a number of them. Most of them, however, have been striving to stabilize their economies and to improve medium-to-longer-term growth prospects by implementing stabilization and structural reform measures. Some of them have planned to achieve growth rates of 7 to 8 per cent for the remaining years of the decade. With that objective, measures were under way to reduce budget and balance-of-payment deficits, reduce price inflation and improve saving-investment performance through greater mobilization of domestic resources. Trade, investment and financial sector reforms were being carried out to improve overall performance. The private sector was being encouraged to play a greater and more active role in the saving-investment and production processes.

5. The economic performance of the Pacific island economies continued to reflect the diversity of their economic structures, resource endowments, level of development, and ability to respond to the external and internal shocks to which they are frequently subjected. They have generally achieved less than 3 per cent rates of growth in recent years, which often do not even match population growth rates and therefore hardly allowed any improvements in living standards. The improved international prices of several commodities, such as cocoa, copra and copra oil and gold, had enabled some countries to achieve somewhat higher growth rates in 1996. But prospects in 1997 were uncertain because the prices of the agricultural commodities and primary materials on which they substantially depend showed divergent trends.

6. By 1996-1997, most of the economies of North and Central Asia had succeeded in reversing the economic decline that had prevailed since the beginning of the 1990s and to set themselves on the path to positive growth. Following positive gross domestic product (GDP) growth in Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan and Uzbekistan in 1996, the Russian Federation also recorded positive growth in 1997. Turkmenistan's economy further contracted in 1997, owing to a crisis generated by huge shortfalls in the production of cotton and natural gas, with its spillover effects on the rest of the economy.

7. Their recent positive achievements reflect progress towards organizational, institutional and policy reforms, started some years ago to turn the formerly planned economies into modern market economies. The success of economic reforms was most visibly reflected in the reduction of inflation rates and the stabilization of the interest and exchange rates. With the restoration of stability, those economies are expected to receive further boosts in investment and growth through to the year 2000.

8. In South and South-West Asia, GDP growth was relatively strong and steady, at 6 to 7 per cent in 1996-1997 in India, the Islamic Republic of Iran and Turkey. In Pakistan and Sri Lanka, growth decelerated considerably in 1996, though Sri Lanka was expected to recover in 1997. The overall performance of countries in the subregion is considerably influenced by the weather conditions affecting agricultural production, given the still large share of that sector in the economy. Industrial production has responded well to recent policy reform and restructuring measures. However, industrial output expansion in many countries remained severely constrained by power shortages and other infrastructural weaknesses. Services sectors have been more resilient, and have contributed significantly to overall growth.

9. Increased private-sector participation in investment tended to strengthen investment activities, though investment rates continued to remain generally low. Stagnant domestic savings rates and failure to attract foreign capital to any significant extent restrained investment growth. A major reason for low domestic savings rates has been high budget deficits, which countries have been seeking to reduce. Relatively high rates of inflation prevailed in the Islamic Republic of Iran, Turkey, Pakistan and Sri Lanka. India, on the other hand, succeeded in lowering its inflation rate significantly.

10. Over much of 1996 and indeed well into 1997, the South-East Asian economies continued to perform strongly, with GDP growth rates only slightly lower than the 1991-1995 average. In fact, the Philippines, Viet Nam and Brunei Darussalam achieved growth rates higher than their 1991-1995 average. But they were adversely affected by the significant deceleration in world trade growth in 1996, particularly certain sectors of importance to South-East Asian exports. Among the economies most affected, Thailand's growth rate declined by nearly 2 percentage points, though the economy still registered a GDP growth of 6.7 per cent in 1996. Singapore's growth rate also declined, from an 8.5 per cent average in the first half of the 1990s to 7.0 per cent in 1996.

11. The slowdown in GDP growth also brought into focus certain fundamental weaknesses in the economies, mainly in the widening current account deficits during the period 1994-1996. Many countries had linked their currencies primarily to the United States dollar, which has appreciated significantly since 1995 against other major currencies. The resulting appreciation of local currencies was a factor adversely affecting exports while encouraging rapid import growth. The current account deficits widened sharply in some cases, funded by continued financial flows, with a growing component of short-term debt. Over the years, those inflows caused banking assets to expand. A large proportion of loans went to unsound investment, for example, in the property sector. Oversupply in that sector and a fall in property values started a chain reaction. The financial institutions found themselves saddled with bad loans, and stock markets slid down. Ultimately, a loss of creditor confidence in the financial system and in the debt repayment abilities of countries worsened the crisis, which spread to a number of countries.

12. Their currencies came under serious pressures against which their semi-fixed links with the United States dollar were no longer defensible and were put on float during the second half of 1997, starting with the Thai baht in July. Since then, currencies have floated down precipitously, requiring some countries to negotiate packages of financial assistance from the International Monetary Fund (IMF). Prospects for growth over the next 2 to 3 years crucially depend on the length of the current crisis. Growth forecasts for all of the economies have been lowered for at least the coming 2 to 3 years. Among the three countries most affected by the crisis, Thailand expected -3 per cent growth in 1998 after -0.4 per cent growth in 1997. In Indonesia and the Republic of Korea, rates of growth are expected to be halved from those of 1997, which were already 2 to 4 percentage points lower than in 1996.

13. The economies of China, Hong Kong China and Taiwan Province of China have been the least affected by the financial turmoil in the Asia and Pacific region, although the latter two suffered bouts of instability from time to time and Taiwan Province of China had to devalue its currency by 15 per cent against the United States dollar in October 1997. The Chinese yuan renminbi and Hong Kong dollar have remained stable throughout. By far the worst affected economy in the East Asian region has been that of the Republic of Korea, which in November 1997 was compelled to apply to IMF for assistance in the face of increasingly severe pressure on the currency, the financial sector and the stock market. In response, in December 1997, IMF organized one of the largest financial rescue packages ever, amounting to $57 billion, with $21 billion in standby credits from IMF itself and the rest from other donors.

14. For China, prior to the development of the financial market turmoil the principal concern was the need to moderate inflation without overly restraining the momentum of growth, i.e., achieving a "soft landing" for its economy after more than three years of double-digit growth. This was achieved in 1996, with inflation moderating significantly and growth slowing only slightly. Problems of overheating had begun to affect the other economies of East Asia as well in 1995. The slowdown in export growth, combined with the institution of monetary restraint, reduced inflation, with growth rates by and large remaining unimpaired. In the Republic of Korea, however, the slowdown brought into sharp focus the widespread weaknesses in the corporate sector and the attendant fragility of the financial system.

Rates of economic growth and inflation in selected economies of the ESCAP region, 1996-2000
(Percentage)

	Real gross domestic product					Inflation[a]				
	1996	1997[b]	1998[c]	1999[c]	2000[c]	1996	1997[b]	1998[c]	1999[c]	2000[c]
Developing economies of the ESCAP region[d]	**7.2**	**6.2**	**4.3**	**5.9**	**6.7**	**6.7**	**6.8**	**8.8**	**7.6**	**6.7**
South and South-West Asia[e]	**6.2**	**6.3**	**6.3**	**6.5**	**6.7**	**13.0**	**11.4**	**9.2**	**8.7**	**6.7**
Bangladesh	5.3	5.7	5.6	5.8	6.0	4.0	3.9	5.0	5.0	5.0
Bhutan	6.4	5.7	5.3	7.3	8.1	9.0	8.0	7.8	7.6	7.4
India	6.8	6.9	7.0	7.1	7.2	10.0	8.0	6.0	5.0	5.0
Iran (Islamic Republic of)	5.2	5.7	2.6	3.0	3.1	23.2	18.5	20.0	25.0	..
Nepal	6.1	4.9	6.0	6.0	6.0	8.1	8.0	..	..	..
Pakistan	4.6	3.1	6.0	7.0	7.0	10.8	11.8	9.0	..	..
Sri Lanka	3.8	6.2	6.5	7.0	7.5	15.9	10.0	10.0	9.0	8.0
Turkey	7.0	6.3	5.1	4.1	5.8	75.9	80.6	59.4	53.0	43.7
South-East Asia	**7.2**	**4.2**	**1.0**	**4.1**	**5.1**	**6.0**	**8.4**	**12.6**	**10.5**	**9.1**
Indonesia	8.0	4.7	-1.5	3.5	4.0	6.5	11.1	22.5	21.5	22.0
Malaysia	8.6	8.0	4.5	4.8	7.0	3.5	2.7	3.5	3.0	2.0
Myanmar	5.8	5.0	6.5	6.6	..	16.3	29.4	25.7	24.0	..
Philippines	5.5	5.2	4.0	5.5	6.9	8.4	7.2	8.4	7.3	7.0
Singapore	7.0	7.0	4.5	6.3	7.0	1.3	1.8	2.5	2.5	2.5
Thailand	6.7	-0.4	-3.0	1.8	3.4	5.9	7.4	11.6	6.0	5.0
Viet Nam	9.3	9.0	8.7	8.8	9.0	4.5	3.5	5.0	7.0	7.0
East and North-East Asia	**8.1**	**7.3**	**5.1**	**6.8**	**7.5**	**5.6**	**5.2**	**7.9**	**6.7**	**6.5**
China	9.7	8.9	8.0	8.7	9.4	6.1	5.5	7.8	8.5	8.5
Hong Kong, China	4.9	5.4	4.0	4.4	4.4	6.0	6.1	4.6	4.2	4.1
Republic of Korea	7.1	5.9	2.0	5.2	6.2	4.9	4.5	9.0	5.3	4.8
Taiwan, Province of China	5.7	6.4	5.5	5.8	6.7	3.1	2.8	3.5	3.3	3.2
Pacific island economies	**2.2**	**0.5**	**3.8**	**2.0**	**3.2**	**8.7**	**5.6**	**4.3**	**4.3**	**..**
Cook Islands	-2.5	0.5	3.0	6.0	6.0	-0.6	-2.0	..	..	..
Fiji	3.1	1.0	3.8	4.0	3.1	3.1	3.0	3.0	3.0	3.0
Papua New Guinea	1.9	0.3	3.8	0.9	..	11.6	7.0	5.0	5.0	..
Developed economies of the ESCAP region	**3.6**	**1.0**	**1.3**	**1.6**	**1.9**	**0.4**	**1.3**	**1.3**	**0.7**	**0.8**
Australia	3.6	3.1	3.6	3.5	2.6	2.6	0.6	3.1	2.8	3.4
Japan	3.6	0.8	1.1	1.5	1.9	0.2	1.3	1.2	0.6	0.6
New Zealand	2.1	1.5	3.5	2.6	2.1	2.3	1.7	1.1	1.5	1.0

Sources:

Economic and Social Commission for Asia and the Pacific, based on International Monetary Fund, *International Financial Statistics*, vol. L, No. 9 (September 1997) and *World Economic Outlook* (Washington, D.C., October 1997); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 1997* (Oxford University Press, 1997), and *Asian Development Outlook 1997 and 1998* (Oxford University Press, 1997); United Nations, *Project LINK World Outlook*, 5 November 1997, and *The World Economy at the Beginning of 1998* (December 1997); The Economist Intelligence Unit, *Country Report: Myanmar (Burma)*, fourth quarter, 1997, and *Country Report: Iran*, fourth quarter, 1997; and national sources.

[a] Refers to changes in the consumer price index.

[b] Estimates.

[c] Forecast.

[d] Based on data for 22 developing economies, representing about 95 per cent of the population of the region (excluding the Central Asian Republics); GDP at market prices in United States dollars in 1995 have been used as weights to calculate regional and subregional growth rates.

[e] Estimates and forecasts for countries relate to fiscal years, defined as follows: fiscal year 1997/1998=1997 for India; fiscal year 1996/1997 = 1997 for Bangladesh, Pakistan and Nepal.

15. Of the three developed economies in the region, the economic performance of Australia remained strong, with GDP growth rates expected to exceed 3 per cent in 1997. The budget and the balance-of-payments deficits were reduced and the inflation rate was running low. Government policies were adjusted in a number of directions to correct some of the weaknesses that the economy developed, as reflected in some slowdown in GDP growth in 1997. The economies of Japan

and New Zealand, on the other hand, relapsed into slower growth or stagnation in 1997. In Japan, the economy almost stagnated in 1997 after a recovery from a prolonged recession, with 3.6 per cent growth in 1996. The New Zealand economy also slowed to a growth rate of 1.5 per cent in 1997, from a level of above 2 per cent in the previous two years. A demand slump in both countries was a common cause for the slowdown, but the Japanese economy also had deeper problems in certain of its structural features and persistent difficulties in the financial sector.

16. Available data on expected/planned/forecast rates of economic growth and inflation for the years 1997 to 2000, with estimated actual rates for 1996, are given in the table for selected economies of the region.

B. Equity

17. Equity commonly features among the most important development objectives of developing countries. Accordingly, an assessment of the achievements in the region in terms of equity is undertaken in the present survey, for which purpose equity is measured in terms of reduction of absolute poverty and of inequality. The proportion of the population below the poverty line is used as the measure of absolute poverty. Two measures are used for inequality: the Gini coefficient and the ratio of income/expenditure of the top 20 per cent to that of the bottom 20 per cent.

18. The incidence of poverty has decreased in all countries of the region over the past two to three decades, but the rate of decline has slowed in some countries in recent years. That slowdown, coupled with population growth, means that in several countries there has been no change in the total number of the poor. The picture is mixed with respect to reduction of inequality: some countries have improved, there has been deterioration in a few and in others no significant time trend appears to exist. Moreover, even in some countries where significant improvement has taken place over time, there have been reversals at different points. Hence, there is still a need for continued attention to equity in all countries.

II. Policy issues

A. Policies for growth and stability

19. Most of the developing economies in the region have been pursuing policies and measures for macroeconomic stabilization and structural reforms of their economies. The basic tenet of reforms has been to liberalize the economy by removing or reducing measures of control on trade, investment and economic activities generally so as to open them to private-sector participation, both domestic and foreign. Trade regimes have been freed by the virtual removal or drastic reduction of all regulatory controls on them, as well as by a substantial reduction in import tariffs. The financial sector has been similarly liberalized to allow the private sector to provide wide-ranging financial services, by substantially easing entry restrictions into the sector and allowing the financial institutions greater freedom to set interest rates and credit allocations by using market criteria.

20. Some countries, particularly in East and South-East Asia, have gone further than others in liberalizing their economies and have enjoyed very high rates of economic growth and trade expansion over a period of a decade or more. Regarding external financial transactions, they have not only fully liberalized payments on current account but have also abolished or substantially liberalized controls on capital account transactions. Hardly any control on foreign exchange transactions has remained. Other countries, which initiated or accelerated the reform process more recently, have not yet gone as far to liberalize their trade regimes or their external financial transactions. Thus, although current account transactions have been fully liberalized in many countries, including those in South Asia, they have yet to open their capital account transactions fully and to proceed further to liberalize their trade regimes. All countries, however, have committed themselves to further reform and liberalization, not as voluntary gestures to be retracted at will but as binding commitments under World Trade Organization agreements. In the context of the current financial crisis affecting economies in the region, many countries may find it more difficult to proceed with their reform agenda, or at least may opt to proceed more cautiously.

21. The crisis in the region has served to focus attention on two crucial areas: the establishment of an appropriate exchange rate regime and the need to overcome the weaknesses of the domestic financial sector. Both issues need to be properly addressed.

22. Since the 1970s, there has been a gradual but significant shift towards more flexible exchange rate arrangements in virtually all economies. In certain cases, countries have opted for arrangements that allow frequent adjustments, such as exchange rate bands, managed floats or even freely floating rates. In other cases, countries have opted for exchange rate stability by anchoring their currencies to the United States dollar.

23. The destabilizing potential of free financial and capital flows requires countries to maintain both internal

macroeconomic and external balance-of-payments stability. Large domestic deficits are clearly not favoured, and ensuring fiscal balance becomes important. The burden of ensuring domestic macroeconomic balance thus rests increasingly with fiscal policy as external openness imposes constraints on monetary policy to achieve the objectives of domestic stabilization with unintended impacts on the external sector and the exchange rate. Governments should therefore ensure that policies are compatible and avoid serious conflict of objectives, such as aiming simultaneously at a stable exchange rate, financial openness and monetary independence, the so-called “impossible trinity”.

24. This implies that in financially open economies, Governments are faced with a difficult choice between stabilizing the exchange rate with a fixed parity or within a relatively narrow band of flexibility, or alternatively pursuing monetary policy for domestic stabilization irrespective of the consequences to the exchange rate under a free float. Governments in the region should opt for the most appropriate policy mix as regards the exchange rate. The current difficulties encountered by some countries in the region could have been partly the result of attempts to keep the exchange rate stable in the face of changes taking place in both the internal and external environments.

25. It should be stressed that the sustainability of a current account deficit is determined not only by its magnitude but also by the mode of financing. The greater the recourse to short-term funds, the greater the risk of reversibility if market operators lose confidence owing to dissatisfaction with any particular aspect of policy or concern about borrowers’ capacity to meet repayment obligations.

26. The crisis has revealed particularly serious weaknesses in the financial sectors of many of the economies affected. This has involved not only the operations of the financial entities but also the regulatory and supervisory regimes governing them. On the one hand, the intermediating entities appear to have been unaware of or unable to gauge correctly the underlying risk of many of the investment and lending decisions they had taken; on the other, they have not had the capital strength to absorb the subsequent losses. In addition, supervisory and regulatory bodies appear to have been lax in carrying out their functions effectively, whether in the matter of banking regulation or in stock market supervision, but particularly in allowing a lack of transparency to flourish.

27. One policy implication is that countries adopt the process of financial liberalization gradually. In addition to economic fundamentals, a sound and solid financial sector prior to the liberalization of the capital account is vital. Governments in the region should establish a proper regulatory framework and more effective implementation of that framework. Equally important, proper accounting and disclosure requirements need to be in place. In particular, accounting rules regarding non-performing loans and adequate provision to cover them, the legal lending limit on insider borrowing, the consolidation of financial reports of financial and related companies in the case of extensive cross-holding and interlocking of ownership between them, and the short-term foreign debt reporting system need to be established and enforced. In their absence, any business or company evaluation and analysis rest on poor financial data and become either biased or meaningless; in effect, decisions regarding financing rely heavily on investor “confidence”, which can be very fragile and volatile.

28. Governments have a critical role in putting in place proper supervisory and regulatory bodies. Governments should consider the viability of establishing an integrated supervisory framework for the financial sector as a whole. There is a growing worldwide trend to adopt such an integrated framework, recent cases being in the United Kingdom of Great Britain and Northern Ireland, Japan, the Republic of Korea and (to some extent) India. The main rationale for this is to respond to the fact that many banks, non-bank financial institutions and securities and insurance firms engage in a variety of financial transactions in different financial markets, both directly and indirectly. In the existing supervisory framework, each separate body supervises only one type of financial institution. The supervisory body or bodies also tend to be ill-equipped to monitor the financial activities of institutions and the risks involved, and hence unable to enforce prudential standards.

29. A related issue is the role of the central bank in financial supervision. Governments may consider leaving the supervisory functions to a separate autonomous body and leaving the central bank solely to conduct monetary and exchange rate policy.

30. Lack of depth and breadth of financial markets in the region have contributed to recent market turbulence. Regional financial market integration may change that, or at least mitigate the volatility, thanks to the increasing economies of scale involved in providing financial services, so that a wider range of more efficient services can be offered to a larger number of participants in a regionalized market. Governments in the region have initiated such a scheme involving some commodity futures trading, which is essentially a financial derivative market. Governments may consider extending or replicating the scheme to other financial markets, such as the equity, debentures, derivatives and money markets.

31. The globalization process, which has been characterized by imbalances and occasional disruptions in financial markets, brings the issue of market stabilization to the fore. Although speculative activities can be useful in correcting imbalances between national or regional markets, thus promoting global efficiency in the long run, there is concern whether the short-run costs may exceed its long-run gains. Speculative transactions can be quite disruptive. The role of speculative instruments, such as hedge funds, needs to be investigated, as well as how a better framework of international surveillance and supervision could be designed to prevent undue disruption.

32. A further policy option is to slow down the adverse consequences of speculation by taxation, or "putting sand in the wheels of international finance". Governments may consider imposing taxes on local companies engaging in currency trading, particularly in the spot market. The Tobin tax proposes to levy a small globally uniform tax applied to spot transactions on foreign exchange, with the twin objectives of deterring speculative flows and allowing greater autonomy to national monetary policy. So far, international agreement has been difficult to achieve, and the idea of the tax remains academic.

33. The need for greater regional cooperation has been felt more urgently in the wake of the recent financial crises. So far, there has not been much progress on the proposed Asian fund, but it may merit a serious examination. Greater regional cooperation is also needed to address the issues and problems of financial sector regulation, the setting of common prudential standards for the industry and an early warning system for the appearance of significant non-performing banking assets or of other financial sector risks. Governments in the region may also explore the feasibility of establishing a private international credit insurance scheme dealing with cross-border financial claims (it should be noted that for foreign direct investment, there is the Multilateral Investment Guarantee Agency scheme sponsored by the World Bank, which insures foreign direct investors against political risks).

34. Financial market instability has been aggravated by perceptions of weaknesses in the financial sectors of some countries, and by the lack of reliable relevant information regarding their operations. That situation has arisen from differing standards of regulation, the lack of information regarding non-performing banking assets and the variability of standards of corporate accounting prevalent in different economies. It would appear, therefore, that arrangements capable of generating and transmitting more accurate, transparent and timely information regarding the build-up of significant financial risks within a particular jurisdiction would be very useful for authorities in another jurisdiction.

35. Much of the current crisis in the region can be traced to doubts regarding the ability of some economies to service their foreign liabilities, especially short-term debts. Doubts arose because market operators appeared to be unaware of the true extent of the affected countries' indebtedness, principally because short-term debts had not hitherto been included in the official debt data. All economies need to make substantial improvements in that area by providing comprehensive and timely debt information to counter the deleterious effects of rumour and speculation. Governments could discuss the modalities of its implementation, such as setting out common definitions and reporting requirements on a collective basis.

B. Policies for promoting growth with equity

1. Human resources development

36. The region has made major progress in human resources development, particularly in terms of indicators of health and education. However, there exists wide disparity among and within countries. Public provision or support of education and health services is crucial for the poor, who cannot afford to pay the prices charged by private providers. Additional resources will be required for expanded coverage, as well as qualitative improvements. In order to meet the cost of required investment in human resources, it will be necessary to improve systemic efficiencies, re-examine intersectoral and intrasectoral priorities, explore options for cost recovery, and secure greater involvement of the private sector, non-governmental organizations and communities in the provision of services related to human resources development.

2. Agricultural development

37. Agricultural development can play an important role in promoting both growth and equity in many countries of the region. The policy actions required for development of this sector relate to, inter alia, technology, input and output pricing, credit, rural infrastructure and land relations. The last issue typically receives inadequate attention from policy makers. In consideration of the fact that the landless and the small agricultural households constitute the majority of the poor, efforts to provide greater access to land for the poor through tenurial as well as redistributive land reforms should be strengthened.

3. Macroeconomic stability

38. Inflation adversely affects economic growth through disincentive effects on savings and productive investment. It

also exacerbates inequity by causing an erosion in the real income of the poor, thereby reducing their capacity to avail themselves of nutrition, health and educational services. Macroeconomic stability should therefore be pursued in order to foster growth with equity.

4. Demographic factors

39. High fertility is typically associated with poor families. It also adversely affects economic growth by increasing dependency ratios, which often lead to a reduction in savings and investment. Policies of fertility control should include publicly provided or publicly subsidized services relating to family planning, wider female education and better child health care. There is a need both to increase the financial resources allocated for those purposes and to enhance the efficiency of related delivery systems.

5. Small and medium-sized enterprises

40. Small and medium-sized enterprises are perceived to have several advantages compared with their large counterparts because of their ability to generate greater employment, including for women, their lower production costs and their greater utilization of local resources. They also suffer from several weaknesses that cannot be overcome without support in the form of strengthening links between large and small firms (for example, through subcontracting), facilitating modernization and technological improvement, training of entrepreneurs and managers, and provision of incentives that are time-bound and tied to appropriate performance criteria.

6. Targeted programmes

41. Targeted programmes for poverty alleviation are needed, particularly for ameliorating the conditions of those who cannot benefit from the broader policies discussed above. Some programmes in the region, such as Grameen Bank of Bangladesh, have achieved phenomenal success. Broadly speaking, however, there is a considerable need to improve the design and implementation of those programmes through better targeting of beneficiaries; ensuring the participation of the poor in project design, implementation, monitoring and evaluation; and increasing coordination among multiple programmes implemented by government agencies and non-governmental organizations and the private sector.

7. Management of short-term crises

42. Temporary crises may seriously affect lower-income groups. Such a crisis may be caused by natural factors, such as floods or droughts, external shocks, such as the sudden loss of an export market for a product leading to firm closures and unemployment, or major domestic restructuring, such as large-scale privatization. Governments need to be prepared to meet such contingencies through cash transfers, in-kind relief, public works programmes and support for self-employment.