Poverty and deficits linger

Structural adjustment programs (SAPs) are conditional policy changes implemented by the World Bank and the International Monetary Fund in developing countries to reduce a country’s fiscal imbalances. They reduce the role of government and focus on macroeconomic reforms such as promoting free trade and deregulating financial, legal and regulatory frameworks.

The policies of SAPs typically constitute a phase of ‘stabilisation’. These policies can include a 0–1 per cent budget deficit, control of inflation, a new competitive exchange rate through devaluation and equilibrated balance of payment and a phase of ‘structural change’ that includes liberalisation of trade and capital flows, privatisation of public industrial and service enterprises and financial and administrative reforms to introduce market forces in the public
And Japan. Intel, Nike and Canon have set up there, and FDI has risen from 25 per cent of GDP in 1990 to 66 per cent today, with the bulk going into the manufacturing sector.

Vietnam’s entry into the World Trade Organisation (WTO) in late 2006 is expected to provide a further impetus for growth, not just in terms of opening export markets, but also because of the ongoing deregulation of the local market. For example, before last year, foreign companies were not allowed to participate in distribution to the retail market in Vietnam and, as a result, there were no foreign franchise outlets to be seen in Vietnam’s major cities. Meanwhile, more than 70 per cent of households avoid bank loans to finance a motorbike or build their homes and rely instead on family or friends. The opening up of these new markets to foreign firms and the infrastructure required to support these activities will drive Vietnam’s economy towards rates in the vicinity of 7-8 per cent per annum over the next five years.

THE YOUNG ONES
Indonesia and Vietnam’s demographics compare favourably to China’s. Indonesia has 222 million people and Vietnam 84 million. By 2015, Indonesia is expected to have a population of 251 million and Vietnam 96 million.

The populations are large and young. Comparing countries by median age of the general population, Indonesia ranks 83rd (median age 26.5) and Vietnam ranks 95th (median age 24.9), far younger than China which ranks 57th (32.6 years) and Australia in 36th place (36.6 years). The demographics have implications for consumer behaviour in the future, as a lower dependence ratio in Indonesia and Vietnam means that the younger segments of the population will be under less pressure to support their elderly relatives. In contrast, the savings rate is expected to remain high in China until a social safety net is secured.

Well-educated, dynamic and fun to be around

sector. Although SAPs have successfully opened many economies by eliminating excessive and inefficient state control, they have mostly failed to control fiscal deficits and, more importantly, to alleviate poverty. Launched in 1997 with the consent of the World Bank, the Structural Adjustment Program Review Initiative Network (SAPRIN) investigated the impact of SAPs in eight countries: Bangladesh, Ghana, Uganda, El Salvador, Mali, Zimbabwe, Ecuador and Hungary. It found that structural adjustment measures have significantly increased poverty, inequality and social exclusion. Meanwhile, a study of Sub-Saharan Africa (SSA) found that even after three decades of SAPs, ‘sustainable economic and market viability is yet to be restored in any single country’.

So what went wrong?

GOOD GOVERNANCE
The most common elements of good governance include political accountability, a sound judicial system, accountability and transparency and, most importantly, incorporation of market principles in the operation of public organisations. Good governance needs a high level of cooperation and collaboration between sectors to ensure synergistic relationships and lower governance transaction costs.

A World Bank-commissioned study from 2003 identified a set of governance indicators covering almost 200 countries for the period 1996-2002. It focuses on six dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption. These indicators are closely interlinked and it is reported that adherence to any of the six indicators causes a two-and-a-half-fold increase in per capita income, a four-fold decrease in infant mortality and a 15-25 per cent increase in literacy. The establishment of good governance – critical for the successful outcomes of the reforms – therefore remains as a great challenge for both International Financial Agencies (IFAs) and third world countries.

CONDITIONALITY AND POLICY OWNERSHIP
Aid conditionality has been used by the financial agencies as a popular instrument to promote policy reforms in third world countries. However, so far this
Although China has a much larger population, only 40 per cent of the population lives in urban areas against 48 per cent in Indonesia. Vietnam has a lot further to go on urbanisation but the process also implies opportunities for infrastructure development in the major urban centres around Hanoi and Ho Chi Minh City.

**RESOURCE RICH**

Both Vietnam and Indonesia are believed to have substantial oil and gas resources. Both export oil at the moment but are net importers of petroleum products due to a lack of domestic refining capacity. Indonesia has been aggressively developing its gas industry with an eye toward exporting liquefied natural gas through the region. Coal is one of the largest areas of industrial production in Vietnam, with strong growth also recorded in natural gas in recent years.

Indonesia and Vietnam also have substantial manufacturing bases that are viewed as globally competitive due to lower labour and land costs. While labour is arguably not as productive as in China, Indonesia and Vietnam are viewed as good alternatives to an increasingly expensive China. Their geographic location and multiple domestic ports – while still lacking world class infrastructure – make both countries well-suited for production for export markets.

In Indonesia, the up-and-coming sectors as judged by domestic investment flows are paper products manufacturing, chemicals and pharmaceuticals production and food processing and production. Foreign investment has lagged the domestic action. It has been a tiny fraction of domestic investment with a paltry US$3.7bn invested in the first half of this year. In Vietnam, from a production-for-export perspective, textiles and footwear has been a key focus, particularly as China’s response to rising trade tensions with the US has been to tighten regulations that supported cheap manufacturing of these goods in China.

Finally, domestic demand for services in both countries is growing strongly. Vietnam literally cannot find enough professionals, whether it’s in the legal, accounting or financial field. The take-off in both countries of Information and Communication Technology (ICT) and popular media provides huge opportunities as well. Going forward, the strong reputation of Australian firms in tertiary education and health care position them well to provide these services in the rapidly growing markets of Indonesia and Vietnam.

Conditionality has not delivered the desired rates of compliance among the loan recipient countries. Despite the expansion of its use since the 1980s, conditionality is being questioned as ineffective, intrusive and corrosive. The problem with it lies in the actual ownership of the program. Put simply, country ownership of programs is essential as this not only generates a firm commitment from the national government, but it also increases the probability that programs will succeed and that money and resources provided will be used properly.

**STAKEHOLDER INVOLVEMENT**

Agreements on implementation of programs reached in non-transparent discussions between small groups of national government officials and the World Bank is a top down approach that can exclude important stakeholders such as local governments. Realising the importance of the involvement of stakeholders, Poverty Reduction Strategy Papers (PRSPs) now place a strong emphasis on making policies inclusive of all stakeholders. Reform policies promoted by the IFAs in third world countries have not been able to achieve their expected benefits in most of the cases. Realising the failure of the policies, the IFAs have considerably changed both their policy response and philosophy regarding third world countries. PRSPs have now become the basis for all debts/loans provided by the IFAs and are expected to be country-owned and involve the participation of all stakeholders.

There has been much attention about the importance of promoting good governance in third world countries but, in reality, the issues of good governance, stakeholder involvement and country ownership have not been addressed adequately. As a result, despite all the rescheduling and restructurings, economic development in third world countries remains elusive.