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ECONOMIC TRANSFORMATION LESSONS FROM LARGE DEVELOPING COUNTRIES

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List of acronyms

BNDES	Brazil’s National Development Bank
DD	Demographic Dividend
DPM	Deputy Prime Minister
EPB	Economic Planning Board
GDP	Gross Domestic Product
HCI	Heavy and Chemical Industry
ICT	Information and Communications Technology
IT	Information Technology
OECD	Organisation for Economic Co-operation and Development
PCI	Product Complexity Index
R&D	Research and Development
SITC	Standard Industrial Trade Classification
TFP	Total Factor Productivity
US	United States
WEF	World Economic Forum

Executive summary

This paper examines the key lessons for successful economic transformation based on experiences, both positive and negative, of large economies in East Asia and Latin America. As a general guide, it can be noted that countries that have successfully managed major economic transformations have done so with consistent, sustained and coordinated policies across a number of key markets. Many countries err on the side of single policy interventions that are unsupported by the many other policy actions needed to transform economies. Those that have managed their transformations well have had a long-term vision and have been able to sustain policies towards long-run objectives. They have used price signals from international markets and have been able to craft coordinated policies between the private sector and public policy agendas. In particular, the paper stresses the following areas for policymakers to consider in designing their own transformative policies.

- The relevance of **competitiveness regardless of market size**. Under the right conditions, competition among firms within a large domestic market can spur the improvements in efficiency and the acquisition of technological capabilities necessary to become competitive in international markets, as in the experience of South Korea. However, even for the largest economies, international competitiveness has to be the goal and yardstick of success if the productivity gains of economic transformation are to be realised. The policy temptation to regard the domestic market as a sufficient basis on its own for transformation can be very strong but in practice has weakened the industrial performance of economies like Argentina and Brazil. In those countries, domestic firms protected by high tariff barriers have had little incentive to upgrade, and industrial transformation has remained a distant hope as a consequence (a spectacular exception in both countries has been the performance of the agriculture sectors).
- ***Infrastructure.*** Levels of public investment in transport and energy vary substantially among large economies in Asia and Latin America and the differences account for some significant divergences in pace of transformation, the efficiency of logistics, and ultimately export viability. The notion that the private sector will fill infrastructure gaps is wrong, since public investment crowds in private investment. Inter-temporal investments choices are a key to transformation and growth.
- ***Skills.*** Success in transformation typically involves a good deal of movement of skilled labour between industries as firms move up the value chain. One of the keys to the exceptional industrial dynamism of countries like Korea has been the creation of an adaptable workforce with middle-range skills, essentially secondary school graduates with strong abilities to be trained in new machinery and industrial processes. In today's world of disruptive technologies, a greater attention to digital skills is also a necessity.
- An **approach to 'industrial policy'** in which firms or sectors identified as potentially competitive internationally receive government support linked explicitly to their export performance. Targeted credit, technology access assistance and subsidies through trade tariffs and the tax system are a familiar feature of economic policy in most developing countries. Typically, however, these arrangements are a costly result of bilateral deals between firms and politicians, with little genuine economic rationale. What makes the difference is basing the choice of target sectors on potential global competitiveness and then enforcing rigorously the conditions firms have accepted in exchange for special treatment.

There are six ways in which these policy orientations just described can be put into place. Successful implementation requires attention to the following aspects:

- ***Appropriate timing of policy changes:*** The most effective policy changes are very well thought out, announced and explained in advance, and then systematically implemented in ways that become irreversible.

- ***Consistency of policy packages:*** Trade, monetary and fiscal policies must work in harmony; no single policy action can succeed without a series of complementary measures acting in co-ordination around economic transformation.
- ***Clarity of policy objectives:*** Economic agents prefer certainty; they will respond better to well explained policy changes expressed in terms of clear multi-year goals than to confused messages that suggest the government may not be serious and changes may not be permanent.
- ***Garnering support for the policy changes:*** The changes in policy orientation required to allow a country to embark on economic transformation produce winners and losers in the short run, but a sufficient consensus can be achieved if firms are shown a road map towards future profitability.
- ***Adjusting long-term goals to short-term political realities:*** Smart adjustments to the design of new policies may, in addition, allow losses to be cushioned in ways that do not compromise the long-term objective.
- ***Monitoring, evaluation, and mid-course corrections:*** All of the leading industrial economies in East Asia made major mistakes in industrial strategy that needed to be corrected; rigorous, independently minded and politically supported monitoring of current strategies is essential, to allow correctives to be applied in sufficient time, so that ultimate goals are not compromised.

1 Introduction

This paper explores the lessons of large developing and emerging countries (Argentina, Brazil, China, Indonesia, Korea, Mexico, Viet Nam and others) have done to transform their economies. It first reviews the lessons on policy orientations for economic transformation (Section 2) and then the factors behind the process of successful policy formation and implementation (Section 3). Section 4 concludes.

2 Economic transformation lessons

2.1. Setting the stage

The fact that Nigeria's GDP accounts have been recalibrated to make it the largest economy on the continent sets the bar higher in terms of the potential gains from economic transformation, just as the oil price decline make it more imperative that diversification and new development pathways be quickly discovered. Imbedded in the new GDP accounts is the finding that manufactures are indeed a larger share of national output than previously thought, which is a potentially positive development. Why might this be so?

We know from the work of Rodrik (2015) that countries are reaching their peak in terms of manufacturing as a share of national GDP at an earlier stage of development than did countries in the past. Indeed, some large economies have seen their share fall dramatically, in the case of Brazil from 30% in 1980 to 15% in 2010, with serious consequences for the drivers of growth. Absent commodity exports, whose boom has now passed, Brazil has become a premature service economy. This is not a recommended pathway, and it useful to delve into how this occurred. In contrast, Indonesia, another large and populous economy, has fared much better and has managed the transition out of primary commodity production more smoothly and to greater gain in terms of economic growth by maintaining a significant presence in manufactures.

While it may prove elusive to follow the path of South Korea, China or even Vietnam in the process of industrialisation (Rodrik, 1995, 1996), there are certainly policy lessons embedded in those development stories that can be extracted from their unique institutional contexts for the benefit of policy-makers seeking options for the future. That is the objective of this annex.

2.2. International competitiveness: is it necessary, and if so, how to achieve it?

Large economies have the obvious advantage of large domestic markets. This can be a blessing or a curse. It is a blessing because in the long run, as the economy is transformed from agriculture and primary commodities to manufacturing and ultimately is dominated by services, size is a distinct advantage for aggregate demand management. It is an advantage as well for short-term economic management, again since aggregate demand can be called upon via incentives favouring consumption in robust domestic markets. It is not a blessing, however, if size leads to an over-reliance on consumption at the expense of investment or of an undervaluing of exports. The lessons of South Korea and other high-income economies that were low-income economies as recently as one generation previously is that they saw exports not only as the engine of growth but also as the yardstick of efficiency. Without that hurdle of entering global markets, how can a government promote efficiency?

We have seen in the cases of Brazil and Argentina that domestic industry is extremely comfortable behind higher than average tariffs and other measures of protection to operate in large national markets with very little effective competition. This yields low-quality products and unfortunately translates into an inability to sell those products or similar ones overseas. Domestic industry is thus a stay-at-home sector, rent-capturing, less innovative, and below global standards. This situation makes economic transformation much harder to achieve because domestic firms do not have to perform well to do well. If

Nigeria is to be a major centre for increasingly higher-value-added production, it will have to achieve these high export standards at home. This can only be fostered by intense domestic competition, easy entry without administrative or economic barriers, and access to credit for new entrants. Here we are advocating a Schumpeterian approach so favoured by Aghion (Acemoglu, et al., 2004, 2006; Vandenbussche et al., 2006) and others who seek to move industries to the technological frontier.

In some sectors, as Aghion et al. (2004) argues, firms use existing technologies and merely compete on price. These are ones a distance away from the frontier. Since the size of the domestic market conveys certain economies of scale and other advantages, firms will also gain in size. The key advantage of vigorous domestic competition, however, is that some firms will decide to move to new industries, moving closer to the frontier via new products, innovation, and market presence. These will be the industries of tomorrow. They cannot emerge, however, without intense competition, often not only requiring effective competition agencies but also necessitating governments to avoid capture by existing large firms. Many countries, including Korea and Mexico, among major economies have struggled with this as noted by OECD studies on competition.

2.3. The importance of infrastructure

Large economies can be divided into those that have and those that have not invested sufficiently in infrastructure. In the former category, we can place Korea and China, and in the second group we can put Brazil and India. The results are clear. Korea is ranked 21st on the Logistics Perception Index and Brazil is ranked 65th. The history of Korea and China tells the opposite story and yields efficient ports, sufficient energy, and strong transport systems. As an example of the importance one should place on infrastructure (Goswami et al., 2002), India was reported by researchers to be competitive with China in 1990 in the garment and textile sector on the basis of wage versus productivity comparisons; however, when the logistics costs of energy interruptions and transport costs were included, that competitive equality quickly disappeared. Energy costs to Brazilian businesses are two-and-a-half times that of those in the US, and were it not for the miracle of agricultural productivity there, its commodity export advantage would be decimated by high transport costs. Yet Brazil has consistently underinvested in infrastructure (Elstrodt et al., 2007).

Public spending in Brazil has favoured not only social programmes such as Bolsa Familia, with high merit, but also programmes that benefited early retirement, fuel subsidies, and other consumption-based tax incentives rather than long-term investments. Mistakenly, the government has often thought that the private sector would pick up the slack; however, as research at the World Bank (Calderón and Servén, 2004, 2010; Servén, 1996; Servén and Solimano, 1992) and elsewhere (Agénor et al., 2005) has shown, public and private spending on infrastructure are complements, not substitutes. Put differently, in order to encourage successful public-private partnerships, especially in transport, the government needs to ‘crowd in’ rather than ‘crowd out’ the private sector.

Governments that spend as little on investment as Brazil, in the range of 18% of GDP, compared to 35% in Korea or perhaps the excessive 45% in China, cannot expect to be competitive when it comes to logistics. Moreover, the lack of efficiency in infrastructure sectors has negative spillover effects in other areas of competitiveness and also diverts business spending from forward-looking areas like R&D to less useful spending on electric generators and secure trucking to more efficient ports. At least that is the experience of Brazil. In contrast, economies of East Asia, such as Korea, Malaysia and Singapore, have invested significantly and wisely to achieve the highest levels of performance in their ports, airports and logistics chains. Economic transformation based in part on infrastructure improvements lays the ground for further advances, yet each policy bottleneck has the potential for derailing future growth.

2.4. Upgrading skills for progress

One of the major lessons of the Spence Commission on Growth and Development is the importance of investments in education and in the development of basic skills that are transferable between industries. An important finding that goes beyond what is widely known about basic education and its quality,

recently highlighted again by the work of Pritchett (2006), is that skills are learned on the job and that formal sector employment yields many externalities in terms of quality improvements in the labour force. We know from the experiences in Latin America that premature increases in formal sector benefits and wage taxes that create wedges between productivity and wages that are damaging. The manner in which formal sector wages are set in Singapore, for example, by a trilateral process involving business, labour and government, has seemed to work well.

One little-known fact about Korea's remarkable development success is that decade-to-decade comparisons of the 'top five export industries' between 1960 and 2000 rarely show the same industries. This industrial dynamism and rapid move up the value chain that others seek to emulate, would not have been possible without an adaptable and skilled workforce, and essentially high school graduates with strong abilities to be trained for new machinery and new industrial processes. This aspect of labour force training has proven more elusive in India, despite a cadre of top-flight graduates in the sciences and IT. In the case of Brazil, TFP has not budged much in the course of the last twenty years, while the minimum wage has increased significantly. The result has been laudable improvements in measures of inequality, but flat productivity. As noted in the next section, there are areas where government can work side by side with businesses to upgrade the quality of the labour force, provided that basic education goals have been achieved.

2.5. The role of government and views on industrial policy

There are a number of key lessons to take away from the development experiences of major economies, such as Korea, Brazil, China, India, Indonesia and Mexico. Some were well recognised in the Spence Commission Report (Commission on Growth and Development , 2008), namely, that countries seeking to record major sustained gains in economic growth will have to get a lot of things right! One-off policy reforms will be unsuccessful; rather governments seeking to undertake major economic transformations will have to coordinate a slew of re-enforcing policies, such as those already mentioned, including but not limited to infrastructure investments, human capital development policies, competition policies and openness to global trade. Strong and consistent macroeconomic management is a sine qua non, of course. In addition, the Report notes that successful transformers have had visionary leadership that has allowed for uninterrupted long-term policy goals, effective implementation with correction mechanisms, and a political and social consensus (however achieved) that assures people that gains from economic growth will reach them and their children. More on this subject in Section A2.2.

One may legitimately ask why some of the countries noted above have not sustained their economic development paths despite large populations, some with considerable natural resources and many with talented technocrats. The answer may lie in the lack of consistency among policies, weaknesses in implementation, capture by the elite at the expense of the general citizenry, and in numerous cases, simply put, corruption. No country can succeed if government is captured either by its leaders or by the elite or even by powerful bureaucrats. Corruption indices do not lie. The challenge to India today, now reported to have a higher expected growth rate this year than China, is that it has perennially faced administrative barriers and related corruption at various levels. Brazil has endured celebrated cases of political corruption, including price-fixing scandals involving foreign providers and difficulties surrounding the operations of the state oil company. This has set back Brazil's development.

Much has been written about industrial policy, namely, the notion that government can have an informed view of the desired future path of the economy. In this context, a binary comparison between policies and outcomes in Brazil versus Korea may shed light on the issue. To initiate a comparison, it is worth noting that in 1980, Brazil's per capita income was 34% that of the US, while Korea's was a mere 21% or roughly a third versus a fifth of the PCI of the US. Fast-forwarding to 2010, Brazil's relative Productivity Complexity Index (PCI) had fallen to 20% of that of the US, while Korea's had risen to 64% of the US standard. What accounted for this huge reversal of fortunes?

Many of the factors have already been noted in terms of Korea's investment in capital, investment in education, smart economic policies, and the quality of institutions. But let us for a moment also compare the records on industrial policies, practiced intensively in Korea during the 1975-1990 period and then

gradually abandoned as Korean conglomerates, the 'chaebol', took command of their own futures, with those currently operating in Brazil. In Korea, the notion that it would overtake Japan in global export markets and that it would then move to the innovation frontier has led to the success of Samsung, Hyundai and others. An example of this is Korean leadership in electric car batteries, bioengineering and other new industries. It was simply said based on an explicit understanding – government support in access to credit, technology and other supportive policies in exchange for export performance. This reward system led to the creation of industrial giants that were globally efficient.

By contrast, we see the lending of the massive state development bank in Brazil, BNDES, whose lending dwarfs that of the World Bank, and whose sources of funds include captive wage tax contributions and other government financing. Its explicit goals are to promote the offshore deep-ocean (pre-sale) oil deposits of Brazil, which were explored and developed by the national oil company, Petrobras, as well as to provide large relatively successful Brazilian firms with highly subsidised loans to enable them to grow faster and become globally important. The former bet is a risky one due to the nature of the oil market and the extremely high investment requirements. The latter is even more speculative, since the path to becoming national champions should rest on efficiency, quality and global competitiveness. Very few have achieved this goal, and yet it has entailed two very costly consequences.

The first is seen in the cost of this targeted industrial policy in terms of alternative investments displaced, namely, infrastructure investments not undertaken. Second, it is seen in the very limited access to finance for new creative firms (viz., venture capital) in the high-cost and narrow Brazilian capital market. The transformative policy chosen, namely, a reliance on state financing to target future champions, was unlikely to succeed, because domestic competition is insufficient to force firms to the efficiency frontier in existing sectors, hence making it unlikely that they would be able to compete well globally or become new industry forces. The lesson here is the indispensability of linking domestic competition with the goal of global competitiveness.

This significant lesson is reinforced by the experience of the captured and essentially monopolistic telecommunications sector in Mexico that produced one of the world's richest entrepreneurs. The effect of the lack of domestic competition, noted in Organisation for Economic Co-operation and Development (OECD) rankings, show Mexico's extremely high costs in ICT. Mexico, according to World Economic Forum (WEF) reports, is also rated poorly on measures of innovation and new business practices, and has not broken free of the maquiladora label, despite reasonable productivity-wage comparisons and proximity to the world's largest market in the US. The idea that large economies should protect inefficient industries limits these industries' ability to transform themselves, and in such circumstances, other transformative policies, no matter how well intentioned, will unfortunately not succeed.

2.6. Concluding views

There are many lessons to be extracted from the experiences of major economies attempting to move up the value chain, create employment for large populations, and improve incomes and national welfare. It would be as much a mistake to ignore the past policy lessons as to blindly employ past policies under new and different circumstances. Many large and populous economies also see windows of opportunity, such as demographic dividends (DD). On that score, it should be emphasised that the demographic dividend of larger working-age populations can reduce the dependency ratio, which is a potential not a given economic gain. Unemployed workers do not make the DD a plus, but rather a drag on the economy.

Hence the necessity of creating an environment in which businesses can hire, train, and yes, fire workers (with reasonable safeguards); one in which businesses and government work together to achieve long-range economic goals; a situation where inefficient industries are displaced and markets are contestable and open to new entrants with better ideas.

Transformative policies are often undertaken under duress – political or economic – which is the story of many East Asian economies. Nigeria, when looking at the oil sector, faces such a situation today in regards to its population growth rate and poverty levels, and its sources of non-oil exports. As the largest

economy on the continent of Africa, given the vibrancy of its entrepreneurs, Nigeria can also see opportunities. The challenge is to set a transformative course that is sensible, is based on efficiency and global standards, provides a smart role for government, and has long-term stretch goals and ways of measuring achievement towards those goals. These features distinguish those major economies that have succeeded from those that didn't succeed in achieving their development aspirations.

3 The process of successful policy formation and implementation

Successful transformers have spent a good deal of time on the process of formulating and implementing major policy changes. This aspect of transformational policy-making cannot receive too much attention since it is this process that will determine whether even the most well-thought-out policies will succeed or fail. Much depends of course on the political and institutional context, and generalisation can mislead; nevertheless, there are some general observations that can provide a useful guide to the policy-maker embarking on this path. We will attempt to deal with six crucial aspects of policy formulation and implementation: 1) timing of policy change, 2) consistency of policy packages, 3) clarity of objectives, 4) gathering support for policy changes, 5) the importance of early wins as well as commitment to long-term objectives, and 6) the importance of monitoring, evaluation and corrective feedback mechanisms.

3.1. The timing of transformational change

There is much to be learned from the process of trade liberalisation in South Korea between 1982 and 1988. The first important observation that makes this example so pertinent is that it was a major shift in economic policy for a country that had previously relied on import restrictions and a myriad of import controls to manage trade. As such, this was a major departure in policy thinking for an export-driven economy that had been perennially short of foreign exchange and where financial repression and credit allocation made access to imports quite difficult.

Korean policy-making is characterised by a good deal of preparation and examination of what others have done, what worked, what failed, and what lessons can be adapted for the Korean context. The quality of policy-making is therefore dependent on the quality of the bureaucracy, and in the case of Korea in particular, the think tanks that were associated with line ministries. This enabled them to tap the best and the brightest, those with external training, and also get views that would not emerge from the rank and file government officials, who were better at implementing than designing new policy initiatives. Thus, much of the preparation came from economists at the Korea Development Institute, the pre-eminent economy policy research entity at the time.

The trade liberalisation reform programme was pre-announced amid extensive (albeit usually one-way) consultations with the business sector. This was both to advise the corporate sector of impending increases in competition in the domestic market, and to explain the benefits to their production via lower tariff rates on raw material and intermediate imports that would help their cost structures. The six-year liberalisation plan would allow up to 92% of import categories to be freely imported into Korea by the end of the period. The schedule was pre-announced with categories known by the business sector, down to the 5 digit SITC category.

There was to be no negotiation, no reversal of policy and no delay in policy implementation. Progress would be carefully monitored. There would be adjustment costs to be borne by some sectors, and this would be dealt with on a case-by-case, industry-specific basis. All chaebol, the large Korean conglomerates that accounted for the bulk of exports, understood that this programme was non-negotiable. Their best bet was to accept the inevitable and seek the beneficial aspects to help their bottom lines. **The major lessons to be gleaned are the indispensability of superior preparation of the reform program, the importance of pre-announcements, and the criticality of systematic and irreversible implementation.**

3.2. Policy consistency

Policies are clearly interdependent; however, governments often see them as independent actions that can be assessed on their own merits. A trade liberalisation programme will not be implementable, for example, with an overvalued exchange rate. Innovation policies will not be successful in the absence of active domestic competition or the international yardstick of competitiveness. Housing policy reforms will fail if unaccompanied by incentives for savings, efficient financial intermediation, and properly functioning markets for housing finance. The list can be continued; the point being that complementary policies affect the outcome of policy changes and all relevant policies need to be in alignment.

One question that immediately emerges is who in government handles the integration of policy formulation, for surely the trade ministry, necessary though it is for implementing trade reforms, does not control exchange rate management or the incentives offered to exporters or the degree of competition in domestic markets. There are both positive and negative lessons from Korea's experience. On the plus side of the equation, Korea had the Economic Planning Board (EPB), led by a Deputy Prime Minister (DPM) for Economic Policy to ensure that all ministries cooperated and indeed were informed and aligned on policy formulation and implementation. Much was accomplished at the Vice Ministers' weekly meetings chaired by the DPM or his Vice Minister of EPB.

On the negative side of the equation, the Koreans shared the view of the Japanese that some sectors were politically too sensitive to liberalise (e.g., rice) and they learned that health and safety codes could be used to delay opening of some markets. Moreover, the competition agency in Korea was notoriously weak in the face of the corporate sector, very similar to the case of Mexico's regulator in dealing with Carlos Slim's virtual monopoly of the telecoms sector. This weakness notwithstanding, we can see in Korea a policy that was aimed at increasing the efficiency of the economy, conforming to global standards in order to continue its successful penetration of foreign markets, and only secondarily to lower prices of imports to the Korean citizen. Nevertheless, all instruments were employed to make the programme succeed. **The lesson to be taken away is that no single policy action can succeed without a series of complementary and consistency aligned policies acting in concert.**

3.3. Clarity of policy objectives

Despite misgivings by some in government or concerns by certain sectors, there was no uncertainty that the programme would be fully implemented. The announcement of liberalisation ratio targets was a clear indication that the programme would persist. Policy incentives were in place to ensure that those not playing ball would be replaced and that sloppy implementation or unnecessary slowdowns would not be tolerated. This aspect of policy implementation involves certain national political and institutional idiosyncrasies that may not be replicable; however, the advantage of clearly announced multi-year goals is that it is clear that the programme will move forward and that the best course of action for the business sector is to move forward and prepare itself for the new reality. There was no ambiguity in Korean policy and no lack of resolve to follow through, as with many other areas of economic policy. **The lesson here is that economic agents prefer certainty associated with policy reforms; hence, if announced and sequenced properly, the process can be successful if there is clarity of objectives and certainty of policy resolve.**

3.4. Garnering support for transformational reforms

Reforms of the transformational type will certainly have winners and losers in the immediate horizon; however, if they make sense and can help propel the economy to a higher growth path and create new sources of income, they can gain support. Some major considerations are that the winners are gaining for the sake of the country and not merely pocketing windfalls and that the losers receive some relief, but not so much as to delay their exit from industries or for their recalcitrance to imperil the pathway of reform. Clearly in the case of Korea, the beneficiaries were the exporters, the main drivers of Korea's growth. In many instances, the same firms that dominated exports also dominated domestic markets – a plus and a minus. The plus side is that government can ensure that the benefits are sufficient that the

pain of adjusting to more import competition is bearable. Moreover, the chaebol knew that without a trade liberalisation programme, their relatively unimpeded access to the important US and European markets would be impaired. Hence this was a price to be paid.

On the negative side, the fact that exporter and importer may be in the same conglomerate structure made it more difficult to drive the import-competing firms out of sectors where they lacked comparative advantage. This has hurt Korea up until the present day, since the Korean service sector faces inadequate foreign competition despite reasonably progressive trade legislation and this lowers productivity in services, now quite low and less than half (in terms of TFP) of what it has been in manufactures. Parenthetically, this overexposure by the largest firms in too many sectors had a hand in the excessive indebtedness of conglomerates and the severity of the adjustment needed in the aftermath of the East Asian financial crisis of 1997-1998.

The main point of garnering support for transformational policies is to show firms where their future possibilities will lie and to allow new firms to participate in that transformation. Large firms will always enjoy advantages in terms of access to finance, political influence and foreign exposure; the key is ensure that this comes along with efficiency and global competitiveness and not as a result of trade protection and rents from oligopolistic market concentration. In the case of Korea, the export yardstick and global competitiveness always provided that measure and government support for those goals was unwavering. The policy lesson, regardless of market circumstances, is that policy support is possible if firms see a road map towards future profitability and if government holds firms accountable for performance.

3.5. Political realities and long-term goals

Those advising on policy change often speak in the abstract of quick wins as well as the importance of long-term objectives. These two aims, the first an often necessary condition to maintain support for the second, are both possible to achieve, but this requires a coordination and clarity among policy-makers as they design and implement policy change. We have indicated how in the case of Korea the nature of the corporate sector made it easier to make the dual objectives consistent. These circumstances may not exist in other countries. Nevertheless, quick wins can be found if one can anticipate where and how the initial benefits of the policy reform will pan out. If the benefits are substantial, some redistribution to those not benefiting is possible.

Take the case of privatisation of pension plans, such as those implemented in Chile. The beneficiaries were new financial entities gearing themselves to invest the public's pension funds. The losers were public entities that were going to lose contributors. In this case the winners-losers calculus is between public and private entities and it can be managed via fiscal means – taxes and transfers. In other cases, where the losers are other private sector firms, public investment funds can be established to help foster new investments and help the transition, in the case of trade reform from non-tradables to tradables. The key point is that the losers need to be dealt with in a way that is on a quickly diminishing scale to reinforce the new incentives. **The keys to implementing these aspects of policy-making well are to identify the losers and the winners, and to find the right set of incentives to cushion the former and to finance it by capturing some of the benefits of the latter in a manner consistent with the ultimate policy objectives.**

3.6. Monitoring, evaluation and mid-course corrections

One very fundamental lesson from successful policy-making in Korea is the realm of monitoring, evaluating and acting on the information collected to adjust transformational programmes. Necessary conditions are that the monitoring is done in a timely and honest fashion, and that there be no 'gilding of the lily' to hide miscues. The agency entrusted with this monitoring needs to be politically independent enough to cut across ministries and report to the champion of the economic reform programme. The EPB in Korea did annual reviews of all major economic reforms programmes and indeed of the Five Year Development Plans that guided Korea for more than two decades. They knew what data to collect

and understood the manner by which incentives drove the economy in general and the trade liberalisation programme in this case.

In addition to collecting information concerning the quality and speed of implementation, the successful programme requires the ability to undertake mid-course corrections. It is unlikely that all programme aspects will be perfectly designed at the outset, and many programmes in East Asia underwent substantial revision and in some cases abandonment if they proved ineffective (e.g., Malaysia Heavy Industry programme is one such example). Changes in policy design rather than changes in either objectives, targets or speed of implementation is a necessary part of the process. These changes can involve individuals charged with implementing reforms, the creation of new agencies of units to implement, the manner in which the programme is marketed to the public (viz., it is widely accepted that water privatisations in much of Latin America were successful in terms of almost all objectives of the reform, but they had a terrible reputation with the public due to poor public relations). **One lesson here is that public support is an important and often undervalued part of reform agendas. This requires a major media effort involving not only government officials but also the press and some good old-fashioned advertising as well.**

The ability of policy leaders to make adjustments without either abandoning reforms or being put on the defensive is a key aspect of mid-course corrections. Of course it helps if the policy is a smart policy with a high chance of success, but in any event adjustments need to be planned for and accommodated in the process of implanting. The lesson is that it is difficult to find successful policy reforms that end up looking exactly the way they were originally designed. Korea was exemplary in most policy areas, although there were some cases, such as in the selection of six key industries to be supported during their Heavy and Chemical Industry (HCI) phase of development, where some industries, such as petrochemicals, were ultimately downscaled in favour of successful industries, such as autos, ship building and electronics. **The key takeaways are that transformative policy reforms work better (a) when they are intensely monitored with clear political support or sanctions from the country's leadership, (b) when progress is measured versus expected results in a timely and objective fashion, and (c) when changes are made to improve the reform process that enhance chances of success without compromising the ultimate goals.**

3.7. Concluding point

It may not be an exaggeration to conclude that more reform programmes have failed because of poor implementation than failed because they were poorly designed. Another way of making the same point is to emphasise that part of the successful design of major transformational policies is incorporating from the outset measures to organise, sell and monitor the effort. There also needs to be room for so-called mid-course corrections, as the process is unlikely to be an entirely smooth one. Some advocates of reform stress the speed of reform, while others, such as the Koreans, stress the steady and unalterable pace of reform. Of course it depends often on the area of reform; however, for the panoply of policies connected to transformation of an economy, consistent and steady reforms with some early wins may be the wisest policy choice.

4 Conclusions

This paper has reviewed the evidence in large developing and emerging economies with respect to policies underpinning economic transformation efforts. This has yielded a number of important lessons with respect to competitiveness, skills, infrastructure and industrial policy. The paper has also examined the main factors behind successful policy formulation. These include suitable timing of policy changes, consistency of policy packages, clarity of objectives, gathering of support for the policy changes, adjusting to short-term political realities, and the essential role of feedback and course-correction mechanisms. What connects these two pieces—smart transformation policies and effective implementation—is coordination of multi-faceted interventions by effective governments with a sufficiently long time horizon to see the policies through to fruition.

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