Eight key conditions for economic development

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Once, Asia was a region defined by poverty. One of the most important issues for the Asian Development Bank (ADB) when it was established in 1966 was agricultural assistance to safeguard people against hunger in a region with a large and increasing population. Nearly half a century later, Asia's amazing growth and successful poverty reduction have exceeded the most optimistic forecasts. The ratio of extremely poor people (with a per capita income of $1.25 or less a day in 2005 purchasing power parity terms) against the region's total population was 55% in 1990, but dropped to 19% by 2010. Similarly, its share of global GDP – including Japan and Australia – increased from about 15% in 1970 to over 30% by 2013. The 2008 global financial crisis did not derail the region's robust growth momentum.

It is fair to say, however, that growth rates vary across the region. For instance, the Philippines, whose per capita income was well over that of Thailand in 1965, now comes last among the original five members of ASEAN. In contrast, South Korea, whose per capita income was lower than Ghana's half a century ago, has attained high-income status. While India remains a lower-middle income country, the People's Republic of China, the region's other giant, attained upper-middle-income status through sustained high growth based on reforms after opening its economy.

Since becoming ADB president in April 2013, I have visited more than 20 developing member countries in Asia and the Pacific, and had candid discussions with leaders and senior officials about their policy challenges. I have been engaged in development issues throughout my career, including at Japan's Ministry of Finance and at the International Monetary Fund. My recent encounters with leaders in Asia have increasingly convinced me that economic development depends not so much on a country's "original characteristics" such as endowment of human capital, natural resources, or cultural and social traditions, but on the right policies. I believe there are eight key conditions for development.

Infrastructure investment Sufficient infrastructure for energy, roads and railways helps countries develop industry and attract foreign direct investment (FDI). A good quality road network gives people access to schools and clinics, and enhances job opportunities. Infrastructure is the core area of the ADB's loans and technical assistance. In providing assistance, the ADB places special emphasis on adhering to international standards for environmental and social safeguards, and on fair and transparent procurement processes. These standards meet the evolving and expanding needs of society in our member countries.

In many of the region's developing countries, the share of public investment in total GDP stood at 5% or less in 2010 – far lower than China's 22%. In those countries, development tends to be slower. According to an ADB study last year, an increase in infrastructure investment to GDP ratio by 1 percentage point would increase the growth rate by 1.3 percentage points. In addition to ensuring sufficient tax revenues to build basic infrastructure, countries must aim at mobilizing private resources. In this context, the ADB is promoting public-private partnerships (PPPs). In Vietnam and the Philippines, the ADB has helped draft basic laws on PPPs and set up special government agencies for PPPs.

Investment in education and health to develop human capital In most countries, primary school enrollment has improved but the remaining challenges include low graduation rates and the variable quality of secondary and tertiary schools. The ADB is helping several countries, including Bangladesh, with vocational training reforms, engaging the business community to ensure that training matches its employment needs. The ADB is also supporting the use of information technology in healthcare and the transition to universal health coverage in member countries.

Macroeconomic stability In countries which suffer from inflation exceeding 10%, large fiscal deficits and high interest rates, it is obvious that savings and investment for the future are hampered. It is encouraging that in Asia, after the currency crisis of the late 1990s, governments now pay more attention to sound fiscal policy, stable monetary policy, and stronger regulation and supervision of the financial sector.

Open trade and investment regimes, an active private sector In the past, even some countries such as India and Indonesia, though not formally classified as centrally controlled economies, adopted import substituting industrialization, price controls, and nationalization of key industries. The catalyst was an ideological pursuit of socialism combined with anti-colonial sentiment. These policies seriously damaged their economic growth. Today, there is no Asian leader who does not regard the market as the foundation of economic development. In today's more integrated global economy, FDI and technology transfers from overseas play an even greater role than in the past.

When I met Indian Prime Minister Narendra Modi and Indonesian President Joko Widodo after they took office, they expressed deep commitment to promoting structural reforms by further opening up their economies, streamlining regulations and cutting

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An Afghan man walks on a makeshift footbridge on the outskirts of Jalalabad on Jan. 27. Sufficient infrastructure is needed for developing economies to grow their industry and attract foreign direct investment.

energy subsidies. In many countries, the ADB provides budget-supporting program loans that are tied to the implementation of structural reforms. The ASEAN Economic Community, which the ADB supports, is playing a key role in reducing tariffs, simplifying customs procedures and unifying standards in participating countries.

Public governance Corruption is not only unjust. It smothers growth by diverting people's energy to unproductive activities. Good governance also means better transparency and accountability among governments and state-owned enterprises. Countries, including those in Central Asia, are increasingly aware that these issues need to be tackled. It is also important to note that, as a 2013 ADB report indicates, the effectiveness of government in delivering its services and the quality of regulations closely correlate to the performance of its economy. In this regard, the existence of a cohort of competent bureaucrats is essential.

Social inclusiveness In a society with great disparities between rich and poor, economic growth goals may not be shared by its citizens. Income inequality nullifies incentive to improve one's prospects by getting an education or vocational training, preventing quality enhancement of the labor force. To avert this scenario, decisive steps are needed to strengthen public education, redistribute income by tax reforms, reduce rural-urban inequality, and provide farmers and small and midsize enterprises with access to finance. I may add that a sound middle class increases domestic consumption and fosters political stability.

Vision for the future In this area, South Korea and Singapore have shown how governments can make crucial contributions to national development. While the private sector is a key economic growth engine, governments have a responsibility to examine their national comparative advantages, design a development strategy, and share this strategy with their citizens. They should carefully allocate public finances to priority areas, while giving appropriate guidance to business. Of course, this is not to say that governments should embrace inward-looking policies to protect domestic industries.

Political stability, security and good relations with neighboring countries Sri Lanka's economy has expanded by 7.5% annually since its civil conflict ended in May 2009. Myanmar, thanks to efforts to pursue democratization and reconcile with ethnic minorities together with economic reforms, has successfully re-engaged with the international community and attracted prodigious amounts of foreign investment. In the Philippines, the government recently reached a comprehensive peace agreement with Islamic groups in Mindanao, a breakthrough that raises new hopes for resurgent economic growth in that part of the country.

I expect that successful implementation of policies in these eight areas can elevate countries at least to upper-middle-income status. I have been struck by the level of convergence in the thinking of Asia's leaders about what needs to be done for economic development. At the same time, implementation is never easy, as reforms often widen political divisions, especially when they confront vested interests.

Making the transition further to high-income status involves another set of tough challenges. In addition to the aforementioned actions, well-designed policies are needed to promote technological innovation, elevate the skills of workers, upgrade industrial structures, and foster sustainable growth.

As professor Akira Suehiro of the University of Tokyo points out in his recent book, Asia's growth model is being reshaped into a complicated network model. Industrial catch-up takes less time thanks to the IT revolution and rapidly changing production systems. The flying-geese paradigm of Asian growth, in which Japan flies fastest, may no longer capture the region's growth story. Still, Japan's experience in building quality infrastructure, livable cities with public transport systems, a social security system for its aging society and its financing, environmental protection, and disaster risk management, offer useful lessons for the ADB's developing members. These lessons may include areas in which late-comers should do better.

The ADB will continue to serve the region, taking into account the above-mentioned eight key conditions for economic development, as well as lessons from Japan and other countries, as the region's growth story unfolds.

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