A ROBUST NATIONAL PLANNING FRAMEWORK FOR SRI LANKA

ANNEXURE

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The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank or its Board of Governors or the governments they represent. The report is based on extensive discussions with officials of the Government of Sri Lanka. The report draws heavily on in-depth analysis of the evolution of the planning process in India, the Republic of Korea, Malaysia, and Singapore, as well as Sri Lanka's own experience with national planning.

CONTENTS

ABBREVIATIONS

IT	information technology
DFA	development finance assessment
DNA	development needs assessment
EAC	Economic Action Council
EDB	Economic Development Board
EPU	Economic Planning Unit
GDP	gross domestic product
GNI	gross national income
IMF	International Monetary Fund
INFF	integrated national financing framework
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
NDC	nationally determined contributions
NDF	national development framework
NDP	national development plan
NEP	new economic policy
NGO	nongovernment organizations
NPC	National Planning Council
NRC	National Recovery Council
PPP	purchasing power parity
REDA	Regional Economic Development Agency
SDG	Sustainable Development Goals
SEDC	State Economic Development Corporation
SOE	state-owned enterprise

ANNEXURE: SUMMARY OF NATIONAL PLANNING PROCESSES IN SELECTED ASIAN ECONOMIES AND LESSONS LEARNED

A. India

India has a long history of planning and has tried at least three different types of planning—"directed planning," "indicative planning," which then morphed into a type of "prescriptive planning," and now just "strategy but no planning." India offers a mix of experiences from which lessons can be learned.

It is difficult to disentangle the role of planning and planning systems from the broader economic policy decisions that determine socioeconomic outcomes. India pursued a policy of import substitution with state-led development for the first 4 decades of its development (1950–1990). However, starting in 1991, the country changed course, opening up significantly to the world and allowing the private sector to play a much larger role in the economy. The country also changed its approach to planning from more directed planning to indicative planning, then to more prescriptive planning, and finally to no overt planning.

1. Evolution of Planning in India

(i) Shift to indicative planning

India's economy began to improve in 1980, when some internal liberalization took place. However, the most sustained leap in economic growth came with the 1991 reforms, when India began to open its economy to the rest of the world and eliminated industrial licensing in many sectors, allowing the private sector to invest and grow. The Eighth Five-Year Plan (1992–1997) clearly recognized this change when it stated:

> In line with the changed circumstances, we have redefined the role of the Planning Commission. From a highly centralized planning system, we are gradually moving towards indicative planning. Through clear prioritization of goals, efforts will be made to reduce the bottlenecks, making higher rates of growth possible. If each sector can clearly visualize what is expected of it, then it can gear up to meet the set target. Through the instrument of indicative planning, it will be possible to provide a clear picture of the effects on the entire economy of any change in governmental policy (Government of India, Planning Commission 1992).

This shift from directive to indicative planning was further cemented in the Ninth Five-Year Plan, which stated:

> The Eighth Five- Year Plan had explicitly indicated a shift from directive to largely indicative plan. There is considerable variance in the interpretation of this term. The Ninth Plan is based on a more specific modality of planning which involves working out of a consistent and desirable development path, the identification of emerging trends and deriving policy measures to bring about a confluence between the two. The planning process today, therefore, focuses on planning for policy so that the signals that are sent to the economic system induce the various economic agents to behave in a manner which is consistent with the national objectives ... It is explicitly recognized that there are uncertainties in the system and limitations in the ability of the planning system to accurately predict future trends. ... The details of the actual policies and the manner of implementation will need to be worked out from time to time between the concerned Ministries, States and the Planning Commission (Government of India, Planning Commission 1999).

(ii) Shift to inclusiveness and social programs

As India's growth accelerated and inequalities increased, the Eleventh Five-Year Plan (2007–2012), finalized in June 2008, shifted its focus to more inclusive growth. The plan began to focus on social sectors and skills development. But, as it turned out, its flagship programs overlapped heavily with areas that were the responsibility of the states. It said so upfront, "An important aspect of the Eleventh Plan is that most of the public sector programmes are in areas that are normally in the domain of State Governments ..." (Government of India, Planning Commission 2008).

(iii) Introducing sustainability

The Twelfth Plan (2012–2017) not only focused on inclusiveness, but for the first time explicitly included sustainability. Instead of a growth target, there were scenarios—a strong inclusive growth of 8%—but also a policy logjam scenario of 4%–5% growth, with less inclusiveness. The scenario approach eventually paved the way to no plan at all.

(iv) Shift to a public policy think tank of the Government of India

India's approach to planning changed as the rest of the world discovered the new "national development planning." The NITI Aayog, the successor to the Planning Commission is essentially advisory. But unlike the Planning Commission, it does not play an active role in allocation of funds to line ministries and India's states. It is tasked with fostering a cooperative federalism by involving state governments in the economic policy-making process using a bottom-up approach.

2. Lessons

India's experience can also provide important lessons for other countries—including Sri Lanka.

(i) Ensure political authorization and legitimacy

The authorizing environment must reflect the political system. The Planning Commission was set up by government decree and reported directly to the Prime Minister, without parliamentary oversight. The deputy chairman of the Planning Commission was given the rank of cabinet minister, but was not a member of Parliament. This lack of parliamentary oversight was initially welcomed, as it allowed the plan to work quickly and freely, but it eventually proved to be a major drawback to its functioning and acceptance. The plan was approved by the National Development Council, which was chaired by the Prime Minister and included state chief ministers and selected Union Cabinet Ministers, but the council itself was an ad hoc body. According to Chimhowu, Hulme, and Munro (2019), 27 countries have planning processes embedded in their constitutions to ensure continuity when governments change.

(ii) Overlap with other bodies that affect planning systems

The relationship between the Planning Commission and the Finance Commission—the constitutional body that decides revenue sharing between the union government and state governments, and between states and, increasingly, local governments—was never clarified. A clear division of roles and responsibilities is essential for proper planning and implementation to avoid turf battles that affect the vitality of the planning process.

(iii) Consultative processes are essential

In a market-oriented economy, the role of planning changes from directed to indicative. But if the approach is not sufficiently consultative, it risks becoming more "prescriptive." When this happens, it becomes less and less relevant. In the case of India, the planning process lost its relevance, first for the states and then for sector ministries, as it became more prescriptive.

(iv) Shift from input–output models to behavioral and pathway models

In indicative planning, the Planning Commission (or relevant planning institution) must be able to understand responses to various policy changes. In India, the Planning Commission continued to work with traditional input–output models, which had lost their relevance after India's liberalization in 1991. In a market-oriented economy, the planning body must have the analytical capacity to understand the full and complex relationships between policies and programs. This becomes even more important when considering the need to plan under uncertainty due to climate change.

(v) Perform a development finance assessment (DFA)

The DFA must be realistic, and if underlying realities change, it must be revised accordingly.

(vi) Organize staffing and expertise

Planning bodies must be staffed with the best and brightest whose expertise is recognized throughout the system. Ad hoc appointment of members of the commission without specific qualifications and attributes was another issue that affected the credibility of the planning process. It must also be made clear that any program or project must be approved by the planning body, or it will be ignored.

(vii) Provide for evaluation, learning, and feedback

Unlike many middle-income countries, India lacked an adequate independent evaluation system, the results of which are incorporated into the planning process. In India, there are many civil society institutions that conduct evaluations, but their results are used as needed. There was an evaluation department in the Planning Commission, which continues in the NITI Aayog. The Office of the Comptroller and Auditor General conducts financial audits and occasional performance audits, but they are not a substitute for a proper evaluation system. Evaluation also needs to be an integral part of planning at the state level and in each ministry so that there is more focus on outcomes and impact, not just how much is spent.

(viii) Link long-term planning to the Sustainable Development Goals (SDGs)

The SDGs, judiciously selected for their relevance to each country, can be a tool for long-term planning, as they cover almost all potential sustainable development priorities. But this should not be a mechanical exercise, and it is important to understand the synergies between the SDGs to achieve them more effectively. Planning bodies need to be staffed with the right expertise to draw lessons from international experiences and help states and districts make progress on the SDGs and achieve them by 2030.

(ix) Engage in cooperative and competitive devolution

Consultation in overall planning with local authorities and the state government ensures that there is greater buy-in from all sides. Planning can be used as a tool for consultation and interaction rather than a precise blueprint.

B. Malaysia

1. Challenges in National Planning

(i) Political challenges: Inherited ethnic inequities

The colonial legacy left Malaysia with an economic structure in which the Chinese minority had extensive economic power and the Indian minority also enjoyed a substantial presence in the professions, each disproportionate to its share of the population. There are three major ethnic groups in Malaysia—the Bumiputera, Chinese, and Indian—which accounted for 69.8%, 22.4%, and 6.8% of the total population, respectively, as of mid-2021. The indigenous peoples—the Bumiputeras in which the Malays were the dominant group—lagged behind. This led to ethnic tensions that culminated in the 1969 race riots, in which many people were killed in clashes between ethnic groups.

As a result, a new economic policy (NEP) was introduced to reduce poverty among the population while reducing the identification of race with economic function, i.e., reducing disparities in income, wealth, and economic status among the different races. The NEP, or commonly known as the Bumiputera Policy, aimed to promote more equitable growth in Malaysian society by increasing Bumiputera participation in the economy through corporate and real estate ownership and the creation of entrepreneurial Bumiputera. The Bumiputera policy has extensive influence on and significant impact on government policies, particularly government and state-owned enterprises (SOEs).

The NEP played an important role in creating political harmony and a framework within which rational economic development plans could be carried out. It led to Malaysia's golden years of economic development and transformation, which lasted from 1971 to 1997. It also helped maintain racial harmony.

The NEP was only supposed to be in effect for 20 years, but today, 50 years after its promulgation, it is still in effect. Many analysts have noted that some unintended negative effects of the policy have occurred, such as cronyism, corruption, and nepotism, which can be directly traced to the distorting incentives created by the NEP.

(ii) Economic Challenges: Poverty, disparities, and external crises

Apart from the political issues mentioned above, Malaysia also struggled with poverty and underdevelopment after independence. In the pre-independence and early independence period, Malaysia's economic structure was heavily dependent on natural resources (tin) and agriculture. In 1960, agriculture accounted for 34.3% of gross domestic product (GDP) and industry for only 19.4%. The rural population lived mostly in poverty.

In addition to ethnic disparities, there were also major regional differences. In West Malaysia, the higher-income areas were on the west coast of the Malaysian Peninsula, while the east coast was underdeveloped. East Malaysia was generally even less developed, although it had abundant natural resources.

Over the years, Malaysia has had to deal with several crises. In the mid-1980s, the decline in commodity prices (mainly rubber and tin for Malaysia) led to a recession. In addition, debt-fueled economic growth proved unsustainable and led to external imbalances. A major change of direction in economic policy led to the liberalization of the economy, including some deregulation of the NEP. As this coincided with the strong revaluation of the Japanese yen and Korean won, it led to a boom in foreign direct investment in Malaysia and a period of high growth and significant economic transformation.

By 1997, the accumulation of economic policy misjudgments and distortions caused by the NEP had led to severe imbalances in the Malaysian economy, resulting in a collapse of the economy in 1997–1998. A substantial shift in economic policy was instituted. Institutions were established to deal with bad debts and to recapitalize the banking sector. Capital controls were also introduced to support the pegged exchange rate and protect the economy from speculative pressures. However, the country remained open to foreign direct investment and continued to attract investors from manufacturing and business process outsourcing.

2. How Challenges Were Dealt with

(i) Malaysia is an economic success story

Compared with many other developing countries, Malaysia has had a highly successful economic development. Selected socioeconomic indicators that highlight Malaysia's achievements include the following:

- Life expectancy: Total life expectancy at birth has improved from 56.5 years in 1960 to 71.3 years in 1990 and 75.9 years in 2020.
- Literacy rate: The literacy rate of Malaysians aged 15 years and older with formal education has improved from 82.9% in 1991 to 95% in 2019.
- Income per capita: Gross national income (GNI) per capita (measured in constant 2010 United States dollars) has increased from $1,290 in 1960 to $4,371 in 1990 and $11,426 in 2020.

(ii) The Economic Planning Unit played a key role, among others, in this success

The Economic Planning Unit (EPU) has played a central role in planning Malaysia's economic development. It has three main divisions—sector, macro, and policy—which in turn are divided into 19 sections and 7 subsections. These three main divisions are headed by three deputy directors general, who in turn report to the EPU director general. The EPU director general reports to the minister. The EPU now has four main functions:

a. Socioeconomic development planning
   » Prepare medium- and long-term socioeconomic development plans at the national, regional, and state levels.
   » Conduct socioeconomic research and act as advisor to the government on socioeconomic affairs.
   » Strengthen inclusive development planning, including the Bumiputera agenda.
   » Develop energy policies related to oil and gas.

b. Allocating resources
   » Determine the ceiling and distribution of development expenditures.
   » Implement value management for development projects costing RM50 million and above.

c. Implementing, coordinating, and monitoring
   » Monitor the progress of national programs, initiatives, and development projects.
   » Implement, coordinate, and monitor EPU programs and projects.
   » Implement, coordinate, and monitor inclusive development policies including the Bumiputera agenda.

d. Managing stakeholders
   » Act as focal point for international cooperation and joint border development.
   » National Secretariat for the Economic Action Council and the National Development Planning Committee.

(iii) The EPU has been complemented by other agencies and institutions.

The government also established various economic councils with specific mandates to address problems and challenges, especially in times of crisis. These councils have included in the past the following:

- The National Consultative Council, established in 1970. It was tasked with making recommendations to resolve problems that arose from the 1969 race riots. The result was the 20-year National Economic Policy, 1971–1990.
- The National Economic Consultative Council, established between 1989 and 1990. It was tasked with formulating economic policy for the post-1990 period and replacing the NEP. The result was the 10-year National Development Plan, 1991–2000.
- The Second National Economic Consultative Council was formed between 1999 and 2000. It formulated the 10-year National Vision Policy, 2001–2010.
- The National Economic Action Council (NEAC1), formed in 1998, was tasked with making recommendations to address the impact of the 1997/1998 Asian financial crisis on Malaysia's economy. It formulated the National Economic Recovery Plan.
- The National Economic Advisory Council (NEAC2) was established after the 2008 global economic crisis and operated between 2009 and 2011. Its mission was to make recommendations for transforming Malaysia into an advanced economy by 2020. It formulated the New Economic Model, 2011–2020.

In recent years, the government has formed two new councils:

- Economic Action Council (EAC) was established on 11 February 2019. It was initially tasked with making recommendations to stimulate economic growth, ensure fair distribution of wealth, and improve the well-being of the people. However, in 2020, under the new government, the EAC was also tasked with identifying and providing recovery and reform measures to support the economy after the COVID-19 pandemic. In 2021, under the new government, the role and function of the EAC was further defined to identify and provide mid- to long-term recommendations to support Malaysia's post-COVID-19 pandemic recovery. The EAC is chaired by the Prime Minister, and its members include ministers in senior positions (Ministry of Finance [MOF], Ministry of International Trade and Industry [MITI], and the Prime Minister's department [Economy]), as well as eminent individuals from the private sector and nongovernment organizations (NGOs).
- National Recovery Council (NRC). Shortly before Prime Minister Muhyiddin Yassin stepped down from office, he established and chaired the NRC in July 2021. He retained the chairmanship (with ministerial status) even after his resignation. The NRC was established to address the challenges of the COVID-19 pandemic, and in July 2021, the council published the National Recovery Plan Report, which outlined the government's plan to

develop standard operating procedures to facilitate the lifting of movement restrictions. However, in September 2021, under the new administration, the NRC was tasked with identifying, providing, and implementing short-term recommendations to support Malaysia's recovery from COVID-19. Like the EAC, the NRC membership includes senior ministers and eminent persons from the private sector and NGOs.

As with previous economic councils, these councils also received secretarial support from the government. It was announced that the MOF and the EPU would form the joint secretariat for the EAC. The EPU had established an EAC secretariat within its organization. Meanwhile, on 23 March 2020, the MOF had established a coordinating body to oversee the implementation of the various stimulus packages announced by the government to address the financial impact of the COVID-19 pandemic. This coordination unit is known as LAKSANA (Economic Stimulus Implementation and Coordination Unit Between National Agencies. Both the EAC Secretariat of the EPU and LAKSANA of the MOF provide joint support to the EAC.

Various state governments in Malaysia have also established state economic development corporations (SEDCs) to promote economic growth at the state level. In addition to industrial development, these SEDCs can also establish industrial and commercial ventures, either on their own or in collaboration with the private sector. The EPU coordinates the work of the SEDCs to implement economic development policies at the state level.

3. Regional Development Initiatives

The Abdullah Badawi administration (2003–2009) introduced a national institutional reform program between 2004 and 2008. Part of the reform effort was the establishment of new regional economic development agencies (REDAs) to develop five economic corridors in Malaysia. While these agencies were seen as "intermediaries" between the federal and state governments, interestingly, they consolidated the power of the federal government in land matters that are constitutionally under the jurisdiction of the states. These REDAs are as follows:

- Iskandar Regional Development Authority – established in 2006 for the economic policy development of the Iskandar Malaysia (southern Malaysia) region.
- Northern Corridor Implementation Authority – established in 2008 for the development and implementation of development projects in the Northern Corridor Economic Region, northern Malaysia.
- East Coast Economic Region Development Council – established in 2007 to develop and implement development projects in the East Coast Economic Region, eastern Malaysia.
- Sabah Economic Development and Investment Authority – established in 2009 to develop and implement development projects in the Sabah Development Corridor.
- Sarawak Regional Corridor Development Authority – established in 2006 to develop and implement projects in the Sarawak Corridor of Renewable Energy.

4. Lessons

(i) Leadership matters

As the central planner and coordinator, the EPU must work with relevant stakeholders, including other ministries, government agencies, industry players, and NGOs at all levels, i.e., federal, state, and even local governments. In this context, the EPU must also work with higher-level ministries and public administration agencies, such as MOF, MITI, and Bank Negara Malaysia. In addition, especially when dealing with industry players, the EPU must ensure that the national socioeconomic planning work and agenda is not susceptible to lobbying pressure from parties that have a vested interest in the development program and projects.

(ii) Stay focused on the agenda

Over the years, the EPU has significantly expanded its mandate and is now responsible for more than just socioeconomic planning and coordination. It is now also the parent agency for government-linked companies (GLCs) such as Ekuinas, Johor Petroleum Development Corporation, and Malaysia Petroleum Resources Corporation, to name a few. Admittedly, the EPU is not the only government agency that has undergone reorganization and changes in status and mandate. For example, the Ministry of Domestic Trade and Consumer Affairs (MDTCA) was established in 1990 to deal with domestic trade and consumer protection issues. It was a "break-out" ministry from the then Ministry of Trade and Industry, which was responsible for international affairs. The Ministry of Trade and Industry later became the Ministry of International Trade and Industry (MITI). In 2009, the MDTCA was renamed the Ministry of Domestic Trade, Cooperatives Consumerism when it expanded its functions to include oversight of cooperatives and franchise matters. In 2018, it returned to its more focused responsibilities and was again renamed MDTCA.

The concern on the expansion of functions, powers, and responsibilities are twofold. First, becoming the parent agency of selected GLCs means that the EPU could now be directly involved in the commercial activities of these GLCs. This calls into question the role of government in the economy, as good governance calls for separation between policy making and commercial activities. Second, all the other functions, powers, and responsibilities could distract the organization from its main task of planning and coordination. The EPU cannot afford to be distracted from ensuring that the country's socioeconomic planning stays on track, especially when the national plan is now closely linked to the country's international commitment to achieving the SDGs by 2030.

(iii) Avoid duplication and fill gaps in policy

The restructuring of the EPU in 2007, which led to the establishment of the Sectoral Planning Division, means that the EPU is also actively involved in sectoral policy development. This could lead to policy duplication, as such work is also carried out by sector or line ministries. For example, the EPU developed the Logistics and Trade Facilitation Masterplan. This has implications for other policies of MOT and MITI. The EPU also led the development and publication of the Malaysia Digital Economy Blueprint and the National Fourth Industrial Revolution (4IR) Policy. The line ministry for these reports is the Ministry of Science, Technology and Innovation. Ideally, the line ministries should drive their respective policy work, which would then serve as input to Malaysia's plans.

(iv) Consolidate institutional arrangements

The various councils that have been established, as well as the REDAs, can become unwieldy in their relationships and linkages, not only with the EPU, but also with other parts of government at various levels (federal, state, or local). Indeed, councils can be seen as more powerful than the EPU, and in the past, parties with vested interests have bypassed the EPU to deal directly with these councils and the Prime Minister. These councils can cause confusion among stakeholders—one example of this is the recent clarification of the roles of the EAC and the NRC. In addition, these councils can divert resources from the EPU's core work, as the EPU must provide secretariats for these councils.

Meanwhile, the EPU's working relationship with the REDAs could cause friction with the EPU's working relationship with state governments. This is of particular concern if the EPU needs the support of the state governments to implement socioeconomic development programs and projects at the state level.

C. Singapore

1. Main Challenges in National Planning

The starting point for economic development was initially a troubled one.

(i) Structural economic weaknesses.

Singapore did not begin its major economic development push until 1959, when it achieved self-government. The outlook was not good in 1959, as the country suffered from structural problems such as severe inequality, widespread poverty, poor housing for much of the population, and rapid population growth that outpaced job creation, leading to high unemployment and underemployment. The former colonial power had established only a rudimentary education system, leaving the workforce largely unskilled.

Singapore also had some strengths. Its strategic location at the tip of the Malay Peninsula and its deep natural harbor had made it the preeminent port and entrepot center for a region rich in much sought-after raw materials such as tin and rubber. The airport also served the hinterland. There were some industries, and foreign capital, mainly British, was present in Singapore. The local Chinese business community was part of an extensive Chinese diaspora whose business and financial networks underpinned Singapore's position as a regional hub. Public goods such as an efficient and fair judiciary and a relatively good transport infrastructure also helped.

(ii) Political turmoil in the early years

While the ruling party eventually gained dominance and was able to implement rigorous economic policies for development without much resistance, the early years were extremely turbulent. The ruling party split in 1961, leaving the government with only a slim majority in Parliament. The left-wing group had great influence on the trade unions and a large part of the population. The 1963 merger with Malaysia was opposed by neighboring Indonesia. The merger with Malaysia also led to racial tensions that erupted in murderous violence in 1964. Singapore's expulsion from Malaysia followed in August 1965, threatening to cut it off from its hinterland, its main market, and its most important source of water. In January 1968, the former colonial power, the United Kingdom, announced that it would withdraw its forces stationed in the Far East by 1971. Since the United Kingdom's military spending in Singapore accounted for about 25% of GDP, this was a severe blow to the economy.

(iii) Civil service

While Singapore had inherited a decent civil service from the colonial power, it was limited in terms of institutional development and resources. In particular, the economic agencies were poorly developed. The government had to build the economic institutions first while trying to develop the economy.

(iv) Economic Development Board

The Economic Development Board (EDB) was set up in 1961 as a dedicated agency to attract foreign capital and promote Singapore's industrialization. The EDB took over the functions of the Singapore Industrial Promotion Board (SIPB), but the SIPB itself was not established until 1957 and was a small unit with limited resources.

The other elements of the economic development ecosystem were also either new or nonexistent and had to be built from scratch while the government was dealing with economic and political emergencies. These included economic ministries such as the Finance Ministry, the Jurong Town Council (industrial estates), the Development Bank of Singapore (development financing), the Housing & Development Board (social housing), the Urban Redevelopment Authority (urban planning and land use), and the Singapore Tourism Board (tourism development). There was no central bank, only a Board of Commissioners of Currency, which was shared with Malaysia and Brunei Darussalam.

2. How Challenges Were Dealt with

Over the course of a few decades, the country has become one of the most developed economies in the world. Singapore has matched and even surpassed many developed economies in GDP per capita. Much of this extraordinary economic success can be attributed to the work of a single government agency—the EDB. This agency pioneered several development initiatives that are still actively used in Singapore today, and its success was so well known that other developing countries sought to emulate the EDB's structure and strategies in their own development efforts.

The EDB exhibited the key elements of strategic pragmatism—it had clarity about its long-term goals from which it did not deviate. At the same time, however, it maintained tactical flexibility in achieving those goals. As a result, it had a high degree of flexibility and discretion in solving everyday problems. Foreign investors valued the stability and predictability that the EDB provided. They also appreciated the flexibility with which the organization ensured that bureaucratic hurdles and resource constraints were removed or reduced.

(i) Government engagement with private enterprise

The EDB has been able to work closely with the private sector, keep abreast of global economic trends, and provide feedback to other ministries and statutory boards on how they should update or review their policies to support Singapore's economic strategy. This tension between the government and the private sector had to be carefully balanced in several of the EDB's core functions.

(ii) Participatory autocracy/nonhierarchical hierarchy

The EDB was able to simultaneously maintain a strong hierarchy in its command-and-control processes and deep involvement at all levels of the organization. By balancing these seemingly contradictory aspects, the EDB was able to provide tight, coherent coordination of its projects while giving its frontline staff sufficient autonomy to actively solve local problems without having to constantly seek approval from superiors.

(iii) Individualistic groupism

The EDB was known for hiring fiercely competitive employees, and its internal reward and promotion system appraised its officers based on their individual achievements. Despite these seemingly individualistic structures and processes, teamwork and maintaining a boundary-less work environment were paradoxically considered core EDB values. This paradox allowed EDB officials to work hard to achieve individual goals without putting personal interests above organizational (and national) goals, resulting in a well-functioning organization.

(iv) Distributed centrism

The EDB has offices around the world to expand its reach to potential investors, and its staff and business units are divided not only geographically but also by industry and function. At the same time, the EDB sought to maintain a level of consistency across these myriad engagements. To ensure this, all encounters with current and potential investors had to be recorded and communicated both upward and laterally. EDB officers are expected to be experts in specific industries or functions, while also needing to keep abreast of organization-wide engagements with clients.

(v) Modulated openness

EDB officers needed to be adept at working across many cultures and with different value systems. Although relationships with partners and clients obviously had to be based on a foundation of trust and honesty, the nature of the job also required EDB officers to know exactly how to practice this openness.

(vi) Culture of experimentation

The EDB adopted a cultural openness to experimentation in economic strategy. Because export-oriented industrialization as a development strategy was still so new that there was no single canonical approach, the EDB could only discover workable strategies through trial and error. Several factors allowed this culture of openness to work well in practice:

- The political leadership's policy was to put officials it rated highly into leadership positions—and then trust them to achieve their goals.
- The political opposition had been decimated by the ruling People's Action Party (PAP). As a result, the parliamentary opposition, which could have publicly challenged the EDB's development strategies, often had little or no presence.
- Nimble adjustment of strategy in response to success or failure. The Tampines Advance Display Park, for example, was originally conceptualized by the EDB to house a cluster

of modern display manufacturing plants, but is now being used for other industrial purposes after failing to attract many of the companies originally planned. When digital storage manufacturer Seagate Technologies announced in 2009 that it would move its manufacturing operations from Singapore to Thailand, the EDB instead helped the company expand its higher value-added research and development operations in Singapore. This nimbleness is also seen in how the EDB seized unexpected economic opportunities as they arose. Before 2018, Singapore had no ambitions to manufacture electric vehicles, but the EDB seized the opportunity to help Dyson build an electric vehicle assembly line when the company's founder, James Dyson, announced his intention to do so. And when Dyson changed its mind and decided to pull out, the EDB quickly found Hyundai as a replacement.

3. Key Elements of the Government's Approach to Support the Economic Development Board

(i) Government's overall approach

The government's overall approach to industrial development was a unique synthesis of pro-market and interventionist strategies that evolved over time. This blend of market and government intervention is demonstrated in the government's role in promoting industrialization and supporting consistent economic growth. Political leaders were not market fundamentalists—they believed that government intervention or regulation might be necessary to achieve more efficient outcomes and wanted to intervene judiciously when needed.

(ii) Guiding principles to avoid rent-seeking and other distortions

First, proper incentive design and structure are important. The Singapore government has generally avoided subsidizing new investment through direct grants, as this would likely distort private risk assessment and lead to moral hazard. Instead, it relied largely on tax incentives.

Second, the Singapore government focused on economic activities that were better aligned with the city's comparative advantages and its existing and potential capabilities.

(iii) Strategies modified as Singapore went through various stages of development

When the import substitution phase from 1959 to 1965 proved to be a failure, Singapore's economic planners switched to a strategy of export-oriented industrialization through partnerships with multinational corporations from 1965 to 1975. However, as successful as this strategy was, by the mid-1970s planners saw the need to change the strategy again. By this time, Singapore was facing a labor shortage as the labor surplus of the 1960s had been soaked up. Competition from low-cost economies was also increasing. Therefore, between 1975 and 1985, it was decided to shift the focus from labor-intensive to skill-intensive industries to stay ahead of the competition. Wages were raised and new industries such as petrochemicals were brought in. This strategy adjustment led to a surge in development, but by the mid-1980s, tensions emerged in the economy that also led to a loss of competitiveness. In the 1985–1997 period, drastic measures were taken to reduce costs and a strategy was adopted that targeted both the manufacturing and services sectors. In the 1990s, industrial policy began to emphasize cluster development. Finally, after the Asian financial crisis of 1997–1998, Singapore faced multiple headwinds and responded with a decisive move toward a knowledge-based economy.

(iv) The role of economic review committees

The EDB was not alone in formulating economic strategies. Since the 1980s, after each major turning point or downturn in the economy, the government established high-level committees chaired by a political heavyweight to determine changes in the direction of economic strategy.

The major economic review committees formed over the years were as follows:

- The 1986 Economic Committee
- The 1991 Economic Planning Committee
- The 1998 Committee on Singapore's Competitiveness
- The 2003 Economic Restructuring Committee
- The 2010 Economic Strategies Committee
- The 2017 Committee on the Future Economy
- The 2021 Emerging Stronger Taskforce

The recommendations of these committees played a pivotal role in charting new directions in economic strategy.

(v) Strategic use of state-owned enterprises

State-owned enterprises (SOEs) helped to kick-start many industries. In the 1970s, these SOEs accounted for an estimated 14%–16% of Singapore's total manufacturing output. Examples of internationally successful SOEs in Singapore include Singapore Airlines, ST Engineering, Singtel, Mediacorp, and PSA International. These companies were run strictly on a commercial basis. They were also exposed to market competition, which helped sharpen their commercial focus. The government mostly picked capable technocrats to run these companies. However, as the private sector in Singapore grew over the years, the government made a conscious decision to reduce its involvement in the economy.

4. Complementary Strategies to Tackle Constraints and Social Issues

The government used aggressive policies to overcome labor and land constraints in Singapore. The former was managed through a substantial influx of foreign labor, but at a pace set by the government. The latter were addressed through heavy intervention in the market, drastic laws such as the Land Acquisition Act, and extensive powers for the Urban Redevelopment Authority to carry out urban planning and zoning.

In addition, the government recognized that Singapore's development would be better supported if economic strategies were combined with social policies that directly contributed to improving the welfare of its citizens. The two most important areas were public housing and retirement savings:

- The government created the Housing Development Board to oversee a massive public housing initiative to build a large number of high-rise apartments, which it sold to the public at affordable prices. Villagers were relocated from their rural dwellings to these new urban spaces as part of large-scale resettlement programs,
- The government also expanded the role of the Central Provident Fund (CPF), a savings retirement scheme established by the colonial authorities in 1955. By steadily increasing the amount that both employers and employees had to contribute to the CPF, the government was able to enforce a high domestic savings rate and mobilize these savings as a cheap, noninflationary source of finance for Singapore's development needs, such as the aforementioned public housing, land reclamation to expand Singapore's limited land area, and other industrial and economic infrastructure.
- The government ensured stable and peaceful labor relations by establishing the National Trades Union Congress (NTUC), an umbrella organization that brought most of Singapore's trade unions under one framework. The NTUC worked closely with the government as a partner and also in tripartite structures with government and business organizations.

5. Lessons

(i) Development success goes beyond economics to institutions and politics

Singapore's growth story shows that the state can play an important role in economic development by designing market-oriented and pro-growth policies that are adapted to local conditions. Economic development is not exclusively about economics, although it is important to create the right economic environment at each stage of development. Rather, it is also important to create the appropriate social institutions and stable politics and to build and maintain social consensus.

(ii) Market-compatible incentives and institutions are needed

A common thread in many of Singapore's growth strategies has been a systematic effort to design market-compatible incentives and institutions and to adapt these systems over time to changing economic conditions. These measures did not always fit easily with conventional economic wisdom. The second lesson for developing economies, therefore, is that it is more important to design policies that address growth constraints without creating significant distortions elsewhere than to naively apply standard prescriptions.

(iii) Small states have the advantage of being nimble

Singapore's small size may have helped. The country is fully urbanized, and its government had an easier time establishing political dominance. This meant that administrators had the latitude to solve problems in rational or technocratic ways, allowing a degree of nimbleness that other states find difficult to emulate.

(iv) Export-oriented industrialization works well

Singapore's experience suggests that for economies like Sri Lanka, export-oriented industrialization is a critical, even necessary, stage of economic development, and that economic policies and plans should address this need.

(v) The global economy is ever-changing; constant adaptation is necessary

The Singapore state derives much of its political legitimacy from sustained economic growth. It regularly reviews Singapore's growth model to identify areas for improvement. These large-scale reviews involve both senior government officials and key business leaders, and they can lead to major policy changes. Such reviews occurred in 1986 (resulting in significantly lower income taxes); 1991 (focusing on innovation); 1998 (diversifying toward services to boost Singapore's international competitiveness); 2003 (globalization and entrepreneurship); 2017 (industrial transformation and new growth areas); and 2021 (transition from COVID-19).

D. Republic of Korea

1. Key Challenges

In the 1950s and 1960s, the Republic of Korea faced the usual problems of poor developing countries—a predominantly agrarian and aid-dependent economic structure, a low savings rate, high unemployment, and large current account deficits. The Republic of Korea's economic growth since then has been hailed as a miracle. Per capita income rose from the 74th percentile in 1960 to the 19th percentile in 2019.

Debates continue over the factors that have made the Republic of Korea's economic success possible. Some of the proposed factors are readily accepted, while others are more controversial (Page 1994; Lall 2004). Among the accepted factors are export orientation as opposed to the import-substitution strategy used by many developing countries in the 1950s and 1960s, which was mostly doomed to failure; emphasis on basic education and high levels of education among the population; relatively stable inflation and a relatively flexible exchange rate; a public-oriented bureaucracy (Evans 1989); and an inclusive institutional setup formed by land reform in the 1950s (Galor, Moav, and Vollrath 2009). The last factor—inclusive as opposed to extractive institutions—is often considered by some authors to be the most important determinant of broad-based economic growth (Sachs 1989; Sokoloff and Engerman 2000; Acemoglu and Robinson 2013).

More controversial, however, are the state-led industrialization strategy and the promotion of large domestic enterprises. To spur economic growth, the Korean government placed great emphasis on manufacturing exports in the early decades and invested in key infrastructure to support them. The government used financial repression to mobilize domestic resources and borrowed heavily abroad, channeling much of these resources to large domestic companies that led the exponential growth in exports. Such support for manufacturing exports could be justified by the distinctive role of manufacturing in economic growth (Hausmann, Hwang and Rodrik 2007; Rodrik 2012; Felipe, Mehta, and Ree 2014) and the externalities that presumably arise from exporters' dynamic discovery of a country's comparative advantages in the global market (Hausmann and Rodrik 2003). Nurturing domestic industrial giants, rather than relying on multinational companies, could also be interpreted as a deliberate policy choice to build domestic technological capacity as quickly as possible. One might also add that the subsequent growth of large business groups—the chaebol in the Republic of Korea—was inevitable given the scarcity of managerial talent (La Porta and Shleifer 2014) and market imperfections common in developing countries (Khanna and Yafeh 2007).

While accepting the possible benefits of heavy state intervention to correct market failures and accelerate industrialization, one can also recognize the risks that these interventions pose by encouraging high levels of corporate sector indebtedness and increasing banking sector instability. When the Korean financial market was closed to foreigners and shielded from external shocks, these risks could be managed by the government. However, when it was gradually liberalized in the 1990s, the risks increased to unmanageable levels and eventually manifested themselves in a full-blown economic crisis in 1997 and 1998. To overcome the crisis, the Korean government implemented unprecedented reforms in the corporate, banking, and public sectors by introducing strong market discipline and redefining the relationship between the market and the state. The crisis was thus the catalyst for the transition of the Korean economy from a developing to an advanced stage.

This bird's eye view of the Republic of Korea's economic development in the second half of the 20th century should not lead one to believe that there was a grand master plan or a single ideology guiding the development effort. The overarching goal of these efforts was to escape poverty and build a strong and independent nation, and the only guiding principle was pragmatism. Through trial and error, the government found in the early 1960s that export promotion worked and import substitution did not. It also found that private entrepreneurs were important partners in developing overseas markets and achieving export targets. As excessive corporate investment led to overcapacity in industry and increasing inflationary pressures threatened economic stability toward the end of the 1970s, the government initiated industrial rationalization and drastic fiscal consolidation in the 1980s. As a result, inflation was halted in the early 1980s. In the late 1990s, the crisis provided the Korean government with an opportunity to carry out long-delayed reforms that were unmatched in scope and depth by other countries.

Beginning in 1962, a series of economic development plans were introduced to accelerate economic growth. These set ambitious targets for growth rates and export volumes, as well as important directions for economic and social policy. The targets have been regularly exceeded by outturns. Of course, the spectacular success of the Korean economy cannot be explained by the economic development plans alone. The success achieved was the combined result of various measures in different areas by different actors. Nevertheless, the plans played an important role by demonstrating the government's resolve to industrialize the country and by providing a forum to build public consensus and advance development efforts.

2. Key Lessons

(i) Development planning alone does not guarantee success

Governments should adopt the "right" policies, such as land reform, export orientation, investment in basic education, stable inflation, flexible exchange rates, and a meritocratic bureaucracy. Without these policies, a country will suffer economic stagnation even if it has a well-prepared development plan, and in some cases perhaps with the help of international organizations or global consulting firms.

(ii) Planning should be indicative rather than imperative or directive

In the Republic of Korea, the nature of development planning began to change in the early 1970s. The economic development plan became less of an imperative plan, prescribing investments in various sectors, and more of an indicative plan, announcing the government's policy intentions and thus providing guidance to private sector actors. Thus, while the government set the targets, it was the private companies that borrowed money abroad, imported equipment, built factories, hired workers, and manufactured and exported the products. The government recognized the importance of harnessing the energies and initiatives of private entrepreneurs to increase export volumes. The hurdles faced by Korean entrepreneurs were enormous. They had neither money nor technology and relied almost entirely on foreign sources.

Unlike companies in many developing countries, which are primarily engaged in banking, retail, property development, and other domestic market-oriented activities, major Korean companies rely on export-oriented manufacturing. For example, at the end of 2020, the top 10 firms by market capitalization in the Republic of Korea included eight manufacturers and two information and communication technology (ICT) service companies, while Brazil had four banks, two natural resource firms, one fintech company, one stock exchange, and only two manufacturers. This further limited the scope for Korean companies in rent-seeking.

Their export success led them to continuously seek new opportunities in the global market. In this process, they led the self-discovery of the Republic of Korea's cost structure and created information externalities for other producers (Hausmann and Rodrik 2003). They also led to the continuous adoption of new technologies and contributed to a dynamic change in the Republic of Korea's comparative advantage. Cherif and Hasanov (2019) claim that rapid economic growth is impossible without such change. The Korean government successfully redirected the greed and ambition of entrepreneurs from rent-seeking, zero-sum games to productive positive-sum games so that they generated economy-wide benefits.

In contrast, many developing countries have failed to foster healthy private enterprise growth. This failure can be attributed in part to the prevalence of state-owned enterprises, which suppress market competition and encourage rent-seeking. It may also be due to other distortions in policy making, such as the overemphasis on ethnic issues, promotion of small and medium-sized enterprises, or balanced regional development.

(iii) Political leadership must guide the formulation and implementation of economic development plans

The Republic of Korea's development planning is distinguished by the fact that its formulation and implementation were supported by strong political leadership. President Park Chung-hee (1961–1979) was committed to lifting the country out of poverty and accelerating industrialization and modernization. The Five-Year Economic Development Plans embodied his goal. Most importantly, he devoted much of his time and energy to overseeing the implementation of the development plans and other important economic policies, forcing bureaucrats to find solutions to any problems that arose during implementation.

One notable mechanism used for this purpose was the monthly meetings to report on economic trends, which were held almost every month from 1965 to 1979, almost throughout President Park's tenure. The meetings were organized by the Economic Planning Board and held in its building near the Presidential office. At the meetings, the board reported to the President on current developments in the economy and on selected policy issues. It could also call on or allow other ministries to report to the President on important issues. After the meetings, the President would have lunch with the participants.

The monthly meeting served many purposes. In addition to its policy-related roles, it also had an element of ritual, recognizing and appreciating the work of the Economic Planning Board and boosting the morale of its staff. The meeting allowed the Economic Planning Board to exercise an agenda-setting power over other ministries. This complemented the formal position of the minister of the Economic Planning Board, who held the title of deputy prime minister, which placed him below the Prime Minister but above other ministers.

The meeting also provided an opportunity to engage the President in economic policy. The President acquired the knowledge during the meetings and became an expert after a few years. The repeated meetings enabled not only the President but also other top-level policy makers to develop a common understanding of economic policy and strengthen their commitment to national development.

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