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Managing the Development Process and Aid
—East Asian experiences in building central economic agencies—

Overview of the Main Report
(Draft for comments)

GRIPS Development Forum
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1. Introduction

The experiences of East Asian development suggest the vital importance of utilizing aid to achieve shared national visions; aid utilization is an integral part of development management. These experiences demonstrate that it is possible for latecomer countries to manage the development process and aid and to eventually graduate from it, provided the existence of strong national commitment to development, and ownership of the entire development process, and policies and institutions that promote "shared growth" (World Bank 1993). This is not the case in many parts of the developing world.[1]

Why are some countries capable of meeting these prerequisites, and why are the others not? Where do commitment and ownership come from and under what circumstances? What are the mechanisms and driving forces for making the governments work for development? This study endeavors to shed light on these questions by examining the functions and coordination features of central development administration in three East Asian

One of key ingredients of the "East Asian Miracle" is frequently said to be the creation of central economic agencies responsible for strategic planning, resource management, and coordination and the existence of a cadre of economic technocrats insulated from narrow political pressures. Under strong political leadership, economic technocrats formulated and implemented growth-oriented economic policies—for example, diversification and upgrading of economic structure or effective management of natural resource rents—while adhering to macroeconomic stability and addressing social and equity concerns ("shared growth;" World Bank 1993, Campos and Root 1996, Iwasaki 1996). At the same time, it is also recognized that today's successful countries did not necessarily possess strong institutional bases at the initial stage of development. The East Asian experiences confirm that state building is a dynamic process and that conscious and continuous efforts critically matter.

A central part of our analysis is the coordination mechanisms of central economic agencies, which are the strategic core centers of development management; we examine key factors affecting the effectiveness of their operations and institution building. Thailand and Malaysia are the second-tier high performers of the "East Asian Miracle" economies—following South Korea, Taiwan, Hong Kong, and Singapore—and are generally considered to have successfully managed the development process with strong ownership (Muscat 1994, Suehiro and Higashi 2000, Torii 2005). Both countries are now emerging as donors. During the 1970s–80s, the economies of Thailand and Malaysia achieved major structural transformation, and these governments made strenuous efforts to build and enhance the

[1] Botswana is a notable exception in Sub-Saharan Africa.

functions of central development administration in order to meet the increasingly complex challenges of managing development and aid. Therefore, we consider it highly important to learn from their past experiences, especially from the late 1950s through the 1980s.

The study also analyzes the experiences of the Philippines, especially after 1986 (the turning point of democracy restoration), to provide a comparative perspective. During the Marcos era (1965–86), the Philippines failed to transform its central economic agencies into strategic core centers of development management. Nevertheless, the post-Marcos era has seen major efforts to reorganize the central economic agencies and strengthen inter-agency coordination. Furthermore, since 1991 the country has been implementing one of the most radical decentralization initiatives in East Asia.

A key feature of this study is to bring country perspectives to the center of analysis. Rather than presenting universally granted, ideal types of development administration and governance reforms, we attempt to learn from the real experiences to better understand how the three East Asian countries organized themselves for pursuing priority development goals and how they coordinated and dealt with various stakeholders, including donors, while overcoming crises and shocks. With strong emphasis on country perspectives, we hope that this study will serve as a useful reference for developing countries that are making efforts to build and enhance their development administration. We also hope that the study will add new insights to today's aid effectiveness debates.

This paper provides an overview of the main report. It first explains the approach and basic premise of the study, and then discusses the contexts for development management in Thailand, Malaysia, and the Philippines (i.e., overall development performance, macroeconomic and aid management by central economic agencies). Next, it summarizes the main findings of the study, touching upon the diversity of institutional design of central economic agencies, coordination mechanisms for aligning policy and resources with development priorities, strategic use of aid toward "graduation", and key factors affecting the effectiveness of central economic agencies. Lastly, it discusses the implications for today's developing countries and donors.

Following this overview chapter (Chapter 1), the main report is organized as follows.

- The evolution of development planning in Thailand, Malaysia, and the Philippines (Chapter 2).
- The role and functions of central economic agencies in the three countries, with special attention to the coordination mechanisms for policy and resource alignment and the coherence among development planning, macroeconomic management, and public investment programming (Chapter 3).
- Aid management, especially the strategic use of aid for attaining priority development goals and building a self-reliant economy toward "graduation." (Chapter 4).
- A case study of Thailand's Eastern Seaboard Development Plan—high priority, flagship infrastructure investments at the time of structural transformation of the country—as an example of country-owned development and aid management (Chapter 5).

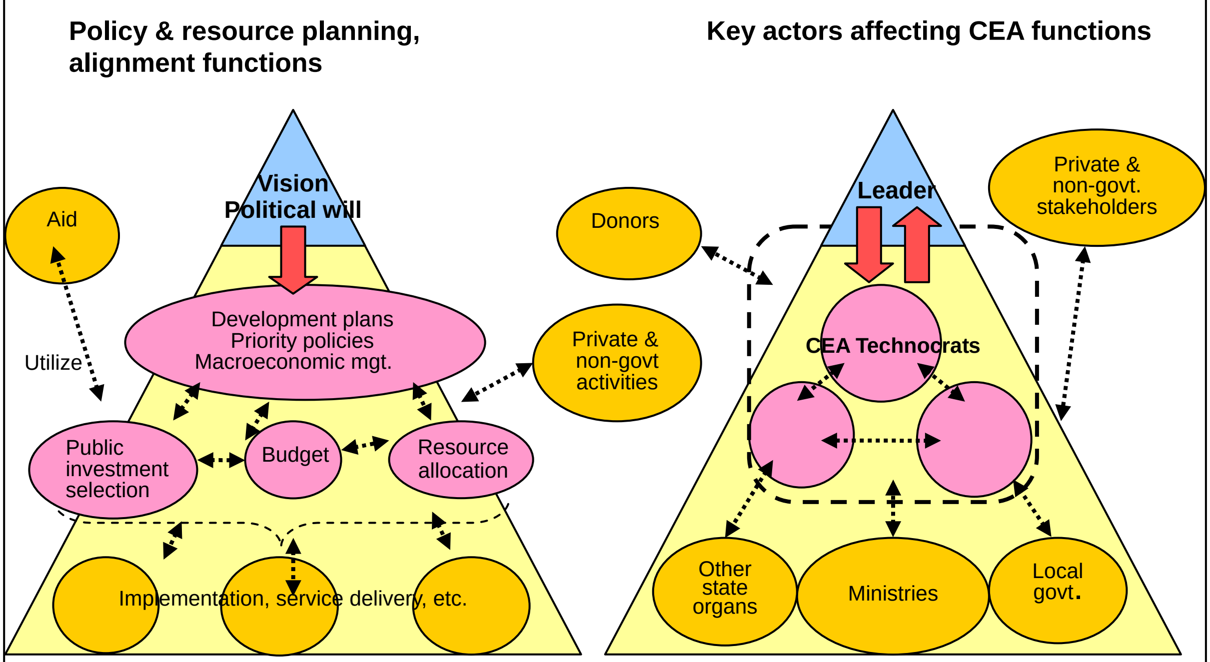
2. Approach and Basic Premise

2-1. Scope of Analysis

The study focuses its analysis on (i) the role and functions of central economic agencies and their coordination mechanisms, as the agents to manage the transformative development process and (ii) actors that affect the functions of central economic agencies, such as leaders and technocrats. The diagrams below illustrate these perspectives (Figure 1).

Ideally, top leadership should provide a long-term development vision and have a strong political will to realize that vision. The technocrats of central economic agencies assume the responsibility for translating the vision into action plans by mobilizing and utilizing both domestic and external resources. This includes formulating development plans and strategies, articulating priority policies, programming public investment, and managing resources within hard-budget constraints. The technocrats are also responsible for coordinating with various stakeholders (line ministries, other state agencies, local governments, donors, and the private sector) to facilitate the implementation of priority projects and the delivery of essential public services.

Figure 1: Coordination Mechanisms of Central Economic Agencies (CEA)



Source: Author

The perspectives shown above are consistent with the findings on the “East Asian Miracle” and its related studies (World Bank 1993, Campos and Root 1996) as well as a wide literature of developmental states in East Asia (Johnson 1982, Haggard 1990, Wade 1990, Evans 1995, Leftwich 1995, and others)—although their views may differ on such issues as the desirable level of state interventions in the market, the degree of state autonomy and embeddedness in the society, and the degree of tolerance to the authoritarian regime.

Thus, key questions to be examined throughout this study are:

- What are the role and functions of central economic agencies in Thailand, Malaysia, and the Philippines?

- How have the coordination mechanisms actually worked? What are the roles of leadership and technocrats?
- What is the role of development plans in policy and resource alignment, especially in terms of annual budget process, public investment programming, and aid management? To what extent have these instruments and resources been used coherently?
- How have these countries succeeded (or faced difficulties) in formulating and enhancing such functions and mechanisms, while overcoming crises and shocks?
- What are key factors that have affected the effectiveness of central economic agencies?

2-2. Basic Premise

Our study is built on two premises: (i) the critical role of central economic agencies in managing the development process, including aid and (ii) the need to enhance the conventional concept of ownership, based on East Asian perspectives.

Critical role of central economic agencies in managing the development process, including aid

Among a number of administrative and governance reform agendas, we attach great importance to strengthening central economic agencies at the early stages of development. This is because these agencies must assume the following strategic core functions, as the agents to manage budget, public investment, and aid, and to provide the right incentives for private and non-governmental actors[2].
Central economic agencies must

- align policy planning and resource mobilization with attaining strategic objectives and
- coordinate different interests of various stakeholders—vertically and horizontally, as well as domestically and externally (including donors).

While the recent decade has witnessed the expanded role of local administration and private sector activities, this should not be equated with the marginalization of central administration. In fact, there is a shared consensus in the international aid community on the importance of strengthening strategic planning and management capacity in developing countries and integrating such efforts in the national development objectives (OECD DAC 2005).

At least two kinds of arguments place importance on the role of central economic agencies. First, it is generally accepted that economic cases for central administration exist and require (i) policy coordination in the presence of scale and scope economies (such as macroeconomic management); (ii) inter-jurisdictional externalities, with spillover effects across localities (such as large-scale infrastructure development); and (iii) support to local governments through the resource transfer of financial and technical terms (Bardhan 1997). These are complementary to decentralized administration, which may be better equipped for managing local common resources and supplying local public goods—provided that it has greater access to local information and accountability. Nevertheless, at the early stages of development when financial, technical, and human resources are

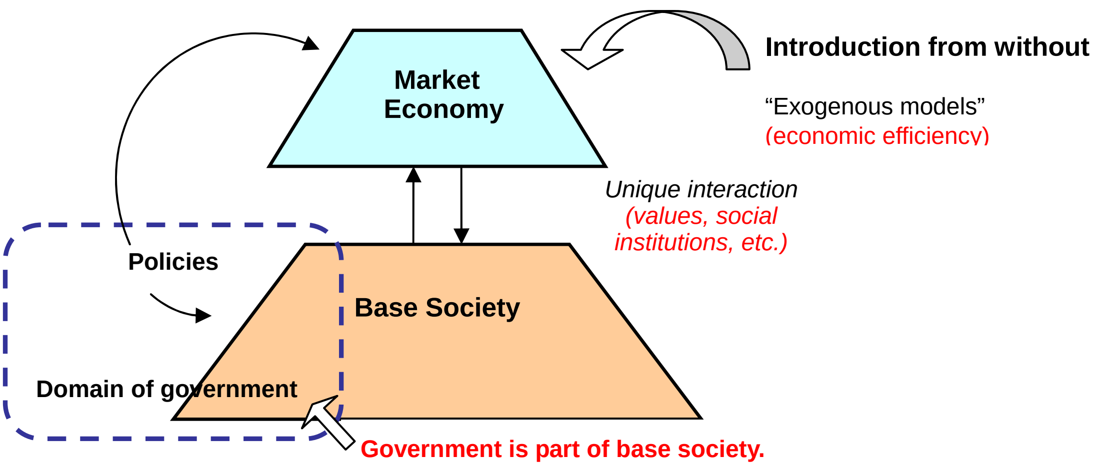
[2] Our argument is built on Shimomura's hypothesis, which proposes the need to identify a limited number of "strategic" good governance elements, rather than attempting to establish good governance in all scores simultaneously (Shimomura 2005). In light of resource and capacity constraints of developing countries, it is more realistic to give weight to a set of strategic good governance elements that may trigger development.

extremely scarce nationwide, the role of central administration in (i)–(iii) becomes all the more important. Such a role and such functions should also provide an environment to nurture private sector development.

Second and more fundamentally, the central governments of latecomer countries must assume a "developmental" role. This point adds a distinctive dimension to Weber's concept of modern, rational bureaucracy[3]. Development is a transformative process (Stiglitz 1998) that requires institutions that promote radical accumulation, change, and transformation (Leftwich 2005). Development is also an interactive process of "foreign" and "indigenous" elements (Iwasaki 1996, K. Ohno 2000). On the one hand, latecomer countries face the need to acquire the "foreign" elements—such as modern technology, knowledge, and organizational structure—in forms including aid, trade, and investment by the private sector. On the other hand, each country has "indigenous" elements—such as values and social institutions unique to that country—that mean the "economy is embedded in society" (Polanyi 1944:57) (see Figure 2).

In sum, development is a process that must be undertaken at the level of the nation-state as the implementing unit. In its early stages, the central government must act as the initiator of change and take full charge of managing and coordinating external and internal stimuli. While implementing policies and creating the necessary institutions and attitudes conducive to development, central economic agencies in particular must "recognize the society's unique initial conditions, identify bottlenecks and potential obstacles, deal with unexpected shocks, set long-term targets, and design comprehensive and concrete annual plans to achieve them" (K. Ohno 1998: 29).

Figure 2: Development Process: Systemic Interaction



Source: Adapted from K. Ohno (1998)

[3] Weber outlined the key characteristics of a bureaucracy as: (i) functional specialization; (ii) clear lines of hierarchical authority; (iii) expert training of managers; (iv) decision making based on rules and tactics developed to guarantee consistent and effective pursuit of organizational goals; and (v) assignment of work and personnel based on competence and experience.

East Asian Views of Ownership in the Development Process

We argue that there is a need to enhance the ownership concept by properly incorporating the East Asian perspectives. There is a shared consensus on the importance of government ownership in the development process (Johnson and Wasty 1993, Killick 1998, Booth 2003), and numerous literatures discuss how the governments and donors should better collaborate to promote ownership. The Paris Declaration of Aid Effectiveness (2005) endorsed at the high-level OECD meeting is the latest international initiative in this regard. The declaration puts ownership at the top of the hierarchy of development partnership toward making aid effective and stipulates that "partner countries (should) exercise effective leadership over their development policies and strategies and co-ordinate development actions" and that donors should "respect partner country leadership and help strengthen their capacity to exercise it (DAC 2005, paras. 14–15). While such an international initiative is laudable, we feel that today's global debates do not sufficiently capture the dilemma faced by latecomer countries.

The rhetoric of ownership and partnership tends to mask a tension inherent in the aid relationship. Certainly, aid facilitates recipient countries' access to finance, goods, and knowledge and technology, which are essential inputs to their socio-economic development process. However, excessive dependence on aid may constrain recipient countries from exercising policy autonomy. Furthermore, donor thinking and priority areas of assistance often tend to be influenced by global development trends, and do not necessarily pay due regard to specific needs of developing countries. Thus, it is critically important to cope with this dilemma when countries endeavor to manage the development process by utilizing aid.

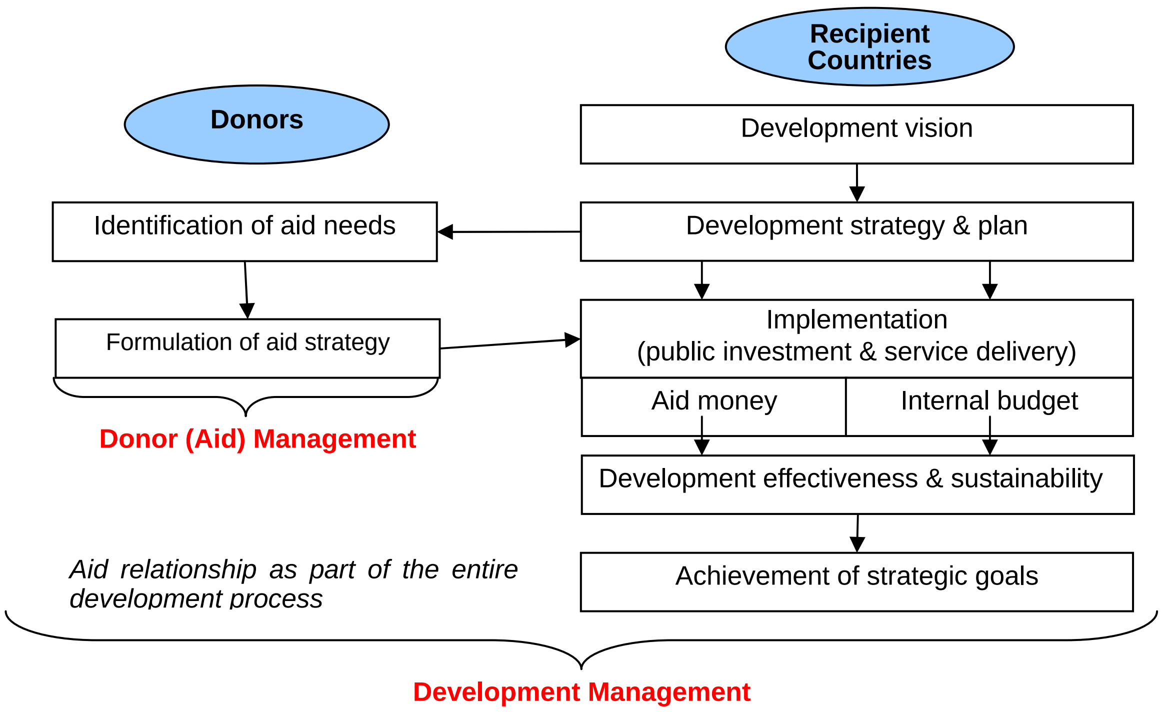
The deeper understanding of the nature of the development process (as discussed above) and the "East Asian Miracle" experiences reveal several essential elements of government ownership that are insufficiently covered in today's global debates (see Shimomura and I. Ohno 2005 for more detailed discussions). These elements are:

- managing donors and aid, as part of the entire development process;
- willingness to graduate from aid, supported by an "exit plan"; and
- managing policy ideas, with selectivity and through "translative adaptation"[4].

First, ownership should be viewed as the capacity to manage the entire development process and hence coordinate aid as part of its own coherent development effort (see Figure 3). The government should initiate and formulate a national development plan and strategy, identify specific needs to be financed by aid, present its aid requests and negotiate with donors, match aid programs and projects with its own internal resources, implement various developmental activities, and monitor and evaluate results. Here, the aid relationship is just one component of development management, a means to achieve a national goal of promoting growth and establishing wealth-sharing mechanisms on a nation-wide scale. In this regard, we are concerned that recent donor discussions of ownership tend to focus on aid relationship. Such discussions assume that donors dominate development policy agenda and that the development process in recipient countries is dictated by the aid relationship.

[4] The concept of "translative adaptation" is based on Maegawa (1994).

Figure 3: Development Management and Aid



Source: Adapted from I. Ohno and Niiya (2004)

Second, ownership should be based on the strong will and commitment of national leaders to build a self-reliant economy. Development plans and strategies should assume eventual "graduation" from aid and be supported by a concrete vision and realistic measures for growth promotion and domestic resource mobilization (an "exit plan"). Although most national development strategies embrace equitable and sustainable growth as their stated objectives, this should not be simply a slogan.

Third, ownership should include the capacity to reinterpret relevant elements of exogenous model(s) of development strategy ("translative adaptation") and adapt them to the prevailing conditions in a particular developing country. However, it is often the reality that "some donors seem to believe that ownership exists when recipients do what we want them to do but they do so voluntarily" (Helleiner 2002:255)[5]. We believe that true ownership should mean the capacity of a developing country to choose from alternative policy prescriptions—even if they are not granted by the international aid community. When a country decides to rely on external advice or foreign models, policymakers and technocrats must conduct a thorough assessment of alternatives and carefully adapt the policy content and sequencing to the country-specific context at both the design and implementation stages.

[5] For example, drawing on the experience of heavily aid-dependent sub-Saharan Africa, the conventional views claim that it is more realistic and sufficient for recipient countries to take policy prescriptions "off the shelf" from donor agencies (Morrissey 2001, Booth 2003, SIDA 2003).

3. Contexts for Development Management in Thailand, Malaysia, and the Philippines

3-1. Overall Development Performance and Shared Growth

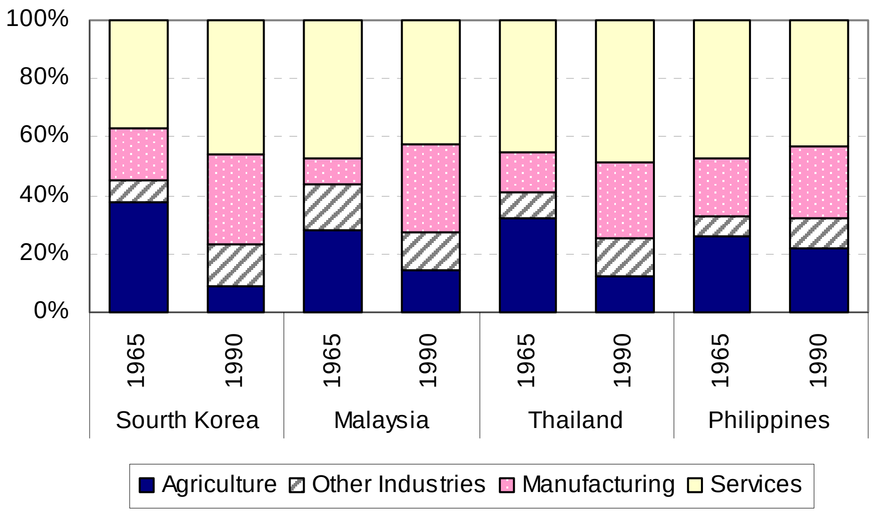
Among the three East Asian countries examined in this study, Thailand and Malaysia have achieved steady economic growth with poverty reduction over the past four decades. Although both countries faced crises and shocks, they have managed to attain relatively uninterrupted rapid growth, except for several years of severe recession in the 1980s and financial crises in the late 1990s. Moreover, the aggregate growth has been accompanied by economic stability and poverty reduction (see Table 1 and Figure 4). Basic social indicators—in terms of life expectancy, infant mortality rate, literacy rate and human resource development—all show satisfactory trends. Especially, in Malaysia, equity was an important consideration. Inequality in income distribution has been reduced particularly between ethnic groups.

Table 1: Basic Socio-Economic Indicators for Selected East Asian Countries

Country	GNP per capita (US$) 1976	GNP per capita (US$) 1990	Average annual growth rate of GNP per capita 1965–90 (%)	Life expectancy at birth 1990 (years)	Population below poverty line: Total (%) 1980–89 average	Population below poverty line: Rural (%) 1980–89 average
Korea, Republic of	670	5400	7.1	71	16	11
Malaysia	860	2320	4.0	70	27	38
Philippines	410	730	1.3	64	58	64
Thailand	380	1420	4.4	66	30	34

Sources: Data are compiled based on World Bank, *World Development Report 1976*, *1992*, *1993* and UNDP, *Human Development Report 1992.*

Figure 4: Structure of Production: Distribution of GDP (%)



Sources: World Bank, *World Development Report* (1992, 1996) and *World Development Indicators* (2006)

Note: Data for Malaysia in 1990 are based on figures in 1994.

During the 1970s and 1980s, the economies of Thailand and Malaysia underwent major structural transformation. In Thailand, agriculture, which used to contribute 32 percent of GDP in 1965, declined to 12 percent in 1990. Meanwhile, the share of manufacturing value added rose from 14 percent of GDP in 1965 to 26 percent in 1990. By the 1990s, Thailand's largely agrarian economy of the 1960s had been transformed into a newly industrializing economy. The Malaysian economy was also diversified. Before independence (in 1957), the economy was dominated by rubber agriculture and tin mining, and manufacturing was not very significant. During 1965–1994, the share of manufacturing value added increased from 9 percent of GDP in 1965 to 32 percent.

The record in the Philippines has been mixed. In terms of per capita GNP, the Philippines scored the highest among the three countries around 1950 and scored higher than Thailand until the mid-1970s.[6] Nevertheless, its economy has had limited structural transformation. During the period of 1965–90, the share of agriculture in the economy declined from 26 percent to 22 percent of GDP, and that of manufacturing value added increased from 20 percent to 25 percent.

3-2. Macroeconomic and Aid Management by Central Economic Agencies

Approaches to Macroeconomic Management

The period of the 1970s–80s was of special importance for all three of these countries. All three governments faced challenges to meet the increasingly complex demand for development. In response, these governments increased the levels of spending and borrowing in order to mobilize larger amount of resources to finance development, particularly from the latter half of the 1970s.

Careful analysis shows that the central economic agencies of the three East Asian countries took different approaches to macroeconomic management in light of the size of public expenditures and the level of debt financing. Appendix-Figure 1 shows key fiscal indicators of the three countries, including the levels of total revenues, current expenditures and capital expenditures, and overall fiscal balance, expressed in terms of percentage of GDP (left axis). The bar graphs show the ratio of outstanding debt to GDP (right axis), covering both foreign and domestic debt.

A key feature of Thailand’s macroeconomic management is strong fiscal conservatism and prudent debt management. The legal limits for fiscal deficits and external borrowing were strictly adhered to. The central government expenditures accounted for around 20% (or less) of GDP. Nevertheless, the public expenditures grew in the mid-1970s and 1980s, and the government borrowing started to rise during the first half of the 1980s, including external debt. However, the outstanding debt remained at a moderate level—well below 40 percent of GDP at the highest. This is much lower than that of the other two countries. Furthermore, thanks to the accelerated growth that started from the latter half of the 1980s, the Thai government was able to turn fiscal deficits into a surplus in 1988 and reduce the outstanding debt.

[6] At independence in 1946, development indicators for the Philippines matched those of South Korea and the country was regarded as a showcase for the Asian adoption of Western market economics and democratic practices (Hayllar 2003).

In contrast, Malaysia is known for its fiscal activism. The size of Malaysia's central government expenditures and that of outstanding debt, as percentages of GDP, were the largest of the three countries. The government's adoption of the New Economic Policy (NEP) in 1971—which established the overriding objective of promoting national unity through "poverty eradication" of all Malaysians and "restructuring of society" to correct economic balances in order to address the main cause of the ethnic riot of 1969—necessitated larger public expenditures than before. Especially, with rapidly growing development expenditures, the Malaysian government incurred sizable fiscal deficits during the late 1970s through the early 1980s. The government actively mobilized various resources, including domestic and external borrowing throughout the 1980s[7]. Similar to Thailand, rapid growth enabled Malaysia to compress the outstanding debt, especially foreign debt. The fiscal balance turned into a surplus in 1993.

In the Philippines, the level of public expenditures has been comparable to that of Thailand and has been much lower than that of Malaysia. However, the country has problems in allocative efficiency and productivity of public investment. During the 1980s, the government increased domestic and external borrowing to finance development programs, but is yet to be able to fully enjoy the potential benefits of these programs. The Philippines continues to face a heavy debt burden, and the resultant debt overhang limits the fiscal space.

Approaches to Aid Management

The three East Asian countries examined here also differed in the degree of aid dependency. Compared to today's Sub-Saharan Africa, Thailand and Malaysia were less dependent on aid. Even in the late 1980s when these countries actively mobilized resources for financing development, aid (including the less concessional World Bank and ADB loans) accounted for about 10% of the total government expenditures in Thailand and about 4% in Malaysia. Still, in Thailand, aid was an important source of financing development expenditures. The Philippines had the highest level of aid dependency at about 18 percent in the late 1980s (see Table 2). This level is comparable to those of Vietnam and Kenya (about 20%) but is much lower than that of Tanzania (near 80%) today.

Table 2: Aid Dependency
(Sum of ODA and development finance from the World Bank and the ADB)

	ODA+WB+ADB amount received (US$)		ODA+WB+ADB as a percentage of total central government expenditure		ODA per capita	ODA as a percentage of GNP
	1975	1988	1975	1988	1988	1988
Malaysia	$181 mil	$391 mil	6.1%	3.8%	$6.1	0.3%
Philippines	$314 mil	$1403 mil	12.0%	17.7%	$14.3	2.2%
Thailand	$177 mil	$862 mil	8.0%	9.9%	$10.3	1.0%

Sources: Amount of aid (ODA+WB+ADB, gross) is calculated based on OECD/DAC, *International Development Statistics (IDS) online,* http://www.oecd.org/dataoecd/50/17/5037721.htm.
Aid amount as a percentage of expenditures is calculated based on ADB, *Key Indicators of Developing Asian and Pacific Countries 1993*.
Data for ODA per capita and ODA as a percentage of GNP/GDP are based on World Bank, *World Development Report 1990*.

[7] Petroleum revenues and the Employees' Provident Fund (EPF) are other important sources of financing growing public expenditures.

All three countries expanded their volume of aid mobilization during the 1970s and 1980s. This was also the period when the composition of donors and the mix of grants and loans changed drastically. Appendix-Figure 2 shows the trend of mobilization of official development finance, classified by funding type, together with the information on the top five donors. The expansion of aid volume, shifts in donor composition and funding type imply that the size and complexity of aid increased by the 1970s–80s and that the central economic agencies of the three countries came to face greater challenges of aid management than before—including the need for prudent external debt management and careful analysis of cost-benefit and feasibility of prospective investment projects.

The three countries responded differently to cope with the increasing challenges of aid management (see Chapter 4 for details). Thailand actively used aid throughout the 1980s, but successfully avoided heavy (protracted) dependency. Moreover, the Thai government was sensitive to the concessionality of loans, as well as comparative advantages of respective donors. While some shifts of donor composition were unintended and were influenced by the international environment, the others were the result of the government's conscious efforts to strategically and selectively utilize aid. For an example of an unintended shift, until the mid-1970s, the United States was the largest bilateral donor in Thailand, providing massive grant aid (including technical assistance). The US defeat in the Vietnam War (in 1976) brought a major change in Thailand's geopolitical role in US security concern and resulted in a sharp decline in US aid. Then the World Bank, the ADB, and Japan became the three largest donors, and accordingly loan aid increased. In contrast, the shift of donor composition during the 1980s largely reflected the Thai government's strategic decision. In this period, the Thai government consistently increased the mobilization of ODA loans (mostly from Japan), reducing its reliance on the less concessional loans (except for the years of 1997–98 when Thailand faced a severe financial crisis and had to depend on the infusion of quick-disbursing loans from the World Bank and the ADB).

Malaysia was less dependent on aid than were the other two countries. Nevertheless, in the 1970s, Malaysia experienced shifts of donor composition and of grant-loan proportion. For about a decade after independence, the United Kingdom was the largest donor in Malaysia and provided grant aid (including technical assistance). The UK's position as the largest donor was followed by the US. By the mid-1970s, the World Bank and Japan increased their loan aid and became the largest donors. Similar to Thailand, Malaysia used aid selectively. Aid mobilization was largely limited to the areas where the introduction of new knowledge and technology was desired, and the government tacitly avoided donor intervention into the domestically sensitive policy areas.

The Philippines mobilized aid actively throughout the 1970s–80s and continues to do so. With the relatively high level of debt service payments, the government has limited fiscal space for discretionary funding, including capital expenditures. This raises questions regarding the Philippine government's consciousness of securing economic and social returns of aid-funded projects and utilizing aid for achieving development priorities.

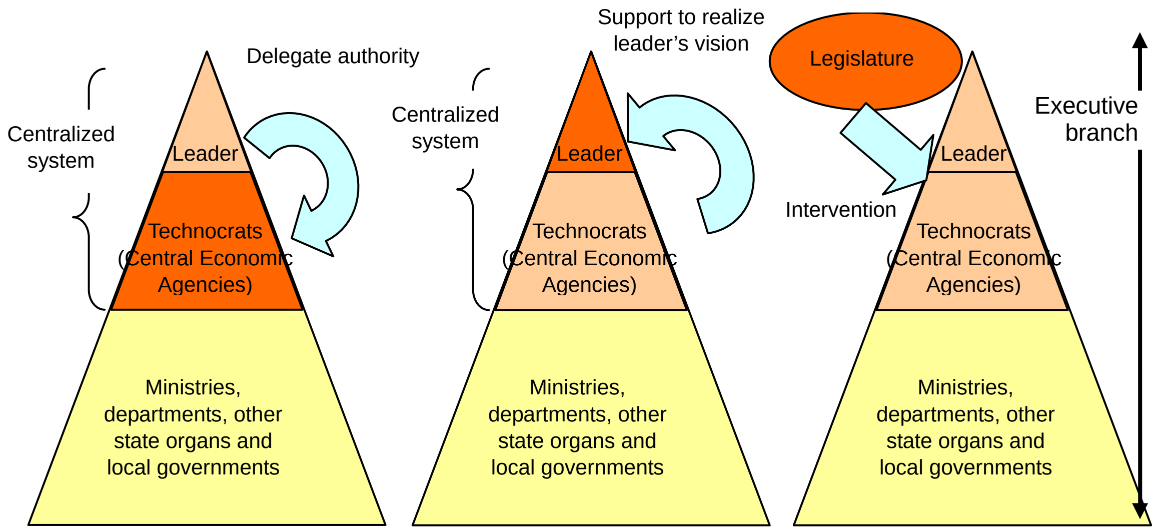
4. Synthesis and Main Findings of the Study (from Chapters 2–5)

4-1. Diversity in Institutional Design and Coordination Mechanisms of Central Economic Agencies

The analysis in section 3 suggests that the central economic agencies of Thailand, Malaysia, and the Philippines have different performance records and approaches to macroeconomic and aid management. The subsequent analyses in the main report show that there exist variations in the type of development management and the nature of ownership among the three countries. In our view, the central economic agencies of Thailand and Malaysia have built the capacities to act as strategic core centers for development management and have contributed to establishing strong ownership (especially in the 1970s–80s), as illustrated in Figure 3 (in section 2-2). The Philippines is currently making efforts to strengthen its strategic core functions, by institutionalizing intra-agency coordination mechanisms and improving aid management.

Our study finds that each country has a different way of organizing development administration and that there are diverse models of coordination. The countries' institutional design and coordination features vary significantly in terms of, for example, the existence of a super-ministry, their functional division of labor, the relationship between top leadership and technocrats, and the relationship between the Executive and Legislative branches. In this sense, it should be noted that even though Thailand and Malaysia have each built a core country system for development management, the institutional design of their development administration differs. Figure 5 and Table 3 show the major characteristics of development administration in the three countries and the summary of various types of development management and functional features of central economic agencies (CEAs).

Figure 5: Major Characteristics of Development Administration



<Thailand>
"Bureaucratic polity"

Centralized system managed by elite technocrats who were delegated authority from political leaders

<Malaysia>
"Top-down" development administration

Centralized system led by political leaders and supported by elite technocrats to realize leaders' vision

<The Philippines>
Especially after 1986
"Dual track" development administration

Dual system administered by executive branch but challenged by legislative intervention

Source: Author

In Thailand, a highly centralized system was created and administered by the economic technocrats, who were granted by the top political leaders the authority to plan and administer policies (often called "bureaucratic polity"). Thus, until the late 1990s, the technocrats of central economic agencies assumed a key role in formulating and implementing development policies. In terms of the configuration of central economic agencies, no single super-ministry exists, and the responsibilities for economic policymaking have been shared among the four core agencies: the National Economic and Social Development Board (NESDB), the Bureau of Budget (BOB), the Fiscal Policy Office (FPO) of the Ministry of Finance (MOF), and the Bank of Thailand (BOT). Fiscal and monetary decisions have been left almost entirely to these four agencies (Christensen and Siamwala 1993). As a result, the economic technocrats have been insulated from political interventions and have been able to exercise substantive power. This has enabled the government to maintain macroeconomic stability and coherent economic policies, even when the political environment was volatile during the 1970s[8]. The stable and predictable macroeconomic environment has contributed to promoting the activities of the private sector.

In Malaysia, it is the top political leaders that have served as the driving force of development management and institution building efforts ("top-down" development administration). Since independence in 1957, the successive Prime Ministers have exercised strong leadership, and the technocrats of central economic agencies have served as the support arm to realize the visions provided by the Prime Ministers. The bodies responsible for policymaking have been concentrated in the Prime Minister's Department—such as the Economic Planning Unit (EPU), the Implementation Coordination Unit (ICU), and the Public Service Department (PSD)—as well as the Ministry of Finance (MOF). Especially, the EPU functions as the super-ministry, taking a lead role in the formulation of long- and medium-term visions (including the level and allocation of development budget) and collaborating with the MOF in the annual budget process. Malaysia has inherited such strong central control from the colonial administration.

The Philippines faces a more complex situation. Its decision-making structures are highly dualistic and fragmented among different government agencies and the legislature. The Congress has strong control over the Executive branch, typically in the budget process, which leads to the marginalization of the role of economic technocrats. Also, as the ongoing reforms in financial management suggest, room exists for ensuring policy coherence within the Executive branch. The basis for the current planning machinery was established in 1987 as part of administrative reorganization in the post-Marcos era. Four oversight agencies are responsible for economic policymaking: the National Economic Development Agency (NEDA), the Department of Budget Management (DBM), the Department of Finance (DOF), and the central bank. While they are the core members of Cabinet-level inter-agency coordination committees, their actual coordination needs further strengthening.

[8] Such technocrat-led economic management has changed under the Thaksin administration, which took office in 2001 and introduced a top-down approach based on new public management. Following the September 2006 military coup that ousted Prime Minister Thaksin, it is yet to be seen whether the post-Thaksin administration will continue using the new top-down public management approach.

Table 3: Type of Development Management and Functional Features of Central Economic Agencies (CEAs)

	Thailand (esp. 70s–80s)	Malaysia (esp. 70s–80s)	Philippines (late 80s–now)
Type of development management	• Strong ownership in managing development, including aid • Strong fiscal discipline, prudent debt management • Active but selective use of aid; exit plan from aid	• Strong ownership in managing development, including aid • Fiscal activism; overall balanced macroeconomic management • Selective use of aid; exit plan from aid	• Ownership?; ongoing effort to strengthen aid and development management • Problems of allocative efficiency; heavy debt burden • Selective use of aid?
Features of development administration	• Centralized system, with strong inter-agency coordination and shared responsibilities among four CEAs (see below *) • Empowerment of CEA technocrats from top political leader	• Centralized system, with rule-based operations installed in the coordination machinery (EPU as super-ministry) • Multi-layered inter-agency coordination mechanisms for planning and implementation • "Top-down" development administration, with CEAs serving as technical support arm to realize PM's vision	• "Dual track" system, with executive branch challenged by congressional intervention • President-led, NEDA Board and cabinet-level inter-agency coordination bodies; ongoing effort to strengthen CEA coordination
Functional responsibilities of CEAs	**Prime Minister's Office** • NESDB*: development planning, development budget, public investment selection, aid • BOB*: budget • DTEC: technical cooperation **Ministry of Finance** • FPO* + PDMO (1999–): fiscal policy and debt management, loan aid **Central Bank** • BOT*: monetary policy	**Prime Minister's Dept.** • EPU: development planning, development budget, public investment selection, aid • ICU: public investment monitoring • PSD: personnel management **Ministry of Finance** • MOF: budget, fiscal policy and debt management **Central Bank** • BNM: monetary policy	**Executive Branch** • NEDA: development planning, development budget, public investment selection, aid • DBM: budget • DOF: fiscal policy and debt management • Central Bank: monetary policy **Legislative Branch** LEDAC: Legislative Executive Development Advisory Council

Source: Author

Notes:

- Thailand: NESDB (National Economic and Social Development Board); BOB (Bureau of the Budget); DTEC (Department of Technical and Economic Cooperation); FPO (Fiscal Policy Office); PDMO (Public Debt Management Office); BOT (Bank of Thailand)
- Malaysia: EPU (Economic Planning Unit); ICU (Implementation Coordination Unit); PSD (Public Service Dept.); MOF (Ministry of Finance); BNM (Bank Negara Malaysia)
- Philippines: NEDA (National Economic and Development Authority); DBM (Dept. of Budget Management); DOF (Dept. of Finance); BSP (Bangko Sentral ng Pilipinas)

4-2. Policy and Resource Alignment with Development Priorities—Coherence among Development Planning, Macroeconomic Management, and Public Investment Programming

Despite the diversity in institutional design and coordination features, there are commonalities that have enabled the central economic agencies of Thailand and Malaysia to function as the strategic core centers of development management. There are variations in specific aspects of coordination mechanisms, such as the degree of development plans binding medium-term resource allocation and project selection. Overall, however, these central economic agencies function as the agents to plan, coordinate, monitor, and ensure that projects that are being implemented are in the national development plan and have been budgeted for.

More specifically, our study finds that the following features (or "functional" principles) have greatly contributed to the effective operations of their central economic agencies.

- The content of development plans is strategic enough to serve as the core document for policy alignment.
- Coordination mechanisms exist among central economic agencies to align budget, public investment programming (or public investment selection), and aid mobilization with national development priorities. Such mechanisms are accompanied by the institutionalized hard-budget constraints, as witnessed by the comprehensive enforcement of macroeconomic guidelines.
- Vertical (and to certain degree, horizontal) links exist between central economic agencies and line ministries/agencies to ensure the above alignment with national development priorities.
- In this process, aid-funded projects are integrated into the national development planning, budget process, and investment programming. In principle, the same procedures and criteria are applied in designing and implementing both nationally-funded and aid-funded projects.

Figure 6 and Table 4 compare the coordination features of Thailand, Malaysia, and the Philippines in light of the coherence among development planning, budget and debt management, and public investment programming.

In Thailand, five-year development plans are indicative. They specify development priorities, but do not bind budget allocation. Public investment has been scrutinized and selected in the annual budget formulation process, not in the development planning process (except for the period of 1972–81 when the third and fourth development plans contained the public investment plans). This system allows for flexibility in the medium-term planning, while enabling the technocrats to conduct vigorous scrutiny in the annual budget process. The BOB serves as a vertical link between the four core agencies and the spending agencies, enforcing hard-budget constraints. Notably, the BOB dispatches "Mobile Units" (a team of budget analysts) to each department for detailed reviews of the planned and ongoing projects and programs. Legal limits for fiscal deficits and external borrowing have been strictly enforced through the coordination among the four central economic agencies.

In Malaysia, five-year development plans are directive, with budget implications. They contain public investment plans, and investment selection has taken place as part of the development planning process. The Malaysian system ensures linkages between development plans and public investment plans. It also enforces the budget and sector ceilings during the plan period, although there is room for making adjustments at mid-term reviews. A cadre of elite technocrats, assigned to the central economic agencies as well as the planning divisions of various ministries and agencies (called the "planning cells") assume critical functions, providing vertical and horizontal links during the development and investment planning, budget formulation and execution, and implementation monitoring.[9] The annual budget process is consultative, and the MOF organizes budget dialogues with the concerned agencies, including the business sector.

In the Philippines, overall, six-year development plans and medium-term public investment plans have limited roles in the alignment of policy and resources with development priorities. The linkages between the two plans remain weak, and there exist no budget ceilings for development plans and public investment plans. Therefore, the public investment plan tends to be viewed as a “wish list” of projects. Since the late 1980s, the Philippines government has been making strenuous efforts to better synchronize the development planning, public investment planning, and budget formulation, for example, by introducing the Medium-Term Expenditure Framework (MTEF) and other new instruments. Nevertheless, such efforts are often challenged by congressional interventions in the annual budget process (typically, by the use of “pork barrel” funds). Such congressional interventions undermine the credibility of the development plans and public investment plans.

When Thailand and Malaysia each established a basis for development administration, they also endeavored to ensure that aid be integrated into the existing system. For example, Thailand and Malaysia have applied the same procedures and criteria for locally-funded and ODA projects throughout the investment planning and monitoring processes, except under special circumstances (for example, where donors require the application of more rigorous environmental and social safeguards). They also had a mechanism to ensure the allocation of local counterpart funds for ODA projects. In the Philippines, throughout the project selection and monitoring processes, the procedures and criteria applied for locally-funded projects are less rigorous than those applied for ODA and BOT projects.

In Thailand and Malaysia, their development plans (throughout the 1970s and 1980s) contain detailed discussions on the policies of aid utilization, such as the proportion of aid in overall resource mobilization, the priority areas of requesting donor assistance, the expected role of major donors, the status of project implementation, and the measures to be taken to improve aid-absorption capacity. These issues are less clearly articulated in the past development plans of the Philippines—at least until the current plan covering the period of 2004–2010[10]. Furthermore, particularly since the 1990s, the Malaysian government has strengthened the articulation of its international cooperation policy. The recent development plans extensively discuss various channels of cooperation—bilateral, regional, and multilateral cooperation, as well as the Malaysian Technical Cooperation Program (MTCP)—and provide the perspectives of an emerging donor and a responsible member of the global community.[11]

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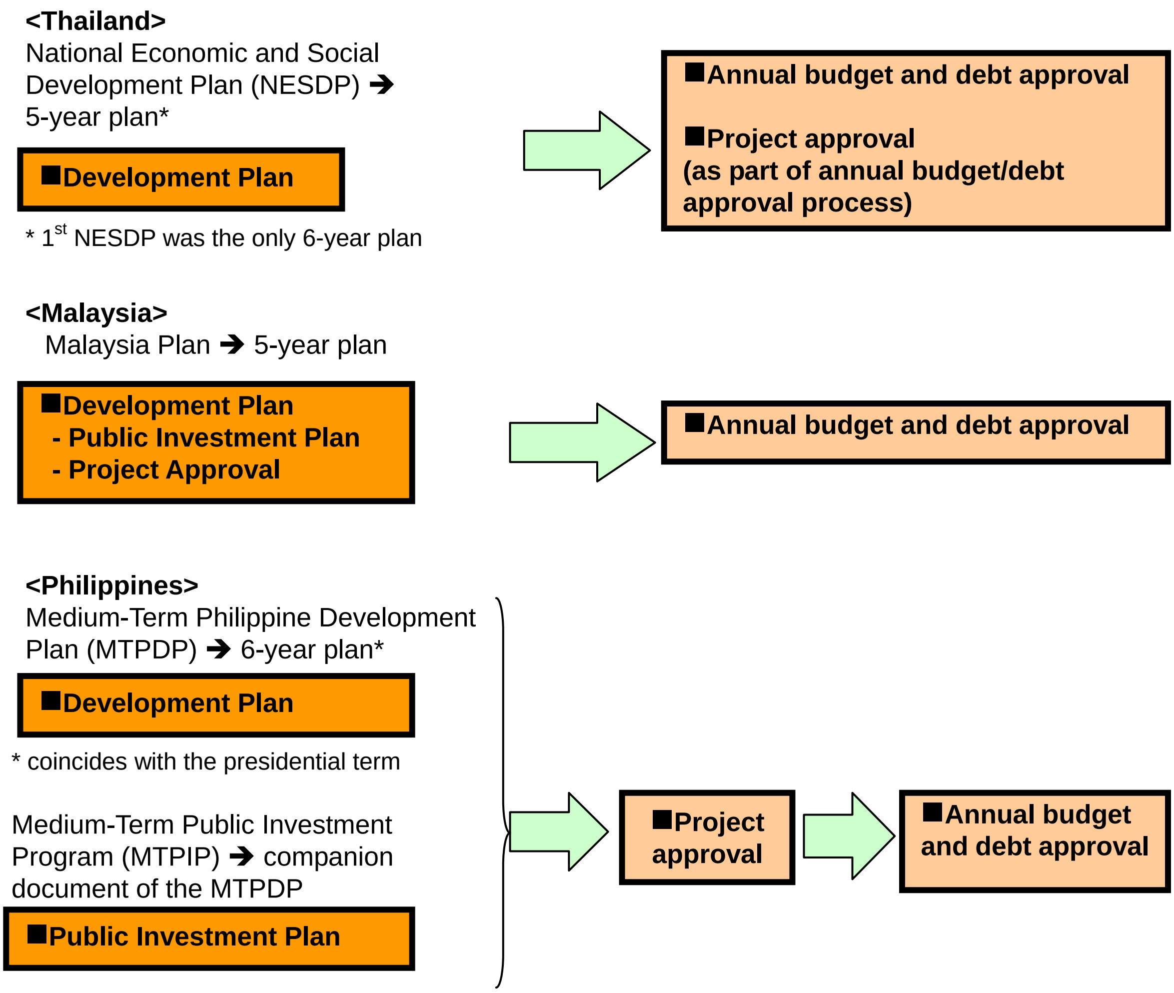
[9] Here, the *modus operandi* of the Thai agencies is shared responsibilities based on subtle check-and balance, while that of Malaysia is (at least in intention) systemic application of rules with centralized power given to the Prime Minister’s Department. Such differences may come from historical factors. The institutions and decision-making processes of Thailand are the “product of particular historical experiences and a unique cultural context” (Brewer 2003: 189); on the other hand, Malaysia’s public administration today owes much to the inheritance from the colonial legacy.

[10] In this sense, the latest Medium-Term Philippines Development Plan is notable because it discusses selectivity of ODA. ODA is regarded as the preferred source for financing large infrastructure projects that require huge funds, as it is relatively soft with its lower interest rates and longer maturity period (Government of Philippines 2004, Medium Term Philippines Development Plan).

[11] Since the Seventh Malaysian Plan (1996-2000), one chapter has been added, which discusses Malaysia’s international cooperation policy. Previously, this topic was included in the chapter of public sector program and its financing.

Figure 6: Coherence among Development Plans, Macroeconomic Management, and Public Investment Programming



Source: Author

Table 4: Coherence among Development Plans, Macroeconomic Management, and Public Investment Programming

	Thailand	Malaysia	Philippines
Degree of coherence in coordination mechanism	• Coherence; policy alignment with development priorities, with fiscal discipline (but less macro-sector link) • Effective Prime Minister-led, national committees created to address priority agenda (esp. the 80s)	• Strong coherence; policy and resource alignment with development priorities (macro-sector link)	• Coherence?; limited policy and resource alignment; weak inter-agency coordination
Development Plans (DP)	• Indicative plan, utilized as strategic core documents • Development priorities clearly indicated • Budget allocation not specified (securing room for flexibility)	• Directive plan, utilized as strategic core documents • Development priorities and resource allocation clearly indicated • Budget allocation specified during plan period (but adjusted at mid-term review)	• Still insufficient as strategic core documents (ongoing effort to align President's 10-point agenda) • Budget allocation not specified
Budget formulation	• Rigorous scrutiny of all projects in annual budget process by BOB • PPBS introduced in 1982; MTEF introduced after 2003	• Annual budget formulated as a rolling plan to implement DP • PPBS introduced in 1969; MBS introduced in 1990	• Ongoing effort to synchronize DP, PIP, and annual budget from 2000 (incl. MTEF introduction) • Congressional intervention into budget process
Public Investment Plans (PIP)	• Public investment selected in the subsequent budget and debt approval process (except for the 70s—3rd and 4th DPs)	• Public investment selected as part of development planning process	• PIP prepared in parallel with development plans, but their linkages remain weak
Project approval and monitoring (incl. ODA projects)	• Project approval integrated into budget/debt approval process • Application of same procedures for ODA and locally-funded projects	• Project approval conducted as part of development planning process • Application of same procedures for ODA and locally-funded projects	• Project approval conducted after PIP process and before budget process (lacking rigorous scrutiny) • Dual approval process for ODA and locally-funded projects (incl. "pork barrel" funds)

Source: Author

4-3. Strategic Use of Aid toward "Graduation" and Dynamic Evolution of Development Administration

As stressed in section 2-2, an essential element of country ownership, from East Asian perspectives, is the commitment and capacity to manage the entire development process and use aid as its integral part. In this sense, both Thailand and Malaysia have used aid strategically to build and enhance development administration so that the governments could better realize policy and resource alignment with development priorities. Their experiences show the process of dynamic evolution of institutional development. The following three ways in which Thailand and Malaysia have done well are worth mentioning.

First, the two governments recognized the importance of having an "exit plan" and treated aid as a temporary, supplementary resource (and efficiency-enhancing measure) to fill domestic financial and capacity gaps. At the formative stages of development administration, the leaders and technocrats established strong alliances and managed the process of absorbing, internalizing and institutionalizing foreign expertise into the local contexts. Throughout this process, they treated aid as an integral part of development management and successfully combined it with home-grown systems and knowledge.

Like many of today's developing countries, Thailand and Malaysia did not have strong institutional bases at the initial stage of development. During the 1950s–60s the economic technocrats in Thailand and Malaysia actively sought advice from foreign experts (from sources such as the United States and the United Kingdom) and international organizations (such as the World Bank) on such topics as the general direction of development policies, the drafting of national development plans, and the organizational structure of their development administration[12]. A notable point is the existence of strong political and technocratic commitment and the alliance of these actors toward building a functioning development administration. The political leaders initiated this process and assigned motivated technocrats to undertake such endeavors. The first generation of elite technocrats played a critical role. The elite technocrats not only acquired foreign knowledge, but also took measures to build core functions of the country system and instituted programs for human resources development from a long-term perspective. See Chapter 3 for the role of Dr. Puey Ungphakoren, former Governor of the BOT, in institutionalizing the disciplinary functions across the four core agencies and the role of Tan Sri Thong Yaw Hong, who became the first Malaysian head of EPU, replacing the post occupied by foreign experts.

Second, these governments mobilized aid and skillfully managed donors to realize a balanced aid relationship. The governments were mindful of which sectors or activities were more appropriate to receive donor assistance[13]. They also had good understanding of comparative advantages of respective donors (in light of technical expertise and financial conditions) and made full use of them in aid mobilization. In the case of Thailand, the government strived to retain bargaining power against

[12] For example, the World Bank mission, which advised a development program for Thailand in the late 1950s, stated that "it will be most difficult, if not impossible, to find suitably trained and sufficiently experienced Thai personnel who can be spared from present assignments to fill all these important senior positions" (World Bank 1959: 217–218).

[13] The Thai government also actively utilized aid for large-scale infrastructure projects—not only to fill financial gaps, but also to take advantage of donor presence (as the third party) and their technical guidelines to ensure project implementation would be transparent.

donors through various ways. These ways include: (i) deliberately seeking a variety of donor advice to gather different perspectives and (ii) instituting an agency specializing in administering technical cooperation (DTEC) so that the government could have a holistic picture, match country needs with donor expertise, and apply uniform procedures for technical cooperation including the assumption of counterpart funds. The Malaysian government was cautious about donor interventions into domestic policies, especially those related to the basic direction of the NEP. Thus, the government, through the External Assistance Section of the EPU, took the initiative in deciding the sectors or activities where aid—against domestic resources—could be more properly and effectively utilized. In principle, aid mobilization was limited to the sectors and programs where the government wished to acquire new technology and large financial resources.

Third, as new donors, Thailand and Malaysia now utilize the experiences and institutional mechanisms that were built at the time when they were aid recipients. In 2005, DTEC was formally transformed into the Thailand International Cooperation Agency (TICA) as an agency responsible for providing technical cooperation[14]. In the same year, the Neighboring Countries Economic Development Cooperation Agency was also established to provide financial assistance in the Greater Mekong Sub-region, with the participation of professionals experienced with debt management at PDMO/FPO. In the case of Malaysia, the External Assistance Section of EPU started the MTCP in 1981, extending technical cooperation (mainly in the form of training and dispatching experts) to Asian, Middle-Eastern, and African countries.

The Philippines has had mixed experiences of aid management throughout the 1970s–80s. Nevertheless, the ongoing efforts under the post-Marcos governments to strengthen the NEDA functions of public investment appraisal (by reinvigorating the Investment Coordination Committee) and post-evaluation—primarily for large-scale projects financed by ODA and BOT—suggest possibilities that aid can provide an opportunity to introduce the more rigorous, transparent, and technically sound criteria and may serve as an entry point to bring broader institutional reforms. At the same time, setting up a dual and exceptional system for ODA projects might lead to inefficiency and cause the government an additional administrative burden. Thus, it is important that the achievements made in reforming ODA management be integrated into the ongoing efforts to building a functioning country system.

The above aspects show that institution building is a dynamic process and that if properly mobilized and utilized, aid can serve as a good stimulus for institutional changes. By the time the two countries encountered the challenges of further enhancing their development administration to overcome shocks and crises and to manage their structural transformation (for example, in the 80s for Thailand and in the 70s–80s for Malaysia), the basic foundations for development administration had been already put in place. It was the political leaders and their allied technocrats that pushed forward the upgrading of development administration by selectively utilizing foreign expertise. Table 6 summarizes the dynamic evolution of development administration.

[14] DTEC had started to provide technical cooperation to the neighboring countries even before the TICA was established.

Table 5: Dynamisms of Development Administration including the Use of Aid

	Thailand	Malaysia	Philippines
Formation of development administration	• Late 50s–early 60s: with donor advice (WB, US, etc.), basic foundations for four-agency coordination mechanisms established; disciplinary functions institutionalized	• Late 50s–early 60s: with donor advice (WB, US, UK, etc), basic foundations for planning and coordination mechanisms established, with strong role of Prime Minister's Dept.	• 70s: centralized development administrative body (NEDA) created • After 86: NEDA reorganized, and inter-agency committees began to facilitate coordination
Enhancement of development administration	• 80s: national-level committees and sub-committees established to facilitate coordination of priority policy agenda • Public-private coordination system strengthened	• 70s: new functions (esp. ICU) added to existing administrative machinery to implement NEP • 80s: greater efficiency of public administration pursued, and public-private coordination system strengthened	• 90s: inter-agency committee functions institutionalized, and ODA management strengthened • Congressional intervention undermined above efforts by executive branch

Source: Author

4-4. A Case Study of Thailand's Eastern Seaboard Development

Thailand's Eastern Seaboard Development Plan is an example of country-led development and aid management in the 1980s (see Chapter 5 for details). It was a flagship regional development plan aimed at export-oriented industrialization, receiving a high priority in the Fifth (1982–86) and the Sixth (1987–91) development plans. The Plan had unprecedented scale and was composed of a multitude of projects in infrastructure development, industrial estates, urban development, water resources, and environmental management.

With a strong commitment to realize this Plan, Prime Minister Prem Tinsulanonda established special coordination and decision making mechanisms exclusively for the Plan. These include (i) a cabinet-level national committee, chaired by the Prime Minister (Eastern Seaboard Development Committee); (ii) sub-committees, chaired by the ministers of government agencies in charge; and (iii) a secretariat, or the Office of the Eastern Seaboard Development Committee within the NESDB. The mechanisms combined top-down (policy issues) and bottom-up (technical issues) approaches and facilitated both vertical and horizontal coordination. The presence of a cabinet-level committee enabled quick decision making on priority policy issues (*de facto* "fast track" process) and strategic use of donor assistance. The mechanisms also incorporated multi-layered check and balance functions. The NESDB secretariat office acted as an influential liaison to plan and implement, and highly motivated, competent technocrats were recruited (seconded from ministries and agencies) for this task.

Nevertheless, the Plan provoked a lot of controversies at its early phase of implementation. The Thai economy at the time suffered from macroeconomic imbalances caused by oil shocks, global stagflation, and a slump in primary commodity prices. The Thai leaders were faced with a dilemma. While building modern infrastructure was urgently necessary to strengthen export capacity, the government also needed to adopt stringent measures to cope with macroeconomic crises. The opinions of the two major donors were also divided, with Japan arguing for the timely execution of the Plan and the World Bank arguing against it. The Thai government assumed full responsibility for steering this process by conducting its own analysis and revising the Eastern Seaboard Development Plan. The Thai leadership reached a set of workable solutions and successfully negotiated with the two dominant donors. The fact that Thailand pursued its own way in spite of uneasy relations with the major donors deserves special attention.

4-5. Key Factors Affecting the Effective Functions of Central Economic Agencies

It should be noted that the "functional" principles mentioned in sections 4-2 and 4-3 are necessary but not sufficient conditions for ensuring the effective operations of central economic agencies. The experiences of the three East Asian countries suggest that the political environment also matters. Each country encountered shocks and crises in the course of development. The political environment greatly affected the ability of their central economic agencies to respond to the urgency and even turn the shocks and crises into opportunities for reforms and the broader institutional changes. In particular, the following factors are important:

- Quality of leadership
- Alliance between leadership and competent technocrats around common development visions (especially shared growth)
- Technocratic insulation from political interventions

First, the quality of leadership matters. The experiences of Thailand and Malaysia confirm that political leaders had a vital role in providing development visions and setting the direction for changes when necessary. The leadership mattered, especially at the times of crises and turning points of development stages. Furthermore, the style of leadership affected the working modality of the countries' central economic agencies, as well as the decisions on forming and enhancing development administration (as explained in section 4-3). As the Philippines' experiences during the Marcos era suggest, building a centralized administrative framework itself is not enough to make the central economic agencies work. Thus, there is a need to look into the interplay between the political leadership, technocrats, and the functions of these agencies.

In this sense, Thailand was blessed with well-balanced, visionary, and committed leaders at critical stages (such as Prime Ministers Sarit (1959–63) and Prem (1980–88)). In the late 1950s through the early 1960s, Prime Minister Sarit was instrumental in establishing the basic foundations for coordination mechanisms led by the four economic agencies. Sarit also defined the modality of leadership-technocrat alliance in the subsequent administrations—i.e., a principle of delegation of the authority to plan and administer economic policies. Based on this principle, the economic technocrats were empowered to discharge strategic core functions, including in the volatile 1970s, and minimized political interferences into the policymaking process. The 1980s was the era when Prime Minister Prem demonstrated strong and balanced leadership in guiding the country. In the early 80s, Thailand was going through a macroeconomic crisis and structural transformation. Prem took the initiative to create national-level committees to facilitate the planning and implementation coordination of priority agenda (e.g., macroeconomic policy, Eastern Seaboard Development, rural development, private sector participation) and entrusted NESDB to act as a focal point for this task.

Overall Malaysia was blessed with political leaders with a strong sense of commitment and dedication to national development (the era of Prime Ministers Razak (1970s) and Mahathir (1981–2001)), and enjoyed political stability throughout the past decades. Furthermore, its political leaders played a vital role in managing crises. The 1969 ethnic riot in Malaysia clearly illustrates how the leadership was able to turn crises into opportunities. Prime Minister Razak took a decisive action to cope with the ethnic riot, reunited the country by embracing a national vision based on the NEP, and reformed the existing development administration to facilitate its implementation. Later in the 1980s, Prime Minister Mahathir provided Malaysia's new development visions for the next stage of development. He also initiated a number of administrative reforms to enhance efficiency and public-private coordination.

Second, in addition to the importance of leadership, it is important strong alliances exist between leadership and competent technocrats toward realizing common visions. While the leadership style varies, the economic technocrats of Thailand and Malaysia fully assumed the responsibility for realizing the national development visions shared with political leadership. In this regard, development plans served as core strategic documents and a basis for policy and resource alignment. Aid has also been aligned with development priorities and utilized as an integral part of development management.

Related to technocratic competency, in all of the three East Asian countries, public sector base salaries were systematically lower than their private sector counterparts (see Appendix-Table 1). Still, the incentive structure for the economic technocrats in Thailand and Malaysia appeared to be more favorable than that of the Philippines. As of 1992, the relative pay in Malaysia and Thailand was about the same as the average for other low- and middle-income countries, but was still higher than in the

Philippines[15]. Thailand and Malaysia have competitive, merit-based recruitment to a bureaucracy, which has attracted competent, motivated individuals from highly selective universities. Moreover, in Thailand finance-related agencies have their own personnel and recruitment programs, and the salaries provided by these agencies were said to be about 30 percent higher across the board than in the rest of the public sector (Campos and Root 1996). In Malaysia, the officials who belong to "planning cells" are not affiliated with a specific ministry or agency. They jointly receive the training of managerial skills and ethics and rotate among the planning cell positions in order to play a central role in the policy process. Such systems have created an *esprit de corps* based on professionalism and have strengthened the bureaucracy, facilitating technocratic insulation from political pressures. This situation continued at least until early 1990s in the two countries, when the private sector became a more attractive place for employment than the public sector.

The third point is closely related to the above two factors. The degree of political insulation affects the ability of economic technocrats to formulate and implement policies in keeping with national goals with "a minimum of lobbying for special favors from politicians and interest groups" (World Bank 1993: 167). The Philippines is a typical example, where the administrative reforms initiated by the Executive branch have been frustrated by Congressional interventions. By comparison, the economic technocrats of Thailand and Malaysia are politically insulated to a greater degree. Their policymaking process has been largely led by the Executive branch, with the Parliament playing a passive role in the budget process. In these countries, central economic agencies assumed full responsibility for macroeconomic management, as well as development and investment planning.

5. Implications for Today's Developing Countries and Donors

Our findings confirm the vital importance of strengthening the central economic agencies, which direct, plan and coordinate economic policymaking as strategic core centers of development management. The findings also show that the quality of leadership and technocrats was the key driver of making the governments work for development (especially in Thailand and Malaysia). The real experiences of the three East Asian countries examined here suggest that:

- Diverse models exist of coordination in central development administration;
- Certain "functional" principles are essential to the operations of central economic agencies, especially in order to ensure policy and resource alignment with development priorities;
- The political environment greatly influences the abilities of key actors, such as political leaders and economic technocrats, to discharge the above "functional" principles; and
- Especially, the presence of visionary and committed leadership at the turning points is vital. When guided by quality leadership, it is possible to turn shocks and crises into opportunities for reforms and institutional changes.

Key messages emerging from our study are the following. The former three are directed to today's developing countries, and the latter are mainly for donors.

- The commitment to development by both political leaders and economic technocrats is essential. Equally, it is essential to translate such commitment into practical actions through the alliance of

[15] Singapore is a remarkable exception, with public sector salaries that are higher on average than private sector salaries. South Korea and Taiwan also had lesser degrees of differentials compared to those of Thailand, Malaysia, and the Philippines. By contrast, the ratio of public to private sector salaries was 30–40 percent for both Thailand and Malaysia, and only 20–30 percent in the case of the Philippines.

leaders and technocrats, using concrete development strategies and institutional arrangements to realize shared growth.

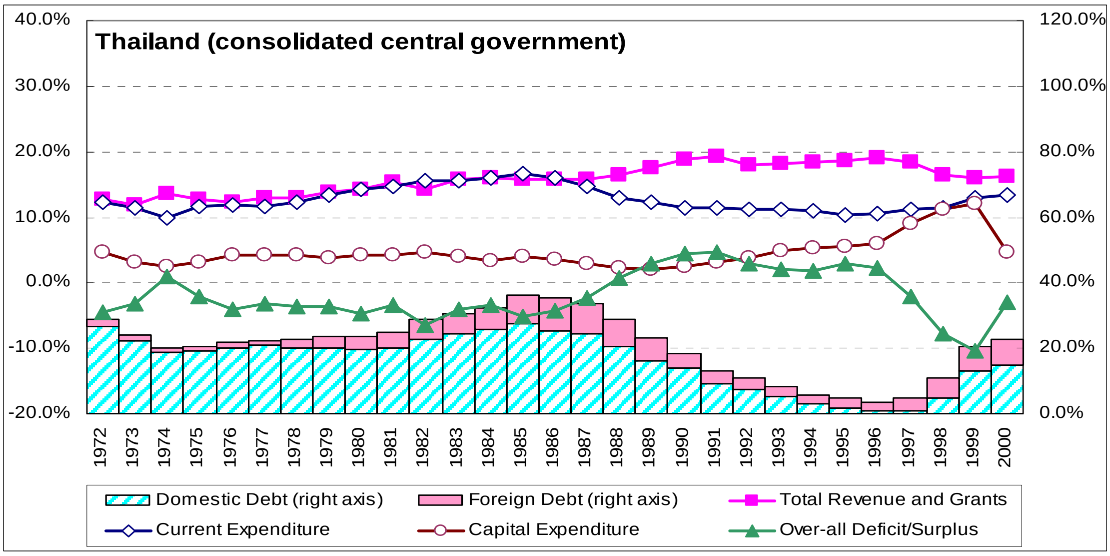
- To this end, it is important that the governments of developing countries identify the most suitable coordination arrangements for the operations of central economic agencies, while giving due attention to certain "functional" principles. It is useful to learn different models and decide which elements can be adopted, or adjusted to better fit to their local contexts.
- Governments should be mindful of utilizing aid for "graduation." It is important to have an "exit plan" at the beginning of their aid receipt, find a good match between exogenous models and the existing systems, and use aid as part of their coherent development efforts. We believe that these are essential elements of the ownership concept, building on East Asian experiences.
- Donors should recognize institutional variations that exist in respective developing countries and tailor their assistance to the country-specific circumstances. They should also understand that developing countries often have superior knowledge of their respective social realities. It is important to listen more to the voices of developing countries and learn carefully from their wisdom. Moreover, in the countries with weak strategic core functions, donors should be especially mindful of promoting policy and resource alignment of their assistance with recipients' development priorities.
- Donors should pay greater attention to the political environment and how it interacts with leadership, technocrats and the functions of central economic agencies, when providing aid and taking measures to improve aid effectiveness.

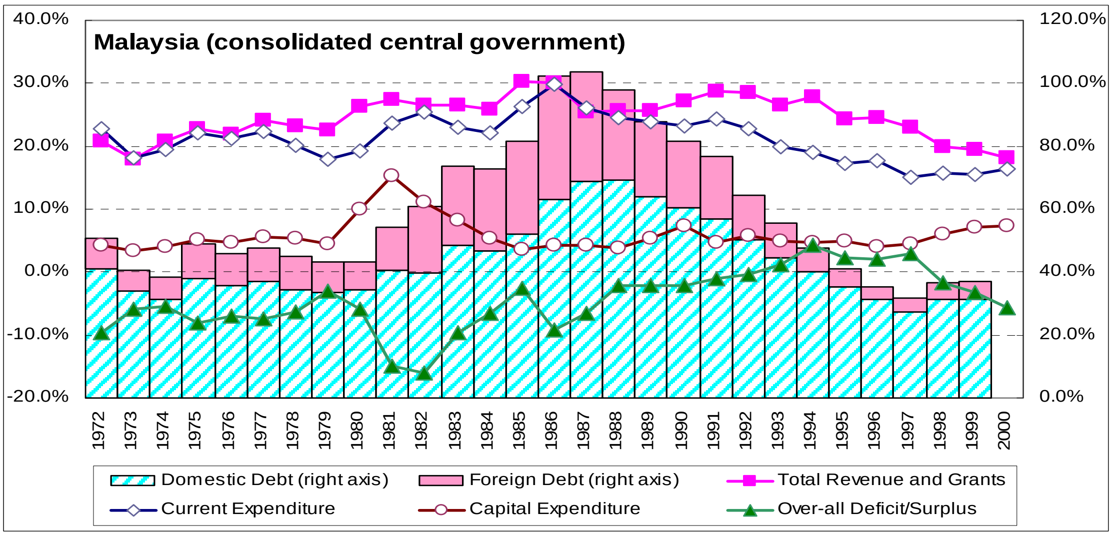
This study is a modest attempt to learn from the East Asian experiences in building central economic agencies and managing the development process and aid. The vital importance of the political and technocratic commitment to development suggests that we need deeper understanding of the dynamics of institutional changes. In particular, it is necessary to examine fundamental questions such as: (i) how and under which circumstances visionary and committed leaders emerge; (ii) how and when a cadre of motivated and competent professionals can be attracted for national development; and (iii) how and under which circumstances aid can play a catalytic role in inducing institutional changes, without jeopardizing country ownership. Also, there is a need to examine the implications of accelerating decentralization and globalization for the institution building effort by today's developing countries, including that of strengthening central economic agencies.

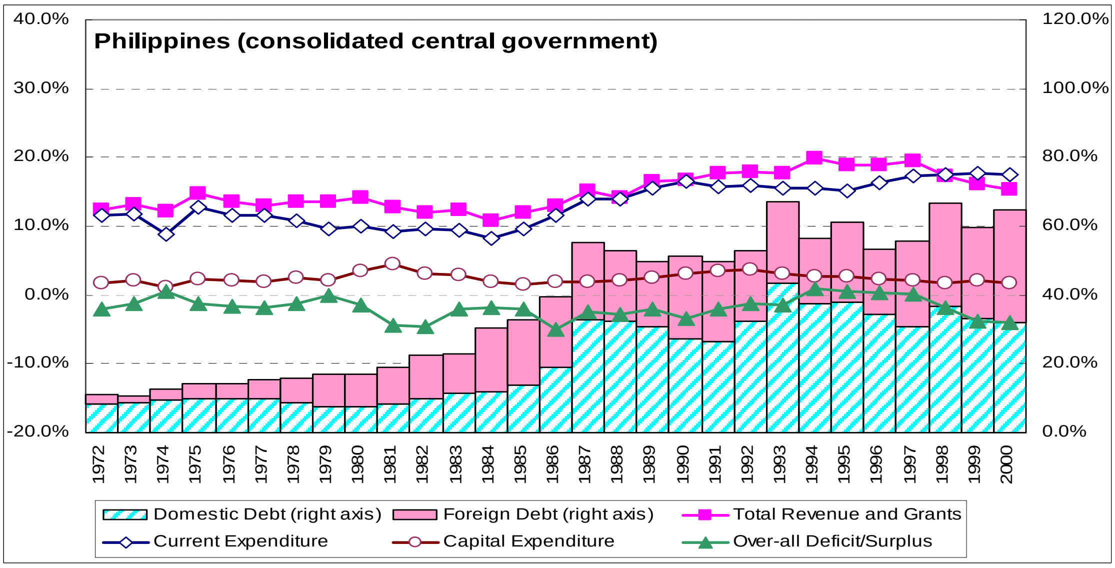
[END]

Appendices

A-Figure 1: Selected Fiscal Indicators (Percentage of GDP)

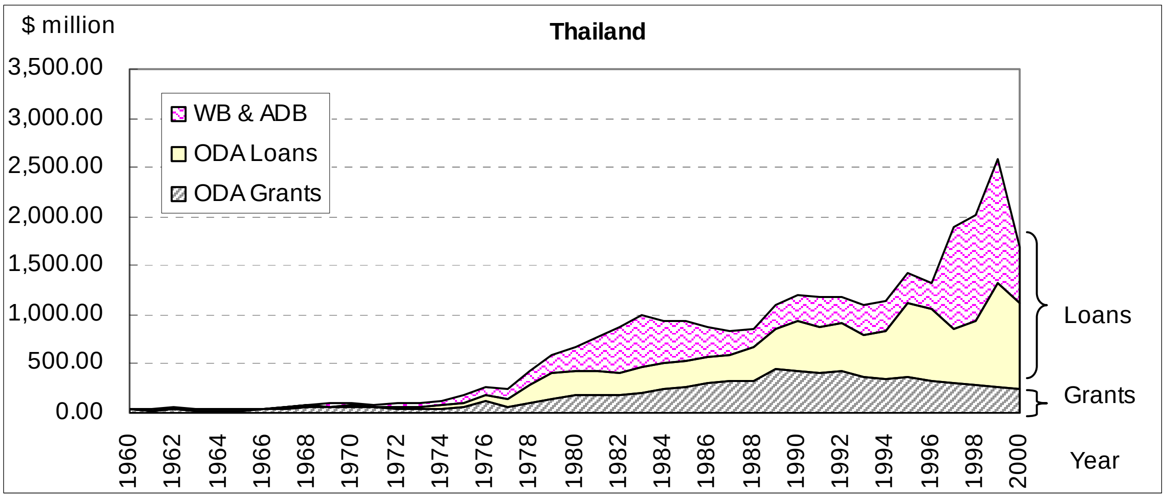


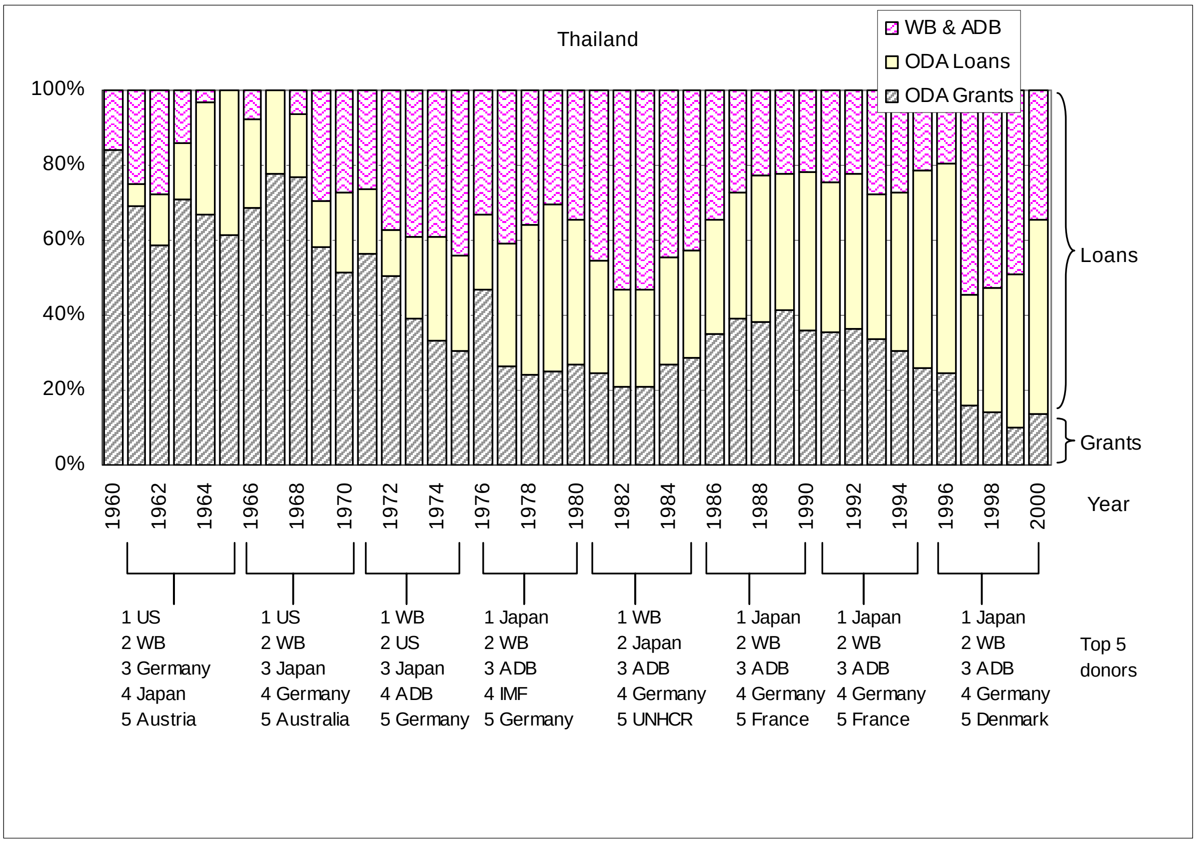




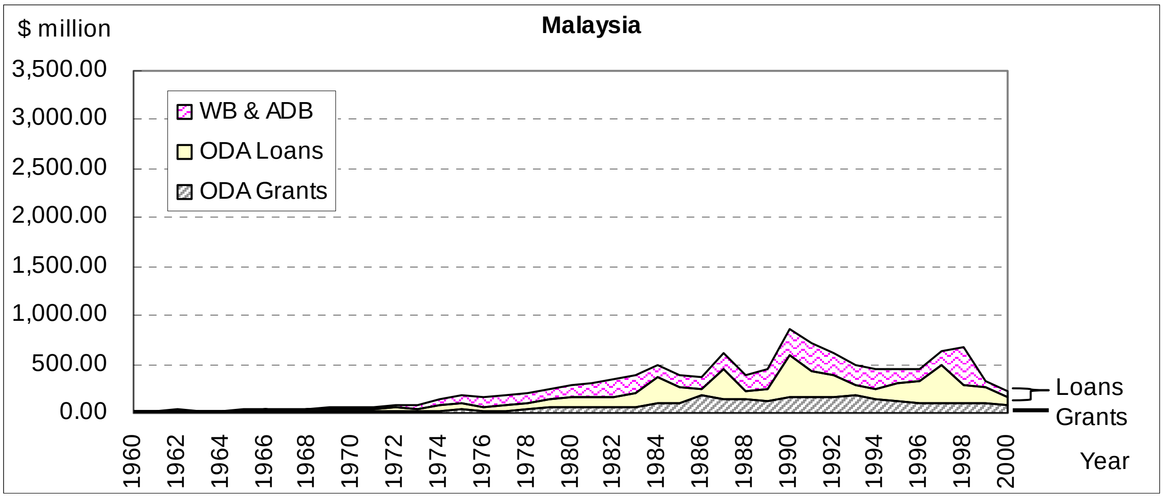
Source: IMF, *Government Finance Statistics Yearbook* (various years), *International Financial Statistics* (various years) and ADB, *Key Indicators of Developing Asian and Pacific Countries* (various years).

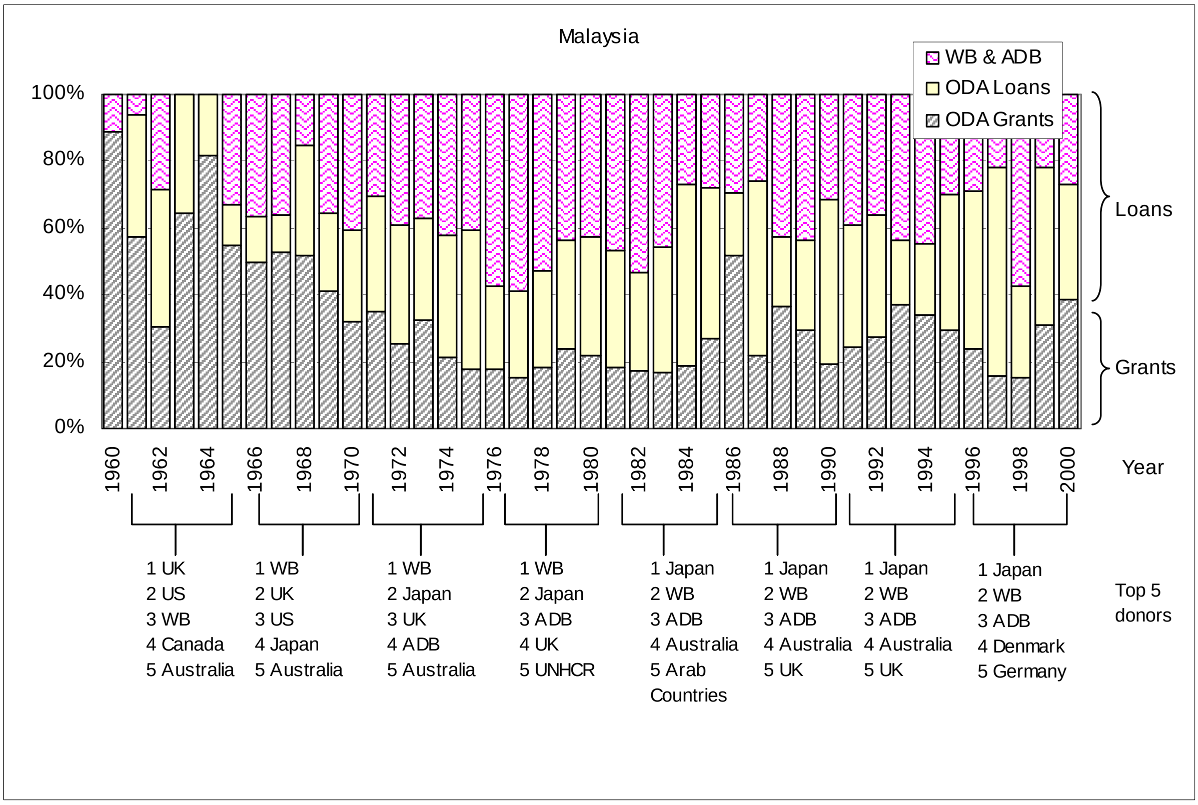
A-Figure 2: Mobilization of Official Development Finance



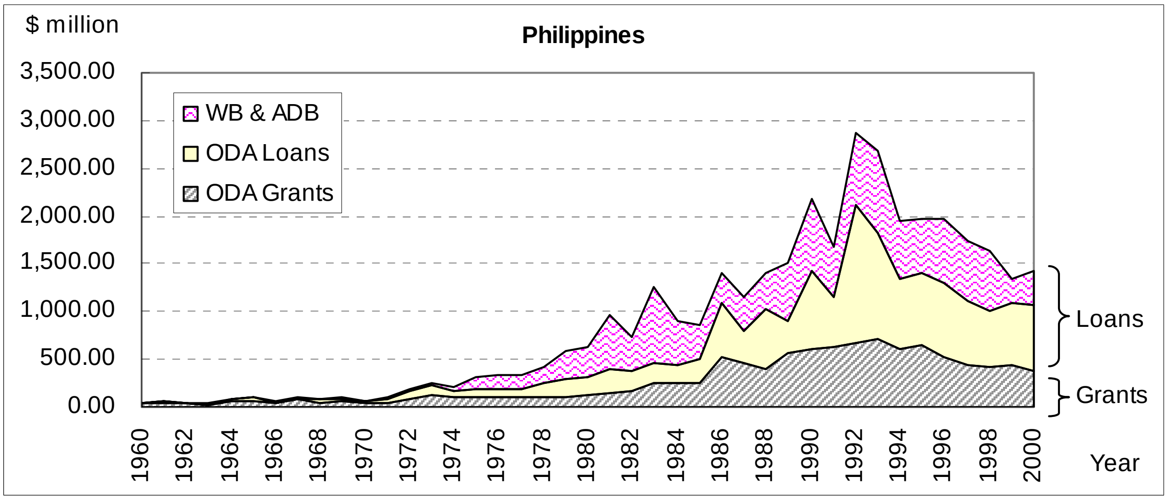


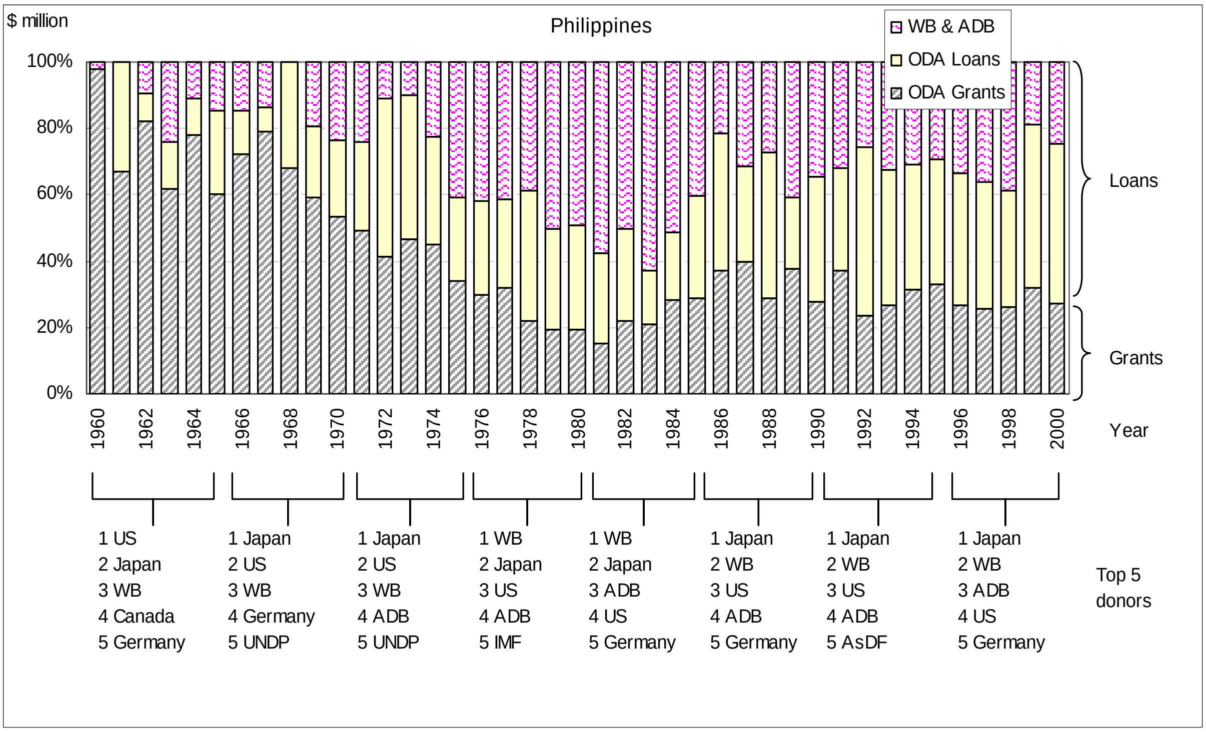
Note: The amount of aid (including WB and ADB) is calculated on a gross disbursement base.
Source: OECD/DAC, *Geographical Distribution of Financial Flows to Aid Recipients 2000/2004.*





Note: The amount of aid (including WB and ADB) is calculated on a gross disbursement base.
Source: OECD/DAC, *Geographical Distribution of Financial Flows to Aid Recipients 2000/2004*.





Note: The amount of aid (including WB and ADB) is calculated on a gross disbursement base.
Source: OECD/DAC, *Geographical Distribution of Financial Flows to Aid Recipients 2000/2004*.

A-Table 1: Estimates of per Capita GDP and Ratios of Public to Private Sector Salaries in Selected Developing Countries

Country	Per capita GDP[a]	Senior level (%)		Mid-level[b](%)		Entry-level (%)
		A	B	A	B	
High-performing Asian economices (HPAEs)						
Singapore	14,929	114[b]	114	115[3]	115	107
South Korea[c]	7,190	69.3	69.3	57.1	57.7	58.7
Taiwan, China	7,954	65.2	60.3	63.5	65.8	60
Malaysia	5,900	40	33.3	34.3	50	n.a.
Thailand	4,610	47.1	46	37.2	34.9	78.9
Other Asia						
Philippines	2,320	27.7	24.3	25	32.5	62.5
Latin America						
Chile	6,190	70.36	63.2	n.a.	n.a.	n.a.
Trinidad and Tobago	8,510	63.53[b]	63.53	76.88	77.92	n.a.
Venezuela	6,740	29.54	42.38	53.4[b]	53.4	n.a.
Uruguay	6,000	n.a.	n.a.	37.1[b]	37.1	n.a.
Argentina	4,680	24.11[b]	24.11	28.57[b]	28.57	n.a.

Note: This table is from *The Key to the Asian Miracle: Making Shared Growth Credible,* by Jose Edgardo Campos and Hilton L. Root, 1996, p. 144 (Table 6-1).

Sources: World Bank, World Development Report (Washington, 1992); Taiwan, Statistical Yearbook (1992)
Salaries for the HPAEs and the Philippines were provided by local consultants and are based on latest available information. Salary data on Latin American countries were extracted from Reid (1992).

n.a. Not available.

a. In 1992 international dollars, according to United Nations International Program.

b. Average is used for both sublevels A and B.

c. Estimates of private sector salaries include allowances and bonuses so that the ratios are actually higher. Data are from a survey of companies with 500 or more employees.

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