Some Small Countries Do It Better

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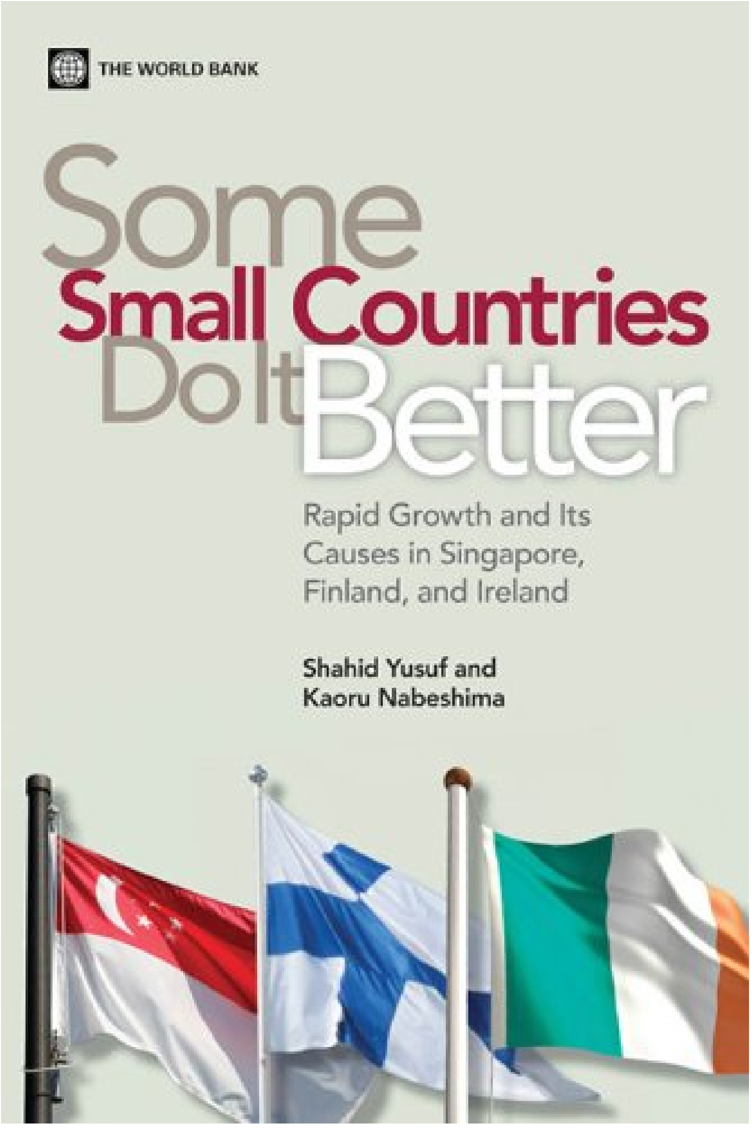

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Shahid Yusuf, Kaoru Nabeshima : Some Small Countries Do It Better before purchasing it in order to gage whether or not it would be worth my time, and all praised Some Small Countries Do It Better:

0 of 0 people found the following review helpful. Thorough analysis of an alternative development pathBy J. I. UittoThis excellent small book of just 169 pages provides a systematic analysis of evidence pertaining to a particular development path that a group of three small countriesmdash;Singapore, Finland and Irelandmdash;followed. I read the book with special curiosity, not only due to a general interest in economic and social development, but because I was born and grew up in one of the countries, Finland, and wanted to know whether I would recognize my home

country from their analysis. I can now confirm that I mostly did.Collectively termed Sifire, they experienced strong growth and transformed their economies from middle-income countries to some of the richest in the world in the period since the mid-1980s. The authorsrsquo; premise is that: ldquo;The path followed by these three countries offers a different perspective on growth. Their approach may be of greater relevance than the well-worn East Asian model in the highly competitive global environment of the early 21st century because it does not necessarily assume heroic levels of investmentrdquo; (p. 3). Moreover, they suggest that ldquo;it may be better tailored to the opportunities available to a heterogeneous group of middle- and lower-middle-income economies hellip;, as well as to late-starting, low-income countries that, because of their youthful, rapidly increasing populations, need to grow at high single-digit rates to create enough jobs and to double per capita income in 10 yearsrdquo; (p. 3).The authors provide a number of reasons for their focus on these particular three countries. Firstly, they acknowledge that ldquo;between 1985 and 2005, the three Sifire countries demonstrated a remarkable capacity to learn and, by improving the quality of learning, to achieve technological catch-up, develop manufacturing capabilities of the first rank, and increase their ability to innovate.rdquo; Demographically they are of comparable size. Ireland, the smallest, had a population of 4.4 million in 2008, as compared with 5.3 million for Finland, the largest of the three countries. In 1985, Sifire were all middle-income countries, with per capita GDPs ranging from US$6,000 to US$11,000. By 2008, they were among the countries with the highest incomes as a result of steady rates of growth. Singaporersquo;s economy grew the fastest (5.0-6.4% p.a.) on average, followed by Irelandrsquo;s, with Finlandrsquo;s economy in third place (2.9-4.6% p.a.). The authors assert that the Sifire growth was closely linked to ldquo;competitiveness, derived in large part from institutional factors and the quality of the countriesrsquo; human resources.rdquo; (pp. 21-22)The authors are both economists with no discernible bias for anything but rather classical economics. Shahid Yusuf has a history in the World Bank and is now Chief Economist of Growth Dialogue at the George Washington University School of Business in Washington, DC. Kaoru Nabeshima is Director of Technological Innovation and Economic Growth Studies Group in the Institute of Developing Economies of Japan External Trade Organization (IDE-JETRO). Chapter 1 of the book ndash; Looking for Growth ndash; reviews the conventional wisdom on economic growth before turning more specifically ndash; and more interestingly ndash; to the Sifire group. In this context, they acknowledge the key role governments played in promoting the development strategies in each of these three countries. They recognize how the three countries devised consultative arrangements involving key segments of the business community, labour unions or other influential representatives able to communicate the concerns of workers and exercise a degree of discipline over their constituencies, the financial community, and the education sector (or, more broadly, the learning economy, which includes preschooling and vocational training). This has enabled the governments to ldquo;achieve a workable consensus on economic objectives and strategies, and to agree on emergency remedial policies when the nation faces crisisrdquo; (p. 16).Turning specifically to Finland, the authors say it ldquo;demonstrates the workings of an advanced democratic system that has perfected the political and labour market institutions for consensus building around key economic objectives and the capacity to arrive at significant macroeconomic results by coordinating the initiatives of a number of small urban centresrdquo; (pp. 23-24). When I grew up in the country, lsquo;consensusrsquo; was the key word. The frequently tough negotiations between the labour unions and central employersrsquo; and industry organizations were a perennial feature. Despite some hard rhetoric, they all eventually ended up in both sides making concessions for the common good. The government played a key role in facilitating these. One feature of the multiparty democracy in Finland is the emphasis on the qualifier lsquo;multi.rsquo; There have long been many parties active on the national political scene and none of the 3-4 big ones ever reached anything even remotely resembling an absolute majority (in the latest parliamentary elections, the conservatives were the largest party with 20.4% of the vote, while the second, the social democrats, got 19.1%). This forced the country always to have coalition governments, which together with a general consensus regarding the overall development goals guaranteed that therersquo;d never been major disruptions or changes in the chartered course.In Chapter 2 ndash; How Sifire Compressed Development ndash; the authors move into analysing the context of the Sifire experience. The Sifire developed against a backdrop of globalization (in the case of Finland and Ireland, the integration with EU provided an important context) and this road was not always smooth. In fact, all of the countries faced crises during the late 20th century. In the authorsrsquo; analysis, the advantages of a consensus-based development path became apparent during the crises that helped ldquo;crystallize options and prod decision makers to choose among alternatives by systematically gathering and evaluating data and by canvassing the views of market participants.rdquo; Further, the crises ldquo;highlighted the desirability of mechanisms to reduce investment risks for domestic and foreign investors and thereby raise the level of investment through better coordination of the decisions of key players, of public investments, and of policy incentives. (p. 40)A major crisis for Finland was the collapse of the Soviet Union, which had been a major market for Finnish products over the past several decades. Entire industries had developed around supplying the seemingly endless and hardly discerning eastern market. Fortunes were made by the so called lsquo;Red Baronsrsquo; who manufactured and sold to the communist market, getting paid in hard currency through the government of Finland that in turn imported oil and other goods at advantageous prices (incidentally, this steady supply of energy from the Soviet Union shielded Finland from the worst impacts of the OPEC-induced energy crises in the 1970s). My uncle was in the garment industry, but never bet his fortunes on the Soviet trade. I remember him telling me in the 1980s how his peers on what was then a garment focused street in Helsinki were mocking him: ldquo;Uitto goes to Paris for fashion shows; what a waste of time! We manufacture one-size-fits-all boots and frocks in a single model and colour and the Russkies buy as many as we have time to produce!rdquo; Well, the Russian market was suddenly gone overnight and so were all of those who had relied on it. Finnish unemployment shot from negligible to over 20%. This forced a rapid restructuring of the economy.The authors identify a third success element, which is the ldquo;governmentsrsquo; capability to implement decisions, to follow through with promises, and to ensure that incentives were actually delivered with the minimum of transaction costs. Crises in these small economies underlined the advantages of public organizations with a limited number of clear objectives, a readiness to engage with key stakeholders, streamlined structures with few layers, and strict accountabilityrdquo; (p. 41). The long-term strategy for growth was further centred on technology as a driver, which required building capabilities in the countries (p. 44). They conclude the second chapter by stating that: ldquo;Globalization and the pace of technological change served as the enabling conditions for these countries ndash; as they did for others as well ndash; but Sifirersquo;s widening lead over other countries emerged from the forging of domestic consensus in support of long-term-development strategies that were keyed to the quality of human capital, intangible factors, and an open, productively networked system of innovation and learning. The focus on human capital committed these countries to building their education and training assets. The importance attached to intangibles and the soft infrastructure undergirding development meant that institutions were given due attentionrdquo; (p. 48).The chapters that follow focus more in detail on these specific success factors. Chapter 3 considers the Elements of a Learning Economy, providing a host of statistics on the major shift in the structure of exports from primary commodities to high-tech products in Sifire. The chapter also provides an overview of the education sector, on the premise that this economic transformation was only made possible by the investment in human capital (p. 65). It focuses on the comprehensiveness and quality of education, as well as research in science, technology, engineering and mathematics. Apart from the broad-based quality education, innovation was spurred by an open economy and the focus on IT and telecommunications industries. The authors conclude that all three countries leveraged ldquo;technological advances in key subsectors with the rise of advances in electronics and telecommunications, thereby opening new industrial pathways. Globalization in general ndash; and for Finland and Ireland, integration with the EU ndash; widened market opportunities that were essential for their industrial development. Without access to large external markets, these small countries would not have been able to grow as rapidly and consistently as they have donerdquo; (p. 96).The transition was enabled by an education strategy that responded to the economyrsquo;s needs. Sifire focused on providing ldquo;universal primary education and expanded secondary and tertiary education as demand for higher skills began rising. High levels of enrolment in the science and engineering fields enabled the Sifire countries to accelerate industrialization and assisted in progressive upgrading of new and traditional industriesrdquo; (p. 97).Chapter 4 ndash; Governance and Growth ndash; starts off with recapping some theories of endogenous growth and institutions. Yusuf and Nabeshima then return to the issue of ldquo;leadership that forged a consensus on economic objectives and the means for achieving themrdquo; (p. 103). They continue that: ldquo;A leadership committed to a firm economic agenda that enjoyed broad support could strengthen the economic governance institutions and deepen the organizational capabilities to enforce rules, uphold the law, and frame as well as implement policiesrdquo; (p. 104).A large part of this chapter focuses on coordinators that helped the countries en route to a knowledge-intensive economy. In the case of Finland, the system involved a host of actors from the public and private sectors. The governmentrsquo;s Science and Technology Policy Council set policy that individual ministries implemented. Financing for both the private companies and academic institutions was channelled through the Academy of Finland, Tekes (a unit under the Ministry of Trade and Industry) and the Finnish Innovation Fund, Sitra, directly under the parliament. Universities, research institutes, business RD, industry and academic societies were all harnessed to the task (pp. 105-107). Some of the more hard-core free-marketers in the USA today might condemn such public-private partnerships as unfair competition, but this has been the practice in virtually all successful countries.The authors also underscore the importance of urban networks, which facilitated the creation of social capital. Admittedly, Sifire benefited from a small number of dominant cities (in Singaporersquo;s case just one) where the people and activities are centred.The next chapter deals with Delivering Quality Education, the million dollar question that has eluded educators and policy-makers in many countries, not least in the United States. Yusuf and Nabeshima boil the Sifire success to six factors, which they elaborate on and which I quote in an abbreviated form here: (1) Raising and sustaining student performance at high levels are inseparable from non-school factors, such as family circumstances, the value a society attached to education, and the conviction that excellence is necessary for progress toward a better, innovative and more prosperous society. (2) Quality needs to be pervasive, extending from the primary all the way to vocational and tertiary levels. (3) Student performance and the pursuit of excellence must continually be reinforced by family and social environments. (4) Teacher qualifications. (5) Pay and prestige. (6) Teacher autonomy in fine-tuning the curriculum and pedagogical techniques and in evaluating students (pp. 119-123). Several of these factors fly in the face of what educators elsewhere are trying. In the US, the focus is distinctly on the stick rather than the carrot. Standardized testing is seen as a solution and schools that fall below the averages risk having their funds withdrawn. Parents blame teachers for failing their kids, without taking responsibility themselves.Allowing teachers the freedom to design their own curricula for learning, rather than answering tests, obviously hinges upon having quality teachers. In America, teaching is not a respected profession and the pay is poor. Consequently, statistics show that those graduating from teachersrsquo; colleges have lower than average academic grades. In Finland, all teachers are required to have masterrsquo;s degrees and the competition to enter teacher training in the University of Helsinki is harder than getting into the medical school. I for one credit my high school teachers in geography, history and languages for my lifelong interest in world affairs. A perverse conclusion of market thinking in America has devalued this most important of professions, which now is seen as not producing direct economic value and therefore doomed to low pay and prestige in the public sector.The sixth and final chapter attempts to distil the Message from Sifire, condensing it under three main headings: (1) Pragmatic governance; (2) Leveraging global markets and general-purpose technologies; and (3) Quality of human capital. In this summary, I had the feeling that, despite their own evidence to the contrary, the authors seemed to downplay the importance of the public sector and the government. Perhaps this was not fully in line with the ideology of the economists or the World Bank that published the book.They then draw implications for African countries, while identifying differences in the situations. Yusuf and Nabeshima acknowledge that all is not rosy for Sifire and, especially, Ireland and Finland have later again faced crises. However, they affirm that this ldquo;cannot diminish the remarkable economic progress by the three countries against considerable odds. Nor does the postcrisis slowdown detract from the relevance of their experience for ambitious low- and middle-income countriesrdquo; (p. 132). They conclude: ldquo;Whether countries hew to a Sifire-type strategy or choose a different approach, the outcome will be crucially linked to design, planning, institutional architecture, and implementation. The efficacy of these elements will be affected by governance mechanismsrdquo; (p. 144). I would argue that the relevance goes beyond the middle- and low-income countries that are explicitly targeted. In fact, many of the lessons are directly relevant to the debates currently raging in the United States.

Countries worldwide are struggling to imitate the industrial prowess of the East Asian pacesetters, but growth accelerations have proven remarkably transient. Building a portfolio of tradable goods and services and steadily raising the level of investment in these activities, has generally defied the best policy efforts ndash; in particular, bringing investment ratios on par with East Asian averages has presented the greatest challenge. Hence the search is on for growth recipes not so tightly bound to investment, to manufacturing activities, and to the export of manufactured products. In casting around for such recipes validated by demonstrated results, the experience of economies which have relied more on other drivers of growth ndash; human capital and knowledge ndash; is highly attractive. Finland and Ireland are among the tiny band of small nations that grew rapidly for well over a decade by achieving the maximum mileage from an adequate investment in physical assets and by harnessing the potential of human capital and technologies. Singapore combined high investment with a comprehensive and complementary strategy of building high quality human and knowledge assets. This approach enabled the three countries to diversify much faster into higher tech manufactures and tradable services and profit from globalization. The approach adopted by these three countries may be of greater relevance in the highly competitive global environment of the early 21st century because it does not necessarily assume heroic levels of investment. Moreover, it may be better tailored to the opportunities for middle and lower middle income economies threatened by the middle income trap and seeking growth rates in the 6 percent range, and for the smaller, late starting, low income countries with youthful, rapidly increasing populations that need to grow at high single digit rates in order to create enough jobs and to double per capita incomes in 10 years.

'This book should be read by all the peoples of small and resource-poor countries. The experiences of Singapore, Finland, and Ireland (Sifire) show that it is possible for such countries to overcome their limitations and achieve rapid and sustainable growth. I agree with the authors insights into how to replicate their success.' --Tommy Koh Ambassador-At-Large, Singapore'Drawing on the intriguing similarities and differences among three high-growth economies at the turn of the millennium Singapore, Ireland, and Finland Yusuf and Nabeshima characterize productivity growth as being driven by not only high investment rates but also the interactions between a range of fundamental building blocks, in particular human capital and institutions. For the policy maker keen to avoid pitfalls in developing policy for promoting economic growth, there is much to be learned from the comprehensive picture the authors paint of these interactions.' --Patrick Honohan Governor, Central Bank of Ireland