

A note from the Editor

Our region is currently confronted by a host of new social and economic policy challenges. This issue considers a number of these very topical concerns. One set of questions is related to the consequences of the remarkable growth witnessed by many countries of the region. The first paper analyses the process of urbanization in China and its implications for social policy. The second paper discusses Malaysia's experience with interventions to achieve growth while reducing inequality. Another concern of the region's economies is the impact of global developments on their macroeconomic management. The third paper looks at the influence of global interest rate developments on the Thai economy. Policymakers are also engaged in a constant effort to improve the efficiency of their financial sectors to better support economic development. The fourth paper considers the effects of domestic privatization and foreign direct investment on the financial sector in Asia-Pacific Economic Cooperation (APEC) economies. The fifth paper studies the role of the informal credit market in providing rural finance in India.

Urbanization is one of the most important phenomena of our times. The majority of the world's population will soon be located in urban areas. Urbanization in China is of particular interest both because of the large numbers involved and because of the pace of its progress. The authors of the first paper consider the role of social policy in managing Chinese urbanization. Social policy has been used both to control internal rural-urban migration and to influence the coping mechanisms of urban areas. A critical overview of the recent history of these issues is provided. The key influences of social policy on the nature of urbanization are identified, while taking into account labour mobility, rural-urban income and social welfare inequality, and coping mechanisms. Three options are offered for the future of urbanization in China. One is planned and controlled urbanization as in the past. This is posited to be unlikely to succeed. A second option is urbanization through market forces. Such an approach is deemed to be unlikely to achieve development goals. The authors recommend a third solution, which they term 'balanced social development. Its features are: avoidance of incentives for rural-urban migration, conversion of temporary urban residents into permanent settlers, specific policies for farmers who relocate, and rural development measures.

The second paper considers growth and inequality in Malaysia. A wide range of Asia-Pacific countries are currently faced with the dilemma of high growth being experienced in tandem with rising inequality. The lessons of Malaysia in undertaking policies to encourage equity while achieving rapid increases in aggregate income are useful for further explanation of this issue. The author provides one of the first comprehensive analyses in this regard with an explanation of the economic and policy environment after 1990. A number of recent studies have suggested that inequality started to rise in the 1990s after decades of decline. It is concluded here, however, that there is no clear evidence of a rising inequality trend. Transferable

lessons are suggested for countries in the region who are tackling the inequality dilemma in the current environment of globalization and deregulation.

An immediate issue facing regional policymakers is the global economic environment's repercussions on domestic macroeconomic policy. Growth in Asia-Pacific countries has been supported by a benign environment of low interest rates in developed countries with the United States being a critical element of these conditions. With this scenario in the process of changing, it is relevant to consider a case study of the possible effects of external interest rate shocks on the Thai economy. The authors utilize a general economic equilibrium model which allows the costs and benefits of a policy to be measured through its effect on consumer welfare. The two considered scenarios are a single period increase in United States interest rates and a more prolonged rise. Finally, the choice of a domestic exchange rate regime is considered in the context of changes in global liquidity. A flexible exchange rate is considered to be the most effective means of stabilizing domestic macroeconomic variables. Policy recommendations are offered regarding the conditions which need to be put in place to allow for a freely floating exchange rate regime are described.

The fourth paper considers an important aspect of economic liberalization in the region – the development of the financial sector through the alternative channels of domestic privatization and the introduction of foreign direct investment (FDI). The author evaluates the relative importance of the two approaches for the small open economies of the Asia-Pacific Economic Cooperation (APEC) countries. This analysis is particularly relevant, as domestic privatization was the preferred method of liberalization for many countries in the region up until the 1990s. The conclusion is that greater access to the global financial system through FDI contributes more to growth in these economies than liberalization through domestic privatization. The article cautions against the restriction of foreign participation in the financial sector, as there may be inefficient resource allocation leading to lower growth.

Informal credit undoubtedly plays a critical role across developing countries in combating poverty. The last paper provides an analysis of the informal credit market in India with an overview of the sector, as well as a case study on a village moneylender. The moneylender is seen as a complement to financial services provided by formal credit institutions. Loans are highly flexible in size, type of clients, and contractual terms. It is suggested that an inclusive rural finance sector will require that formal institutions adopt a decentralized strategy to work alongside informal entities in providing financial services.

Shamika Sirimanne