

A note from the Editor

This issue of the *Asia-Pacific Development Journal* contains six papers, drawn from diverse fields. The first paper addresses the impact of road improvements in the Lao People's Democratic Republic on the incidence of poverty, primary school enrolment and the general health of the adjoining populations. The second paper demonstrates that agricultural diversification in some Asian countries has stagnated over recent decades. This is a rather disturbing finding, particularly for countries which rely mostly on their agricultural sector for growth and employment. The next paper explores household savings behaviour in Pakistan over several decades and uses the results to draw some important policy implications. Some interesting insights are presented in the paper on the impact of remittances in some rural communities in India, particularly the impact on rural poverty. The paper on the nexus between growth and foreign aid in Vanuatu presents some interesting results in the context of an island developing economy. The last paper explores the scope and prospects for regional cooperation in countries with economies in transition in Central Asia.

The paper by Peter Warr, "The impact of road development on poverty in the Lao People's Democratic Republic", summarizes evidence suggesting that road improvements in rural areas can contribute significantly to poverty reduction and improved participation of children in primary education, and contribute generally to reduced rates of illness. The case study was conducted in the Lao People's Democratic Republic, using household-level data from the Lao Expenditure and Consumption Survey (LECS) relating to the years 1997-98 and 2002-03. The quality and availability of rural roads in developing countries pose a major developmental problem. Improving these roads can yield significant benefits, particularly in terms of indicators that are relevant to the Millennium Development Goals. The paper examines three broadly conceived dimensions of poverty: consumption poverty (meaning expenditure on privately purchased goods and services), educational opportunity and health standards. The results of this analysis suggest that road improvement in the form of conversion of dry-season access roads to all-season access roads can lead to poverty reduction. This was the principal form of road improvement that occurred between 1997-98 and 2002-03. Over this same period, the incidence of poverty declined from 42.5 to 37.6 per cent of the rural population. One fourth of the poverty reduction that actually occurred can be directly attributed to this form of road improvement. The results also show that the improvement of roads benefits rural households positively in terms of educational participation and health standards. Intuitively appealing, the results show that simple, workable solutions can be found in making progress towards achieving the Millennium Development Goals.

The paper by Tomohide Sugino, "Prioritization of technological development goals for poverty alleviation through sustainable and diversified agriculture", offers some very interesting insights into the changing nature of agricultural diversification through technological development and diffusion. Diversified agriculture can have positive impacts on rural development, but statistical indicators have shown that agricultural diversification in Asian countries has stagnated over recent decades. This

would imply that rural development in Asia is not taking place at the pace it can potentially reach. It has been known for quite some time that technological development is a dominant factor in determining the extent of agricultural diversification. A natural starting point would be to see if lack of technological development is holding back agricultural diversification. In promoting the technological progress of their agricultural activities, developing countries face a range of difficulties, including lack of financial resources and limited investments in research and development (R&D). The author defines technological development as a combination of improved plant varieties, high-yielding varieties, and modern cultivation techniques, such as extensive use of chemical fertilizers, pesticides, irrigation, and the use of machinery. The author uses a questionnaire survey with 259 respondents in eight Asian countries to establish the priority that they accord to R&D activities that would potentially enhance agricultural diversification. The expected impacts of realizing these developments are also analysed. The results show that the respondents accord the highest priority to the development of pest-tolerant crop varieties as well as measures to improve soil fertility among the 15 R&D topics surveyed. Responses received from researchers, extension staff and farmers vary significantly, indicating that there are serious knowledge gaps regarding technological development and the diffusion process. If that is so, it is possible that such knowledge gaps are a major cause of stagnant agricultural diversification and any measures that remove such knowledge gaps can help realize the full potential of R&D activities in achieving agricultural diversification.

The country study by Mohsin Hasnain Ahmad and others, "The impact of demography, growth and public policy on household saving: a case study of Pakistan", investigates the behaviour of household saving in the country's economy. Domestic resources are a key variable in determining the extent and pace of economic growth in any country. Yet, at least in the case of Pakistan, the country has enjoyed high economic growth despite low domestic savings rates. It is entirely possible that Pakistan could have grown faster had it been able to mobilize more domestic resources. A natural line of investigation would be to see if there is a systematic relationship between the economic variables that influence household savings. In the affirmative, the policy implications would need to be determined. The authors use the Johansen-Juselius cointegration technique and error correction model to determine the long-run and short-run dynamics of the system over the period 1972-2003. They find the existence of one cointegrating vector, indicating a valid long-run economic relationship among the determinants of household saving. The study reports some standard results. Per capita income and the growth rate of per capita income have a positive impact on the savings rate. Inflation is seen to negatively affect savings behaviour, another standard result. The real rate of interest has a positive effect on savings behaviour, indicating that the substitution effect dominates the income effect in Pakistan. Furthermore, public saving has a proportionately less "crowding-out" effect than private saving in Pakistan compared with other developing countries. All these findings have their own individual policy implications. However, the interesting

finding to emerge from this paper is the relationship between demographic variables and savings behaviour in Pakistan. In conventional studies of savings behaviour, demographic variables are treated as being “outside” the system and therefore of less policy relevance to economists. The authors show that there is a valid, long-run inverse relationship between household saving and demographic variables. Two things seem to be happening to the demographics of Pakistan: first, it has a high population growth rate; second, the structure of the population is shifting, with an increase in dependency on the young. These would suggest that any policy to reduce the population growth rate and shift or reduce the dependency burden would help boost domestic savings, which in turn could add to the country’s growth momentum.

There has been an intense and sustained interest in international remittances in recent years as the quantum of global remittances received by developing countries has grown by leaps and bounds. Increasingly, such flows have been seen a new form of development resource with economy-wide consequences. Many countries have responded positively to such increased flows of international remittances with policy reforms and better coordination among institutions that help intermediate such flows. Chandan Samal’s paper, “Remittances and sustainable livelihoods in semi-arid areas”, adds a new dimension to the growing literature on remittances. Taking the migration pattern in selected villages of semi-arid and drought-prone districts of Andhra Pradesh, India, the paper shows that remittances do provide scope for accumulation of wealth and asset creation by households in addition to meeting basic consumption needs. The empirical results show that migration and associated remittances are strategic responses for establishing viable and sustainable livelihood solutions for households in semi-arid areas. The extent of the strategic response and the potential role of remittances in the creation of an asset base by poor migrant workers are constrained by several factors. Among these, an inadequate skills set and lack of access to critical services, such as water, sanitation, health and education, combine to limit the potential benefits of migration and remittances. Policies that contribute to enhance the capabilities of the poor can also enhance their income generation potential.

In “Economic growth in a vulnerable island nation: an empirical study of the aid-growth nexus in Vanuatu”, T.K. Jayaraman and B.D. Ward explore the impact of external flows on the economic growth of Vanuatu. The literature on the impact of foreign aid on growth in developing countries provides a mixed picture, with many studies showing no positive contribution. It has been argued that foreign aid reduces the incentives for domestic savings. It has also been argued that aid does not contribute positively to export growth. The authors look at the aid-growth-export nexus in Vanuatu, a small island nation in the South Pacific with a population of 220,000. It was once ranked as the most vulnerable economy as it was the least capable of withstanding the adverse impacts of external and internal shocks. Its export earnings are unstable, and it is highly dependent on imports and extremely prone to natural disasters. Its narrow human resources base has compounded its economic difficulties. As a result, the country has received generous aid from the

international community ever since its independence in 1980. In addition to Australia and New Zealand, multilateral funding agencies, including Asian Development Bank, have been assisting Vanuatu with concessional loans for projects and reform programmes. The impacts of such assistance have been rather mixed. Aid has not contributed positively to economic growth in Vanuatu. It has also failed to contribute positively to exports, although the latter has contributed to growth. The authors recommend that aid be redirected to the promotion of agricultural exports. This would benefit the rural communities since they are mostly engaged in producing agricultural exports. This policy shift would also help in increasing rural incomes.

In their paper, "Central Asia after fifteen years of transition: growth, regional cooperation and policy choices", Malcolm Dowling and Ganeshan Wignaraja make a significant contribution to our understanding of why the economies of the Central Asian republics collapsed in 1990 and how they have managed to recover since then. By focusing on the pattern of growth and structural changes during the cycle of decline and subsequent revival in the Central Asian republics, they make a valuable contribution to the literature on transition, much of which has so far dealt with Central and Eastern Europe and the Baltic States. Since 1990, the region has received much attention in terms of its potential as a major supplier of key resources to other countries. The region has also undergone important policy reform exercises. Many observers believed that these two factors alone would guarantee a quick recovery and possibly help the republics to surpass their pre-1990 production and consumption levels. Some also argued that a massive injection of external assistance would bring about a sustained pace of recovery and development in the region. These things did not happen, at least not during the early part of the 1990s. The authors provide a coherent and systematic explanation for the economic collapse of the republics and their subsequent recovery from 1995-1997 onwards. Several factors contributed to the collapse. Real output contracted sharply, by about 40 to 60 per cent. As part of an integrated production system, they supplied raw materials, energy and intermediate inputs to the Russian Federation, which in turn supplied finished manufactured goods to them. This mutual dependence obviously constrained the flexibility of the economies of the republics during the transition phase. However stressful the transition period might have been, the Central Asian Republics managed to recover by historical standards, within a relatively short period of time. Propelled by the expansion of the manufacturing sector and structural reforms, economic growth has been accelerating with a beneficial effect on the incidence of poverty. Some oil-exporting republics have benefited significantly from the recent surge in oil prices. The experience of the Central Asian republics suggests that the speed of reform and the nature of the policy mix are two crucial ingredients in any successful transition programme.

Shamika Sirimanne