

STRATEGIES for Economic Development

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The topic that I have been asked to address is Economic Development. One of the most notable features of the last few decades is the rapid and dynamic development of Asia, in particular the region called East Asia. Thus, before we go more deeply into the topic, let us look at where we have come from and what we have achieved to date.

If you look at the ex-colonies and under-developed countries and regions in the world, namely at countries in Latin America, Africa, Asia and Eastern Europe, you will find that of the regions mentioned; Latin America has retrogressed from being a relatively developed region during the late 19th Century and early 20th Century, to a set of developing countries later in the 20th Century. Countries like Brazil and Argentina were actually developed as Southern Europe during the 1930s but they are now regarded as part of the group called “emerging economies”. Meanwhile, except for pockets of development, Africa has remained as under-developed now as it was in the 1960s and 1970s. East Asia, on the other hand, has developed tremendously during the post war decades, with GNP per capita rising from between 3% to 5% p.a., throughout most of the region.



This increase in per capita income in East Asia has been achieved because the economic growth rate has substantially exceeded the population growth rate. This increase in GDP per capital has been paralleled by “economic development” and development on a wide front, transforming the region from its under-developed status to its present dynamism and development, the recent crisis notwithstanding.

It must be stated that economic development can only occur when there is a sufficient rate of sustainable economic growth. When sustained growth is achieved, a whole range of development possibilities becomes available. With growth comes the stock of national wealth as well as the development of the underlying infrastructure and superstructure (both physical and institutional) that would enable the country to meet the needs of the new millennium. With it also come the qualitative aspects of development including a deep sense of pride, confidence and the ability to be creative and to break new pathways in economic thinking, technology, management etc.

East Asian countries managed to grow their economies at around 6% to 7.5% per annum throughout the post war decades to sustain investment rates of between 30% to 35% of GNP. Such sustained efforts were made possible by Asia’s high saving rates as well as the achievements of political and social stability. The resultant increase in per capita incomes of between 3% to 5% per annum during this period has resulted in rapid development and increase in standards of living mentioned earlier.

Is the East Asian growth miracle sustainable?

Professor Krugman stated that the East Asian growth model is not sustainable because it is merely input-driven. He believes that like the Soviet model of investment-led growth, the East Asian model will also falter because it is not accompanied by growth coming from technological progress and factor efficiency. His words appear to have been prophetic because a few years after he said that, the current crisis hit the region.

Is Krugman’s prognosis about East Asia’s sustainability right or wrong? As young people who will be the new leaders of the next century, that is the question that you have to grapple with. I would say that he is both right and wrong.

There are certain things which he said are right and there are certain things which he said are wrong. What are the factors that Krugman said which were correct? He said that growth in East Asia has been input-driven. Which means that we have been putting high levels of investments and because we have a young population, also high inputs of labour. This is correct.

The labour force has however been well-trained as a result of the good programme of human resource development that is common in East Asia. Investments, on the other hand, have made great use of imported technology. The investments were also mostly private sector driven. From these factors one can say that East Asian growth model is inherently sustainable and that Krugman is wrong.

When you look at investment efficiency, however, any measure will show that investment efficiency of East Asia has been dropping. One of the simple measures that developing economists use to measure investment efficiency is ICOR - the Incremental Capital Output Ratio. East Asia's average ICOR used to be only 3.5; meaning: you need \$3.50 to produce \$1 of growth. Just before the present crisis, the ICOR has deteriorated to 5.5 to 6.5. In other words, we need \$6.50 or at best \$5.50 to produce \$1 of growth. In 1998, in most East Asian countries, the ICOR was in fact negative - you put in high amounts of investment and you get negative growth. Krugman is thus correct when he said that East Asia lacks efficiency.

Seen from the micro perspective, there is also a lot of misallocation of funds. The non-arms length relationship between banks, corporations and the government means that funds are allocated to investments not through the market mechanism but through decisions coloured by the close relationships between the parties. This resulted in over-investment, concentrated in a few favoured sectors to be carried out by a few favoured corporations. Supporters call it the Asian way, *karetsu* etc., detractors call this crony capitalism. The biggest and strongest parts of East Asia, namely Japan and the so-called Asian tiger economies of Korea, Taiwan, Hong Kong, Malaysia and Thailand are among the worst affected. Here again, Krugman is correct.

What is needed to ensure that the economic development we enjoyed over the last few decades comes back on track, so that we can eventually prove Krugman wrong?

The answers are obvious. The current strengths such as our ability to sustain high rates of investment, to export and compete in global markets, to train our manpower and develop physical and institutional infrastructures must be maintained.

The misallocation of resources is a serious problem. In the end, networking, *karetsu*, working together and strategic alliances are useful but they must not detract us from the facts of the business. For banks, projects evaluation disciplines must be enhanced and sharpened while reliance on collateral and the safety of "big names" must be reduced. In the capital market (share issues), market forces must be allowed to work and people who issue misleading information or manipulate prices must be disciplined. For government projects and privatisation deals, tender evaluations must not be circumvented and replaced by special offers to particular favoured parties.

Having said that, the positive parts of Asian values, namely, Asian consciousness, our ability to cooperate and form close alliances, must be preserved without losing our professionalism and cosmopolitanism. Its regional manifestations - increase in inter-Asian trade, inter-Asian investment flow, and maybe even financial integration are also useful in increasing the economic strength of the region. Such integration was in fact the idea behind the East Asian Economic Caucus - to bring Asian-centricism to the fore. And this agenda is still very underdeveloped.

What else is needed? Stop thinking of people as human resources. If you do, then you are merely treating people as inputs - labour inputs. If you do that, you lose the other important aspects of people - namely, people as thinkers, strategists, managers and entrepreneurs. Remember, factors of production include land, labour, capital, enterprise and growth factors include in addition to labour and capital, also technology and efficiency. Thus we must refocus our ideas about education and human resource development - not to look at the human factor as just labour, but also as the very human components of growth and greatness. Here, we are not just talking about the ability to achieve economic growth but about human capabilities to achieve development, leadership and even greatness for East Asia.

Thank you.