

**STABILIZING ECONOMIC GROWTH  
BY PROMOTING EDUCATION AND SUSTAINABLE DEVELOPMENT FOR  
THE MAXIMUM BENEFITS OF THE PEOPLE:**

**AN ASIAN OVERVIEW**

By

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**A. Introduction**

First of all, I would like to give my sincere appreciation to the Hitachi Young Leaders Initiative for inviting me to the 7<sup>th</sup> Hitachi Young Leaders Initiative forum. At the outset, I would also like to express congratulation on the success and efforts that had been taken for seven periods of this initiative which could contribute to build the capacity of the prospective Asian young generation. I believe that each participant will benefit from this forum, which provides a chance for anyone to develop talents, knowledge, and skills. In this important meeting, we can meet people from other countries who have different social backgrounds, with whom we can share with one another cultural diversity, values, and traditions. Also, we can exchange experiences among the participants and develop dialogue to strengthen common interests as well as to bridge differences, which are very important to maintain mutual understanding among neighboring nations.

The 7<sup>th</sup> Hitachi Young Leaders Initiative meeting we are attending today brings up the main theme on “*Balancing People, Planet, and Profit in Asia’s Future*”. The keynote speech I am delivering to the meeting is an exploration of the theme and covers several topics related to it. I would like to address four issues: [i] the essential meaning of development, [ii] economic globalization, [iii] sustainable development, and [iv] education for development. My speech is titled “*Stabilizing Economic Growth by Promoting Education and Sustainable Development for the Maximum Benefits of the People: An Asian Overview*”, and I would like to discuss each topic in the following order.

**B. The Importance of Development for Creating Economic Well-Being**

I have been studying about development for years, realizing that there are various meanings of it. Development is commonly understood as pertaining to economic matters and that is why it has been a major concern of economists for a very long time. They expound that development has conventionally meant the process of enhancing the capacity of a national economy. This is indicated by economic growth as can be seen in the expansion of capital investment, resulting in the enlargement of per capita GNP. Development has also been comprehended as the process of structural transformation, reflecting the designed alteration of the agricultural sector to the industrial and manufacturing sectors. It results in the change of contribution of these two sectors towards GNP, in which industrial and manufacturing ones will eventually replace the agricultural sector as the structure of production and employment of the former gradually increases, whereas that of the latter successively declines. Most economists think of the importance of capital accumulation, investment, and well-designed industrialization because they are critical components to accelerate development. All these elements are the prime mover to lead the structural transformation process.

However, the old paradigm had been criticized by the new generation of economists. They argued that it was absolutely indispensable to expand the goals of development beyond the conventional macroeconomic objectives, such as national income, fiscal health, and stability in the balance of payments, to encompass societal development including basic human rights, access to a just

legal system, literacy, and good health. Criticism on macroeconomic-oriented development was first raised by Dudley Seers in the 1960s. He strongly rebutted the so-called “*growth fetishism of development theory*” by arguing that the essential meaning of it was not just the increase of per capita income. The most important things that must be taken into account are distributing earnings, reducing unemployment, alleviating poverty, and eradicating inequality, because these are the basic characteristics of economic well-being as well as social welfare for the humankind. Therefore, development must lead philosophically to human dignity by fulfilling all the needs of the human in terms of society, economy and politics. In this regard, Amartya Sen states that “development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or over-activity of repressive states”.

As a result, development should not only focus on “national income accounting”, but also “people-centered policy”. This means that development should consider human dimensions. For such a change, Mahbub ul Haq has extensively discussed the new concept of human development by explaining that “[it] is concerned both with building up human capabilities through investment in people and with using those human capabilities fully through an enabling framework for growth and employment”. And there are at least six reasons why human development must be considered: [i] it is desirable as an end in itself; [ii] it can promote higher productivity and so enhance human command over goods and services; [iii] it reduces human reproduction, an outcome that is generally considered desirable; [iv] it is good for the environment; [v] it can contribute to a healthy civil society and democracy; and [vi] it can promote social and political stability.

When we discuss development, the most critical thing that must be taken into consideration is that achieving its objectives does not merely mean fulfilling the material needs of the people. Addressing inequality by distributing income and eradicating poverty by sharing wealth with other people are the most crucial points that must be put on the ultimate goals of development. In addition, development should promote social justice, civil rights, and political liberty so that people can benefit from it socially and politically.

Theoretically speaking, development will lead to the prosperity of a nation as economic growth can constantly be maintained by creating such a favorable climate both in domestic and global areas. And globalization seems to be a good opportunity for any country to bring about growth by establishing economic cooperation with other countries.

### **C. The Challenges of Economic Globalization**

We are now experiencing the globalization era that provides a chance for people throughout the world to interact with one another. By definition, globalization refers to the entrenched and enduring patterns of worldwide interconnectedness and denotes much more than a stretching of multiple relationships in many fields across regions and frontiers. Globalization implies that the world’s networks can facilitate any nation to go beyond multi-continental distances. It encompasses economy, trade and business, finance, politics, culture, and some others. Obviously, the use of technology is becoming widespread as it has been the main instrument to establish the networks across the globe, so that there is no constraint of either time lag or geographical space. As the world now embarks on globalization, which is characterized by the integration of the economy among nations, the relation between them is becoming interdependent. Certainly, interdependence of economic activity of one country with another becomes more prevalent. This phenomenon is commonly dubbed as “borderless economy”, which is typified by, among others: [i] major changes in trade flows; [ii] activities of multinational corporations; [iii] development in international finance; [iv] vast motion of capital and goods; and [v] intercontinental market exchange.

Economic integration brings up some challenges for all countries. And it has clearly affected national policy autonomy through three basic mechanisms: [i] trade competitiveness pressures; [ii] the multi-nationalization of production; and [iii] the integration of financial markets. On these

grounds, each country is required to strengthen the national economy and toughen its competitiveness. As the integration of the economy has shown up in reality, countries across the world are now competing with one another, and those with strong competitiveness will benefit from globalization. To succeed in global competition, such a country needs to offer good quality, low-priced products to deliver into global markets. Of course, global markets provide many alternatives of selecting goods and services. In order to offer a high quality of products, goods and services, technology is the key. As a result, the acquisition of technology is absolutely inevitable since it has become a vital instrument in the process of production. Moreover, technology will result in efficiency along with minimum production costs so that low prices are possible. In addition to technology, human resource has a significant role to play as can be seen in a number of knowledgeable and skilled people [this topic will be discussed thoroughly in the last part, *Education for Development: Shifting Paradigm*].

Although globalization widely opens up the opportunity for all nations to flourish in economic activities, business and trade, countries cannot benefit from it without developing mutual cooperation among them. For the sake of Asian countries, regional cooperation is absolutely needed in order for them to take advantage of globalization, while it can be the way of consolidating the strengths of economic structures in the region. Establishing cooperation can be realized through a wide range of areas leading to the enhancement of each Asia country's economic performance. Such cooperation can be in the forms of capital investment, technological transfer, and expertise exchange by developing knowledge and skills. Moreover, the most important thing is that countries with advanced economic performance like Singapore, Taiwan, Hong Kong and South Korea should kindly provide professional assistance in strengthening the economic structure for other countries.

However, globalization is not merely about economic matters. It is also related to environment because globalized economic activities frequently cause environmental degradations due to excessive exploitation of natural resources. The quality of environment is currently becoming a critical issue that must be addressed by all countries since it closely relates to the safety of our planet. In accordance with this issue, discussing sustainable development is obviously important.

#### **D. The Quest for Sustainable Development**

Sustainable development, as conceived by Herman E. Daly, becomes a radical proposition of economy as part of the ecosystem, requiring that many give up an ideal of economic growth and reevaluate basic ideas about economic theory, poverty, trade, and population. The primary concern of sustainable development is about maintaining resources properly for the sake of human beings. Assuming that there is no change in the way we conduct our development, our planet will face a grim future and serious crises especially in energy, water and food. These crises, predicted to occur in the long run, are closely associated with severe environmental degradations and irrecoverable natural resource depletions. Population booms significantly contributed to the problem together with wasteful lifestyles and policy failures in ensuring the sustainability of our development.

That 'gloomy' outlook of our future serves as a 'wake-up call' and a reminder for us to stop acting that it is 'business as usual', and make a shift towards holistic and longer-term perspectives on development.

The crises stated above (energy, water and food) are interlinked. The environmental problems facing a society are a function of its demand for goods and services. The severity of the problem is determined by its degree of magnitude and level of efforts to mitigate adverse impacts. Population size certainly contributes to that demand, but the average demand per person contributes to it too. Some have argued that per-capita consumption in industrialized nations has reached levels that are socially very costly and irresponsible, while others have claimed that high per-capita consumption is essential if prosperity is to be maintained and if poor countries are to prosper. On the other hand, it has been widely acknowledged that our natural resources depletion and environmental destruction continue to deteriorate, loss of biodiversity continues, fish stock rapidly

depletes, and natural disasters are more frequent. We, a resource-based economy, are vulnerable to future 'shocks' more than ever.

It is clear now that the carrying capacity of the earth to support our lives is far lower than the ever-increasing human needs, lifestyle, and greed. Take Indonesia, for example. Indonesia's population is projected to reach 273.7 million in 2025 (68 million more than the 2000 level, the latest) with most of them living and working in urban areas and coastal towns. A population of that size will need an additional 11.2 million hectares of rice fields to produce 50 million tons of rice for annual consumption. It will be a huge and daunting task to feed the people considering that the rapid rate of conversion of agricultural lands to non-agricultural purposes is estimated at 50,000 hectares every year in 2025. Unless we manage our resources prudently, any increase in demand (as a result of development activities) will only result in over-exploitation. In 2025, Indonesian people will consume 35 percent less petrol compared to 1999, and will rely more on natural gas and coal. Due to high demand, 75 percent of energy will still come from fossil fuels. That is proof of high dependency toward non-renewable energies that have a characteristic like a 'stock of capital' (use it once, gone forever). Therefore, if earnings from exploitations are not reinvested wisely in other productive sectors, they will create more social and environmental problems that follow. For example, a mine closure leads to abandoned critical lands, waste, polluted rivers, as well as job losses, crimes, and social unrests.

External factors play a crucial role too. Globalization requires productive, efficient and flexible production systems that focus on quality and price competitiveness. Already, resource-based products are influenced by aspects like quality (ISO 9000), environment (ISO 14000), property rights, human rights, and labor. A market like that, a common sight in the future, is willing to pay a higher price for products that are not harmful to our ecology and safe for people. Do these 'altruistic' kinds of products and people really exist in the future? We never know. Perhaps a small number of them already exist now. Many more do not.

Sustainable development, as suggested in various global 'summits' around the world, is the key to our future survival. It should become a mainstream of the nation in the 21st Century and beyond. Are there any good arguments behind this recommendation? Arguably, 'sustainable development' is a good thing or at least, it is doing more good than harm. Nobody, in his or her right mind, opposes a more humane, equitable and caring face of development. The moral basis for such 'ethics' is that we need to support global efforts to achieve a better life for all. Having clean air, clean water, protection of forests and animal life was nearly a ubiquitous desire of the Indonesian as well as, say, the Americans and the Canadians. The problems begin when we try to mix 'development activities' with 'sustainable measures' which are not necessarily compatible to each other. People start comparing costs and benefits of a response toward such an ideal development thought. People are looking for 'trade-offs'. One would ask: "If sustainable development is a good thing, why is it so hard in its implementation?" The progress of transferring 'commitments' into real actions was slow. This 'show of goodwill' at the global scale was not automatically translated into smooth implementation in 10 years from the Earth Summit in Rio de Janeiro in 1992 to the Sustainable Development Summit in Johannesburg in 2002, or 16 years (from the day it was first formulated by the Brundtland Commission in 1987).

## **E. Education for Development: Shifting Paradigm**

The relationship of education and development has become an intriguing theme in academic discourse among scholars since the early 1960s. It dates back to the eighteenth century by looking at the classical work of Adam Smith in the theory of economy as documented in his most influential book entitled *the Wealth of Nations*. Since then, this magnificent work has tremendously influenced the development of the theory of economy in the modern time. Referring to many sources, scholars expound that there is a positive correlation between education and economic development. They believe that education has significantly contributed to accelerating economic growth; education is a sort of human capital investment resulting in a number of educated people who master knowledge, skills, and technology. These three items have been essential in enhancing the capacity of the labor force and productivity. Without neglecting the

other two kinds of capital - financial and physical - human capital is more advantageous. There is no doubt that education has been very supportive of development. In addition to that, educated people are greatly beneficial in creating good business climates which eventually lead to growth.

The significance of education for development is unquestionable and it becomes more relevant with the shifting paradigm of development. In line with the decrease of natural resources, the old paradigm that concentrates development solely on them has currently been replaced by the new one, the so-called *knowledge-based economy*. It can be delineated that knowledge has a critical role to play in enhancing both capacity and productivity and is the driving factor of economic development. In relation to this, Nelly Stromquist notes that knowledge-based economy implies three essential components: [i] high knowledge will be needed at all levels of economic activity; [ii] individuals and countries can make it by relying solely on the acquisition of knowledge and skills; and [iii] no impediments exist to the acquisition of such knowledge.

In the last centuries, land and factory were the most beneficial economic assets and the basic source of prosperity and social welfare, while in the twenty-first century knowledge is the most critical thing that leads to the promotion of economic well-being, exceeding the power of financial capital and labor force. As Peter F. Drucker explains, “the central wealth-creating activities will be neither the allocation of capital to productive uses nor labor ... value is now created by productivity and innovation, both applications of knowledge to work.” Parallel with this view, the knowledge-based economy paradigm indicates that economic growth will rely more on the availability of knowledgeable people than merely on physical assets or financial resources.

Because of such great contribution of education to economic development, we need to spend much more money on education. In the long run, investment in education is economically beneficial. The economic benefits of education can be measured by looking at the social rate of return. Based on the experience of many countries, the average return of investment in education is higher than that of physical investment. The latest study conducted by the World Bank shows that the social rate of return of investment in education in Asian countries was 16.2 percent at primary level, 11.1 percent at secondary level, and 11.0 percent at tertiary level. The complete results of the study can be seen in the table below:

**Table 1:**  
**Percentage of Returns to Investment in Education by Level, Full Method,**  
**Latest Year,**  
**and Regional Averages**

| Region                   | Social  |           |        | Private |           |        |
|--------------------------|---------|-----------|--------|---------|-----------|--------|
|                          | Primary | Secondary | Higher | Primary | Secondary | Higher |
| Asia*                    | 16.2    | 11.1      | 11     | 20      | 15.8      | 18.2   |
| Europe/Middle East/North | 15.6    | 9.7       | 9.9    | 13.8    | 13.6      | 18.8   |
| Latin America/Caribbean  | 17.4    | 12.9      | 12.3   | 26.6    | 17        | 19.5   |
| OECD                     | 8.5     | 9.4       | 8.5    | 13.4    | 11.3      | 11.6   |
| Sub-Saharan Africa       | 25.4    | 18.4      | 11.3   | 37.6    | 24.6      | 27.8   |
| World                    | 18.9    | 13.1      | 10.8   | 26.6    | 17        | 19     |

Note: \*) Non-OECD Countries

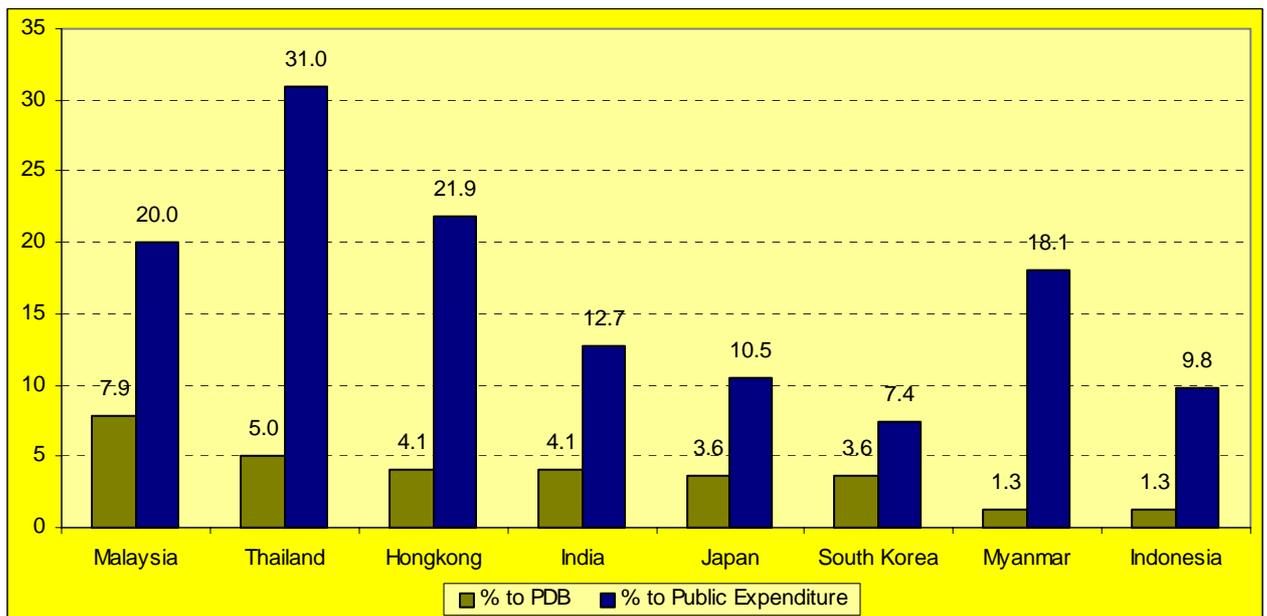
Source: George Psacharopoulos & Harry A. Patrinos, *Returns to Investment in Education: A Further Update* (World Bank Policy Research Working Paper No. 2881, September 2002)

The study above clearly shows that education has significantly contributed to developing a

country because it results in a number of educated people who master knowledge and skills needed for industry, manufacture, business and enterprises etc. Thus, investment in education is obviously critical to create knowledgeable and skilled labor forces, and people with high levels of education are able to acquire technology more easily and adopt sophisticated advice needed for production. A productive nation will raise national earnings and it will successively promote economic well-being and social prosperity. How much a country spends on education can be seen in its public expenditure. Public expenditures among Asian countries vary; the highest is Thailand and the lowest is Indonesia as displayed by figures below.

**Graphic 1:**

**Public Expenditure for Education among Asian Countries**



As a result, it is important to spend adequate funds to finance education because of its long-term benefits economically and socially. There is no doubt that education is the power of the nation-state to drive a national economy and is the way of social mobilization reflecting on the improvement of economic well-being, social welfare, and social status. Definitely, education contributes to a nation's advancement in a wide sense.

## **F. Concluding Remarks**

The long arguments I have given can be summarized in a short paraphrase: there are many ways of stabilizing economic growth. As natural resources are becoming scarce, we need to look for other sources of development by promoting education to enlarge the number of knowledgeable and skilled people. Still, for some countries, development relies heavily on the availability of natural resources, so that promoting sustainable development by preserving the quality of the environment is absolutely inescapable. Promoting education and sustainable development may become the way of balancing people, planet, and profit for the betterment of our life in the future.