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East Asia in the New Economy: Problems and Challenges

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Executive Summary

Bearing in mind the diversity among East Asian countries, there is no one-size-fits-all solution for prosperity in this part of the world. This essay highlights various important trends and the challenges faced by most East Asian countries, and makes some suggestions with regards to economic development and national policies. However, the scope, speed and degree of implementation should vary according to the economic, social and political climate of the individual countries.

In the aftermath of the Asian Financial Crisis, we learned about the importance of a sound financial system, proper corporate governance and appropriate disclosure practices. With the advent of the New Economy, there is now a greater urgency for structural reforms in these areas.

Also, there are some ongoing trends that we should be concerned with. The speed of globalisation and technological advances has accelerated, leading to greater people power; emergence of new media; increased mobility of talents; more privatisation and mergers and acquisitions of gigantic organizations; and escalating competition.

To remain competitive and viable, East Asian countries face many challenges. The most notable ones include creating a reliable and efficient government, maintaining social stability and ensuring the competitiveness of its economy.

Various suggestions for the policy makers are presented: innovate and niche; reform and liberalise (not liberate); attract and retain talents (locals and foreigners alike); embrace the world (but retain identity); respect the people and realize their power; upgrade the infrastructure; educate, train and retrain workers; and most importantly, to keep abreast of the latest global happenings.

This essay concludes by stating that policies should always be evaluated and reviewed frequently as the pace of change has accelerated, and greater efforts must be made to ensure that the nation does not get left behind in the race for prosperity.

Introduction

East Asia consists of many countries with varying economic conditions and different political structures. Taking into consideration the diversity among East Asian countries, there is no one-size-fits-all solution for prosperity in this part of the world. This essay highlights some important trends and the challenges faced by most East Asian countries, and makes some suggestions with regards to economic development and national policies. However, the scope, speed and degree of implementation should vary according to the economic, social and political climate of the individual countries.

The New Economy

Understanding the economy is a difficult task, especially in a rapidly changing economic environment. With so much uncertainty, how should policy-makers understand and prepare for the New Economy? In the first place, what is the New Economy?

Professor Shih Choon Fong, Vice-Chancellor of the National University of Singapore, said, "*Limited natural resources are not a handicap in the New Economy, where opportunities and wealth arise from knowledge, talent and entrepreneurial spirit.*" In other words, in the New Economy, the so-called bytes (non-physical assets) could be as important,

or perhaps even more important, than the atoms (intangible assets), as far as wealth creation is concerned.

Although our lives are increasingly exposed to technological advances that enhance our efficiency, it is important to note that we still carry out similar activities in our daily lives. The changes are in the way we conduct these activities. Adoption rate of the various new technologies may vary. For instance, we had witnessed the growth of electronic mails (e-mails), Internet auctions and online brokerage firms. On the other hand, we also saw the less successful online bookstores, toyshops and many other unsuccessful 'dotcoms'. Without doubt, technological advances including various Internet applications have enabled new initiatives that were previously impossible or difficult to achieve. The key issue is how well received these initiatives will eventually be.

Nonetheless, technology had changed and will be changing more aspects of our lives. As such, despite the Internet being over hyped, very much the same way the catalogue-and-mail-order system had been during the last century in the US, it is likely that these changes are here to stay.

Diversity in East Asia

Where economic condition and political stability are concerned, there is no country in East Asia that is identical to another. From Table 1, we can

see that GDP per capita of the countries ranges from as low as \$710 (Cambodia) to as high as \$27,800 (Singapore). Even in Europe where monetary union had become a reality for the Euro-12 nations, differences in economic conditions still exist among the participating countries. As such, there is probably no one-size-fits-all economic package and national policies that could be applied to all East Asian nations. This is despite some believing in the emergence of the global village, which remains a relatively raw prophecy that might take many years, if ever, to happen. In other words, we do not expect to see a homogeneous East Asia in the near future.

Table 1

Country	GDP per capita (1999 est): Purchasing Power Parity
Brunei	\$17,400
Cambodia	\$710
China	\$3,800
Hong Kong	\$23,100
Indonesia	\$2,800
Japan	\$23,400
Laos	\$1,300
Malaysia	\$10,700
Myanmar (Burma)	\$1,200
North Korea	\$1,000
Philippines	\$3,600
Country	GDP per capita (1999 est): Purchasing Power Parity
Singapore	\$27,800
South Korea	\$13,300
Taiwan	\$16,100
Thailand	\$6,400
Vietnam	\$1,850

Source: *The World Factbook 2000*

Notwithstanding the disparity among the nations in terms of their internal environments, East Asian countries face similar challenges from the external environment. The speed of globalisation and technological advances has accelerated, leading to greater people power, emergence of new media, increased mobility of talents, more privatization and mergers

and acquisitions of gigantic organizations, and escalating competition. Each nation must be aware of its relative standing and take advantage of any unique qualities that might allow it to achieve an advantage over the others.

Challenges

To remain competitive and viable, East Asia countries face many challenges. The most notable ones include creating a reliable and efficient government, maintaining social stability and creating an environment that is conducive for new business models and entities.

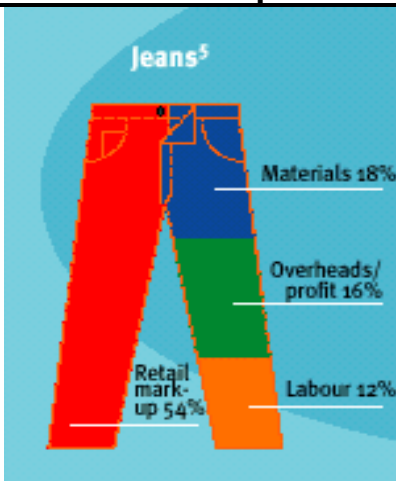
Implications and Recommendations

We present various suggestions for the policy makers. These proposals include innovate and niche; reform and liberalise (not liberate); attract and retain talents (locals and foreigners alike); embrace the world (but retain identity); respect the people and realize their power; upgrade the necessary infrastructure; educate, train and retrain workers; and most importantly, be proactive keep abreast of the latest global happenings.

Innovate and Niche

East Asian countries should not be contented with assuming the role of low cost manufacturers. In addition to the low-margin and low value-added nature, providing cheap source of materials or manufacturing labour is also not sustainable in the long run. Once the natural cost advantage of East Asian countries deteriorates, the multi-nationals will, in an attempt to cut cost, shift these low value-added processes to other developing or third world countries. Using a pair of jeans as an example, the real value is added by the corporate merchants (who own the brand) and the retailers (who are in direct contact with the customers). The manufacturing plants only earn a small percentage of revenue while the owners of the brand earn the bulk of the revenue. The typical breakdown of the product is illustrated in Figure 1.

Figure 1
Breakdown of Value of products (Jeans)



* Source: <http://www.oneworld.org>

In order to combat this ill fortune of being “forsaken” by the large multi-nationals, East Asian countries need to add more value to their business activities. For a start, more money should be allocated for educational and training programmes at the national level. This will raise the level of education and expand the pool of skilled labour in the country. At the micro level, more resources can be allocated to research and development for new products and services.

More importantly, we should encourage and promote innovation. We can start by first accepting mistakes as part of the normal process of innovation. When there are hitches, the important thing is not to lay the blame but to correct the mistakes. Accountability is important, but the emphasis should be on continuous improvements. Having made mistakes before should not be considered as a bad reflection of the person. This will encourage risk-taking and it will facilitate free expression of fresh ideas and creations. It is only when our culture accepts failure as part of the process of innovation, people will be more willing to step forward and express their creative ideas.

The innovative minds of people should not be constricted. However, the efforts of the nation must be focused. There are many potentially lucrative industries and viable businesses that a country may want to develop. However, given the limited resources a nation possesses,

perhaps it is wiser to find its own niche in the global economy. Jack-of-all-trades but master-of-none will not be able to compete effectively in the global economy, particularly in 'winner-takes-all' industries. Many economic theories and analyses have long advocated the merits of world trade and specialization in industries in which the nation has comparative advantages. For example, if Singapore were able to perform oil refinery processes at a more efficient manner than say, Japan, relative to producing motor vehicles, then it would be better for Singapore to specialize in oil refining while Japan specializes in making motor vehicles. There may be a huge (global) market for motor vehicles, but Singapore should not attempt to be a major producer of such goods because it does not possess much advantage in this particular industry.

Although specialisation has its merits, it is unwise to depend on just a single industry for economic growth. A country specialising in an industry has to assume various kind of risks that the particular business fetches. For instance, the product or service may become obsolete after a number of years. Besides, the economy will be subject to product-specific business cycle fluctuations. To smooth out the effects of business cycle fluctuations and to limit the impact of obsolescence, it is worthwhile for the nation to diversify the risks by focusing on a few selected industries.

Reform and Liberalization (not liberation)

In the aftermath of the Asian Financial Crisis, we have learned the importance of appropriate disclosure and transparency, proper corporate governance of banks and corporations, and a sound financial system. New Economy or not, we still have to address these problems. In fact, we believe there is now a greater urgency for structural reforms in these areas.

In the short term, there is a high cost associated with reforms --- the loss of jobs. Japan's bid to reform the ailing economy may cost up to 200,000 jobs, according to Japan's Minister of State for Economic and Fiscal Policy, Heizo Takenaka. The inevitable insecurity felt by workers facing the possibility of job losses and the daunting task of relocating these workers are major factors to consider when making such decisions.

The social impact of structural reforms should never be underestimated. One important point to note is that the policy makers should liberalise their own country and not be liberated by others. There is a great difference between doing it at one's own free will and being compelled to do so by another party. If the policy makers take the initiative to liberalise and reform their country (when necessary), then they will be able to decide the pace of the reform, which is instrumental to its success. In May 1998, many Indonesians went looting and on strike for many days

when the fuel oil prices rose after the authorities cut the subsidies for fuel prices, mainly to comply with the International Monetary Fund (IMF)'s rulings. Indonesia committed under its agreement with the IMF to reduce subsidies in a reform program to help the nation recover from the financial crisis in 1997. Under the mounting pressure to improve the badly crippled economy, the Indonesian Government had not the luxury of gradual reform. Among other reasons, the pace of reform was arguably untimely and it was too rapid for the people to endure. As a result, massive violence broke out and led to the downfall of General Suharto, a former Indonesian President.

The world is constantly changing, offering little time for us to think ahead. There are many questions policy-makers may ask. Are we heading in the right direction when we carry out reforms? Is transparency really an important aspect of the new world? Is there a limit to how far we can liberalise? To date, we note that there is no consensus among the East Asian countries, as evident in their policies, with regards to their beliefs in the merits of reforms.

Most East Asian economies are so inter-linked with each other and connected with the global economy that there is no way an individual nation can ignore major changes in the global economy. Every country, even if it is self-sufficient in many aspects, should never assume that they

are shielded from the effects of major global trends. Therefore, backing out of the global financial and trading system is a definite no despite some conflict theorists expressing their concerns over the dominance of the Western countries in the current world economic order. These critics, including Indonesian Vice-President Megawati Sukarnoputri and Malaysian Prime Minister Mahathir Mohammed, believe that advanced nations make decisions on key global issues, without taking into sufficient account the interests of developing countries. Some of these critics even asserted that developed countries have shown an inclination to use multilateral institutions like the World Bank and International Monetary Fund as instruments of their own foreign policy, to the detriment of developing countries. They claim that the powerful nations have been trying to colonise the Asian countries again, this time by yet another way — economic colonisation.

Other than structural reforms, East Asian countries should also gradually open up their domestic markets to competition from overseas. When local companies are faced with pressure from international players when the authorities remove the protective shield, the urgency to improve, innovate and compete should rise. The local companies will then be able to grow and strengthen. Nonetheless, as in the case of structural reforms, the pace of opening up the economy should be well planned and phased

over a period of time. A well planned and well communicated process of gradually opening up the economy will allow local companies time to prepare for the increased competition as compared with a big-bang approach that might lead to the total collapse of local companies.

Attracting and Retaining Talents

With globalisation, the competition arena in the race for prosperity has expanded tremendously. As such, the people behind the wheels must be world-class. New Economy or not, a nation needs to churn out or attract talents to take the lead in its economic development. These people are hard to come by, and efforts must be made to attract them to work in East Asia. Working and living environment must be improved and employee compensation should be competitively pegged to international standards. After all, generally, “if you pay peanuts, you will only be able to hire monkeys.”

Efforts made in attracting talents from abroad should be accompanied by ample assurance that locals will not be disadvantaged in any way. The main rationale for hiring foreign talents is that they increase the chances of survivability of companies, and in doing so will help to provide jobs for the people. However, this justification may not be well accepted by everybody. For instance, a retrenched person that has a

family to take care will probably not understand this rationale. A government bold enough to adopt a truly pro-talent or meritocratic strategy instead of pro-local strategy is indeed commendable. After all, it may tarnish the people's perception of the government especially since the benefits of hiring talents are not observable in the short term. The repercussion can be devastating and the situation will be made worse especially if neighbouring countries were doing otherwise. As such, maintaining social harmony while adopting a pro-talent policy will be a challenging task for the government.

Some form of unemployment benefits/aids should be provided during the period when jobs are taken by the foreign talents. The authorities should be more sensitive when making comments about foreign talents issues. Care must also be taken to ensure that the people are provided with more opportunities for training and re-training. Additional outplacement services and counseling would be useful for calming people and to assure them that they have not been forsaken by the government.

Embrace the World but Retain Identity

Care must be taken in the preservation of one's own culture, for instance, our mother tongue. In the ever changing and highly competitive global economy, it is important to be able to understand and accept others'

cultures in order to communicate well with the global business community. However, without strongly anchored roots, we will never go far in pursuing our objectives of being world-class players if in the first place, we do not even have the knowledge, respect, and faith in our own culture. Only when Asians are truly proud and confident of themselves, they would be able to raise their head and face the world.

Respect the People and Realize Their Power

Democracy has a rather loose definition. No one country, not even the most powerful nations, can dictate what constitutes a democratic society. This essay does not discuss the relationship between democracy and prosperity. However, we do make the point that governments must be aware of the renewed power of the people in this modern Information Technology era.

Technology is empowering people with greater ability to seek information. For instance, with the availability of the Internet, it is virtually impossible to prevent people from hearing alternative viewpoints. These other viewpoints may be positive comments about the authorities, but it could be negative statements as well. Also, there is the possibility that the Internet may provide misleading reports that could be detrimental to the stability of a nation.

The good news is that there are now fewer dark closets for corrupted and inefficient government officials to hide their skeletons and they will be faced with greater pressure to perform. There is also less room for evasion of explanations by the authorities because the people would closely scrutinize any decisions and/or actions leading to undesirable consequences for the nation. The authorities must be ready to explain and justify their actions whenever doubts are raised.

A minimum degree of media freedom is important. But is it necessary to allow the press or other media to freely publish materials as they deem fit? As Trade and Industry Minister of Singapore, Brigadier-General George Yeo pointed out recently, no news agency in this world can claim that their reports are without any prejudices or bias at all. Cultural context and other inherent differences among different people will in one way or another, influence the manner in which an event is interpreted. Traditionally, newspapers and broadcasters have been strictly regulated, with many publications tightly monitored by the ruling political parties. The emergence of "Internet journalism" poses great difficulties to the censors, whose jobs have until recently, largely been confined to the long-established print and broadcast media.

Rightfully, reporters and writers should be responsible and professional enough to portray the situation factually and readers ought to

be sophisticated enough to be able to differentiate facts and opinions. This should apply to any form of media. However, the ability of the authorities to ensure responsible and professional reporting has now declined. For example, anyone can easily send anonymous e-mails or post anonymous bulletin board messages via the Internet. Therefore, it is vital that the authorities are well versed with new forms of interactive platforms, say, online forums and news websites and be aware of the mass broadcasting ability of these new distribution channels for information.

Also, technology has enabled people to communicate in a faster and easier manner. For example, the increasing cellular phone penetration rates in East Asia had translated into enhanced mobile communication ability of the people. We have seen in the recent anti-government rally over the Joseph Estrada issue, the usefulness of the mobile phone as a tool for effective communications. The Philippine activists had used mobile phones in transmitting and forwarding messages, to assemble the people during the protests. The adoption of the mobile technology has indeed eased the difficult task of organizing the masses. The authorities need to understand the heightened resourcefulness of the common people, and train the police and enforcement officers to handle more sophisticated illegal activists and other law-breakers. The task of maintaining social stability greatly hinges

on the ability of the authorities to fully comprehend the increased capabilities of the outlaws.

Upgrade Infrastructure

The nation must be able to make itself attractive to international investors by constantly upgrading its infrastructure. For example, a wafer fab requires clean source of water and stable source of electricity for proper functioning and operations. Similarly, e-commerce requires sophisticated transaction (payment and settlement) systems that are lacking in some nations. Therefore, such infrastructure must be developed so as to provide a conducive environment for business activities before foreign direct investment would flow into the nation.

Another important factor is the ability of the nation to respect Intellectual Property (IP) rights. If proper laws were established to protect IP, it will facilitate the culture of entrepreneurship and bring in more angel capital or venture capital into the nation. Although the ability to raise capital has never been easier, we do need to ensure that no worthy entrepreneur should ever be deprived of the ability to raise the necessary capital to start up a company.

The level of sophistication of basic infrastructure and legal frameworks of the economy varies in great magnitude among East Asian

countries. Singapore's Senior Minister Lee Kuan Yew commented that the technology gap between the more developed nations and the less developed nations is a troubling trend and it will take a longer time and greater efforts for countries like Laos and Vietnam to catch up. Policy makers have to adopt strategies to bridge this technology gap between developed nations and developing nations within East Asia and between East Asia and the rest of the world.

Educate, Train and Retrain Workers

The level of education is vital to the development of the nation. The basic education must be made available to all. Examinations like O-Levels, A-Levels, Sijil Penilaian Menengah Terbuka (SPMT), Sekolah Menengah Tingkat Pertama (SMTP) and Sekolah Menengah Umum (SMU) should be made affordable and available to everybody. More significantly, the importance of education should be made known to the parents, so that they will be more willing to send their children to school instead of forcing them to start working early. In more developed countries including Japan, Korea, Taiwan, Singapore, among others, more universities and higher institutes of learning could be built. These universities should be able to provide high level of education that covers a wide array of important courses including engineering, IT, sciences, and business administration.

One important issue is the language of teaching. East Asian countries have their own languages including Malay, Bahasa Indonesian, Chinese (Mandarin and other dialects), Indian (Hindi and other dialects), Japanese and Korean. However, a great part of global business is conducted with English as the medium. Generally, other than Japan, the second largest economy in the world, and China, the up and coming economic powerhouse, few East Asian economies command the kind of attractiveness for other nationals to learn Asian languages. Therefore, it is vital for East Asia to realise the significance of English and the need for the people to master this language if going global is part of their business agenda.

IT resources should be provided in learning institutions including libraries, schools, community centers, and made affordable and available to the majority of the population. It is important to create an “e-enabled” community so that everybody in the nation is able to take advantage of the new technologies as powerful tools for self-learning and for up-to-date information.

To keep up with changes in the economy, workers must be willing and able to be trained and retrained, whenever necessary. If there were radical changes in the economic structure or important technological improvements in a particular industry, support and assistance should be

provided at the national level, especially if little is done at the company level. Of course, it will be ideal if the company were able to provide retraining and relocation for the workforce quickly when the changes take place.

As mentioned earlier, knowledge, especially of technology, is the key to success in the New Economy. However, the downside includes the risk of a widening disparity between the rich and the poor. In fact, according to a Channel News Asia (CNA) report, statistics in Hong Kong showed that over the past years, the income level of the lowest income groups had not increased or had only increased marginally. Specifically, since the Asian financial crisis, the top 20 percent of income earners had increased their income, but the lowest 20 percent had actually decreased their income. As such, we reiterate the importance of making basic education available to *all* and creating more opportunities of advanced education (tertiary) for *every* qualified person.

Keep Abreast of the Latest Global Happenings

New opportunities are created from emerging market trends and technological changes. East Asian policy makers have to be constantly aware of changes that are taking place in the world and they have to benchmark the competitiveness of the local economy with other

economies so that they will know if the local economy is able to continue to attract foreign direct investments to the country. Also, the policy makers should keep watch of the new developments so that regulations and provisions could be established in time for the new business models and entities that emerge. New opportunities and challenges will always surface, and it is important that the government be prepared to overcome these challenges and to seize these opportunities.

Conclusion

In summary, enormous opportunities and challenges await East Asian countries in the New Economy. Whether we emerge as one of the winners largely depends on our ability to implement appropriate policies and the ability and initiatives of the private sector to compete in ever-innovative ways. New Economy or not, many of the basic challenges remain the same for most nations. However, the importance of building a knowledge-based economy will take center-stage in this new IT era.

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