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East Asia in the New Economy: Problems and Challenges

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Summary

The New Economy promises to be an economic revolution like no other. It will completely transform the way we live, work and play. This essay first of all examines what exactly constitutes the new economy. It then proceeds to give a quick economic brief for East Asia, before analysing the various opportunities and challenges facing the region in the New Economy. Briefly, the New Economy provides a chance for developing East Asian economies to make vast improvements in the living standards of their people, and also for economies to identify and develop particular niches. The rise of China as an emerging economic superpower is also examined. This essay then explores an exciting proposition: Can East Asia become the cradle of the New Economy? There are several obstacles, though, that may hinder East Asia's progress in the New Economy. Among them are a shortage of skilled workers, the existence and widening of the "digital divide", the fact that some East Asian nations face more pressing social and political problems, as well as cultural impediments.

Introduction

Winds of change are once again sweeping across the globe. Just as the Industrial Revolution effected major social and economic changes in 19th-century Europe and America, rapid developments in information and communication technology (ICT) today and the consequent creation of a New Economy are about to redefine the way we live, work and play.

There is no doubt that we are on the threshold of another major economic revolution. Indeed, academic circles are currently abuzz with insights into how the New Economy will affect our lives. So what exactly is the New Economy? Ironically, for a term that is used so widely, there is no clear definition as to what it really constitutes. However, there are certain unmistakable characteristics that it possesses.

Firstly, the evolution of the New Economy is closely related to the computer revolution and, of course, the Internet. Computers and the Internet provide the engine that the New Economy is running on. They have undeniably made businesses and production faster, cheaper and much more efficient.

Another important hallmark of the New Economy is that it is global and not the economy of a nation. It signals a shift towards greater economic integration, with countries becoming more economically interdependent on one another. Old barriers to trade and economic growth are also being removed, providing for the effortless transfer of finance, capital and labour from country to country.

The impact of the Industrial Revolution was restricted to western Europe and the northeastern United States due to limitations in transport and communications. However, things will be very different this time around thanks to the rapid pace of globalisation. Every corner of the planet will have a part to play in the New Economy. The unprecedented changes that the New Economy will bring about will hence be on a global scale, and this is what will make the New Economy stand out from earlier revolutions.

Economic Brief for East Asia

Before examining the opportunities and challenges facing East Asia in the New Economy, it is useful to have a quick look at the current economic situation in the region. East Asia as a region is unique in a sense that it has countries at every point along the development spectrum.

At the top end of the spectrum is Japan, already a highly-developed economy and, based on Gross Domestic Product (GDP) figures, the second largest economy in the world. Next come the Newly Industrialised Economies (NIEs), comprising South Korea, Taiwan, Hong Kong and Singapore. These countries are not far away from achieving developed status. Then we have China, very much an economy in transition but nonetheless possessing massive economic potential, as well as countries like Malaysia and Thailand which are making large strides in economic development. At the other end of the spectrum are nations such as Cambodia, Burma, Vietnam and North Korea, which unfortunately are still in the early stages of development.

The New Economy can thus be expected to have varying impacts on different East Asian countries, depending on the degree of development of their economies.

Opportunities For East Asia in the New Economy

To improve living standards

The New Economy provides an opportunity for developing East Asian countries to leapfrog stages of development and catch up with the developed world. The key for these countries is to harness the benefits of information technology (IT) to develop their economy and labour force.

Their governments must be prepared to allocate substantial funds to build the necessary infrastructure, such as adequate power sources and communication links. Emphasis must also be placed on education and training, since a steady supply of trained IT workers is essential for New Economy industries to prosper.

Education also empowers the population with the necessary knowledge to succeed in the New Economy. It represents the best hope for the rural poor to break out of the poverty cycle and work towards a higher standard of living for themselves and their families. Hence governments must ensure that basic education is free or extremely affordable even for the poor, such that nobody is denied the right to an education. Adequate study loan facilities should also be available to those who wish to pursue a higher education.

To identify and develop niches in the New Economy

It is essential for East Asian economies to identify and develop niches in the New Economy. This is especially true for relatively small economies such as Singapore, since these countries simply do not have enough resources to be on the cutting edge of all sectors of the New Economy. Hence the need to specialise; it is definitely better to be a world leader in a particular industry than a jack of all trades.

It is heartening to note that some East Asian governments have already taken positive steps in this direction. Taiwan, already the leading PC and laptop manufacturer in the world, has identified the biotechnology sector as an industry where it can potentially become a world player. As such, the Taiwanese government recently announced a series of measures to boost the biotechnology industry. These include tax incentives, a NT\$50 billion fund for biotechnology research, and building three biotechnology parks on the island.

Singapore is determined to make its mark on the wafer fabrication and life sciences industry, now that it is beginning to lose its lead in disk drive manufacturing as companies shift their production facilities to more cost-efficient countries. And plans are already in place to achieve this goal. Singapore has leveraged on its technological lead to build several world-class wafer fabrication facilities, which have stringent requirements such as a dust-free environment. A multi-billion dollar fund has also been set up for research into the life sciences.

China: The emerging economic superpower

In China, East Asia has arguably the fastest-growing economic entity in the world today. It seems only a matter of time before China emerges as a world economic superpower. The World Bank estimates that, on the

basis of national purchasing power, China has already surpassed Germany to become the third-largest economy in the world. It could move into second place ahead of a stagnant Japan within the next 10 years. And some economists predict that if China maintains an annual growth rate of 7 percent compared with 3 percent in the United States, it will supersede the United States to become the largest economy by 2020-2030.

The facts are compelling. One cannot deny that China enjoys advantages in many areas. Its large population means it can tap into a sizeable talent base. It has a large land area, and therefore its economic development will not be constrained by land shortages. Furthermore, China's imminent entry into the World Trade Organisation (WTO) will undoubtedly open up new economic and trading opportunities for the country.

However, there exists several impediments to China's emergence as an economic superpower. China is not a democracy, while all other leading economies clearly are. It remains to be seen how this will affect China's economic development. China is also far from being a true market economy despite its impressive reforms. And China is a poor country. Its per capita purchasing power is only about US\$2000, less than one-tenth that of the industrialised nations, and 350 million Chinese still live below

the poverty line as defined by the World Bank. This may scupper hopes of a strong domestic market for China-made goods.

The onus is on the Chinese government to remove these obstacles and smoothen China's path towards economic superpower status. Undeniably, significant progress has been made. It has been said that China is communist "in name only". China's private sector is growing rapidly. It is estimated that the private sector makes up almost 70% of China's economy today, compared with 10% in the 1980s. And China hopes to build a vibrant domestic capital market for New Economy industries to prosper. China's version of the NASDAQ, called the "2nd Board", will be launched early next year. This Shenzhen-based stock market will cater mostly to private high-tech companies.

However, a lot more needs to be done for China to fulfill its massive economic potential. In particular, the Chinese government must resolve to improve the standard of living of its people, especially that of the poor living in the countryside. Rural areas must be equipped with basic amenities such as water, electricity and telephone lines. If possible, computers and the Internet should also be made available. This will allow the spread of knowledge and relevant information, such as medical advice,

to rural communities. And most importantly, the people must be equipped with the necessary skills to find jobs in the New Economy.

East Asia: cradle of the New Economy?

The emergence of the New Economy has thrown up an exciting proposition for East Asia: Can it become the cradle of the New Economy? And my answer to this question is, why not? Admittedly, North America and perhaps Europe are ahead of East Asia at the moment. But I cannot stress enough the enormous economic potential that East Asia possesses.

China, with its population of 1.3 billion, serves as a vast hinterland for East Asian economies. As standards of living and per capita purchasing power continue to increase in China, the country will in time become the largest market in the world. This must surely spell good news for local producers as well as China's East Asian neighbours, who will then have a ready consumer base to market their New Economy goods and services.

Furthermore, Japan, South Korea, Hong Kong, Taiwan and Singapore are already highly developed economies and well-placed to play a significant role in the New Economy. And with countries such as Malaysia and Thailand continuing to nurture and develop their high-tech

industries, the chances of East Asia becoming the centre of New Economy activity look bright indeed.

Challenges Facing East Asia in the New Economy

Shortage of skilled professionals

While machines and physical resources determined productivity in the industrial age, a skilled and knowledgeable workforce is the key to success in the New Economy. Unfortunately, a shortage of skilled professionals, especially in the field of IT, is threatening to curtail economic growth in the New Economy. This situation is not unique to East Asia, with the United States and Europe also facing the same problem. However, for many East Asian countries, this problem is compounded by a “brain drain” of their top talents to “greener pastures”, in particular Silicon Valley in the United States. Clearly, East Asian governments urgently need to take radical steps to reverse this trend and enhance their ability to compete for IT talent from abroad.

The statistics make for compelling reading: Malaysia will require 15 000 more IT workers by the end of this year, South Korea will need 50 000 by 2002, Hong Kong 17 000 by 2005, and Thailand 800 000 over the next 15 years. Worryingly for East Asia, America has already taken steps to address its shortage of IT professionals. The U.S. Congress recently

passed a bill allowing U.S. companies to recruit 600 000 skilled foreigners over the next three years. A significant proportion of these workers can be expected to come from the region.

In my opinion, East Asian governments have to adopt a three-pronged approach to ensure a continual supply of skilled labour for their New Economy industries. Firstly, they must concentrate on developing home-grown talent. This starts with a sound educational system, followed by quality institutions of higher learning to equip students with the requisite skills and knowledge for the New Economy. Positive moves have already been made in this direction. China has launched its ambitious “Project 21” plan, aimed at developing 100 universities into world-class institutions for the 21st century. Hong Kong has launched a five-year strategy called “IT for Learning in a New Era”, investing US\$750 million in equipment and training. Singapore, on a similar note, has put in place a US\$2 billion IT masterplan to equip all the country’s schools with computer and Internet facilities.

Secondly, East Asian governments must strive to retain their local IT talents. Currently, there is a worrying exodus of IT professionals from developing East Asian nations to developed countries. A popular destination is America’s Silicon Valley. Workers are attracted by the

attractive pay packages, meritocratic culture and conducive working environment that Silicon Valley offers. East Asian countries must provide sufficient incentive to retain their best talents. For governments, this would mean developing better infrastructure in cities and enhancing the quality of life by reducing pollution and congestion for example. For companies, this can mean offering higher salaries and benefits, as well as creating pleasant work environments for employees.

Thirdly, East Asian countries must not be averse to the prospect of hiring foreigners to complement the local workforce. Such a policy may be politically sensitive, with sentiments running high among the locals that foreigners dilute the country's culture and identity. However, governments must weigh this against the possibility of a stagnant economy, as economic growth becomes unsustainable due to a shortage of skilled labour. In East Asia, Singapore has been at the forefront of attracting the best foreign talent. The Infocomm Development Authority of Singapore (IDA) estimates that Singapore needs 10 000 more tech workers each year, of which half will have to be met by importing foreign workers. Last August, the IDA signed an unprecedented agreement with India's NITT, which operates training centres in four countries, to recruit 1 000 Asian IT professionals a year for work in Singapore. More such tie-ups are also in the works. It is worth noting, though, that Singapore may be able to

implement such a radical policy because the PAP government is unlikely to face severe political repercussions given its dominant political position.

Some East Asian governments face more pressing problems

There is little doubt that the New Economy is the economy of the future. Hence, ideally, governments should concentrate their efforts on building infrastructure and educating the population in order to reap the full benefits of the New Economy. But reality bites. Often, governments have to allocate substantial resources to address more pressing social and political problems. They therefore neither have the time nor money to focus on getting their economies into shape for the New Economy.

Sadly, several East Asian countries are faced with this predicament. Indonesia is currently plagued by political unrest; the Philippines has to deal with separatist violence and terrorist kidnappings; and Cambodia is still suffering from the after-effects of the brutal Khmer Rouge regime. There are also two major political hotspots in East Asia: the Korean Peninsular, where North and South Korea are technically still at war with each other, as well as the Taiwan Straits, which separates Taiwan and China. These problems are definitely major stumbling blocks for the countries concerned.

The “digital divide”

The New Economy is very much a double-edged sword; while it can potentially close the gap between the developing and the developed world as explained earlier, it can also accentuate differences in the standards of living of different countries. Related to this is the “digital divide”, the perceived gap across and even within countries between those who are computer-literate and those who are not.

For all the talk about globalisation and the far-reaching effects of technology, the stark reality is that a large percentage of the world’s population are too poor to benefit from technological advances. For example, only 6% of the world’s population have ever accessed the Internet, while half the people in developing nations have never used a telephone. If nothing is done to improve their lot, the world’s poor are unlikely to benefit from the New Economy. And far from bridging the technological gap, the New Economy may serve to widen the “digital divide”. The poorest levels of society are multiplying much faster than new technologies can reach them. Meanwhile, technological advances are boosting productivity in higher social strata at an even faster pace, making the rich even richer.

The implications for policymakers are obvious. They must step up efforts to bring computers and the Internet to the underclass. This is the

first step towards improving the living standards of the poor and preventing the widening of the “digital divide”. At the same time, the necessary infrastructure must be built and the population growth rate must be maintained at a sustainable level, in order that communities are able to participate in and reap the full benefits of the New Economy.

Cultural impediments

There are also cultural barriers which may curtail the potential of East Asia in the New Economy. The New Economy moves at electronic speed, and ideally decision making powers should be granted to the lower sectors of the business hierarchy. This allows decisions to be made quickly and efficiently, thus enabling businesses to remain on the competitive edge. However, many East Asian societies are staunchly traditional and their businesses have rigid hierarchical structures. A challenge facing East Asia is thus to break through this hierarchical control and trust middle-level workers to make effective decisions on their own.

There is also a general consensus that East Asia lacks an entrepreneurial culture which is an essential ingredient in the New Economy. The existence of such a culture was a major factor in Silicon Valley becoming the hub of high-tech economic activity. As Senior Minister Lee Kuan Yew pointed out, East Asia “has yet to nurture a critical mass of

technopreneurs”. And to compound this lack of enterprise in East Asia, the most dynamic Asian entrepreneurs are often lured abroad, a fact illustrated by the statistic that 30% of Silicon Valley start-ups are headed by Asians.

Governments can play an active role in encouraging entrepreneurship by fostering a conducive business climate and offering start-up companies tax incentives. They can also provide financial aid to new companies. For example, Singapore has set up a \$1 billion technopreneurship fund to provide capital to deserving high-tech start-ups. East Asia can also draw valuable lessons from American venture capitalists, who nurtured numerous Silicon Valley firms through the difficult early years.

Conclusion

In conclusion, the New Economy is without much doubt the economy of the future. SM Lee summed up the New Economy perfectly with the following quote: “The revolution is going to be real. It is going to transform the way we do business, the way we live, the way we buy and sell, and the way the world is.” The New Economy has brought with it several exciting opportunities for East Asia and, at the same time, its fair share of challenges. Will East Asia emerge as a major force in this new global economic order? Or will the New Economy prove to be a false dawn for the

region? No one is able to tell as yet, but one thing for certain is that policymakers have a major role to play in shaping the economic destiny of the region.

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