

Strategy for Economic Development in Southeast Asia^{*}

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The countries in Southeast Asia have to continuously formulate and adjust economic development strategy. In doing so, we are influenced by at least four groups of issues:

- 1) Socio-economic phenomena
- 2) Economic theory
- 3) The country's experience, and
- 4) The changing business paradigm.

Making decisions on today's economic development strategies depends on those considerations, plus where we are with regard to the development mode of trade, finance, and technology.

1. SOCIO-ECONOMIC PHENOMENA

Each of us may have had a different socio-economic history, but all of us have had some experience of Western domination. Those who suffered more have taken more time to accept the Western model of market capitalism and democracy.

Almost all of us have now adopted the global market capitalism, and some form of democracy, depending upon the different concerns about security issues in each of our countries. Each of us has had different degrees of success with market capitalism. So some countries are skeptical about market capitalism, and are trying to develop their own model of economic development.

Recently, Asia has gained more economic power, particularly because of China. Thus, the new economic development model is focusing more and more on the inter-Asian economy.

2. ECONOMIC THEORY

If we learned economics in the West, we tend to support market capitalism. David Ricardo told us more than 200 years ago that in market capitalism trade should be based on a comparative advantage. This concept was supported by the works of such economists as Heckscher and Ohlin, and Stolper and Samuelson.

Theory tells us that trade liberalization through optimal allocation of resources and factor price equalization would be welfare enhancing, even reaching the Pareto optimum. However, that would require a perfect market, which Edwin Chamberlain and Joan Robinson told us does not exist.

Our countries liberalized trade and gained from trade, but often with unfavorable terms of trade. Joe Stiglitz, a Nobel Laureate in economics, tells us that this is so because we have "asymmetry of information," meaning that we know less than our trading partners.

On finance, we learned from economists such as J.R. Hicks and Harrod/Domar that capital is the engine of growth. Our economies can grow only as much as capital accumulation enables us to grow. So we are encouraged to foster domestic savings and to borrow from overseas sources. We are encouraged to open our capital accounts and to liberalize our financial sector. Some of our countries did so, including Thailand and Indonesia in the early 1990s. Yes, our economies grew a lot, but look at what happened in 1997 and 1998. We have now learned that by joining the global financial market we are faced with unfavorable terms of risk.

On technology, we learned from Joseph Schumpeter about the power of innovation. We learned from Dale Jorgenson about growth as a result of productivity improvement. We learned that, to benefit from productivity-driven growth, we must have a good system of intellectual property rights (IPRs). Now most of us are grappling with this concept. It is not a part of our culture. This is now a necessity, as Paul Krugman said, because we have exhausted our labor and natural resources. To grow, we must rely on productivity and creativity through the development of the IPR system.

3. THE COUNTRY'S EXPERIENCE

Countries in Southeast Asia have had different experiences with the economic development strategy that we adopted. Thailand and Indonesia could claim some success in terms of trade liberalization, but failed at financial liberalization. Malaysia has done better in both

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areas, and Singapore has done very well. The Philippines has not opened its capital account as much. Meanwhile, Vietnam has been experimenting with trade liberalization. Thus, it can be seen that each of us has different views about trade and financial liberalization.

We have been told that, to really benefit from liberalization, we must have the following:

- Proper sequencing;
- The practice of good competition policy;
- The practice of good governance; and
- The maintenance of a sound macroeconomy.

As we could not claim to have all those virtues, the bad experience that some of us have had with liberalization was said to be entirely our own fault. The critics say that there is nothing wrong with the liberalization model.

4. THE CHANGING BUSINESS PARADIGM

As we open up to do business, we are constantly being confronted with the changing business paradigm initiated by the West. This paradigm has an important bearing on our competitiveness, and we continuously have to play a catching-up exercise.

Factors which have influenced business practices the most are transportation and telecommunication technologies. Computation technology, which is evolving very rapidly, is now having the biggest impact on the business paradigm.

Transportation determined the trading mode ever since the steam cargo ships started to travel from Europe to Asia in the early 19th Century. Now we live in the era of containerized ocean liners and cargo jumbo jet planes, which contribute toward ever-growing intra-industry trade and specialization.

The continuous advancement of telecommunication technology has transformed commercial transactions into electronic—thus the emergence of e-commerce in all areas.

Currently, behind the changing business paradigm is the rapid progress of computation technology, which is happening so fast that even Moore's Law has become obsolete. Moore's Law states that "at the same cost, computation capability doubles every 18 months." In the last three years, computation capability in all categories, including processing, storage, and transmission, increased many fold. These developments were happening along with the development of software and expansion of the Internet.

The development of computation technology has made computing ubiquitous, meaning computing everywhere. Now we have computational biology, cognitive devices, e-commerce, etc. Thus, the business paradigm is changing from:

- Economy of scale to economy of speed;
- Mass production to customized production;
- Owning assets to accessing assets;
- Tangible assets to intangible assets;
- Intermediation to e-mediation, etc.

This fast-changing paradigm is prompting Juan Enriquez to threaten that if we do not change, we shall be "caught by our future."

5. OPTIONS FOR AN ECONOMIC DEVELOPMENT STRATEGY

What should we do about our economic development strategy for the next phase of our development? The answer to this question depends on our background and our economic situation at this time.

Members of the general public may be concerned about globalization and Western domination, and may prefer a less open economy.

Economists may continue to insist on an export- and foreign-investment-oriented strategy, with additional focus on productivity/creativity improvement.

Technocrats may insist on restructuring and reform, with emphasis on sequencing.

Businessmen may ask for both protection and promotion, with support for e-commerce development.

For myself, I do not believe we have a ready-made formula for an economic development strategy. The formula of the three "t's"—liberalization, deregulation, and privatization, as endlessly advocated by the World Bank and the IMF—cannot be taken as a "cure-for-all" strategy.

I think the strategy should cover at least three major areas, with each one designed according to the development mode of the area.

Area 1 is foreign trade.

The three modes are:

- More for more;
- More for less; and
- Less for more.

Thailand is in the mode of "more for less," because we are producing and selling products at lower prices, partly because of more competition among low-cost producers in the United States and the European Union markets. In this case, we must move to the mode of "less for more." We have to emphasize "productivity driven growth," particularly in sectors where we believe we can compete internationally, such as food processing, tourism, and automobiles. For the purpose, we also need sub-regional, and regional cooperation in the form of the Greater Mekong Subregion (GMS), ASEAN, and ASEAN+3.

Area 2 is international finance.

The three modes are:

- No access;
- Accessing without owning; and
- Accessing and owning.

Again, for Thailand before 1990 we were in the mode of "no access." We had no access to international

money and capital markets. Our government could borrow overseas, but not the private sector. We had some foreign direct investment, but with foreign control. In the 1990s we moved to the mode of “accessing without owning.” We had access to global finance, but we ended up owning hardly any assets bought by that money.

Now we need to move to the mode “accessing and owning.” We must make sure that reliance on foreign financing must be for the purpose of eventually owning business. For this purpose, we must be aware of the volatility, mobility, and sensitivity of global finance. As the 2002 Nobel Laureate in economics, Daniel Kahneman, teaches his students, decision-making under uncertainty is determined more by psychology than economics. The best demonstration of his theory is how global finance works. Thus, we cannot afford a fully open capital account, despite whatever the IMF tells us, and we need to have regional financial cooperation to cushion the volatility effects of global finance.

Area 3 is technology.

The three modes are:

- Pirating and reverse engineering;
- Accessing with conditionality; and
- Own technology.

Thailand is moving only from mode 1 to mode 2. Now we can access technology, but with a lot of conditionalities on IPRs. We have to develop a system conducive to innovation, which involves a very comprehensive IPR system, apart from strong science and technology infrastructure.

Thailand’s economic development strategy

For Thailand at this time we are trying to take all those actions mentioned here. We continue to promote exports, but we put much more effort into the domestic

market than before. Domestic capacity enhancement is the key issue. For foreign markets, we put more emphasis on ASEAN, East Asia, and other countries in Asia such as India. We are active in the GMS, ASEAN economic cooperation, and ASEAN+3. We have initiated Asia-wide cooperation, the Asian Cooperation Dialogue (ACD), while we also maintain links with our traditional trading partners in the West.

We refer to this strategy as “Local/Regional Link—Global Reach.” This is more popularly known as the “Dual-Track Economic Policy.”

In all, I hope I have given you some issues to think about, in your consideration of and deliberations on economic development strategy for Indonesia. I hope they are of some relevance to the Indonesian case.

I hope you do not shut out the West, their ideas and ideals, for there are a lot of good things in them.

I hope you do not ignore economic theory, for it is the truth. It is the interpretation and application of the theory that is sometimes the problem.

I hope you will not give up the technocrats, despite their improper sequencing, for they certainly did a fine job for your country until the early 1990s.

I hope you do not blame only the businessmen for the economy’s heavy debts. The crisis of 1997/1998 was a systemic failure, for which all parties must share the blame.

I am a true believer in the growth and development prospects for Southeast Asia. I believe that we can achieve such growth and development by taking a multi-dimensional approach to our economic development strategy.

I believe Indonesia can do it. It is important for Southeast Asia, and for Indonesia to be able to do it. That is because—for Southeast Asia and for ASEAN—we can grow only as far as Indonesia allows us to grow.

