Goh Chok Tong: Sharing some perspectives on growth

Speech Mr Goh Chok Tong, Senior Minister and Chairman of the Monetary Authority of Singapore, at the Group of Thirty(G-30) International Banking Seminar and Lunch, Singapore, 18 September 2006.

* * *

The good, the bad and the ugly

Let me first bid you a warm welcome to Singapore. I was recently invited by the World Bank to be a member of the Growth Commission chaired by Professor Michael Spence. So today's topic "Sharing Some Perspectives on Growth" fits me like a glove. In offering my perspectives, I shall draw heavily on the experience of Singapore.

Forty years ago, soon after I started work in the Economic Planning Unit of the Finance Ministry, I was sent to do a post-graduate course in Development Economics at Williams College in the US. The course was designed for young officials from developing countries. There were 20 of us from 16 countries spanning four continents - Asia, Europe, Africa and Latin America. The countries included the Philippines, Pakistan, India, Yugoslavia, Egypt, Tanzania, Liberia, Honduras, Colombia and Mexico [1]

The 1960s was dubbed the "Decade of Promise". An unprecedented number of colonies had just gained independence. My fellow students and I were taught the latest development theories. Bright-eyed and bushy-tailed, we were full of hope. But 40 years later, history tells a different story. Only a few had our hopes fulfilled; most had their dreams dashed.

Yugoslavia, Mexico and Egypt had the advantage of being close to the critical export markets in the developed world. Honduras and Tanzania had precious metal deposits, as did several of the other Latin American and African countries. Singapore had nothing, was over-populated and had high unemployment. Many economists of the day predicted that countries in Latin America and Africa would outgrow over-populated, resource-scarce Asia.

The outcome, however, was totally different. Living standards have barely risen in Honduras in the last 40 years, and have declined in Tanzania. Tito's Yugoslavia no longer exists. East Pakistan fought a war with West Pakistan and separated to become Bangladesh. Civil war and internal disorder tore up countries like Liberia, Ethiopia and Uganda. Singapore which was written off by pundits as being not viable without the Malaysian hinterland not only survived but thrived. Its GDP per capita increased more than six-fold, better than any of the other 15 countries represented in my class.

Why have the growth experiences of individual countries been so disparate?

Some of you might have watched the movie, "The Good, the Bad, and the Ugly", released, coincidentally, exactly 40 years ago. Set during the American Civil War, it was about three bandits who each held one clue to a hidden trove of gold coins. They did not trust each other, and wanted all the money for themselves. In the end, the "Good" bandit who put all the three clues together won. Discovering the secrets of economic growth is in a sense like looking for clues to a hidden treasure. We may each hold some clues but it is not easy to piece all of them together to achieve resilient growth. The title of the movie is also apt, I think, for categorising the growth experience of the 16 countries in my Williams class.

Malaysia, which was represented in my class, enjoyed steady economic expansion of around 4% to 5% in real GDP per capita since the mid-1960s. It obviously falls into the "Good" category. I put India in the same category primarily because of its advances in the past 10 years. Others like Egypt, Pakistan and Honduras have stagnated. I would term their performance as "Bad". For all their efforts, their per capita GDP has not gone up much. But they are at least better off than others like Bolivia and Tanzania which have regressed, and are poorer now than they were in 1966. Their record is "Ugly".

Why have countries travelled such divergent "Good, Bad and Ugly" growth paths when they had all aspired for the same goal of a better life? In the past, economic theory has focused on the importance

[1] The Williams College 16 were: Singapore, Malaysia, India, Pakistan, Philippines from Asia; Egypt, Ethiopia, Kenya, Liberia, Tanzania, Uganda from Africa; Bolivia, Colombia, Honduras, Mexico from Latin America; and Yugoslavia from Europe.

of factor inputs, productivity and technology. Of late, however, academics have started to recognise how critical leadership, politics, good governance and institutions are to growth.

I believe that to trigger off and sustain economic growth, three necessary conditions are required:

- First, vision and ideas;
- Second, sense of reality; and
- Third, good implementation

As the first and second factors are related, I will discuss them together.

Vision and ideas and sense of reality

First, vision and ideas.

By this, I mean that leaders must offer a political and economic vision to excite the imagination of their people. They must offer hope and programmes to rally the people to sacrifice, struggle and work together to achieve a better future.

Second, by sense of reality, I mean leaders must have their feet firmly planted on the ground even as their imagination of growth and prosperity soars. In pursuing growth, sound basic economic principles such as prudent fiscal policies, monetary discipline, and high savings must be practised. Many countries' experiences have reinforced the importance of a stable macroeconomic environment and the benefits of a market-based system.

Policies on growth must be applied to local contexts in a practical way, taking into account an economy's resources and constraints. In addition, countries must be open to new ideas and be prepared to change. They must not be trapped in old paradigms but must constantly adapt to the ever-changing world.

Let me illustrate this with Singapore's example. After independence, we implemented policies that promoted macroeconomic stability. We adopted prudent fiscal policies, and directed monetary policy to achieve medium-term price stability. Our MNC-led growth strategy has worked well but others are pursuing the same strategy. So for the next phase of our development, we are also building a second platform based on entrepreneurship, innovation and knowledge. New areas of focus include Research and Development, biomedical sciences and the creative industry. As the competition intensifies, we break old moulds of thinking and reinvent the way we do things. For example, we overturned our longstanding policy of disallowing casinos in Singapore. To remake Singapore into a city with buzz, we are developing Integrated Resorts, with convention facilities, world-class entertainment and casinos. And Crazy Horse, the famed Paris cabaret, is performing in strait-laced Singapore.

Implementation is key

The third critical aspect of growth is implementation. Right policies are no guarantee of success, if the capacity to implement is missing. Good implementation is founded on three key pillars: effective leadership, sound institutions and social cohesion.

First, leaders are responsible for devising and implementing pro-growth policies. They must have the unifying vision to foster economic growth, the political will to overcome resistance and implement reforms, and the ability to mobilise people and engender social consensus. Leaders must also have character, compassion, conviction, commitment and persuasive power. Above all, they must enjoy the trust of the people.

The second pillar of effective implementation is sound institutions. Effective leadership must be supported by sound institutions like the legislature, judiciary, civil service, central bank and a responsible media. Good institutions help to accumulate experience, knowledge, expertise and resources to further build capacity, thereby sustaining growth. Poor institutions, on the other hand, could be exploited by those in power for their own benefit. Corruption can easily shave off a country's potential growth rate by a few percentage points.

I should emphasise that having good institutions does not presume or argue for any particular political system. What is important is that the political system must work for the country based on its own history, cultural context, national conditions and the support of its people.

The third pillar of effective implementation is ensuring social cohesion and forging social consensus. As policies impact on the people directly, it is important that there is social consensus and trust - between the government and society, and between different ethnic and social groups. This can be achieved only if people are given equal opportunities to learn and work, progress according to merit and rewarded based on performance and contribution. The government and the more able must also help those less able, so that no one is left behind. Sustained growth often requires trading short-term pain for long-term gain. Even the best policies can be undermined if the people are not united behind their leaders. When there is social cohesion, the different groups in a country look beyond their immediate differences and co-operate to achieve their shared vision.

When all three - effective leaders, sound institutions and social consensus - are put together, we have the clues to the treasure trove of economic growth. When countries lack any of these three components, they cannot discover the treasure. In countries where politics are divisive and politicians play one group against another, investors will not commit to large scale and long-term investments. Without investor confidence, a country's capacity to grow will be severely limited.

For successful policy implementation, it often pays to start cautiously on reforms and leverage on "demonstration effects". Taking many small and gradual steps in the right direction often works better than "big bang" reforms. It allows us to review whether an idea works and make adjustments to ensure that implementation succeeds.

When Deng Xiaoping opened China's doors to the outside world in 1978, he took the approach of "crossing the river by feeling the stones underfoot". He experimented with four Special Economic Zones (SEZs) (Shenzhen, Zhuhai and Shantou in Guangdong, and Xiamen in Fujian) to spearhead reforms. Only when he saw success and understood clearly the challenges and impact of his liberalisation policy did he open up China further. Deng's pragmatic step-by-step approach has enabled China to grow steadily without political and social upheaval. In contrast, Gorbachev chose to reform the Soviet Union with a big bang through glasnost and perestroika at the same time. The Soviet empire collapsed with a loud bang.

Back to the future: the next four decades

Armed with what we know, can we spot the new growth winners in the next four decades? There are many countries in and outside Asia with the potential to be the "Good". But I will focus only on those in Asia as I am more familiar with developments here. I should add that picking winners in the growth game is a tricky business as we tend to rely on past experience and foreseeable trends. We cannot foresee unexpected, seismic events. I am emboldened, however, because I would not be around to answer for my predictions in 40 years' time!

The China growth story is well-known. The Chinese jumbo jet has taken off for some time and is almost reaching cruising altitude. The pilot and his crew are in full control, coping with pockets of turbulence and ensuring a smooth flight.

In East Asia, Japan, South Korea, Malaysia and Thailand are expected to continue to do well.

Besides them, I think three other countries deserve attention because their leaders have a pragmatic vision for the country, their institutions are being strengthened and there is growing social consensus on the direction of reform. They are India, Vietnam, and Indonesia.

India

India is a late-comer in economic reforms. The Indian jumbo jet has just taken off the runway and is starting to climb. It has not attained cruising altitude. Its destination is still far away and the plane may have to descend from time to time to refuel. But the plane, which is well built, will continue on its long-haul journey, with its flight path unchanged.

There is consensus amongst leaders from the major political parties on the direction of India's economic reforms. Whichever party is in power will have to deliver the economic goods, which the Indian people deserve and demand.

In June last year, India concluded its first comprehensive Free Trade Agreement (FTA) with Singapore. This is a strong signal that India intends to leverage on external economies and open itself further. The FTA will also act as the building block for India's comprehensive economic integration with Southeast Asia through the ASEAN-India FTA.

Of course, India faces some serious challenges like inadequate infrastructure and rigid labour market. India must also find ways to make the bureaucracy more pro-business, especially towards foreign companies. In addition, India's growth in the last 10 years has been driven by its IT and services industry. But India cannot grow into a major economy on services alone. It will have to expand its manufacturing sector massively.

Vietnam

Next, Vietnam has grown strongly over the past decade. In the 1980s, there was a paradigm shift in the leadership's thinking. Vietnam implemented economic renovation, or doi moi, and the efforts are bearing fruit. Intel is building a chip plant in Ho Chi Minh city. Singapore, Taiwanese and Korean firms are among the biggest foreign investors in the country. The new generation Vietnamese leadership will press on with reform. However, having witnessed the collapse of the Soviet Union and the revolutions of various colours in other communist countries, they will, like their elders, be extra careful in feeling the stones as they cross the river.

They look at Singapore as one such stone in their river crossing. In 2004, I proposed to then-Prime Minister Phan Van Khai for Singapore and Vietnam to connect our economies. He took sometime to think over it before responding positively. Our two countries have since signed the Connectivity Agreement, which enables Vietnam to leverage on Singapore's strengths in sectors like finance, tourism, aviation, telecommunications and human resource development. Singapore is a base for MNCs and well-connected to other parts of the world through trade, communications and transportation. By connecting our economies, Vietnam plugs itself into the global grid.

Indonesia

Now, Indonesia. It has the potential to take off but more work needs to be done - on policies, institutions and implementation. Indonesia had enjoyed strong growth for three decades, from the 1970s to the mid-1990s. Unfortunately, the Asian Financial Crisis in 1997 grounded the Indonesian plane.

But the engine is being overhauled and the plane refitted. Banks and firms have cleaned up their balance sheets. Macroeconomic indicators have improved. President Susilo Bambang Yudhoyono has gathered a competent crew under him. The Indonesian plane is now on the runway and lining up for take-off.

President Yudhoyono has implemented some difficult but much-needed reforms. He has cut fuel subsidies, and carried through the unpopular decision to raise fuel prices to keep Indonesia's budget deficit from ballooning. Acceptance of the need for continued economic reforms by the population will build investor confidence.

Investors remain concerned about unclear and inconsistent regulations as well as the security situation because of the threat of terrorism. They are also unhappy with the restrictive labour laws in the country. If these areas can be improved, foreign investments will stream in.

Indonesia is a huge and sprawling archipelagic country consisting of almost 18,000 islands, making it very difficult for a concerted take-off in one single planeload. So it may be a better strategy to think in terms of building a fleet of smaller jets. Each one will take off when ready. Eventually, the entire fleet will take the whole country airborne. In other words, it may be more practical to focus first on some parts of this huge country. These parts can then demonstrate to the other regions what is needed to attract investors and generate growth. They can also generate the resources to help other parts to grow. Indonesia has now decided to use the strategy of SEZs to spearhead its growth. Singapore is working with Indonesia to develop SEZs in the nearby islands of Batam, Bintan and Karimun. When the SEZs in these islands succeed, they will provide the thrust and momentum for SEZs in other parts of the country to do likewise.

Conclusion

Let me conclude.

The subject of growth and development is complex and fascinating. There is no "one-size-fits-all" magic formula. But a country must have the necessary conditions of effective political leadership, sound institutions and social consensus on reforms, and the sharing of fruits. A country must also have the capacity to adapt as the world changes; otherwise, it will soon fall behind.

I hope that your stay in Singapore over the next few days will be fruitful, enjoyable and memorable. Thank you for visiting us.