

ASIA: Back to Basics?
Remarks by Mr. Anand Panyarachun
Chairman of Conference
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Prime Minister Chuan, Ladies and Gentlemen,

Over the next two days, the conference will provide us with an important opportunity to look at the economic crisis affecting Asia. It will give us the chance to think through some of the difficult issues facing us as a consequence of the crisis, and, just as important, how we can avoid a recurrence of such a crisis.

The premise of the conference is that we need to look for answers by reconsidering the basics of economic development: the effective use of land, human resources and capital. With challenging speakers and discussants from government, academia and the private sector, this conference gives us an opportunity to reason together without defensiveness about the past.

In a crisis of this magnitude, everyone has made his share of mistakes: governments, banks, companies, and multi-lateral institutions. The challenge is to draw the right lessons from those mistakes, so the terrible pain of this crisis can be the starting point for needed change.

Although this crisis has given us an opportunity for change, it is not a simple matter to determine exactly what change is needed and how it is to be accomplished. Defensiveness, self-interest, pet theories, disputed or incomplete data and maneuvering for future economic advantage, all add to the smoke of intellectual battle that can obscure the best way forward. What we need to do over the next two days is to listen carefully to all views and focus on the essentials of what needs to be done to put our economies in this region back on the road to sustainable development.

In the past decade of rapid development, these basics have sometimes been overlooked and occasionally ignored. The productive use of land through agriculture was our first and perhaps most fundamental source of wealth, but in the past two decades of rapid growth, agriculture trailed far behind the growth of industry and services. Since the majority of the people of Asia still make their living from agriculture, it meant that the majority was left behind in the boom. This sharpened income disparities and accelerated urbanization.

Over-emphasis on industrial, rather than agricultural development contributed to social and environmental problems. Asians became more dependent on imported fuel and food, and therefore more dependent on the international trading system

including international exchange rates. Clearly, changes in the way that land is allocated and used are needed to lead to more sustainable, more balanced and more evenly distributed development.

Similarly, the economic boom generally outpaced the development of human resources. Perhaps exceptions are Japan, Singapore, and Taiwan. It is, of course, a cliché to say that economic development depends on a well-educated population. During our boom years, not enough was done to build the systems needed to provide young people with the kind of education that would allow them to reach their full potential. There was not enough investment, despite the availability of funds. There was too little connection between the manpower needs of the private sector and the education provided by largely state-run educational systems. There was not enough pressure for changes in the way that our people are educated.

The problem is widely recognized, but the solutions are much less clear. Should governments be investing more in education? Should there be more reliance on private sector education? Can useful links be created between government and industry in joint efforts to teach immediately useful skills? How do we stop the brain-drain out of education? Should technical education be the main priority?

Some would argue that as great as the shortage in technical training has been, there has also been an important shortage in ethical training that is just as damaging to progress as the lack of scientific and managerial expertise.

In contrast to these first two basic factors, the use of capital has received great attention. Even before the crisis, there was rapid change in the financial systems of all our countries. We opened our economies up to world capital markets, liberalized banking, welcomed foreign investment and initially benefited from the rapid inflows of external resources. New economic empires were created around the ability to mobilize capital. Scarce managerial expertise was pulled into finance with high salaries and rapid promotions.

This focus on capital was incomplete. Too much attention was paid to the attraction of capital and too little to its effective and productive employment. Instead of spending the time and money to build systems that support the allocation of capital towards its most effective use, we simply assumed that reliance on market forces was sufficient. Our banks became pawnshops; our stock markets became casinos. Insider trading, conflicts of interest and simple criminal misuse of funds undermined our financial systems and many of them go unpunished.

Neither foreign investors nor multi-lateral lending institutions insisted on reform. On the contrary, foreign financiers were at our doors every day, insisting on lending cheap money. While some noted the shortages of the ethical training, supervision, regulation and enforcement needed to make those systems effective, the problems were not taken seriously enough to slow investment. The high growth rates and

the profits available overwhelmed such objections.

So, while there are important changes needed in the various national financial systems, there are also important issues for the international community to address. The ignorance, irresponsibility, and herd mentality of those charged with moving huge amounts of international capital around the world contributed to the crisis. Advances in computers and telecommunications have dramatically increased the speed at which capital can be moved. This has reduced the time allowed to investors and fund managers to give careful consideration to their capital investment decisions. It has led to irrational decisions to invest and to disinvest in Asia.

Has our ability to move capital quickly now outstripped our ability to move capital intelligently? Is there anything that can be done to protect economies from the effects of these rapid movements?

Finally, as we look at changes in these three basics - land, labour and capital - we must also look at the balance among them and the way we go about making changes which would lessen the conflict between economic growth and social justice. Balance is needed to avoid the capital intensive bubble growth of the recent past, but how do we achieve it? The problems in our finance and business sectors that now appear obvious, were not simply an accumulation of individual mistakes. Some mis-allocation of capital cannot be avoided in a free enterprise system, but the extent of misallocation we have seen in the recent past indicates a systemic problem of governance that needs to be addressed.

We need to think about the processes through which our key economic decisions are made. Those processes, whether in government or in private business, must be reviewed to ensure that they are not distorted by special interests. The best way to do this may not be to simply toughen laws and strengthen enforcement because it is so difficult, well-nigh impossible, to invent regulations that address all possible situations.

Greater transparency, so that accurate, timely information is available to all of those concerned - whether citizens or shareholders - is probably the greatest single mechanism that can lead to improved governance and better performance. Even transparency must have some limits. Where do we draw the lines? How do we build a new culture of transparency and public responsibility that will be the real guarantee of good governance? How do we incorporate the best of Asian traditions and practices into this new culture of transparency?

These are difficult challenges. We cannot expect to meet all these challenges in a two-day conference, but we can at least contribute to the process that will involve us over the next several years. We can contribute with appropriate data, with new ideas, and with careful analysis. Perhaps most importantly, I would like to see a contribution in terms of the public spirit of the discussion that is aimed at practical

action and achievable goals. You have my best wishes for success in this endeavor.