

SPEECH BY MR GOH CHOK TONG, SENIOR MINISTER, AT THE ASIA SOCIETY HONG KONG CENTRE'S ANNUAL DINNER, 11 NOVEMBER 2008, 9:10 PM AT THE J W MARRIOT HOTEL, HONG KONG

Governance and Growth in Emerging Asia

1. We are in the midst of a global financial crisis of historic proportions. The real economy has slowed everywhere and next year could be worse than this year. It will take a while before markets calm and global growth resumes. The priority must, of course, be to deal with the immediate problems. This is not the time to reprise causes and I do not intend to do so. For tonight, I thought it would be useful to lift our eyes from immediate preoccupations and think aloud about longer term fundamental issues.

2. Finance – the essential lubricant of growth - is crucial for all modern globalised economies. But it is worthwhile reminding ourselves that the sophisticated modern financial system is, in the telling phrase of Financial Times columnist Martin Wolf, a “*pyramid of promises*”. That is, the financial system is built on credibility and trust in the “promises” made between borrowers and lenders. Without trust, the pyramid collapses as has happened to the global financial system now. Hence, it is the essential role of government to supply the institutions that create and sustain trust in financial promises.

3. The current global financial crisis has rekindled debate about the role of governments in a free market. I want to contribute to the debate by raising a more fundamental question. What kind of government is best for generating sustained economic growth? I do not think there is any definitive answer. Hence, I shall suggest an approach to deal with this key question that is of, I believe, not just economic but strategic importance.

The Washington Consensus

4. Let me begin with some brief history. This is not the first financial crisis that we have experienced nor will it be the last. Since the end of the Bretton Woods system, financial crises have been a regular occurrence. In fact, it has been estimated that between 1973 and 1997, there were some 193 financial crises of various kinds and degrees of severity.

5. The 1997 Asian Financial Crisis prompted many gleeful western commentaries on the end of the ‘Asian miracle’ and the unsustainability of the ‘Asian model’, meaning, in particular, the Asian way of governance and

dirigiste economic management. Taken with the end of the Cold War, it seemed that there was only one viable path forward: a stable, liberalised free market. Indeed, this was broadly known as the Washington Consensus, and the predominant prescription of IMF and the World Bank. But Asia bounced back. And the Asian crisis was soon followed by crises in the Western world over Long Term Capital Management and Enron. The current financial crisis started in America as a result of lax oversight and regulation of the housing mortgage market and the unrestrained growth of complex, high yield but high risk products like derivatives, structured products and collateralised debt obligations. Imagine, the total value of credit default swaps alone was estimated at US\$60 trillion in 2007, as large as the world's GDP!

6. The current financial mess has spared no region. Fortunately, most East Asian banking systems have not been as badly affected as financial institutions in the US and Europe so far. We had learnt the painful lessons of the 1997 Asian Financial Crisis. I believe that when the dust settles, most emerging East Asian economies will be set to resume strong growth. In the meantime, the world is looking to China with more than a trillion US dollars in reserves to grow its domestic market in order to ensure that the world economy does not stall.

7. What lessons can we draw from history and the current crisis about political systems? The key lesson I draw is not about the superiority or inferiority of any particular culture, political ideology or system of government. Certainly it is not about the superiority of the Asian model.

8. Two years ago, I was privileged to be a member of the Commission on Growth and Development chaired by Nobel Laureate Professor Michael Spence. Robert Solow, another Nobel Laureate and Professor Emeritus at Massachusetts Institute of Technology (MIT) was also a member. The Commission looked at how developing countries could achieve and sustain economic growth. We found that since 1950, only thirteen economies had sustained annual growth rates of 7% or higher for 25 years or longer. Of these thirteen economies, nine were from Asia: China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Singapore, Taiwan and Thailand. The remaining four were: Botswana, Malta, Oman and Brazil.

9. Analysing these thirteen economies, it was relatively straight-forward for the Growth Commission to reach a consensus on the main policy ingredients for economic growth. We identified seventeen factors ranging from macro-economic stability to technology transfer to financial sector development.

10. I do not intend to go through these seventeen factors. If you are interested, I can send you a copy of the report. Suffice to say there were no surprises. The basics were well known to any development economist. But getting the economics right was only one side of the equation. If not, more economies than just thirteen would surely have experienced strong and sustained growth. The other side of the equation which the Growth Commission did not deal with was effective governance and the type of political structure that would best ensure the production of the economic policy ingredients. This was not within its remit.

11. Indeed, no conclusion on the best political system can be drawn from the thirteen high growth economies we studied. They had very different political systems, ranging from monarchies to multiparty parliamentary or presidential democracies to a communist one party system.

Contrasting political traditions of two Asian Giants

12. The fact that different political structures could result in strong growth is even more obvious if we examine the two largest high growth economies of Asia today, India and China.

13. Since Deng Xiaoping's reforms in 1979, China with a one-party government has enjoyed average annual growth rates of close to ten percent. But India, the world's largest democracy, has also done very well economically since its reforms in 1991. India's growth rates are more modest when put beside China's. Still, for more than a decade, India has grown at an average of more than 6 percent each year. And in the last few years, India grew at an average rate of about 9 percent, a pace comparable to China's.

14. India is sociologically an immensely more diverse country than China, and its political system reflects that complexity. It is not possible for India to adopt China's system any more than it is for China to adopt the Indian system. Their historical and cultural make-ups could not be more different. And while India's system imposes constraints on growth, China's system too has its own limitations. And for that matter, so do America's and Europe's, as the current financial crisis reminds us.

15. So the lesson is not that democracies are necessarily worse performers economically than authoritarian systems or vice versa. This would be a naïve conclusion. If authoritarian systems were the answer to

growth, North Korea and Myanmar would be among the richest countries in the world. So would Zimbabwe. And if liberal democracies were always right, Iceland would not have gone bankrupt. Nor is Iceland's insolvency an aberration. In 1976, the UK was forced to apply for an IMF loan and in return had to accept measures imposed by the IMF.

16. Hong Kong is a society with strong stakes in the idea that two systems can coexist and succeed in one country. More broadly, it is philosophically important for the idea that there are different possible paths leading to the mountain peak of economic prosperity to gain acceptance globally.

The rise of Asia

17. The world is undergoing a fundamental rebalancing. For the last two hundred years or so, the international system has largely been shaped and dominated by the West. Non-western countries were largely the objects of international relations or arenas of international tussles rather than full participants. The fundamental question that confronted many non-western societies has been how to adapt to a western defined modernity so as to survive and prosper.

18. Only a handful of countries, mostly in East Asia, have so far successfully managed this encounter with the West. And they had done so with a diversity of political systems. Meiji Japan, Asia's first mover in economic growth, was a feudal system when it instituted western style reforms. South Korea and Taiwan were military dictatorships when they grew rapidly but have since adopted pluralistic systems. Singapore is a modified Westminster style parliamentary system. Indonesia under former President Soeharto prospered for three decades. Malaysia and Vietnam have their own distinct systems. Thailand is still unsure about the merits of democracy with opponents of the current ruling party suggesting that most members of Parliament should be appointed. But grow we all did. And this will have an impact on the thinking on the link between forms of governance and economic growth.

19. Long after the present financial crisis is over, I believe the US will still be *primus inter pares*. But the current crisis may well accelerate, and its aftermath will at least confirm, the fundamental changes in the international order that rapid East Asian growth has already set in motion. We may well be seeing the birth of a multi-polar world. Will the developed West admit successful East Asian economies into its exclusive

club as equals? Or will it simply heighten discomfort which any change to the status quo may bring?

20. Symptoms of disquiet are already evident: concern over sovereign wealth funds; controversies over the proper interpretation and implementation of human rights; debates over the reform of international institutions like the United Nations, the World Bank and the IMF. The list could easily be extended. The proximate causes may differ, but there is a common source of discomfort: in East Asia, capitalism flourishes without western style liberal democracy. This challenges the preferred historical narrative of the West in a fundamental way. And it is worth noting that unlike Meiji Japan whose ambition was to 'leave Asia' and 'join the West', India and even more so, China, have no such ambition.

21. Any restructuring of international order is never easy. Historically, all such changes have been traumatic, and are either the cause or the result of conflict. To avoid repeating history, it is important that we do not propagate simplistic ideas about the superiority of one system or another. Instead, we should give strategic salience to the idea that no single type of political system has a monopoly on success and that sustained growth can occur under different types of political systems.

22. The networks of global interdependence that have emerged in the 21st century are too complex to be reduced to simple dichotomies between 'Asian' and 'Western' political systems. Nor is any political system in Asia or the West static. All systems act and react with each other and with domestic forces, and so evolve over time.

23. Whether different systems can eventually converge, I do not wish to speculate. It is not my key point. The main lesson I take away from the history of financial crises, in particular the 1997 Asian Financial Crisis and the present crisis, is that 'Asian triumphalism' and western 'liberal historical determinism' are both not borne out by the empirical evidence. History has not ended. There is still a whole lot of history to be played out.

24. As for identifying the common characteristics of political systems which facilitate high growth, it is best done by scholars. This will probably require many years of painstaking research and it may be that the different stages of growth require different characteristics. I take the pragmatic approach of accepting that sustained growth is possible under different kinds of political systems. But based on my experience in government, I believe that all successful political systems share at least four broad attributes.

Attributes of successful political systems

25. First, there must be accountability and transparency. For long-term political stability, governments must govern with the consent of the governed, expressed through the ballot box or otherwise. While temporary political stability can sometimes be achieved through repression, force cannot sustain economic growth over long periods since growth requires the liberation that comes with competition and the support of the people.

26. But I hesitate to equate 'democracy' automatically with accountability and transparency because 'democracy' is both a loaded and protean term. It means different things to different people. There are few governments in the world that do not claim to be democratic, even those which are obviously not, like the Democratic People's Republic of Korea. Nor do, as some recent experiences in the Middle East and elsewhere have shown, free and fair elections necessarily always result in better accountability and transparency: think of Gaza! In any case, rather than selecting a political label or focusing only on the form of procedures, it is more important to put in place the right supervisory and regulatory mechanisms to keep the other elements of the government and the economy in check.

27. Second, governments must have the capacity for long-term planning and execution. It is important that government policies can withstand populist pressures. While politicians must be responsive to their peoples, the first duty of all leaders is to lead. Far too many elected leaders nowadays govern according to what the polls say. In other words, government policies should not be crafted for immediate gains but should instead be formulated for the long-term public good, even if such policies are unpopular in the short-term. Indeed, long-term orientation has been a defining feature of many of the high-growth East Asian economies.

28. Of course, no elected government can entirely ignore the election cycle when formulating policy. But too many governments too often refrain from pursuing worthwhile policies that would take longer than one election cycle to show results. Politics sometimes makes it difficult for pluralist governments to deal with the negative effects of growth such as global warming and urban congestion. Some of the less positive aspects of multi-party politics, such as corruption and vote-buying, may ultimately destabilise and threaten the political survival of some governments. Thus, for developing economies whose institutions are weak and whose markets are not as functional, the brand of democracy that may have worked well in

advanced economies might not produce the same results and could even lead to a backlash that would de-legitimise some governments.

29. A third attribute is social justice and harmony. By this, I refer to the need for governments to provide every citizen with an equal opportunity to compete and succeed. Equality of opportunity does not mean equality of outcome, and it is inevitable that some would fare better than others in any competitive system. But the political system should not be beholden to any particular special interests. It should, instead, be motivated by the principle of equality of opportunity. Everyone should have the same access to social services and infrastructure like education, housing and basic health care. A political system which provides for an inclusive society and is capable of delivering social justice will enjoy wide support from the people.

30. It is easier to state the importance of social justice than to achieve it, particularly for those nation states which are not homogenous. Too often, winning elections means appealing to the majority group, thus further fracturing the fault lines of race, language or religion. The minority groups inevitably feel marginalised as a result. Such politics of division makes it difficult to rally the whole nation, or give everyone a stake in its success. To ensure high and sustained growth, leaders will have to rise above such divisions to unite the people and forge an inclusive society where no one is left behind and everyone shares in the rising economic growth.

31. The fourth attribute is a culture of identifying and grooming talent for public service, whether in the political arena, bureaucracy or private sector. A meritocratic system of administration picks out the best through a fair and just selection process and provides a competitive environment for the brightest brains to join and work in the government. At the political leadership level, a systematic renewal process which is planned and continuous will also ensure continuity of government policies and lead to stable power transitions. In a liberal democratic system, politics is adversarial, governments come and go and politicians, and sometimes public servants too, are subjected to constant and unwarranted public and media harassment. Alas, of late, this syndrome seems to be infecting some East Asian countries too. This does not augur well for the future of these countries because many good people are discouraged from coming forward to serve in political office.

32. The four attributes I have identified are broad categories. The devil, as always, is in the details of implementation. Most people, whether in Asia, Africa, the Americas, the Middle East or Europe, are not particularly

interested in political philosophies or the mechanics of governance. People everywhere are, however, vitally interested in results. Political systems that endure are those that consistently deliver jobs and a better quality of life in a stable and secure environment.

Conclusion

33. My approach to governance is one of pragmatism. Every country must find the political system that can deliver the goods, given its special and specific circumstances. And what works in one historical period, may not necessarily deliver in another historical period. But however societies evolve politically, we must never lose sight of these basic attributes if they are to continue to prosper.

34. Ladies and Gentlemen, thank you for listening to me. I realise that I have probably raised more questions in your minds than I have provided answers. If this is so, then I have succeeded because my essential point is that political systems and practice must be contextualised according to time, history, a people's culture and make-up and the stage of a country's political, social and economic development. With that caveat, I will now be happy to take your questions.