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# Asian economic problems come under study

K.C.Boey

AS much as the turnaround in fortunes in Asia is prompting a re-examination of the economic organisation within national economies in the region, it is figuring as an object of study in other countries and focusing thinking on the global process. Australia, no less, is caught up in the learning curve.

Where the dollar just over a year ago bought up to 82 US cents, last week its value dropped briefly below 65 US cents. It rebounded just as quickly after Tokyo announced its stimulatory tax package, but it did bring forward the first official assessment of the impact to Australia of any fall-off in demand from Asia.

A mid-term review of the outlook for the current fiscal year allays any immediate concerns. Growth will be maintained at 3.75 per cent of gross domestic product, forecast when the Budget was handed down in May. But only because of stronger than expected domestic demand.

The Treasurer, Peter Costello, would not be drawn on numbers but commentators figure that were it not for Asia, growth could be closer to a robust five per cent.

The impact will be felt in the second half of 1998, when growth is expected to moderate to 3.25 per cent. It wouldn't come at the most opportune time for the Government of Prime Minister John Howard, as it contemplates the timing of the next general election.

Having swept into government in March last year, the conservative coalition of Howard's Liberal Party and the rural-based National Party would not have to go to the polls until 1999 on the normal three-year electoral cycle. But Howard has threatened early polls over opposition rejection of legislation on native title land claims of Aboriginal Australians.

The election could fall at a time when Australians start to feel the pinch of Asia.

Asian ways of doing things may well figure in broad national debate, ranging from changes in taxation to industrial reforms, as they did in Howard's shift in industrial policy announced this month.

The "Investment for Growth" strategy Howard revealed on Dec 8 goes to the heart of the argument about the extent to which the State should intervene in business. As can be expected, businesses and industry are in full support of an interventionist role for government in attracting investment.

Malaysia and Singapore are cited as examples for this strategy, as is Ireland. Critics point to the folly of going down the path they contend is at the root of the difficulties Asia is going through.

The debate raises issues of blind adherence to dogma, as in arguments for and against policies of government intervention associated with the early-century English economist John Maynard Keynes.

As Ross Gittins, economics commentator in The Age and The Sydney Morning Herald, argues, the legacy of 50 years of Keynesianism is an inability on the part of people to make distinctions.

These include distinctions between the short term and the long term, between the cyclical and the structural, and between aggregate demand and aggregate supply. "The point is not that Keynesian policy is wrong but rather that it can take us only so far," writes Gittins. "It can deal only with the problem it was designed to deal with - the business cycle.

"The great insight Keynes brought us is that governments can and should use policy instruments... to moderate the business cycle.

"The goal of Keynesianism is to reduce the extent of the swings in demand by stimulating it when it's too weak and restraining it when it's too strong.

"When demand and supply are in equilibrium, let the market rule."

From the other end of the world, another commentator raises a lack of understanding from another perspective. Robert J. Samuelson, of the Washington Post Writers' Group, puts the problems of the global economy down to a short supply of common ground. He argues that the problems in Asia have exposed old-fashioned investment excess and the weak social foundations of the new global economy.

"The... question is whether globalisation has proceeded so rapidly that it has become dangerously unstable," he writes.

"Countries with huge differences in culture, history and political systems have been thrust together in ways that stretch the limits of commerce and understanding. The `animal spirits' of global capitalists got mixed with a big dose of ignorance about emerging markets."

Samuelson poses two outcomes. "The present crisis may be a passing phase - a learning experience that strengthens the global commercial culture. Or it may foretell more turmoil.

"All major countries now depend on large flows of international trade and investment. If these were to shrink, all would suffer.

"The response is not a recoil from globalisation. What global commerce needs is common understanding, procedures and rules to govern ordinary transactions and inevitable crises. For the world economy, this foundation is weak," he concludes.

The internationally prominent economist, Professor Jeffrey Sachs, made the point at a lecture at the University of Melbourne on managing global capitalism.

Sachs argues that an international capitalist revolution has created the world's first truly global market economy - but no one knows yet how to manage it. For Sachs, the emerging new global economic system is essentially promising for mankind.

"But it will involve us in a search for ways to manage, to set the rules and to improve international institutions so that they can help to serve a global population now more tied together in its economic fate than at any time in history," he says.

Sachs, described by Time magazine as "the world's best-known economist, is director of the Harvard Institute for International Development and professor of international trade at Harvard University.

Sachs poses the key questions: How are the rules of the international system to be set? What substantially should the rules be for managing global capitalism? Who is to do the managing? What will be the role of national governments in this vastly changed international panorama?

What will be the role of multilateral institutions such as the International Monetary Fund or the new World Trade Organisation?

And what will be the roles of State and local governments and communities in the internationalised economy? "We're in uncharted territory," says Sachs.

"We will experience change and shock simply beyond our capacity to predict. We will need great creativity and experimentation in order to come close to the right answers to these questions."

Globophobia is not the answer, as Prime Minister Datuk Seri Dr Mahathir Mohamad told the Organisation of Islamic Conference meeting in Teheran. It serves no purpose "to stay out" of the global process. Globalisation and technological revolution are not new to Islamic civilisation.

As they had been in the past, Muslim countries can be pioneers and contributors to new skills and knowledge, and new concepts of international relations.

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