

**The Tao of Development:
Economic Management and Good Governance in Asia
Asia-Europe Foundation First Anniversary Lecture
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Introduction

Distinguished Guests,

Ladies and Gentlemen,

It is a great honour to be invited to deliver the Asia-Europe Foundation's First Anniversary Lecture. In a year when so many terrible things have happened, it is comforting in its own small way that the Foundation, or ASEF, has passed the one-year mark. Asia and Europe are both home to ancient civilizations, but the flow of ideas and knowledge between us has tended to be one-way. This forum is a unique opportunity for us to redress that imbalance and learn from one another in order to understand each other better.

Since the topic on everyone's mind these days is East Asia's economic crisis, it would be unseemly of me not to begin with it. In only half a year, the region's so-called economic miracle, built up over decades, has shuddered to a halt. The likelihood of an Asia-Pacific century, once considered inevitable, is now up in the air.

The steps we take at this point will determine whether our current travails are merely a large speed bump or whether the "Asian miracle" goes down in history books as a footnote.

As for myself, I believe the region's fundamentals are sound enough to allow recovery within a reasonable period of time, provided that we follow the right course.

That right course is already a subject of intense debate among people more learned than I. So today I intend to address another question that is no less pertinent but usually relegated to the sidelines of the debate: How can Asia, drawing on the painful lessons of the crisis, lay the groundwork for long-term development that is balanced, equitable and sustainable?

I ask this question because development is not only about growth. As we have seen, high growth can occur while other aspects of development – social justice, equitable income distribution, sound environmental management – lag behind. Development -- if you will allow an Asian metaphor -- is a matter of yin and yang,

a matter of finding the right balance between competing priorities, of which growth is only one.

As Asia is a region of great diversity, generalizations will run the risk of being overly broad. Most of my observations shall therefore be drawn largely from Thailand. Some of these observations might be applicable to other cases, but this is a judgment I leave to the audience.

An introspective retrospective

Thailand's financial crisis, as many have observed, is a blessing in disguise. Its greatest blessing, I believe, is that it has compelled us to become more introspective. Now that we have learned first-hand the harsh realities of the global marketplace, we should be in the right state of mind to correct weaknesses in our system that were left untended during our high-growth days.

This process of self-evaluation is indispensable. The choices we make today will determine the course of our long-term development.

Looking at where we started out and where we stand today, it is plain that new choices are needed. When East Asia first began its modernization drive in the late 1950s, the debate over free markets versus central planning was far from settled. Armed with cheap, plentiful labor and abundant natural resources, we adopted outward-looking trade and investment policies, gradually integrating our economies into the world market.

The result was that our economies grew by leaps and bounds. The East Asian success story was dubbed a miracle by Western analysts and observers and was generally held up as a model for less developed countries in other parts of the world.

But as we grew, our development became lopsided. Many of us preferred extravagance over efficiency, high growth over equitable income distribution, and quick profits over sustainability.

For countries seeking escape from poverty, these choices were not surprising. After all, we were playing catch-up, and had to compress into the span of a few decades what took the West hundreds of years.

And as those of you who work with computers know, compression is usually achieved through loss of non-vital or redundant data. In our case, what we lost was neither non-vital nor redundant. While outwardly we seemed to be doing a splendid job of catching up economically, it was often at the expense of social and political development.

It has taken a crash to bring home the fact that many of our institutions are ill-equipped to meet the challenges of the globalized era. While the world has been undergoing deep transformations, our economic, political and social institutions have not kept pace.

Efficiency, patronage, and economic management

The kind of systemic reform Asia needs to stay on top in the global era will not occur overnight, which is all the more reason for the process to be set in motion quickly. Competition among developing countries has become more intense, with the entry of new players in the international economy, all hawking cheap labor, plentiful natural resources, and friendly investment laws. In the West, political support for preferential trading privileges or special assistance to developing countries is increasingly hard to come by.

The only way for us to survive in the long run is to improve our efficiency. And the key to improving efficiency lies in better economic management.

This sounds like a truism. So let us be clear about what is involved, both the factors working against us and for us.

Working against us is institutional inertia. Asia's economic success was called a miracle because it was built on an institutional framework that often contradicted free-market economics – strong state intervention, state-directed industrial policies, tight government-business networks.

But as they say, nothing succeeds like success. As long as the economy steamed ahead, the institutions that underpinned Asia's growth worked well enough. It was only when the crisis hit that the flaws were exposed for the world to see. Once the system broke down, reform became not merely fashionable but imperative.

In the case of Thailand, our integration into the world economy was far from seamless. In fact, it created an internal contradiction that led to inefficiencies in the system. While we adopted Western-style capitalism, we retained our traditional system of patronage networks, a system built on personal connections to allocate values and resources.

Personal connections can be innocent, but when they become a factor in public affairs, they can be deadly. Because patronage is not based on merit, it tends to breed inefficiency, rent-seeking behavior and corruption.

Resource management and the Thai way

Another feature of Thai society that is ripe for reform is the way we exploit and consume resources.

If ever there was a country that could afford to be self-sufficient, it was Thailand, where, as King Ramkhamhaeng the Great observed in the 13th century, there was always fish in the water and rice in the fields. Thailand was so abundant in its natural resources that the efficiency with which they were used was never an issue. When the Royal Forestry Department was set up over a hundred years ago, for example, its original mandate was to oversee the exploitation, rather than the conservation, of the forests.

Our natural bounty has declined considerably since then, as the pattern of resource exploitation shifted from subsistence or domestic consumption to supplying the global market. The fertile rice fields around Bangkok have been converted into industrial and housing estates; the Gulf of Thailand suffers from overfishing; our forests have been so severely depleted that logging had to be banned.

The modern-day mismanagement of our natural resources does not imply, however, that efficiency or sustainability is a concept unfamiliar to Thais. We do have traditional strengths that need to be revived and drawn upon, especially in this time of crisis. Before we opened our hearts to consumerism, recycling and economical use of resources were very much part of the traditional Thai way of life. Sustainable use of resources was built into the system. Each person used only as much as he needed. Material wealth was secondary; making merit was more important. And the extended family provided a social safety net for those unable to take care of themselves, such as the elderly. Accumulating great wealth was possible, but there was no compelling reason to do so.

The introduction of the joys of the consumer society changed that. The prospect of making profits to allow indulgence in life's luxuries replaced Buddhist piety as a motivator.

I am not bemoaning the loss of a bygone era. The world changes and there is no turning back. My point is that in our rush to catch up with the West, the lessons we learned -- from the West and from our past -- were incomplete.

While the West had evolved checks and balances to curb the excesses of capitalism, in our exuberance to reap the fruits of capitalism the need for such mechanisms went unheeded. While transparency and accountability had long been pillars of public governance in the West, in Asia the webs of power and money remain largely hidden from public view.

We sought to emulate Western ways without an appreciation of their underlying philosophy or how they evolved. At the same time, we discarded our tradition of sustainable resource usage. We created a hybrid form of capitalism where patronage was put to the service of profit-maximization, a recipe for unbalanced and unsustainable development.

Good governance and economic management

Better economic management is clearly needed. And the key is good governance.

Good governance, I must note, is about more than good government. It is about more than having honest and capable people in public office. We Thais have a fondness for the comforting certainty of strong leadership. Whenever the country is in trouble, we long for a knight in shining armor to come to our rescue.

But the days of father-knows-best decision-making are over. The state, despite its aura of authority, is not omniscient, particularly in this day and age when markets routinely flout state efforts to maintain economic stability. The government by itself cannot know, for example, how a given dam project will affect the lives of those living downstream or the ecosystem of the area. When it comes to choosing among competing priorities, political leaders are as likely to fail us as to save us.

In developing countries, governments often make decisions – political and economic – that run counter to the public interest. Good governance is about putting in place the mechanisms to define what constitutes the public interest and to see that the public interest is served despite everything else. This is the rationale of the political reform movement underway in many Asian countries.

Requirements for good governance

For good governance to come about, reforms must take place at several levels.

The government must be responsive to the people's needs. In order for it to be so, it must first be accountable. A government that answers to no one, a government whose actions go unchecked, is more likely to abuse its power and ignore the public interest.

Checks and balances are at the heart of accountability. In a representative democracy, it is the duty of the opposition to perform this function in the legislature. But that is not enough. Checks and balances must be in place throughout society to counterweigh society's most powerful institutions. A free and responsible press, representing a broad spectrum of opinions, is vital to make sure that all aspects of any given issue get a fair hearing. Citizen groups, NGOs, must be encouraged to form and monitor the work of the government, as well as educate the public and policymakers on issues of concern.

When there is a diversity of channels for the people to articulate their interests, it is more likely that all sides of an issue will be discussed and that a solution acceptable to all will be reached. It is when public policy decisions are made in secret or by a small coterie that the public interest is likely to be harmed. To avoid such occurrences, the decision process must be transparent and open to scrutiny. The people must be given free access to all information pertaining to public policies and projects.

To be sure, good governance will not bring about some idyllic utopia. In fact, it can be quite messy. The cacophony of voices can be deafening, and we must always keep in mind the rationale for good governance. We all dream of having Solomon-like leaders with the integrity and wisdom to solve all our problems justly with a minimum of fuss. But leaders, too, are human, susceptible to temptation and other human frailties. Good governance makes up for their shortcomings by opening up the policy process to all the people.

On the part of Thailand, reforms are underway to bring about good governance. Last year, we passed a new constitution that, for the first time in Thai history, was drafted with the full participation of the public. As someone who played a part in the drafting process, I have hopes for this constitution. I like to think that over time, it will transform Thailand into an open, democratic society, where transparency and accountability are the norm rather than the exception. I like to think that the provisions of the constitution will ensure that human rights and civil liberties are better protected and enforced. I like to think that the changes the constitution makes in the electoral process will reduce money politics and corruption, and that the checks and balances it provides will result in greater accountability on the part of politicians. But of course the constitution is not a magic bullet that will cure all of society's ills overnight. All sectors of society must embrace the ideals behind it before it can make a difference.

Corporate governance

Good governance does not stop at the government. Accountability and transparency must also be demanded of companies and all actors that exert a disproportionate influence on the public interest.

Companies, in particular, are no less prone to abuse than are governments, but are less subject to public scrutiny. In a patronage system, they can logically be expected to make the most of connections to externalize costs to society – especially environmental costs such as resource depletion or environmental damage.

But in many developing countries, it is even harder to hold companies accountable. Flexible and creative accounting practices as well as pro forma auditing can conjure up balance sheets that have no bearing to reality. Bloated asset valuation can give a misleading picture. Cozy ties with influential political figures can help ensure that the companies' skeletons remain firmly in their closets. The task of monitoring the private sector for abuses thus cannot be left to the government. Enlightened consumers and shareholders must do their part to keep corporate abuses at bay. This can only be achieved if and when full disclosure of facts and figures relating to companies' performance is strictly observed.

Conclusion

The crisis facing East Asia is at heart a crisis of adaptation. It is difficult because in order to adapt well, we must do away with certain traditions, certain ways, that are out of line with the global marketplace. But if we are to prosper in this challenging era, the sooner reforms are implemented, the sooner our societies become open, the sooner transparency and accountability are built into our system, the surer will be our rewards.

Certainly there has been no shortage of people who choose to portray the crisis in nationalistic terms. After all, wasn't it our liberalization and consequent exposure to global financial markets that landed us in this trouble?

Blaming outside forces is much too simplistic, and it reflects poorly on our critical thinking skills. As I hope I have made clear, it wasn't our integration into the world economy that is to blame for the crisis, but our failure to maintain balance between competing development priorities. Our experience teaches us that there could be no liberalization without discipline, no investment without risk.

There are no absolutes in this world – no sure thing. In the digital age, we cannot afford to see the world in black and white or even shades of gray; we have to recognize that there are millions of colors available – and who is to say which is the most beautiful?

The nationalism we need is not the unreasoning kind, but a nationalism based on ideas, on reason. There is as much in our culture that can help guide us towards sustainable development, as there are flaws in our character that would impede it. All the different forces shaping our society must come out into the open to work out together a vision of where we want to go and how we aim to get there. We must learn to engage one another in civil dialogue, with tolerance and compassion.

Good governance allows our diversity to be reflected in our policies. It is a necessary condition for the efficient management of our nation's resources. It allows us to be as self-reliant – or as interdependent – as we wish to be. Because good governance is about making choices that reflect society's true needs, it is the most direct path to reconciling Asia's traditional strengths with the demands of the global economy.

Thank you.