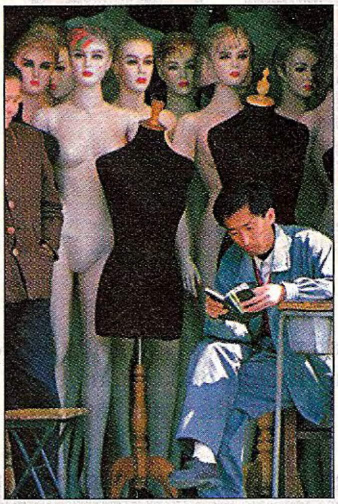
THE END OF EASY MONEY

The landscape in which the Asian economies boomed has changed utterly. Can they adapt?

BY SIN-MING SHAW

WHAT'S HAPPENING TO THE tiger economies of Southeast Asia? As the drama in the markets continues, pundits are wondering whether they are witnessing a cyclical phenomenon or the beginning of a long decline after an inevitable rebound. The answer: it depends.

Let's put things in perspective. When the Mexican peso collapsed in late 1994, conventional wisdom had it that Latin America was doomed. The list of ills affecting the entire continent seemed insurmountable: low savings rates, corrupt governments, overvalued currencies, large current account deficits, drugs and a "mañana" culture that led to low productivity and slow growth. The contagion effect was epidemic in scale. Stock markets across the continent dived. In Argentina, where, like Hong Kong, money could be printed only if fully backed by the Yankee dollar, there was talk that the entire banking system was about to implode. But did Latin America remain in the economic abyss after 1994? Far from it. Local stock markets, after falling for about six months, have smartly recovered. So too have the region's economies. Now we hear the tiger countries are profligate and corrupt. Exports are expensive, currencies overvalued, deficits too large. Could the Southeast Asian economies also rebound and then resume their past growth pattern? "Yes" to the former question; "maybe" to the latter.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Human capital: *In Beijing*

Key elements of the Asian miracle remain in place, with the possible exception of Thailand, where the true economic picture awaits a proper audit. The region still has high savings rates, small budget deficits, pro-business governments and a high propensity to work, save and shy away from government handouts. Above all, a strong Asian tradition stresses the virtues of education.

The things that have gone wrong so far are due mainly to transient factors and can be reversed. Currency values can be and are being adjusted. Public spending can be curbed to reduce current account deficits; banks can and should be better regulated. That much is easy. But there are higher hurdles to surmount. Governments must refrain from changing rules in the middle of a game. Sudden and arbitrary interventions in the market are signs of panic and arrogance that destroy confidence. Policymakers need to remember that the landscape in which the Asian tigers boomed has changed dramatically.

The dollar, to which many Asian currencies had been pegged for years, has become a strong currency. So Asian exports have become expensive. More important, the former communist world, with plenty of cheap labor, is now part of the global economy, hungry for foreign investments. The Reeboks of the world make more shoes in former communist countries than in Thailand or Indonesia. In the last few years, even high-technology companies like Motorola have invested more money in China than in Singapore or Malaysia. For all the inefficiency of a centrally planned economy, the communists did a decent job in turning out large numbers of quality engineers and technicians needed in more sophisticated manufacturing.

The fundamental challenge for Southeast Asian nations is that their economies depend mainly on low-technology goods. China and other former communist countries, not to mention India, will challenge the Asian tigers at low and medium levels of technology. Yet the Asians do not yet have the infrastructure to enable them to compete at technology's cutting edge.

Throughout the region, the ministry of education is considered a minor cabinet post. That reflects a serious misunderstanding of the pivotal role of "human capital" in creating wealth. Roads and power plants are important but by themselves are not productive. Machines do not make things. People make things. And smart people make better things.

What else? Economic democracy may well be more important in the early stages of nation building than political democracy. The freedom to vote or protest without the ability to earn a decent living is an empty asset. But most Asian countries have now successfully provided the economic opportunity that is a precondition for creating responsive political institutions. Whether political democracy in the contentious style of Capitol Hill is best suited for Asian countries is an open question better left for Asians themselves to answer. But the absence of external censorship—or self-censorship—is a prerequisite for creative thinking freely expressed, and essential to a postindustrial society where knowledge is king. Economic democracy also needs a free market. That presumes minimal sweetheart deals by the government for the powerful, and fair, transparent rules that apply equally to the mighty and to the owners of the corner store. Governments should avoid thinking they are smarter than the market. They are not.

Leaders in Asia should not take dissent too seriously or with alarm. Nation builders such as Lee Kuan Yew, Mahathir Mohamad or the late Deng Xiaoping surface rarely in history. Unlike these three modern Asians, most strongmen in history in the end did more harm than good, because there were insufficient checks and balances to keep them from making ill-advised destructive policies, like those of Mao or Sukarno, or self-serving ones, like Mobutu's. For that reason, Asian countries need to build institutions that do not depend on the wisdom of a strongman at the top.

Without solid public institutions, world-class universities and firms providing first-class products in a fair marketplace, the tigers will find it tough to face the challenges of the next century, when the world economy may be dominated by China and the United States. The tigers will have to scramble to find their place in the new order. The easy money has already been made.