

Globalisation, State Intervention and the Impact on Living Standards

Jeffrey SACHS¹
Harvard University

Abstract: The theme of globalisation is so fundamentally upon us. Malaysia has been part of the global economy, not just for decades, but for centuries in fact. But many countries around the world, for various reasons, have exempted themselves from world markets for much of the post-war era, and it is only in the last ten years that we have had, throughout the world, a true revolution of liberalisation of trade and finance so that now we can speak, for the first time in world history, of truly global markets for trade, production, technology and finance. And given this remarkable revolution, this is an extraordinarily important time for us to reflect on its meaning for economic strategy for countries such as Malaysia. This is also a timely theme because while Asia, more than any other region of the developing world, engaged in globalisation before it was called that, there have been questions raised about the possibility of continuing with the rapid growth of the region. These are important questions that have been well put, but poorly answered, by many. I will try to stress why I have tremendous optimism for the continued vigorous growth of this region, and why the region will have to adjust, and continue to adjust with dynamism and flexibility, to a very rapidly changing world situation.

1. Introduction

The two great themes that I would like to discuss are first, the sources of economic growth around the world in the past thirty years to help us understand why Asia, and particularly East Asia, has had such a remarkable experience of rapid growth and development; and then second, of course, the future of economic growth in a globalised world market place, what are the changes and strategies that will be needed, how old and new more competitive international environments affect the kind of strategy that Malaysia and its neighbours have been following with such remarkable success in recent decades.

We must understand the world, examine it closely and then, from the actual and complex experience, try to derive theorems and theories of more general applicability so that successes and failures can be a source of guidance and knowledge for future action. I would like to proceed as an inductive observer trying to understand what has worked in the last thirty years and what that teaches us about what is likely to work in the next thirty years, particularly as Malaysia continues its enormously ambitious, stimulating and in fact riveting 'Vision 2020' which we marvel at in its ambition and which we share with Malaysia, in the confidence that it can succeed.

Let me therefore start with a very global view of the growth process. I believe that in the last ten years, partly because of the advent of a remarkable increase in comparative economic

¹ This is a transcription of the Keynote Address presented at the 1997 international conference on *Globalisation and Development: Lessons for the Malaysian Economy*, which was organised on the occasion of the 30th Anniversary Conference of the Faculty of Economics and Administration, University of Malaya.

data that now covers well over a hundred countries on a systematic basis, we have an increasingly good understanding of the factors that have contributed to growth or the failure to grow in the developing world. There are literally thousands of articles on this theme. The best ones avoid the fallacy of focussing on a particular country and trying, purely from that country's experience, to make a general lesson. The better ones, I believe, take a comparative perspective to avoid the fallacies that can come from looking too much inward and not enough comparatively. And in that vast comparative knowledge based on this very fast increasing body of comparative data, I believe that we have learned an enormous amount about success and failure of economic development in the post-war era and that much of that is indeed useful for us in policy terms. There are three broad dimensions of economic growth performance that have to be analysed.

2. Dimensions of Growth Performance

The first dimension, and the one that we inevitably turn to these days, is economic policy itself, and there are several sub-dimensions, of course, of economic policy-making that I will stress. The second broad area of importance in comparative analysis are the initial conditions of a country in determining its future growth prospects. And the third broad dimension of comparative growth performance is the economic structure of an economy, even aside from the kinds of policies that are followed.

Let me suggest, within this rubric, six key points that define the relative success or failure of economic growth of most of the developing world which I believe helped to put in perspective the enormous achievements of East Asia in rapid growth over this period, and to put in perspective sufficiently, to help us gauge the more interesting question perhaps about the future prospects for growth of East Asia. Only by understanding the preceding sources of growth can we then answer the question as to whether growth can continue at a rapid pace; or whether it has reached a crisis, as some seem to have asserted. By putting it in some comparative perspective, I think we get a better gauge of the question.

With respect to economic policy, there are three areas that have turned out to be of greatest significance in discriminating between the success and failure of countries to achieve rapid growth. Of these three, I consider the first as most significant, namely the export promotion policy of the country in question. East Asia stands out almost uniquely in the developing world in the last thirty years as having had economic policies fundamentally directed towards export promotion. Broadly speaking, we call this open trade policy, rather than closed trade policy. But what has been of most significance when you get down to it is what I might call the policy of free trade for exporters. Under what conditions can exporters operate within the economy? Malaysia, of course, has virtually mastered, and has been the standard setter for, the establishment of free trade zones that have accomplished remarkable things in industrial transformation.

A common feature throughout East Asia has been a common regime of low tariffs, openness to foreign direct investment, flexibility of the exchange rate, flexibility of labour markets and government attention to infrastructure development for export promotion as a set of an entire regime of export promotion that is virtually unique in the developing world. In a study of the trade policy of a hundred developing countries over the last forty years carried out at the Harvard Institute for International Development (HIID), we went through, year by year, the tariff codes, the licensing, the exchange rate policy, and so forth to try to do something practical,

namely to define openness in terms of access to primary inputs, to capital goods and to a convertible currency.

It turns out that the vast majority of the developing world was closed to trade during most of the last forty years. This was basically disastrous self-exclusion, based on theories of import substitution, theories of nationalism and various kinds of fears about the outside world, that led many of the new nation builders in post-independent countries to turn inward rather than outward. Of course, East Asia was almost alone in turning outward from the earlier state and Malaysia is a perfect exemplar of that.

We compare the average growth rate of two groups of countries. Eight developing countries that were always open during the period 1965-1990 and which maintained convertibility, moderate tariffs, and moderate quotas. There were virtually no free trade economies, although Singapore, Hong Kong and, arguably, Penang came very close. But they were countries that were substantially open, and experienced a higher average growth rate than the average growth rate of the forty developing countries that were always closed during this period. What you see is that every single year from 1965 to 1990, the open economies outperformed the closed economies by an average of three percentage points per year. There were two years in which the gap was very narrow, namely the oil shock years of 1974 and 1975, when the two lines come together. The open economy suffered a short-term declining growth in those years because of the shock, but then they bounced back. The closed economies, interestingly, did not suffer any decline from the oil shock because they were closed to world markets. But what they did do was something quite extraordinary. On average, they subsidised oil for the next three or four years, rather than pass along higher oil prices to the internal markets. Then you see the sharp drop in their growth in 1982, when most of the closed economies simply went bankrupt and fell into the international debt crisis, thereby widening the gap again between growth of the open and the closed economies.

The fundamental difference between East Asia and the rest of the world was that East Asia got it right from the start, and that was that it had to be export-promoting, and that meant a regime of openness, of currency convertibility, of access to inputs, of allowance for foreign direct investment – indeed the promotion of foreign direct investment, of attention to infrastructure, of invention of new forms of organisations such as elaborate industrial parks for which this region has become famous, in creating a fertile base for industrial opportunity for foreign direct investment. This, I believe, is the single most important key, among many aspects of policy.

The second dimension of policy that must be stressed is, however, also important, namely the very high saving rates in this region. I call this a policy determinant, though some people say it is cultural and so forth. The closer one looks, the more it is clear that the high saving rates in Asia are truly policy driven, rather than culturally driven. We see that Asian saving rates were not high thirty years ago, but have risen substantially in most of East Asia over time. What do they depend on? They seem to depend on two basic facts. First, high government saving rates, that is surpluses of current revenues over current expenditures, thereby funding a lot of domestic investment. Most of the developing world has government dis-saving. This region has government savings, and often, quite substantial government savings. The second aspect is that this region has not, unlike Western Europe (and I will come back to this point later), provided for universal social security in the kind of pay-as-you-go social security systems that the US, Europe and now, Japan have pursued in the post-war era. This is all to the benefit of this region, I have to stress. Provident funds, developed in Malaysia and

Jeffrey Sachs

Singapore, and private pension fund systems, such as those with which Chile has experimented, are the wave of the future. We, in the United States, and similarly in Western Europe, will have to follow your system in the future. We have to take fundamental reforms to get out of this syndrome where the government provides for retirement, rather than sees it as a household responsibility, because it is bankrupting too many of our countries. But this is another fundamental source of the high saving rates of East Asia which have definitely fuelled growth.

The third aspect of policy that I must stress is the rule of law, which is a very broad rubric measured in many cross-country surveys as effectiveness of bureaucracy, honesty of bureaucracy, extent of corruption, extent of red tape, extent of government meddling in the private economy, and security of private property rights. These factors count for growth without question, and all comparative studies show that these cross-country measures, measured in opinion surveys of businessmen around the world, do correlate with rates of economic growth in the developing world, as well as with the choice of location of foreign direct investment.

But policy is only one part of the growth story, and it is important to keep in mind the two other dimensions. The first dimension is initial conditions. What do I mean by that? There is a powerful tendency in the world economy for poorer countries to grow faster than richer countries – a process that economists term conditional convergence. One of the reasons that Malaysia grows fast is not just its splendid policy regime, but the fact that it started from a low per capita base, which gives opportunity for very rapid accumulation of capital, technology, improved management, upgrading of skills and the like. This is an opportunity that higher income countries simply do not have, but it is important to keep in mind in this whole debate that as countries mature, they invariably tend to slow down, as we have seen with Japan, for example. As Japan reaches per capita income levels of the United States and the highest income countries of Western Europe, it has slowed down very sharply. This is simply a reflection of the conditional convergence, which is a powerful factor in the world system.

This will obviously affect rates of growth that will come in the future. Let me provide a simple illustration of this proposition. Cross-country growth data suggests that conditional convergence has the following effect, that for every doubling of income levels, the growth rate – all other things being equal – tends to be reduced by about 1.25 percentage points per year. Of course, do not take this as too scientific – there is a broad range of uncertainty – but I would regard this as a reasonable estimate. What does this say? This says that if a country is at USD3,000 per capita income, it may achieve six per cent per year per capita growth. As it reaches USD6,000 per capita income, that is doubling its income level, the equation suggests that per capita growth would slip to about 4.75 percentage points per year. Double again to USD12,000 per capita income, that knocks off another 1.25 percentage points, that would say a USD12,000 country – all other things being equal in terms of trade policy, savings and the like – would be growing at about 3.5 percentage points per year per capita on average. Double one more time to approximately the US per capita income level of USD24,000, slip another 1.25 percentage points, and you get to 2.25 percentage points per year per capita growth, which is about what the United States is achieving. Countries at the frontier of growth tend to grow more slowly than those which are behind and can borrow capital, technology, markets and the like; and that is a powerful force in explaining cross-country growth performance.

There is another dimension – economic structure – and this is particularly relevant to Malaysia. We have been doing a great deal of research on what used to be traditional themes of development. A hundred or so years ago before Adam Smith sets us off talking about

economic policy so much, we used to talk about climate, geography and the like. It turns out these things still do matter, even though policy is much more interesting to talk about and, in some ways, important. But what have we learnt? One thing that is very interesting, and here Malaysia is the prime counter example in the world; on average, countries that have been natural resource abundant in the last fifty years have grown significantly less rapidly than countries that are natural resource poor. Put even more simply, countries that have high population density, that is low land population ratios, have tended to grow much faster than countries that are land abundant, partly related to what is under the land. It seems that, on average, the worst curse in the world has been to have lots of diamonds, gold, precious metals, natural gas and the like. Malaysia is the one truly resource-rich country that has made it. Now, of course, Malaysia made it, in part, by good husbanding of the natural resources. But another aspect of Malaysia's success is very notable and apparent, and that is the shift from primary product exports as the predominant form of exports to manufacturing exports, and that was indeed an extraordinarily important shift.

And it was this shift that one dates to the early 1970s, and this shift that one dates primarily to the invention of new forms of free trade in this region, creating the Free Trade Zone (FTZ) in Penang and other areas of the country to be able to take advantage of the world-wide boom in electronics, which has found a very fertile base in this country. But you can hardly find another case in the world like Malaysia; Indonesia is related, but not quite, partly because in per capita terms, the resource endowment is less abundant given that the population is so much larger. But all over the rest of the world, countries that started in primary production continue to specialise in primary production. They did not make the transition, that is because they did not go for free trade, they did not go for foreign direct investment, they did not lean over backwards to diversify to manufacturing exports (which was so crucial for the rapid growth in Malaysia). And they got stuck in commodities that did not provide an engine of growth for them over the next 25 years.

Finally, geography counts as well, although one suspects it will count for less and less in the future as the continuing revolution in communication and transport reduces the significance of this factor. But we have found that distance from leading markets matters a lot, even after taking policy into account. In particular, if you consider the main markets of the core of Northwest Europe, the United States and Japan, developing countries that are close to one of these markets have done better than developing countries further away from these markets, even controlling for all of the other factors. It has been good, and important to be close to your suppliers. Even in the East Asian region, the growth boom started most dramatically in Korea and Taiwan, closest to Japan which has been a crucial source of technology and input for manufacturing-led growth, and then only later spread to the ASEAN countries. And one similarly finds in other regions of the world, the further away from the main markets, the less the growth.

Let me just quantify that based on regression analysis. If a country is a thousand miles away from one of these markets, compared to a country two thousand miles away, on average, the closer one will enjoy, apparently from the data, something like 0.6 or 1.0 per cent faster growth. For one thousand compared to four thousand miles, it is about 1.2 percentage points per year. For one thousand compared to eight thousand miles, if you are really very far away in Southern Africa, or Uruguay, or Paraguay etc. then the cost can be almost 2.0 percentage points per year, everything else being equal, because the semiconductor firms simply do not go there as a place for sourcing. It is much harder to get export-led growth going. And similarly,

the countries that really have a hard time in this world are the land-locked countries. If export-led growth is the way, then land-lockedness is a curse, and according to our estimates, being land-locked takes away more than 1.0 percentage point per year even if you are wonderful. I have advised, for the last decade, the government of Bolivia, which has been brave, forthright, innovative, enormously successful in reform, but being land-locked 14,000 feet up in the Andes mountains, still is a tough base for export-led growth, and this is what the equation suggests. They have been able to achieve a remarkable turnaround from hyper-inflation and collapse to sustained economic growth, but it sure is harder than having a port available in order to be a major producer of electronic components and the like.

So, policy, initial conditions and economic structure are the trilogy, I would say, that explains a huge proportion of cross-country variation in economic performance in the last thirty years. This brings us to the Asian miracle. The whole concept of the Asian miracle is fraught with a double *entendre* it seems to me. If by 'miracle' you mean splendid performance, way out of line with the rest of the world, the answer is emphatically yes. This is a miracle region in the sense that the performance has been three standard deviations out.

But it is not a miracle in the sense that it can be explained. And it can be explained on the basis of good policy and hard work, and some good luck, I would say, as well, in terms of endowments, location and the like. The good policies were the wisdom to be open 25 years before the rest of the developing world. That was their mistake, a tragic one, based on all sorts of ideologies that makes no sense in the world that we live in. They were also the result of high savings, which is reflected in high national savings rates, which signal a lot. The rates reflect how forward-looking one is, how much one is putting aside current consumption for the future, how much parents are investing in their children, in the quality of their education and the like, and that has been extraordinarily high, for over forty years. And there has also been some good luck one has to acknowledge as well. Korea, Taiwan, Hong Kong and Singapore have been blessed with absolutely nothing under the ground, so they have not missed steps in thinking that one can make it on diamonds and gold. And Malaysia has been blessed with some ideas about getting free trade going. The fact is that as much as Malaysia and others picked winners, winners helped by picking these countries by having the world's leading electronics firms around looking for a home. With very wise policies, Malaysia has provided them very ample and comfortable homes for this crucial industry in the world economy.

So, this is the sense in which this has not been a 'miracle' of growth because it is explicable, but it also suggests that those who would debunk the 'miracle', and say that growth is quickly going to come to an end, fundamentally misunderstand the sources of growth here. The sources of growth, in my view, are real and deep. They are real because they have been based on integration in world markets. They are deep because they are based on prolonged attention to a proper and fundamental role in the global economy, to flexibility, to high saving rates, to the provision of infrastructure, to constant attention to what the competition is doing and the need to act flexibly, to be the home for world-class production, to be an environment that meets world-class needs, and therefore to be able to take best advantage of the chance for rapidly catching up.

Can the growth continue? When we speak of rapid growth continuing, we have to take into account the fundamental principle of conditional convergence. This region can enjoy very rapid growth. It is likely to slow gradually over time as the gap between the region and the more advanced and higher income countries narrows. That is a lesson which, I think, is

strongly in the data. That is not market pessimism, it is market realism when one accepts that this is a country in a region experiencing catching-up growth. And this catching-up growth, the most rapid in world history, is heartening, is thrilling, is exciting, but it is rapid largely because it is catching-up growth. It is a great opportunity for this and the next generation, but one that will diminish over time, of course, as the goal is actually accomplished, as the gap is narrowed.

So, with that proviso, let me turn to what I see as the opportunities and challenges of living in a truly globalised economy. In one small sense, the region has had it a bit easier than it might have been by virtue of the fact that for most of the past forty years, this region was really all by itself in understanding the mandates and opportunities of the world economy. In 1971, Malaysia was starting free trade, with Penang about to develop a world-class electronics industry, while Latin America was still fending off the evil foreign investor, while Africa was still closing the door, while primary commodity producers were still focussing on their primary products and not understanding the fundamental need to achieve export-led growth through manufactures.

So, one fundamental thing that is different and will be different for this region in the next thirty years is that, finally, this lesson has now been learnt all over the developing world. I have spent my own career very substantially in other parts of the world waking up to this lesson. And one thing is clear, namely that it was not the preachings of economists that did it. It was not even the Asian success that did it.

It was the utter collapse of the alternatives that did it. It is really very hard to teach anybody or to even instruct or guide anybody on what seems to them to be a viable, even if not very exciting course. It is only when the countries went over the cliff financially, or hit the brick wall in terms of economic growth rates, that they began to wise up and look around and then have some idea about the miraculous – in my first sense – things that were occurring in the East Asian region. The real source of economic reform in over 70 countries in the developing world in the last ten years is simply none other than the financial bankruptcy of governments that tried to produce an alternative strategy based on inward orientation, import substitution, extreme nationalism and shunning the outside world. Bankruptcy has been the most important determinant of this change of direction. Indeed, I can tell you that while Mr. Gorbachev did many things, his real contribution to economic reform *per se* was driving the Soviet Union into financial bankruptcy in 1991, after a spree of about USD50 billion of foreign borrowing between 1986 and 1990. The creditors pulled the plug, the Soviet Union collapsed, and at least it gives fifteen successor states, all in a mess, some chance for an economic turnaround based on rejoining the world economy that they have been so disastrously and ruthlessly excluded from by the Soviet dictatorship over a period of 75 years. Financial bankruptcy did it; it has brought billions of people into the world markets. They are now all looking for the same foreign investments that Southeast Asia has been going after successfully and relentlessly.

The market has expanded, and the region is now competing in a much wider area for foreign direct investment. This means that the imperatives to keep tax rates low and labour markets flexible are even stronger than they have been in the past because investments that used to come here can easily go to some of the leading reform economies of Central Europe. I have had the honour and pleasure to advise the Polish government for the last six years. It is heartening to me that, from a basket case, they are now achieving seven per cent growth. That is in a country that has a low population growth, so it will be akin to an East Asian overall growth rate of something like nine per cent. Central Europe is experiencing export-led growth

right now; it has achieved geographical advantage and can thus be a workshop for the European Union. Even Daewoo has recently invested USD1.1 billion in major automobile works in Poland.

Second, globalisation introduces, of course, new markets and new opportunities. It has been extremely heartening for me to see the strong Malaysian presence throughout southern Africa, for example, in South Africa, Zimbabwe and other markets. Thus, Malaysia becomes a crucial example of how a multiethnic society can flourish, grow rapidly, achieve many of its social aims and achieve competitiveness internationally; as Malaysia is an important source of markets, ideas and inspiration. Malaysia's presence there will also provide new markets and opportunities, and that holds true in many other parts of the world as well. My own forecast is that globalisation will raise the overall rate of growth of the world economy. We have some history to show this; fortunately, this is not a zero sum game. I would expect that overall world economic growth can rise, perhaps a percentage point relative to earlier decades, and that would translate into remarkable gains of human welfare all over the world, since most of this gain will be in the developing world itself. But this means new markets and new opportunities must be sought out in the future.

The second broad challenge, in addition to the increase in global competitiveness that economies like Malaysia will have is managing fiscal policy over time, especially in a maturing and ageing economy. One of the characteristics of East Asia has been a young and high saving population. In this region, perhaps 8-10 per cent of the population is 60 years old and over, whereas that could be 16 per cent or even higher in some of the mature economies of the United States and Western Europe. That translates into higher savings rate here, but also implies much higher levels of government expenditure in the advanced industrial economies than in East Asia.

One key to competitiveness in East Asia has been low levels of government spending, translating into low tax rates which keep this place competitive for foreign direct investment. I think the evidence is strong that keeping down overall government spending over time is important for rapid growth. But new pressures, such as urbanisation, ageing and income levels, rise to raise the level of government spending. Economists have christened this the so-called Wagner's Law, that is as income per capita rises, the share of government spending in GNP rises. East Asia should not fall into the trap of overly ambitious universal entitlement systems of the sort introduced in the US and Western Europe. There are better ways to do it. Malaysia and Singapore already have the provident fund, which puts responsibilities on households, rather than on the government, for the provision of retirement funds. This is an important innovation which I believe is going to be a model for policy makers in the future because others are going to have to move in that direction. But East Asia will find pressures; small government and low levels of taxation have been an important contributor to East Asia's long-term competitiveness. East Asia will face pressures for increased government spending over time because these demands will rise in more urbanised ageing societies. One has to think creatively in the future about how to supply needs without overburdening governments in the way that Western Europe has become incredibly overburdened. Western Europe is losing growth, is not creating jobs and is suffering from 11 per cent unemployment rates because tax rates have gone through the roof, and it is very difficult to do competitive legal business in such an economy. In my opinion, new investments in much of Western Europe have declined these days because of the over-extension and over-ambition of supposedly universal middle class entitlements, because of ambitions that were put in place

be
co
of
an

co
wl
mi
di
thi
flc
as
Ea
kit
im

of
be
req
set
op
mi
reg

ecc
gai
act
mc
acc
the
bel

ter
ma

the
fin
tha
pre
pre
fut
see
pla
ma
att
tha

before the full implications of demographic trends were clear to policy makers. These promises could not be met over time as economies aged, as the relative costs of providing for health out of the government purse increased. So one will need agility in one area and innovation in another, but one must note where the long term advantages come from.

The third broad area that is extremely important in confronting the next thirty years is to continue to manage change effectively. This is such a broad cliché that I would like to stress what I mean by this. First, very few advanced countries have normally functioning labour markets anymore. Labour markets get tied up in restrictions, in limitations on the freedom to dismiss workers, and high costs of employing workers. Declining sectors face protections that make it very difficult and costly to generate new sectors. The East Asian region has flourished because it has been willing and able to undertake sectoral change flexibly, to move, as Malaysia has, from primary product exports to manufacturing exports, or as the rest of East Asia did, from textiles and apparel to electronics, over the last 25 years. That requires a kind of labour market flexibility which is very rare as income levels rise, but is extremely important to maintain.

Second, increased liberalisation of the economy is crucial, I believe. It has been the source of success for countries such as Malaysia for the last thirty years, and will surely continue to be the major impetus for growth. Despite being deeply integrated into world markets, this region still lacks integration into world financial markets, and is still closed in important sectors. It is, of course, important for market access and for all sides to be open. Maintaining openness, currency convertibility, not having import quotas, not having licensing, and maintaining the flexibility of free trade has been the source of success and rapid growth in the region.

Third, it is clear that strategic alliances of business are of growing importance in the world economy which means that the imperative of financial openness as well as trade openness gains in importance. The behaviour of the leading technology firms, the new forms of corporate activity, the new forms of strategic alliances, corporate networks and the like, make it all the more important for anybody attempting to produce in these areas to have open doors, open access for all sorts of new innovative capital structures, and that means a continuing agility in the opening and development of the financial markets in this region, which have really lagged behind, in important ways, the opening of the industrial part of the economy.

Fourth, I would stress the upgrading of skills. Upgrading of skills are required not only in terms of advanced capabilities in science and technology, but also in the arts, humanities and many other areas which are part and parcel of the continuing rise in per capita income.

The kind of detailed central planning projections that were made for industrial sectors in the past are now clearly fruitless. Just as change will come in the industrial sectors, we may find that it is the service sector that is the engine of growth in the next thirty years even more than the industrial sector. You may find that it is the provision of business services, software programming, advanced financial management, other kinds of commercial services, advanced provision of data, data processing, data management and the like, which are the source of future growth, rather than the engineering and manufacturing of the past. Beware of specific sectoral goals because the lesson of the last thirty years is that opportunities arise in unlikely places. Who could have dreamt in 1970 that Malaysia would be one of the great electronics manufacturing countries of the world? It was not in the charts before. It took flexibility, attention to world markets, and suitability for world markets, to accomplish that. I believe that given the nature of technical change, the enormous rise of service sector production, the

enormous changes brought about by data transmission and therefore the balance between provision of industrial production versus industrial services, and flexibility in terms of sectors and skills will be crucial in the future. Rather than over-plan, policy makers need to understand that providing the opportunities for expanding secondary and tertiary education, general education, and the ability of people to adapt to a rapidly changing world market place will be enormously beneficial.

A fourth area that is important for the East Asian region is extending and deepening the rule of law. All of the evidence suggests that while many countries in the region have effective bureaucracies, and clarity of property rights that exceeds those in other developing countries, these surveys also suggest that clarity of property rights, management of the judiciary and the rule of law may not be adequate for the next thirty years. East Asia has been able to grow enormously fast, even with imperfections in this area, partly because of the creation of enclave economies, partly because of the nature of growth up to this point. But more deeply integrated economies in world markets will require more sophisticated, independent and strong judiciaries, and an ever enriched body of commercial law. This has to be an important priority in the future in order to be able to keep pace with the kind of economy that will develop in the next thirty years.

Finally, I would like to stress one last point. We marvel at the ambition of Malaysia, and I firmly believe that Malaysia's so-called "Vision 2020" is not only supremely ambitious, but also achievable. It is a remarkable vision that is clearly fuelling very ingenious, insightful and largely appropriate policies, it seems to me. It is no accident that this country enjoyed nine continuous years of eight plus per cent economic growth. But Malaysia has to set itself to run a marathon, not to run a sprint, and it is very important that it paces itself for the marathon. This is a long term process that a country must engage in, not one that is going to be dictated in the short run by the fractions or percentage points up or down in any particular year's growth rate. Running a marathon means pacing and realism; it means, of course, ambitions since marathon winners have to have ambition, supreme ambition. But it means endurance, rather than a useless sprint, it means avoiding the disasters that can come by failure to pace, and it therefore means making sure, at all points, that the underlying fundamental sources of competitiveness – budgets that are responsible, savings that remain high, exchange rates that remain competitive, an international economic environment that is stable and not a source of worry, that all of these are managed responsibly, cautiously and for the long term. I have spent too much of my time in countries that experience disaster and it is surely no fun picking up the pieces. There is absolutely no reason to anticipate that kind of problem in a country like Malaysia that has had the most stable and high sustained growth rates of probably any country in the world. But it is important to keep in mind what the real objectives are. Wisely, the objectives were set for the year 2020, not for the year 1997 or 1998, and being responsible for that, and playing for the long term is going, in my view, to be the source of remarkable long term accomplishments.