

## Joining East Asia

*John Hyde*

The recently formed Asian Pacific Economic Co-operation forum (APEC) has excellent aims---these days, who doesn't want freer world trade, lower regional trade barriers and improved flows of information, capital and technology? APEC may, therefore, do some good, but it is unlikely to reverse the relative decline of Australian living standards. It is, after all, but the latest of many similar international clubs. Each of which promised a new economic order, but left the real problems intact to justify the formation of yet another club. The fanfare which heralded the birth of each new supra-national body was for the folks back home, where it was hoped it would sound like relevant policy.

Since the same politicians and bureaucrats who maintain the economic walls which APEC is supposed to reduce are the effective APEC members, we can be fairly sure that APEC won't do much at all. Even the most prestigious talkfests don't change domestic politics and bureaucratic empire building.

Mr Hawke must be seen to be doing something about the economy. Were it not likely that APEC will be seen as doing something, we might dismiss it as a tolerably inexpensive opportunity for politicians and senior bureaucrats to show off, enjoy the fleshpots and get some economic education. Its almost election time and Mr Hawke wants to look like an international big shot. There is not much harm in that alone, but there is great harm in thinking that by talking to the fast-growth nations we acquire a buoyant economy; that talk alone will induce others to reduce their trade barriers; that it is their barriers, and not our own, which are doing most to prevent our living standards from rising; that there is any alternative to micro-economic reform and reducing inflation in Australia; that we can afford to wait until others reform their economies.

If we want economic growth like that of Japan, South Korea and Singapore (who are APEC members), and like Hong Kong and Taiwan (who were not admitted to APEC for fear of offending China), then we should learn what is making their populations wealthier. If APEC were to concentrate on identifying the domestic policies which are responsible for economic success, then it might be useful.

There are, however, other sources of that information. Wolfgang Kasper, economics professor at the Australian Defence Force Academy, has looked at the successful nations to our North with an eye to what they have in common.

He found important similarities. One of these was export orientation, sometimes going beyond relatively free trade to embrace export subsidies. There are, however, industries which are exceptions to the general rule. These have allowed some Australian industrialists to try to justify their own protection by pointing to MITI in Japan, and Korea's and Singapore's infant-industry policies. Economic rationalists, although not buying these patently self-serving arguments, have nonetheless been worried by the departures from free-market principles made by nations which are so obviously successful.

Kasper identifies two successful models:

| The open market model was adopted by Hong Kong, Singapore, Taiwan and, in part, Japan. Here the relevant government has relied on general economy-wide policies and limited its involvement, either by way of capital provision or regulation, in specific industries---no problems for the economic rationalist here.

| The nationalistic model was adopted by Korea, parts of the Japanese economy and China. Here governments do discriminate between industries and are less inclined to open their borders to international competition. Because discriminatory policies have a poor record elsewhere, including recently in Malaysia, this model does give economic rationalists something to think about.

The question which springs to mind is what saved these governments from corruption. The short and sufficient answer may be that the Japanese, Chinese and perhaps Malaysian governments were not saved. Professor Kasper doubts that the nationalistic path is available to countries that do not have the Confucian tradition of a teacher government and pupil citizen. Our democratic governments are unlikely to finger the industries which should close their doors. What is more, the policy has worked, to the extent that it has worked at all, only where other conditions have been satisfied.

In all of the more successful newly industrialising economies, by one means or another, a general expectation of liberalisation has been maintained, imports were mostly readily available, and rules were relatively certain. In particular, when a government said that a tariff or tax break was temporary it was indeed temporary. Unions did not cartelise labour supplies, capital was mobilised by keeping interest rates positive and the tax take low, levels of education were raised, and women were treated as equals in schools and in work if not always in the home. Surprisingly, the countries which did best---Japan, South Korea, Taiwan, Hong Kong and Singapore---are all resource poor.

People and property were offered security, and incentives were regulated by prices. Under these circumstances production factors became price sensitive and mobile. As someone observed, "getting prices right is not the end of development, but getting them wrong normally is".

Income distribution in Taiwan, Singapore, the Republic of Korea, Hong Kong and Thailand is in each case more even than the average of 34 developing countries. And the countries with the highest rates of growth tend to be those with the most evenly distributed incomes. Taiwan has both the least difference between the wealthiest and the poorest 20% of people and the highest rate of growth. It achieved this remarkable performance without regulated labour markets or much by the way of redistribution policy.

If Taiwan, Japan and the others had relied upon clubs such as APEC, instead of learning from their own mistakes, they would today be as poor as they were thirty years ago and as many Latin American and African States are still. The lesson for Australians is obvious.

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