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**ADDRESS BY DR RICHARD HU, MINISTER FOR FINANCE, AT
THE OFFICIAL OPENING OF THE 2ND ASIA DEVELOPMENT FORUM ON 6
JUNE 2000 AT 10.00AM AT THE GRAND COPTHORNE HOTEL**

**FROM CRISIS TO OPPORTUNITY:
BUILDING PARTNERSHIPS FOR SUCCESS**

Introduction

1. The Asian Financial Crisis that spanned 1997 and 1998 had put the brakes on a period of remarkable growth in East Asia. There was initial pessimism that the East Asian miracle was over. Eventually, albeit tentatively, this pessimism was replaced by renewed hope and confidence in Asia. The bulk of multinational corporations had not pulled out of the region. The Asian economies began to show signs of recovery in 1999. Reforms were undertaken, financial markets stabilised and foreign funds returned. Many Asian countries also began to see positive growth.

2. The worst may be over but it is no time for Asia to be complacent. Reforms are far from complete. The region will face increased competition for foreign investments from other emerging markets like Latin America and Eastern Europe. The challenges of globalisation and the realities of the "new economy" must be faced.

3. This current state of relative economic stability is a window of opportunity for Asian countries to prepare themselves to get back on track for the next spurt of economic growth. All countries in Asia suffered in varying degrees from the crisis. But the past year's experience, moving from crisis to recovery, gave us clear indications on the direction we need to take. In order for Asian countries to better position ourselves, to create and seize the opportunities that will bring about a new era of prosperity, I find the following lessons to be useful.

Lesson 1: Do not abandon the tried and tested fundamentals

4 First, we do not need to abandon the development strategies that in the first place created the three decades of exceptional growth in Asia.

5. When the financial crisis hit, many were quick to conclude that several decades of unprecedented growth – averaging 7% each year since 1970 - in East Asia This is excluding Japan. had been built on shaky fundamentals. It was deemed a fluke and doomsayers predicted the end of the Asian miracle. In reality, the basic development strategy that contributed to Asia's success was never off the mark. The fundamentals of a strong work ethic, a high savings and investment rate, an entrepreneurial culture, a skilled and disciplined workforce and pro business governments underpinned the remarkable growth that brought millions of people out of poverty. These will again play an important role in reviving East Asia's economic dynamism. Jagdish Bhagwati is unequivocal in stating that the Asian Miracle is a very real one. He notes that it is the only period in history when 30-to 35-per-cent rates of productive investment occurred over more than a generation. Interview with Asad Latif, *The Straits Times* (19 May 2000)

6 Instead, what had brought the regional economies to their knees was a combination of weak governance, lack of transparency and economic policies that failed to recognise the impact of globalisation. These factors undermined the global competitiveness of Asian businesses and confidence in the viability of the banking system. The financial crisis provided a wake-up call. Having seen decades of wealth decimated in a matter of months, Asian countries are now acutely aware that they need more transparent systems of government and business. This leads me to my second point.

Lesson 2: Establish a strong and sensible regulatory framework

7. Governments need to provide a regulatory environment that is conducive to the

conduct of business. Investors need assurance of their rights and that the rule of law will prevail. Internationally accepted laws, proper disclosure and accounting standards and good corporate governance practices need to be in place and enforced to foster confidence. Only then can countries achieve sustainable economic growth.

8. Economic and regulatory reform is never an easy task. The challenge of governments in post-crisis Asia is providing strong leadership to ensure that painful economic reforms are undertaken and followed through. Strong leadership is a prerequisite for the political stability that affords a government some leeway to focus on rebuilding the economy. This is a game of international confidence. Rational policies and a willingness to make painful decisions for the longer term national interest are what investors look for.

9. In the new economy, governments have an additional challenge. It was apparent from the crisis that Asian economies needed stronger regulatory systems to create an orderly and robust market environment. However, rules and regulations should not end up stifling the entrepreneurial creativity and risk-taking that is crucial for succeeding in the new economy. Governments need to approach their role as market regulators with this in mind. This is not regulation for regulation's sake. For instance, bankruptcy laws need to make it easier for those entrepreneurs who have failed to try again, but at the same time not open the system to abuse. Governments and businesses alike must find ways to build into systems and institutions, processes that unleash creativity, innovation and reinvention.

Lesson 3: Develop human capital

10. Governments must work with business to develop human capital in the knowledge-based economy. We are in the era where ideas count and human capital holds the key competitive advantage. Knowledge workers bring with them an intimate understanding of their respective areas of expertise, and add value to the wealth-generation process. In this dot.com era, we need to foster creativity in our people to dream of the business ideas that create new business opportunities and generate the buzz in the economy. Asia has always had a proud lineage of entrepreneurs. We now need to nurture a new generation with the savvy to seize global business prospects and the stomach to face volatile capital markets.

11. Governments need to place emphasis on upgrading education and training workers, as well as promote innovation and creativity. Lifelong learning must be taken seriously. Businesses need to invest in their workers and equip them with the latest capabilities and skills as people will prove to be the single most important factor in determining the success of any business in the global economy. There is a strong

congruence of interests here, and Governments and businesses should work together to constantly upgrade human capital.

Lesson 4: Develop a strong government-business partnership

12. It is clear that the government and the business community must forge a closer partnership to advance growth. Neither sector can do it on its own. We need cooperation rather than collusion.

13. As in the pre-crisis days, the private sector will remain the pillar of growth in the economy. On their part, governments need to involve businesses - "the practitioners" - in crisis prevention and resolution. Corporations can work with governments to increase productivity growth and embark on new and innovative ways of doing business. Private sector expertise can be tapped as governments seek to come up with suitable measures, be it in the areas of market liberalisation, debt restructuring or banking reform. In all, a revitalised and engaged private corporate sector will strengthen domestic resilience towards meeting the challenges of globalisation.

Lesson 5: Establish the social contract - helping those that are left behind

14. The crisis showed us why governments need to address the reality of development gaps and help those who are left behind by a rapidly growing economy. The distribution of wealth and opportunities cannot depend solely on the free market. If we do not take social accountability seriously, national cohesiveness will unravel with grave consequences.

15. As we look forward to a new period of economic expansion in Asia, we would do well to recall that the spectacular growth of the 1990s was not without its problems. These came to light during the crisis. Globalisation had brought about unprecedented prosperity but also exacerbated income disparities within countries. Technology has radically changed how economies run, bringing about higher efficiencies. However, in many cases, it has also caused a "digital divide". Lacking education and skills, segments of the population became increasingly disenfranchised from this modern global economy. The financial crisis sparked this latent discontent and led to political upheaval in some countries. It is clear that as we seek new opportunities for growth, Asian governments, the business community and civil society need to work together to ensure that the less-prepared members of the population are given the necessary skills to participate in the new knowledge economy.

16. Governments should prepare workers for lifelong employability. Businesses can support this by investing in the training and re-training of their employees. Non-governmental organisations, self-help and support groups also play important roles to ensure that the drive for economic development is not at the expense of social cohesion.

Lesson 6: Work with international organisations to address global externalities

17. Asian countries need to work closely with, and not shun, international financial institutions like the World Bank, Asian Development Bank and International Monetary Fund. Global financial stability has become what a recent UNDP book terms a "global public good". Advances in technology and openness have fostered greater integration among national economies. No one country can hope to control the movements and fluctuations in the international financial markets. Yet these very movements and fluctuations can wreak devastation upon countries.

18. In the aftermath of the Asian financial crisis, some questioned the relevance and efficacy of these international organisations. However, on closer examination, the crisis really re-affirmed the need for these multilateral mechanisms. It was clear that individual countries could not tackle the destabilization of the global financial system and the socio economic problems it spawned in the Asian countries.

19. Creating an international financial architecture cannot be done in a piecemeal fashion by a few interested parties. Neither can poverty alleviation of the some 900 million poor in Asia ADB, "Asian Development Outlook 2000". be adequately addressed that way. "Global public goods", like the environment and health, cannot be managed by any one country. All these far-reaching issues require co-ordinated action at the international level. The World Bank and the Asian Development Bank, along with the International Monetary Fund, are poised to coordinate and tackle such challenges. The World Bank has come up with a Comprehensive Development Framework. The ADB has put more Resident Missions in place. There is a renewed focus on poverty alleviation, and a quest for balanced development. These are all positive steps. However, international financial institutions first have to re-examine their roles and functions, and streamline and coordinate their activities. These institutions have to regain the trust of the member countries. They must be serious in undertaking the necessary reforms to make themselves more effective in the new global environment. They must also show that they serve the wider interest of all members, be they rich or poor.

Conclusion

20. Finally, as Asia continues in its recovery, we should look to forging new partnerships to create opportunities for growth. These partnerships among governments, business, civil society and international organisations are still evolving. No one has a monopoly on ideas on how these partnerships should take shape. This conference is an important step in examining this important issue. I wish you all a fruitful and successful discussion.

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