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**Time to look to the East
Democracy's High Price
It was waiting to happen**

By Dr Ishrat Husain

ONE of the most dynamic regions of the world today and likely to remain so in the next several decades is East Asia (including Japan, China, Korea, Taiwan, Hong Kong, Australia and New Zealand). The East Asia summit that was held at Kuala Lumpur recently was a path-breaking event in which 10 Asian countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam), along with China, Japan, Korea, Australia, New Zealand and India participated. This summit could become a precursor for a long drawn process for an emerging East Asian Community.

The critical importance of East Asian countries can be realized from the fact that this group contains one half of the world population, one-fourth of world GDP, is the fastest growing region in the world and provides hundreds of billions of dollars of its net savings to finance the current account deficit of the United States. Intraregional trade among the Asian countries accounts for 54 per cent of the total trade and the links in the global supply chain led by Japan and China are quite strong in the region; a substantial part of foreign direct investment to developing world is channelled to these countries. China has become the world's manufacturing factory while India is the largest beneficiary of outsourcing of services.

At the Emerging Markets Forum held at Oxford on December 9-11, co-chaired by former President Fidel Ramos of the Philippines and former managing director of the IMF, Michel Camdessus, which I had the privilege of attending, there was almost a consensus that the Asian region is going to continue as a growth engine for the world economy in the near term. President Haruhiko Kuroda of the Asian Development Bank (ADB) outlined at the forum his vision of Asia's future.

The four pillars through which the integration and cooperation will be strengthened among the Asian countries are: (a) development of regional infrastructure such as ports, roads, airports, shipping and trade facilitation through which goods and people can cross borders easily; (b) harmonization of taxation, regulations, laws, etc., so that the transaction costs of doing business within the region can be minimized; (c) pooling of financial resources and utilizing them within the region for development, crisis prevention and crisis management; and (d) increased trade of goods and services to capture global market shares. The ADB under the dynamic and visionary leadership of President Karoda has committed to assist the member countries to fulfil this agenda and we in Pakistan should take full advantage of this initiative. How can we go about this?

Pakistan's public policy makers and businessmen have, for historical reasons, remained too much attached to the United States and Europe and have paid scanty attention to this dynamic region. Simple arithmetic demonstrates the superiority of an approach tilted towards the East. The US economy is expected to grow at an average of three per cent and European economy would be lucky to reach an average two per cent growth. There is already a hollowing out of manufacturing in the US and Europe as they remain confined to high-tech industries such as aviation, aerospace, etc., while the rest of manufacturing is shifting to East Asia, particularly to China.

The share of manufacturing in the US GDP has dwindled to 15 per cent while jobs created in manufacturing are even fewer. Demographics is also not going to help the US and Europe as the proportion of old-age population rises relative to working-age population, creating a shift in the demand pattern away from goods and services typically produced in countries such as Pakistan. East Asian economy, despite the slow growth of Japan, is projected to grow at an annual rate of seven per cent.

Per capita incomes in this region having one-third of world population will therefore double every 12-14 years and the emerging middle classes of these countries, equivalent to the entire population of the US and Europe, will absorb increasing volumes of commodities, goods and services. All these goods and services cannot be found within their own borders. They will source them from the least-cost producers but the dynamics of sourcing has changed and is likely to change even more dramatically in the future. Instead of the final product originating from one single country, reliance will be placed on a global supply chain - exactly the way China is operating at present.

China orders and imports inputs, parts, raw materials, components from different countries of the world, processes, assembles and integrates them in the form of finished manufactured goods and re-exports them to the rest of the world, including the countries from where parts of the supply chain are procured.

Pakistan's manufacturing establishment has not yet taken to this new mode of specialization of production and international trade and is therefore not part of the global supply chain. It continues to combine all the activities vertically - from raw materials, designing, processing, manufacturing and shipping under one umbrella. This approach has resulted in a lot of missed opportunities for Pakistani exporters. They have to unbundle their activities, specialize in a particular component of the global supply chain, in which they have a comparative advantage, produce that in bulk either in-house or through outsourcing and subcontracting and arrange delivery of these components in the fastest turnaround time at a low-cost maintaining of high standards of quality.

The emphasis has to shift from doing everything yourself to managing quality standards, logistics arrangements, delivery on time and cost controls but producing in bulk - literally in millions because of the economies of scale. The managerial, human and technical skills required for this new way of doing business have to be reoriented, retained and retooled.

In terms of financial integration, Pakistan has to actively participate in the Chiang Mai initiative of Asian central banks and also in the Asian bond market initiative. These initiatives will enable Pakistan to deepen its links with the financial markets in Asia and also with the region's Central Banks. Pakistan should also encourage the quality commercial banks from East Asia region to establish their branches or set up joint venture banks here. Pakistani banks operating in Hong Kong and Singapore have to play a more vital role in promoting trade between East Asia and Pakistan.

The Pakistan government's initiatives in developing Gwadar port as the hub for the Central Asian and Western China transit trade and the energy pipeline corridors are extremely timely. But to get them implemented in the fastest possible time and produce end results, they have to be saved from the routine inter-ministerial and inter-governmental bickering and rivalries that characterize public administration.

High-powered autonomous operational bodies headed by highly competent chief executives accountable to their Boards and ultimately to the parliament should handle all the affairs pertaining to these infrastructure projects to save ourselves from the embarrassment of delayed completion and huge cost overruns. The world around us is not going to stand still and if we fail to deliver on time and within the expected cost structure we will be heavily penalized as the business will slip away from our hands to some other smart country and we will keep on blaming each other and finding scapegoats.

The eastward looking strategy can be successful only if we have a change in the mind set - from a negative, obstructive, can't-be-done way of thinking and doing to a more agile, proactive and can do type of attitude. Until that happens, the chances of Pakistan benefiting from the vast potential of East Asian region will remain subdued.

To sum up, the vast economic potential of East Asian economies has not yet been fully tapped by Pakistan. This requires a change in the organization of production and distribution by our manufacturers as well as a change in the composition and organization of public sector bodies created to develop the cross-border and transit infrastructure projects and last but not least a change in the mindset of policy-makers and private entrepreneurs.

<http://www.dawn.com/2005/12/31/op.htm>

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