



Conference
**ARE WE ON THE RIGHT TRACK?
PARADIGM REVIEW BY CSOs AS
DEVELOPMENT ACTORS**

**Prague, Czech Republic
May 14-16, 2008**

Wednesday, May 14, 2008

Challenging development paradigms from Asia

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As we meet in this historic city of Prague to consider alternative development paradigms, the twin spectres of global hunger and an impending global depression are beginning to haunt the world. Both the global food crisis and the global credit crunch are reflections of ‘shortages’, the first of food without which we cannot live, the second of credit without which the international capitalist system cannot survive. Now that the prices of food commodities are increasingly being determined by speculative activities on the financial markets – a development facilitated by the liberalization of financial markets – there is a more intimate relationship between the two crises than may seem apparent at first sight.

As the world teeters on the brink of an economic and social catastrophe, we can no longer harbour any more illusions about the viability of the current neo-liberal model of development. The need to consider alternative development paradigms has never been so pressing or urgent. The question I wish to take up is: has Asia anything to offer by way of an alternative?

There can be little doubt that, within the parameters of a capitalist economy, it is Asia that has offered development paradigms that have gone against the grain of the hitherto received wisdom of the neo-liberal model. The initial challenge came from what has been called the “East Asian model” of development comprising Japan and the four first-tier Newly Industrializing Countries (NICs) of South Korea, Taiwan, Hong Kong and Singapore.¹ This model of development showed that even while operating within a capitalist institutional framework, there are alternatives to the policy prescriptions of the Washington Consensus. The most important of these differences in policy prescriptions are:

- 1) State intervention in the economy is not necessarily an impediment to economic growth and development. The state has a useful role to play in orienting development towards desired ends. The neo-liberal view that development can be successfully undertaken only if the state is relegated to the role of a “night watchman” and, by means of deregulation, the free market is allowed to operate unfettered, finds no support in the historical experience of the East Asian countries.
- 2) To secure economic growth, it is not essential (as neo-liberal advocates claim) for a country (especially an underdeveloped country) to undertake full-blown trade, investment and financial liberalization – especially when the economy is not ready for such a restructuring. The East Asian regimes built up their industries by means of high tariff and non-tariff barriers, imposed selective controls and regulations on the operations of foreign transnational corporations in

accordance with national developmental needs, and maintained strict regimes of capital controls to regulate financial inflows and outflows.

- 3) There is no basis for the view that public enterprises are invariably inefficient and that they are a drag on development. Public enterprises played a significant role in the development of the East Asian countries. The neo-liberal contention that economic development can be achieved only through a policy of privatization of public enterprises is not borne out by the experience of the East Asian countries.
- 4) There is no substance in the neo-liberal claim that only an intellectual property (IP) regime which affords the most rigorous protection to IP holders can guarantee industrial development. As Richard Gerster noted, “it is well known that the very absence of a modern patent system, i.e. unrestricted copying of foreign inventions, allowed Japan, Korea and Taiwan to achieve economic success.”²

Although these policy differences were first highlighted by the practices of the first tier of largely North East Asian countries, they were, broadly speaking, also followed by the second-tier, largely South East Asian countries, viz., Malaysia, Indonesia and Thailand. It has often been suggested that this second tier of East Asian economies were more market-oriented than their predecessors. Whatever the truth of this claim, it certainly should not be read to imply that the role of the state in economic development was any less important. On the contrary, in some countries like Malaysia, the state played a critical role in reducing poverty.

In 1970, Malaysia was predominantly a rural agricultural society, with half of its households mired in poverty. In just about 15 years from 1970, it more than halved the incidence of absolute poverty. In another 15 years from the mid-1980s, Malaysia again more than halved the level of absolute poverty. By the early years of the new millennium (2002), just 5.1 per cent of households were poor.³ It was state intervention, with targeted poverty reduction measures, which brought about this dramatic reduction in poverty.

Malaysia’s economic transformation, especially in industrial development, was made possible by skilful regulation of foreign direct investment (FDI). While welcoming FDI and providing it with every facility, the Malaysian government nevertheless regulated the entry, extent and pattern of participation of such capital in the domestic economy. It was the judicious regulation of FDI, especially with regard to equity ownership, that enabled the economic policy makers to overcome the historical imbalances in respect of such ownership which the country had inherited from colonial rule. Whereas in 1970, almost 65% of the economy was foreign-owned, by 1995, this figure had been reduced to some 28%.⁴ Likewise, the socio-economic imbalances (including in equity ownership) between the country’s different ethnic communities which were a source of tension were similarly ameliorated by regulating investment. Regulation, rather than deregulation, was the crucial tool. It is for this reason that there was strong resistance from Malaysia to EU attempts to push through, both within the framework of the World Trade Organization (WTO) and outside it, the concept of a multilateral investment agreement which would, in effect, have divested policy makers of the policy space to frame such regulations.

In Malaysia, while every effort was made to attract FDI, speculative capital was held at bay by a regime of strict capital controls – a feature which was then common to all the East Asian countries. In the 1990s, however, with the advent of globalization and largely under the pressure and influence of the Bretton Woods institutions, many of these countries embarked on a course of reckless financial liberalization. They were then to learn to their bitter cost that unless such moves were properly sequenced, they could have dangerous consequences. Specifically, the moves to liberalize their financial systems without adequate safeguards were to result in a financial meltdown in 1997 which, in the case of Indonesia, was to wipe out the economic gains of a whole decade. Three of the affected countries – Korea, Indonesia and

Thailand – had to go hat in hand to the International Monetary Fund (IMF) for financial assistance, while Malaysia declined not only IMF aid but also its prescriptions for tackling the crisis. While the IMF prescribed a cocktail of greater liberalization, privatization and deflationary (e.g., high interest rates) measures, all of which had the effect of worsening the crisis, Malaysia opted for a system of capital controls (to stem the outflow of funds) and reflationary measures (deficit financing and greater public spending) to revive the sagging economy.

More importantly, while the IMF strongly opposed all state and official assistance to industries and enterprises hit by the financial meltdown (“no bailouts”), Malaysia established a special agency to offer financial aid to critical and deserving industries and enterprises to put them on their feet again. Interestingly enough, while both the EU and the US strongly condemned such assistance at that time (citing “moral hazard”), they are currently pursuing the same policy by offering financial assistance to ailing banks and financial institutions mauled by the effects of the sub-prime crisis.

This Asian crisis some ten years ago should have served as a warning against the blitheful approach of neo-liberals towards financial liberalization. Although the crisis was the worst financial crisis the world had experienced since the Great Depression, the lessons of unbridled financial liberalization were not taken to heart. The neo-liberals continued to relentlessly push their crusade for more financial liberalization and the result today has been another financial crisis of a greater magnitude.

The lessons of the financial crisis were not lost, however, on both India and China after they emerged on the Asian and world scene as the new economic dynamos. India, with a Harvard-trained business graduate and a forceful advocate of liberalization as its Finance Minister, had been on the verge of embarking on a course of full-blown financial liberalization but stopped in its tracks on realizing the perils of such a course. China too, despite all the pressures of the US and the EU, has taken a cautious approach.

While both these countries (especially China) have mesmerized the world with dazzling growth rates, it is essential to point out that in the drive towards liberalization, they have jettisoned some of the best features of their earlier economic *dirigiste* (state-directed) model. These had more to offer in terms of alternative development paradigms than their current spectacular growth rates. A case in point is India’s drug industry, one of the finest in the Third World. India was able to build up its drug industry not by enacting IP legislation which afforded the most rigorous protection to IP holders but by tailoring such legislation to its developmental needs. Thus its laws afforded protection only to the process by which a drug was produced rather than the product itself. This permitted local drug companies to produce inexpensive generic copies of patented drugs manufactured by the big pharmaceutical companies, so long as a different process was used in its production. Regrettably, in compliance with the rigorous patent regime mandated by the WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), India has since been compelled to enact legislation recognizing patents on products.

China on its part had an excellent primary health care system. Models of health sector organization developed by China in the 1960s and 1970s heavily influenced the primary health care strategy. She demonstrated that health services could be extended rapidly to a rural population at relatively low cost. Unfortunately, this whole system of health care has been scuttled in favour of a “user-fee” system, which is more in consonance with the neo-liberal model. This has placed health care out of the financial reach of many of the poor people of China.

More pertinent to the current global food crisis is the changed and changing attitude to food and food security by authorities in these two countries since embarking on the path of liberalization. A high premium was placed on food security and priority was given to ensuring price stability and food for all. As a result, both these governments resisted liberalization of this sector and were especially wary of imports of highly subsidized food crops from Western countries.

Since their accession to the WTO, however, both these countries have begun liberalizing this sector and this has created a measure of price instability, with import surges of highly subsidized farm imports from

the US and EU. Already in 2002, there was concern and alarm that imports of skimmed milk from the EU were adversely affecting India's dairy industry which the country had assiduously built over a period of three decades to a measure of self-sufficiency, largely through a network of cooperatives. Likewise, China's agricultural sector too has been feeling the impact of import surges. As part of its terms of accession to the WTO, China was forced to open up its soybean market. The resulting surge of imports from the US, Brazil and Argentina has had serious negative impact on domestic soybean producers. While the latter were hit by the influx of cheaper imports, domestic soybean oil mills were adversely affected by the forced purchase by the Chinese government of US soybeans at inflated prices after the 2003 state visit by Chinese prime minister Wen Jiabao to the US. It appears that many of the crisis-stricken enterprises have since been taken over by big agribusinesses such as ADM, Cargill, Bunge and Louis Dreyfus.

With the world now facing a food crisis, both these countries are now no longer insulated from the soaring food prices gripping the rest of the world. Like the rest of the Third World, food prices in India and China are being affected by speculative activities in the international futures markets. All this serves to demonstrate once again that, contrary to the claims of neo-liberal ideologues, liberalization is not a magic wand that guarantees development. It should be undertaken cautiously and it is open to question whether it should ever be undertaken in the agricultural sector.

Asia clearly has important and challenging development paradigms to offer. Yet for all the undoubted economic strides the continent has taken, in two respects these development paradigms are found to be wanting. The first is that these development paradigms are not informed by a spirit of democratic participation and decision-making. The East Asian model of development in particular is a "top-down" model and the fact that bureaucrats and dictators have found it congenial is not fortuitous. However, the solution to this defect lies not, as neo-liberal ideologues are wont to tell us, in greater economic liberalization and the adoption of a free-market economy. The answer lies in pushing forward the process of democratization and accountability at all levels.

This has been the role of NGOs, peoples' organizations and civil society groups. And there can be no doubt that in this respect, Asia has registered some remarkable successes. From one end of Asia to the other, the continent has experienced a democratic revival which has changed its political contours almost beyond recognition. The changes in states previously ruled by dictatorships and authoritarian governments such as South Korea, Taiwan, Thailand and Indonesia have been especially significant. And while there is no doubt the problem of Burma persists in addition to some regression, e.g., the recent coup in Thailand and the continued repression by the dictatorial regime of Gloria Macapagal Arroyo in the Philippines, it is clear, as the recent elections in Nepal have shown, that Asia is on the move.

While NGOs, peoples' organizations and civil society have made significant strides in the struggle to democratize economic decision-making and participation, there may be less cause for optimism in the fight to overcome the other (in this case, fatal) defect in the development paradigms that modern Asia has offered, i.e., the absence of sustainability. The fight to ensure that the process of development is truly sustainable may be a losing battle. The real reason is that the Asian models of development, like the neo-liberal model, are inherently unsustainable because they are based on systems of production that have to ceaselessly and incessantly grow and expand. The double-digit growth in Asia is being purchased at an unacceptably high cost and while the rulers of Asia are prepared to concede there is a growing ecological and climatic crisis, they, like their counterparts in the US and Europe, believe that the whole problem can be resolved through some technological fix. To make matters worse, a growing part of the population of the continent, especially its new middle class, is intoxicated with the delights of the mass consumer goods that are now within its reach. In this climate of the endless pleasures offered by a stream of consumer products coming online, it is extremely difficult, if not impossible, to suggest that the time has come to reconsider the whole path of development.

And yet it seems to me that the developing world and certainly the rest of the world will have to face up to the realities of our endangered eco-system. To talk of development and development paradigms

without taking into account the limits imposed by the fragility of our bio-sphere is as intelligent as discussing Othello without the Moor. The whole problem cannot be avoided, as the EU is attempting to do, by merely insisting that the developing world must bear a greater share of the burden in such critical issues as limits on carbon emissions. Ultimately, there is no running away from the fact that our development models and lifestyles will have to radically change to come to grips with this reality.

It seems to me that at some point in the future, we will be forced to reopen, under our entirely changed historical conditions and perhaps under different terms of reference, an old debate which raged among the Russian intelligentsia in the 19th century and the beginning of the 20th century. Much of the specifics of that debate may be only of academic interest today, and the village commune (the *mir* and the *obshchina*), the fate of which was the subject of the debate, has been consigned to history. However, the fact remains that it was in that debate that some protagonists argued that there are alternative patterns of economic development other than large-scale industrialization and that these can be just as effective or even more effective in overcoming poverty and backwardness.⁵ These critics drew attention to the human and social cost of the process. Today, we have an even more compelling and additional ground for questioning this model of development – the ecological cost. Without in any way suggesting that these critics of large-scale industrialization had the answers to our problems, there is something to be said for their courage to envision alternatives in the face of what must have seemed to be the inevitable march of such development. And perhaps there is more than a passing significance in invoking memories of this old debate in Prague. After all, it was Eastern Europe that was the home of many of the populist parties which emerged after the 1st World War to voice the call for such alternatives.

Notes

1. See Ha-Joon Chang, *The East Asian Development Experience: The Miracle, the Crisis and the Future*, Penang: Third World Network and London and New York: Zed Books, 2006; and *Globalisation, Economic Development and the Role of the State*, Penang: Third World Network and London and New York: Zed Books, 2003.
2. Richard Gerster, *Patents and Development: Lessons Learnt from the Economic History of Switzerland*, Intellectual Property Rights Series No. 4, Penang: Third World Network, 2001, p. 6.
3. *Malaysia: Achieving the Millennium Development Goals – Successes and Challenges*, United Nations Development Programme – Malaysia, 2005.
4. Edmund Terence Gomez and Jomo K.S., *Malaysia's Political Economy: Politics, Patronage and Profits*, 2nd edition, Cambridge: Cambridge University Press, 1999, Table 6.3.
5. See Gavin Kitching, *Development and Underdevelopment in Historical Perspective*, London and New York: Methuen, 1982, where an attempt is made to locate the Russian debate in the context of the current discussion on development and underdevelopment.