East Asia must invest to grow: Economist

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DEVELOPING East Asia, which excludes newly industrialised economies like Singapore, has weathered the economic crisis well, said Mr Vikram Nehru, the World Bank's chief economist for East Asia and the Pacific, yesterday.

But the true test will be how these economies fare once governments withdraw stimulus packages later this year, triggering a 'tricky transition' to private sector-driven growth, he said.

'What's fascinating about private investment in East Asia is that after the Asian financial crisis (in 1997-98), private investment in many of these countries never recovered - in Thailand, and most significantly in Malaysia,' Mr Nehru told participants at an Institute of Policy Studies roundtable held at Orchard Hotel.

He does not attribute the flat investment landscape to the oft-cited Asian tendency to save rather than invest.

'I don't agree. You can make that point in China, but as far as the rest of East Asia is concerned, we invest too little, not save too much,' he asserted.

And understanding this, Mr Nehru feels, might just be the key to expanding domestic demand, given the still-weak external economic outlook.

'In the rest of East Asia, the problem is a lack of investment. There's a lack of private investment, a lack of government investment, investment in education, investment in health.

'To my mind, if there is the ability to use these savings for investment rather than exporting them abroad, you would have the domestic demand you are seeking - not through consumption, but through increased investment.'

Mr Nehru believes developing East Asia can reach pre-crisis growth rates, and predicts 8.7 per cent growth this year, provided the economic restructuring and reforms that were put on the backburner in the recent crisis are reactivated.

Here, he mentioned social insurance policy - particularly portable unemployment insurance - as a good way forward:

'(This will) allow East Asia to protect workers, not jobs. You have to allow jobs to die for better jobs to be created. You have to allow creative destruction,' he said.

'But to do that, you have to allow workers to be protected, so that as they move from sunset to sunrise industries, their welfare is not necessarily harmed, but capital is re-allocated to more productive sectors.

'That's a tough set of institutional improvements to introduce, but many countries have done it. Vietnam is introducing it, China is introducing it.'

As for China's frothing asset markets, Mr Nehru does not see too big a threat: 'In China in the last 20 years, there's been a series of overheating and cooling periods, very similar to the one we are seeing right now. And that's because of the bluntness of many of the instruments that the Chinese authorities use. So I think that the Chinese will be able to contain this asset price increase without doing too much damage.'