Growth 2.0: Small nations do it better

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THE importance of economic growth can be oversold. It is not a silver bullet to banish the many problems countries face. Still, slow growth - or worse, no growth at all - makes it harder to generate employment, contain poverty, provide services, finance infrastructure and improve the quality of life for the majority. Which is why growth is high, if not at the top, on the list of policy priorities everywhere.

Not long ago, economists maintained that rapid growth required large annual doses of investment in the 25 per cent to 30 per cent of gross domestic product (GDP) range, financed in part or whole by domestic savings.

No longer. Capital remains one of the drivers, but a closer reading of international experience suggests that to assure steadily rising material prosperity, we must look to gains in productivity arising from advances in knowledge. Growth 2.0 is all about technological advances and innovation across a multitude of activities. Human ingenuity, talent and many-faceted skills are the principal drivers of growth. Capital serves as a vital enabling factor.

This is the key message of our recently published book, *Some Small Countries Do It Better*. It is based on a close reading of the experiences of three small economies - Singapore, Finland and Ireland, or Sifire - that demonstrated remarkable prowess during the 1990s through to 2007, and showed convincingly that we have entered an era where quality human capital is what really matters and massive capital investment alone quickly runs into diminishing returns.

Some Small Countries describes and analyses the transformation of the three countries into economic powerhouses following crises in the mid-1980s for Singapore, in the late 1980s for Ireland and in the early years of the 1990s for Finland.

Sifire responded to their crises with long-term strategies that enjoyed the support of the major political stakeholders, promoted industrial diversification, enhanced competitiveness, and led to an enduring acceleration of growth.

The book offers three messages to countries seeking pathways to sustainable growth in the evolving somewhat uncertain global milieu.

First, the importance of education.

Sifire showed that in just one decade, countries that focus policies and school systems to provide solid grounding in maths, science and language skills can deepen their human capital to a level where they can absorb technology from abroad, attract foreign direct investment into dynamic activities and initiate a virtuous spiral of innovation domestically.

Quality education is attained through careful attention to each element of the education system from primary school, if not earlier, with teacher training, incentives, and motivation requiring a special focus.

Vocational education and training can make a large contribution if its value is recognised and it is treated as an integral part of the learning and innovation system, and given the resources required to deliver outcomes desired by employers.

Tertiary education that can take a country to the technological frontier and build innovation capabilities requires good, well-equipped universities, and not world-class universities dignified with a complement of 'star academics'. These too can come in time, but they are not necessary conditions for countries aspiring towards rapid growth led by human capital.

Second, the Sifire experience prior to and following the financial crisis underscores the need to forge a durable political consensus among multiple stakeholders around a long-term growth strategy.

The experiences of the three countries during and after the financial crisis of 2007-2008 were not the same. But one point stood out: the role of ma-croeconomic and regulatory policies to support growth. Also important was forward planning to facilitate the transition from sunset industries to others with better prospects.

In all three countries, such strategy and policies are the product of key public agencies well furnished with talent of the highest order with the authority to innovate, the capacity to implement and coordinate policies involving several stakeholders, and the resources to provide catalytic seed capital for promising activities.

Singapore's Economic Development Board, the IDA Ireland, and the Finnish Funding Agency for Technology and Innovation and its sister agencies in Finland performed these functions with unusual distinction.

The third lesson: Quality human capital can lead a country to a high growth path, but getting there and staying on the path depends on finding a political equilibrium and maintaining a macroeconomic balance that minimises the risks from bubbles and crises.

The Sifire story is highly instructive for advanced, middle-income and late-starting countries alike. It offers a tested way forward for the vast majority of countries that are in no position to mobilise gross investment much in excess of 21 per cent to 23 per cent of GDP from domestic or overseas sources.

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