Macroeconomic policies for higher productivity in Asia

"How can we best frame economic policies to maximize the nation's productivity?" has been a key question for all governments in Asia, which have been trying hard to achieve meaningful economic growth. An immediate answer to this question may be that government policies should be able to induce and guarantee the maximum efficiency in both the private and public sectors. A significant implication of this statement is that the government should be able to maintain the economic and social systems of the country in such a way that the principles of the market can prevail through serious competition. Any corporation or branch of the government which fails to perform with high efficiency and productivity should be penalized by, for example, elimination from the market.

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The production function of a nation's economy suggests that economic growth can be achieved by increased inputs in investment and/or labor, or through increased factor productivities. Paul Krugman pointed out that the dynamic growth of East Asian economies since the early 1970s was, to a large extent, attributable to the increase in the inputs of production factors, rather than to productivity gains. Accordingly, he warned that the sustained high growth of East Asian economies may soon come to an end unless productivity gains can make up for the rapidly decelerating inputs of production factors. This deceleration may be a result of decreased population growth or a lack of new technological breakthroughs that will invite new heavy investments.

Rapid globalization and speedy development of IT characterize the core trend of the current period. Therefore, economic policies aiming at inducing high productivity gains should be formulated to stimulate the maximum utilization of these historic trend changes.

The Asian financial crisis in 1997 provided a golden opportunity to overhaul and shape up most Asian economies. Restructuring in not only those crisis-hit economies but also in other economies in Asia gave good momentum that led to drastic improvement in the efficiency and productivity of those economies. In particular, restructuring in the financial, corporate, and government sectors contributed to a significant upgrading of national productivity. To keep the momentum for high efficiency and productivity, governments in Asia should not cease to restructure their economies in the future as well.

One delicate and difficult area of common policy concern for all governments these days is related to the introduction of various labor-saving high-technology devices in production, transport, and marketing. While these devices will help productivity gains and thus help achieve high economic growth, they may cause a reduction in employment opportunities and thus may lead to an increase in unemployment rates over the long term.

The adoption of major labor-saving high-technology devices where possible is likely to lead to improved corporate profits due to significantly increased labor productivity per worker. Under normal circumstances, corporations are then likely to make additional investments, creating more new jobs, financed by cumulative profits earned largely from improved labor productivity. However, it is often observed that corporations do not make additional investments for various reasons. It is desirable, therefore, that government policies be framed in such a way that will encourage maximum investments of the improved profit earnings of corporations. Additional investments will produce more employment opportunities, and thus the introduction and adoption of the high-productivity labor-saving devices will tend to increase, rather than reduce, employment. Unfortunately, in many countries governments fail to convert improved profits into additional investments and more job opportunities.

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Government should therefore keep the corporate environment as favorable as possible, so that business firms can be encouraged to pursue profits vigorously via new investments. Governments should also aggressively remove obstacles discouraging investments. Thus, the activities of militant and ever-more demanding labor unions, for example, should be contained to a reasonable extent. Also, harsh government regulations on business activities should be removed so that economic activities including investment can be revitalized.

While productivity in industrial sectors attracts much government attention in most countries, productivity in the service sector tends to attract only a little. Productivity in the service sector deserves more attention than that in manufacturing for two reasons. First, the share of the service sector in GDP significantly outweighs that of the industry sector in almost all national economies. Second, the production, transport, and marketing of industrial outputs cannot be carried out without the active support of service industries such as logistics, financing, insurance, communication, advertising, and sales. Many policymakers and scholars blamed the poor performance of the US economy during the 1970s through the late 1980s on the low productivity of American service enterprises, which was far lower than the productivity of manufacturing industries then.

... by Dr. Hiwhoa Moon

Governments in Asia can institute two vital policy decisions in this regard. For the significant enhancement of productivity in the service sector, governments in Asia should first aggressively lay down the basic infrastructure (hardware, software, and manpower) necessary for the upgrading and development of IT industries, since the reliance of today's service enterprises on IT is overwhelming. Second, government regulations on service industries should be kept flexible enough to stimulate the active introduction and adoption of advanced technologies available in the service sector in industrialized countries. For this, two conditions must be satisfied. First, serious competition in the service-sector market should be ensured. Second, intellectual property rights should be fully protected in line with the World Trade Organization regime and the Doha Development Agenda agreements.

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