

From the Desk of...

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A New Lens for a New World; reframing the World Economy

As we enter 2011, economist and business strategist, Dr Yuwa Hedrick-Wong, offers his thoughts on how we should refocus our view of the global economy. To have survived the recession will not be enough. Successful international companies will be those who can embrace the new world in which developing markets play a crucial role, with executives who truly understand its key drivers.

The global financial crisis of 2008/09 has made clear that the future is, as far as finance and the economy is concerned, irreducibly uncertain. Much of our recent orthodoxy has been shattered upon this bedrock of the future's fundamental indeterminacy, including cherished notions of efficient markets, rational expectation, quantification and control of risks, and many over-ambitious promises of financial innovations.

This renewed appreciation of an opaque and uncertain future has resurrected the spectre of an interventionist government, emboldening foes of the free market to demand more intrusive regulations to curb the "greed" of the private sector. While this revisionism itself reflects a bankruptcy of ideas in the resurgent anti-market camp, it nevertheless threatens returning power to the wrong people – time-serving bureaucrats and government officials ignorant of real business life.

Uncertainty evokes fear of the unknown. Proponents of big government play-up this fear to justify their anti-business stance. In so doing, they are also promising to vanquish the uncertainty of the future through government control, planning and regulations. While they are doomed to fail, just as financial engineering did, they could wreak untold collateral damage in the process, shackling the entrepreneurial capitalist spirit inherently found in peoples and societies.

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The best antidote to the fear of the unknown is that of the animal spirit as described by John Maynard Keynes, the defining characteristic of the entrepreneurial capitalist. It is worth quoting the master himself in full: "Our basis of knowledge for estimating the yield ten years hence of a railway, a copper mine, a textile factory, the good will of a patent medicine, an Atlantic liner, a building in the City of London amounts to little or sometimes nothing, [and given such uncertainty] how are decisions made? They can be made only as a result of animal spirits, a spontaneous urge for action."¹

To the entrepreneurial capitalist, an uncertain future means new business opportunities. The more individuals and businesses are imbued with this entrepreneurial capitalist mind-set, the more capable they are in functioning under conditions of uncertainty, creating new economic value and building new productive enterprises. What is true at the micro level is equally true at the societal level, the more a society embraces the entrepreneurial capitalist mind-set, the more dynamic, forward looking, and prosperous it becomes.

Entrepreneurial capitalists – large and small – have again and again excelled during times of uncertainty and economic recessions, regardless of how prolonged or severe they are, or whether they are localised or global in scale. The Great Depression of the 1930s

1 The General Theory of Employment, Interests and Money. 1976 (1936) P. 149-50.

actually saw accelerated innovations, including world-changing inventions like nylon and synthetic rubber. The game-changing PC took off in the aftermath of a severe recession in the early 1980s. In fact, most of the biggest and most successful businesses today were launched during times of economic slumps and recessions in the past 50 years, often as tiny start-ups that ran on shoe string budgets but big ideas.

While entrepreneurial talents are found in all cultures and societies, government policy and business conditions on the ground strongly determine the extent to which such talents could find full expression. Thus, the asset of entrepreneurial capitalism is not to be taken for granted; it is a precious asset that needs to be protected and nurtured. A generation ago, Ronald Reagan and Margaret Thatcher championed the cause of entrepreneurial capitalism and unleashed one of the longest post-war periods of growth, innovations and prosperity.

Today, there is again the need to make the case of entrepreneurial capitalism all over again for a new generation that has been traumatised by the global financial crisis. Unfortunately, the current policy debate about how to manage the global economic recovery is monopolised by the head-to-head collision between those who believe austerity is the needed medicine versus those who believe more fiscal spending is the way forward. This is to debase economic analysis to arguments by doctrines. We encounter this doctrinal debate in the US on how to bring down high unemployment and get growth back on track and how to avoid a double-dip recession, and in the Eurozone, about what the crisis countries must do in order to qualify for bailouts and to keep the euro intact. This doctrinal debate is not only wrong, but dangerous, because it diverts our attention from what really matters, how to raise productivity in the post-crisis economy.

The trend rate of economic growth inevitably dips in the aftermath of a crisis. In the recovery, there are basically three trajectories, all driven by productivity dynamics in the post-crisis economy: (i) growth quickly recovers and then rises above the pre-crisis peak if in the post-crisis economy productivity increases to

exceed the pre-crisis level, (ii) growth takes much longer to recover if post-crisis productivity manages only to return to the pre-crisis level, and (iii) post-crisis productivity is damaged by the crisis and is now permanently lower than the pre-crisis level, which renders the recovery difficult and the economy may never return to the pre-crisis trend rate of growth.

In all three trajectories, productivity is the key. This is why the doctrinal debate between austerity and fiscal spending is fundamentally meaningless. It all depends on how austerity and fiscal spending is done. Austerity measures may trim the fat and waste in the economy but they could also end up cutting the much needed economic muscles and sinews. Similarly, fiscal spending could boost economic efficiency through investing in infrastructure, but it could also reduce market flexibility and lower productivity through subsidies and income support.

This focus on productivity is the new lens that is needed to see more clearly in the post-crisis global economy. However, we cannot directly observe productivity, which is an abstract concept, and can only be quantitatively estimated after the fact. But its concrete expression in the economy is none other than entrepreneurial capitalism, which can be directly observed. We can go beyond headline GDP numbers and examine the extent to which entrepreneurial capitalism is thriving or wilting. We can work out the extent to which business innovations are contributing to growth in investment and market expansion. We can assess government policies in terms of whether they are assisting or constraining entrepreneurs. In other words, we can gauge the level and vigour of animal spirits in any economy.

Applying this new lens to reframing the post-crisis global economy will generate new insights unavailable from the stale and futile debate between austerity and fiscal spending. This is especially important in Emerging Asia, which is today the fastest growing region in the global economy. A dynamic and pragmatic entrepreneurial capitalism has been the core of Emerging Asia's dynamism, and without exaggeration, it is today the single most important asset underpinning the region's continuing future success.

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Following from Keynes' "animal spirit" insight, the fact is that the more people worry about big business and corruption, the more free market competition is needed. The more globalisation appears to be in jeopardy, the more economic liberalisation is needed. The more stagnation threatens, the more entrepreneurs are needed. Entrepreneurial capitalism lies in the heart of the answers to the most daunting economic and business challenges of our time.

In the coming years, forward looking and actionable business intelligence will have to be grounded in a deep understanding of how entrepreneurial capitalism is functioning (or not functioning) in various parts of the world, and the extent to which it is able to forge new paths forward. ■

This editorial was commissioned by The Insight Bureau both as a timely thought piece that sets the scene for our forward look at 2011 and the outstanding economic questions we have, and as a precursor to a report being released this month written by Dr Hedrick-Wong and published as part of the new Global Emerging Markets Service (GEMS) of The Insight Bureau.

ABOUT US

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Yuwa Hedrick-Wong is a global economist and business strategist, based in Singapore. He is an independent economic advisor to MasterCard, ICICI and Southern Capital Group. Along with other leading economists, journalists and business commentators, Dr Hedrick-Wong belongs to The Insight Bureau's resource network, providing speeches and presentations at business conferences and also delivering confidential, in-house briefings to senior executives and boards.
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The Insight Bureau

The Insight Bureau provides speaker placements and briefings as a service that helps achieve a better understanding of the world in which we do business and to ultimately help senior executives to make better business decisions. The Insight Bureau represents Dr Yuwa Hedrick-Wong for speeches and briefings.

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