

ENABLE THE PEOPLE TO SAY, “WE DID IT!”

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Abstract

Foreign direct investment (FDI) is an effective means of attracting productive capital required for economic growth and development. Developing countries, however, should also look inside and mobilize inactive domestic capital they are sitting on. The leader's task in every developing country is to initiate and accomplish the necessary national reforms, enabling it to transform the "dead" capital into "live" capital that would be utilized productively together with FDI. Developing countries must keep the economy humane, and that requires leadership. According to a great thinker of ancient China, Lao Tsu:

A *good* leader is the one whom people respect and love. A *bad* leader is the one whom people fear. The *worst* leader is the one whom people despise. An *ideal* leader performs actions without

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unnecessary speech (that is, without resorting to propaganda or spin), and his people say, "We did it!" Every leader should strive to become an *ideal* leader, as envisioned by Lao Tzu. Under such a leader (or leaders), the people will say, "We did it!" when they make remarkable economic development and enjoy high living standards in a civilized manner.

As an economist and advisor to developing countries' economic agencies, I used to argue (as many other economists do) that foreign direct investment (FDI) is an effective means of attracting productive capital required for economic growth and development. Only about 15% of the 200-plus countries produce capital sufficiently to benefit fully from the division of labor in expanded global markets.

Economic history shows that for an emerging nation to become rich, its people should invest and trade in a wide circle. When people cannot invest and trade beyond a small circle (say, beyond their relatives, village neighbors, and friends who know and trust each other), they tend to remain poor. FDI is an act of investing and trading in large circles.

A developing country's major challenge in attracting FDI is to establish a business environment favorable to investment and trade in broad and large circles, for both domestic and international businesspeople. Such a favorable business environment requires uniform law, contracts, debt collection mechanisms, proper documentation of property rights, certain standards and transparency in accounting, and reasonably functioning, uncorrupted bureaucracies.

I have often argued that it would be tough for a developing country to attract a significant amount of FDI unless leaders or policymakers of the country get the nation's law in line with how people actually live and work as quickly as possible. That can be accomplished not by articles, TV programs, or books but by strategic plans and focused projects to change the law. Leaders

need to translate strategy into organizational terms, align the organizations to the strategy, and govern to translate strategic plans into desired results, and put them into motion.

All these may sound a daunting task from the standpoint of a developing country. But history shows that if we go back 150 or 200 years, the United States was a Third World country where the lack of uniform law caused many headaches, and corruption was widespread. Moreover, Americans' violations of intellectual property rights were a plague to Britain, then the most advanced country. A good (or notorious) example: Americans blatantly produced and sold pirate editions of the venerable *Encyclopedia Britannica*.

In places such as Europe, America, and Japan, and at one time or another, in Singapore, South Korea, and Taiwan, the people became unhappy with the lack of uniform law, lack of consistency and transparency in the court system, and a vast difference between "having rights" and "receiving justice." And there was leadership to bring about necessary changes. Once a change occurs, it tends to be emulated by neighboring countries, so it spreads. A salient example is Switzerland. Until the beginning of the 20th century, it was a developing country that exported cheap labor (e.g., mercenaries). It was surrounded by Germany and France and affected by what was happening in its advanced neighboring countries. Today, Switzerland is recognized and respected as one of the most developed countries economically and culturally.

Attracting FDI is important, but policymakers should not forget about a more important task – mobilizing inactive domestic capital. If 85 percent of the population holds its assets outside of the legal system, so that the total value of the "dead" capital in the real estate market alone is worth 55 times the value of the foreign investment stock in the country, the leaders of the government need to trigger reforms. According to Hernando de Soto's estimates, the developing countries hold at least \$9 trillion in real estate alone in the form of "dead" capital.

When I meet economic policymakers of a developing country, I often quote a passage from a book that has nothing to do with economics. The book's title is *The Power of NOW: A Guide to Spiritual Enlightenment*, written by Eckhart Tolle, a lecturer of philosophy at Oxford University.

A beggar had been sitting by the side of a road for over thirty years. One day a stranger walked by. "Spare some change?" mumbled the beggar, mechanically holding out his old baseball cap. "I have nothing to give you," said the stranger. Then he asked: "What's that you are sitting on?" "Nothing," replied the beggar. "Just an old box. I have been sitting on it for as long as I can remember." "Ever looked inside?" asked the stranger. "No," said the beggar. "What's the point? There is nothing in there." "Have a look inside," insisted the stranger. The beggar managed to pry open the lid. With astonishment, disbelief, and elation, he saw that the box was filled with gold.

The Peruvian economist de Soto is that stranger who is telling developing countries to look inside and mobilize inactive domestic capital they are sitting on. The leader's task in every developing country is to initiate and accomplish the necessary national reforms. Such reforms would enable them to transform what Dr. de Soto aptly calls the "dead" capital into "live" capital that would be utilized productively together with FDI.

I believe that one does not have to be a die-hard capitalist to say that, for the moment, capitalism, or the market system, if one is allergic to the "c" word, is the system that provides the tools to create massive surplus value. However, let me hasten to add that capitalism without a human face would be as detrimental to humanity as the debunked (Soviet) socialism without a human face was. If I quote a Hungarian saying of the 1960s, "In capitalism, men exploit men, and in socialism, vice versa."

I hope that policymakers heed the following (bullet-point) observations if they wish to keep the economic system of their country humane:

- The reality of human societies throughout recorded human history is that the economy was naturally "embedded" in society, not the other way around.
- The economy is not (and should not be) autonomous, as mainstream Anglo-American economics assumes erroneously; it is (and should be) subordinated to society.
- The running of society as an adjunct to the market is wrong, never worked, and would not work in the future. It is inappropriate to have social relations embedded in the economic system instead of having the economy embedded in social relations.
- Politics (governance, national defense), culture (especially its educational components), and economic activities (production, exchange, distribution, consumption) are dimensions of human social existence. A sociality is a necessary form of human existence. Any social science (e.g., economics) that ignores human existence's social aspects is inadequate from its inception.
- Aristotle was right in saying that politics is the culmination of ethics and the master science, an integrated study of social life viewed as a complex organic system. Per Aristotle, economics is a dimension of ethics that posits the *summum bonum* for human society and describes the regional structure of human social existence.[\[1\]](#)
- The economy exists for the human person, and not vice versa. The moral principles should shape all economic life. Economic choices and institutions must be judged by how they protect or undermine the life and the dignity of the human person, support his/her family, and serve the common good.
- At a minimum, leaders should not let the Theology of Neoliberalism displace the Theology of Saint Paul, as happened in America during the last four decades, notwithstanding ubiquitous churches. The former represents the economy *of the 1%, by the 1%, for the 1%*.

To keep the economy humane requires leadership. But the question is: how is a critical mass of leadership formed in a specific country at a particular moment in time? I confess that I do not know. How a critical mass of leadership is developed is a great mystery to me. If any reader of this journal happens to find the answer, kindly let me know. I wish to learn before I collapse eventually.

But at least I can share my thought on leaders or leadership by paraphrasing a passage from a great thinker of ancient China. According to the *Tao Te Ching* (chapter 17), a collection of thoughts of Lao Tsu:

A *good* leader is the one whom people respect and love.

A *bad* leader is the one whom people fear.

The *worst* leader is the one whom people despise.

An *ideal* leader performs actions without unnecessary speech (that is, without resorting to propaganda or spin), and his people say, "We did it!"

I believe that every leader should strive to become an *ideal* leader, as envisioned by Lao Tsu. Under such a leader (or leaders), the people will say, "We did it!" when they make remarkable economic development and enjoy high living standards in a civilized manner.

The people led by such a leader (or leaders) would believe firmly and say with confidence that "Our future is in our own hands."

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[1] Aristotle (as well as Confucius) would have approved of the statement that there is one science of society with parts having different foci for heuristic rationale. The creation of schools of law, business, social work, etc. with the semblance of autonomy is an unfortunate occurrence. I am one of the few voices crying in the wilderness. Some academic colleagues may agree with me, but they refrain from speaking out for fear of ostracism from their professions.

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