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# Human Development Driven by Economic Growth, Trade, and Social Spending: Cases of Indonesia, Malaysia and Turkey

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**Abstract.**
This essay discusses the relationship between international trade, economic growth, and human development in the cases of Indonesia, Malaysia, and Turkey. International trade, especially exports, is the surest path to sustainable economic growth. Economic growth on its own is not enough for human development and needs to be supported by social spending including health, education, social assistance, family benefits, etc. Malaysia is the best performer in terms of manufacturing exports among the three countries analyzed. On the other hand, Turkey devotes most resources to social spending among these three countries. I conclude with policy suggestions to improve economic growth and redistribution for each case.

**Keywords:** exports, social spending, Indonesia, Malaysia, Turkey

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## 1. INTRODUCTION

Human welfare depends on both to economic growth and welfare state functions such as better health, education, nicer environment, more leisure. Economic growth provides the resources to redistribute, and for social spending like education and health. In this short article, first I document the substantial increase in economic growth that took place in Asia in the post-World War II era. Second, I focus on most industrialized Muslim majority countries: Turkey, Malaysia, and Indonesia. Third I analyze the trade and technology performance of these countries. Fourth, I document the redistribution efforts in these countries. Finally, I conclude with policy suggestions to improve economic growth and redistribution which will enhance human development even further.

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## 2. METHOD

In the post-World War II era Asia as a whole has grown faster than the rest of the World. At the end of World War II, Asia was the poorest continent. As of 2020s Asia is significantly richer than Africa and is about to catch up to Latin American and Middle East. East Asia is the first sub-region to develop rapidly. By 1980 most of Asia was still very poor and most of the poorest people were living in China and South Asia.[? ] Since then, the spectacular economic growth first in China then in South Asia lifted billions out of poverty. The growth episode of Asia in the last 40 years is unprecedented in human history. This broad based economic growth lifted billions out of poverty by directly increasing people's incomes.[? ] East Asia is already one of the most developed part of the World.

Turkey, Malaysia, and Indonesia are the leading industrial Muslim majority countries. In terms of economic growth, the best performer out of this three is Malaysia. Nevertheless, all three countries grew faster than World average. As of 2020, Malaysia and Turkey are industrialized upper middle income countries. Indonesia is also catching up. Malaysia is the best performer in terms of poverty (less than 10 % below $6.85 a day threshold).

In his influential book *How Asia Works*, Studwell argues that for economic growth it's much better in the long run to be a manufacturing country than a natural resource country, and exports are really important for learning about foreign technology and business practices [1] The root cause of human betterment over centuries is developing and deploying better technologies. In manufacturing and business, being an exporter forces firms to constantly improve their product. Price-performance ratio of the product is the best determinant of a successful product and competing in export markets forces firms to constantly improve their product by upgrading their technology and business practices.

Chang and Studwell also emphasize the importance of creating domestic firms competitive in international sphere is more beneficial than relying on Foreign Direct Investment (FDI) [1,2]. FDI, especially in manufacturing industries are also beneficial for poor countries. It provides avenues for on-the-job learning for locals employed in foreign firms. However, nurturing internationally renowned firms/brands means that in addition to production/assembly; research and development, design, marketing and other high value added activities are domestically located. Directly engaging in these high value added activities allow firms, and countries they are located, to quickly climb technology and business know-how ladder. The success of each country's policies can be evaluated by analyzing their exports and imports.

# 3. RESULTS & DISCUSSION

## 3.1. Analysis of Exports and Imports

According to Observatory of Economic Complexity[? ], Malaysia is a large exporter relative to its size and its exports are larger than its imports (8k per person export, 6k per person import). Malaysian exports are composed of lots of manufactured goods, especially electronics. According to Atlas of product complexity rankings[? ] Malaysia's has risen in product complexity from $36^{th}$ to $24^{th}$ place between 1995 and 2020. Malaysia has no internationally renowned firms in manufacturing industries.

Turkey is not a big exporter relative to its size; and in Turkey exports are less than imports (2k per person export, 2.5k per person import). Turkey export lots of manufactured goods, especially cars and machinery. Between 1995 and 2020 product complexity of Turkey increased from $56^{th}$ to $41^{st}$ place. There are no internationally renowned Turkish manufacturing companies.

Indonesia is not a big exporter relative to its size; but at least exports are larger than imports (0.65k per person export, 0.5k per person import). Indonesian exports are mostly minerals and agricultural products, but some recent increase in manufactured goods. Between 1995 and 2020 product complexity of Indonesia increased from $77^{th}$ to $67^{st}$ place. There are no internationally renowned Indonesian manufacturing firms.

## 3.2. Redistribution and Social Spending

Total tax revenue as a share of GDP generally increases with increasing incomes. In Turkey it is about 25 % and almost close to 50 % in some European countries.[? ] Indonesia and Malaysia are exceptions to this general trend. Their share of tax revenue as a share GDP is lower than Vietnam, a country poorer than both of those countries. As a result of limited government revenues, Malaysia and Indonesia redistributes much less than they can afford to given their level of economic development.

# 4. CONCLUSIONS

The purpose of economic growth is to improve human welfare. Economic growth can increase welfare by directly increasing private incomes. However, some crucial dimensions of human welfare can only be attained collectively: security, public health, public education, social security for the old age, regulation of environmental standards etc. These public dimensions of human welfare require taxing and redistributing part of private incomes. In this final section I list areas in need of improvement in Malaysia, Indonesia, and Turkey based on the analysis in the previous sections.

*In terms of generating economic growth,* Malaysia is on the right track, it needs to take the next step: create international brands, be a center of design and management. Turkey needs to increase exports and balance exports & imports. It also needs to take the next step: create international brands, be a center of design and management. Indonesia needs to increase export of manufactured goods and rely less on natural resources.

*In terms of redistributing the fruits of the growth,* Turkey spends too much on pensions (lots of early retirees) and too little on health, education and families. It needs to rebalance its social security system and devote more resources to families and early childhood education in order to reduce child poverty and battle declining fertility. Malaysia and Indonesia tax too little and spend too little on all forms of social spending.

## References

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[3] Klein MC, Pettis M. "Trade wars are class wars: How rising inequality distorts the global economy and threatens international peace." Yale University Press, 2020.