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Asia's Rise: Cooling on the Conventional Wisdom
by Brad Glosserman

Brad Glosserman (brad@pacforum.org) is executive director of the Pacific Forum CSIS.

SEOUL – According to conventional wisdom, the global economic crisis is accelerating the transfer of power and influence from the West to Asia. The United States has been particularly hard hit by the downturn and America's loss is China's gain. This shift is transforming international economic decisionmaking. The G8, the traditional locus of power, has been fatally wounded. In the future, goes the argument, the most important forum will be the G20.

If this analysis is correct, then, the conventional wisdom suggests, another fundamental shift in global economic activity is forthcoming. Western demand will no longer serve as the primary engine of growth. Instead, Asian nations will abandon their export-oriented economic models and embrace domestic consumption to generate growth. That will put in train another set of "knock-on effects," the most important of which is the development of social safety nets – welfare systems – so their citizens will no longer feel obliged to save so much of their income and will consume instead.

As usual, the conventional wisdom blurs hope and reality. The ultimate impact of the economic crisis is far from certain and the future contours of the global economy remain unclear. Trends have emerged, but their trajectories can change.

Start with the assumption that the West has been harder hit by the crisis than the rest of the world. That is true: the West has lost more wealth, but it had more wealth to lose. And the gap between Asia and the West had been narrowing for over a decade as a result of Asia's growth. The most important question is which economic model will facilitate a faster, more resilient and more durable recovery. Will the Anglo-Saxon model – hopefully modified to trim its excesses – best the state-centered approach that prevails in Asia?

In recent discussions, I hear a hint of smugness among Asians when conversation turns to the impact of the downturn on the U.S. Given the interdependence of the Asian and U.S. economies – the U.S is the final market for many Asian products and many Asian governments hold considerable amounts of dollar-denominated assets – schadenfreude is a mistake. The much-talked about "decoupling" of the trans-Pacific economies hasn't happened. As long as the U.S. economy stumbles, Asia is unlikely to experience sustained growth.

All recognize that this relationship has to change. The massive imbalances – the U.S. with its trade and current account deficits, Asia with its surpluses – are unsustainable. But recalibration will take time. Equally important, it will require Asian governments to reverse longstanding policies and attitudes.

First, those governments have to stimulate domestic demand. One option is infrastructure development. Asia's needs are conservatively estimated at hundreds of billions of dollars. But while those projects are needed to spur regional development, they do nothing to absorb the billions of dollars of products produced in Asia and consumed in the West. Ultimately, a consumer market is needed to replace that demand.

To do that, governments have to develop welfare systems so that their citizens won't be compelled to save so much. Savings rates throughout the region are high because citizens worry about having enough money when they retire.

Equally important, Asian governments have to create new relationships with their citizens. Those governments have historically kept a tight grip on capital to direct funds to targets it deemed worthy, whether it be favored enterprises or "strategic" sectors of the economy. Consumption-led economies require greater autonomy for the consumer, and this is a fundamentally alien mindset for most Asian governments and their powerful bureaucracies.

Asian governments are deeply engaged in social engineering, whether the rationale is nation building, economic development, or just plain authoritarianism. Control of the purse strings is the easiest way to create and shape desired outcomes. Loosening this grip is critical to the creation of domestic demand driven economies, and is a step that goes against the instincts of virtually every Asian government.

This mindset will influence the utility of the G20, the other "beneficiary" of the current crisis. There is little doubt that the G8, "the rich man's club" of nations, is past its prime. The annual summits had become little more than photo ops that produced largely empty declarations. The G20, which represents some 80 percent of the world's wealth, is a far more representative group: its members come from all over the world, and they represent a wider range of political, economic and social models. That diversity has its drawbacks, however: reaching consensus is difficult and agreements are largely rhetorical. It should come as no surprise, for example, that despite the group's pledge in November 2008 to avoid protectionism, a World Bank study found that 17 members had adopted new trade-restricting measures by the following April.

The leadership that is needed from groups like the G20 – or any nation for that matter – requires governments to put global interests ahead of narrow parochial ones. Leaders provide public goods, which entails the assumption of responsibilities and costs that sometimes go against a narrowly defined national interest. Asian governments have shown little inclination to take up those burdens. They demand a seat at the table – which they have earned – but are reluctant to assume the costs that come with real leadership. Instead, leadership looks a lot like mediation: providing a forum for discussion and looking for lowest common denominator solutions. That is acceptable in many cases, but it is unlikely to work when dealing with tough international issues.

The desire to engage in social engineering is problematic when it comes to economic leadership. In this arena, rules are made to maximize the group's welfare, not just that of an individual nation. Yet a government's pursuit of particular social outcomes means that economic rationality isn't necessarily guiding its decisionmaking; politics usually is. And that narrow conception of national interest means that it is less likely to press for solutions that fit other countries' needs.

The most important factor shaping the global economy will be the spread of a "Green mentality." While human dignity and equality demand that millions – if not billions – more individuals should enjoy future prosperity, transplanting the Western model of consumption to Asia would be a disaster. "A chicken in every pot" and "a car in every garage" – even if they aren't SUVs – would exact an extraordinary toll on the planet. Asia's growing middle class should not be deprived of the hard-won fruits of their success, but those societies should not emulate the West, especially if that means repeating its mistakes. They need to develop notions of "the good life" and "success" that better coexist with an increasingly burdened planet.

A key component of this mindset, and one that will have a powerful impact on future growth and economic potential, is green production. Manufacturers need to develop production models that use resources more efficiently: this will include leaner production methods (ones that use fewer inputs), generating less waste, employing recyclable materials, and consuming less energy. Countries that recognize the importance of this model and shift to green production will be tomorrow's "winners."

Critical to this process are consumers who demand greener products. This may well determine Asia's future: if the ordinary citizen's consciousness is "green," then governments and industry will follow suit. If this occurs, then one of the most powerful emerging forces in the global economy will be driving real and substantive change. Then the conventional wisdom may prove accurate after all.