

THE
EAST-WEST
PENDULUM



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PREFACE

In ancient times Chinese people explained the nature of the world as a basic dualism. Yang is male, light, hot, active; yin is female, dark, cold, passive. Unlike the dualism of the Mediterranean world, in which good and evil are in perpetual conflict, yin and yang are mutually complementary and balancing. The greater yang grows, the sooner it will yield to yin; the sun at noon is starting to give way to night. The interdependence of the two principles is well symbolized by an interlocking figure which today is used as the central element in the flag of the Republic of Korea. Actually, the yin–yang concept often seems more useful than Western dualism for analyzing nature and also human affairs. It neatly fits the rhythms of day and night, summer and winter, and the balancing roles of male and female.

This dualism may also be applied to East and West. The East has, for the past one thousand years or more, had a great preponderance in terms of the numbers of humanity, of economic resources and of continuous civilization. Why did the Chinese Empire recover from the early barbarian incursions of the early fourth century when its contemporary in the West, the Roman Empire, collapsed and declined into the Dark Ages? On the other hand, the question may be asked, why did China never have an age of exploration and science such as the West's Renaissance, the Age of Enlightenment? Despite Western supremacy in the field of ideas, it was only from 1800 onwards that Western traders and colonial powers managed to dominate the Asian peoples.

The argument of this book is that Asia is once again on the move and that during the next ten years it will again be the centre of the world economy. It has already replaced the United States as the locomotive of the world economy with its new spending power, its new technology and its growing capital resources. Within Asia the leadership is changing too. Japan has led the wave of modernization since the Second World War. It has led in management and in technology and has maintained a stable political system. Now, however, it is the overseas Chinese states of South East Asia which are taking up the baton. My contention is that the leadership of Asia, in economic and cultural terms, will pass to the Chinese during the next twenty years.

There are sound arguments for this prediction. The first is the proven genius of the Chinese race throughout the past three thousand years of continuous civilization. The accomplishments of the Chinese people in the field of scientific and technological invention as described by Joseph Needham in his book *Science and Civilisation in China*, are a further proof of the creativity and artistic brilliance exhibited in Chinese painting, ceramics and literature. For example, the great surviving monuments of the early Ming Dynasty, the Forbidden City and the Temple of Heaven in Peking, may be compared with the remarkable construction of the Chinese city states of Singapore and Hong Kong in the past thirty years. An age of large-scale building activity reflects the underlying confidence of the culture. As we approach the year 2000 it is clear that the centre of gravity in the Chinese world has moved south. Historically it was centred on the Yellow River and laterly the Yangtse, typically on the cities of Xian, Nanking, Peking and Shanghai (from 1850 to 1950). Today the centre of economic and, increasingly, cultural activity is the Pearl River and the coastal city of Hong Kong, which may be described as the nerve centre of the overseas Chinese world.

If we imagine Hong Kong as the focal point of a number of concentric circles which encompass Taiwan, Guangdong Province in the inner circle, Singapore, Malaysia, Thailand, Indonesia and the Philippines, with their important Chinese communities in the second circle, and then further flung cities such as Vancouver, San Francisco, Sydney and perhaps London in the outer circle, it becomes apparent that the fate of Hong Kong after 1997 will have a ripple effect far beyond the city itself. The dynamic part of the Asian world is in the hands of these overseas Chinese communities. Anything which damages their confidence will damage the growth potential of the region as a whole. The extraordinary economic growth of the past thirty years in the region is also a result of the fact that the genius of the Chinese people has been progressively liberated in this period following the colonial handover in Singapore, for example, and in the new economic freedoms which have characterized the boom in Taiwan and Hong Kong. Hence the importance in China itself today of the democracy movement and the progressive shift towards economic reform which will also liberate this entrepreneurial energy. 'Let the Chinese dragon sleep . . .' (Napoleon).

My purpose in writing this book is to attempt to analyze risks and rewards for investors in Asia today based upon an historical analysis of each country. In particular, political stability is judged by experiences of the past, and the Asian response to foreign investors today is judged by the pattern of response a century ago to Westerners.

The chapters in this book fall into four groups. Chapters 1, 2 and 3 discuss Asian economic history. Chapters 4 and 5 deal with risk reward analysis, and Chapter 5 in particular describes a risk reward analysis for each of the Asian

countries concerned in this book. Chapter 6 looks at the emerging capital markets within Asia, and finally Chapter 7 makes forecasts for Asia to the year 2000.

This book is intended for the general reader and for students who may wish to learn more about the region which is likely to have most impact on their lives in the next fifty years. It may also, I hope, be useful for businesspeople thinking about investment in the Asia-Pacific region. As an investment manager myself much of my thinking has naturally been devoted to the analysis of economies and capital markets. However, in the course of the ten years I have lived in Asia, it has become very apparent to me that without understanding the culture, traditions and beliefs behind the economic statistics we cannot possibly hope to make informed investment decisions. This book, therefore, is a modest attempt to try to fill that gap of understanding and to communicate my enthusiasm about the region to the reader.