

Asian renaissance could be turbulent

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AFTER Asia's financial meltdown in 1997, torrents of accusation raged: not against the crony capitalism and reckless lending that had precipitated the crisis, but against the International Monetary Fund and the World Bank, the tutelary financial gods who insisted on fundamental restructuring in the stricken countries. The medicine was too harsh; it would not work; Asia would, like Latin America before it, lose a decade of growth.

Last week, the Bank and the Fund returned to Asia, not to fret over "who lost Asia", but to admire a landscape transformed. Far from being "lost", growth in East Asia's emerging economies has accelerated almost from the moment they picked themselves off the floor.

The medicine — liberalised foreign investment regimes, drastic bank shake-outs and credit restructuring, more efficient resource allocation, an admirably counter-intuitive drive to cut barriers to trade and, finally, what has become the world's fattest cushion of foreign exchange reserves — not only cured the disease but made the patients far healthier.

Asia today is twice as rich as it was in 1997. It has become a rapidly developing regional hub with its own internal dynamic, and bounding domestic demand for the consumer durables it produces in such abundance. Emerging Asia's lifeblood is



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still trade; its exports have doubled in the past six years and now exceed those of all other developing countries and the former Soviet Union combined. But this trade has changed radically, both in content and in character.

Although Asian manufacturing has kept a massive foot planted in low-wage, low-skill sectors such as garments, half its exports are now in sophisticated electronics, medical supplies and precision instruments. And, remarkably, more than half of this trade — 49 per cent of imports and 55 per cent of exports — now takes place within East Asia, economic integration comparable with the European Union.

This has a lot to do with China's rise, size and phenomenal hunger for imports to fuel its export boom. But that cannot be the whole story; China, even now, accounts for less than a quarter of the region's gross income, as against two-thirds for Japan. What is happening, driven this time by market forces rather than government intervention, is a broadening regional supply chain, with the rapid

development of vertical specialisation and economies of scale — dry words that translate into enviably flexible, constantly adapting, patterns of production.

Politically and demographically, Asia could hardly be more diverse. Democratic, resource-poor Mongolia has little in common with the oppressive, nominally socialist but actually sharp-clawed tiger capitalism of China; Laos has nothing in common with Singapore. Yet, apart from Myanmar and North Korea, the same tide is lifting all Asian boats.

Asians have embraced outsourcing with enthusiasm, creating complex regional production chains involving multiple sources: A Thai enterprise assembling hard drives for shipment to China imports its components from 11 Asian countries. With such increasing specialisation and advanced production techniques, a step change in innovation beckons.

Piggy-backing on technology introduced by the foreign-owned firms that dominate Asia's high-tech exports, to be sure, but also increasingly drawing on local R&D, Asian factories are developing new varieties of product faster than their competitors. This goes beyond the smooth rise that Adam Smith predicted for all states blessed with "peace, easy taxes and a tolerable administration of justice" — the last is defective, in any

case, in too much of the region. A new economic paradigm is emerging.

A new report, "An East Asian Renaissance: Ideas for Growth" by a World Bank team of economists, talks of an Asian renaissance. As in 15th century Italian cities, it is marked by the accelerated absorption of knowledge and taste for the good life. The computer is today's equivalent of the printing press revolution. Its authors see breathtakingly rapid change "in trade and finance, ideas and technology, urban development, household finances and demands on the public sector". They also put this transformation in a startling historical perspective.

"If current growth trends prevail, by 2030 East Asia will be as large in terms of the world economy (43 per cent) as it was in 1820, around the time it began a long decline," left standing by the industrial revolution in Europe and finally the United States and by the breakdown of corrupt authoritarian political systems.

Asia's former wealth is a forgotten story; yet for the three centuries before 1800 it accounted for around 40 per cent of the global economy. Its rebound, from a 1950's nadir of 14 per cent, has taken only half a century. It would have taken less time but for the devastation of war and the lunacies of Maoism.

Yet Asia's rebirth may be as stormy

as were city-state politics in Renaissance Italy, because some of its old demons are still active. Corruption, in first place; grand larceny, Suharto-style, in China; and the scratch-my-back corruption Suharto himself defended to the World Bank's John Wolfensohn, as rooted in Asian "family values". The cost of corruption was, paradoxically, contained when it was centralised, systematic and predictable.

In much of Asia, oppression has eased, yet as last week's Thai coup reminded us, respect for law is tenuous. So the combination of freer markets and decentralised decisions could, as has happened in China, make matters worse before they improve. Weak civic responsibility stimulates abuse of scarce resources such as water, and bedevils management of the cities, swelled by two million more people every month, that are driving Asian growth.

Asia is not, yet, rich; it is anything but a place of equal opportunities; and its interwoven prosperity is still liable to contagious damage should China, where embezzlement and inequity are burning issues, be destabilised. There is a blackbird in Dante who, so Virgil tells the poet, sings that, having survived the winter, he has no more need of God. Asians must not succumb to such hubris. — The Times