Sustaining Asian Growth


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Just over one year ago, Lehman Brothers Holdings collapsed in the United States, triggering a financial crisis. Global meltdown has been averted. But the crisis is not simply a blip on the screen before growth automatically returns. Fundamental questions lie ahead.

The three past essays in this journal explored the needs and opportunities for regional responses in Asia, relations with the United States and the role of China, which has continued to grow. I have urged Asia to move ahead with freer trade and closer economic integration. However, I have cautioned that this crisis should neither be allowed to divide Asia from the United States, nor push the region into a China-centric orbit.

This fourth and final essay turns to the question of sustaining the growth in Asia and ensuring that it is sustainable, environmentally.

Some Asian economies continue to grow, but the pattern and sources of growth may not be sustainable. Moreover, the international community is negotiating a future regime to deal with climate change by the time a December 2009 meeting is held in Copenhagen. This has implications for Asian economies, whose rapid growth has been in tandem with a rapid rise in energy use and CO_2 emissions.

Doubting Present Growth

Many optimistically see signs of "green shoots." In the United States, several banks near the epicenter of the crisis have reported profits. In Asia, some economies – China, India and Indonesia – continue to grow, albeit at slower rates than pre-crisis levels. Worldwide, stock markets surged in the summer months.

There are reasons to be skeptical, however. Governments, having underwritten intervention with billion dollar budgets, need to show positive impacts. After writing off huge losses, companies rebound from a lower baseline. Companies which have run down their inventories have to eventually restock.

Most do not see a return to the high growth rates that characterized the years before the crisis. Many think the economy will bump up and down along the bottom, at most reaching 3%, even with strong government stimulus (see "IMF Expects 2010 Growth of Nearly 3%," *Wall Street Journal,* Sept. 1, 2009). If so, there are concerns, even for countries that are still growing.

First, current growth levels may not be sufficient. Take Indonesia, for example. Its economy will probably grow 3%-4% in 2009 (see "Indonesia Says Economy Expanded in 2nd Quarter," *Wall Street Journal,* Aug. 11, 2009). This is better than many feared, but there is an underlying need to create jobs for the country's many youths.

Yet Indonesia's growth is linked strongly to resource exports, which are not a large job generator. Thus, despite reasonable overall growth, a gap in job creation may result unless investment is attracted for manufacturing or other job-creating industries.

Secondly, where economies are recovering, government intervention and stimulus packages – and not private consumption – are shoring up economic activity. In China, for example, state agencies, banks and other institutions have pushed out funding to the point of profligacy.

But efficiency and sustainability beyond the immediate term must be considered. There will be limits to how much governments can do and for how long even if, like China, they have strong reserves.

The sharp drop in Shanghai's market in August 2009, after months of surge, is a sharp reminder (see "Shanghai loan fears hit global shares," *Financial Times,* Aug. 31, 2009). It took only a rumor that state banks would tighten credit to bring the run to a sudden end, with a 6% drop in one day, back to the worst levels since the crisis broke, and rippling into other markets. There seems little confidence for growth, without the state throwing money at the problem.

The world economy went into shock and seizure at the end 2008. With emergency intervention, the pulse restarted. But it is still weak, and the patient is still on assisted breathing. At some point it must come off that equipment and breathe without assistance. But how?

Rebalancing: How & When?

With consumption in the United States and Europe no longer expected to grow as rapidly, debates abound about rebalancing the global economy. The prescription is for Asian economies to instead find ways to increase their own domestic markets and intra-Asian demand.

This may sound possible, even simple. Many Asians have considerable savings. Why not spend more of them? If fears about healthcare or unemployment prohibit consumption, supply social safety nets. If low wages prohibit a middle class with sufficient demand, then increase salaries.

But there are deeper challenges. Some, like Lee Kuan Yew, the minister mentor of Singapore, believe that Asians emphasize saving as a virtue. Even without embedded cultural factors, the policy prescriptions for social safety nets and higher wages will require time and considerable effort. There is more at stake than an economic policy.

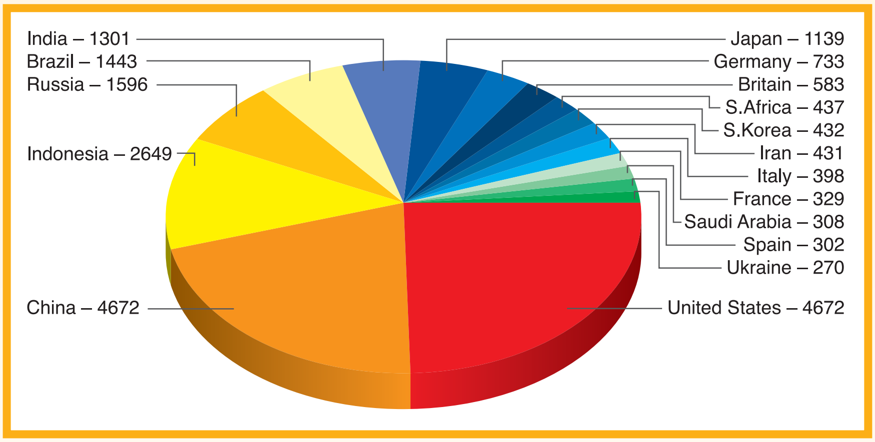
Some states will be concerned about deficits and competitiveness. The de facto policy of too many Asian economies is to compete based on lower-cost structures. Given this, policy prescriptions to raise both state expenditures and wages are not simple but strategic in nature.

Mindsets need to change. Take a look at the goal of freer trade, to which many Asians say they aspire. But many only focus on their exports being free to enter other markets. The reverse freedom – the right of others to enter their domestic markets – has proved stickier.

The crisis is not helping. Larger Asian economies which continue to grow now believe that their large, domestic markets are a source of strength that they must protect. In pump-priming their domestic markets, some have been nationalistic, if not outrightly protectionist.

Access to these markets for smaller economies has not improved. This is needed for closer economic integration and closer linkages

Carbon dioxide emissions*



Note: * from the consumption of oil, coal and natural gas, including land use and forestation (in millions of metric tons). Data for 2004-2005.
Source: "Fight Climate Change: Human Solidarity in a Divided World," Human Development Report 2007/2008, UNDP

between pan-Asian production and consumption.

Mindsets about the United States, too, must change. US-Asian interdependence has often been seen in terms of the export of American capital and manufacturing and the import of Asian goods. The reverse lens needs to be used.

Asians should start to invest more in the United States, and be welcome investors. The United States should also seek to increase its role as an exporter to Asia. On its part, while some American companies already produce for Asian consumers, the United States must recognize that it is often behind in understanding, adapting and accessing Asian markets.

If this can be done, rising US exports to Asia can reduce the trade deficit. Interdependence between the two can continue – rather than a sharp and sudden divide – albeit on different and more equal terms.

Green Sustainability

The other emerging challenge for Asia to grow sustainably is in terms of the environment and climate change. With steep trajectories of growth, Asia's environmental footprint has increased dramatically. The large population base in countries like China and India keeps the per capita figures low, but the aggregates do add up.

In greenhouse gases, for example, UN estimates now place China as the planet's largest emitter and India as No. 6. If deforestation and land use changes are calculated, and not just industrial emissions included, Indonesia rises to No. 3.

This needs to be addressed in the context of the effort to create a global regime to address climate change. Asians have often been accused of dragging their feet and opposing effective action. They should not.

While climate change will affect us all, many studies now show that Asians will be especially vulnerable. Tropical and monsoon Asia will contend with far less predictable weather, affecting agriculture and water supplies. Asia's many booming cities and population centers along the coast will face sea-level rises and storm surges.

The economic and developmental consequences of unchecked climate change would be enormous. A study by the Asian Development Bank on Indonesia, the Philippines, Thailand and Vietnam in Southeast Asia concludes that as much as 6.7% of their GDP could be wiped out by climate change.

Given this, Asia needs to deal with climate change not for the sake of the rest of the world but for themselves, first and foremost. The terms of a global compact remain to be agreed and developing Asian countries have good reason to stand by the principle of common and differentiated responsibility. This will mean that developed countries must lead the way for cuts and provide assistance to others to adapt.

But there is much that Asians can do for themselves and in tandem with other concerns of energy and resource security. China, for example, has pledged to increase energy efficiency by 20% by 2010.

China and a handful of other Asian countries have also developed strengths in renewable energy and private companies have been developing the technology and know-how to be at the forefront of these emerging sectors of growth. According to the Worldwatch Institute, China is poised to be the world leader in manufacturing every renewable energy product by 2011, while a Chinese company, Suntech, is the third largest manufacturer of solar cells in the world. India ranks fifth in the world in total production of wind power.

These efforts by Asians have been supported in tandem with efforts to address the crisis. China's stimulus package, for instance, is analyzed to set aside some 38% for different "green" initiatives, totaling some $220 billion, by far the world's largest. Across China, there are new test-beds for green cities and other projects.

These steps alone will not resolve the climate change crisis. But they are significant changes, especially for moving ahead despite the crisis and indeed in tandem with responses to the downturn.

A New Asia?

The financial crisis that began in the United States did not directly infect the financial systems of Asia. The impact has been on economic growth, as American demand tumbled. Shifts resulted that portend a profound change from the patterns of interdependence that have prevailed in the last decade between Asia and the United States.

The model of export-led growth, Asian regionalism and relations to the United States, the balance between government and market, and the challenge of climate change and sustainability: all these and more are being debated. Answers are still pending. Much will depend on policies and actions taken in the coming years.

The path ahead may prove every bit as challenging and tumultuous as this first year of the crisis. But emerging from this tumult, just as in the crisis before this, a new Asia is emerging that is different from what existed before, in ways that we at present can only start to envisage. JS

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