# The Future of Asia and the West: Markets versus Protectionism

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At the same time market forces in Europe have become more sluggish, if not—in some countries—downright sclerotic, pro longing the woes of recession, markets in Asia have boomed and soared and roared, to some extent because of the stage of the development cycle at which hundreds of millions of hard-working traders, producers, and consumers have been introduced to them. First, there was Japan, then the so-called New Dragons of Hong Kong, Taiwan, Singapore, and South Korea. Today in Asia, especially in eastern and southern Asia, it is increasingly difficult to find any country without at least a modicum of dragon-like potential. The formula has not always been exactly the same; nor is it adequate to ascribe success solely to the unrestrained application of free market economics. In Hong Kong, for example—Milton Freidman's favorite capitalist model—a massive program of public sector housing was an important ingredient in social harmony and economic lift-off. Political stability, investment in social equity programs like health care and education, a business-friendly environment, hard work and market rather than command economics have all helped to arouse the dragons.

The result is that Asia is the fastest growing region on earth, with confident forecasts of 5-6 percent growth a year for the next ten years. That is twice as fast as forecasts for America, and over half as much again as the best projections for Europe. The region is likely to account for a

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third of world production by the years 2010, compared with a quarter now.

More and more of this growth is based on intra-regional trade. Nearly 50 percent of Pacific air cargo travels between Asian destinations. Half of Singapore's shipments to its ports arrives from its neighbors—Malaysia, Thailand, Hong Kong, and Taiwan. By the turn of the century, half of all Asian trade is expected to be within Asia itself. Asia is its own best customer. But, of course, these markets offer a huge potential for outsiders too. Hong Kong, for example, imports more from the US and Europe than it exports to them.

The region encompassing East and Southeast Asia is transforming itself from a low-cost manufacturing base into an increasingly economically independent and significant region, generating much of its own growth. Just as Japanese manufacturing migration helped to trigger identical development in South Korea, Hong Kong, Taiwan, and Singapore, now these countries having encountered rising production costs, are looking in their turn for new places to do business more cheaply—to Malaysia, to Indonesia, to Thailand, and increasingly to Vietnam.

The huge backdrop to this picture is China. A China:

- where real GNP has grown by something like 9 per cent a year for the last fourteen years, and by more in recent years;
- whose economy next year will probably be around four times as large as it was when the Conservatives came to power in Britain;
- which by 2002 could be eight times bigger;
- which, if it continues to grow as fast for the next twenty years as it has for the last fourteen, would become the biggest economy on earth sometime between 2010 and 2020.

In short, we are witnessing in China an economic revolution without precedent in Asia, probably without parallel anywhere in the world, an economic whirlwind that is lifting the living standards of—literally—hundreds of millions of people.

Of course, all these predictions—the commonplaces of economic discussions today from the saloon bar to the board room—may turn to dust. The ability to forecast economic outcomes always falls down on our inevitable failure to cope with discontinuity. But history is partly the record of interesting discontinuities. In the fifteenth century, a futurologist would have guessed that China, an Oriental colossus—the first nation to invent the compass, printing, and gunpowder, with an efficient government that stood in sharp contrast to Europe's bellicose principalities—would have dominated the next period of history. As China retreated behind the Great Wall, history took a different path. Even recently it is worth recalling the predictions in the 1950s that the Soviet Union's GNP would surpass that of the US within a quarter century. The experts *can* be wrong.

Nevertheless, any and every rational assumption suggests that the outlook for Asia is exciting. Well over 2 billion people discovering market economics has to be a very good thing. A combination of better economics, better education, better health care and—we must hope—better government (and here even the absence of historical monsters would be a substantial plus), should ensure brighter days for Asia, and therefore for the rest of the world as well.

While Asian countries show their paces at market economics, the temptation in North America and Europe will grow to shut dockyard-gates to their goods and stockrooms to their food. The last four decades have seen the steady liberalization of trade and we may well run out of global steam. Further effort may, for some time ahead, need to go into defending the gains made, and into preventing the traders of the world slipping and sliding back down the hill-side to greater protectionism. Certainly, greater liberalization in agriculture, which would so help the poorer developing countries, and in services, which would so help Britain and the United States, seems at present a distant prospect.

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The reasons for protectionism in the United States and in Europe are slightly different. Protectionism in America is fueled, first, by middle-class dudgeon. The United States is, and will remain for the foreseeable future, the strongest economic power and the sole remaining superpower. But the standard of living of the striving middle-class is unlikely to rise by much, with the proceeds of higher productivity in the economy going to meet soaring costs of professional services, security, and government regulation. Second, American politicians might not be able to resist the temptation of appealing to the nationalistic instincts of their voters over the foreign ownership of industry and property. With the Asian world, in particular, saving so much more than America, the 1980s saw an astonishing turn-around in the balance of credit and debt. In the early 1980s, at historical costs, America owned 150 billion dollars more assets in the rest of the world than foreigners owned in the United States. In the early 1990s foreign investors owned about 750 billion dollars more assets in the United States than Americans own in the rest of the world.

Third, there will continue to be—such is America's openness—substantial immigration into the United States, and a significant proportion of the population will live in third-world conditions in the beaten-up downtown areas of first-world cities. The problems and costs of this are likely to encourage the protection of loser production interests (like the low paid workers' jobs) from foreign competition.

In Europe, the appeal of protectionism may have similar, though not identical roots. First, there is the "yellow perilism" threat of the post-war welfare settlement. There are those in the European Union today who seek to justify protectionist policies directed against emerging nations in Asia, Africa, or South America, on the grounds that as these nations do not have the same level of social infrastructure as the rich nations of Europe, their competition is somehow unfair. This amounts to the absurd and callous proposition that to be poor is somehow to have an unfair trade advantage. Such an argument attempts to turn the theory of comparative advantage on its head by proclaiming a doctrine of permanent advantage.

Second, there is old-fashioned Euro-mercantilism. The identity of European industry—the makers of cars and tractors, sewing machines and refrigerators, power stations and airplanes—must be safeguarded. Once it was American know-how and ownership that Europe railed against; today it is more likely to be Asian. But technology gaps can't be bridged by slamming doors. Better, perhaps, for Europe to look at investment and enrollment in tertiary and technical education, and at the comparative mathematical abilities of youngsters in European schools and of their peer groups in Japan and Korea.

The third argument is at once cosy and flesh creeping. Europe's very identity is threatened: its farms and its cottage industries, its factories and its city streets—where Japanese videos and third-world oil seeds lead the way, hordes of North African and Slavs will surely follow.

Advocates of protectionism see in Adam Smith and the Ricardian Theory of trade, ideas which are no longer relevant to our world and its customs. What is more, they threaten European civilization. This vision is in many ways idyllic. These people see the traditional values of a cohesive society, with low unemployment, prosperity for all, and a proper balance between urban and rural living, under attack. Economic growth, so the argument goes, is not the only measure of success.

Consider the United States: its economy grows and so do its social problems, from drugs and violence to marital break-down and racial tensions. Economic indicators should not dazzle us; other things matter more in life.

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Economic growth can wreck the stability of communities just as it can imperil the balance of nature itself. But no growth can be just as dangerous, often more so. A conclusion I reached during my days as Britain's Development Minister was that grinding poverty was one of the main environmental menaces: not because of any fault of the poor, but because of the consequences of the poor's struggle to eke out a miserably low standard of living from a harsh environment. What is required, whether on the bare mountain slopes of Eritrea, the flooded plains of Bangladesh, or the crumbling streets of Watts or Hackney, is *sustainable* economic development—a concept that begs a host of questions for other places and other days.

While the rich may at the last trump face the tricky job of slipping through the needle's eye to Paradise, for the poor in the here-and-now life certainly isn't much fun. In the past, we glorified the Noble Savage; I trust that we don't, in the 1990s, glorify the Noble Pauper. Poor people are likely to prefer growth to the opposite, whatever the inadequacies of trickle-down theory.

It has long been a cliché of growth advocacy to argue that when the economic tide comes in, all the boats rise. In other words, when a country gets richer—its productivity rising and its competitiveness increasing—all improve their standard of living. This is no longer true. In a global economy where capital and some forms of technology can be rapidly transferred, goods can be made readily wherever the cost of manufacture is lowest. So with more manufacturing being sourced in poorer countries, the supply of unskilled workers has enormously expanded. The result is falling wages or rising unemployment for the unskilled in richer countries. To give an example, while per capita GDP in the United States has grown, many individual wages have fallen. But the answer is not to try to protect low paid jobs by shutting out competition from developing countries. What should be done is to raise the skill level of the urban poor. Their best hope lies with better teachers and trainers and not with protectionist trade officials.

The arguments against protectionism change little, whatever happens to currency movements, capital and technology transfers, or industrial concentration. But we should recognize that we are not dealing with a *potential* threat. Protectionism is with us now. The OECD and the World Bank argued last year that the cost of current levels of protection to world incomes is about $450 billion a year. This is a staggering figure—its impact on developing countries, for instance, is out of all proportion to any conceivable increase in aid flows. It is sobering to reflect that the package of tariff reduction and improved market-access measures that have been negotiated under the GATT Uruguay Round will, when introduced, only halve that loss to world income.

How does protectionism solve anything for richer countries by denying the less developed economies access to their markets? After all, over half of world trade is between industrialized countries, and many of the exports of the poorer countries are concentrated in low value-added sectors like textiles and footwear. Without these export revenues, they would not be able to purchase our exports—infrastructure equipment, machine tools, services and so on.

The effects of protectionism are virtually the same as those of extra public spending—higher taxes, higher borrowing, higher inflation. Protectionism does not increase the size of anyone's GDP. It simply shifts income from one group, usually large and disorganized, to another group, usually small and well-drilled.

The absurdities of protectionism are well known. For example, Europe is restricting the import of mountain bikes made in China in factories built with European investment. Another example is that every person in the United States spends, on average, an extra $360 a year because of measures designed to protect US farmers from overseas imports. But we learned last year that in four years, out of $2.3 billion in cash subsidies dispensed by the US Agriculture Department under an export enhancement program designed to help small US farm products, more than 60 per cent went to just four large corporations, one of which was French and another Italian.

When a government steps in to distort markets for whatever allegedly noble reasons, the canny entrepreneur has a field day profiting at the expense of the consumer. And it is usually the sunset industries that governments protect, not those modern ones that are starting to thrive and prosper.

The passage which some Asian countries are making from command to market economies has been carried through with courage and skill. There is, in the region as a whole, a "can do" attitude, a belief in progress, in making life better, that should come as welcome adrenaline to any European politician.All that said, I do puzzle about what exactly is meant by the "Asian way," and believe very strongly that, without wishing to proselytize, we should not resile from what we believe is right about our "British way"—the basis, after all, of the colonizing and decolonizing experience and of the Commonwealth connection.

From whence comes the oriental philosophy which sparks Asia's success? No longer those well known Asians, Marx and Lenin. So is it Confucius? Should we compare and contrast Confucianism and Western values? Is this where we will find the great divide, where we can hunt down the cultural secret of Asia's booming success? It would be a surprise if this were so. After all, it has often been argued in the past—by Max Weber, for example—that Confucian-based cultures retarded the development of successful capitalism.

Yet today Confucianism is sometimes cited as the explanation for the region's economic success. In a recent article on this subject, the *Asian Wall Street Journal* pointed out that many Asian leaders "focused on aspects of Confucianism that support their respective modernization drive and their political authority—in particular the emphasis on centralized authority and the demand for loyalty and obedience on the part of the populace." However, the same article noted that critics argued that it was precisely those aspects of Confucianism that are least likely to spur economic growth. They also observed that Confucianism did not simply represent the advocacy of obedience to government, but also the accountability of government. I do not therefore find very convincing the exclusivist cultural explanation for Asia's success. Adam Smith still seems to me a key author of the ideas that are bringing a better life to Asia's millions.

Is there a thread—a specifically Asian thread—which runs through all these societies which have their own magnificent culture, identities and histories? How do we loop the thread around Indian democracy and Vietnamese communism? How does the argument accommodate a free press in the Philippines and Hong Kong, and controls on the media in other communities? If Singapore's success is attributed to an authoritarian government, to what do we ascribe Burma's failure? Singapore's government is incorruptible. Is that the Asian way elsewhere?

It is right to argue for free trade, and right to remain wholeheartedly, if judiciously, committed to values which have formed our own community and helped to form others, too. I see no commercial or other interest in us, in the short, the medium, or the long term, pretending to doubt the universality of the ingredients for a good and decent life. Our history in Asia should give us the self-confidence to build stronger and more resilient links with the countries in the region that are today riding the wave of market economics. They will be better governed, more successful, more open in the future—and that will not be because they reject the values which we (and many of them) hold so dear.