

Asia - the next economic giant?

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ARTICLE (January 06, 2013) : Post "Great Recession" rates of output and employment growth in Asia surpassed these rates in all other regions. Asian economies have rebounded strongly and became the engine of growth of the world economy during this period. While output has not rebounded back to the levels experienced by the advanced countries prior to the "Great Recession", unemployment has been at historically high levels and cumulative growth in consumption and investment has been much smaller in these countries. Investment in structures has also been declining sharply and continuously. Based on high growth rates of Asian countries, Asian economic power is projected to increase rapidly in the next two to three decades. It is being predicted that as a result of the rapid rise of Asian economies, US ascendancy in international politics that started in the aftermath of the 2nd World War in 1945 will be coming to an end and Asian economic might will surpass US and European economic might combined by the year 2030.

ASIA, THE NEXT ECONOMIC GIANT? The purpose of this paper is to assess whether this is a realistic prediction and whether Asia is going to be the next powerhouse of the world. In order to explore this, we need to delve a little bit into history. We have to discern the factors that led to the ascendancy of the US as the leading power after the end of the 2nd World War. And how Europe attained its present levels of economic well-being and prosperity post-World War Two? We know that the reason the US emerged as the leading power after the 2nd World War was because it did not experience devastation when the war ended. Although Europe's infrastructure was devastated as a result of the war, but the Marshall Plan helped to rebuild it. The horrors of war had devastated Europe, so when the leaders of allied powers met at the end of the war, they said "no more war". But what they actually said was "no more war in the Western world." Therefore, European governments sorted out their conflicts and made peace with each other. And as colonial powers, while they granted independence to their colonies, they left behind intractable problems between the former colonies. So while the former colonies, which became sovereign countries post-World War-II fought wars over disputed territories, there was conflict resolution in Europe. Countries such as France and Germany, which were arch rivals, became friends. Peace and tranquillity in Europe delivered peace dividends. These were in the form of economic integration, with the resulting increase in incomes and wealth in these countries. The question that needs to be addressed is: Are the economic-politico-social conditions in Asia post-2008 similar to those prevailing in the USA and Europe post-1945? A close inspection shows that post-1945 US and Europe were getting out of the "Great Depression", while Asia post-2008 was emerging out of the "Great Recession" (which had mainly afflicted the rich countries). Post-1945 US and Europe started growing at rapid rates, thus entering the Golden Age from 1953 onwards. Similarly, post-2008 Asian output and employment growths surpassed the rates of growth of countries in other regions. So the economic scenario in the two groups of regions seems somewhat similar. But that is the only similarity between the two groups of countries. And while economic factors are a necessary condition for Asia to become an economic giant, it is not a sufficient condition. The politico-social conditions prevailing in the US and Europe post-1945 are very different from the politico-social conditions prevailing in Asia post-2008. Like stated earlier, post-1945 US and Europe were peaceful and tranquil, post-2008 Asia is on fire.

In fact, the politico-social situation in this part of the world has deteriorated tremendously. These countries have become a hot bed for ethnic strife, sectarian violence and conflict. There are conflicts brewing up in many countries, presenting scenes of war theatre, with a clear trend towards fragmentation of these countries. Asia, Africa and the Middle East have seen a tremendous increase in conflict. Afghanistan, Palestine, Kashmir, Congo, Angola, etc, problems have engulfed the entire developing world. But since the projections about Asia becoming the next powerhouse of the world started pouring in, there has been a tremendous increase in conflicts in Asia. For example, Burma which was quite peaceful under the dictatorial generals suddenly erupted with the Rohingyas issue immediately upon opening up to the West. The China-Japan row over an island which had been dormant for the last several decades suddenly became alive, threatening peace between two very important Asian countries. The politico-social conditions prevailing in Asia post-2008 are very different from the politico-social conditions prevailing in the US and Europe post-1945. In order to assess how the politico-social factors will impact on the economy we need to study how war and conflict impacts on economic growth. My own research shows that during the period 1980 to 2011, one percent increase in conflict, measured by world deaths, causes 4.53% decline in GDP growth in Asia, which works out to be \$587.655 billion of Asian GDP in 2011. On the other hand, European and North American GDP increased at 2.9% per year during the same period, which means an increase of \$646.74 billion of European and North American GDP in 2011. The foregoing, therefore, brings out clearly that conflict has a very damaging effect on growth in Asia. It is therefore inconceivable to think that a region, which is literally on fire, can become the next powerhouse of the world. The economic factors are certainly favourable, and left to its own Asia has the potential to become the next powerhouse of the world, but the politico-social factors are causing a tremendous negative impact on Asian economic growth.

HOW TO MAKE ASIA THE NEXT ECONOMIC GIANT?

First, conflict resolution and not mere conflict management has to take place. Our own experience with convening this conference shows that the present strategy of building people to people relationship between Pakistan and India, while leaving the conflicts unresolved is not working. We had invited two participants from occupied Kashmir and one from India. But they could not get the visa. People-to-people contacts cannot increase as long as there is suspicion in relations between the two countries. And there is bound to be suspicion as long as there are conflicts, especially as long as the core issue of Jammu and Kashmir has not been resolved. While old conflicts are not being resolved, new ones are erupting, pre-empting Asia from becoming the next powerhouse of the world. Moreover, the involvement of extra-regional powers in Asia is resulting in increase in conflict causing decline in Asian GDP growth rate, thus pre-empting the rise of Asia as the next economic power of the world. This underscores the importance of reducing the role of extra-regional powers in Asian affairs. Second, Pakistan should try to increase its economic ties with regional countries. This has to go beyond signing MoUs and starting concrete projects, increasing economic ties with regional players. Third, while Pakistan handles unequal relationships very well, it has to come of age and start handling relationships on the basis of equality, sovereignty and mutual benefits. Fourth, China is a surplus foreign exchange reserve country. It has been investing its reserves in US securities and International Financial Institutions (IFIs). But is experiencing reluctance by these countries in transferring more voting shares to China. Although China has invested more than \$1 trillion in US securities, it is viewed as an adversary. China has also started investing in India which is competing with China for supremacy in Asia. It has also fought a war and continues to have

border disputes with India. How safe are Chinese investment in India and the US? If competition for supremacy heats up and/or the present relationship with India and the US worsens, how secure will Chinese investments in India and the US be? Fifth, in view of the above, China should invest its surplus reserves in more secure investments. One alternative that I am proposing at this forum is the establishment of the Asian Monetary Fund (AMF).

THE MAJOR OBJECTIVE OF THE AMF WILL BE:

1. To try to offer alternatives to the present financial system in accordance with the aspirations of the people in Asia. 2. To offer policy guide lines to Asian countries which are in keeping with their special needs and interests and not the 'one size fits all' type they are currently getting from the WB-IMF. 3. To make credit available to Asian economies for short, medium and long-term project financing. 4. To study the economic impact of globalisation generally, with particular emphasis on unemployment, income distribution, poverty, environment and their socio-politico impact in Asia and at the global level. 5. To formulate a socially relevant development strategy for Asian economies. 6. To study the potential, scope and modus operandi of development through co-operation among Asian countries. 7. To try to integrate the oil abundant Asian economies with food abundant Asian economies, so as to make oil available to the oil importing Asian countries and food available to food importing Asian countries. 8. To create links and contacts among academics to discuss issues and problems through seminars, workshops, conferences and contract research. 9. To undertake collaborative research between Asian academics. 10. To disseminate research undertaken to as wide an audience as possible through a journal to the academics and through newspapers and periodicals to the general public.

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