

Christopher Lingle

The Rise & Decline of the Asian Century

*False Starts on the Path to
the Global Millennium*

Christopher Lingle

The Rise & Decline of the Asian Century

*False Starts on the Path to
the Global Millennium*

The Rise & Decline of the Asian Century

Christopher Lingle

A variety of confluent events has given rise to the notion of an impending "Asian century", whereby the Asian-Pacific region is portrayed as supplanting America as the center of gravity for world affairs. This manifest destiny is based principally on the expectation that the high growth rates registered by the Asian "tiger" economies will continue and eventually spread to other countries in the region. Western institutions, by contrast, are viewed as being in irreversible decline due to moral decay and economic stagnation.

Christopher Lingle challenges this view in his thought-provoking new book. He argues that the "Asian century" concept is the brainchild of a diverse set of observers, some of whom are motivated by their vested interests in having the prophecy become reality. Others, he contends, are simply uninformed.

He points out that many of institutions credited with the "miracle" performance of East Asian economies cannot withstand close scrutiny. Their short-term virtue can be shown to be long-term vice, irreparably harming the region's prospects for sustainable economic and social progress.

The coming period should neither be considered the end of an "American century" nor the beginning of an "Asian century". Instead, it should be constructively regarded as the dawn of a "global millennium", in which an increasingly internationalized economy will raise the living standards of even greater numbers of people.

ISBN 962-7160-63-6



9 789627 160632



ASIA 2000 Ltd

Hong Kong

Non-Fiction

The Rise and Decline of the Asian Century

False Starts on the Path to the Global Millennium

Christopher Lingle



Asia 2000 Limited
Hong Kong

© 1997, 1998 Christopher Lingle
All rights reserved

ISBN 962-7160-63-6
Published by Asia 2000 Ltd
1101 Seabird House,
22-28 Wyndham Street, Central,
Hong Kong

<http://www.asia2000.com.hk/>

Typeset with Ventura Publisher in Palatino by Asia 2000

Printed in Canada by Friesens Corp.

Revised third edition
First printing 1998

Distributed in the United States by
University of Washington Press
PO Box 50096, Seattle, WA 98145

and in Canada by
University of British Columbia Press
6344 Memorial Road, Vancouver, BC V6T 1Z2

First edition published by Editions Sirocco, Barcelona, 1997
Revised second edition published by Asia 2000, 1997

This book is sold subject to the condition that it shall not, by way of trade or otherwise, be lent, resold, hired out or otherwise circulated without the publisher's prior written consent in any form of binding or cover other than that in which it is published and without a similar condition including this condition being imposed on the subsequent purchaser.

*To all the women of my life,
but most especially
to the loving memory of my mother
and
to my favorite sister,
Sandy....*

*and
to Josep C. Verges, his father, and their wonderful family*

*and finally
to an esteemed but anonymous friend
whose wisdom guided this work from afar*

Contents

<i>Preface to the revised edition</i>	9
<i>Preface to the first edition</i>	10
<i>Acknowledgments</i>	13
1 Introduction	15
2 Making sense of the 'Asian Century'	27
3 Imaging the 'Asian Century'	49
4 Economic realities and Asian illusions	71
5 The China challenge	105
6 Burdens of the 'Asian Model'	142
7 Geopolitics and the 'Asian Century'	170
8 Burdens of nature	193
9 The end of the 'American Century'	218
10 Summary	246
11 Hong Kong postscript	273
12 Epilogue	281
<i>Glossary</i>	305
<i>About the author</i>	311
<i>Index</i>	313

Preface to the revised edition

In preparing the manuscript for this book, I felt confident that my analysis was correct even though my views were dismissed as naïve or disparaged for being too gloomy. However, I had no idea about the timing of the economic distress that began in East Asia in July 1997. And so it was that during an around-the-world tour to promote the first edition of this book in mid-1997, I could watch the unfolding of the financial turmoil that would rock so many Asian economies.

Upon reflection, little of what I set out to describe in this book has been proved wrong. Indeed, my views were perhaps too optimistic. The turmoil that began in Thailand has shaken the region more severely and with more widespread effects than the projections offered in my original text. In part, my criticisms were restrained and my predictions softened because I wished to offer a good faith warning so that steps could be taken to avert the sort of problems that others chose not to see looming on the horizon.

Many people have asked if I am not gratified by my apparent prescience or feel redeemed for withstanding criticism for defending my position that contrasted so sharply with conventional wisdom. Alas, no. I would prefer to have been wrong so that fewer people might have suffered.

Nothing in these pages is so complex or speculative that it should have escaped the notice of others. Too many politicians, financiers, and professionals exercised a willful choice to ignore the clear warning signs for reasons discussed in the original text.

A new consensus is forming that much of the suffering in East Asia stems from flaws in economic and political institutions that are common to the region. This is the message that I sought to offer to avert the crises that will cause so much undeserved misery to those in East Asia who worked hardest to bring about the high growth that made a few so undeservedly rich.

Preface to the first edition

Throughout my career, I have been interested in the interplay between economics and politics. To this end, I became a keen student of numerous economic and political institutions during my tenure at universities in different parts of the world. Having left the United States in 1978 for a one-year stint abroad, I was drawn to exotic environs while I continued my investigations. Instead of taking a temporary sojourn, I became an international nomad and expatriate.

I found myself sharing experiences with people whose basic institutions were undergoing dramatic changes. For example, I was in Turkey during and after martial law; in Italy during the terror of the Red Brigade; in England during the 'Winter of Discontent' that led to the 'Thatcher Revolution'; in Post-Franco Spain as it first stumbled and then fully embraced democracy; in Poland when the Solidarity movement had just begun; in South Africa as apartheid began to crumble; in China during the first student protests that led to the Tiananmen Square demonstrations; and in Europe when the Iron Curtain was lifted and the Berlin Wall dismantled. All these experiences had a definite impact on the ideas expressed in this book. (Despite the fortuitous timing of my comings and goings, I accept neither credit nor blame for any of those events!)

My efforts here reflect an attempt to put order in the place of what appears to be chaos amidst East Asia's rapid dash toward economic development. Many will think it a fool's errand to search for general observations about this vast and diverse region. In large part, I undertook this formidable task in response to the encouragement of the many people who were intrigued by my contrary and counter-intuitive views on East Asia's economies.

Although much has been written about the East Asian economies, there are many gaps in the interpretation of their past and future. One neglected area is the importance of the role played by institutions and institutional change on the dynamics of economic growth and development. In hopes of correcting this deficiency, this book seeks to identify and examine those institu-

tions that have had and will have an impact upon economic activities in East Asia.

An important message that I wish to convey to the Asian context is the applicability of one of the most significant lessons of modern economics. That is, international trade is not a negative-sum game as portrayed by some populists who assert that countries will incur losses from liberalized trade that exceed the benefits to their respective communities. Nor is trade a zero-sum game whereby gains to some are offset by the losses experienced by others, as has been intimated by Lester Thurow. The successes of the emerging East Asian economies will *not* cause net losses for mature economies. Granted there will be some losers on the micro level; but on balance the standard of living of most workers and consumers will improve with the expansion of international trade in all affected countries.

It is widely recognized that growth in East Asia arose from the 'marketization' of the region's economies. Those countries that have enjoyed material gain have done so by deregulating their economies or by eliminating central planning. These steps are essentially an adaptation of many of the successful institutions of the mature Western economies.

This being the case, the persistence of high-paced growth in East Asia's 'miracle' economies will depend upon the degree to which institutional innovation and evolution continue in the region. Indeed, all the East Asian countries will face rapidly changing challenges that will require equally rapid and flexible institutional responses.

The emergent worldwide economic order discussed here is in the context of an impending 'Global Millennium.' This new order of expanding international trade relations has been facilitated by the confluence of increased capital mobility and access to information. Economic success in this coming era will require further separation between economic and political spheres, greater tolerance of institutional innovation, and increased transparency and accountability of existing economic and political structures. These conditions are as important for the mature Western economies as they are for developing economies, in Asia or elsewhere.

In particular, governments are the most static of those institutions that impact on our lives. If we are to succeed in achieving our respective life purposes, institutions of government must become more fluid and less intrusive.

The idea of an 'Asian Century' is a seductive myth based upon simplistic reasoning and misleading extrapolations of past performance. Unfortunately, the inherent conservatism and inflexibility of East Asia's economic and political institutions will interfere with processes necessary for sustaining the high growth rates that might have led to the region's global dominance.

Acknowledgments

Many people had a hand in whatever might be good about this book. However, they are not responsible in any way for remaining errors or oversights. For the remaining detritus or hubris, *mea culpa*.

I am grateful to my former colleagues in the Department of Economics of Emory University for their support during my appointment as Visiting Scholar from 1995–96. In particular, I would like to thank Paul Rubin and Peter Aranson for their generous assistance.

Similarly, my colleagues at Case Western Reserve University served willingly as sounding boards for the views expressed here. I owe special thanks to Bill Peirce for his role in my invitation to serve as Visiting Associate Professor of Economics in the Weatherhead School of Management. Bob Baird graciously accepted the thankless task of reading over an early draft that required the use of gallons of red ink.

Troy and Harry Beecham also provided valuable insights and encouragement during early drafts of the manuscript.

Of those who aided me, Teresa Wyszomierski was no doubt the heaviest lifter in bringing these words to print. She spent endless hours poring over different drafts, revising revisions, clarifying unclear thoughts, unblocking my writer's block, and suggesting changes in structure and content. She deserves credit and my deepest thanks for going above and beyond the duty of a friend.

There is an important side story involving heroes and villains whose acts influenced the publication of the original edition of this book. Josep C. Verges answered a last minute request to act as publisher. My original publisher, Ashgate Publishing, withdrew from their contract due to worries about being the target of punitive actions by the government of Singapore.

Josep's actions echo those of his father whose publishing company and famous publication, *El Destino*, provided as much truth as Franco's censors could stand. The elder Verges was recently honored by the Spanish government with its top cultural award, the Alfonso X el Sabio medal. Both of these good men deserve

commendation for their dedication to freedom of expression and the promotion of human dignity.

Finally, I am grateful to the support of Alan Sargent and Mike Morrow of Asia 2000 for adding my title to their list of distinguished publications. Of equal importance, they both offered able guidance leading to considerable improvement in the current edition.

1 Introduction:

Getting lost along the 'Asian way'?

Just when it seemed safe to go into the bookstore, yet another book about the Asian-Pacific economies stares you in the face. Indeed, the indisputably brisk pace of economic development in Asia has spawned a veritable growth industry for publishers and authors. However, this book promises to offer a decidedly different viewpoint that challenges the orthodoxy about developments in that region. This may seem to be a preposterous claim in light of the recent record of high-powered growth in most of the economies of East Asia.¹ However, there are reasons to believe that long-run trends may reverse the fortunes of these ostensible economic powerhouses.

Beginning in the early 1990s, the flood of references to an impending 'Asian Century' has prompted various responses. On the one hand, a mountain of statistical and anecdotal evidence has been offered to support the popular notion of steadily rising fortunes in East Asia. (Comparative statistics of real GDP growth for East Asian economies and some of the Western industrialized economies appears in Table 1 and is discussed in the next chapter.) On the other hand, an equally voluminous number of publications has heralded the demise and imminent collapse of the economies and the culture of the West. With little protest and perhaps even less introspection about these claims, a new refrain has proclaimed the end of the 'American Century' and its replacement by the 'Asian Century'.

Basic statistical analysis indicates that as a gauge of future trends, undue emphasis has probably been placed on East Asia's relatively recent economic gains. Indeed, predictions of an 'Asian Century', along with all its associated threats and opportunities

1 For the purposes of the discussion here, the list of countries in East Asia includes Brunei, Burma-Myanmar, Cambodia, China, Hong Kong, Indonesia, Japan, Laos, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam.

for the rest of the world, simply may not come true. In the first instance, it is implausible that East Asia could, over such a brief span of time, develop the requisite combination of military, moral, political, and economic wherewithal necessary for global leadership. On the one hand, there is a supposition that mutual economic interests will keep the region pacified. Unfortunately, this assumption ignores the cultural diversities and ethnic divisions that have contributed to historical mistrust among neighbors in the region. On the other hand, the economic logic behind the presumption of an 'Asian Century' is highly contentious.

Table 1: Real GDP growth
Per cent change; data are annual averages

	1950-59	1960-69	1970-79	1980-89	1990-95
OECD average	...	5.2	0.9	5.8	1.9
United States	4.0	4.3	3.2	2.7	1.8
Germany	...	4.4	3.1	1.8	2.5
UK	2.6	3.2	2.4	2.4	1.0
China	...	...	...	9.3	10.2
Hong Kong	...	...	9.2	7.3	5.1
Korea	4.3	7.6	9.6	7.8	7.8
Indonesia	...	3.0	7.6	5.7	7.1
Japan	...	10.1	5.2	3.8	2.1
Malaysia	...	...	8.1	5.7	8.9
Philippines	7.1	4.8	6.1	1.9	2.3
Singapore	...	8.9	11.1	7.4	8.6
Taiwan	...	...	9.8	8.1	6.4
Thailand	4.7	8.3	7.3	7.0	8.9

Source: *International Monetary Fund (and selected national statistical services)*

While it may be difficult to avoid encountering a new book on the emerging economies of Asia, it is virtually impossible to find one that is anything other than optimistic.² Indeed, it might be an understatement to say that optimism about the prospects for Asian economies has been infectious. On the one hand, there is the breathlessly bullish sketch in the well-worn 'megatrend' format of John Naisbitt.³ On the other hand, there is the reasoned and

2 As the book went to print, a critique appeared that shadows some of the issues discussed here. See, 'A Reality Check for Asia', *Business Week*, 2 December 1996.

3 *Megatrends Asia: The Eight Asian Megatrends that are Changing the World*, London: Nicholas Brealey, 1995.