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"Asia, America, And Europe In The Next Millennium: Towards Economic Complementarity and Convergence"

A Paradigm Shift In The Global Economic Order

In 1965, the countries that make up East Asia[1] accounted for only 6 per cent of the world's GDP. Just 30 years later, in 1995, they were producing more than a quarter of the world's output. During the same period, East Asia doubled its share of world trade to 26 per cent. As a result, within one generation, the real incomes per head of East Asian economies rose six times. The countries of East Asia have also built up enormous financial resources. Their combined foreign exchange reserves[2] stood at more than US$580 billion in 1995, compared to just US$4 billion in 1965. This means that East Asian central banks control more than half of the world's official foreign reserves.

It is likely that by the end of the next 30 years, East Asia will produce 40 per cent of the world's output, as against North America's 21 per

[1] East Asia refers to Japan, China, the NIEs (Taiwan, Korea, Hong Kong, Singapore), and the ASEAN-4 (Malaysia, Thailand, Indonesia, Philippines).

[2] Excluding gold.

cent and Europe's 13 per cent.[3] This tripolar economic order will be characterised by complementarity, and eventually convergence. But there will not be an Asian century or Pax Asiana

Why East Asia Is Not A Threat To America And Europe

Despite their rapid growth, exports from Asian countries, excluding Japan, constitute less than 4 per cent of the total consumption of manufactured goods or less than 3 per cent of the combined GDP[4] of the US and Europe.

Developing countries have played a relatively small role in the high unemployment or sluggish wage growth of OECD countries.[5] The important factor was the restructuring of industry as a result of changes in technology in the last 10 to 20 years. As OECD economies shifted towards services and higher-end manufacturing, the demand for low-skilled workers in traditional manufacturing industries declined. The US, with its flexible labour market, adjusted successfully, although real wages for lower-skilled workers stagnated. Europe, with its more rigid labour market, experienced high unemployment. Trade with East Asia merely accentuated the effects of these structural changes.

The complementary nature of East Asian growth

East Asia absorbed nearly a third of US exports in 1995, up from just over a tenth in 1965. It has also overtaken America as the EU's largest export market. It is certainly a much bigger market than Eastern Europe. In

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[3] In purchasing power parity terms. Based on MAS projections.

[4] UNCTAD (1994) Handbook of International Trade and Development Statistics.

[5] See for example, IMF World Economic Outlook, April 1997, and Robert Z. Lawrence (1996) Single World, Divided Nations?

1994, Siemens, the German electrical group, received Asian orders totalling US$8.1 billion, compared with US$1.8 billion in orders from Eastern Europe. ICI, the giant British pharmaceuticals group, earns more than half of its profits in Southeast Asian markets.[6] East Asia will remain the fastest growing market for European exports well into the 21st century.

In many East Asian countries, the demand for infrastructure has grown faster than GDP over the last decade. It will continue to do so in the next few decades as well.

According to the World Bank, meeting Asia's power needs over the next decade will require an investment of US$400 billion. If we include various other estimates for spending on Asia's infrastructure needs -- in roads, railway networks, port services, telecommunications, sanitation, and so on -- the total bill for the next decade can amount to US$1.4 trillion.[7] Investments of this scale will have multiple spillover effects on supporting industries and employment opportunities in America and Europe. In 1994, Exxon Corporation signed an agreement with Indonesia to proceed with the world's largest offshore gas development project at a cost of US$40 billion.

Asia offers some of the highest rates of return in the world. In recent years, American MNCs have enjoyed an average return of 22 per cent on their investments in East Asia (excluding Japan).[8] This is double their returns world-wide. Contrary to perceptions about the forbidding difficulties of doing business in Asia, many American and European MNCs have successfully penetrated Asian markets. For instance, in less than a decade, Danone -- a French food company -- has become the largest biscuit manufacturer in Asia. Procter &

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[6] Corrado G.M. Letta (1996) The Emerging Markets of Southeast Asia.

[7] UNCTAD (1996) World Investment Report.

[8] US Department of Commerce (various issues) Survey of Current Business

Gamble has captured about 60 per cent of the shampoo market in China, even though its products cost three times as much as some local brands.

Technological Leadership Of America And Europe

As capital becomes increasingly mobile in the coming decades, and the diffusion of technology across borders speeds up, comparative advantage will shift more rapidly. Japan and the other more advanced East Asian countries are already finding their own niches. For example, Japan has gained ground in superconductors, sensor technology, and opto-electronics. East Asian companies have built up competitive capabilities and successfully learned the technology of electronics. In 1996, 57 per cent of the world's desktop PCs were either made in Taiwan or contained a Taiwan-made motherboard. According to Dataquest, a US high technology consultancy firm, by the year 2000, global electronics production will be led by companies from Asian economies.[9]

Over the next 20-50 years, the technological gap between America and Europe on the one hand, and East Asia on the other, is expected to narrow. This is because East Asian countries are directing more of their resources to science and engineering. As a proportion of university entrants, the number of students reading science subjects was higher in Japan, South Korea, and China than in the US, UK, or Germany. As a proportion of university graduates, those taking engineering make up 20 per cent in Japan, 18 per cent in South Korea, 17 per cent in Taiwan, and 40 per cent in China. This compared with 14 per cent in the EU and just 5 per cent in America.[10]

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[9] Straits Times, 7 November 1996.

[10] Natural Science Foundation (1996) Science & Engineering Indicators.

Despite these gains by East Asian countries, America and Europe will be superior in human resources well into the next century. About 25 per cent of the American labour force has tertiary education. In Germany, the proportion is 12 per cent. In the Netherlands, 21 per cent. In contrast, East Asia, excluding Japan, has only 7 per cent of its labour force tertiary-educated. China, only 2 per cent. The best Western institutions of higher learning are centres of excellence in broad areas of the sciences and humanities. They attract Asian talents and provide role models for Asian universities.

Second, America and Europe have a huge lead in R&D. America has about 80 scientists and engineers per 10,000 labour force. Germany has 55. The Netherlands has 60. Taiwan, which has the highest intensity of scientists and engineers in East Asia, besides Japan, has only 42. In 1994, the US spent 2.4 per cent of its GDP on R&D. Taiwan and Singapore spent 1.8 per cent and 1.2 per cent respectively.

Third, America and Europe enjoy what economists call "first-mover advantage" in many industries. Their products are well-established worldwide. They have reputable brand names and a loyal following. They range from consumer goods such as Coca-Cola, McDonald's, and Nestle, to media services produced by Disney, Time Warner, and Reuters. They are all branded and patented. It is difficult for newcomers to break into their preserves. Another example is the US medical equipment and supplies industry, respected worldwide for its high quality, cutting-edge technology, and efficient service. US companies, like 3M, and Johnson & Johnson, are leading the world in discoveries of medical technologies. In inventive flair and product development capabilities, American MNCs are unsurpassed. Moreover, except for Japan, no other East Asian company has the management expertise or organisational ability to sustain high-quality operations around the world.

Fourth, America's dominance in the information technology industry is unchallenged. This will give them critical comparative advantage in the information age of the 21st century. The Americans have already built up a huge lead. The US has almost twice as many computers per 1,000 population as the big European countries or Japan.[11] America's computer equipment industry -- producing computer systems, peripherals, and parts -- controls more than 75 per cent of the world computer market through its global operations.[12] America is also the world's leader in the provision, use, and export of information services, which is likely to be among the most rapidly growing industries in the next century. Firms like IBM, EDS, Microsoft, and Netscape will continue to operate at the technological frontier, producing innovative solutions to complex IT problems and developing new services.

The long term: from complementarity to convergence

With greater complementarity, countries will develop trust in the institutions needed to sustain their relationships, like the World Trade Organisation, the International Monetary Fund and the Bank for International Settlements (BIS). They will play increasingly active roles. The BIS - that most European of institutions - has agreed to admit the central banks or monetary authorities from nine so-called 'transition' economies, five of whom are from Asia. As East Asian countries begin to play an increasing role in such fora, these institutions will become more international. The greater intermeshing of economies across the regions will provide everyone with a vested interest in participating constructively to build upon the existing institutions.

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[11] The Economist, 28 September 1996.

[12] US Department of Commerce (1995) US Global Trade Outlook 1995-2000: Toward the 21st Century.

With growing economic and institutional convergence, there will be increasing need for harmonisation of regulations and procedures. There will be more intergovernmental cooperation involving agreement on regional or world standards. The 1988 Basle agreement among major central banks to set minimum standards on capital adequacy ratios for commercial banks is a forerunner of such harmonization.

Although there will be increasing convergence, there may not be uniformity of political and cultural norms. Ideas and lessons of what works and what fails will flow in both directions. Asian political institutions will evolve, and there will be more convergence of basic values of human rights and political pluralism. With rising educational standards, economic affluence, and political maturity, Asian countries will reshape their civil societies, but will not end up as copies of American or European societies. They will retain their own balance between individual liberties and community interests.

And it is not unlikely that Western values and institutions themselves will change as the pendulum swings away from excesses. The capacity of the West to adapt to new circumstances and challenge existing paradigms has been one of its most critical characteristics for survival. Competition will make the West re-examine and modify their present balance which has led to unbridled individual rights and the welfare state.

Convergence and competition will also bring about changes at the firm and industry level. MNCs will become multicultural organisations in order to compete successfully in knowledge-based sectors. Corporations that get their ideas from only one culture will lose out in innovation. Those that have a creative meshing of cultures and ideas will forge ahead. There will be a general shift towards internationalisation of national corporations, maybe identified less

by the owner's nationality, and more by their geographical spread. To be competitive globally, firms will have to employ talents for key positions from the countries they operate in. Corporations will need the best people from throughout the world for key positions. For example, CNN uses non-American faces and voices. Management guru, Peter Drucker, has predicted that the greatest change in the way business is to be conducted in the next century will be the accelerating growth of relationships based not on ownership but on *partnership*.[13]

Information technology will be the biggest factor underlying the process of convergence of the three main centres of economic power - US, Europe and East Asia. The evolution of information and communications technology will accentuate the dominance of MNCs over nation-states.[14] The Internet is already transcending national boundaries, to bring together communities that are widely separated but sharing similar interests. The widespread availability of information that is instant and uncensored will transform the way we think, do business, and respond to events. With continuing advances in information technology, people-to-people interaction across the three economic centres will increase.

Conclusion: a lesson from history

China had the highest per capita income in the world until about the year 1500. It was still the biggest economy on earth as late as 1820.[15]

Why did China's technological advance slow down and halt, just when the Renaissance was beginning in Europe? China's stagnation was caused

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[13] P.F. Drucker, 'The Network Society' Wall Street Journal, 29 March 1995.

[14] Jessica T. Matthews, 'Power Shift' in Foreign Affairs, January/February 1997

[15] Angus Maddison (1991) Dynamic Forces in Capitalist Development.

by its arrogance and complacency. It refused to learn from the West. When the British emissary Lord Macartney arrived in Beijing in 1793, bringing with him the marvels of the Industrial Revolution, the Emperor Qian Long was not impressed. The great emperor told the English nobleman, "There is nothing we lack nor do we need any of your country's manufactures."[16] The price China paid for this arrogance was 200 years of decline and decay, while Europe and America forged ahead.

Two hundred years later, another Chinese leader, more thoughtful and practical set out to undo the damage. Deng Xiaoping opened up China to the world in 1978. When he visited the US in the following year, Deng, in striking contrast to Emperor Qian Long, told American President Jimmy Carter that China would need Western money and know-how. Since then China has been the fastest growing economy in the world.

Both East and West have to open up and build on the complementary strengths between their respective economic zones. If either side turns inward to avoid the competition to preserve a comfortable present, opportunities will be lost and we shall all be poorer. We should draw a lesson from the courage of Deng Xiaoping. He discarded a lifetime of communist dogma to embrace the global economy. Together, Europe, America, and East Asia can make the next century an unprecedented era of peace and prosperity.

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[16] Quoted in Michael Spicer (1996) The Challenge from the East and the Rebirth of the West.