The Asian Model of Development: From Crises to Transformation

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Abstract

The idea of an Asian model for development grew with the rise of the “tiger” economies of Hong Kong, Singapore, South Korea, and Taiwan, dubbed “the East Asian Miracle” by the World Bank. This model came under stress in the regional crisis of 1997, but the idea of Asia’s rise has resumed given the region’s rapid recovery and the persistence of Asian growth rates despite the 2008 global crisis. Yet the idea that Asia might serve as a blueprint for development is still contested, and there are questions about future sustainability. With many Asian economies still export-based, Asians must find ways to increase their own domestic consumption and intra-
Asian demand. The region must also confront growing inequality and environmental damage from rapid industrialization. Recognizing these challenges, Asia’s development will be neither predestined nor smooth. Asia’s future, even if on a good trajectory, will be a period of change and challenge.

**Keywords:** Asia, 1997–98 Asian financial crisis, 2008 global financial crisis, regionalism, public spending, inequality sustainability.
Introduction

The rise of Asia has captured the imagination of policy-makers, businesses, and the public around the world. Even after 2008, in the wake of the global financial crisis, the region has largely continued to grow despite the downturn in Europe and the United States. This phenomenon of growth has driven the search for explanatory theories, as well as prescriptions for policies to foster development in other developing regions with slower or non-existent growth. In this context, some Asians have allowed pride in their progress to swell to assertions that Asia’s rise is predestined and irresistible, and that the region will go on to quite rapidly surpass the West. The claim is based not only on current trajectories of continuing growth in the region; there is also talk about millennia of Asian history and civilization suggesting an inevitable rebalancing of the global system. In this view, the modern period of European colonialism is something of an aberration that temporarily shackled Asia and placed even the giants of China and India on the sidelines.

This chapter is founded on significantly different premises. While I join many in believing that Asia has shown real progress from World War II to the present, markedly in the fifteen years
after 1997, this chapter seeks to critically evaluate the idea of the Asian model of development, the ways that this model might seem to differ from others, and then consider its omissions and further development needs. In this regard, this chapter approaches with skepticism the idea that Asia’s rise is somehow predestined. The chapter reviews the developmental experience in Asia, especially the “tiger” economies, and considers periods of crisis, specifically the 1997–98 Asian crisis and the 2008 global financial crisis. It then considers the patterns of development that are emerging in the wake of the crisis, as Asia seeks ways to sustain growth and deal with social, institutional, and other challenges to its further progress. These include the efforts to increase and deepen Asian regional economic and financial cooperation.

The chapter suggests that while its precise content remains contested, an Asian model of development has informed debate about government policy. This chapter argues that in response to the 1997–98 Asian crisis, Asian governments effectively upgraded and changed this first Asian model not only by focusing on national level reforms, but by expending considerable efforts to build intra-Asian economic interdependence and a wider sense of regionalism. However, this post-crisis Asian model of development and regionalism is now under stress following the global financial crisis, and for both internal and external reasons it must again transform itself. There are consistent questions about the role of the state and markets, and the
degree of openness and liberalization that have fostered growth and development. In some ways, this can be seen as a philological discussion about liberalization, both economically and in systems of governance.

The rise of Asia

The so-called “tiger” economies of Hong Kong, Singapore, South Korea, and Taiwan, while different from each other and from others in Asia, were an early exemplar of Asia’s rise in challenging the starkly state-centric and state-controlled systems at the time. The examples provided by these “tiger” economies have played a role in re-thinking and re-directing economic opening efforts across Asia, especially in China, across Southeast Asia, and to some degree in India.

From this perspective, what may be called the Asian model of development is not millennia old but has emerged in the last two to three decades. It is not historically preordained but rather is dependent on policy and actions by government, corporations, and others. Asia’s model of
development has been re-prioritized and re-shaped in the face of geopolitical and geo-economic events; it has been pragmatic, rather than based on a fixed and unchanging ideology.

Asia’s economic rise has already gone through a number of challenges and changes, especially the regional crisis of 1997–98. It is also coming to a juncture of further transformation, driven not only by economic exigencies in the wake of the global financial crisis, but also by social and political factors arising from the region’s rise. These have affected what we may identify as the Asian model of development: not only the practices and policies of development, but also the theory of what elements constitute and measure development, the role of the state in development, and the resilience and sustainability of Asia’s rise.

Discussing an Asian model is significant not only to Asians, but to emerging economies in other regions. Proponents of Asian development inevitably differentiate it from the model of Western development, which has been increasingly questioned in the wake of the global financial crisis.
The crisis that began at the end of 2008 in the United States had global implications. The aftermath of the crisis continues to impact growth and amplify social and political tensions in the U.S. and Europe, as witnessed in the “Occupy Wall Street” movement and protests against austerity measures in several countries. Asia has not been unaffected, but most Asian economies have continued to grow even as growth rates in the United States and Europe have slowed or even reversed.

When markets first slumped in 2008, Beijing was alarmed by the potential drop in trade due to reduced demand from the West. But China’s GDP growth still reached 9.6 percent in 2008, and has remained around that point since (World Bank 2012). Similarly, although India’s GDP growth rate slid to 4.9 percent in 2008, by 2009 the country’s growth had recovered to around the 9 percent mark. The story of growth amidst the global crisis has raised Indonesia to prominence. In recent years, Indonesia’s annual GDP growth has remained stable around the 6 percent mark, only slipping to 4.6 percent in 2009 before returning to previous levels. Notably, Indonesia’s economic performance was relatively unaffected by Europe’s sovereign debt crisis in 2011, thanks to strong domestic consumption combined with macro-economic stability and
booms in commodity and resource exports. Some smaller Asian economies also continued to do well. Bangladesh has shed long-held stereotypes to emerge as one of Asia’s fastest growing economies, maintaining an annual GDP growth rate of around 6 percent throughout this period. Cambodia’s economy has been similarly impressive.

Other Asians, including Japan, South Korea, and some countries in the Association of Southeast Asian Nations (ASEAN), have been more seriously affected by the global downturn. According to World Bank data, Thailand’s GDP growth rate dropped from 5 percent in 2007 to 2.5 percent in 2008, while Singapore’s GDP growth rate fell from 8.8 percent in 2007 to 1.5 percent in 2008. That said, most of these economies had largely recovered by 2010, thanks to links with others in Asia, especially China.

From these facts, several questions arise about future development. Will Asia’s rise continue, and will the main drivers originate within its own region rather than in Western and global markets? Will Asia rise to overtake the West and usurp its position in the global order? Are there key elements in the rise of Asia that should be better integrated into our ideas about how countries develop, and our definitions of what constitutes “development?”
Former Singaporean ambassador Kishore Mahbubani is one of the key proponents of the “Asian rise” school of thought. Having earlier championed the “Asian Values” debate in the 1990s, he asserts in his 2008 book, *The New Asian Hemisphere*, that in the wake of the 2008 global financial crisis the West will have to give up its domination of global institutions like the International Monetary Fund and the World Bank: “Any illusion that the Western economies are better prepared to handle great crises has vanished. This, in turn, has accelerated the end of the Western domination of world history” (Mahbubani 2008: xi).

On the other end of the scale, there are some who anticipate that Asia’s rise will end, whether gradually in what many call the “Middle Income Country” trap, or else precipitately as the country collapses. The predicted factors are often economic mismanagement with underlying politics and governance malfeasance. American commentator Gordon Chang, author of *The Coming Collapse of China* (2001), predicts that worsening demographics and rising wages will make China uncompetitive, and popular uprisings coupled with a weakening Communist Party will bring the country down in the near term (Chang 2011).

Along the spectrum of discussion between seeing Asia’s irresistible rise and its impending collapse, there are many other positions. Most recognize the rise of Asia, but some believe the
U.S. will remain ahead for the foreseeable future. Two such authors are Fareed Zakaria in *The Post-American World* (2008) and Parag Khanna in *The Second World: Empires and Influence in the New Global Order* (2008). My own book, *Asia Alone: The Dangerous Post-Crisis Divide from America* (2010), takes Asia’s rise to be real and substantial. However, it is questionable whether there has been an irresistible shift of power from the West to Asia. I also recognize that there are many challenges to this process, and it is not assured that Asian governments will always make the right decisions and changes, so there will be ebbs and flows, and indeed plateaus and backsliding.

This chapter argues that Asia’s current rise must address economic, socio-political, and environmental challenges if it is to be sustained. Recognizing the challenges tempers the urge to see Asia’s development as predestined or smooth. Rather, we should recognize that Asia’s future, even if on a good trajectory, will be a period of change with both positive and negative dimensions. Perhaps the best place to start this argument is not at the global financial crisis of 2008 but at the preceding crisis of 1997.
**Rise 2.0: From miracle to crisis and back again**

The devaluation of the Thai baht in July 1997 triggered similar, competitive devaluations in several other Asian economies. The problems quickly spilled over from the financial sector to the real economy and then to the political dimension. The starkest example of this was the downfall of Suharto’s government in Indonesia. It is humbling to re-read literature about the region from before the 1997–98 Asian crisis. Humility is due from the Asians who touted their own system and provocatively suggested that their models of soft authoritarian government—based on “Asian values”—were better than those of the West. Clearly those views were devalued together with their currencies. Similar humility must be sought from international bodies and non-Asians who did not detect the crisis.

Prior to 1997, the rapid industrialization of Asia was viewed as a blueprint for other developing countries. On closer examination, there were as many differences in East Asian economies as there were similarities. Nevertheless, much of the literature in this period espoused an East Asian model. In 1993, the World Bank released *The East Asian Miracle*, identifying eight high-performing Asian economies: Japan; the four newly industrialized countries (NICs) of South Korea, Taiwan, Hong Kong, and Singapore; and the three second-generation Southeast
Asian NICs of Malaysia, Thailand, and Indonesia. The World Bank praised these countries as models of neo-liberal development, though even at the time, critics questioned this characterization of Asian economies. Many industries in Asia were supported by heavy government intervention, public ownership of banking and industry, high levels of domestic tariff and non-tariff barriers, patent and copyright infringements, and other policies at odds with the prescriptions of the International Monetary Fund (IMF) and the World Bank.

One influential book of this period was Robert Wade’s *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (1990), which offers a different view. Wade describes the economic success of Japan, Taiwan, South Korea, Hong Kong, and Singapore by what he refers to as Governed Market theory. This combines strong government control with market elements, and encourages capital accumulation and investment through state intervention, such as redistribution of land, controls on domestic and cross-border credit, and stabilization of exchange and interest rates. The state also promotes exports by providing assistance to domestic industries, encouraging technology acquisition, and modulating the impact of foreign competition.
Wade (1990) acknowledged that history, geography, and other specific circumstances contributed to the success of such strategies in East Asia, but he argued that the Asian example of exercising tight control over trade and finance through government policy was a better strategy for developing countries to follow, rather than adopting ad hoc liberalization. However, the 1997–98 Asian financial crisis dealt a strong blow to benign views about the role of the state in development. In the calls against “crony capitalism,” government intervention and protectionism in Asia were discredited as negative, rent-seeking behavior. The Governed Market model was re-evaluated as little more than statism. After 1997, development orthodoxy became pessimistic regarding the East Asian “developmental state.” The neo-liberal model prevailed, and a number of previously successful Asian countries had to accept IMF recommendations and economic reforms.

In the years since the Asian financial crisis, some theorists have argued that Asian governments were not to blame for the region’s troubles. Rather than the crisis being caused by a failure to follow neo-liberal prescriptions, some blame neo-liberalism itself for harming Asian economies, for instance by applying too much pressure to rapidly liberalize capital flows. But in the immediate aftermath of the Asian financial crisis, most accepted the dogma of the Washington Consensus (Rodrik 2001). However, from 1997–2008, Asia managed to recover from the
downturn and grew strongly, outstripping Western growth rates (albeit from a lower starting base). This growth included not only the so-called Asian miracle states and China (which had stood outside of the Asian crisis), but also India as a large new factor with its own impressive rates of growth, and countries such as Bangladesh and Mongolia. These strong and widening patterns of economic growth have reinforced the sentiment among many that there is something special about Asia. Nonetheless, there have been shifts from the pre-Asian crisis paradigms and regional patterns. The pre-crisis Asian model has often been likened to a “flying geese” pattern, with Japan in the front, followed by the “tiger” economies in the second row. The post-crisis Asian model has focused on China as an emerging center for region-wide trade and investment, and includes many more economies, making it less symmetrical, more diffuse, and less certain.

Although Asian countries began trading more with each other following the 1997 crisis, exports to the West and Japan were also important to recovery. According to the ASEAN Secretariat, total exports of countries in the ten-member group regained an upward trend within two years after the financial crisis in 1997, reaching a peak in 2000 when ASEAN’s total exports were valued at $408 billion, based largely on trade links with the U.S., Europe, and Japan (ASEAN 2010).
Globalization allowed firms to move more of their production to Asia and source more parts of their supply chain from Asian producers. This effectively created a pan-Asian production base, centered on China but with inputs from many other countries before final assembly and shipment from China to developed countries. Underlying this, a system arose that underwrote the deficits of the U.S. from the surpluses of Asia. Chinese, Japanese, and other Asians bought U.S. treasury bonds, which helped ease credit and feed American growth up to 2008.

Thus neo-liberal medicines were taken, but the state hand in Asia did not disappear entirely. The state role in the economy is overt in China. Through holding companies, state-owned but market-responsive and often listed companies are major engines in the economies of Singapore and Malaysia. Influential and powerful elites figure in the economies of Thailand, India, and Indonesia. There have been changes—for instance, efforts to clean up corruption and the worst practices of crony capitalism in South Korea—but in many countries the relationship between government and corporate elites remains intact. Wade’s (1990) analysis of a “governed markets” approach has not been explicitly reinstated. Yet while the role of the state is under greater market discipline and under increased scrutiny given new norms, that role has persisted. Moreover, the legitimization of that role is evident in how many Asian governments have utilized various
macro- and micro-policy tools to restart growth post 1997, allowing many to stave off collapse in the wake of the 2008 global financial crisis.

Another understated aspect of current thinking about Asian growth is the degree to which values and culture can be said to play a part. There has been no widespread revival of “Asian values” in the sense the term was first used in the early 1990s. But the Asian rise school has gone beyond mere confidence to near hubris. Some commentators criticize the West for having come to this point of crisis, and also allege hypocrisy in the differences in the IMF’s response to the Eurozone crisis compared to the earlier 1997–98 Asian crisis.

**Less international, more regional**

From this perspective, something (though not much) changed in the Asian model of development between 1997 and 2008. Beneath the mantle of the Washington Consensus and neo-liberalism, more markets were opened, but the role of the state and the underlying political economy continued to have many differences from the Western system. Moreover, the export-led nature of growth continued. The financial crisis that began in the West in late 2008 was followed in 2011 by sovereign debt problems in the Eurozone. In 2011, many Europeans hoped that Asians would
mobilize their considerable reserves to buy European bonds and open up to investments. The Asian response was less than forthcoming, with then Chinese Premier Wen Jiabao saying European “countries must first put their own house in order” and not rely on Asia (Lim 2011). However, Asia is not unaffected by troubles in Western economies. Asia probably has enough momentum and regional drivers to ride out slow growth in the West, but prolonged and deeper recession in the West holds substantial risks for Asia. Falling exports to the West could force firms in Asia to cut jobs and capital expenditure. This could then combine negatively with falling asset prices and capital outflows.

The events of 2008 and 2011 prove Asians cannot rely on traditional Western markets as a destination for Asian exports. Instead, Asian countries must rebalance export-driven growth with domestic demand-led growth. Boosting Asian demand will make growth more self-sustaining. The painful experience of the 1997–98 Asian financial crisis also taught Asian countries to build their own barriers to withstand financial stress, rather than relying solely on multilateral institutions. Many Asians do not view the IMF favorably, associating it with the harsh reforms imposed after 1997, measures that are now viewed as being more harmful than beneficial. Asians are also conscious of the fact that their current vote share in the IMF does not fully reflect their economic strength; the IMF’s governance system, quotas, voting rights, and procedures have
changed little since its establishment in 1944. Recent calls to reform the Bretton Woods
Institutions reflect a period of change in the global system. The trend is for emerging economies
to seek representation in these international institutions, aiming to influence policies in the IMF
and World Bank, rather than be merely passively impacted. There will be contestation over the
future roles for these global financial institutions, and the question of who leads them will be a
rallying point.

But this transition in global multilateral arrangements has not been the main focus for Asians.
Instead, Asians have tended to work out cooperation at the regional rather than global level. One
example of such a regional mechanism is the Chiang Mai Initiative, a multilateral currency swap
arrangement among ASEAN+3, consisting of the ten ASEAN members plus China, Japan, and
South Korea. The initiative grew from a series of bilateral swap arrangements and was
formalized in 2010 with a foreign exchange reserves pool worth $120 billion, accessible by
participating central banks to counter financial shocks. In 2012, countries agreed to expand the
pool to $240 billion. An independent surveillance unit under the Chiang Mai Initiative, the
ASEAN+3 Macroeconomic Research Office (AMRO), was also created in 2012 to monitor the
economic situations of countries in the grouping, and is tasked with providing objective
assessments and recommendations in the event a country requests a currency swap.
This regional architecture remains relatively new and untested, but it demonstrates how Asians have taken steps to greatly strengthen their own capacity to prevent or manage future financial crises. It is notable that China and Japan have come to a kind of working compact. After some debate, the funding for the Chiang Mai Initiative has been shared between the two giants, with South Korea and ASEAN assuming smaller shares. In the symbolically important question of the leadership of AMRO, China and Japan have also accepted a compromise to share the appointment for the first three-year term.

In trade, a number of agreements have been reached amongst Asians. For instance, the ASEAN-China Free Trade Area (ACFTA), which came into effect in January 2010, is the world’s largest Free Trade Area by population size. Following the 2008 global financial crisis, trade with China made up 11.6 percent of ASEAN’s total trade in 2009, up from just 3.5 percent in 1998 during the Asian financial crisis. ASEAN-China trade is rapidly growing, and Hong Kong is currently seeking to join the ACFTA. Other trade agreements also link ASEAN to its other major partners besides China—Japan, South Korea, India, Australia, and New Zealand (the ASEAN+6 grouping). However, Northeast Asians—China, Japan, and South Korea—lack agreements among themselves, despite the considerable volume of trade between them and the depth of their
real economic integration. There has been talk of a trilateral Northeast Asian FTA, but this has not yet materialized. Moreover, Asia has yet to reach an agreement to cover the entire Asia-Pacific region. ASEAN has proposed a Regional Comprehensive Economic Partnership (RCEP) at the ASEAN+6 level, but talks are still in their early stages.

It is significant that much of these concerted efforts to institutionalize regional interdependence is centered on ASEAN, a grouping of ten small to medium-sized states (with the exception of Indonesia, which is a G20 member). This is counter-intuitive, as ASEAN is neither a major political-security power nor a large single economy. Yet in many ways ASEAN’s centrality in Asian regionalism is not in spite of these limits but because of them. Given differences among other Asian powers (especially in Sino-Japanese relations, but also Sino-Indian), ASEAN provides neutral non-threatening diplomacy to increase exchange and develop trust. As a group, the ten ASEAN member states have developed norms and practices for dialogue and cooperation that have been useful in the broader regional context.

Yet ASEAN-led regionalism in Asia faces many limits. Looking at the many FTAs in Asia, studies suggest that the actual utilization rates of ASEAN’s FTAs have lagged significantly compared to the utilization of FTAs in other regions, such as the North American Free Trade
Agreement (NAFTA). One reason cited is that the administrative costs of using FTAs in ASEAN are high, for instance because of cumbersome procedures for obtaining a certificate of origin (Hayakawa 2009). Therefore, some critics have denigrated ASEAN-led agreements as mainly political. Similar concerns are leveled at ASEAN’s target of creating an ASEAN Economic Community (AEC), which aims to make the grouping a single market and production base by 2015. Many question whether ASEAN can achieve its integration targets in the specified timeframe. According to the March 2012 ASEAN Economic Community Scorecard, a report produced by the ASEAN Secretariat, ASEAN members completed only 67.5 percent of targeted integration measures between 2008 and 2011, because of delays in ratification of ASEAN-wide agreements and putting them into practice in national law.

To be fair, ASEAN countries have signed a wide range of agreements covering various aspects of integration and connectivity, from customs facilitation to Mutual Recognition Agreements (MRAs) on the flow of services and skilled labor. Infrastructure development has received particular attention. Under the ASEAN Plan of Action on Energy Cooperation (APAEC) 2010–2015, ASEAN has made considerable progress in connecting sub-regional electricity grids with the eventual aim of unifying the region in an ASEAN Power Grid. Plans are also in the works for a Trans-ASEAN Gas Pipeline, with cooperation also focusing on areas such as renewable
energy. Such efforts can be seen as modest but incremental steps toward a new regional economy. The ASEAN Secretariat has also consistently recommended increased engagement with the private sector to encourage the goals of integration and connectivity. However, private firms are unlikely to treat ASEAN as a single entity or market until the right policies and legislation are put in place, with proper enforcement to make doing business consistent and predictable.

Thus, while Asians have generally put more effort and reliance into regional (rather than global) institutions, these institutions remain quite rudimentary, without a strong and permanent institutionalization or clear and autonomous powers.

A new agenda?

In the argument of this chapter thus far, the so-called Asian model of development has changed somewhat in the wake of the Asian crisis. In some respects, like the role of the state, pre-crisis elements have persisted. In others, like the role of China and the emergence of regional institutions, new factors are to be noted. Yet even as the region has been relatively less affected
by the global financial crisis, Asians are now re-thinking their model of development for the future. Consensus is indeed emerging that this model needs to be transformed and the nature and scale of these changes potentially go further than anything seen in the wake of the Asian crisis.

The changes that many now prescribe for Asian development relate to: (1) growing internal and intra-Asian demand; (2) ensuring environmental and social sustainability; (3) dealing with demographic trends and migration; (4) increasing intra-Asian investment; (5) addressing inequality; (6) exploring new markets; and (7) facilitating regionalism.

(1) Internal and intra-Asian demand

Many Asians acknowledge that the region must grow its own intra-Asian market and encourage internal demand. Growth in the U.S., Europe, and Japan, traditional destinations for Asian exports, has yet to return to levels before the 2008 crisis and the 2011 sovereign debt problems in the Eurozone have further dampened prospects. Currently, much of Asia’s economic success relies on global value chains, but these are susceptible to shocks from a steep drop in final goods demand from developed countries. However, there is potential for Asian companies to move up the value chain, not just by running factories and production lines for the world’s multinational
corporations (MNCs), but by creating new products, diversifying destinations for final goods, and creating more domestic demand.

An Asian middle class is emerging which, depending upon definitions, constitutes between 500 million and over a billion people.¹ According to the Asian Development Bank, developing Asia’s middle class has increased rapidly in size and purchasing power over the past two decades and Asia-wide consumption may reach $32 trillion by 2030, making up 43 percent of worldwide consumption (ADB 2010). As this middle class rises, companies may increasingly produce for Asians, rather than just in Asia. Even though this middle class currently has lower income and spending relative to the Western middle class, it may someday assume the role in the world economy currently occupied by the U.S. and European middle classes as global consumers.

Rebalancing Asia’s economy to promote consumer spending will require policies to shift. It is commonly stated that Asia saves while the West spends. Maintaining high public savings has been deliberate government policy in many Asian countries, possibly rooted in traditional Asian principles of frugality. But after decades of locking away high savings, Asians may need to spend more, both in public spending and consumer spending. Changing ingrained habits in Asia will be difficult. Many in government still believe strong reserve positions are necessary.
According to IMF figures, as of September 2012, Japan had over $1.3 trillion in official reserve assets, while South Korea had around $317 billion and India had $290 billion. China does not report international reserve figures to the IMF, but a March 2012 statement by the People’s Bank of China said the country’s foreign exchange reserves stood at $3.31 trillion, the world’s largest (Bloomberg 2012). Even if Asian governments can be convinced to spend their savings, there are few instruments or pipelines to get Asian savings directly to Asian borrowers. At present, Asia’s financial systems still have only a limited capacity to allocate savings to those who need capital. Much of Asia’s public reserves are locked in the United States as treasury bonds or other instruments, holding them captive to the value of the U.S. dollar. Similarly, without more productive outlets, private savings in Asia are flooding into assets such as housing, creating artificial bubbles. Many Asian households still keep a large part of their wealth in real estate, gold, and other non-financial assets. Many do not have bank accounts because they lack access to banks, or simply do not trust them.

Thus Asian countries must consider ways to harness savings to fund necessary investments, ultimately boosting Asian demand to make growth in the region more self-sustaining. Asians should consider creating bonds to provide for investment in areas such as infrastructure and education. Public bonds could also potentially provide some discipline to government spending.
Governments also need to create deeper and more effective financial markets, unlocking savings and directing them to firms that need capital to yield higher returns. Aside from domestic policy, cross-border cooperation must also be considered, especially among the smaller economies of Asia.

(2) Environmental and social sustainability

Asian countries must also deal with the consequences of rapid economic growth. In particular, many Asians are now conscious of the need to protect the environment. Rapid growth means rising energy demand, competition for increasingly limited resources, and huge strains on the environment. As a whole, Asia is presently consuming more than what is sustainable. Urbanization has also brought issues of traffic congestion and overcrowding. Many Asian cities have passed the three million mark and face major environmental challenges. With rapid industrialization, pollution has become an everyday nuisance in many cities. Governments recognize that bringing back blue skies can bolster a city’s competitiveness in attracting talent. However, Asian countries seeking to be green face a tough balancing act, as environmental regulations could inadvertently serve as constraints or trade barriers, making developing countries uncompetitive. The biggest challenge for countries in the region is to find ways to
address environmental concerns without being disadvantaged economically. Investment in key sectors is needed to kick start a greener economy.

With extreme weather patterns being observed all across Asia, carbon emissions have taken center stage in the discourse on air pollution, with the spotlight China and India as the major carbon emitters. However, the focus on carbon emissions has led to neglect of other pollutants. This has proven to be an oversight, as levels of airborne pollutants other than carbon emissions in many Asian cities have spiked, causing respiratory ailments to skyrocket and even grounding flights because of poor visibility. Often in response to popular demands, many national and regional governments have recently taken on the challenging task of bringing down the surging levels of air pollution in Asia’s rapidly developing cities.

Southeast Asia faces a yearly haze caused by forest fires, caused mainly by slash-and-burn practices to make way for farms and plantations. In 1997–98, raging forest fires coupled with the El Niño phenomenon created a massive respiratory attack on the region which transcended country borders. Spurred on by these fires, Southeast Asian countries signed the ASEAN Agreement on Transboundary Haze Pollution in 2002. A select group of ASEAN countries have also made positive moves to resolve this issue in the region. Since 2002, a Ministerial Steering
Committee has explored a myriad of initiatives to combat the decade-long forest fire problem, ranging from village-based workshops to multilateral talks, as well as arranging for provincial authorities to work directly with other ASEAN member states. Even with such concerted efforts, many issues with regard to governance and implementation continue to hamper efforts to resolve the haze and forest fire problems. This is a reflection of the obstacles to regional and international cooperation in addressing cross-boundary environmental sustainability issues in Asia.

In addition to environmental concerns, another key dimension of sustainability is the social factor. There is much more awareness today of a widening gap between rich and poor and the emergence of two faces of Asian growth. The first face is of a small segment of the population benefiting from economic boom. The second is of a large segment with low wages, little or no social services, and limited or no prospect of social mobility. For some, Asia is a middle class purgatory, with salaries unable to meet rising costs of living. The worst off are those with few or no skills to participate in the modern economy. Rising income inequality is a danger to Asia’s sustained progress. Economic disparities in Asia are starker than in the developed world. According to the Asian Development Bank (ADB)’s Outlook 2012, Asia’s Gini coefficient,
which has long been used as a common measure of inequality, increased from 39 in the early 1990s to 46 in the late 2000s (ADB 2012).

Although Asia has not yet seen widespread protest movements like the Arab Spring or Occupy Wall Street, the prospect cannot be ignored. Recent years have seen some unrest in parts of China, while Malaysia, Thailand, Indonesia, and the Philippines have also faced domestic protests. Governments across the region are grappling with new expectations from citizens. In Myanmar, once a pariah state, the current civilian government has freed many political prisoners and allowed pro-democracy activist Aung San Suu Kyi to lead her National League for Democracy party to victory in parliamentary by-elections. Thailand, Malaysia, and Singapore have also seen changes that pave the way for greater participation and more complex politics. If Beijing cannot maintain domestic stability in China, the impacts will be outsized across the region. If governments cannot keep inflation down, problems may flare up not only in the streets of Beijing but in Jakarta or Kuala Lumpur as well. If protests break out in Asian cities, government use of force may be tougher than some think legitimate, as seen in the crackdown on the opposition demonstrations in Malaysia. Protests may be exploited by rival elite groups in attempts to unsettle each other, as witnessed in Thailand. Violence and casualties can therefore spiral, as we have seen across European capitals between 2008 and 2011.
(3) **Demographic changes and migration**

As Asia grows, it faces demographic and migration challenges which it will have to overcome. Some Asian countries, such as Indonesia, have young populations. Others, like Singapore, face an aging population, with the percentage of citizens over 65 set to double to 20 percent by 2020. Changes in the age structure of Asian populations will affect labor supply per capita and national savings rates. Systems of support for the elderly in the region are still underdeveloped, with most being supported by family groups. With current trends, countries with an aging population face the prospect of increasing dependency as the young are still experiencing low levels of income. At the same time, Singapore and other East Asian countries depend highly on foreign labor. In Singapore, the government has been criticized for allowing too many foreigners into the country, especially during the 2008 financial crisis, while Thailand has been criticized by international non-governmental organizations (NGOs) for its treatment of migrant workers in terms of wages, benefits, and freedom of movement. Foreign workers are often viewed primarily as cheap economic stop-gaps rather than legitimate stakeholders in the economy. China has similar tensions regarding domestic (rather than foreign) migration, with workers from rural areas complaining of exploitation in urban centers, which caused riots in 2011.
Short-term migration for the purposes of employment also has societal effects on the migrants’ home countries. In Indonesia and the Philippines, children are being raised by grandparents and relatives while their parents work overseas. There are also concerns in these countries over the welfare of foreign workers. Remittances from overseas workers make up a large percentage of GDP for several Asian countries. Notably, the Philippines received over $21 billion in remittances as of 2010–11, some 12 percent of the country’s GDP (World Bank 2011). However, the 2008 crisis weakened foreign labor employment for Asians in Western countries. After 2008, this was offset by surging remittances from the Gulf. However, the 2011 beheading of an Indonesian maid convicted of murdering her employer in Saudi Arabia has caused Southeast Asian countries to rethink sending domestic workers to the Middle East. Economic uncertainty and unrest in the region have also made the Middle East a less attractive destination for Asian workers.

(4) Intra-Asian investment

The ADB estimates that between 2010 and 2020, ASEAN countries will require $60 billion a year in infrastructure investment, covering a wide range of needs such as energy, transport, and
sanitation. In 2010, ASEAN leaders issued a Master Plan on ASEAN Connectivity (MPAC), with the goal of building closer connections in infrastructure, capital, labor, goods, and services. However, there is a perceived high risk in infrastructure investment, which discourages private finance for such projects. Multilateral institutions also cannot lend enough to cover the costs.

The ASEAN Infrastructure Fund (AIF) is an example of efforts to address this issue. Launched in May 2012, the fund has an initial equity of $485.2 million, $150 million of which comes from the ADB, while the remaining $335.2 million comes from nine ASEAN members (excluding Myanmar). The scheme aims to translate regional savings into investments, encouraging Asians to invest in their own future. The fund is intended to involve the private sector by financing select public-private partnerships. In the long term, the fund’s total lending commitment through 2020 is expected to be some $4 billion, with the eventual aim of leveraging more than $13 billion (ADB 2011).

China has also made an attempt to reach out to its neighbors in through regional financing arrangements. The China-ASEAN Investment Cooperation Fund (CAF) was announced by Chinese Premier Wen Jiabao in 2009. CAF is a private equity fund for the development of infrastructure, energy, and natural resources in the region. CAF made its first investment at the
end of 2010, and eventually aims to provide $10 billion in financing. The ASEAN China Investment Fund (ACIF) has also been operating since 2004, focusing on support for small and medium enterprises. The ACIF’s capital is more modest, but its wide range of backers includes the ADB, the China Development Bank, the Japan Asia Investment Company, and the United Overseas Bank of Singapore.

Such new regional financing initiatives are highly significant, because they demonstrate how Asian countries are taking charge of their own development rather than relying on global arrangements. Asian regional financing allows countries to pool economic resiliency, contributing to overall sustainable growth for the region.

(5) Addressing inequality, leveling up

As noted, Asian countries need to construct policies to provide better wages, as well as basic welfare and health care services. These should act as a safety net as well as a springboard for social protection. Those in the informal economy are most at risk, and these people constitute the majority of the population in developing Asia, which poses a challenge for traditional models of social security. They are usually among the poorest in their country’s population and are least
likely to be able to contribute to the taxes that fund the state’s provision of social protection. They are also least able to purchase their own forms of protection or to build up savings that might provide them with a degree of resilience in times of crisis. To move toward inclusive growth, more opportunities must be created for people to move up the social ladder. This will also help control migration and curb brain drain.

As wages in Asia rise in light of the region’s development, the skills and productivity of workers must also increase if countries are to remain economically competitive. Many Asian countries have grown based on lower costs in the region for manufacturing and services. But as Asia’s middle class grows, policy-makers must find ways to achieve a new economic balance.

In October 2011, Thailand’s newly elected government approved an increase in the minimum wage, to be rolled out over two years. Increasing Thailand’s minimum wage was an election promise of the Pheu Thai Party, leader of the ruling coalition. The eventual aim is to increase daily minimum wage to 300 baht ($9.70) nationwide, up from as low as 159 baht ($5.10) in some provinces. However, this move has come under fire from opposition critics, who argue it will damage Thailand’s competitiveness, as the country is still recovering from the severe flooding that occurred in 2011.
Throughout the region, there is great concern among policy-makers that a rise in wages could cause companies to cut jobs or move to other countries where labor costs are lower. At the same time, it is also clear that there are both practical and ethical pressures to improve the employment conditions of workers. Governments and the private sector are becoming increasingly aware of what could be termed the “Foxconn Dilemma,” referring to the high-profile case of poor conditions at the Chinese factories supplying electronics giant Apple.

Social cohesion and political compromise will be key factors in avoiding such scenarios. For some countries, religion or nationalist institutions can provide such cohesion. Asia’s elites and ordinary citizens must be prepared to cooperate and indeed make sacrifices. Such elements are neither unknown nor alien to Asia. During the 1997–98 Asian crisis, many workers in Singapore and elsewhere were not summarily laid off but instead cooperated with companies by staying at home until economic conditions improved. In 1997–98, following the example of the country’s monks, many Thais made donations of gold to the Bank of Thailand. Where finances allow, Asians should construct policies to provide better wages, as well as safety nets of basic welfare and healthcare. The political imperative is to close the stark gap between the haves and the have-nots. Asset bubbles in housing and inflation in basic commodities like food and energy have
been testing governments to make growth more inclusive. Although a huge amount of capital is coming into regional markets, most of it is going into short-term portfolios, not long-term investment. Across Asia, ways must be found to invest and ensure citizens participate in and gain from growth.

(6) Exploring new markets

Even as Asians strengthen domestic policies and explore intra-Asian regional cooperation, it is critical that Asians continue to look beyond their neighborhood. In the long term, growth will need to be bolstered by links to new markets, notably in Latin America, the Middle East, and Africa.

The Forum for East Asia-Latin America Cooperation (FEALAC) is an association of thirty-four countries from East Asia and Latin America, serving as a regular official dialogue channel. FEALAC was initiated by then Singapore Prime Minister Goh Chok Tong in 1998, and adopted by member countries in 2001. FEALAC aims to improve political ties between member states, and also tap the potential of cooperation in trade, investment, technology, and people-to-people exchange. At present, most trade between the two regions consists of Asians buying Latin
American commodities, while Latin Americans buy Asian manufactured goods, but there is a great deal of interest on both sides in furthering and deepening economic links. Individually, Asian countries have signed bilateral FTAs with several states in Latin America. Countries in both regions are also participating in wider-reaching multilateral agreements, such as the Trans-Pacific Partnership, the prospective extension of an existing free trade deal to eventually include Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States, and Vietnam. Japan has signaled it will join the negotiations, while Canada, Mexico, the Philippines, South Korea, and Taiwan have also expressed interest.

Similar to Asia’s links with Latin America through FEALAC, Asian countries have a similar forum with Middle Eastern states, the Asia-Middle East Dialogue (AMED). This forum covers some forty-nine countries in Asia and the Middle East, plus the Palestinian National Authority. AMED has been meeting since 2005, with the inaugural dialogue in Singapore. Interesting possibilities have arisen in recent years as prosperous oil-rich Middle Eastern states have sought to tap Asian expertise in urban development and policymaking. Singapore planners and consultants have led major initiatives in the Middle East, such as the $27 billion Saadiyat Island Project in Abu Dhabi, a new cultural hub for the United Arab Emirates.
Ties between Asia and Africa are also growing stronger. According to the African Development Bank, in 2008, total trade between Africa and China reached $100 billion, while foreign direct investment from China to Africa amounted to $5.4 billion. In January 2012, the African Union opened its new headquarters in the Ethiopian capital of Addis Ababa, a $200-million tower complex funded by Beijing as a gift to African countries. But beyond China, there is a great deal of untapped potential for other Asian states to deepen relations with their emerging counterparts in Africa. Moreover, Africa is often seen simply as a source of resources or a destination for infrastructure investment, but African countries should also be viewed as rising markets in their own right.

(7) Facilitating regionalism while remaining open

As the economies of Asian countries mature, they are facing familiar challenges: for instance, pressure to increase wages and yet remain competitive. If Asian policy-makers can get the balance right, Asia’s new regional economy will be more self-sustaining, with healthy finance mechanisms and strong consumer spending. Economic activity in the region is already reflecting the changing global climate. As Asian countries grow and develop, they will need to balance their own interests with those of larger powers exerting influence over the region. The U.S.–
China relationship may be the most prominent one in Asia, but other Asian countries are not passive actors vis-à-vis Washington and Beijing. It also remains to be seen whether countries within ASEAN will be able to find coherence and balance as part of a more tightly integrated grouping, or go their own way. Although ASEAN has ambitious goals regarding regional integration, it remains a diverse grouping with no common security or foreign policy, unlike the European Union. But ASEAN has banded together before to deal with conflicts, like the occupation of Cambodia and the Vietnam War. In the interests of economic stability, it may now again be timely for members to harmonize their policies.

However, even as Asian countries build stronger intra-Asian ties and a higher-quality regional economy, it is important that the region remain open, not just to existing ties with developed countries but also to opportunities with new partners, such as countries in the Middle East, Latin America, and Africa. In the same way that Asians are working more closely with each other, there is great potential for cooperation among developing or emerging regions—what used to be referred to as South-South partnerships.

While developed countries will remain important partners, Asia needs to find ways to decrease its dependency on trade and investment links with Western countries and work more with its
neighbors in the region or new partners further afield. Ultimately, Asian countries can play a
greater role in their own development, and in the development of their peers, rather than relying
on the West or global institutions.

\[\text{1 The ADB defines “middle class” as per capita consumption of $2–$20 per day, and “developing Asia” as Armenia, Azerbaijan, Bangladesh, Cambodia, People’s Republic of China, Georgia, India, Indonesia, Kazakhstan, Kyrgyz Republic, Lao People’s Democratic Republic, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Sri Lanka, Tajikistan, Thailand, Turkmenistan, Uzbekistan, and Vietnam.}\]
References


