
Can Asia sustain the world?



By Jonathan Story

Clouded prospects in developed markets cast a shadow over outlook for trade and economy in Asia.

Two key forces that have driven Asia's transformation for decades can be counted on to continue apace in the coming year: economic development and China's rise. Nonetheless, individual Asian countries will struggle to balance domestic and international responsibilities in an ever more interdependent world economy, as the world power structure evolves away from its Atlantic roots. They will be doing so in a year where leadership across Asia and in the wider world is in transition.

Asia will fuel growth

Emerging markets, with Asia as their engine, will continue to fuel global growth. Average growth for emerging markets will be around 6 percent, with China at over 8 percent, while India's growth falters. By contrast, average growth for developed markets is forecast at under 1 percent, with the EU – Asia's largest export market – possibly heading into negative growth of 0 to - 2 percent. The United States is in better shape, and could enjoy growth of about 3 percent – which would definitely help President Obama's re-election.

China once again faces the challenge of managing a “soft landing”. The huge country remains over-reliant on exports, saves 54 percent of national income, and invests 46 percent of GDP. China has launched an ambitious programme to build 35 million homes for lower-income families to take pressure off an overheated housing market. If its past policy serves as a guide, the government is likely to prefer growth over inflationary pressures – but only if inflation is contained.

Clouded prospects in the developed markets of the world cast a shadow over world trade on which Asian development thrives. China’s imports will grow faster at 8 percent than world trade at 6 percent. In Southeast Asia, only Vietnam and Indonesia can rely on domestic consumption. The good news for Southeast Asia is that healthy fiscal balances and bank balance sheets limit their vulnerability to the financial woes of the U.S. and the EU.

In the past, world trade tended to grow twice as fast as the world economy, so the global slowdown is a warning signal for the world’s trading nations to resist protectionist pressures at home. Given the EU’s sovereign debt and bank solvency difficulties, coupled with a U.S. election year, renewed vows of trade virtue by world leaders will not be a wasted breath.

Demand for commodities

One of the major changes to have occurred in the pattern of world trade over the past two decades has been Asia’s emergence as the prime market for world petroleum products, for minerals and farm commodities. In the key oil markets, high prices of the last few years – due in part to demand from China and India – has brought new sources of supply on to the market, while the general slowdown in global growth has lowered demand, bringing supply and demand into temporary equilibrium. Which way oil prices go is anybody’s guess, but world prices will surely include a risk premium, relating to ongoing events in the Arab world, and the growing tensions surrounding Iran’s bid for a nuclear weapons capability.

U.S. policy will also be worth tracking: by nailing his flag to free trade in the Asia-Pacific region, President Obama has strengthened his internationalist credentials, while the prospect of developing shale-oil onshore in the U.S. plays to his more protectionist-minded electorate. China’s rise lies at the heart of the Obama administration’s re-orientation of the U.S. foreign policy. One strand is to pivot the U.S. away from the over-emphasis on the Middle

East, the Gulf and Afghanistan inherited from the previous administration. This is easier said than done, because growing tension with Iran is prompting Saudi Arabia to shore up its relations with Washington, while continued stalemate over Palestine is bound to fuel Palestinian frustration and keep Israel on the alert. Most of America's policy initiatives in the Pacific can be construed in the light of the U.S. exploiting concerns across the region at China's rise.

Asian geopolitical shifts

Australia's invitation to rotate 2,500 U.S. marines through Darwin on a half yearly basis, and the recent opening of Myanmar to ASEAN and to the U.S., may both be representative of the two countries' concern at growing Chinese influence. Similarly, U.S. diplomacy has been pushing for a China-ASEAN code of conduct on the South China Sea, where China's armed forces claim primacy.

Tokyo will continue to show reluctance to participate in a U.S. security strategy, which China sees as motivated by the Pentagon's desire to encircle it with a potentially hostile alliance of states from Australia, to Japan and India, and whose strands all flow to Washington. Japan, Asia's second largest economy, must reconsider the balance between its relationship with its old ally, the U.S., and China, its prime export market.

This year, Cambodia will be taking over the ASEAN chair, and the fear is that Phnom Penh will give in to Chinese pressure in the South China Seas. The same motivation is evident in India's recent overtures to Pakistan, where Delhi backed Islamabad's application for a temporary seat at the UN Security Council, and Islamabad has granted India the 'most favoured nation' status. India has also sought to improve relations with Bangladesh and Nepal, against a background of underlying tensions between Delhi and Beijing over naval rivalry, border disputes and deepening trade and investment rivalry.

Meanwhile, geopolitics is alive in Northeast Asia, as demonstrated by the reactions of neighbouring states to the recent death of North Korea leader Kim Jong-il. The prospect of a power vacuum in North Korea is sure to keep attention focused over the coming year on the peninsula. In view of what happened last year to Muammar Gaddafi in Libya, North Korea leadership is not likely to hurry into nuclear disarmament.

Transitional governments

One major problem going forward is that many governments are in transition, and therefore likely to be more preoccupied with domestic issues than dealing with pressing matters of geopolitics and economics. This is definitely the case of China and the U.S.. Japan will continue to be preoccupied with the fallout from the nuclear implosion of March 2011. A change of government is pending in South Korea, and a succession transition is underway in North Korea. In India, the ensuing regional elections in Uttar Pradesh will indicate which way the political barometer swings in the country, and elections in Pakistan may be brought forward to late 2012.

The year 2012 is likely to be one where Asia is carried forward on its own momentum but also one where domestic politics looms larger in international relations than usual. Drift and surprise are uncomfortable bedfellows.



This article was first published in China Daily Asia Weekly on 6 January, 2012. [Jonathan Story](#) is Emeritus Professor of International Political Economy at INSEAD.

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