

East Asia - The end of an era

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MANILA, Jan (IPS) As the US recession drags Asia down, there has been much speculation about a regional response to the crisis. Seemingly lending substance to this have been a trilateral summit of the leaders of China, Japan, and South Korea last December and a flurry of bilateral talks between Japan's Taro Aso and Korea's Lee Myung-bak, all of which had economic cooperation at the top of the agenda.

On the face of it, coordinated action by the three could be significant: they account for about three-quarters of East Asia's GDP and two-thirds of its trade, and each is among the other two's leading trading partners. There are, however, reasons to be sceptical of recent declarations of cooperation.

First, the idea of Northeast Asian cooperation in the form of a regional trading area has been kicked around for the last 15 years in different formulations, with little movement at all in terms of implementation.

Second, government coordination of economic policies in the face of a crisis does not have a good track record. It was not just the US that vetoed the Asian Monetary Fund (AMF) proposed by Japan during the 1997 financial crisis: China also did for fear it could become a vehicle of Japanese hegemony.

Third, these meetings have been a case of a mountain giving birth to a mouse. The concrete measures agreed upon -to expand use of bilateral swap facilities under the ten-member Association of Southeast Asian Nations (ASEAN) Plus Three (China, Japan and South Korea) Arrangement and call for the infusion of more capital into the Asian Development Bank (ADB)- were timid compared to the gargantuan task at hand. None of the three named a specific amount they would commit to the ADB, and for nearly a decade now, the institutional evolution of the ASEAN Plus Three formation has been stuck at the level of bilateral swap arrangements to prop up regional currencies subject to speculative attack.

One reason economic cooperation among the Northeast Asian giants has become a hot topic is that it was Chinese demand that pulled the Asian economies, including Korea and Japan, from the depths of stagnation and out of the Asian financial crisis in the first half of this decade. Japan's first sustained recovery following its collapse into recession in the early 1990s was fuelled by record exports of capital and technology-intensive goods to China. Indeed, China became the main destination for Asia's exports, with one analysis pointing out that by the middle of the decade, China had become "the overwhelming driver of export growth in Taiwan and the Philippines, and the majority buyer of products from Japan, South Korea, Malaysia, and Australia."

This positive role of the Chinese 'locomotive' earlier this decade sparked optimistic talk in academic and policy circles about 'decoupling' economic growth in East Asia from that of the US when the latter was threatened with recession because of the subprime mortgage crisis in 2007. Others were less optimistic. Research by economists C.P. Chandrasekhar and Jayati Ghosh, for instance, underlined that although China was indeed importing intermediate goods and parts from Japan, Korea, and ASEAN, it was for assembly as finished goods for export to the United States and Europe, not for its domestic market. Thus, "if demand for Chinese exports from the United States and the EU

slows down, as will be likely with a US recession, this will affect not only Chinese manufacturing production but also Chinese demand for imports from these Asian developing countries.”

The swift transmission to Asia of the collapse of their key market has banished all talk of ‘decoupling’. The more accurate term for US-East Asia economic relations today might be a chain gang, linking not only China and the US but a host of other satellite economies, all of whose fates were tied to the deflating balloon of debt-financed middle-class spending in the United States. China’s growth in 2008 fell to 9 per cent, from 11 per cent a year earlier, provoking widespread unemployment and discontent. Japan is now in deep recession, its mighty export-oriented consumer goods industries reeling from plummeting sales. South Korea, the hardest hit, has seen its currency collapse by some 30 per cent relative to the dollar.

The current downturn, many now realise, is no simple recession. For East Asia, there is the added significance that this is the end of an era of export-oriented industrialisation that began in the 1960s, when Korea and Taiwan embarked on a development process that tied their growth to the US market. Encouraged by the World Bank to make “special efforts” to turn their manufacturing enterprises away from the relatively small markets associated with import substitution toward the much larger opportunities flowing from export promotion, the Southeast Asian countries followed suit in the 1970s and 1980s.

Everybody’s export market was the United States, where, over the last 15 years, a consumer binge fuelled by massive international credit -much of it from China and Japan- extended a boom past its natural life and appeared to portend a never-ending demand for Asian imports. Now that Alan Greenspan’s “New Economy” has fallen victim to the law of gravity, it will not be easy to reorient the export machines that the Asian economies have become into economic engines serving the domestic market. Income and asset redistribution will be central to that reorientation, and many national elites will fight tooth and nail to avoid that.

Regional integration or the joining of national markets by bringing down tariffs against one another while keeping them up against non-member countries is another remedy for the decline of the US market. The different economic elites, however, are very jealous of their national markets, and government technocrats, who have been the ones promoting the dream of a 1.9 billion East Asian market, have not demonstrated an eagerness to take them on. The current crisis may embolden them to take some first steps, but the distance between the rhetoric of regionalism and the reality of separate markets and independent economic policies will continue to be considerable.

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