

**Grzegorz W. Kolodko<sup>1</sup>**

### AN ASIAN ERA WITH THE EURO-ATLANTIC CIVILIZATION AS A BACKGROUND?

The times are peaceful and yet wars are on. Luckily, those waged between the titans of the world are bloodless. Still, unfortunately, the cold trade war is turning into a hot one, the discreet and quiet disputes are being replaced by an open and loud confrontation. This is mainly happening because the West is afraid of the growing competition from the East and, when it's playing fair, more and more often it cannot keep up with it.<sup>2</sup> Therefore the scale of hypocrisy – for the United States best illustrated by the “do what we tell you, not what we do” slogan – is on the rise. Sheer self-righteousness. Talking constantly of free trade and liberal economy, of technology transfer and direct investment, while resorting to protectionist maneuvers, whether open ones or those hidden behind a political rhetoric.

There is a major threat that there will be more protectionist practices. These will add heat to the trade. Apart from pressure from specific political circles, a major role is played by the psychosis regarding the unstoppable assault of the East, whipped up by the media. This threat is best exemplified by China and this country will be called to order most often. It is already happening, sometimes beyond the limits of common sense.

In the times of globalization and its inherent battle over influence and position, there are no innocent policies and politics.<sup>3</sup> China uses both spies and industrial intelligence. It has a harder time doing it as it is more in the limelight. Also Americans, Russians, the British, Germans, the French and the Japanese as well as a couple of other nations do that. Even if we don't approve of such practices, we must acknowledge they exist.

Asia as the emerging power is much more than China. The continent's volume of output and population size are

growing fast, accounting for more than 62 percent of the whole planet's population, 57.5 percent of which is outside of the Middle East, often treated separately for geopolitical reasons. This human mass generates slightly over 46 percent of gross world product, GWP, or more than the US and EU combined. With the Middle East excluded, it's over 38 percent of GWP. In the future, the share of both Asian population and output will be increasing due to a higher population and economic growth. It is worth realizing that once before – or actually throughout all the centuries of the last millennium until around 1820, when the West took off with a bang as a result of the industrial revolution – Asia used to produce over 60 percent of the global output. In 1950, this was less than 20 percent but it took only two generations for this index to more than double. Maybe as early as in 2030 it will be over half again.

The Asian continent is culturally, politically and economically very diverse. Especially if we take it literally, in geographic terms, and trace its borders from Turkey and Israel in the West to Japan and the Russian Siberia with Kamchatka and Chukotka in the Far East. Leaving aside the Asian part of Russia, which usually isn't taken into account in Asian calculations, its four main cores are China and Japan, as well as two regional integration blocs: ASEAN in the South-East Asia, with no dominant economy, and SAARC in the South Asia, dominated by India, a regional superpower in terms of population size as well as of the economic and military strength. Of the twelve countries with a population of over a hundred million as many as seven: China, India, Indonesia, Pakistan, Bangladesh, Japan and the Philippines, are situated in Asia. Soon Vietnam and Turkey will join their ranks. Of the twenty economies that produce more than one percent of the global output, eight: China, India, Japan, South Korea, Indonesia, Turkey, Iran and Taiwan, are in Asia. Therefore, when reflecting on the future role of Asia, its demographic potential and culture, political significance and especially its economic influence, we need to remember that it's the world's largest region, almost in every respect.

It is beyond any doubt that China's absolute position – economic and, consequently, as is always the case for a large country, political and military one – as well as its impact on what is going on in the world are growing and they will continue to, in the foreseeable future. This process

<sup>1</sup> Deputy Prime Minister and Minister of Finance of Poland (1994–1997, 2002–2003), Director of the Research Institute at the Kozminski University (Warsaw), foreign member of the RAS, Dr. Sc. (Economics), Professor. Author of 50 books and over 400 articles published in 26 languages, selected works: “Neither Washington, nor Beijing Consensus, but the New Pragmatism”, “Towards a Better future: Integration Perspectives”, “World in Motion”, “Globalization, Transformation, Crisis – What's Next?”, “From Shock to Therapy. Political Economy of Post-Socialist Transformations”, “Whither the World: The Political Economy of the Future” and others. Member of the European Academy of Arts, Sciences and Humanities Research. Honorary Doctor of 10 foreign universities.

<sup>2</sup> *Spence M.* The Next Convergence. The Future of Economic Growth in a Multispeed World. N.Y.: Farrar, Straus and Giroux, 2011.

<sup>3</sup> *Kolodko G.W.* Whither the World: The Political Economy of the Future. N.Y.: Palgrave MacMillan, 2014.

cannot be stopped, or even less so reversed using peaceful methods. And other methods are out of the question. Everybody else must acknowledge this, regardless of their own interests and subjective affinities. We need to take a leap forward again and try and find the right place for ourselves in the changing world of the future.

This time the Chinese challenge is not about nuclear saber-rattling or a (luckily) failed attempt to export the revolution but mostly about the successful export of goods and, quite importantly, that of capital. This goes hand in hand with various countertrade transactions, which increase China's presence all over the world. It can be seen not only in statistics and on major international trade shows but with a naked eye when one travels in different countries. What you can't see right away, however, and what is of paramount importance for the future, is the far-reaching effects of major infrastructure projects financed in return for multi-year strategic raw material supply contracts. This is particularly visible in Africa and in Latin America but still on a much lower scale, oddly enough, in the Russian Siberia. In the future this very region will undergo huge changes, mainly due to joint Russian-Chinese investment and mining projects.

China spends a lot of money abroad on financing the infrastructure to strengthen human capital: schools and universities, outpatient clinics and hospitals. Soft credit is used for that purpose, which on various occasions is partly canceled and becomes a subsidy. Large Chinese construction companies are hired to carry out infrastructure projects so no wonder they become major global players. If we take a closer look at the geopolitical map of the world from this angle, it's easy to note that China is especially active where the West has failed. Once, in the colonial period, when it exploited locals instead of helping them. Then, in the neo-colonial period, when it cheated them instead of being cooperative, and recently, at the time of globalization, when it marginalized them instead of looking for areas of positive synergies. If this hadn't been imprinted in the memory of people from the economies on their way to emancipation, they would be less inclined to be open to extensive contacts with somebody else who, on top of that, has something valuable to offer.

Although this undeniably contributes to reducing poverty and promotes social and economic development, China, also for this reason, is suspected or even accused of ill intentions, of ideological indoctrination, of political corruption. Or even of a 21st century imperialism. Even if it were partly so, this doesn't change the fact that such a strategy helps less-advanced economies in their development efforts. If this also poses a threat to the balance of influence, then instead of wasting time on criticizing the Chinese expansion, the rich West had better increase its own aid and re-orient operating methods and policy directions of international organizations that are greatly influenced by it.

In that case aren't we going to feel the Chinese pressure on the Mississippi, on the Amazon, on the Danube and on the Nile, on the Vistula, on the Limpopo, and especially, on the Ganges and Yenisei? We are, by all means. We already do. This stems not only from the present trade, financial and investment relations. In some regions, especially in South-East Asia, certain ties with China have developed over entire centuries. In particular, the imperial tribute system was in place instead of the Western and Arab style colonization.

For two millennia, China used trade and unique diplomacy to exert a considerable influence on many of its closer and farther neighbors, including the entire region now forming ASEAN. Back then China was indeed in the "middle" of that world, without resorting to a military conquest or political enslavement, and the system of relationships differed from the one then developed in other civilizations of that era. It was based on a deep conviction that China is the center of the world, and the emperor a heavenly son so others, naturally, as it were, should be their vassals. Such an approach was fostered by the Chinese diplomacy, which then had little to do with the western diplomacy. Countries that wished to trade with China – and quite a lot of them did already then because the Chinese market had always been attractive – would send their "diplomatic" missions which obsequiously offered a tribute in Beijing to curry favor with the authorities without whose protectionism there was no question of tapping freely to a receptive market.<sup>1</sup> When Europeans arrived there in the 16th century, they also followed this convention, confirming the Chinese.

Dependence on the Chinese economic situation can be observed on many levels and goes far beyond direct exports and imports. In the literature of the subject, the term *sinodependency index* has even been coined. It is an index that reflects changes in the S&P 500 stock index, which depends on the position of 135 companies listed there that derive their revenues from operations in China. If the Chinese economy is on the rise, so are the stock exchange quotations and vice versa. Over a four year period of 2009–2012, *sinodependency index* has grown by nearly 130 percent, while the complete S&P 500, by slightly over 50 percent. In other words, if it weren't for the continued Chinese boom, the economy would be in a much worse condition, which would adversely affect stock exchanges in many other countries, including the most developed ones. Therefore, whoever wishes China ill, wishes himself ill.

Problems with low efficiency of some state-owned companies are mounting; a mismatch between supply structure and demand is becoming apparent; many companies are in excessive debt and lose liquidity or are already facing bankruptcy; corruption is rampant, especially at the intersections of private business and government. This is not the kind of public and private partnership we aspire to. The greatest opportunities for corruption can be found in the public procurement system; consequently, the rate at which new kilometers of modern roads and fast trains are completed and the rate at which corruptible officials, sometimes those of the high level, are multiplying, seem to be racing each other. Despite the unquestionable achievements in environmental protection, for example afforestation, placing waste treatment plants in urban agglomerations and the use of solar energy, the view is depressing. It is estimated that 16 out of the world's 20 most polluted cities are situated in China.

All this comes as no surprise and the economic policy attempts to address the mounting problems, for example by means of further management decentralization, changes in the fiscal system, continued labor market deregulation.<sup>2</sup> It will be a cliché to say that we need to do more, also when it comes to ensuring more effective public control over eco-

<sup>1</sup> Vohra R. *China's Path to Modernization: A Historical Review from 1800 to the Present*. Upper Saddle River, N.J.: Prentice Hall, 1999.

<sup>2</sup> Lin J. Y. *Demystifying the Chinese Economy*. Cambridge: Cambridge University Press, 2012.

conomic policy. In the West we keep hearing that it's too little, too late, that a loss of momentum is coming but it hasn't happened yet.

China is in for at least a couple of years, and most likely over a decade, of fast growth (some believe that even several decades of it, but this is an erroneous view), over twice as high as the global average and three times as high as the average for wealthy countries. It will not be back, except for potential extraordinary years, to a two digit growth rate but it will be still capable of quickly increasing its national income. For how long? By how much?

It's a wider problem as China is not the only country to develop fast. For many years the "Asian economic miracle" was discussed, with reference both to the impressive growth rate in the one-of-its-kind Singapore, Hong Kong and Taiwan and in much larger countries such as Indonesia, South Korea, Thailand, Malaysia and recently also Vietnam. Growth rate is also high in a particularly important country, in the very populous India. Let's assume that these countries will commit no strategic error that would bring their growth down to a low level. In this case until when can a fast growth of Asian economies continue, one that greatly exceeds the indices of other countries and regions?

The correct question, not only in the Asian context but generally in the economic growth theory and policy, is not "how long" as in "how many years" but rather up to what level is it realistic? In other words, from which income does the output growth dynamic start to lose momentum? If we know the answer to that question, we might venture to forecast for how many more years respective countries can hope to continue to climb up the income ladder.

The West, the Euro Atlantic one without Japan and the antipodes, with its hubris and sense of alleged superiority, may, following the old maxim of *two dogs fight for a bone and a third runs away with it*, come to the conclusion that some internal Asian conflicts, as long as they don't escalate too much, may work to its advantage. Mind you, there's no shortage of dividing lines on the Asian continent. Scars left from colonial times as well as not fully healed wounds from the world war two period and from several later regional conflicts have an effect not only on bilateral and multilateral political relations, which is reflected in diplomatic relations and cultural exchange. We can also see it in the tourism sector as these days it's easier to find Chinese coach groups in the troubled Egypt than in South Korea and there are more Japanese people travelling far from home in the Middle East than in the neighboring China.

This is by no means yet another clash of civilizations but a problem that goes far beyond fierce market competition or even economic war. On the surface of things, we can see the USA vs. China trade and currency dispute or, more broadly speaking, one between the Euro-Atlantic West and the Asian East, but there are other underlying sources of discord. It's about much more than the fact that Huawei is a threat to Motorola, ZTE to Apple or Samsung to Nokia, or that India's competitiveness is increasingly making itself felt or that there are fears that some sectors will be penetrated by capital from a friendly Arab country, as was the case with the intended investment in American ports by a Dubai-based company. The thing is that liberal capitalism, whose neoliberal deviation is totally compromising itself as a result of the economic crisis and of the growing conflict potential of the entire system, is confronting state capitalism.

It's about one more, this time global dimension of the market vs. government confrontation.

Just like there are several versions of liberal capitalism, there are also a couple of varieties of state capitalism. The European type, whose greatest stronghold is France, where government's involvement in the economy measured with fiscal redistribution is as high as 57 percent, is a thing of the past. It doesn't represent a great threat and neither does it give any high hope for a better tomorrow. Conversely, the Asian type of state capitalism may be a thing of the future in a number of emancipating economies as it handles better than others the challenges posed by economic growth in the globalization era. The post-Soviet state capitalism, still not very well defined, and its milder Latin variety is looking for its place somewhere in between. State-owned companies account for 80 percent of the value on the Chinese capital market, 62 percent in Russia and 38 percent in Brazil. Which side of the Asian vs. Euro-Atlantic confrontation will be chosen by the emancipating economies of other regions will be of paramount importance for the future of the world, for shaping the political and economic system of tomorrow.

China's becoming more and more appealing all over the world, while the West is losing its attraction for many of its regions. It turns out that more and more countries are orienting their monetary policy towards yuan rather than dollar. When dollar changes its exchange rate to the Swiss franc by 1 percent, Western Asian countries' currencies go the same direction by 0.38 percent. However, when the same happens to yuan, they follow in its footsteps by 0.53 percent. It is estimated that compared to the last pre-crisis years, in 32 out of 52 countries classified as the "emerging markets" the reference position of the dollar declined, often to yuan's advantage. In the context of such tendencies and especially in view of the expected continued fast economic growth and China's growing share of the global trade, we can find forecasts predicting that the Chinese currency will become the world's dominant one as soon as in 2035.<sup>1</sup> Another mistake. The international position of yuan, also known as renminbi, RMB, will be growing in importance but it will not dominate the world. It is also doubtful whether it will ever oust dollar as the leader; surely it won't happen as soon as in 2035. If any currency dethrones dollar, in which over 62 percent of the world's currency reserves are held, it won't be yuan, but euro, which is the currency of around a quarter of such reserves; provided, of course, that euro weathers the crisis.

China has become trendy. So much so that not only in the field of economics we can find many opinions that are not based on reliable scientific research but rather follow a fad. It's similar in other fields from arts to politics. There is undoubtedly a lot of exaggeration in the former and a market bubble has emerged. Three of the ten most expensive works of art sold in 2011 were painted by Chinese artists, including *Eagle Standing on Pine Tree* by Qi Baishi (1864–1957), which found a buyer at 65 million dollars. The painting is truly beautiful but whatever the anonymous investor will lose in this transaction, it's his business. What should be the business of us all is the growing fashion for all things Chinese in the economic policy. Ano-

<sup>1</sup> Subramanian A., Kessler M. The Renminbi Bloc Is Here: Asia Down, Rest of the World to Go?, Working Paper, 12–19, Peterson Institute for International Economics. Washington, D.C., 2012. Oct.

ther term, the “Beijing consensus” has become a buzzword in recent years.<sup>1</sup> For obvious reasons, it’s being contrasted with the Washington consensus, now being put out to pasture in economic history and pushed to the margins of mainstream political economy. Still, is there any such thing as the Beijing consensus? Maybe it’s another invention of Western political sciences, as both these terms were coined in the US, while the Chinese can well do without using this term? Yes, definitely so.

Incidentally, a quarter of a century ago when the term *the Washington Consensus* was born<sup>2</sup>, neither in the political nor in the technocratic circles in Washington was there any actual unanimity on how to deal with the outside world or, to be more precise, with the troublemaking “emerging markets”, first those from Latin America and right afterwards the Eastern European and post-Soviet ones. Then the concept of neoliberal market deregulation, privatization of property and limited role of government became all the rage, which was dubbed an agreement and named after the city which certainly is one of the most influential places in the world, if not the single most influential one. The job was completed by the mass media and the economic parrot that loves to repeat catchy terms, even if they are imprecise and inadequate or quite preposterous. Later on, attempts were made to modify this economic policy concept by adding an institutional layer and relevant social content under the new name of “post-Washington consensus”.<sup>3</sup> Back then, it still didn’t look as though Beijing could replace Washington and China would take over the role of the United States.

It is similar this time because there has been no final agreement, in political or in technocratic circles in Beijing, on how to approach the outside world, especially other emancipating economies. However, since a certain line of China’s expansion is becoming apparent and the Chinese system of values, different from the Western one, is pretty clear, we’re getting a Beijing consensus. Its general interpretation boils down to regulation of economy, a significant government involvement in it and interventionism, which economic attributes go hand in hand with political centralism. Again, the media and the cliché-hurling parrot are trying to do the rest but this time the term is not catching on too much.

In reality, both in academic and top political circles in China, views are far from unanimity and a consensus is further than ever. Their diversity is much greater than the one noticed in western stereotypes, which stress the division between the “left wing” calling for strengthening the state sector and bureaucratic supervision over economy and the “right wing” suggesting further denationalization and deregulation. Interestingly enough, the leading Chinese economist and, until recently, the World Bank’s chief economist, Justin Lifu Lin, entitled his book on economic policy *Against the Consensus*.<sup>4</sup>

<sup>1</sup> Halper S. *The Beijing Consensus: How China's Authoritarian Model Will Dominate the Twenty-First Century*. N.Y.: Basic Books, 2010.

<sup>2</sup> Williamson J. What Washington Means by Policy Reform, in: John Williamson, ed., *Latin American Adjustment: How Much has Happened?* Washington, D.C.: Institute for International Economics, 1990.

<sup>3</sup> Stiglitz J.E. More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus, WIDER Annual Lecture, 2, UNU-WIDER, Helsinki, 1998 (March), and Kolodko G.W. Transition to a market economy and sustained growth. Implications for the post-Washington consensus, *Communist and Post-Communist Studies*, 1999, Vol. 32, No. 3.

<sup>4</sup> Lin Y.J. *Against the Consensus*. Cambridge, 2013.

Efforts to westernize the world, and especially to Americanize it, have failed and so would efforts to Sinicize it, if any were undertaken, which is not happening. Just like the assessments of the Chinese economic reality are exaggerated, which sometimes reduce it to “authoritarian capitalism”<sup>5</sup>, so are the conjectures regarding China’s alleged imperial ambitions. The illusory Beijing consensus will not upstage the Washington consensus, which is leaving the stage through fault of its own. Something else, better and more forward-looking is needed.

This is all the more difficult that since the unprecedented intellectual and moral disgrace of neoliberal capitalism, no innovative and appealing idea has come forth that could fill the resulting void.<sup>6</sup> Neither China, which is still looking (gladly drawing on the great Confucius, whose thought, however, cannot be the foundation of the future) nor anybody else in Asia or outside has a ready-made answer to the fundamental question “what next”? What we need is a colossal effort to protect the universal values of the West. Political neoliberalism is making a mockery of true democracy and the economic neoliberalism is turning economy into its private farm but this doesn’t mean that we shouldn’t cherish liberal values: freedom, genuine choice, fair competition, freedom of enterprise, market and social economy. Asia can also extensively draw on that.

A world with multiple economic and political centers is being born, diversity of cultures is flourishing and none of them, not even one of the major ones, will totally dominate while others recede into the background. In this respect, there will be enough space for everyone in the future.<sup>7</sup> Well, nearly for everyone. The world of the future will be a multipolar, heterogeneous world and thus one that is culturally richer. If we manage to properly orient and control the permanent, never-ending dialog, there will be no destructive clash of civilizations but their creative harmony instead.

The face of the world in the 21st century will be mostly determined not so much by the outcome of the direct economic rivalry between Asia and Euro-America but rather by how these two megasystems of values, institutions and policies interpenetrate, and how they mutually filter into and enrich each other. The ongoing and intensifying confrontation is more of an opportunity for the future than a threat to it. We need to realize, however, that it’s not only new markets that are emerging, as neoliberal capitalism would have it, but also alternative ideologies are making themselves known. The faster this is acknowledged by intellectual leaders and the heads of world political and economic centers, the better. Hence, the greatest threat to the rich Western world, as well as to some emancipating economies that try to follow it blindly, doesn’t come from China but from the myth of the perfect market.<sup>8</sup>

<sup>5</sup> McGregor J. *No Ancient Wisdom, No Followers: The Challenges of Chinese Authoritarian Capitalism*. Westport, CT: Prospecta Press, 2012.

<sup>6</sup> Mishra P. *From the Ruins of Empire: The Revolt Against the West and the Remaking of Asia*. N.Y.: Farrar, Straus and Giroux, 2012.

<sup>7</sup> Kupchan Ch.A. *No One’s World. The West, the Rising Rest, and the Coming Global Turn*. N.Y.: Oxford University Press, 2012.

<sup>8</sup> Kolodko G.W. *Truth, Errors, and Lies: Politics and Economics in a Volatile World*. N.Y.: Columbia University Press, 2011.