Grzegorz W. Kolodko[1]

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[2]. 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. Where emotions take the upper hand, sound judgment is lacking…

What is it all about? Are the Chinese companies really a threat to US interests or even to the American concern for the world peace? Maybe I should, too, disconnect the Huawei mobile device from my laptop or else, during one of my trips, the Chinese will steal the draft of this book and it will be published on the Yangtze before it is on the Mississippi? Let's not get paranoid! We should watch out for the Chinese but, even more so, we should watch out to keep the good sense. Somebody may not like the fact that the highly-advocated economic freedom brings such results that the Chinese computer company Lenovo became, in the fall of 2012, the world's largest PC manufacturer that sells more of them than the US-based Hewlett-

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[2] Michael Spence, *The Next Convergence. The Future of Economic Growth in a Multispeed World* (New York: Farrar, Straus and Giroux, 2011).

Packard. However, if we follow the rules of honest economics, it's only appropriate to humbly accept it and compete fairly, unless the beautiful slogans of the liberal economy are only good as long as they serve the power that be, In that case they are nothing more than a smokescreen for them to keep getting rich at somebody else's expense. When the economic freedom, instead of facilitating the expansion of rich countries, investors and companies, gets them into difficulties, the principal foundations and supreme values turn out to be empty slogans.

Therefore, it's good that there's a rule of law in the most advanced countries, not always, not everywhere and not in all cases but it's there nevertheless, rather than the rule of special interest groups. While not underestimating their influence, it is quite reassuring to see cases like the one where the US Court of Appeals overturns the administrative ban on selling the Galaxy Nexus smartphone by the Korean giant, Samsung, in the United States.

After all, that was what people wanted: an economic freedom, an open market, a liberal trade, a fair competition. If some Chinese companies are supported by government in their expansion (and many of them are as China has not renounced the use of public aid, unlike the European Union, which went overboard in that respect), there are better ways to compete with them than using government methods in the form of politically motivated orders and bans, like other countries do. Mostly bilateral negotiations serve that purpose, but if they fail, there are also arbitration mechanisms used in the World Trade Organization practice. Most of all, however, we need to be competitive in terms of production quality. That's more effective than unilateral sanctions as these are as much an instrument of an anti-development protectionism as a factor provoking retaliatory actions. All we can do is count on Americans to reconsider in time, and on the Chinese not to lose their temper and not to be provoked. The United States managed in the past to win a political cold war against the Soviet Union, but will they fare well in an economic cold war against China, a country with a growing number of global companies that meet the highest technological and managerial standards, and backed by over 1 billion 350 million people and currency reserves worth over 3 billion dollars?

Let's not delude ourselves. In the times of globalization and its inherent battle over influence and position, there are no innocent policies and politics[3]. China uses both spies and industrial intelligence. It has a harder time doing it as it is more in the limelight. Also

[3] Grzegorz W. Kolodko, *Whither the World: The Political Economy of the Future* (New York: Palgrave MacMillan, 2014).

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.

There are many forecasts available and there's no point in arguing over which of them is the most likely one. All of them rightly indicate a significant growth of Asia's importance in the global economy and a decline in the relative position of the West. Angus Maddison, the author of a study about the growth of the global economy in the last two millennia, estimates that in 2030 China's share will amount to 23.8, that of India to 10.4, that of Japan to 3.6 and that of other Asian countries to 15.4 percent of GWP. According to these predictions, the United States will have a 17.3 percent share of the global output, while Asia as a whole will contribute as much as 53 percent. I guess Africa is underestimated, with its share of GWP projected to fall from 3.2 percent in 2003 to 3 percent in 2030, and so are the economies of the former Soviet Union and Central and Eastern Europe, whose share is expected to decrease from 6.1 to 4.7 percent[4]. It is beyond any doubt that Asia will have a dominant position in all this mass, mostly due to the size of its population rather than per capita volume of the output. From this point of view, the West will dominate for many more generations.

The fact that the sun rises in the east and sets in the west does not at all implicate that the East is rising and the West is falling into a dark abyss. Relations are dramatically changing but the West will not be marginalized by the East, only its relative position will be weakened. It's true that we could make quite a movie about a panicking world where dollar is collapsing

[4] See Angus Maddison, "The West and the Rest in the World Economy: Maddisonian and Malthusian interpretations", *World Economics*, Vol. 9, No. 4, October-December 2008.

and everybody is turning away from it, towards the Chinese yuan and the Korean won, though not towards the Indian rupee or the Thai bhat, but it would be a sci-fi movie rather than one showing the coming future.

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.

Is it really so bad already (in the West) and so good (in the East) that Americans have to resort to unfair protectionist practices to save their skin? Or maybe the Chinese indeed are plotting to use globalization to gain control over the world? Is the era of Asian dominance really coming, with the Euro Atlantic civilization doomed to be pushed to the background? Should we learn first Chinese before we learn English?

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 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 neocolonial 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[5]. 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 2009-12, *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.

In the development economics there is a popular term of “hard landing”. It is contrasted with the “soft landing” defined as descending gradually and softly from high output growth levels, especially when the growth is related to an overheated economy. Hard landing means facing different realities as a result of going drastically down, just like when a plane is touching down at an unpleasantly sharp angle. For economic growth this isn’t necessarily a descent to a ground or zero level but it means going sharply below the previous one. During the last crisis a lot of Western countries experienced the shock caused by hard landing. This calamity particularly affected first the United States, then Spain, Greece, Ireland, Portugal, Slovenia, and recently basically the entire Eurozone, whose economy from a decent GDP

[5] Ranbir Vohra, *China's Path to Modernization: A Historical Review from 1800 to the Present* (Upper Saddle River, NJ: Prentice Hall, 1999).

level of 2 percent in 2010 ended up with a meager growth of 0.5 percent in 2012 and a recession of 0.3 percent in 2013.

For over a decade we have been continually hearing of the imminent "hard landing" of the Chinese economy. As yet the reality has been giving the lie to most black forecasts. For ten years in a row, from 2001 until 2010, GDP growth exceeded the International Monetary Fund's forecasts announced at the organization's spring summits. By the way, this is not an isolated case. Others are also wrong in their forecasts. The gross domestic product of the four largest developing economies: Brazil, Russia, India and China in 2008 was 75 percent higher than the eminent US investment bank Goldman Sachs had forecasted just five years earlier, when it used the term BRIC[6] for the first time, a constantly overused acronym formed by the first letters of those countries' names. Such a miscalculation came from clearly underestimating the growth dynamics of China, as well as that of India, another Asian colossus.

What is "hard" and what "soft" is not determined by mathematics or physics but rather by the methodological convention. You can say that a hard landing was experienced by Polish economy, when it descended in a short period of only two years from a high growth rate of 7.4 percent in the 1st quarter of 2007 to a trace level of 0.8 percent in the 1st quarter of 2009. What other than a "hard landing" do we call losing as much as 6.6 percentage point of the previous output growth?

Experts of the International Monetary Fund made a simulation, assuming that a "soft landing" would mean investment growth rate in China declining by 2 percentage points, while a "hard" one, by 3.9. If such a hypothetical situation had occurred in 2012, of all the major trade partners South Korea would have been the most affected. Instead of the 3.6 percent GDP growth predicted for it by the IMF in the event of China's "soft landing", the rate would have dropped to 2.3, and in the event of the hard "one", as much as three times, down to 1.2 percent. The response of two other major regional partners, Japan and Australia, would have been slightly weaker, and an even weaker, though still considerable response would have been exhibited by Brazil (instead of a 3 percent growth, 2.8 and 2.6 respectively in each variant) and Germany (instead of 0.6, 0,4 and 0.2 respectively)[7]. All this with the investment level reduced by only 2 or nearly 4 percentage points. And yet, accumulation and investments are much more susceptible to the growth fluctuations and changes in the absolute level than the

[6] Jim O'Neill, *The Growth Map. Economic Opportunity in the BRICs and Beyond* (London: Portfolio/Penguin, 2012).

[7] "Teenage angst", *The Economist*, August 25th, 2012.

gross product is because they are often treated as a buffer to protect against too drastic consumption changes.

A significant question presents itself: are we really in for a “hard landing” of the Chinese economy and what consequences would it have? What should the rest of the world, especially its rich regions in Asia, Europe and America, wish for? Would it be good if the Chinese boom continued as it keeps the economy up in other countries or maybe it would be better if China slowed down its long march as it threatens the dominant position of others and, on top of that, makes it hard to keep the world economy in balance?

The answer is clear: for several more years or even for more than a decade, the highest possible output growth rate is in the best interest of both China and the rest of the world. There are, however, certain conditions to be met by China, especially a more environmentally friendly path must be adopted and income disparity reduced. This will contribute to improved living conditions of hundreds of millions of people in China and give additional growth impulses in other places in the world. It’s enough to realize that every additional billion dollars of Chinese imports from Central and Eastern Europe means a noticeably higher employment rate in Poland, higher incomes in Ukraine, growing profits in Czech Republic; each additional billion dollars spent by Chinese tourists in Greece, Italy, Spain, Portugal is, under present circumstances, little short of “foreign aid”.

China’s “hard landing” cannot be ruled out; its problems and challenges abound. In the long term, the most serious of them are the social and economic consequences of the population ageing. Half a century ago state system pension of every Chinese person was funded from contributions of five people in working age; at present it is funded by three people. Presently there is one elderly person, no longer fit to work and earn money, per five employees; very soon, already in 2035, there will be one such person per two employees.

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[8]. It will be a cliché to say that we need to do more, also when it comes to ensuring more effective public control over economic 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.

A comparative analysis of past experience may suggest that the threshold beyond which the growth rate slows down oscillates around GDP per capita of 16,740 dollars at PPP[9]. To be more precise, we need to add that this amount is expressed in 2005 fixed prices. Things have changed a little bit since then so let's assume, for convenience sake, that this roughly corresponds today to a GDP of 20 thousand dollars at current prices. Leaving out poor

[8] Justin Yifu Lin, *Demystifying the Chinese Economy* (Cambridge: Cambridge University Press, 2012).
[9] Barry Eichengreen, Donghuyn Park and Kwanho Shin, "When Fast Growing Economies Slow Down: International Evidence and Implications for China", *NBER Working Paper Series*, Working Paper 16919, National Bureau of Economic Research, Washington, DC, March 2011.

economies, with a GDP per capita below 10 thousand dollars, studies focused on countries where the average growth rate from 1957 onwards for seven years was no less than 3.5 percent and then rapidly fell. For this group, for seven years, as if the last fat ones, the average GDP growth rate was 5.6 percent before the threshold of 16,740 dollars was reached. Beyond that point, the rate went down to the average of the next seven years, lean ones this time, that of 2.1 percent. This is a huge difference. At the rate of 5.6 percent, income is doubled in less than 13 years, while at 2.1 percent it takes as many as 33 years to achieve it. Furthermore, with the former index it takes one generation to quadruple income while it takes as many as three with the latter one.

In South Korea, the limit of 16,740 dollars was reached in 1997. For seven years before, GDP per capita would grow by 5.8 percent, on average, and in the seven years afterwards, only by 2.5 percent. In Australia, which was a whole generation ahead of Korea in this respect, for seven years before the “watershed year”, 1969, GDP would rise, on average, by 3.9 percent and then by 1.6. In Japan, in seven years leading up to 1968, GDP would rise by 8.7 percent and afterwards by 5 percent. In Spain, until 1990, by 3.8, then by 1.6 percent. In Austria until 1974, by 4.9 percent, and then over twice as slowly, by 2.2 percent.

There are exceptions that, well, exactly: do they confirm or question the rule? For the United States, a fast growth continued well after the threshold of 17 thousand dollars per head was reached. This was due to the fact that the US are a strong economy when it comes to innovation and scientific and technological progress, which are powerful economic expansion factors. In addition, these coincided with the constant wave of immigration that supplied labor resources. For the United Kingdom, once this threshold was reached, the upward economic trend luckily concurred with liberal structural reforms. In Japan, prosperity also lasted longer and the fast growth process continued until the early 1990s, mainly due to the successful combination of technological progress and export expansion. Hong Kong and Singapore, too, were able to stay longer on fast growth trajectory, mostly thanks to being wide open to external economic contacts.

Why should the economic momentum stall at a national income of 17-20 thousand dollars? What mechanisms could take away as many as two percentage points of the previous decent dynamics? It’s quite a lot; for many countries, this would implicate up to a 50 percent drop in the growth rate. Importantly, social psychology suggests that an annual income growth of up to two percent does not register in people’s consciousness unless it is accompanied by beneficial and noticeable structural changes. At least that is the case of countries which, considering their income, don’t qualify as wealthy societies.

Three major mechanisms that cause the output growth rate to drop are the changes in the economic structure along the urban-rural divide, fading beneficial effects of technology imports and a weaker influx of cheap skilled labor from abroad.

At a lower development level, a significant impulse for work efficiency growth comes from a rapid flow of labor from agriculture to industry and these days also to the high-tech services. The fast economic growth once recorded in centrally planned socialist countries and in some “Third World” countries came, to a great extent, from this fast industrialization and the attendant urbanization. When in Ukraine a peasant became a foundry worker, growth rate was rising. When in Bangladesh a girl from the countryside becomes a seamstress, economic growth accelerates. Once a certain saturation level is reached, the process weakens and finally comes to a complete halt. In countries such as Hungary or South Korea it has already happened, while in others, such as Brazil or Pakistan, the process is still on. This is why, if not for any other reason, in the latter pair of economies, and in those similar to them, we should expect higher growth than in the former one.

Another mechanism is the weakening effect of the pro-growth acquisition of technologies from abroad. As they say, you needn’t invent a wheel if somebody has already made one. It’s enough to notice, learn, import, apply. Nowadays it’s no longer about a wheel but about various branches of mechanical engineering and electronics, digitalization, nanotechnology, telecommunications, biotechnology and many other high-tech fields of production. The higher the level economies reach, the lower the relative effect of technology absorption from abroad. In other words, if countries A and B have the same level of web advancement and the same real economy structure, they stand to gain nothing by importing technology from each other. However, if country C is lagging behind, then transfer of this technology may push its growth rate up, though this factor will only have an effect until standards converge. When country C reaches level A and B, its growth opportunities will be the same because the additional factor that previously accelerated its growth will be gone. How this mechanism works is clearly illustrated in countries that until recently have been developing fast and consequently have closed the technological gap. However, consequently they also closed one of the channels of accelerated growth. In Europe, we can already observe it when comparing Slovenia and Italy but for many more years it won’t be true of Estonia and Finland. In Asia, this can be seen when comparing Taiwan and Singapore but not China and Japan, for many years yet.

The third factor is the dwindling supply of relatively cheaper skilled labor from other, even less developed countries. When international income disparities are high, skilled workers are quite willing to migrate to countries where they can earn more. This facilitates a faster growth but only until catching-up countries reach a certain level of income. This mechanism works between countries similarly to migrations from the countryside to urban areas within national economies.

I guess a fourth mechanism is emerging that slows down economic growth in countries that are no longer poor. Namely, the more of them there are and especially the more people there are in the world who enjoy ever growing incomes, the more difficult it becomes to increase those incomes as the prices of raw materials rise faster than their wealth. We are dealing with the phenomenon of the decreasing extreme growth rate because, ironically, the economies recently turned richer cannot afford more and more of raw materials, which are getting more expensive. If relatively few people were climbing the “20 thousand” hill, it was possible to reach the top quite fast. If more and more people are working their way up the “40 thousand” mountain, their progress is a bit slower. When one day even more of them will start to climb the “60 thousand” top, they will find it extremely difficult. Any greater heights should be left to the few excellently prepared Alpine or Himalayan climbers. Not everybody can scale mountains.

However, it isn’t clear what impact was exerted on the output dynamics by democratization processes that occurred in some Asian countries in the years when the growth rate was especially high. Political correctness would require that we claim this otherwise praiseworthy process contributed to maintaining a high rate for a longer period. However, empirical data refuse to confirm it, especially for economies such as South Korea, Indonesia, Singapore, Taiwan, Malaysia and Hong Kong. It’s possible that the dismantling of non-democratic regimes coincided with a weakened efficiency and effectiveness of decision-making processes as regards macroeconomic policy and thus the situation might have turned out to be less conducive to growth than before. Even if that was the case, we need to always bear in mind that economic growth is not a supreme value, while genuine democracy is an intrinsic value.

What will happen next? Will China be capable of still marching forward at a fast pace once it reaches a development level close to double today’s global average? Well, we can’t delude ourselves that upon exceeding a per capita income of around 20 thousand dollars (still at PPP), Chinese economy will slow down and considerably so. This can already happen earlier, even this decade. This will be no “hard landing”, as the Chinese are able to land “softly”. To make it happen, it’s necessary to properly control the macroeconomic reproduction process. Chinese economists and politicians are aware of it and are making relevant efforts, mostly by dampening the investment boom to avoid overheating the economy and by moving the demand from the outside to inside the country, that is by replacing exports with relatively faster growth in domestic consumption. Such policy of reorienting the growth strategy is slowly but steadily bringing results.

Nearly all, as Japan emancipated a long time ago. So where is it now? Not on a map but in reality. In the East, where apparently it has always been? Or maybe in the West, which it joined, first coerced by the American post-war occupation, and then out of its own accord? Or maybe in the East after all since the same is becoming a more attractive partner than the West? Both in the West and in the East and certainly it's in Asia; when lined up with the continent's emancipating economies, its power is even greater. Just like Poland's arguments with the neighboring Belarus don't change the fact that they are both European countries, the squabbles between China and Japan over a couple of little islands (more precisely over the access to underwater natural resources, fishing waters and the nearby shipping routes) and the boycott of the IMF and WB's summit in Tokyo in 2012 by the president of China's central bank and by the minister of finance don't change the fact that these are both Asian economies.

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.

According to the dominant Western values, “good” state capitalism is functioning in the Arabian Peninsula as it is pro-Western, while “bad” state capitalism can be found in China, as well as in Russia, Iran and a couple of places outside of Asia, especially in Venezuela, as it’s anti-West. Adopting such a distinguishing criterion is yet another sign of double moral standards. If we follow the principles of honest economics, what should determine whether state capitalism is good or bad is not biased ideological beliefs or particular economic interests but a pragmatic assessment, one made from the point of view of the impact a given system has on the sustainable growth of the country in question and on its effect on the external system, that is on foreign economic entities. In this context, the Chinese model, and definitely not the Saudi one, seems attractive for many a country, which, again, is treated by the West as a threat to its vital interests.

In a broader perspective, state capitalism is gaining ideological and political strength because liberal capitalism is weakening, especially its neoliberal variety. The economic boom on many emancipating markets, on the one hand, and the economic crisis in the United States and in the European Union, on the other hand as well as the resulting shift of emphasis in the global policy coordination from G-7 to G-20 are changes of tectonic proportions. What is “emerging” or “rising” is no longer markets, which are easy to manipulate. It’s a new world that’s emerging. This is not an either-or alternative. Neither neoliberal nor the state capitalism will win; nor the USA, nor China; nor Asia, nor the Euro-America; neither the East, nor the West. They will all have to learn to co-exist.

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' dominant one as soon as in 2035[10]. 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. Another term, the "Beijing consensus" has become a buzzword in recent years[11]. 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

[10] Arvind Subramanian and Martin Kessler, "The Renminbi Bloc Is Here: Asia Down, Rest of the World to Go?", *Working Paper*, 12-19, Peterson Institute for International Economics, Washington, DC, October 2012.

[11] Stefan Halper, *The Beijing Consensus: How China's Authoritarian Model Will Dominate the Twenty-First Century* (New York: Basic Books, 2010).

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[12], 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"[13]. 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

[12] John Williamson, *What Washington Means by Policy Reform*, in: John Williamson, ed. , *Latin American Adjustment: How Much has Happened?* (Washington, DC: Institute for International Economics, 1990).

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

Chinese economist and, until recently, the World Bank's chief economist, Justin Lifu Lin, entitled his book on economic policy *Against the Consensus*[14].

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"[15], 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[16]. 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[17]. 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

[14] Yifu Justin Lin, "Against the Consensus…*op. cit.*.

[15] James McGregor, *No Ancient Wisdom, No Followers: The Challenges of Chinese Authoritarian Capitalism* (Westport, CT: Prospecta Press, 2012).

[16] Mishra Pankaj, *From the Ruins of Empire: The Revolt Against the West and the Remaking of Asia* (New York: Farrar, Straus and Giroux, 2012).

[17] Charles A. Kupchan, *No One's World. The West, the Rising Rest, and the Coming Global Turn* (New York: Oxford University Press, 2012).

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[18].

[18] Grzegorz W. Kolodko, *Truth, Errors, and Lies: Politics and Economics in a Volatile World* (New York: Columbia University Press, 2011).