ASK: NUS ECONOMISTS

East, West, world growth is the best

By DANNY QUAH

In the United States protecting the global economy, or just the one, is the key to trade relations. If problems and the rise of China?

AS THE East continues to become more important in the West grows increasingly alarmed. Irresistibly, the focus is on how to respond. Initially, the focus is on what is best for the West. But shouldn’t the global community be asking instead: What will help peace and prosperity across the world?

Of course, many thoughtful observers in both East and West do take a cooperative approach to solving global problems: for example, the 2008 global financial crisis. But in their view, the great challenges to Western dominance is, of course, China.

Towards the end of last year, China became the world’s second-largest economy. By some accounts, China today already consumes half the world’s output of refined aluminum, coal and zinc, and uses twice as much crude steel as the European Union, the US and Japan combined.

Indeed, the only billion-populated nation in the planet, has launched into a similar growth path. These two giant economies now grow at a pace previously recorded only in space-to-space, special-case, tiny East Asian Island nations.

This convergence of the East has, in the last three decades, yanked the world’s economic centre of gravity nearly 5,000km to the east of its 1940 mid-Atlantic location, eastwards past Helsinki and the former Soviet republics arrayed squarely at India and China.

That global economic activity has moved east in this graphic fashion shows the rapid growth in incomes going to the large strata of humanity who live in China, India and East Asia. Together with this growth has been the lifting from extreme poverty of over 600 million people – a large and rapid improvement in the well-being of humanity, unprecedented in human history.

But more is to come. Today, the incomes of the average person in the East is still lower than that of his counterparts in a dozen countries in Africa. His carbon footprint is less than one-quarter that of the average American, and he is intent on making not just refrigerators and running shoes, but also solar panels, wind turbines and biofuels. What’s not to like?

But many in the West fail to share this optimism. The West’s orientation, with an eye on Asia now bop up all the West’s markets, see up all the world’s raw materials, is the West history?

Contrary to this alarmist view, there is the possibility that this shift towards the East might, in truth, be only beneficial to the West.

But independent of the eventual outcome, the correct question should not be what is good for the West, or indeed the world, but rather what is good for the planet. If one side loses while the other gains, a compromise is needed. What concessions must be made?

In the alarmist scenario, the West is overthrown within the last 10 years. How much would the West be willing to pay the East to prevent that? How much disruption of the East’s development trajectory would be justified for the West to remain loyal? The trade-off, unfortunately, is a stark one.

China today faces possible trade restrictions, even if its average citizen remains poorer than his counterparts in Belarus, El Salvador and Jamaica, or that of other, smaller countries in Africa. If China kept its current average income but had the same population as, say, South Africa, it would today be a candidate for US foreign aid, not part of the countries we should be helping out.

In the last three global economic downturns, China provided a growth boost to the world economy multiple times what the US provided. What good would it do if the West disrupted to succeed at poverty-reducing policy, so effective a stabilising influence for the global economy?

No one yet knows answers to the difficult questions on what is best for the world. But I suggest that considering the potential for the East to improve the world’s economic condition is an option worth exploring.

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