

Essay

An Asia Pacific Century?

David Skilling

21 April 2006

The New Zealand Institute

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Essays

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An Asia Pacific Century?

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I have been invited to deliver some remarks on the major trends at work in the Asia Pacific region. Over the next ten minutes, I would like to do three things. First, describe the recent economic rise of Asia and the transition to an Asia Pacific century. Second, outline the opportunities and challenges that the rise of the Asia Pacific will generate. And third, consider the shared interests, and the potential for cooperation, that New Zealand and the United States have in meeting these challenges and opportunities as we move together into the Asia Pacific century.

The re-emergence of Asia

I would like to begin by putting some facts on the table about the remarkable economic rise of Asia. The rise of Asia is the economic story of the late 20th century, and there is no indication that this story will lose its relevance anytime soon. Indeed, quite the opposite. In an absolute sense, the economic rise of Asia will become much more significant going forward. It is worth noting that China is already adding an economy about 30% larger than the size of Australia every year.

Over the past 20 years, China has grown at an average annual rate of 7% and India at 6%. This compares with an average rate of 3% in the United States and 2% in New Zealand.

The impact of Asia on global trade has been even more significant. Chinese exports have grown at 18% over the past 10 years and are projected to continue to grow rapidly. Indeed, China could overtake the United States and Germany to become the largest exporter in the world in the next five years. By then, Chinese goods and services could represent as much as 10% of global trade compared with 6% today.

To understand the significance of these trends it is useful to put the economic emergence of Asia over the past 25 years in some historical context.¹ If we go back to 1500, prior to the European settlement of our respective countries, the Asian economies accounted for about 65% of world GDP, compared to about 20% for Western Europe. China and India each accounted for about 25% of world GDP.² These shares of global output were almost exactly the same as their respective shares of the world population, as shown in Figures 1 and 2.

It was not until the mid 19th century that the share of Asian GDP in the world economy began to decline, as Western Europe and then the United States began their rapid, sustained ascent. The United States, for example, rose from 2% of global economic output in 1820, to 16% in 1900, to 24% in 1960, with the Asian share halving from 59% in 1820 to 28% in 1900.

The 20th century was of course the American Century. And it is fair to say that at the start of the 21st century, this is still the case. But things are shifting. As recently as 1960, United States GDP was significantly larger than Asian GDP but Asian GDP is now almost twice the size of the United States. The economic centre of gravity is shifting rapidly westwards across the Pacific.

Going forward, there is a long way to go before countries like China and India achieve an economic weight that is proportionate to their population size, as was the case until about 1820.

¹ Data sourced from Angus Maddison, *The world economy: A millennial perspective*, OECD, 2001.

² Note that these GDP estimates are based on a PPP calculation. Using prevailing exchange rates to make international comparisons would significantly reduce the relative size of Asia.

China now has about 12% of world GDP and over 20% of the world's population, and India about 5% of world GDP and 17% of the world's population. This suggests that the economic rise of Asia has some considerable way to run. With good, outwardly focused, policy settings, and barring any major negative events, it seems reasonable to expect that in the long run the share of global output of countries like China and India will be at least the same as their share of global population.

Analysis recently undertaken at Goldman Sachs forecast the economic potential of countries like India and China through to 2050.³ This provocative analysis claimed that by 2020 Chinese output would be significantly greater than that of the United States, and this divergence would continue to grow over the next several decades.

In a sense, the emergence of Asia represents a radical disruption to the economic order. But in another sense, this looks very similar to the status quo ante of a few hundred years ago.

China has been described as a few thousand years of capitalism interrupted by one hundred years of communism. And an extended period of inwardly-focused policies prior to that. But over time an outwardly-focused, market-oriented China is likely to converge to the type of income levels seen in the developed world. A similar situation exists with respect to India. These are structural, long-term trends, which are likely to have a major disruptive effect on global economics and politics.

Challenges & Opportunities

The opportunities that this rise of Asia presents are enormous, and well-documented: huge markets and the emergence of a mass middle class that wants to buy goods and services that are produced in the United States and New Zealand. Both United States and New Zealand companies are making substantial investments into Asia in pursuit of the returns and opportunities that are believed to exist.

The rise of Asia also presents some very real challenges. Some of these challenges are economic in nature. There is much debate in New Zealand, as there is in the United States, about how to maintain economic competitiveness in the face of strong competitive pressure from firms in China, India and other Asian countries.

And there are some broader challenges as well. Often the trend of globalisation is painted as an inexorable and irreversible force, proceeding in a smooth manner as people pursue shared commercial interests. But economics does not proceed in a vacuum. Economics and politics cannot easily be separated as the events of 1914 should indicate. Determinism of any sort, be it economic or technological, is generally a caricature of reality. Politics continues to matter, and the actions of government – or the absence of action – remain vitally important.

The shift to an Asia Pacific century is unlikely to be uneventful.⁴ Where economic power goes, so political power tends to go as well, although often with a considerable lag.⁵ So I like the phrase 'the Asia Pacific century' because it does not suggest that a full transfer of responsibility will occur as much as a recognition that the responsibility will be shared. Over time, this means that the rules of the economic game will be written by more than one hand.

³ 'Dreaming with the BRICs: The Path to 2050', Goldman Sachs Global Economics Paper No. 99, October 2003.

⁴ Mapping the Global Future, Report of the National Intelligence Council's 2020 Project, December 2004.

⁵ Niall Ferguson, Colossus: The Rise and Fall of the American Empire, Penguin Press, 2004

Working together

I now want to turn to a discussion of the areas of shared interest in which there is the potential for cooperation between the United States and New Zealand in terms of working together to address these challenges and opportunities.

I want to use the approach taken at Bretton Woods 60 years ago to (loosely) organise this discussion. It seems to me that this approach can provide some guidance to us today as we consider how, together, we can best respond to the emergence of the Asia Pacific century. The Bretton Woods negotiations in 1944 perhaps symbolised the formal hand-over of power to the United States as the dominant economic power. And these agreements also laid the groundwork for decades of economic prosperity and expansion.

Bretton Woods established multilateral institutions that provided the basis for the reduction of barriers to the flows of goods and services, and which acted to encourage outwardly-focused policies. This agreement also placed economic policy in a broader context. It represented a political bargain, with an interest in ongoing political stability. It was understood that countries needed flexibility as to how to achieve their economic goals, and allowed for a significant amount of domestic discretion in addition to the rules that are specified.

On this basis I have identified three sets of issues where I think that the United States and New Zealand have shared interests and can constructively work together.

- Promoting outward looking policies

We both have an interest in ensuring that the Asian economies continue to integrate into the global economy, and remain outward looking. In particular, we have a shared interest in pushing for multilateral trade agreements in addition to the bilateral and regional agreements, and managing the risk that the global economy fragments into a few major trade or currency blocs.

The role of the United States and New Zealand in the accession of China into the WTO, and New Zealand's recognition of China as a market economy and our subsequent FTA negotiations, are examples of this. We need to continue to work together to ensure a continuing outward focus, and also managing protectionist sentiment generated by the rapid rise of Asia.

- Promoting economic growth

Both the United States and New Zealand have an obvious an interest in the ongoing economic expansion of Asia, the emergence of the mass middle class, and reductions in the rates of poverty. And the Asian Crisis of 1997-1998 demonstrated clearly that we both have an interest in the way in which the process develops. In a globally connected and interdependent world there are not many places to hide.

But, as with the Bretton Woods agreement, we need to provide some flexibility for countries to pursue these goals in their own ways. There is no one way to generate economic growth, and we should not be too prescriptive in the way that governments advise or in the way that international organisations behave. We are both active in a range of regional and international organisations, from APEC to the IMF and the World Bank, that have a bearing on these issues.

- Managing pressures from the growth process

A range of pressures will arise in Asia as a consequence of the rapid growth process. One of the more obvious set of challenges relates to the environmental pressures, both locally within Asia and also in terms of their impact on global issues such as climate change. There are likely to be many ways in which New Zealand and the United States can work together on these issues, in

which we both have a clear interest, as we do in Antarctica. The Asia Pacific Partnership on climate change is one example where potential may exist for New Zealand and the United States to work together constructively.

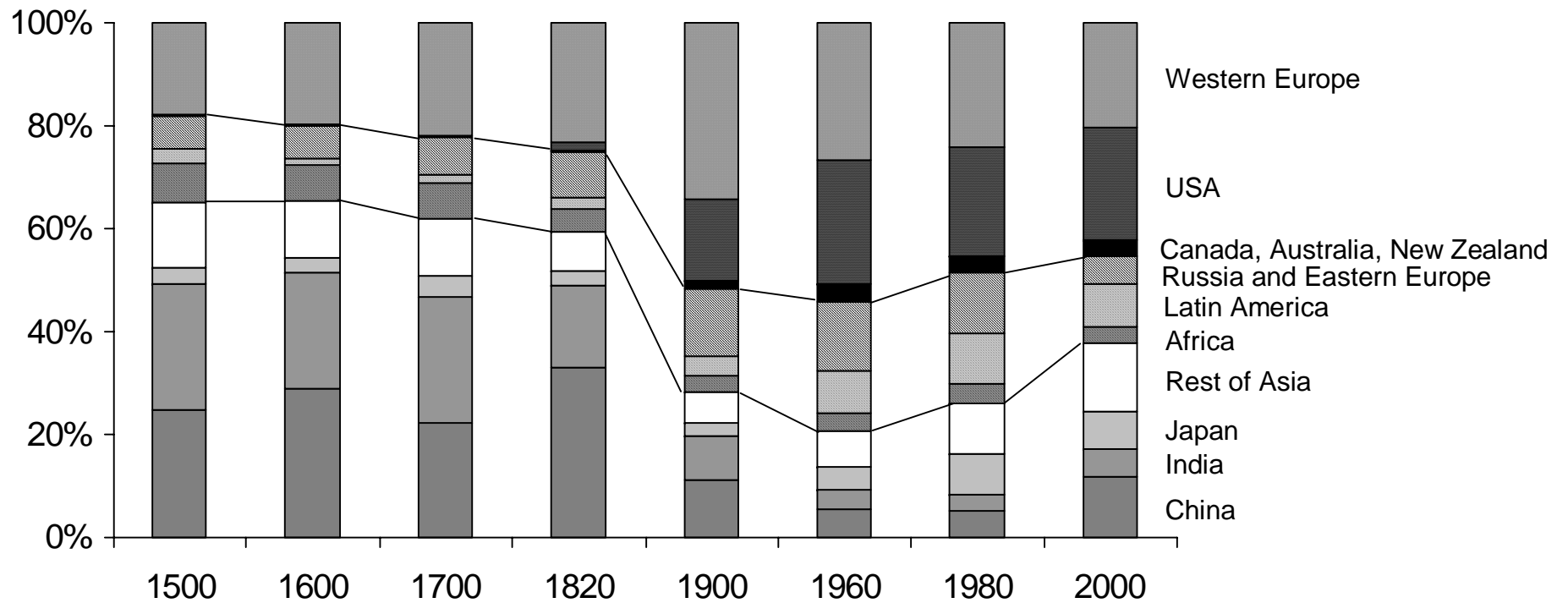
Concluding Remarks

The 21st century holds enormous potential, but also presents some very significant challenges. Integrating a few billion people into the global economy in a successful way is something that has never been done before, and there is no textbook to consult. It is vital that both private and public sector organisations are able to keep pace with the speed of change in the global economy.

Achieving this task will require ingenuity and goodwill, and the cooperation of countries like the United States and New Zealand. We are a small country and we know it. But our ideas and thinking are not, and we are well respected across Asia. New Zealand has something of real value to bring to the table as this process unfolds, and we can make a contribution disproportionate to our population size.

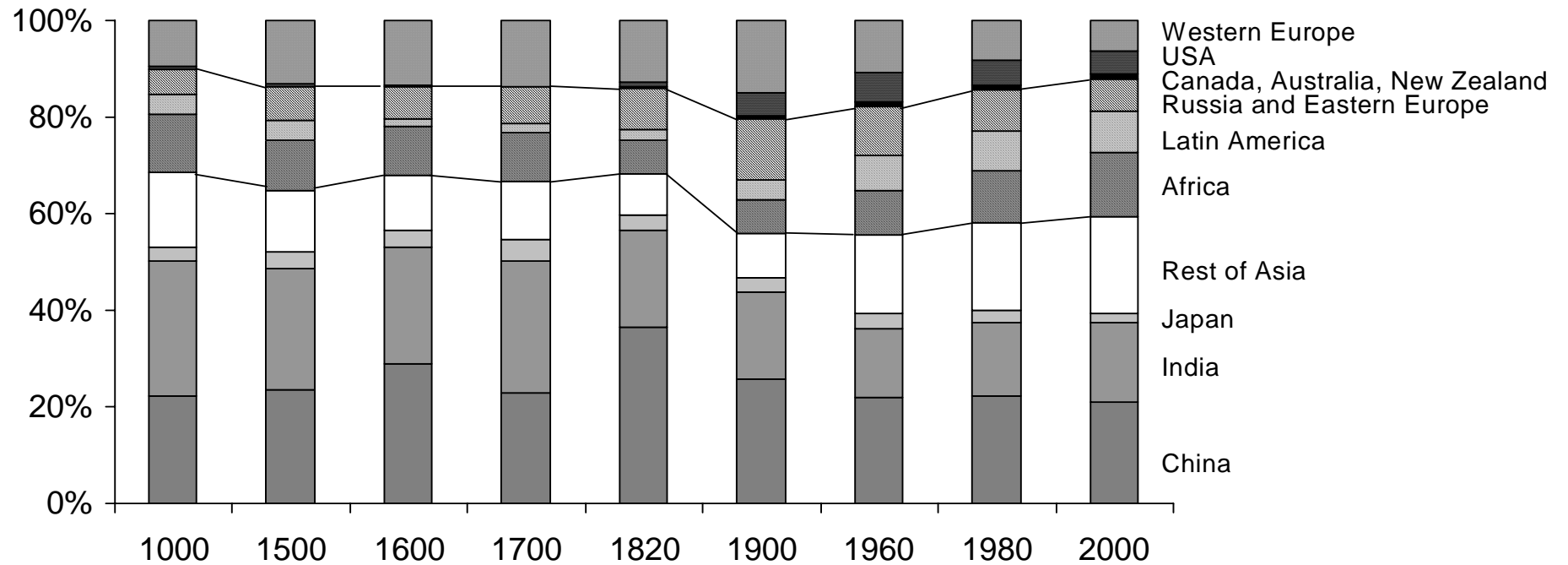
I think that the rise of Asia provides a useful context for thinking about how we ought to structure the relationship between our two countries. Considering how we can work together to meet the challenges and opportunities generated at the start of the Asia Pacific century is likely to provide a good basis for constructively assessing how to develop, strengthen, and renew the United States/New Zealand relationship.

Figure 1: Distribution of global GDP since 1500



Source: Angus Maddison.

Figure 2: Distribution of global population since 1500



Source: Angus Maddison.