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Opinion

The death of development in Asia

Toby Carroll and Darryl Jarvis, Hong Kong | Opinion | Mon, August 19 2013, 10:45 AM

Opinion News

Over the last three decades the global political economy has undergone a massive shift that has fundamentally changed the ways in which nation states work, companies operate, and how wealth is distributed and people live.

This shift stands in marked contrast to the wave of economic development of the post-Second World War era. In Asia, for example, states like Japan, South Korea and Taiwan developed sophisticated state bureaucracies to help engineer economic development, champion industrial production and exports, and deploy mass capacity in infrastructure and education.

This was an era in which East Asia's developing states retained and or fostered the commanding heights of the economy, with the benefits of economic growth shared relatively equitably. These achievements gained the attention and admiration the world over and led to their being labelled Asia's "miracle economies".

This developmentalism of course emerged in the context of the Cold War and fears of communist expansion, with large injections of capital and technology from the United States and Japan.

In this respect economic development in Asia shared similarities with post-war developments in the United Kingdom, Europe, Canada and Australia. These states too retained the commanding heights of the economy and embarked upon redistributive measures through progressive taxation, universal education and healthcare.

In the West these outcomes were the product of a new class compromise between economic interests and labour movements that fought for collective bargaining and workers' rights and political accommodation for better wages and conditions.

But this wave of development — in both the East and West — is now over. In its place, Asia is left with a form of development characterized by high growth amid increasing inequality; rising affluence coupled with persistent poverty.

Whether in Hong Kong, Indonesia, Singapore, Malaysia, Vietnam or China, the story of Asia's current development is not so much about mass economic transformation as it is about how rapid economic gains are being captured by an elite super rich, while the majority face declining social mobility, increasing housing, health and education costs, and soaring household debt and a crisis of affordability.

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As the Asian Development Bank (ADB) noted in its 2012 outlook report, "the bulk of developing Asia's population lives in countries with rising inequality". This is in contrast to the "growth with equity" story that marked the transformation of the newly industrialized economies in the 1960s and 1970s, and recent trends in other parts of the developing world [...] where income inequality has been narrowing since the 1990s particularly in Latin America and Africa.

How did Asia go from a story about development that was relatively inclusive, to one which has alarmed even the most orthodox of international organizations like the ADB?

The answer lies in several closely interrelated trends. The first is an ongoing revolution in capitalist production. The advent of advanced global production chains — the result of more efficient transportation logistics and advancements in information technology which Asia benefited from over the last several decades in terms of its "miracle economies", is now reverberating back on Asia, creating competitive forces from other regions such as Africa and Eastern Europe.

The value derived predominantly by multinational enterprises accessing pools of cheap labour (making possible flexible and efficient design, production and distribution like never before) has been significant. However, capital never stops assessing its costs, a reality with repercussions for employment, investment and growth in Northeast Asia. Likely increases in levels of automation in production only exacerbate pressures on the capacity for domestic economic accumulation in Asia, impacting the future demand for labour.

Moreover, countries such as Korea and Japan that produced top tier globally competitive companies — such as Samsung, Hyundai, Toyota and Sony — have also been heavily incentivized to lower their costs of production and compete with their peers by sending considerable amounts of production offshore, challenging the equitable growth of those two countries.

Much like in the West, the question now is what will people who once worked in manufacturing do? The frequent answer is of course often “services”, as if this were something new for Asia. However, the supply of decent paying service positions — in both the West and Asia, simply won’t yield what industrial jobs in industrialized countries yielded in the past.

Indeed, the tens of millions of Americans who once worked in high paying manufacturing jobs and who now work in the service sector often find they have been migrated to minimum wage positions, earning US$7.25 an hour in positions that do not attract any benefits such as healthcare or retirement contributions.

The notorious “zero hour” contracts in the UK are particularly instructive here also. Of course Asia has already had a long experience with cheap service positions — from cleaning, food and beverage and, in a very limited way, financial services and software production — yielding weak capacity for accumulation.

Secondly, with increased capital mobility and the physical constraints of geography removed by cheap containerized shipping, the ability of states and labor to capture economic gains, preserve wages and benefits, or to tax capital and redistribute this through welfare and social protection arrangements, has been systematically eroded. Labor demands are now predictably met with threats of “job flight”.

Third, recent policy responses by Asian governments to the competitive scramble for capital have often exacerbated inequalities. Reducing taxes on capital, providing “startup” or “location subsidies”, divesting state-owned assets, insisting on “user pay” models in the delivery of healthcare, education, pensions and infrastructure, downloads costs and economic risks to individuals and reduces fiscal capacity of governments.

As the ADB notes, these forces favour owners of capital over labor, high-skilled over low-skilled workers, and urban and coastal areas over rural and inland regions — they tend to drive up inequality.

Asia, unfortunately, has started to catch up to the West in terms of replicating those policies that, as the ADB puts it “could undermine the momentum for economic growth and for a better quality of life for all Asians”. What’s worse is that this is happening in countries where average income remains a mere fraction of that in the West.

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