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## Conversations on the Global South – The Asian Dilemma

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# CONVERSATIONS ON THE GLOBAL SOUTH

## The Asian Dilemma<sup>1</sup>

EDUARDO ARARAL

*The East Asian growth story is a familiar narrative of prosperity but the same forces that drive such progress also induce widespread poverty and inequality in the region. The image of the East Asian region has greatly transformed. It is no longer a region simply wrought with narratives of colonialism or “barbarism” owing to their distinctively different culture; but is host to the greatest number of megacities. This transformation is evident in the rise of skyscrapers, young Vietnamese workers on motorbikes making their way to work in economic zones, and the presence of European cars and fancy restaurants. However, this prosperity comes with a price: injustice, dehumanization, environmental degradation, land grabbing, and the rise of slums. Technological developments and market reforms have changed work environments and expectations but have given rise to a widening urban/rural divide. While this tremendous development of the region is commendable, the less-documented underbelly of the Asian growth story is as much a part of this growth story culminating in this Asian dilemma we need not be stuck in.*

**KEYWORDS:** East Asian prosperity, economic growth, geopolitics, market oriented reforms, urbanization

We're all familiar with the Asian growth story, especially the story of East Asian economies. This is the story of the tiger economies of China, Singapore, Hong Kong, Taiwan, South Korea, Japan, Thailand, Malaysia, Indonesia, and now the Philippines and Vietnam. This story is one of growth and prosperity for millions of people, getting them out of poverty, slums and destitution, in a relatively short period of time. Figure 1 succinctly conveys this story: How East Asian countries have rapidly developed and prospered.

In this talk, I will provide a firsthand account of my observations in these countries. I will examine several factors that helped drive their growth—globalization, technological advances, market-oriented reforms, urbanization and geopolitics. There is a large literature that provides different accounts to the East Asian narrative but I will limit my focus on these factors.

The title of my talk is “The Asian Dilemma,” so called because the drivers of East Asian prosperity—globalization, technology, urbanization and market reforms—are also the same drivers of poverty, environmental degradation, land grabbing, and the rise of slums that we see in the underbelly of the Asian growth story. A digital divide would further worsen the already huge gaps in wealth within and among countries in the region. The rising tide of prosperity has lifted many boats, but has also left many behind.

## **THE EAST ASIAN NARRATIVE**

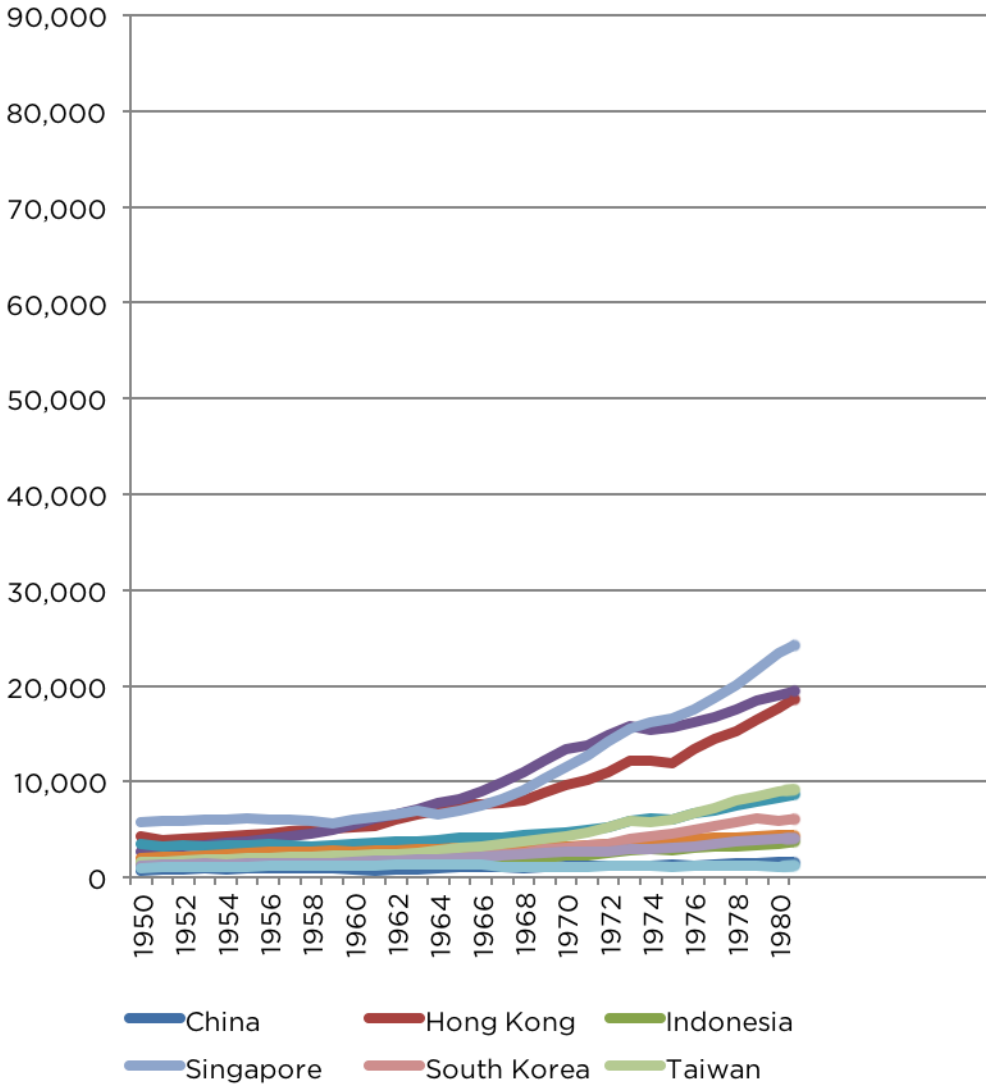
We can see the East Asian narrative in the transformation in China and its cities. Shenzhen, Shanghai, Chongqing, Guangzhou, Tianjin and many other cities have transformed from drab, sleepy cities to dynamic megapolises of gleaming skyscrapers in three short decades. You will see two generations of former peasants and factory workers and their families who now live in apartments and drive cars. This transformation can also be seen in Vietnam with young people on millions of motorbikes working in special economic zones and factories, churning out electronics, motorcycles, shoes, bags and so on. The affluent can now be seen in European cars and fancy restaurants. In the provinces, you will meet fishermen, farmers, traders, and factory workers who are now considered middle class. Not too long ago, in 1987, Vietnam was reeling from years of war and economic mismanagement from a centralized planning of the economy. Today,

it has one of the world's fastest growing economies. I have traveled frequently and followed the development in China and Vietnam to see these transformations firsthand.

But there is also the dark side of Asia that we don't get to know. In the slums of Dhaka, Calcutta, Yangon, Lahore, Manila, Jakarta, there lies the dark and impoverished places often out of the news and social media. This is the dark side of the Asian narrative of prosperity. Figure 2 tells us of the growing income inequality in India. India's top 5% today earn as much as the remaining 95% combined.

This inequality is what I call the Asian dilemma. On one hand, you have the story of growth and prosperity of millions of people. On the other hand, you have the story of those who were left behind by this growth and prosperity. The Asian growth story is also one of injustice, as seen in the land grabbing and forcible demolition of informal settlements in Phnom Penh and Yangon. It is also a story of extensive environmental degradation—in the mining pits of Indonesia and the Philippines and the polluted atmosphere, rivers, lakes, and bays in China, Indonesia, Vietnam, India and the Philippines. The world's top three plastic polluters in the world are China, the Philippines, and Indonesia; and the oceans and their marine life are literally choking to death. This is the Asian dilemma. The same drivers of the Asian growth story are the same drivers of injustice, dehumanization, environmental degradation, and the rise of slums.

What can be the impetus of this growth story? The first and obvious one is globalization—much maligned in western countries especially in Britain and the US because of perceived job losses and stagnation of incomes. East Asian countries on the contrary are some of the primary beneficiaries of globalization. The Philippines is a good example of a prime beneficiary of globalization with the manning of the ships that make globalization possible and the export of our labor to the US, Japan, Taiwan, Singapore, Hongkong, and the Middle East. Our large business process outsourcing—employing over a million jobs—is also a result of the globalization of the value chain. With these two drivers of growth, the Philippines earns \$50 billion a year, about \$25 billion in remittances from 10 million Filipinos who work abroad, and about \$25 billion in the BPO (Business Process Outsourcing). With this 50 billion USD a year circulating in the economy, we have seen a services, consumer, transportation, and housing boom in recent years. This is what has kept the economy afloat throughout these years, even and especially during the dark times of the global financial crises a decade



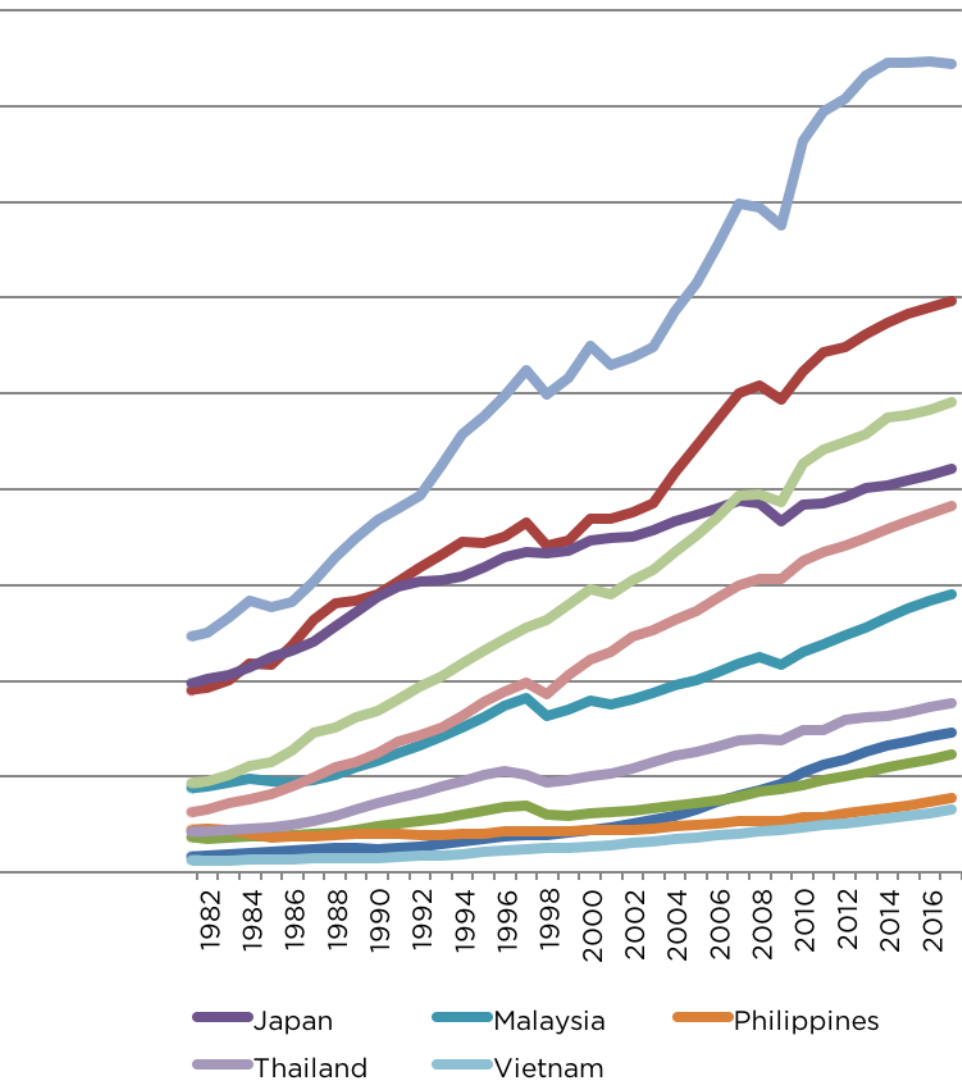


Figure 1: Income per capita 1950–2017 in East Asia (USD, 2016 Prices)

ago. We can categorically say that globalization has been a plus for the Philippines.

Of course, the Philippines is not the only beneficiary of globalization. You can also think of Myanmar, Vietnam, Cambodia, China, and India. In Cambodia, Myanmar, Vietnam and Bangladesh, their benefit from globalization comes in the form of access to markets for their garment exports to rich economies. More recently, Cambodia is benefitting tremendously from the huge flow of Chinese investments (public and private), including and especially investments in casinos, hotels and tourism facilities as well as inflows from China.

Vietnam is one of the main beneficiaries of globalization. I have seen firsthand how Vietnam developed, having traveled to this country forty times. With loans and assistance from international donors, it was able to rebuild its infrastructure in a short period of time. It has a brand-new international airport in Hanoi, a subway in Ho Chi Minh, expressways, telecommunications, energy ports, transport and water infrastructures. With its membership in the World Trade Organization, it has become a major exporting country. It has become one of the world's top exporters of rice, coffee, and aquaculture. A quarter of its GDP (Gross Domestic Production) comes from Samsung Corporation—making Vietnam one of the world's top

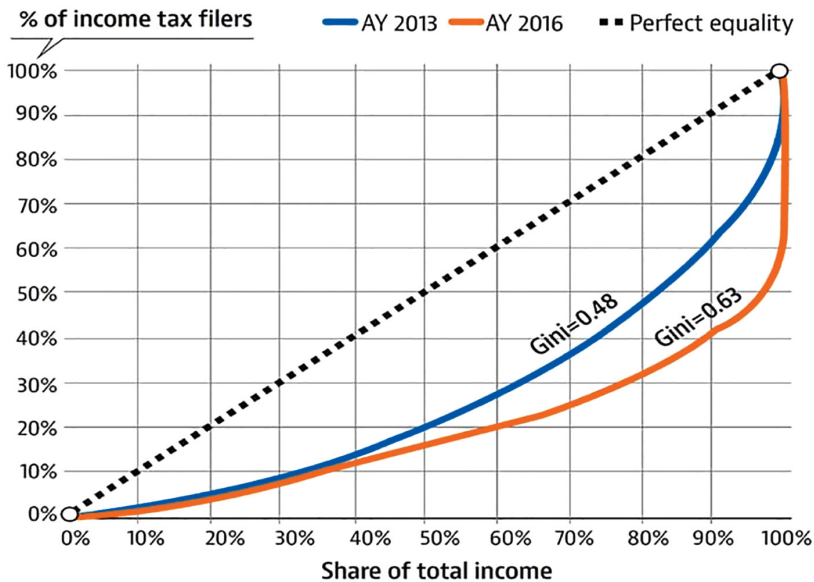


Figure 2. Income inequality in India (The World Bank)

producers and exporters of electronic goods. It has managed to attract many technology companies—Japanese, Singapore, Taiwanese, South Korean, and increasingly American—and lure them away from competitors. The start-up ecosystem in Ho Chi Minh City is one of the most vibrant in the region, after Jakarta. Vietnam is also gearing up for the Fourth Industrial Revolution. Today, Vietnam has emerged as a middle-income country in a very short period of time, rising from the devastation of a prolonged war with the French, the Americans, the Khmer Rouge, and briefly with China in 1979. The wisdom and pragmatism of its leaders—embracing market reforms while keeping to their socialist ideals—is admirable.

## MARKET ORIENTED REFORMS

The rapid growth of East Asian economies no doubt was driven by the forces of globalization—trade, finance, technology, and knowledge. Of course, before they benefitted from globalization, these countries first opened up their economies to market reforms. China opened up in 1978 after the death of Chairman Mao and Deng Xiao Peng’s “black cat, white cat” pragmatism. In Vietnam, they started reforms (Doi Moi) in 1986 after experiencing hyper-inflation and realizing that the socialist utopia is a pipe dream. For Vietnam and China, the most consequential development was joining the World Trade Organization and getting their economies plugged into the global economy. India started to open up their economy in 1991, helmed by then Finance Minister Manmohan Singh. Its reforms remain limited and its outcomes are not yet widely felt by its young population, judging from its high youth unemployment rates. The promised manufacturing jobs from its “Make in India” campaign has not been realized because most companies that set up in India make use of automated technologies that do not rely on its abundant labor force. The skills mismatch between its labor and education markets is one of its main challenges.

In Myanmar, they started economic reforms rather recently in 2016 after Aung San Suu Kyi came to power and replaced fifty years of military rule. Reforms remain limited to a few key legislations — central bank law, foreign investments law, special economic zones, among others. Limited fiscal and implementation capacity are two of the main constraints to Myanmar’s development. There have been major infrastructure projects: the new airports; the Dawei and Thilawei

ports; Chinese investments in railways, ports, and refineries; and the New Yangon City. Overall, Myanmar is still looking for an anchor for its long-term growth. The focus of its leaders at the moment has been to secure peace among its seventeen armed ethnic groups, balancing ties with the military, learning to deal with democracy as well as solving the Rakhine refugee crisis.

In the Philippines, economic reform efforts took off during the time of then President Ramos starting in 1992 and ending in 1998. These reforms were perhaps the most comprehensive in Philippine history—from economic liberalization, privatization of state-owned assets, adoption of the build operate and transfer law, and infrastructure build up, among others. More reforms were carried out by Ramos' predecessor Gloria Arroyo—especially tax reforms, social policy reforms, and the business process outsourcing law that brought in significant dollar revenues that kept the economy afloat, and more. During the Aquino Presidency, the fiscal space grew along with increased social expenditure.

Speaking from my personal experience of traveling to these countries and following their reform trajectories, I can conclude that globalization, technology, and market reforms have contributed significantly to the growth and prosperity of these countries. Of course, the pace of reforms have been highly uneven, their benefits and costs even more so. Some regions, metropolitan areas in particular, are the main beneficiaries of economic development while rural areas, farmers, and ethnic groups are often left behind. We see this in China, India, Thailand, Indonesia, the Philippines, and Vietnam where the urban/rural divide is wide and widening.

## **GEOPOLITICS**

In talking about economic development in East Asia, we evidently cannot discount the influence of geopolitics. The first type was the Cold War between the US and the Soviet Union. The second one is the unfolding and intensifying strategic rivalry between the US and China. During the US-USSR Cold War, the US provided the security umbrella for the growth of Taiwan, Japan, South Korea, the Philippines, and Thailand. These countries didn't have to spend a considerable amount of resources—relative to those without a security umbrella—to defend themselves. This gave them a lot of fiscal space

and peace to power up their economic development. Access to the US, European, and Japanese markets helped drive development in these countries. The war in Indochina helped fuel the economy of Thailand in the 1970s. The arrival of Japanese investments in the late 1980s and 1990s gave Thailand a strong foundation to grow its economy.

Today, the rise of China and its evolving and intensifying strategic rivalry with the US—in military, trade, diplomacy, technology—could reshape the trajectory of economic, security, and political development in the region. The impact of China’s Belt and Road Initiative (BRI) is already very much felt in the region, namely in Myanmar, Cambodia, Laos, Malaysia, Pakistan, Sri Lanka, and Indonesia.

Overall, I see the BRI as a positive development in the region, especially in improving infrastructure connectivity notably in Sri Lanka and Pakistan, despite some countries struggling with the so-called debt trap. The transfer of control and ownership of the Hambantota port is often flagged by critics as an example of the Chinese debt trap. To begin with, the economic fundamentals of both Sri Lanka and China have already been precarious. Not all countries, however, fall into this debt trap. Malaysia is negotiating the terms of its east coast rail project with China and will probably get favorable terms. Myanmar has dropped one of its major port projects under the BRI due to cost concerns and a dam project due to social and environmental issues.

In the Philippines, much criticism has been leveled against Chinese loans to the country. One prominent critic is the Supreme Court Senior Associate Justice Antonio Carpio. In one case, he alleges that China could seize one of the rich oil and gas fields of the Philippines in the South China Sea if the Philippines will be unable to pay off its 62 million USD loan to China for an irrigation project. The criticism appears to be more of fear mongering than based on facts: (1) The amortization of the loan is a mere 0.0000038% of the total national budget for 2019. The Philippine economy is most likely to grow at a high and fast pace (above 6%) in the years ahead as its economic fundamentals are strong.; (2) The repayment for all sovereign loans of the country is automatically set aside from the budget.; (3) The Philippines has been borrowing from international donors for more than 50 years and has not defaulted.; (4) Loans can always be restructured to avoid default.; (5) The Philippines’ economic managers are keeping an eye on its debt portfolio to avoid concentration risk of too much borrowing from one source. Chinese loans to the Philippines as a proportion of its total loan is only 4.5 % compared to

9% from Japan. Overall, given its rate of growth, trajectory, increasing fiscal space, size of economy, technocratic capacity, an open media and democratic politics, the Philippines is less likely to fall into a Chinese debt trap. The criticisms appear to be more out of fear of China than based on facts and reality.

The Chinese debt trap can be real if borrowers are not careful in their due diligence. The Chinese government has recognized these concerns and criticisms against the BRI and will convene a summit in Beijing in April 2019 to review its portfolio and hopefully make adjustments in its lending model. One possible solution is to fold the BRI lending—currently led by profit driven state-owned enterprises—into a regular operation under the China led Asian Infrastructure Investment Bank (AIIB). This way, there will be more oversight and more robust governance model because AIIB would have to consider the fiscal capacity and economic rates of return compared to the current model where lenders are mainly concerned with financial rates of return.

The BRI and the fear of the Chinese debt trap is the backdrop of a much bigger canvass that would shape the future economic, security, and political developments in the region. The outcomes of these developments would be shaped by the on-going strategic rivalry between the US-China relations, domestic developments in China and within these countries, and the development of technology.

## TECHNOLOGY

The technology war between the US and China is another factor that could potentially have significant implications for economic, political, and security developments in the region. Of particular concern is the spread of 5G technology by the Chinese firm Huawei, one of the world's leaders in the field. 5G is game changing technology. For one, it is 20 times faster than the current 4G technology. It is technology that, along with cloud computing, will enable the roll out of the internet of things—devices that are connected seamlessly, from cars, to robots, to computers and smartphones and to almost every electronic gadget. A new generation of smart phones, cars, and appliances would be produced. This would accelerate the development of applications for artificial intelligence for agriculture, manufacturing, logistics, finance, transportation, and many other applications.

This new technology would have profound implications to the development of economies of East Asia—from China, South Korea, Japan, Taiwan, Thailand, Vietnam, Indonesia, and Malaysia. A new generation of industries and high paying jobs would be created around this new technology but it could also potentially destroy many jobs in these manufacturing-dependent countries as a result of more automation and the industrial internet of things. Some countries with capabilities for advanced manufacturing (like South Korea, Taiwan, Japan, and China) would stand to reap its benefits. Others such as middle-income countries like Vietnam, Malaysia, Indonesia, and Thailand could leverage their manufacturing capacity to get themselves out of the middle-income trap or get stuck in the trap by failing to do so. These countries have already been gearing up to this new generation of technology. Thailand has announced an ambitious plan on its eastern economic corridor to leverage on the technologies emerging out of the Fourth Industrial Revolution. Indonesia already has four unicorns or billion-dollar companies—the most number in the region—and has ambitions to create more.

For the rest of the countries in Asia in the lower income groups (Myanmar, Bangladesh, Cambodia, Sri Lanka, India), the Fourth Industrial Revolution could have potentially cut off their chances to achieving middle and upper-income status like their peers in East Asia which heavily depended on export-oriented manufacturing. These low-income countries would find it difficult to compete with already well established manufacturing hubs in East Asia where supply chains are well developed. The advent of 5G platforms would strengthen the technological edge of these countries leaving low income countries further behind.

This is what I call the second Asian dilemma: an Asia that is divided into the well-off digital economies and low-income countries unable to reach middle income status. This divide will likely grow overtime leaving poorer countries further behind. Much of this division can be seen in the rural-urban divide.

## **URBANIZATION**

Globalization, economic reforms, and technological progress bring about one more key driver of growth: rapid urbanization. Much of Asia now is urbanized. Asia is host to the greatest number of megacities in the world.

Shenzhen in China, just across Hong Kong, is a great example. Shenzhen was transformed from being a small fishing village to now being one of the biggest and richest cities in China in just over 35 years. It serves as the headquarters of some of the largest technology and manufacturing firms in China. Shenzhen is the epitome of the economic miracle that is China. The story of Shenzhen is also actually the story of Shanghai, Chongqing, Guangzhou, the big cities of Jakarta, Ho Chi Minh, Bangkok, and others. Every time I fly out to Bangkok, I look at the skyline of Bangkok and am left in awe of how far Bangkok has come from what it was in the 1970s. Thailand was mainly an agricultural country but now it is way ahead of the Philippines. It has now become the world's fourth largest producer of cars and utility vehicles. It gets 35 million tourists a year and has a well-established agriculture business industry, more advanced than that of the Philippines. I grew up in the University of the Philippines, Los Baños in the late 1970s and 80s. Back then, we had many students from Thailand and Indonesia as our neighbors. Today, Philippine agriculture has been left behind by Thailand.

Not all Asian cities are the same and I've traveled to many of them. Some are highly livable like Singapore. Others are highly congested like Metro Manila, Delhi, Calcutta, Jakarta, and Bangkok. I try to avoid Metro Manila when I can. If I have a chance to travel, I'd go to cities like Kyoto and Tokyo. I guess you can't really tell the Asian story unless you go to Mumbai, Dhaka, Calcutta, and Karachi—these big cities which are the counternarrative to the Asian prosperity story.

But here's the dilemma, the forces of globalization, technology, market reforms, and urbanization, are once again the same forces that drive inequality; the same forces that dehumanize the human spirit; and the same forces that perpetuate exploitation, conflict, and environmental degradation. I can give countless examples of this.

Asia is the home of two-thirds of the world's poor, mostly from South Asia. Something like 800 million people live in squalid conditions and 1.7 billion survive on less than \$2 a day. The rural and urban divide, could explain 54 % of wealth inequality in China and about 32 % in India. If you go to Pakistan, Bangladesh, and many parts of South Asia, you see inequalities not just in education opportunities and labor force participation—where women, children, and girls are shut out. There are villages in India that are still unsanitary—lacking access to water, electricity, and health care. If you visit big cities, you will see that these are highly polluted, congested, drug infested, and

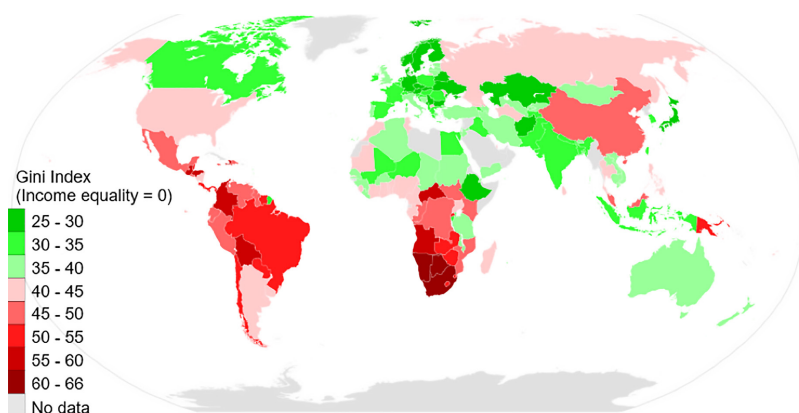


Figure 3. Gini Index 2016 (*The World Factbook*)

dehumanizing. It's not only Manila which is drug-infested. If you go around Jakarta, South Jakarta, these are cities vulnerable to natural disasters. In Hong Kong, most of its people live in shoe boxes.

The massive flooding in Bangkok, Manila, and Dhaka are two sides of the same coin. The drivers of growth and prosperity are the same drivers that have led to the dark, unspoken side of things. The snapshot of the Gini coefficient as found in Figure 3 presents income inequality and the diversity of that inequality within Asia, within the Philippines, within China, within India. Inequality in Asia is not as terrible as what you can find in agrarian legacies in Latin America or sub Saharan Africa. However, it is growing from 0.39 to 0.46 in the last five years, as an aggregate. As we look at India as a country, in the last three to four years, we see that it has jumped from 0.48 to 0.63.

A good friend of mine wrote a book entitled *The Billionaire Raj*. The cover of the book shows a building 42 stories tall and surrounded by shanties. This image is the stereotype in India, the rich are superrich and the poor are super poor. That of course is the story of most of Asia and the dilemma of self-inflicted problems; systemic corruption whether in the Philippines, Indonesia, or in India; or organized corruption in parts of China; bad policies that lead to rent capture; and social exclusion in West Asia where women are excluded.

The “winners” are clear: the owners of capital, those who study in Ateneo de Manila University—one of the most prestigious universities in the Philippines—those who drive cars, and those who own properties. The “losers” are those who work in call centers: they only have these job-related skills and if they don't go to Saudi Arabia,

the United Arab Emirates, they will not get rich, but they will get by. But the owners of capital have captured benefits of growth, 40% of benefits of growth have been captured by the banks, malls, and the already rich families. There's also the winners and losers between the urban and coastal regions in China and India.

Those in central Mindanao will always be lagging behind. Those in Bicol will always be lagging behind. Those in the middle of India and in the coastal areas will always lag behind. The bad luck of geography is seen in the 54 % inequality in China due to its urban and coastal divide, and is reflected in students who were accepted to highly elite schools, who go to basic schools, and those who do not attend graduate school. Such is the lottery of life. Such is the stereotype of Asia. Fortunately, the same drivers also create growth and prosperity. The question is how we breach the divide, how we make sure the divide will be minimized.

## **SO WHAT NOW?**

As a professor of public policy, I would usually end my discussion with: "Ok, it's not enough that we complain about these things. Let's put some concrete ideas on the table and see what can be done about them." I am both an academic and a practitioner. I get myself involved in politics and policy. Here, I have a laundry list of what needs to be done and what countries are doing.

- Tax policy: improving tax systems and administration (Philippines, Indonesia, China, India);
- Expenditure policy: health, education, social protection, targeted subsidies (Indonesia, Myanmar, Malaysia, India, China);
- Redistribute growth: infrastructure, trade connectivity, investments (China, Thailand, India, the BRI, Philippines, Indonesia);
- Education / skills training / labor market reforms;
- Small and Mid-size Enterprises (SMEs), agriculture, productivity, innovation, Fourth Industrial Revolution (Vietnam, China, Thailand);
- Harness technology (China, India, Myanmar, Bangladesh);
- Governance reforms: constitutional, economic policy reforms;
- Social movements, armed rebellion, civil war, migration

Tax reforms are needed to raise revenues to finance social spending. It is needed to mitigate income and wealth inequality. It is good to know that the Philippines is pursuing large scale tax policy reforms. The Philippines is not the only one pursuing tax reforms, Indonesia, China, and India seem to be doing some broad-based consumer tax as well. Once you raise your taxes and plug loopholes, you'll have more money to pay for social services. You should invest it in health, education, social protection, targeted subsidies, agriculture, and so on. Many countries are trying to do this, but the wealthy will have to pay their share of the tax in order to redistribute resources in society.

The idea of redistributing growth away from Metro Manila, away from Southern Tagalog, Central Luzon is close to my heart. I am very much pro-federalism so that the Bicol region, Central Visayas, Northern Mindanao, Southern Mindanao, and Region 2 will have their fair share of growth opportunities that is not decided upon in Manila. The occurrence of growth opportunities outside the capital and made without the capital is a debate in many countries as well: Jakarta vs. Sumatra, Aceh, and Papua region. In Thailand, this is a struggle between the red-shirts and the yellow-shirts. The problems that we face in the Philippines are the same problems that are being faced in other countries in the regions.

Then we have the question of education and skills training that address those who do not have access to physical assets and educational opportunities. Malaysia is finally abolishing affirmative action in education. They will still keep their *bumi* policy in other areas but affirmative action in education will now be removed. In my opinion, this is a step in the right direction for Malaysia. The Philippines is lucky that TESDA (Technical Education and Skills Development Authority) has kept up in the development of the labor market, reforms, and skills training. I no longer believe in the current model of education. For four years, it has been disrupted. I prefer that one works first and then studies later. There is always an opportunity to study. The idea of life-long learning is already being experimented upon by the National University of Singapore. Starting this year (2018), we have been (building) our education model. We have started micro-credentials. We have abolished support for course-based graduate degrees.

We are shifting toward skills-based, micro-credentials. You can get a master's degree in 10 years or even five years. You don't have to finish it in one year, that's the whole business model. We don't

believe in majors anymore. We believe in a la carte. We believe in the Steve Jobs model of putting humanities and engineering sciences together to create a wonderful product.

When we talk about disruption, we can begin in the university by disrupting our own business model. However, we shouldn't expect universities to change overnight because they are creatures of habit. But if we don't move fast, I think technology will overtake us sooner than later—and I am talking about my own experiences of working with technology.

We cannot talk about social justice without talking about agriculture and Indigenous Peoples (IPs). We cannot leave them behind, as we invest in education. Farmers will be farmers. They will be stuck there. The days of land reform is no longer talked about. It does not even figure prominently in the draft constitutional debate in the Philippines, unlike in the 1986 Charter. While we take care of farmers, we also have to look forward into innovation. Vietnam, China, and Thailand are way ahead of us in innovation while we in the Philippines remain very comfortable, very insular in the way we look at things.

Finally, we have reached governance reforms. When I say governance reforms, I refer to reforming the civil service, the police, the uniformed professional. We do not want extra judicial killings (EJK). We want to reform the judiciary and get rid of the hoodlums in robes. I want constitutional reforms to overhaul our dysfunctional rent-seeking and captured political system.

By comparing our country with other countries, I arrived at this conclusion: I am pushing for major reforms. We are like a frog. We're contented in a pot that's still boiling. We do not observe what's happening in our neighborhood. We are contented with our insular worldview. With that, as a message, I hope I planted some ideas in you about the Asian dilemma: we need not be stuck in the Asian dilemma.

## NOTES

- 1 This article was drawn from a presentation delivered by the author before the "Social Justice, Diversity and Development" conference organized by the Ateneo Center for Asian Studies (ACAS) on August 2018. The author supplied additional points for this version of the paper.

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