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DYSUTOPIA

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Chapter 1

Greatest Show on Earth

Every century gets the pandemic it deserves.

Ours arrived under mysterious circumstances in Wuhan, China sometime in the last quarter of 2019. In the memorable words of New York Governor Andrew Cuomo, the Covid-19 virus then "got on a plane" and became a super-spreading global pandemic in a matter of months. The human toll is devastating — over 80 million infected and over 1.7 million deaths as I write this. Over a century ago and during World War I no less, the world witnessed the devastating "Spanish flu" pandemic, which according to the U.S. Centres for Disease Control and Prevention infected 500 million people and killed over 50 million, with an estimated 20 million in Asia alone, although precise numbers are hard to come by. Pandemics are named pandemics because their human toll is on a global scale and devastating.

The origins of the current pandemic are largely unknown, on which there is fierce debate. What we know definitively is that Covid-19 and the world we live in, circa 2020, were a match made in heaven. Our hyper-globalised, super connected lives needed a biological reckoning of sorts. Habitat destruction placed us in ever so close contact with virus carriers in the wild. Nature struck back by delivering a Black Swan-like pandemic like no other. Even

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before Covid-19, the winner-takes-all global economy was not working for everyone, certainly not in Asia. The prolonged lockdown has accelerated social distress and jealousies, and will force politicians to rethink our current economic order.

As the singular beneficiary of globalisation's munificence, Asia will not be insulated from tectonic changes to the global economy. True, the region has been the greatest show on earth for several decades and Asia's openness to trade and investment aligned perfectly with the tailwinds of globalisation. These great strengths have now been shaken and stirred, both by the pandemic as well as pre-pandemic trends like the U.S.–China trade war which placed globalisation on reverse gear. Some of Asia's problems, discussed in this book, are home grown and resolvable. These include the incompetence of political leaders, rising inequality, chronic gender gap, climate distress, and a rapacious billionaire class, which in many cases are acting against the public interest. The pandemic has also exposed the region's many shortcomings, which were glossed over due to high rates of economic growth. Asia's other challenges are outside the region's ability to control. This surely includes the rise of China as a superpower and the new Cold War raging with America — which threatens to upend the global trading system and reorder supply chains, the secret sauce behind the region's phenomenal success. Asia's own reckoning was the subject of speculation before the pandemic. Covid-19 has perhaps made it inevitable.

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But we are getting ahead of ourselves.

Model Continent

Let me start with my own story. I went to school in Southern India, a region famous for turning out nerdy students with exceptional grades. Unfortunately for my family, I was not one of them. Even in a class filled with "book worms," as most students were referred to, one of them stood out. Let's call him Ravi. In a class of high performers, he was the model student, whose academic rigour, studying habits, and commitment we all aspired to. He was every parent's favourite child — brilliant in the classroom, agile in the cricket field where he was a wily off-spinner, and an all-round nice guy. Ravi would go on to excel in higher education as well — with degrees in engineering, business, a doctorate in operations research, and also trained to be a Chartered Accountant. In short, he was simultaneously admired and despised by his classmates. When he entered a room, conversation would stop as anxious classmates waited for the smart man to say a few words of wisdom or encouragement.

If Ravi was a continent, he would be Asia. The model continent which in the economic and political literature *du jour* can do no wrong. There is an entire industry out there whom I would impolitely describe as Asian braggarts and boosters. The shelves of every bookstore in Asia have best-selling titles authored by this motley group — *Asia Rising*, *Asian Century, Asia's Rise and America's Decline*, etc. The authors of these august titles literally come from everywhere — multilateral institutions, international consulting firms, business, academia, and media — which I describe as the region's thought leadership mafia. I was a card-carrying member of this group for a number of years, even decades, buying into the proposition that Asia's time had come (which is true) and that the continent's many challenges can be easily overcome (which I now disagree with). I have become more disillusioned of late, which motivated me to write this book. The time has therefore come to deflate the Asian hype and bubble.

There is the undeniable fact, of course. Asia's emergence in the last seven decades from the depredations of colonialism, extreme poverty and conflict

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is shock and awe theatre. The continent's rise was not pre-ordained. In the early 1960s, Ghana's per capita income was about the same level as impoverished South Korea. Singapore's infrastructure was so creaky that much of its downtown was routinely flooded due to rains and its antiquated sewage system. And then there was chronic poverty — billions of poor people without it seemed a viable economic plan to lift them from penury.

The Asian rags-to-riches drama unfolded in the aftermath of World War II to a sceptical global audience. Europe's reconstruction and recovery were a dominant Western focus with the Marshall Plan delivering over $12 billion in American assistance, around $112 billion in today's dollars. Although aid did flow, Asia was regarded as a welfare child, forever doomed to low growth and slow reduction in poverty.

Nobel Prize winning economist Gunnar Myrdal, author of the *Asian Drama: An Inquiry into the Poverty of Nations* and a brilliant, thoughtful scholar, encapsulated this Western-centric world view when he wrote in 1958[1] that there is a "small group of countries which are quite well-off," referring to Europe and America, and a "much larger group" of extremely poor countries. He went on to say that countries in the former group are on the whole, "firmly settled in a pattern of continuing economic development, while in the latter group progress is slower; as many countries are in constant danger of not being able to lift themselves out of stagnation or even of losing ground so far as average income levels are concerned." Myrdal's primary research focus was South Asia, notably India. Economist Ravi Kanbur[2] wrote that

[1] Gunnar Myrdal: *Economic Theory and Underdeveloped Regions*, Published by Duckworth & Co, 1958.

[2] Ravi Kanbur, "Gunnar Myrdal and 'Asian Drama' in Context" VoxEU CEPR Policy Portal, March 2018.

it is this framing of more than a half-century ago which is "most at odds" with the Asian development experience of the last three decades "…with the explosive growth of China, India, Vietnam, and a host of other countries." He comments on Myrdal's book: "Although *Asian Drama* was focused primarily on South Asia, in the book China and other Asian countries were often painted with the same brush. Along with most others at the time, Myrdal did not foresee that the economies of India and China would come to rival the size of the U.S. economy in little more than half a century."

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The most remarkable aspect of Asia's rise has been how *recent* the phenomenon has been. Europe has been gloriously wealthy from at least the 16th century, recovering smartly from multiple deadly wars and pestilence. America's growth trajectory and road to riches can be traced to the first globalisation era of the 1870s, which accelerated after World War II. In contrast, Asia is literally the new rich kid on the block. Japan was the continent's first miracle economy, whose grand economic and political revival was a 1950s and 1960s phenomenon, soon to be followed in lockstep during the 1970s and 1980s by the Asian Tigers — Korea, Taiwan, Hong Kong, and Singapore. The miracle virus soon spread to Southeast Asia with Indonesia, Malaysia, and Thailand also displaying Tiger-like characteristics of sustained economic growth and a fall in poverty. East Asia's phenomenal economic and social success was built on a familiar rather than exceptional set of public policies. "The research shows that most of East Asia's extraordinary growth is due to superior accumulation of physical and human capital," according to the World Bank in its famous and

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somewhat notorious 1993 treatise on the rise of East Asia.[3] "But these economies were also better able to allocate physical and human resources to highly productive investments and to acquire and master technology. In this sense there is nothing 'miraculous' about the East Asian economies' success: each has performed these essential functions of growth better than most economies." Between 1965 to 1990, the World Bank study said that all of East Asia grew faster than all the other regions of the world.

Three Laggards

Asia's economic resurgence would have been incomplete without the rise of China, Vietnam, and India. I call them the Three Laggards because they are recent arrivals to the Asian growth story, the 1990s, and have unquestionably dominated economic discourse ever since. While Japan and the East Asian Tigers surged ahead in previous decades, building success on integrating with the global economy, the laggards were literally asleep at the economic wheel. They were of course distracted with excesses of the Mao era (China), a savage multi-decade war with a superpower (Vietnam) and a successful experiment with nation-building which still delivered sub-par growth (India). In short, China, Vietnam and India were the poster child of economic failure. The late U.S. Ambassador to India John Kenneth Galbraith memorably described India as a "functioning anarchy" while other commentators were equally scathing about the dismal prospects for "red" China and Vietnam. Dystopia would prevail over utopia, we were told.

While these predictions did not materialise, the pendulum today has swung in the opposite direction with commentators rushing to proclaim that the future is Asia or that the Asian century is upon us. The central thesis of this book is that we are only halfway or two-thirds the way through a riveting drama before Asian success can be assured. Yes, prospects for a valiant Asia prevailing to emerge as the world's dominant economic and political power

[3] World Bank, *The East Asian Economic Miracle:Economic Growth and Public Policy* (Oxford University Press, 1993).

remain positive. However, the region has to overcome formidable foes — political and economic dysfunction, rent seeking, climate change, a changing global economy, growing geopolitical risks, income inequality and gender imbalance to name a few — before victory is assured. Complacency and linear predictions about economic growth are always risky. Later in this chapter we will focus on the perils of economic forecasting, an inexact science which has singularly failed to predict significant positive trends (the rise of the smartphone) or even tail-risks (the 2008 Global Financial Crisis). By focusing attention on developments in Asia during the last 25 years, I hope to sketch contours of the future during the next 25.

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I first visited Shanghai in 1994, a sleepy backwater town compared with the dizzying, dazzling metropolis it has become today. Hong Kong was then the unquestioned business capital of Greater China, the safe place to transact business on the mainland because of its adherence to the rule of law. China itself was in a state of flux. Five years had elapsed after the bloody Tiananmen Square student protests that had made China an international pariah from which it was just emerging. It was less than two years after a recently retired Deng Xiaoping had made his now famous "Southern tour" to Guangzhou, Shenzhen, Zhuhai, exhorting citizens that "to get rich is glorious."[4] Deng's trip culminated in Shanghai, then as now the epicentre for economic reforms, and the 88-year-old leader used the city as a platform to rail against "leftist" forces in the Communist Party, led by stalwarts such as Chen Yun and Premier Li Peng, who were determined to reverse China's flirtation with capitalism.

Defending himself against accusations that he was abandoning Communist doctrine, Deng explained that the "very essence" of socialism was the

[4] What Deng actually said was "*Rang yi bu fen ren xian fu qi lai*" that translates to "Let some people get rich first".

liberation and development of productive systems. "We should be concerned about right-wing deviations, but most of all, we must be concerned about left-wing deviations."[5] Academic Suisheng Zhao[6] writes that Deng himself described the opposition to his reforms as "some people" having reservations and different opinions. "…[W]hen he established the SEZs, some people were opposed to them and said that it was building many systems within one country; when he tried to invigorate the economy, some people said they had to prevent capitalism and fight corruption; when he made it clear that economic construction was the central task, some people said this was a problem of direction and an abandonment of Marxism–Leninism."

I was a journalist based in Singapore at the time and accompanied a Japanese business delegation for the opening of a plastics extrusion factory. While American toy manufacturers dominated in southern China, savvy Japanese investors had set up shop in Shanghai. The head of a leading Japanese trading house or *sogo sosha* excitedly drew a map of eastern China and described Shanghai as representing the crossbow which would help Japanese firms penetrate the rest of the country. The factory visit was an eye-opener, not only because of Japan's technological sophistication but also the strides that China had to make in order to catch up. In contrast with today's Shanghai, English was not widely spoken, and our Singaporean interpreter to the delegation found his Chinese brethren to be unschooled in the ways of the world.

It was also an opportunity for me to wander on the Bund and marvel at the newly opened and soon to become iconic Oriental Pearl Tower. The new business centre of Pudong loomed in the distance like a mirage, with vigorous local debate on whether Puxi or the historic centre of Shanghai would yield prestige and influence to the arriviste across the river. Charmingly, in retrospect, I took a ride on the short 2.7-mile section of the newly opened

[5] This quote is taken from a collection of speeches which Deng gave after China's opening up and which he repeated during the course of 1994.

[6] Suisheng Zhao, "Deng Xiaoping's Southern Tour: Elite Politics in Post-Tiananmen China," *Asian Survey* 33, no.8 (August 1993).

Shanghai Metro, today the world's largest rapid transit system by route length. There was a simmering controversy over the new metro system, its huge construction costs and utility to ordinary Shanghainese because of rumoured escalation in fare prices. I visited the campus of the newly established China Europe International Business School (CEIBS), which is today one of Asia's top business schools. The European head at the time explained to me that the CEIBS' primary objective was to unlock Chinese student's potential to become entrepreneurs and world-class managers. In that mission it has succeeded by a large measure.

Yet Shanghai was not all glamour and sizzle. In side streets and the suburbs, the old dystopian China was very much evident. Open sewers, polluted rivers, and much of the population on bicycles, seemingly tentative about the benefits of economic reforms. On Nanjing Road, buried today under steel and concrete, it was still possible to savour the old Shanghai. Communist literature was ubiquitous in the bookstores, discourse with local officials were laced with time-worn references (*The Long March*), and the Peace Hotel on the Bund was a temple to the 1949 revolution. Here surly waiters in starched uniform plied guests with chilled Tsingtao beer and lukewarm dumplings. Tourists from Asia were relatively rare and I recall being asked strange questions on the street about where I was from. In the era before the selfie, the most popular tourist attraction on the Bund was to be photographed along with a grinning PLA soldier.

In short, Shanghai and China in 1994 were grappling with capitalism coupled with decidedly communist characteristics. That was a mere 26 years ago and the struggles underway at the time do not receive the attention they possibly deserve. The leftist forces held out the promise of a Communist, Marxist utopia, built on reversing the bold reforms of the past two-decades. The reformers, most notably Deng himself, who had witnessed the horrors and excesses of Maoist-era China wanted a new beginning after Tiananmen. It was on these radical choices that led China to become gloriously and seriously rich.

China was still a poor country in 1994. Its GDP at market exchange rates was a piffling $584 billion, percapita GDP was an even more modest $473, and the population living in extreme poverty exceeded 200 million.[7] Yet to many foreign observers. China was about to become the biggest game in Asia and eventually the world. Sitting in his Hong Kong office, surrounded by busts of Chairman Mao, at the time quite possibly one of the world's largest private collections, investor Marc Faber told me in 1994 that as Shanghai and China advanced, Hongkong would become more and more "irrelevant to China," a prophecy that has materialised. He also predicted that as China and India advanced, the centre of gravity would also shift eastwards, he noted.

China was about to become the biggest game in Asia and eventually the world.

Viet Crisis

Vietnam, second in the Asian laggards gallery, was in a more parlous and pitiful state in 1994. It was hard to see how a united Vietnam would ever be able to get its act together. GDP was a tiny $16 billion and $220 on a per capita basis, even lower than poor neighbours like Cambodia and Laos. If China's post-1949 generation was consumed with the horrors of the Mao era, successive generations of Vietnamese were exposed to the horrors of war. Four years after the fall of Saigon in 1975, a victorious Vietnam was forced by China to wage a brief but bloody war. The apparent provocation was Vietnam's decision to support dissident Khmer Rouge forces led by Hun Sen to invade Cambodia in 1978 and put an end to Pol Pot and the bloody genocide. If Japan and the Asian Tigers excelled in trade, Vietnam's comparative advantage it seemed was in waging war.

[7] I have used World Bank data here, with people's income of US$1.25 a day as the measure of being above or below the poverty line. This is an inexact measure because different benchmarks yield different results.

Buoyed by its success in prevailing over French, American, and now Chinese forces, Vietnam's political leadership spent much of the early eighties basking in their military successes. The Vietnamese delegation to the 1976 summit of the now defunct Non-Aligned Movement (NAM) was treated with joy and trepidation by fellow Asian nations, fearful of a rising regional power in their neighbourhood. A journalist friend told me a story, perhaps apocryphal, which described the buoyant militaristic mood in the country in the 1980s. There was a single weekly international commercial flight from Bangkok into Ho Chi Minh city (formerly Saigon). As the international flight prepared to leave, it was routinely held up on the tarmac for a show of force — the aging fleet of the Vietnam Air Force took off from the runaway to demonstrate to foreigners that the country was still a power to be reckoned with. This was pure theatre, but a bigger drama was unfolding on the streets.

The impact of successive wars was beginning to have an adverse impact on the economy and its most visible manifestation was hyperinflation. It is worth remembering that while Asian policymakers overall have had a peerless record in macroeconomic management, including during the Asian Financial Crisis, Vietnam has been an outlier in terms of dealing with hyperinflation, Latin-American style. Economist Quan Hoang Vuong[8] says that from national unification in 1975, Vietnam struggled for a decade in lifting agricultural and industrial production, unwittingly following the disastrous policies of Mao's China several decades earlier. Policymakers in Hanoi experimented with several flawed economic policies, culminating in a failed attempt to control monetary policy in 1985. "Upon the failure of the 1985 price-wage-currency adjustment scheme, a severe economic crisis followed, resulting in hyperinflation of 775% in 1986, scarcity of staples and consumer goods, impoverished living conditions, industrial stagnation, and mounting foreign debt." Vuong writes.

[8] Quan Huang Vuong, "Vietnam's Political Economy: A Discussion on the 1986-2016 Period", CEB Working Paper (Centre Emile Bernheim, May 2014).

The ensuing economic chaos forced the hand of the Communist Party of Vietnam (CPV). If China had its Deng Xiaoping, Vietnam's answer was Nguyen Van Linh, general secretary of the CPV at a critical time after the economic collapse of 1985-1986. Very much like China after the death of Mao, Vietnam's economic reformers under Linh fought a protracted political and ideological battle with CPV hard-liners keen to retain the primacy of Communist and Marxist ideology. Linh and his supporters won the battle and launched *doi moi* (or renovation) in 1986, as dramatic a change in economic direction as Deng's China reforms of 1978. Vuong notes that "the old fashioned, centrally planned economy was replaced with a socialist market mechanism, which promoted the concept of a multi-sectoral economy, open door policies towards international trade and investment, and recognised private property rights." There was an immediate, tangible improvement in Vietnam's economic fundamentals. For example, the new Law on Foreign Investment introduced in 1987 resulted in a surge in foreign direct investment, mainly from Asian sources (Japan, South Korea, Singapore, and Taiwan), which touched a phenomenal 10% of GDP by 1994. Vietnam's economic resurgence was also helped with the signing of the October 1991 Paris Peace Agreements, which marked the official end to the Cambodia–Vietnam war and were essential in bringing Indochina back to the trajectory of peace after four decades of conflict. Vietnam today has been granted "Tiger" status because of its rapid economic growth in recent years as well as its superb handling of the pandemic, that is in contrast with other ASEAN nations which have stumbled.

India Rises

India, third in our Asian laggards gallery, had a ringside seat to China and Vietnam's economic rise but was more hesitant to change direction. During her 1980-1984 tenure, cut short by her brutal assassination in October 1984, Prime Minister Indira Gandhi started the hesitant process of economic reforms, under the tutelage of a controversial programme supported by the

International Monetary Fund (IMF). The process was further accelerated under the leadership of her son Rajiv Gandhi, who was Prime Minister between 1984 and1989. Like China and Vietnam, India's economic fault-lines were domestic and ideological. Suspicious of foreign investors and trade, the Indian economy was anaemic for much of the 1950-1980 period, expanding at an average of 3.5%, which economist Raj Krishna has memorably described as the "Hindu rate of growth." In 1977, the coalition government led by Mrs Gandhi's rivals had asked Coca-Cola and IBM to leave the country, which was presented as a nationalistic attempt to Make India Great Again.

I was a business journalist in India for much of the eighties. The economic and political narrative of that era is in sharp contrast with what is on view today. Much of my reporting was focused on the struggles of foreign and local business to navigate the excesses of the notorious license-permit *raj,* the bureaucratic dead-weight of economic policies aimed at checking the rise of the private sector. Since India's public sector was supposed to control the commanding heights[9] of the economy, a specific state objective, all of my conversations with business leaders were focused on securing licences and permits (and subtle and not-so-subtle efforts to subvert the law). There were specific capacity restrictions on exactly how much output a factory could produce, depriving Indian manufacturers of scale and global market share. There were exceptions to this of course, with a group of new and old oligarchs indulging in rent-seeking on a massive scale, a topic discussed later in this book.

Although the decade appeared to be a period of stagnation, change was definitely in the air. In 1984, Japanese car manufacturer Suzuki launched the Maruti car to much fanfare and adulation by the Indian consumer. The 800-c.c. rickety, claustrophobic Maruti Suzuki car represented a great leap forward in India's attitude towards foreign investors, albeit with the state

[9] A phrase which has its origins with central planners in the Soviet Union, emulated by China and India.

still controlling the majority of shares in the joint venture. Suzuki today has majority ownership and is India's largest automobile manufacturer. Also, in the same decade Pepsi was also allowed to set up a joint venture with the regulator's insistence that the American cola manufacturer had to "Indianize" the brand. Thus, Pepsi Cola briefly became Lehar Pepsi (or wave) and foreign companies had to wait until 1991 before they could use their own internationally recognised brands.

In the popular narrative, India unleashed bold economic reforms only in 1991, following a severe balance of payments crisis which forced the central bank to ship its gold holdings to London to stay current on international transactions. However, economist Arvind Panagariya, who served under Prime Minister Narendra Modi has written a fascinating paper on India's economic journey since the 1980s.[10] He notes that there is a contrarian view which argues that the growth rate in India had accelerated in the 1980s, around the same time as China, making it impossible to credit serious reforms with the improved performance of the country. "If those sceptics were right, it would be a major blow to liberal trade and market-friendly policies not only with respect of India but to developing countries around the world," he writes. "But a closer look reveals that the story is more complex than the sceptics would have us believe." Panagariya adds that three specific points emerge from a detailed analysis of trends. First, growth during the 1980s was patchy, with the last three years of the decade contributing a phenomenal 7.6 % growth. Second, without those three years, India's growth in the 1980s would look, at best, marginally better than that of the previous decades. Finally, growth was stimulated partially by expansionary policies that involved accumulation of large external debt that ended in an economic crisis. "In the end it was the 1991 market reforms and subsequent liberalizing policy changes that helped sustain growth," says Panagariya.

[10] Arvind Panagariya, "The Triumph of India's Market Reforms. The Record of the 1980s and 1990s", *Policy Analysis* (Cato Institute) no. 554 (November 2005).

Like China's Deng and Vietnam's Linh, India had its own economic reformers at a critical time for the country. Prime Minister P.V. Narasimha Rao, tragically forgotten in today's India, had taken over the helm after the assassination of Congress leader Rajiv Gandhi while campaigning for the June 1991 national elections. PM Rao's finance minister Manmohan Singh was a well-known economist and central banker, but new to politics. The Congress Party won that election in a sympathy wave, but it was soon faced with the grim reality of dealing with an unprecedented economic crisis. India's foreign reserves were running low and the Rao-Singh duo were faced with making hard choices, the most important of them being accepting IMF conditions through a major economic adjustment programme. *New York Times* journalist Bernard Weinraub, who was India correspondent at the time, captured the country's ambivalence in accepting loans from the IMF. "Facing a grave economic crisis, the newly elected Indian government has begun urgent talks with the International Monetary Fund seeking emergency aid of several billion dollars," Weinraub wrote in 1991. "Yet the conditions for such assistance are stirring anxiety in this nation, which historically prides itself on self-reliance. At issue is not only the economy, but also India's sensitivity to Western involvement." As an illustration of India's grave economic situation, the country's foreign debt had trebled to $72 billion in less than a decade, but the central bank only had $1.1 billion in hard currency reserves. This explains the central bank's emergency sale of gold in London and the historic IMF programme.

The reforms unleashed by Prime Minister Rao and Finance Minister Singh were no less ambitious compared with China and Vietnam. A discussion paper published by the Finance Ministry in 1993 vividly captures the ambitions of the country's reform agenda "…to bring about rapid and sustained improvement in the quality of the people of India. Central to this goal is the rapid rise in incomes and productive employment." The paper said, "The only durable solution to the curse of poverty is sustained growth of incomes and employment. Such growth requires investment in farms, in roads, in irrigation, in industry, in power and above all, in people." With a flourish, the paper added that "within a generation," the countries of East Asia have transformed themselves. China, Indonesia, Korea, Thailand, and Malaysia "…today have living standards much above ours. What they have achieved, we must strive for." The licence-permit *raj* was gradually dismantled, the state was no longer placed on the commanding heights of the economy, and foreign and local investors were allowed to enter hitherto walled-off areas of the economy. This included aviation, financial services, automobiles, capital goods and retail.

Make no mistake, India was a minor player in the global economy in 1994. Its GDP was a modest $322 billion and GDP per capita was $362. Along with China and Vietnam, the troika barely made a dent in global commerce, services, manufacturing and economic output. Japan was the dominant economic force in the region, the only Asian member of the G7, closely followed by the Asian tigers. More than twenty-five years later, China and India are Asian giants and Vietnam is a tiger economy in the making. The inevitable question is what is wrong with this picture. All of Asia, with a few exceptions (North Korea comes to mind), appear to be on a fast escalator to economic success. Indeed, medium and long-term economic forecasts for the region, from public and private institutions, are uniformly positive. As a continent, Asia has been the single biggest beneficiary of globalisation, trade, and investment and this trend is unstoppable, so goes the mantra.

Perils of Forecasting

Let's start with consulting firm PWC which in the pre-pandemic era predicted that the world economy could more than double by 2050,[11] "assuming broadly growth-friendly policies and including no sustained long-term retreat into protectionism and no major global civilisation-threatening catastrophes," which Trumpism and Covid-19 clearly validate. "Emerging markets will

[11] "The Long View. How will the global economic order change by 2050?"(PWC, February 2017).

continue to be the growth engine of the global economy" according to the PWC report. "By 2050, the E7 economies (China, India, Indonesia, Brazil, Russia, Mexico, and Turkey) could have increased their share of world GDP from around 35 percent to 50 percent. China could be the largest economy in the world, accounting for around 20 percent of global GDP in 2050, with India in second place, and Indonesia in fourth place (based on GDP at purchasing power parity or PPP). PWC Chief Economist John Hawksworth acknowledges that we should not dismiss political shocks like Trump or Brexit to the extent "they point to deeper structural shifts, notably a populist backlash against globalisation, automation and the perceived impact of these trends in increasing income inequality and weakening social cohesion." This is a necessary caveat which was ignored in the media coverage, where the focus was on the eye-popping headline of China, India, and Indonesia dominating the global economy.

The Asian Development Bank (ADB), the premier regional development bank, is unsurprisingly equally bullish about Asia's prospects by 2050. "Asia is in the middle of a historic transformation. If it continues to follow its recent trajectory, by 2050 its per capita income could rise six-fold in purchasing power parity (PPP) terms to reach Europe's levels today."[12] The ADB report published in 2011 said, "It would make some 3 billion additional Asians affluent by current standards. By nearly doubling its share of global gross domestic product (GDP) to 52 percent by 2050, Asia would regain the dominant economic position it held 300 years ago, before the industrial revolution."

For a sense of Asia's dominance of the global economy during centuries past, we should turn to the late British economic historian Angus Maddison who has produced estimates of world GDP going all the way back to 1 AD. In 1000 AD, according to Maddison's calculation, China and India together

[12] "Asia 2050: Realizing the Asian Century" (ADB, August 2011).

contributed 50.5 percent of world GDP.[13] By 1600, that share had gone up to 51.4 percent, with China accounting for 29 percent and India 22.4 percent of world GDP. A hundred years later, China's GDP had fallen but India's went up to 24.4 per cent. However, both China and India started their steep economic descent in the 1800s, ceding ground to the growing dominance of Europe, and later more dramatically to America through the first half of the 20th century. India's share of global GDP, at an estimated 7.5 percent in 2017 has never recovered to double digits while China's share has more recently increased to a robust 17 percent. Predicting prospects for the global economy in 2030, Maddison himself was circumspect about what he described as "futurology." "As there has been such a striking divergence in the pace and pattern of growth in different regions of the world in the past 30 years, it is worth considering the changes which seem likely in the next quarter century," he said in a 2008 paper.[14] "Futurology is a more speculative business than history. Hard evidence is lacking, and we have to project trends from the past which seem plausible but may well be reversed by unforeseeable events."

Economists not only perform poorly in making long-range forecasts. IMF economist Prakash Loungani and his colleagues have done extensive research on the ability of the economics profession to forecast recessions in 63 countries, using data from 1992-2014. These are short-term forecasts, which provide some perspective on the profession's overall ability to project economic growth forward, say to 2030 or 2050, as the ADB and PWC have done. Loungani's[15] key conclusion: "The main finding is that, while forecasters are generally aware that recession years will be different from other years, they miss the magnitude of the recession by a wide margin until

[13] From an article in India's *MINT* newspaper, 25 August 2010. Maddison computed GDP in 1990 dollars and in purchasing power parity (PPP) terms.

[14] Angus Maddison, "The West and the Rest in the World Economy: 1000-2030", *World Economics* 9, no. 4 (October-December 2008).

[15] Zidong An, Joao Tovar Jalles and Prakash Loungani, "How Well Do Economists Forecast Recessions? IMF Working Paper, 5 March 2018.

the year is almost over. Forecasts during non-recession years are revised slowly; in recession years, the pace of revision picks up but not sufficiently to avoid large forecast errors." Loungani's second finding is that forecasts of the private sector and official sector are virtually identical; thus, both are equally good (or bad) at missing recessions.

Why isn't the performance of economic forecasters better? Loungani considers this is primarily because of excessive caution on the part of the economists. "Forecasts ought to be revised early and often so as to absorb new information properly," the paper notes, "But the evidence presented suggests that forecasters take very long to reflect information in their forecasts." Finally, and more relevant to the issue at hand, the IMF researchers found that economists have made more errors in forecasting growth and in projecting recessions in a group of emerging market nations (China, India, Korea, Mexico, Brazil, Russia, and Turkey) compared with that of the G7, where data is more reliable. The fact that economists often get short-term business cycle forecasts wrong should be factored in when considering the same profession's rather rosy and bullish projections about Asia's growth well into the future.

The Case of Argentina

Asia's bullish futurologists could also learn a lesson or two from Argentina, quite possibly the most spectacular example of a once rich and vibrant nation which lost its way in the 20th century. Sitting in Buenos Aires in the early 1900s, it would have been easy for an analyst to predict that Argentina's run of economic good luck would continue indefinitely. During the boom years, restaurants in Buenos Aires were the most expensive in the world and the city was a haven for luxury goods, not different from today's Asia. Since this was the pre-aviation era, bookstores in shipping terminals were probably groaning under metaphorical titles of "Argentina Rising" or "The Future is Argentinian." As *The Economist* noted in 2014, a hundred years ago Argentina was the future of the global economy. In the 43 years leading up to 1914, GDP had grown at an annual average of 6 percent, the fastest recorded in the world at the time. "The country was a magnet for European immigrants, who flocked to find work on the fertile pampas, where crops and cattle were propelling Argentina's expansion. In 1914, half of Buenos Aires's population was foreign born." The country ranked among the ten richest in the world, after the likes of Australia, Britain, and the United States, but ahead of France, Germany, and Italy. Its income per head was 92 percent of the average of 16 rich economies, compared with around 40 percent today.

Economic historians have offered a long list of reasons for Argentina's precipitous decline in the last century — the two world wars which disrupted Argentina's status as an agricultural superpower, domestic political conflict which culminated in reckless economic policies, and changing trends in the global economy. In *The Economist* article, historian Rafael di Tella offered three deep-rooted reasons for the country's decline. First, Argentina may have been rich 100 years ago, but it was not "modern." That made adjustment hard when the external shocks hit. The second theory stresses the role of trade policy, which turned sour after World War I. Third, when it needed to change, Argentina lacked the institutions to sustain economic success. Populist leaders like Juan Peron introduced policies which undermined long-term growth and increased the role of the state.

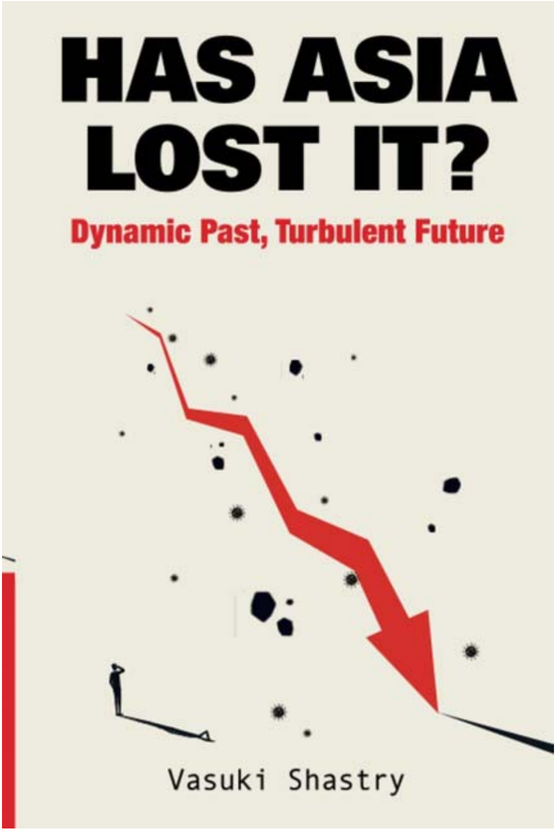
Asia's future is not pre-destined to go the way of Argentina, although the current blowback against trade and globalisation has eerie parallels to the 1920s and 1930s, decades which were characterised by closed markets and beggar-thy-neighbour economic policies which started the Latin American country's long decline. Asia's recent success in the post-World War II era has proven to be more durable, resilient, and long standing compared with that of Argentina.

However, today's Asia does represent a mix of utopia and dystopia, which I call *dysutopia.* As I hope to illustrate in this book, Asia's easy, dizzy phase of economic growth has come to an end. A more difficult task awaits the region's astute policymakers. The world around them has changed, even before the pandemic, because of the emergence of a new superpower on their doorstep. Policy challenges which I will discuss in depth include: skewed demographics with rapidly aging and youthful societies; political systems which have not kept in pace with the dramatic changes in the economy; rising public aspirations and rising inequality that will test the government's ability to deliver; an export and consumption-dependent economic model whose time may have passed due to structural changes to the global economy, arising from the rise of artificial intelligence and automation; and widespread environmental destruction which places Asia at the epicentre of global climate change.

Which brings me back to my friend Ravi. I briefed him on the book project and had asked him for permission on whether I could cite his own experience of living with high praise, high expectations, and the attendant impact on his career. He gracefully agreed, noting that he was a permanent student until his early forties, chalking up one impressive degree after another, over fears that he would stumble in what he describes as "real life." Now in his late fifties, Ravi has not strayed far away from academia, by his own admission building a middling career. His key message is that he was numbed by praise in his youth and was insufficiently challenged by peers and teachers during these formative years.

It is a stretch to compare the career trajectory of my friend with that of an entire continent. However, there are parallels between Asia's phenomenal rise since the end of World War II , the attendant high praise it has received for past success, and the more challenging times which lie ahead. There will be winners and losers in this new era. The convenient "Asia" label to explain the region's many achievements will no longer suffice. There will be a utopian Asia with high and equal incomes, strong social mobility, gender parity, and a clean environment which will co-exist with a dystopian Asia of dysfunctional politics, fractured societies, high income inequality, and social unrest. Covid-19 has placed unflattering attention on the latter. To paraphrase Kipling, will the fate of the two Asia's be never the twain shall meet? Before we discuss this in detail, let's turn to the Asia of today and examine where the region is excelling.

Front Cover



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