

Asia has had enough of excusing the west

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Published: January 25 2011 20:47 | Last updated: January 25 2011 20:47

Most crises are known by their origin, from the Mexican peso crisis of 1994/5 to the Asian crisis of 1997/8. Given there is no doubt who caused our world's latest troubles, it should adopt its logical name: the western financial crisis. This reluctance to call a spade a spade reflects an inability to reckon with changes the US and Europe have to make to avoid a repeat. This worries the rest of the world, and Asia in particular – even if western leaders are shockingly unaware of how they are viewed.

Before this crisis Asian policymakers deferred towards their western counterparts. We assumed the west knew best on finance and economics. The enormous blunders since committed by the US and Europe mean deference has been replaced by disquiet. There is a simple reason why the west has not noticed: Asians are too polite. Sometimes it takes a relatively rude Asian, like me, to express our continent's true feelings.

Fortunately, a few others have begun to speak out. Rakesh Mohan, the ex-deputy governor of the Reserve Bank of India, noted the "global financial crisis has had its roots in the US". Andrew Sheng, chief adviser to the China Banking Regulatory Commission, strongly criticised US banks and regulators, saying: "When our teachers are no better than us, we really have to think for ourselves." Top Chinese bank regulator Liu Mingkang has said of US financial reform that "after the death, the doctor came".

These sentiments are now shared across Asia. Indeed, if the Thais and Indonesians did not come from inherently polite societies, they would say to the US and Europe: "The time has come for you to administer the same bitter medicine you prescribed to us: stop living beyond your means."

Asia's concern is that the world will soon come to grief if both the US and Europe fail to make fundamental readjustments. An America that tightens its belt will cause the rest of the world pain, as US consumption and imports diminish. But there is no painless solution: only when America gets its house in order can Asia hope for a more sustainable future.

By contrast, an America that blunders onwards with quantitative easing in the hope of reviving its economy creates enormous global instability. Europe, meanwhile, is not faring much better. As Harvard economist Kenneth Rogoff has written: "Eurozone macroeconomic policy is incoherent on so many levels, it is hard to know where to begin."

What must be done? Domestically, the US must cut spending and raise taxes, no matter how politically difficult. Europe must resolve its flawed monetary union – with the overhaul of its bail-out fund and the rewriting of Germany's post-Maastricht "grand bargain" with the periphery a necessary start.

Internationally, Asia needs the US and European Union to take a more assertive role co-ordinating financial regulation. The failure of recent meetings of the Group of 20 leading economies shows both are still unwilling to make sacrifices. Next time they must show they can produce regulatory reforms sufficiently strong and internationally coherent to prevent a re-run of the global financial crisis, even if it hurts their own interests to do so.

America and Europe can again help to shape the world. But they must not focus on scapegoats, such as China's currency. Yes, it needs to be revalued, but even if it rises by 20 per cent it will not change their fortunes. Only fundamental restructuring within their own borders can do this.

Most fundamentally, we need an end to the pretence that the US and EU are masters of the universe. Both must learn to share power. This means specific reforms, for instance on voting rights at the International Monetary Fund. We also need altered attitudes that accept Asians as equals. Only with such changes will results come in the Doha round, climate change negotiations or monetary co-ordination. What truly frightens many Asians is that western leaders are still unwilling to tell their populations the hard truth – that the world has changed. Their nations must now experience the pain of readjustment they once prescribed to others.

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