

From East to West, leaders are failing to revitalise economies

Matthew Garland says ineffective, divisive politics is bad for business

“We are in the midst of a protracted global slowdown and there is no sign of improvement,” worries one Asian business executive. “The world economy is on the brink,” frets another.

These quotes sound like they are from the depth of the financial crisis four years ago. In fact, they are from the just-completed annual survey of Asia Business Council members. The council’s 62 members employ more than two million workers and control companies valued at more than US\$5 trillion.

Responses to the council’s survey show the lowest level of business optimism since the onset of the crisis. Uncertainty has increased, as the region’s business leaders prepare for a long, grinding recovery. One executive sums up the mood of many: “Plenty of opportunity now – long-term sustainability is the issue.”

The deepening uncertainty reflects a lack of confidence in global political leadership. The simmering euro-zone crisis, coupled with anaemic growth in the US, has been compounded by slowdowns in China and India, and continuing challenges in the Japanese economy. All of this makes for what one executive termed “complexity ... in all marketplaces”.

“It is an extremely challenging time to calibrate the appropriate level of risk-taking. On one hand, we look across the region and see tremendous opportunities to build our franchise,” one respondent notes, “on the other hand, we

estimate that there is at least a 25 per cent chance of a disorderly break-up of the European Union ... There is little margin for error.”

Central banks have nearly exhausted their remedies. The third round of the US Federal Reserve’s “quantitative easing”, intended to be an open-ended shot in the arm, has revealed that central banks do not seem to know how long or what it will take to produce self-sustaining momentum. All the while, markets are growing immune to monetary intervention. A sustained revitalisation of credit markets remains elusive as governments experiment in inefficient policy.

At a time when regional economies need more intra-Asian trade, territorial conflicts in the East China Sea and the South China Sea are bolstering nationalism – not closer trade ties. Upcoming elections in Korea and Japan may further aggravate diplomatic relations in the region. These and other political variables will probably compound “the unpredictability of government policy”, as one respondent calls it.

Some executives are particularly anxious about the upcoming leadership change in China, which may complicate the country’s transition to a more sustainable growth model. Meanwhile, the US is in the midst of a polarising presidential election campaign; at stake are issues critical to business, such as regulation and taxes, as well as the country’s trade relationship with China. On the campaign trail, both President

Barack Obama and challenger Mitt Romney ratcheted up the election-year bluster against Beijing, with Romney repeatedly pledging to label China a currency manipulator as soon as he takes office.

Asian governments also come in for criticism: members worry about “social issues”, “increasing income disparities” and an “increasingly unstable geopolitical environment”. One respondent notes that “governments will need to have sufficient policies to contain disparities and to preserve social [harmony], without hindering economic growth”.

Without political leadership at local, regional and international levels, the economic recovery will continue to languish. “There is a rise in protectionist sentiments in some corners of [the Association of Southeast Asian Nations], and if this is joined by an inevitable rise in protectionist sentiments in troubled countries in Europe, we will enter a difficult territory, with globalisation and structural reforms being reversed,” says one executive. Another concludes, “buckle down and wait – maybe for a long time”.

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