

Global business in the 21st century: Asia-Pacific Perspectives

**Delivered by Dr Victor K. Fung
As Chairman of International Chamber of Commerce
in
Frankfurt, Germany
on
10 September 2008**

Ladies and Gentlemen

It is a very great pleasure to be addressing you in the great city of Frankfurt. As a trader and an entrepreneur myself, I look upon the history and achievements of Frankfurt with great admiration. One of the lessons drawn from the history of Frankfurt is how it remained constant in its commercial and financial pursuits by adapting to the changes taking place in the external environment. I believe that Frankfurt is well positioned to continue to flourish as a global hub and nodal point in the 21st century and beyond.

In my talk today, I will assess and explore the historical, current and future perspectives of the Asia Pacific Region in respect to globalisation. I will also discuss some of the opportunities for Europe in the growth of Asia Pacific as a major global economic centre.

As we all aware, the world economy is in the process of changing dramatically. Allow me to give one illustration, among many. Next year, 2009, China will overtake the US as the world's #1 manufacturer. That news may not necessarily cause great surprise. We are accustomed to seeing Chinese products in a broad range of goods across global markets. We know China has considerable trade surpluses with the US and the EU. We know Chinese factories produce an enormous amount. And this has been part of the global market landscape for the last 15 years or so.

But 15 years is a very short period in the broad sweep of history. And understanding the tectonic shifts taking place in the global economy and the rise or re-emergence of Asia requires perspective. As Winston Churchill said: "The further back you look, the further forward you can see!"

Indeed, in order to try to ensure that these global shifts occur as dynamically and smoothly as possible, it is essential that the past be well understood. So let us go back a bit in the broad sweep of history in order to get a better sense of where we are and where we may be going!

Two hundred years ago, in the early 19th century, China accounted for over 30% of global output. India accounted for another 16%. If you add other Asian societies such as Indonesia, Thailand, Burma, Japan, Korea, and Vietnam, Asia's total output was over 60% of global GDP. This included ceramics, silks, tools and implements, precious stones, agricultural products, such as spices, tea, rice, etc. Asia was rich and seen as rich by the West.

Western merchants and other visitors to the region, from Marco Polo in the 13th century onwards, spoke in great awe of Asia's tremendous riches. Jesuit missionaries at the imperial court in Beijing in the 17th century wrote effusively about China's wealth and quality of life and output. The European Enlightenment philosophers of the 18th century such as Voltaire, Diderot and Montesquieu praised both China's material and philosophical wealth, as indeed did Frederick the Great. Asia was envied. Then it all collapsed.

The Swedish Economics Nobel Laureate Gunnar Myrdal published in 1968 a very influential three-volume opus entitled: *Asian Drama: An Enquiry into the Poverty of Nations*. After a century-and-a-half of economic decline, it became the conventional view that Asia and poverty were synonymous. The sole exception was Japan, though in the late 1960s it was also assumed that Japan would soon reached its limits.

The Asian image of course reflected reality. As I mentioned, two hundred years ago China's share of global output was over 30%. Fifty years ago it was less than 5%. And India came down from 16% to 3%, the same proportion as Africa, but with a considerably bigger population. Asians were dirt poor.

What have caused the changes?

First, although in the early 19th century China, India and other Asian societies were still immensely wealthy, in fact decline had been setting in for some time. Asians were living on accumulated assets from the past.

An insight into the different paths undertaken by Europe and China can be gained from comparing the great Chinese navigator Zheng He with his European counterparts Christopher Columbus and Vasco da Gama. Zheng preceded them by some nine decades; his ships were much bigger and his crews infinitely so. Zheng commanded over 300 vessels with some 30,000 men, as opposed to Columbus' fleet of 4 vessels and 150 men. The shipyards in Nanjing in the early 1400s constructed more ships than Europe could dream of.

And yet for reasons that are not clear, China in 1500 turned in on itself. Sailing the seas was declared a crime and all sea-faring vessels were destroyed. China opted against globalisation and in favour of introversion. This is in contrast to the early European explorations which led to more explorations and greater maritime innovation and development, ultimately leading to the conquest of the then known world.

The same theme applies pretty much to all of Asia. The great Arab and Mongol empires, which, among other things, had created the Silk Road, collapsed. Take a place like Samarkand in Uzbekistan. It was for many centuries a major hub of global commerce - a bit like Frankfurt has become in more recent centuries. Following on from its great hours of glory in the 14th century, Samarkand declined to become not much more than an archaeological site and tourist destination.

In the period roughly from the 7th to 15th centuries, the Asians were what we would call today the major agents of globalisation. At the time the globe still excluded the new world, the Americas and Australia. But it is known that China and India, for example, entertained commercial and other forms of relationships not only across the Eurasian continent, but also with Africa.

Then in the 15th century, Asia and Europe took divergent paths. Europe embraced globalisation and innovation, whereas Asia switched to introversion and stagnation. Asia went on doing great things in art and architecture but the great intellectual, philosophical, political and scientific tremors that shook Europe during the successive eras of the Renaissance, the Reformation, the Explorations, the Agricultural and the Industrial Revolutions, passed Asia totally by. It is not an exaggeration to say that while all the din was happening in Europe, Asia slept.

In fact, it was worse than that. Although Asia had ceased progressing technologically, institutionally and economically, its populations continued to grow. This caused widespread poverty which in turn led to endemic social unrest and civil war. Asia seemed hopeless.

It was tempting for scholars to ascribe Asia's backwardness to inherent cultural factors. Karl Marx dismissed an entire continent when he claimed that it was trapped in what he referred to as the "Asiatic mode of production". He treated the situation in Asia as if it were a cultural distortion, rather than simply, as was the case, due to poor governance and management!

In fact Japan proves the point that progress is much more a question of governance and management than one of culture. In the three decades from 1870 to 1900 Japan set out to learn from the West, to copy what seemed appropriate and in the process the country underwent a radical and thorough process of reforms, completely transforming its political and industrial structures. From being an economically quite backward society in the mid-19th century, Japan was an industrialised society and a global leader in key economic sectors of the day by the beginning of the 20th century.

Let's take a look at China in the late 1970s. China, after a century of precipitate decline and humiliation from the mid-19th to mid-20th centuries, followed by the turbulence of three decades of Maoist experimentation, suddenly embraces globalisation. China wants to grow economically and quickly in order to improve the wellbeing of its people and restore China to great economic power status.

How to get there? Well, Deng Xiaoping put in his extremely well-known pithy aphorism: "it does not matter whether a cat is black or white, so long as it catches mice, it is a good cat". This is the pragmatism that has been driving China's economic reform and dynamism in recent decades.

This spirit of pragmatism has spread throughout most of East and South Asia. In 1991 India broke the chains of Nehruvian socialist ideology and embarked upon a highly pragmatic and successful reform policy of globalisation and innovation – notably in its IT industry. This East and South Asian revolution has had a huge impact, resulting, among other things, not only in the rapid growth of the two regions, but in their re-emergence as key global players.

The great story of the early 21st century is that East and South Asia have experienced – and are experiencing – tremendous positive change. The two regions are contributing and can be expected to continue contributing to global growth, trade, prosperity and innovation.

The Asia Pacific still faces many problems and challenges. We must definitely not be complacent. But what one can say quite emphatically is that the Asia Pacific, including both East and South Asia, is enjoying highly positive trends and is making strong contributions to the global economy, global trade and global welfare.

Having looked at the past, what about the future?

Let me highlight a few facts. Firstly, Asia currently accounts for most of the world's growth both in GDP and in trade. Though Western markets - the EU and the US - remain the biggest, we are seeing rapidly increasing intra-regional Asian trade as well as inter-regional trade - between Asian economies and Africa, the Middle East, Latin America and Australasia. This is especially true of China.

In 2007 China invested more in sub-Saharan Africa than the entire OECD countries combined. Institutions such as Goldman Sachs have forecast that India and China will overtake the US economy before the middle of this century. Whether the forecasts turn out to be exact remains to be seen. I think there will be many twists and turns.

However, the overall trends seem clear in that Asia is accounting for and will continue to account for a greater share of global GDP and global flows in trade and investment. I believe it is generally accepted that China, India and Japan will be among the world's biggest national economies in the 21st century. The actors in this arena will be both state entities – such as Sovereign Wealth Funds – and a growingly confident private sector.

Another fact is that there has been a dramatic shift in demographics. In 1900, when Europe was at its global peak, its population corresponded to 25% of world population. A hundred years later, in 2000 the share of Europe's total population (including Russia and the European population of Turkey) has more than halved to 12%. On the basis of current trends this will be 7% in 2050. In the meantime, the US will also increasingly experience a radical demographic shift resulting in a growing majority of the population being of non-European origin.

As to Asia, in the course of the last three centuries its share of global population has hardly changed. In 1750 it was 63%, in 1900 its share had dropped to 56%. It is now back up to 60% and is projected to be only slightly below that by 2050.

The demographic picture in Asia is mixed. As the populations of North-East Asia (Japan, Korea and China, Taiwan and Hong Kong) age and hence decline as an overall share of regional and global population, the populations of South-East Asia and especially South Asia will continue to grow. India will overtake China as the world's most populous country soon.

Thus, by sheer weight of numbers, Asia will loom large in the 21st century. But, unlike in the 19th and much of the 20th centuries, when the Asian masses were poor and marginalised, today Asia has by far the greatest share of the rising middle classes, and the economies are growing both quantitatively and qualitatively. Asian economies are globalising in several ways. Their markets are generally open to foreign trade and investment, while increasingly Asian economies and businesses are movers and shakers in trade and investment in all the world's markets.

These are the facts. The question now is: what do we do and how can we try to fashion the future?

What I believe is important for an audience in one of Europe's most vibrant and important economic centres, Frankfurt, to consider is a mutually prosperous future between Asia and Europe based on partnership. In fact, the complementarities are very significant; hence the potential synergies between European and Asian economies are considerable.

Bearing in mind the demographics I mentioned, an aging Europe will depend more and more on Asia for its continuously growing markets as well as labour for production and skills. As you well know, for some time already Germany has been seeking to recruit qualified people in areas where there is a deficiency in Germany, such as software engineers. It is estimated that over the course of the next couple of decades there will be an extra billion persons who will join the middle class, some 90% of which will be in Asia. This is a tremendous market opportunity and one from which everyone can benefit.

So how do we make sure these potential synergies are realised?

Asia and Europe are two sides of the same vast continent from which many great civilisations emerged. This is a continent with a very rich commercial history which stands to enjoy a very prosperous present and future. To that end, we should make efforts to integrate the two ends of the continent in as mutually beneficial manner as possible.

We should be seeing far greater collaboration in respect to current multilateral institutions, notably the World Trade Organisation. Greater and more open trade between Asia and Europe will have considerable benefits in many ways, including not only economics and social development, but also security.

And we should collaborate in every way possible to foster economic growth not only in our respective regions, but throughout the world. The more successful countries are economically, with more and more of their citizens engaged as consumers and producers with rising standards of living, the better chances there are for peace. Who could have imagined thirty years ago that Vietnam would become a booming and highly outward-looking centre of the global economy?

Ladies and Gentlemen,

I was honoured to have been appointed on 1 July this year Chairman of the International Chamber of Commerce (ICC). Next year, 2009, will be the 90th anniversary of the founding of the ICC. It was founded immediately after World War I with the motto: “world peace through world trade”. For the following few decades, it cannot be said that the world lived up to that dream.

But I think there can be no doubt at all that a great deal of the peace that has prevailed in the course of the second half of the 20th century was due to trade, the rapid growth of trade, the lowering of barriers to trade, and the rules-based multilateral institutional system that was established in the aftermath of World War II.

As a Hong Kong Chinese, I can confirm the enormous impact that trade has had on generating prosperity and peace in the Asia Pacific. And I take pride in the fact that Hong Kong can be considered to have been – and indeed continues to be – an important actor in this process. Hong Kong is a remarkable rags-to-riches story, with the narrative being written in terms of trade.

I also know that this view will resonate strongly in Frankfurt, which has been a paragon of trade for almost nine centuries. I am told that the original *Frankfurter*

Messe, the Frankfurt Trade Fair, dates back to as far as 1150! We must ensure today that there will be great cause to celebrate its millennium in the middle of the 22nd century!

So, Europe has to adjust to the new global realities, in which Asia features prominently; but Asia too must recognise how much value there will be in developing strong prosperity enhancing business partnerships. In pursuing our mission of world peace through world trade, however, we must not neglect the policy domain. The current global trade policy environment is not as good as it should be.

The WTO negotiations process on the Doha Round has been stagnating for some years, with the latest twist being the failure of the July negotiations in Geneva. If the multilateral trading system were to be de-railed now, at a time when there are huge new players in the global economic arena, the consequences could be quite negative. For world peace to be achieved through world trade we must continue to strengthen a fair and rules-base multilateral trading system.

Let me conclude therefore by saying that the rise of the Asia Pacific economies is a very good thing for the global economy, for Asia, for Europe and indeed for Frankfurt! If we get things right, there is no reason why the 21st century should not be a century of great prosperity, justice and peace.

But we cannot expect this scenario to be realised on auto-pilot. Business leadership is required. This is what I see as the greatest priority in exercising my role as Chairman of the ICC and for which I need your commitment and help.

Thank you!