

TERMS OF ENRICHMENT

Europe is getting its economics and politics right, and Asia had better pay attention

BY SIN-MING SHAW

WHY SHOULD ASIA CARE about the European Monetary Union? The Asian Development Bank asserts that a Europe with one currency will become stronger and demand more Asian exports. In other words, Europe will develop into a badly needed market in the aftermath of the Asian contagion. That may well be true. But an increased demand for Asian products will show up in the future—not this year or next, when Asian economies need help most. It is also not easy to quantify what that demand may be, as many regions within the EMU will be cost-competitive as well.

There is a more important reason for Asia to pay attention to the EMU: its emergence shows that a large part of the Western world is finally getting both the economics and, with luck, the politics right. The EMUonomics is textbook simple. Increased competition is good, protectionism is bad. Mobility of capital and labor is good, hindrance is bad. Less government intervention is better than big government, and more transparency is better than less. No industry, state-owned or not, will be exempt from the discipline of competition. Bad companies will be allowed to fail. Countries with no technology will be relegated, as is much of Asia, to a role as cheap production base.

Significant social changes will occur. Out-of-work families in Majorca may have to settle in Frankfurt if the money is good. A talented programmer in Sicily will be quickly recruited to work for more pay in Amsterdam. Any member country with unattractive tax rates or incentive-killing welfare programs will find companies downsizing there, upscaling somewhere else where after-tax returns are higher. The ebb and flow of the working population are bound to make Europe more unified, a radical departure from its long history of conflicts.

It is amazing how little attention, not to mention understanding, there is about this momentous event in Asia, where EMU seems just another faraway Western event. That's unfortunate. What is happening in Europe has important lessons for Asia.

First is the need for a nation to confront its past, and come to terms with its own people and with its neighbors. Germany has openly apologized to Israel and to the world for its Nazi past. By doing so, the Germans have established a moral basis for reconciliation, paving the way for the creation of the EMU and potentially a United States of Europe. Much of Asia, by contrast, prefers to hide

behind ambiguities. Japan to this day still finds it impossible to come clean about its role in the last world war, not to mention its steadfast refusal to accept moral responsibility for the Nanjing massacre. Can one fault other Asian nations for remaining mistrustful of Tokyo?

EMU's second great lesson is the need for a country to open up its economy with deliberate speed. In this context, Japan must be the sickest of all the G-7 countries. Its political and economic institutions are remnants of a bygone era, when an elite corps of cadres would run the economy from the hallowed halls of MOF or MITI. Today's Japan is an inefficient, closed-minded, market-unfriendly society without fresh ideas. It is governed by a Liberal Democratic Party that gives precedence to pork-barrel politics over the national interest. What Japan needs is a second Meiji Restoration, this time without the saber, to jolt the country out of its false sense of complacency. But don't hold your breath.

China, too, has failed to face a simple truth. The whole world knows that China has effectively abandoned Marxist principles and that the team of Jiang Zemin and Zhu Rongji is a winner. Yet the leaders do not have the moral fiber to take the next step, ditching China's Marxist Constitution, a step that would allow 1.2 billion Chinese to once again become a free people and fulfill their proven creative and

productive potential. To begin anew, China's ruling party, like Japan's, must account for its past in order to re-establish trust with its people and with its neighbors. These include the Taiwanese, whose hearts and minds China wants so much to win over. Purging communist dogma from China's Constitution would pave the way for reunifying smoothly with Taiwan as well as integrating fully with Hong Kong.

South Korea seems to be saying the right things. Yet the unwieldy, debt-ridden conglomerates that are a parody of the prewar Japanese *zaibatsu* have yet to be broken up to face the rigors of the marketplace. The rest of Asia is still paying mere lip service to globalization. Most Asian stock markets, to take an obvious case in point, still remain half open with most shares divided into foreign and local, limiting the free flow of capital. Thorough diagnosis of the contagion has clearly shown the need for fewer barriers. There will be no such limitations in the new Europe. It appears Asia is at heart afraid of competition, and that fear betrays an inner insecurity as well as a blatant policy to serve vested interests.

The creation of the EMU is a reality check. Compared with Europe, Asia is lacking in vision—and in the economic, scientific and political institutions needed to initiate or to accommodate change. Phrasemakers not long ago talked of the "Pacific Century" to project a mighty Asia rivaling the United States in the next hundred years. The reality is that the West seems far better prepared for the next century. Asia desperately needs to rise above its parochialism. If Asia does not soon come to grips with the reality of how far it is behind the curve and then start doing some serious catching up, the next century will again belong to the West. In history books, the term "Pacific Century" will become a synonym for gross hubris.

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