Rising Protectionism and Inflation Are Key Threats to Asia

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The prevailing global economic slowdown is fuelling the rise of protectionism in Western economies, noted Lord Levene, Chairman, Lloyd's, United Kingdom. In a plenary discussion on global risks at the World Economic Forum on East Asia, he observed that there are worrying signs that politicians in Europe and US are prepared to put in place policies to shield their domestic industries.

"It's complete nonsense. Politicians have completely lost the plot compared with the commercial world. Because where has the development come from? In Asia. It's come from globalization which has been largely developed by the US and Europe working together with countries in this region to build their industries. Now that they see that they are successful, they are saying, 'We don't want you to do that.'"

Levene warned that if politicians pander to their electorate through instituting protectionist measures, it will backfire. "If you go to any Wal-Mart store in the US, about 60% to 80% of everything is made in China. If you cut off all that manufacturing, and say you are going to produce these things domestically, the cost will go up to levels such that the public – which enjoys a high standard of living now – will not be able to buy these things anymore. These politicians are just buying time."

Agreeing with the point was Ralph R. Peterson, Chairman and Chief Executive Officer, CH2M Hill Companies, USA. He said protectionism is an enormous risk and its pursuit will be tragic. He added that a retreat from a liberal trade regime is a grave danger to the world.

Regarding global risks, Rajat M. Nag, Managing Director-General, Asian Development Bank, Manila, said that, in the next few years, Asia faces the three key threats of inflation, inequality and infrastructure deficit. He singled out inflation as Asia's greatest concern and urged governments to rein in fiscal and monetary policies to contain the situation. He also recommended the authorities consider targeted cash support to help the poor, hard hit by escalating prices of food and fuel.

On rising inequality, Nag agreed with moderator Simon Hobbs' observation that the income gap is widening because the rich are getting richer faster than the poor are getting richer. "I think Asia has been a tremendous success story in fighting poverty. In 1990, one in three Asians subsisted on two dollars a day. In 2000, that became one in five."

"But there is rising inequality and there are two faces in Asia. You go to any Asian city such as Mumbai, Jakarta or Manila and you have the two faces side by side. That is a major risk which can sow the seeds of social dissent and discord. There is this tension that is building up which finds its way into the streets."

On the threat of infrastructure deficit, Nag estimated that Asia needs US$ 300 billion a year of investments in infrastructure over the next 10 years. He said this huge demand present tremendous opportunities for governments in the region and the private sector to collaborate to solve the problem.