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Can neoliberal economics sustain the liberal world order?

Malaysia's Deputy Defence Minister thinks the answer is 'No'. China has shown that we need a more interventionist state

The post-WWII world has reached a point where we need a detailed answer to the question, 'Can neoliberal economics sustain the liberal world order?'

For starters, let's consider these important phrases in as simple and effective a manner as we can. 'The Washington Consensus' articulates more or less what we today understand to be the neoliberal economic agenda. In short, this consensus expresses a deep belief in the logic of the market and in the virtues of the minimalistic state.

The 'liberal world order' effectually means the international order built upon United States-led multilateral institutions constructed after World War II. This order is what much of the West in its broadest sense today is attempting to defend against the unilateralism of President Donald Trump and against other challengers to the said order, such as China, Russia, Iran or North Korea.

My answer is the above question is 'No'.

First, we need a more interventionist state if the West is to have proper tools for dealing with her internal contradictions, and with opponents employing a 'whole-of-government' approach.

In recent speeches made at the Hudson Institute and at the Wilson Centre, American Vice President Mike Pence accused China of using the 'proactive and coercive' power of the state in a 'whole-of-government' manner to achieve its political, strategic and economic goals. According to Pence, 'over the past 17 years, China's GDP has grown more than nine-fold... Much of this success was driven by American investment in China,' while President Trump at the same time has claimed that 'we rebuilt China over the last 25 years.'

Pence vividly depicted that 'As each year passed, as each factory closed in the heartland of America, as each new skyscraper went up in Beijing, American workers grew only more disheartened, and China grew only more emboldened.'

The role of the state

What Pence's simple equation does not take into account is that even if China's successes were entirely due to the US factor as Pence claimed, it was not because the US was being generous to China but because the US was discarding the role of the state in the economy while China did not.

For every theft of intellectual property purportedly conducted by China, there are probably hundreds if not thousands of innovations achieved indigenously in the country, driven by a combined 'whole-of-government' effort of industrial policy, state investment in research and development, massive educational effort to produce engineering capacity, and an increasingly richer domestic market to consume the innovations.

In fact, outsourcing of US manufacturing jobs did not start with China at the receiving end. It was an old practice involving numerous countries which just accelerated to an unprecedented scale once China joined the World Trade Organisation in 2001.

In fact, the Belt and Road Initiative is born out of the need to get rid of excess capacity in the construction sector, and is therefore not as much a grand strategic plan to conquer the world as the West assumes.

The flying geese model is more than 60 years old. Japan was the first goose that grew its economy by exporting to the US, and it was followed by the Asian Tigers – Singapore, South Korea, Taiwan and Hong Kong; and subsequently, the Tiger Cubs – Indonesia, Malaysia, Philippines, Thailand and Vietnam.

Between 2002 and the collapse of the US housing market in 2007, while huge numbers of manufacturing jobs shifted to China after it gained WTO membership, the US economy was propped up by Alan Greenspan's cheap credits. The loss of blue-collar manufacturing jobs was glossed over by the fact that many of these workers conveniently became equally well-paid blue-collar construction workers.

Cheap credits also fueled house prices. Homeowners suffered the illusion

that they had become wealthier, but this optimism was not backed by a creation of enough good jobs, nor did wages rise as rapidly. The bubble started to burst in 2007 and the economy has not really recovered from the 2008 Global Financial Crisis.

The disappearance of manufacturing jobs occurred not only in the US but also among the Tigers and the Tiger Cubs. The Asian economies suffered a double-whammy, losing manufacturing jobs to China while also losing the US market as the American middle class shrank.

China's Belt and Road Initiative

In the Asian economic crisis of 1997-98, Asian economies rebounded quite quickly by exporting to the booming US market. Such a scenario will not recur. Shrinking US consumption of imports cannot be replaced by the China market, whose consumers are not in a position yet to consume much from outside. Also, China's own industrial capacity is quite self-reliant. It is not prone to import much, especially when exports to US are no longer as strong.

This means that more and more of China's industrial capacity has had to be consumed domestically. In fact, the Belt and Road Initiative is born out of the need to get rid of excess capacity in the construction sector, and is therefore not as much a grand strategic plan to conquer the world as the West assumes.

China threw in a RMB 4 trillion stimulus package in 2009 to pay for high speed rails and other massive infrastructure in order to sustain jobs in the state-owned enterprises, particularly those in construction and related sectors. By the time President Xi Jinping came into office, the excess capacity in construction was a pressing problem; hence the idea of exporting it through the Belt and Road Initiative.

Be that as it may, the reading of Belt and Road Initiative as primarily a strategic move has led to a flurry of infrastructure initiatives, including Japan's Quality Infrastructure Partnership, which promised an increase of Japanese investment in Asian infrastructure to ¥13.2 trillion (roughly USD 116 billion in current US dollars) between 2016 and 2020, the trilateral MOU signed between Australia, US and Japan as well as Singapore's Infrastructure Asia initiative; all aimed at providing alternative financing schemes to BRI's activities. These initiatives also harp on the fact that receiving Chinese money makes countries susceptible to debt traps and they instead promise investments that will 'promote strong, sustainable and balanced growth and enhance resilience in society'.

Ultimately, all states must meet public expectations in order to fend off political fallouts and security challenges, and provide jobs with respectable wages as well as reliable and affordable public goods.

While competition can be a good thing, one must wonder how China's competitors think they should match China in infrastructure building. First, with their prevailing neoliberal economic framework, the US and Australia states can never mobilise finances to the level that the China state can commit through the Belt and Road Initiative.

Second, many BRI infrastructure projects are the choice of the domestic elite, and these do not necessarily generate sufficient multipliers or meet the actual needs of ordinary people. As we have seen, some of these BRI projects have become the source of societal strife.

Third, almost all of China's giant construction corporations are state-owned, and their successes do not necessarily lead to more innovations or new jobs in the Chinese economy or in the host economies.

Fourth, no competitor to China has excess capacity in construction. Instead of competing on infrastructure, Japan, Australia and United States should look into niche areas, particularly in the field of technology, where jobs with decent pay can be generated and quality of life can be improved.

Trade liberalisation hasn't worked

But we are not talking about a zero-sum game. As uncertainties mount, the integrated nature of the world becomes all the more obvious. All the economies are swirling around in the same storm.

First, the US lost its middle class because the neoliberal minimalist state did not collect sufficient taxes from multinationals and the rich to create new jobs in new areas. The outcome was an angry electorate susceptible to populism.

Second, Europe is in a similar situation. The austerity drive in the past decade merely deepened wounds further, fueling populism to a dangerous level.

Third, Asian economies have not seen much wage growth in the last two decades. The flying geese model is effectively dead, and the competition to lower tax rate to match the island economies of Hong Kong and Singapore – both without hinterland – will have to end.

Fourth, as China's economy slows and changes in its needs, exporters of minerals and raw materials, such as Australia, face new economic challenge.

Fifth, China faces acute pressure to create jobs for each new cohort of school leavers and meet higher expectations of living standards from her citizens.

The electorate of both Asian and Western democracies have woken up to the fact that trade liberalisation has not brought benefits to the wider population, leading to doubts about free trade itself, something quite unthinkable 15 years ago.

Ultimately, all states must meet public expectations in order to fend off political fallouts and security challenges, and provide jobs with respectable wages as well as reliable and affordable public goods. States will have to see economic inclusivity as its primary objective and to be prepared to intervene.

But to come to this conclusion means to rebuke neoliberal economic agenda. That may be harder for some than for others.



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