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A note on the Asian Century –
Follow-up to remarks at the Tasmanian Economic Forum 2012

1. The "Asian Century" – that is, the phenomenon of the historically unprecedented high rates of economic growth achieved in recent decades by China, India and several other Asian countries and the prospect of its continuation in coming decades toward a convergence of per capita incomes with the already developed economies – is, unambiguously, "a good thing". Given the numbers of people enjoying this rise in incomes, it represents perhaps the greatest single gain to date in human welfare. And given the attendant growth in world GDP and in world trade, it presents immense opportunities to the rest of the world, including Australia and Tasmania.

2. It also presents a major challenge to the already developed economies, including Australia and Tasmania.

3. It needs to be understood that, both objectively and in the minds of its principal protagonists, the Asian Century is the restoration, albeit on a higher material plane, of an ancient tri-lateral balance between China, India and the West, dating back more than two millennia – in other words, as the correction of an historically unprecedented imbalance that marked the two centuries from *circa* 1750 to *circa* 1950. The results established by the quantitative economic historians, including especially Paul Bairoch and Angus Maddison, has put the empirical record beyond serious doubt.

4. More specifically, in regard to international trade, the Asian century represents the correction of more than two centuries of a broadly deteriorating trend in the terms of trade for the less developed economies – which continued through the period of basic industrialisation in the Asian economies in the second half of the last century. It thus introduces the prospect of an end to more than two centuries of advantageous terms of trade for the developed economies, of continuous gains in the double-factoral terms of trade, of an hour of Western labour buying increasingly greater hours of Asian labour, as the West continued to "move up the value chain" and capture all available technological rents.

5. Although the result will take several decades to materialise, the direction of movement henceforth will be toward an equalisation of factor prices, where an hour of Western labour buys more or less an hour of Asian labour, and trade between the West and Asia looks more like trade between France and Germany. Technological rents will be there but they will be shared. France might well develop the next generation of high-speed rail systems and Germany the next generation of machine tools but they will exchange these not against Chinese toys and Indian textiles but Chinese-designed electric vehicles and Indian-designed medical diagnostics. And the production of toys and textiles, whoever succeeds in producing these best, will be become as automated and capital-intensive as any other branch of production.

6. In view of this, I submit that the oft-heard mantra that "moving up the value chain" is the key to answering the challenge of the Asian century is seriously misconceived. This describes precisely the strategy of the past and the vanishing present. It is a strategy that makes less and less sense as we move toward a future world of trade between equals, first with Asia and then with the rest of the emerging economies.

7. There is, however, a critically important segment of world trade which constitutes an exception to the trend toward equalisation described above, and one in which Australia (including Tasmania) has a critically important stake: resources.

8. The industrialisation of Asia and other emerging economies, the urbanisation of the world's population, the new cities now being built in China and the ones still to be built – all this results in in rising demand for certain resources, including oil and gas, iron ore and coal. Since easily accessible high-quality stocks of these resources happen to be geographically concentrated, there are large economic rents available to the "lucky countries" that happen to own these stocks in quantities enabling them to assume monopoly positions as net exporters – pre-eminently, Saudi Arabia in oil, Russia and Norway and increasingly Australia in gas, Australia and Brazil in iron ore, Australia in coal. And since it takes considerable effort and cost for the consumer countries to diversify their sources of supply or to develop technical substitutes, rents are likely to be available for a considerable period of time.

9. This does not mean that the experience of the last decade – with iron ore prices rising ten-fold from $US20 to $US200 per tonne – will be repeated. 2012 has seen prices fall sharply to a range on either side of US$100 per tonne, partly as a result of policy measures on the part of Chinese authorities to cool the economy but also partly as a result of a deliberate Chinese strategy to develop alternative sources of supply in Africa and reduce the monopoly power of Australia and Brazil. Nonetheless, China and a succession of emerging economies will continue to build new plants, new cities, new housing and infrastructure in the coming decades. Hence, the demand for iron ore and other resources will continue to grow, prices will remain elevated, well above the cost of production, and rents will remain available – even if the period of ever-increasing prices and rents has come to an end.

10. It follows that whereas Australia cannot stake any obvious claim to being a rare, let alone uniquely, "clever country" moving up the value chain – in a world that is increasingly full of clever countries, all moving up the value chain, a world in which being clever becomes increasingly an obligation on all, not a source of advantage for some – there is good reason to suppose that Australia can maintain its status as a rare, and in some respects uniquely, "lucky country", singularly well placed to supply the needs of the Asian century and to collect economic rents *to boot*.

11. More generally, with or without rents, the success of export industries in this new century will depend increasingly on the comparative advantage offered by geography, in its broadest sense, by the use that human intelligence makes of it, and by innovations drawn from an expanding world-wide pool of knowledge – rather than the historically inherited hierarchies that are now in the process of being corrected.

12. For Australia, including Tasmania, this suggests first and foremost the need to maintain our specialisation in resources, in agriculture and in aquaculture – and in technologies and services related to these primary industries. It also suggests the case for specialising in those knowledge-based activities where geography also offers us a comparative advantage – I have cited both astrophysics and Antarctic science as obvious examples for Tasmania – and in clusters of industries built around these. And it suggests the need to use knowledge, however sourced, to drive productivity gains in export industries, in import-competing industries and across the economy as a whole. But to conclude from any of this that the primary industries of resources, agriculture and aquaculture will give way to manufacturing and services as the principal source of export income for Australia and for Tasmania would be a serious misreading of the meaning of the Asian century.