

Asia's Crisis of Leadership

By William Pesek - Oct 7, 2013

The day Asian leaders have long dreaded is here: The era of rapid growth is over.

It has taken five years, but the fallout from what Asians call the “Lehman shock” is finally hitting gross domestic product and living standards. These risks are the talk of Bali, where Asia-Pacific Economic Cooperation nations are mulling what to do about a world where “risks remain tilted to the downside.” There, Michael Taylor, chief credit officer for Asia at Moody's Investors Service, said chaotic markets and a slow recovery in advanced nations is driving a “change in the economic cycle” that makes sustaining growth in the region “more challenging.”

But a messy international scene isn't the biggest problem facing Asia. The problem is weak leadership in a region that desperately needs bold and visionary solutions to a fast-growing list of challenges.

Asia failed to use 5 percent, 7 percent or even 10 percent growth rates to recalibrate economies away from a hyperdependence on exports and toward domestic-demand-led growth. After Asia's meltdown in 1997, policy makers strengthened financial systems, built more transparent and international business environments, and attacked cronyism. Then, at the first sight of recovery, reform efforts were shelved. Until recently, Asian leaders even thought they had decoupled from the West as U.S. and European recessions failed to damp local growth rates.

Coming Storm

The costs of that complacency are now rising: The Asian Development Bank estimates 2013 growth will be the slowest in four years, at best. As Asia's export machine sputters and markets brace for an end to the Federal Reserve's stimulus, governments need to act nimbly and creatively to protect growth. They also must prepare for the next financial storm (a default in the U.S., perhaps?). Yet considering the state of Asian leadership, it's hard not to be gloomy about the region's chances. Here's a quick rundown.

INDONESIA: For all his success in bringing stability to a nation that 15 years ago seemed destined for failed statehood, President Susilo Bambang Yudhoyono looks like a spent force. His team needs to act forcefully to erase a current-account deficit that's turning off investors and has pushed the rupiah down 14 percent this year. Yudhoyono should be intensifying his anti-corruption drive, accelerating infrastructure-project plans, and restraining the nationalistic vibe that now permeates the resource sector. Most important, he needs to institutionalize the reforms that reduced poverty ahead of next year's election, which term limits preclude him from contesting.

INDIA: There was a certain irony to Manmohan Singh visiting the White House last week as the U.S. government was shutting down: The Indian prime minister's own

government stopped working some time ago. His team faces the possibility of a full-blown debt crisis and the prospect of becoming the first BRIC -- Brazil, Russia, India and China -- nation downgraded to junk. When Congress Party heir Rahul Gandhi's criticism of something as obvious as letting criminals serve in Parliament passes for bold leadership, you know India's economy is in trouble.

MALAYSIA: Hopes that Prime Minister Najib Razak would scrap 42-year-old race-based policies that favor ethnic Malays and irk foreign investors were all for naught. Instead, Najib is doubling down on economic apartheid, expanding perks at the expense of Chinese and Indian minorities. Rating companies are calling Malaysia out for its rising debt, generous subsidies and a lack of budgetary reform. It's not clear Najib can stop a public backlash from derailing Malaysia's entry into a Trans-Pacific Partnership, which would make the economy more vibrant.

THAILAND: Prime Minister Yingluck Shinawatra is also failing the subsidies test, displaying a lack of political will to stand up to rice and rubber farmers and to gasoline consumers. She's been too distracted with tweaking the constitution to implement a \$64 billion infrastructure plan to boost growth. After two years in office, Yingluck must work harder to put to rest speculation she's a mere placeholder for her fugitive brother, former Prime Minister Thaksin Shinawatra.

Leadership Deficits

And then there are the smaller, less globalized nations. Vietnam's leaders, for example, are making little headway reducing the role of state-owned enterprises, which are holding back the economic opening many seek. Cambodia's recent election raised so many charges of fraud that it's hard to envision Prime Minister Hun Sen having any spare time to modernize his financial system. Ethnic conflicts and worries about a restive military reasserting itself are darkening Myanmar's coming-out party.

Even Asia's bright spots face worrisome leadership deficits. China's new bosses are too preoccupied with consolidating power to restructure their rickety economy and limit fresh debt bubbles. In Japan, Shinzo Abe's pledges to deregulate the economy are running afoul of his own party. In South Korea, Park Geun Hye is watering down plans to craft a "creative economy" for fear of alienating the country's giant, oxygen-sucking conglomerates. In the Philippines, Benigno Aquino has gotten high marks on the economy but low ones for his handling of a separatist movement that is costing his economy investment and tourism dollars.

Asia avoided the worst of recent crises, but its luck may be running out. Unless the region's leaders are harboring some latent plan to rise to the occasion, Asia's next five years could be quite turbulent indeed.