

# SOCIAL MARKET ECONOMY GOING GLOBAL?

## Toward an Asia-Europe partnership in global economic governance

The diversity of economic governance systems in the Asia-Pacific region is huge, ranging from the highly developed, market-based economies with well-functioning social welfare systems like Australia and New Zealand to the hybrid socialist-capitalist systems of China and Vietnam, which flexibly combine elements of planned and market economies. At the same time, a wide range of rigid structures can be identified throughout all different economic systems of Asia both on macro and on microeconomic level. Governments, but also societies consider them as major obstacles towards further development.

Urgent issues such as energy security, climate change mitigation and long-term demographic changes are exacerbating the situation. The search for basic principles of regulatory reforms is, therefore, taking place in Asia more than ever before. These days, not only a balance between economic efficiency and social balance must be found; sustainable development is now an indispensable *third* factor in this “development equation”.

The rise of Asian economies is breathtaking, following the earlier examples of East Asian states like Japan or South Korea after World War II. With China becoming the new economic and political superpower, Western political and economic systems are massively challenged. The Chinese siren song of efficient decision-making and mass prosperity under an authoritarian rule catches a good part of the political elites of Asia (and beyond).

But for entrepreneurs, this economic model might be quite ambivalent. While the importance of small and medium-sized enterprises is much acclaimed in political statements, there are blatant distortions when it comes to market access and fair competition in reality. State-run monopolistic structures and “rent economies” (*rent seeking*), arbitrary interventions in market processes and a lack of rule of law inhibit, in particular in the developing countries, dynamic economic and social development. It is small and medium-sized enterprises, as well as consumers, which suffer most from this situation.

The negative effects of these distortions gain a new dimension and urgency in times of a more sustainable use of natural and social resources. And this is the reason, why Konrad-Adenauer-Stiftung established a new regional project “Energy Security and Climate Change” in the Asia-Pacific region: to stimulate discourses and find answers to challenges of sustainable development, considering the principles and experiences of the European model of a social market economy.

Current market orders, in particular, price signals do not reflect the “utilization” of natural resources in an adequate manner. In the rapidly growing economies of South and Southeast Asia, a development model à la Chinoise or that of the past industrialisation in the North Atlantic region can hardly serve as a blueprint for their own economic reform agenda. Against this background, there is a large “marketplace” for a new regulatory dialogue between Europe and Asia. At the same time, there is a tremendous opportunity for entrepreneurial and social creativity in the course of the urgently needed “great transformation” towards sustainable development.

In the past few years, discussions and global negotiations on climate change in the few years have clearly shown that state-controlled top-down regulatory approaches *within* national boundaries are insufficient. In line with the *ordoliberal* principle of subsidiarity, a large number of non-state actors now

massively influence the structures and processes of global and regional regimes – not just in the fight against climate change.

So where can dialogue with Asia on new economic governance structures start? What can we learn from the insights of the founding fathers of the German/European social market economy? It is obvious that returning to national and interventionist solutions would lead to massive loss of prosperity in Asia. This danger is not averted because Asia has a long-standing tradition of governmental rule and intervention. Even among democratic nations of Asia, for example in South Korea and Japan, we found powerful corporatist and oligopolistic structures. The ruling elites are still practising "selective and discriminatory" policies in their own interests. Closing borders would only worsen the situation by excluding competition. At the same time, there is growing awareness that further market integration (e.g. in ASEAN) and a stronger regulatory regime will create not only prosperity opportunities for all but also increase the political legitimacy of the regimes.

For Germany and Europe as "normative" powers there are promising "entry points" for global and regional "governance diplomacy". The opening up and integration of markets both regionally and globally remains a primary foreign policy and external economic objective of the European Union. The internal reform of the Union has to be enforced, as well as efforts in external relations, such as trade agreements with Asia as the world's largest market. Both fields of actions are closely intertwined and should be directed towards the enforcement of global regulatory principles.

These initiatives go well beyond purely economic considerations and are of utmost importance for Germany and Europe, as an autocratic and populist rollback in many parts of Asia meets similar tendencies in the North Atlantic world. Yet, Europe is still seen as an important normative power in the eyes of many Asians.

Expectations towards the European Union – and towards Germany as the leading continental power – to invest in regional and global governance structures as "global goods" are high: in the regulation of global financial markets as well as in climate protection, to name just two important fields of action. And the demand for tailor-made solutions for new economic and social policies is greater than ever in the Asia-Pacific region.

Germany, in particular, enjoys an excellent reputation in the Asia Pacific region: having great competence in providing solutions and playing the role of a "fair broker", i.e. in the management of complex transformation processes, such as the "Energie-wende" (energy transformation).

With its 22 countries and regional programs in the Asia-Pacific region, the Konrad-Adenauer-Stiftung has a broad network and extensive competencies in both the regional development and different topics. The foundation has always been a partner in modernization processes and stands on a firm ethical and regulatory fundament, based on the principles of a social market economy and democracy.

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