



*Today, in Asia,
we have passed
a very important
point in human
progress – or
lack of progress
if you prefer to
call it that.*

*Today in Asia
there are more
people with
access to mobile
phones than
toilets.*

Introduction

Ladies and gentlemen, I would like to ask you a question: how many of you have got a mobile phone? All of you. At breakfast, I saw that some of you had two. Anyone not have a mobile phone so that you can stand up and we can applaud your individualism? ... There is no one.

Today, in Asia, we have passed a very important point in human progress – or lack of progress if you prefer to call it that. I am sure that you all have access to a toilet. Today in Asia there are more people with access to mobile phones than toilets. How did this piece of extremely sophisticated technology, consisting of hydrocarbons, rare earths, metals, etc., become free? How did the mobile phone become free while the toilet became a luxury item?

First, it is because modern economic models tend to underprice everything. I live in a bubble called Hong Kong, where most of us think that this economic model is the norm. I can get a mobile phone for free in Hong Kong, all I need to do is tie my bank balance for two years to a service provider and then it is free of charge. But as you all know, it involves hydrocarbons, compressed energy; it is immensely intensive in all respects – but monetarily, free. In this respect, current economic orthodoxy underprices everything.

Second, I am told that tap water in Berlin is drinkable, yet I'm given a bottle of mineral water at this conference. I have been told that to solve the problems of providing water to the poor, it will cost around \$30 billion. Alternatively, I'm told that the mineral water industry is worth \$100 billion. If I was in charge, this industry would be put out of business, but unfortunately I'm not.

Just before you all start thinking that I'm some rabid socialist from a depressed part of Asia with a chip on his shoulder, let me remind you that I live in Hong Kong. I like money and everything that goes with it; you can't not like money in a place like Hong Kong. I am a water engineer who used to conduct research into reverse osmosis; I'm not a social engineer. I remember my first design project on reverse osmosis for a very reputable UK firm. I've been involved in designing water and wastewater treatment works for a long time. In other words, I am a realist.

Water, as you know, is the most precious element on this earth. A very simple molecule – it consists of just two hydrogen atoms and one oxygen atom. But as many of you know, 90% of the water on our planet is salty, 2% is trapped in ice and snow, and just 1% is available for us human beings, who have gone about recklessly abusing it. So if you're all going to be kind to yourselves, you can see yourselves as guardians of the 1%.

I'm also told that we have the same amount of water in the world today as we had during the time that the dinosaurs went extinct, so please, guardians, do your jobs properly. However I suspect that some of you are more interested in selling equipment than in taking care of water, and not all the equipment your companies sell is necessarily serving the purpose of providing water, or serving the needs of those who need water the most.

Intellectual dishonesty

As we have abused water resources, we have also found solace in conferences like this. We all come here and think we have solutions. We all love the idea that we will have a technological explanation for every possible problem. There will be a genius in Silicon Valley who will come up with the answers. Then there will be the financial institutions, who will find an innovative way to finance everything and above all, there will be free markets to solve our financial problems. I don't know if any of you have noticed, but there are some people outside who don't believe this fairytale and who are a bit angry (the anti-privatisation demonstrators). You shouldn't see them as the enemy; they may actually be on the right side.

I would argue that the biggest problem we face, as big as any of the global problems that have already been outlined, is the issue of intellectual dishonesty. I go to many conferences where everyone talks about greening. The spin doctors who have created the term "greening" for everything are the same people who, if they existed around the time of slavery, would have called it "guest labour", or "migrant work".

We have adopted a language that allows us to spin everything and anything. Intellectual dishonesty, both in business and in politics, and in the realm of solving the crisis of

The challenge of Asia's economic rise



Chandran Nair

Chandran Nair is the Founder and CEO of The Global Institute For Tomorrow (GIFT) - an independent social venture think tank based in Asia.

Mr Nair was Chairman of ERM in the Asia Pacific until March 2004. He established the company as Asia's leader in environmental consulting, developing it from one small office of 10 people in Hong Kong in 1991 to a strength of 500 in 12 countries when he left in 2004. Clients included many Fortune 500 companies, multilateral agencies and governments. During his leadership the business in Asia remained consistently profitable, producing some of the best

results within ERM's international network. For more than a decade, Mr Nair has strongly advocated a more sustainable approach to development in Asia, and has helped governments and corporations instil these principles into their key decision-making process. Corporations seek his advice on how to meet the challenges of doing business in Asia and of globalisation, on investment geo-politics, leadership development, ethics, sustainability, and corporate social responsibility. His first book, entitled "Consumptionomics: Asia's Role in Reshaping Capitalism and Saving the Planet", was published in December 2010.

Mr Nair is also the Chairman of Avantage Ventures, an Asian based boutique investment advisory company in the field of high impact social investing that was established in 2010. He is a visiting scholar at the Hong Kong University of Science and Technology's School of Business, running a course, "Leading in Asia for the Future", as part of the HKUST MBA programme. He has been an adviser to the Prince of Wales International Business Leaders Forum, the World Wildlife Fund in Asia, and to the Jane Goodall Institute. He is a fellow of the Hong Kong Institute of Directors, and a Fellow of the Royal Society of Arts.



humanity's impact on the world, has become commonplace. Quite often, I feel rather lonely when I say these things; but then I get quite a few emails when I go home. No one wants to support you publicly saying that sort of thing; it's too dangerous a game for most to play.

Climate and consumption

The climate issue which we have been addressing is a good launching-pad for me to talk about Asia, and suggest why the theory of consumption-led growth is something that we in Asia must absolutely reject.

Why? I remember in 1989 when Asians were told that we just didn't understand how to run banks and other financial institutions, and that we should let Western banks tell us how to structure our economies and that the Western institutions would get it correct.

If you look back at the financial crisis, what happened? In 2007/2008, we found out that our teachers, the Western banks, had been wrong all along, and so the world's leading economists and experts said to the Asians, "Please consume, so that we can rebalance the sacred statistics, the financial rebalancing that takes place in the world" – really quite separate from the real world inhabited by most human beings. I would argue that 99% of humanity has no understanding of the financial industry, or what it does, or how it operates. But we were nonetheless told in Asia: "please consume".

About six months later, the Copenhagen climate conference was held. All of the world leaders assembled and said: "This is the most important challenge humanity faces, please let's all do something"; and we all know what happened. Everyone blamed the Chinese. It's very easy to blame the Chinese because they're an "oppressive regime". You can get that onto the front pages of the free press. So everyone hurled blame and we all know what happened – absolute disaster.

What most intrigued me was that no one pointed out the fact that over the course of the financial crisis, all leading economists urged Asia to consume. Yet there was an inherent contradiction there, in that if we consume more, what will happen? Game over for the human race.

Consumption in Asia

Let me give you a couple of examples. Today, China is the world's largest market for cars. OECD countries have car ownership levels of about 750 per 1,000 people. In China, it's about 150 per 1,000 people. In India, it is only about 30 or 35 per 1,000 people – Indians haven't even started driving. The only good thing for India is that the roads are so bad, that perhaps car numbers will never increase. I think this must be a hidden strategy by the Indian government to make sure they do not add to the number of cars in the world because we need more cars in Asia like I need a hole in my head. Most Asian cities have been absolutely devastated with too many people – it is simply unimaginable – except perhaps for a few places such as Singapore.

My point is that we in Asia simply cannot follow the Western model. We will need to do things very, very differently. Let me give you another example – fisheries. When people get wealthier in Asia, what do they do? They eat further up the food chain, and when they eat further up the food chain, they start eating fish. The good thing about the Indian food chain is they all eat dhal, and I hope Indians stay that way; not get caught by the water intensive meat fetish which is being promoted everywhere else.

But if 500 million Chinese people start to eat fish, not twice, not three times, but just once a week, our oceans will be empty. There will be no fiscal stimulus that can solve that problem. There are no market instruments that would be able to replace our devastated fish stocks. There is no technology that can save us. The only thing that will save us is if the Chinese Government gets tough.

I know that there are various Chinese government officials here, some of whom perhaps might disagree with me on this point. I hope most of you will agree that China should intervene. A couple of months ago, for example, the Chinese Government intervened in car ownership in Beijing. When I've talked about this in the past, most people said "you must be joking". When I go to the U.S., I say you might want to consider the one car family – a slight play on the one child policy. They look at me as if I must be trying to interfere in American internal affairs in some way, and they ask me

The challenge of Asia's economic rise

incredulous questions. All across Asia, we will need to mess with your car; but the technology we will need in order to do without cars is where innovation comes in.

Pricing resources

I could go on, but I would first like to ask today's audience a question.

Question for the audience:

The Big Mac burger is currently sold at about \$4 around the world; what do you think it should cost, taking all externalities into account, from the water needed to the carbon footprint?

- No more
- \$5
- \$10
- \$50
- More than \$100

Apparently 40.6% of those here think it should be around \$10, and that shows us how broken the current economic model is.

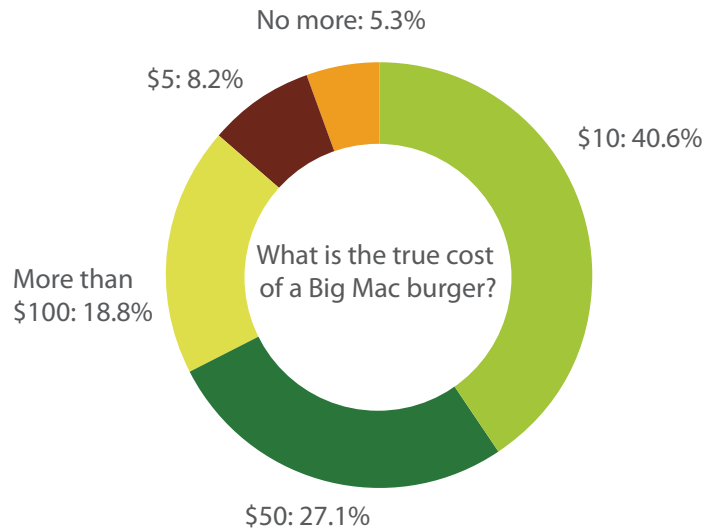
Some economists have done some work on this, but not many are funded because no one wants the right answer. The true price of a Big Mac burger, taking externalities into account, would be over \$200.

Everything we buy is underpriced—like my phone—because the true price would factor in water, land, the carbon footprint, and so on. Now you could argue McDonald's could be a very wealthy company, or it could go bust, depending on how regulators begin to intervene.

So in Asia, we face a conundrum. If three billion Asians today start consuming as you do in the West, there are simply not enough resources to satisfy demand. How is that related to water? Because consumption will be driven by fossil fuels, which in turn, as you all know, will affect the pace of climate change. We have to stop, but the problem is it's very difficult for Westerners to tell Asians to stop.

In the West, the problem is one of maintaining existing levels of consumption, because it's very difficult to take away from people what they already have. Thus we have the automatic Western response which is to revert to economic instruments; economic instruments

Audience response: What should the true cost of a Big Mac burger be?



Source: GWI

which, as I have shown, will not work. Therefore, my argument is that the only way forward for Asia is restraint, and we need to move beyond talking about greening and start talking about constraining. But no one wants to go to a conference called "constraining". Everyone wants to go to a conference called "greening", and it's even better when you add "making money" to "greening". Then we are being presented with a win-win situation.

I would argue the opposite: the only way that we can have the word innovation actually meaning something going forward is through constraint.

This is the big lie that most of Asia will need to brutally confront. Today, we've all heard about food supply shortages and so on. I don't have enough space to connect all the dots but you can work most of them out for yourselves and see why food prices are what they are.

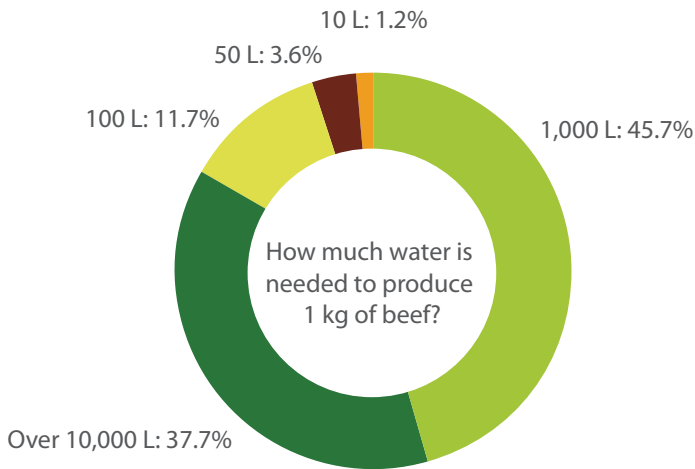
The bottom line is that a small proportion of the world's population consumes too much, far too much meat, far too much underpriced water, and has a system of liberal governance that has proved to be totally inept at trying to price resources in the right way; and it's not just true of water. This problem runs right through the

In Asia, we face a conundrum.

If three billion Asians today start consuming as you do in the West, there are simply not enough resources to satisfy demand.



Audience response: How many litres of water are required to produce 1kg of beef?



Source: GWI

My argument is that the only way forward for Asia is restraint, and we need to move beyond talking about greening and start talking about constraining.

entire western economic model.

I wonder, for example, how many members of this audience have given any thought to how much water is required to produce the meat that they eat.

Question for the audience:

How many litres of water do you think are required to produce 1kg of beef?

- 10 litres
- 50 litres
- 100 litres
- 1,000 litres
- Over 10,000 litres

I see that the majority here think it's about 1,000 litres and 37% think it's over 10,000 litres. It actually takes about 15,000 litres of water to produce 1kg of beef. So why is my burger so cheap?

Constraint and restraint

This is fundamentally the problem. Now, if the Chinese and Indians, or even just the Chinese, start eating more meat it would be devastating for the planet. But who are we to tell the Chinese what they can and can't eat?

We can start pricing meat properly by starting to price carbon, water, the rainforest and all factors of production. I have no doubt that governments will need to intervene. And when it comes to fisheries, in particular, I don't see any reason why a government like Hong Kong can't intervene and say we will stop the consumption of tuna. Most of you will know that Blue Fin Tuna is already an endangered species in the South Pacific. Worldwide, fish populations are going down.

So my point is this: the problems facing the world today will not be solved by technological solutions. Coming from a technical background, I clearly understand the role of technology, but we have vastly exaggerated the transformative abilities of technology, finance and free markets with the suggestion that we will all feel nice and happy at conferences like this by thinking that we are part of the solution. Part of the solution is very much about constraint and restraint. The only way to impose such restraints is through strong governments.

The challenge of Asia's economic rise

Conclusion

I will end with three points. I think the governments of Asia will need to do three very important things. The first one is to recognise that resources are constrained, and because resources are constrained, be it water or something else, we will need to make sure that economic activity is subservient to the preservation of the vitality of natural resources. That is a pragmatic necessity.

Secondly, and very importantly, resource use must be equitable for both current and future generations. That's too easily said, but at its core is the belief that collective welfare must take precedent over individual rights. This does not sit comfortably in many Western liberal democracies: the west cannot stand the fact that collective welfare is more important than you, the individual.

Lastly, in terms of economic restructuring, we need to completely change the definition of productivity. In terms of the classical Western definition, I'm always amused that economists today keep referring to Adam Smith, the famous Scottish economist. He lived in a time where there were less than 500 million people in the world. We live in completely different times. It's symptomatic of the "dismal science" that economics has not progressed over the course of the last 250 years.

But we have to measure productivity differently. It should be measured by resources rather than people. What do I mean by that? Typically, productivity is measured by how few people you can use to take advantage of as many resources as possible. For example, how can you replace a person with a machine? And how can you consume as many resources as possible?

In Asia, we have a completely different problem. Economists conceived of productivity when they went to North America. There was a vast continent, containing very few people. They said, "we need to populate this place, how do we do it? Let's bring machines in and let's use up as many resources as possible".

We live in a different time and a different place. We now have far too many people. We need to conceive of productivity measures that use as many people as possible, and as few resources as possible. I call this concept patient work.

Then we will measure things differently, and we may have a chance of rebalancing everything that we're discussing today in terms of how we use water, how we value natural systems; and then how businesses might fit into that equation. What is good for business, and I come from a business background, is not necessarily always good for the planet. This is a very important thing for us to understand.

So I conclude by asking you to remember two things. Today in Asia we have more mobile phones than toilets. I go to remote parts of Asia where I see people with no toilets, people with no education, but they have got a mobile phone. It is a very sobering thought.

Secondly, a recent WWF report states that over the next 40 years we will need to produce more food than was produced over the last 8,000 years. Now if that seems farfetched, then why don't we assume that WWF have got it wrong by a factor of ten? That would still mean that over the next 40 years, we will need to produce more food than was produced over the last 800 years. Now just think about that.

We need to conceive of productivity measures that use as many people as possible, and as few resources as possible.

