

ASIA IN THE WORLD ECONOMY: THREE POLICY CHALLENGES

Razeen Sally

Gamani Corea Foundation Lecture

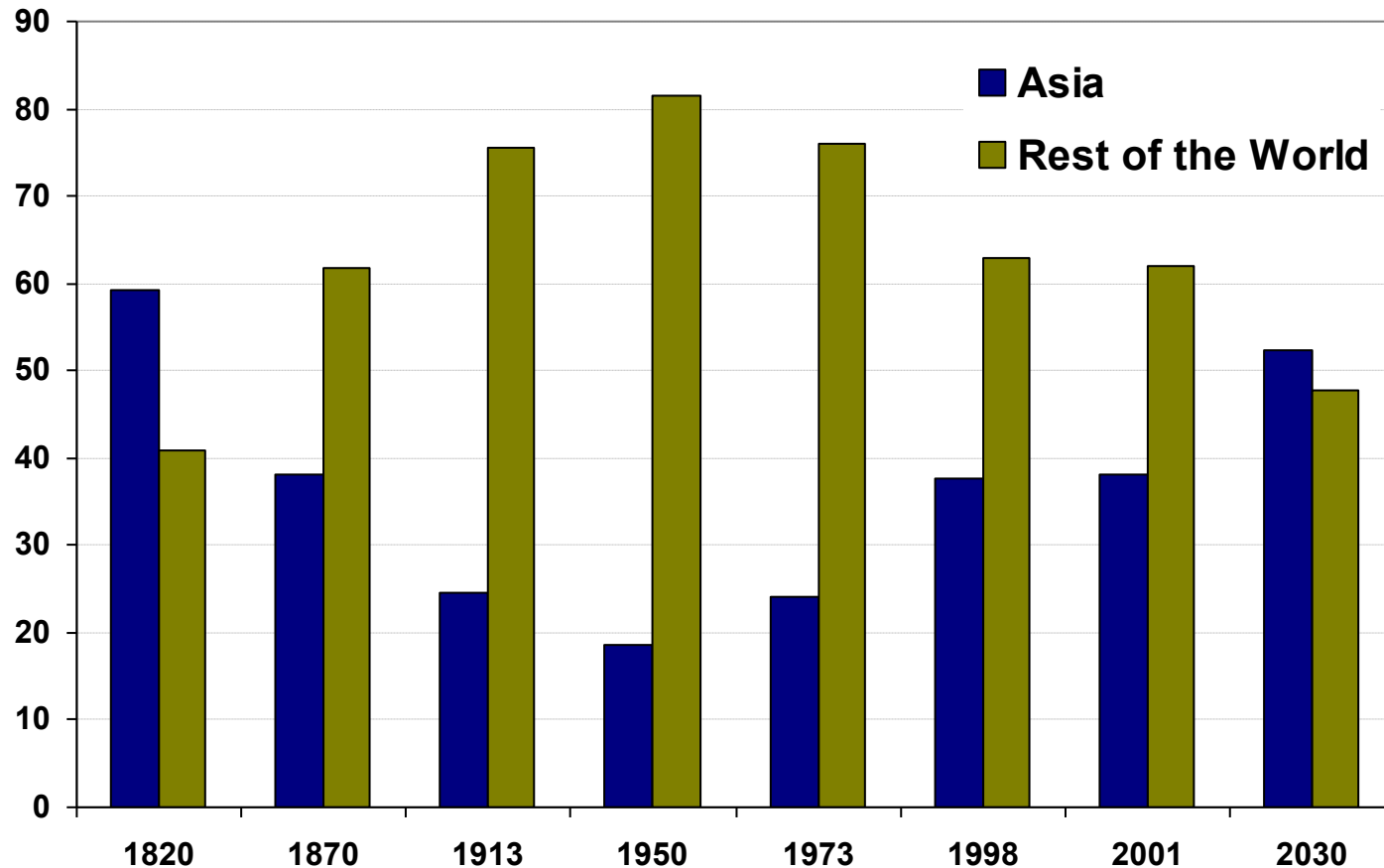
Colombo, 27th September 2112

ASIA IN THE WORLD ECONOMY

- Setting the scene
 - Shift to the East, accelerated by the GFC
 - Expansion of economic freedom the essential Asian political-economic story, but still repressed

Share of Global GDP for Asia and ROW

Share of Global GDP per World Region



(Million 1990 international \$) Source: Maddison and OECD

Share of Global GDP for parts of Asia

Share of Global GDP per World Region

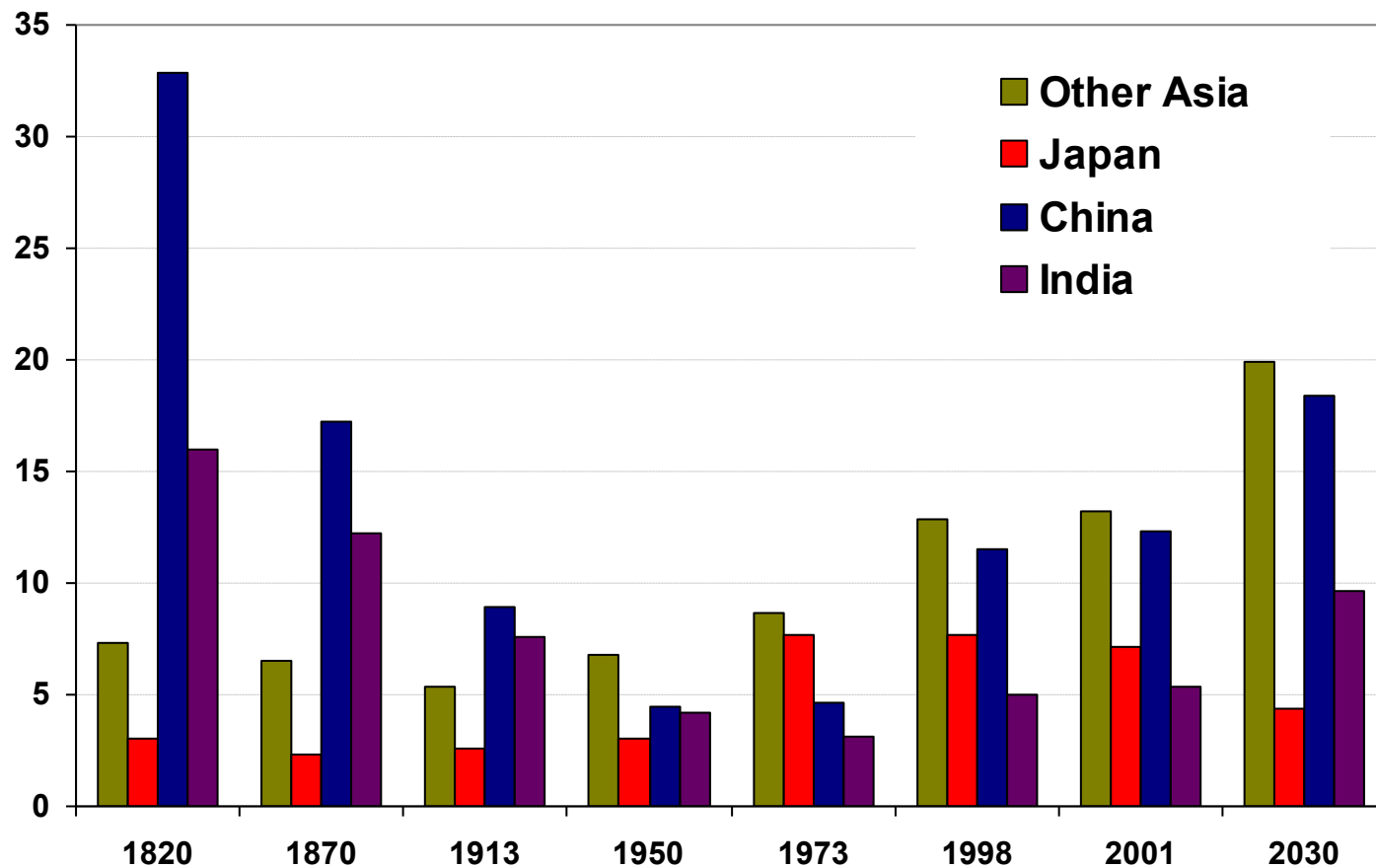


Table 5 China in the world economy, 1300–2030 AD

Year	China	Japan	India	Western Europe Population (million)	USA	World	China/World Ratio
1300	100.0	10.5	88.0	58.4	1.7	360.0	0.28
1500	103.0	15.4	110.0	57.3	2.0	438.4	0.23
1820	381.0	31.0	209.0	133.0	10.0	1,041.8	0.37
1913	437.1	51.7	303.7	261.0	97.6	1,791.1	0.24
1950	546.8	83.8	359.0	304.9	152.3	2,524.3	0.22
1973	881.9	108.7	580.0	358.8	211.9	3,916.5	0.23
2003	1,288.4	127.2	1,049.7	394.6	290.3	6,278.6	0.21
2030	1,458.0	121.0	1,421.0	400.0	364.0	8,175.0	0.18
Per Capita GDP (1990 international \$)							
1300	600	475	500	593	400	530	1.13
1500	600	500	550	771	400	566	1.06
1820	600	669	533	1,204	1,257	667	0.90
1913	552	1,387	673	3,458	5,301	1,526	0.36
1950	439	1,921	619	4,579	9,561	2,111	0.21
1973	839	11,434	852	11,416	16,689	4,091	0.21
2003	4,392	21,218	2,160	19,912	29,037	6,432	0.68
2030	14,416	27,758	6,227	30,566	44,574	11,207	1.29
GDP (billion, 1990 international \$)							
1300	60.0	5.0	44.0	34.6	0.7	190.0	0.32
1500	61.8	7.7	60.5	44.2	0.8	248.3	0.25
1820	228.6	20.7	111.4	160.1	12.5	694.6	0.33
1913	241.3	71.7	204.2	902.3	517.4	2,733.3	0.09
1950	239.9	161.0	222.2	1,396.2	1,455.9	5,331.6	0.05
1973	740.0	1,242.9	494.8	4,096.5	3,536.6	16,023.8	0.05
2003	5,659.2	2,699.0	2,267.1	7,857.4	8,430.8	40,384.6	0.14
2030	21,019.0	3,229.0	8,848.0	12,217.0	16,217.0	91,623.0	0.23

Table 1. Overview of the *World Economic Outlook* Projections
(Percent change unless noted otherwise)

	Year over Year						Q4 over Q4		
	2010	2011	Projections		Difference from April 2012 WEO Projections		Estimates		Projections
			2012	2013	2012	2013	2011	2012	
World Output 1/	5.3	3.9	3.5	3.9	-0.1	-0.2	3.2	3.4	4.1
Advanced Economies	3.2	1.6	1.4	1.9	0.0	-0.2	1.2	1.4	2.2
United States	3.0	1.7	2.0	2.3	-0.1	-0.1	1.6	1.9	2.5
Euro Area	1.9	1.5	-0.3	0.7	0.0	-0.2	0.7	-0.2	1.2
Germany	3.6	3.1	1.0	1.4	0.4	-0.1	2.0	1.0	1.8
France	1.7	1.7	0.3	0.8	-0.1	-0.2	1.2	0.4	1.1
Italy	1.8	0.4	-1.9	-0.3	0.0	0.0	-0.5	-1.9	0.4
Spain	-0.1	0.7	-1.5	-0.6	0.4	-0.7	0.3	-2.3	0.6
Japan	4.4	-0.7	2.4	1.5	0.4	-0.2	-0.5	1.9	2.2
United Kingdom	2.1	0.7	0.2	1.4	-0.6	-0.6	0.5	0.8	1.2
Canada	3.2	2.4	2.1	2.2	0.1	0.0	2.2	2.1	2.1
Other Advanced Economies 2/	5.8	3.2	2.4	3.4	-0.2	-0.1	2.5	3.2	3.3
Newly Industrialized Asian Economies	8.5	4.0	2.7	4.2	-0.6	0.0	3.0	4.4	3.6
Emerging and Developing Economies 3/	7.5	6.2	5.6	5.9	-0.1	-0.2	5.8	5.9	6.5
Central and Eastern Europe	4.5	5.3	1.9	2.8	0.0	-0.1	3.8	1.5	3.6
Commonwealth of Independent States	4.8	4.9	4.1	4.1	0.0	-0.1	4.4	3.1	4.5
Russia	4.3	4.3	4.0	3.9	0.0	-0.1	4.6	2.7	4.8
Excluding Russia	6.0	6.2	4.5	4.5	-0.1	-0.1	...	...	...
Developing Asia	9.7	7.8	7.1	7.5	-0.3	-0.4	7.2	7.7	7.6
China	10.4	9.2	8.0	8.5	-0.2	-0.3	8.9	8.4	8.4
India	10.8	7.1	6.1	6.5	-0.7	-0.7	6.2	6.4	6.4
ASEAN-5 4/	7.0	4.5	5.4	6.1	0.0	-0.1	2.6	7.5	6.4
Latin America and the Caribbean	6.2	4.5	3.4	4.2	-0.3	0.1	3.6	3.5	5.1
Brazil	7.5	2.7	2.5	4.6	-0.6	0.5	1.4	4.2	4.0
Mexico	5.6	3.9	3.9	3.6	0.3	0.0	3.9	3.4	4.2
Middle East and North Africa	5.0	3.5	5.5	3.7	1.3	0.0	...	...	...
Sub-Saharan Africa	5.3	5.2	5.4	5.3	-0.1	0.0	...	...	...
South Africa	2.9	3.1	2.6	3.3	-0.1	-0.1	2.6	2.8	3.7
<i>Memorandum</i>									
European Union	2.0	1.6	0.0	1.0	0.0	-0.3	0.8	0.1	1.5
World Growth Based on Market Exchange Rates	4.2	2.8	2.7	3.2	0.0	-0.2	2.3	2.5	3.4

World Trade Volume (goods and services)	12.8	5.9	3.8	5.1	-0.3	-0.5	...	...	...
Imports									
Advanced Economies	11.5	4.4	1.9	4.2	0.0	0.1	...	...	...
Emerging and Developing Economies	15.3	8.8	7.8	7.0	-0.6	-1.1	...	...	...
Exports									
Advanced Economies	12.2	5.4	2.3	4.3	0.0	-0.3	...	...	...
Emerging and Developing Economies	14.4	6.6	5.7	6.2	-0.9	-1.0	...	...	...
Commodity Prices (U.S. dollars)									
Oil 5/	27.9	31.6	-2.1	-7.5	-12.4	-3.4	20.8	-7.7	-2.1
Nonfuel (average based on world commodity export weights)	26.3	17.8	-12.0	-4.3	-1.7	-2.2	-6.4	-3.9	-2.5
Consumer Prices									
Advanced Economies	1.5	2.7	2.0	1.6	0.1	-0.1	2.8	1.8	1.7
Emerging and Developing Economies 3/	6.1	7.2	6.3	5.6	0.1	0.0	6.5	5.8	3.9
London Interbank Offered Rate (percent) 6/									
On U.S. Dollar Deposits	0.5	0.5	0.8	0.8	0.0	0.0	...	...	...
On Euro Deposits	0.8	1.4	0.7	0.6	-0.1	-0.2	...	...	...
On Japanese Yen Deposits	0.4	0.3	0.4	0.3	-0.2	0.2	...	...	...

Note: These forecasts incorporate information received through Friday, July 6, 2012. Real effective exchange rates are assumed to remain constant at the levels prevailing during May 7–June 4, 2012. When economies are not listed alphabetically, they are ordered on the basis of economic size. The aggregated quarterly data are seasonally adjusted.

1/The quarterly estimates and projections account for 90 percent of the world purchasing-power-parity weights.

2/Excludes the G7 and euro area countries.

3/The quarterly estimates and projections account for approximately 80 percent of the emerging and developing economies.

4/Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

5/Simple average of prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was \$104.01 in 2011; the assumed price based on futures markets is \$101.80 in 2012 and \$94.16 in 2013.

6/Six-month rate for the United States and Japan. Three-month rate for the euro area.

GDP since the crisis

Real GDP (at purchasing power parity, rebased)



ASIA IN THE WORLD ECONOMY

- Historical backdrop: lessons for today and tomorrow
 - History of predatory states
 - Emulate West's historical ascent
 - Reconnect with past golden ages of commerce
 - Get basics right and avoid industrial-policy intervention
 - Enormous benefit from post-1945 globalisation

ASIA IN THE WORLD ECONOMY

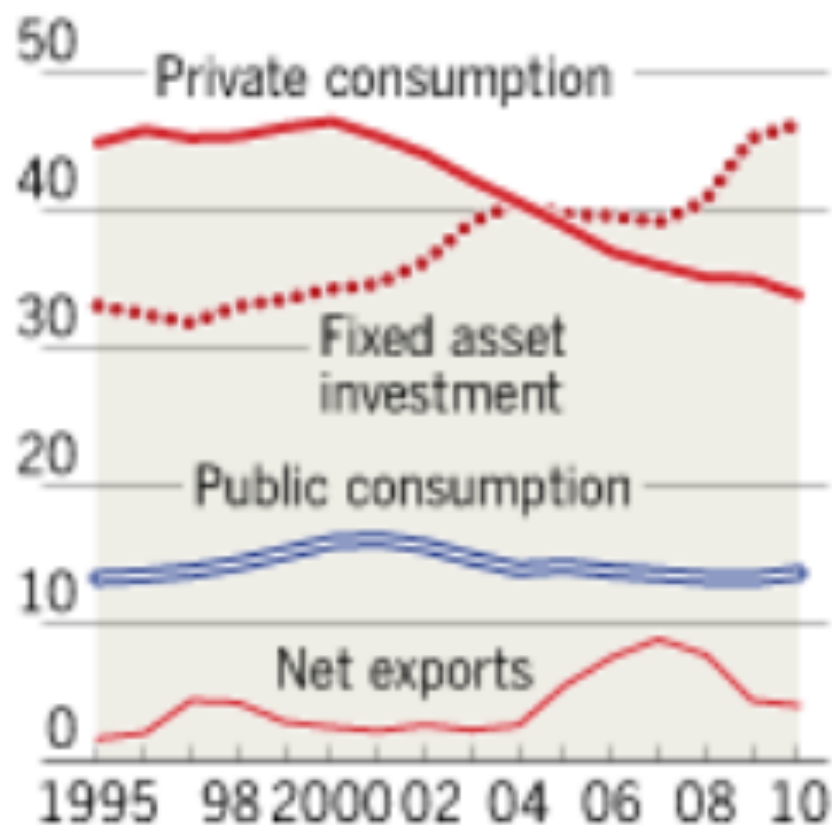
- Three policy challenges
 - Financial markets
 - Trade and investment
 - Energy and environment

ASIA IN THE WORLD ECONOMY

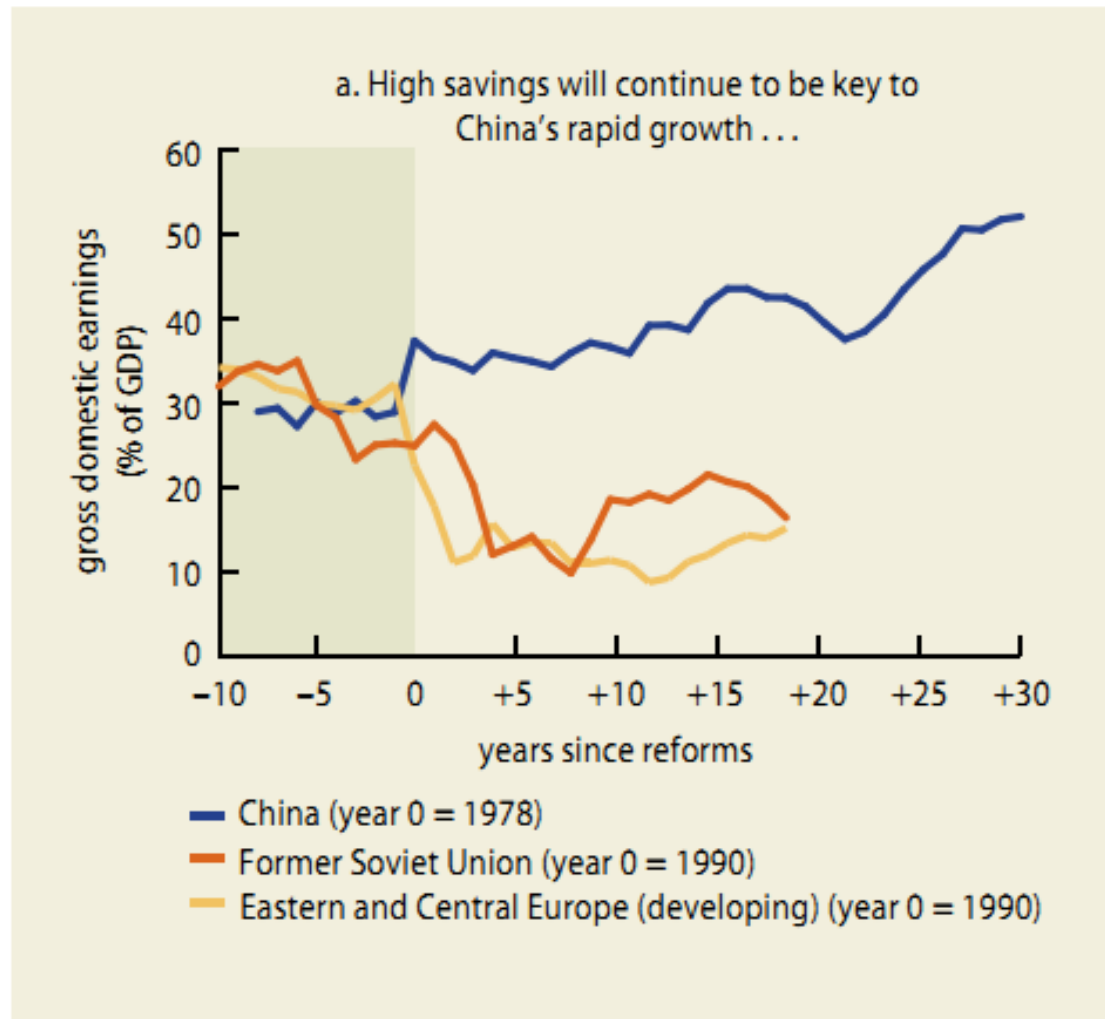
- 1) Financial markets and unbalanced growth
 - Backward financial markets and repressed financial freedom
 - China: a command-economy banking system at the heart of a market economy
 - Financial liberalisation crucial for transition to productivity-based economy – but politically more difficult than other policy areas
 - Government-directed financial systems at core of “unbalanced growth”
 - “Rebalancing” required; it needs supply-side market reforms, especially in factor markets, rather than macroeconomic “fine-tuning”

Share of GDP

Per cent



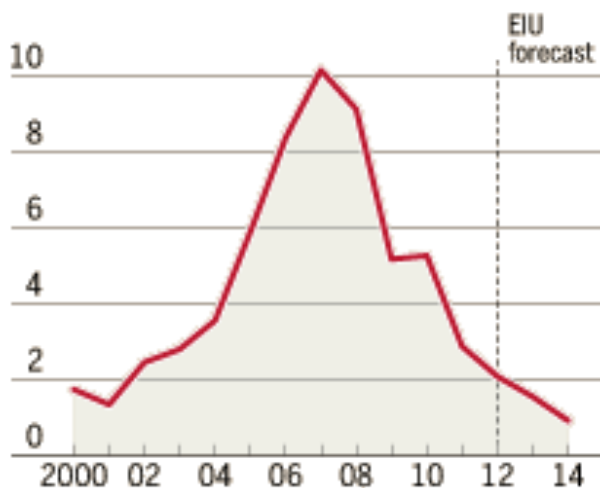
Savings in China compared to other countries



Source: World Bank 2011b.

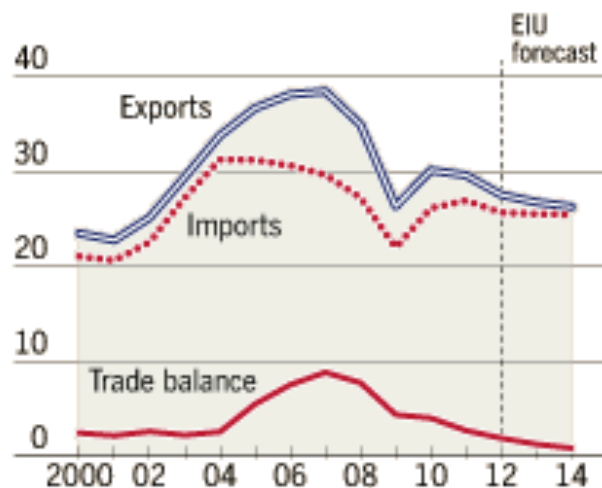
China's current account balance

As a % of GDP



Trade

Goods and services (as a % of GDP)

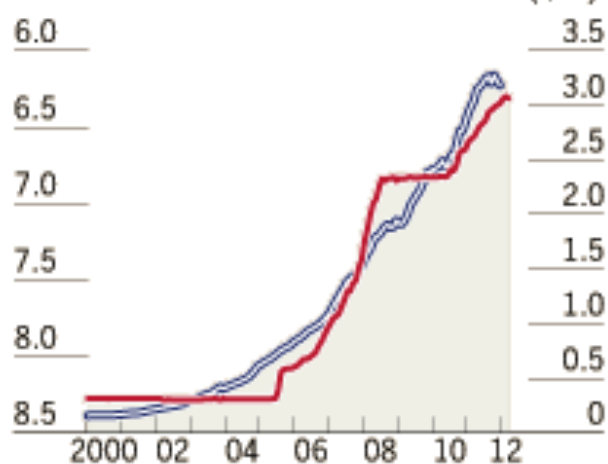


Renminbi and reserves

Rmb per \$

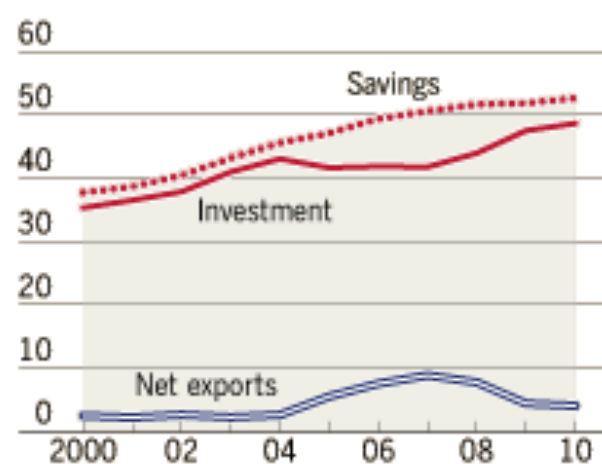
Foreign exchange

reserves (\$tn)



Savings and investment

As a % of GDP



Modest employment growth

Investment growth has done little to boost employment in China.

Country	GDP growth	GDP growth contributions					Employment growth
		Consumption			Investment	Net exports	
		Total	Private	Government			
China	10.2	4.1	2.8	1.3	5.0	1.1	0.9
India	7.2	4.1	3.5	0.5	3.6	-0.3	1.9
Indonesia	5.2	3.1	2.5	0.6	1.4	0.4	1.6
Korea	4.9	2.5	1.9	0.6	1.0	1.4	1.7
Thailand	4.8	2.7	2.4	0.4	1.5	0.5	1.6
Unweighted medians							
All countries	5.2	3.1	2.5	0.6	1.5	0.5	1.6
All excl. China	5.0	2.9	2.4	0.5	1.5	0.4	1.7
International comparisons							
Germany	1.4	0.5	0.3	0.2	0.1	0.9	0.4
Japan	1.5	1.0	0.6	0.4	0.2	0.5	-0.1
United States	2.3	2.3	2.0	0.3	0.1	-0.1	0.7

Sources: CEIC Data; IMF, *World Economic Outlook*; Asian Development Bank; and author's calculations.

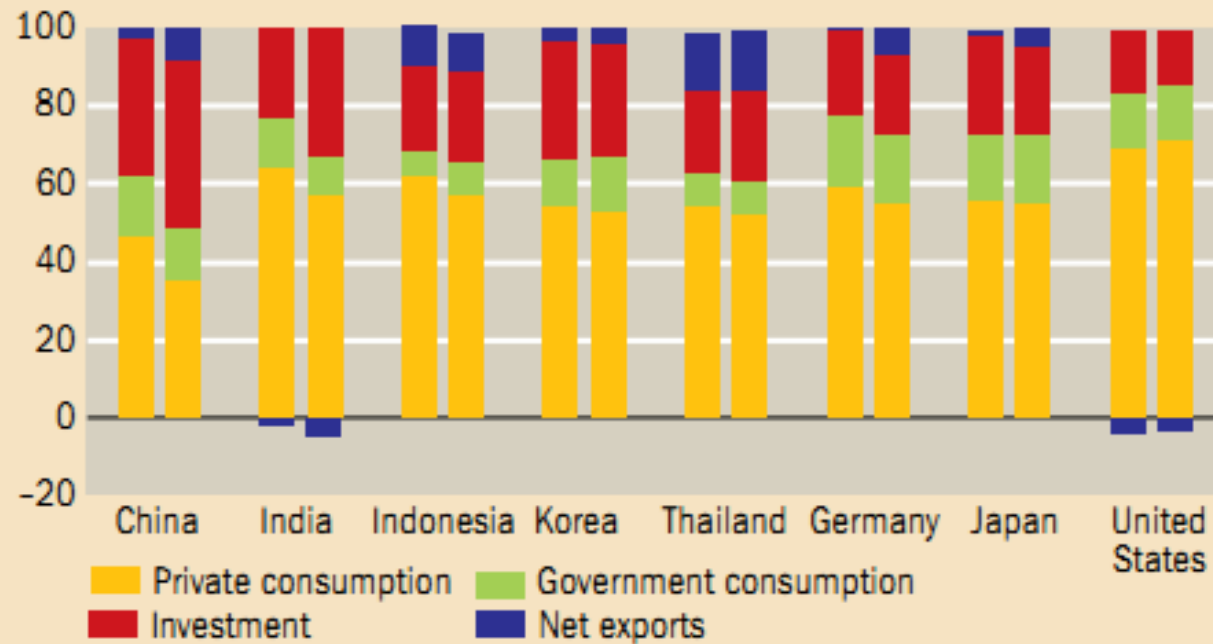
Note: GDP growth rates (in percent) are annual averages over the period 2000-08. GDP growth contributions (in percentage points) are averages over the same period, except for Indonesia (2001-08). Contributions may not sum exactly to GDP growth because of rounding. Investment includes private and public investment. Employment growth rates (in percent) are also annual averages over 2000-08. India's employment data are available only for 2000 and 2005 from ADB. Japan's investment excludes 2008 owing to lack of data. The unweighted medians are the cross-sectional medians of the data in the respective columns.

Chart 1

Growth shares

Private consumption is contributing less today to GDP growth in emerging Asian economies than at the start of the decade.

(shares of real GDP, 2000 and 2008)



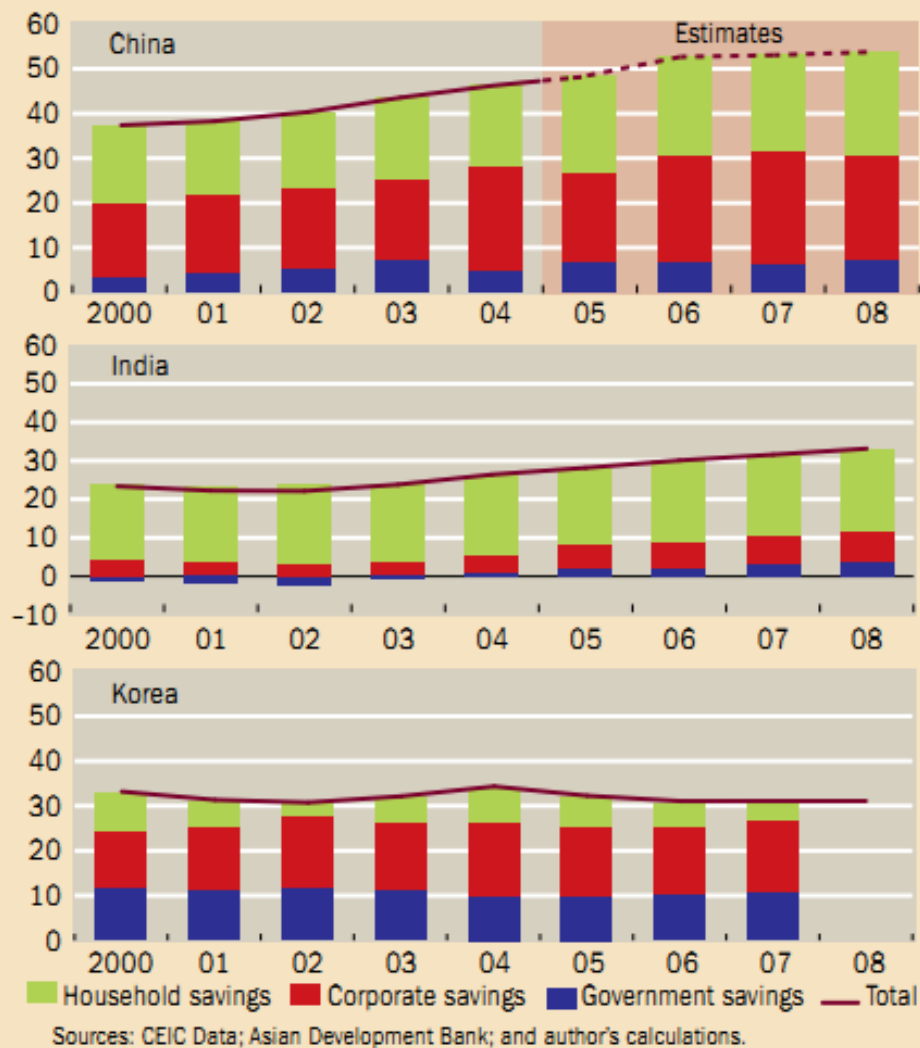
Sources: CEIC Data; IMF, *World Economic Outlook*; and author's calculations.

Chart 3

Composition of national savings

The share of corporate savings in national savings is increasing in China, India, and Korea.

(percent of GDP)



ASIA IN THE WORLD ECONOMY

- 2) Trade and FDI
 - Big liberalisation in '80s and '90s, but slowdown and stalling since; creeping protectionism since GFC
 - Still large pockets of protection, with huge variation across Asia
 - NTBs and regulatory barriers a bigger problem than tariffs; lack of structural reforms
 - Proliferation of FTAs and regional-integration initiatives, but they are “trade-light”
 - East Asia and South Asia compared
 - Unilateral liberalisation is key – more important than trade negotiations, though they can be complementary

2.2.1 Trade indicators

	Openness		Global market share		Export concentration		Tariff barriers		Logistics performance	Economic growth
	(Exports as share of GDP, %) ^a		(Share to world exports, %)		(Export diversification index) ^b		(Applied tariffs) ^c		(Logistics Performance Index) ^d	(Average GDP growth rate, %) ^a
	1999	2008	1999	2008	1999	2008	1999	2008	2009	1999–2008
Developing Asia	35.6	46.4	16.9	21.4	66	67	13.9	6.9	2.7	6.7
Central Asia	32.3	54.4	0.2	0.8	74	75	5.1	3.5	2.6	9.6
East Asia	38.8	49.2	8.6	12.9	54	58	7.5	3.1	2.9	7.3
China, People's Rep. of	20.4	38.1	3.4	8.8	46	45	15.0	4.1	3.5	9.6
Pacific Asia	58.2	66.1	0.0	0.0	70	77	15.6	9.3	2.3	2.4
Southeast Asia	50.5	62.7	7.1	6.3	63	63	9.5	5.5	3.0	5.2
South Asia	13.2	21.5	1.0	1.4	65	65	25.8	11.9	2.5	6.8
India	11.4	21.9	0.6	1.1	60	53	28.6	6.1	3.1	7.1
Vulnerable economies^e	21.9	20.9	0.2	0.2	68	73	17.8	10.6	2.4	3.9

^a Weighted by GNI, Atlas method (current US dollars).

^b Ranked 0–100, with 100 = most concentrated export basket.

^c Weighted mean of all product lines; no data for Pacific Asia and Vulnerable economies in 1999 but assumed equal to 1998.

^d 1 = lowest, 5 = highest.

^e Afghanistan; Bangladesh; Bhutan; Cambodia; Cook Islands; Fiji Islands; Kiribati; Lao PDR; Maldives; Marshall Islands; Micronesia, Federated States of; Myanmar; Nauru; Nepal; Palau; Papua New Guinea; Samoa; Solomon Islands; Timor-Leste; Tonga; Tuvalu; and Vanuatu.

Sources: ADB calculations based on data from UNCTAD Handbook of Statistics online, <http://stats.unctad.org>; World Bank. World Development Indicators online database, <http://data.worldbank.org/indicator> (both online databases accessed 21 August 2010); and *Asian Development Outlook* database.

Source: ADB, 2010

Bound and Applied MFN Tariffs (WTO 2010)

Country/ Economy	Year	Tariff Binding Coverage in %	Simple Average Final Bound (All goods)	Simple Average Applied Tariff (Manufacture)	Simple Average Applied Tariff (Agriculture)	Simple Average Applied Tariff (All Goods)	Trade Weighted Average (All goods)	Maximum MFN Applied Duties
EU	08/09	100,0	5,2	3,9	13.5	5,3	2.9	166
US	08/09	100,0	3.5	3.3	4.7	3.5	2.0	350
Japan	08/09	99.7	5.1	2.5	21.0	4.9	2.0	641
Brazil	08/09	100	31.4	14.1	10.2	13.6	8.8	96.7
Russia	08/09	-	-	10.1	13.2	10.5	10.3	357
India	08/09	73,8	48.5	10.1	31.8	12.9	6.0	246
Indonesia	08/09	95.8	37.1	6.6	8.4	6.8	4.1	150
China	08/09	100,0	10.0	8.7	15.6	9.6	4.3	65
South Africa	08/09	96.4	19.0	7.5	8.9	7.7	5.0	878

Bound and Applied MFN Tariffs (WTO)

Country/ economy	Year	Tariff Binding Coverage in % (All Goods)	Simple Average Final Bound (All Goods)	Simple Average Applied Tariff (Manufactures)	Simple Average Applied Tariff (Agriculture)	Simple Average Applied Tariff (All Goods)	Trade Weighted Average (All Goods)	Maximum MFN Applied Duties
Brunei	2010	95.3	25.4	2.9	0.1	2.5		143
Singapore	09/10	69.7	9.9	0.0	0.2	0.0	0.0	94
Thailand	09/10	75.0	28.0	8.0	22.8	9.9	4.8	205
Indonesia	09/10	95.8	37.1	6.6	8.4	6.8	2.4	150
Malaysia	2009	84.3	23.1	7.6	10.9	8.0	5.1	>1000*
Philippines	09/10	67.0	25.7	5.7	9.8	6.3	5.1	65
Vietnam	09/10	100	11.4	8.7	17.0	9.8	6.8	135
Cambodia	n/a	100	19.1	n/a	n/a	n/a	n/a	n/a
Laos	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Myanmar	n/a	17.6	83.4	n/a	n/a	n/a	n/a	n/a
China	09/10	100	10.0	8.7	15.6	9.6	4.1	65
India	2009	73.8	48.7	10.1	31.8	13.0	6.9	170

*beverages & tobacco - other MAX MFN applied duties do not go beyond 90

World Ranking in Ease of Doing Business

	Ease of Doing Business	Starting a Business	Dealing with Construc tion Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Ta xes	Trading Across Borders	Enforcing Contracts	Closing a Business
US	4	8	25	1	12	4	5	61	18	8	15
Japan	20	91	45	40	54	15	16	123	17	20	1
Singapore	1	4	3	5	14	8	2	4	1	12	2
H-Kong	2	18	1	6	75	4	3	3	2	3	13
N- Zealand	3	1	5	15	3	4	1	9	26	10	17
Denmark	5	28	10	9	47	15	27	13	6	28	7

World Ranking in Ease of Doing Business (2012)

	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contract	Resolving Insolvency
Brunei	83	136	83	28	107	126	122	20	35	151	44
Singapore	1	4	3	5	14	8	2	4	1	12	2
Thailand	17	78	14	9	28	67	13	100	17	24	51
Indonesia	129	155	71	161	99	126	46	131	39	156	146
Malaysia	18	50	113	59	59	1	4	41	29	31	47
Philippines	136	158	102	54	117	126	133	136	51	112	163
Vietnam	98	103	67	135	47	24	166	151	68	30	142
Cambodia	138	171	149	130	110	98	79	54	120	142	149
Laos	165	89	80	138	72	166	182	123	168	110	183
Myanmar	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
China	91	151	179	115	40	67	97	122	60	16	75
India	132	166	181	98	97	40	46	147	109	182	128

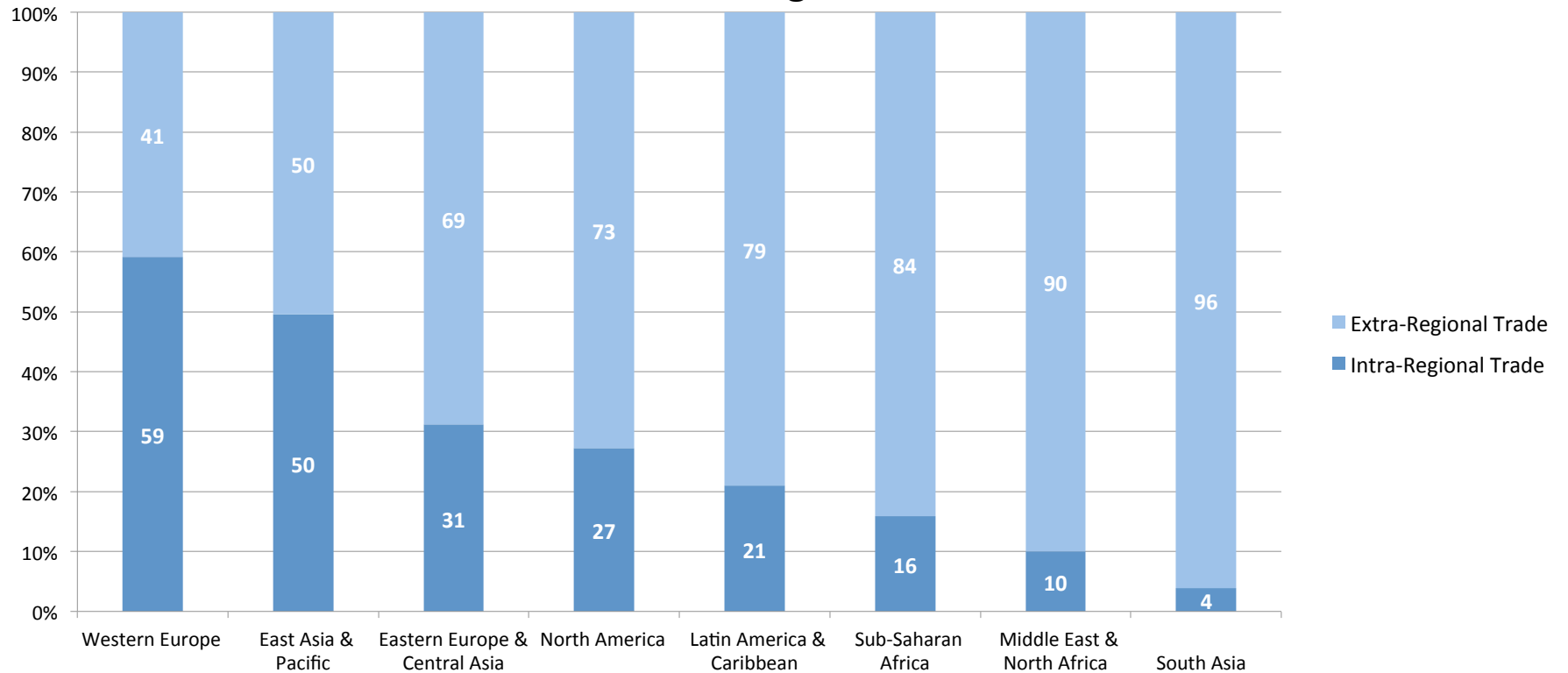
BRIICS

	Ease of Doing Business	Starting a Business	Dealing with Construc tion Permits	Employing Workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Brazil	129	126	113	138	120	87	73	150	100	100	131
Russia	120	106	182	109	45	87	93	103	162	19	92
India	133	169	175	104	93	30	41	169	94	182	138
Indonesia	122	161	61	149	95	113	41	126	45	146	142
China	89	151	180	140	32	61	93	130	44	18	65
S-Africa	34	67	52	102	90	2	10	23	148	85	76

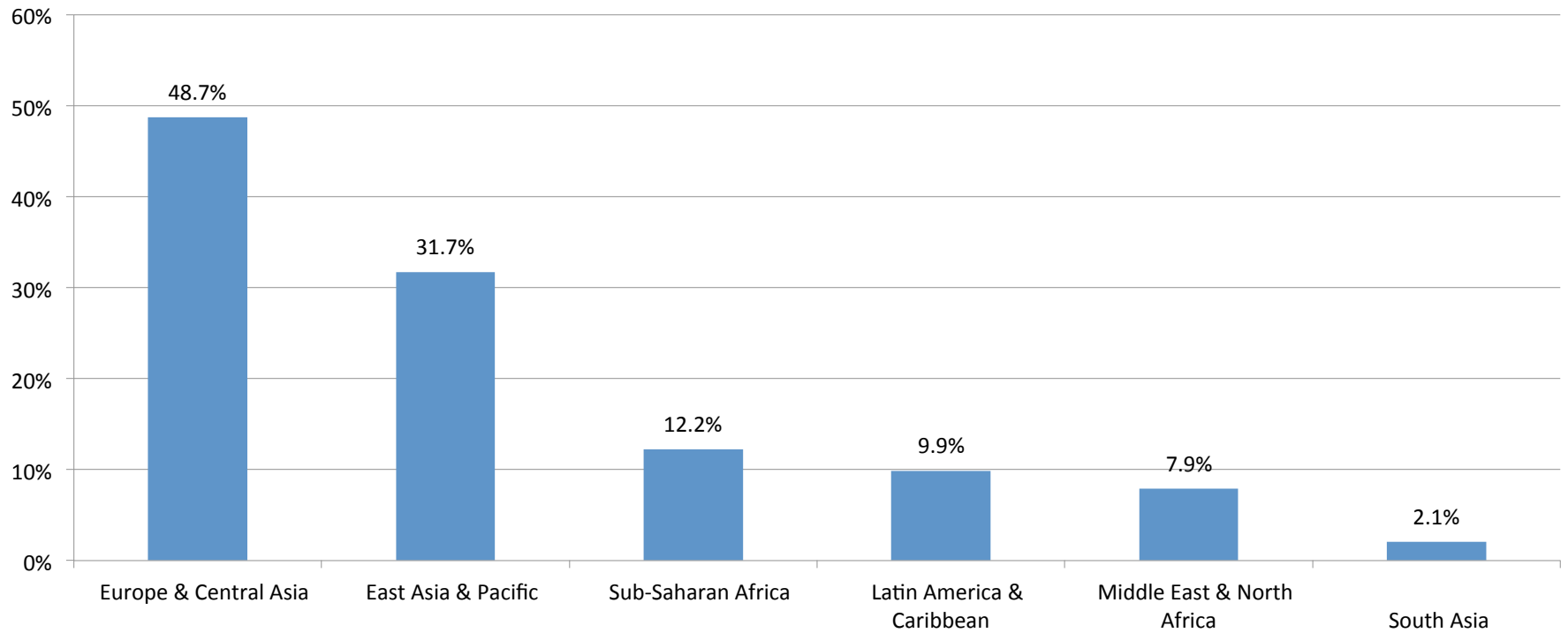
Indicators for Trading Across Borders (2012)

	Ease of Trading Across Borders (World Ranking – DB 2012)	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)
Brunei	35	6	19	680	6	15	745
Singapore	1	4	5	456	4	4	439
Thailand	17	5	14	625	5	13	750
Indonesia	39	4	17	644	7	27	660
Malaysia	29	6	17	450	7	14	435
Philippines	51	7	15	630	8	14	730
Vietnam	68	6	22	580	8	21	670
Cambodia	120	9	22	732	10	26	872
Laos	168	9	44	1,880	10	46	2,035
Myanmar	n/a	n/a	n/a	n/a	n/a	n/a	n/a
China	60	8	21	500	5	24	545
India	109	8	16	1,095	9	20	1,070

Intra- and Extra-Regional Trade, 2008



Intra-Regional Trade as a Share of GDP, 2008



Economic Freedom of the World: 2010 Annual Report Complete *Publication* -

freetheworld.com. [Fraser Institute](http://fraserinstitute.com).

Rank	Country	Summary index
1	Hong Kong	9.05
2	Singapore	8.70
3	New Zealand	8.27
4	Switzerland	8.08
5	Chile	8.03
6	United States	7.96
7	Canada	7.95
8	Australia	7.90
9	Mauritius	7.82
10	United Kingdom	7.81
11	Ireland	7.74
12	Estonia	7.73
12	United Arab Emirates	7.73
14	Denmark	7.69
15	Austria	7.61
16	Luxembourg	7.60
16	Slovakia	7.60
18	Bahrain	7.58
19	Finland	7.55
20	Cyprus	7.54

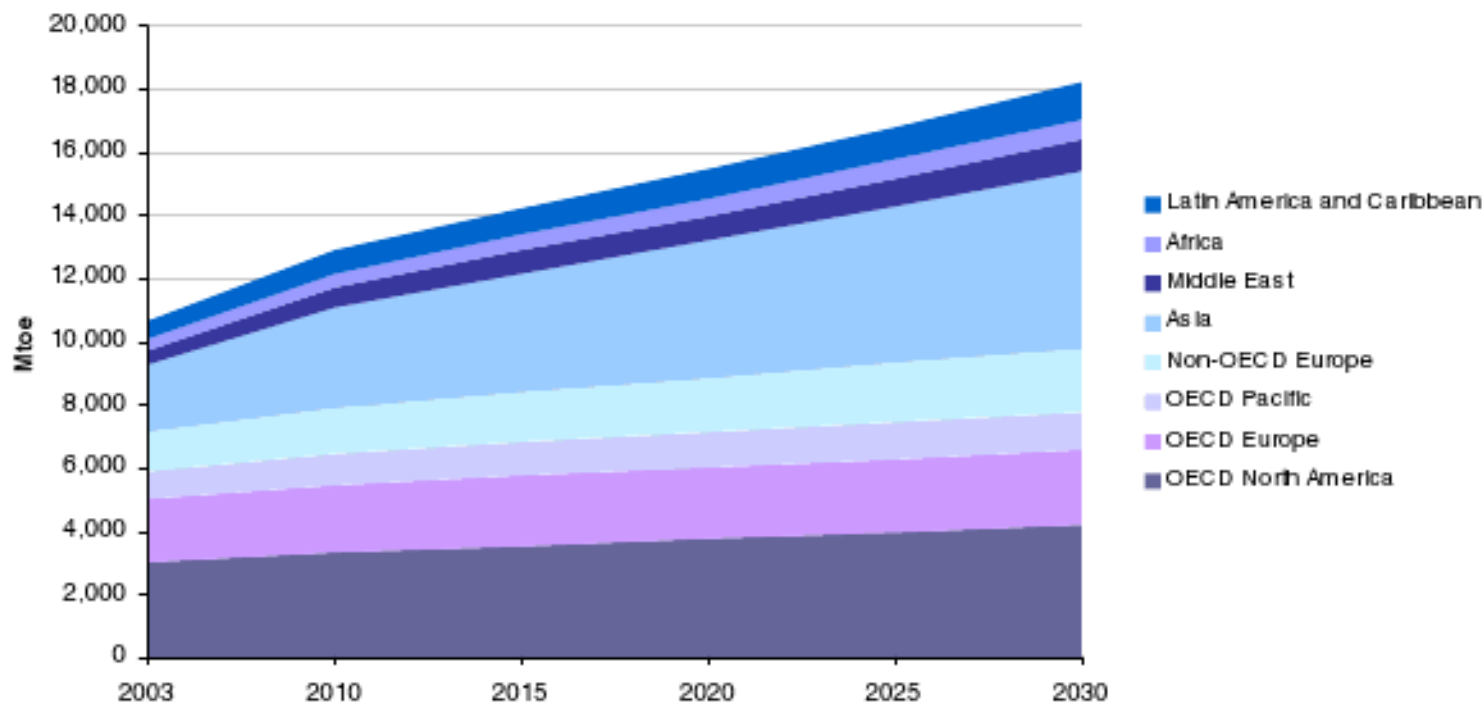
ASIA IN THE WORLD ECONOMY

- 3) Energy and environment
 - Over half world's "energy poor" live in Asia, most of them in India
 - Asian energy consumption expected to double by 2030; Asia will drive additional demand for fossil fuels and be more dependent on extra-Asian imports
 - Energy markets throttled by government intervention and SOEs, including trade/FDI protectionism; Chinese and Indian mercantilism to ensure long-term energy supplies
 - Domestic and external liberalisation needed for rising energy consumption, ensure stable, cost-effective supplies, and to preserve peaceful international relations

ASIA IN THE WORLD ECONOMY

- Energy and environment (cont.)
 - Inevitable increase in Asian carbon emissions to power industrialising growth
 - Energy efficiency important, but significant carbon reductions will compromise Asian growth prospects
 - Don't take conventional wisdom on climate science and headline economic reports (esp. Stern and Garnaut) at face value; they discount long-range uncertainty and smack of soft central planning

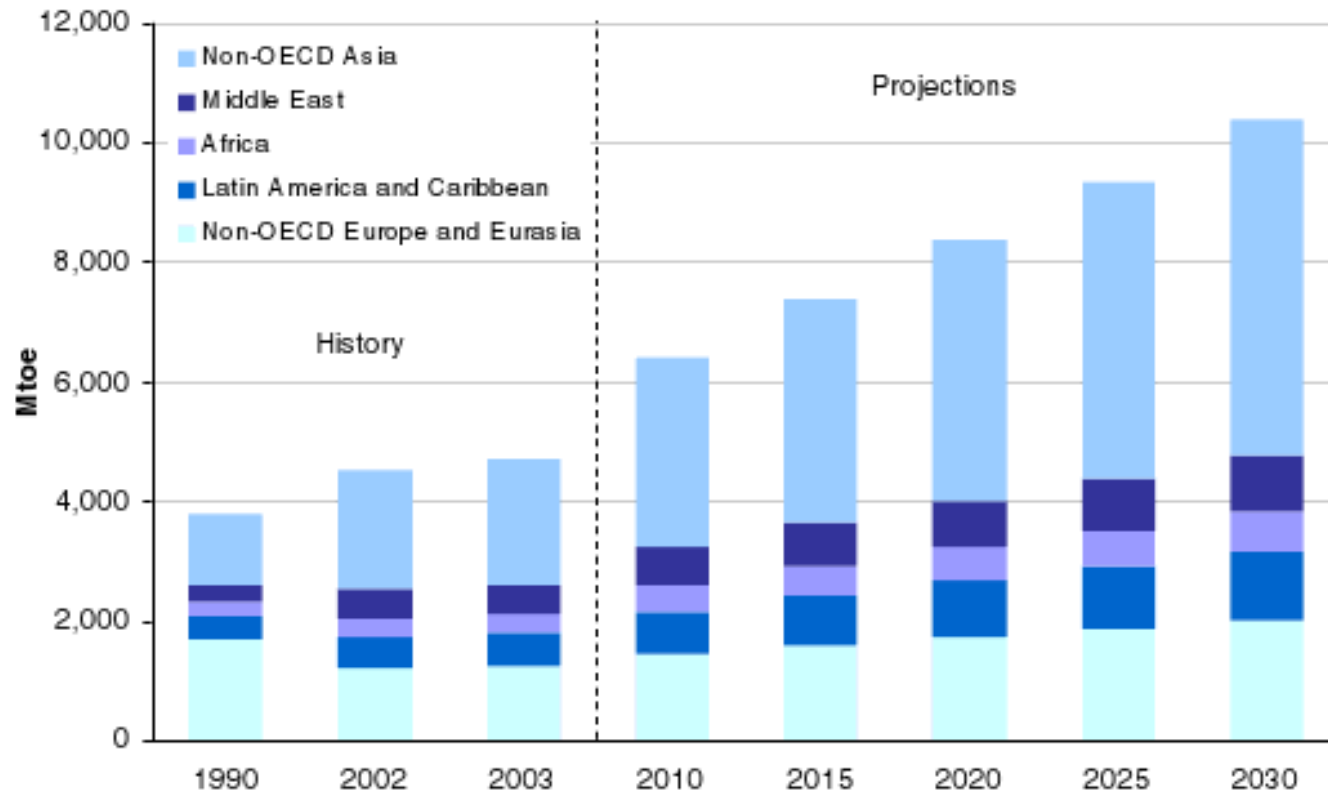
Figure 4: World Primary Energy Consumption by Region, 1980–2030



Mtoe = million tons of oil equivalent; OECD = Organisation for Economic Co-operation and Development.

Source: US DOE/EIA. 2006. International Energy Outlook 2006. Report # DOE/EIA-0484 (2006). Washington, DC: EIA, US DOE.

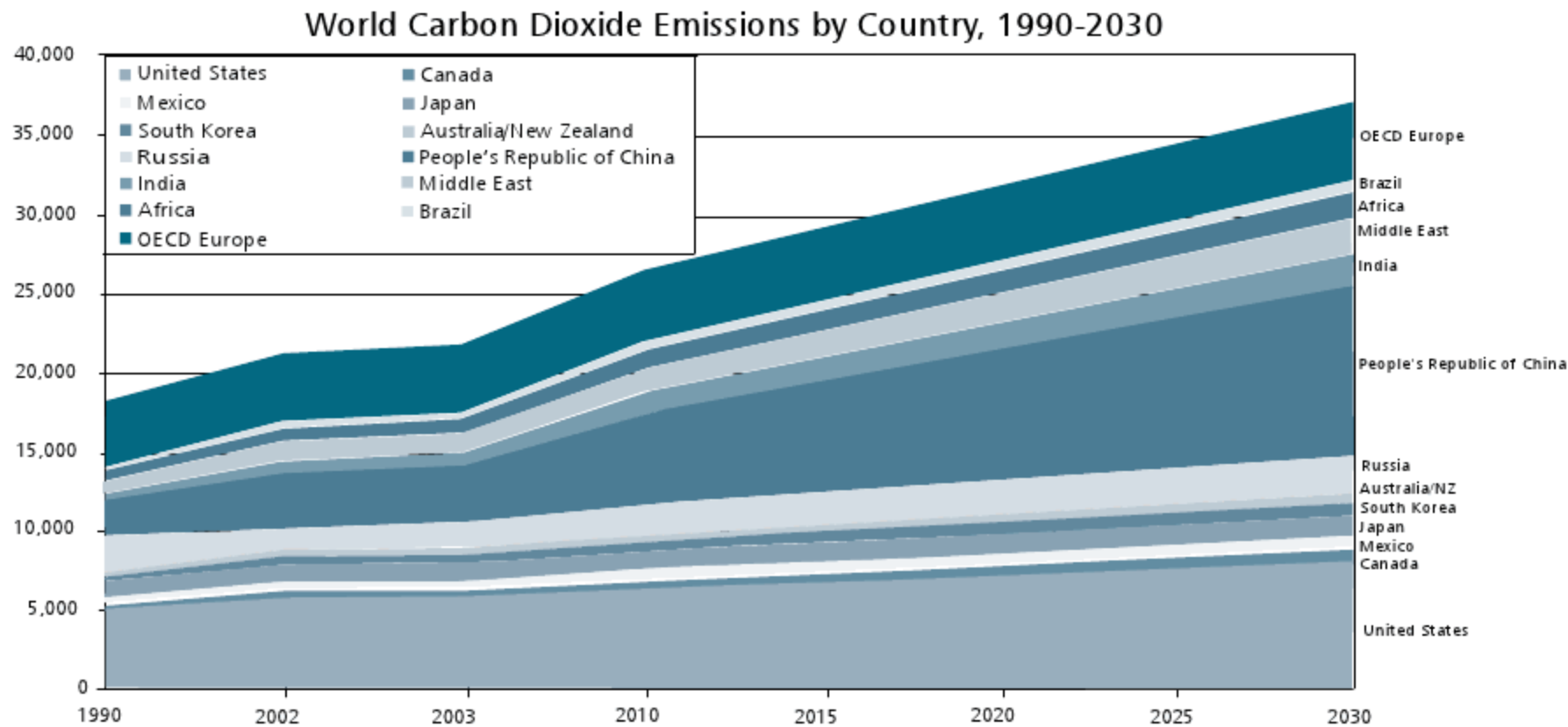
Figure 7: Energy Use in Non-OECD Regions, 1980–2030



Mtoe = million tons of oil equivalent; OECD = Organisation for Economic Co-operation and Development.

Source: International Energy Agency. Available: www.iea.org.

Figure 1: Energy Related CO₂ Emissions by Country



Source: EIA 2007

ASIA IN THE WORLD ECONOMY

- Conclusions
 - Unfinished business: “getting basics right” and structural reforms; big variation across Asia
 - Poorer countries/regions should focus on 1st generation reforms (getting basics right) for input-led growth (“perspiration”); middle and high-income countries/regions have to focus more on 2nd generation (structural) reforms for output-led growth (“inspiration”)
 - Catch-up growth does not need big institutional reforms, but output-led growth demands more institutional reforms

ASIA IN THE WORLD ECONOMY

- Conclusions (cont.)
 - Can middle-income countries rise to the challenge? Or will political sclerosis keep them in a middle-income trap?
 - Are structural and institutional reforms compatible with largely unreformed political systems? Or do they require *liberal* and *democratic* political reforms?
 - *Envoi*: A classical-liberal message; port-polities of old and Hong Kong, Singapore and coastal cities today