

Asian Economies

# New Engines of Global Growth



**If Asia should continue to progress and transform in tune with the changing times, as the mature and aging West is entering into an era of at best modest growth, the next few decades of the 21<sup>st</sup> century could well turn out to be Asia's century.**

– Andrew K P Leung

*Chairman, Andrew Leung International Consultants Limited, Hong Kong*

**W**ell before the global financial crisis, Asia had already emerged as a much more dynamic engine of global growth. According to the IMF, the combined growth rates (14.5% in 2005) of China and India, Asia's two leading dynamos, was more than four times that of Europe (3.5%) and 2.4 times that of the US (6.1%). These dynamic growth rates are not only limited to output. The IMF also estimates that over the last three years, productivity growth in China averaged close to 9% while that of emerging Asia averaged nearly 5%, much more than the 2% increase registered in the developed world. Collectively,

China and India already account for 21% of global output, according to IMF's measure of purchasing power parity, essentially equal to the percentage attributed to the US (20%).

The global financial crisis, hitting the West much more than Asia, only serves to accentuate this ongoing shift of economic gravitas from the West to the East.

### Is the growth sustainable?

Premier Wen Jiabao was the first to describe China's development as "unstable, unbalanced, uncoordinated and unsustainable." He outlined China's 'Five Imbalances'—between rural and

urban growth, between human and environmental priorities, between economic and social development, between national and local imperatives, and between inward and outward capital flows.

What is more, China's economy has grown too dependent on export at the expense of consumption, increasing her vulnerability to external demand shocks as in the case of the global financial crisis. These imbalances are common amongst many developing Asian countries, whose export share of GDP had soared from 36% in the late 1990s to 47% in 2007 while the consumption share of GDP has shrunk from over 60% in the early 1980s to below 50% in 2007.

China, for one, has vowed to turn this around by working towards a more consumer-oriented and low-carbon economy, if necessary, even at the expense of slower growth. This shift of China's development model was hinted at during the latest meeting of the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) in March 2010. It is likely to be formalized in the coming Five Year Plan (2011-15).

Already underpinning this strategy is China's further expansion of higher education and accelerated infrastructural development, especially high-speed rail and expressways. These measures will spawn the growth of some 221 new cities and towns, home to China's rising middle-class who are destined to spearhead a more consumer-oriented economy. China's paradigm shift is likely to set the scene for a more sustainable development model for the region linked to a China-centric global supply chain. Unlike China, India's economy is driven more by domestic demand rather than export. She is nevertheless catching up fast with much-needed investments in infrastructure.

## Policymaking challenges

There are big challenges in terms of economic policymaking for the region. As in the case of China, the region needs to rebalance its economies, but their reliance on exports are difficult to break without causing massive unemployment problems. ASEAN's export dependence, for example, is 72.7% of GDP. Moreover, as a great deal of Asian economies are inextricably linked to a China-centric regional supply chain, they will need to adapt to a more balanced world economy where China may consume more and save less while the US, having her fingers burnt with unbridled credit-driven consumption, is likely to consume less and save a little more.

Coming to China's decision to unpeg its currency and its implications, it has only pledged greater flexibility for the Chinese yuan but is most unlikely to allow more than a gradual appreciation of her currency, at the risk of financial and economic instability. The region will nevertheless benefit from increased competitiveness of its exports to China as the yuan gradually appreciates in value over time.

## The BRIC growth momentum and its implications

Both Brazil and Russia are heavily dependent on natural resources, which account for over 80% of Russia's and 35% of

Brazil's exports as well as over 70% of Russia's and over 50% of Brazil's equity market capitalization. A substantial proportion of the demand for these natural resources comes from China, which represents 58% of the combined BRIC GDP. As China (along with India) is trying to go for a less resource-intensive development model, the likelihood of the other BRIC members to sustain their growth momentum in the long run will depend on their ability to broaden and

selves to move ahead of the changing tide.

Asia has been the main beneficiary of globalization in the first decade of the 21<sup>st</sup> century at a time when export has grown from 35% to 47% of developing Asia's GDP while the share of export in world trade has increased from 25% to 31% (2000-2007). However, in the wake of the global financial crisis, the need to rebalance the world economy is very much high up on the international

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transform their global competitiveness. At present, Brazil seems to be faring a lot better than Russia in this regard.

## Will they lead the global economy?

BRIC is not a formal or even informal bloc. It is little more than a convenient acronym. But their ability to maintain much higher than average growth rates has put them in a class of their own whereby all BRIC countries are seeking and exerting a greater global influence. As the world is changing rapidly, they should avoid a sense of complacency and continue to strive to transform them-

agenda. Doing what was done well so far is no guarantee of continued success. The lessons highlighted in Jared Diamond's *Collapse: How Societies Choose to Fail or Survive* (Penguin Books, 2006) may have more relevance than Climate Change.

If Asia should continue to progress and transform in tune with the changing times, as the mature and aging West is entering into an era of at best modest growth, the next few decades of the 21<sup>st</sup> century could well turn out to be Asia's century. Nothing, however, is guaranteed. ■

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