

An Overview of the Asian Region: A Background Paper

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The economic growth of many countries in the East Asian region has shown a recent boom. This has led a recent meeting of top business leaders at the World Economic Forum's *Asia Roundtable 2005*^[1] to conclude that "the centre of gravity for the world's economy is shifting to Asia", and that "Asia is going to underpin global growth for the next 30 years as the engine for world economic growth".

Thus, according to the latest projections^[2] from the World Bank, growth in the emerging East Asian economies^[3] is expected to be about 6% for both this year and 2006, compared with 7.2% in 2004. The Asian Development Bank^[4] has projected that the overall average GDP for the ASEAN members, together with South Korea and PR China should grow by 6.8%, down from 7.6% in 2004; if PR China is excluded, the figures are 4.4% and 5.5%, respectively. Also, many commentators have suggested that Japan may now, at last, be pulling out of a prolonged period of economic stagnation after the financial crash in 1990: this belief is reinforced by the recent re-election of Prime Minister Koizumi, with a strengthened mandate for reform and deregulation, so as to modernise the role of government in Japan's economic system.

As might be expected, higher oil prices accounted for some of the depression in the predicted growth rates, compared to 2004. However, since these projections were made before the recent hurricanes in the Caribbean had a further adverse effect on the global supply of petrochemicals, it might be expected that the projected growth will have to be further down-sized. On the other hand, the other major, but local environmental disaster – the tsunami of December 26, 2004 – is considered to have had only a minor impact on overall economic growth of Indonesia and Thailand, the two most seriously affected East Asian economies.

This growth does not reflect just an increase in trade with other parts of the world: there has been a rapid increase in trade within the East Asian region itself, which has grown at three times the global rate. As noted in the *Asia Roundtable 2005*, this should help to insulate the region's economies from any economic downturn in the US or elsewhere.

Consistent with the Millennium Development Goals to halve poverty, hunger and disease in the developing world by 2015, the World Bank has noted that this pattern of sustainable growth has led to "substantial reductions in poverty rates in China, Vietnam, Indonesia, and Thailand, and income gains in rural and urban areas, which are very promising."

Especially in the longer term, various factors can be expected to exert an influence on the performance of economies in the region.^[5] The following is an attempt to categorise these factors, as a first step towards formulating proposals on how to optimise conditions to realise the predictions about East Asia's continued development and its coordinated movement to central stage in the economic world of globalisation.

^[1] Singapore, April 2005

^[2] *East Asia Update 2005*; April 2005

^[3] Defined as comprising the four newly-industrialized economies (Hong Kong, Korea, Singapore and Taiwan, China), together with a number of developing economies (Cambodia, PR China, Indonesia, Lao PDR, Malaysia, Mongolia, Papua New Guinea, the Philippines, Thailand, Timor Lesté and Vietnam; as well as Fiji and the Solomon Islands)

^[4] *Asia Economic Monitor 2005*; August 2005

[5] See, for example, the World Economic Forum's *Asia Roundtable 2005*, Singapore, April 2005

- I. Geographical factors Two broad categories of these can be identified: factors which operate at a mainly global level, and those which are more specific to the East Asia region.
 1. At a global level, it is important for the region to be able to access resources elsewhere, and also to be able to access overseas markets for their products.
 - i. In this respect, some form of cooperative regional network for securing resources such as fossil fuels from elsewhere – rather than driving up their prices through competitive bidding – would be beneficial[1] (see also Section II.1).
 - a. This would reduce both the risk of local tensions and the outflow of financial reserves from the region.
 - ii. The continued development of (coastal) regional hubs, such as Singapore and Hong Kong, will facilitate trade through the global supply chain and full integration into the world economy.

In the past, such hubs have been entrepôts which took advantage of their geographical location on trade-routes.

Today, hubs are typified by being government-sponsored concentrations of expertise and facilities which can be tapped by businesses in the adjoining region to help give them a competitive advantage.

2. At the regional level, this has reinforced historical distinctions between coastal and inland areas.
 - i. Coastal areas, through ready access to maritime import/export routes, have served as foci for industrial development and increasing local prosperity.
 - ii. Inland areas, through less direct links to the outside, have tended to become impoverished 'backwaters' for the most part, where the emphasis remains on rural activities and thus low incomes despite the long working hours.
 - iii. The consequences of this dichotomy are epitomised by the situation in China, where rural workers from the vast hinterland – home to more than 70% of the population – are migrating to the coastal conurbations in order to seek a source of income to supplement that of the family members they left behind.
 - iv. Where such simple ambitions are frustrated, there is the problem that social discontent and unrest may result; this could lead to political instability, which is detrimental for further growth.
 - v. One solution is to encourage the development of value-added businesses inland (to increase the local GDP); together with improving the regional infrastructure by providing adequate routes for the dispatch of products to their target markets (through improved road systems, whether to sea-ports or airports, for export).
- II. **Resource requirements** For East Asian economies to be able to continue expanding, they require access to adequate supplies of energy and other natural resources.

1. The increased demand resulting from the region's rapid growth has caught producers of raw materials unprepared, leading to world-wide shortages in petrochemicals and basic commodities.
 - i. Rapid growth and increased demand has meant that trading in these has become a sellers' market, with prices rising accordingly.

[1] *Asia Roundtable 2005*

- i. As a result of the increased competition for limited supplies, both within the region and with the rest of the world, this is likely to stoke inflation whilst serving as a bottleneck for future growth.
2. There is thus the increasing need to seek alternative sources of energy, and to promote the more efficient utilisation of existing energy sources.
 - i. Whilst the increased costs associated with rising oil prices are a major motivating factor in this regard, governments can provide other incentives to encourage such developments.
 - ii. This will also minimise problems associated with the region's geographical location relative to the main sources of traditional hydrocarbon-based energy reserves (see section I.1); and
 - iii. It will also help to attend to various environmental problems (see section III).

II. **Environmental issues** There is an increasing recognition that mankind's activities are playing a definite role in changing the climate and other aspects of the ecosphere to the detriment of future generations.

1. To minimise the production of greenhouse gases and other pollutants, and thus minimise destructive pressures on the environment, there is again (*cf.* Section II.1) the need for:

- i. the more efficient utilisation of traditional hydrocarbon-based energy sources; and
- ii. the development of alternative energy sources which are not based on fossil fuels.

2. There is the need to improve industrial processes and other aspects of society to maximise the efficiency of energy usage and minimise the production of waste for release into the general environment.

3. There is the need for a planned, sustainable management of renewable natural resources for the long-term benefit of everybody, rather than just for the short-term gain of a few.

4. Together, these will minimise the cumulative economic burdens which will have to be faced in the future.

- i. This includes reducing the increasing burden of health costs for the present generation.
- ii. There is thus the need to implement laws to ensure that individuals and businesses meet their obligations to society.
- iii. Even with this legislative framework being enforced, there is still the need to further encourage socially-responsible behaviour on the part of individuals and businesses through pro-active education.

Historical 'baggage' In this context, the most important impediments to optimal economic development are the consequences of colonialism and conflict in the region's recent past.

1. This is especially the case for disputes of China and Korea with Japan, based on historical issues from the first half of the last century.

i. Thus there is friction between China and Japan over territorial claims to offshore islands and thus the rights of access to offshore oil reserves (with China having similar disputes with other nations regarding similar strategically important islands in the South China Sea).

i. This may also be making Japanese companies unpopular as prospective employers for Chinese students.[\[1\]](#)

2. Cambodia is still in the process of recovering from its complete socio-economic breakdown during the latter part of the last century. This requires, amongst other things:

- i. the rebuilding of its sociopolitical and economic institutions and infrastructure; and
- ii. the reclaiming of its agricultural base through the need for extensive and intensive de-mining operations.

II. **Demographic considerations** These arise as a consequence of imbalances developing within a subset of socio-cultural factors, most notably in the distribution of ages within a population.

1. At one extreme are those countries – for example, China (especially as a result of its one child policy), Japan and Singapore – where aging populations are threatening to become a burden on society

i. One solution – for immigrant workers to supplement the dwindling local workforce – would be likely to create further disruptive pressures on these societies.

ii. Alternatively, there is the need to reduce the demand for jobs through increased automation.

2. At the other extreme – for example, Cambodia, Indonesia and Vietnam, as well as India – are societies where the young are in preponderance, and are in competition with each other for employment.

i. To minimise social unrest, there is the need to create jobs to match the needs and the expectations of this young cohort as they reach the age when they can enter the workforce.

3. Another potential source of unrest arises from widening disparities in income and income-opportunity.

i. For example, growing economic disparities between coastal and interior areas of China,

together with economic migrations to the former, are considered as a potential source of social instability (see Section II).

Education There is a need for increased manpower-training, at all levels up to management, for self-sufficiency in this regard.

1. The lack of a suitably-skilled workforce is one of the most critical constraints facing most countries in the region.⁷

i. As a result, there is competition for the limited pool of suitable employees, which is driving up wages and hence operating costs.

Thus, wages in south-eastern China are coming to be on a par with those in Thailand, and higher than those in Cambodia or Vietnam.

ii. In the face of this demand, there has been an influx of rural workers to centres of manufacturing employment in, for example, China; the fact that they are unskilled does not solve the labour shortage, but instead engenders social problems.

iii. This emphasises the need for an adequate system of state education, to provide the essential skills expected of each tier in the workforce hierarchy.

[1] *Asia Roundtable 2005*

In this way, the efforts of individual businesses to educate their workforce can be more focused on the job-in-hand, to promote both employee value and loyalty.

As a consequence, companies will be less likely to be frustrated by their employees demanding higher wages or being poached by competitors for better-paid jobs elsewhere.

ii. It has thus been suggested^[1] that businesses also should create a strong brand or public image for prospective employees to identify with, so as to promote their corporate loyalty and thus reduce staff turnover in a competitive wage market.

2. The education system should be geared towards not just producing a workforce which is adequate for prevailing demands; but one which is able to adapt to, and preferably also help create (e.g. through active research and development: Section VII), future expectations.

i. In this way, the countries in the region can become their own masters, by being one step ahead of the competition rather than constantly having to play catch-up.

ii. Through creating their own niches – for example, through the invention and production of distinctive new consumer items (preferably of mass-appeal rather than being up-market)⁸ – companies need no longer resort to using access to cheap labour as a major selling-point for investors.

II. **Research and development** With continued development and growth, increasing competition – both within the region and with the rest of the world – means that there is the need for increasing attention to research, to increase efficiency and to open up new areas of business through invention and innovation.

1. This requires direct investment, with an element of risk-taking.

i. It can be encouraged by adventurous government and outside initiatives, to help create (together with an adequate and appropriate standard of education: Section VI) a conducive atmosphere for innovative business practices and products.

ii. Where applicable, spin-off companies can be established to develop the results of this research to fruition.

Governance and regulatory mechanisms As documented by the World Economic Forum,^[2] there is the need for good government in order to encourage the opening up of businesses and, subsequently, to help them develop and expand.

1. Governments should take steps to ensure that:

i. the costs to business of 'hidden taxes', as a result of graft and corruption, are minimal;

ii. the judiciary and other institutional systems are independent;

iii. problems with red-tape required for opening up a business are minimised, in order to encourage full participation in a country's economic activity; and

the paperwork needed to get imports and exports through customs control is streamlined, where possible, to minimise delays and other costs.

[1] *Asia Roundtable 2005*

1. Thus, a recent analysis^[1] based on a new set of indicators, co-sponsored by the World Bank and the International Financial Corporation, concluded that:

i. the relatively slow rate of legal and other regulatory reform in many East Asian economies means that they are being placed at a disadvantage for the establishment and running of small and medium businesses, especially compared to potential competitors in Eastern Europe; and

ii. the benchmarks established drew attention to the need for policy-makers in many East Asian economies to simplify their regulatory processes, including those related to the 'soft' (bureaucratic) infrastructure involved in import and export control.

2. According to the World Economic Forum's Growth Competitiveness Index for 2005, the highest rankings in Asia are for Taiwan (5) and Singapore (6); next are Japan (12) and Hong Kong (28); whilst China comes in at number 49, one place above India.

i. Lower rankings reflect progressively weaker institutional and/or more bureaucratic systems, which are likely to hamper the progress and further development of the countries which they are meant to serve.

II. **Intraregional and international relations** Globalisation implicitly assumes that, whilst competition still plays an important role, there is an increased need for cooperation – both between countries in the East Asian region and between the region and the rest of the world – for the mutual benefit of all parties concerned.

1. However, whilst regional free trade agreements and the establishment of the WTO favour the creation of growth opportunities, at the same time they also increase competition and thus the risk of countries taking protectionist measures to try and insulate their workforces against job-losses. For example –

i. A study by the World Bank concluded that China, after joining the WTO and committing itself to opening up its economy and its markets, will benefit to the tune of more than \$40 billion a year (and this will add about \$75 billion a year to real incomes worldwide).

ii. Hence, as part of the *quid pro quo*, the Agreement on Textiles and Clothing (ATC) , for example, lapsed and other countries abolished their quotas on clothing and textile imports on January 1, 2005 – a move which is expected to ultimately lead to a doubling of such exports from China.

iii. However, this will have drastic consequences for other, smaller producers, who had benefited under the ATC: for example, whilst Cambodia's garment exports (which have accounted for 85% of her total exports) rose by 21% in 2004, they have been predicted to contract by as much as 12% in 2005 due to the increased competition, with knock-on consequences for the country's GDP growth.

iv. As a result of the disruptive effects of the expiry of the ATC on their own clothing and textile industries, and consequent fears of a domestic backlash, the EU has subsequently negotiated a delay in the full implementation of the free-trade agreement with China; the US is also trying to do the same.

Thus, against the backdrop of globalisation and the WTO as the self-less ideal to strive for, there is the need for a more selfish pragmatism – with the conclusion of

[1] *Doing Business in 2006*

i. mutually-beneficial trade agreements between individual countries – in the short-term.

2. The destabilising effect of the threat of terrorism in the region is also having a detrimental effect on those areas involved, including acting as a deterrent for foreign investment.

II. **Business structure** With the exception of Japan, many businesses in the region are still controlled by

a founding family or government body.^[1]

1. Such owner-controlled companies often have little corporate governance, with family ties and trust being more important than contractual relationships.

i. Their typically weak decision-making capabilities mean that they are generally poorly adapted for expanding into the global market-place.

2. Thus potential outside investors are generally wary, considering such businesses to be nepotistic and poorly accountable, especially as they often violate intellectual property rights (IPRs).

i. This failure to acknowledge IPRs may act to dampen technology transfer.

3. Thus, there is a need for local businesses to open up and become more transparent and accountable, with independent directors, if they want to seek a global presence.¹¹

i. This includes the privatisation of state-owned enterprises (with the appropriate social safety nets to buffer those affected adversely by any streamlining and manpower-paring involved).

Economics and finance To sustain the envisaged future of dramatic growth in the region, the required infrastructural upgrading of transport and educational systems, for example, will require a considerable amount of investment.

1. Whilst China has been the main magnet for outside investment (to the tune of about 45% of its GDP), there is evidence for a knock-on effect, whereby other countries in the region have also attracted the attention of investors.¹¹

2. The Asian Development Bank has estimated that the region will require at least US\$1 trillion over the next 5 years, with 80% going to China.

3. High savings rates, coupled with large levels of foreign currency reserves, mean that the region can go a long way to financing its own expansion.

4. Moreover, there is potential for the development of regional bond markets, together with private equity and venture capital funds and other mechanisms to help meet these projected demands.¹¹

5. However, there remains the need for fiscal and other reforms (see section X) in order for the region to be able to attract outside investment to further its economic goals.

6. In addition, there is increasing evidence for an emerging need for some governments to take budgetary and other measures to prevent their economies overheating.

i. For example, there is the worry that exuberant economic growth may cause bubbles: thus, where appropriate, brakes should be applied (e.g. through reducing lending) so as to reduce the risks of a bubble in the property or other market.

^[1] *Asia Roundtable 2005*

In conclusion, the foregoing has identified eleven categories of problems which are likely to face the East Asian economies as they continue to develop. These have been listed, with no attempt to order them in terms of their relative importance. Moreover, the categories identified here are neither mutually exclusive (e.g. the demand for energy creates a diversity of problems) nor necessarily totally inclusive. But, as such, this categorisation provides a possible framework for interested parties – business managers, public administrators, academics and others – to become engaged; and not only to thereby identify other potential problems, but also to set priorities and propose solutions. Only through such synergistic interactions will the benefits of the symbiosis of government and private enterprise be realised to the maximum.

The aim of the Asia Economic Forum is to help promote such interactions between countries of the region, so is to facilitate dialogue amongst the governments and businesses in the region, with the aim of identifying shared interests and promoting these in the global arena.