

**17th Sustainable Shared Growth Seminar  
on “Manufacturing and Sustainable Shared Growth”  
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Engineering Theater,  
College of Engineering (Melchor Hall),  
University of the Philippines, Diliman Campus**

# **Structural Shift of the World Economy and Asia’s Emerging Economies**

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# Structure of my presentation

Introduction: Purpose of this Presentation

[1] The Structural Shift of the World Economy and East Asia

(1) Two Financial Crises and East Asia

(2) The Possibility of Potential Development of the East Asian Economy

[2] Diastrophism in the Global Economy

(1) Shifting from NIES to PoBMEs Growth Structure

(2) The “Middle Income Trap” in East Asia and the New Industrial Clusters

[3] The Continuing Structural Shift of the World Economy and New Issues

(1) Global Financial Crisis and East Asia’s Self-Reliance

(2) The Enlarging Chinese Economy and “China + 1”

[4] The World Economy after the Global Financial Crisis and East Asia

(1) The Expansionary Policies of Advanced Economies and East Asia

(2) East Asia and America’s Recovery Strategy—Struggling in a Trade Order  
Competition

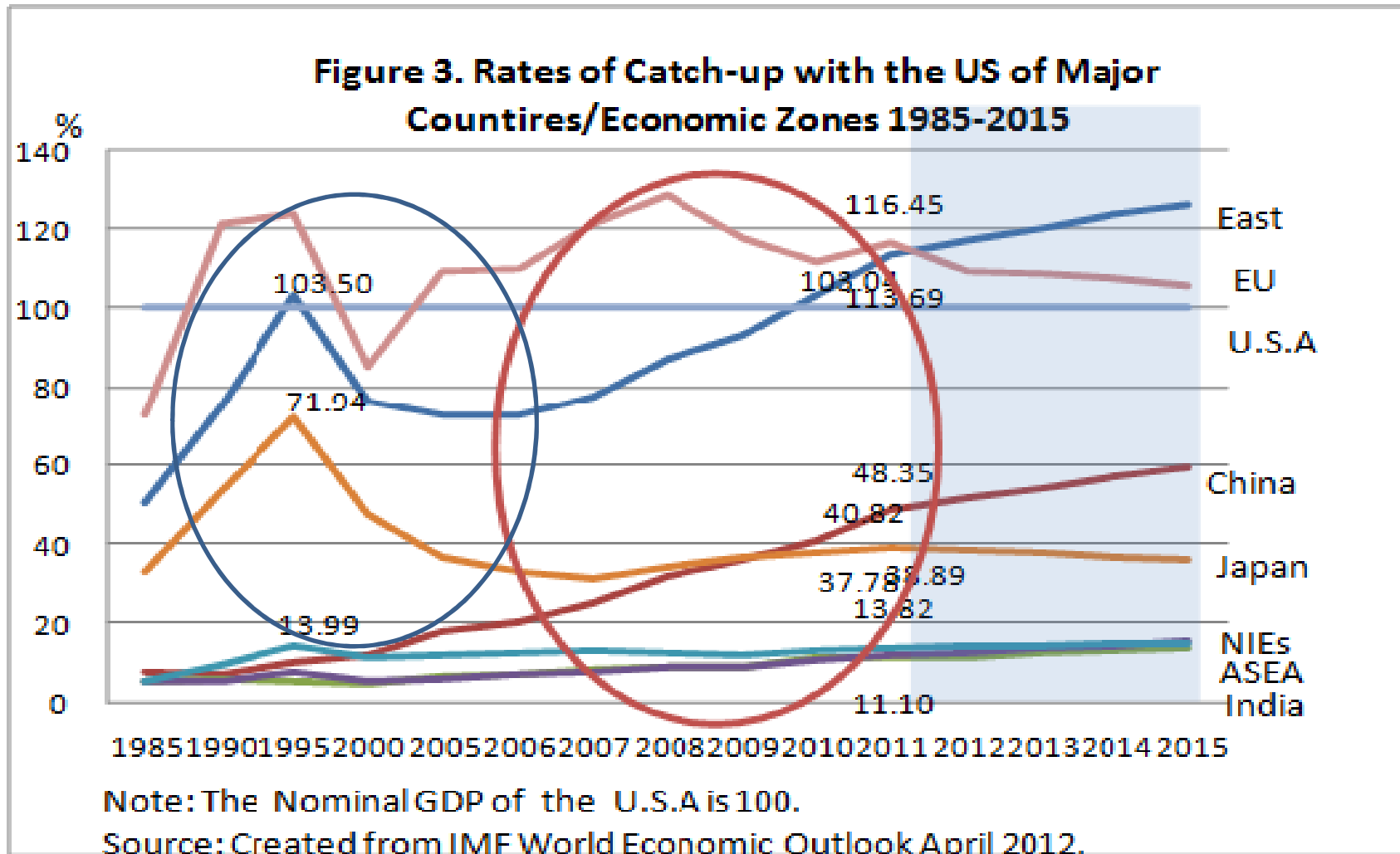
Conclusion: Asia Pacific Economy amidst Political Economic Change

# Introduction

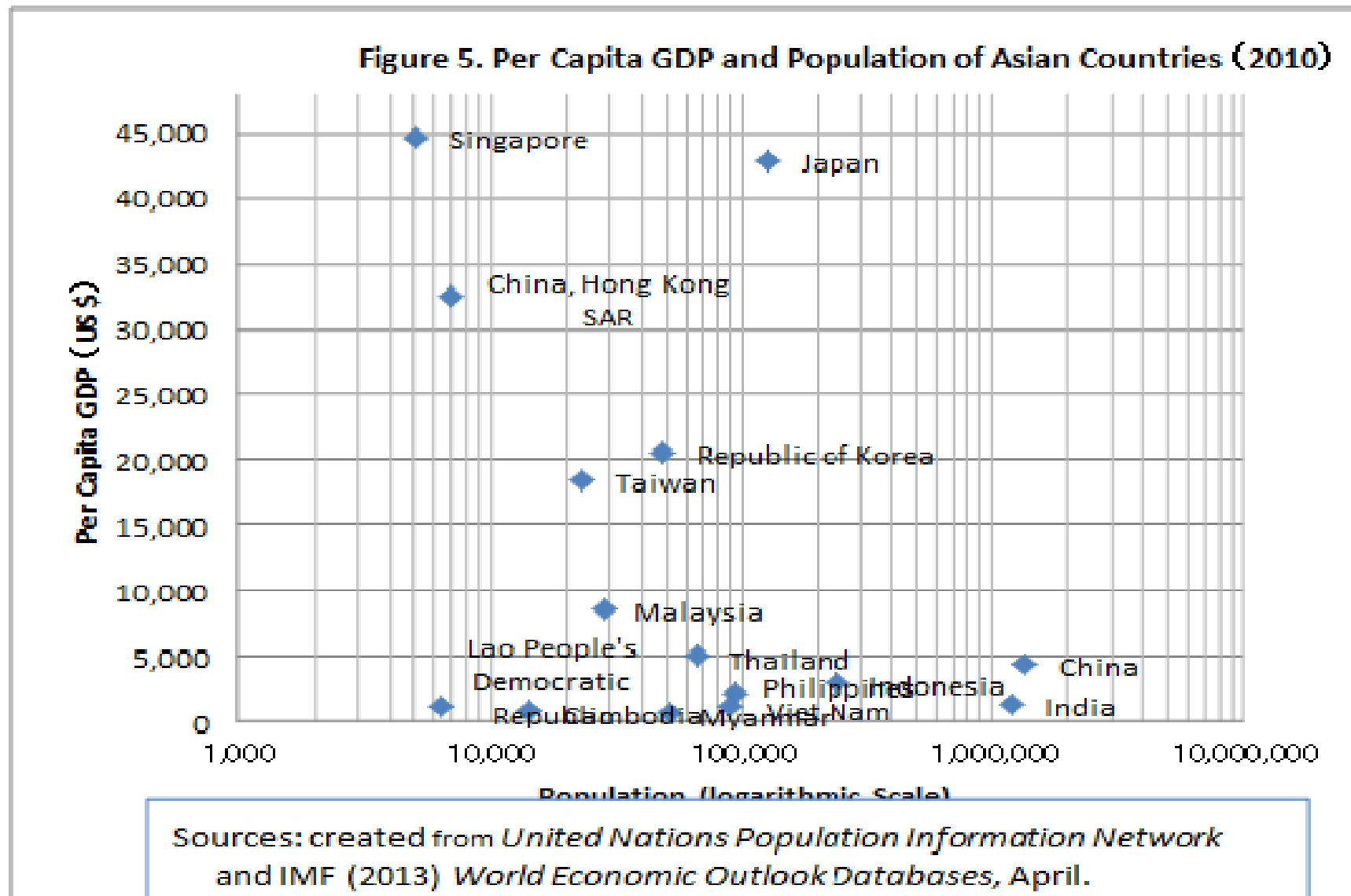
- East Asia's role in the growth of the world economy after the 2008 global financial crisis has surely increased.
- This presentation confirms the structural change of the relationship between advanced and emerging economies,
- and the development mechanism of the emerging economies, which has become the main character in bringing about this structural change/shift.
- Also, the impacts of policy measures of quantity easing by advanced economies under today's world recession on emerging economies will be touched on.
- In this connection, the author has coined the termed PoBMEs to refer to the emerging economies. The term stands for Potentially Bigger Market Economies, which the author thinks is a major force causing change of today's world economy. As such, he shows the development mechanism of emerging economies under the world economy in the early 21st century, and extracts implications for current capitalism.

# [ 1 ] The Structural Shift of the World Economy and East Asia

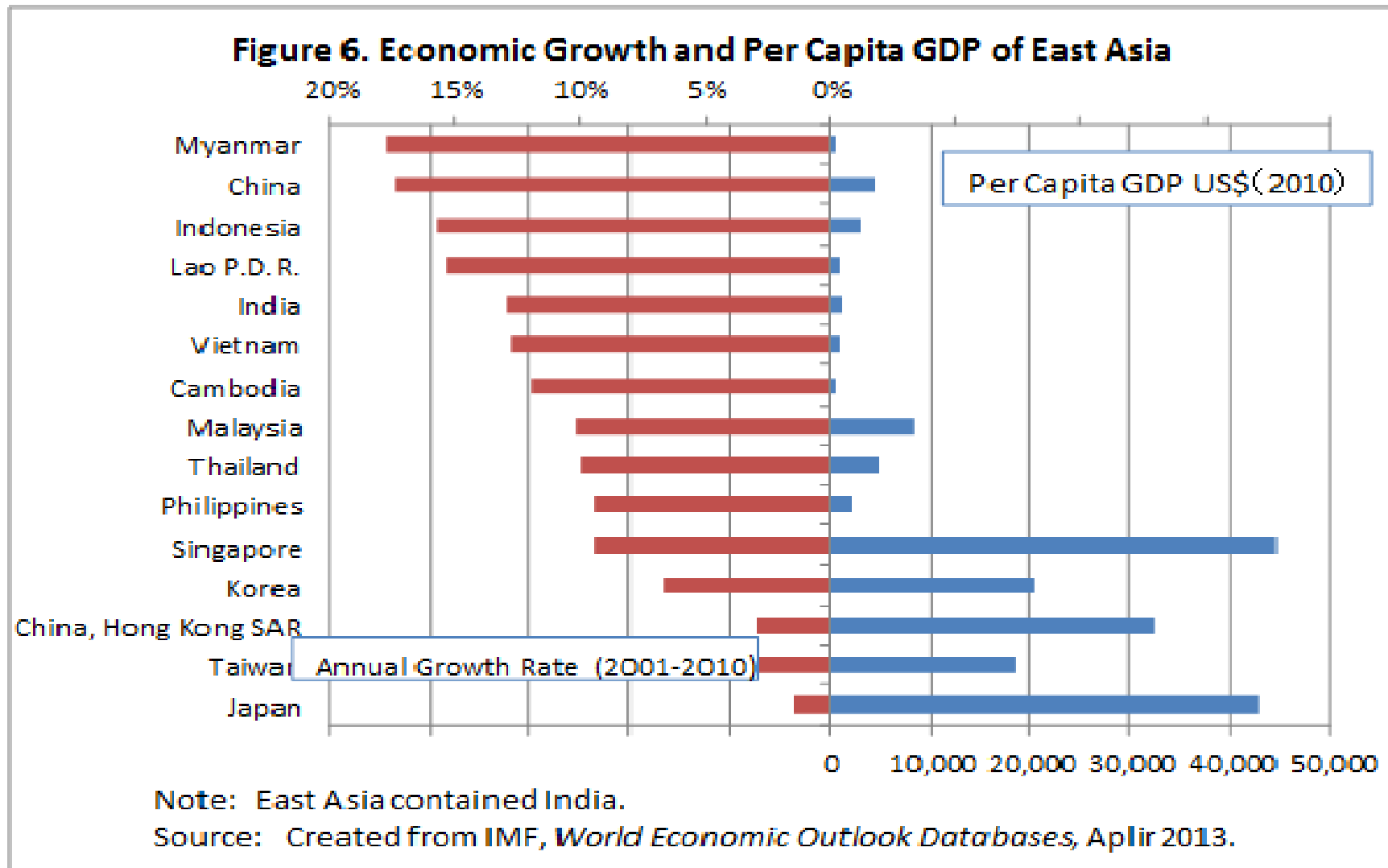
## (1) Two Financial Crises and East Asia



## (2) The Possibility of Potential Development of the East Asian Economy



## Economic Growth and Per Capita GDP of East Asia



## [2] Diastrophism in the Global Economy

### (1) Shifting from NIES to PoBMEs Growth Structure

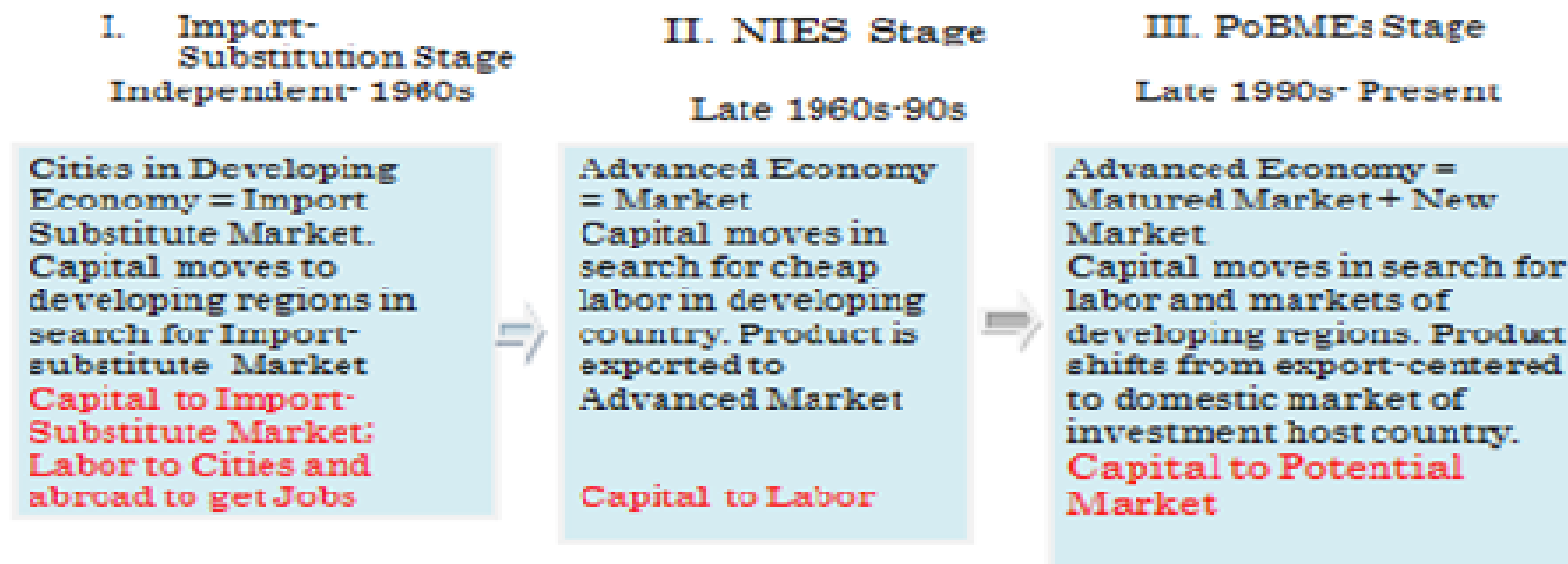
Table 1. Comparison of NIEs and BRICs: Population, Trade Ratio, Share of Manufactured Goods and Services in Exports									
	Population (million)	Trade Ratio* (%)			Manufactured Export Ratio**(%)			Service Export Ratio***(%)	
		1970	1976	2008	1970	1976	2008	1995	2008
Singapore	2.1	225	252	362	31	43	70	18	20
Taiwan	14.7	63	90	123	79	85	99	12	12
Hong Kong	3.9	182	183	354	93	97	83	16	20
Korea	31.9	38	68	92	77	82	89	15	15
	2000	1995	2000	2008	1995	2000	2008	1995	2008
Brazil	170.4	16	23	24	54	59	45	11	13
Russia	145.6	44	71	46	26	22	17	12	10
India	1015.9	23	28	41	74	79	63	18	36
China	1262.5	44	50	59	84	88	93	11	9

Notes: \* Merchandise Trade/GDP, \*\* Manufactured Exports/ Merchandize Exports. \*\*\* Service Exports/(Merchandize + Service Exports).

Sources: calculated from World Bank (2010) World Development Indicators 2010, and Planning and Development, Republic of China (2010) Taiwan Statistical Data Book 2010.

# (1)-2. Shifting from NIES to PoBMEs Growth Structure Spatial Relationships of Capital, Labor, and Market

Figure 7. Changes in Spatial Relationships of Capital, Labor, and Market: A Conceptual Diagram

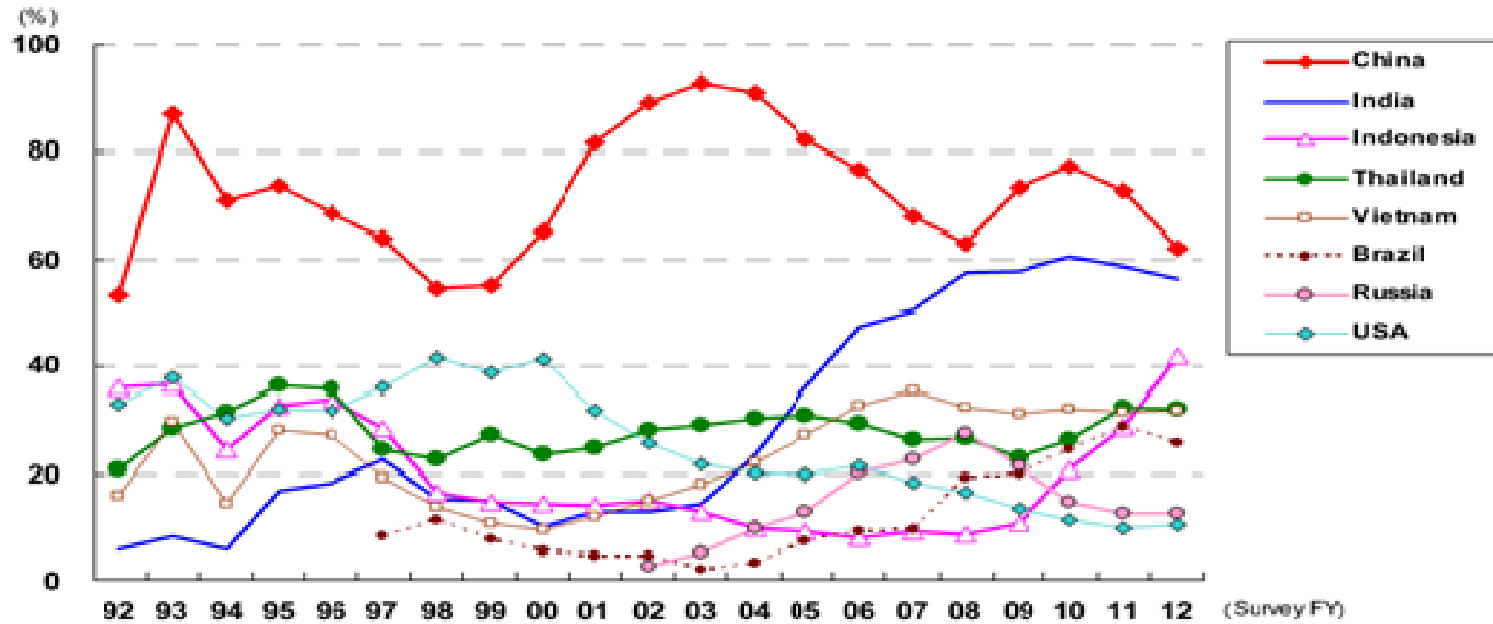


Source: Created by the author



# Trend of Ratio of Votes for Major Promising Countries/Regions for Japanese Business Operations over Medium-Term (Next 3 Years or so) in JBIC's survey

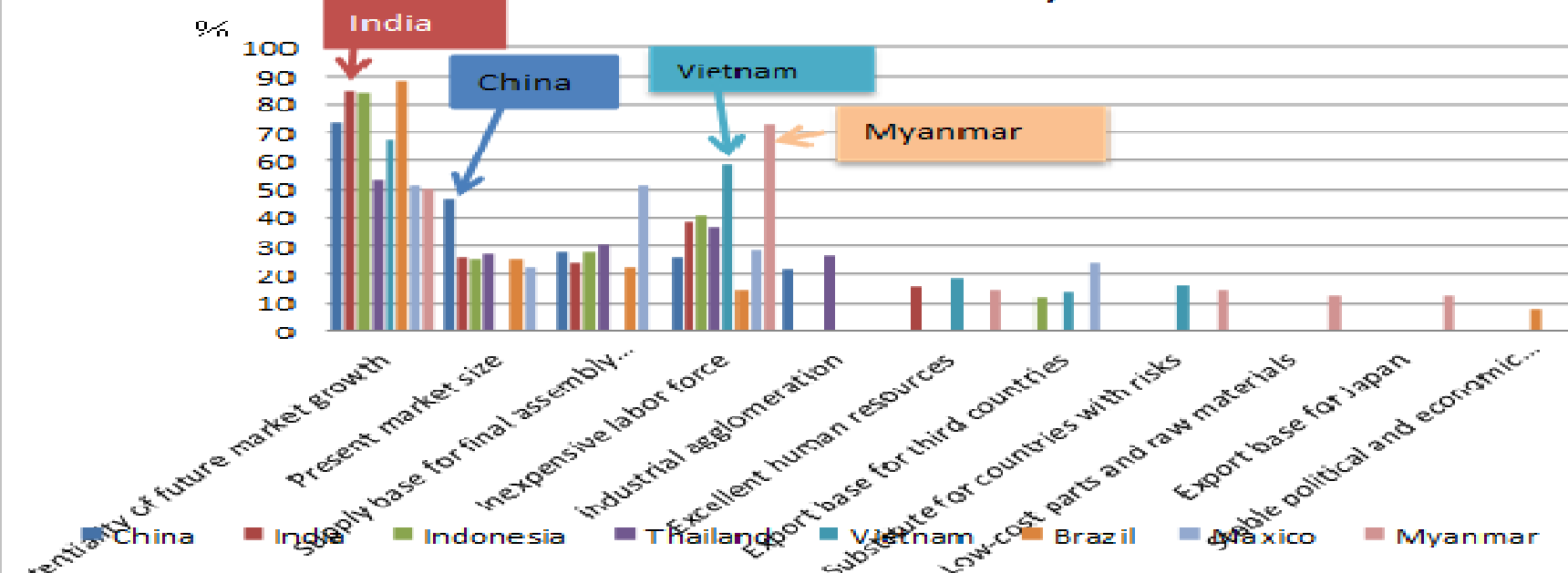
Appendix 2: (Extract) Trend of Ratio of Votes for Major Promising Countries/Regions for Business Operations over Medium-Term (next 3 years, or so)



\* Percentage share = 
$$\frac{\text{No. of responses citing country/region}}{\text{Total No. of respondent companies}}$$

# Reasons given for why countries look promising

Figure 9. Reasons given for why countries look promising (multiple responses) FY2012 survey



Note: Countries arrange in the most promising order of the 2012 survey from the left.  
 Source: created from JBIC (2012) FY2012 Survey Report on Overseas Operations by Japanese Manufacturing Companies, December.

## (2) The “Middle Income Trap” in East Asia and the New Industrial Clusters

- A World Bank Report in 2007 predicts that Vietnam will enter the ranks of the middle income countries in 2010.
- the middle income countries will be mired between the low-wage poor-country competitors and the rich-country innovators. This is a so-called “middle income trap”(Gill and Kharas 2007, 4-5).
- The August 2011 Report of the ADB shares the same view. “The traditional low-wage manufacturing for export model does not work well for middle income countries. They seem to become trapped in a slow growth mode unless they change strategies and move up the value chain.
- However, on a country basis, R&D investment in East Asia, including India, is showing a remarkable increase. The total share of East Asia has surpassed that of the US. In particular, the growth rate of China’s R&D is high at about 20% for the past 10 years (NSB 2012, Chap.4).
- The above fact suggests the necessity of deepening the study to a wider perspective without slanting towards internal analysis, despite the danger of East Asian middle income countries falling into the “middle income trap”.

### [3] The Continuing Structural Shift of the World Economy and New Issues

#### (1) Global Financial Crisis and East Asia's Self-Reliance

1. In 2007 prior to the global financial crisis, the IMF indicated that there was a **decoupling** of the business cycles of advanced economies and developing economies, particularly between the US and Asia (IMF 2007, 121-48).
2. In contrast, the Asian Development Bank developed the **"Uncoupling Myth"**, which showed a skeptical view of the uncoupling based on the dependence of Asia on the final consumer goods market of the US and international finance (ADB 2007a; ditto 2007b; ditto 2008). This coupling was immediately proven in the global financial crisis of 2008.
3. The ability of the East Asian economy to recover from the global financial crisis was extremely strong, and showed to be ahead of the advanced economies. As such, expectations on the Asian emerging economies, particularly China, have been rising since the summer of 2008. Since 2009, **the IMF and METI of Japan came to form expectations on the leading role of the Asian economy in the sustained growth of the world economy** (IMF 2009).

## (2) The Enlarging Chinese Economy and “China + 1”

- entering this century, the Chinese economy made a big leap. Since the opening up reforms of 1978, China has obtained the rank of being the 2nd economy in the world, surpassing the GDP of Japan in 2010 as a result of a high growth rate averaging at 10% annually over several decades.
- The conflict between Japan and China was in its worst state since the normalizing of relations in 1972. Owing to this, the “China + 1” policy of Japanese firms was pushed entering this century, and the tendency became stronger to disperse investments from the unipolar concentration on China to ASEAN countries such as Thailand, Indonesia, and Vietnam.
- the regional performance of investment values in the first half (January to June) of fiscal year 2013, the investment amount of one trillion yen to ASEAN recorded a 4-fold increase over the same period last year, putting it at twice that of China.
- The wave of direct investment, involves the management of the geopolitical risks of the firm, and is creating a large flow of direct investments towards the PoBMEs, which goes beyond China.

## (2)-2. The Enlarging Chinese Economy and “China + 1”

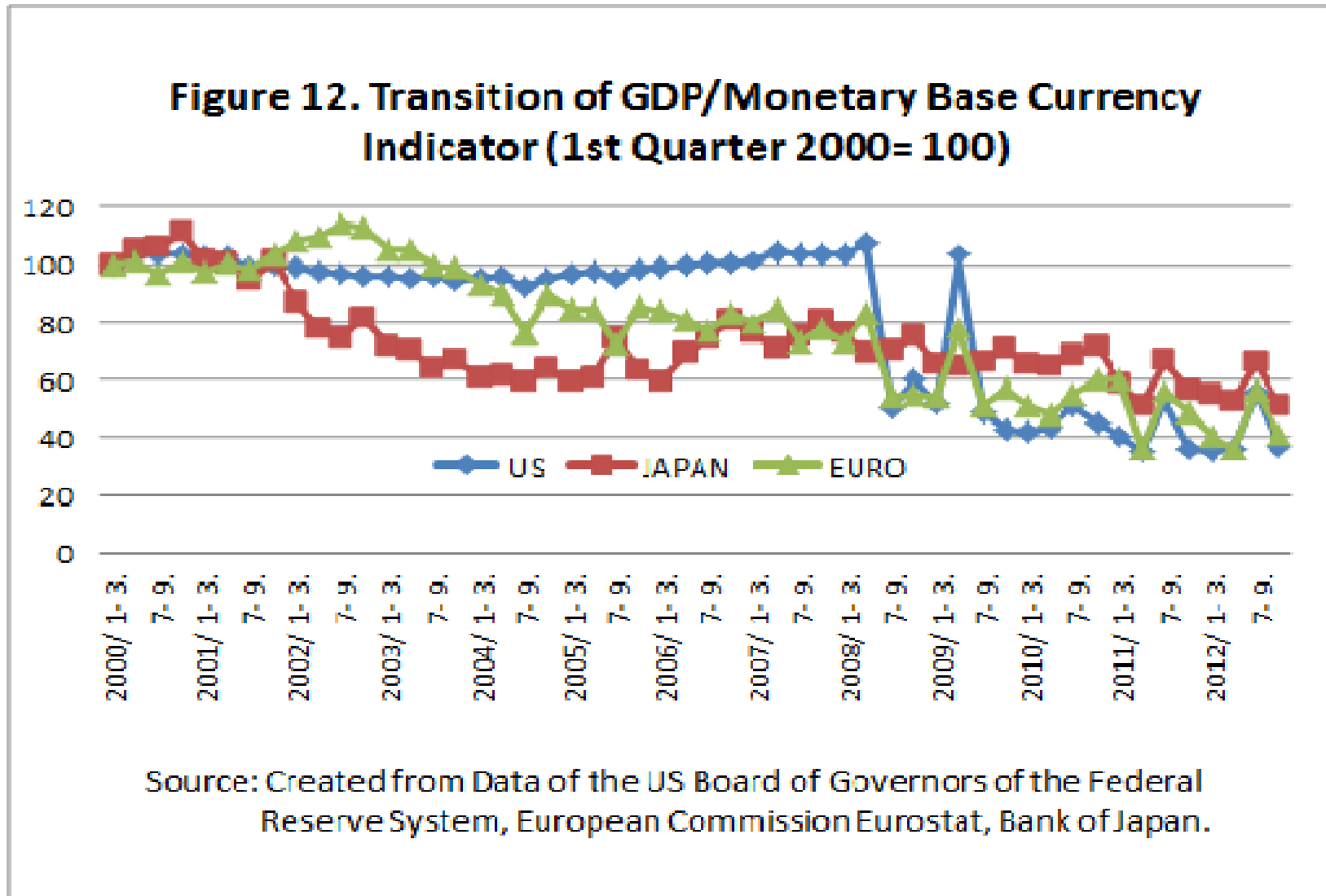
- It appears not to be a type where China is the only one that seizes the fruits, while the intermediary ASEAN region and its industries stagnate and decline. Firms seek new markets and move beyond BRICs, and are supported by the growth strategy of PoBMEs. The economic integration, including the ASEAN region, is advancing. The development strategy through the enticement of foreign firms, which started with the NIES in the 1960s, created a foothold for the high value-added industrialization of the NIEs. Such a mechanism is spreading to PoBMEs through the market competition mechanism of advanced economies.

#### [4] The World Economy after the Global Financial Crisis and East Asia

##### (1) The Expansionary Policies of Advanced Economies and East Asia

- The advanced countries after the Lehman Shock of 2008 have been increasingly relying on financial policy as a major measure for recovering the business cycle. The US Federal Reserve Bank (FRB) has adopted quantitative easing (QE) in April to September 2009, October 2011 to March 2012, and September 2012 up to the present.
- Quantitative easing was becoming a global phenomenon, bringing about the circulation of a large amount of money into the market. Japan's QE policy for extricating its economy from deflation adopted during March 2001 and March 2006 is thought of the first of this kind of policy in financial history of the post-World War II (Calderon 2012).

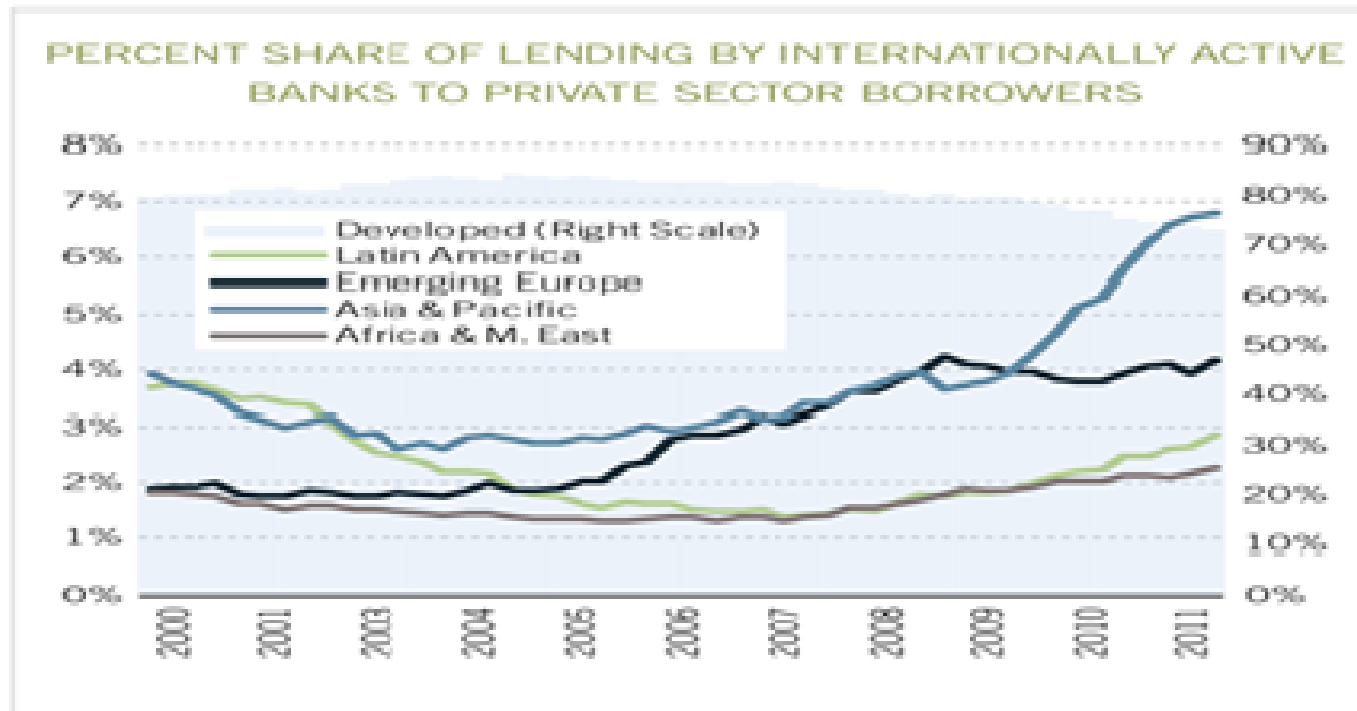
(1)-2. The Expansionary Policies of Advanced Economies and East Asia





## (1)-3. lending increases in emerging economies in Asia

EXHIBIT 3: QE was intended to increase lending in developed markets, but it is occurring in emerging markets instead.



Source: Bank of International Settlements, as of Dec. 31, 2011.

## (2) East Asia and America's Recovery Strategy—Struggling in a Trade Order Competition

- The TPP negotiation issue led by the US is very serious topic among East Asian countries.
- At present the negotiations are on-going among twelve countries.
- What is the TPP? It could be said that it was initially a treaty that aims for liberalization of P4 small countries, but its character was fundamentally changed when the US joined and took the lead. In January 2009, Obama adopted the National Export Initiative (NEI) plan which was to double the exports of the US in the next five years. The NEI was adopted in order to increase employment and reduce unemployment through the doubling of US exports during the severe Sub Prime Loan crisis. The TPP is deeply tied to this recovery policy. In this regards, for the US, the significance of the participation of Japan in the TPP is extremely large.

## (2)-2. East Asia and America's Recovery Strategy—Struggling in a Trade Order Competition

Table 3. GDP Structure of TPP Negotiating members and Japan, etc.

	GDP in 2010	Share, TPP0	Share, TPP11	Share, TPP12
	Billion \$	2009 12-12.9	2012 10-13.6	2013 7-現在
		%		
Brunei	12.37	0.07	0.06	0.05
Chile	203.30	1.21	1.02	0.82
New Zealand	140.51	0.83	0.70	0.50
Singapore	222.70	1.32	1.11	0.89
P4	578.88	<b>3.44</b>	<b>2.89</b>	<b>2.32</b>
Australia	1,237.36	7.35	6.18	4.97
Malaysia	237.96	1.41	1.19	0.96
Peru	153.80	0.91	0.77	0.62
Vietnam	103.57	0.62	0.52	0.42
U.S.	14,526.55	<b>86.27</b>	<b>72.53</b>	<b>58.32</b>
TPP9 Total	16,838.13	100.00		
Canada	1,577.04		7.87	6.33
Mexico	1,034.31		5.16	4.15
TPP11 Total	<b>19,449.47</b>		100.00	80.41
Japan	5,458.80			<b>21.92</b>
TPP11-Japan Total	24,767.76			100.00
excl. China+HK	6,327.10			

Note: New Zealand estimated.

Source: Made by author. Table created from IMF, *World Economic Outlook Database*, September 2011.

# Conclusion

- Amidst the restoration as a gigantic economic state of China, which has a long history of civilization and in the stage of PoBMEs, new issues emerge. One is the challenge to this structural shift by the US hegemonic state that has led the existing system, and the problem of choice of commercial trade by countries, particularly Japan, that seek to draw profit from it. A US-led TPP would be one where the US would continue to control the commercial trade rules of the growing East Asian economic zone, and not give the leadership to China that in the near future would possess greater power.
- Will it form a regional economic zone of peace and prosperity? Or, will the region head towards a more complicated and difficult direction where there is a division among states of the East Asian region that strengthens a chain of mutual distrust? It could be said that East Asia, as a regional economic zone, faces an important issue.

**Thank you very much for your attention!**