

Asia Business Conference 2007 at Harvard Business School

The Asian Economy in a Global Context and the Role of Next Generation Leaders

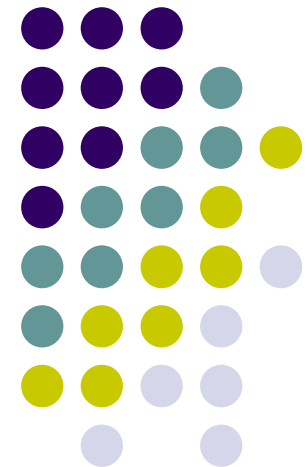
Executive Round Table Plenary

February 10th, 2007

Jong Nam Oh

Professor, Waseda University

(Former Executive Director of IMF)



Agenda



- I. Asia in the World Economy**
- II. Engines for Global Growth**
- III. Asia's Share of World Exports**
- IV. Foreign Exchange Reserves**
- V. Challenges for Asia**
- VI. Can Asia's Growth Be Sustained?**
- VII. Recap**
- VIII. Conclusion**

I. Asia in the World Economy (1)

Rank	Country	Nominal GDP in 2005 (USD billions)	Population (Persons millions)	GDP per capita (USD)
1	U.S.	12,456	297	42,001
2	Japan	4,567	128	35,757
3	Germany	2,792	83	33,854
4	China*	2,234	1,308	1,709
5	U.K.	2,230	60	37,023
6	France	2,127	63	33,918
7	Italy	1,766	59	30,200
8	Canada	1,132	32	35,134
9	Spain	1,127	41	27,226
10	Brazil	796	184	4,320
11	South Korea	788	48	16,308
12	India	772	1,094	706**

*Excluding HK SAR and Macau, ** IMF staff estimates

Source: IMF, World Economic Outlook Database, September 2006

I. Asia in the World Economy (2)

Asian Countries, Then and Now						
Country	Nominal GDP (USD billions)			GDP per capita (USD)		
	1990	2005	% increase	1990	2005	% increase
Japan	3,032	4,567	50.63	24,559	35,757	45.60
China*	388	2,234	475.77	339	1,709	404.13
South Korea	264	788	198.48	6,155	16,308	164.96
India	317	772	143.53	383	706**	84.33

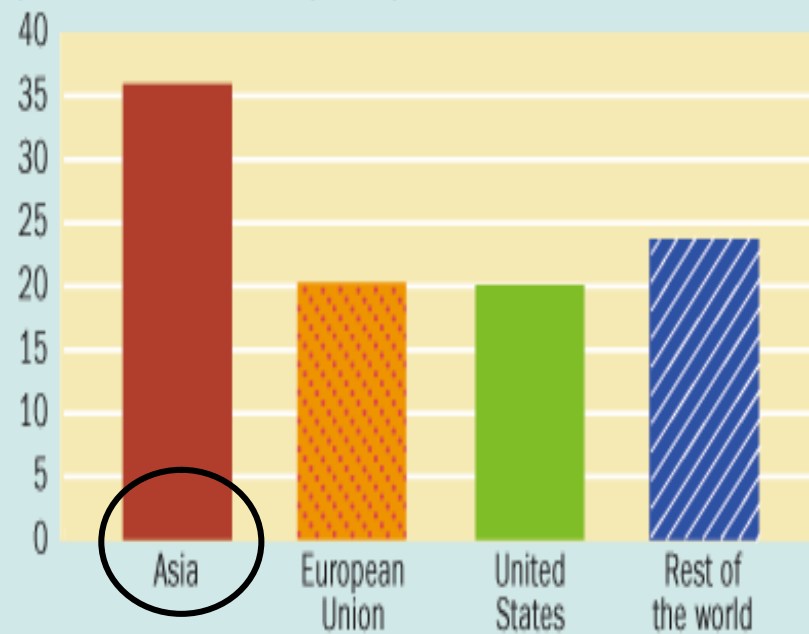
*Excluding HK SAR and Macau, ** IMF staff estimates

Source: IMF, World Economic Outlook Database, September 2006

II. Engines for Global Growth

Asia's share of world GDP exceeds that of the European Union and of the United States . . .

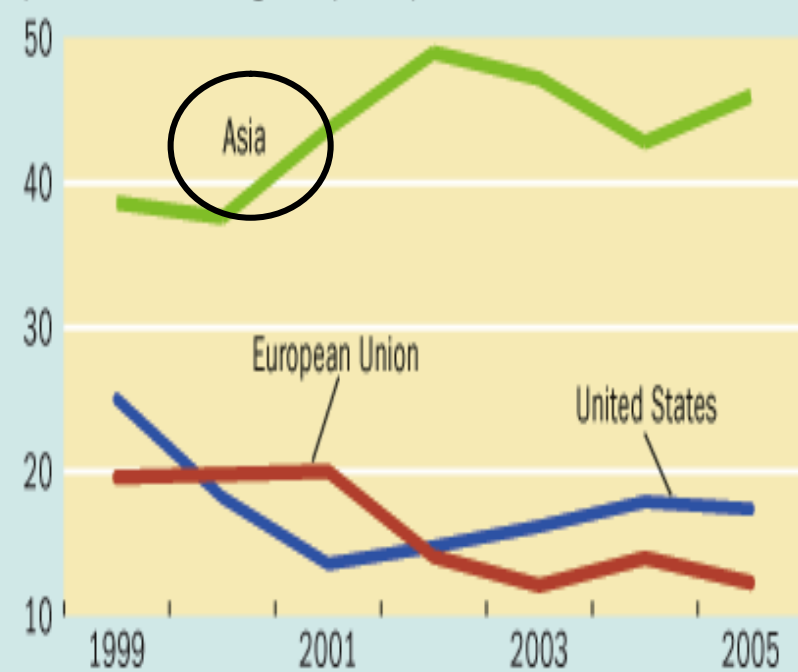
(share of 2005 world GDP, percent)¹



¹Weighted by purchasing power parity.

. . .and the region leads the world in growth.

(contribution to world growth, percent)¹

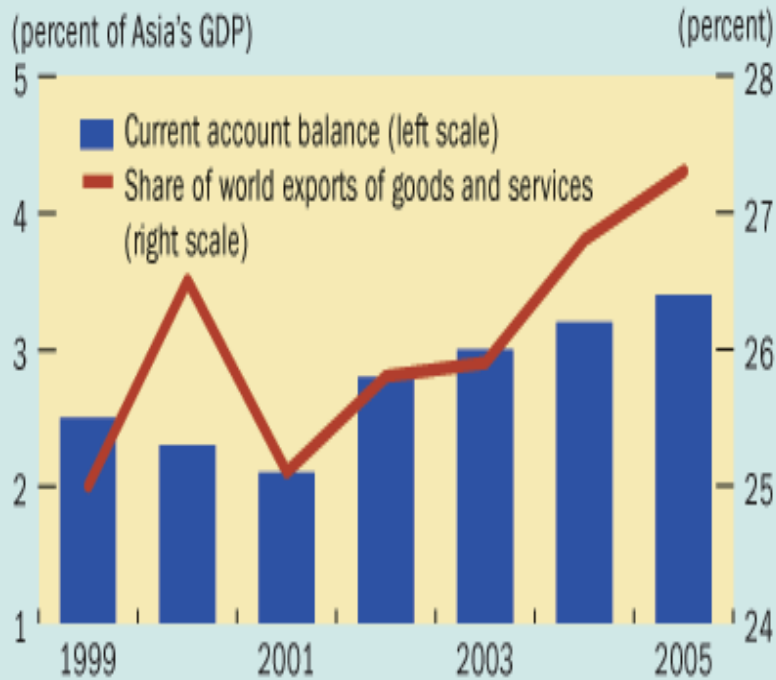


¹Weighted by purchasing power parity.

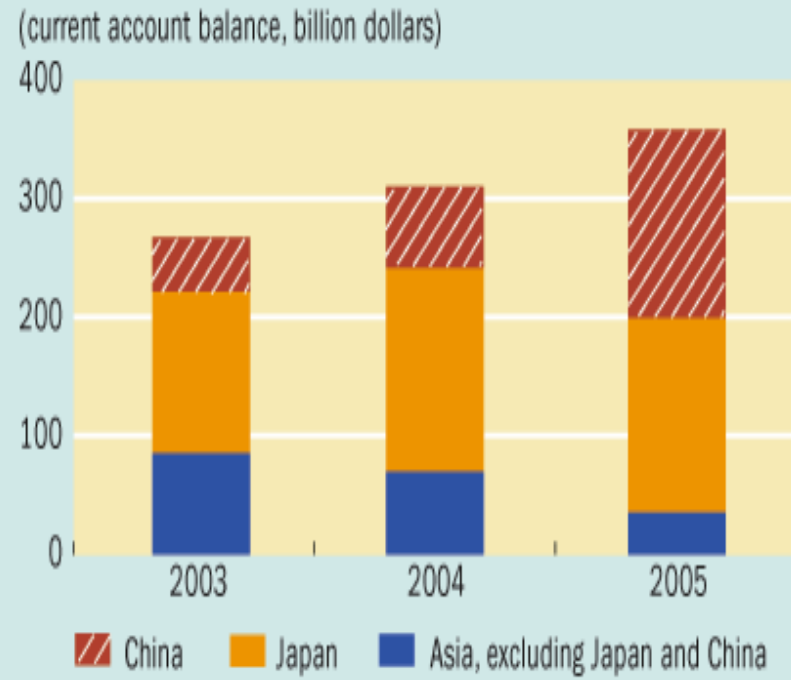
Source: IMF, F&D, June 2006, Vol. 43, No.2.

III. Asia's Share of World Exports

As Asia's exports have increased, so has its current account surplus ...



... but excluding China, the region's surplus is diminishing, mostly due to high oil prices.



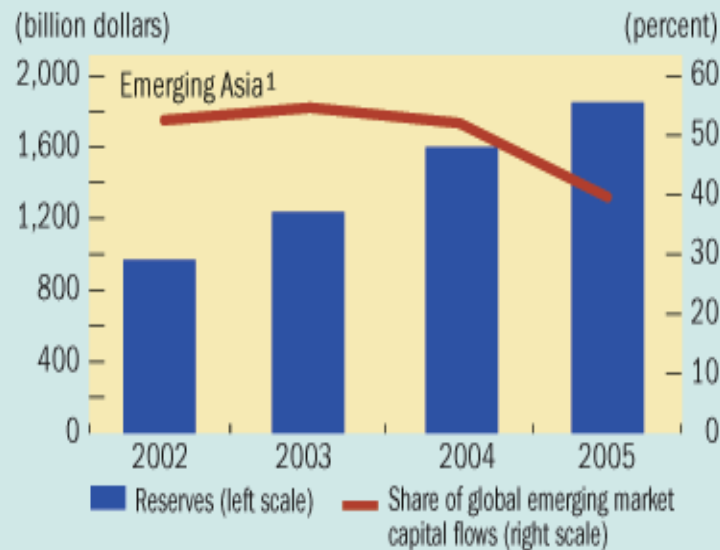
Source: IMF, F&D, June 2006, Vol. 43, No.2.

IV. Foreign Exchange Reserves

As of end-2005 ▶ Over US\$ 2.5 trillion

Japan (\$ 847 bill.) + China (\$819 bill.) + Taiwan (\$ 253 bill.) + Korea(\$ 210 bill.)+ ...

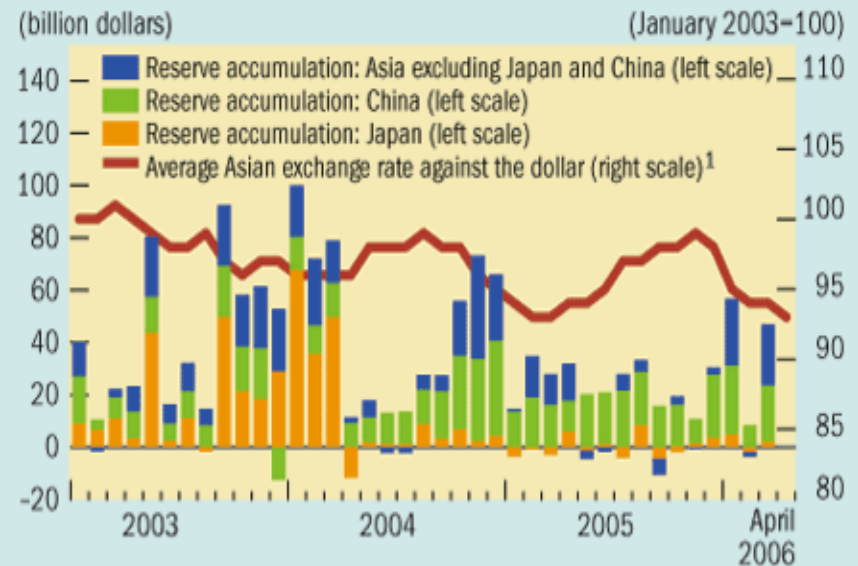
Over the past few years, foreign exchange reserves have risen sharply ...



¹China, Hong Kong SAR, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, and Thailand.

Sources: IMF, *World Economic Outlook*, and staff estimates; and CEIC Data Company Ltd.

... but outside China, the reserve buildup has slowed since 2004, as exchange rates have become more flexible.



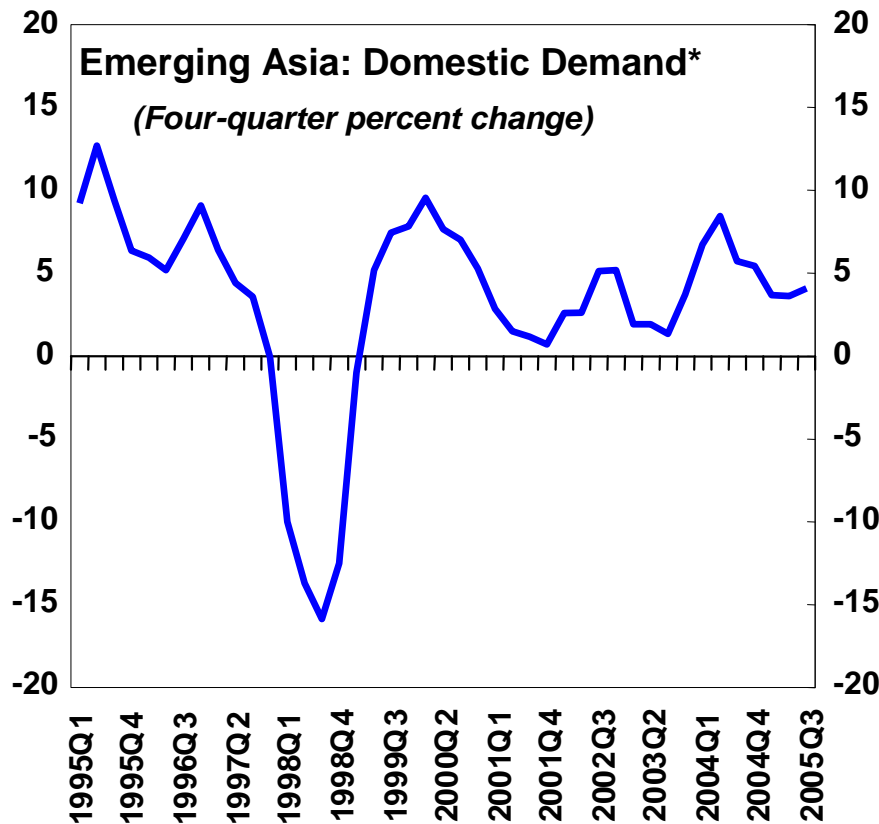
¹Comprises India, Indonesia, Japan, Korea, Philippines, Singapore, Taiwan Province of China, and Thailand; a decline in the exchange rate signifies an appreciation.

Sources: CEIC Data Company Ltd.; and IMF staff estimates.

Source: IMF, F&D, June 2006, Vol. 43, No.2.

V. Challenges for Asia (1)

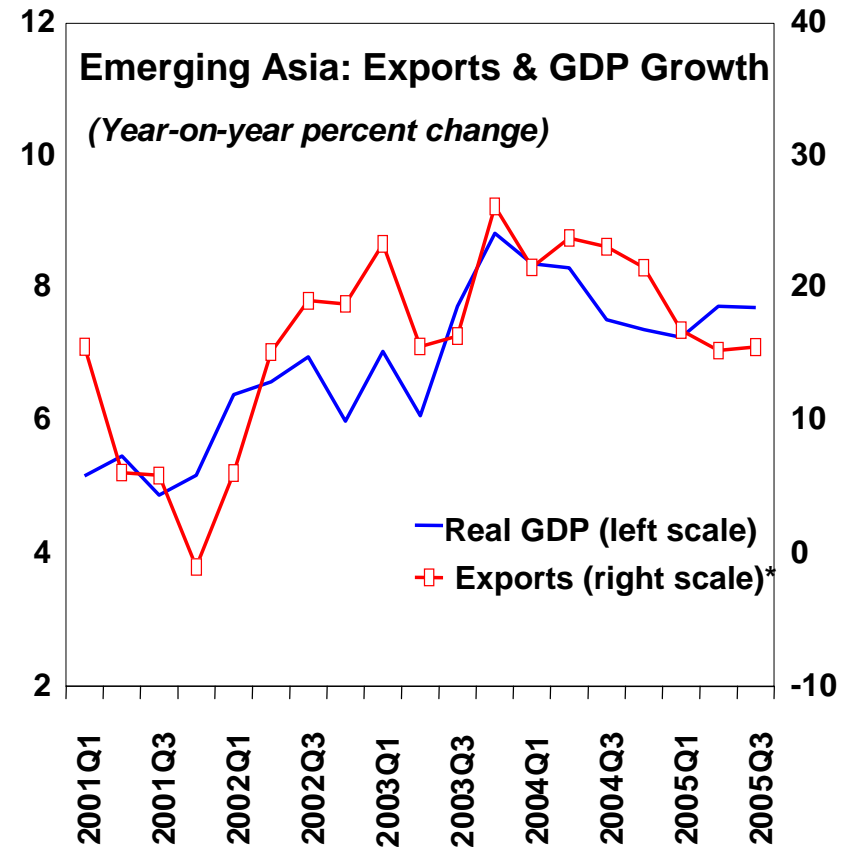
Region's Weak Domestic Demand



* Excludes China and India.

Source: IMF, APDCORE database; and staff calculations

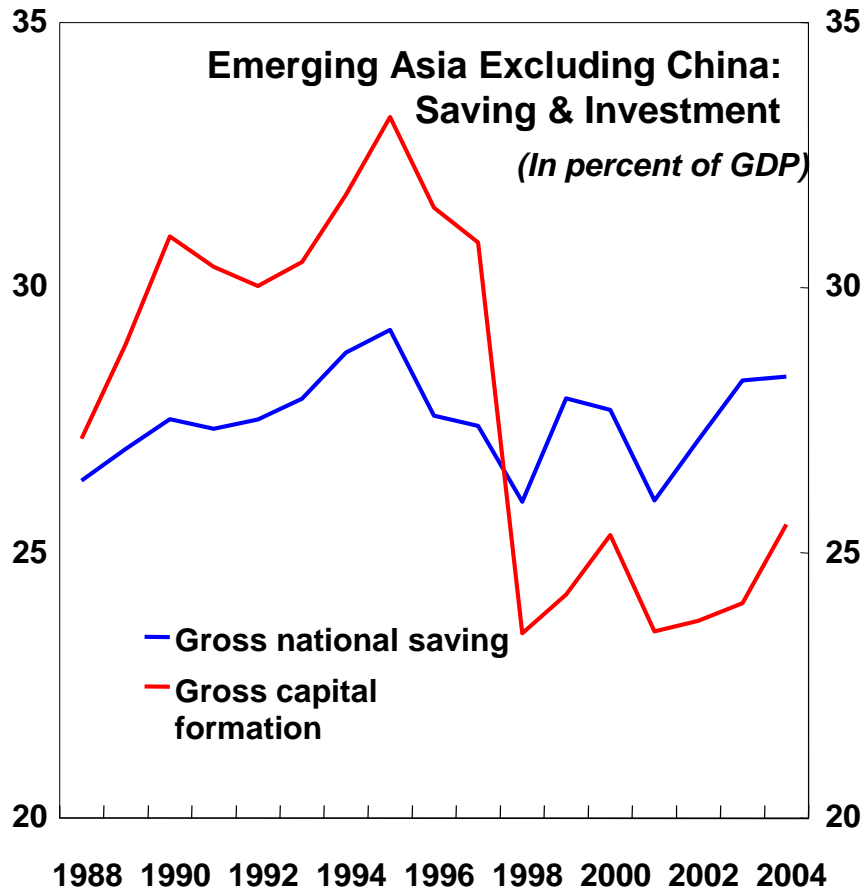
Export-dependent Growth



*Excludes India and Singapore.

V. Challenges for Asia (2)

Prolonged Investment Decline



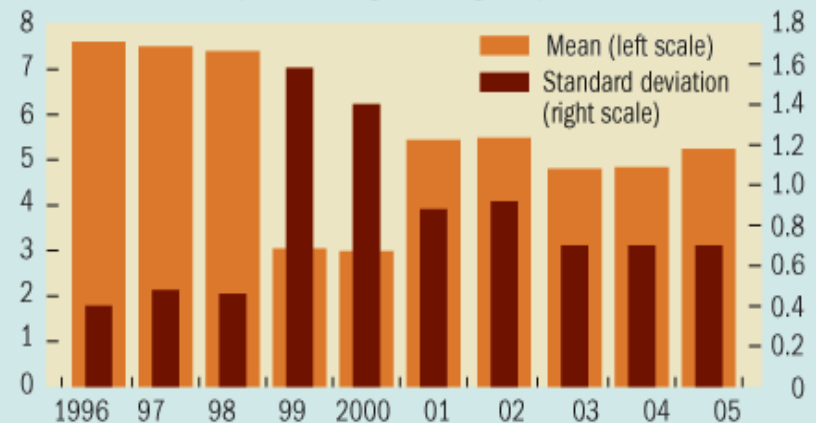
Source: IMF, APDCORE database; and staff calculations

Increase in Perceived Risk

Riskier predictions

Greater dispersion in forecasts suggests an increase in perceived risk in Asia since the 1997-98 crisis.

(consensus forecasts, percent change in GDP growth)



Source: Consensus Economics.

Note: Simple averages for Indonesia, Korea, Malaysia, Singapore, and Thailand. Forecasts are as of January for subsequent year (for example, "1996" = January 1995 forecast of 1996 growth).

Source: IMF, F&D, June 2006, "Asia's Investment Puzzle"

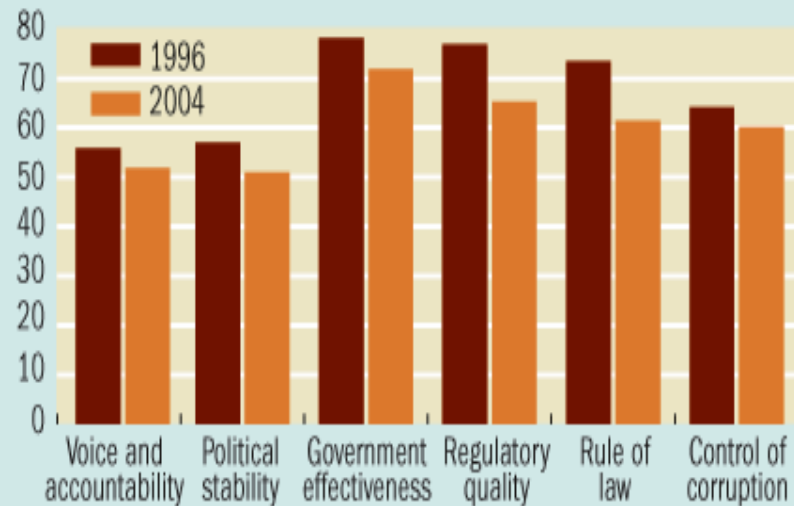
V. Challenges for Asia (3)

Falling Governance Rankings

Falling behind

Asia's governance rankings have deteriorated since the crisis.

(emerging Asia average¹; top ranking = 100)



Source: World Bank.

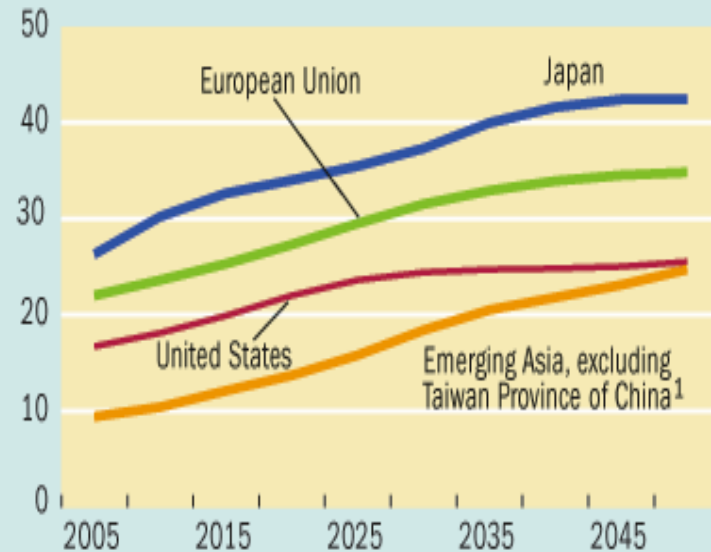
¹Excludes China.

Source: IMF, F&D, June 2006, "Asia's Investment Puzzle"

Soaring Aging Populations

aging populations.

(percent of population aged 60 or over)



¹China, Hong Kong SAR, India, Indonesia, Korea, Malaysia, Philippines, Singapore, and Thailand.

Source: United Nations.

Source: IMF, F&D, June 2006, "Asia's Role in the World Economy"

VI. Can Asia's Growth be Sustained? (1)

- What Can Be Done to **Strengthen Domestic Demand?**
 - The role of macroeconomic policies is limited
 - Public debt in many cases remains high
 - Monetary policy needs to continue to keep a close eye on inflation
 - So countries will need to rely on structural reform
 - Promoting investor-friendly environment
 - Reforming financial systems
- How to Transform from Factor Input into **Productivity-driven Growth**
 - Human capital accumulation
 - Technological progress

VI. Can Asia's Growth be Sustained? (2)

➤ **Regional and Global Integration** as a Driving Force for Inducing Competition and Innovation

- **Promoting regional integration**

- **So far, remarkable progress in trade integration**

Intra-regional trade (in percent of total trade):

around 20 % (1980) → above 40 % (2004)

- **But regional financial integration is still at an early stage**

Underdeveloped capital markets

Low share of foreign equity in a country's equity portfolio with the exception of Taiwan and Singapore

VI. Can Asia's Growth be Sustained? (3)

➤ Dealing with **Increasing Economic and Social Disparities**

- Declining labor's share of national income

Labor income share of industrial countries:

57 % in 1976-1980 → 51 % in 1996-2000 (OECD, Structural Analysis Database)

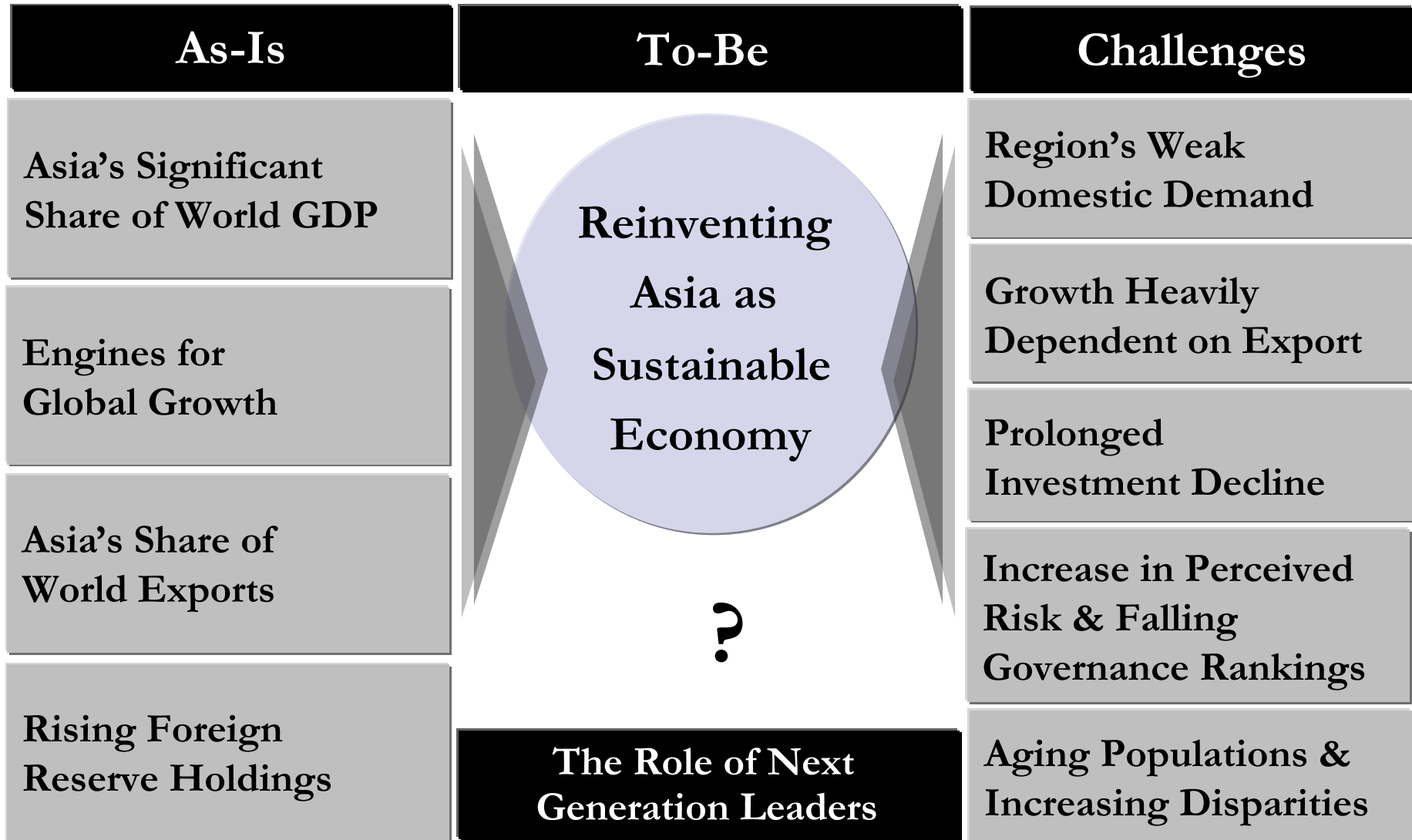
- Consequence of globalization and intensifying competition

➤ How to **Foster Growth-enhancing Environment**

- **Role of institution**

Well-defined property rights, enforcement of contracts, independent judiciary system, etc.

VII. Recap



VII. Conclusion

Reinventing Asia as Sustainable Economy and the Role of Next Generation Leaders: Opportunities & Responsibilities

- **Opportunities**

- Asia's weight in the world economy is growing
- Needs of more economic/financial and political cooperation at both global and regional level
- Demands for leading players in the region as Asia is more integrated into the world economy

- **Responsibilities**

- **Quality of growth** matters for sustained growth
- Asia's sustained growth affects not only the region but the world economy as well
- Next generation leaders should **be responsible for the region's sounder development** for its sustained growth

Thank You !

Asia Business Conference 2007 at Harvard Business School