
Asia's Global Challenge

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Views expressed in this address are that of the speaker's

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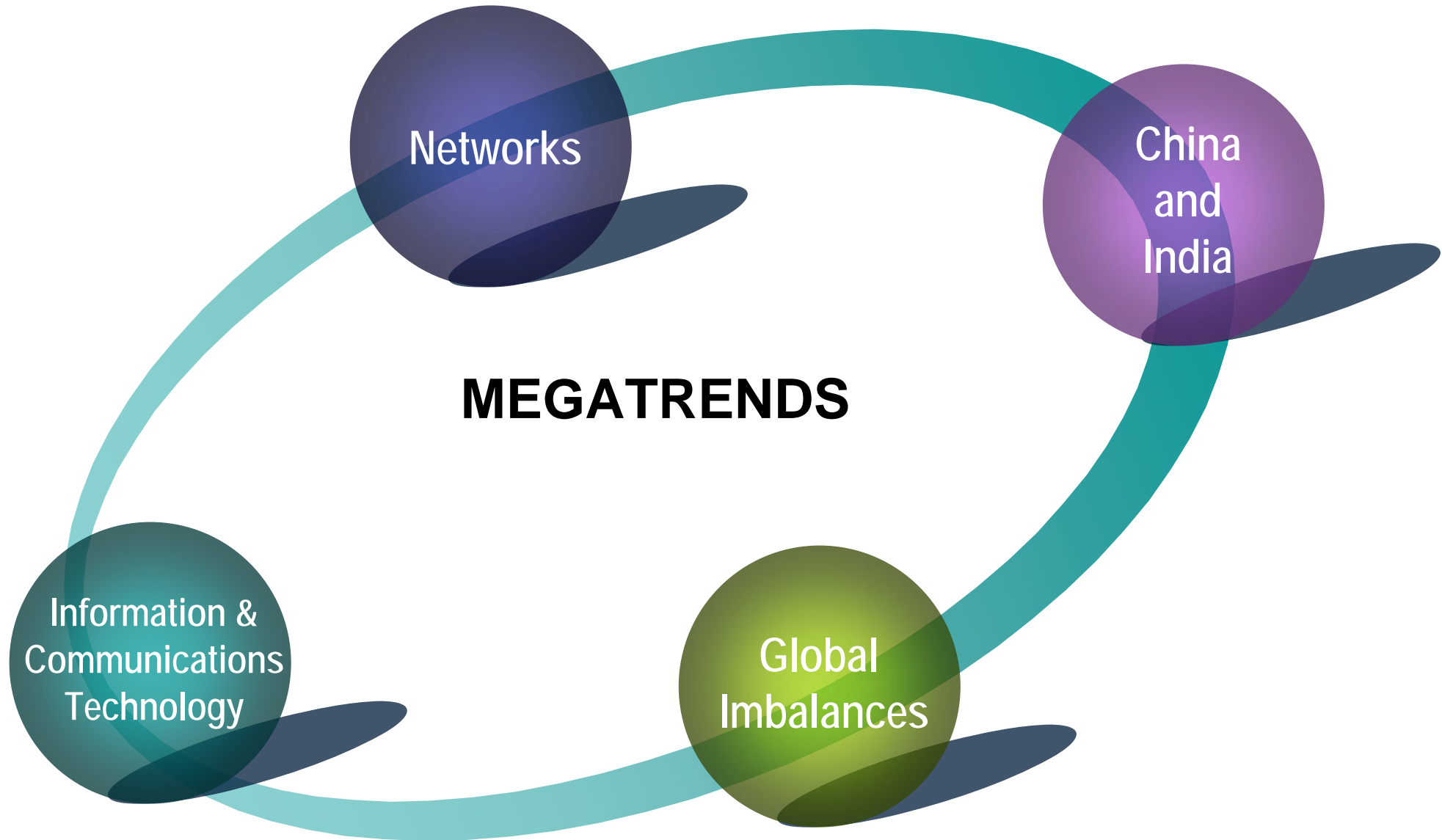
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Asian MegaTrends

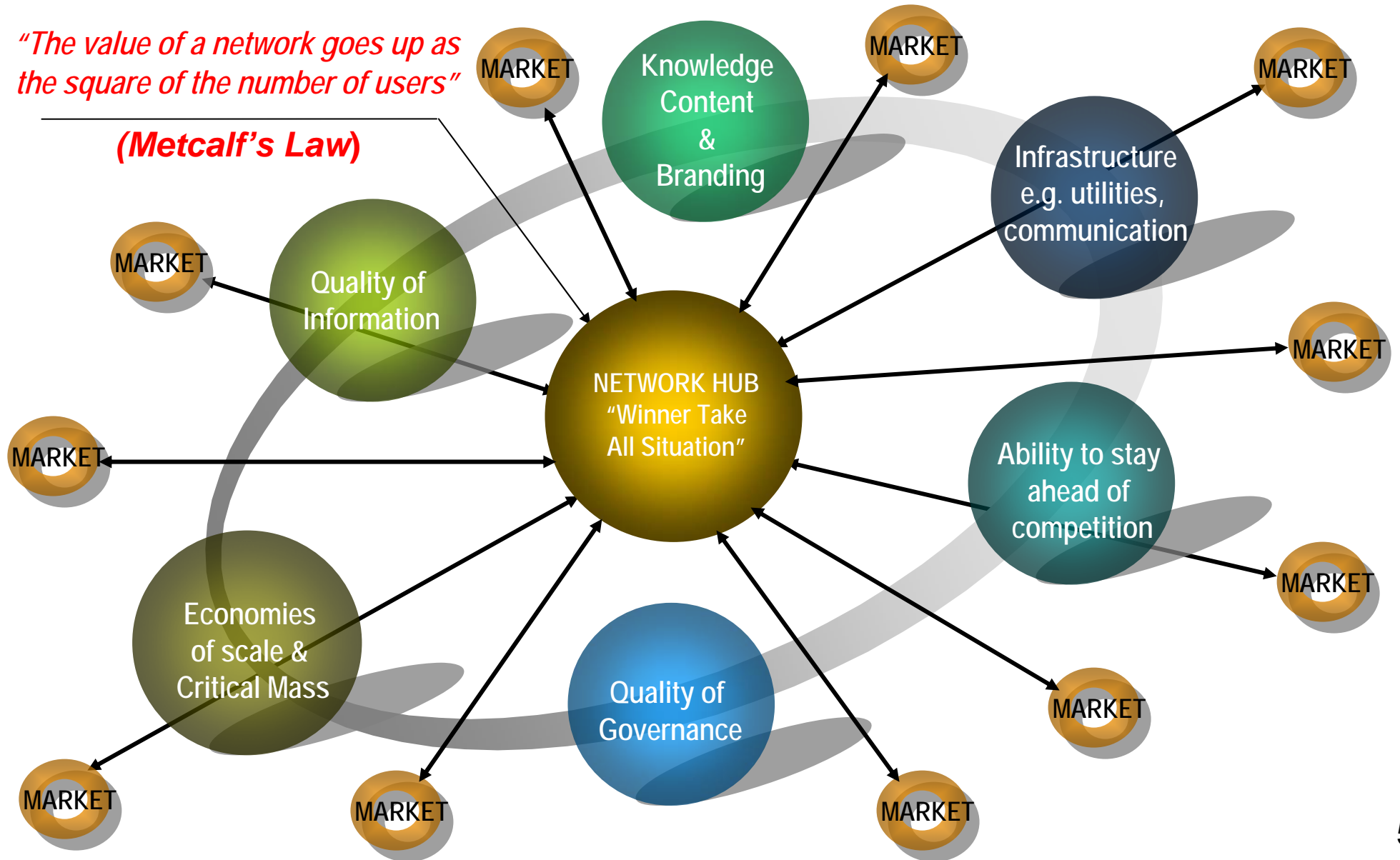
Global Markets are increasingly Inter-connected



The Network Economy

"The value of a network goes up as the square of the number of users"

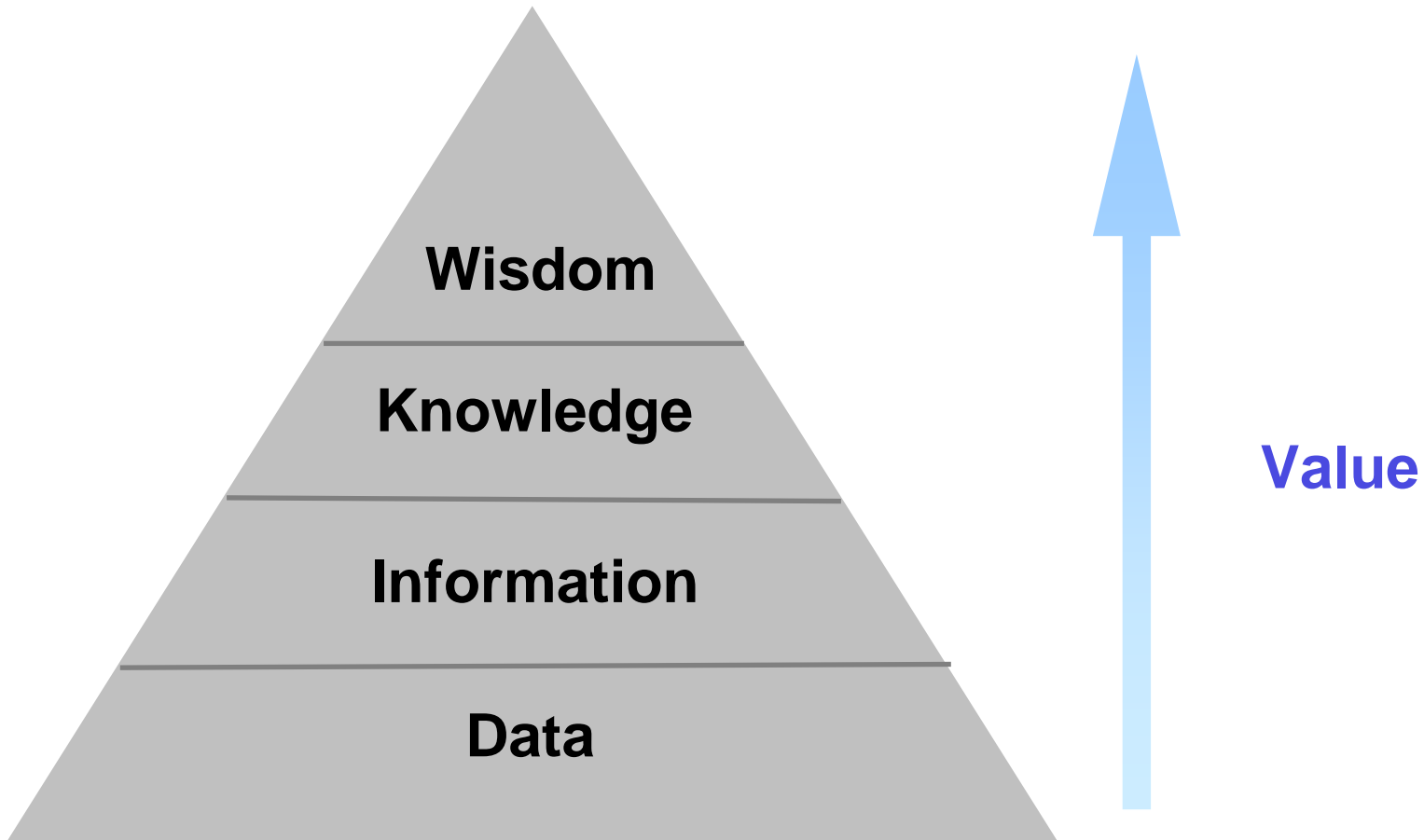
(Metcalfe's Law)



Changing Structure of Markets

- **Financial Innovation**
 - Evolution of derivatives, options & futures
- **Technology & Telecommunications**
 - Global 24 hours markets
 - From market place to borderless space
- **Deregulation**
 - Lines of traditional businesses blurring
- **Markets are Networks of Knowledge that needs to be Managed**
- **The Management Revolution**
 - He who manages best wins, but managing in Network Economy is combination of Private + Public Management!

For Value Creation, Knowledge Needs to be Managed



Robert W Lucky, "Silicon Dreams: Information, Man and Machine", St Martin's Press, 1991.

Phases of Network Economy Growth

From Hardware to Software to Services

Standardization

Variety + Quality

Product + Distribution

1. Ford:

Products

Process

Training

2. Toyota:

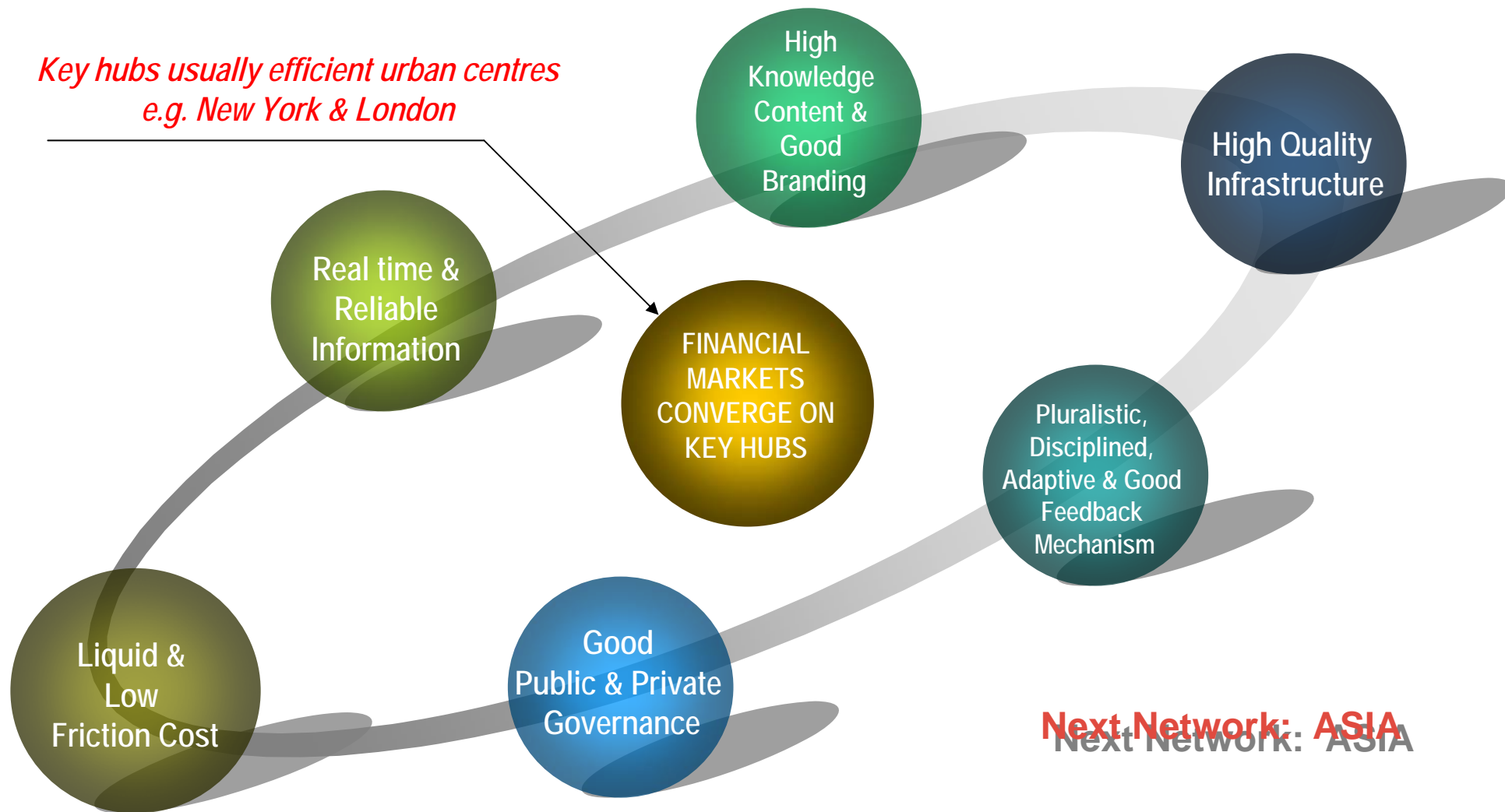
- Just-in-time
- Consumer Choice
- Quality, Quality, Quality

3. Walmart:

Backward integration
from Distribution
to Manufacturing

The Global Financial Network

*Key hubs usually efficient urban centres
e.g. New York & London*

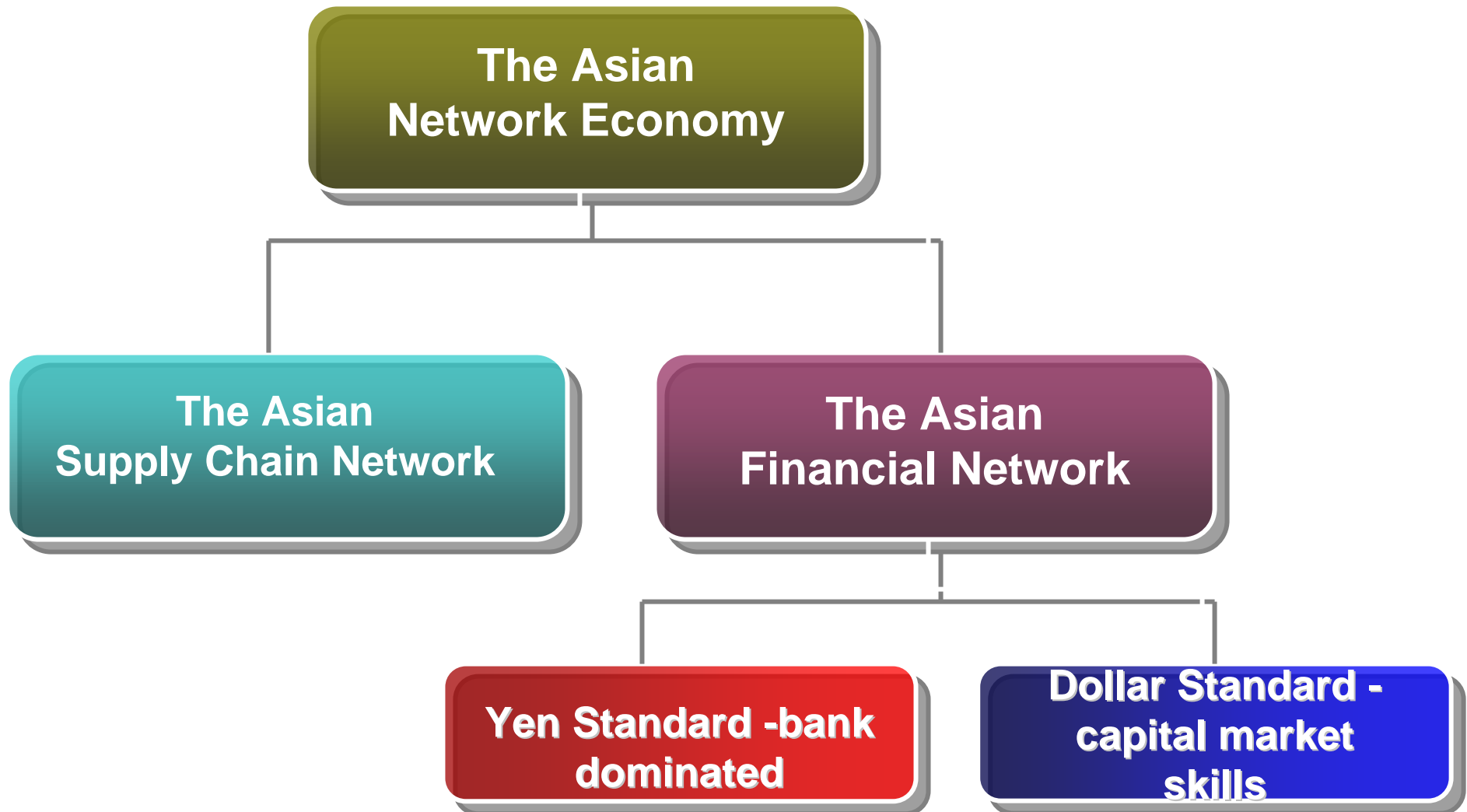


Next Network: ASIA

The Asian Network Economy

The Asian Network Economy

One Supply-Chain; Two Financial Standards



The Asian Financial Network

The Asian Financial Network

Yen Standard

- Main hub of the Asian Supply Chain Network
- Bank dominated system
- Provided Yen funding to the Asian Network Economy

Dollar Standard

- Provider of credit financing to the Asian Supply Chain Network in its role as leading consumer with the best credit standing.
- Provider of the global dollar standard.
- Leading banker of Asia's external savings.

Impact of the Asian Network Economy

The Asian Network Economy Transformed Asia

Asian Economic “Miracle”

- East Asia, achieved sustained rapid growth since the 1960s until the mid 1990s.
- The high-performing Asian economies were praised by a well-known World Bank’s report as a “miracle”.
- Japan played key role as the first Asian economy to reach industrial-country status.

Asian Financial Crisis

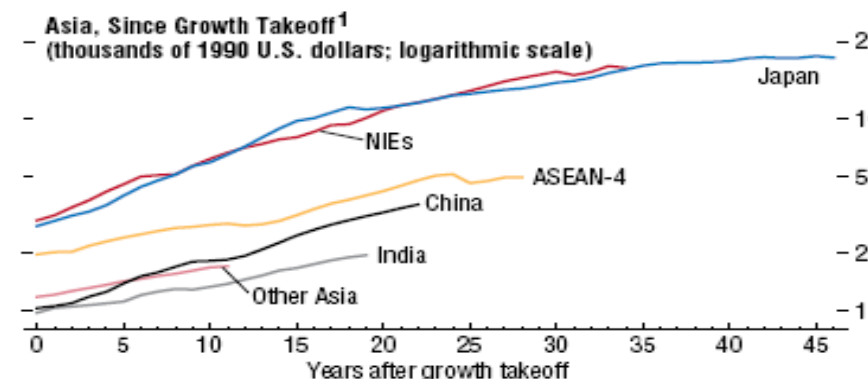
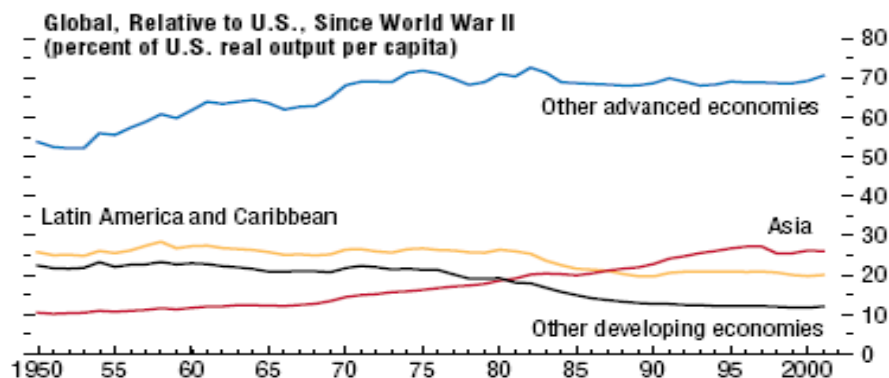
- Massive capital flight from Asia
- Yen Standard – depreciating Yen put tremendous pressure on her Asian trading partners and also caused cut back in Japanese bank credit overseas.
- Dollar Standard - insufficient reserves held by Asian central bankers; IMF was not designed to be a dollar lender of the last resort.

Asian Economic Recovery

- Recent studies, suggest that Asia is recovering from the crisis.
- Has reforms that have taken place thus far increase the possibility of an “Asian Century”?

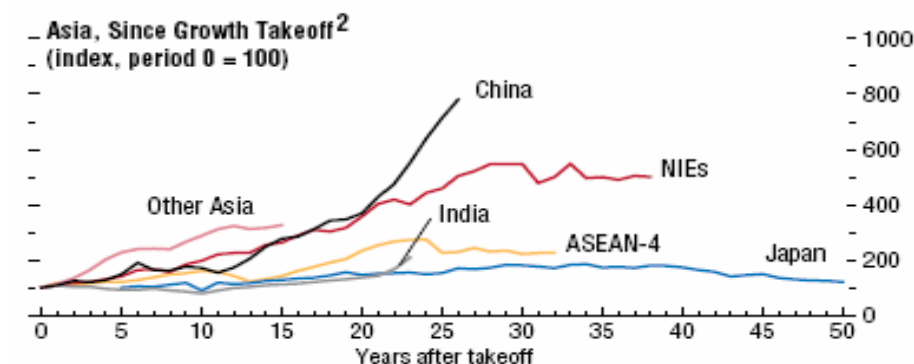
Asia is fastest growing region in the world despite Asian Crisis

“Asia’s real income per capita rose seven fold between 1950 and 2005, significantly reducing its gap relative to the U.S. Asia’s success stands in marked contrast with the failure of Latin America and other developing economies to catch up with advanced economies.” (IMF, 2006)



1. The growth take-off is defined as occurring in 1995 for Japan, 1967 for the newly industrialised economies (NIEs), 1973 for the ASEAN-4 (Indonesia, Malaysia, the Philippines and Thailand), 1979 for China, and 1990 for other Asian economies.

“Asia’s share of world trade more than doubled during 1970 – 2005, whereas Latin America’s decreased. Within Asia, all regions have captured a rising share of world trade, but the rapid expansion in China’s trade over the past decade stands out, even though it started from a very low base.” (IMF, 2006)

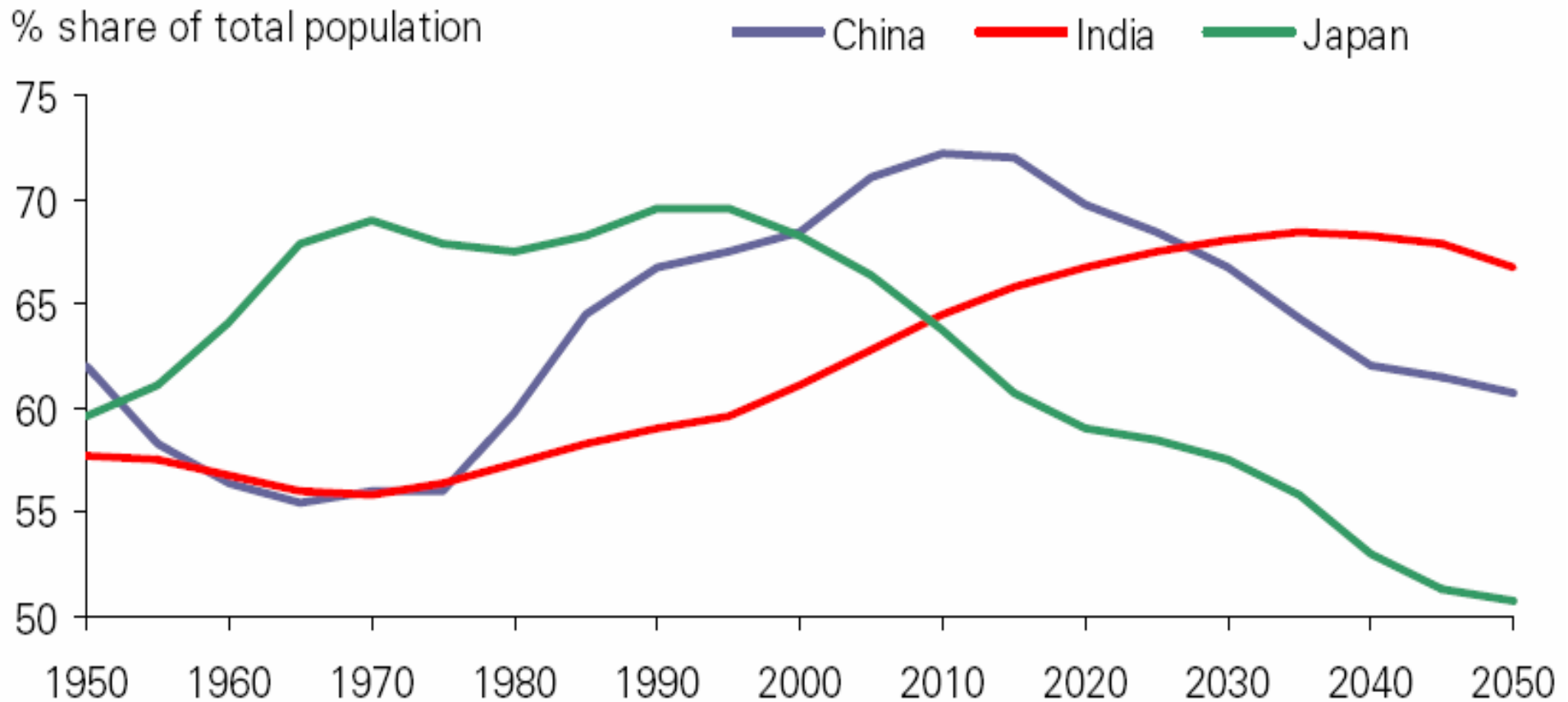


1. Defined as $(\text{total exports} + \text{total imports}) / (\text{world exports} + \text{world imports})$
2. The growth take-off is defined as occurring in 1955 for Japan, 1967 for the newly industrialised economies (NIEs), 1973 for ASEAN-4 (Indonesia, Malaysia, the Philippines, and Thailand), 1979 for China, 1982 for India, and 1990 for other Asian economies. For this figure, for Japan, Period 5 = 100, reflecting data availability.

China's Six Degrees of Transition

- ④ **Demography**: from young labour force to mature and aging population.
- ④ **Wealth**: from poor to middle income economy.
- ④ **Globalization**: from closed to open economy.
- ④ **Knowledge**: from “hardware” economy to “software” knowledge-based economy with wealth creation through services.
- ④ **Market**: from Planned economy to socialist market economy [from exports to domestic consumption].
- ④ **Governance**: from owner to regulator of socialist market economy.

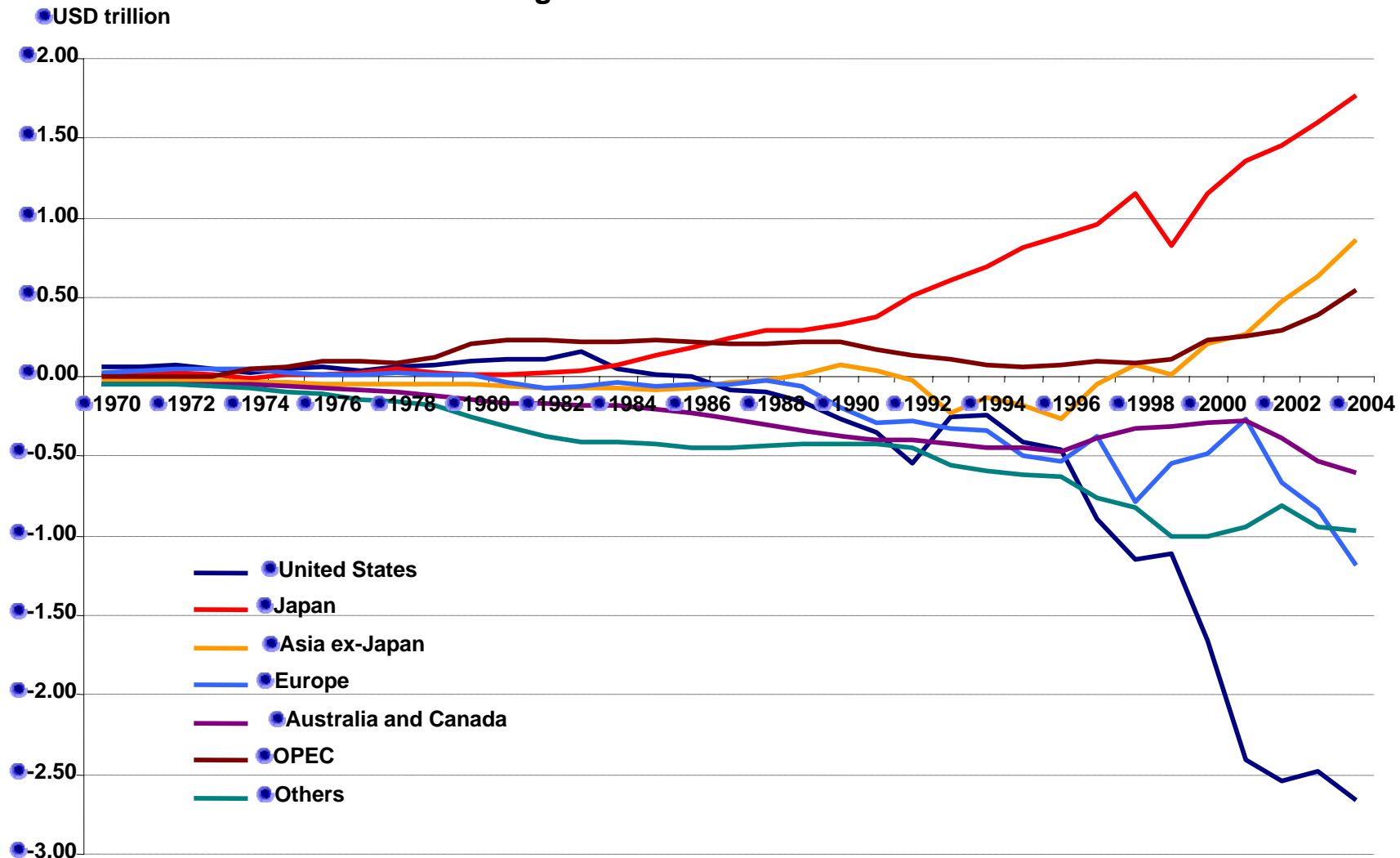
China & India's Growth is Demographic Story



Source: UN Population Statistics

Asia is now Creditor to US and Europe (US\$ trillion)

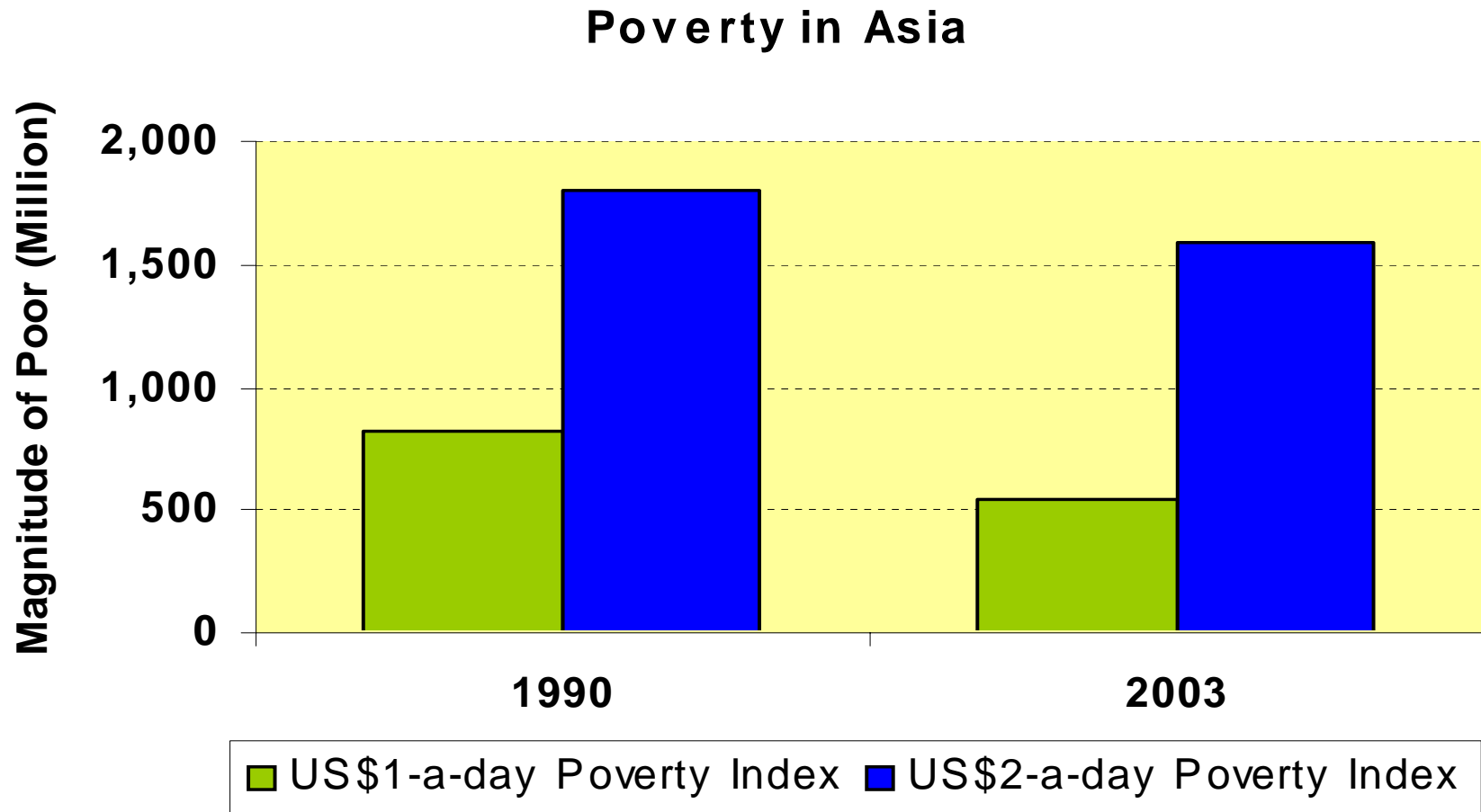
● Growing Imbalances: Net External Positions



Source : World Bank Financial Structure Dataset, February 2006

Network Effect creates Income Disparities

- Twenty percent of Asia's population still live in extreme poverty (IMF, 2006: 3)



Data Source: Asian Development Bank, Key Indicators (2005)

Savings concentrate also in Hubs - outside Asia

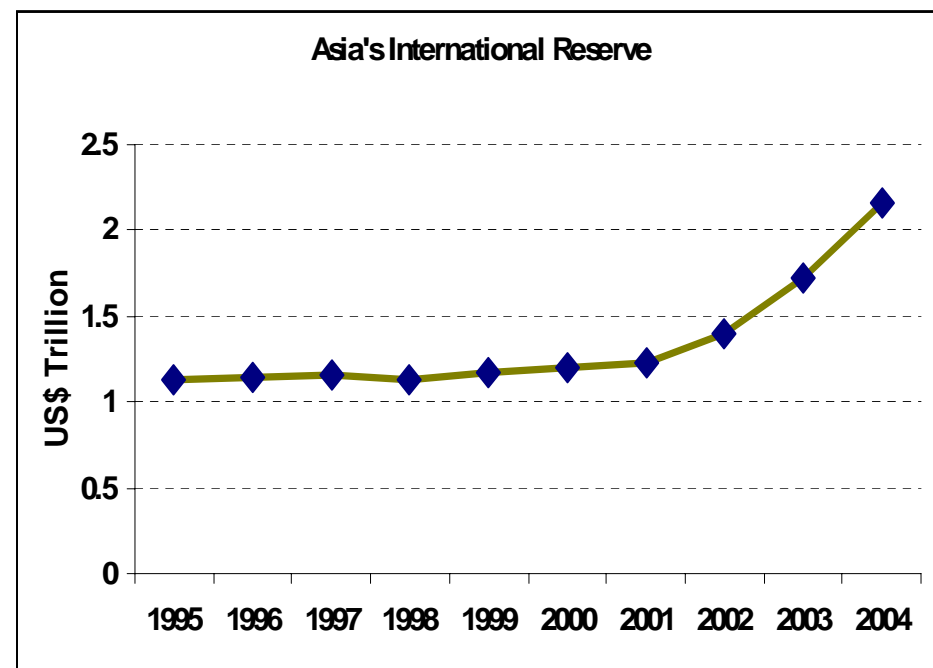
Asia's surplus funds are not invested adequately in Asia.

Gross Domestic Savings in Selected Asian Economies (as % of GDP)

	1997	1998	1999	2000	2001	2002	2003 ¹	2004 ¹
ASEAN								
Brunei	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cambodia	10.2	8.3	9.7	10.7	10.2	10.0	9.7	9.4
Indonesia	31.5	26.5	19.5	25.1	24.9	21.1	20.1	19.7
Lao PDR	8.8	13.6	13.2	15.1	15.4	16.1	19.6	18.3
Malaysia	43.9	48.7	47.4	47.1	42.2	41.8	42.1	43.0
Myanmar	11.8	11.8	13.0	12.3	n.a.	n.a.	n.a.	n.a.
Philippines	18.7	21.6	26.5	24.8	17.0	17.3	19.5	21.0
Singapore	50.5	51.7	48.8	47.9	43.6	44.2	47.1	47.3
Thailand	33.6	36.1	32.8	31.0	30.0	30.5	28.7	29.6
Viet Nam	21.4	17.8	26.3	25.5	27.4	29.2	28.3	25.8
Asia – Others								
China	41.5	39.8	39.4	38.0	38.6	38.7	38.2	38.6
Hong Kong	31.6	30.5	30.9	32.9	31.6	33.9	34.0	33.5
India	23.1	21.5	24.1	23.4	24.0	24.5	24.1	25.2
Japan ²	30.4	29.2	27.4	27.8	26.9	25.9	26.2	26.4
Korea	33.7	34.4	32.9	32.4	30.2	29.2	28.0	29.0
Taiwan	26.4	26.0	26.1	25.4	23.9	25.4	25.7	25.8

Sources: Asian Development Bank, Asian Development Outlook (2003); International Monetary Fund, World Economic Outlook Database (April 2006)

1. Forecast except for Japan; 2. Gross National Savings data
n.a. denotes not available



Source: Asian Development Bank, Key Indicators 2006

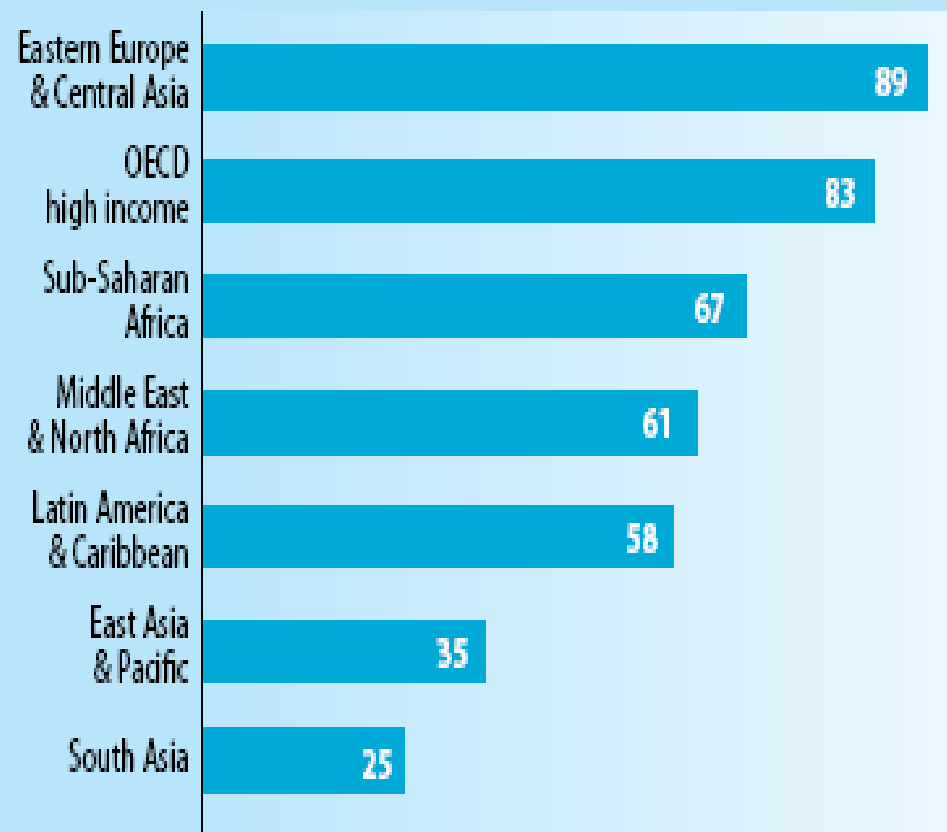
Asia defined as ASEAN + China, Hong Kong, India, Japan Korea Rep., and Taiwan.

Data refer to total international reserves with gold valued at London market prices except for Taiwan whereby gold is valued at national valuations. For Brunei Darussalam, Singapore, and Viet Nam, data refer to total international reserves excluding gold.

The Next Stage of Growth depends on Public Sector Reforms...

- In terms of ease of doing business, Asia is falling behind in pace of reform.

Countries that made at least one positive reform in 2005/06 (%)



Source: World Bank, *Doing Business*, 2007 & 2006
n.a. denotes not available

Ranking on Ease of Doing Business (Out of 175 Economies)		
	2007	2006
ASEAN		
Brunei	n.a.	n.a.
Cambodia	143	142
Indonesia	135	131
Lao PDR	159	164
Malaysia	25	25
Myanmar	n.a.	n.a.
Philippines	126	121
Singapore	1	2
Thailand	18	19
Vietnam	104	98
ASIA – Others		
China	93	108
Hong Kong SAR	5	6
India	134	138
Japan	11	12
Korea, Rep. of	23	23
Taiwan	47	43
OTHER TOP TEN ECONOMIES		
New Zealand	2	1
United States	3	3
Canada	4	4
United Kingdom	6	5
Denmark	7	7
Australia	8	9
Norway	9	8
Ireland	10	10

Two Discernible Ways Forward – The First Option

- The **first** option – to rely more on domestic engines of consumption in Asia.
- This requires huge reinvestment in domestic investment to alleviate regional and social disparities.
- However, the project management capacity and co-ordination between private/public sectors to get effective project delivery is key to this success.
- Question is whether Asian savings patterns can change rapidly given:
 - ⊕ Asia's demographic profile;
 - ⊕ Are domestic financial systems ready to recycle domestic savings; and
 - ⊕ How to motivate public/private sector cooperation?

Intra-regional trade within Asia increased between 1980 - 2005

Asian Intra-regional Trade (as % of total world trade)¹

	1980	1985	1990	1995	2000	2005
Brunei Darussalam	80.1	77.3	81.7	79.5	74.2	75.0
Cambodia	n.a.	67.4	68.6	81.5	35.8	46.8
Indonesia	58.3	53.3	51.7	49.5	50.6	54.6
Lao PDR	n.a.	82.6	85.7	65.3	72.8	74.0
Malaysia	46.7	54.1	49.6	48.2	49.4	54.7
Myanmar	50.6	42.9	58.7	72.5	62.2	74.9
Philippines	33.8	36.0	32.8	37.5	39.7	52.7
Singapore	36.8	40.6	39.5	47.2	46.5	45.4
Thailand	38.1	42.7	42.6	43.7	44.9	49.5
Viet Nam	n.a.	10.5	27.8	57.6	56.4	52.7
China	29.4	36.2	21.3	33.7	33.1	30.0
Korea	29.2	26.7	29.1	35.4	36.6	43.6
Japan	20.7	20.3	21.2	29.9	30.9	36.8
ASEAN+3	30.2	30.2	29.3	37.3	37.0	38.2
Memo Items:						
ASEAN	17.9	20.3	18.8	23.9	24.5	24.0
ASEAN+3+Hong Kong+Taiwan	34.6	37.1	43.0	51.7	51.9	54.5
SOUTH ASIA	4.6	3.2	2.9	4.0	4.2	5.5
European Union (EU-25)	61.3	59.8	67.0	67.4	66.8	66.2
NAFTA	33.8	38.7	37.9	43.1	48.8	45.0

¹For regional groupings, intraregional trade share is calculated using export data and the formula: $X_{ii} / ((X_{iw} + X_{wi})/2)$, where X_{ii} is export of region i to region i ; X_{iw} is export of region i to the world, and X_{wi} is export of world to region i .
Source: Rana (2006) based on data from International Monetary Fund, Direction of Trade Statistics C.D. Rom (2006) and CEIC.;
n.a. denotes not available

The Second Option - Greater Trade and Financial Integration

- The **second** option – whether Asia should change the one supply chain and two standards into a more robust regime?
- **Greater Asian financial integration would protect Asia from global shocks and volatilities.**
- However, there is huge diversity and historical differences within Region.
- How do we use Asian Savings (in Oil-producers + Aging Asia) more efficiently within Asia to generate growth and risk distribution?

Major policy initiatives to push for Asian Financial Integration

- **The 2000 Chiang Mai Initiative (CMI) on regional swaps.**
- **The 2003 Asian Bond Market Initiative.**
- **The Asian Bond Fund Initiatives (ABF1 and ABF2 created in 2003 and 2004 respectively).**
- **The 2005 FTSE/ASEAN Index Series to help standardise market indices.**
- **Rise of Islamic Finance within Asia.**

Room to Improve Financial Infrastructure

Indicators of Quality of Financial Infrastructure; 0 to 10 scale, higher is better

	Total score	Contract realisation	Lack of corruption	Rule of law	Bureaucratic quality	Accounting standards	Press freedom
Hong Kong	7.75	8.82	8.52	8.22	6.90	7.3	6.72
Indonesia	3.52	6.09	2.15	3.98	2.50	n.a.	2.86
Japan	8.67	9.69	8.52	8.98	9.82	7.1	7.92
Korea	6.73	8.59	5.30	5.35	6.97	6.8	7.36
Malaysia	6.55	7.43	7.38	6.78	5.90	7.9	3.90
Philippines	4.14	4.80	2.92	2.73	2.43	6.4	5.54
Singapore	7.58	8.86	8.22	8.57	8.52	7.9	3.44
Taiwan	7.50	9.16	6.85	8.52	n.a.	5.8	7.16
Thailand	6.50	7.57	5.18	6.25	7.32	6.6	6.02
Reference markets							
Australia	9.06	8.71	8.52	10.00	10.00	8.0	9.12
U.K.	8.93	9.63	9.10	8.57	10.00	8.5	7.78
U.S.A.	8.99	9.00	8.63	10.00	10.00	7.6	8.72

Source: de Brouwer, Kawai and Rosengard (2003); n.a. denotes not available

Where are we now?

The Regional Perspective

- **At the regional level, there has to be recognition that network problems call for co-operative solutions.**
- **The developed part of Asia, being richer and more advanced in institutional capacity, has to play a much larger role to help the developing part of Asia in its institution building.**
- **Regional cooperation and global cooperation shares the same objective: how to ensure that member weaknesses do not become a systemic problem.**
- **ASEAN and regional cooperation creates economies of scale, but managing at regional level also calls for special skills.**

The National Perspective

- **The dilemma is that the transition to global and regional markets is inevitable. Competition is relentless, from global players, regional players and internally.**
- **The burden of change is to accept sunken costs now, reform the institutional framework as soon as possible or to delay that change and pay the price of marginalization.**
- **Asians are awakening to the reality that global competition requires skilful cooperation between the public and private sectors - Japan Inc, Korea Inc and Malaysia Inc.**
- **Education itself is not sufficient: people learn through competition from the market place!**

Conclusion

Concluding Thoughts

- **Asia-Pacific is becoming the Third Bloc of Global Markets.**
- **Because it has the largest population and land mass, the potential for growth is huge.**
- **But its growth will have to be managed, with considerable institutional challenges, meeting international standards and working with Europe, Americas and Africa.**
- **How Asians work together regionally and globally will determine its place in the global order.**



Thank You

Questions to as@andrewsheng.net