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**[IS ASIA BECOMING AN
ENGINE OF GLOBAL GROWTH]**

Table of Contents

Executive Summary.....	3
Introduction to Asian Economy	4
Methodology.....	4
Present Factors	5
Factors that favor the Asian supremacy	7
Factors that Do Not Favor Asian Supremacy	7
Large NPAs on Banks Balance Sheets	7
Investment in right sectors	8
Operations of Public Sector Undertakings.....	8
Conclusion.....	8
Appendix I	10
Appendix II	11
Appendix III	12

Executive Summary

Is Asia Becoming the Engine of Global Growth? This is a huge debate that is going on almost on every corner of earth. But what is the basis of this debate. Why is Asia suddenly being looked at like this? There are many reasons for the same. In the last few years many Asian countries, called the Asian Tigers, have experienced a phenomenal growth close to 10%. And even in the times of recession these countries have shown a promising growth. Japan after having a troubled economy seems to be resurfacing with increased growth. In addition, the economic strength of China and India is also rising very fast and is soon to catch up with biggest economies of the world.

A critical analysis of all G-20 countries is done. These countries were compared with one another on Five financial indicators – GDP (PPP), GDP real growth rate, Budget Deficit, Public Debt, and Foreign Exchange Reserve. Countries were ranked on individual indicators as well as a combined rank was calculated. The study declared Asian countries as the clear Winners.

In addition, other factors that favor or counter Asian countries' growth are discussed. These factors are qualitative in nature.

The outcome that is reached in the article is that it is very convincing that Asian countries will indeed lead the global economy in years to come, but there are a few policy changes and regulatory measures that need to be implemented to ensure a more robust Asian Economy.

Introduction to Asian Economy

The economy of Asia comprises more than 4 billion people (60% of the world population, living in 46 different states. Six further states lie partly in Asia, but are considered to belong to another region economically and politically.

As in all world regions, the wealth of Asia differs widely between, and within, states. This is due to its vast size, meaning a huge range of differing cultures, environments, historical ties and government systems. In terms of *nominal GDP*, the four largest economies in Asia are Japan, China, India, and South Korea. However, in terms of *GDP by purchasing power parity*, China is the largest economy in Asia and the second largest in the world, followed by Japan and India as the third and fourth largest in the world.

Per Capita GDP is mostly concentrated in East Asian countries – Japan and South Korea, as well in oil rich Middle East countries such as Saudi Arabia, Qatar, and United Arab Emirates. Asia, with the exception of Japan and South Korea, is currently undergoing rapid growth and industrialization spearheaded by China and India - the two fastest growing major economies in the world. While East Asian and Southeast Asian countries generally rely on manufacturing and trade for growth, countries in the Middle East depend more on the production of commodities, principally oil, for economic growth. Over the years, with rapid economic growth and large trade surplus with the rest of the world, Asia has accumulated over US\$4 trillion of foreign exchange reserves - more than half of the world's total.

Methodology

In this study, we will take a qualitative approach to come up with some indicators that we believe would be critical to assess the growth of a country. On these factors, we will rate Asian countries juxtapose other developed and developing countries. Study is based on five key economic indicators pertaining to the size of economy, spending power, tax structure, interest rate policy, budget balances, debt burden and foreign exchange reserves for the G-20 countries. We will rate each country on these factors and come up with a cumulative ranking that will give a fair idea as to which countries are expected to lead as the engines of the global growth.

We split our study in three sections. First, the present position of Asian Countries on above defined parameters. Second, we will try to see how things are changing and how these countries are changing their policies to have healthy future growth in future as well. And third, we will also find the loop holes in Asian countries that could become inhibitors if not addressed appropriately and at the right time.

Present Factors

We have already mentioned above that we used five key indicators for this study. Growing at a fast speed alone is not important but the growth must be sustainable as well. These parameters are significant as they reflect not only the potential of good or poor growth but also these factors show the strength of a country to face any unexpected crisis in future like the one we recently had. Following are the five indicators that we have used

- Share of World GDP (Purchasing Power Parity)
- Change in GDP per capita (% change)
- Budget Deficit (% of GDP)
- Public Debt (% of GDP)
- Foreign Exchange Reserves (in US \$)

The significance of choosing these factors is mentioned after the score table. A higher score in each of these indicators makes a country stronger against unexpected financial events. We have ranked each country on each of the indicator individually and also ranked them on overall score from all indicators.

We have used simple addition of scores assuming equal weight of each of the indicator. This however might have some short fall and we might need to reach the overall score as a weighted average of individual scores.

Economic indicators relating to Budget balance and Public Debt as percentages of GDP signify the scope of the size and intensity of the fiscal measures to prop up the deteriorating domestic demand and to intensify efforts to check the unemployment situation in the country present difficulties for India.

At a time of rising economic uncertainties, foreign exchange reserves have gained much larger importance in the present scenario. In terms of foreign exchange reserves that present a cushion to protect an economy from speculative capital movements, China (at close to USD 2 trillion) tops the list with a huge margin over other group members. India is placed at fourth position behind Japan (second) and Russia (third).

Defining the consumer spending power, the change in GDP per capita as the second economic indicator reveals the respective strengths of the G-20 nations to boost their rapidly slackening domestic demand. As a major part of the announced fiscal stimulus packages globally, a push to lift up the consumer demand is viewed as one of the priority area for the policymakers as it makes heavy contribution to their national output. In this also Asian countries are among the higher ranked ones.

Figure: - Ranking of countries on Individual indicators and Overall Scores

S. No	Country	SCORES						
		GDP (PPP)	Change in GDP per capita	Deficit	Public Debt	Forex Reserve	Overall	Rank
1	United States	10	4.5	2.5	4	5	26	11
2	China	9.5	10	5.5	9	10	44	1
3	Japan	9	1.5	3.5	1	9.5	24.5	13
4	India	8.5	9.5	3	3.5	8.5	33	4
5	Germany	8	3.5	6.5	2.5	7	27.5	9
6	Russia	7.5	8	9.5	10	9	44	1
7	United Kingdom	7	3	1	4.5	4	19.5	17
8	France	6.5	2	1.5	2	6	18	18
9	Brazil	6	7.5	5	6	7.5	32	5
10	Italy	5.5	1	2	1.5	6.5	16.5	19
11	Mexico	5	5	6	8	5.5	29.5	6
12	South Korea	4.5	5.5	8	7.5	8	33.5	3
13	Canada	4	2.5	8.5	3	2.5	20.5	16
14	Indonesia	3.5	8.5	4.5	7	3.5	27	10
15	Turkey	3	4.5	4	5.5	4.5	21.5	15
16	Australia	2.5	6	9	9.5	1.5	28.5	7
17	Saudi Arabia	2	7	10	8.5	1	28.5	7
18	Argentina	1.5	9	7.5	5	3	26	11
19	South Africa	1	6.5	7	6.5	2	23	14

Factors that favor the Asian supremacy

As the West fell, these Asian economies fell at a greater pace and now when West is showing revival, these economies are upturning faster. The Export led economies worked wonderfully in the good old days when demand in the West was very high. For instance, Japan has been having 40% savings rate for long, primarily due to its aging demography. Japan must have collapsed long back due to low domestic demand but it survived very well for years on foreign demand. Even at present times, being export oriented will help these countries as demand in west is again on a rise, but such a model is not sustainable and is susceptible to failure at any point of time. As learning, Asian countries are indulging into following activities.

- Emphasis on Domestic demand rather than export orientation
- Increase in Intra – Asian Trade: will reduce dependence on the outside countries and boost Asian economies.
- Monetary Union – Combined Currency: will help a lot in the Intra-Asia trades.

Factors that Do Not Favor Asian Supremacy

Positives do not come alone and along with are some inevitable negatives as well. We saw there are very encouraging cues that favour Asian Growth but at the same time following needs to be taken care of.

Large NPAs on Banks Balance Sheets

Korea's Economy relies heavily on the Big four conglomerates, also called *Chaebols*, comprising of Hyundai, Samsung, LG, and Daewoo. These four, put together account for more than 50% for Korean GDP. Well being of these firms is very crucial for the entire country, and hence the government would extend all kind of supports to these firms. This has resulted into enormous amount of Soft Loans given to these firms. These firms never face any financial limitation and hence might not want to improve their operations. This has caused large amounts of Non Performing Assets (NPAs) for Korean Banks.

Similarly, in China as well, Soft loans were pushed hard for certain sectors. Such investments have paid off well in terms of consistent phenomenal growth of China. But at the same time these loans have made the banking system very fragile. Moreover, the Central Bank is not very strong

Investment in right sectors

The population of India and China is considered as asset for the next 15-20 years. However, if not properly invested, this huge human capital can turn out to be a big liability. Hence, it will be important to wisely invest in Education and Health along with investment in Basic Infrastructural sectors like steel, cement, power, roads and railways, shipping, logistics etc.

Operations of Public Sector Undertakings

In India, Efficiency of several Public Sector Undertakings (PSUs) is a concern. Most of the PSUs are huge in size and are depleting savings. They have been in huge losses that regularly demand capital from government, which comes from the individual savings and taxes. It is important not to infuse capital but to improve the operations of these firms and make them more profitable so that they can at least sustain their own operations rather than eating up huge investments.

Conclusion

The first 4 places are all taken by Asian economies. India, in particular, ranks fourth among the group of advanced and emerging economies in terms of the five key economic indicators determining the scope available for policy intervention (both fiscal and monetary) and the likelihood of revival from the aftermaths of the global economic depression. In addition to the study results there are various other factors that are favoring Asian economies. Putting all together, Asian economies will certainly be the engine of growth for the global economy in the years to come. However, at the same time these countries need to ensure certain regulatory practices that will make their Banking / Financial sector more robust. Also, certain policies regarding Key sectors like education, Infrastructure, power, logistics etc need to be implemented properly to enable sustainable growth.

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Brazil Budget Deficit from Bloomberg's Report released on 30th Oct 2009

Appendix I

GDP of the G-20 Countries on Purchasing Power Parity Basis

S. No	Country	GDP (PPP) (<i>\$ Billions</i>)	Rank	Score	GDP real Growth (%)	Rank	Score
1	United States	14,260.00	1	10	1.1000	12	4.5
2	China	7,973.00	2	9.5	9.0000	1	10
3	Japan	4,329.00	3	9	-0.7000	18	1.5
4	India	3,297.00	4	8.5	7.4000	2	9.5
5	Germany	2,918.00	5	8	1.0000	14	3.5
6	Russia	2,266.00	6	7.5	5.6000	5	8
7	United Kingdom	2,226.00	7	7	0.7000	15	3
8	France	2,128.00	8	6.5	0.3000	17	2
9	Brazil	1,993.00	9	6	5.1000	6	7.5
10	Italy	1,823.00	10	5.5	-1.0000	19	1
11	Mexico	1,563.00	11	5	1.3000	11	5
12	South Korea	1,335.00	12	4.5	2.2000	10	5.5
13	Canada	1,300.00	13	4	0.4000	16	2.5
14	Indonesia	914.60	14	3.5	6.1000	4	8.5
15	Turkey	902.70	15	3	1.1000	12	4.5
16	Australia	800.20	16	2.5	2.3000	9	6
17	Saudi Arabia	576.50	17	2	4.2000	7	7
18	Argentina	573.90	18	1.5	6.8000	3	9
19	South Africa	491.00	19	1	3.1000	8	6.5

Appendix II

Budget Deficit of G-20 countries

S. No	Country	Revenue (\$ billions)	Expenditure (\$ billions)	Deficit (\$ billions)	Deficit/GDP %	Rank	Score
1	United States	2,524.00	2978	454	3.1837	16	2.5
2	China	847.80	861.6	13.8	0.1731	10	5.5
3	Japan	1,720.00	1788	68	1.5708	14	3.5
4	India	126.70	202.6	75.9	2.3021	15	3
5	Germany	1,591.00	1591	0	0.0000	8	6.5
6	Russia	364.60	304.6	-60	-2.6478	2	9.5
7	United Kingdom	1,056.00	1214	158	7.0979	19	1
8	France	1,407.00	1506	99	4.6523	18	1.5
9	Brazil	0.00	0	13	0.6523	11	5
10	Italy	1,068.00	1132	64	3.5107	17	2
11	Mexico	257.10	258.1	1	0.0640	9	6
12	South Korea	227.50	216.7	-10.8	-0.8090	5	8
13	Canada	594.10	573.7	-20.4	-1.5692	4	8.5
14	Indonesia	92.62	98.88	6.26	0.6845	12	4.5
15	Turkey	160.50	173.6	13.1	1.4512	13	4
16	Australia	350.30	332.4	-17.9	-2.2369	3	9
17	Saudi Arabia	293.70	136	-157.7	-27.3547	1	10
18	Argentina	86.65	82.85	-3.8	-0.6621	6	7.5
19	South Africa	77.43	75.1	-2.33	-0.4745	7	7

Appendix III

Public Debt and Foreign Exchange Reserve

S. No	Country	Public Debt (% of GDP)	Rank	Score	Forex Reserve (\$ Billions)	Rank	Score
1	United States	60.80	13	4	77.65	11	5
2	China	16.20	3	9	1968	1	10
3	Japan	173.00	19	1	1011	2	9.5
4	India	61.30	14	3.5	256.4	4	8.5
5	Germany	64.40	16	2.5	138	7	7
6	Russia	6.70	1	10	427.1	3	9
7	United Kingdom	52.00	12	4.5	52.98	13	4
8	France	68.10	17	2	102.9	9	6
9	Brazil	36.90	9	6	193.8	6	7.5
10	Italy	105.90	18	1.5	105.3	8	6.5
11	Mexico	19.30	5	8	95.3	10	5.5
12	South Korea	24.40	6	7.5	201.2	5	8
13	Canada	63.80	15	3	43.87	16	2.5
14	Indonesia	28.60	7	7	51.64	14	3.5
15	Turkey	40.00	10	5.5	73.66	12	4.5
16	Australia	13.90	2	9.5	32.92	18	1.5
17	Saudi Arabia	18.90	4	8.5	30.59	19	1
18	Argentina	48.40	11	5	46.37	15	3
19	South Africa	31.60	8	6.5	34.07	17	2