The Future of Economic Growth in Asia

Choong Y. Lee, Pittsburg State University, U.S.A.

ABSTRACT

For decades now, the world has watched in admiration how the people of the Asia and Pacific region have transformed their economies through creativity, hard work, and market reform. Trade has flourished and the pace of economic growth has soared, and the economy has expanded at historic rates in recent years. The Asian financial crisis of 1997-1998 and the current global financial crisis took a significant toll on Asia and reversed economic and social gains that had taken years to achieve. It also however set in motion fundamental policy and institutional reforms with long-term positive impacts for Asia.

INTRODUCTION

The Asia Pacific region, home to more than half of the world's population, is a region of great socio-economic contrasts as well as cultural and political diversity. While parts of the region have witnessed significant improvements in achieving some of their long term goals, others have performed poorly. Some 600 million women, men, and children in the region live below the USD 1 per day poverty line, while 1.8 billion survive on less than USD 2 per day. This poverty is found not only in poorer under-developed countries, but also in significant segments of the emerging middle-income countries. In East and Southeast Asia, a wide disparity in economic wealth exists between and within countries. While Japan and South Korea are listed among the OECD countries, the World Bank estimates that 552 million of the world's 1.1 billion poor are living in East Asia. For China, a fast emerging economy with an economic growth rate of over ten percent per year in the last decade, at least sixteen percent of the population still live on less than USD 1 per day. In Cambodia, thirty-four percent of people live on less than USD 1 per day, while in Mongolia, the figure is twenty-seven percent. The Pacific region is mostly made up of countries with poor socio-economic development. Most efforts to raise standards of living and achieve balanced growth are complicated by their isolation created by huge distances as a result of their location. These pose major challenges to the island states of the Pacific (IFRC, 2009).

But the face of Asia is changing. Today, hundreds of millions of people enjoy a much better quality of life. The middle classes are growing, and Asia's place in the world is rising. Academic and business resources alike believe that Asia will continue to exhibit high growth rates, and by 2020 account for more than a quarter of the global output in nominal terms and forty-five percent in purchasing power parity terms. By 2020, it is also expected that Asia will be close to Latin American levels on an income per capita basis, whereas in 1980, it was less than a fourth. Absolute poverty by then is projected to decline to ten percent of the population compared to about nineteen percent currently. And Asia will be much more urban, with a majority of its population living in mega or medium-sized cities (IFRC, 2009).

DIAGNOSIS AND PROGNOSIS

Private Sector

The private sector will be the dominant economic force driven by markets and competition with private capital flows being the main source of external capital and with private investment leading the way domestically. Sources expect Asia to remain a "capital surplus" region with foreign exchange reserves exceeding sixty percent of global reserves. Asia will continue to become more integrated regionally and globally in goods, services, and capital. It is anticipated that Asia will account for one third of the global trade by 2020. According to top UNESCAP officials, governments are making sincere efforts to develop stronger ties with the private sector in order to deliver more robust public services and sound “social infrastructure.” “Efficient economic and social infrastructure and services, and
enhanced national and regional connectivity can have a major role to play in helping countries emerge from this latest financial crisis stronger and in a better position to promote development for all,” Noeleen Heyzer says in remarks prepared for a ministerial conference on public-private partnerships (PPP) for infrastructure development (Hsieh, 2009).

Indonesian President Susilo Bambang Yudhoyono said in his opening address at the Infrastructure Asia 2009 Conference, “infrastructure development is an important part of increasing the people’s welfare”, and highlighted several significant developments in his country. He also urged the meeting to strengthen efforts to “increase government and private sector partnerships among Asia-Pacific countries and to provide the best funding schemes for infrastructure development in the region.” Dr. Heyzer also noted in her own remarks that new drivers of growth based on increasing intraregional trade – especially with larger markets within Asia – are now emerging strongly but there is a “desperate need” for more investment in capacity and services. According to recent estimates, Asia needs to “invest about $750 billion per year in infrastructure from 2010 to 2020 to meet the strong growth of populations and economies”. This challenge demands a shared approach between the public and private sector, and including businesses is not only a way to finance projects, but more importantly enhance the delivery of roads, public utilities, schools and hospitals. Dr. Heyzer stated that countries of the region “still faced a number of barriers hindering the progress of public-private partnerships in infrastructure development, including a lack of awareness about PPPs among government officials. There also needs to be more effort directed towards addressing capacity building in both the public and private sector, and existing experience, training institutes and universities as well as PPP units and programs should be deeply involved in those activities.” (Hsieh, 2009)

Well-defined governance structures that allow for an appropriate distribution of duties and responsibilities to all players are needed to overcome the lack of administrative and regulatory frameworks necessary to ensure an environment conducive to PPPs in many developing countries of the region. At the policy level, partnership between government and private investor still needs to be nurtured. Promoting policy dialogue between the public and private sectors to identify, and then address, barriers can promote and strengthen public-private partnership in infrastructure development (Hsieh, 2009).

Economic Environment

Going beyond the numbers and the usual uncertainties that accompany long-term economic projections, the economic environment in the Asia and Pacific region is undergoing rapid transformation making this the most dynamic growth region globally. Asia is not immune to adverse global economic developments. The recent turbulence in global financial markets and the accompanying economic slowdown have affected the pace of economic growth in Asia. The region's major powerhouses such as China and India could continue to grow at healthy rates supporting regional demand and cushioning the weakened external demand. The region's financial systems have weathered the storm relatively well. Overall, the Asian economy in general can maintain positive growth for a while without serious problems even though the European economy is now in a very difficult situation structurally. Its financial system remains relatively stable and sustainable for the time being and will be working in much better ways than after the 1997-98 Asian financial crisis since the financial system in most of major Asian countries has been improved dramatically from the lessons learned during the crisis. However, Asia faces some very significant challenges which must be overcome to fulfill its immense potential - to fulfill the vision for the next generation (Ray, 2012; Svejnar, 2002).

Asia's economic performance over the past 40 years has been unprecedented. Yet, the same rapid development that has raised living standards from Shanghai to Manila to Mumbai has put the region's ecosystems in peril. Asia has grown very well but has not been able to manage its environment well. Asia has become a significant contributor to the global greenhouse gas emissions. It is projected that by 2030, Asia's contribution to the world's energy-related greenhouse gas emissions will increase to forty two percent from less than ten percent in the 1970s. The region would quickly become the main driver of climate change unless it takes proactive steps to make growth environmentally sustainable. The region must find a way of avoiding negative consequences of environmental degradation and climate change as it drives its long-term growth and poverty reduction agendas. It must find the right balance between the legitimate aspirations of today's Asians for a rapid rise in their living standards and the aspirations of future generations.
of Asians. The region must find and adopt new patterns of urban development, energy production and consumption, use and management of natural resources, and waste management. Environmental degradation and climate change are global challenges requiring concerted global actions. Environment features prominently in long-term strategy for the region. The government must commit to reducing carbon emissions and focus on strategies that will stop practices that exacerbate the increase of green house gases (Ratnayake, 2009).

Business leaders and governments met in April 2009 at a United Nations forum in China and unveiled a roadmap for promoting low-carbon economic growth in the Asia-Pacific region. The Asia-Pacific Business Forum recognized that combating climate change is a major challenge and identified opportunities for the Asia and Pacific region to meet the double objective of economic development and long-term sustainability. Participants said the region has the capacity to lead the development of a roadmap to low-carbon development, requiring the region to come up with its own strategy and early action, with proper differentiation to meet different development contexts. The forum also recognized the importance of developing partnerships among public, private and civil society organizations. The business sector has a unique and critical role to play in converting climate change challenges to business opportunities. A region-wide network of green business can give Asia-Pacific business a voice in economic, social and ecological issues of global importance. Governments have to create an enabling policy environment and to provide appropriate incentives. International organizations such as ESCAP promote regional cooperation. All have responsibilities in achieving a low-carbon economy for common global prosperity (Ratnayake, 2009).

Infrastructure

Furthermore, rapid growth in infrastructure investment has greatly contributed to Asia's success. Many Asian countries today can boast of world class infrastructure, be it airports, highways, or ports. But a lot more needs to be done. Crumbling infrastructure, or in many cases the absence of it, both in urban and rural areas, is a major constraint to achieving a sustainable and industrious economic outlook for Asia. Infrastructure bottlenecks that have become major impediments to upgrading competitiveness of Asian economies have to be overcome. Infrastructure must be upgraded and expanded for Asia to play a larger role in the global economy and to reduce income disparities within the region and within countries. Infrastructure would help people who are currently on the edges of the Asian economic successes to fully benefit from growing prosperity in Asia. According to estimates, Asia needs $3 trillion-$4 trillion or more over the next decade to bring infrastructure to an acceptable level. The magnitude of required investments is clearly beyond the fiscal or institutional capacities of the public sector. Currently, the private sector accounts for only about twenty percent of infrastructure spending, while seventy percent comes from public funding, and the remaining ten percent from Official Development Assistance (Hsieh, 2009). This is not a sustainable model; the private sector share needs to increase significantly. The focus therefore will have to be on mobilizing private investment and public-private partnerships (Boonlu, Gan and Lee, 2012).

Developing innovative mechanisms for management of risks and bankable projects that appeal to private investors would do wonders. Fostering private investment will also require increasing and indeed transforming the capacities of public sector institutions. These institutions must have adequate capacities to govern, manage, and implement development processes. They must develop regulatory capacities that match the best internationally. Legal systems and dispute resolution mechanisms must be adequate and predictable, backed up by strong legal and judicial systems (Szimai, 2004).

Integration

Moreover, if Asia is to claim its place in the family of nations, it has to be more integrated. As Asia's economies have become larger and more complex, they have also become more integrated through trade, direct investments, financial flows, and other forms of economic and social exchange. Regional integration of production networks that has become central to Asia's leadership of global manufacturing has also boosted intra-regional trade and investment in Asia. Expansion of infrastructure and uplifting of human capital in less well-developed countries of Asia would help distribute benefits from regional economic integration more widely across Asia. Governments would need to connect the poor to the thriving regional economy by eliminating labor market barriers, investing in workers' capabilities, and
building infrastructure to connect disadvantaged regions with economic centers. Aid focused on stimulating cross border trade can also play an important role. The GMS north-south corridor, which links China and Thailand through Lao PDR, amply illustrates the point I am driving at. According to Neeraj Jain, country director of the Asian Development Bank, “it took three days for goods to move across a 270 kilometer section of dirt track along the corridor in Lao PDR. Thanks to a $90 million project equally funded by China, Thailand, and ADB, that same trip now takes 4 hours, significantly increased commercial traffic, and boosted per capita GDP in one of the poorest provinces of Lao PDR” (Jain, 2009).

Asia's financial integration has also progressed. Learning from the Asian financial crisis, Asian financial markets are today larger, deeper, and more sophisticated than they were in 1997. Legal and regulatory frameworks have vastly improved. That said, Asia is less integrated in finance than in trade. The regional financial system is inadequately developed and unable to fully intermediate the region's large savings to its ample investment opportunities. The good thing however is that this is an area that is receiving the increasing attention of regional governments. ADB on its part is assisting regional financial integration in many ways including through the Asian Bond Market Initiative and the Asian Currency Note program. They actively promote the development of best practices in the financial sector, especially in corporate governance and risk management. There are a host of other ongoing initiatives ADB is pursuing to deepen the regional financial integration (Kawai, 2005).

Regional integration is equally important for adequately providing for regional public goods or for addressing "regional public bads". Densely populated and closely integrated Asia needs regional frameworks to monitor, prevent, and contain pandemics, which are becoming a regular feature. It needs to cooperate to respond to natural disasters faster and more effectively. And it needs to mount a shared regional effort to control a wide range of cross-border environmental problems (Jain, 2009).

**Crisis and Growth**

The current global economic crisis is the worst since the 1930s and presented developing Asia with its most difficult challenge in recent times. As the economic fallout from the financial crisis that began in the United States became worldwide, overall growth in developing Asia tumbled from its impressive peak of 9.5% in 2007 to 6.3% in 2008 and is projected to decline further in 2009. The current crisis is broader and deeper than the Asian financial crisis of 1997-1998. It is also more complex. The 1997-1998 crisis was home-grown arising from structural weaknesses in the region's financial and monetary systems. This time the damage has come from the financial and economic meltdowns in advanced countries. In 1997-98, healthy growth and demand in the developed world helped support Asia's recovery. This time the G3 economies are in synchronized recession and their business confidence and consumption, on which the region has long depended, are in decline. The result has been deleveraging, crashing equity prices, frozen credit markets, and heightened risk aversion that reversed investment and credit flows to Asia, and lowered Asian stock prices, which interrupted a decade of record economic expansion and social progress in developing Asia. The regional governments have responded quickly and prudently to contain the adverse socio-economic impacts of the crisis, but there is always more that can be done (Batra, 1997).

The global economic crisis has helped highlight Asia's strengths and challenges. Export-led growth has delivered enormous benefits to the region and will continue to do so when global trade revives. But the current crisis has made the risks of excessive dependence on external demand painfully clear. Developing countries whose output greatly exceeds expenditure can correct this imbalance by altering the production structure and diversifying demand. Strengthening social safety net programs will help reduce precautionary savings and boost domestic consumption. Deeper financial integration and stronger and more stable regional investment climate can channel more of Asia's savings from low-yielding government bonds into productive investments within developing economies. Greater exchange rate flexibility and supply side policies that promote small and medium-sized enterprises and service industries can boost production catering to domestic and regional demand. Finally, concrete steps to expand regional trade will reduce overdependence on demand in advanced economies. Expansion of domestic demand and intraregional trade can form a mutually reinforcing virtuous cycle (Szirmai, 2004).
Rebalancing growth toward greater domestic and regional demand will assist the region's recovery from the current crisis and make the region less susceptible to volatility in other financial markets. It is critically important that countries refrain from taking protectionist measures and keep markets open. Asia's outward-looking approach has served the region well and must be maintained. But just as after the 1997-1998 financial crisis, Asia had to reduce dependence on external sources of financing, today Asia has to reduce dependence on external sources of demand. Asian economies need to be more than just producers for the world, they must also be consumers (Haromi and Hashiguchi, 2012).

**Psychological Perspective**

From a psychological perspective, there must be a unified partnership between social values and development in the context of developing Asia. In order to be successful, a model must be implemented that should be indigenous and culture-specific and should take into account the historical and social realities, the local genius as well as the needs of the country concerned. The importance of understanding the shared belief and value systems of a culture when addressing the manner in which psychology can contribute to national development is of special interest to developing nations. First, analysis of the value-belief system characteristic of a country and its relationship with the needs of modern socio-economic development must be discussed. Then a dissection must occur of the general problems associated with the value-development relationship given the specific cultural characteristics of the regions concerned. Lastly, emphasis must be placed on the importance of this value-development congruence and discusses strategies that can bring it about. One such strategy calls for the reinterpretation and reorganization of the value system to suit the needs of development while reinforcing those cultural characteristics that are likely to be functional (Sinha, 1994).

**CONCLUSION**

In conclusion, the current global economic crisis provides Asia with an unprecedented opportunity for change. Its home-grown crisis in 1997-1998 provided a strong momentum for change by pushing Asian countries to restructure banking and financial systems, reorganize debt structures, and set up surveillance and dialogue mechanisms to rebuild confidence and restart economic growth in most Asian countries. What is needed now, alongside the appropriate stimulus measures to support the slowing economy, is to deepen and accelerate these reforms to tackle the region's long-term development challenges. Only by this can there be hope to continue progressing in our journey towards an Asia and Pacific region free of poverty (Hamori and Hashiguchi, 2012).

According to Hans-Horst Konkolewsky, one of the most significant possibilities for change within Asian countries is the extension of social security. The financial and economic crisis has created new opportunities for social security as it has strengthened the recognition of the essential role of social security for economic development and social cohesion. He told delegates at the first Regional Social Security Forum for Asia and the Pacific that completed work in Manila, Philippines on 23 October, 2009. He advised, along with other top officials, that government should make use of this historic moment to create a new global movement towards a worldwide social security culture (ISSA, 2009; IFRC, 2008).

The ISSA President Corazon de la Paz-Bernardo, from the Philippines, has recently recognized the important progress accomplished by social security organizations in the region, but she underlined the remaining challenges. She states that she is confident that forward-looking social security administrations in this region can be a key to extending social security and thereby contribute to strengthening social and economic development in Asia and the Pacific. She says continuously that important progress has been made, but many challenges related to governance, socio-economic developments, labour markets and the availability of funds remain. The ISSA Secretary General outlined the important progress that social security had made in the region in recent years. He called for social security organizations to continue their efforts to shift from a welfare-oriented approach to a more proactive, integrated, performing and well-governed vision of social security, that contributes to socially inclusive and economically productive societies” (ISSA, 2009).
Asia has a bright future ahead. It is home to a large and ambitious population that is determined to effect change for the better. One may hope for a future where Asian economies may have a single market with common regulations, a common currency, and substantial freedom of movement for workers. Within this broad vision, Asia requires pragmatic multi-track, multi-speed initiatives that will show early, step-by-step results. Regional cooperation and integration factors significantly into operations and is a key measure of performance. Emerging Asian regionalism is a powerful historic force - a genuine partnership for regionally and globally shared prosperity. A force that will hopefully carry Asian countries to the forefront of economic security and growth will be coming in years (Anderson, 2012; Chu, 2012).

REFERENCES