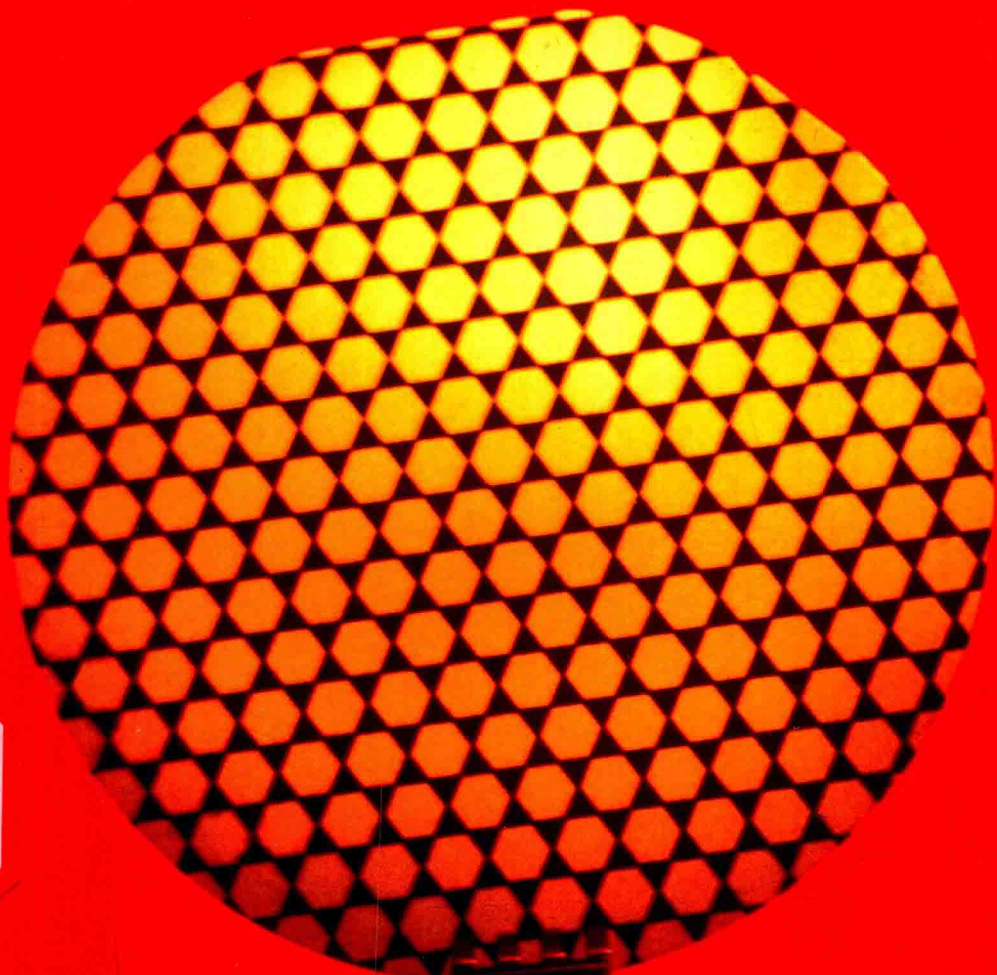


# CHINA AND THE ASIAN ECONOMIES

INTERACTIVE DYNAMICS, SYNERGY  
AND SYMBIOTIC GROWTH



**DILIP K. DAS**

ROUTLEDGE 

# CHINA AND THE ASIAN ECONOMIES

Interactive dynamics, synergy  
and symbiotic growth

*Dilip K. Das*

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"Professor Das' work is a much needed contribution to help both academics and practitioners obtain a wider picture of China in the context of the development of the whole of Asia, particularly the more dynamic economies of Asia. Previously, we have had to depend on either annual updates or country-specific studies. In such a dynamic environment China and the Asian Economies provides a concrete set of perspectives to see the bigger picture."

Professor Murray M. Dalziel, *Director, University of Liverpool Management School, UK.*

"This is a marvelously insightful book, telling the story of Asia's modern emergence as the engine of global economic growth. Professor Das describes the economic rise of the Newly Industrializing Economies, the dynamic Asia, and the flow-on to China as these countries come to dominate the world economic scene. We are moved smoothly through the success of the real economies, and guided to understand the challenges for them from the operations of financial markets where matters are more fragile. Professor Das' splendid book brings the reader up to the minute with its analysis and lays solid foundations for our understanding of the future for China and the Asian Economies."

Christopher M. Adam, *Professor of Finance and Associate Dean, Australian School of Business, The University of New South Wales, Australia.*

"This book is essential reading for anyone interested in the future of Asian economies, their interdependence, their impact on world business and China's role in particular now it has a new leadership team likely to deepen its reforms. Das's book on this important theme vis-a-vis 21st century Asia is not only informative and incisive but also highly readable. It deserves to be widely read by both academics and students, as well as policy-makers."

Malcolm Warner, *Professor and Fellow Emeritus, Wolfson College and Judge Business School, University of Cambridge, Co-Editor, Asia Pacific Business Review.*

"The global economy is on the cusp of a mega transformation, and the dynamic economies of Asia are its epicenter. They have become the driving force of the global economy. Professor Dilip Das, demonstrates that a China-centric economic structure has already evolved in the region, but that it is still in the process of maturation. He has empirically studied the de facto and de jure interactive dynamics of the region, and discussed the symbiotic growth pattern that has developed. In this very readable work, he demonstrates the positive interactive influences that have favorably affected industrialization, modernization and growth among the dynamic Asian economies. The result is an eminently readable book which brings together the ongoing contemporary academic and policy debates. It will make a great weekend read in front of a crackling fire, but the insights gained will outlast the decade."

Dr. John E. Endicott, *Vice Chancellor and President Woosong University, SolBridge International School of Business, The Republic of Korea.*

# CHINA AND THE ASIAN ECONOMIES

The global economy is currently going through a period of transformation that has seen Asia emerge as the most rapidly growing, industrializing and modernizing region in the world economy. Whilst the rest of the world struggled during the financial crisis of 2007–09, Asia played the role of a linchpin for global economic recovery. This book analyzes the growth of key Asian economies in the latter half of the twentieth century, followed a little later by China. Notwithstanding the diversity in the region, rapid growth was instrumental in integrating the Asian economies initially in a market-led manner. Dilip K. Das focuses on the interactive dynamics and the process of integration in the region, exploring the synergy created as well as the resulting symbiotic growth among the Asian economies and China.

Written in a clear, comprehensive and critical manner by a world class expert in the field, this book brings together the contemporary academic and policy debates on the issues under examination. As such it is an essential read for students and scholars of economics, international political economy and Asian Studies as well as MBA students.

**Dilip K. Das** is the Director of the Institute of Asian Business (IAB) at SolBridge International School of Business, Woosong University, Republic of Korea. He is also a Professor of International Economics and International Finance.

**With endless love and gratitude to Vasanti,  
my partner and guide in thought and deed**

Being and non-being create each other,  
Difficult and easy support each other.

Long and short define each other.

High and low depend on each other.  
Therefore the Master

acts without doing anything;  
and teaches without saying anything.  
Things arise and she lets them come;  
things disappear and she lets them go.  
She has but she does not possess,  
acts but does not expect.  
When her work is done, she forgets it.  
That is why it lasts forever.

—Wisdom of *Tao Te Ching*

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## ABOUT THE AUTHOR

Professor Dilip K. Das has been associated with several prestigious business schools around the globe, including the European Institute of Business Administration (INSEAD), Fontainebleau, France; the International Business School in Europe (ESSEC), Paris; the Graduate School of Business, University of Sydney, Australia; the Australian National University, Canberra; and the Webster University, Geneva, Switzerland. He was Professor and Area Chairman at the Indian Institute of Management, Lucknow, India, and EXIM Bank Distinguished Chair Professor in the International Management Institute, New Delhi. He is presently Professor of International Finance and International Banking and Director of the Institute of Asian Business, SolBridge International School of Business, Woosong University, Republic of Korea. His areas of expertise include international finance and banking, international trade and WTO-related issues, international business and strategy and the Asian economy, including the Chinese and Japanese economies. His most recent interest is globalization and the global business environment.

Professor Das has worked as a consultant for several international organizations, such as USAID, the World Bank, and the World Commission on Development and Environment in Geneva. He has organized 13 large international conferences during the last 10 years.

Professor Das has an immense appetite for research. He has written extensively and published widely. He is author or editor of more than 30 critically acclaimed books. His most recent books are *The Chinese Economic Renaissance: Apocalypse or Cornucopia?* published by Palgrave Macmillan, UK, in 2008 and *Financial Globalization: Growth, Integration, Innovation and Crisis*, published by Palgrave Macmillan, UK, in 2010. The former book was translated into Mandarin for the Chinese market, while the latter was translated into Korean. He has contributed over 90 articles to professional journals of international repute, many of which are EconLit or SSCI-listed journals. Eighty-nine of his papers have appeared in prestigious research and working paper series and 22 of them have also been posted on well-regarded websites of business schools and universities.

The author is regarded as a world-class scholar of the Asian economy. A naturalized Canadian, he has lived and worked in Asia and Australia for long periods and has a long-term interest in the Asian economies, including those of China, Japan and Korea. He has written several books on the Asian economy, including two successful textbooks. He has taught Asian economy-related courses

in several Asian and Australian business schools and served a short-term stint at the economic research division of the Asian Development Bank.

Professor Das was educated at St John's College, Agra, India, where he took his BA and MA (Economics) degrees. He went on to study at the Institut Universitaire de Hautes Etudes Internationales, University of Geneva, where he completed an M.Phil. and a Ph.D. in International Economics. He is fluent in French and his other language skills include basic Mandarin, Japanese and Korean.

# PREFACE

This is a transformative period for the global economy. Asia has been the most rapidly growing, industrializing and modernizing region in the world economy and has been reshaping its contours in the initial decades of the 21st century. Importance and stature of Asia in the global economy has risen monotonically and it has achieved a meaningful *mise en scène* on global economic and financial stage. Re-emergence of Asia is one of the most significant geo-economic events in modern history. During and after the global financial crisis (2007–09) Asia played the role of a linchpin for global economic recovery. The crisis was little more than a short tumble in economic ascent of Asia. It emerged from the stressful period of the global financial crisis with its global economic standing intact. If anything it strengthened after 2009.

Influence of Asia on shaping the world trade laws and capital, commodities and consumer markets significantly rose; barring the unforeseen it would continue to rise. Asian economies also remained resilient during the implacable Eurozone sovereign debt crisis. According to the World Bank (2013), the developing economies of Asia grew by 7.5 percent in 2012, well above the global average of 3.2 percent and higher than any other region in the global economy. China has become the veritable engine of regional growth. If the new reform programme in China stumbles there are risks of slowing, but otherwise it is likely to remain an engine of growth for Asia.

One of the important reasons behind Asia's resilience was the extensive reforms and restructuring undertaken in the post-Asian crisis (1997–98) period. Many of these reforms were not an easy sell to the people inhabiting in the reforming economies. They *inter alia* made Asian economies not only resilient in a period of global economic and financial turmoil but also an engine of global growth. If the region stays the course its gross domestic product (GDP) will be larger than that of the Group of Seven (G-7) economies by 2030. To enhance its growth potential Asia needs to continue with structural and macroeconomic reforms as well as embrace greater economic and financial integration. The other crucial areas where Asia needs to improve and upgrade include innovation, research and development (R&D), governance, promotion of services and strengthening its social safety nets.

Conceptual foundation of this book is the rise of rapidly-growing Asian and Chinese economies, in that order, their interactive dynamics and symbiotic growth. GDP growth rate in several East and Southeast Asian economies picked up momentum in the 1960s. China was to join the dynamic groups of Asian economies a trifle later. They interacted together and developed a pattern

of symbiotic growth and industrialization, which in turn stepped up their pace of industrialization and synergized growth and development in the region. A spontaneous and intricate process of market-led integration ensued. One salient characteristic of it was that it was more organic than mechanistic. Regional integration has had a significant influence on reshaping the regional economies. Asia has re-emerged as a major locus of world economic power in the second decade of the 21st century. This is the principal thematic strand of this book.

Equally important is the theme of China's unparalleled growth performance of the last three decades, which made it into the largest regional economy and second largest economy in the world in 2010. As a rule, a large, open and rapidly growing economy influences the performance of the surrounding economies. China had a veritable impact over its surrounding Asian economies. This book also examines how China's vertiginous growth was instrumental in integrating Asian economies with each other and mutually supporting the rise of a dynamic Asia. They have evolved into a vibrant geo-economic space. China's rapid growth in the recent period and its integration with its dynamic neighbors has been paid sufficient attention in this book. The Asian and Chinese economies moved up the value-added chain, continually entering new and higher technology oriented industries. It enabled them to diversify their export base as well as go on shifting their export composition, increasing its technology content, sophistication, and domestic value-added in their exports.

Market-led regional integration of Asia worked essentially through expansion in intra-regional trade and investment and subsequently through the growth and brisk expansion in vertically integrated production networks. Lately the financial channel has also become an instrument of regional integration. If Asian economies succeed in eschewing the middle-income trap, their rapid growth will surely help them graduate into being high-income countries by the middle of the century. The oft-mentioned dream of an Asian century could then become a reality.

Asia is a diverse and heterogeneous region and merely a geographical concept. It is not a political or economic entity. However, when the 21st century dawned, one of the most significant economic events of the first decade was emergence of the dynamic Asia as an economic force reshaping the contours of the global economy. Process of Asian and Chinese economies integrating in a symbiotic manner also ensured steady increase in the heft of the regional economy in the global economy. At this juncture, individually many Asian economies were no longer marginal economies and as a group they made their global presence felt. The status of the region was elevated in the business, economic and financial spheres as well as in global economic governance. Several Asian economies became a part of the venerated and influential Group of Twenty (G-20). Decision makers in the corporate, financial and banking world, particularly those making consequential decisions in the multinational corporations (MNCs), logically began giving extra importance to Asian markets. Few could afford not to. Asian markets became among the largest and/or most rapidly growing for the MNCs in numerous industries and services. As they are a large centre of production and exports, Asian economies began casting large shadows in the commodity and energy markets as well.

An amber signal is necessary here. This book does not deal with the entire region but only with the rapidly growing dynamic economies of Asia. The dynamic Asia has been defined in Chapter 1, Section 1.1. This book provides a detailed analysis of the Asian and Chinese economies in a global context. My objective in this book is to create a clear fact base on how the relationship between the dynamic Asia and China evolved and how it reached the current synergetic state. Notwithstanding the fact that they are a diverse group of economies, they are growing in a progressively symbiotic manner. They have been integrating and turning into a global economic and financial

force and business presence. Since the turn of the century, contribution of the dynamic Asian economies to global economic growth discernibly increased. The significance and recognition of this phenomenon escalated in the backdrop of advanced economies moving from the Great Moderation to the Great Recession (2009). Myriad projections by supranational institutions and investment banks like Goldman Sachs demonstrate that in future economic clout of the dynamic Asia will be greater than it is at present.

Asia is sure to be an increasingly important entity in international business. In early 2013 the environment for international business and finance was not buoyant, yet Asian businesses have managed to remain optimistic about their present and future. Dominic Barton (2013), Global managing Director of McKinsey, noted that with approximately a billion middle-class consumers Asia's economic fundamentals, drivers of growth and the gravitational forces are all strong. In addition rapid urbanization and good demographics have strengthened the tail winds for the Asian economies. He also observed that long-term oriented managers and governments in Asia have been investing pragmatically and ambitiously. In 2013 approximately 179 of Fortune 500 companies were domicile in Asia. They are investing in a large array of sectors, from consumer goods to airlines, almost twice the amount of their Western counterparts. Asia would be a significant growth area of international business and finance, although this growth may not be linear.

The number of academic institutions offering courses related to Asian economy as well as Chinese economy is already significant and growing. Several new research centers and institutes in these areas have been born over the period of a decade. The target readership of the book is master's level students in economics, international political economy, international relations as well as MBA students. Ambitious senior level undergraduates as well as policy mandarins in the government and international institutions and researchers can also benefit from the book. Having a background of initial micro-, macro-, international finance and monetary economics should be sufficient to comprehend this book because it provides definitions and explanations of terminology and advance concepts used in the text as footnotes. Decision makers and public-policy makers will find this book an informative and valuable aid.

Dilip K. Das  
5 June 2013

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# PROLOGUE

## The essential thematic strand of this book

Economic dynamism and resilience has made Asia an engine of global economic growth. The dynamic economies of Asia have been transformed from the inside out. They continued to post the highest gross domestic product (GDP) growth rates in the post global financial crisis (2007–09) period and became a global growth leader, driving an astonishing two-thirds of global growth in the five years between 2008 and 2012 (Lagarde, 2013). During and after the global financial and Eurozone crises, the dynamic Asian economies maintained relatively stronger fundamentals compared to other regions of the global economy. Although the various sub-groups of Asian economies represent a varied mix of stages of development, the dynamic ones among them began integrating in an essentially market-driven or private-sector-led manner some four decades ago. This process began to accelerate after the Plaza Accord (1985) and further after the early 1990. Since this point in time, Asia saw an efflorescence of regionally based economic initiatives, which accelerated further after 2000. Asian economies are a good deal more productively integrated today than they were at the turn of the century.

In this book we shall see that the economic integration of the various sub-groups of the Asian economies was first *de facto* or private-sector driven. Their policy- or institution- or government-led integration is a relatively recent phenomenon. Trade and foreign direct investment (FDI) were the principal channels of regional integration. In addition, creation of special economic zones (SEZs), vertically integrated production networks and increasing trade in parts, components and intermediate products were also instrumental in integrating them.

The conceptual foundation of this book is the emergence of Asia as a global growth hub centered around the People's Republic of China (hereinafter China). It focuses on the rise of Asian and Chinese economies, in that order, their interactive dynamics, symbiotic growth and regional integration. Rapid growth in the outward-oriented Asian economies not only integrated them in a market-led manner but also transformed patterns of co-operation and competition in the region. During the last decade, China has evolved an important engine of growth for the region. China became not only the major trading partner of all the neighboring Asian economies but it also robustly participated in the Chiang Mai Initiative (2000), the Bali Accord (2003) and the Singapore Declaration (2007). A distinctive trait of Asian economic integration is that it is essentially



soft and open and largely uninstitutionalized. It is flexible in nature and has followed an incremental path. It was principally motivated by economic or geo-economic factors.

This book provides a substantial coverage of China, particularly its role in turning the region into an economic growth pole of global consequence as well as in advancing soft-regionalism in Asia. As a large and open economy growing at double-digit pace, China played a defining role in Asia's economic integration—particularly during the post-Asian crisis period. Its World Trade Organization (WTO) accession enhanced this role further. China was instrumental in promoting regional growth and integration in both *de facto* and *de jure* manner.

The principal thematic argument in this book emphasizes the role of China in becoming the driver of wide-ranging transformations in the regional economies through myriad of inter-linkages and inter-dependencies. This book sets a germane regional as well as a global context in which the rising Asian and Chinese economies are discussed. It is a significant contribution in terms of coverage of the issues and approaches in analysis of the issues involved.

Integration of dynamic Asian economies was instrumental in Asia forging ahead at a rapid pace. Even in difficult periods of global financial and Eurozone sovereign debt crises Asia maintained the highest GDP growth rate in the world economy. The development of Asia has been projected to grow by 7.1 percent in 2013 and China by 8.0 percent. This performance is a great deal superior to that of the global economy (3.3 percent) and the advanced economies (1.2 percent) (IMF, 2013). It was made possible by better business opportunities as well as institutional co-operation in the region. Regional integration is one of the driving forces behind the relative strength of the Asian economy.

The rapid pace of GDP growth in Asia is reflected in rising per capita incomes, improving living standards and speedy poverty alleviation. Private wealth has risen to a record level. There are more millionaires, super-rich households and individuals in Asia than ever before. According to the Boston Consulting Group (BCG, 2013), private wealth increased the fastest in Asia (excluding Japan) in recent years. It increased to \$28 trillion in 2012, a 17 percent jump on 2011. In 2018 it is projected to nearly double to \$48 trillion (\$ stands for US\$, unless otherwise stated).

Integration of dynamic Asian economies is also responsible for the growing influence of Asia over the global business and economy. In the recent past Asia has been endeavoring to generate domestic demand and domestic demand-driven growth. To the extent Asian economies succeed they will have greater impact over the global economy. It is helping shape the contours of the global economy. It is one of the most significant events in the global economy during the contemporary period. The theme of Asia's growing heft is attracting a great deal of scholarly interest. It is also of enormous direct consequence and value for the public policy mandarins and senior decision maker in the business world.

Until the last quarter of 2012, both the Eurozone and the USA failed to put together credible medium-term plans to resolve the sovereign debt crisis and serious fiscal disorder, respectively. As growth prospects in the other major regions of the global economy diminished since the global financial crisis and the so-called Great Recession, there was higher investment in Asia from both the regional players and the multinational corporations (MNCs) from the advanced industrial economies. Strong economic fundamentals of the regional economies would ensure consistent growth across a range of industries over the medium to longer term.

Asia in this book is defined to include the dynamic sub-groups and economies of East Southeast Asia (Chapter 1). In terms of economic dynamism, rapidity of GDP growth and structural economic transformation they stand apart from the other sub-groups of Asian economies like those of South and Central Asia. According to the latest (2011) available statistical data, this dynamic Asia is now a substantive economic entity in the global economy. With a population of