



Boao Forum for Asia

Asian Competitiveness

Annual Report 2017



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Asian Competitiveness
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北京市朝阳区惠新东街10号 邮政编码: 100029

邮购电话: 010-64492338 发行部电话: 010-64492342

网址: <http://www.uibep.com> E-mail: uibep@126.com

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Preface

The past year was a key year for global economic recovery. In the year, developed economies promoted their economic governance still along the path of revitalizing real economy and expanding export trading. In this same way, they also participated in world economic governance. Year 2016 saw the intensified contradiction between overcapacity and the insufficiency of international market increment and saw the prevalence of trade protectionism, and the rampancy of de-globalization. Market competition went white-hot, regional hot-spot issues happened frequently, along with intensified international turmoil. As a result of all these factors, global market space was further squeezed, both the traditional and non-traditional security environments were further deteriorated. The "cogging effect" of economic growth for developed and developing economies continued to strengthen. When the former economies showed signs of slight recovery, the latter experienced increased pressure on economic growth. The world's economic operation is shifting from the big triangle economic system, in which European and American developed economies feature with financial leveraged consumption, East Asian economies with China as the center rely on cheap labor forces for production and other developing economies provide energy resources, to the economic system of competition among North America, East Asia and Europe. All this constitutes the external environment for the development of Asia.

The bygone 2016 was a key year for Asia's transformation. Under the squashing of real economy revival strategy and export enhancement strategy by the developed economies in response to the financial crisis, the market space for Asia was further squashed and the security environment was further worsened; the pattern of Eurasia and even the whole world was under accelerated differentiation and recombination. To respond to the intensification of international contradictions and domestic tension increase as well as other problems caused by insufficiency of international market increment, the economies in Asia were finding new paths one after another, proposing new plans for governance of international financial crisis. Through cross-border market cooperation, the production out of international market increment was promoted and "Thucydides's trap" was cracked for mutual benefit and win-win result.

In 2016, Asia's regional economic cooperation accelerated its development, showing the features of leadership, cross-region, progressivity and multiple constraints by geopolitics; the "Belt and Road Initiative" was further sped up, the tendency of market cooperation localization of the economies in Asia was getting more and more noticeable, Asia's regional economic integration was under accelerated development, and the polarization of trade network in Eurasia was optimized and showed an integration tendency. The situation where Asia's regional economic cooperation was burning with ardor was in a sharp contrast

with the great clamour of de-globalization prevalence and trade protectionism. Asia's regional economic cooperation became an eye-catching scenery under the gloomy background of global economic cooperation. This means that Asia's economic transformation has acquired positive progress and the pattern in which international market increment and the win-win realization will be provided through market cooperation has been basically formed.

Looking forward, Asia, having suffered a huge pressure in economy as middle- and low-end of the international industry chain, however, supported by endogenous motivation and cooperation in the market of economies, will demonstrate to the world the powerful strength of the market cooperation mode. It is witnessing a promising future in economic development and is expected to lead the world out of the economic downturn, providing a more sustainable driving force for world economic development. International terrorism governance is expected to gain major fruits and the security environment be improved significantly.



Zhou Wenzhong

Secretary-General

Boao Forum for Asia

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Chapter 1

Analysis on the Economic Situation and Outlook of Asia

Having suffered from huge shock due to global financial crisis, the world's economic operation is shifting from the big triangle mode, featuring leveraged financial consumption in European and American developed economies, production by cheap labor force in east Asian economies centered on China and energy resources supply from quite many third world economies, to the mode of competition among North America, East Asia and Europe. In the shifting stage, global economies are at a loss and suffering from sustained weak economic recovery. And Asian economies are witnessing decelerated economic growth.

As one of the bases for energy, resources and labor force supply, Asia has experienced further worsening of economic situation. In 2016, the further expansion of the "retraction effect" for global industry chain and value chain brought huge downward pressure to the economic growth of Asia and directly driven Asian economies to save themselves through further integration.

1.1 Further Worsened Regional Development Environment of Asia in 2016

In 2016, due to the gradual reduction in the capacity of the market of developed economies to absorb Asia's commodities, the global industry chain under the big triangle economic operation mode of the world became further segmented. The "retraction effect" for global industry chain and value chain led to further worsened development environment of Asian economies.

1.1.1 Transformation of Global Economic Operation Mode: Background for Worsened Environment of Asia¹

Having endured the impact of global financial crisis, developing economies including BRICS members are witnessing gradual deterioration of external development environment, which drives these economies to change their original national development strategies. They should not only act as producers but also as consumers and market

¹ Xu Changchun, Song Huan. Global Economic Governance System Innovation and Its Promotion in BRICS Members, Blue Book of BRICS Members of the Chinese Academy of Social Sciences (2016).

providers to a larger extend. Before the global financial crisis, the big triangle operation mode of the world economy featuring consumption in Europe and America, production in East Asia with China as the core and configuration of energy resources in the third world was changing in a profound way. With the shifting of operation mode, the world's economic growth has shifted its conflict to that between serious shortage of supply in the international market and sharp increase in demand. That is to say, the transformation of the world's economic operation mode led to added difficulty in the incremental production of the international market and even to the redistribution of international market stock.

1. The Transformation of World Economic Operation Mode Led to Shrinking International Market

First, the international market expansion strategy launched by developed economies led to shrinking international market. In the event that the large-scale industry-oriented technological revolution is difficult to break out, European and American economies found it hard to facilitate economic growth by financial leverage and to play their role as engines of world economy. Thus, they implemented the strategy of contending for international market. Such strategy did not only close their own market as practically as possible but also tried their efforts to scramble for the market of other economies. The US is the most typical case. After the breakout of the global financial crisis, developed economies put the issue of contending for international market on agenda in an essential manner. The financial crisis made the US to suffer a serious defeat in economy and witnessed gradual increase in

unemployment rate. The country had an even stronger desire to create more employment opportunities by doubling its export volume than ever before. In order to achieve that goal, the "Re-industrialization Strategy", was proposed and the "National Export Initiative" was started and promoted. It was required that the country should double its export scale in the following five years. In order to make the anti-crisis measures to witness their expected effect as soon as possible, the US made its efforts to size more international markets by taking advantages of its massive alliance system inherited since World War II. On the one hand, it occupied some European markets in accordance with the Transatlantic Trade and Investment Partnership (TTIP); on the other hand, it facilitated the Pacific oriented Trans-Pacific Partnership (TPP) in the name of "Asia-Pacific Rebalance" to divide the free trade area system of East Asia and seize more Asian markets. Some other developed economies including Japan and Europe also issued policies on the development of overseas market, intensified their efforts on export and gave a strong impetus to the transition of global industry chain downstream market towards developed economies, aiming to create more job opportunities in their economies and recover economic growth. As a result, the international market was redistributed in favor of developed economies and the international market was only shifted among different economies. More importantly, it broke the original industry chain and supply chain of the international market and led to the misallocation of market resources. Consequently, the global market was not enlarged but became shrunk.

Second, with the shock caused by the

foreign trade strategy of developed economies, developing economies witnessed market shrink, which made the insufficient supply on the international market even more serious. Faced with redistributed international market, developing economies had to shrink their industry chain. They were forced to exit from the original international market on the one hand and had to open their market to global powers on the other hand, which resulted in under-capacity operation of enterprises, increased unemployment rate, decreased economic growth and concentrated social conflicts in these economies. The global economic operation mode featuring financial leverage in European and American economies, production in East Asia and supply of energy resources from developing economies was greatly challenged; the competition mode characterized by coexistence of multi-polar economic growth points has not been formed; and the world economy has entered into an economic operation mode transition period. Economies in the world gamble on the issue of international market redistribution, which led to the tragedy of the commons. No increment but weakening occurred in the international market. The supply shortage of international market has risen to become the main conflict of world economy. And the global trade growth rate has been lower than that of the average of global economic growth for five consecutive years.

2. The Way Out for Global Governance Lies in the Creation of International Market Increment

Since the breakout of international financial crisis, the broken economic operation mode of the world, weakened international market stock and difficulty in the forming of increment have

led the world economy into a difficult situation in terms of global economic governance. There are mainly two factors constraining the forming of international market increment.

First, the technological revolution which can make large scale industry-oriented operation mode happen has not broken out and the development of upper market for international industry chain has been constrained, both of which represent the biggest factors for limiting the forming of international market increment. The result of technological revolution can satisfy people's demand at a higher level through industrialization and explore an industry market at an even bigger scale through demand level innovation. However, such technological reform has not become mature yet.

Second, the global economic governance system innovation has not been used to reduce the factors that constrained international market increment and middle- and low-end market of international industry chain has not been developed yet. During the previous dozens of years, capital, technology and market have been spread and moved towards more extensive marginal regions from developed centers in the West and less developed countries have witnessed economic blast-off over time¹. Since the occurrence of the global financial crisis, developed economies have taken the countermeasures of individual rationality in order to occupy international market. On the one hand, they suppressed the enterprise vigor of low-end market of international industry chain through capital withdrawal, which caused

¹ Fu Ying. Order Losing vs. Rebuilding. China Daily, July 8, 2016, Edition 5.

severely worsened production environment and abnormal operation of international industry chain economic system. On the other hand, their occupation of international market suppressed the transition above and also the development of low-end market increment of international industry chain. All these have suppressed the transformation of the existing production factors towards the practical productivity and also the development of low-end market increment of international industry chain. When both high- and low-end market were suppressed by the existing global governance system, all economies in the world have become worsened one by one and witnessed prevailing trade protectionism, market closure, conflicts continuous accumulation and worsened economic situation. Guided by the traditional thinking mode, some big powers did not try to seek a recipe for expansion of international market increment. Instead, they led in playing the Zero-Sum Game. The world peace has been severely threatened.

The way out for the difficult situation lies in the inclination of the center of gravity of global governance towards creation of international market increment and facilitation of international market increment production.

First, all countries in the world should oppose to Thucydides' logic and eliminate the threat of the behavior based on individual rationality to the whole world. The original global economic operation mode is a developed economies' consumption market driven economic operation mode based on the financial leverage of European and American countries and the market of developed economies actually played the role of final engine for world economic

growth. After the international financial crisis, all economies abandoned the international economic connection formed essentially and turned to their own affairs based on the governance mode of individual rationality. With increasingly aggravated risks, some powers returned to the Thucydides' logic by following the Jungle Principle. They created conditions for their recovery of comprehensive national strength in the international system through power struggle in the international system and completely dropped the development of the low-end market for international industry chain, which brought fatal threat to the world peace. Thus, all countries in the world should unite and oppose to such behavior based on individual rationality, return to the road featuring win-win cooperation, create conditions for the arrival of technological reform through the joint development of low-end market for international industry chain, and eliminate any possible threat to global security caused by the behaviors based on individual rationality.

Second, all countries should, according to how much the world's economic operation mode is adjusted, bring the role of G20 global economic governance platform into full play, improve the global governance system in a creative manner and provide conditions for the development of low-end market of international industry chain through Pareto improvement. In order to better respond to the international financial crisis after its breakout, the G20, composed of major developed countries and emerging economies, and replaced G7, became the major platform for global economic governance. Based on the platform, in the international finance field, the international community should

continue to promote the reform of international financial institutions including IMF and World Bank, further improve developing economies' representativeness and the right to speak and smoothen the system of investing in the low-end market of international industry chain. In the energy field, it should improve the status of G20 in global energy governance, coordinate all relevant governance mechanisms and institutions, adjust and perfect global energy governance system and maintain the equality, safety and effectiveness of international energy orders. In the international trade field, it should adjust and perfect global trade governance system, take collective actions against trade protectionism and facilitate the joint collaboration between world multilateral trade system and regional trade arrangements, trying to obtain further development of global trade governance and regional trade governance economic globalization and avoiding segmented trade. We should, through Pareto improvement, promote the global economic governance system to incorporate global governance, big power coordination, multilateral cooperation and North-South dialogue, include all pillars and links needed by the times, pay attention to the common interests of all countries and regions and provide an orderly community for all countries to develop comfortably'. In this way, all countries can administer world economy through more extensive collective strength, motivate the enthusiasm of all parties, shift the focus of world economic growth engine to the development of low-end market of international industry chain and provide continuous power for world

economic growth. Such policy orientation should be further followed.

Third, the improvement of technological revolution and innovation should be lifted to an even higher position. Regardless the current days or the future, technological revolution and innovation, as the core strength for the development of high-end market of global industry chain, should be attached the greatest importance to. The current role of G20 would possibly be played by the UN. All countries in the world should integrate global technology and innovation strength to facilitate the arrival of technological revolution and create well-beings for the whole world. Gone are the days when most technologies and innovation strength were concentrated in one country to help to improve its national comprehensive strength after World War II. Joint development represents the most practical choice. Currently, the focus for global governance can only be shifted the orientation towards the low-end market of global industry chain and creation of international market increment.

Overall, the world economic mode transformation was followed by weakened global market and surging international terrorism, which further caused floods of refugees. The overall shrunk international market increment constitutes the background for Asian economic growth in 2016.

1.1.2 Asian Economic Development Environment Became Worsened Due to the Further Narrowed Market Space

The repartition of world market space and slower economic growth of developing economies including China and India caused further worsened economic development environment

¹ Fu Ying. Order Losing vs. Rebuilding. China Daily, July 8, 2016, Edition 5.

in Asia.

First, the weak pulling force of developed economies made Asia's economic development environment worsened. With the transformation of world economic operation mode and redistribution of world market, "cogging effect" has occurred between developed and developing economies over time, that is, economic growth in developed economies vs. relative prosperity in the early stage and then later downturn in developing economies. However, developed economies do not enjoy cost advantage as they adopted the strategy of competing with the upstream economies of global industry chain for downstream market rather than the strategy of global industry chain upstream market expansion facilitated by technological reform. Although some achievements have been made during the market transition process, the process appears difficult due to the rigid obstacle constrained

by production cost. Thus, major developed economies in the world, as main market space for economic growth under the mode of world economy big triangular economic mode, continue to witness growth recovery due to the transformation towards real economy and vigorous promotion of export. However, no large-scale recovery is seen. Additionally, they did not make too many contributions to the world economic growth due to the uncertainty of recovery prospect caused by huge difficulty in transformation and weakened economic recovery that did not reach the market expectation. As shown in Figure 1.1, in Q2 2016, the GDP of the US had a year-on-year growth of 1.2%, with decelerated growth in five consecutive quarters; the GDP of Japan had a year-on-year growth of 0.8%, 0.6% higher than the previous quarter; and the GDP of euro area had a year-on-year growth of 2.2%, 0.6% higher than the previous quarter.

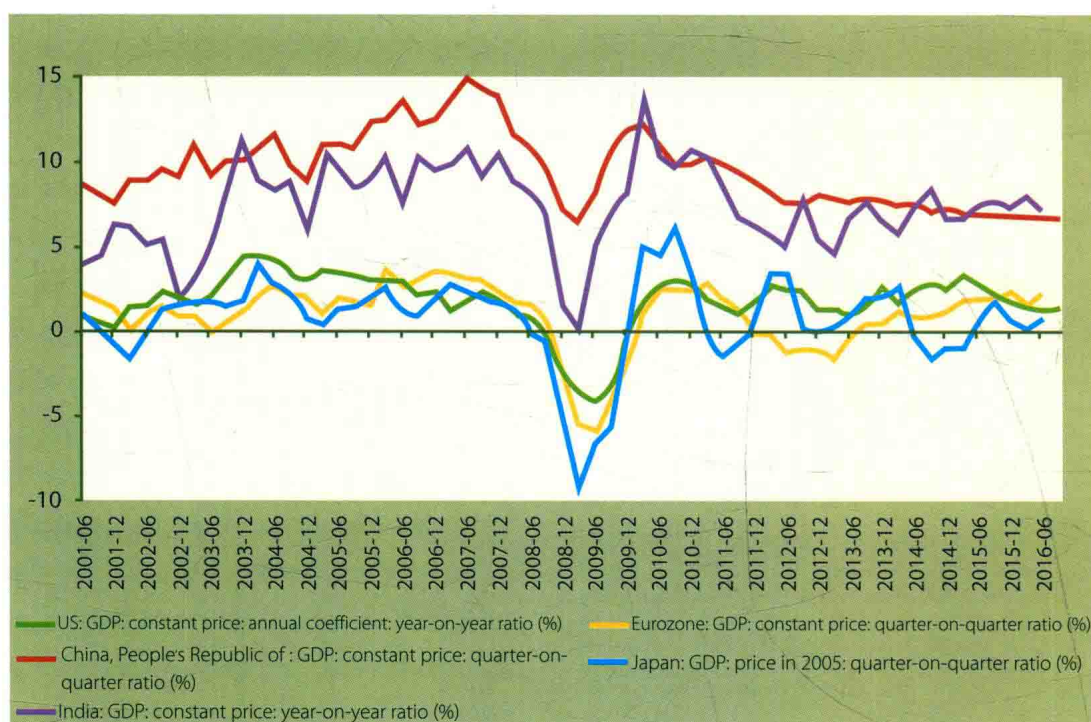


Figure 1.1 Trend of Economic Growth in Major Economies of the World

Source: Wind Info

It indicates that due to the limited economic growth of developed economies in the world, the traditional export market of Asia did not witness large-scale contraction but also yield part of domestic space. Thus, it seems difficult to expand the traditionally developed market contributing to Asia's economic growth. Additionally, the trade protectionism adopted by developed economies seriously narrowed the market space of Asian economies and made the economic growth environment of Asia worsen.

According to a report released by WTO, since 2008, G20 members have implemented 1,583 new trade restriction measures, in which only 387 ones have been cancelled till now. And the latest *Global Trade Alert*, released by the Center for Economic Policy Research (CEPR), UK, indicates that the US, as the largest economy in the world, has implemented more than 600 trade protection measures towards other countries from 2008 to 2016, with 90 ones just in the year 2015, once every four days on average.¹ With the intensifying trend of global trade protectionism, global trade growth became lower than the global economic growth for the fifth year. As shown in Figure 1.2, the world witnessed a huge decline in trade scale. Asia, where developing economies concentrate, became one of the major sufferers from decline in global trade scale. The sharp decrease in export scale led to large increase in domestic stock which further constrained the economic growth, and increased unemployment rate brought about frequent social issues.

Second, developing countries are faced with significantly increased pressure from economic

downturn due to the severely constrained export and the transformation of economic growth mode. These countries are witnessing weakened pulling effect on the growth of world economy especially of economies in the region. As shown in Figure 1.2, since 2014, global trade scale has taken a trend of downturn and almost reached the level of the year 2008 before the global financial crisis. Under such background, despite of relative increase in trade export of developed economies, global trade scale has experienced a large-scale downturn, signifying an even larger trade downturn in developing economies. And the trade downturn of Asia, as the global production center, means an even larger increase in the economic growth pressure of Asian economies. Around 2013, due to the pulling effect on the economic growth implemented by some major Asian economies including China and India (especially China), Asian economy outshined the rest of the world against the background of the overall gloomy economy in the world. However, with the prevailing trade protectionism and large-scale drop of global trade scale, major Asian economies such as China and India have also witnessed decelerated economic growth. As shown in Figure 1.1, in Q2 2016, India's growth dropped to 7.09% and China had a zero year-on-year GDP growth, to 6.70%. Thus, it became harder for the major Asian economic to provide a destock increment market for products of Asian economies than ever before. And developing economies in the region experienced an economic downturn of even larger extent due to the lack of economic growth engine. In the year 2016, Asia's economic growth market underwent a

¹ Trade Protectionism Harms Others Without Benefit; Construct an Open World Economy, <http://finance.sina.com.cn/roll/2016-08-20/doc-ifxvtcc8093966.shtml>.

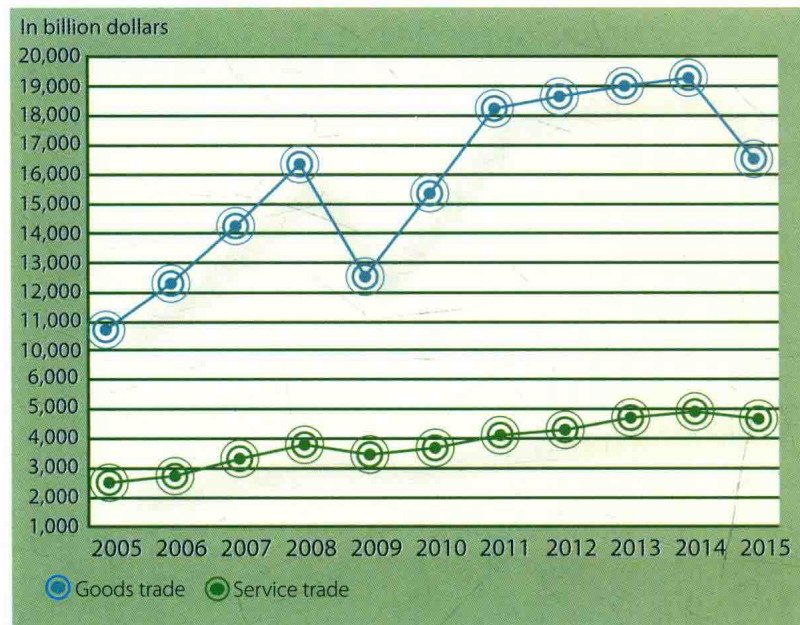


Figure 1.2 Trend of Global Trade Growth

Source: International Trade Statistics 2016, WTO

seriously worsened situation.

Overall, with the transformation of the operation mode of the world economy, the economies in the world are encountering obstacles in the redistribution of international market stock share and international market increment production. As shown in Figure 1.1, the "cogging effect" that exists between developed and developing economies in terms of economic growth is just the manifestation of such market partition. The reduction of the driving force in developed market and the decelerated economic growth in major developing countries are superimposed over each other. The Asian economies with weak competitiveness witness huge contraction in both domestic and international market needed in the development of the actual national economy of these economies. And the market environment necessary for Asia's economic growth became further worsened.

1.1.3 Further Worsened Security Environment Necessary for Asia's Economic Growth

With the transformation of the operation mode of world economy, the main conflict of the world economy has shifted to the competition towards international market, thus leading to increased regional social conflicts and frictions among different countries. The superimposition between traditional safe and non-traditional safe factors made the security environment necessary for Asia's economic growth worsened.

1. Non-traditional Security Factors Made Asia's Economic Growth Environment Further Worsened

First, the frequent terrorism in the world shocked the international community.

Second, the continuously accumulated nontraditional security factors are threatening the security environment necessary for Asia's economic growth. Currently, three factors are intensifying the tension among Asian economies.