Boao Forum for Asia

Asian Competitiveness

Annual Report 2014

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Preface

Asian economies face a challenge as they step up efforts to explore new engines for economic growth after the financial crisis of 2007.

The year 2013 saw many economies in the region explore new possibilities to boost economic growth. Looking closely, developed economies have started to recover steadily, and their growth numbers show acceleration. In comparison, emerging economies as a whole are confronted with a slowdown. Though the growth rate of developed economies came to mere 1.2% in 2013, far below the 4.5% of the emerging economies, the gap between the two narrowed to 3.3% in 2013, compared with the 4.5% in 2011, and 3.4% in 2012. Economic slowdown has become a lingering worry for Asian economies as they struggle to find common ground and unleash the energy of new growth engines.

In recent years, major developed economies have adjusted their strategies. For instance, the US is pushing ahead reindustrialization and is seeking to double its exports. The Europeans are sharpening their competitive advantages in real economy, and Japan is implementing new growth strategy. All these measures are forcing export-oriented Asian economies to look for new growth strategies, especially those that rely on domestic consumption.

Asian economies are actively adapting to the situation of massive outflow of international capital and continuously flagging economy, rolling out countermeasures to fight inflation and buffering the slowing economy. These efforts fall into two categories: i) Boosting domestic consumption. In other words, expanding domestic market to counter the downturn of the international market. ii) Strengthening economic ties. Eliminating barriers between economies that hinder exports, especially when the international market is shrinking. Cooperation between Asian economies will also lead to common development. Despite all these efforts, Asian economies still face a tough road ahead.

Looking into the future, the world economy will continue on its path to recovery, and there are clear signs of a rebounce. Developed economies' economy recovery will shore up exports of Asian economies, but the effectiveness of that in terms of maintaining high growth in Asia is limited. In pursuit of a sustainable growth, Asian economies should rely more on internal economic exchanges, follow the path of enhancing strategic trust, complementary advantages, pursue mutual benefits and common development, and strengthen cooperation, which will serve as the new driver for their development. They should also push forward the steady and healthy development of the economy, and usher in a brighter future for people in Asia.

The report on Asian competitiveness is definitely a ground breaking work. Its composite index synthesizes objective data, quantitatively analyzing the competitiveness of economies and enterprises. Since we initiated the study four years ago, it has gained widely attention and has been reported by international media, and has positively influenced the political, business and academic circles. It will help governments, enterprises as well as international organization in Asia to sense changes in Asian competitiveness and seize development opportunities. The report also has its part in promoting rational competition, complementary advantages, and cooperation among Asian economies and enterprises. I sincerely hope that this report is able to grasp the changes of the international situation, and provide better intelligence support to economies and enterprises to further lift their competitiveness. It should help each economy to figure out its relative position and to find out ways to improve their competitiveness. Besides that, it should point out problems hindering Asian enterprises' development to enhance their operating situation, so as to maintain their competitive advantages in the renewed global economic environment.

Finally, we would like to thank all people devoting to this report and we're looking forward to your advice which will make it better in future. We are striving to perfect this report, help economies and enterprises to increasingly improve their competitiveness, and jointly create the beautiful future for Asia.

周文重

Zhou Wenzhong
Secretary-General
Boao Forum for Asia

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Chapter 1

Internal and External Environments Affecting the Competitiveness of the Asian Economies

1.1 Developed Economies on the Way of Recovery, with Emerging Economies Faced with Greater Downward Pressure

In 2013, the global economy experienced a robust recovery, but the economic status of developed economies and emerging economies had deviated again. Unlike the situation a few years ago, the divergence this time was featured with the plunging growth rate of emerging economies, and the constant and steady recovery of developed economies, especially the US and Japan.

Developed economies saw increasingly solid foundation for recovery. In 2013, the global economy continued the momentum of a slow growth, and the annual growth rate was estimated to be 2.9%. The growth rate of developed economies and emerging economies was projected at 1.2% and 4.5%, respectively, making the difference of projected growth rate between the two narrow to 3.3% in 2013, compared with the 4.5% in 2011 and 3.4% in 2012. The US and Japan enjoyed robust growth in 2013. The US economy grew 1.32%, 1.63%, and 1.97% year-on-year in the first three quarters of 2013, respectively, and the full year growth rate was estimated to surpass 1.6%. Thanks to the steady economic growth and the continuously declining jobless rate, the US Federal Reserve began to taper off the Quantitative Easing (QE) in December 2013. Stimulated by the Abenomics, the economic policies advocated by Japanese Prime Minister Shinzo Abe, Japan's economy maintained a strong growth momentum. In the first three quarters of 2013, the country's economy grew 0.1%, 1.2% and 2.4% year-on-year, respectively. To avoid the risk of deflation, Japan launched another USD182 billion economic stimulus package in early December. At the same time, the economic recession was alleviating in the eurozone. The region's quarterly economy growth rates stood at -1.8% and -0.5% year-on-year in the first two quarters of 2013, respectively, and the annual growth rate was forecast to be -0.4%. The eurozone will gradually step out of the recession interval in 2014. It will maintain the current loose monetary policy, but there will be little possibility to further expand the scale of the fiscal deficit. The debt ridden Ireland has been completely bailed out by international aids and its fiscal and debt situations will gradually get back on the right track in the medium term.

Emerging economies faced greater downward pressure. Though emerging economies were confronted with downward pressure in 2013, China's economic growth was still thriving, maintaining a steady growth rate of 7.7%. The growth rates of Russia, India, Brazil and South Africa were all below 4%. Moreover, some emerging economies like Russia, India, Thailand, Indonesia, and Malaysia were once on the verge of financial crisis. As for growth prospect, the Organization for Economic Cooperation and Development (OECD) composite leading index of the US, Japan and the eurozone in October 2013 were 100.69, 101.13 and 100.89, respectively (See Figure 1.1). These figures were not only above the critical value of 100, but all hit the new high in each economy in nearly two years. In contrast, over the same period, the index of India, Brazil and Russia were 97.88, 97.88 and 99.88, respectively, not only were they all below the reading of 100, but these figures refreshed or approached the lowest level since the financial crisis. The economic difficulties of emerging economies were not only reflected in the rapid decline of economic growth, but also reflected in the significant deterioration of the exchange rates, balance of international payments, and financial fragility. For example, the nominal exchange depreciation of Indian rupee and Brazilian real against the US dollar came to more than 20%. The substantial devaluation of the exchange rate failed to improve balance of international payment significantly. In the first ten months of 2013, India's currency trade deficit crawled as high as USD129.4 billion, the highest among the BRICS countries. Other Asian emerging economies like Malaysia, Indonesia, Thailand, Republic of Korea (hereinafter referred to as Korea), China's Taiwan, were faced with the similar problems in the 1997 Asian financial crisis—large scale of external debts, or high proportion of short- and medium-term external debts. Among the emerging economies, Latin American countries were also troubled by the continued downward pressure on economic growth. A number of countries were confronted with multiple challenges of the rising inflation, high fiscal deficit, imbalanced international payments, capital outflow, and currency devaluation. In summary, global economic recovery came on the way in 2013, which, this time, was not merely led by emerging economies, as developed economies had already kept pace with emerging economies to drive the growth.

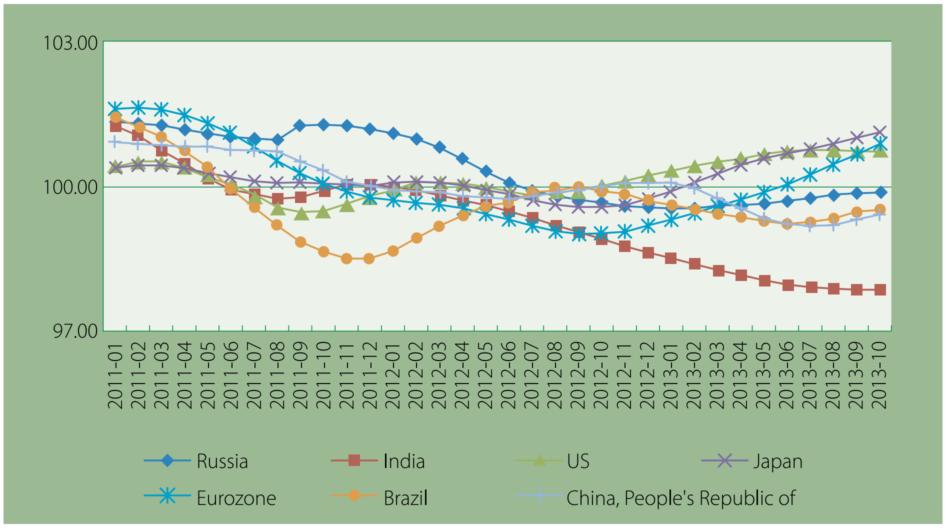

Figure 1.1 OECD Composite Leading Index of Developed Economies and Emerging Economies

Source: Wind Info.

1.2 Major Asian Economies in Clearly Downward Trend, with Differences Between Economies

Asia-Pacific region boasts most of the world's major emerging economies. The region's economic growth in 2013 lingered at a lower level, and was clearly in a downward trend. The Asian Development Bank (ADB) released the *Asian Development Outlook* report in October 2013, saying that as growth of China and India, Asia's two largest economies, staggered in 2013, growth rate of Asian developing economies was expected to drop to 6.0%, down from the 6.1% in 2012. The growth rate was lower than the

ADB's previous prediction at the end of 2012, which forecast that Asia's growth rate would be 6.7% in 2013. Other institutions also lowered their prediction made at the beginning of 2013. Following this trend, the situation of different Asian economies varied from each other.

As Asia's largest economy, China is the largest trading partner of most Asian economies. China's economic slowdown was the result of the Chinese government's active economic control, and was basically immune to the impact of the financial turmoil in emerging markets. In 2013, China continued the strategy to expand domestic demand, especially the consumption demand. Due to unfavorable international and domestic economic situation in 2013, China's quarterly economic growth declined for 13 consecutive quarters since the first quarter of 2010. Its economy grew 7.7% in the first quarter of 2013, and 7.5% in the second quarter. The growth rate finally rebounded to 7.8% in the third quarter. Accordingly, the ADB raised its forecast on China's economic growth to 7.7% in December 2013, an increase of 0.1 percentage point from its previous forecast in October. In January 2014, The International Monetary Fund (IMF) tuned up its forecast for China's economic growth for a second time to 7.5% (See Table 1.1), up 0.5 percentage point from its previous forecast. China's national fixed-asset investment grew 19.6% in the first 11 months of 2013, of which private investment in fixed-assets increased by 23.1%, still higher than the overall growth rate of investment. Retail sales, an indicator reflecting household consumption grew by 13.1% in November. From the first quarter to the fourth quarter of 2013, consumption contributed 4.3, 3.4, 3.5 and 3.9 percentage points to economic growth, respectively, and the total contribution of capital formation was 2.3, 4.1, 4.3 and 4.2 percentage points, respectively. The contribution of net exports fell to -0.3 percentage point, down from the 1.1 percentage points in the first quarter. These indicators suggested that as China's strategy of maintaining a steady growth went on, investment, once more, replaced consumption to become the top engine of economic growth, and exports turned sluggish again. As for the economic climate indexes, the consumer confidence index came to 98.9 in November of 2013, indicating a weak consumer confidence. The manufacturing purchasing managers' index (PMI) was 51.4 that month, unchanged from that in October, and was the highest level since May 2012. It was the 14th consecutive months that PMI standing above the critical point of 50, which indicated that the Chinese government's policy to maintain a steady growth was effective, and China was getting out of the mire of overcapacity, with manufacturing continuing to turn better while achieving steady growth. In short, these trends indicate that China's economy will become healthier and more sustainable.

Japan's economic growth continued at a steady pace and was set to rebound, thanks to the Abenomics which offered the three stimuli of "ultra-loose monetary policy, expansionary fiscal policy and structural reforms ". In the first three quarters, the year-on-year growth of Japan's economy was 0.1%, 1.2% and 2.4%, respectively. During the same period, private consumption grew 1.6%, 1.8% and 2.4% year-on-year, respectively, and gross fixed capital formation growth was -1.3%, 0.7% and 4.3%, respectively. Driven by a weaker yen, Japan's exports ceased negative growth and grew 3% in the third quarter. Though the growth of private consumption contributed most to Japan's economic growth, the Japanese government's massive public investment played an irreplaceable role to the overall growth. In January 2013, the Japanese government passed the USD117 billion spending on government investment, bringing a total stimulus package of USD226.76 billion. It later introduced another USD182 billion economic stimulus package in early December. These stimulus measures drove up Japan's public investment by 19% year-on-year in the third quarter, hitting a new high in nearly two decades. Bank of Japan announced its ultra-loose monetary policy on April 4, 2013, promising to buy an unlimited amount of assets and double the monetary base to 270 trillion yen, and set the inflation target at 2%. On June 14, the Japanese government unveiled the new growth strategy, focusing on easing administrative control, and arousing private investment. At this point, "Abenomics" shot all the three "arrows" that made up the government's plan to revitalize the Japanese economy. The economic climate indexes showed that Japan's consumer confidence index averaged 43.8 in the first 11 months of 2013, well above the average level of 40 in 2012. The country's manufacturing PMI in December went up to 55.2, reaching a new high in two decades. Besides, both