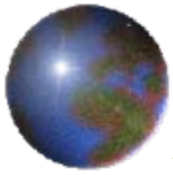


Asia Business Forum

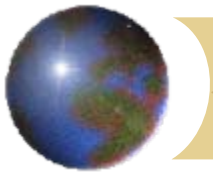
Topic: South-East Asia – between China and India

By: Adjunct Professor at CBS, Ambassador J. Ørstrøm
Møller – www.denmark.com.sg/jom.htm.



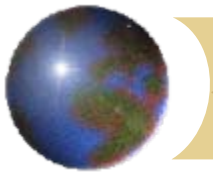
Prelude

- ✚ Potential versus reality.
- ✚ The potential is an unprecedented shift in power structure.
- ✚ The reality is whether it will be allowed to happen and if so the circumstances.



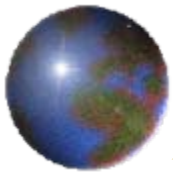
Where do we stand right now?

- ✚ The Global Economic Economy. We stand at the top of an.....**ice cream gâteau**, melting gradually but unstoppable, enjoying the ride downwards but as long as we perceive it as standing on top of something it is simply **GREAT!** A roller coaster having derailed in a curve continuing out in the free airspace!
- ✚ The foundation of the ongoing recovery is debt, an enormous amount of debt. It cannot last. It will not last.
- ✚ First half of 2004 will be great – afterwards will be the biggest **slimming down exercise** for the global economy seen for a long time.

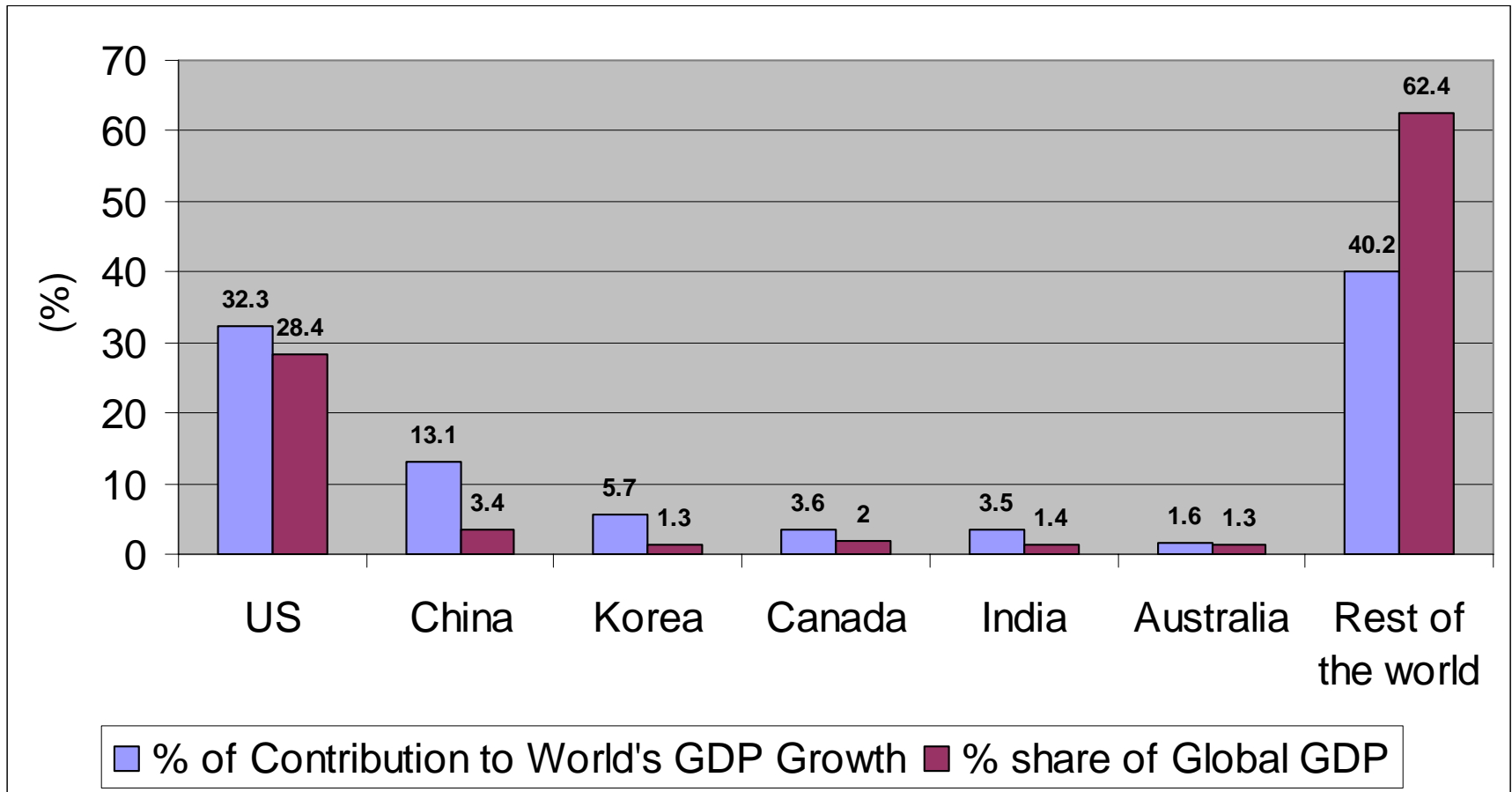


Part I. China's and India's economic progress and global integration

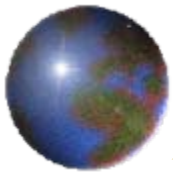
- ✚ The Global economic center is shifting across the Pacific. China is the emerging workshop of the world. India the service center. China technology. India solutions.
- ✚ According to official statistics China's share of global GNP is 2,7% and India's is 1,2%.
- ✚ But based upon PPP the figures are 12,4% and 6,2%.
- ✚ From 3,9% accumulated to 18,6%.
- ✚ Both have relied upon export as the main driver for growth. Both are increasingly looking to domestic demand. Politics, social policy, economic policy constitutes the driver.
- ✚ And this is where we will see the **great game in the 12 – 24 months**. Can China and India boost domestic demand sufficiently to replace exports to US to keep their economies on a high growth track and by doing so prevent the global economy from spinning into a free fall – great to watch but unpleasant to say the least to participate in.



China: An Increasing Factor in Global Growth, 2002

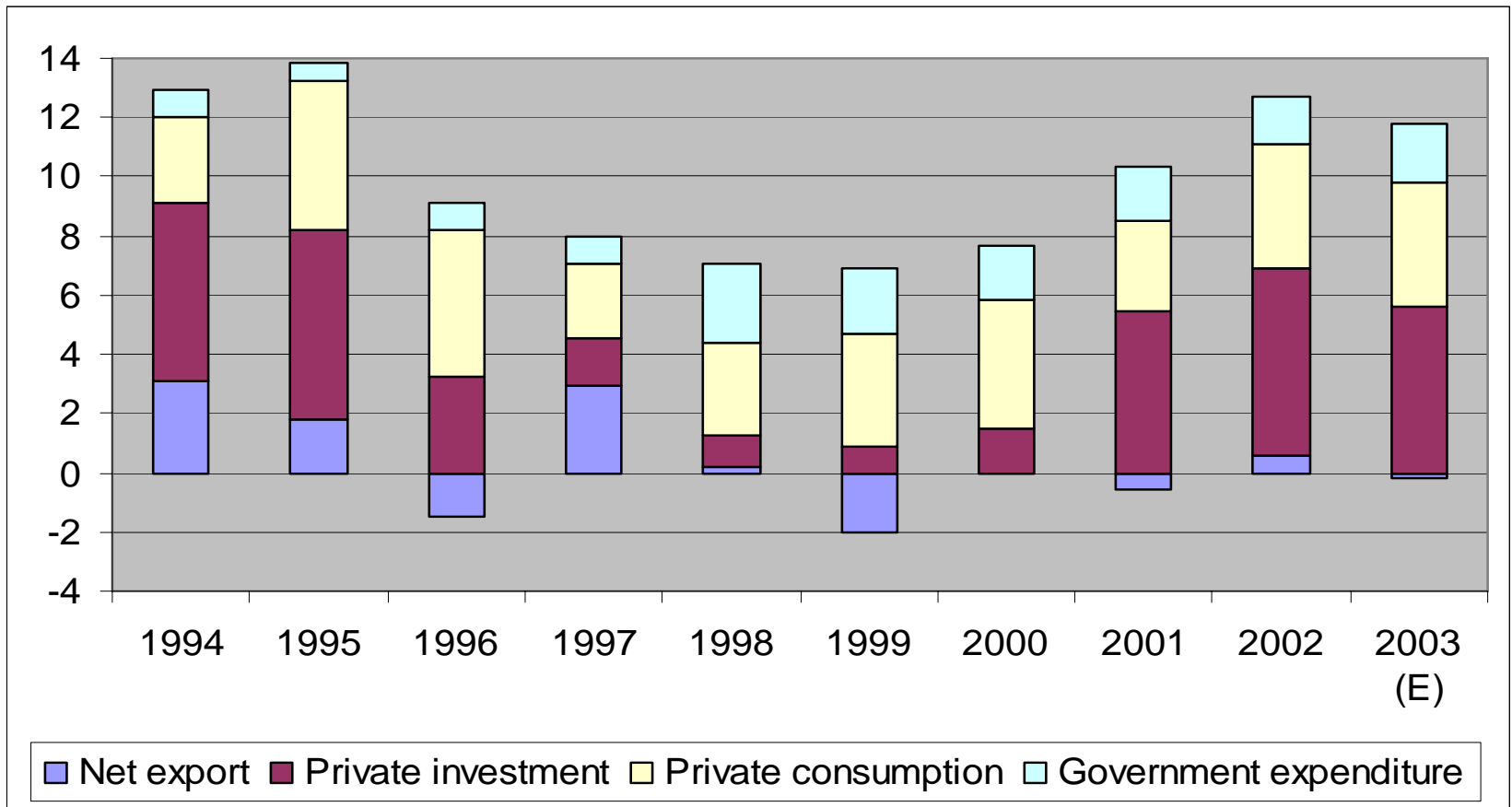


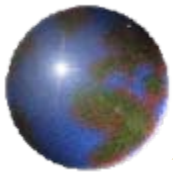
Source: IMF, Goldman Sachs Research Estimates



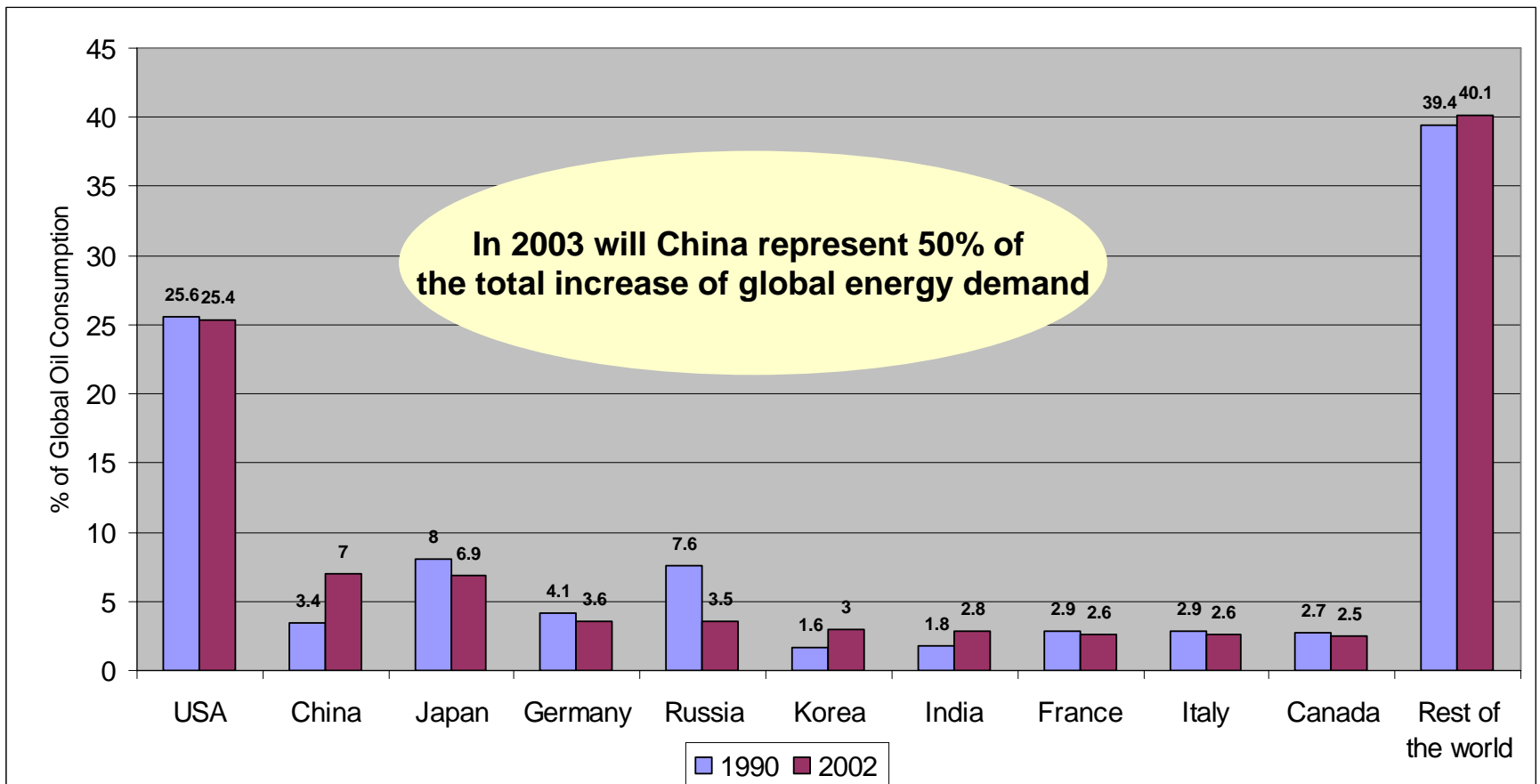
China: Domestic Demand Drives Growth

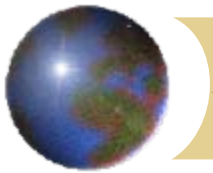
Net contribution to real GDP growth (ppt)





China: A Building Force in World Energy markets

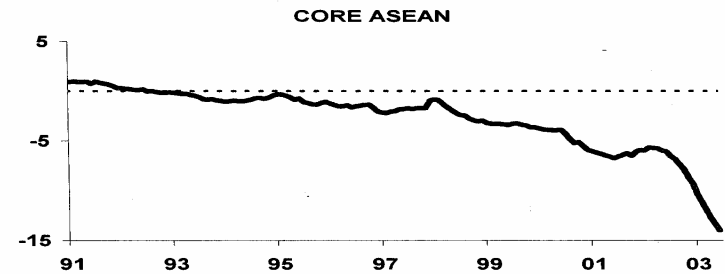
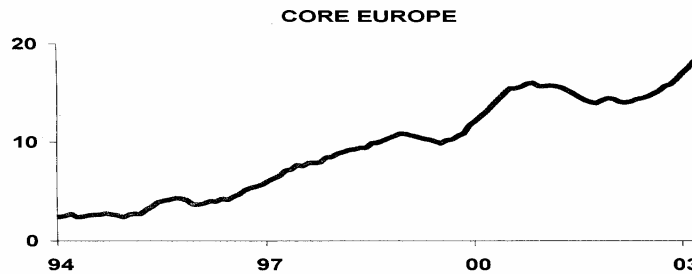
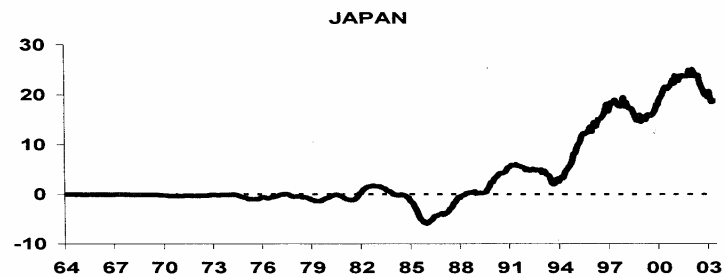
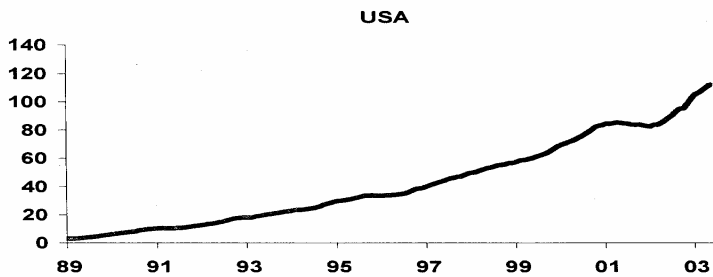




China: Trade balance

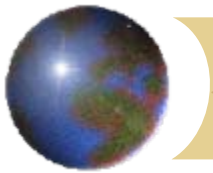


CHINA: TRADE BALANCE WITH KEY ECONOMIES



Unit: USD Billion.

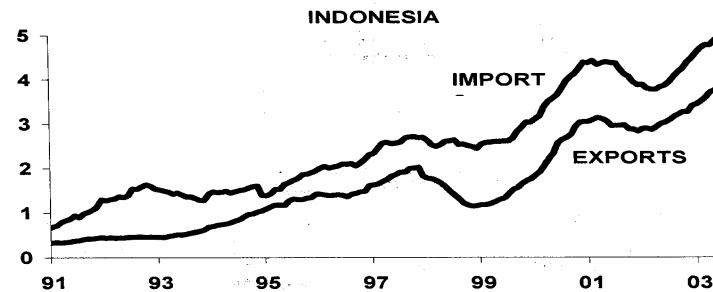
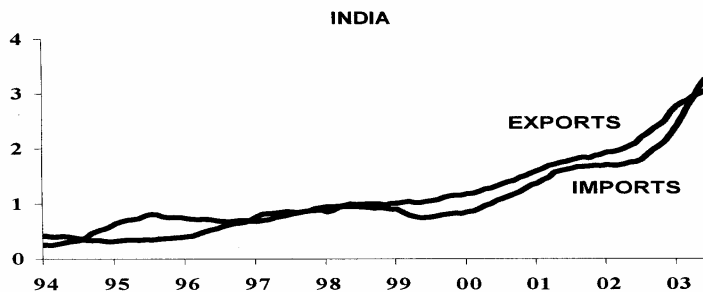
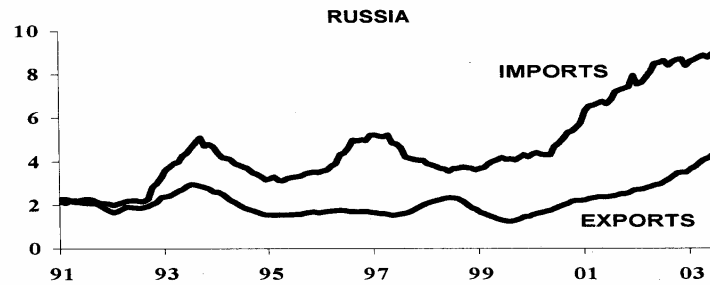
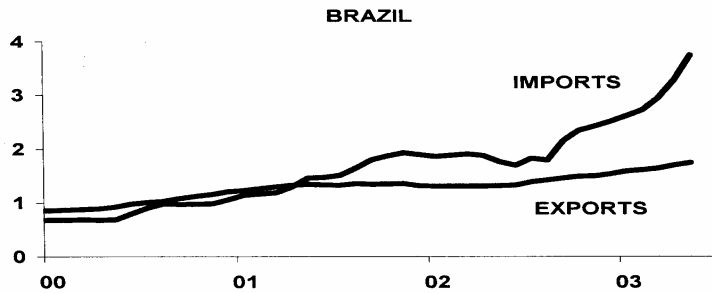
Note: 12MMT, last data June 2003. Core Europe includes: Germany, UK, France, Italy, Spain. Core ASEAN includes: Indonesia, Singapore, Malaysia, Thailand, Philippines.



China: Imports and Exports

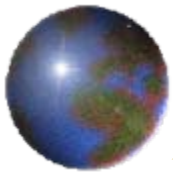


CHINA: IMPORTS AND EXPORTS WITH LARGE DEVELOPING ECONOMIES



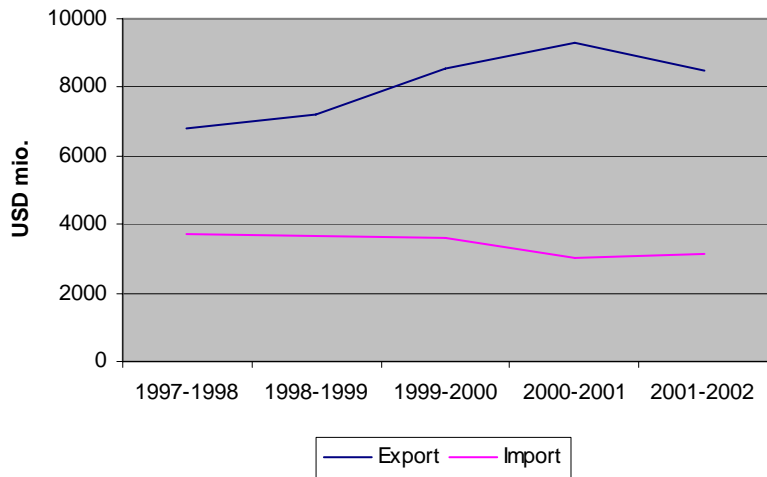
Unit: USD Billion.

Note: 12MMT, last data June 2003.

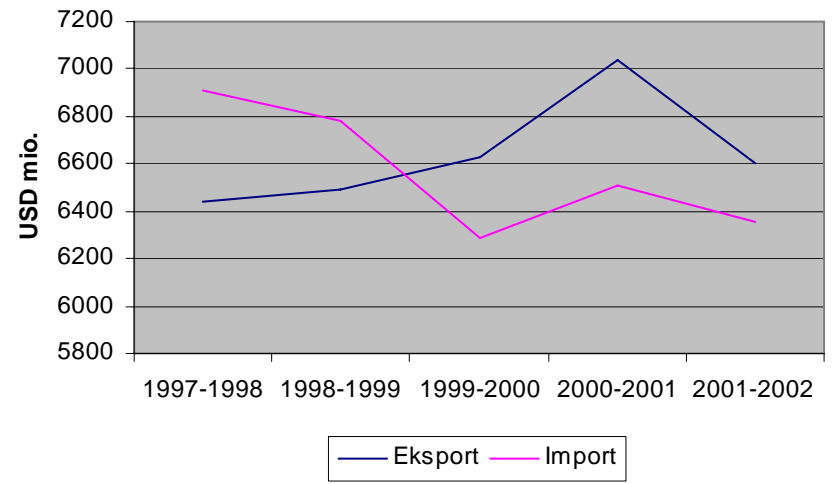


India: Imports and exports

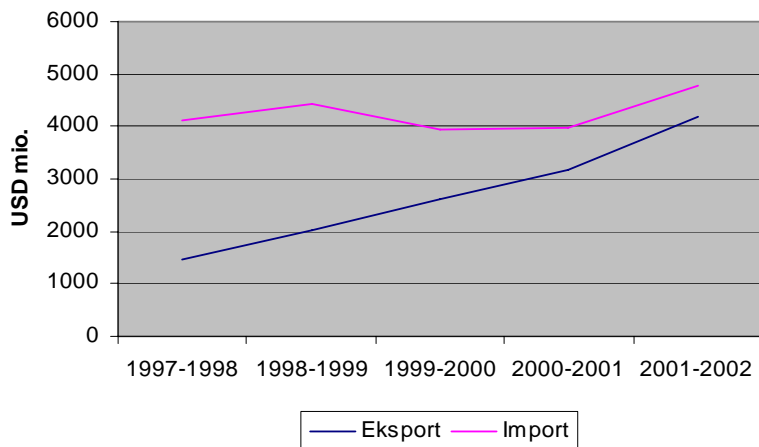
USA



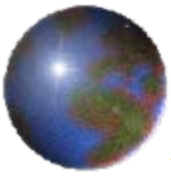
Core Europe



Core ASEAN

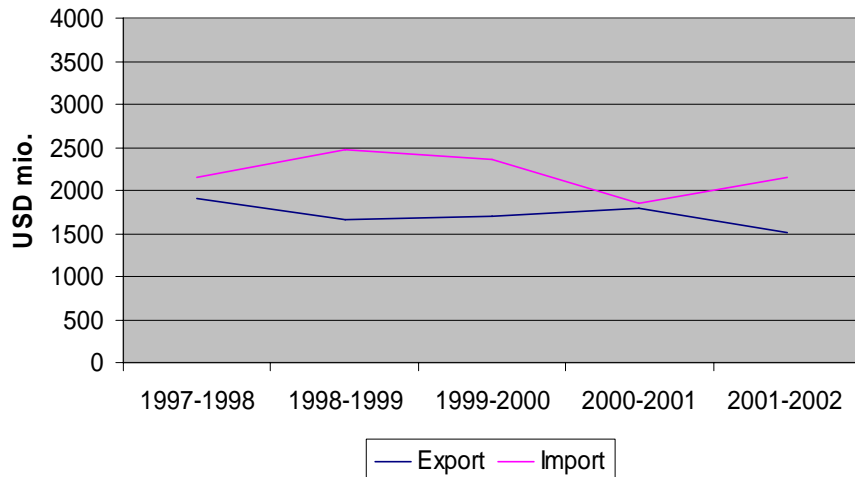


Core Europe: Germany, UK,
France, Italy, Spain
Core ASEAN: Malaysia, Singapore,
Thailand, Indonesia, Philippines

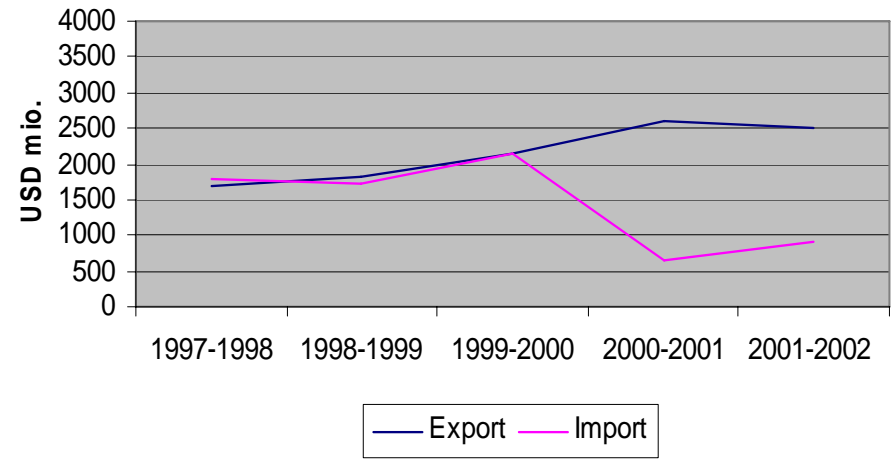


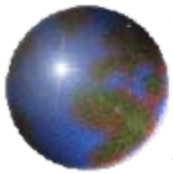
India: Trade Balance

Japan



Unit. Arab. emir.



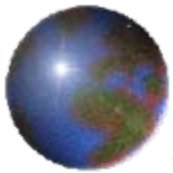


ASIA: Foreign Direct Investment

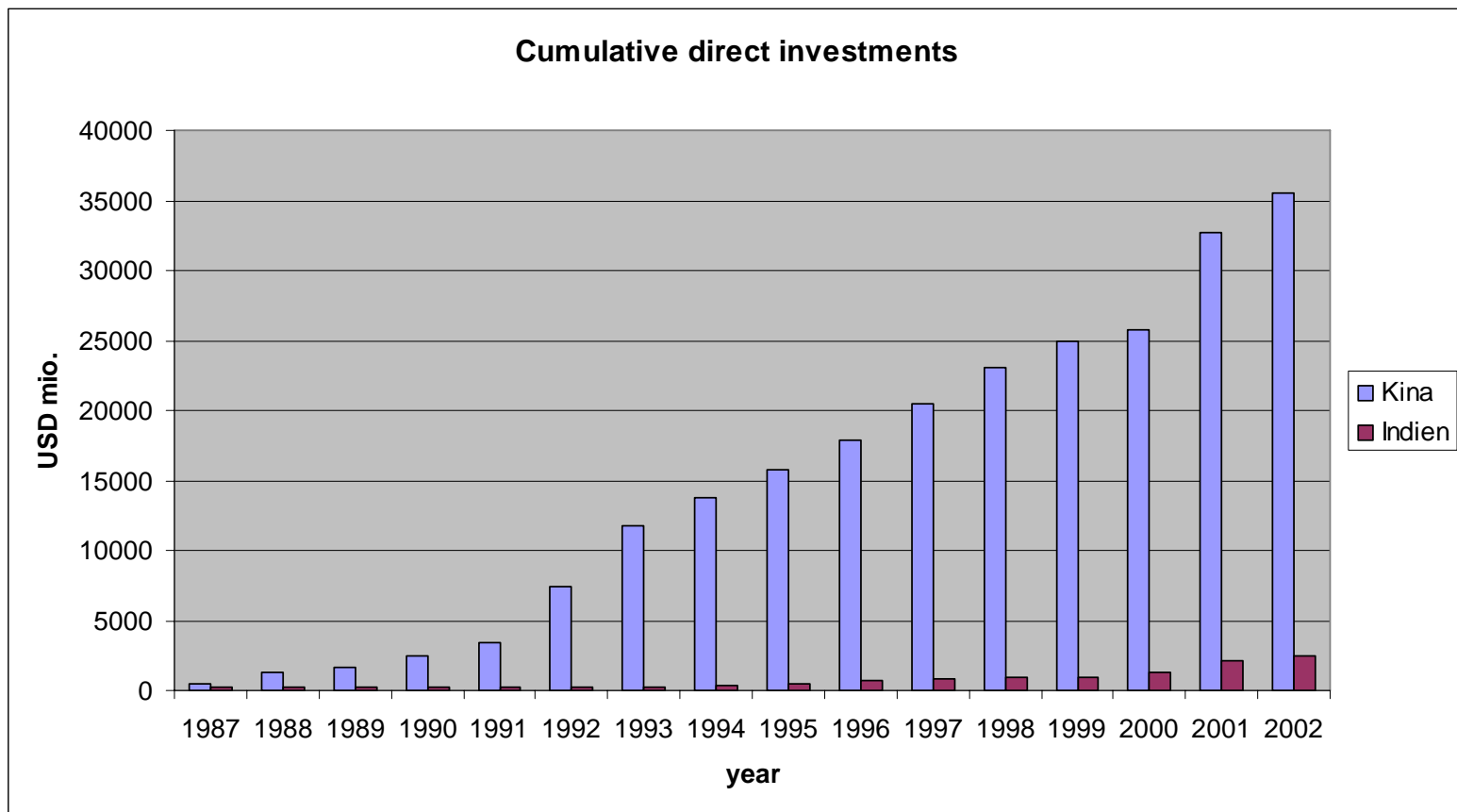
	1990		2000		2001	
	FDI (US\$ bil)	% of Asia	FDI (US\$ bil)	% of Asia	FDI (US\$ bil)	% of Asia
China	3.5	18.7	40.8	58.8	46.8	65.9
ASEAN	12.4	66.4	8.7	12.5	11.4	16.1
Japan	1.8	9.4	8.3	12	6.2	8.7
S. Korea	0.8	4.2	9.3	13.4	3.2	4.5
India	0.2	1.3	2.3	3.3	3.4	4.8
Total	18.7	100	69.4	100	71.1	100

Note: ASEAN countries include Malaysia, Singapore, Thailand, Indonesia, Philippines

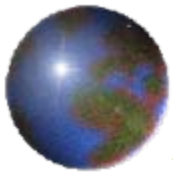
Source: CEIC, Morgan Stanley Research



China: Cumulative Foreign Direct Investment



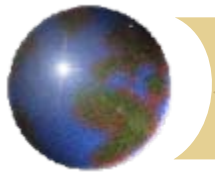
Source: UNCTAD



TRENDS

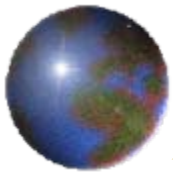
📍 The main one. Demography. Share of population.

- 📍 0 – 14 years. China 23,1%. India 32,2%.
- 📍 15 – 64 years. China 69,5%. India 63%.
- 📍 65 - years. China 7,4%. India 4,8%



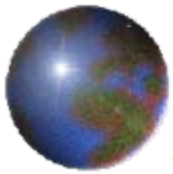
Other decisive trends

- ⊕ Trading partner (China) among the top five.
- ⊕ Major recipient (China), may be THE major recipient of FDI.
- ⊕ Outward FDI – hold your horses.
- ⊕ Domestic demand takes over from export as pull factor.
- ⊕ Major market (primarily China) for raw materials, minerals. Oil, LNG etc.
- ⊕ Indispensable factor in global production net works.
- ⊕ The spider in the trade network in East Asia/Asia.
- ⊕ The price setter for manufactured goods and service goods.
- ⊕ The hub concept opens the door for trend setter.
- ⊕ Main holders of Usdollar assets.



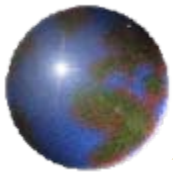
Differences between China and India

- ✚ China: 30% of GNP goes to export. India: 15%.
- ✚ China: Savings rate measured as share of GNP 40%. India: 25%.
- ✚ China: FDI 54 billion Usdollar. India: 6 billion Usdollar.
- ✚ What does it tell us about efficiency of the use of capital?
- ✚ China: Non-performing loans as per cent of all loans 40%. India: Negligible.
- ✚ What does it tell us about the financial system?
- ✚ The role of the financial system: Investment or trade surplus.



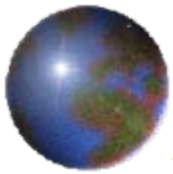
Differences between China and India

- ✚ China: State Owned enterprises the incubator. India: The market.
- ✚ China: Strong government. Autocratic India: Weak government. Democracy.
- ✚ China: Good infrastructure. India: Lousy infrastructure, but.....
- ✚ China: Corporate governance?????. India: Not bad.
- ✚ China: Legal system not bad. India: In the long run we are all dead!
- ✚ Water. Key factor. China urbanized. India less so. A whole string of political, economic, social and infrastructure investment repercussion.



The snake in the paradise if any!

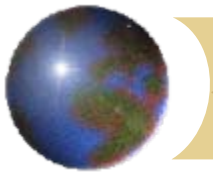
- ✚ China: Energy, Environment, Water. Non-performing loans.
- ✚ India: Fiscal deficit. Infrastructure. Prudent financial system. Politics.



Conclusion

✚ Positive scenarium:

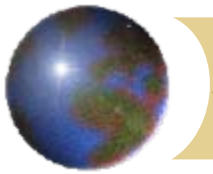
- ✚ **China and India keeps growing. Economic center moves across the Pacific. The international system becomes adjusted to this new situation. The world sees a peaceful and orderly transformation from an American dominated economy to a global economy with China and India in the drivers seat. New technology paves the way for a new investment cycle.**
- ✚ **Political repercussions. A totally changed world. Western dominance? Forget it!**
- ✚ **Political power to follow economic clout –yes, peacefully – pigs may fly!**



Conclusion

✚ Negative scenarium:

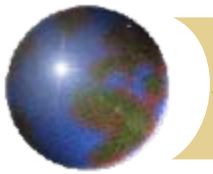
- ✚ **China and India cannot make up for the vacuum created by the weakening US economy. The global economy comes under pressure. US are not strong enough to exercise control and no one else in sight. Rising egoism and rising threat of protectionism heralds the day. NOIC appears just over the horizon. Gradually we move away from a global model towards a more national model. A more destructive world emerges.**



The BIG vision

- ✚ Free-trade area (economic zone)
 - ✚ China
 - ✚ India
 - ✚ ASEAN

The first time ever in history you see a combination of a rollercoaster and a steam roller!



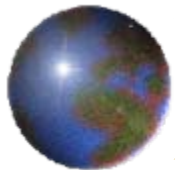
The three major trends

1) Demography.

- ❖ Indonesia, Malaysia, The Philippines, Vietnam all like China/India.
- ❖ Thailand in between.
- ❖ Singapore like a Western European Country. How do you do it?!

2) Trade/FDI.

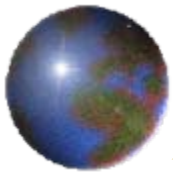
- ❖ ASEAN trade with US (share of total) from 19,1% to 15% over 3 years.
- ❖ ASEAN trade with China (share of total) from 4,7% to 8,2% over 3 years.



ASIA: Trade Share

	China's Total Trade share				US/Japan/EU Total Trade share			
	2001	2002	2003	2004*	2001	2002	2003	2004*
ASEAN 5	5.6	7.1	9.2	8.6	45.5	42.9	41.0**	NA
Singapore	4.6	5.8	7.1	6.7	39.2	36.5	35.8	36.4
Malaysia	5.8	8.3	10.7	10	47.5	44.6	41.2	41.2
Thailand	5.8	6.6	8.3	7.8	49	46.3	44.7	43.1
Indonesia	7.7	9	10.9	9.9	46.3	43.4	42.2**	NA
Philippines	5.5	7.4	12.8	13	55.6	53.2	50.9	48.7

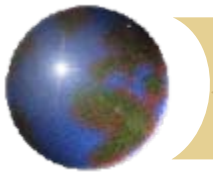
Source: CEIC, Morgan Stanley Research



- **ASEAN trade with India (share of total) from 1,2% til 1,4% over 3 years.**
- **FDI 1996-2002: 30 billion Usdollars (7,9%) to 17 billion (2,6%).**

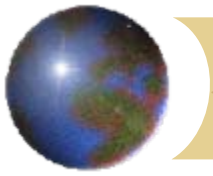
3) Globalisation

- **puts the societies under pressure. Uncertainty about economic models and political systems. Immigration as an issue.**



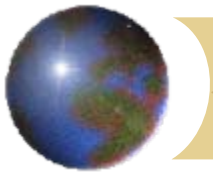
Choice of localization

- ✦ Between China and India.
- ✦ Infrastructure.
- ✦ Quality of labour force.



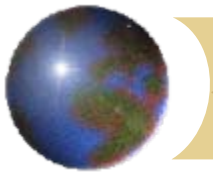
Political systems – terrorism

- ✦ Multireligious and multiethnic societies.
- ✦ Islam and terrorism.
- ✦ How to deal with social losers.



Diverse economic models – outsourcing

- ✦ Basically two models emerging.
- ✦ Well suited to take advantage of manufacturing, service and technological development in China and India.
- ✦ Outsourcing – not always cost as decisive factor. Risks. Outsourcing not automatically synonymous with being in the seventh heaven of delight. The supply chain. Should we say global-sourcing.



Economic integration – ASEAN, China, India

- ✦ ASEAN plans.
- ✦ China, Japan and India initiatives.
- ✦ Why could it be important for foreign enterprises?
- ✦ Obvious connection to choice of localization