

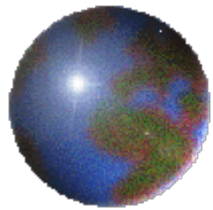
# *Globalisation - Its Impact on Asia.*

*Topic: Opportunities and Risk Factors*

By:

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[www.denmark.com.sg/jom.htm](http://www.denmark.com.sg/jom.htm)



*You deserve ...*



a company car...





*An office of your taste...*



A space to rest...



A nice meeting room...



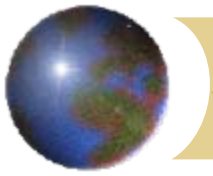


A place to exchange ideas...



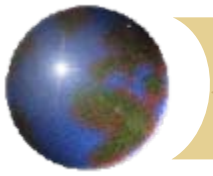


Stop dreaming and get back to work!  
(and be happy with what you've got)



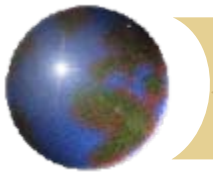
## *Prelude*

- ⊕ 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

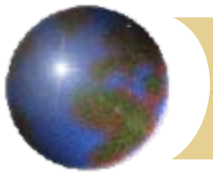


## *The Setting*

- ❖ Manufacturing follows the same pattern as agriculture did 100 years ago.
- ❖ Info, knowledge, entertainment, education, development of your competences, dream society. In short, the immaterial or non-material society.
- ❖ In this context: Outsourcing, insourcing, brainsourcing. The hunt for talented people. Business life follows in the footsteps of sport!



- ⊕ Ethics, values take over from economics as the decisive factors.
- ⊕ In this context: Political enterprise, political consumer, civic society. And international - not national.
- ⊕ In this context: Public financing out and consequently the nation-state out. Public enterprises follow in the footsteps of private business itself following...
- ⊕ Threats of terror. What does it reflect? Fundamentalism, destruction. Impact on global politics and global economics. The price of seclusion.

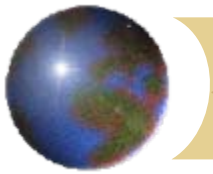


# *Part I. The Global Economy*

1. The Global Economy. We stand at the top of an.....**ice cream gateau**, 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.

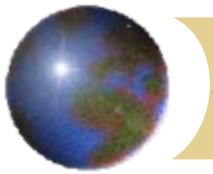
First half of 2004 was great – afterwards will be the biggest **slimming down exercise** for the global economy seen for a long time.



2. Global imbalances. US twin deficit. 5% balance of payments. 5% public finances. Savings rate in households almost nil – unprecedented. Japans phenomenal surplus and correspondingly phenomenal deficit. EUROland trotting along.

Now what makes the global click notwithstanding these imbalances.

A marriage of convenience. US wants to consume. China and gradually India want to produce. It works magnificently until it stops working and that happens sooner or later – when is that?



### 3. 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 constitute the driver.



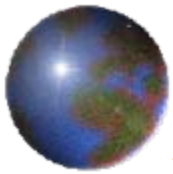
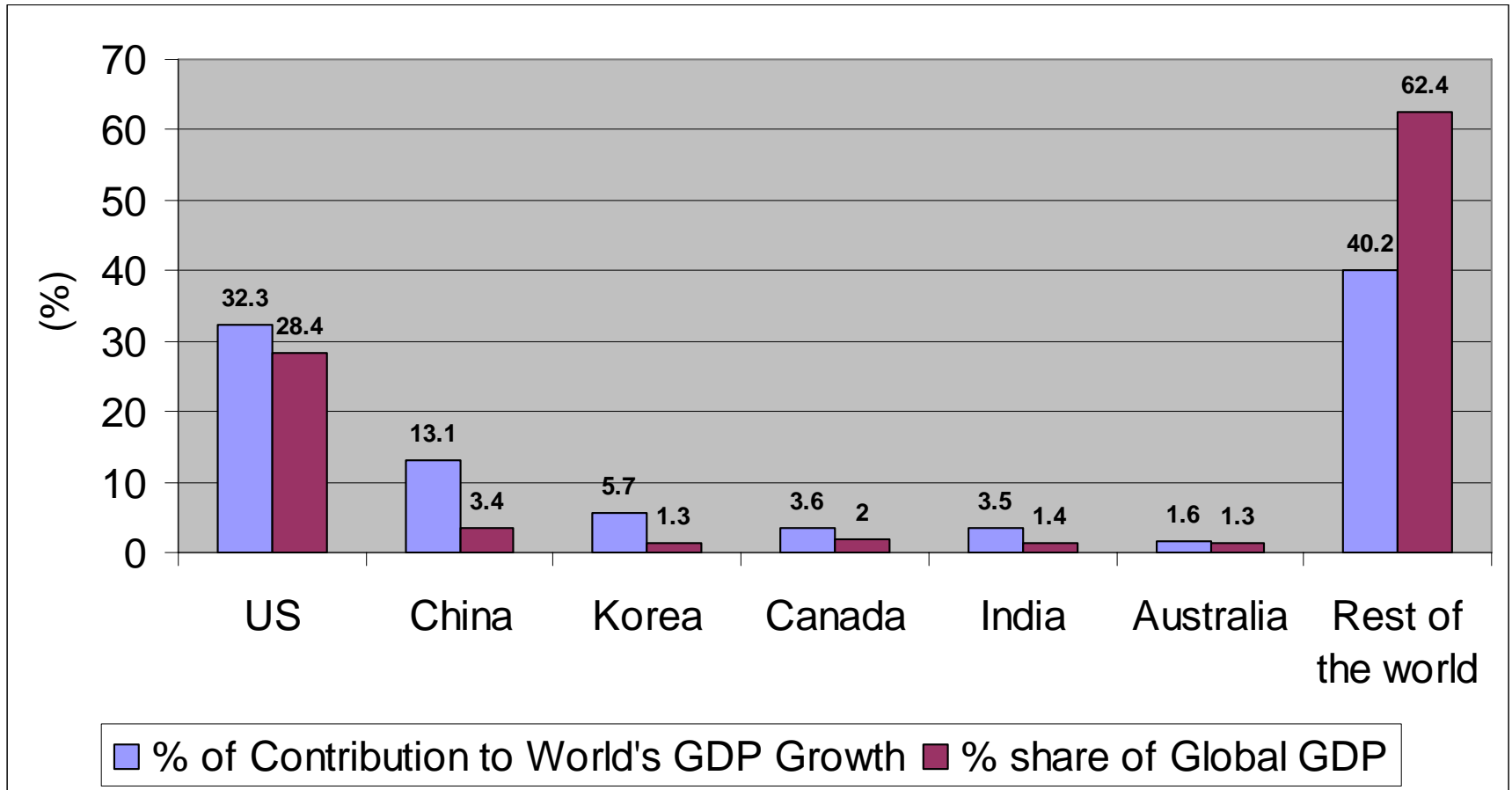
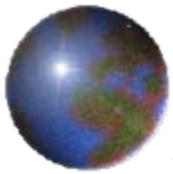


Figure 1 – China: An Increasing Factor in Global Growth, 2002

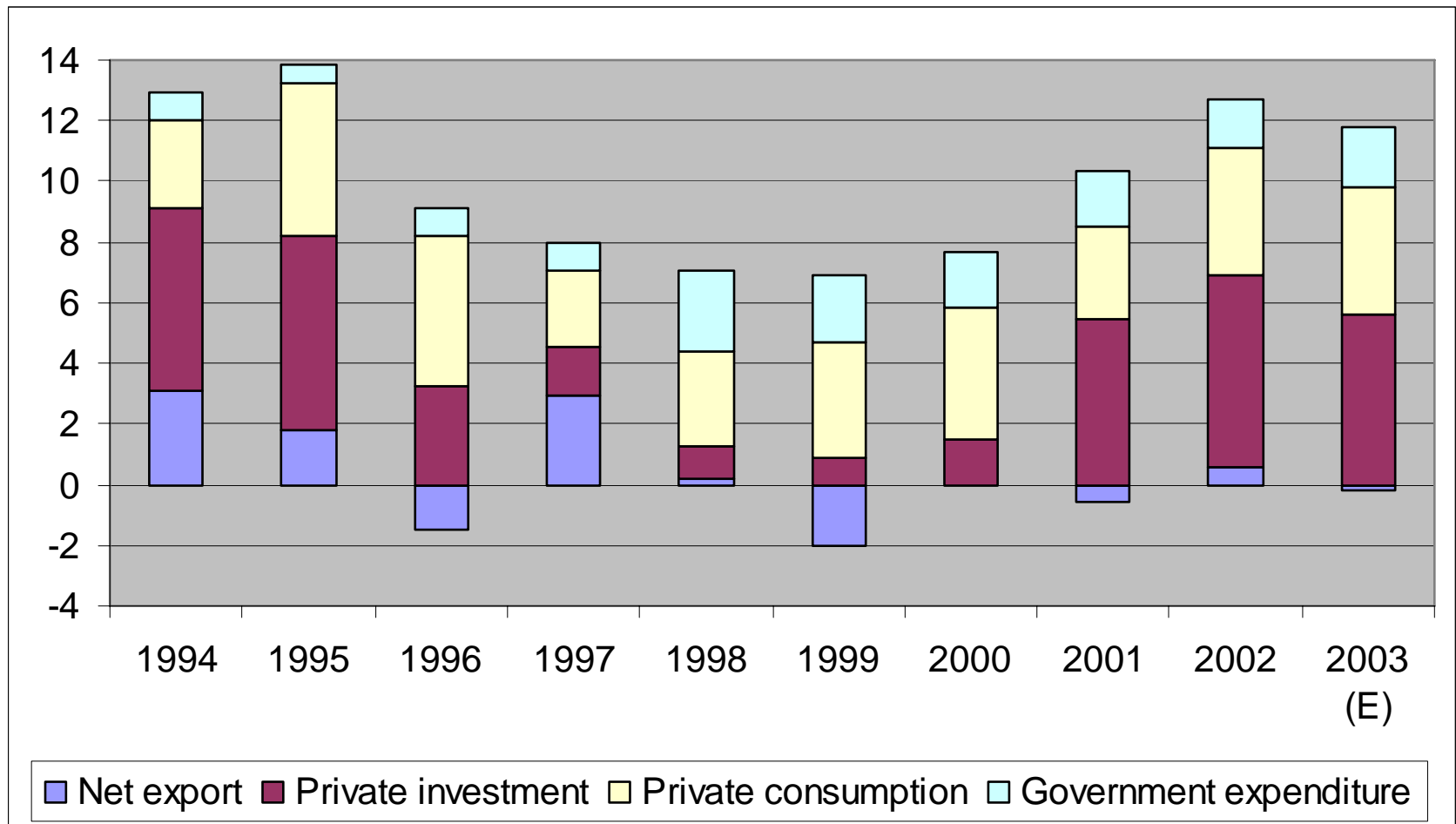


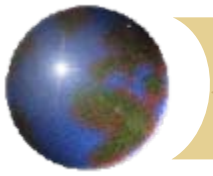
Source: IMF, Goldman Sachs Research Estimates



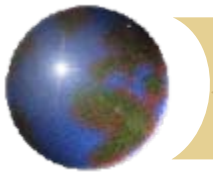
## Figure 2 – China: Domestic Demand Drives Growth

Net contribution to real GDP growth

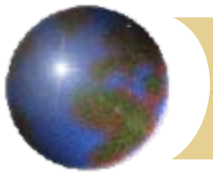




- ✪ And this is where we will see the **great game in the next 12-24 months**. Can China and India boost domestic demand sufficiently to replace exports to US to keep their economies on a high growth track and by doing so prevent the global economy from spinning into a free fall – great to watch but unpleasant to say the least to participate in.



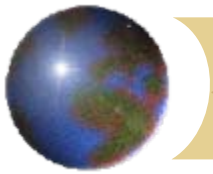
- ❖ The Chinese Yuan – decyphering all the nonsense
- ❖ How will it affect the great game?  
Change structure of total demand from export to domestic demand.
- ❖ How will it affect the political and economic power balance?



## *Part II. The Asian Economy*

### ✚ How does it work?

- ✚ The Asian economy has changed completely. Not an annex to the US economy. Self-sustained and integrated.
- ✚ Two flywheels. Production – outsourcing – supply chain. Consumption – middle class – urbanization – branding – young YOUNG consumer.
- ✚ Outsourcing – computer controlled container transport – Free Trade Areas (FTAs) – 90% of all intra-Asia trade less than 5% tariffs – air freight 1% of volume but 35% of value WOW!



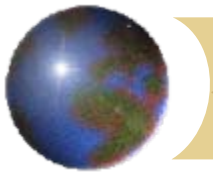
## *Part III. Trends*

### **1. 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%



## 2. Other decisive trends

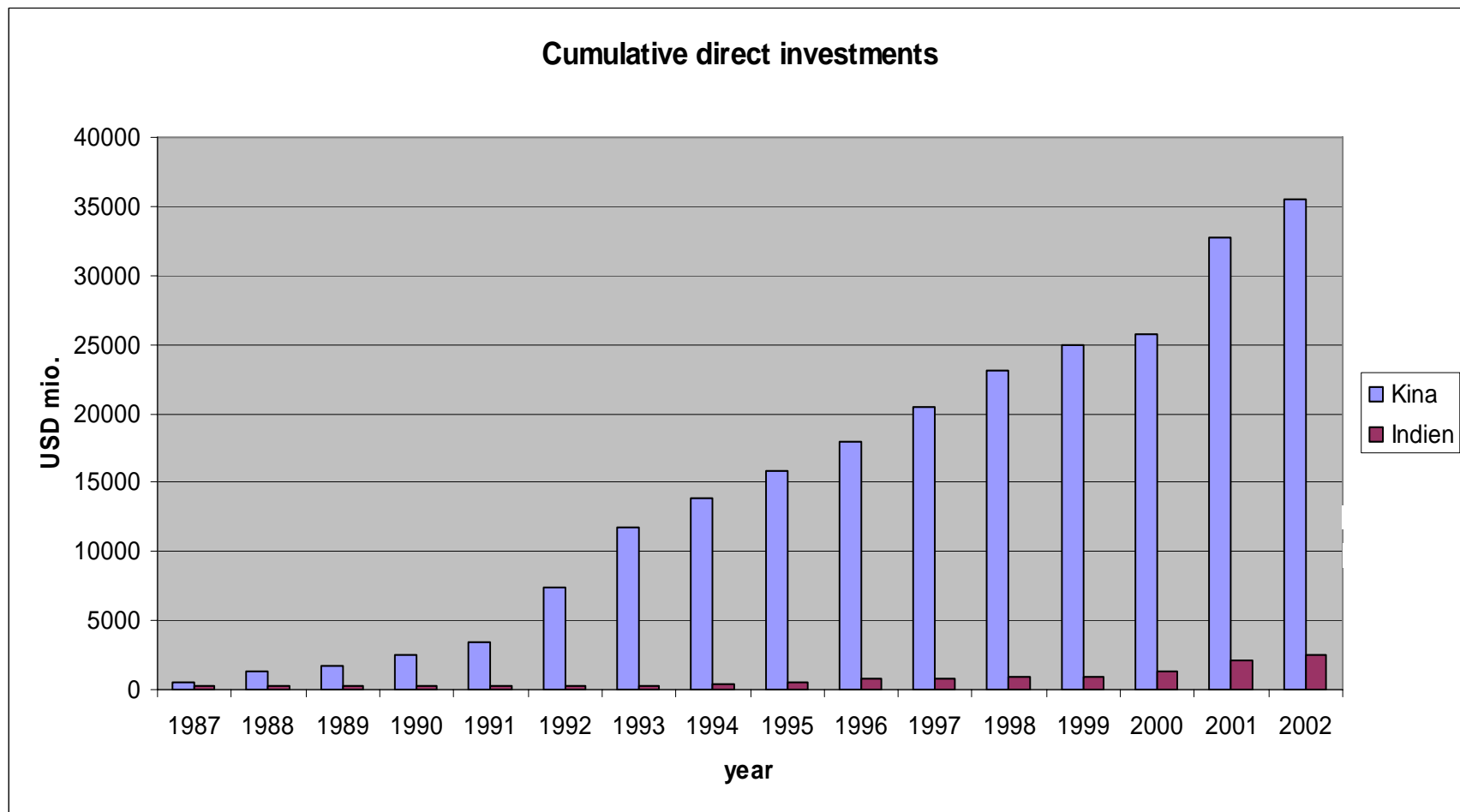
Trading partner (China) among the top five

Major recipient (China), may be THE major recipient of FDI

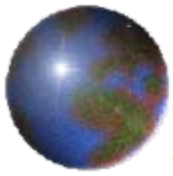




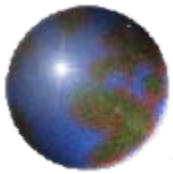
# Figure 3 - China: Cumulative Foreign Direct Investment



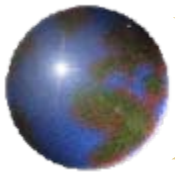
Source: UNCTAD



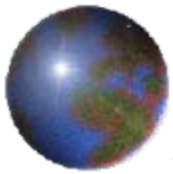
- ✦ Outward FDI – hold your horses
- ✦ Domestic demand takes over from export as pull factor
- ✦ Major market (primarily China) for raw materials, minerals. Oil, LNG etc.



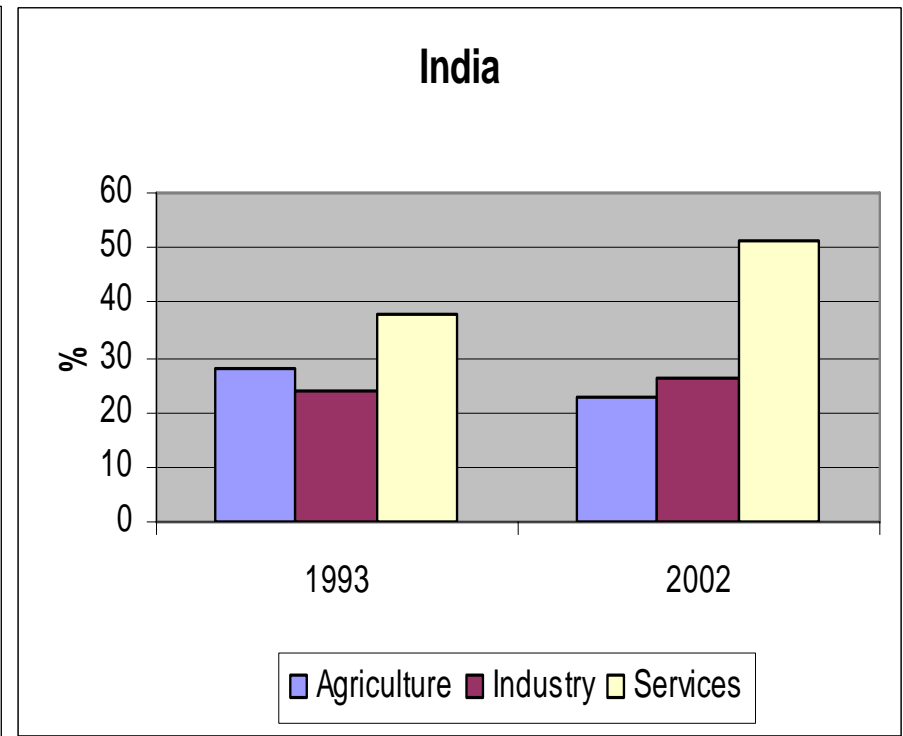
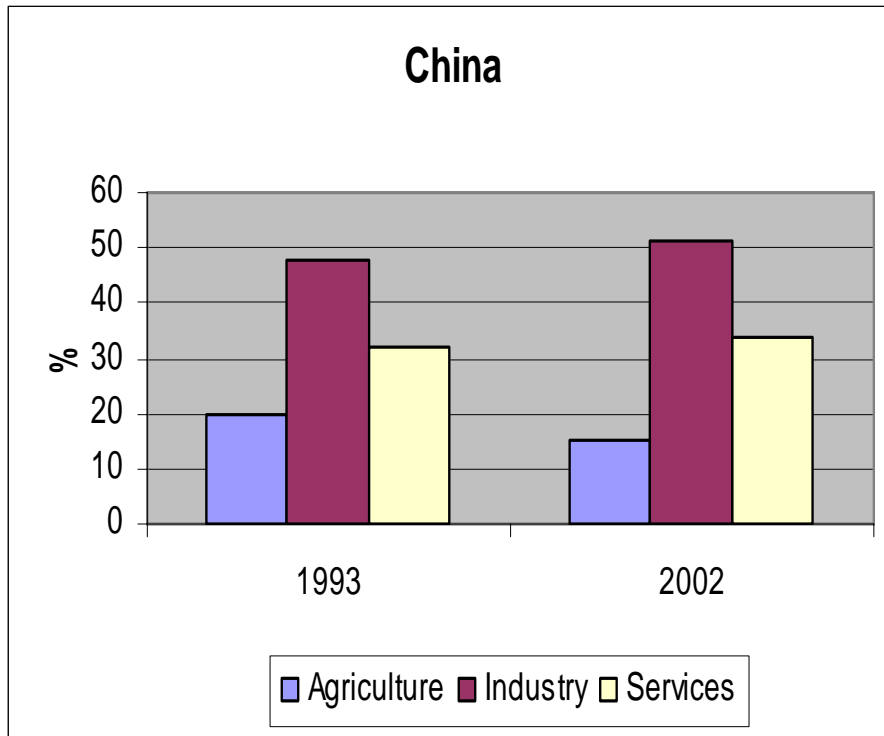
- ❖ Indispensable factor in global production networks
- ❖ The spider in the trade network in East Asia/Asia
- ❖ The price setter for manufactured goods and service goods
- ❖ The hub concept opens the door for trend setter
- ❖ Main holders of US dollar assets. (China approx. US\$475 billion ref. two times Denmark's GNP.)

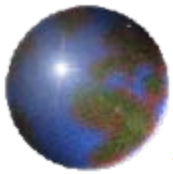


### **3. Differences between China and India**

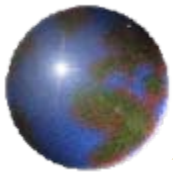


# Figure 4 - Components of GDP



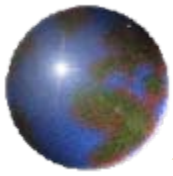


- ✦ China: 30% of GNP goes to export.  
India: 15%.
- ✦ China: Savings rate measured as share of GNP 40%.  
India: 25%.
- ✦ China: FDI US\$54 billion.  
India US\$6 billion.
- ✦ What does it tell us about efficiency of the use of capital?
  - China: Non-performing loans as percent of all loans 40%. 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



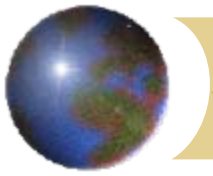
- ✦ China: State owned enterprises the incubator.  
India: The market.
- ✦ China: Strong government. Autocratic.  
India: Weak government. Democracy
- ✦ China: Good infrastructure.  
India: Lousy infrastructure, but.....
- ✦ China: Corporate governance???
- India: Not bad.
- ✦ China: Legal system not 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!

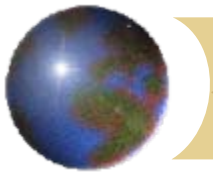
- ✚ China: Energy, environment, water, non-performing loans
- ✚ India: Fiscal deficit, infrastructure, prudent financial system, politics



## *Part IV. South East Asia – Forgotten or the Come Back Kid?*

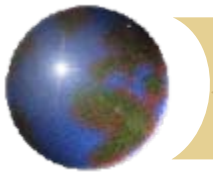
### **1. The BIG Vision**

- ✿ Free trade area (economic zone)  
encompassing
  - ✿ China
  - ✿ India
  - ✿ ASEAN



## *Part V. Foreign and Security Policies*

- ✚ China as the elder brother
- ✚ Japan as the one who tried – but failed
- ✚ India as the bright overfed teenager
- ✚ Can East Asia and then Asia institutionalise as Europe has done?
- ✚ Nuclear weapons in Asia
- ✚ Terrorism

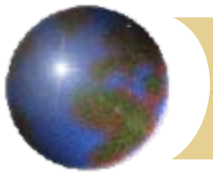


## *Part VI. Conclusion*



### Positive scenario

- ❑ 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!



## ❖ 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.

