Mapping Trajectories in Asia

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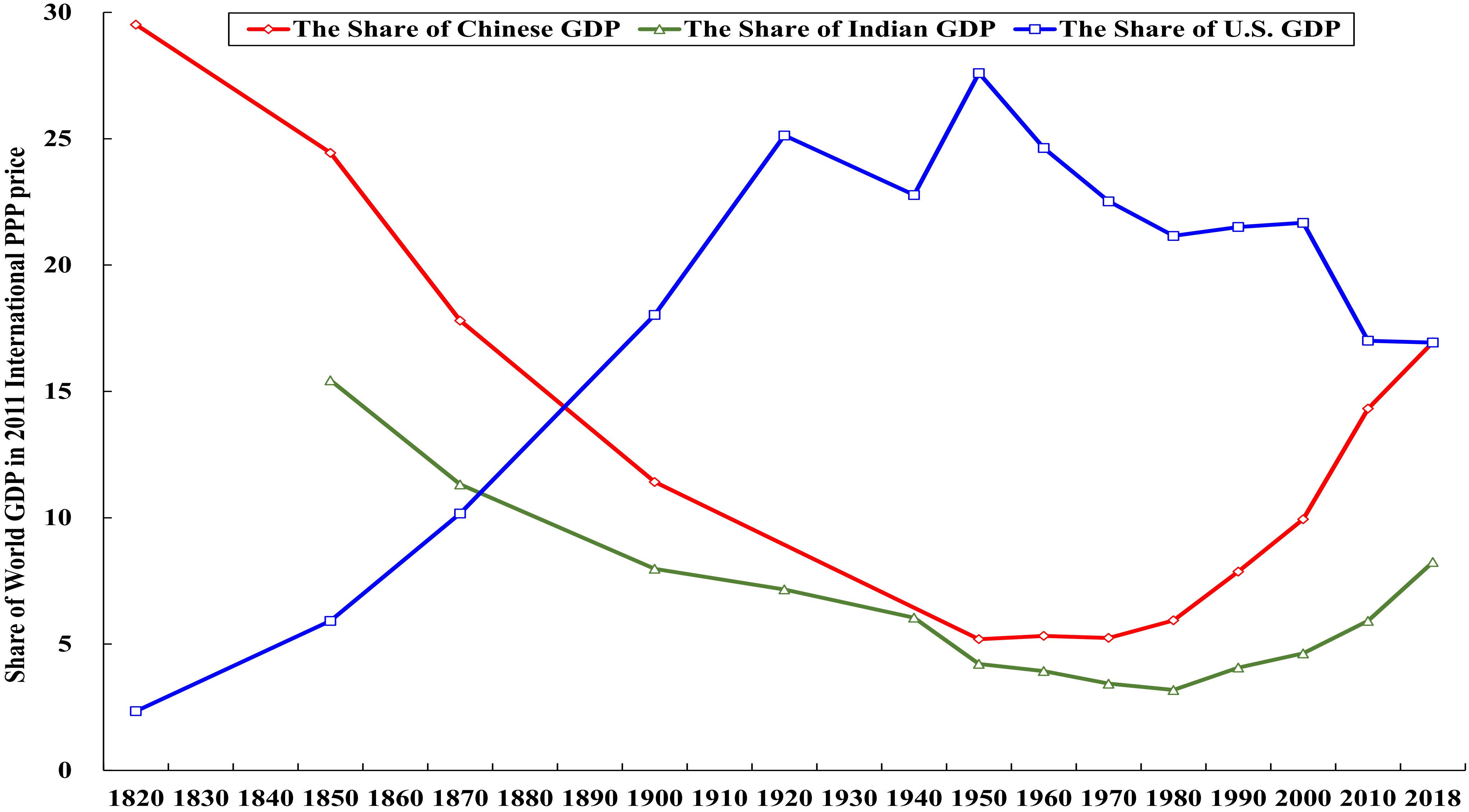
Outline

- A historic review and alternative projections to 2035
- The shifting centre of gravity of the world economy
- The rise of the Indian economy
- Geo-political factors impacting the trajectory of Asia
- The successful prevention of climate change
- An Asian Century?

The Fall and the Rise of Economies from 1820 to the Present

- We start with a chart showing the shares of China, India and the U.S. of world GDP since 1820, using data from the (Angus) Maddison Project Database. The database was constructed on the basis of "Purchasing Power Parity (PPP)" international prices, and hence generates slightly different results from those studies that use market prices at official exchange rates.
- In 1820, China supposedly accounted for more than 30% of the then world GDP, India somewhere between 20 and 25%, and the U.S. less than 3%. China and India together accounted for more than 50% of the then world GDP.
- The Chinese and Indian shares declined continuously until 1950 for China and 1980 for India whereas the U.S. share rose to a peak of almost 30% in 1960.
- In PPP terms, Chinese GDP reached parity with U.S. GDP in 2015, each accounting for approximately 18% of world GDP.

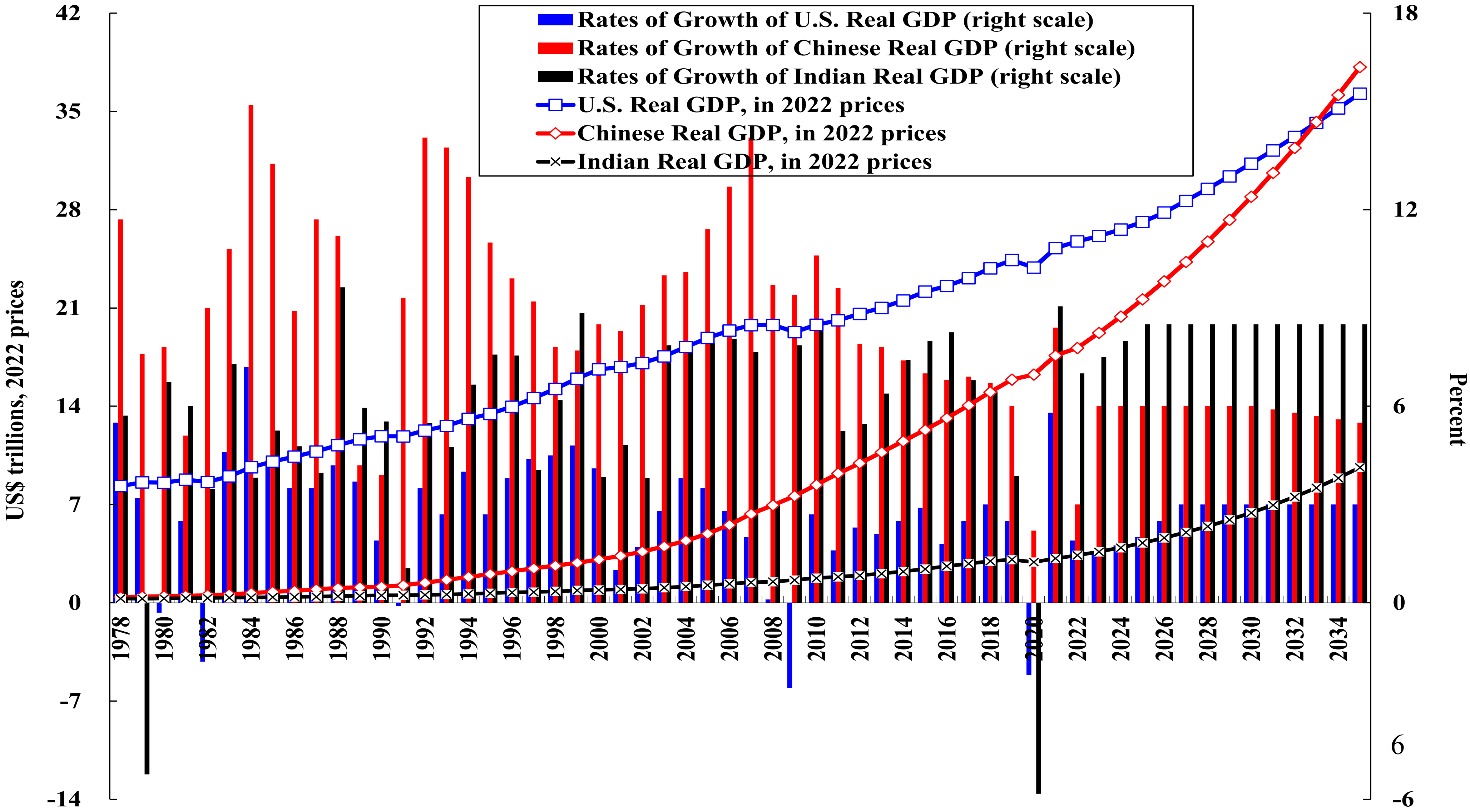
The Shares of World GDP of China, India and the U.S. since 1820 (Maddison Project Database) PPP



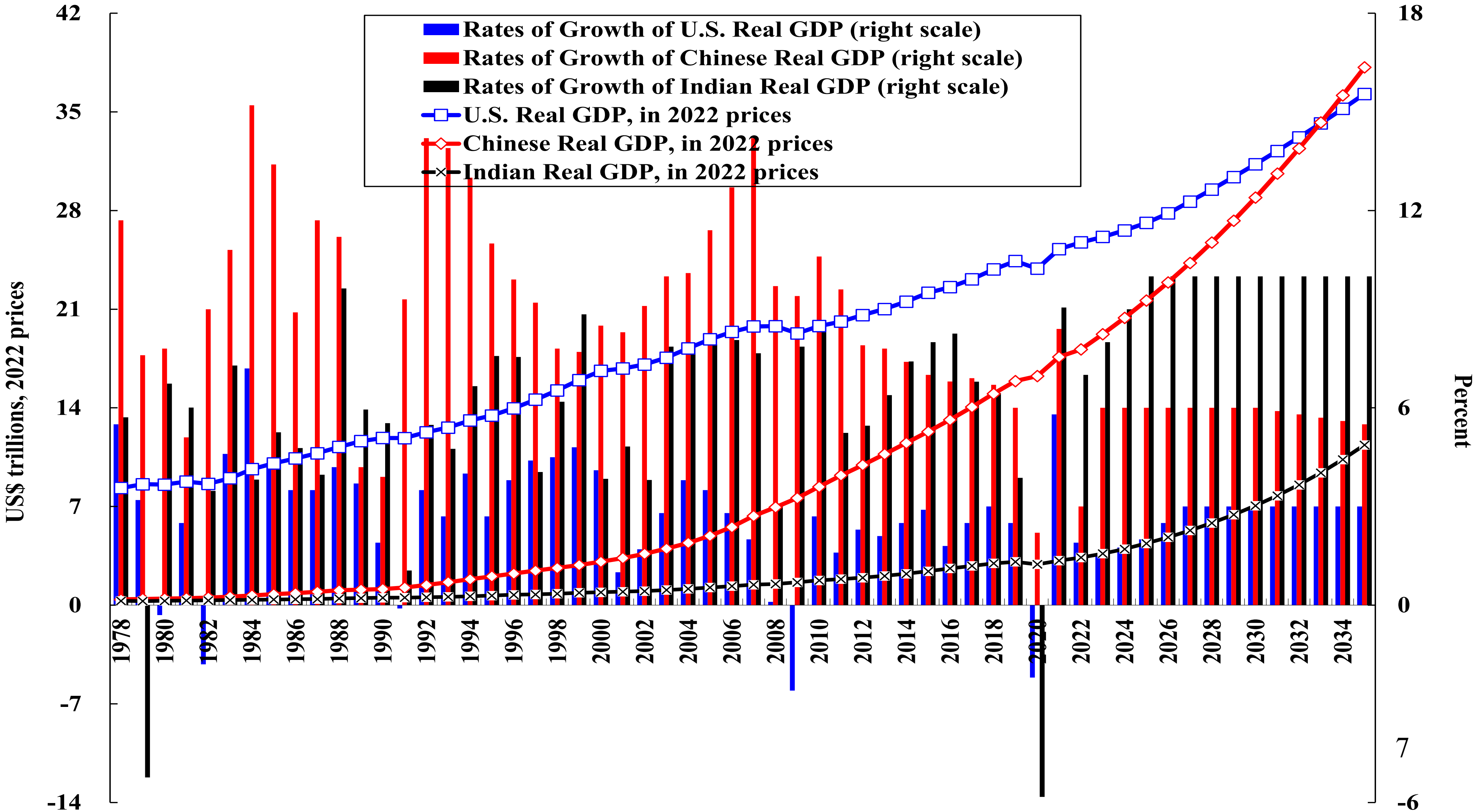
The Growth of Chinese, Indian and U.S. Real GDP and Real GDP per Capita, 1978-2035

- In the following Charts, we compare the actual and projected real GDPs of China, India and the U.S. between 1978 and 2035. For 1978-2022, we use actual data. For the projections, we use an average of 6% per annum for China and 3% per annum for the U.S. For India, we use two alternatives: 8.5% and 10%. For their populations, we use either the domestic projection of each country or that of the United Nations.
- The Charts show that it takes a long time for the GDP of a developing economy to catch up to that of a developed economy. Even though the Chinese rates of growth (red columns) have been significantly higher than the U.S. rates (blue columns) since 1978, it will take until 2033 for the Chinese real GDP (red line) to reach parity with the U.S. real GDP (blue line).

Actual and Projected Chinese, Indian and U.S. Real GDPs and Rates of Growth, 8.5 for India from 2023



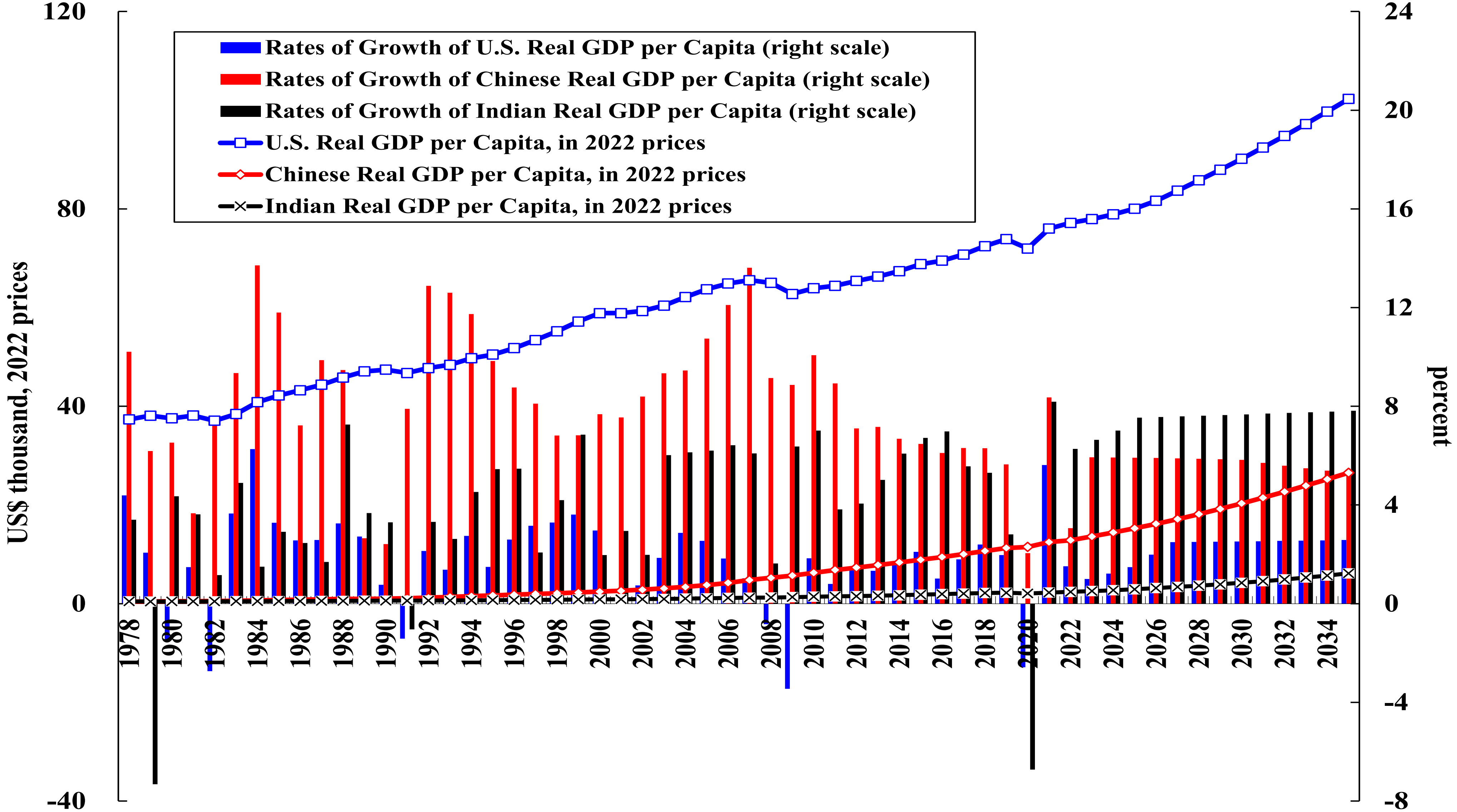
Actual and Projected Chinese, Indian and U.S. Real GDPs and Rates of Growth, 10 for India from 2023



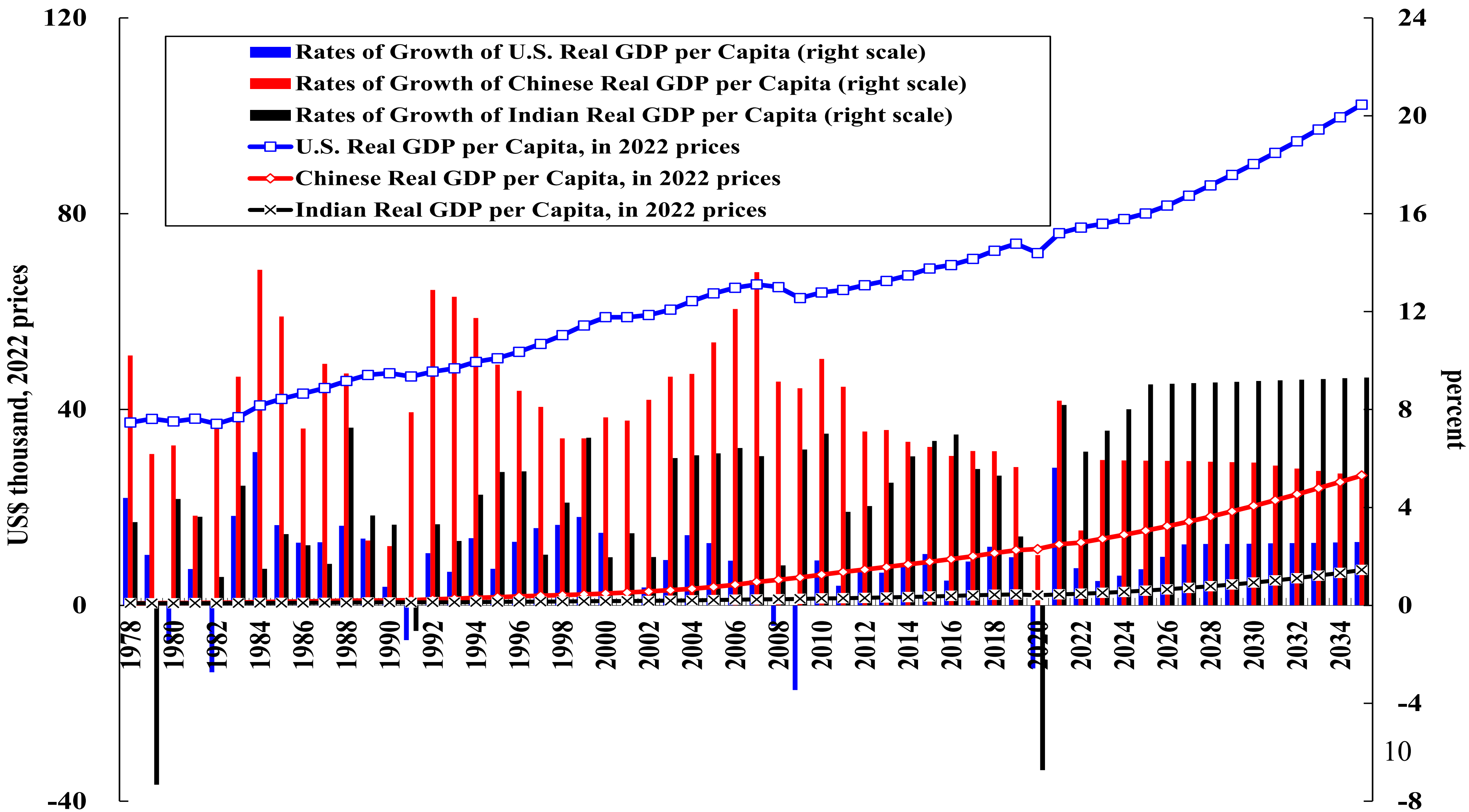
The Growth of Chinese, Indian and U.S. Real GDP and Real GDP per Capita, 1978-2035

- We note that whether India grows at 8.5% or 10% per annum (black columns) between now and 2035, it will take several decades before the Indian real GDP (black line) approaches the U.S. real GDP, perhaps some time in the 2060s, just as it did for China.
- In terms of real GDP per capita, both China and India will remain far behind the U.S. until the end of the Century.
- It is therefore not likely for the relative economic standings between India on the one hand and China and the U.S. on the other to be change significantly by 2035.

Actual and Projected Chinese, Indian and U.S. Real GDPs per Capita and Rates of Growth, 8.5 for India



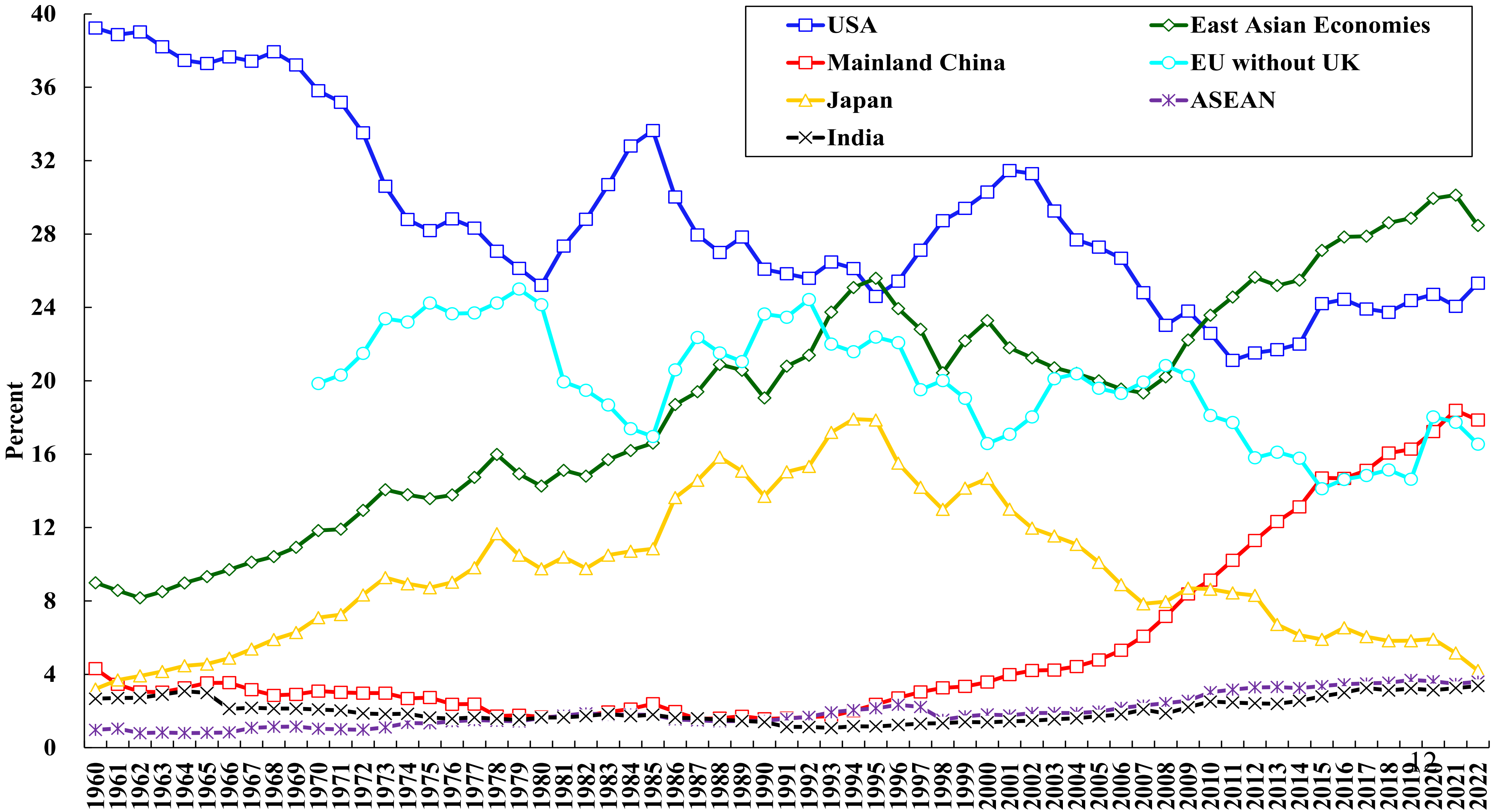
Actual and Projected Chinese, Indian and U.S. Real GDPs per Capita and Rates of Growth, 10 for India



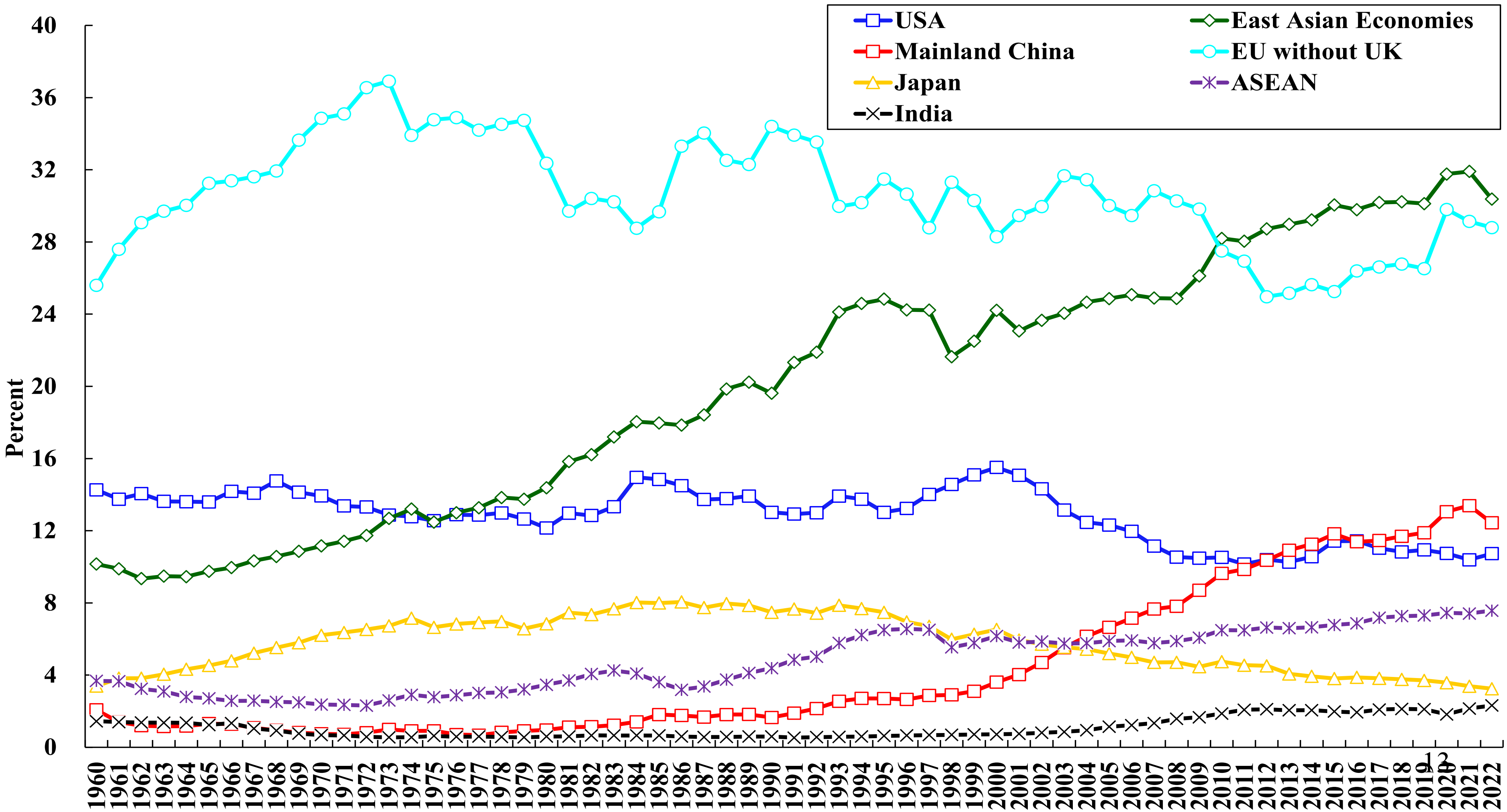
The Shifting Centre of Gravity of the World Economy: Real GDP and International Trade

- Based on market prices and exchange rates, between 1960 and 2022, the share of the U.S. in world GDP declined from 40% to 25%; and the share of Mainland China rose from 4% to approximately 18%. During the same period, the share of East Asia as a whole rose from 9% to almost 30%; and India's share increased from 2.7% to 3.4%.
- Between 1960 and 2022, the share of the U.S. in international trade in goods declined from 14.3% to 10.7%; and the share of Mainland China rose from 2% to 12.4%. During the same period, the share of East Asia as a whole rose from just over 10% to over 30%, surpassing the European Union; and India's share increased from 1.4% to 2.3%.
- East Asia, combined with India, accounted for much less than 50% of world GDP and world trade.

The Shares of East Asia, China, EU, India, Japan and the U.S. in World GDP, 1960-2022



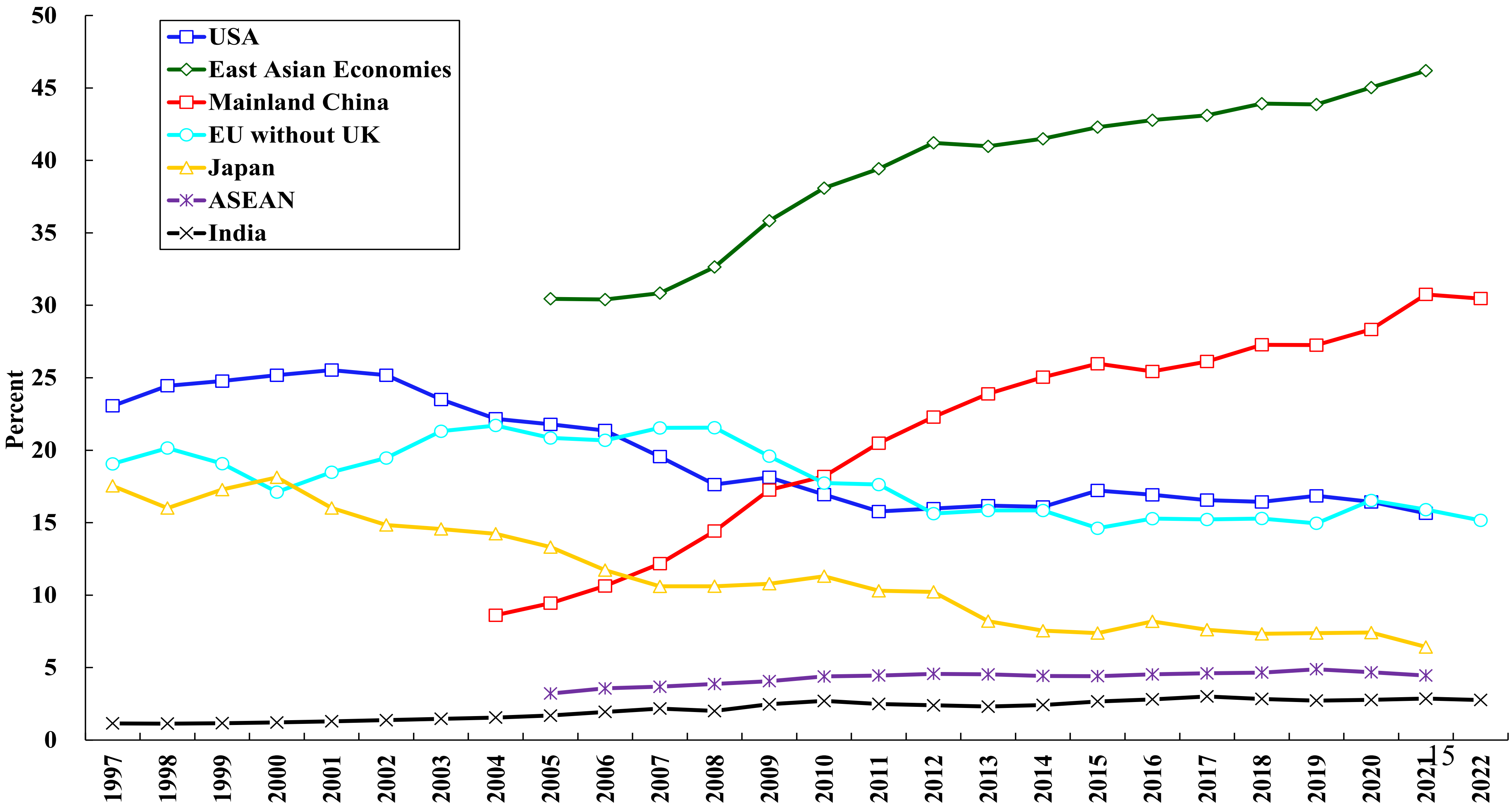
The Shares of East Asia, China, EU, India, Japan and the U.S. in World Trade, 1960-2022



The Shifting Centre of Gravity of the World Economy: Value-Added in Manufacturing

- In 2020, the share of East Asia in manufacturing value-added was over 46%; the share of Mainland China was over 30%; and the shares of both the European Union and the U.S. had declined to 16%. Between 1997 and 2022, India's share more than doubled from 1.2% to 2.8%.
- East Asia, combined with India, accounted for almost 50% of value-added in world manufacturing.

The Shares of East Asia, China, EU, India, Japan & the U.S. in World Manufacturing Value-Added



The Rise of the Indian Economy: The Economic Fundamentals

- India faces no shortage in the supplies of the primary inputs: tangible capital, labour and human capital.
- The Chinese national savings rate was over 46% in 2022, the highest in the world amongst major economies. However, in 1978, the Chinese savings rate was under 35%. India has a national savings rate of approximately 30%, which is high enough to support its domestic investment needs and it can be expected to increase as Indian GDP rises.
- Labour supply should not be a problem for India, given that it has a larger as well as younger population than China.
- India has a highly educated labour force and an ample supply of scientists and engineers.

The Economic Fundamentals: Economies of Scale, Learning-by-Doing & Long Upper Tails

- Similar to China, India also enjoys economies of scale, learning-by-doing (that is, efficiency improvement resulting from repetitive production of the same good), and the advantage of longer upper tails in the ability distribution of the population because of its size.
- What India needs is an infrastructure to link the whole country together so as to realise its economies of scale. It should invest in development-leading infrastructure, that is, infrastructure that will create its own demand. It should also adopt an export promotion strategy, so as to expand its manufacturing output and employment.
- And while India does not have a single unified language, it can rely on English for communication.
- Corruption per se is not an obstacle. Even now corrupt senior officials are found in China almost every day.

The Rise of the Indian Economy: A South Asian Free Trade Area (SAFTA)?

- The combined population of India (1,433 million), Pakistan (242 million), Bangladesh (174 million), Sri Lanka (22 million), Bhutan (0.8 million) and Nepal (31 million), the potential members of a South Asian Free Trade Area (SAFTA), is 1.9 billion, just shy of a quarter of the world population! SAFTA is basically a mini-form of economic globalisation that will benefit every member country.
- Hopefully, SAFTA will be able to do the same for South Asia as the European Common Market did for post-World War II Western Europe, that is, to maintain peace and to prosper together. Economic interdependence can prevent wars.
- International trade will enhance economic growth for all member countries of SAFTA. Moreover, the peace dividends can be used to augment investment, especially infrastructural investment, for linking the whole free trade area together.

Geo-Political Factors Impacting the Trajectory of Asia

- Peace in South Asia (The South Asian Free Trade Area)-positive for Asia
- Peace in the Taiwan Straits-positive for Asia
- China-U.S. strategic competition-negative for Asia
- The revival of the Bretton Woods system-positive for the world
- De-globalisation, de-coupling and de-risking-initially negative for the world but ultimately positive because of increased competition resulting in lower prices and better qualities

Geo-Political Factors: Peace in the Taiwan Straits

- The reunification of Taiwan with the Mainland of China is, like the reversion to Chinese sovereignty of Hong Kong and Macau, a matter of Chinese national honour. Taiwan to China is like Alsace-Lorraine to France, Goa and Pondicherry to India, and the four Northern Islands to Japan. Reunification will be pursued by any Chinese central government with the ability to do so, regardless of its ideology or whether it is directly and popularly elected.
- People on both sides of the Taiwan Straits will benefit enormously from a peaceful reunification and should therefore work hard to achieve it. The rest of the world will benefit greatly too.
- With peaceful reunification, a large number of lives will be saved, enormous destruction will be avoided, and huge peace dividends will be available to be shared by all. The use of force should only be a very last resort.

Geo-Political Factors: China-U.S. Strategic Competition

- China-U.S. strategic competition is likely to be the new normal for the coming decade. As long as the U.S. ruling elite wants to maintain its sole global hegemonic position, it will want and need to suppress and contain China, and other rising countries similar to it. It does not want any country to be able to say no.
- China-U.S. relations will eventually settle into a stable major-power equilibrium (co-existence, mutual respect, and win-win collaboration and cooperation, anchored by "Mutually Assured Destruction (MAD)" and numerous arms-control agreements).
- Notwithstanding the so-called "Thucydides' Trap", a war between China and the U.S. is unlikely because it will have no winners, only losers. If the former Soviet Union and the U.S. managed to avoid going to war in the last Century, there is even less reason for China and the U.S. to go to war in this Century.

Geo-Political Factors: The Revival of the Bretton Woods System

- There is a potential that the Bretton Woods system for the settlement of international transactions in own national currencies may be revived.
- Before 1971, most countries settled their international transactions with their bilateral trading partner countries in their own respective national currencies (with the exception of the former Soviet Union and its then Eastern European allies which mostly used barter trade), as provided under the Bretton Woods system. However, the use of own currencies was largely discontinued after the U.S. unilaterally reneged on its commitment to redeem U.S. dollars held by foreign countries with gold at a fixed price in U.S. dollars in 1971.
- Between 1971 and 2000, The U.S. dollar became the most widely used international medium of exchange. The introduction of the Euro in 2000 reduced the share of the U.S. dollar in world settlement, even though the U.S. dollar has continued to retain the largest share, currently at 45%.

Geo-Political Factors: The Revival of the Bretton Woods System

- If bilateral transactions between two countries can be settled in their own national currencies rather than in a third-country currency like the U.S. Dollar, the transaction costs and the exchange rate risks are both reduced, because only one currency exchange is required and hence only one exchange rate risk exists. Thus, both countries can benefit with own-currency settlement. If the settlement is made in a third-country currency, two currency conversions are required, transaction costs are doubled, and two exchange rate risks are incurred.
- The rise of the BRICS group of developing economies and the establishment of the New Development Bank. It is likely that the international transactions among the BRICS countries will be conducted, cleared and settled in their own respective currencies eventually.
- The Society for Worldwide Interbank Financial Telecommunication (SWIFT) international payment system for the U.S. Dollar is increasingly weaponised under U.S. pressure, forcing many countries to look for alternatives. The use of the United States dollar as an international medium of exchange or store of value by third countries is likely to decrease gradually over time.

Geo-Political Factors: De-Globalisation, De-Coupling and De-Risking

- While economic globalisation brings net benefits to every economy that participates in it, economic de-globalisation imposes net costs to every economy. The same is true of de-coupling and de-risking to the extent that they are not supported by the free market.
- However, de-globalisation, de-coupling and de-risking will eventually lead to multiple supply chains around the world for the same product or service, which will enhance global economic resilience, increase competition, reduce monopoly power and ultimately lower prices to the benefit of all.

The Successful Prevention of Climate Change

- China is now the largest carbon emitter in the world. It is committed to peaking in carbon emissions by 2030 and achieving net carbon neutrality by 2060.
- In terms of carbon emissions per capita, India is among the lowest in the world. However, in terms of carbon emissions per unit real GDP, India is now higher than China. As the Indian economy grows, given its population which is now larger than China's, India will become a major emitter. It is therefore important for all countries in the world to work together to try to achieve net carbon neutrality as soon as possible.

An Asian Century?

- An Asian Century will take time and require the cooperation of both China and India. At present. East Asia and South Asia combined constitutes only less than 35% of both world GDP and world trade. In terms of value-added in manufacturing, it is still slightly below 50%. In terms of the value of currencies used in world settlement, it is less than 10%. It is clearly not yet the Asian Century from an economic point of view.
- It will likely be in the 2070s that one can justifiably claim this Century as the Asian Century, in the sense that Asia (actually East Asia and South Asia combined) will account for over half of the economic activities in the world.