

# **Japan, India and China: Engines of Asian Economic Integration**

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The Leadership Conundrum”

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# Outline

- 1. Introduction: Asia's Three Giant Economies**
- 2. Asia's Economic Integration**
- 3. Regional Cooperation for Economic Integration**
- 4. Concluding Remarks**

# 1. Introduction:

## Asia's Three Giant Economies

- Asia is recovering from the global financial crisis as the most dynamic region in the world
- The three giant economies in the region, Japan, India and China, are highly **complementary**
  - Japan has: strong institutions; high human capital and technology; aging society
  - India has: large, growing market size; English speaking graduates; technology & services (ICT); young population
  - China has: large, growing market size; low- to mid-tech manufacturing sectors; outward orientation (trade & FDI)
- India and China have two faces: growth & dynamism and poverty & inequality, with huge **structural and governance challenges**
- How can the three giants cooperate to **sustain “quality” growth?**

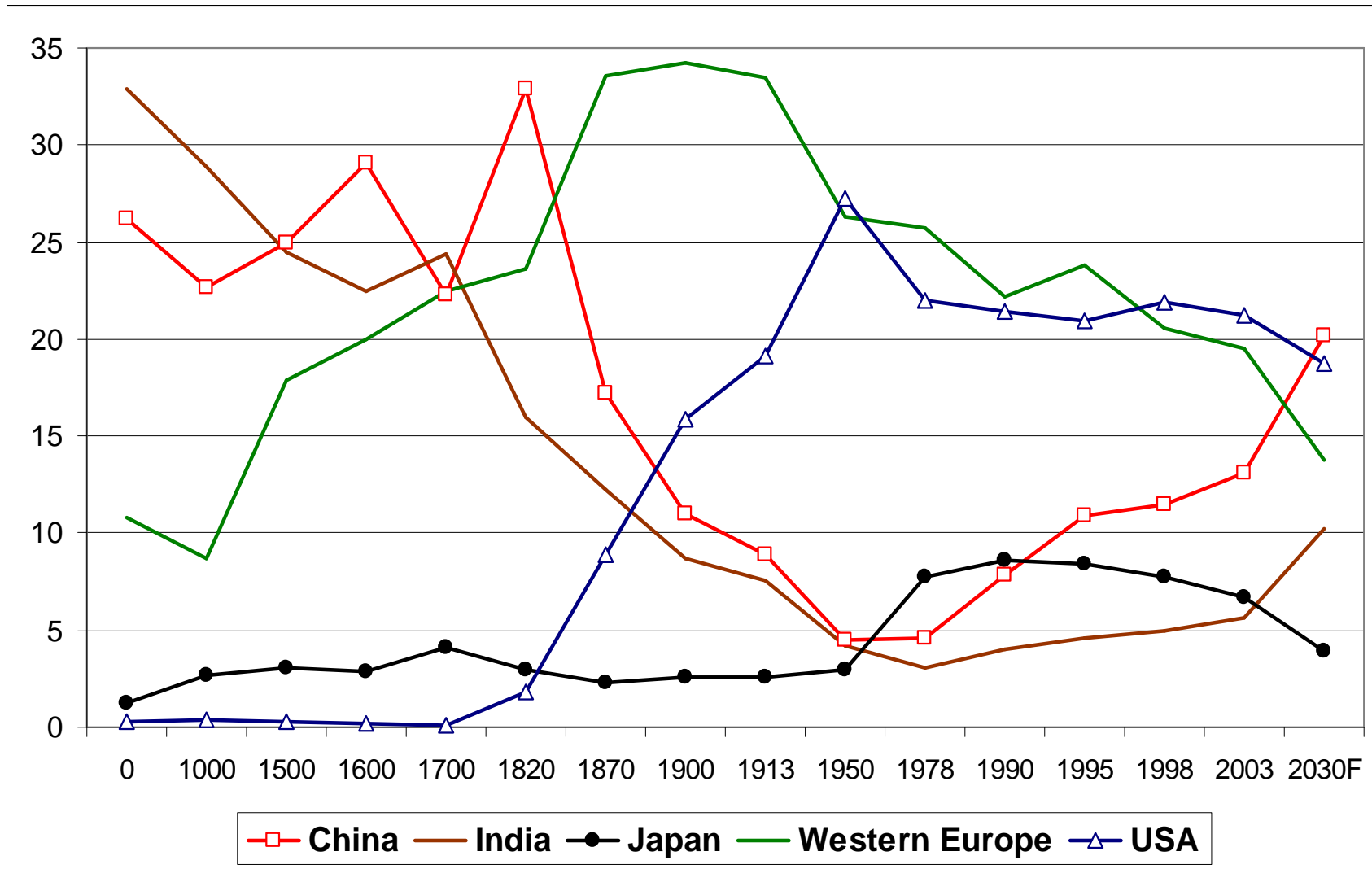
## Growing China, India, ASEAN...

<b>Size of GDP</b>	<b>2009</b> Trill. USD	<b>2014</b> Trill. USD	<b>2020</b> Trill. USD
<b>United States</b>	<b>14.3</b>	<b>17.4</b>	<b>21.0</b>
<b>EU-27</b>	<b>16.2</b>	<b>19.1</b>	<b>19.8</b>
<b>Japan</b>	<b>5.0</b>	<b>5.8</b>	<b>6.8</b>
<b>China</b>	<b>4.8</b>	<b>8.3</b>	<b>15.9</b>
<b>Korea</b>	<b>0.8</b>	<b>1.2</b>	<b>1.5</b>
<b>ASEAN</b>	<b>1.5</b>	<b>2.1</b>	<b>3.0</b>
<b>ASEAN+3</b>	<b>12.1</b>	<b>17.3</b>	<b>27.1</b>
<b>India</b>	<b>1.2</b>	<b>1.9</b>	<b>3.0</b>

*Note:* The figures for 2014 are IMF projections, and those for 2020 are estimated by the author

*Source:* IMF, *World Economic Outlook*, October 2009.

# Share of major economies in the world (%, in 1990 international dollars)



Source: Angus Maddison, *The World Economy: A Millennial Perspective* (2001); and "The West and the Rest in the World Economy: 1500-2030" (2005).

# Key economic and structural indicators

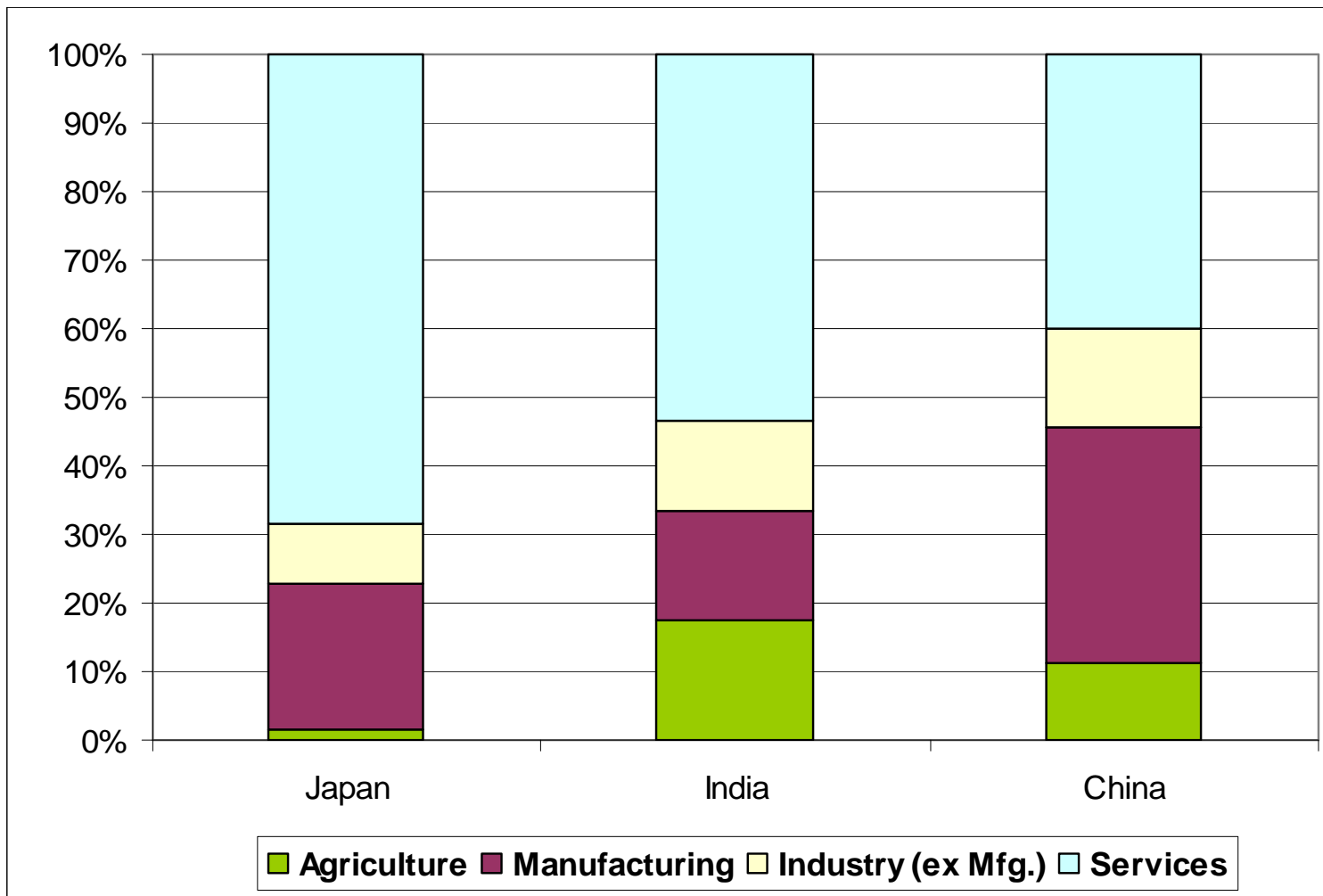
Year	2008	2009	2008	2007	
	GDP per capita (current US\$)	Poverty Ratio <sup>1</sup>	Gini Coefficient	HDI <sup>2</sup>	
				Rank	Score
<b>Japan</b>	<b>38,443</b>	<b>NA</b>	<b>0.381</b>	<b>10</b>	<b>0.960</b>
Mongolia	1,998	22.38	0.330	115	0.727
<b>China</b>	<b>3,263</b>	<b>NA</b>	<b>0.454</b>	<b>92</b>	<b>0.770</b>
Bangladesh	494	50.47	0.332	146	0.543
<b>India</b>	<b>1,068</b>	<b>40.00</b>	<b>0.368</b>	<b>134</b>	<b>0.612</b>
Nepal	441	55.12	0.473	144	0.553
Cambodia	651	40.19	0.419	137	0.593
Indonesia	2,254	NA	0.339	111	0.734
Lao PDR	837	43.96	0.326	133	0.619
Singapore	37,597	NA	0.481	23	0.944
Viet Nam	1,052	21.45	0.378	116	0.725

Notes: NA = Not Available; (1) Latest figure available based on a US\$1.25 a day poverty line using 2005 purchasing power parity (PPP) rates as calculated from the PovcalNet online poverty analysis tool of the World Bank; (2) HDI rank out of 181 economies; Index score: 0 = no human development, 1 = maximal human development<sup>3</sup>

Sources: Word Bank, *World Development Indicators Database* 2009; UNDP, *Human Development Report* 2009

# Sectoral composition of output

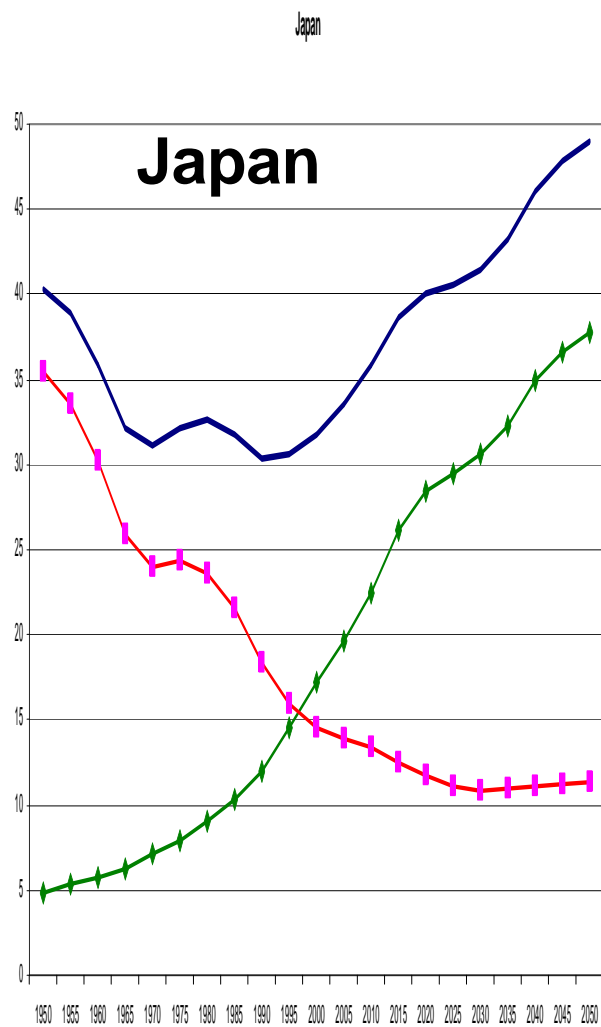
## Japan, India and China, 2006



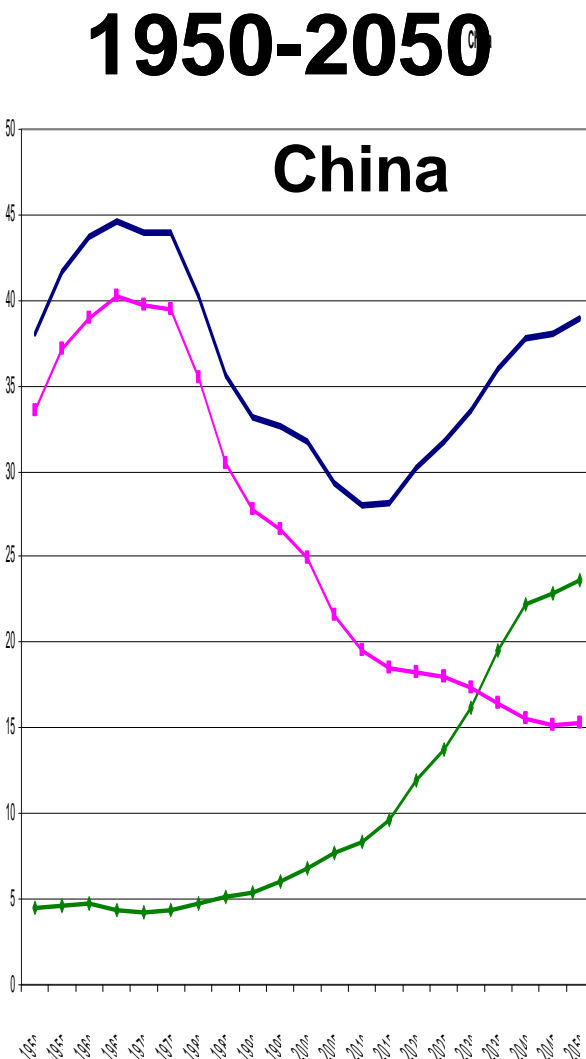
Source: World Bank, *World Development Indicators Online*, 2009.

# Demographic complementarity: Japan, China, India

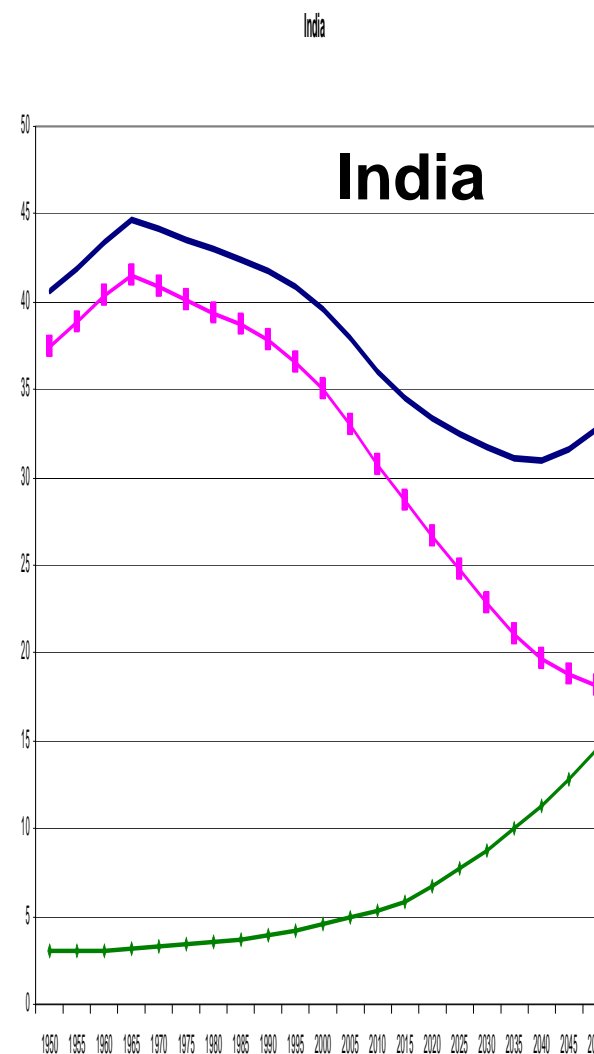
## 1950-2050



+ Old + Young — Old + Young



+ Old + Young — Old + Young



+ Old + Young — Old + Young

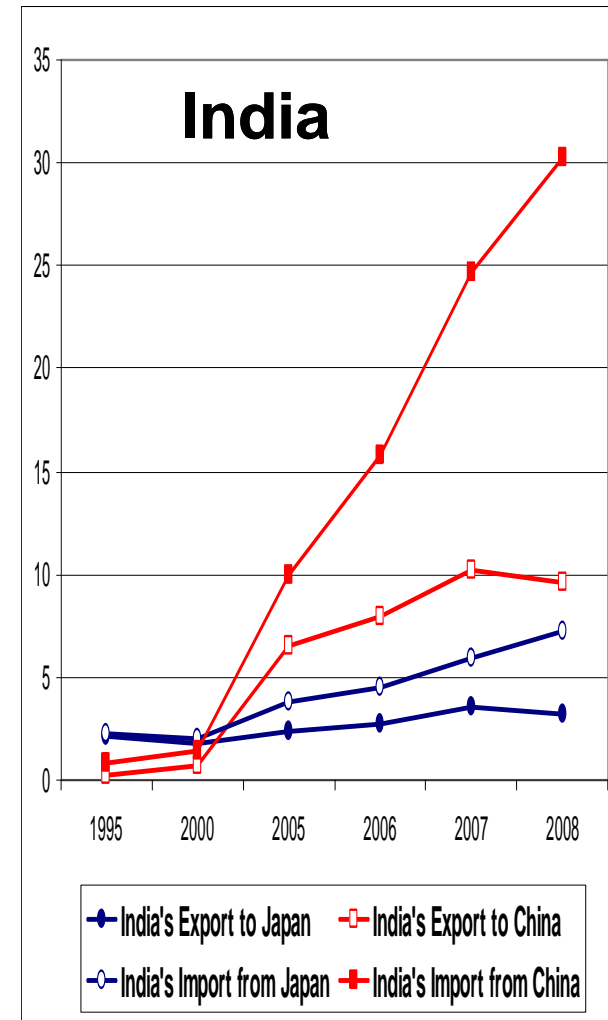
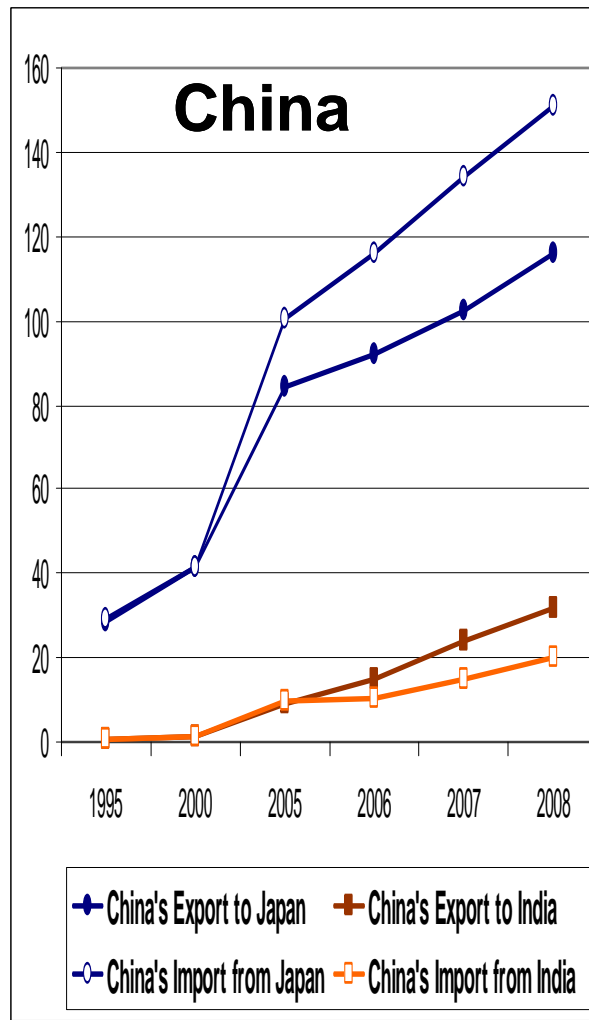
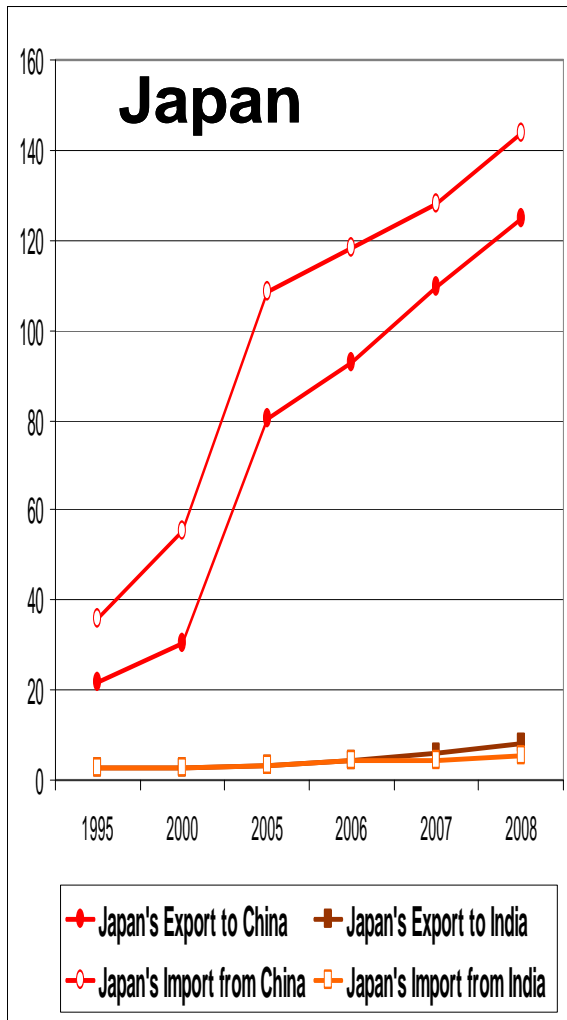


## **2. Asia's Economic Integration**

# Market-driven economic integration

- Market-driven trade and FDI integration between Japan and China
  - Large trade and FDI flows due to outward-oriented policies and focus on infrastructure
  - Formation of **production networks and supply chains** by global MNCs and Asian firms
  - This has also involved Asian NIEs (like Korea and Taipei, China) and ASEAN
- Trade & FDI integration of India with Japan and China has been limited
  - Largely due to high tariff and non-tariff barriers to trade, lack of trade related infrastructure
  - India is **not** well-integrated with other South Asian economies, either
- But Japan's FDI in India is rising in recent years

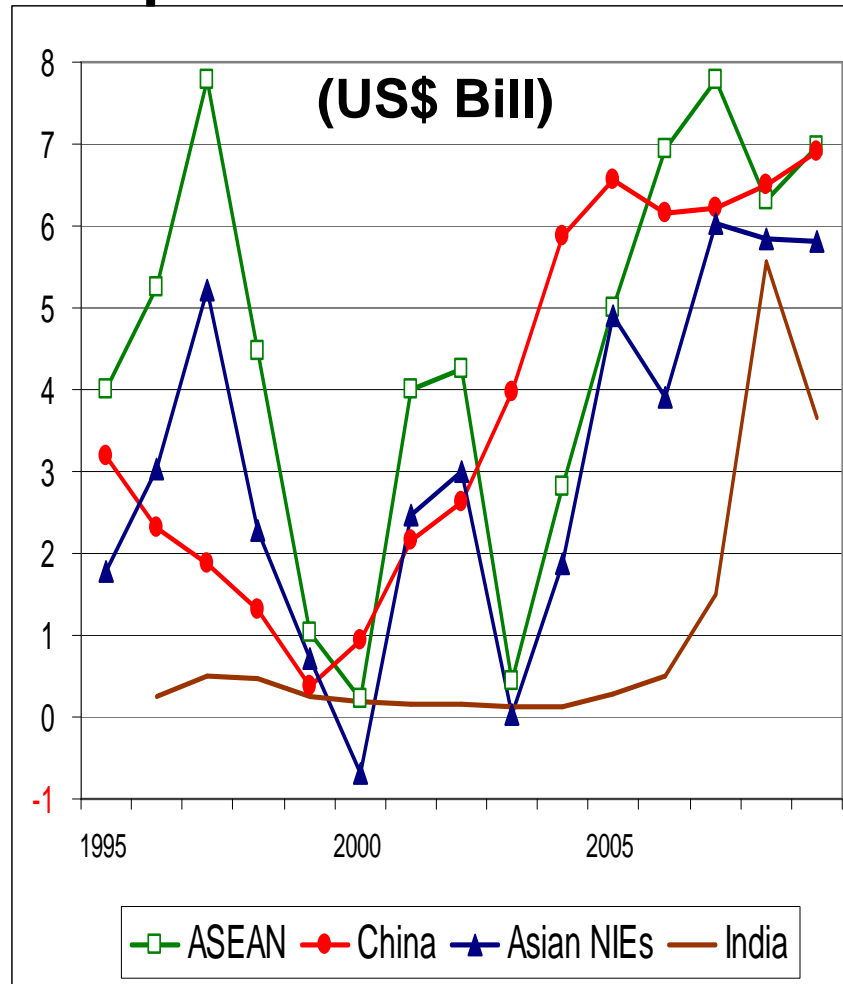
# Trade among Japan, India and China (US\$ Billion)



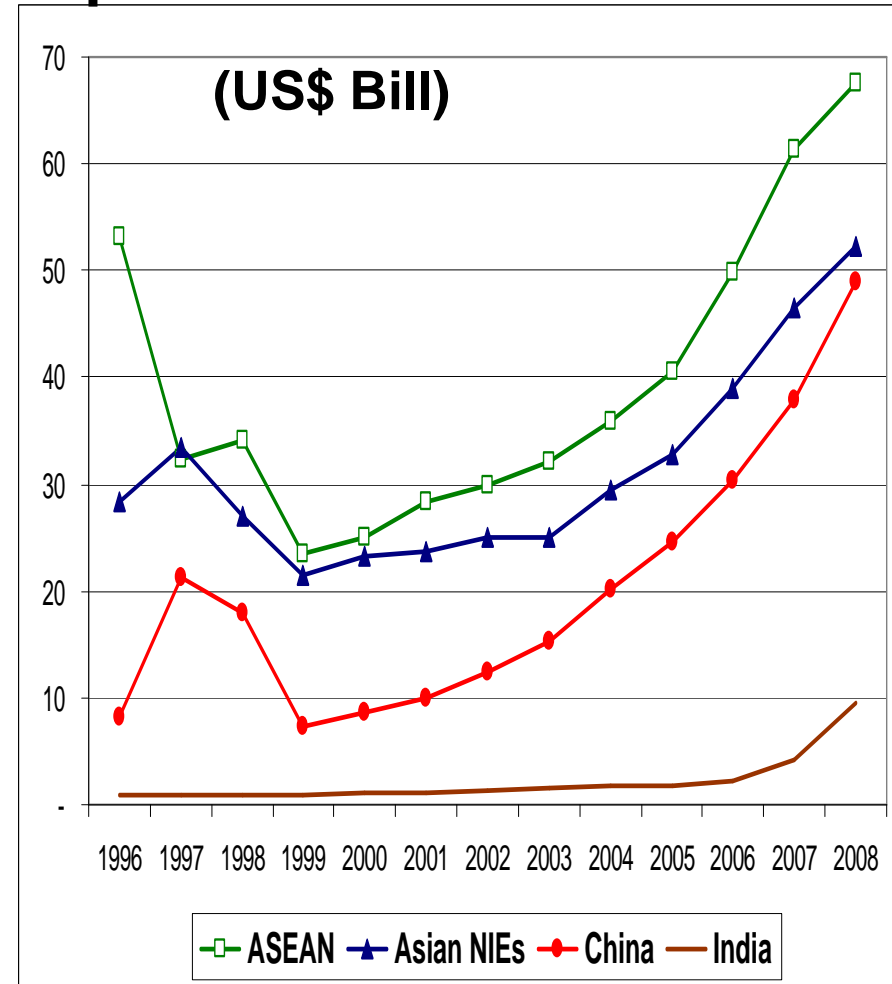
Source: IMF, Direction of Trade Statistics

# Japan's FDI in India is rising, though still small in comparison to China and others

## Japan's FDI Outflows



## Japan's Outward FDI Stocks

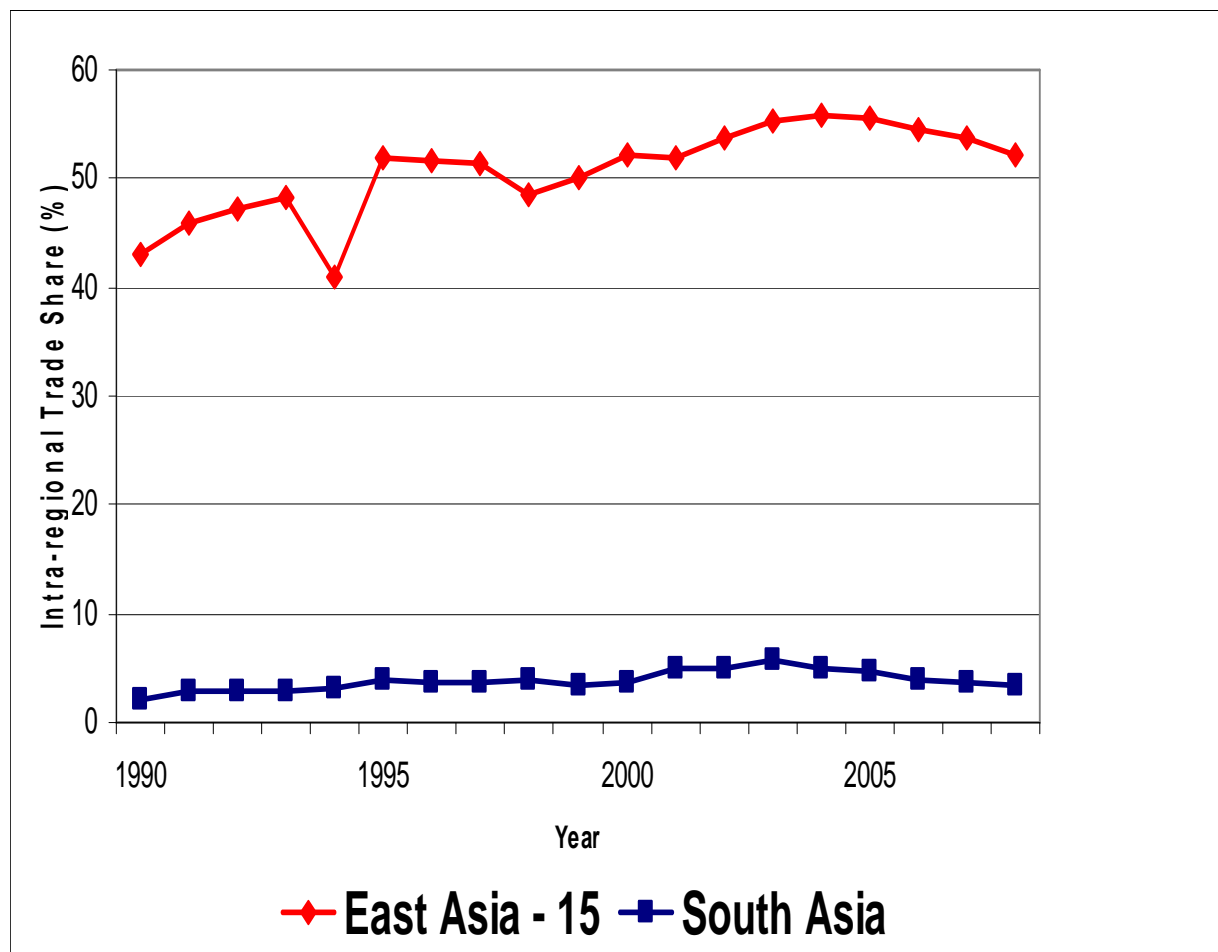


Note: ASEAN and Asian NIEs include Singapore

Source: Compiled by JETRO, using Bank of Japan's balance of payments data

# Intra-regional trade South Asia is limited

	East Asia (15)	South Asia
1990	43.07	2.12
1991	45.90	2.85
1992	47.30	2.88
1993	48.15	2.89
1994	41.03	3.15
1995	51.88	3.80
1996	51.74	3.69
1997	51.44	3.54
1998	48.55	3.96
1999	50.10	3.30
2000	52.24	3.77
2001	51.85	4.96
2002	53.80	4.91
2003	55.31	5.64
2004	55.88	5.04
2005	55.44	4.80
2006	54.46	3.79
2007	53.76	3.75
2008	52.06	3.51



*Note:* Intra-regional trade share is the percentage of intra-regional trade to total trade of the region, calculated using exports data. A higher share indicates a higher degree of dependency on regional trade.

*Source:* ADB Asia Regional Center (ARIC) Database

# **But trade links are rising between India and East Asia**

- India-East Asia trade has started to rise in recent years
- China became India's top trade partner in 2009

## **Drivers of India-East Asia trade links: India's "Look East Policy"**

- East Asia's economic dynamism (outward-oriented growth), offering good policy lessons for India's development strategy
- East Asia's market-driven economic integration and FTA initiatives, stimulating India to strengthen links with East Asia

# **Financial links are weak even in East Asia**

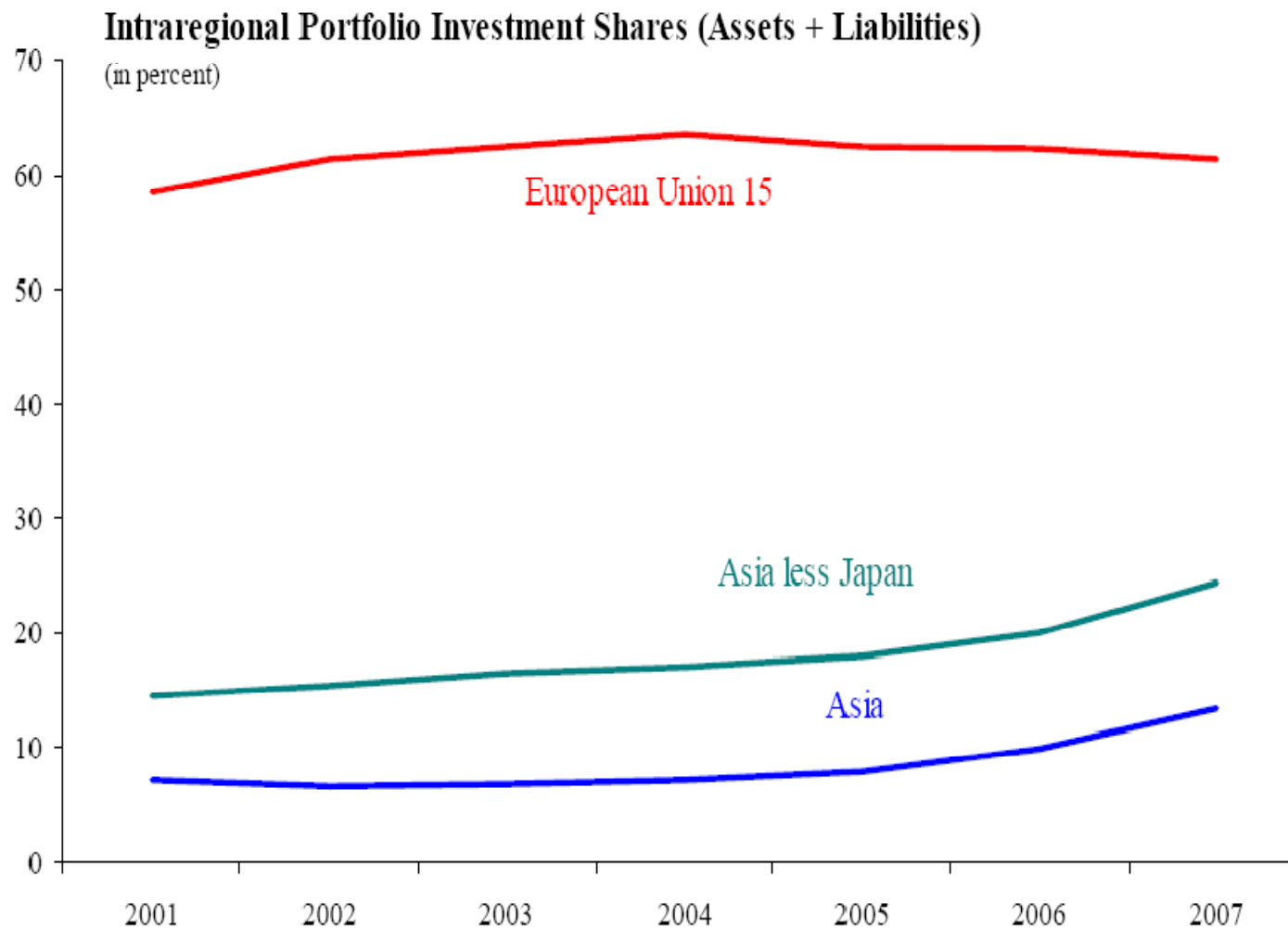
## **Limited financial integration**

- Financial links are weak even in East Asia due to the varying degrees of market opening and capital account liberalization across countries
- Intra-Asian portfolio investment is very limited in comparison to many parts of the world

## **Macroeconomic synchronization**

- Surprisingly, macroeconomic synchronization is increasingly observed among Japan, India and China (and ASEAN)

# But Asia is much less integrated through portfolio investment



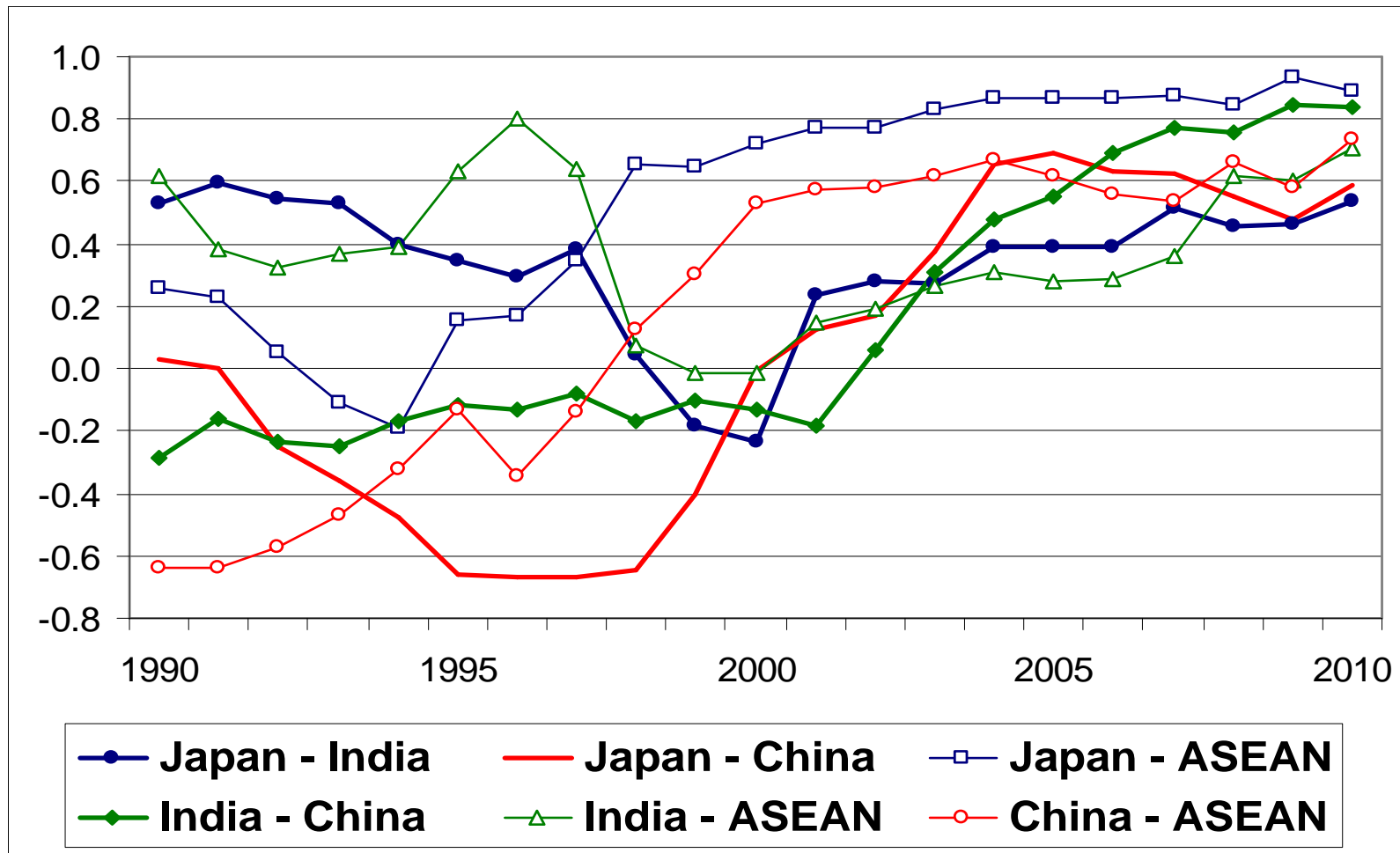
Asia  
—especially  
Japan— is  
more  
globally  
than  
regionally  
integrated

Nonetheless  
Asia's  
regional  
financial  
integration  
is increasing

Source: Calculations using Consolidated Portfolio Investment Survey, International Monetary Fund.



# GDP growth rate correlations are rising among Japan, India, China and ASEAN (10-year moving windows)



# **3. Regional Cooperation for Economic Integration**

## **Regional cooperation architecture**

- **Trade and FDI cooperation (FTA)**
- **Infrastructure cooperation**
- **Environment and energy cooperation**
- **Social inclusion**
- **Monetary and financial cooperation**

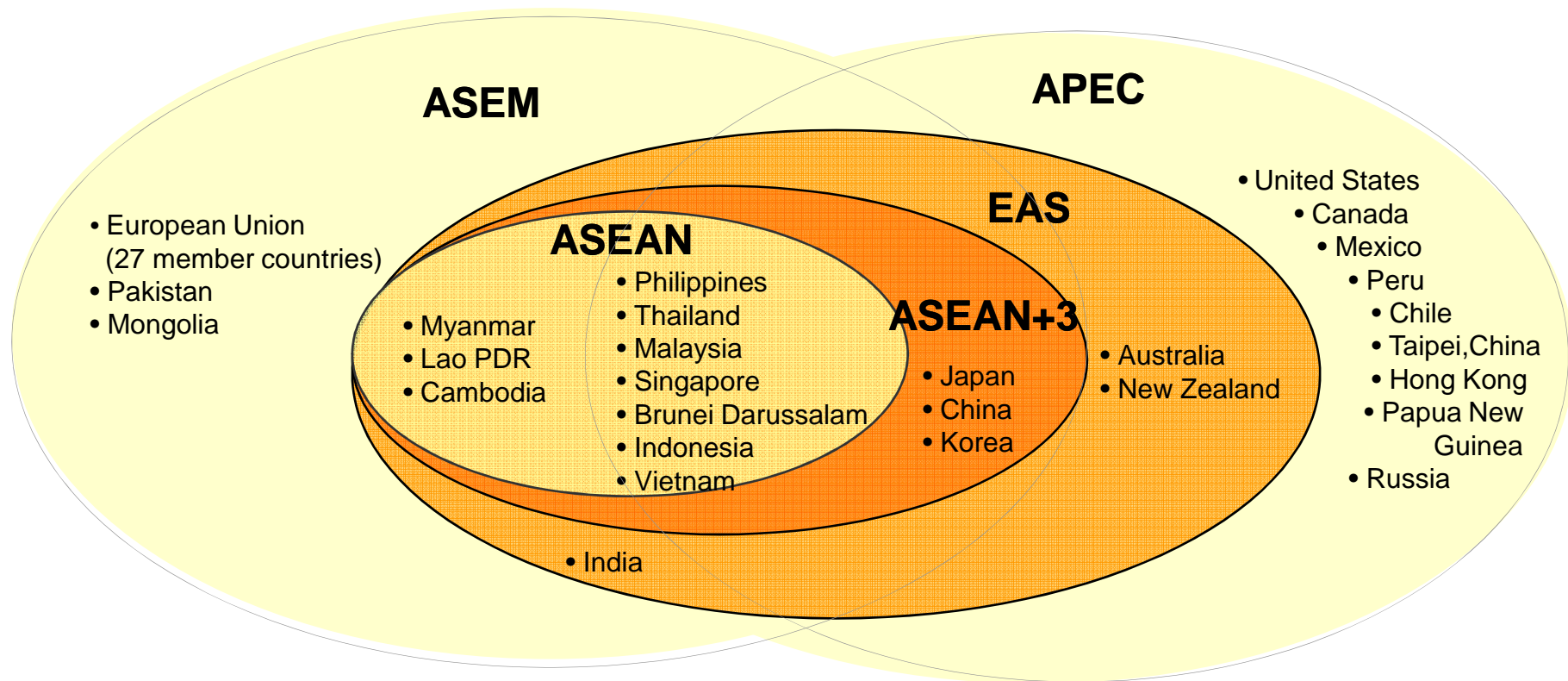
**Structural reform challenges are huge**

# **East Asian economic cooperation architecture**

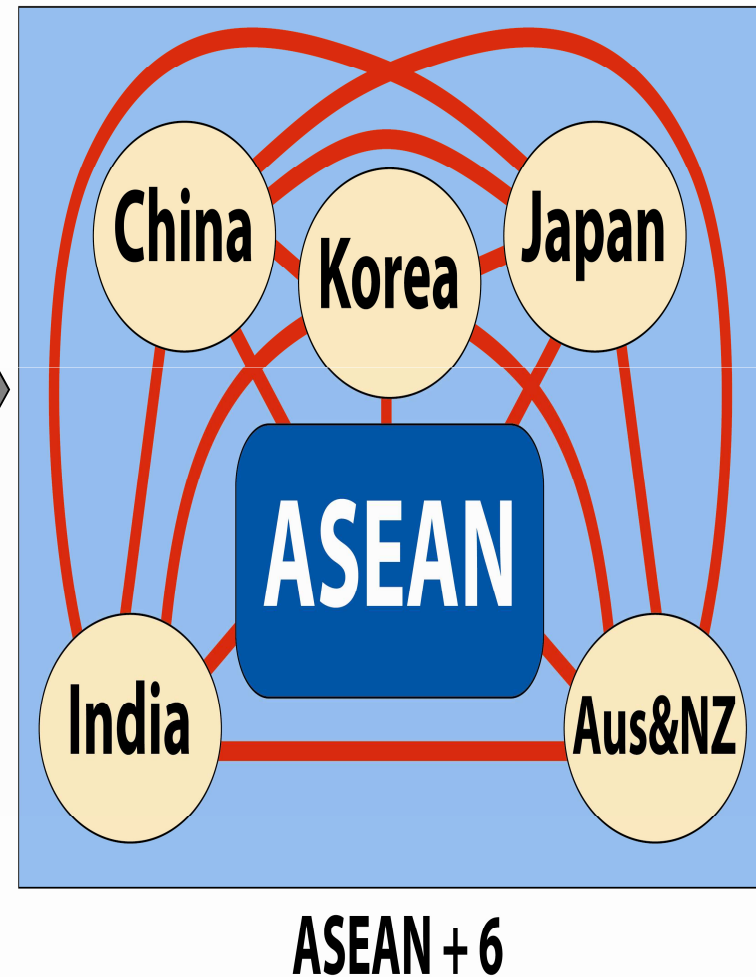
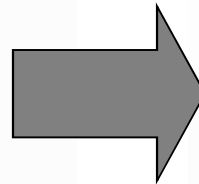
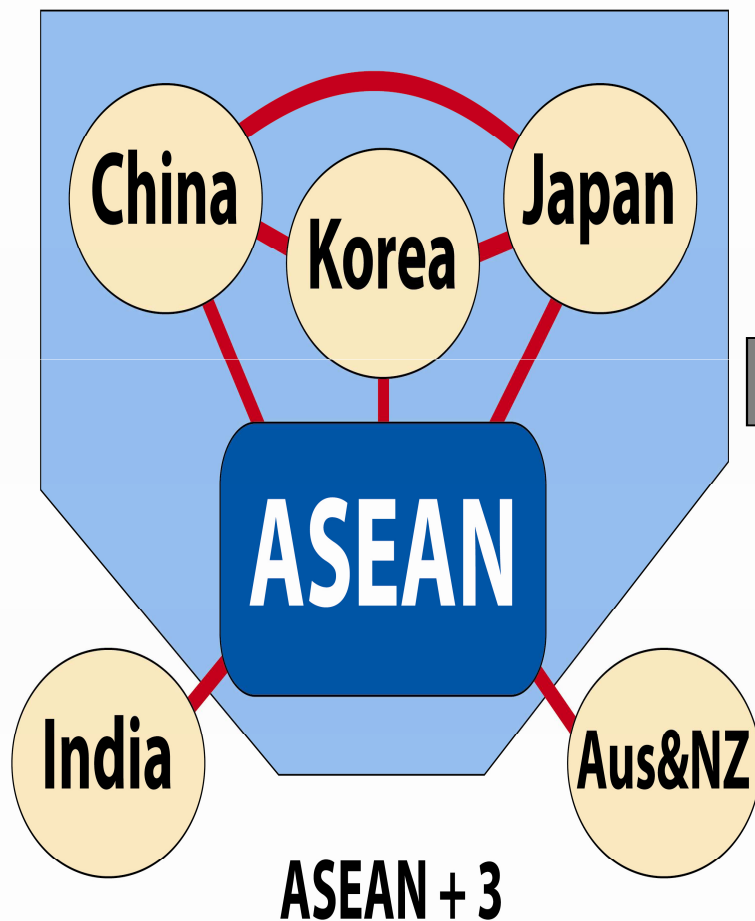
- ASEAN as the integration hub for an EAFTA (FTA for ASEAN+3 countries) and/or a CEPEA (FTA for ASEAN+6 countries)
- ASEAN+3 focusing on financial cooperation, including the Chiang Mai Initiative (CMIM), and Asian Bond Markets Initiative
- ASEAN+6 dealing with wider issues
- APEC connects East Asia with the Americas
- ASEM connects East Asia plus India with Europe

**This architecture suggests a “variable geometry” approach**

# Asia's evolving economic architecture suggests the effectiveness of variable geometry



# ASEAN+3 and East Asia Summit (ASEAN+6) cooperation

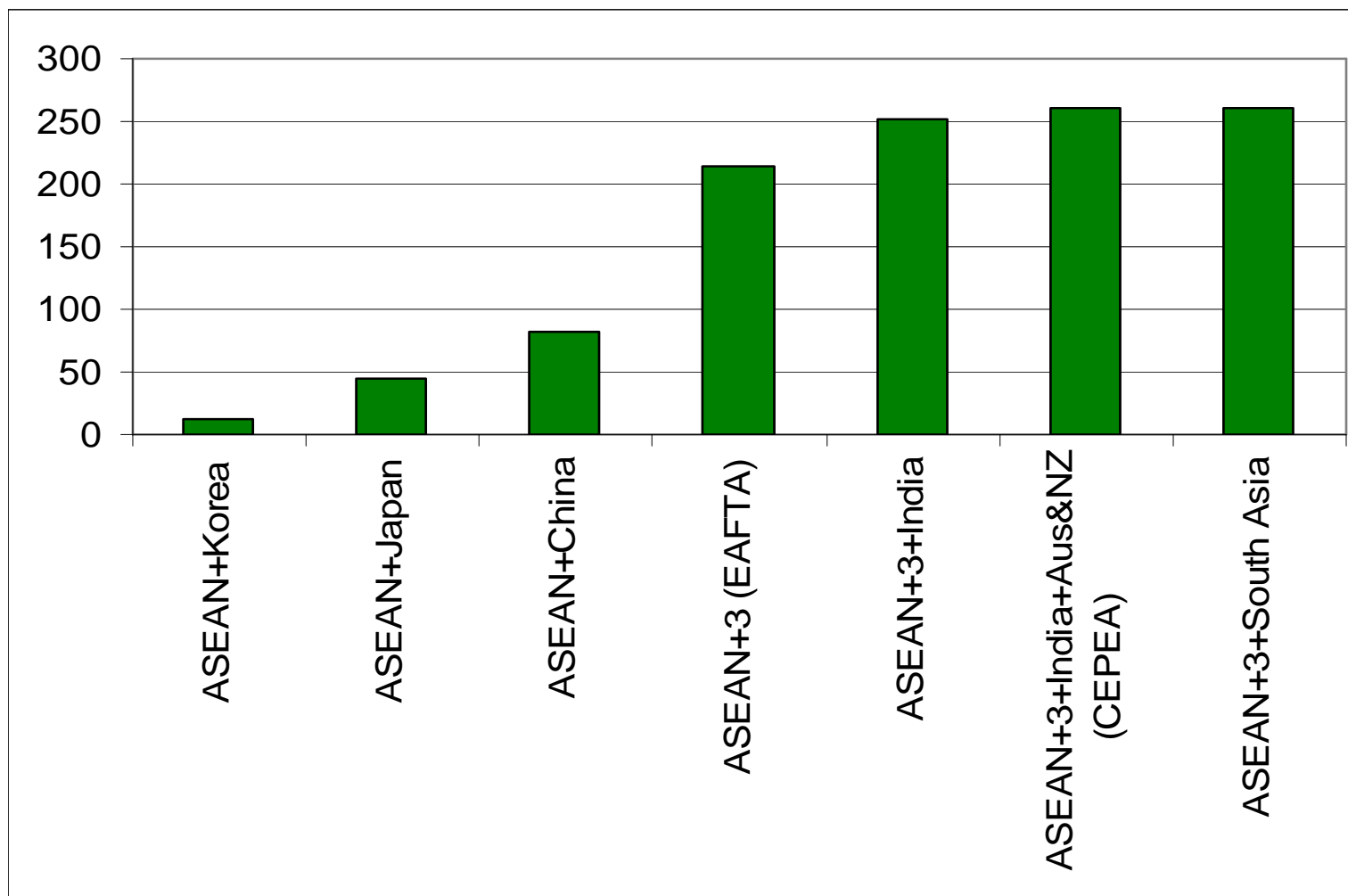


# Benefits of economic integration

Deeper economic integration in Asia creates a large market and economic potential for all

- Narrowing the development gap by integrating landlocked and/or low-income countries to large ones like India and China
- A consolidated FTA for an ASEAN+3 FTA (EAFTA) or an ASEAN+6 FTA (CEPEA) will bring much larger income gains than ASEAN+1 FTAs
- ASEAN+6 FTA (CEPEA) creates larger benefits than ASEAN+3 FTA (EAFTA)

# Potential gains in world income from ASEAN+3 and ASEAN+6 integration



*Note:* Covers all world trade and production

*Source:* Francois and Wignaraja (2008) and Kawai and Wignaraja (2009)

# Seamless infrastructure connectivity for Asia's integration

- Seamless regional infrastructure, connecting East Asia and South Asia, through transport, energy distribution, fiber-optic cables, and IT systems to enhance intraregional trade and investment and enhance regional demand
- Developing Asia will need to invest \$8.3 trillion in infrastructure during 2010-2020 (or about \$750 billion per year), which will create income gains of about \$13 trillion
- Asia may establish a “**Pan-Asian Infrastructure Forum**” and “**Asian Infrastructure Fund**” to foster connections within and between subregions of Asia, such as East Asia and South Asia

\* *ADB/ADBI, “Infrastructure for a Seamless Asia” (2009)*



# Governance, competitiveness, infrastructure

Year	2008		2009-2010				2010
	WGI Composite <sup>1</sup>		GCI <sup>2</sup>		Infrastructure		DBR <sup>3</sup>
	Rank	Score	Rank	Score	Rank	Score	
<b>Japan</b>	<b>25</b>	<b>1.203</b>	<b>8</b>	<b>5.37</b>	<b>13</b>	<b>5.83</b>	<b>89</b>
Mongolia	116	-0.257	117	3.43	132	1.98	60
<b>China</b>	<b>138</b>	<b>-0.465</b>	<b>29</b>	<b>4.74</b>	<b>46</b>	<b>4.31</b>	<b>19</b>
Bangladesh	179	-0.923	106	3.60	126	2.93	119
<b>India</b>	<b>106</b>	<b>-0.171</b>	<b>49</b>	<b>4.30</b>	<b>76</b>	<b>3.47</b>	<b>133</b>
Nepal	176	-0.888	125	3.34	131	2.03	123
Cambodia	168	-0.785	110	3.51	95	2.94	145
Indonesia	143	-0.501	54	4.26	84	3.20	122
Lao PDR	184	-0.990	NA	NA	NA	NA	167
Singapore	14	1.574	3	5.55	4	6.35	1
Viet Nam	153	-0.555	75	4.03	94	3.00	93

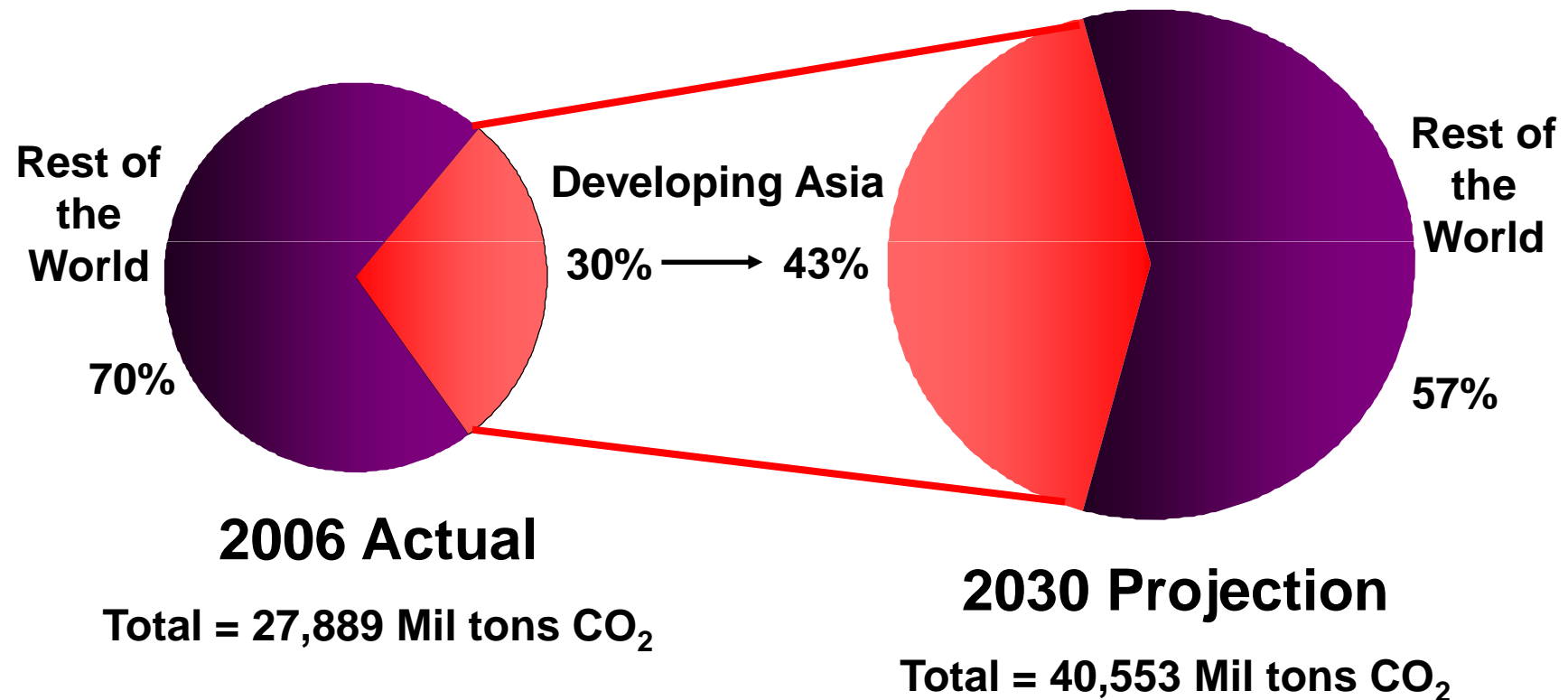
Notes: NA = Not Available; (1) WGI = Worldwide Governance Indicators, composite is arithmetic average of 6 WGI indicators; WGI Rank out of 212 economies; Score: -2.5 to 2.5, with higher values corresponding to better governance outcomes; (2) GCI = Global Competitiveness Index; GCI and Infrastructure Ranks out of 133 economies; Score: 1 = poorly developed and inefficient, 7 = among the best in the world; (3) DBR = Doing Business Ranking; Overall business ranking out of 183 economies

Sources: Word Bank, *World Development Indicators Database* 2009 and *Doing Business Index Database* 2010; World Bank Institute, *Worldwide Governance Indicators Database* 2010; World Economic Forum, *Global Competitiveness Report* 2010

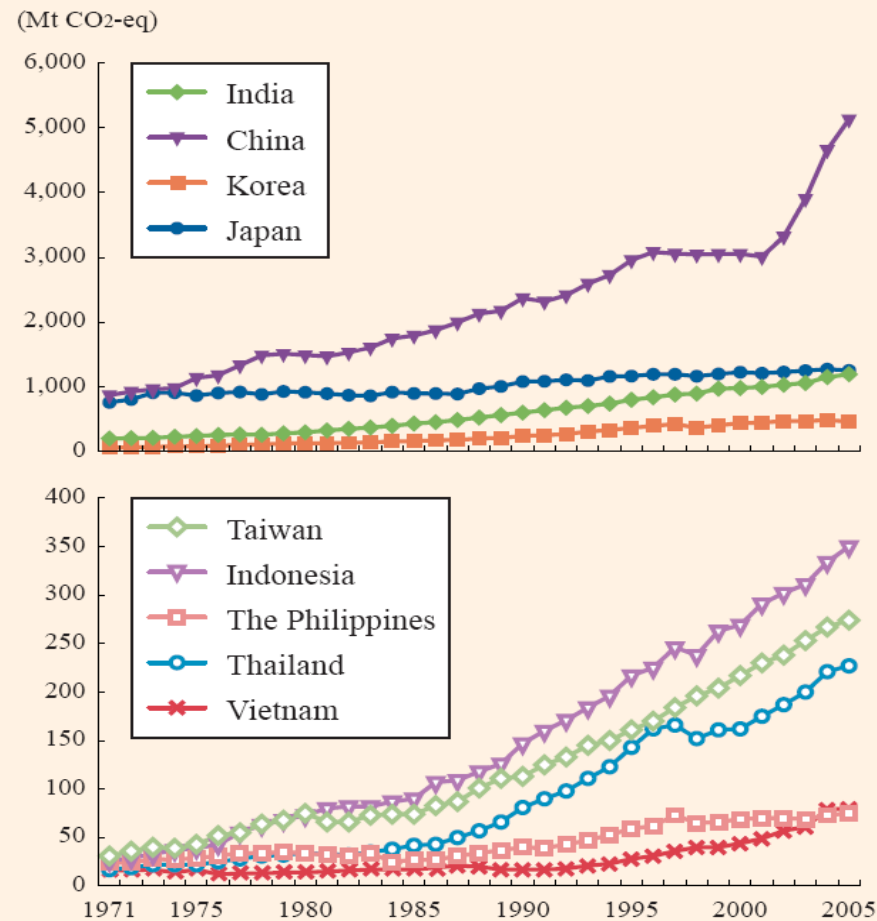
# Environment and energy cooperation

- India and China need to focus on protecting the environment and improving energy efficiency to achieve a lower-carbon society while pursuing their socioeconomic objectives
- A holistic approach is needed:
  - Mainstream environmental protection and carbon emission reduction in the development strategy, using the co-benefits approach
  - Invest in energy efficiency and renewable energy development, and acquire new technologies
  - Adopt market friendly policies (reducing fuel subsidies and raising energy prices) while paying adequate attention to social protection
- Japan's technology cooperation is vital

# Asia's share in global carbon emissions from energy consumption is expected to rise



# Carbon emission is growing fast in China, India ...

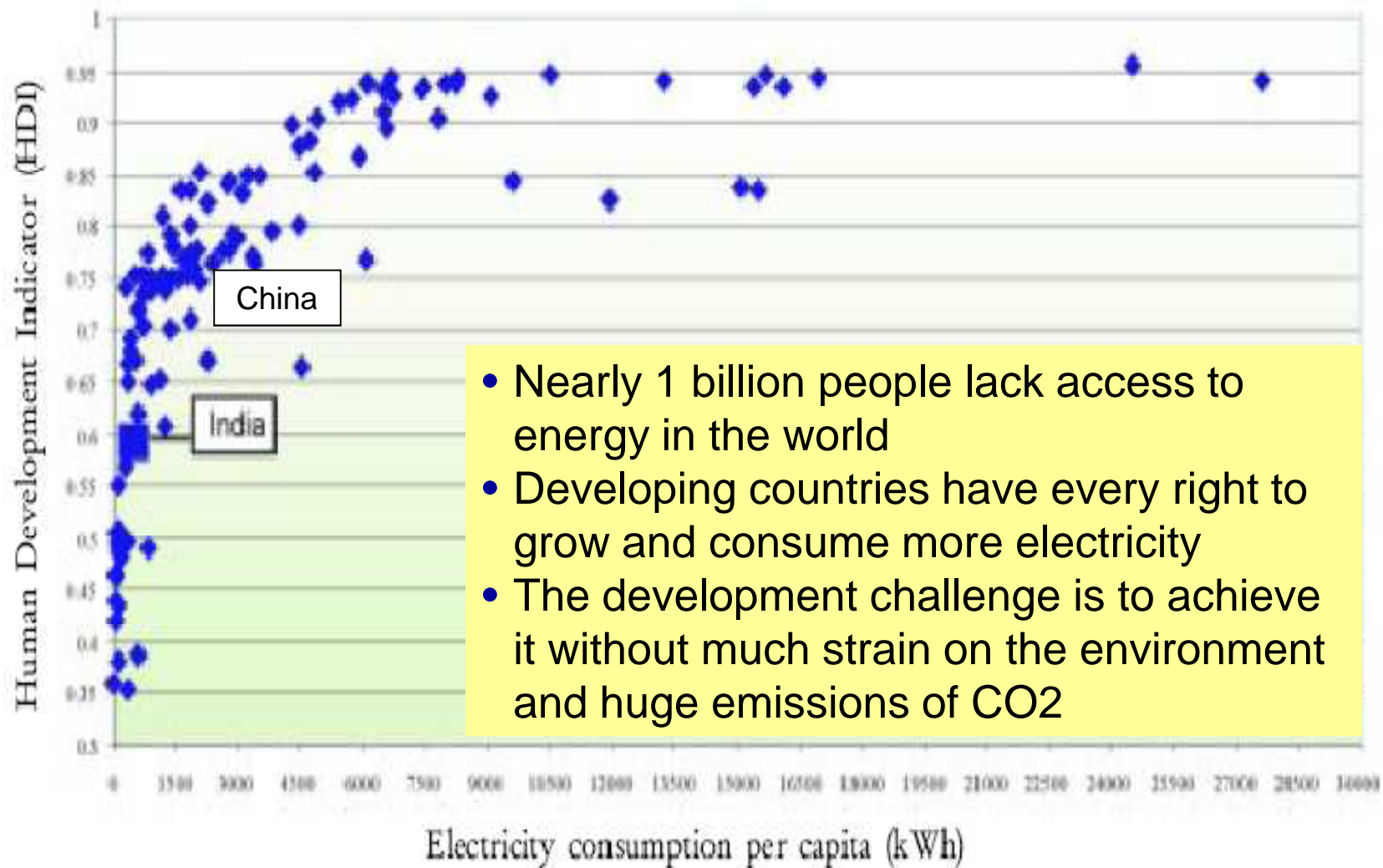


Source: Source: Compiled by the Ministry of the Environment from the data of IEA, *CO<sub>2</sub> Emissions from Fuel Combustion 2007*

Country	Per cent of global emissions in 2000	Per cent of global emissions in 2050
US	20.6%	15.1%
China	14.7%	22.9%
EU25	14.0%	7.8%
Russia	5.7%	2.8%
India	5.6%	9.2%
Japan	3.9%	1.8%
Brazil	2.5%	2.2%
Canada	2.0%	1.3%
Republic of Korea	1.5%	1.0%
Mexico	1.5%	1.7%
Indonesia	1.5%	2.2%
Australia	1.5%	1.0%
South Africa	1.2%	1.1%
Rest of the world	23.8%	29.9%

Sources: World Resources Institute, 2005; Matysek et al., 2006

# Human development index (HDI) rises with per capita electricity consumption



Source: UNDP, 2006

# Social inclusion

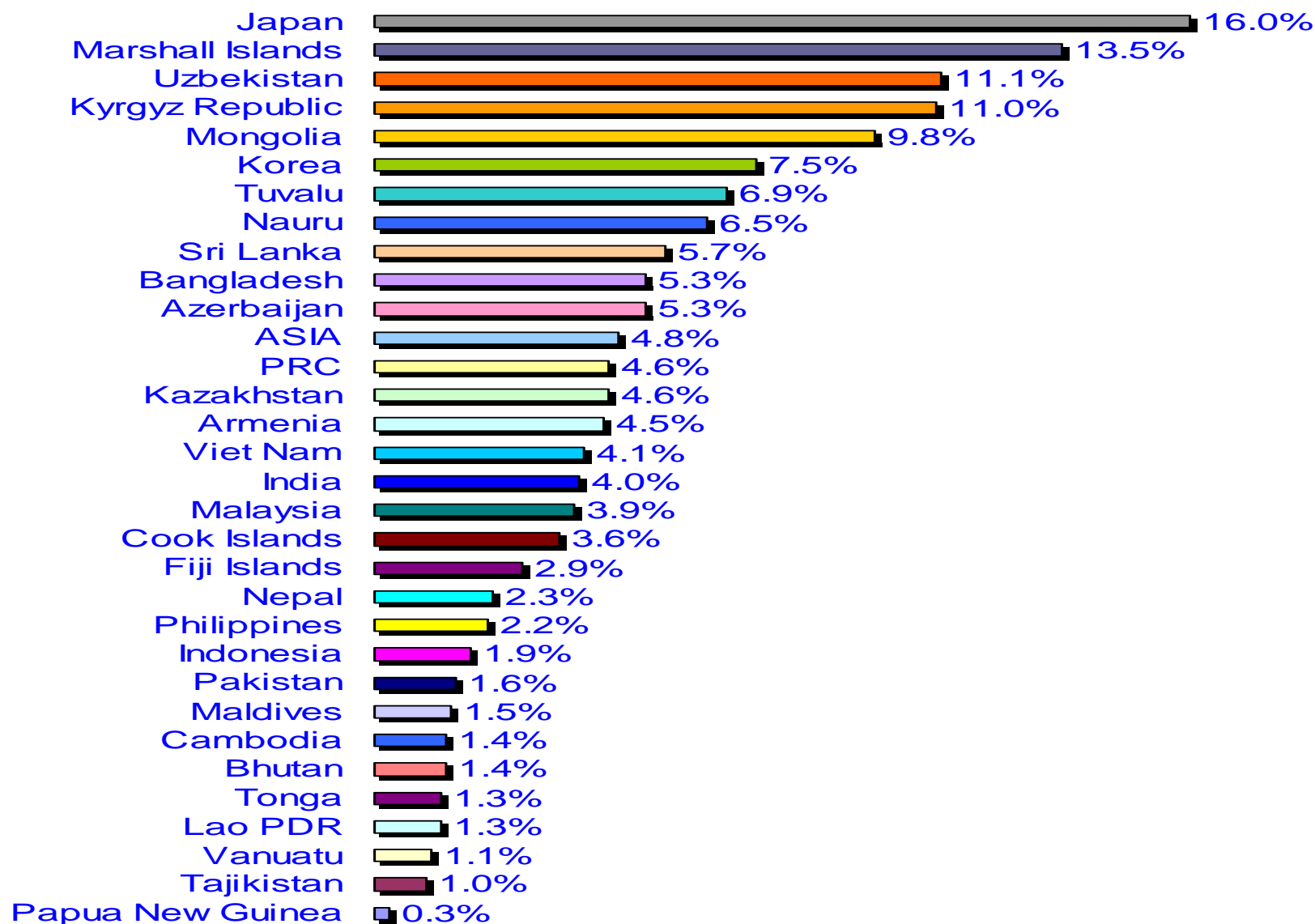
- Success of poverty reduction, and a rapid decline in the number of poor in India & China
- A rise of low-income (with \$1,000-\$5,000 per year) households and the middle class (with \$5,000-\$35,000), resulting in the emergence of diverse needs of society, not simply poverty reduction
- A shift of policymakers' attention towards policies supporting the diverse needs of low-income households and the middle class
- Inclusive growth policy promotes access to opportunities for growth, through infrastructure, rule of law, education, health, employment

# A rise of low-income and middle class households in Asia (% of population)

HH Income	China			India			Vietnam			Japan		
	1990	2000	2008	1990	2000	2008	1990	2000	2008	1990	2000	2008
\$0-\$1,000	64.6	16.4	8.9	28.6	24.6	9.3	95.7	47.2	13.8	0.0	0.0	0.0
\$1,000-\$5,000	33.6	67.9	56.7	68.4	71.0	71.8	3.9	50.4	71.3	0.6	0.3	0.5
\$5,000-\$35,000	1.6	5.3	33.0	2.7	4.1	18.2	0.4	2.2	14.2	35.9	22.8	27.4
\$35,000-	0.2	0.4	1.4	0.3	0.3	0.7	0.0	0.2	0.7	63.5	76.9	72.1
	Indonesia			Malaysia			Philippines			Thailand		
	1990	2000	2008	1990	2000	2008	1990	2000	2008	1990	2000	2008
\$0-\$1,000	24.3	11.4	3.6	3.9	1.9	2.1	23.8	20.2	6.9	16.0	14.6	4.9
\$1,000-\$5,000	69.9	83.8	59.4	45.6	28.3	15.6	62.6	60.7	49.5	55.5	54.0	36.2
\$5,000-\$35,000	5.4	4.5	35.9	48.8	66.3	72.0	13.0	18.3	42.0	27.6	30.4	56.5
\$35,000-	0.4	0.4	1.1	1.7	3.5	11.3	0.6	0.8	1.6	0.9	1.0	2.4
	Hong Kong			Korea			Singapore			Taipe,China		
	1990	2000	2008	1990	2000	2008	1990	2000	2008	1990	2000	2008
\$0-\$1,000	0.0	0.2	0.2	0.3	0.1	0.1	0.3	0.4	0.1	0.1	0.1	0.1
\$1,000-\$5,000	1.4	2.5	1.8	9.7	4.0	2.4	5.1	3.0	1.1	3.8	1.6	1.7
\$5,000-\$35,000	63.1	33.6	30.9	86.0	79.6	62.6	76.0	34.1	25.9	81.6	58.0	52.7
\$35,000-	35.5	63.9	67.1	4.0	16.3	34.9	28.6	62.5	72.9	14.5	40.2	45.5

Source: Author's computation from Euromonitor International, *World Consumer Lifestyles Databook*, 2009.

# Social protection expenditure as % of GDP



Source: ADB. 2008. Social Protection Index for Committed Poverty Reduction, Volume 2: Asia



# Monetary and financial cooperation

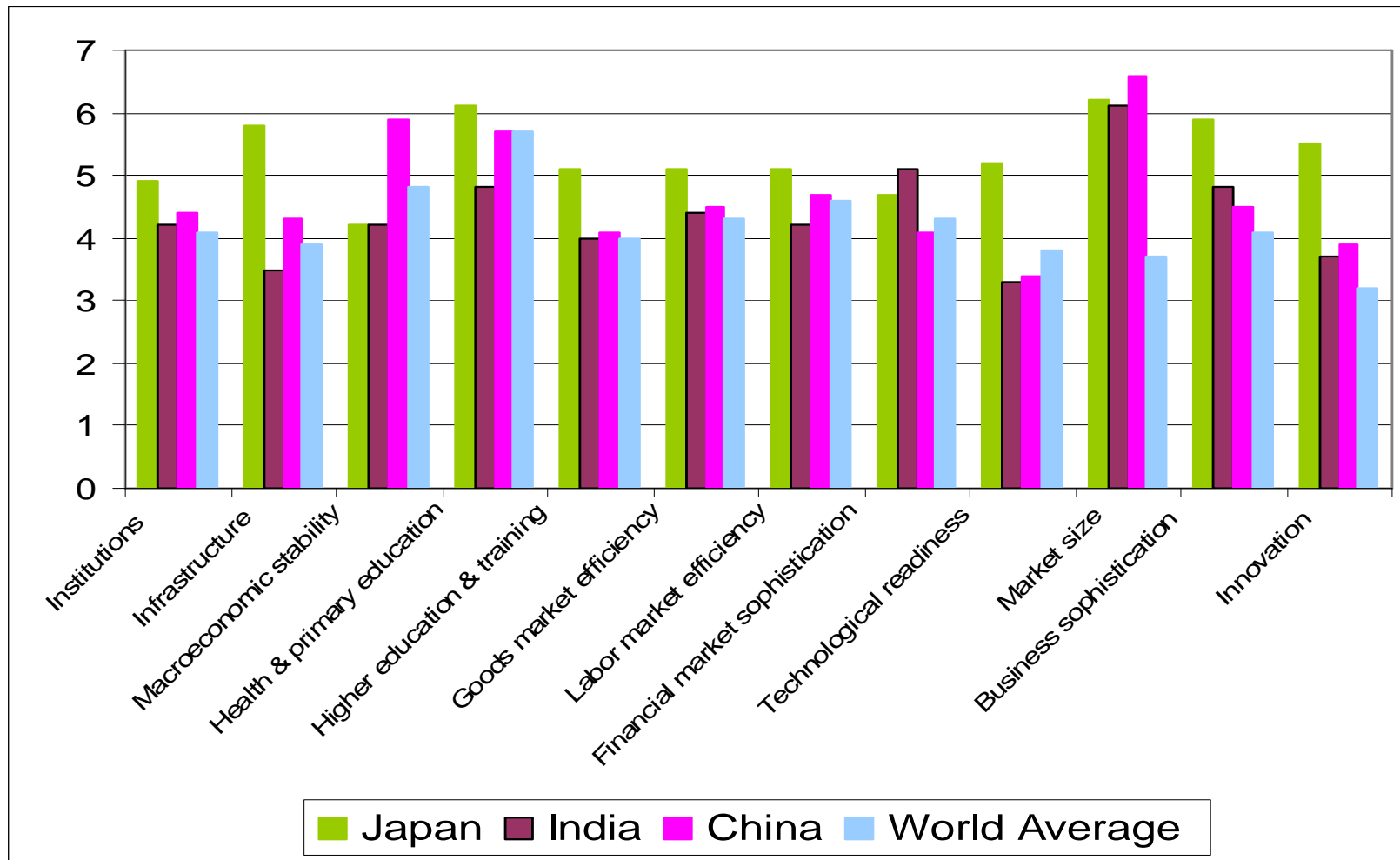
- **Financial integration** facilitates mobilization of large savings in Japan and China for investment, particularly infrastructure, in other parts of Asia
  - Financial market development and deepening
  - Capital account liberalization (well-sequenced liberalization in an integrated program)
  - Harmonization of rules, regulation and market practices
- Managing capital flows
  - Exchange rate policy coordination
  - Regional liquidity arrangement (**CMIM**) and bilateral currency swaps (Japan-India)
- Creation of an **Asian Financial Stability Board** to promote regional financial system stability

# Structural reform challenges

## Economic reforms to improve governance, business climates

- **Japan** to develop a credible growth strategy that addresses public debt consolidation
- **China** to focus on **rebalancing** for sustainable growth—production & spending; growth & the environment; and growth & social inclusion
- **India** to focus on improving the investment climate (infrastructure, impediments to business and trade & FDI, labor market reform) and inclusive growth
- India and China need to improve human development and overall governance quality

# India's faces huge challenges: infrastructure; health & primary education; labor market efficiency; technological readiness



Notes: GCI = Global Competitiveness Index; Score: 1 = poorly developed and inefficient, 7 = among the best in the world;  
Sources: World Economic Forum, *Global Competitiveness Report 2010*

## 4. Concluding Remarks

- Japan, India and China are key engines of growth, integration and development in Asia
- Asia can prosper through greater regional economic links and connectivity—China and India can be the driver of growth for neighboring economies
- A CEPEA and an East Asia-South Asia FTA can provide large benefits—Japan, India, China, and ASEAN play a critical role
- Infrastructure connectivity between East and South Asia is essential in lowering trade and logistics costs

## Concluding Remarks (cont'd)

- India's leadership is vital in carrying other South Asian countries and bridging whole South Asia with East Asia
- Japan-India-China cooperation should go beyond trade, investment and infrastructure and include the environment & energy, social inclusion, and money & finance
- China and India need further economic reforms to improve governance and invest for the future—education, health, environments, and knowledge

# **Thank you**

## **For more information:**

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