

# WHAT CHINA AND INDIA'S ECONOMIC DEVELOPMENT CAN BRING TO ASIA

## EMPOWERING ASIA THROUGH ECONOMIC INTEGRATION: INTRODUCING THE LEAPING KANGAROO MODEL

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## INTRODUCTION

The rapid economic development and growth of China and India has fundamentally altered Asia's economic landscape as evident in the sharp increase in intra- and inter-regional trade. The EU and NAFTA are watching closely as Asia emerges as the world's third major economic region. However, in terms of functioning frameworks for regional integration, Asia lags far behind the EU and NAFTA.

The question is: how can Asia leverage China and India's impressive economic performance to elevate its position in the global community? What feasible strategies could be adopted to approach this goal? This paper begins by clarifying the impacts of China and India's growth on its neighboring countries.

## IMPACTS OF CHINA AND INDIA'S DEVELOPMENT ON ASIA

China and India's rapid emergence and astounding economic performance have fundamentally altered Asia's economic landscape. It is inevitable for Asian countries to be impacted particularly in trade and production. The major concerns can be summarized in three categories; Market Share, Foreign Direct Investment and Growth Sustainability.

### Market Share Concerns

#### *New Markets*

China's industrializing economy, openness to trade and immense population provide opportunities for new markets for foreign products and services. With both China and India's large geographic areas and scattered demographics, there exist opportunities for ASEAN countries to penetrate less-developed territories.

In particular, developed coastline areas present a potential market for higher-value-added products and services as their inhabitants enjoy increasing living standards.

Additionally, first-world economies such as Japan could benefit from China's low-cost labour and resources, thereby gaining advantages in the export sector.

#### *Intense Competition for Market Share*

ASEAN countries face the threat of China and India crowding out their export shares. This is particularly strong in labour-intensive manufacturing segments (e.g. textiles and footwear) where low-cost labour in China directly threatens their competitiveness.

### Foreign Direct Investment (FDI)

#### *Inflow of FDI from China*

Foreign Direct Investment from China is beneficial to recipient countries. It creates more jobs, leading to better quality of life. More importantly, FDI flows into industries such as infrastructure, energy and mining which require high amounts of capital and have long payback periods. China has therefore made a serious commitment to the long-term development of the recipient nations.

#### *Competition with China for FDI*

China's low-cost labour, abundant natural resources and large domestic markets

almost guarantee high profit margins for investors. This may affect negatively the FDI inflows into ASEAN countries if a majority of available capital is diverted to China.

### ***Sustainability in Growth***

China and India's economic development will allow high rates of sustainable growth in the region. Their large markets have the potential to absorb productivity growth from a wide range of industries. This is partly due to the presence of large numbers of consumers from varying socioeconomic classes. The absorptive capacity of China and India will allow ASEAN central banks greater flexibility in facilitating local economic development.

However, relentless Chinese and Indian growth may threaten ASEAN's growth through their pressures on natural resource stocks and commodity prices. High dependence on the Chinese juggernaut may also place countries at the mercy of Chinese economic policy. Finally, there is the possibility that Chinese and Indian production may outpace the growth of regional markets. This would cause labour-intensive ASEAN + 4 industries to suffer greatly as prices of Chinese products fall to levels even lower than today's.

## **EMPOWERING ASIA THROUGH ECONOMIC INTEGRATION**

### **Leaping Kangaroo Model**

#### ***Current Trend of the Regional Economy***

China is currently the manufacturing centre of labour-intensive goods for the global market with countries like Japan and South Korea supplying capital and technology. Technology intensive plants are built that utilize low-cost Chinese labour. Raw materials and resources are supplied to these plants through ASEAN and the final products are either consumed in China or exported globally.

Recent statistics show that this situation is changing, with FDI from Japan to some ASEAN countries such as Vietnam and Thailand increasing sharply in the past four years to utilize their abundant labour.

Forecasts suggest that by 2010, the rapid economic growth of China and India will create a vast market within the two countries for goods ranging from raw materials to high-end machinery.

#### ***Introduction to Leaping Kangaroo Model***

Akamatsu's Flying Geese Model is often used to describe Asian economies. Countries are compared to geese that benefit from the progress of their neighbors. Recent experience has shown that this may not characterize the Asian experience due to vast differences in levels of economic development.

Hence we propose the Leaping Kangaroo Model (LKM). Less developed countries are carried in the "pouch" of ASEAN + 4 with the dynamism of the Indian and Chinese economies being the "kangaroo's legs" that push the region forward.

Asian countries can benefit from China and India's growth by forming a new regional economic relationship within the LKM. Asia here encompasses the ASEAN + 4 countries, which are ASEAN, China, India, Japan and South Korea.

The model functions in the following manner:

1. China and India have huge markets, and their consumers will be looking to enjoy better lives with abundant products varying from commodities to high-end luxury items.
2. Countries such as Japan and Korea will continue to be suppliers of technology and investment.
3. ASEAN countries will emerge as the new manufacturing centre with their abundant labour, exporting to the new consumer markets in China and India.

With this model, China and India's exponential growth can benefit a large number of Asian countries. These are the major areas which would draw China and India toward closer involvement with ASEAN countries:

- a Abundant raw materials, labour and energy
- b Potential consumer market of 500 million
- c Promising investment destinations and increased exports
- d Greater influence in ASEAN nations
- e Risk diversification

For these and other reasons, this paper focuses on the ASEAN + 4 countries.

### ***Materializing the Leaping Kangaroo Model***

The Leaping Kangaroo Model will be realized under the following conditions:

1. China and India's markets will grow and stay accessible.
2. FDI and technology transfer to ASEAN countries will continue to increase.
3. ASEAN countries will develop their own competitive advantages.

### **Maintaining China and India's Growth**

China and India have to take note of the following when implementing internal policies:

1. Over-consumption
2. Over-production
3. Social unrest
4. Non-performing loans (NPL) in the banking sector
5. Governmental corruption

### **Securing ASEAN Benefits from China and India's Growth**

#### ***Short-Term Measures***

1. Increase in FDI and technology transfer  
*Improvements in the investing environment such as law enforcement, government policies and internal stability*
2. Building of comparative advantage in the Chinese and Indian markets  
*Achieved through market forces (e.g. turnover of workers in Vietnam)*

#### ***Long-Term Measures***

1. Developing human resources through education (three-pronged approach).
  - a. Establishing vocational and community schools
    - i. Improving the quality of labour
    - ii. Job creation
    - iii. Focusing on local industries to develop comparative advantage
  - b. Expanding an ASEAN university network
    - i. Sharing knowledge, skills and ideas
    - ii. Promoting mutual understanding towards the creation of a common voice in the Asian community
    - iii. Creating a regional alumni network that will lead to long-term cooperation between businesses and governments
  - c. Retraining workers
    - i. Countering loss of jobs and creating a skilled workforce.

### **Ensuring Inclusive Growth**

The inclusion of all ASEAN countries to benefit from China and India's growth is important to create a truly integrated Asian region. However, poverty in countries such as Indonesia, the Philippines and Cambodia remains a big problem while Myanmar and Laos face a serious issue with corruption. In this section, we will propose a solution to these problems and the results to be achieved by such actions.

## Public Debt in Indonesia, the Philippines and Cambodia

Chronic indebtedness has seriously constrained governments' ability to stimulate economic growth. Economic policymakers face the challenge of balancing the fulfillment of interest payments against the provision of social services, often resulting in the prioritization of the former.

Indonesia, the Philippines and Cambodia have amassed large debts with global organizations and developed countries. Indonesia and the Philippines are extreme instances of a problem affecting much of Asia in the wake of the 1997 East Asian crisis.

This paper proposes debt forgiveness as a viable tool for jump-starting growth in struggling Southeast Asian economies. Though there may be a risk of a downgrade in a country's credit rating, it is hoped that it will be mitigated by a growth in infrastructure and essential social service spending.

## Political Conditions in Laos, Cambodia and Myanmar

Laos, Cambodia and Myanmar face rampant corruption as well as oppressive or isolationist political systems.

The challenge lies in the creation and empowerment of a middle class that can exert pressure upon their governments to improve economic conditions and political participation. Laos, Cambodia and Myanmar need structural changes in the political and economic aspects while infrastructure (i.e. transportation, water and power) and social services (i.e. education and health) must also be prioritized in the national agenda. Last, but not least, Japan and South Korea should maintain their ODA levels for developing countries. China and India may also be tapped for ODA.

In order to achieve these goals of economic integration, our proposal is an effective committee representing the ASEAN + 4 countries.

## COMMITTEE FOR A PROGRESSIVE ASEAN + 4 (COMPAS)

### Mission

The ultimate goal of COMPAS is to provide a permanent venue for determining the direction of the region. Its formation is motivated by the necessity of continuous input and discussions for effectively fulfilling the vision and objectives of the ASEAN nations.

### Structure

The Committee will have 14 members representing each of the ASEAN + 4 countries and based in Jakarta, Indonesia. Each member will be an ambassador aided by his or her respective national delegation. The chairpersonship will be rotated biennially among the 14 countries in alphabetical order.

### Bylaws

#### Member Privileges

- ASEAN + 4 will effectively and expediently decide on regional issues.
- FTAs detrimental to any member country will be prohibited.
- Developing member countries will enjoy access to preferential loans from developed member countries.
- Member countries will benefit from each other's expertise through knowledge-sharing in the areas of public administration, infrastructure and social services.
- Tariffs not exceeding 5% will be imposed on all goods except for those in the General Exceptions category under the ASEAN framework and sensitive agricultural products for all member nations by 2015.
- Members will have access to common expert services jointly funded by the committee members.

#### Dispute Resolution

- Trade grievances will be resolved through committee arbitration.
- In the case of a member country lodging a formal complaint against another member, only the endorsement of one other member country is necessary to impose the appropriate penalties against the violating party.

- Violators will be sanctioned through a blacklisting system that is aimed at affecting their goodwill among the ASEAN + 4.
- In addition, errant parties will be penalized by the suspension of access to common expert services.

### *Funding*

- A budget will be voted upon in January. Should the committee fail to approve a budget, the previous year's budget will automatically be adopted.
- The majority of the budget will be allocated to supply member countries with expert services.
- The Committee budget should be funded by member countries in proportion to their total GDP.

## **CONCLUSION**

The extraordinary economic expansion of China and India has brought about extensive challenges and opportunities for all countries in the global economy. To address major concerns, we have proposed the Leaping Kangaroo Model (LKM), which will help strengthen the ASEAN community plus China, India, Japan and South Korea. Ultimately, the ASEAN + 4 will need to increase cooperation in order to draw upon their strengths and develop a common voice and an empowered Asia.

