

Sub-theme: Identifying Asia's Engines for Economic Growth



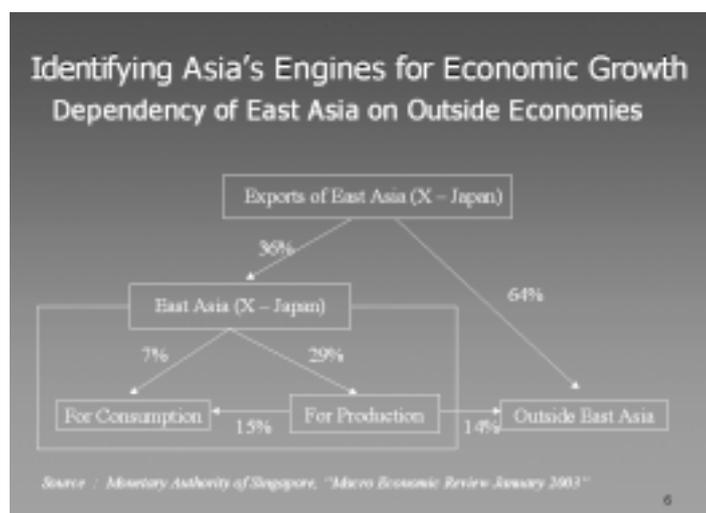
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Panel Speaker, Monday December 8, 2003

Good morning ladies and gentlemen. First of all I'd like to congratulate Hitachi for initiating this very interesting concept of bringing young leaders from Asian countries together and on behalf of the Thai speakers, I would like to welcome all of you to Bangkok and hope that you will have a fruitful endeavor in this country.

I would like to make the following ten minutes as brief as I could by presenting four topics. First I would like to express my view of what is the meaning of 'engine of growth'. Second I like to state very quickly what should be the conditions for a country which can be an engine for economic growth. Thirdly I would like to go back a little bit to get you a historical perspective as far as Thailand is concerned, on our earliest and still ongoing engine for economic growth of Thailand, i.e. Japan as well as a quick look at the emerging engine for economic growth for Thailand also, namely, China. And lastly I like to conclude the whole thing for you.

Firstly the meaning of 'engines of economic growth'. To me I think anybody who can be an engine of economic growth must be strong enough to stimulate other economies, particularly through Foreign Direct Investment through trade. Therefore any country who could really make economic contribution to other countries, should have at least this kind of characteristics. Second for any country that could play the role of engine for growth, there are certain conditions that must be met.

On the short term, I think there are many. Firstly, the size of that economy must be significant, because otherwise it will be too small and not very useful to stimulate other economies. Secondly, there must be a liberal trade policy. Thirdly, political stability high savings rates. Because of a lack of time, I am not going to dwell on all this but in the short run, these are the conditions that are required for any country who could lead or could become an engine for economic growth.



We are also interested in long term factors. As far as long term factors are concerned, there are many more requirements for any country who could become a permanent engine for economic growth. For example, they probably should have good corporate governance. There are many countries who fail because not enough corporate governance has been observed and they need to correct that. They need proper macro economic policy and management which will lead to a sustained economic stability. They should have strong micro-

economic factors like technological leadership, innovation, entrepreneurship, etc. So these are the kind of long term requirements for countries that can be classified as engine for economic growth.

The next chart kind of demonstrates the current situation in Asia. And I would like to point out from this chart,

Identifying Asia's Engines for Economic Growth Population and GDP of Major Asian Economies

Economies	GDP (US\$ bn)	Population (Millions)
Japan	3096.3	127.5
East Asia	2385.8	1261.4
China	1255.1	1294.5
Hong Kong SAR	164.5	6.9
Korea	435.7	47.6
Taiwan	281.5	22.5
South East Asia	563.4	n/a
Singapore	57.0	4.2
Others	435.7	n/a
South Asia	626.4	1071.9
India	494.0	1027.0
Others	132.4	294
Pacific Countries	5.8	n/a
Central Asia	36.0	n/a
Others	254.3	n/a
Total	7960.7	n/a

Source : IMF, QZC

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which figures are obtained from the Monetary Authority of Singapore. You probably can see that in Asia outside Japan, we still have trade with countries outside Asia around 64% of our total trade. So this is significant because it reminds us that although Asia is growing strongly, we still depend on countries outside Asia for a bulk of our foreign trade. Although I will mention only the engine of growth within the region, I would like you to bear in mind that there are certainly other non-Asian countries which are very important for the future of Asia.

Now there are more statistics if you care. The next chart demonstrates that Japan, as a world leader, is the second largest economy. The second largest economy in Asia is China which is not yet a third of the

size of the Japanese economy. And if you combine South East Asia and South Asia which is the remaining of Asia together, it is just about equal to the size of the Chinese economy. So there are all kinds of things that we need to keep in mind. No matter what the difficulties they are facing, the Japanese economy is now recovering.

But if you look at the growth rate in the next chart it is different. You probably could see that in terms of both imports and exports, the Chinese economy is now demonstrating a clear sign of remarkable growth in terms of their imports. But this is a very recent trend. If you look at the chart, in 2001, the growth rate of import from China increased by only 8.1%. But then surged to 21% in 2002 and in 2003 it is likely to continue this remarkable trend. India is another country which I would like to bring up. It also shows a similar trend to the Chinese economy. So

Identifying Asia's Engines for Economic Growth Growth Rates of GDP, Export and Import of Major Asian Economies

Economies	GDP		Import		Export	
	2001	2002	2001	2002	2001	2002
China	7.5	8.0	8.10	21.30	6.8	22.4
Hong Kong SAR	0.5	2.3	-5.8	5.4	-5.4	3.3
India	5.6	4.3	1.7	15.5	-1.6	17.9
Japan	0.4	0.2	3.6	-0.4	-5.2	6.4
Korea	3.1	6.3	-12.7	8.0	-12.1	7.8
Singapore	-2.4	2.2	-10.5	0.4	-8.3	2.7
Taiwan	-2.2	3.5	-23.4	4.9	-12.2	6.3

Source : IMF, CEIC

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Japan : the First Engine (Cont.)

Growth Rates of GDP, Export and Import (%)

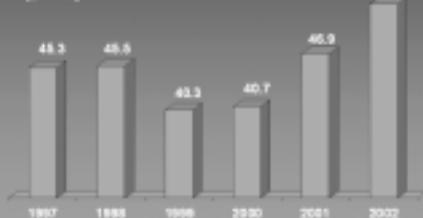


there are structural changes happening here in Asia and I hope that it can be sustained by the two biggest economies in terms of population in Asia, i.e. China and India, who are demonstrating a very rapid rate of growth in import.

Let us go back to the perspective on the part of the Thai economy. Let me say a little bit about Japan which is one of our earliest engines for growth. As Sean was introducing me a while ago, he related to my role in the Planning Office with the Government of Thailand. At that time which was about two or three decades ago, I met a professor from Japan by the name of Professor Okita and that was the first time that I heard a theory which Professor Okita called 'the flying geese' theory, meaning all economies in Asia moving in the formation of a flock of flying geese and obviously Japan is at the head of the flock. We are still moving in that kind of formation at this point. Japan leads, to be followed by the four geese, Korea, Singapore, Hong Kong, Taiwan, and the rest of ASEAN. So Asia is still really much close to the idea generated 30 years ago by Professor Okita.

China: the New Emerging Engine (Cont.) FDI in China

(US\$ bn)



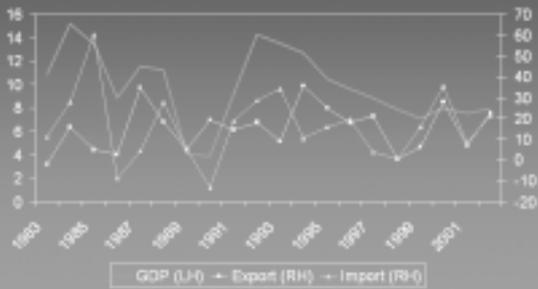
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But if you look at the next chart, you probably can see that Japan has weakened a little bit in terms of their current economic situation. Starting from 1991, you can see the thick line, sort of sustained at quite a lower level of growth. That means that they have been going through a lot of transformation and we hope that next year they will be doing a lot better than this year. So this is Japan which is one of the early engines for growth for Asian countries.

Now let us look at the new emerging country that is China. It is huge in terms of population. It pursues liberal trade policy by

China: the New Emerging Engine (Cont.)

Growth Rates of GDP, Export and Import (%)



entering into the WTO membership, which you all know. So in the short term, China is qualified according to my own definition to be an engine for growth in Asia.

But the growth of China was due largely to what we call Foreign Direct Investment. China is a place which attracts most Foreign Direct Investment and you see from the chart that US\$52 billion was poured into the Chinese economy in 2002.

The following pages show something different from the Japanese cases that I showed a while ago, meaning that the thick line continues to grow at an exceptional rate of higher than 8% for the past few years. With the exception of a little dip in the years 1990 and 1991, the Chinese

economy has been growing at 8%, 9%, 10% or more over the years. What does this mean to a country like mine? It means that we have really been benefiting from high growth in China. And I like to give you a few figures here. Our share of export to China increased from as little as 3% in 1999 to now close to 7% in 2003. That means more than double the share of our exports - although it is still 7% - but the potential is tremendous. For the past four years we exported to China at a much higher rate than we exported to elsewhere in the world. For the first nine months of this year, our export to China rose by 76%, which is enormous as against growth rate of export to other countries at 16.7%.

But we are aware that the Chinese, although they are qualified as a short term engine for growth, there are still a lot of concerns for longer terms, because for China to continue to become a long term sustained engine for growth, there must be a lot of successful policies particularly in terms of the ability to manage things like high NPL (non performing loans), excess capacity, potential economic bubble, so on and so forth. And last but not least, the unbalanced distribution of income.



So in conclusion there are countries which could be termed as engines for growth in Asia and it has always been Japan. But recently we have seen emerging China as a potential engine for growth and hopefully there'll be some more engines for growth from Asia and I am referring now to India in the foreseeable future.

Finally, I would like to join our Malaysian friend here to say that our domestic factors are important in order to be able to capitalise on engines of growth provided by external conditions. And I would like to say that my view from observing the countries in the region is that to be successful in terms of domestic factors, one needs to look at the 3Ps. The first is Productivity increase; this is a very important thing. The second is Poverty reduction and the third is Price stability. And with all this, I'd like to end my presentation.

Thank you very much for your attention.

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