

## Developing Asia: challenges and opportunities in the global economy

Europe in the global economy, talk, 10th November 2014, Bruegel

The talk focused on Asia's latest economic developments starting from the update of the Asian Development Outlook 2014 (ADO 2014), presented by Dr Wei, Chief Economist of the Asian Development Bank (ADB). The starting point was that, even though Asia as a whole is still on track for firm growth, it is experiencing a slowdown in external demand especially in some regions. Dr. Wei's presentation was followed by comments by Lucian Cernat, Chief Economist and Head of Unit, European Commission, DG Trade, and an open discussion chaired by Reinhilde Veugelers.

In recent years, the largest developing member has been China where growth seems to be mostly driven by domestic factors. In particular, one of the negative factors that might undermine the positive trend in Chinese economy is the shrinking of 15-16 years old cohort, which makes growth at 10% rate not feasible anymore. On the other hand, a demographic element is positively contributing to GDP growth: the growing imbalance in young men to young women ratio, inducing more entrepreneurship and hard work. Boys who do not find a girl will be more risk-taking, and they will be more willing to accept dangerous or unpleasant jobs, and to supply more work days. However, the extra GDP coming from gender imbalance is not "healthy" since the high number of unmarried men eventually does not lead to a better, and happier, society. Quantitative growth does not necessarily overlap with qualitative growth, as Dr. Wei reminded us.

Some structural reforms can be launched in order to reverse this negative situation, such as:

- postponement of retirement age for a better alignment with life expectancy
- different allocation of resources to increase innovation and productivity growth (i.e. new tax policies and fiscal subsidies might help in this sense)
- substantial changes of financial sector's (i.e. shadow-banking problems need to be fixed)
- pro-investment measures

Efforts have to be put into all these reform attempts since they are all but automatic, and they are even more important than meeting the growth target.

Many economies in Asia have grown by connecting with global value chains. But still Asia's participation in global value chains remains uneven; for instance, Japan is the key component's provider, while China is the place where these components are assembled. Moreover, there remain some computational problems related to trade and competitiveness measures, such as revealed comparative advantage, bilateral trade balance or real exchange rate, which sometimes bring to misleading insight on GVCs.

This last remark from Dr. Wei directly opened the floor to Mr. Cernat's intervention, who reminded the audience how important it is for policy-makers to have correct and not double-counted data. He also observed that nowadays, firms, in order to be successful abroad, have to be services-exporters. As in the case of Italian-style suits, they might even be produced in Asia, but the most valuable part within the productive chain remains the design phase.

Hence, the final message is that there are even additional opportunities that can be exploited from GVCs, and it is important that every country willing to find a more active participation in these chains should be able to find its own niche.

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