

## ASIA: SITUATION OF ECONOMY

JENÍČEK V.

*Institute of Tropics and Subtropics, Czech University of Life Sciences Prague, Czech Republic*

### Abstract

Asia represents the most politically, economically, religiously and culturally heterogeneous region of the developing world. According to the geographic criteria and the mentioned aspects, it is naturally divided into three sub-regions – West Asia, South Asia (Indian sub-continent) and East Asia. There can be found economies of a pygmy size, like Kuwait, Bahrain, Nepal, Bhutan or Brunei and Singapore, but also two most populated world countries – China and India. Also from the economic level viewpoint, there exist enormous differences among the Asian economies. At one income pole, we can find low income countries (Bangladesh, Myanmar), on the other high income countries (Arab Emirates, Brunei, Singapore).

**Keywords:** Asia; economic growth; inflation; foreign investments; international trade

### INTRODUCTION

The common feature of the Asian region countries, namely of its South and East sub regions, still is a strong population pressure. There are approximately 2/3 of the whole world population concentrated and population density here exceeds the West, resp. Central Asia population density several times. These sub-regions countries have succeeded to slow down the population growth rate more than the countries in Africa or Latin America (down to 1.5%), however, with such a high absolute population numbers (more than 3.5 billion people), solution of the economic development problems is still very difficult, financially demanding and therefore also very slow. Even, this is one of the biggest successes the states of this area have reached. Another is the success in the food problem solution; the characteristic of the transformation from a net food importer into a net exporter is still valid. To that,

also other Asian transforming economies contributed in the 1990s (Vietnam). In West Asia, as well as in the other Arab world countries, a relatively high population growth rate persisted (2.3%). With regard to the Arabic courtiers cohesion, i.e. the solidarity of the rich oil economies and the “poorer” Arab economies, it does not seem to contribute to the food problem deterioration, namely because it does not regard a very densely populated countries in the Asian conditions (Crafts, 2005).

### METHODOLOGY

Methodological conception is expressed in the combination of macroeconomic indicators as shown in Table 1.

Asia is the region with the highest economic growth rates (measured by the yearly average GDP growth rate) from all developing regions. To this result, the ANIC sub region of East Asia by a decisive share there contributes,

**Table 1:** Macroeconomic indicators of Asia

Indicator	1996 -2005	2001	2002	2003	2004	2005	2006	2007	2008
GDP (in %)	6.6	5.8	6.5	8.1	8.2	7.4	9.8	10.6	7.7
Inflation rate (in %)	4.0	2.7	2.1	2.6	4.2	3.9	4.2	5.4	7.4
Foreign investments (billion USD)	-	26.5	33.6	66.5	123.0	128.0	94.3	138.5	222.6
External indebtedness (billion USD)	-	668	665	696	761	869	896.8	1 022.5	1 128.5
Debt/GDP (in %)	-	29.5	27.1	25.1	24.4	24.7	19.1	17.4	15.6
Export volume growth rate (in %)	12.8	1.4	12.7	12.7	19.5	12.1	17.5	14.4	10.2
Export value growth rate (in %)	13.2	-1.8	14.0	23.0	27.8	18.2	23.2	21.1	20.0
Import volume growth rate (in %)	-	2.0	12.3	15.1	21.5	16.4	11.7	11.3	10.9
Import value growth rate (in %)	-	-0.7	12.8	26.1	30.5	20.3	17.7	18.5	24.9
Trade balance/GDP (in %)	-	1.8	2.9	3.1	3.3	2.8	6.0	6.9	5.8

Source: World Economic Outlook, IMF, Washington, 2009

Note: According to the IMF, “developing Asia” does not include the Near East region

which increases the economic growth rate in the long run. Regarding the differences among the individual economies of the sub-region, it is necessary to ascribe the contribution to this positive development namely to both ANIS of the first and second generation. Nonetheless, in the 1990s the first generation ANIS slowed down their growth rates, while the first generation ANIS sustained them between 6-8% according to the individual countries. The growth dynamics of both groups of countries was impacted considerably by the financial crisis of 1997. Neither can we omit the fact, that also China has its important share in the growth rate of the whole region, as its average growth rates in the 1990s as well as in the following period exceeded 9%. During the whole period, a deepening economic differentiation was obvious in the Asian developing region. An outstanding differentiation occurred in the second half of the 1990s also in the South Asia sub-region, namely in the Indian economy (up to the present 7%). The West Asian sub-region economic growth issued especially from the oil prices in the world markets. West Asia has recorded a certain success in the 1990s, as its GDP showed an increase compared to the previous period, and also the per capita GDP increased. At present, West Asia reaches the growth rates of approximately 5% with the exception of Turkey, where the GDP growth rate accelerated to the level of 8% in 2004 (Davies, 2006).

China is an exceptional country both from the GDP growth rate and from the dynamic increase of its share in the total Asian GDO viewpoints. In the first half of the 1990s, it reached the GDP growth rates over 10%, in the second half, the growth rates decreased gradually to less than 8% in 2000, partially intentionally because of the fear of over-heating the economy and partially also in consequence of the regional crisis in 1997-1998. However, since 2002, a further acceleration is evident; The GDP growth in 2004 was 9.5%.

Since 1992, China was fulfilling the aims of the 4<sup>th</sup> stage of economic reforms – the aim being the acceleration of the reforms, such as enterprise, financial and social reforms, government restructuralisation and creation of the legal and institutional frame for functioning of the so-called socialist market economy and accelerated opening towards the world. In the individual parts of the reform, China registered success: it started the transformation of state enterprises into joint-stock companies, established institutions which should have ensured implementation of the health and social insurance. Notwithstanding the market tools and mechanisms implementation, the important role of the state has been sustained.

In the area of external economic relationships, a special attention was paid to the special economic zones development, in which scientific and industrial potential is concentrated, they are granted customs, fiscal and other

preferences and which are aimed at the strong pro-export orientation. Their goal is to attract foreign investments, to get advanced technologies, to increase export etc. In the 1990s, the government got to opening further port (coastal) towns and through that also to extending this part of the reforms by its giant rivers into the Central and West China provinces. Further, many border and so-called capital towns in the island provinces and autonomous regions were opened. However, the most important event in the foreign trade sphere was without doubt the fact that China was accepted to the WTO in 2001. Since then, the period is spoken of as stepping further into the 5<sup>th</sup> round of economic reforms (Heston, 2006).

Asia does not belong among the regions which would face important inflation problems. The long-term inflation rate for the whole region stays on the 2-digit level (4.2% in 2004). On the contrary to other regions, several Asian economies are fighting the opposite phenomenon – deflation. Among such countries, there belongs e.g. China (in the years 1998, 1999 and 2002), further Vietnam, Myanmar, Bahrain, Saudi Arabia and other.

## RESULTS AND DISCUSSION

Asia attracted in the followed period, compared to other developing regions, most foreign investments, a considerable part of which aimed mainly to the East Asia region. The increase of their inflow was stopped only by the Asian financial crisis in 1997. Still in 1996, net inflow of foreign investments had reached the level of 107 billion USD, one year latter it decreased to approximately one half (48.8%) and between 1999-2000, Asia recorded a net outflow of foreign investments. Since 2001, a repeated considerable increase is visible. The total amount of foreign investments grew in 2004 up to the top 123 billion USD. However, these investments are of an unbalanced character. The biggest share is acquired since the second half of the 1990s by China – in 2004, they surpassed the value of 60 billion USD. Investments further aim at the ANIC, namely at the second generation ones, then at India, and in connection to the financial markets liberalisation, still more often also to some West Asia countries.

The same as other developing regions, also Asia fights the problem of increasing external indebtedness. Besides the growing prices of raw material inputs necessary for the expansive economic development, the increasing indebtedness is evoked also by the loans from private as well as state creditors necessary for financing of economic reforms, including those caused by the already mentioned Asian financing and currency crisis. The total external debt expressed in absolute values increased in the 1990s. Still in the mid-1990s, its value was 608

billion USD, in 2004 already 761 billion USD. To get a picture on the total indebtedness of Asia as a whole, it is necessary to add to it also the Near East, which the IMF excludes from its statistics. Including the Near east region, the total indebtedness of Asia is 1,092 billion USD in 2004, what is at present the highest absolute value of external debt. The relative indebtedness of Asia decreases during the last years gradually (24.4% of HDP in 2004), but including again the Near East (39% of GDP in 2004), the average relative indebtedness value for Asia is again increased.

An outstanding feature of the Asia region, compared to other developing regions, is also a high share of foreign currency reserves. The total amount of these reserves in the developing world was 1.9 billion USD in 2004, while in the East Asia sub-region it was 930 mill. USD, i.e. one half. The absolute highest reserves were those of China, in total 615 billion USD. An extensive growth of the reserves could be registered also in other Asian regions.

As was already mentioned, Asia keeps a very important position in the international trade. According to the share of export in the total world export, the share of Asia was 25.8% in 2004, in the frame of the developing world the share was 67%. An important part in it represent the ANIC and during the last years also China (62% in the total Asian export in 2004). The accelerated growth rate of this export was slowed down, besides the already mentioned Asian crisis, also by the decreased world demand and further also the fears of the SARS in 2002 and 2003. As positive we can evaluate the fact that even if the developed market economies still prevail among the export destinations of the Asian markets, trade relationships inside Asia sustain their dynamics and there can be seen a considerable growth of the interregional trade during the last years. An outstanding share in the accelerated export growth rates in Asia is that of China, the export as well as import growth rates of which have been increasing by 30-40% per year during the last years, while export still prevails over import.

Asia is the only developing region showing an active trade balance. Its surplus has, moreover, increased in volume at the beginning of the 21<sup>st</sup> century. In 2004, it reached the value of 215 billion USD, in which the trade balance of China amounted to 70 billion USD. The trade balance surplus has multiplied also in the West Asia countries, owing to the increasing oil prices (Marrewijk, 2002).

Asia continues to be a very heterogeneous region, in which the economic differentiation has still deepened during the last years. In general, we can state that the GDP growth rates reached by some Asian economies are admirable (China, ANIC of the first as well as second generation, India). They surpass the margin of 6-7% in the long run, in the case of China even 9%. By a high rate

increased also export, and that both in volume as well as in the increasing competitiveness of the Asian economies. Owing to the growing export, also the foreign currencies reserves value is growing, what certifies on the growing competitiveness of the Asian economies.

Notwithstanding these positive factors of economic growth, it is necessary to point out also the negatives, i.e. the potential barriers of further economic growth. To sustain competitiveness, i.e. to increase incomes from export, restructuralisation of the home production will be necessary, i.e. the transition to a more capital demanding production, what might lead, at the still high population growth in some regions, to strong social disturbances (Hardi, 2007).

Not in the least, the negative development in some of the Asian economies might impact also the world economy development, resp. the world trade (development of international demand, world raw material prices), as the Asian economies are, regarding the character of their economic development strategies, still highly dependent on the external conditions and the world economy.

## CONCLUSIONS

World economy entered a new phase of its development at the beginning of the 21<sup>st</sup> century. One of the important characteristic features of this phase was the dominance of the market relationships. They prevailed, on one hand in the former centrally planned economies, on the other hand also in the existing developing economies in consequence of the market-oriented reforms. Notwithstanding the fact whether developing economies are understood in the wider or a more narrow understanding, what means as a bigger or smaller part of the world economy, together with the transforming economies (according to the IMF) or separately (according to the UNO), they recorded a relatively high even if regionally not balanced, growth dynamic during the last approximately 20 years.

A relatively quick economic growth of developing countries since the beginning of the 90s brought about also important structural changes in their economies. In most developing countries, there is still industrialisation going on followed by the growth of processing industry. The most dynamic sector in developing countries, similar to the developed countries, has become the sector of services. However, its structure still kept its specifics from the previous period and its quantitative as well as qualitative characteristics still did not in most cases approach the service sector structure in the developed countries. The most accelerated development could be seen in the commercial and state administration services, much less in social services (Lucas, 2004).

An unique position in the developing world frame and a still growing importance in the world economy was reached, namely owing to its economic size, specific structural development and the reached economic development growth rates, by China, which is one of the quickest and for the longest period growing economy of the world. The increasing importance of China in the world economy, as well as the increasing importance of developing economies evoke a whole series of questions and discussions regarding the future development. It can be stated, that there are any reasons for following the developing countries development in the frame of world economy and that together with the analysis of the developing countries position, in the world economy, it is also necessary to analyse the different regional developments in the developing world.

In the developing world, a deepening economic differentiation occurs already since the 1970s, as can be demonstrated also by the results of the regional analysis of the economic development during the last 25 years. They revealed one very important fact – even if the GDP growth rate, resp. per capita GDP showed rather positive values for the developing world (especially in the 1990s.), it was mainly the East Asia sub-region which increased these over-average values. Other sub-regions lagged behind after the average values. This phenomenon can be evaluated as positive, as the GDP per capita increased in the last period in all the followed sub- regions (in difference from the previous decades) (Ranis, 2004).

The dominating position of Asia among the developing regions is obvious, from the input and output indicators, from the global efficiency viewpoint; however, Latin America sustains its priority. It is caused mainly by the excessive human potential Asia disposes of. The macroeconomic indicators analysis hinted at a certain improvement of macroeconomic stability in Latin America, however, it revealed the inconsistency in the economic policies of the individual countries, which is, among other, reflected in the worsening social situation of inhabitants. Africa is still the most backward region of the developing world, as we can evaluate, however, reaching

positive values of the per capita GDP growth rates, after several decades of stagnation, and also improvement of other macroeconomic indicators. Asia represents a very heterogeneous region, in which the deepening economic differentiation is the most manifested. In general it is valid that the GDP growth rates reached by some countries (China, ANIC of the first as well as second generation, Brasilia, India) are admirable. On the other hand, finance and economy indicated the sustained dependence of the Asia economies on the external environment what in future might negatively impact not only their development, but the development of the whole world economy.

## REFERENCES

- CRAFTS, N. F. R. (2005): Development History. London School of Economics. London.
- DAVIES, A., QUINLIVAN, G. N. (2006): A Panel Data Analysis of the Impact of Trade on Human Development. The Journal of Socio-Economics. Vol. 35/5. Provided by Elsevier.
- HARDI, B., BARG, S., HODGE, T., PINTER, L. (2007): Measuring Sustainable Development: Review of Current Practice. International Institute for Sustainable Development. Occasional Paper 17. Canada.
- HESTON, A., SUMMERS, R., ATEN, B. (2006): Pen World Table Version 6.1, 6.2. Centre for International Comparisons. University of Pennsylvania (CICUS).
- LUCAS, R. E. (2004): Lectures on Economic Growth. Harvard University Press.
- MARREWIJK, C. (2002): International Trade and the World Economy. Erasmus University of Rotterdam. Rotterdam.
- Mc KINLEY, T. (2006): What is Poverty? Good Question. UNDP. International Poverty Center, No. 26.
- RANIS, G. (2004): Human Development and Economic Growth. Economic Growth Centre. Yale University. New Haven. Connecticut. Centre Discussion Paper No. 88.
- World Economic Outlook. IMF, Washington, DC.

*Received for publication: October 22, 2010*

*Accepted for publication: June 13, 2011*

## Corresponding author:

**Prof. Ing. Vladimír Jeníček, DrSc.**  
Institute of Tropics and Subtropics  
Czech University of Life Sciences Prague  
Kamýcká 129  
165 21 Prague 6  
Czech Republic  
e-mail: jenicsek@its.czu.cz