

## Asia must reduce its reliance on America's markets

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The sustainability of Asia's remarkable growth is an issue that is increasingly permeating discussions about international development and the global economy.

Over the past four decades, Asia's share of world gross domestic product has doubled to 30 per cent. Four generations of rapid growth have created a dynamism that should persist into the foreseeable future. Yet concerns remain. How solid are Asia's economic foundations? What needs to be done to diminish the region's continued vulnerability to external shocks?

The main feature of Asian growth has been its high export orientation. Every success story in the region used a strategy of export-led growth to climb the ladder of affluence. The road to competitiveness was laid by a policy framework that emphasised the efficient use of abundant labour. This overriding objective was supported by complementary trade, financial and investment policies and the resulting economic growth provided jobs and prosperity for millions of people.

This success, however, has created **distortions**. Asian export-driven economies all looked westwards and eastwards for their export markets. In 2005, 32 per cent of China's merchandise exports were to the US; 23 per cent of Japan's exports were to the US, as were about 20 per cent of those of the 10 countries of the Association of Southeast Asian Nations; and India had 22 per cent of its merchandise exports going to the US, adding to the high proportion of service exports also destined for America; 20.5 per cent of the Asia-Pacific region's merchandise exports were bound for the US.

What is striking is that the share of the region's exports going to the US has remained more or less the same over the past decade, despite Asian economic growth being faster than America's. This suggests that **Asian countries have not been able to expand trade between themselves**. Thus, Asian growth remains too dependent on US markets, despite the potential to internalise the trade and reduce the region's vulnerability to US business cycles.

At the rate at which the Asian economy is expanding, opportunities to create and extend regional supply chains, which could provide the basis for marketing and distribution strategies, already exist or will inevitably emerge. Asian companies have to re-orient themselves to markets closer to home.

What do the Asian countries collectively need to do? There are already a number of initiatives under way – including 11 framework agreements and 49 free trade agreements – to expand bilateral and multilateral flows. There is a growing sense within the region that its economic future should rest as far as possible in its own hands.

However, even as intra-Asian trade and other economic flows are increasing, they have not yet gained the momentum to make a decisive break from the past. The agreements are important, but real business is done by business people, not by diplomats and bureaucrats. Mechanisms are needed to allow businesses to exploit opportunities created by the agreements.

Encompassing the many diverse agreements within a pan-Asian free trade area is the next big objective. The European Union is clearly an object lesson, both in what to do and, possibly, in what to avoid. What would be useful is broad agreement on a medium to long-term "roadmap" providing milestones that take into consideration the constraints and concerns of individual countries. Every big economy in the region is part of one or more significant agreement: expanding coverage in terms of both geography and sectors is a realistic, if complex, way forward.

Another big issue is exchange rate management and the broader concerns about monetary and financial co-ordination and integration that underpin it. The typical Asian approach has been to undervalue the domestic

currency against the US dollar and accumulate the foreign exchange surplus inflows that ensue. Granted, the reserves provide a buffer against any repeat of the crisis of 1997, particularly when portfolio flows into these markets have been so heavy. They do, however, impede monetary management. The objective on this front should be a joint strategy on exchange rate co-ordination that facilitates regional trade, while providing collective protection against global threats.

There is both a need and an opportunity for Asian countries to leverage their collective performance to achieve two key objectives: make the most of opportunities available in the region and protect themselves against global risks. Greater co-ordination and collective action are the region's imperatives.

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