

A sane Taiwan campaign

CAMPAIGNING for the Taiwan presidential election of Jan 14 has been largely free of crude pandering on perceptions of Taiwanese identity. Mr Chen Shui-bian of the Democratic Progressive Party (DPP) made that a trademark of his successful runs in the 2000 and 2004 elections. He used his two terms taking pot shots at China and unnerving the United States to boot. Cross-strait ties were so fraught that the prospect of American involvement was never remote. Neither China nor Taiwan would stand to gain from a repeat of dangerous baiting.

To their credit, the key contenders in this round – Mr Ma Ying-jeou, the incumbent; and Ms Tsai Ing-wen of the

DPP, his main challenger – have kept the focus on issues of social justice, the direction of the economy and the uneven growth between the northern and southern halves of the island. There need be no pretence that talking about economic matters is anything other than having a surrogate debate on how close or how distant Taiwan should be in its dealings with the mainland. Mr Ma disputes that having deeper economic integration is working towards de facto reunification; Ms Tsai fobs off challenges to be specific about her stand on the 1992 formulation on one-China by saying only that she will maintain stable relations with Beijing, if elected. It has not been helpful for vot-

ers looking for leads in a race which most polls report as evenly balanced.

Ms Tsai, in particular, should be forthright on the China question, and let the voters judge. The majority view drawn from periodic opinion polls supports the status quo vis-a-vis the mainland, but with economic collaboration to continue. It is gratifying that the tenor of the campaigning so far gives one confidence that the issue of oneness with China can be debated without emotion, should it come up directly closer to polling day.

President Ma's first term brought a period of calm in the cross-strait situation. This is an achievement of wide geopolitical significance, for which he de-

serves some credit. Economic and social ties grew strongly on market-access trade deals and opening of air links, which also gave Taiwan's tourist trade a timely boost. The cooperation is best preserved, for the long-term good of both sides. Another factor to keep in mind is that the China-US relationship be not affected in any form – whatever the election outcome and the policies that will emanate from Taipei. China has been careful not to insert itself overtly into the contest. It is being wise. The Taiwanese have understood what Beijing means by its rendering of the one-China policy, even if opinion on the island is varied. Just take it as the starting point.

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Casting the net for new growth engines

IT IS said that when the United States sneezes, Asia catches pneumonia. So strongly are these economies intertwined, with other traditional partners such as Europe and Japan, that any adverse impact on the American economy would have strong repercussions in Asia.

Recent suggestions that rising economic giants such as China and India will eclipse Asia's traditional growth engines rest on analyses about relative trade shares and the role of foreign direct investments.

But these ignore the intricate flow of intermediate products and components (which make up finished export goods) as well as the attendant multiplier effects that ripple through the economy. This could give a misleading picture of the relative importance of Asia's drivers of growth.

By examining the dynamic evolution of the drivers of growth for the Asean-5 (Indonesia, Malaysia, the Philippines, Singapore and Thailand) over the past three decades from 1980 to last year, we have assessed the true seriousness of this "pneumonia" for Asia. We have used a structural vector auto-regression (VAR) model developed to simultaneously equate economic output supply and demand across all countries, which captures both direct trade effects and indirect multiplier effects through fluctuations in output.

US and European consumers still drive Asean growth

FROM this study, we found that China in the past decade has emerged as the largest export market for the Asean-5 except Indonesia. China surpassed the US as the most important export market for Malaysia and Singapore, and overtook Europe in the case of the Philippines and Thailand. But Japan remains the largest export market for Indonesia.

But China may not be Asean's largest growth engine. This is because it imports intermediate components from Japan, Asean and the newly industrialising economies, and from these intermediate components it produces intermediate and final products for world markets, including the US. While intra-Asian trade has increased, ultimate growth could still be driven by American consumers.

There is still an intricate linkage of the world economies, and if we look at only the direct trade effects we would underestimate the true significance of the American, European and Japanese growth engines for Asean. Once we take into account the indirect multiplier effects with the direct trade effects through the VAR model, we find that the US and Europe remain the Asean-5's key drivers of growth.

In the first table (right), we can see the importance of the US, European Union (EU) and Japan as engines of growth for the Asean-5, and how this has declined over our 30-year period relative to China.

Between 1980 and 1989, the US was 9.17 times more important than China as an engine of growth. Over the next 10 years, the US fell in relative importance, and finally, between 2000 and last year, it was only 1.53 times more important than China in driving the Asean-5 economy.

Similarly, when examining the EU's relative importance as an engine of growth for the Asean-5, the ratio fell from 4.49 in the 1980s to 2.41 in the 1990s. In the past decade, China has almost levelled with Europe in importance, with a ratio of 1.02.

During the 1980s, Japan was 3.23 times more important than China as an engine of growth for the Asean-5. But with China expanding and opening its economy to trade, Japan's relative impor-



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■ IMPORTANCE TO ASEAN

Relative importance of growth engines for Asean-5

	US v China	EU v China	Japan v China
1980-89	9.17	4.49	3.23
1990-99	4.30	2.41	1.41
2000-10	1.53	1.02	0.53

NOTE: The greater the number above 1, the stronger the country or region relative to China as a growth engine for Asean-5.

■ TILT TOWARDS CHINA

Relative importance of growth engines for Asia (2000-2010)

	US v China	EU v China	Japan v China
India	1.94	1.61	0.34
Malaysia	1.69	1.03	0.49
Philippines	1.59	1.05	0.57
Thailand	1.57	1.06	0.57
Japan	1.53	0.91	-
Indonesia	1.47	1.03	0.73
Singapore	1.34	0.94	0.40
Australia	1.15	0.92	0.66
South Korea	1.09	0.76	0.31
Taiwan	0.99	0.63	0.27
Hong Kong	0.70	0.43	0.16

tance has dipped, and in the past decade, China has become 1.88 times more important.

In the results, the US and Europe remain greater engines of growth for the Asean-5. But China has risen steadily in importance as an Asean-5 growth engine

Despite substantial efforts to increase Asean economic interdependence and solidarity, the empirical results show that these did not result in much real growth or trade with one another. Intra-Asean growth engines are limited and have actually declined in importance over the past decade. The Asean-5 countries have instead turned to external engines of growth such as the US, Europe, China and Japan to help drive their economies.

and has overtaken Japan. The empirical evidence indicates that India has yet to compare in importance to these traditional Asean-5 partners.

Breaking down the statistics further in the second table (left), we can see China's recent impact on the other Asian economies as an engine of growth in comparison with the US, Europe and Japan.

We found that over the past decade, a large number of economies are still more dependent on the US than on China as a driver of growth.

India is the most dependent on the US, with a ratio of 1.94, while Hong Kong and Taiwan have become more dependent on China. Several economies like South Korea, Australia, Singapore and Indonesia are in the process of "tilting over".

Comparing the EU and China, several economies have become more dependent on China as a driver of growth. This includes Hong Kong, Taiwan, South Korea, Japan, Australia and Singapore.

More significantly, the tilt from Japan to China is universal for all economies studied. Despite this, the combined growth engine of the US and Japan remains mightier than China for all these economies except Hong Kong.

Limited Asean exchange

TO EXAMINE the Asean-5's economic interdependence, further analysis of the multiplier effects was carried out over the 20-year period between 1990 and last year.

■ **Malaysia:** In the past decade, a 1 per cent increase in Singapore's gross domestic product (GDP) resulted in a 0.34 per cent increase in Malaysian GDP. Similarly, Malaysia's growth is associated with a 0.31 per cent increase in Singapore's GDP. Although Singapore was a slightly greater engine of growth for Malaysia than Malaysia was for Singapore, both figures have declined since the 1990s. Con-

sequently, although Singapore and Malaysia are interdependent and are engines of growth for each other, their interdependence has declined in the last decade.

■ **Thailand:** Singapore is also a growth engine for Thailand. A 1 per cent increase in Singapore's GDP resulted in a 0.22 per cent increase in Thailand's GDP over 2000 to last year. Again, this is a drop from the 0.39 per cent that was recorded in the preceding decade. But Thailand is not a significant growth engine for Singapore.

■ **Indonesia:** Singapore has gained from Indonesia's growth engine, with its multiplier effect rising from 0.16 to 0.25 over the 20-year span examined. But results do not indicate that Singapore is a significant engine of growth for Indonesia.

■ **The Philippines:** It is not an engine of growth for the others in the group and vice versa. Similarly, Indonesia's economy is not driven by the other Asean-5 countries. The Philippines and Indonesia are mostly dependent on their own domestic demand and on external engines of growth such as the US, Europe, China and Japan to drive their economies.

Despite substantial efforts to increase Asean economic interdependence and solidarity, the empirical results show that these did not result in much real growth or trade with one another. Intra-Asean growth engines are limited and have actually declined in importance over the past decade. The Asean-5 countries have instead turned to external engines of growth such as the US, Europe, China and Japan to help drive their economies.

And there is no evidence of India becoming a significant growth engine for the Asean-5, although it has been of increasing importance to Singapore, Malaysia, Indonesia and Australia over the past decade.

Hedging Asean's foreign dependency

FOR Asean to strategically balance the rising overdependence on China, the key economic linkages with the most future potential are: India-Indonesia-Singapore, Australia-India and Japan-Indonesia-Singapore. The Asean-5 should aim to increase trade and investment linkages between these countries.

Moreover, after three decades of labour-intensive industrialisation, China faces rising wages, appreciating exchange rates, higher land costs and rentals as well as rising environmental costs and regulations. The Asean-5 could aim to attract some of the Japanese, South Korean, Taiwanese and Hong Kong labour-intensive industries to relocate from China to Asean to produce for the US, EU, Japan, India and Asean markets. This would be in line with China's ambition in industrial upgrading. It could also help Asean reduce the overdependence on China as well as enhance linkages among Asean countries.

Given existing linkages, American participation in any Asian regional economic grouping is critical as it is still the most important engine of growth for all the Asian economies (except Taiwan and Hong Kong). The active participation of the US in Apec and the East Asia Summit as well as it taking a leading role in the Trans-Pacific Partnership would be critical in ensuring that this major engine of growth continues to remain seriously engaged in Asia.

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