US still main growth driver for region

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China's ascent sees it overtaking Japan as a major engine: Study

THE United States economy may have taken a beating in recent years, but it remains by far the most important driver of growth for Singapore and the region.

But China's rapid ascent as an economic powerhouse has seen it overtake traditional powerhouse Japan to become a major engine of growth for the region.

These findings were fleshed out in a research study done by the Asia Competitiveness Institute (ACI), under the Lee Kuan Yew School of Public Policy, which looked at the challenge posed to regional economies by China's and India's rise.

The study took an in-depth look at Singapore, Malaysia, Indonesia, Thailand and the Philippines, and how their economic growth rates were affected by the fortunes of the big economies of the US, China, Japan, India and Europe.

The US economy has seen its importance to the region decline significantly since the 1980s, the report showed.

For instance, in Singapore's case, every percentage point increase in economic growth of the US meant a 1.377 percentage point increase in the Republic's gross domestic product in the 1980s. But in the last decade, this has fallen. Now, for every one percentage point growth in the US, Singapore's economy would grow just 1.006 per cent, it said. In contrast, a one percentage point rise in China's growth in the 1980s added a mere 0.165 percentage points to Singapore's economy. But this has more than quadrupled to 0.748 in the past decade.

Dr Tan Kong Yam, the report's lead author, said that this was the first time anyone had measured, with some success, the impact of the US economy on the region. "What the results show is that China has rapidly become a major engine of growth for the region in the past decade."

But when the impact of the US economy is measured against China's, it emerged that the US 'growth engine is still 1.53 times more important than that of China' to the region, he said. "This means that US participation in any Asian regional economic group is critical as it is still the most important engine of growth for all the Asian economies, except Taiwan and Hong Kong."

Dr Tan also noted that Europe continues to play a major role in the region, with its influence on regional economies being equally important to that of China.

The ACI also launched the Asean Competitiveness Report yesterday, which studied the region's competitiveness on several fronts, including trade flows, exports and foreign investment. The report said Asean could do more to attract foreign direct investment as well as raising labour productivity.

Asean secretary-general Surin Pitsuwan, guest of honour at the event yesterday, also reiterated the call for stronger linkages between Asean countries. He said he is trying to build a groundswell of support by getting people excited about creating Asean Community, a closely integrated economic region, by 2015.

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CHINA'S rise in the past decade has been so powerful that it altered Indonesia's industrialisation path, said an Asia Competitiveness Institute (ACI) report yesterday.

It noted that Indonesia had been on a path of rapid industrialisation in the 1980s and early 1990s, producing goods such as textiles and footwear. The export share of these goods grew from 4 per cent in 1980 to 58.3 per cent in 2000, but fell to 40.5 per cent last year.

At the same time, non-oil primary exports such as copper, timber and coffee almost doubled from 15.8 per cent in 2000 to 29.1 per cent last year.

ACI director Tan Kong Yam said China's rapid expansion has meant the 'de-industrialisation of Indonesia', as it focused on exporting raw materials China needed. 'The opportunity of using labour-intensive industrialisation to create a large number of jobs and launch an industrialisation process... was lost,' he said.

But Indonesia can attract some industries back, especially since wages in China are rising fast, he said, adding that one way is to set up special economic zones, while decentralising power to regions.

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A percentage point increase in US economic growth meant a 1.377 percentage point increase in Singapore's GDP in the 1980s. Now, for every one percentage point growth in the US, Singapore's economy would grow just 1.006 per cent, the ACI study shows. -- PHOTO: AGENCE FRANCE-PRESSE

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