

A U.S. Perspective of Economic Convergence in East Asia

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Introduction

As a U.S. company doing business in Asia, we at PriceWaterhouseCooper see considerable growth in certain key markets in addition to Japan – these are India, China, Australia, South Korea, and Singapore. Companies are locating operations and functions anywhere in the world based on the right costs, the right skills, and the right business environment. They are following a strategic approach that embraces the essence of globalization. In this regard, our growth in India and the centers of excellence that have been created there are an important indicator of the changing paradigm in Asia.

As a consulting firm, we are a microcosm of the global economy. We started as a firm in Europe that then branched out to the United States when European capital came to that country to build the railroads and be engaged in the industrial revolution that was imminent. Our growth in Japan in the 1970s and 1980s was a reflection of the capital flows that came to Japan at that time, strengthened in part by Japan's own savings and industrial capital. We see now capital flows into India and China, helping to mold those economies in significant ways. The growth that we see there (both within the firm and of our clients) replicates the strength of those vibrant economies.

The dynamics in Asia, a view from afar

The United States is not an Asian nation, but it is an Asian power. The economies in Asia depend very significantly on the demands in the United States. At the same time, the United States is

stretched militarily, economically, and ideologically. Japan, India, and China are all competing for influence in Asia, and competing for access to resources. World oil prices have increased 80 percent over the last 12 months, with India and China accounting for over 50 percent of the increased demand. This means that the economies in Asia are at a critical stage if the growth momentum is to be maintained and the region kept relatively free of conflict.

The Asian Development Bank estimates that \$350 billion will be needed annually for infrastructure in Asia over the next 10 years. These investments will be for power plants, water, sewage, bridges, and roads. The public sector has limited resources and there is concern about a global economic recession. Japan has already provided significant overseas development assistance (ODA) to countries in Asia and is facing its own economic challenges to maintain growth and manage its deficits. There is a real concern as to where these continued investments will come from.

To keep the economic momentum there is need for a continued engine of growth. But is the engine of growth only the United States or has the balance of power shifted? Will India and China grow even if the United States and the West go into a slowdown? The answer is probably yes. This is because there are three elements of growth: exports, capital invested, and consumer demand. Even if exports go down, because of a recession in certain economies, the other two are likely to keep going. For that reason there remains a sense of optimism about Asia from afar. It is important to also recognize that the global economy has taken almost 2 billion people out of poverty, with a large percentage of this being in Asia. It is therefore in Asia's best interests to continue this momentum.

What role can Japan play in this paradigm?

Japan was the first Asian country to develop an industrial economy. Its technology, know-how, and innovations are important to the entire region. It is a role model in manufacturing efficiency, continuous improvements, and has a high number of patents and copyrights. A few years ago, when Japan first introduced the hybrid cars not many people took them seriously. Now these cars are part of our energy management system. Japan is significantly ahead of other countries in environment technology, and has the finest technology for clean coal production.

Both in manufacturing efficiency and environment efficiency, Japan can play a leadership role in Asia. A number of patents that have a fixed time period anyway can be shared with other economies in Asia. On the environment side, the Kyoto protocols will expire in 2012. This also means that by 2009 countries will need to agree on the post-Kyoto protocol. Already there is considerable awareness in Japan of the effect of climate change on low-income economies. Its clean air and environment technologies can be made available to countries in Asia at affordable prices. Or they can be held back. The time for leadership in Japan is therefore now, and one hopes that it can rise to the challenge.

India finding its confidence, and the way forward

There are many challenges that India faces but it seems to be taking the right strategic steps. India's five-year plan, ending in 2012, has set aside about \$550 billion for infrastructure development. To implement this successfully it needs various private-public partnerships, and liberalization of certain sectors of its economy. The private sector has already emerged as a critical part of India's future development, a path that some may consider irreversible.

Collaborations between India and Japan are increasing. The Japan Bank for International Cooperation (JBIC) recently listed India as the number one country for strategic long-term investment. All these are important trends in building economic bridges between the two countries.

The \$2,500 Nano car recently rolled out in India is an interesting example of how affordability can force a country to think of solutions that are eco-friendly. This is a car that weighs less than half a ton, compared to most other cars that weigh between 1.5 to 2 tons. It can operate for as much as 50 km to the liter. By trying to make the car affordable to the middle class, Indian engineers have had to come up with economic friendly innovations that did not exist before. The opportunity therefore of combining Indian entrepreneurial skills with the West's efficiency, manufacturing capability, and technology is significant.

Conclusion

The United States, Japan, and India all have a stake in the future that is before us. As democracies, they have an important role in maintaining a peaceful and confident Asia, a region that continues to bring millions of people out of extreme poverty. If the region can keep the momentum of the last 20 to 25 years, remain free of conflict, and continue to be focused on economic partnerships that are mutually beneficial, it would have rendered a significant service to its future generations.