

# Financing Asia's Future

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# Questions

- How will Asian growth to 2020 be financed?
- Macro question: will there be enough savings?
- Micro question: who will own whom?
- Approach: scenario analysis

# Asia

Japan

China

India

## Newly industrialized economies

Hong Kong, China

Korea

Singapore

Taipei, China

## ASEAN 5

Indonesia

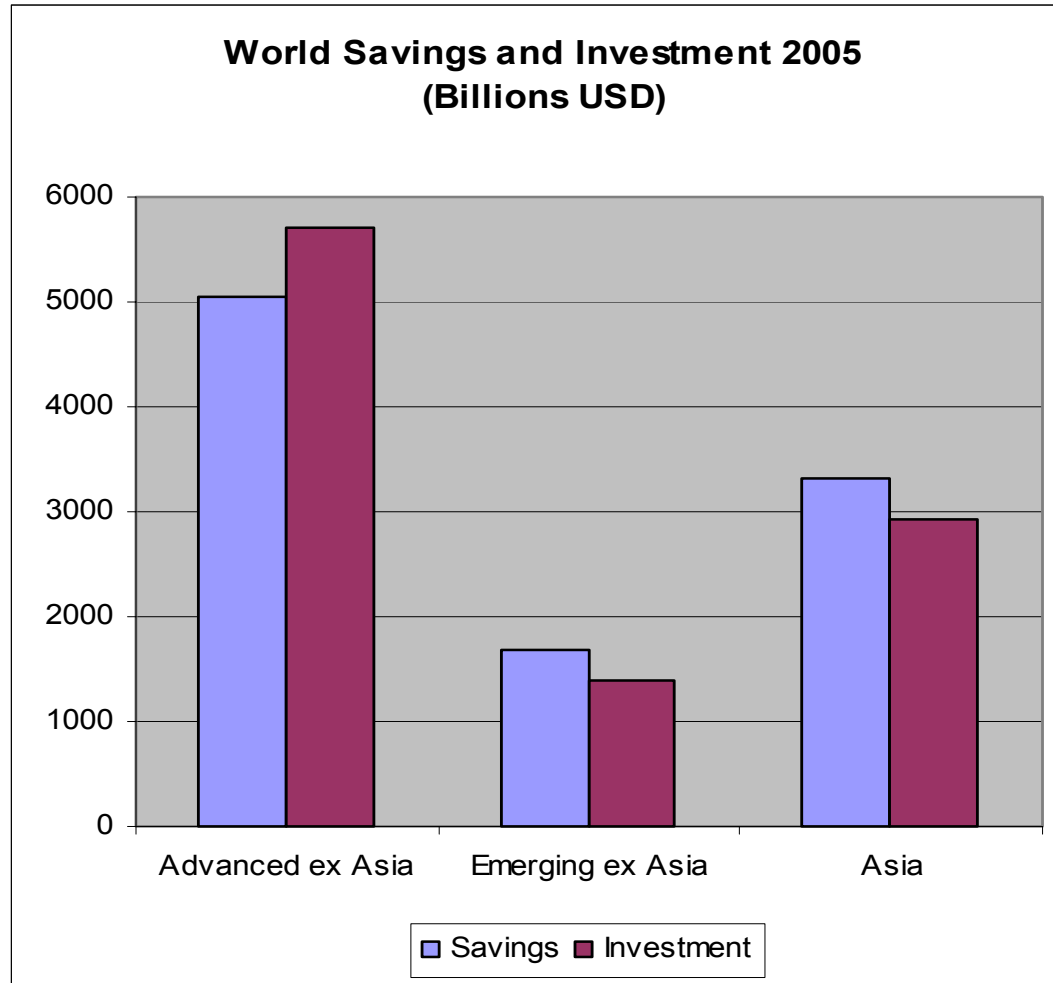
Malaysia

Philippines

Thailand

Vietnam

# Today, capital flows “uphill”



# Scenario building blocks

## *Savings rate*

1999-05 average adjusted for changes in:  
income, growth, demography, difference from peers

## *Incremental capital/output ratio (ICOR)*

1999-05 average adjusted for changes in:  
difference from peers

## *Growth rate*

1999-05 average adjusted for changes in:  
population, difference from peers

# Summary of building blocks

## *Savings rate*

Rising (except in Japan) due to growth, income, demography; China, India, ASEAN replace Japan, Singapore, Korea as top savers

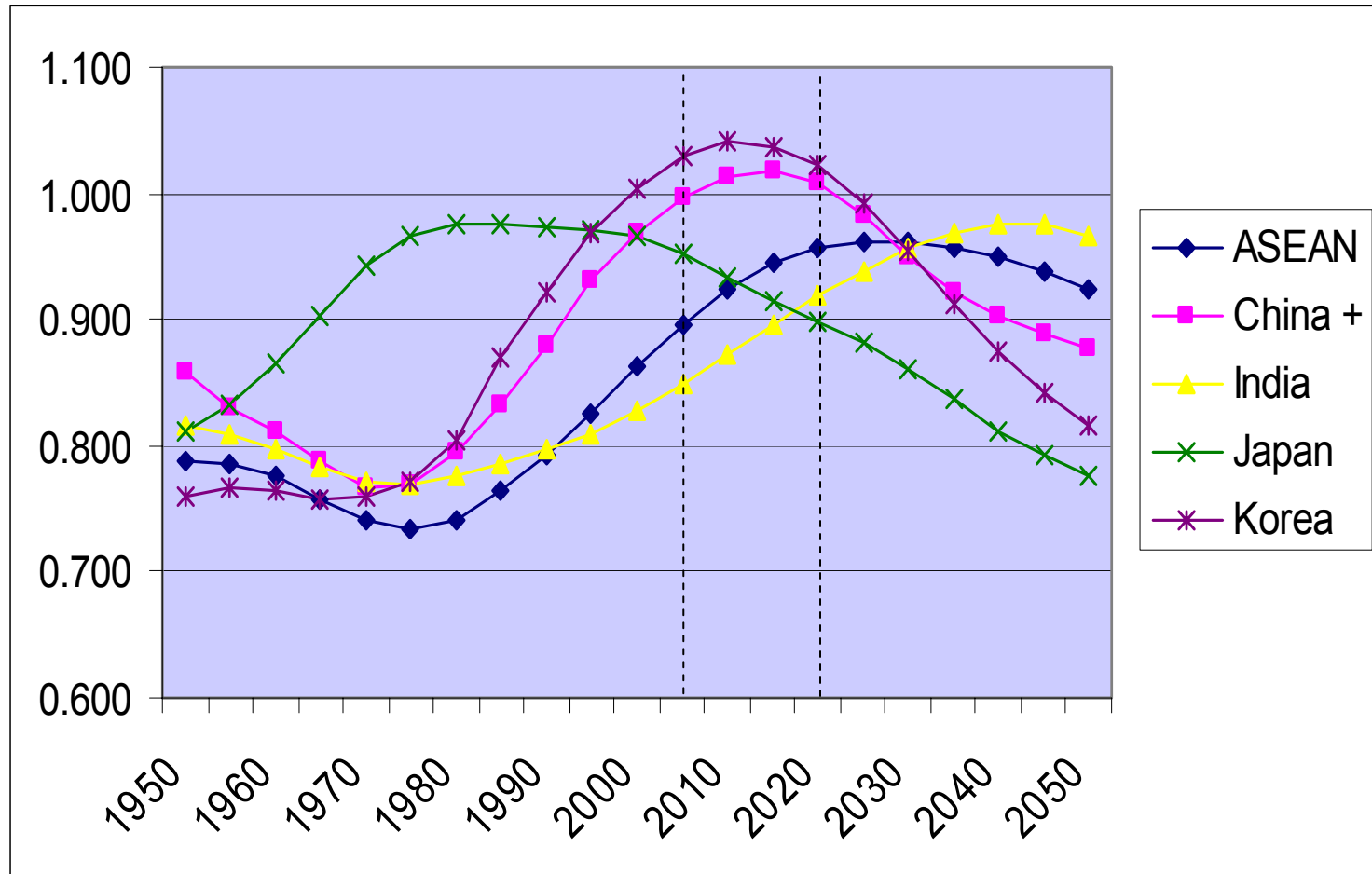
## *Incremental capital/output ratio (ICOR)*

Little variation; falling in Japan (from high level), rising slightly in others

## *Growth rate*

Rising as Japan recovers, China and India become more important

# Workers/Consumers index



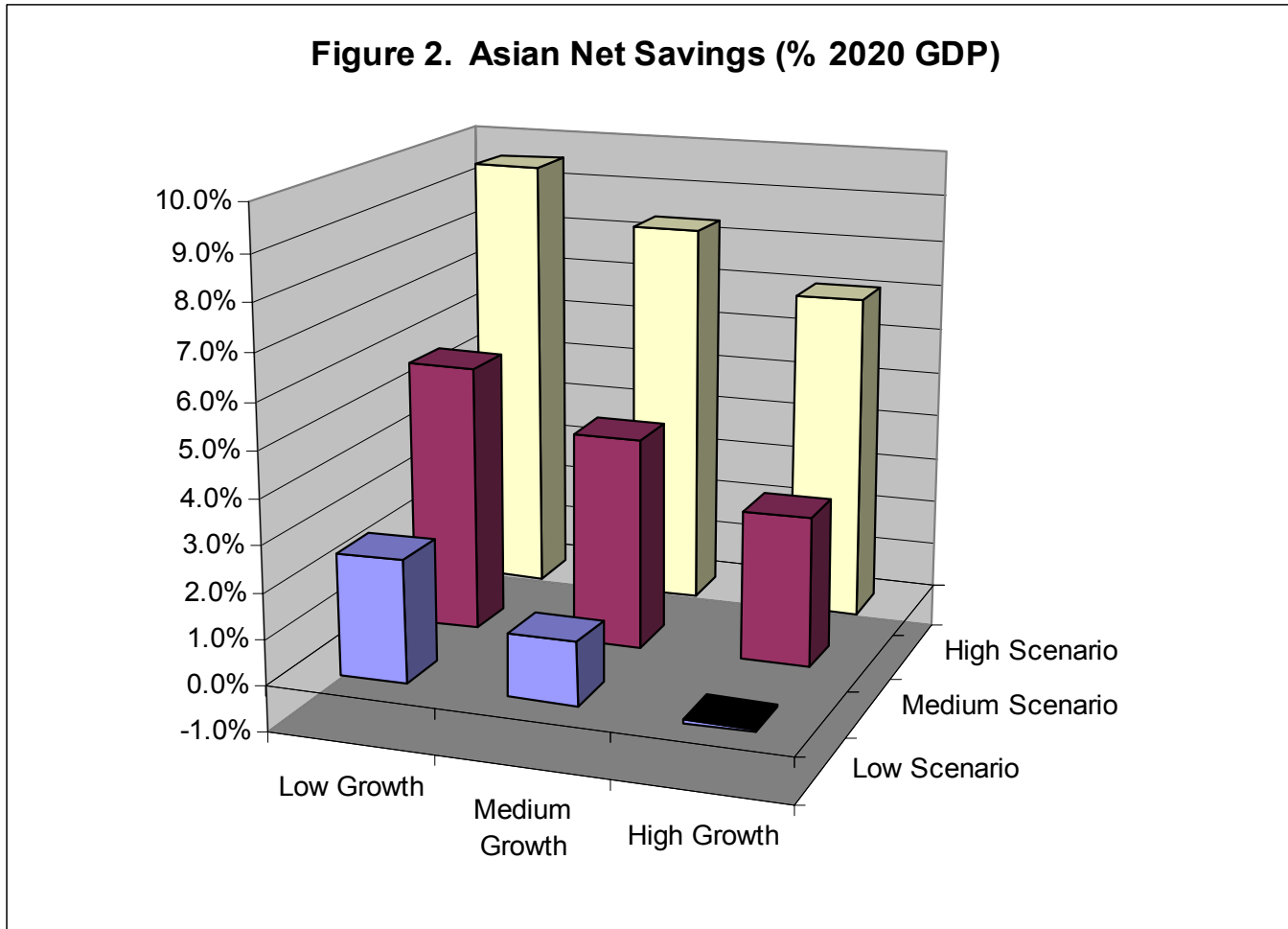
Source: Mason et al. (2007).

# Growth scenarios

GDP GROWTH SCENARIOS, 2005-2020

	Actual 1999-05	Low	High
<b><i>Asia</i></b>	<b>3.9</b>	<b>4.0</b>	<b>4.6</b>
Japan	1.3	1.6	1.8
China	8.5	6.6	7.3
India	6.3	5.5	6.2
NIEs	5.2	4.9	5.6
ASEAN-5	4.7	4.7	5.4

# Asian net savings stay positive



# Who will absorb the surplus?

POTENTIAL WORLD SAVINGS (\$2005 Trill.)

		Rest-of-the-World Net Savings		
		Low	Medium	High
Asian net savings	Low	-1.4	-0.6	0.3
	Medium	-0.5	0.3	1.1
	High	0.3	1.1	2.0

# Foreign-owned portfolio assets

## CROSS-BORDER PORTFOLIO ASSETS, 2005 (\$bn)

	Holdings	% GDP
European Union	13,307	97
United States	5,300	43
Other Advanced (ex Asia)	2,990	149
Emerging (ex Asia)	1,096	17
Asia	2,187	22
<i>World</i>	24,881	56

Source: IMF CPIS.

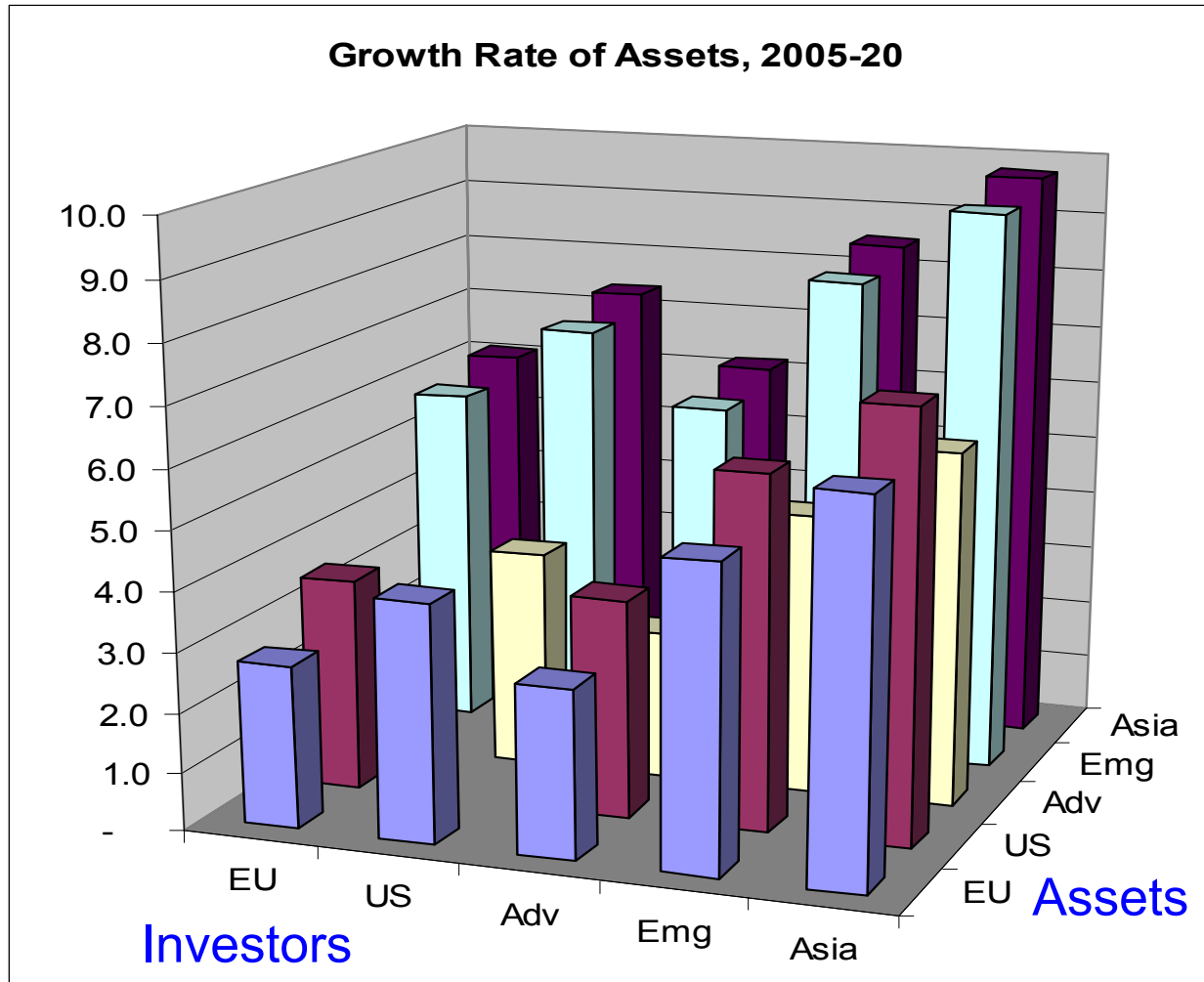
# Who will own whom?

## CROSS-BORDER PORTFOLIO SHARES, 2005 (%)

<i>Assets of:</i>	<i>Owned by:</i>					
	EU	US	Other Adv	Other Emg	Asia	<i>World</i>
European Union	65	44	39	31	36	<b>53</b>
United States	18	0	41	36	44	<b>21</b>
Other Advanced (ex Asia)	7	27	9	7	13	<b>12</b>
Emerging (ex Asia)	4	9	4	12	1	<b>4</b>
Asia	6	19	7	15	6	<b>9</b>
<i>World</i>	100	100	100	100	100	<b>100</b>

Source: IMF CPIS.

# What assets will grow?



## But Asian assets will be still “small”

Asian GDP/World GDP = \$18 tn / \$72 tn = **25%**

Asian Portfolios/World Assets = \$13 tn / \$48 tn = **27%**

Asian Assets/World Assets = \$6 tn / \$48 tn = **13%**

Asian Assets/Asian Portfolios = \$1 tn / \$13 tn = **8%**

Asian-Asian/World Assets = \$1 tn / \$48 tn = **2%**

## For 2020, the challenge is not saving, but spending

- Asia will be net saver, with strong savings from China, India, ASEAN
- The risk is capital glut, not savings shortage; Asia should stimulate demand
- Asia will be modest source of portfolio assets
- Asia should deepen and open capital markets to diversify risk, create financial centers