Relative Competitiveness Profiles of China, India & ASEAN: How close are we as an integrated Asian Economic Entity?*

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Scope and Outlines of the Presentation

- **Competitive Rankings & Profiles of ASEAN-10, 31 Mainland Chinese Economies & 35 Indian States & Union Territories.**
- **The India-China Relative Competitiveness Index (IC-RCI)**
- **Major Policy Implications on the Indian Growth Strategies**
- **Four Myths on China/India-ASEAN Competition & Growth**
- **Four Facts about China/India-ASEAN Competition & Growth**
- **Four Myths Regarding the Growing Chinese Economy**
- **Four Facts on the Chinese Growth Locomotive**
- **Four Myths Regarding the Emerging India Economy**
- **Four Facts on the Indian Growth Locomotive**
- **Four Unwarranted Concerns on Economic Rise of China & India**
- **Four Strategies Forward for ASEAN in the Greater Globalization Drive**
- **Southeast Asia Perspectives on U.S-ASEAN Relations**

Primary Concerns of ASEAN-10

- The startling vulnerability of ASEAN, both for market and transition economies, in the 1997 financial turmoil.
- Fresh attractiveness to and fierce competition posed by large emerging economies such as India and China since late 1990s
- ASEAN economies risked being marginalized unless pooled together and should integrate further with Asian economies via ASEAN 10+3 vehicle.
- Unlike Japan or NIEs that moved up the technological ladder under the wild geese theory of development, emerging China and India, which are resource-rich, will quicken economic restructuring and posed direct competition across ASEAN
- How to promote economic resiliency, identify market niches, target potential demand in China and India that reflect ASEAN’s comparative advantage and develop a balanced economic ecol system to avoid being squeezed in the middle?

Fundamental Objectives

- **Classical economists evaluate competitiveness amongst nations based on factors of production such as land, capital, natural resources and labor.**
- **Widely acknowledge that a country's competitiveness is more than just a set of "hard" quantitative macroeconomics aggregates.**
- **Attraction of FDIs and flourishing of SMEs must also cope with other "soft" attributes such as social, political, cultural, governmental, environment, institutional and educational dimensions of a nation**
- **WTO, and through multilateral, regional and bilateral FTAs, attempt to push tariffs down and open markets further.**
- **Vital for ASEAN-10 to cope with intensifying regional competition vis-à-vis a new but not necessarily lesser role of the government**

Definitions and Data Sources

Competitiveness Components:

- **Economic environment –national accounts, international transactions & foreign investments (18 criteria)**
- **Political environment – government finance, government policies, institutional framework, standards and regulations. (43 criteria)**
- **Business Environment – financial markets, labor market & productivity (22 criteria)**
- **Social Environment –basic infrastructure, technological infrastructure & quality of life. (39 criteria)**
- **122 criteria, consist of 51 series of quantitative data and 71 series of qualitative data, sources from International Financial Statistics,IMF, ASEAN Secretariat & Political & Economic Risk Consultancy Ltd (PERC).**

Methodological Approach Adopted

- **The basis for the ranking is the standardized value (STD),and we first compute the 10-country average for each criteria following which the standard deviation is calculated using the formula:**

  S = $\sqrt{(\sum(x - \bar{x})^2 / N}$

- **Following which STD is computed, by subtracting the 10-country average from a country's original value and then dividing the result by the standard deviation as follow:**

  STD value = $(x - \bar{x}) / S$

- **Note that sub-factor rankings are the average of the STD values of all the ranked criteria which make up each sub-factor. This average is found by dividing the sum of the STD values by the number of criteria in each sub-sector. This enables us to "lock" the weight of sub sectors independently of the number of criteria they contain**

Why Simulate Hypothetical Competitiveness Rankings?

- **Obsession with rankings is not only dangerous but wrong. So we should not just stop at ranking the top Indian economies as we recognize all states are different, and these differences are important in their own right.**
- **Our hypothetical simulations, for those economies not amongst the top 15 positions, are meant to be constructive which identified strengths and weaknesses to be overcome and promote healthy competition amongst local governments.**
- **Further identify strengths and weaknesses of respective local economies in terms of their microeconomic foundations including SOEs' ownership structure, policy incentives, foreign participation rules, developmental barriers etc.**
- **Formulate selected bilateral Singapore-individual Indian state economic cooperation strategies to enhance potential partnerships across sectors.**

How Are Hypothetical Competitiveness Rankings Simulated?

- **Identify 20% weakest indicators for each of the 35 local economies.**
- **Hypothetically assumed the local government could improve these 20% weakest indicators to the level of the 35 nation-wide average.**
- **Given that all indicators within the rest of the 34 local economies remain unchanged or ceteris paribus, we could then simulate how the competitive edge of the economy understudied would have improved.**
- **Such hypothetical improved ranking for a particular economy under policy simulations could serve as the catalyst for change through peer pressure and competition.**

Empirical Findings: IPS-NTU ASEAN-9 Competitiveness Rankings

Country	Score	Rank
Singapore	2.02	1
Malaysia	3.55	2
Thailand	3.61	3
Philippines	4.59	4
Vietnam	5.23	5
Indonesia	5.35	6
Cambodia	5.74	7
Myanmar	5.84	8
Lao PDR	5.93	9

Empirical Findings: IPS-NTU ASEAN 9+1 Competitiveness Rankings

Country	Score	Rank
Singapore	2.34	1
Malaysia	4.03	2
China	4.12	3
Thailand	4.13	4
Philippines	5.24	5
Vietnam	5.95	6
Indonesia	6.11	7
Cambodia	6.50	8
Myanmar	6.62	9
Lao PDR	6.71	10

Empirical Findings: IPS-NTU ASEAN 9 +1 Simulated Competitiveness Rankings

Singapore: from 1 (2.34) to 1 (2.21);

Malaysia: from2 (4.03) to 2 (3.67)

China: from 3 (4.12) to 2 (3.48)

Thailand: from 4 (4.13) to 2 (3.68)

Philippines: from 5 (5.24) to 5 (4.79)

Vietnam: from 6 (5.95) to 6 (5.46)

Indonesia: from 7 (6.11) to 5 (5.31)

Cambodia: from 8 (6.50) to 5 (5.32)

Myanmar: from 9 (6.62) to 5 (5.49)

Lao PDR: from 10 (6.71) to 5 (5.39)

Summary Findings From Model Simulations

Interesting implications based on our simulations:

- **The challenge for Singapore and Malaysia is to stay on top!**
- **China can catch up and overtake Malaysia, even if Malaysia improves 20% of its weakest areas.**
- **Thailand follows closely behind China and Malaysia after improving 20% of its weakest criteria**
- **Philippines & Vietnam retain their ranking even after 20% simulated improvement of the weakest criteria, implies they need to overhaul their existing system and institute comprehensive reform before they can improve further**
- **Weak economies like Indonesia, Cambodia, Myanmar and Lao PDR managed to jump a few ranks upon transcending their inherent limitations shows potential for further improvement.**

Environments, Factors, Sub-Factors & Indicators

4 Environments (101 Indicators)

Economics (21): Regional Economies (13); International & Inter-regional Trade (5); Foreign Direct Investments (3)

Government & Institutions (26): Public Finance (8); Institutional framework (6); Government Policies (12)

Business (29): Financial Markets (4); Labor Markets (15); Other Business Conditions (10)

Social (25): Basic Infrastructure (11); Technological Infrastructure (4); Quality of life (10)

Zaobao-NTU Ranking Results on Overall Competitiveness of 31 Mainland Chinese Economies

Guangdong	1	Fujian	9
Shanghai	2	Hebei	10
Jiangsu	3	Heilongjiang	11
Beijing	4	Henana	12
Zhejiang	5	Inner Mongolia	13
Shandong	6	Tianjin	14
Liaoning	7	Xinjiang	15
Sichuan	8		

Zaobao-NTU Simulated Results on Overall Competitiveness of 31 Mainland Chinese Economies

Qinhai	8	Anhui	10
Yuanan	8	Jiangxi	10
Hubei	8	Hainan	14
Shanxi	8	Chongqing	15
Ningxia	8	Tibet	15
Hunan	8	Guangxi	16
Jilin	8	Gansu	16
Shaanxi	10	Guizhou	21

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Business Times-NTU Ranking Results on Overall Competitiveness of 35 States & UTs in India

Maharashtra	1	Punjab	9
Delhi	2	Rajasthan	10
Tamil Nadu	3	Kerala	11
Andhra Pradesh	4	West Bengal	12
Karnataka	5	Madhya Pradesh	13
Gujarat	6	Haryana	14
Chandigarh	7	Himachal Pradesh	15
Uttar Pradesh	8		

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Business Times-NTU Simulated Results on Overall Competitiveness of 35 States & UTs of India

Bihar	11	Lakshardweep	17
Goa	13	Manipur	17
Orissa	13	Mizoram	17
Chattisgarh	15	Sikkim	17
Ponticherry	15	Andaman & Nicholas Island	18
Uttaranchal	15	Tripura	18
Assam	17	Arunachal Pradesh	19
Daman & Diu	17	Meghalaya	19
Jammu & Kashmir	17	Nagaland	19
Jharkhand	17	Dadra & Nagar Haveli	23

India-China Relative Competitiveness Index (IC-RCI)

- **We first design a common matrix of > 100 indicators under the 4 designated categories including economics, government, institutions, businesses and social environment, we conduct competitiveness ranking on 66 economies, (i.e. that is 31 Chinese provinces, municipalities, & autonomous regions with 35 Indian states & union territories).**
- **We then rank the 66 economies using 2004 data set for India throughout and simulate it against the 1994, 1999 and 2004 data set for China in each round, thereafter we sum the rankings of top 10 economies for both China and India respectively to arrive at three sets of results for IC-RCI.**
- **The objective is to empirically determine the overall competitiveness gap between India and China including the gaps in all designated categories over the past decade (1994-2004).**

Relative Competitiveness Index Between Top 10 Indian States & Mainland Chinese Provinces (IC-RCI)

	China (94)		India (04)
	(A/B)	A	B
Overall RCI:	(183%)	126	69
Economics:	(112%)	111	99
Government & Institutions:	(140%)	125	89
Businesses:	(101%)	106	105
Social:	(86%)	96	122

Relative Competitiveness Index Between Top 10 Indian States & Mainland Chinese Provinces (IC-RCI)

	China (99)		India (04)
	(A/B)	A	B
Overall RCI:	(56%)	79	141
Economics:	(71%)	91	129
Government & Institutions:	(100%)	105	105
Businesses:	(56%)	84	150
Social:	(50%)	84	169

Relative Competitiveness Index Between Top 10 Indian States & Mainland Chinese Provinces (IC-RCI)

	China (04)		India (04)
	(A/B)	A	B
Overall RCI:	(28%)	63	227
Economics:	(55%)	78	141
Government & Institutions:	(53%)	80	151
Businesses:	(30%)	61	203
Social:	(16%)	55	344

Summary Findings on Relative Competitiveness Index for Top 10 Chinese-Indian Economies (IC-RCI)

- **IC-RCI revealed how the overall competitiveness of Chinese provinces were able to narrow the gap against Indian states over the past decade from 17% behind in 1994 to 44% and 72% ahead in 1999 & 2004 respectively.**
- **IC-RCI for economic performance revealed that Chinese provinces in 1994 were 12% behind Indian states in 2004, but improved to 29% and 45% ahead by 1999 & 2004 respectively.**
- **IC-RCI for government & institutional reforms suggested that Chinese provinces in 1994 were 40%e behind Indian States in 2004, but caught up by 1999 and ahead by 47% in 2004.**
- **IC-RCI for business environment revealed that Chinese provinces in 1994 were even with Indian states in 2004, but leap-frog to 44% and 70% ahead by 1999 & 2004**
- **IC-RCI for social environment confirmed that Chinese provinces which were already ahead by 14% in 1994 against Indian states in 2004, the gap widens further for china to lead by 50% and 84% in 1999 & 2004 respectively.**
- **If the IC-RCI is anything to go by, and we believe for the first time that one is able to determine quantitatively that as of 2006, India is probably about 12 years behind China in the overall competitiveness.**

Major Policy Implications of IC-RCI on Indian Growth Strategies

- India must seriously consider to incorporate the FDI-driven export-led growth model as part of an overall strategy, as was adopted by other Asian economies including China, Japan, Korea, Hong Kong, Malaysia, Taiwan & Singapore.
- India needs to improve her government efficiency further, undertake more wide-ranging institutional forms and adopts a more pro-business environment if she is to attract more FDI from MNCs in the next decade.
- The sharp contrast between China and India is the head-start by the former on infrastructure investments, in air and sea ports, transportation routes and telecommunication facilities, especially amongst the coastal-eastern belt of China.
- India’s relative lagging over China in investment on education and level of literacy, which featured prominently amongst indicators under the social environment category under IC-RCI, required government policy intervention and funding assistance from international agencies.

Four Myths on China/India–ASEAN Competition and Growth

- **Myth No.1: The FDI flows from OECD to China or recently India are or will be at the expense of ASEAN.**
- **Myth No:2: China/India-ASEAN competition is a zero sum game and will hollow out other Asian economies especially ASEAN.**
- **Myth No.3: ASEAN both as an economic and political entity is too small to be relevant or least to make any significant impact in the globalization process.**
- **Myth No 4: The merging Chinese economic power and the Indian growth locomotive will overwhelm ASEAN as a political entity and challenged the US interests in the region.**

Four Facts on China/India-ASEAN Competition and Growth

- **Fact No. 1: Increasing intra-Asian trade is swiftly taking place exhibited by rising Asian and ASEAN exports to China. ASEAN-China Free trade Agreement is an useful vehicle to ride on vast growing domestic market and the Chinese manufacturing hub.**
- **Fact No. 2: It would take a while more before China/India can begin to export capital to Asian and ASEAN region in a significant manner, strategically it would be more realistic to study the competitive strength and weaknesses of various parts of China/India and exploit potential opportunities and market niches**
- **Fact No. 3:Emerging Chinese & Indian middle classes would contribute significantly to regional demand for services including tourism, education, healthcares and wealth management that ASEAN can tap and take advantage of.**
- **Fact No.4: In the absence of an effective WTO multilateral platform, regional and bilateral FTAs are still the most practical way forward for Asian economies in sustaining globalization.**

Four Myths Regarding the Growing Chinese Economy

- **Myth No. 1:Weak Chinese Reminbi against the US dollar caused the US trade deficits and led to unfair competition in international trade, especially verses the high-cost western economies.**
- **Myth No. 2: The Chinese financial markets and financial institutions are heading for imminent collapse due to her large non-performing loans, lack of corporate governance and reform inertia.**
- **Myth no. 3:Increasing social unrests, urban-rural income disparity and lack of political reforms will de-rail effort of Chinese economic reforms.**
- **Myth No. 4:The Chinese FDI-driven export-led growth model is unsustainable because it will absorb the bulk of global FDIs as factory of the world, displaying regional economies into oblivion.**

Four Facts About The Rising Chinese Economic Influence

- **Fact No. 1: China's export trade, which is currently growing at a relatively slower pace in comparison to East Asian economies then during their first stage of development, has only just picked up momentum is probably less than half of the way!**
- **Fact No. 2: China's trade patterns suggest increasing exports to US and Europe since the late 1990s and greater import growth from Asian economies.**
- **Fact No. 3: China's trade surplus with US and Europe widening, by were more than off-set by increasing trade deficits with the rest of Asian economies resulting in moderate increase in China's overall trade surplus in 2003 to US$25b.**
- **Fact No.4: Chinese economy is still very imbalance and very much external-demand and FDI driven. Domestic-driven demand is weak and yet to kick off in a significant way. It is reassuring to see Chinese non-performing loans eased and financial market reforms gained pace since 2000.**

Four Myths Regarding the Emerging Indian Economy

- **Myth No. 1: India's domestic demand-driven growth model is more sustainable and robust than the FDI-driven export-led East Asian growth model.**
- **Myth No.2: IT-related investments and IT services are the leading sources of growth for India.**
- **Myth no.3: India should only attract MNCs which produce low volume, high value-added manufacturing activities and not those in low-tech and mass production.**
- **Myth no.4: Due to long history of British colonialization, majority of educated Indian are good administrative bureaucrats but have since lost their entrepreneurer flair.**

Four Facts About The Indian Growth Locomotive

- **Fact No. 1:The Indian growth locomotive is beginning to move, and her competitive economies unlike China, are rather evenly spread across the Indian continent.**
- **Fact No. 2: India's widespread English proficiency and large pool of senior overseas managers and professionals, unlike China, are important assets for growth.**
- **Fact No. 3: India is seriously underdeveloped in terms of physical infrastructure and basic education for population at large**
- **Fact No. 4: India needs further privatization and greater domestic demand drive in achieving sustained and balanced longer-term growth as in China**

Four Unwarranted Concerns on the Economic Rise of China

- **UC No.1: China needs a stable regional political environment to grow economically and knows such environment can only be achieved by sharing prosperity with Asian neighbors.**
- **UC No. 2: The cross-strait tension between China & Taiwan has eased significantly since March 2005 as dialogue between both sides intensified & reaffirmation of one China policy by ASEAN members helped.**
- **UC No. 3: Even if China achieve a stable middle class by 2035, her per capita income of US$10,000 is still relatively low by international standard. Japan, together with the U.S, would still be a formidable balance of power in Asia.**
- **UC No. 4: As China becomes more market oriented and more globalize in her economy, political reform would evolve with pressure from within by the vast middle class. The hold and concentration of power by the Chinese Communist Party is expectedly to dilute over time.**

Four Strategies Forward for ASEAN in Greater Globalization Drive

- **Strategy No. 1: Keeping the Chinese authorities committed to the terms of WTO and take advantage of the China-ASEAN Free Trade Agreement vehicle. Thus the U.S must set a good example.**
- **Strategy no. 2: Expanding the ASEAN 10+3 framework by an inclusive approach to bring in India and turning East Asia into Asia Economic Summit for an effective Asian Economic Community in the longer run.**
- **Strategy No.3: At the rate of rapid growth and development in China, she is likely to become a net food importer by 2030. ASEAN can potentially be the exporters in agricultural produces, food processing, minerals and other raw materials to China.**
- **Strategy No. 4: ASEAN members must continue to promote private enterprises and explore bilateral trade agreements with global economies including Europe, the US, South Asia and Middle Eastern countries. .**

Southeast Asian Perspectives on U.S.-ASEAN Relations

- **US-ASEAN relations have suffered somewhat since the 1997 East Asian financial, at least some ASEAN members tend to equate IMF with the U.S. For example, the Thais felt the IMF came too Thailand too slow and half hearted despite their effort to the U.S on Vietnam war. IMF's unrealistic policy prescriptions to Indonesia and disastrous interpretation of Malaysia's selective exchange controls.**
- **The U.S hard line position on Iraq has led to reservation on the US-ASEAN relations by Malaysia and Indonesia, yet these two countries are considered moderate in comparison to other middle Easter countries. Yet Countries like Singapore and Thailand very much counted on the U.S effort for regional terrorist threats.**
- **The U.S should not force ASEAN to choose sides and should remain as a strategic partner to ASEAN. Thus the U.S. must allow Asian to take leadership and initiatives on Asian affairs.**
- **One China policy openly articulated by ASEAN members demonstrate the desire to maintain balanced relations with U.S and China**

Policy Recommendations for Developing Enterprises in ASEAN-10

- **Cross-investment amongst more developed ASEAN members in their production reallocation process to benefit from lower labor cost and overcome narrowing profit margin, SMEs cam be one of the participating vehicles.**
- **The real potential of SMEs lie in the up stream activities of product development, and down stream activities of branding and marketing. Cross-border cooperation amongst SMEs of ASEAN based on comparative strength should be actively exploited.**
- **Agricultural produces and food processing for export, though not glamorous, but an profitable and viable options based cross-border comparative advantage and division of labor amongst nations.**
- **Promoting widespread education as a social leveling device, channel for income redistribution and skill upgrading mechanism would be crucial to the formation of middle class and hence potential source of entrepreneurs for SMEs .**
- **Current inefficiency in public services in governments and legal infra-structure imperfection may well be the opportunities for SMEs to seized upon and grow.**
- **Export-oriented strategies through FDIs may have to be the initial growth strategy to gather resources for reforming SOEs, SOBs and SMEs in transition economies.**
- **ASEAN members should set-up a one-stop government agency to coordinate and promote SME development**

How ASEAN-10 can and should be like 30 years from now ?

- **Vibrant and integrated as an effective regional entity through her potentially rich human resource and diverse cultural background, currently ASEAN is still too loose as an economic entity and insufficient command of English as a business language amongst the 500 million population.**
- **More internationalized and risk-taking for ASEAN governments to plug into Asia growth locomotives, currently still too inward looking and lack consensual global perspective.**
- **More confident and ambitious in terms of future economic and political outlook, currently still less than united and not focus.**
- **More engaging in global trade and services, currently ASEAN governments are still too passive, “well behaved” and lack coordinated strategies**
- **A more vibrant ASEAN as a economic entity, currently still far too regulated and too state-controlled especially for transitional economies which called for greater private sector participation.**
- **A more open society for ASEAN community, currently still too harsh and lacks tolerance for dissent.**

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