



Indo-Pacific: Economic Past & Prospects

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INTRODUCTION

- Geopolitics, Geoeconomics & Geography
- Economic Power drives change
 - Economy is Base of the Pyramid of Power
- China Challenge:
 - China's Communist System & Economy is different
- Partial Economic De-coupling
 - Technology De-coupling as Driver
- Indian Power relative to China
 - Supply Chain Opportunity

Geopolitics & Geography

- Changing US Perspective:
- Global Power in Asia to Asia-Pacific Power
 - Open Free Market Democracies
 - Bulwark against Communism, Socialism
- Indo-Pacific(Changing emphasis):
 - Shifting Adversary Russia, Vietnam, N Korea(China) => China
 - Internal Democracy: International Quasi-Democracy(Rule of Law)
 - Bilateral (Ja,SK,Aus) => Quadrilateral
- Changing Indian Perspective
 - Land border(W&N) => S Asia => IOR
 - Return to legacy of British India(Gulf to Singapore)
 - Westward: Pakistan => Afg, Iran, Oman, UAE=>KSA
 - Eastward: Burma=> Vietnam => Japan (Abe 2007)

Economic Driver: Economic Power (VIPP)

Change in economic power has driven the change in Geopolitical perspective from Asia-Pacific to Indo-Pacific:

India's Ec Power < S Korea, Australia in 1990s

= in 2000

In 2018 India's Ec Power 2x S Korea, 3x Australia.

In 2000 Japan's Ec Power ~3x China's,

in 2018 China ~3x Japan

	<u>2000</u>	<u>2001</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2018</u>
China	0.10	0.11	0.24	0.27	0.32	0.67
Japan	0.29	0.29	0.26	0.26	0.25	0.23
India	0.05	0.06	0.08	0.09	0.10	0.18
S Korea	0.05	0.05	0.07	0.07	0.07	0.08
Australia	0.05	0.05	0.05	0.05	0.06	0.06

Change in Geo-Economic Perspective

- Changing US Perspective:
 - Free Market Asian Econs =>
 - (HK, Taiwan, Sg, Ph, Th, Ma)
 - APEC => Indo-Pacific
 - IP Corridor, USI-SD 2013
 - Japan-China-Korea to Japan-Australia-India
 - Asian Market economies (ASEAN) => China Supply Chains
 - TPP?
- Indian Perspective: S Asia => IOR
 - SAARC(1985),
 - 1990-91: USSR Break up, Trade disruption
 - Economic Reforms(1991)=> ASEAN [Look East(1990), Act East]
 - BIMSTEC(1997), SAFTA(2006),
 - GFC(2008) Gulf-Singapore => Vietnam-Japan(Abe 2007)
 - 2014: Look West, Act West
 - US Shale oil=> KSA
 - Bilateral=>Trilateral=>Plurilateral (QUAD)

CHINA: CCP Political Legacy

- CCP Experience more important motivator of Ruling Elites than Ancient Chinese History
 - Middle Kingdom & Suzerainty Approach Internalized in Party
- Maoist Party & Governance System very different from Stalinist
 - Highly De-Centralised vs Very Centralised
 - Clear simple Objectives & Broad Goals (vs detailed)
 - Broad Policy Approach/Direction (vs detailed instructions)
 - Empowered Provinces & Cities: Party & Govt
- Amoral System: Ends Justify The Means
 - Network of Monitors in every level of economy & society
 - Cultural Revolution to correct deviant trends
 - Family members spying on & denouncing each other

CHINA: Economy is Different

- Marxian Legacy: Labor Theory of Value
 - Capital & Technology Value/Price is Salary paid to R&D workers
 - Mao Amoral Legacy: Hovering out Rich country Technology
- Socialist Market Economy (Lerner-Lange-Deng)
 - Rents, Profits, Retained Earnings, Saving & Investment
- Party Sector, Party Capitalists
 - Anti-Corruption campaign to control deviants
 - Assignment of party members to boards to ensure 0 deviance
- Trade Strategy: Net Exports (EP+ISI)
 - NTBs not Tariffs are the key control instrument
 - Trade share pre & post GFC 2008
- Technology Policy: READ strategy
 - Internet De-Coupled
- Asymmetric Trade, Tech policy: 1/3rd of 10% gr

Table 2: Economic Size & Power (VIPP)-India/China

Bipolar World Order emerging with China's Economic Power (VIPP) 2/3rd (0.67) of USA.

China will become a (potential) **Super Power** by 2028-29 with VIPP equal to that of USA.

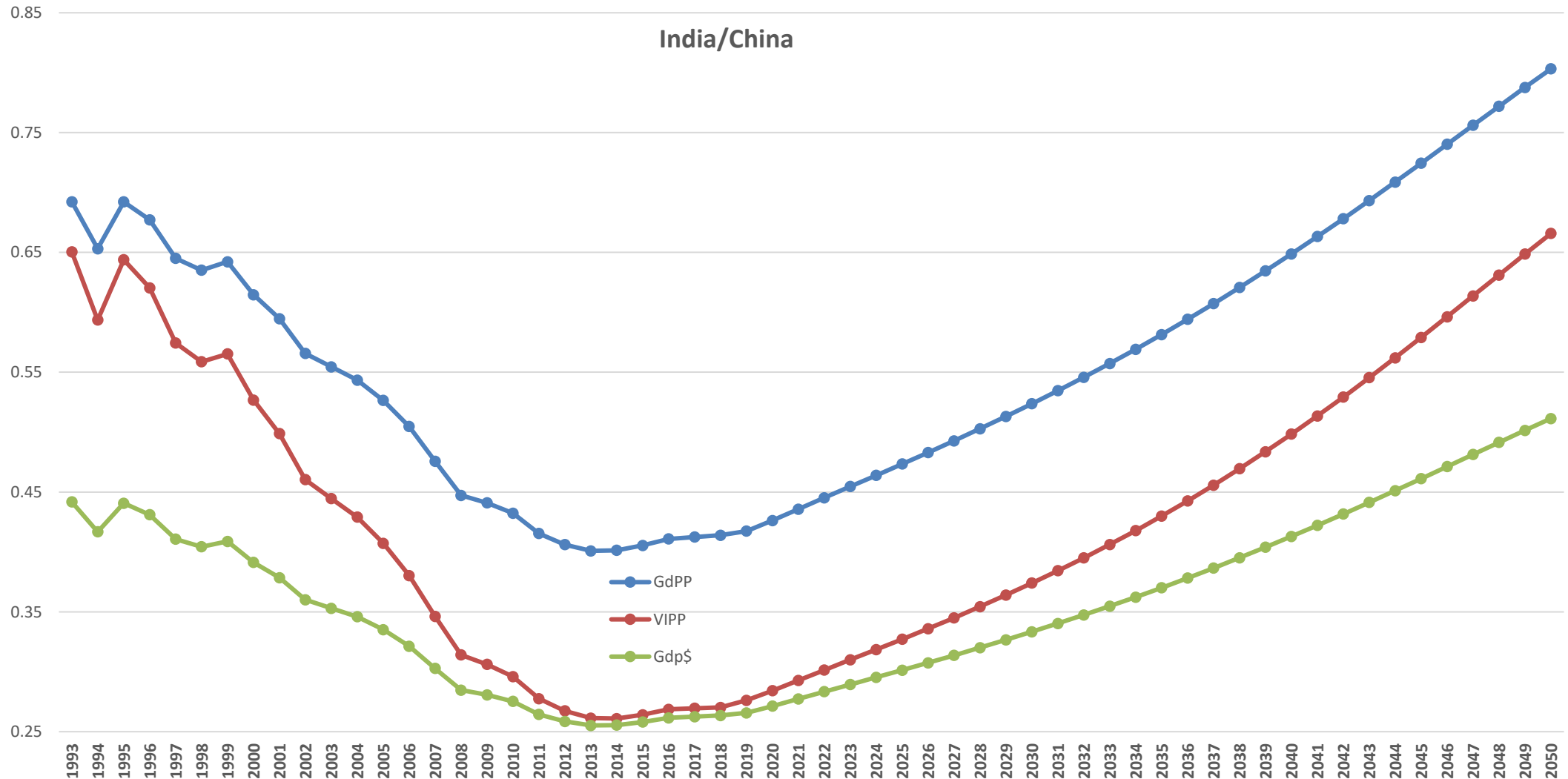
India will be (potential) Great power by 2023-24 with VIPP 1/4th (0.25) of the USA's. This equals USSR VIPP at peak power. India's economic power will equal that of USSR led E Block's peak power (0.35) by 2028.

India will be a **Great Power** by 2032-33 when its VIPP is > 0.40 of that of China and USA.

The next 10-15 years are therefore high risk for India, requiring close partnership with Advanced Economies (particularly USA)

	<u>2018</u>	<u>2022</u>	<u>2024</u>	<u>2028</u>	<u>2029</u>	<u>2032</u>
<u>VIPP</u>						
China	0.67	0.81	0.88	0.99	1.02	1.08
India	0.18	0.24	0.28	0.35	0.37	0.43
<u>India/China</u>						-
GdPP	0.41	0.45	0.46	0.50	0.51	0.55
Gdp\$	0.26	0.28	0.30	0.32	0.33	0.35
VIPP	0.27	0.30	0.32	0.35	0.36	0.40

India Power Relative to China: 1993 to 2050



Partial Econ Decoupling, Strategic Tech Decoupling

- Trade/Tariff/Technology Conflict
 - Technology Theft => Tech decoupling
- FDI and Supply chains: Attractiveness
 - SMT(Asia): India 2nd (Vt) for LI; 3rd for SI (Th, Ma)
 - MLT(10 Ch substitutes): Export potential India 1st .
- India: Once in a Generation Opportunity
 - Doing Business & Logistics (tables 3 & 4)
 - Policy Reform
 - Macro(Money, Credit, Fiscal-SME payment, Rural Exp; DBT-subs; PSU)
 - Tax Reform(CIT, GST, DTC, SST, Tariffs, Duties, QRs)
 - Sectors/Products: Agriculture, Edu/Train-Job skills, Electricity (Industry)
 - Factors: Labor Intensive Manf(5-5), CEZ/SEZ; Land-Industry Estate/Clusters;

Table 3: Ease Of Doing Business : Rank

Economy	Global Rank	Global Score	Protecting Minority Investors	Getting Electricity	Getting Credit	Construction Permits	Resolving Insolvency	Trading across Borders	Paying Taxes	Starting a Business	Register Property	Enforcing Contracts
Malaysia	12	81.5	2	4	37	2	40	49	80	126	33	35
Thailand	21	80.1	3	6	48	34	24	62	68	47	67	37
China	31	77.9	28	12	80	33	51	56	105	27	28	5
INDIA	63	71.0	13	22	25	27	52	68	115	136	154	163
VIETNAM	70	69.8	97	27	25	25	122	104	109	115	64	68
Indonesia	73	69.6	37	33	48	110	38	116	81	140	106	139
Philippines	95	62.8	72	32	132	85	65	113	95	171	120	152

Table 4: LOGISTICS Rank

Country	Aggregate LPI		Customs	Infra-structure	International shipments	Logistics competence	Tracking & tracing	Timeliness
	<u>Rank</u>	<u>Score</u>	-					
China	27	3.6	30	24	18	27	28	29
Thailand	34	3.4	37	41	32	35	35	36
Malaysia	35	3.3	38	33	30	34	38	46
INDIA	42	3.2	43	48	38	39	37	50
VIETNAM	45	3.2	51	54	45	40	44	47
Indonesia	51	3.1	62	61	51	48	45	49
Philippines	64	2.9	70	71	39	64	58	83

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