

ASIA IN THE WORLD ECONOMY

Asia's Importance Growing in Global Economy

IMF Survey online

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- | Asia's share of world growth set to continue rise
- | Indian, Chinese economies fueled by increasing buying power
- | Rebalancing needed to sustain growth

Asia is set to become an increasingly important engine of growth in the future even as it leads the world out of the worst recession in over half a century, according to a leading IMF economist.

Addressing an audience at the National Council of Applied Economic Research (NCAER) in New Delhi, the head of the IMF's Asia and Pacific Department, Anoop Singh, said the region's share of world growth is likely to increase, enhancing Asia's role as an economic powerhouse over the next few decades.

On current trends, it is estimated that by 2030, Asia's economy will be larger than that of the United States and European Union combined with the region's share of world GDP swelling from a little under 30 percent closer to more than 40 percent.

"Twenty years from now, Asia's economy as a whole will, on these trends, be larger than that of the G-7 [Group of Seven leading economies] and will be half the size of the G-20 [Group of Twenty advanced and emerging market economies]," said Singh.

"These are incredible trends taking place."

Growth rises, poverty declines

Asia's rapid growth over the last two decades has been accompanied by a dramatic reduction in poverty. In the East Asia and Pacific region alone, the percentage of the population living on less than \$1.25 a day has dropped from 55 percent in 1990 to 17 percent in 2005. That figure is predicted to fall a further 10 percentage points over the next six years. But Singh also sounded a note of caution.

"Asia still has the highest number of people in poverty and so the catching up process needs to continue," he said.



Asia's importance as economic powerhouse, engine of growth for world economy will continue to grow, says IMF Asia chief Anoop Singh (IMF photo)

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He also predicted that China and India will shadow the rapid development of other Asian neighbors, with growth continuing for decades, and the buying power of the Chinese and Indians also increasing to almost match that of consumers in the United States and European Union combined.

“China has already surpassed the level of output of other Asian economies at a similar stage in their takeoff. But as we look ahead, the larger Chinese population—and there is still ongoing urbanization and social migration—is likely to sustain China’s growth for several more years.”

Reducing trade dependence

The IMF official’s presentation to the NCAER came during a two-day trip to India where he launched the Fund’s economic outlook for the region. Although Asia is leading the recovery of the world economy, the global crisis has underscored the vulnerabilities stemming from overdependence on trade.

Singh said Asia’s resilience could be boosted by adding a second engine of growth—domestic demand. He pointed out that those countries in Asia which had sustained domestic demand had suffered far less from the effects of the global slump than those heavily dependent on trade.

In recent months, the Fund has been stressing the need for Asia to rebalance its growth by encouraging greater domestic demand, and the IMF official highlighted four key policy priorities for countries to raise domestic consumption and sustain investment.

- Enhance social safety nets
- Improve infrastructure
- Advance financial sector reforms
- Allow greater exchange rate flexibility

The path to rebalancing

“Apart from the obvious welfare implication, [enhancing social safety nets] would spur consumption growth” while infrastructure improvements “would relieve supply bottlenecks and boost potential output,” said Singh.

Financial systems in Asia have remained resilient during the crisis, but Singh said financial sector reforms could also help the rebalancing effort by supporting both consumption and investment. He pointed out that improving access to credit could help reduce households’ precautionary savings and spur investment by small and medium-sized enterprises, while developing new instruments and segments of the financial sector could also help fund infrastructure and capacity in new industries.

Singh also highlighted the benefits of allowing flexible exchange rate policies, which he suggested would, over time, help reallocate resources from the tradable to the non-tradable sector.

With Asia rising and becoming increasingly integrated into the global economy, Singh said that a globalized economy would require a multilateral approach to policies. He added that international organizations, such as the IMF, had a crucial role to play in the formulation of those policies.

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