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Peculiarities, Problems, and Perspectives of Economic Development of Asian and North African Countries

All-Russian economic conference was held in the Institute of Oriental Studies, Russian Academy of Sciences on March 20, 2017.

The conference was conducted in two sessions: one dealing with technological and the other with socio-economic issues.

Proceedings of the technological section were presented in the previous publication of Eastern Analytics.

Socio-economic section has been dedicated to discussion of the economic development in Eastern, South-Eastern, South Asia, in the Middle East and North Africa, and also to general issues of economic development of the East.

Yu. Alexandrov, V. Boitsov, D. Gordienko, M. Korosteleva, I. Lebedeva, A. Muranova, V. Nezdanov, A. Simonova, D. Streltsov were the speakers on Eastern and South-East Asia. The main issue of discussion was whether East and South East Asia will become new centers of global economy with sustainable development or this will not be the case.

D. Streltsov (Institute of Oriental Studies, RAS) in his report **Global Positions of Japan in the World Economy: Long-Term Trends** states that in 2010s one can see a qualitative shift in the global positioning of Japanese economy. It is evident, on the one hand, there is a gradual decrease of Japan's GDP share in the global economy, and, on the other hand, there are qualitative changes in the economic development model of the country.

The financial and economic crisis of 2008–2010 led Japan to a greater economic decline than in other countries. Besides, the economic recovery after the crisis took place at a substantially lower pace than in other countries. As a result, the proportion of Japan in the global GDP in nominal terms fell from 15.2 per cent in 1992 to 5.97 per cent in 2014, leaving the country on third place after the United States and China.

For two and a half decades the international competitiveness of Japanese economy has also significantly decreased. While prior to the 1990-s Japan occupied the first place in the world, by early 2010s it had dropped to the tenth.

However, Japan continues to occupy top ratings on several criteria of international competitiveness. Among the strong points characterizing Japanese economy as the one among the top five in the world, report of the World economic forum for 2016/2017 mentions excellent infrastructure, highly sophisticated firms, typically utilizing unique products and production processes with significant control over international distribution.

A steady decline is seen also in Japan's share in the global commodity trade. The reduction of the share of commodity exports in Japan's foreign trade balance is the result of the formation of a new model of labor division between Japan and

East Asian countries, in which different stages of production process are scattered among different countries of the region. The object of international trade in East Asia is mostly not the finished goods and services, but the value added.

The main trend for the past few years is the development of exports for the entire scope of infrastructure projects from Japan to the East Asian countries. Japan promotes the so-called 'integrated systems', which imply the integrated projects in the fields of production and social infrastructure: industrial technologies projects, energy development projects, ecological projects etc.

I. Lebedeva (Institute of Oriental Studies, RAS) in her report **Japan: The Diversification of Forms of Employment and the Deepening of Social Stratification** stresses that by a number of reasons, including the changes that are taking place in Japanese labor market, the country cannot overcome the stagnation of consumer demand. Since consumer demand accounts for over 60 per cent of GDP, this factor has been a major constraint for the economic growth of the country. Thus, Japanese companies seek to exploit the growth potential inherent in the Asian economies.

This is not a new direction for Japan. It started to do this since the 1970s, and now we can say that Japan has played a very important role in accelerating socio-economic development of the countries of East and South-East Asia. At the early stages, in 1970s and 1980s, its assistance to the countries of the region had progressed mainly through official development assistance (ODA) and was aimed primarily at the construction of economic infrastructure. During the period of 1990–2015 the total amount of Japanese official development assistance to the countries of the region amounted to about 200 billion dollars. Many projects have been implemented in the form of public-private partnerships.

Since late 1980s, when basic conditions for activities of private capital were set, the rapid growth of direct investment of Japanese companies had begun. At the end of 2015, their accumulated volume was about 250 billion dollars, with approximately 2/3 of this sum being invested in the creation of manufacturing enterprises, particularly in the auto industry and electrical machinery. Since these industries have a high multiplier effect, that structure of Japanese direct investment contributes to economic growth of the countries in the region.

Of course, the impulses to economic development of Asian states exist outside the network of Japanese enterprises too – due to direct investments from other developed countries and efforts of the region's states themselves, but the role of Japanese investment is significant.

The nature of trade between Japan and other countries of the region is characterized by high proportion in mutual flows of products of machine industry: Japan supplies machinery, equipment, high-tech parts, while the countries of the region provide consumer products and machine parts. It means that there is a process of broadening and deepening of inter-branch and intra-branch division of labor across the region, at the heart of which is machinery industry.

Japan seeks to use the potential of expansion of consumer demand in the countries of the region as well. Many of the countries of the region are passing through the period of a so-called demographic bonus, which is especially favorable for the expansion of consumption and economic growth. Thousands of small and medium-sized companies from Japan have already opened the enterprises abroad that are focused on satisfaction of the demand of population (with average income ranging in the countries of the region from 3 to 20 thousand dollars per family a year). They expect, that as a result of the economic growth and demographic changes there will be a rapid expansion of the middle class here, and that by 2030 the number of people in this category will increase to 5,5 billion people, and the volume of their demand for goods and services – up to 70 trillion dollars.

In general, during the last 15–20 years position of Japan as producer, exporter and consumer of many types of industrial products within the region had gradually weakened, but it there is no doubt that for a long time it will remain the main supplier of technologies and of capital for the countries of the region.

D. Gordienko, in his report **Ensuring Economic Safety of South Korea in the Implementation of the Agreement on the Transtichokeyan Strategic Economic Cooperation** says that the Trans-Pacific Partnership (TPP) is an international trade and economic organization whose goal is to create a free trade zone in the Asia-Pacific region. The organization was created on the basis of the developed trade agreements between its participants. The real participants of the TTP are its four founders, as well as the countries that are negotiating the terms of their participation, as well as the rules of the new trade block.

The *economic patronage* of South Korea, as a form of ensuring the economic security of the state, in the conditions of globalization determines, first of all, the implementation (observance) of various norms concerning the functioning of the national economy on the economic territory of the state in the presence of various external and internal threats.

The *economic cooperation* of South Korea with the countries participating in the Trans-Pacific Partnership can be characterized by the corresponding indicators of the country's trade turnover in the period from 2010 to 2020. The implementation of the Agreement on the Trans-Pacific Strategic Economic Cooperation will increase the share of South Korea's trade with the countries participating in the Trans-Pacific Partnership by 2020 by no less than 3.63 per cent – from 36.33 per cent (490.4 billion dollars) to 39.96 per cent. (539.4 billion dollars).

The *economic confrontation* between South Korea and the member countries of the Trans-Pacific Partnership can be characterized by the corresponding indicators of the unrealized trade turnover of this country in the period from 2010 to 2020.

The implementation of the Agreement on the Trans-Pacific Strategic Economic Cooperation will reduce the share of South Korea's unrealized trade turnover with the countries participating in the Trans-Pacific Partnership by 2020 by no less than 14.53 per cent – from 36.33 per cent (122.6 billion dollars) to 21.80 per cent (73.6 billion dollars).

The presented approach to assessing the changes in the level of economic security of South Korea and other TTP member states in the implementation of the Agreement on the Trans-Pacific Strategic Economic Cooperation makes it possible to determine the range of share in the export of goods to each of the TTP member states and of imports to each of them. The figures show that maximum levels of economic security can be achieved for TTP member states.

V. Boitsov in his report **Import Substitution as a Growth Factor for South-East Asia (SEA) Countries** considers that the relevance of studying import substitution impact on the economic growth is associated both with the rising attention of developing countries to import-substituting model and in particular, this refers to the recent Russian model.

According to the estimates, for the period of 1960–2015 import substitution efficiency in the GDP growth of SEA countries, notwithstanding the apparent economies diversification, was characterised by negative indicators. That is the result of prevailing export expansion factors and specifically of domestic demand and thus of poor macroeconomic performance either for the whole period or for rather long-term periods of time.

The sustainable growth of import substitution efficiency in SEA countries was outlined only at a later stage oriented towards pivotal economies restructuring. That presupposed considerable investments and other resources involvement comparable in scale to expenditures for export orientation needs, thus foreign investors' large-scale involvement. In such a way, import substitution has a favourable forecast only in case if active support to import substitution industries will become increasingly appealing for foreign investors as contribution to export-oriented production.

The incremental import substitution efficiency together with export orientation retaining its positions, notwithstanding the variations diversity in specific countries of the region, testifies to the external factors enhancing impact in terms of industrial growth in such countries due to depreciating internal stimuli.

M. Korosteleva in her report **The Impact of Japanese FDI to China on The Dynamics and Structure of Bilateral Trade** stresses that in absolute terms, the Sino-Japanese trade has a great weight in the world economy. In 2015, the trade turnover between the two countries amounted to about 270 billion dollars, which was less only than the merchandise trade between the US and China, the US and Canada and the US and Mexico.

At the beginning of the 21st century, the driver of economic growth in Japan was export (in 2002–2007 the average annual growth rate of real exports was 9.5 per cent, the share of merchandise exports in GDP increased from 10 to 15 per cent). A significant proportion of Japanese export goes to China (the PRC); in 2000–2015 it increased from 6.3 to 18 per cent The expansion of Japanese exports to China is directly related to the activities of Japanese affiliates. Exports from Japan are dominated by capital and intermediate goods, sent to equip and supply Japanese subsidiaries in China. Impressive amount of Japanese FDI stock in the industrial sector of the Chinese economy ($72.4 billion in 2015) ensures the stability of the existing trade relations. Under such circumstances, the probability of sharp falls in bilateral trade is reduced, provided all other things being stable.

Even if the Sino-Japanese trade shrinks due to the negative impact of exogenous crises, the recovery comes rather quickly and the graph of the bilateral merchandise trade resembles a U-shaped curve. To illustrate this statement: during the large-scale demand crisis of 2008–2009 Japanese exports to China in real terms recovered in a much shorter period than global Japanese exports.

The activities of Japanese companies in China combined with the Chinese technological catching-up do not only affect the dynamics of bilateral trade, but also lead to qualitative changes. Previously, before the beginning of the 2000s, Japan sold high-tech manufactured products (mainly general machinery) to China, and in return received raw materials, materials that had undergone only initial processing, and products of labor-intensive industries, which means that the bilateral trade was based on the classical Heckscher-Ohlin theory. However, at the present stage, both Japan and China supply each other with high-tech finished products and medium-tech intermediate products. Countries are increasingly exchanging products of the same industries, which are reflected in the growth of Grubel-Lloyd index. If the index is equal to 100, then the level of intra-industry trade is maximal; if the index is equal to 0, then countries buy from each other those goods that they do not export themselves, which shows an inter-industry trade pattern. In the case of Japan and China, the level of intra-industry trade is growing: Grubel-Lloyd index was 31.7 in 2000, 37.3 in 2010, and as high as 43.7 in 2015.

Based on this model of bilateral trade one can anticipate further expansion of the exchange of products of the same industries as the technological level of China rises. Just for comparison: Grubel-Lloyd index for Japanese-Korean trade was 54.2, for Japanese trade with Singapore – 60.1 in 2015.

At the present stage, the growth of Japanese economy is largely procured by external factors, and the stability of supply to the largest market of China is an important condition for maintaining the positive dynamics of economic indicators. In the medium term, it is possible to forecast an increase in the share of technologically heterogeneous products of the same industries in the bilateral merchandise trade. In addition, we can expect a gradual increase in the supply of consumer goods produced in Japan to Chinese market.

Active participation in global value chains obviously has a stabilizing effect on the dynamics of foreign trade of other East Asian countries. For export-oriented economies, such stabilization becomes a condition for sustainable economic growth. This creates real prerequisites for strengthening intraregional and even interregional integration processes. The transfer of the entire production cycle to one country proves to be disadvantageous, since in this case the country loses profits from the scale production, based on the needs of customers from abroad.

The side effect here is the increasing economic interdependence between countries and the need for political rapprochement, since any serious political tension will have a negative impact on the economic relations (as it happened in Sino-Japanese relations after the escalation of the territorial conflict in 2012). The future will show, whether the East Asian states will be able to overcome some of their political conflicts for the sake of economic prosperity.

V. Nemchinov (Institute of Oriental Studies, RAS) in his presentation **"Oriental Political Economy: Past, Present and Future"** briefly outlines the concepts of socio-economic evolution of the East starting with primordial households, hydraulic conglomerations, despotism, Asian mode of production, proceeding then to center-periphery theories, concepts of dependent, catch-up and leap-frog development. Views of such prominent economists as S. Tulpanov, A. Levkovsky, V. Yashkin, G. Shirokov, A. Petrov and other orientalists laid foundation to the newest concepts of Eurasian political economy, to prospects of regional cooperation and to innovative economic development. Positive scenarios drafting the future are opposed by dissipatory and negative developments in dual economies, by growth of archaic relations and anti-systemic economic destruction that are observed in weak and failed states of the region.

A. Simonova in her report **"One Belt – One Way" As a Global Chinese Economic Project** discusses the region of East and South-East Asia as a new center of the world economy with sustainable growth. She insists that the region of East and South-East Asia has undoubtedly long ago become not just a counterweight to its Western opponents led by the United States, but also a full-fledged winner in the world race for the right to be called a new center of the world economy. The question for today is only whether it will be possible to retain such a high rank or not.

Since the era of reform and opening up, China has relentlessly shifted its economy to the new rails, improved and expanded them. The result of this painstaking work looks more than convincing. Thus, China's GDP at the end of the 20th century amounted to 15.8 per cent compared to 3 per cent, which had been the case in the middle of the last century [1]. China outperformed almost all the countries of the world in terms of GDP, staying behind of only the United States. The reasons for such rapid economic growth in China, among others, were: a very large population and its ambitiousness, the desire to move national economy forward, the aspiration for a decent life similar to the European standards. Indeed, these were the main reasons that allowed China to make an "economic miracle."

However, it is precisely those factors that once allowed China to become almost the world's first economic power, that began to hamper its development at the beginning of the 21st century. (In 2016, China's GDP growth was 6.7 per cent as predicted earlier.) In this regard, the Swiss investment bank Crédit Suisse in the report "Global Investment Strategies" even suggested that in 2017, China's GDP growth may drop to 5 per cent.

In the author's opinion, it is the qualitative increase in the living standards of a large number of Chinese citizens, their widespread desire to have high wages commensurate with the European ones, which led to China to losing one of its main economic trump cards: a multimillion cheap labor force. Thus, this region (as seen on the example of China), although it had achieved serious economic success, today cannot guarantee a steady growth in future.