

## **Is the EU a model for Asia's development?**

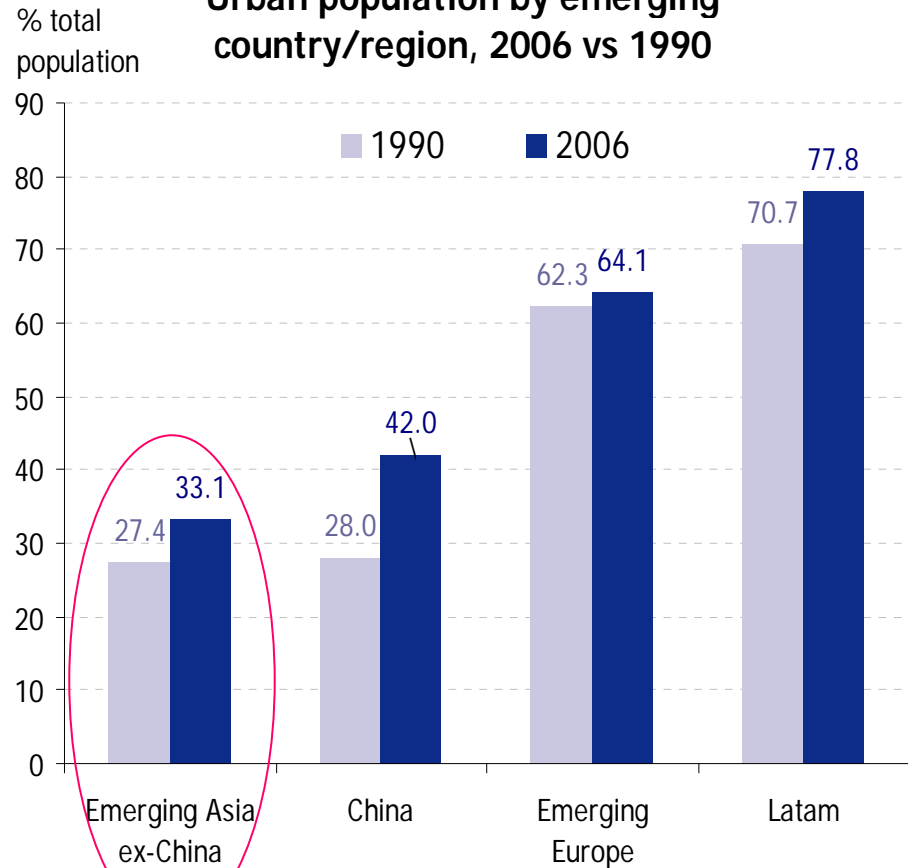
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- 1. The current EU economic model is probably not fully exportable to Asia**
- 2. However, European experiences with development/growth can be interesting for Asian countries**
- 3. How interesting will depend not only on each country's level of development/economic structure but also on culture/values**
- 4. Rebalancing the economy probably an interesting issue to all Asian countries**

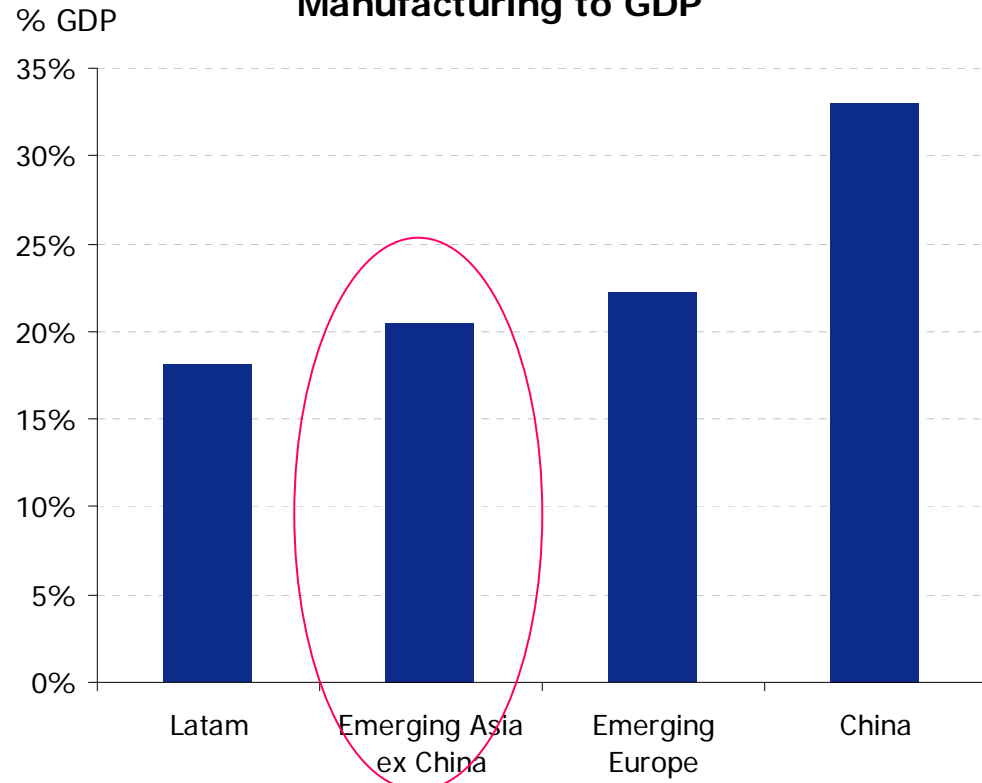
- The view conveyed about Europe is one of sustainable development where not everything is GDP.
- While such vision of the world is understandable for Europeans, the **point is much harder to make for emerging Asia** where a large share of the population needs to be taken out of poverty
  - For example, the idea of **valuing free time** – as a justification for fewer hours worked in Europe– may be hard to justify for citizens from emerging Asia.
  - If at last the phenomenon of fewer working hours were coupled with higher **productivity**, it would be easier to sell as life balancing model

- Emerging Asia –specially the least developed one - is now experiencing some kind of industrial revolution: **growing urbanization and industrialization**
- This process is the main reason for high productivity gains
- And it is my no means over...

**Urban population by emerging country/region, 2006 vs 1990**



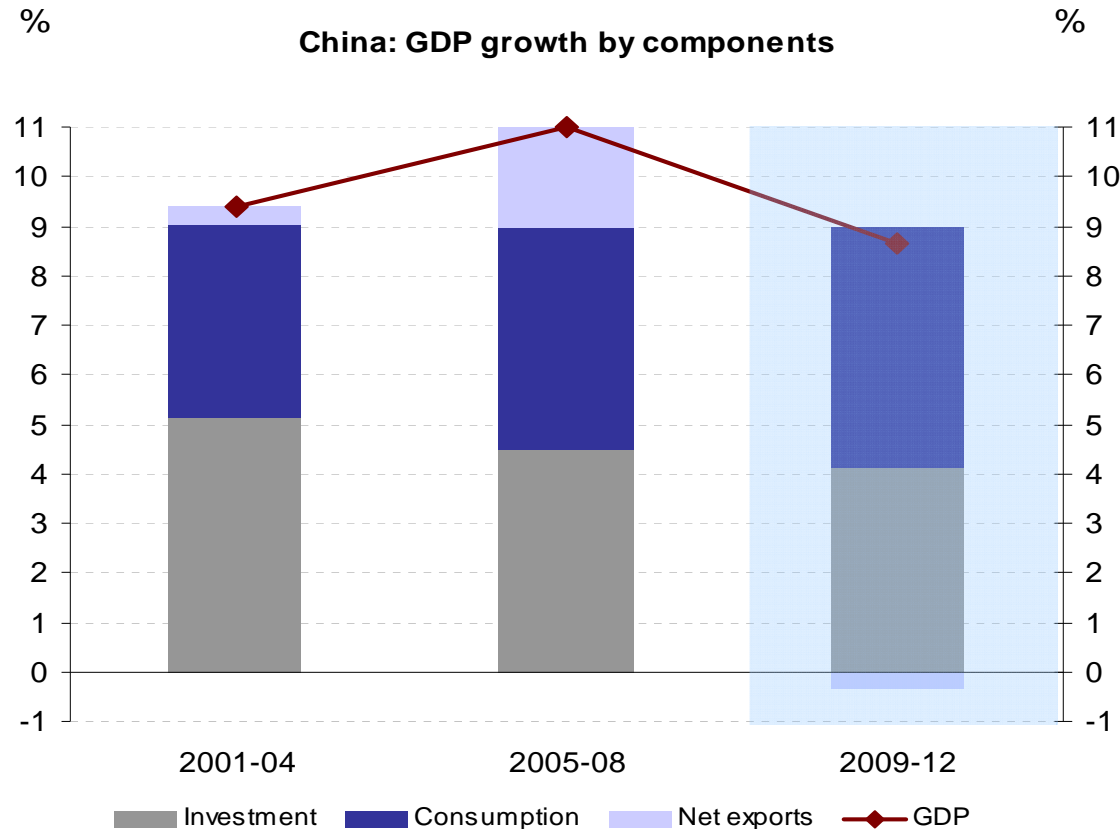
**Manufacturing to GDP**



- Europe went through it already and realized the process has to be as **environmentally and socially sustainable**
  - When Europe industrialized, there was virtually no other way to increase the standard of living of its citizens. Today, **development of services is another important engine**
  - Finally, Europe has had an evolutionary approach to **industrial policy** which Asian countries may want to look into.
    - In fact, economic integration (i.,e., the construction of EU) has clearly helped reduce non competitive forces

- Hard to know today whether the difference in Asia's and Europe's growth patterns is due to different starting points or different values/culture
- Still, there is a point that looks quite relevant for all Asian countries, no matter which degree of development and which culture/values towards development: i.e., **rebalancing growth**
  - Europe has quite a balanced growth model (more than the US and Asia)
  - China will need to rely more on **private consumption**
  - The rest of Asia on **investment** (possibly private)

- The increase in private investment by the rest of Asia looks reasonably easy since infrastructure needs are enormous particularly given the ongoing urbanization process
- The increase in Chinese private consumption will happen. These are our projections:

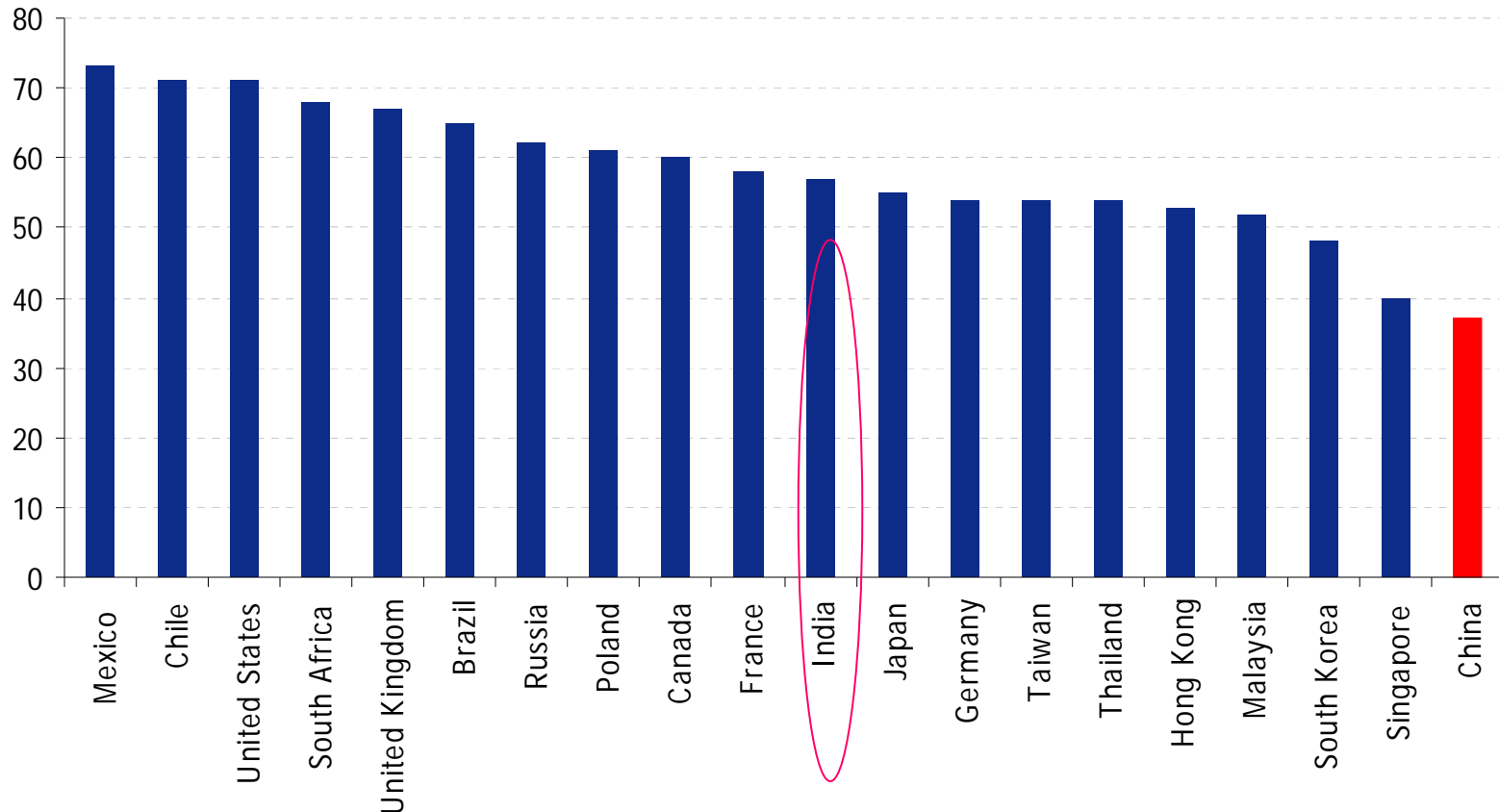




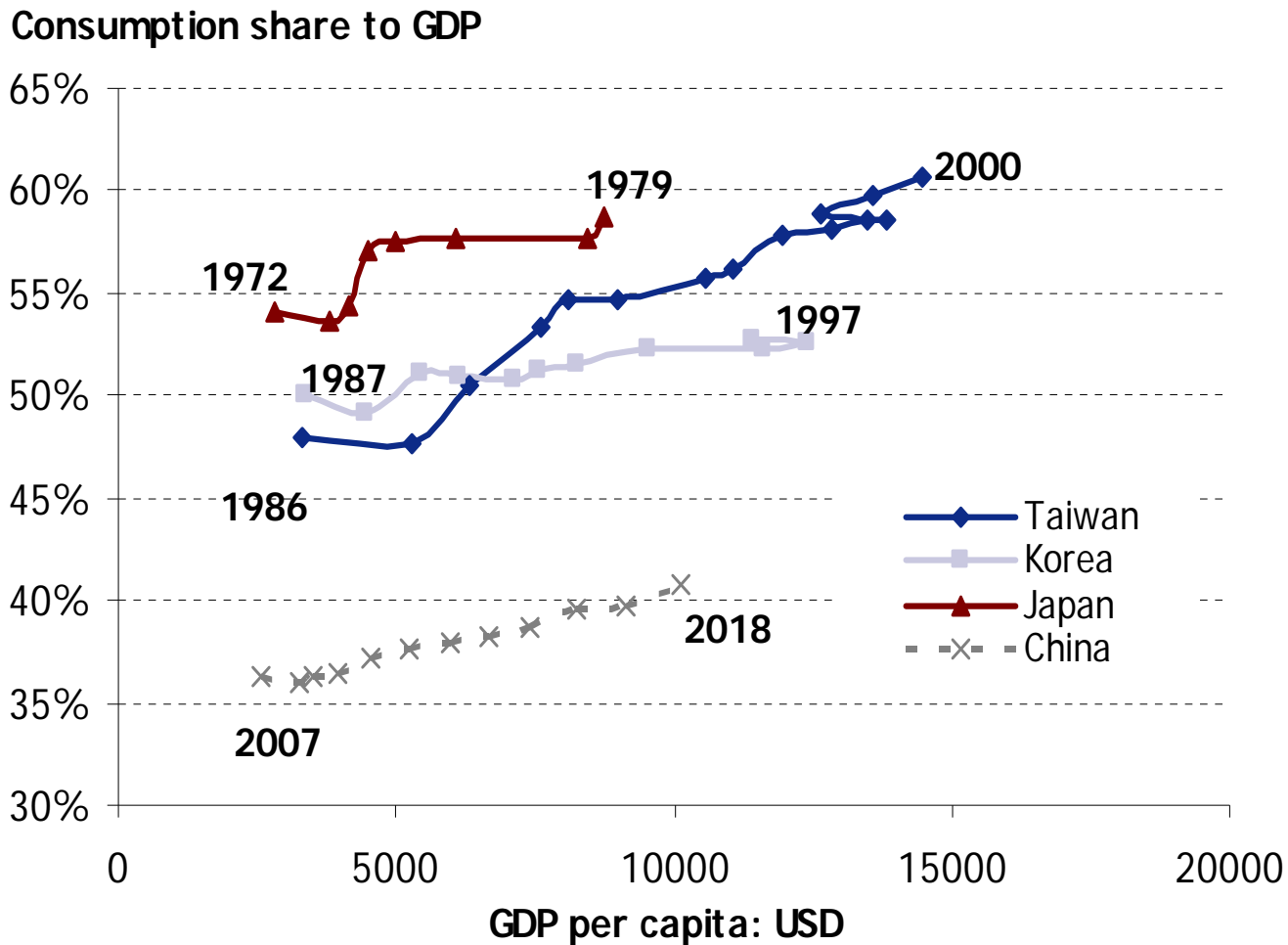
Our confidence in such a rebalancing story is based on several factors:

1. China's private consumption as a share to GDP is unacceptably low

Private Consumption as a share of GDP, 2008 (%)



2. Such consumption boom has already happened in other Asian countries



### 3. A social welfare state is starting to be created to reduce precautionary savings

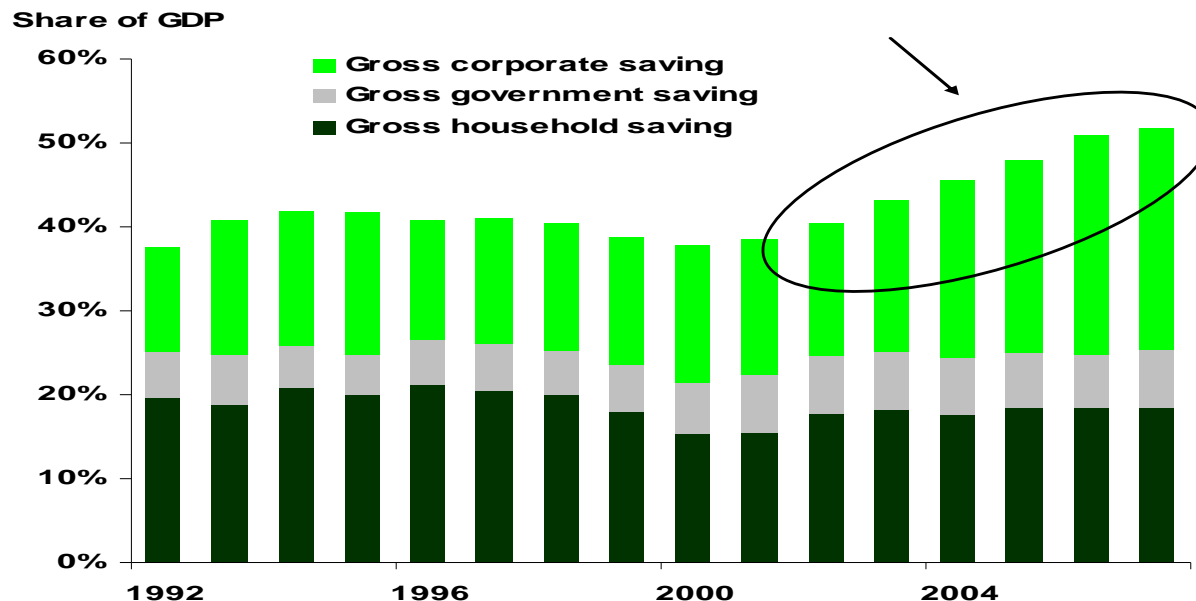
- On health, medical insurance will be provided for 90% of the population over the next three years (using 1/5 of fiscal package).
- On retirement: the three-pillar pension system is being designed for urban areas with plans to provide pensions for rural residents.
- On education, plans are being developed to make education financially more accessible to all students

#### 4. Affordable housing is been promoted

- Chinese were saving enormous amounts to purchase housing (high downpayment and lack of housing for middle/low income families)

#### 5. Corporate savings are been reduced

- 10% of corporate savings now need to be paid to State as dividends



- **Europe has interesting experiences to offer to Asia although it does not seem it can serve as a model for development for Asia**
- **Which experience is interesting will be different country by country depending on starting point and culture/values**
- **One European experience that might be interesting for all Asian countries is how to rebalance one's economy**