

A Next Growth Model for Asian Economy: Beyond “the Workshop of the World”

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The Asian economy, as the center of global value chains (GVCs), achieved high export-driven growth by combining its inexpensive labor force with sophisticated skills and know-how embedded in foreign direct investments and trade transactions using IT. Since the latter half of the 2000s, however, the growth rate of the Asian economy has slowed together with the growth rate of global trade volume. This fact indicates that the Asian economy has met the turning point of its growth model as “the workshop of the world.”

The global trade slowdown has been partly attributable to structural factors besides cyclical factors. This implies that the volume of global trade will not grow at the same steady pace as it once did and therefore the Asian economy is forced to reform its growth model. In the next growth model for the Asian economy, it is the service sector that will play a key role. Firstly, considering that final demand in a country tends to shift from goods to services as the income level increases, the service sector in the Asian economy has a large potential to grow. Secondly, to improve GVCs and boost the value of export goods, it is effective to combine the production process with high value-added services, such as product development, design, and advertising. The growth of the service sector requires not only the improvements of tangible infrastructure such as transportation and telecommunications, but also those of intangible infrastructure such as the legal system, regulations, and education.

A free trade system is essential for the future growth of Asia. Once trade liberalization expands in the service sector, the Asian economy will contribute more significantly to the global economic growth in the coming years.