Climate Crisis, Geopolitical Realignment, and Structural Transformation in Developing Asia

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Indonesia comparative growth performance

	Per capita income (USD) 1967* (ranking)	Per capita income (USD) 2004 (ranking)	1967-2004 Multiples (ranking)	Per capita income (USD) 2024 (ranking)	2004-2024 Multiples (ranking)
Indonesia	**53 (12)**	**1,127 (10)**	**21.26 (2)**	**4,925 (10)**	**4.37 (3)**
Vietnam	N/A	**565 (13)**	N/A	4,717 (11)	8.35 (2)
China	97 (11)	1,531 (9)	15.78 (3)	13,303 (5)	**8.69(1)**
India	98 (10)	624 (12)	6.36 (10)	**2,697 (13)**	4.32 (4)
Korea	161 (9)	**16,496 (1)**	**102.46 (1)**	**33,121 (1)**	2.01 (11)
Thailand	171 (8)	2,642 (8)	15.45 (4)	7,345 (8)	2.78 (8)
Philippines	223 (7)	1,100 (11)	4.93 (11)	3,984 (12)	3.62 (5)
Malaysia	335 (6)	4,939 (5)	14.74 (5)	11,867 (6)	2.40 (10)
Brazil	352 (5)	3,664 (7)	10.41 (8)	10,280 (7)	2.81 (7)
Türkiye	459 (4)	5,961 (3)	12.99 (7)	15,473 (2)	2.60 (9)
Mexico	576 (3)	7,850 (2)	13.62 (6)	14,158 (3)	1.80 (12)
S. Africa	779 (2)	5,221 (4)	6.70 (9)	6,253 (9)	**1.20 (13)**
Argentina	**1,064 (1)**	4,242 (6)	**3.99 (12)**	13,858 (4)	3.27 (6)

Long-term structural problems

- Long-term structural problems of macroeconomic instability, weak growth momentum, and most importantly inability to 'endogenously' upgrade due to
  - Continued dependence on unprocessed commodities still high – especially in the case of Indonesia
    - Indonesia's share of unprocessed primary commodities in total export in 2019-21 was 54%, compared to 29% of Malaysia, 28% of Thailand, 20% of the Philippines, and 14% of Vietnam during the same period.
  - Premature de-industrialisation
    - Indonesia: share of manufacturing in GDP from 32% in 2002 to 19% in 2024
    - Malaysia from 31-2% to 23-4% , Thailand from 30-31% to 24-5%
    - De-industrialisation is not inevitable even at a high level of income – South Korea has maintained its share of manufacturing in GDP at 24-28% since 1988 (when it first achieved 28%)

New Global Challenges: Climate

- The challenge of **climate change and other ecological crises**
  - Southeast Asia is one of the countries that will suffer most from **climate change**
  - Being nations made up of islands and/or with long coastlines, the region is particularly vulnerable to the crises in the oceans (rising sea level, warming of oceans, destruction of marine life, plastic pollution, acidification)
  - As one of the three 'lungs' of the earth (together with the Amazon and the Congo Basin), the region needs to preserve its **rainforests**
  - However, at the same time, the climate crisis has opened up **'green windows of opportunity'**, giving developing countries the chance to catch up faster with or even leap-frog the rich countries in 'green' industries.

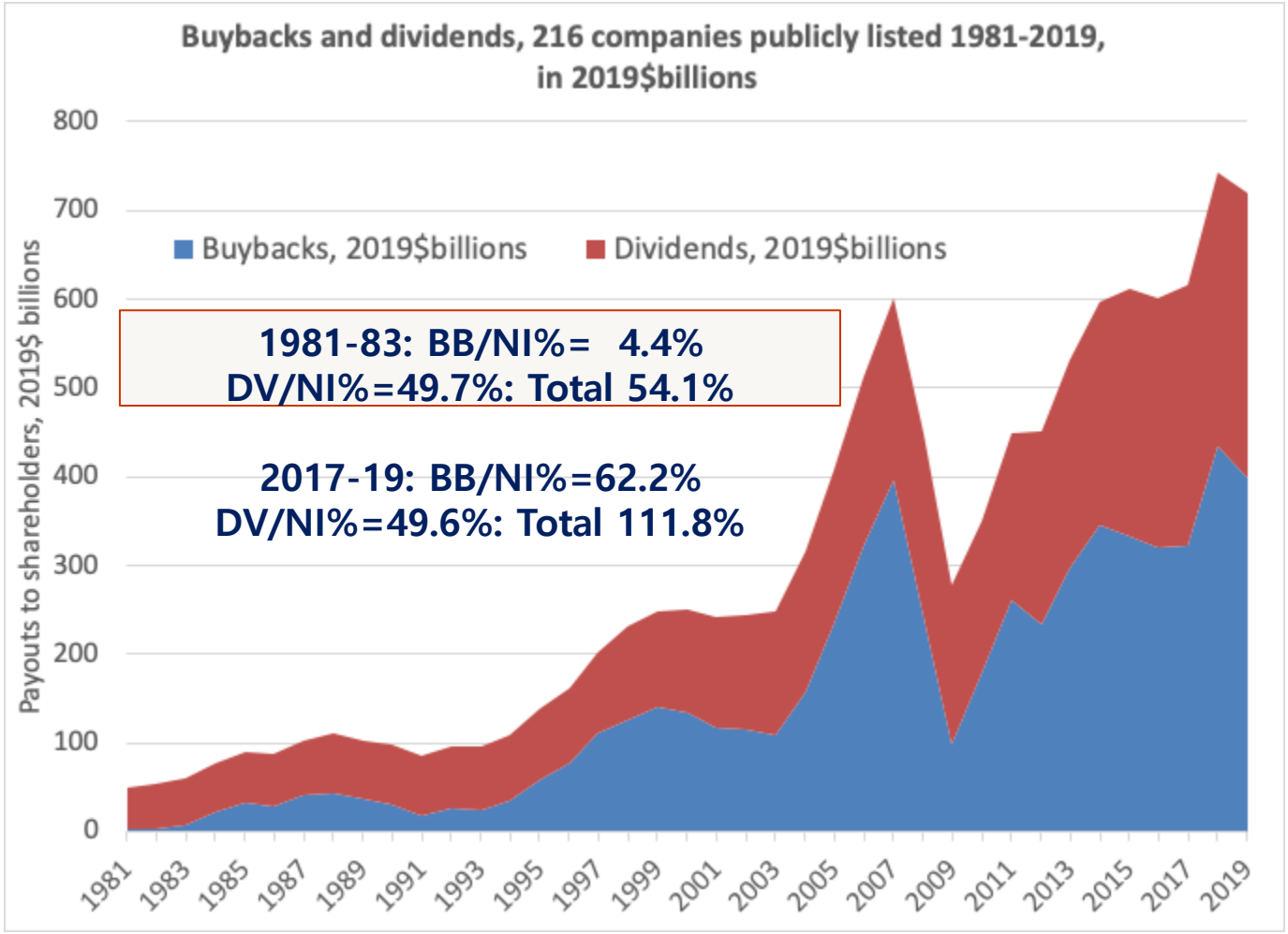
New Global Challenges: Geopolitics

- Increasingly complicated **global geopolitical environment**
  - The rise of **China and the (doomed) pushback from the US** and, to a far lesser extent, the EU
  - The resulting geopolitical realignments increase uncertainty and creates new risks, but they also open up new economic links and political alliances
  - **The increasing importance of the Global South** in global economy and politics (trade, investments, aid, multilateral lending)
  - Emergence of **new mechanisms of South-South cooperation** (enlargement of BRICS, including Indonesia, African Continental Free Trade Agreement, etc.)

The Decline of US manufacturing

- **1950:** produced around 60% of world's manufacturing
- **Mid-1980s**: still produced around 30% (what Britain produced in 1870)
- **Today**: produces around 16%, against around 30% of China
  - The US builds around 10 ships a year, against around 1,700 of China.
  - It cannot run its hi-tech industries without micro-chips manufactured in East Asia.
  - It cannot produce its famous hi-tech weapons without rare-earth minerals, 90% of which are processed (and 60-70% mined as well) in China.
  - Boeing used to be the best and the largest airline company in the world, but it is on the verge of collapse.

US Shareholder Capitalism



Profit giveaways by US corporations

- Between 1998 and 2018, Boeing gave away 121% of its profits in the forms of dividends and share (stock) buy-backs.
- Between 2010 and 2019,
  - General Electric gave away 313% of its profits (135% of it buy-backs)
  - Qualcomm 192% (133% of it buy-backs)
  - Merck 172% (81% of it buy-backs)
  - Oracle 151% (127% of it buy-backs)
  - Cisco 150% (106% of it buy-backs)
  - Pfizer 116% (60% of it buy-backs)
- Apple and Microsoft were better – they gave away "only" 97% and 98% respectively of their profits.
- Exception was Alphabet (Google): gave away only 31% of profits (interestingly, all in buy-backs, no dividends)

Need for new development strategies I

- These new strategies should aim to transform the productive structure and the productive capabilities of the economy mainly through re-industrialisation
- They will allow us to address the three key challenges that I mentioned above

- Overcoming the problems coming from **weak economic structure**
  - Sustained improvements in **living standards**
  - Creation of a sufficient number of good-quality **jobs**
  - To create a more **stable macroeconomy**
  - Creation of **endogenous momentum** for diversification and upgrading

Need for a new development strategy II

- Fighting **ecological crises**
  - More sophisticated production structure and greater productive capabilities will allow a quicker transition to renewable energy
  - They will increase the ability to adapt to the consequences of climate change (cf. Haiti vs. Japan)
  - It will maintain the region's role as one of the three 'lungs' of the earth (together with the Amazon and the Congo Basin) by reducing the need to destroy rainforests in order to exploit natural resources
- The new strategies will also help countries negotiate an increasingly complicated **geopolitical realignments** better
  - Having a more diversified economy means that a country becomes less dependent on particular economic partners
  - Being more capable (upgrading) in more areas (diversification) means that it can become partners with more countries

Appendix

Why Manufacturing?

Why Manufacturing? I

- At this point, people may ask whether manufacturing-driven development is an outdated model in this 'post-industrial knowledge economy' (PIKE), in which services, especially knowledge-intensive services like finance, research, design, and logistics are the leading sectors.

- However, we do not live in a PIKE
  - Worldwide, the share of manufacturing in GDP or in total employment have been more or less constant since the 1970s
  - What has been happening is a dramatic redistribution of manufacturing activities, resulting in de-industrialisation in many countries, including premature de-industrialisation in developing countries, including Indonesia.

Why Manufacturing? II

- Moreover, manufacturing has unique properties that make it essential for high-quality growth based on diversification and upgrading.
  - Manufacturing lends itself easily to mechanisation and chemical processing, so it has **inherently faster productivity growth** than agriculture or services.
  - It is the sector **where most R&D is conducted**.
    - Even in the US and the UK, where manufacturing accounts for only around 10% of GDP, 60-70% of R&D is conducted in the manufacturing sector.
    - In countries like Germany or Korea, with stronger manufacturing, 90% of R&D is done in the manufacturing sector.
  - Manufacturing **enables productivity growth in other sectors** by supplying inputs (e.g., sensors, drones, fertilisers, computers for services and high-value agriculture) and organisational innovations (e.g., inventory management technique, computer-controlled feeding in agriculture).

Why Manufacturing? III

- Moreover, manufacturing has unique properties that make it essential for high-quality growth based on diversification and upgrading. **(continued)**
  - Manufacturing is the biggest source of **good-quality jobs**, which provide stable livelihood and thus social stability (recent unrest in Indonesia is a negative proof of this).
  - Manufacturing is **good for macroeconomic stability,** as it is far more stable as a source of government revenue and export earnings than primary commodities and sectors associated with them.
  - Many **high-value services** (e.g., banking, transport, design, management consulting) are **heavily dependent on manufacturing firms as customers**.

Manufacturing Value Added Per Capita, 2017

(in constant 2010 US dollars; index USA=100)

• Switzerland	$14,688	242 (world ranking: 1)
• Japan	$10,191	168 (2)
• Germany	$10,064	166 (3)
• Singapore	$9,437	156 (4)
• Austria	$8,913	147 (5)
• Sweden	$7,766	128 (6)
• Korea	$7,548	125 (7)
• USA	$6,058	100
• Australia	$3,833	63
• China	$2,254	37
• Argentina	$1,487	25
• Brazil	$1,189	20
• South Africa	$927	15
• **Indonesia**	**$888**	**15**
• India	$330	5

Source: UNIDO, *Industrial Development Report, 2020*

*Excludes Ireland, whose 'tax haven' status makes the 'booked' MVA fluctuates wildly

How about India?

- Then how about India? - the supposed success story of service trade specialisation
  - "If China is the workshop of the world, India will be the office of the world" (Manmohan Singh, former Prime Minister)
- The truth is that India's service trade has *not* been much of a success
  - Before 2004, India didn't even a trade surplus in services.
  - Between 2005 and 2022, it did run a trade surplus in services, but that was equivalent only to 0.9 per cent of GDP, covering only 18 percent of its trade deficit in goods, which was 6.7 per cent of GDP.
  - With the development of **Artificial Intelligence (AI)**, those low-value services that India has been specializing in (e.g., back offices of banks and airlines, MRI reading, low-level IT jobs) are likely to come back to the rich countries on a large scale.