

Introduction to the Special Issue on the Asia and Pacific Economies

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The Asia-Pacific region has long served as the epicentre of the global economy. The significant transformation the region experienced, particularly post-World War II, stands as a model for the rest of the world. Japan took the lead in the 1960s with rapid industrialisation and robust economic growth, setting an example for other economies in the region. This trend continued until the recent ascent of China as a formidable economic power. Japan, recognised as a technology leader, facilitated the transfer of its technology to other regional economies through vertical integration, leading to structural changes in production and exports for other major players in the region.

Akamatsu (1962) elucidated this phenomenon by drawing parallels with the flying pattern of geese, where the first goose leads and others follow. This concept, termed the “Flying Geese Paradigm”, posits that the production of goods migrates from advanced to less advanced economies as production costs rise in advanced nations. The Flying Geese Paradigm underscores the idea that a lead goose initiates industrialisation, breaking the boundary of primary goods production, with firms diversifying production to accommodate newly available or created technology. This pattern was observed in East Asia, where production shifted from Japan to the Newly Industrialised Economies (NIEs) like Hong Kong, Singapore, South Korea, and Taiwan in the 1980s, followed by the ASEAN-4 economies (Indonesia, Malaysia, Philippines, and Thailand) in the 1990s. China’s economic success in recent decades has been an incredible contributor to the rapid industrialisation of the region and has helped to lift over 800 million people out of poverty. Vietnam subsequently followed suit in the most recent time period.

Hidalgo *et al* (2007) emphasise the need to upgrade products that countries produce and export to keep the momentum of economic growth. Key factors for such upgrading include technology, capital, institutions, and skills needed to make newer products that could be more easily adapted from ‘nearby’ products that these countries are producing. The pattern of industrialisation is explained by introducing concepts such as economic complexity, product complexity, and the “Product Space.” Product Space highlights the interconnectedness of products’ capabilities, with core products possessing closely connected

capabilities and peripheral products having less interconnected capabilities. The process of industrialisation and economic development involves acquiring more complex sets of capabilities to engage in activities associated with higher productivity (Hidalgo and Hausmann 2009).

The Product Space signifies the industrialisation path for a country, emphasising the need for countries to diversify their production bases from low technology-intensive items to more complex ones. This diversification involves migrating from existing exports to products requiring similar capabilities. The process may vary among countries based on their initial positions in the space and their ability to acquire necessary capabilities. An analysis of the Product Space reveals the evolving product structure of East Asian economies over time. Initially exporting natural resources and agricultural items, these economies progressed to textiles, and toys, and eventually diversified into manufacturing items. In recent years, industry has expanded to include technologically advanced products such as computers, smartphones, and microcircuits (Chen *et al* 2020).

Analysing the Product Space assists in assessing a country's capacity to manufacture various products and forecasting its growth trajectory based on its current capabilities. China, in particular, is forging a new trajectory of growth by continuously enhancing its export portfolio. In the 1990s and early 2000s, China primarily exported less sophisticated products but, over time, it has transitioned to including more sophisticated products in its export repertoire. This evolution highlights China's adeptness in diversifying its production capabilities and upgrading its production portfolio (Chen *et al* 2023).

Nevertheless, the region is currently grappling with difficulties amidst global headwinds induced by both regional and global factors, prominently marked by perceived protectionism among nations and an escalating trend of geo-economic fragmentation. Worldwide, nations are more frequently articulating their positions based on national strategic interests, economic competition, and a focus on domestic economic policy goals. Countries must strive to mitigate geo-economic fragmentation, which hinders collaborative efforts toward shared objectives including climate change, future pandemics and ensuring energy and food security. Instead, efforts should be directed towards rebuilding confidence in rules-based multilateral frameworks that promote transparency and policy predictability, fostering collective global prosperity (IMF 2023). Embracing multilateral cooperation is deemed the most effective approach to addressing these challenges.

The Conference on Asia and Pacific Economies (CAPE), co-hosted by Xi'an Jiaotong-Liverpool University (Suzhou, China) and the Asian Development Bank Institute (Tokyo, Japan), is a collaborative initiative aimed at addressing challenges faced by the Asia-Pacific region. The conference focuses on some of the most pertinent and urgent topics, fostering in-depth presentations and discussions of high quality. As a flagship event organised under the Society for the Advancement in Economic Studies (SAES), CAPE promotes

interdisciplinary research among academics, business communities, and policymakers. Celebrating its 10th year of continuous organisation in 2023, CAPE has partnered with Economic Issues for a Special Issue featuring top-notch research papers.

This special edition features three papers addressing diverse economic issues in the region. The first paper, titled 'Does methodology matter? A revisit of the energy-growth nexus in Asia and Pacific economies', explores the relationship between energy consumption and economic growth in the Asia-Pacific region. The authors employ various econometric methodologies, including time series and panel data analysis, emphasising the importance of following proper procedures for such studies. The authors find a causal relationship between energy consumption, factor inputs, and GDP in several economies and suggest a positive impact of physical and human capital on GDP.

In the second paper, 'Analysis on Co-movement of Asia-Pacific Stock Markets under the Background of US-China Trade War', the authors utilise an "event study" to assess the impact of news announcements related to the US-China trade war on the co-movement among stock markets in Mainland China, Hong Kong, the US, Japan, and Singapore. The empirical results reveal a significant influence of news releases on overall market co-movements in Asia-Pacific economies. The authors argue for a prompt resolution of disruptions such as the China-US trade war based on these findings.

The third paper focuses on financial literacy, particularly in a province of Sri Lanka. Titled 'Financial Literacy and Its Impact on Loan Repayment Decision: Evidence from Rural Households in Sri Lanka,' the paper examines the influence of financial literacy on the loan repayment decisions of rural households in the Uva Province of Sri Lanka. Using Probit regression analysis, the authors find that higher financial literacy increases the probability of rural households repaying loans. Moreover, a non-linear relationship between age and loan repayment decision is observed, and factors such as marital status, receiving remittances, non-disability, and debt-to-income ratio significantly affect loan repayment decisions. The authors strongly recommend improving the financial literacy of rural households based on their findings.

ENDNOTES

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