





友銀行
AM
E

TAMAWA

Starbucks



MITSUKOSHI

京セラ
KYOCERA



オール读物
Number
MIKIMOTO
本の教文館

教文館ビル
教文館ビル

日本酒堂ビル

Nikon Salon

アイクム

gINZA Matsushima

Hooge

Chintai

Shimada

7-Eleven

三菱UFJ銀行

FRONT HOUSE

Hooge

FRONT HOUSE

Hooge

Hooge

Hooge

Hooge

Hooge

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Hooge

Hooge

GATEWAY TO ASIA

The global economy is increasingly shaped by developments in Asia.¹ Home to nearly two-thirds of the world's population, Asia's share of global gross domestic product (GDP) grew to an estimated 35 percent in 2005, from 25 percent in 1990. In contrast, U.S. GDP as a percentage of world GDP has remained fairly constant over the past 15 years, at about 20 percent.

Asia's growing influence in the United States—economically and culturally—is very apparent in the Federal Reserve's Twelfth District. The nine western states form a geographical gateway to Asia, and because of the close ties, can provide insight into Asian economic and financial developments. The Twelfth District is an attractive destination for trade and investment by Asian companies because of its location. Also, the District's geographical position has contributed to a long and rich history of Asian immigration into the region.

Both Asia and the Twelfth District benefit from this growing interdependence. The western states profit from exports to Asia's booming domestic markets, capital from Asian investors, and an inflow of highly skilled professionals. Asia benefits from the Twelfth District's technology centers, educational institutions,

and dynamic financial system. As this relationship becomes closer, Asia's significance to the District's economic vitality grows.

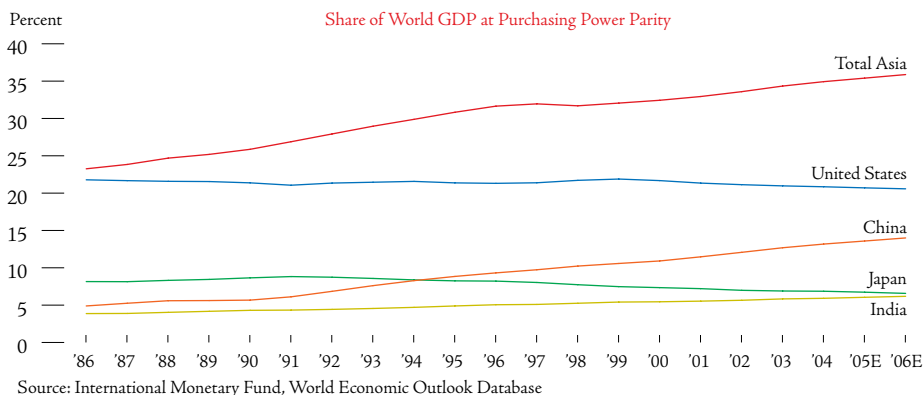
Three Stories of Asia

Recent developments in Asia are defined by three stories: the economic recovery in Japan, the rebound from the Asian financial crisis of the late 1990s, and the rise of China's and India's economic importance. In the first story, although Japan has the second largest economy in the world, it has suffered through more than a decade of economic stagnation and steadily weakening corporate and banking sectors. Fortunately, Japan now appears to be exiting from its economic difficulties and experiencing a rebound in property prices, equity markets, and consumer prices.

The second story centers around the countries that suffered most during the Asian financial crisis: Thailand, Indonesia, and South Korea. After the severe financial and economic difficulties that began with the floating of the Thai currency in 1997, these countries implemented a series of structural reforms that have improved the region's economic stability. At present, these three countries each have a solvent, growing banking system and a GDP that exceeds pre-crisis levels.

The third story, which is the topic of many recent headlines, is the rise of China and India. These two

Asia's rising share of global GDP is largely due to China's strong economic performance



countries, with a combined population of 2.3 billion, have exhibited dramatic growth, mainly due to a well-educated, plentiful workforce and a low-cost wage structure. China and India have captured the world's attention with their rapid economic growth rates, burgeoning populations, and significant impacts on global trade. Many analysts predict that, as these two economies continue to grow, they will eventually overtake the economies of Europe and the United States. One study projects that China's economy will surpass the economies of Japan and the United States by the middle of the twenty-first century, while India will overtake the major European economies within the next 20 years.² However, the dominance of China and India is by no means assured; both countries face significant socioeconomic hurdles that could derail their progress.

Growing Trade

Trade ties between Asia and the Twelfth District are close. In 2004, 44 percent of all the District's exports went to Asia, approaching twice the national average of 26 percent. Hawaii sent 73 percent of its exports to Asia in 2004, Alaska 68 percent, and California 43 percent. Except for Nevada, every state in the District ships a higher percentage of its exports to Asia than the national average. Merchandise exports from the Twelfth District to Asia consist primarily of information technology (IT) goods, non-high-tech durables such as consumer electronics, and nondurables such as food. Japan is both the largest investor and the largest export market for the District; however, trade with China and India is growing rapidly.

The Technology Connection

The Twelfth District's large IT sector has clearly benefited from a connection to Asia. Highly skilled workers from Asia occupy prominent positions in many IT firms in the District. Indians, Chinese, and Taiwanese have established the most significant presence, especially in Silicon Valley. Similarly, the Twelfth District has

influenced Asia's booming IT industry. Many Asians have taken the skills and expertise they acquired in the United States to start companies back home. This is

particularly true in Taiwan and China, where Silicon Valley alumni have played important roles in developing the IT industry. Recently, venture capital and private equity firms from the Twelfth District have been financing young IT firms in Asia, with China and India attracting the greatest interest.

Asian Banking Presence

The Federal Reserve Bank of San Francisco takes a special interest in the growing presence of Asian-related banks in the Twelfth District because its banking supervision responsibilities for foreign banks are primarily tied to Asia. Over the past several years, the number of banks catering primarily to local Asian immigrants has increased significantly. These banks help serve the financial needs of individuals and small firms in the local Asian communities in the District. About 45 percent of the country's Asian American-owned banks are headquartered in the Twelfth District; these banks hold \$25 billion in assets and account for nearly three-quarters of total Asian American-owned bank assets in the country. Twenty-two of the District's Asian American banks are headquartered in California, four are in Hawaii, and two are in Washington. The District also is home to branches and subsidiaries of 33 banks headquartered in Asia, with local assets of \$123 billion. These branches and subsidiaries primarily facilitate transactions for companies in their home countries.

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1. For this discussion, Asia is defined as Bangladesh, Bhutan, Cambodia, China, Hong Kong, India, Indonesia, Japan, Lao People's Democratic Republic, Malaysia, Maldives, Myanmar, Nepal, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, and Vietnam.

2. Goldman Sachs. 2003. "Dreaming with BRICs: The Path to 2050," *Global Economic Paper* No. 99. October 1.

Merchandise exports from the Twelfth District to Asia approached twice the national average in 2004

2004 Merchandise Exports: Twelfth District

44%	24%	23%	9%
Asia	North America	Europe	Other

2004 Merchandise Exports: United States

36%	26%	23%	15%
North America	Asia	Europe	Other

Sources: U.S. Department of Commerce; Tradestats Express; FRBSF

INDIA'S SILICON VALLEY

Since Indians and Americans of Indian origin have played a significant role in the development of the Twelfth District's IT industry, it's not surprising that a version of Silicon Valley has formed in India. Centered in the south Indian city of Bangalore, India's IT industry is enjoying rapid growth and making a significant impact on the global technology scene. While other Asian nations have developed large electronics hardware industries, only India boasts a deep, globally competitive software sector.



Staffed by a highly skilled, English-speaking, and low-wage workforce, Indian software firms have enjoyed extraordinary growth. Industry revenues have increased more than fivefold—from \$5 billion to \$28.5 billion from fiscal year-end 1998 to 2005. While IT revenues account for approximately 4 percent of India's GDP, the IT sector boosts the country's larger economy by creating indirect employment, spurring reform, and increasing investors' interest in India. Subsidiaries and branches of Western-owned multinationals control much of the Indian IT sector, but top Indian-owned firms are growing fast and attracting international recognition. Indian companies also are increasingly opening offices and acquiring firms in the United States.

Prospects for India's IT sector remain bright. Despite problems posed by rapidly rising wages, skilled labor shortages, and weak infrastructure, local firms' capabilities continue to develop. Firms now are moving beyond low value-added services such as coding and programming to offer high-margin consultancy and research and development services in areas such as finance, pharmaceuticals, and technology. One study forecasts Indian IT revenues will continue to boom, rising at a 38 percent compound annual rate to reach \$77 billion by 2008.¹ In this scenario, IT's contribution to India's GDP could rise to 20 percent.

1. Carl Dahlman and Anuja Utz. 2005. "India and the Knowledge Economy: Leveraging Strengths and Opportunities." Knowledge for Development Program, World Bank Institute. April.