



Emergent Trilateralism in Developing Asia

Long Term Scenarios for Regional Growth and Trade

Douglas Brooks, ADB

David Roland-Holst, UC Berkeley

Fan Zhai, ADB

presented at the

ADB Dissemination Seminar

July 12, 2005

Mumbai, India

1. Introduction
2. Overview of Initial Conditions
3. Globalism, Regionalism, and Asian Trade and Growth
4. General Conclusions



1. Introduction

- Regional events of the last decade have fundamentally changed the economic landscape of Asia and its relation to the global economy.
- While uncertainties remain and cycles will be inevitable, the Asian region has demonstrated its resilience.
- Ideology and rivalry have given way to pragmatism and new opportunities for mutual prosperity.
- Here we present a work in progress, an effort to inform long term expectations regarding regional growth.



Overview of Conclusions

- Regional trade and integration offer Asia great potential for more rapid and sustained growth. Indeed, much of Asia's benefits from global trade liberalization can be realized by regional initiative alone.
- Structural barriers to trade are now more important than tariffs. Policies and investments that facilitate trade can accelerate regional growth dramatically.
- Regional integration can promote Asian economic convergence, raising average growth rates and benefiting poorer countries

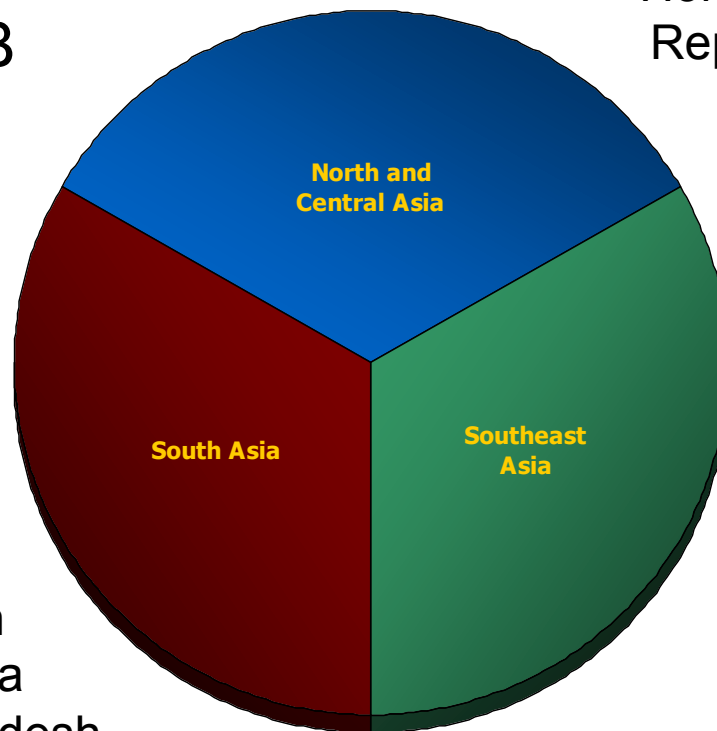


2. Overview of Initial Conditions

- Economic dynamism is well established in Asia and continues to spread.
- Trade is a primary driver, but heavy reliance remains on demand outside the region.
- Regional living standards remain uneven and many areas have yet to enjoy significant benefits.

Asian Trade and Growth Patterns

A Schematic
View of ADB
Developing
Member
Countries



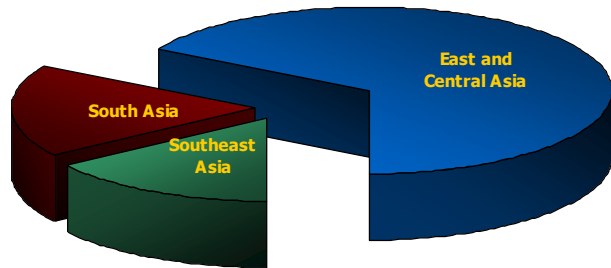
People's Rep. of China
Hong Kong, China
Republic of Korea
Taipei, China
Central Asia
Mongolia

India
Nepal
Pakistan
Sri Lanka
Bangladesh

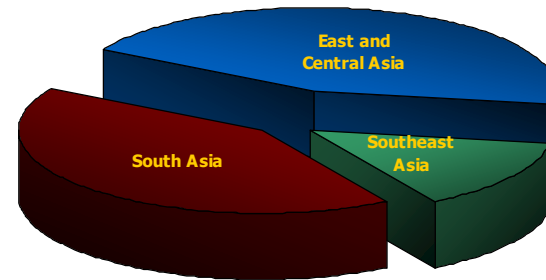
ASEAN
Oceania

Macro Conditions, 2005

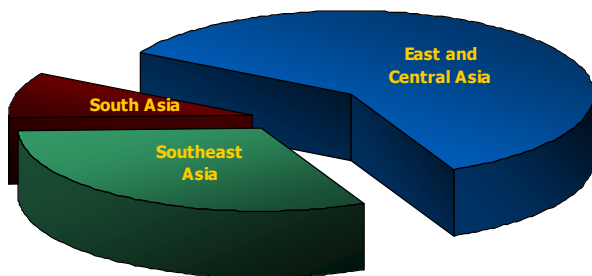
GDP



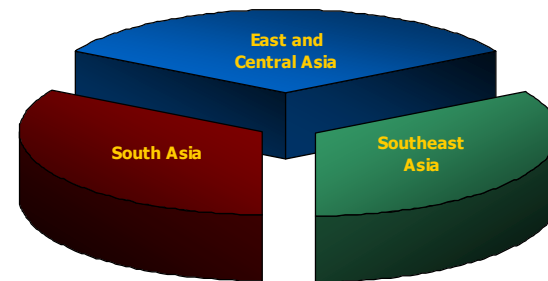
Population



Trade



Average Growth Rate

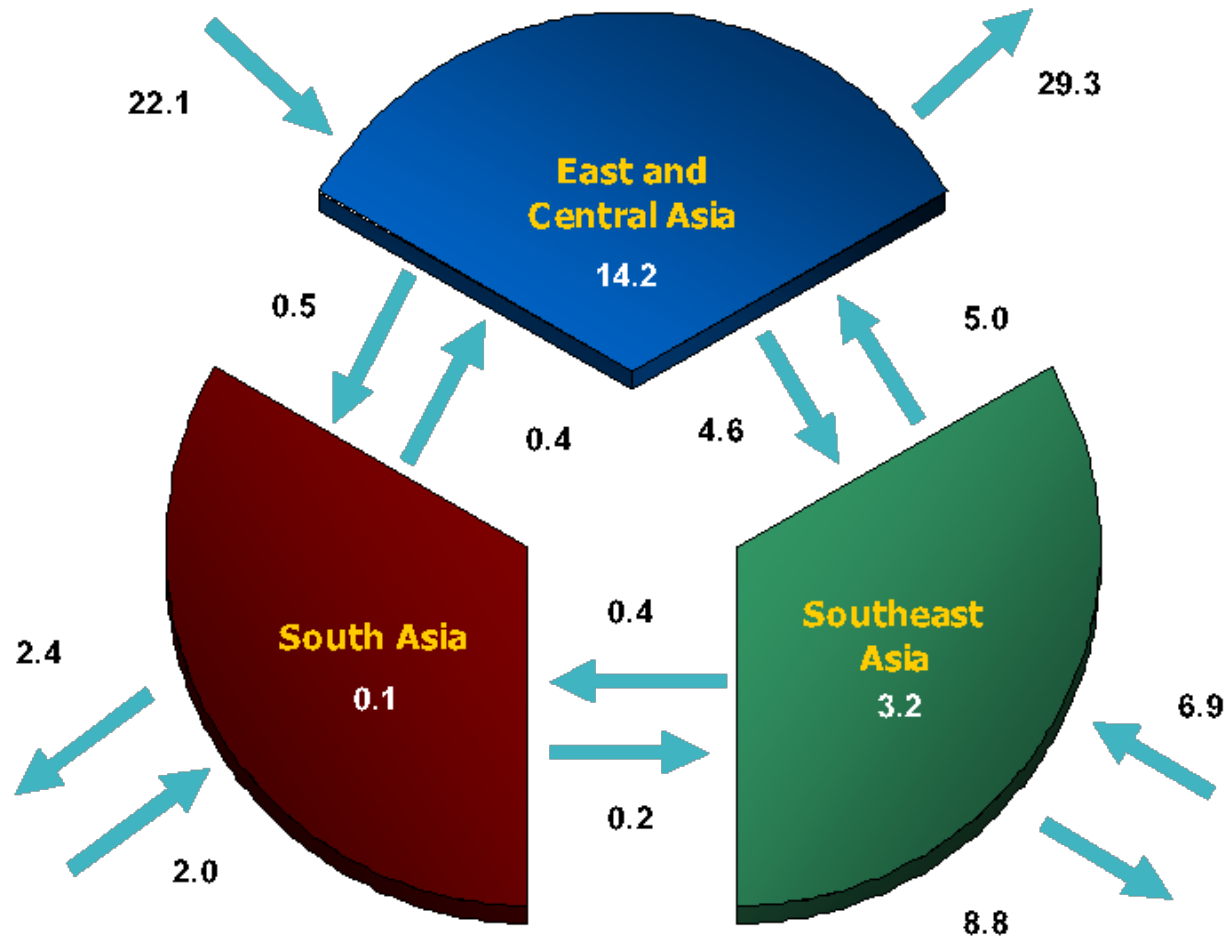


Asian Trade Flows, 2005

(percent of total Asian trade)

Extra-regional demand remains a primary economic driver.

Intra-Asian trade is far from reaching its potential.

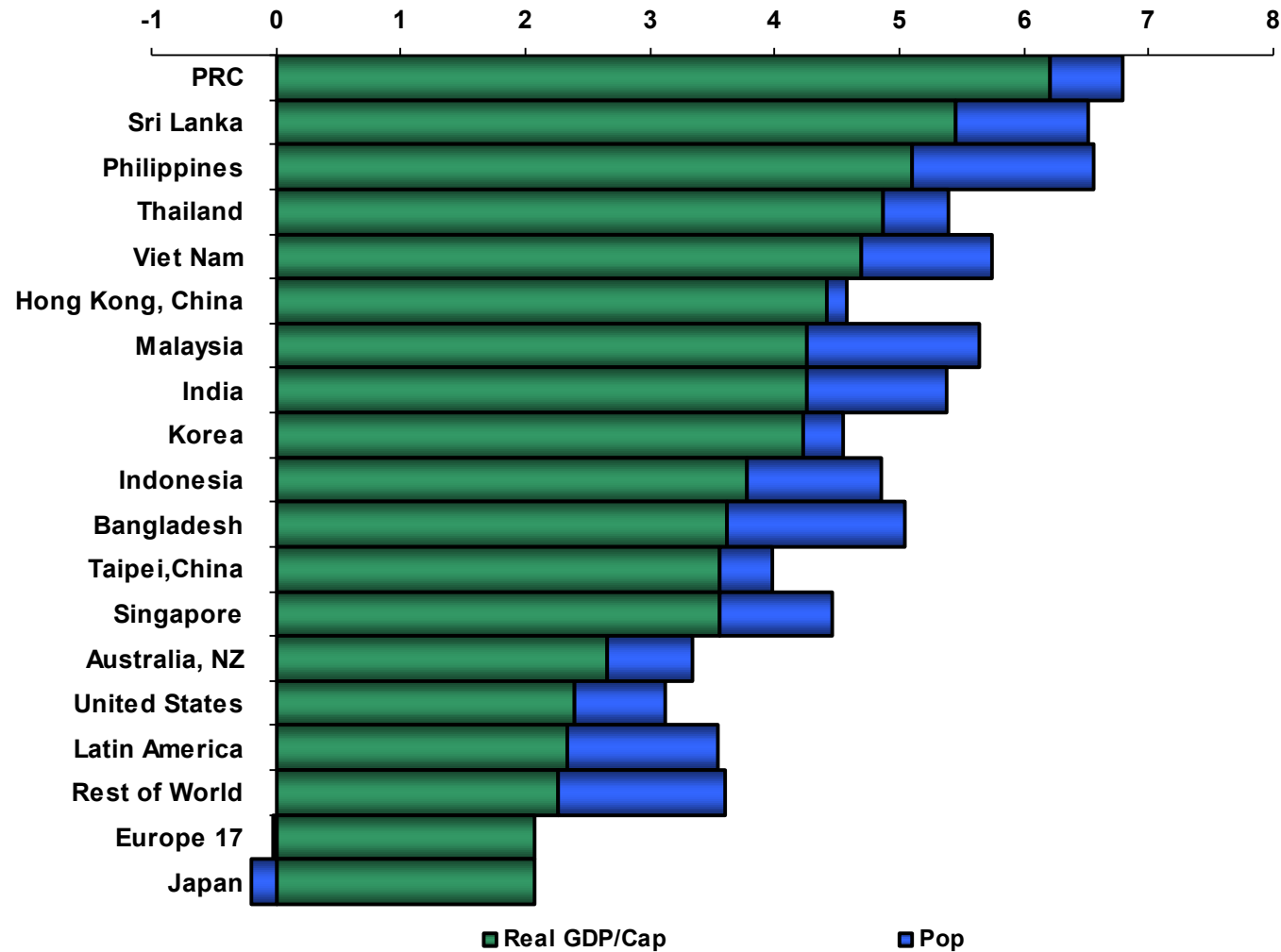




3. Regionalism, Globalism, and Asian Growth

- To project regional trade and growth under alternative scenarios, we have developed the ADB Structural Model, a version of the LINKAGE model, calibrated to GTAP 6 database
 - 18 countries/regions
 - 20 sectors
- Currently in prototype form, benchmarked for projections to 2025.

Baseline Per Capita GDP Growth (annualized percent change, 2005-2025)





Trade Scenarios

- 1. Baseline:** Baseline scenario
 - including admission of China in the WTO
 - removal of quotas on textile to the US and the EU
- 2. GBLO:** Global Trade Liberalization
 - removal of all import tariffs and tariff-equivalent NTBs
 - removal of all export subsidies
- 3. GBL2:** Global Trade Liberalization with Trade Facilitation
 - GBLO with trade facilitating policies simulated by 2 percent annual increases in intra-Asian trade efficiency
- 4. AFTA2:** Asia Trade Liberalization with Trade Facilitation
 - removal of all import tariffs and tariff-equivalent NTBs within Asia
 - removal of all export subsidies within Asia
 - trade facilitating policies simulated by 2 percent annual increases in intra-Asian trade efficiency

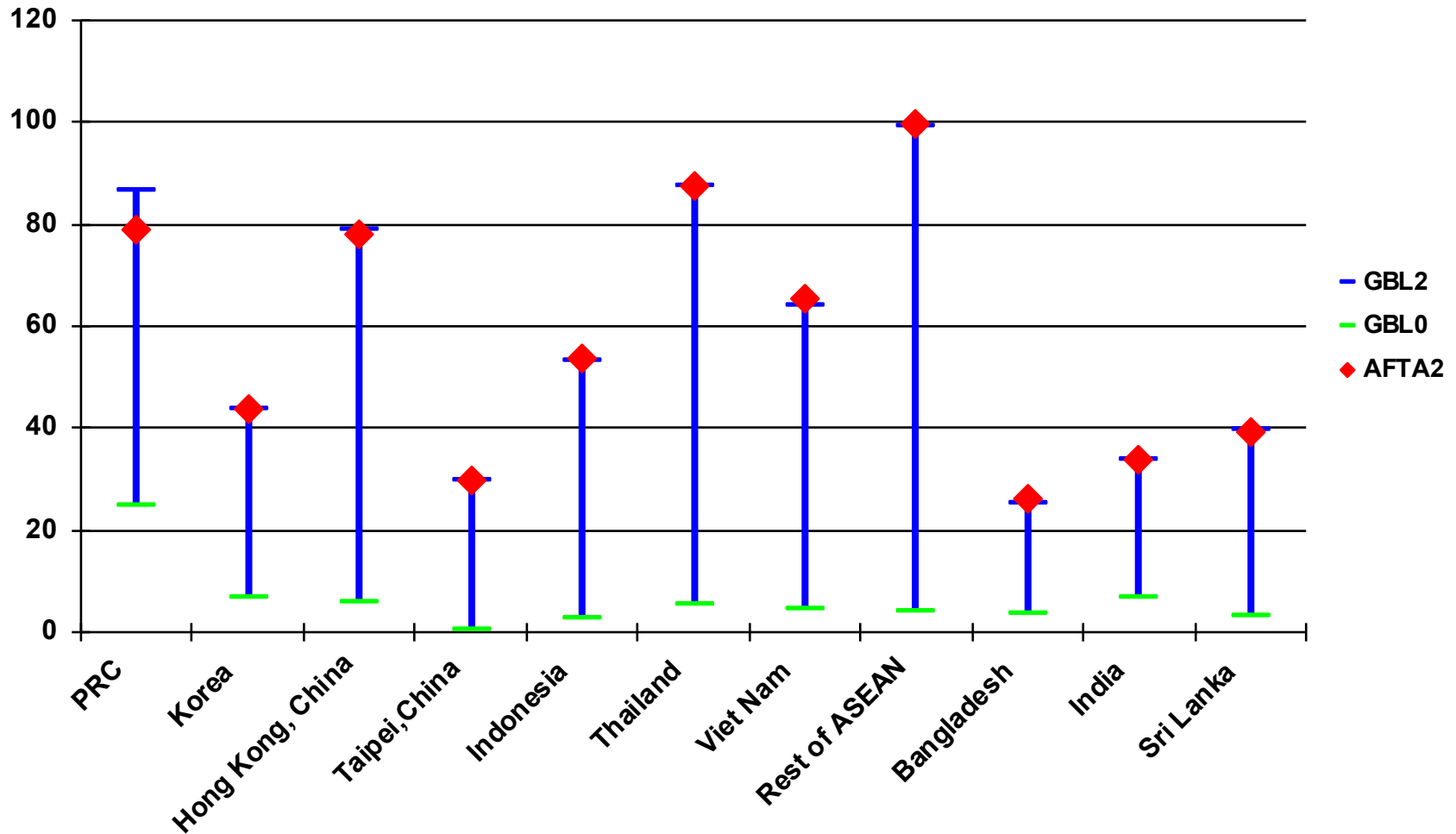
Equivalent Variation Aggregate Income

(percentage change from Baseline in 2025)

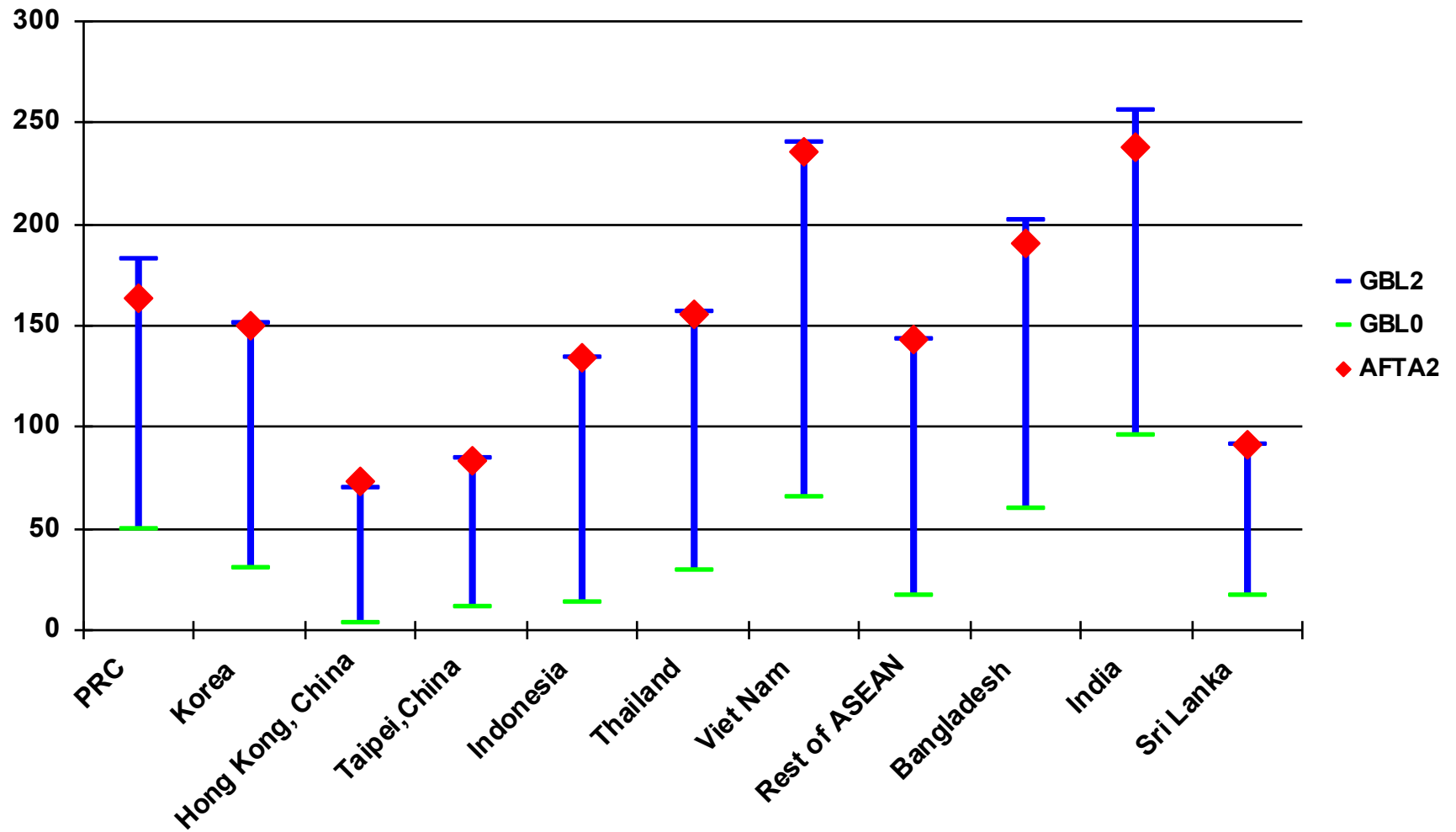
Region	Country	Scenario		
		1	2	3
		GBL0	GBL2	AFTA2
East and Central Asia	PRC	24.92	86.62	79.01
	Korea	6.86	43.71	43.95
	Hong Kong, China	5.98	78.76	78.03
	Taipei, China	0.66	29.79	29.74
SE Asia	Indonesia	2.71	53.26	53.83
	Thailand	5.32	87.52	87.35
	Viet Nam	4.33	64.15	65.49
	Rest of ASEAN	4.00	99.29	99.66
S Asia	Bangladesh	3.64	25.30	26.06
	India	6.87	33.99	33.86
	Sri Lanka	2.96	39.61	39.27

Equivalent Variation Aggregate Income

(percentage change from Baseline in 2025)



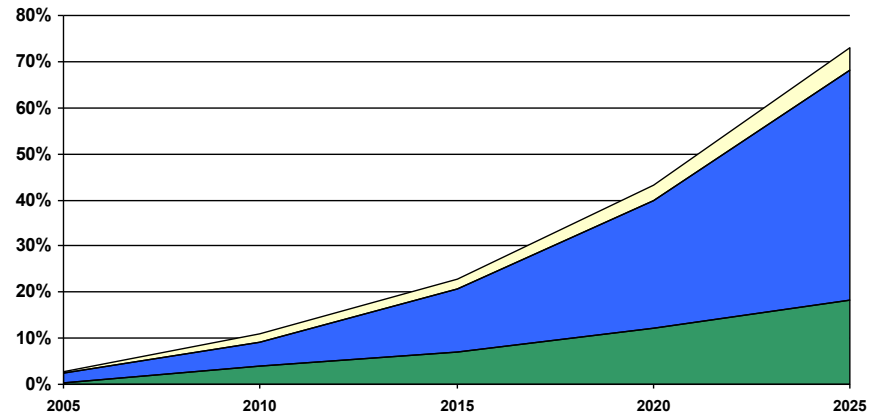
Real Exports (percentage change from Baseline in 2015)



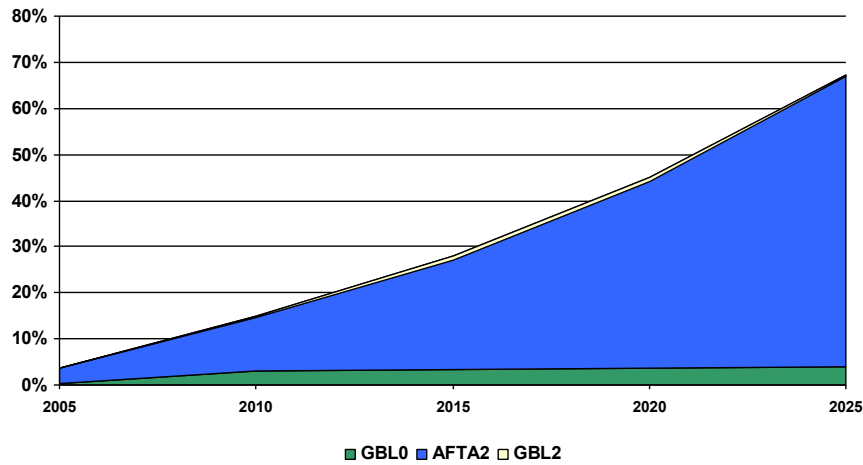
EV Income Growth: East and Central Asia

(incremental percentage change from Baseline in 2025)

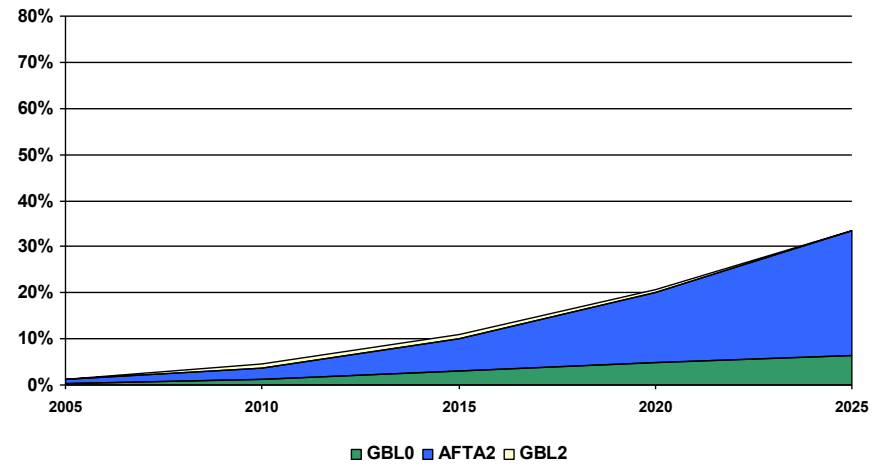
East and Central Asia



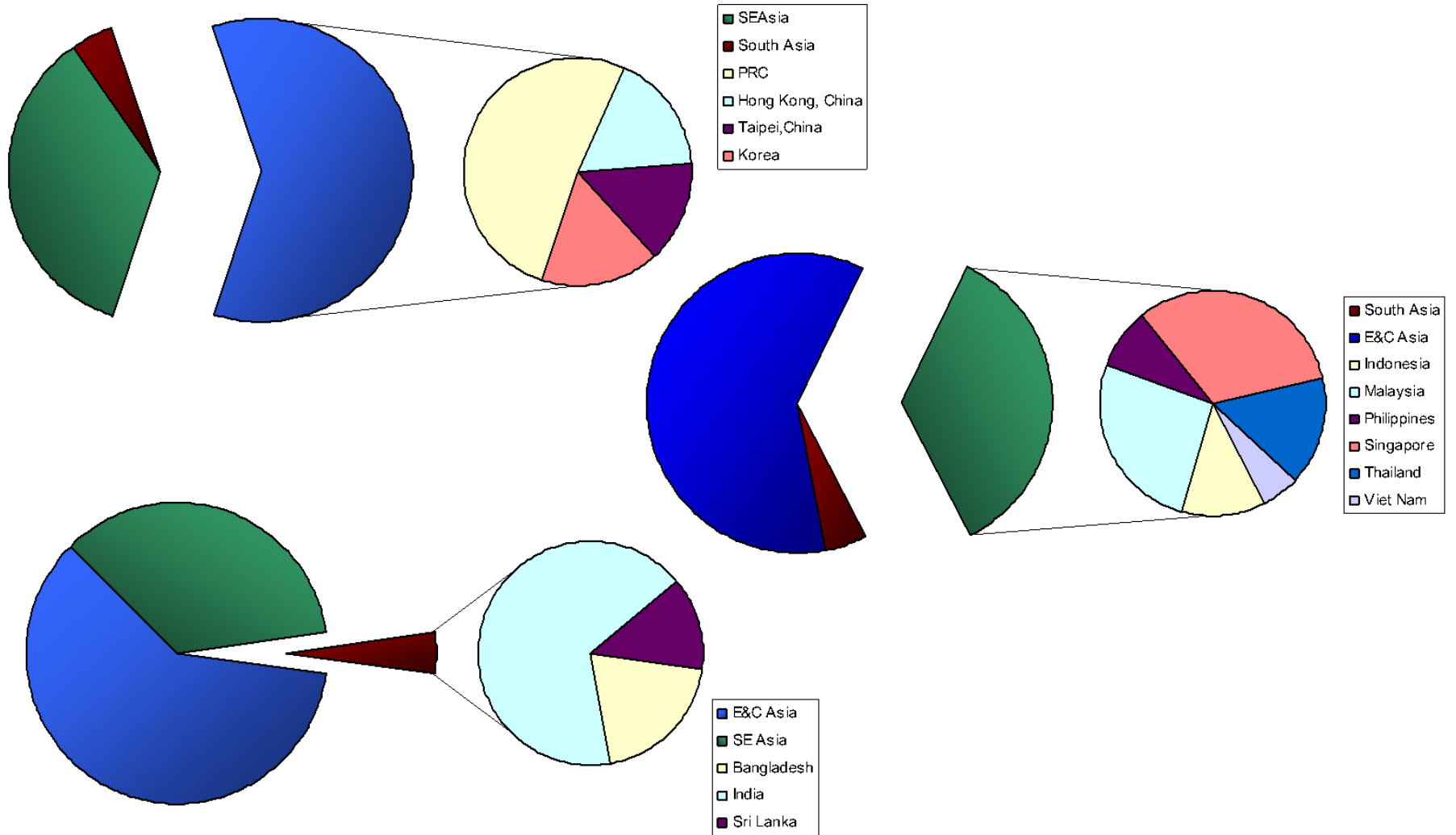
Southeast Asia



South Asia



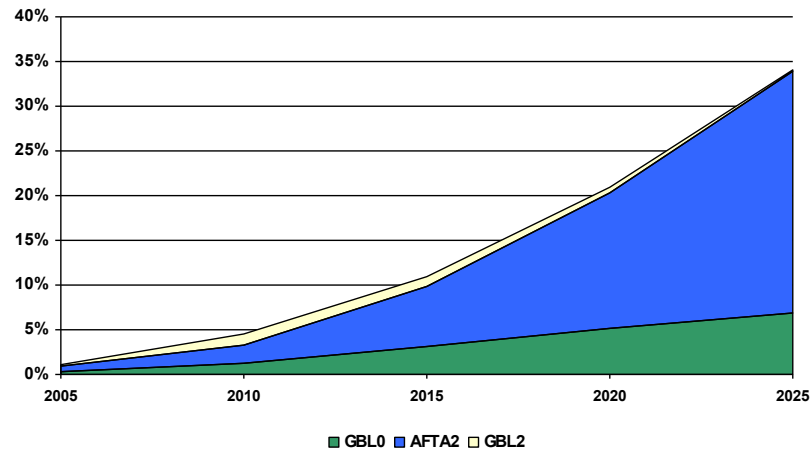
A Snapshot of Regional Growth Drivers: Regional Import Demand Composition(2005)



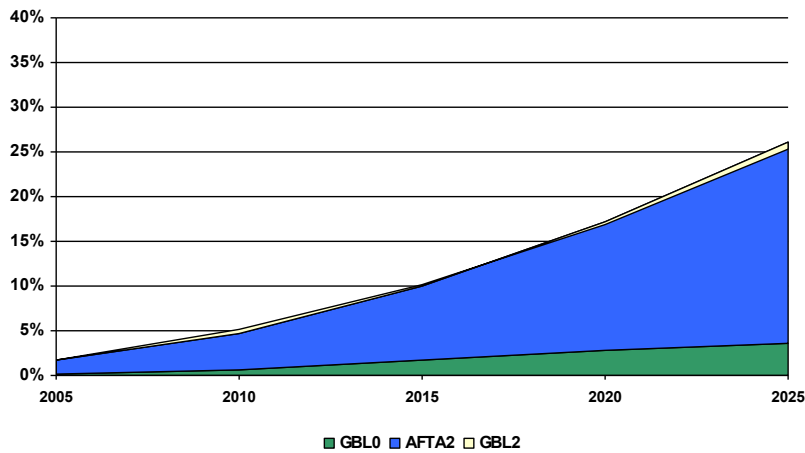
EV Income Growth: East and Central Asia

(incremental percentage change from Baseline in 2025)

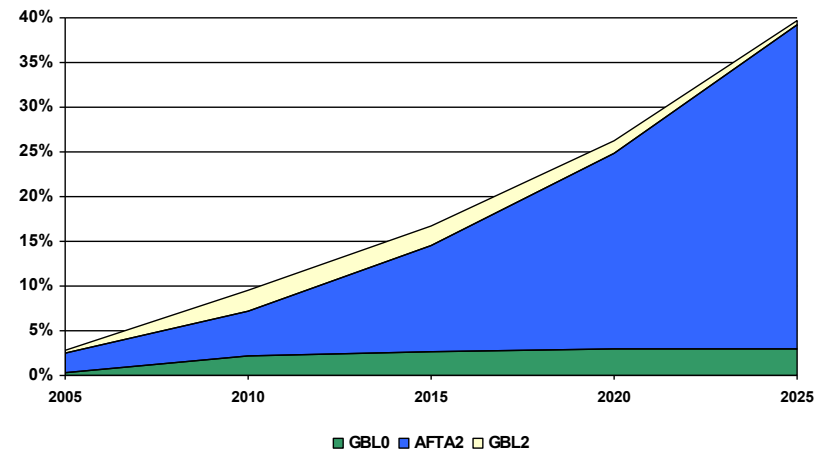
India



Bangladesh



Sri Lanka



Regionalism and Trade Facilitation Increase Most Trade, but Intensify Asia's Linkages

Regional Trade Flows (percent change from 2005 in 2025)

<i>BAU</i>	E&C Asia	SE Asia	South Asia	ROW
E&C Asia	156	156	189	99
SE Asia	167	212	270	104
South Asia	256	287	246	159
ROW	124	150	163	131

<i>GBL0</i>	E&C Asia	SE Asia	South Asia	ROW
E&C Asia	246	224	385	151
SE Asia	221	232	676	118
South Asia	493	565	501	346
ROW	195	174	319	196

<i>GBL2</i>	E&C Asia	SE Asia	South Asia	ROW
E&C Asia	682	881	2363	132
SE Asia	1027	951	2254	5
South Asia	2917	3054	1865	282
ROW	121	162	81	343

<i>AFTA2</i>	E&C Asia	SE Asia	South Asia	ROW
E&C Asia	681	889	2443	90
SE Asia	1047	959	2306	-6
South Asia	2916	3188	1983	222
ROW	65	154	-9	317

Regional Trade Shares (percent change from 2005 in 2025)

<i>BAU</i>	E&C Asia	SE Asia	South Asia	ROW
E&C Asia	11	11	25	-14
SE Asia	16	35	60	-12
South Asia	54	68	50	12
ROW	-3	8	14	

<i>GBL0</i>	E&C Asia	SE Asia	South Asia	ROW
E&C Asia	17	10	64	-15
SE Asia	8	12	162	-26
South Asia	100	125	103	51
ROW	-0	-7	42	

<i>GBL2</i>	E&C Asia	SE Asia	South Asia	ROW
E&C Asia	76	121	456	-48
SE Asia	154	137	431	-76
South Asia	581	611	343	-14
ROW	-50	-41	-59	

<i>AFTA2</i>	E&C Asia	SE Asia	South Asia	ROW
E&C Asia	87	137	510	-54
SE Asia	175	154	478	-78
South Asia	624	689	400	-23
ROW	-60	-39	-78	

Real Output : India

(percent change with respect to Baseline in 2020)

	Percent Change from			
	AGR	Baseline in 2025		
	Baseline	GBL0	GBL2	AFTA2
Agriculture	2.9	-5.3	-3.8	2.7
Energy Fuels	5.9	-9.5	-56.3	-57.6
Processed Food	3.1	-21.3	-17.5	5.4
Textile&Apparel	4.6	6.5	-13.7	-15.1
Motor Vehicles	7.4	148.4	160.6	46.8
Electronics	7.5	16.8	-19.7	-27.8
Other Manufactures	7.1	10.2	19.4	14.7
Whl&Retail Trade	6.4	5.6	16.2	14.9
Transport&Communication	6.8	8.7	22.4	18.8
Services	6.3	6.1	18.9	16.9
Total	5.9	9.8	16.8	11.9

AGR: Annualized Growth Rate (2005-2025)

Real Exports : India

(percent change with respect to Baseline in 2020)

	Percent Change from Baseline in 2025			
	AGR	GBL0	GBL2	AFTA2
Agriculture	-5.5	106.2	1,322.2	1,512.4
Energy Fuels	2.2	122.6	395.8	321.1
Processed Food	1.5	89.4	573.1	965.4
Textile&Apparel	1.8	33.3	10.6	2.7
Motor Vehicles	10.0	1,083.1	1,292.0	457.7
Electronics	8.3	109.9	171.3	129.4
Other Manufactures	7.6	82.7	272.9	249.6
Whl&Retail Trade	7.9	9.0	95.8	102.5
Transport&Communication	4.9	31.2	94.9	73.2
Services	7.4	11.3	110.7	110.8
Total	6.1	108.5	256.7	211.0

AGR: Annualized Growth Rate (2005-2025)

Real Imports : India

(percent change with respect to Baseline in 2020)

	Percent Change from			
	AGR	Baseline in 2025		
	Baseline	GBL0	GBL2	AFTA2
Agriculture	8.3	101.8	271.7	153.4
Energy Fuels	7.2	43.9	264.3	256.7
Processed Food	4.6	504.3	1,439.3	1,381.5
Textile&Apparel	6.2	149.4	1,064.4	948.7
Motor Vehicles	4.1	66.0	605.9	636.8
Electronics	5.8	28.3	271.1	270.1
Other Manufactures	5.2	113.8	416.8	365.2
Whl&Retail Trade	4.2	2.1	83.7	74.7
Transport&Communication	5.3	-4.9	39.1	44.2
Services	4.3	1.2	49.0	46.3
Total	5.7	96.9	384.7	344.2

AGR: Annualized Growth Rate (2005-2025)



4. General Conclusions

1. Growth prospects for the region are quite positive, and trade can play a central role.
2. Regionalism and trade facilitation should be very high priorities for the region. Combined gains from removing tariff and structural barriers to Asian trade far outweigh those of global tariff abolition.
3. Asian trade liberalization will increase trade in nearly all directions, but significantly intensify intra-Asian trade linkages. This will increase growth spillovers to poorer countries.
4. ASEAN will enjoy the greatest relative benefits for two reasons:
 - Because of geography, it can act as a “growth bridge” between South and East Asia, facilitating regional trade.
 - ASEAN includes some of Asia’s lowest income economies, and these are among the most appropriate for infrastructure to promote regional integration. Myanmar, Laos, Cambodia, and Vietnam could all be “pillars” of the Asian growth bridge.



Discussion



What Makes Regionalism Work?

- Historic trade patterns were driven by traditional comparative advantage, emphasizing national differentiation.
- As economies advance and diversify internally, trade is increasingly driven by shared characteristics:
 - Economies of Scale
 - Multinational marketing
 - Supply chains
- The main impetus for modern integration is to expand networks and capture value added through domestic and international diversification



Policies to Facilitate Integration

- Greater regional integration will propagate commercial linkages and transfer the stimulus of Asia's rapid growth economies, particularly China and India, to their neighbors
- Coherent administrative, regulatory, and technical standards are essential (“soft infrastructure” – an Asian OECD)
- Focused policies to promote growth spillovers:
 - Integrated infrastructure development
 - Regional capital market coherence
 - Trade negotiation and facilitation



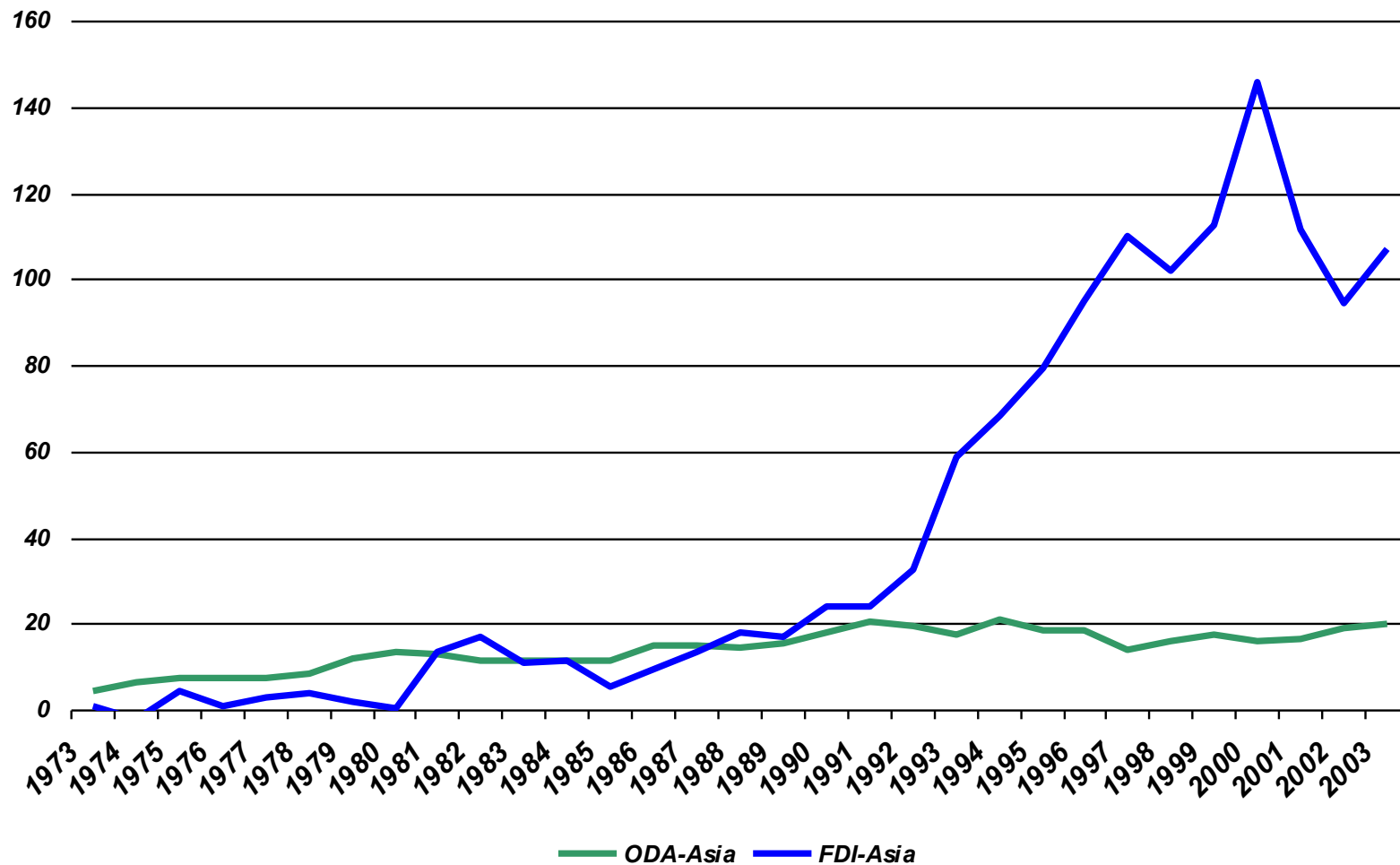
Infrastructure Investment

- Infrastructure commitments will be an essential guarantor of regional integration and growth.
- Public investment needs to extend its development leadership, increasing returns to market participation and private investment across the region.
- Public and private capital commitments must be complementary, particularly if the former is to be effective.

Regional Public and Private Investment

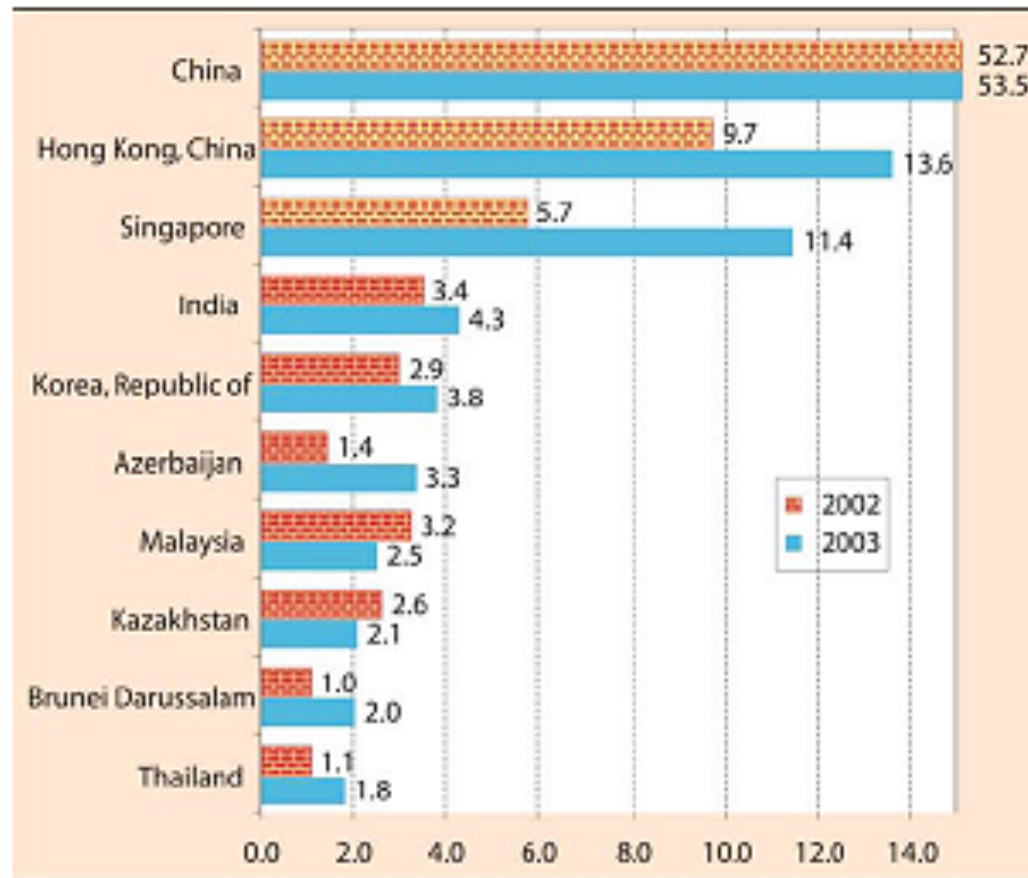
(Asian inbound Aid and FDI, USD Billions)

We live in an age of complementarity.



Asian FDI – Top Ten Destinations

FDI is very unequally distributed.



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

¹ Ranked on the basis of the magnitude of 2003 FDI inflows.



Regional Capital Markets

- Along with export demand, private capital formation has been an essential growth agent in Asia.
- International investment flows have helped many emerging economies overcome savings constraints to stimulate and sustain development.
- FDI is now an essential feature of regionalism and a forceful integration mechanism.
- Policy can facilitate FDI through standard setting and public investments that extend the profitable investment horizon across the region.



Trade Policy and Regional Integration

Bilateral and multilateral trade facilitation are essential for regional integration and growth:

- Geographically, ASEAN's role as the growth bridge is critical. Unless this succeeds, intra-Asian trade and growth benefits will be much smaller.
- This project will be evaluating regional and national implications of a variety of trade agreements, including:
 - WTO and Doha global negotiations
 - ASEAN plus China and others
 - Northeast Asian FTA
 - Deepening APEC
 - various bilateral agreements



Economic Convergence and Sustainability

- Disparities in regional growth characteristics pose a challenge for equitable development and weaken the basis for overall progress.
- The Asian region still relies heavily on external demand, while a primary characteristic of advanced economies is the emergence of middle income consumer majorities.
- Expansion and diversification of regional demand are an essential to stability and sustained growth.



Policies to Facilitate Convergence

To promote convergence at higher growth trajectories, regional commitments can be focused in two areas:

1. Infrastructure and other policies to increase market participation - distribution costs undermine market access, and more so for less developed regions
2. Investment promotion - let private capital do more of the work.
3. Human capital development – a huge public and private challenge; initial conditions vary greatly



Sustainability – Risk Factors

- Institutional Uncertainty
- Energy Costs
- Public Health
- Natural Disturbances



Discussion