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# Trade and Growth Horizons for Asia

## Forecasts of Regional Growth and Change to 2025

*David Roland-Holst, UC Berkeley*

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1. Introduction
2. Trade and the Basis for Regional Growth
3. Projections to 2025
4. An Agenda for Regional Integration
5. Economic Convergence and Sustainability



# 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 for regional growth.



# Overview of Conclusions

- Regional trade and integration now offer Asia great potential for sustained and balanced growth.
- As the People's Republic of China (PRC) and India continue their rapid emergence, Southeast Asia will be transformed into a regional “growth bridge” between these dynamic markets.
- This process will accelerate growth for all Asia, particularly lowest income economies.
- Public commitments to infrastructure and institutional coherence have an essential role to play in realizing the region's potential and limiting risks.



## 2. Trade and Regional Growth

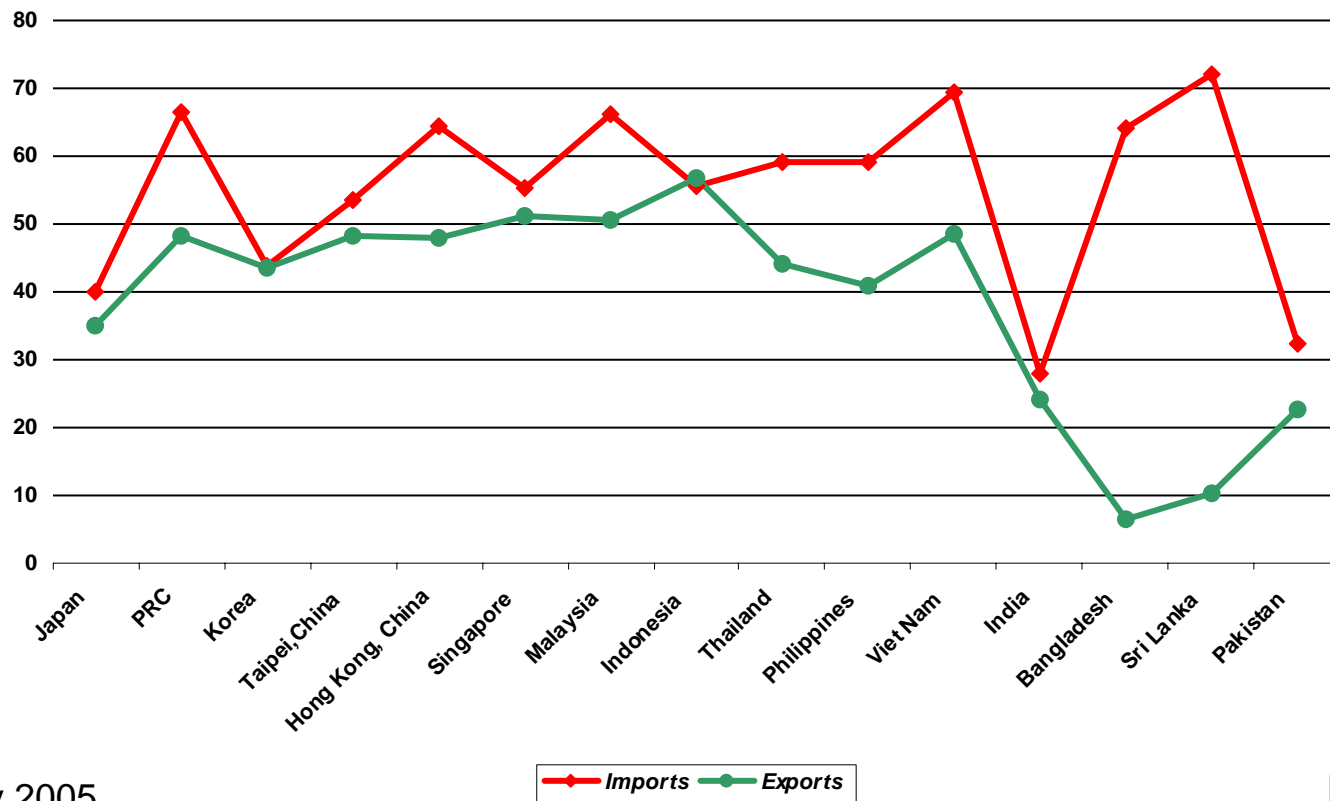
- Established success by the PRC and earlier dynamic Asian economies is creating a new basis for regional growth, internal demand.
- It is now apparent, for example, that PRC's absorption is growing faster than exports, becoming one of the primary drivers of regional growth.
- As intra-Asian trade flows expand, regional benefits will proliferate and broaden the basis for sustainable growth and convergence.

# Asian Trade Shares

(percent of intra-Asian trade in Imports and Exports)

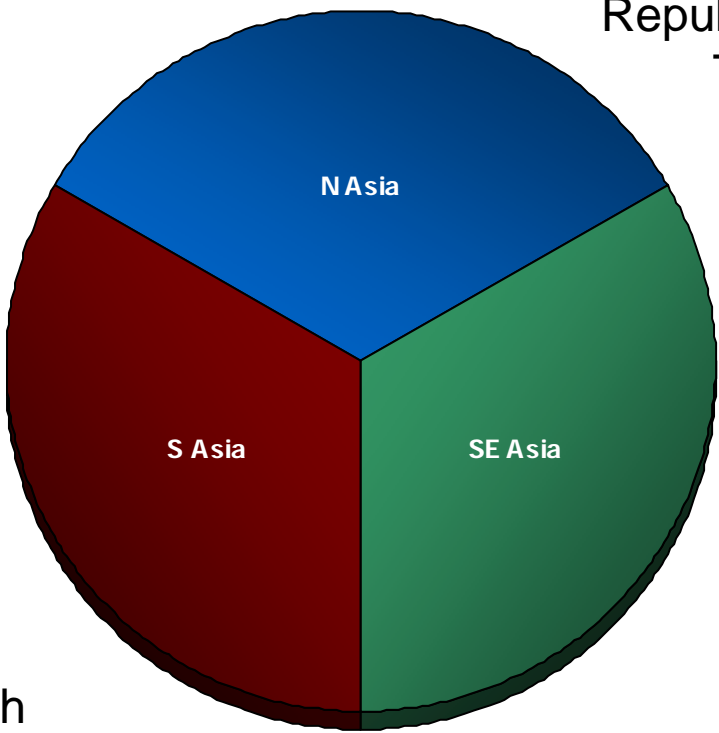
Demand is already leading supply regionally.

Asian economies direct a far greater share of their demand than supply to the region.



# Asian Trade and Growth Patterns

A Schematic  
View of ADB  
Developing  
Member  
Countries



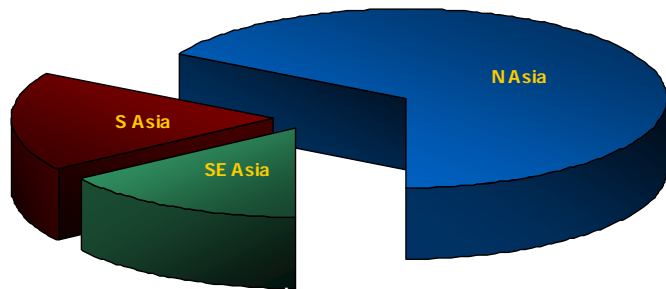
People's Rep. of China  
Hong Kong, China  
Republic of Korea  
Taipei, China  
Central Asia  
Mongolia

India  
Nepal  
Pakistan  
Sri Lanka  
Bangladesh

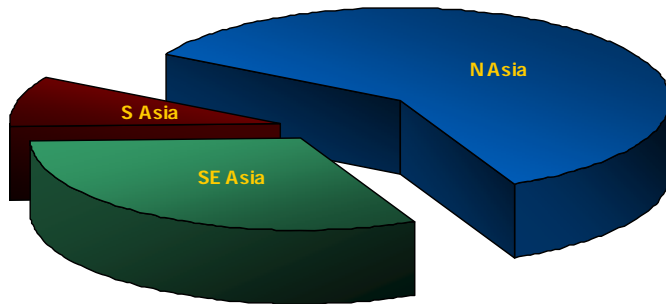
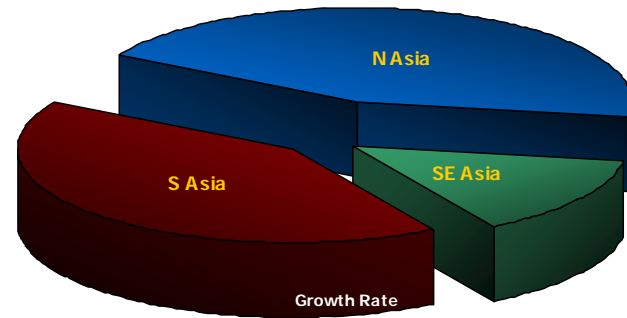
ASEAN  
Oceania

# Macro Conditions, 2005

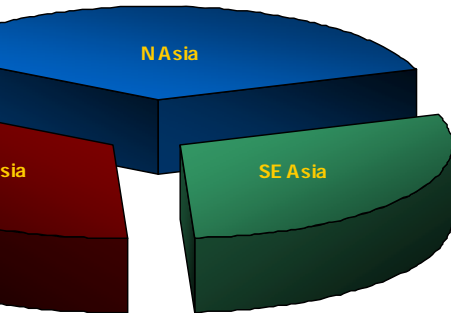
GDP



Population



Trade

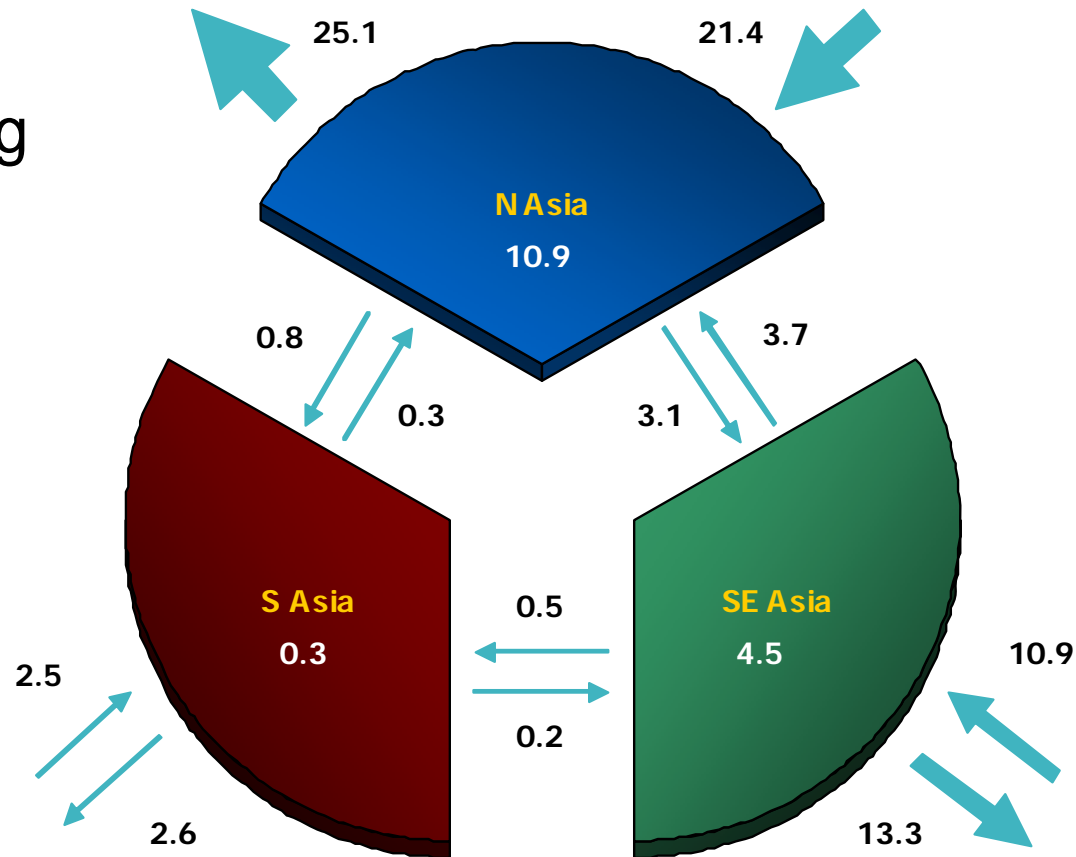


Growth Rate

# Asian Trade Flows, 2001

(percent of total Asian trade)

Intra-Asian trade is far from reaching its potential.





## 3. Projections to 2025

- We use a global forecasting framework, the ADB Structural Model.
- The model is calibrated to Version 6 of the Global Trade Analysis Project (GTAP) database.
- Currently in prototype form, it is being benchmarked for aggregate projection over the next 20 years and will be elaborated along the lines of other public and private research tools (e.g. World Bank, Deutsche Bank, Goldman-Sachs, etc.)



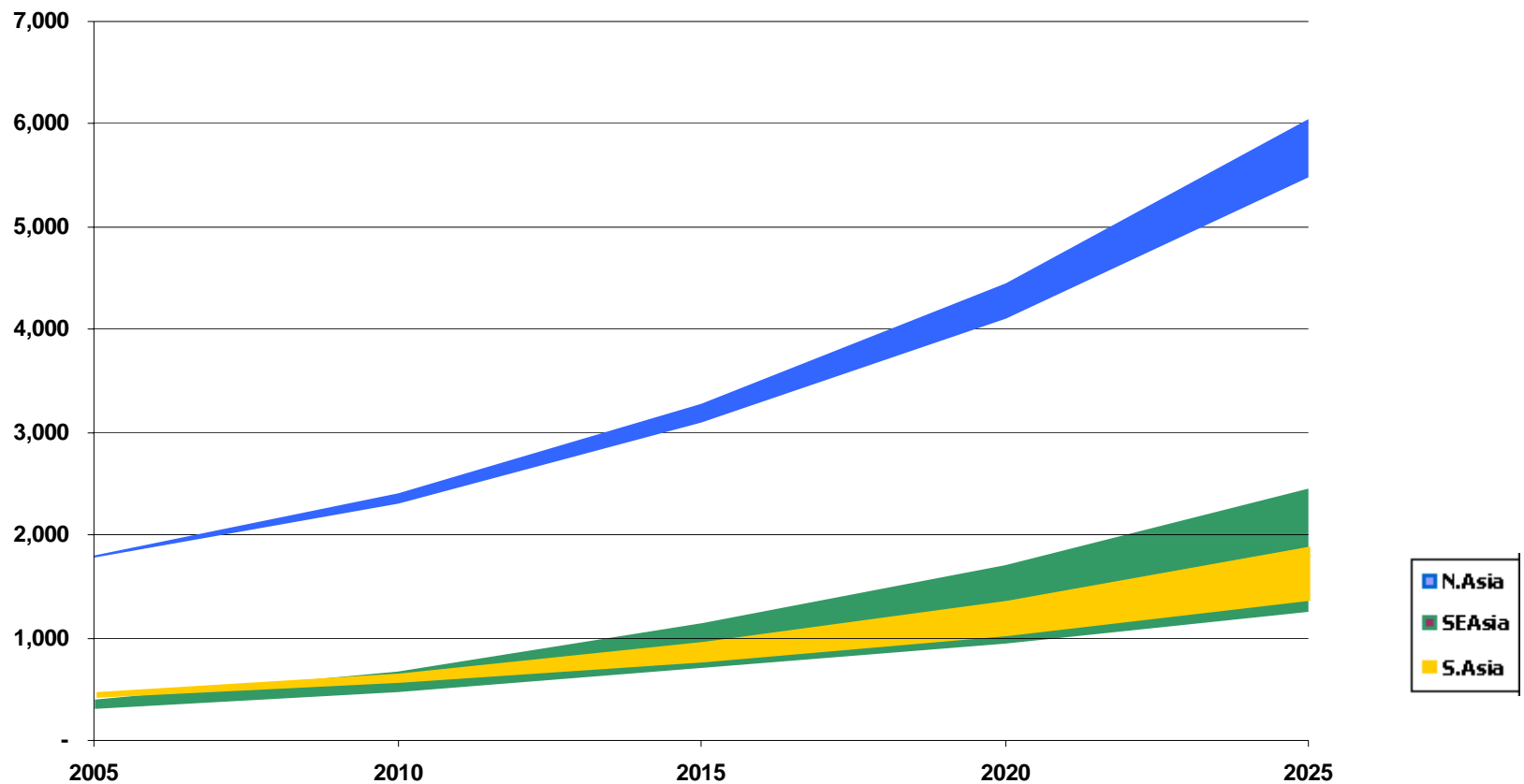
# Baseline Scenarios

- We established baseline growth trends on consensus GDP and population estimates.
- Assumptions include stable conditions in:
  - Institutional environment
  - Resource availability/environment quality
  - Labor productivity growth/public health
  - Fiscal and monetary policy

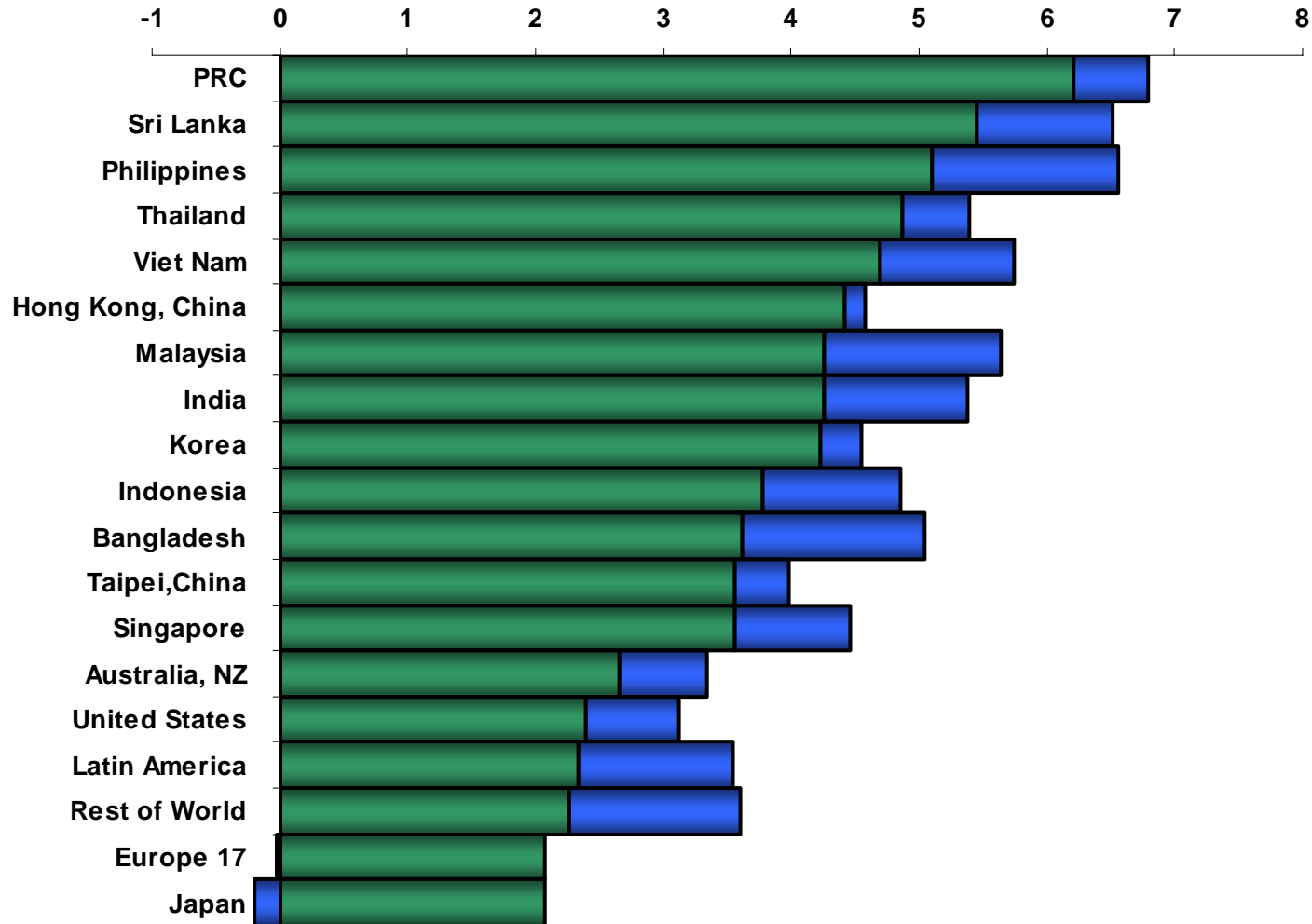
# Regional Integration Accelerates Growth

## Real GDP by Region in 2001 USD Billions

GDP bands from Baseline to Asian Regional Integration scenario.



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





# General Observations

- Growth prospects for the region are quite positive, and trade can play a central role.
- PRC and India will share leadership as dynamic regional poles.
- Policies that facilitate integration will also increase convergence by conferring growth leverage from larger and more rapidly growing economies.
- The role of ASEAN is central for two reasons:
  - Because of geographic factors, it can act as a “growth bridge” between South and East Asia, increasing regional trade and value added capture.
  - ASEAN includes some of the lowest income economies, and these are among the best situated for infrastructure to promote regional integration. Myanmar, Lao PDR, Cambodia, and Viet Nam could all be “pillars” of the Asian growth bridge.



## 4. An Agenda for Regional Integration

Until recently, Asian development has been driven by demand outside the region.

Because of superior domestic growth rates and low initial trade shares, however, great potential for future growth lies within Asia itself.

These facts are already recognized by private stakeholders.

To serve both public and private interests, a new generation of policies is needed to facilitate growth-oriented integration.



# 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



# Trade by Development Status

Similarity in economic structure explains more trade than differentiation.

	1948	1998	2001
Developed to Developed	46	53	40
Developed to Emerging	22	18	22
Emerging to Developed	22	18	26
Emerging to Emerging	10	11	12
	100	100	100



# Policies to Facilitate Integration

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

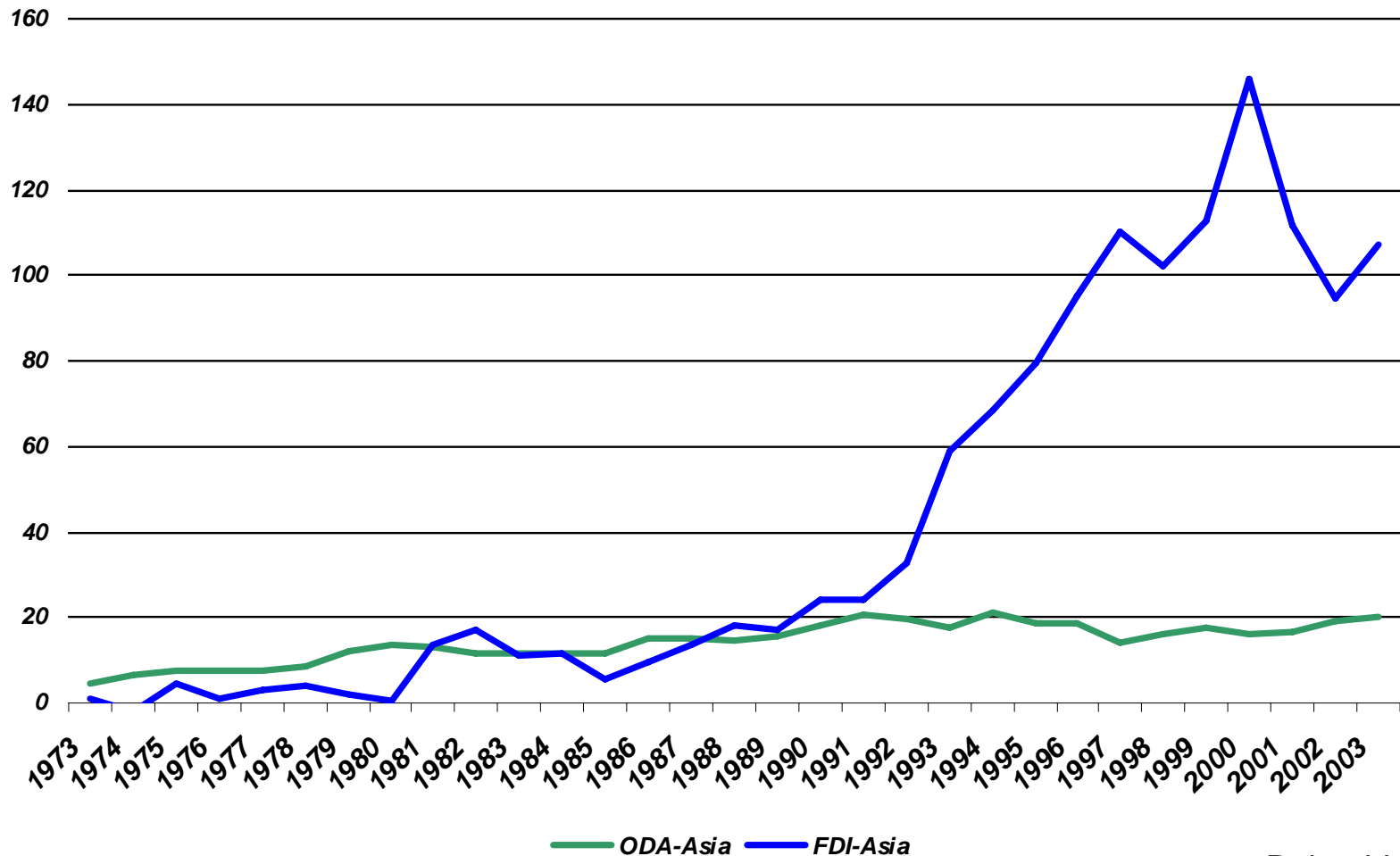


# Infrastructure Investment

- 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: An Age of Complementarity

(Asian inbound Aid and FDI, USD Billions)





# 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 to achieve regional integration and realize its growth potential:

- Geographically, ASEAN's role as the growth bridge is critical. Unless this succeeds, intra-Asian trade shares and their 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 PRC and others
  - Northeast Asian FTA
  - Deepening APEC
  - various bilateral agreements



## 5. Economic Convergence and Sustainability

- Disparities in regional growth characteristics pose a challenge for equitable development and undermine the basis for sustained progress.
- The Asian region still relies heavily on external demand, and the primary characteristic of advanced economies is the emergence of middle income consumer majorities.
- Expansion and diversification of regional demand can be an essential source of 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. Policies to promote labor productivity growth
  - This is the most important long term public commitment to sustained and equitable growth, and initial conditions vary greatly across the region



# Sustainability – Risk Factors

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



# Discussion