



Emergent Trilateralism in Developing Asia

Long Term Scenarios for Regional Growth and Trade

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1. Introduction
2. Overview of Initial Conditions
3. Globalism and Regionalism: Asian Trade and Growth Compared
4. What Makes Regionalism Work?



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 are giving way to pragmatism and new opportunities for mutual prosperity.

- Given the complexities of the modern global economy, policy makers relying on intuition alone are at a disadvantage.
- To improve both public and private sector visibility, ADB developed long term projections for Asian regional growth and trade linkages.
- Our goal is to promote policy coherence, empirical standards, and evidence-based policy dialogue.
- Here we present work in progress.



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.



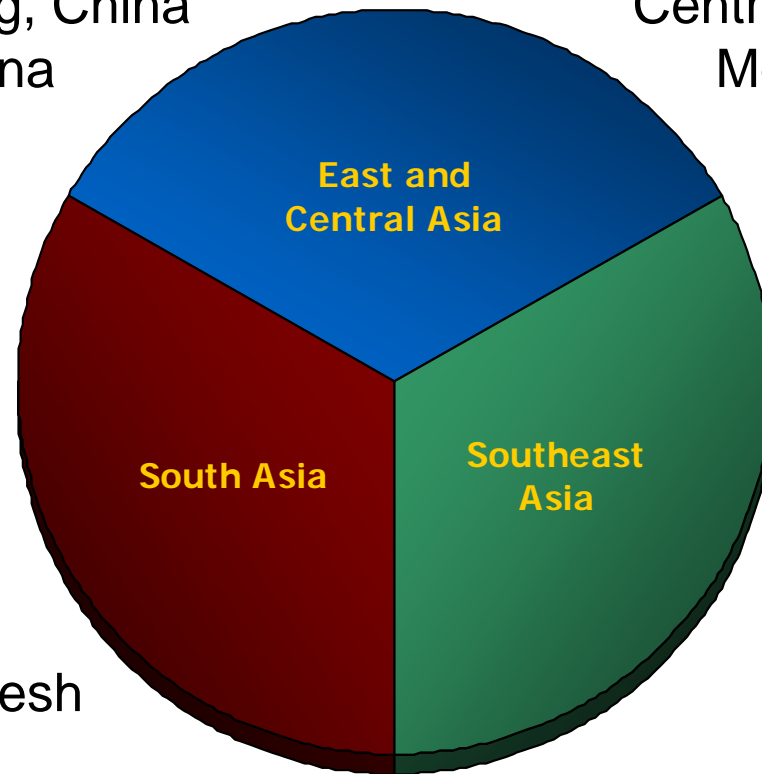
2. Overview of Initial Conditions

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

A Trilateral View of ADB Developing Member Countries

People's Rep. of China
Hong Kong, China
Taipei, China

Republic of Korea
Central Asia
Mongolia

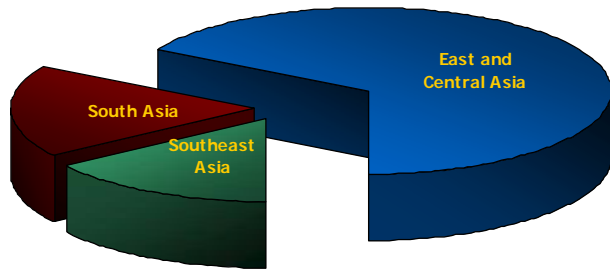


India
Nepal
Pakistan
Sri Lanka
Bangladesh

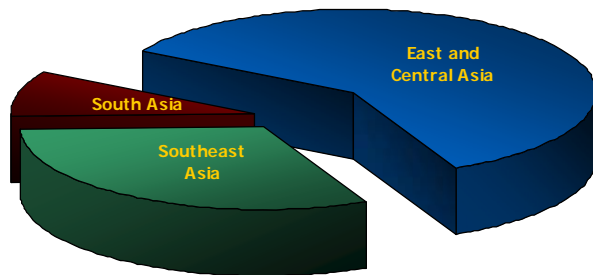
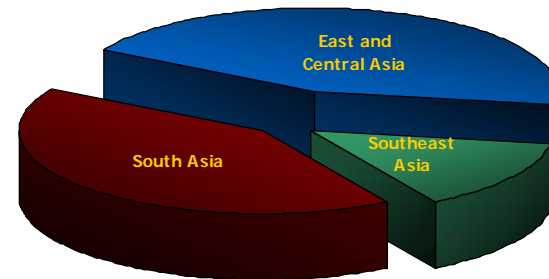
ASEAN
Oceania

Macro Conditions, 2005

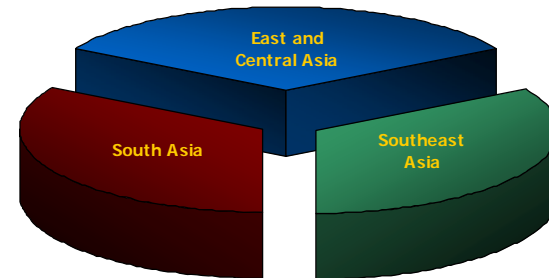
GDP



Population



Trade



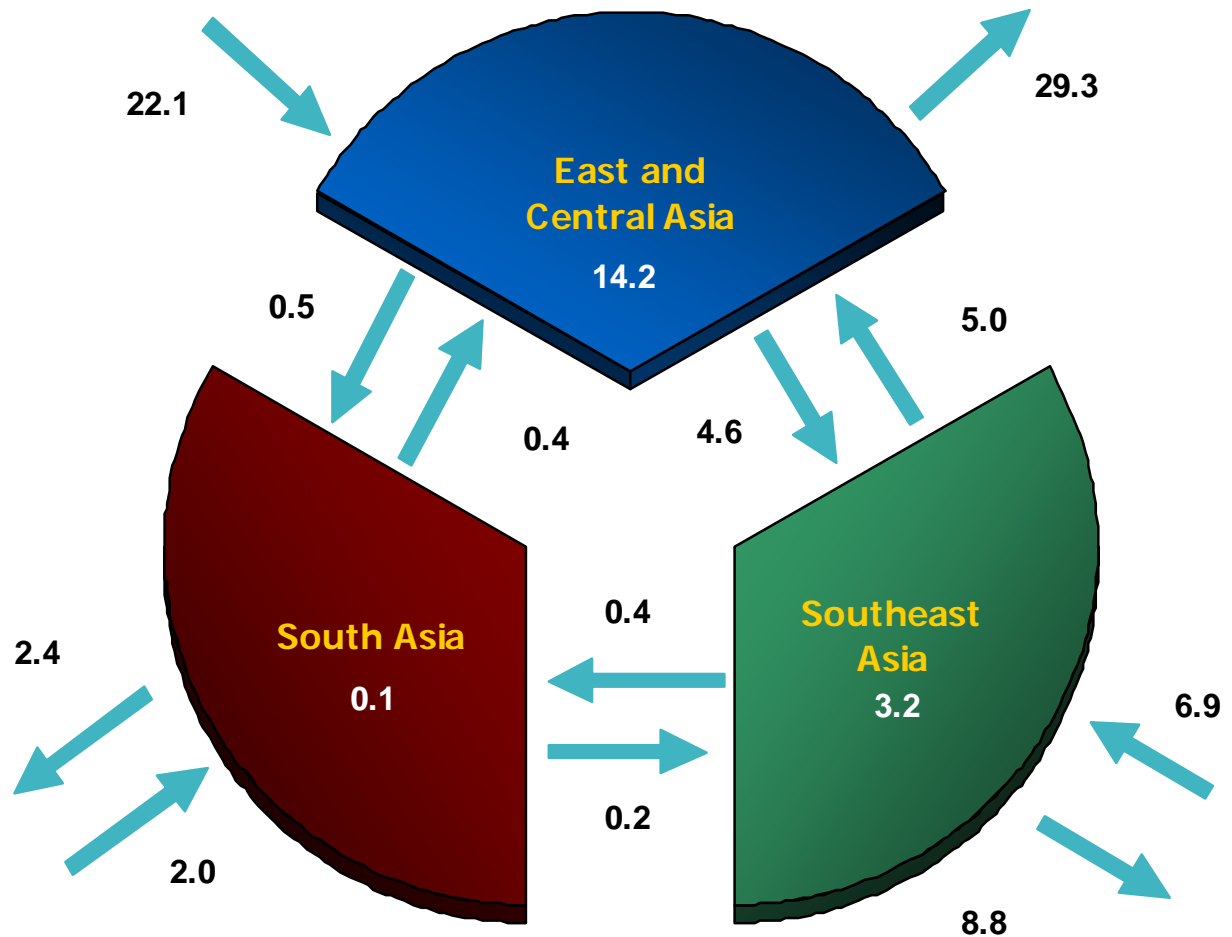
Average Growth Rate

Asian Trade Flows, 2005

(percent of total Asian trade)

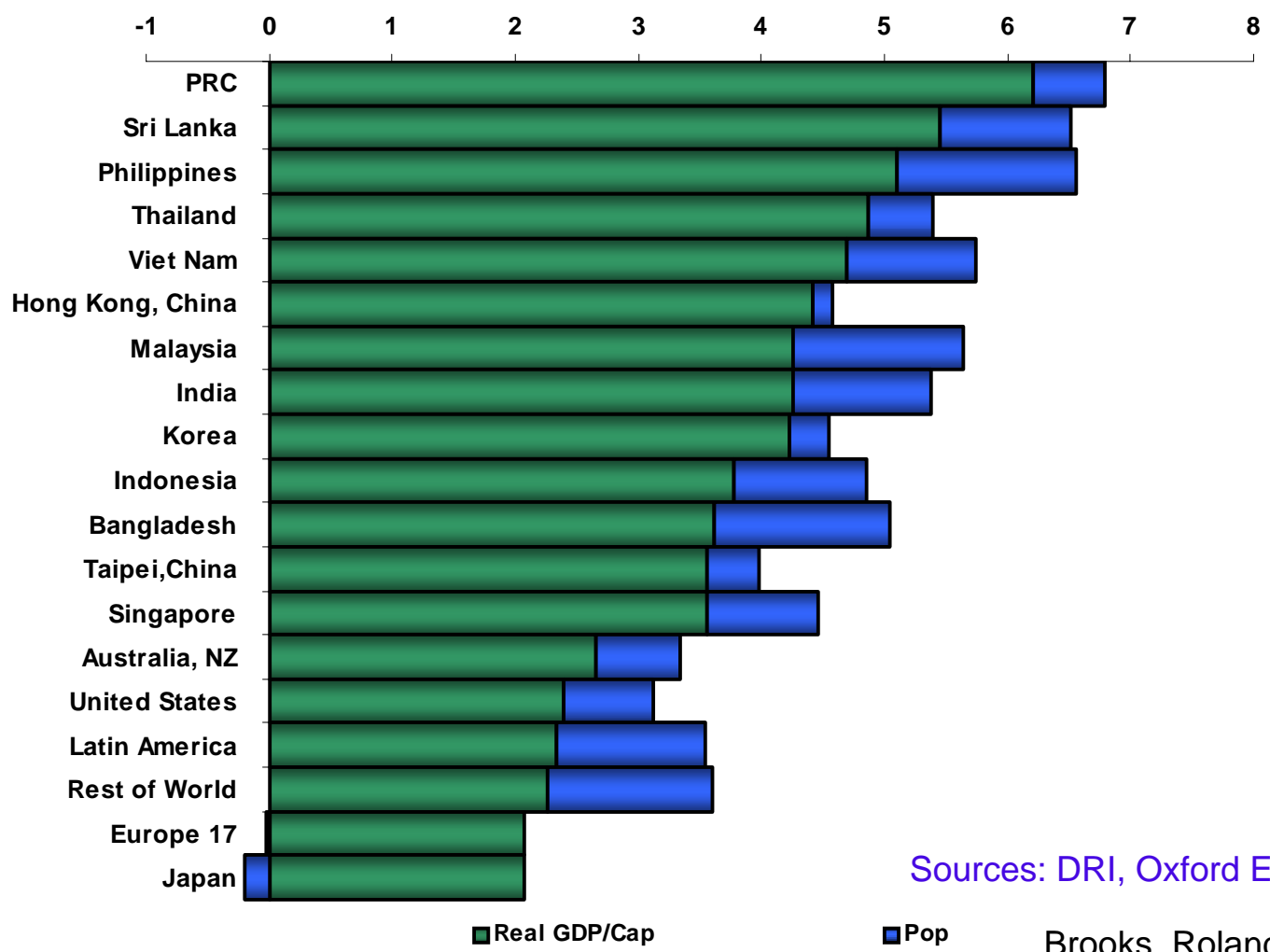
Extra-regional demand remains a primary economic driver.

Intra-Asian trade is far from reaching its potential.



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

On a global basis, Asia continues to represent superior growth.



Sources: DRI, Oxford Econometrics, IMF.



Three Virtues of Asian Regionalism

Asian regional integration offers three essential opportunities:

1. Geographic diversification/new markets
2. Superior growth rates
3. Structural differentiation – more rapid evolution from established North-South patterns of trade and specialization



3. Regionalism, Globalism, and Asian Growth

To project regional trade and growth under alternative scenarios, we have developed the Scenario-based ADB General Equilibrium (SAGE) model, adapted from the World Bank LINKAGE model, calibrated to the GTAP 6 database

- ❖ 18 countries/regions
- ❖ 10-50 sectors

Currently in prototype form, SAGE is benchmarked for projections to 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. **GBL0:** Global Trade Liberalization
 - removal of all import tariffs and export subsidies
3. **GBL2:** Global Trade Liberalization with Trade Facilitation
 - GBL0 with trade facilitating policies simulated by 2 percent annual increases in intra-Asian trade efficiency
4. **AFTA2:** Asia Trade Liberalization with Trade Facilitation
 - remove all import tariffs and export subsidies within Asia
 - trade facilitating policies simulated by 2 percent annual increases in intra-Asian trade efficiency

Equivalent Variation Aggregate Income

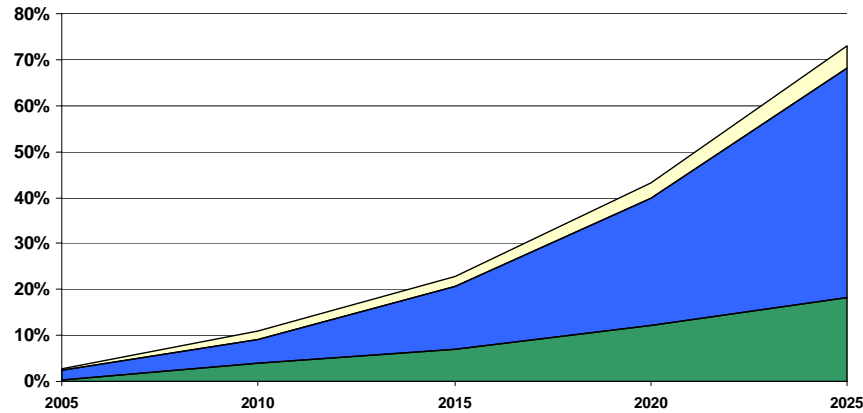
(percentage change from Baseline in 2025)

Region	Country	Scenario		
		1	2	3
		GBL0	GBL2	AFTA2
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
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
S Asia	Bangladesh	3.64	25.30	26.06
	India	6.87	33.99	33.86
	Sri Lanka	2.96	39.61	39.27

Income Growth: East and Central Asia

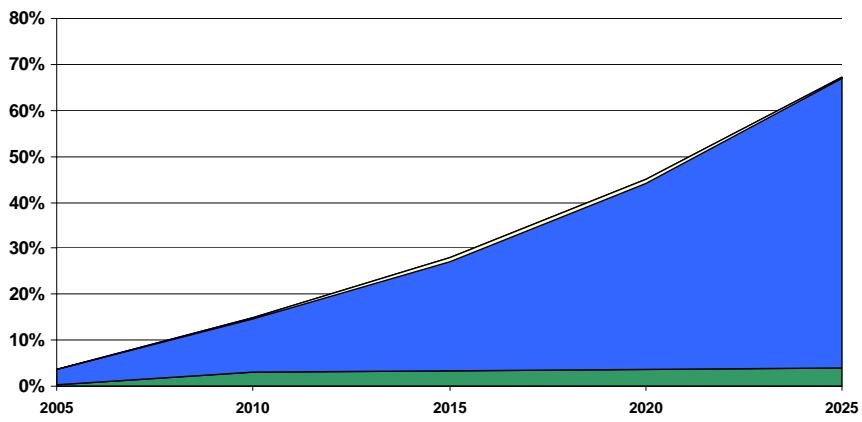
(incremental percentage change from Baseline)

East and Central Asia



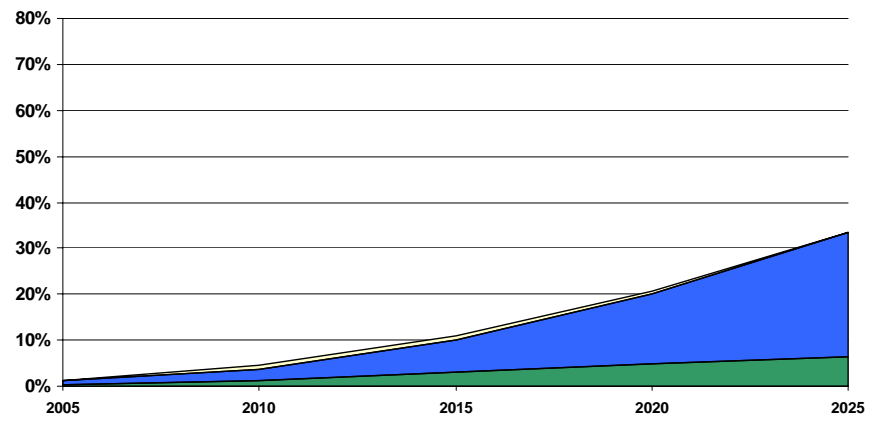
■ GBL0 ■ AFTA2 ■ GBL2

Southeast Asia



■ GBL0 ■ AFTA2 ■ GBL2

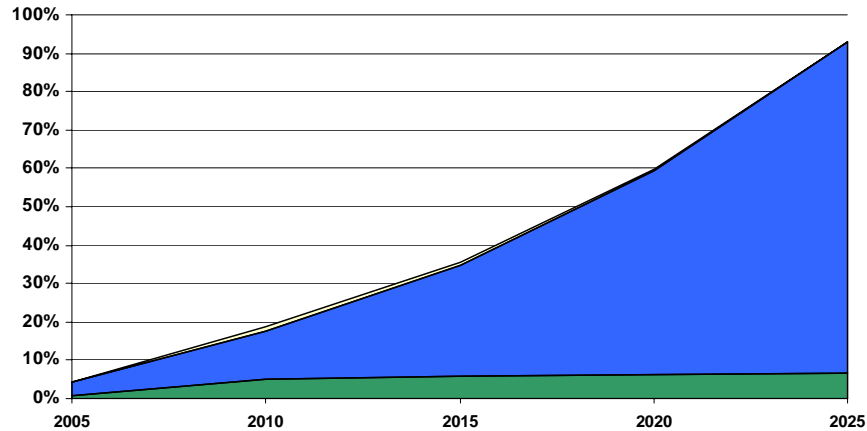
South Asia



■ GBL0 ■ AFTA2 ■ GBL2

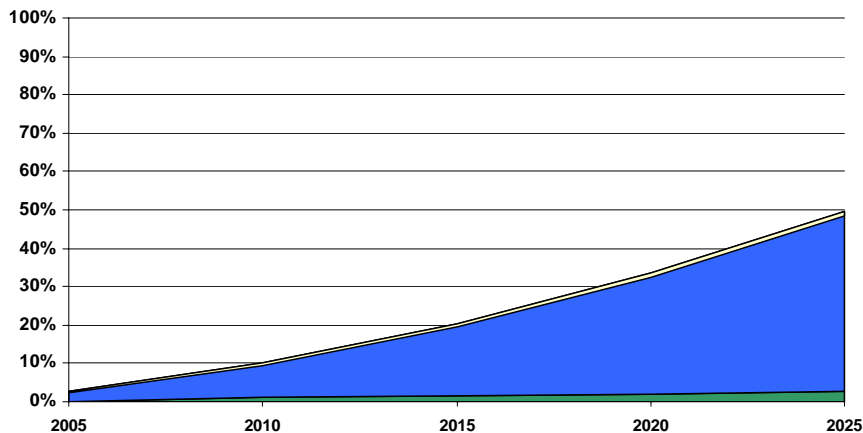
Income Growth: East and Central Asia (incremental percentage change from Baseline)

Thailand



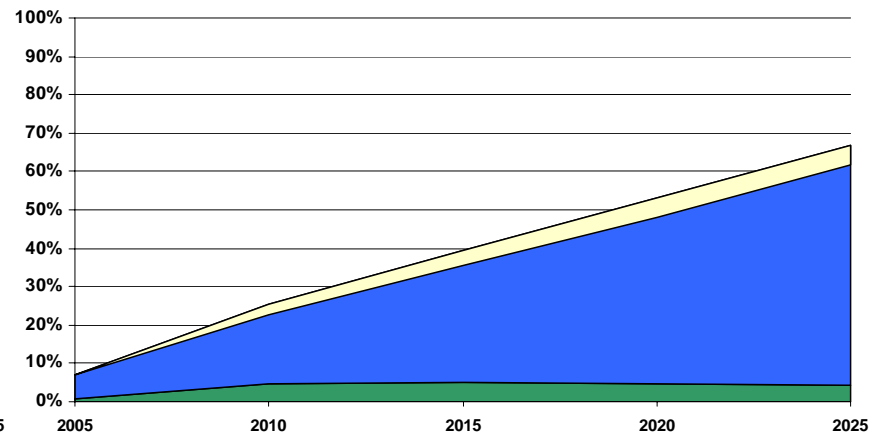
■ GBL0 ■ AFTA2 ■ GBL2

Indonesia



■ GBL0 ■ AFTA2 ■ GBL2

Viet Nam



■ GBL0 ■ AFTA2 ■ GBL2

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	

Extensification →

Intensification →



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 can increase in nearly all directions, but facilitation will accelerate growth and intensify intra-Asian trade linkages.
4. ASEAN generally, and the Greater Mekong Sub-region in particular, will contribute to Asian regional convergence for two reasons:
 - because of geography this region can act as a “growth bridge” between South and East Asia, facilitating regional trade
 - GMS 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.



4. What Makes Regionalism Work?

- Past trade patterns were driven by Ricardian comparative advantage, national differentiation and specialization.
- As economies advance and diversify internally, trade is increasingly driven by shared characteristics:
 - Economies of Scale
 - Multinational marketing: aggregating regional consumer groups
 - Supply chains: aggregating regional component markets
- Modern integration strives 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 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



Financial Dimensions

In addition to coherent regional financial institutions, systemic trends will reinforce regional integration:

1. Economies of scale in financial services
2. Deepening of regional bond and equity markets
– financial diversification and risk management
3. Shift from a “strong dollar” to a “strong RMB”
consensus: Chinese absorption will become a primary driver of regional growth.



Discussion

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

