Asian Development Outlook 2006

Routes for Asia’s trade

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The annual *Asian Development Outlook* provides a comprehensive economic analysis of 43 economies in developing Asia and the Pacific.

ISBN

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Foreword


ADO 2006 provides an assessment of recent economic performance for 43 developing member countries, and projections for major macroeconomic indicators for 2006 and 2007. This year’s ADO features a new format for country chapters, including an expanded graphical presentation of information. The outlook also reviews medium term (2006–2010) opportunities and constraints facing developing countries of Asia and the Pacific.

In 2005, developing Asia grew by 7.4%, well above the recent trend, although not quite matching the 7.8% growth rate reached in 2004. Growth was again supported by favorable conditions in the global economy and by robust growth of global trade. In 2005, the People’s Republic of China and India grew rapidly, and Pakistan grew at its fastest rate in over two decades. Net oil exporters such as Azerbaijan, Kazakhstan, and Viet Nam benefited from high oil prices. In most other countries, growth was healthy.

So far, developing Asia has been largely resilient to high oil prices, which rose by 42% in 2005. In a majority of countries, consumers were shielded against rising prices through direct or indirect subsidies. Eventually, these costs will have to be met by taxpayers. In countries that determinedly cut subsidies, such as Indonesia and Thailand, growth was crimped, but fiscal resources have been released for projects that can help support growth over the longer term. For the most part, inflationary expectations have been held in check and monetary authorities were adroit in raising interest rates.

The global outlook should again be broadly supportive in 2006 and 2007. The upswing in the electronics cycle, which started in 2005, should continue through 2006, and benefit Asian producers and exporters of electronics goods and parts. Global trade is expected to expand at a robust pace and commodity price inflation should taper off. Oil prices are expected to average over $60 a barrel, but volatility is also likely because of tight supply conditions. Interest rates will probably nudge up in many countries in 2006, and there is little scope for fiscal maneuver. Fuller pass-through of higher oil prices to end-users is expected to be a priority in many countries in 2006.

In these circumstances, growth in developing Asia in 2006 is expected to ease to 7.2% and to come down further to about 7% in 2007 as cyclical support for growth recedes. But these aggregate projections are likely to mask some diversity. As a result of conscious policy efforts, growth is expected to soften a bit in the People’s Republic of China. But stronger domestic demand is seen lifting growth in the Republic of Korea in 2006. In India, growth may come off a little in 2006, before picking up again in 2007. In Southeast Asia, overall growth is expected to change little from 2005, but with a checkered pattern across countries. Indonesia may slow in 2006 as domestic demand is pinched by higher interest rates, but Thailand’s growth should recover as the impact of the tsunami and a bad agricultural harvest in 2005 recede. Developing Asia will continue to run a large current account...
surplus with the rest of the world in 2006 and 2007, but there is already
evidence of some adjustment, with domestic demand picking up and growth
of international reserves slowing.

The profile of risks remains much as before, but these risks are probably
more accentuated. A disorderly unraveling of global payments imbalances,
an antigen shift of the H5N1 virus (avian flu) to people, yet higher oil prices,
or a surge in trade protectionism would unsettle the outlook.

Trade will feature prominently in Asia’s medium-term outlook and
longer-term development prospects. The ADO 2006 explores Asia’s interests
in a successful conclusion to the Doha trade talks. A key message is that
developing Asia—a region that has prospered due to its openness—has
a strong interest in an agreement that paves the way for significant
multilateral liberalization. Much of the potential gain to developing Asia
from Doha would come through reducing its own levels of protection.
Developing Asia’s interests would also be best served by World Trade
Organization rules that curb contingent protection measures (such as
antidumping).

Last year, the ADO 2005 noted the risk to some countries posed by the
elimination of textile and clothing quotas at the end of 2004. Encouragingly,
data from the European Union and United States show that large Asian
textile and clothing suppliers have expanded their market shares in the first
year of the post-quota era. The textile and clothing industry continues to
be an important source of export revenue and jobs, particularly for women,
in low-income developing Asian economies. If the industry is to remain
competitive, though, governments—especially—need to do more. For
example, relaxing the restrictions on foreign investment would help improve
efficiency.

Finally, bilateral trade agreements that crisscross the globe are
proliferating, and Asia is being swept along by this trend. Developing Asia’s
participation in bilateral agreements is motivated by a wide variety of
commercial and strategic interests that stretch beyond the region. However,
uncoordinated bilateral agreements risk switching trade from lower- to
higher-cost producers (trade diversion) and can raise frictions to commerce,
through, for example, complicated rules of origin. A notable concern is
the possibility that poorer countries may become marginalized, which
could stymie their broader reform efforts. The ADO 2006, using a global
economic model, sets out what is at stake through possible trade diversion.
It also proposes steps that can mitigate risks. Measures such as better
port infrastructure or improved customs facilitation offer possible gains
to low-income countries by allowing them to get their products to world
markets faster, and more cheaply. Initiatives like these, complemented by
trade liberalization on a broader front, could confer substantial benefits on
developing Asia.

HARUHIKO KURODA
President
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Definitions

The economies discussed in the *Asian Development Outlook 2006* are classified by major analytic or geographic groupings. For purposes of *ADO 2006*, the following apply:

- **Association of Southeast Asian Nations (ASEAN)** comprises Brunei Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- **Developing Asia** refers to 43 developing member countries (DMCs) of the Asian Development Bank discussed in *ADO 2006*.
- **East Asia** comprises People’s Republic of China; Hong Kong, China; Republic of Korea; Mongolia; and Taipei, China.
- **Southeast Asia** comprises Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
- **Central Asia** comprises Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- **The Pacific** comprises Cook Islands, Fiji Islands, Kiribati, Republic of the Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea, Samoa, Solomon Islands, Democratic Republic of Timor-Leste, Tonga, Tuvalu, and Vanuatu.
- Unless otherwise specified, the symbol “$” and the word “dollar” refer to US dollars. Currency abbreviations are given in Statistical Appendix Table A19.

The *Statistical Notes* give a detailed explanation of how data are derived. *ADO 2006* is based on data available up to 15 March 2006.
### Acronyms and abbreviations

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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>ATC</td>
<td>Agreement on Textiles and Clothing</td>
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<td>CAR</td>
<td>Central Asian republic</td>
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<td>CEPA</td>
<td>Closer Economic Partnership Arrangement</td>
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<td>CPI</td>
<td>consumer price index</td>
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<td>CY</td>
<td>calendar year</td>
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<td>DMC</td>
<td>developing member country</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>foreign direct investment</td>
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<td>FY</td>
<td>fiscal year</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>GEMAT</td>
<td>General Equilibrium Model of Asian Trade</td>
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<td>GNP</td>
<td>gross national product</td>
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<td>GSP</td>
<td>Generalized System of Preferences</td>
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<td>GST</td>
<td>goods and services tax</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IT</td>
<td>information technology</td>
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<td>Lao PDR</td>
<td>Lao People's Democratic Republic</td>
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<td>MFA</td>
<td>Multifibre Arrangement</td>
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<td>NAMA</td>
<td>Non-Agricultural Market Access</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OPEC</td>
<td>Organization of the Petroleum Exporting Countries</td>
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<td>PBC</td>
<td>People's Bank of China</td>
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<td>PRC</td>
<td>People's Republic of China</td>
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<td>PRGF</td>
<td>Poverty Reduction and Growth Facility</td>
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<td>R&amp;D</td>
<td>research and development</td>
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<td>RBI</td>
<td>Reserve Bank of India</td>
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<td>SARS</td>
<td>severe acute respiratory syndrome</td>
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<td>SME</td>
<td>small and medium enterprise</td>
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<td>SOCB</td>
<td>state-owned commercial bank</td>
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<td>SOE</td>
<td>state-owned enterprise</td>
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<td>T&amp;C</td>
<td>textiles and clothing</td>
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<td>UN</td>
<td>United Nations</td>
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<td>United States</td>
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<td>VAT</td>
<td>value-added tax</td>
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