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Outlook 2002

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PREFERENTIAL TRADE AGREEMENTS
IN ASIA AND THE PACIFIC

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FOREWORD

The *Asian Development Outlook 2002* is the 14th edition of the annual comprehensive economic report on the developing member countries (DMCs) of the Asian Development Bank (ADB).

The *Outlook* provides a detailed analysis and assessment of macroeconomic trends, including fiscal, monetary, and balance-of-payments developments, for 41 Asian and Pacific economies for 2001, as well as projections for 2002 and 2003. It also provides a broad diagnosis of macroeconomic conditions and future growth prospects and progress in poverty reduction in the economies of the region. For the first time, the *Outlook* includes a section on Afghanistan.

The global economy weakened significantly through most of 2001. The United States economy, already slowing, contracted further in the third quarter largely as a result of the events of September 11th. However, the economy strengthened somewhat during the last quarter, and showed further strength during the first quarter of 2002. Output in Japan contracted in the latter part of 2001, and in Europe the growth that had started slowing after the first quarter weakened further toward the end of the year. In early 2002, amid indications of a recovery in the United States, most other industrial countries are expected to show some signs of strengthening over the course of the year.

As external conditions deteriorated in 2001, growth in most of the DMCs—particularly those in East Asia and Southeast Asia that are more open to international trade and that also depend heavily on electronics exports—slowed significantly during the year. Despite being affected by weak external markets, some economies such as the People's Republic of China, India, and Viet Nam maintained relatively robust growth. Overall, GDP growth in the DMCs fell from 7.0% in 2000 to 3.7% in 2001. With recovery taking hold as 2002 advances and some revival in exports appearing, growth in the DMCs is projected to record 4.8% in 2002, a rate well below the trend experi-

enced before the Asian financial crisis. Growth will also be supported by rising domestic demand, already apparent in several DMCs in 2001.

This year's theme chapter looks at preferential trade agreements (PTAs), examining their role in determining trade flows within the Asia and Pacific region and between the region and the rest of the world. The global multilateral trading arrangement under the aegis of the World Trade Organization offers the best prospect for reducing barriers and achieving the greatest gains from trade liberalization. PTAs are a second-best means of achieving trade liberalization in a context where multilateral negotiations proceed slowly. Through their effect on trade and growth, PTAs have important implications for poverty reduction in the DMCs and the developing world more generally.

The preparation of the *Outlook* was made possible through the efforts of many individuals both inside and outside of ADB. The contribution of the economists from the Economics and Research Department, the five regional departments, and the resident missions is, in particular, acknowledged. The Regional and Sustainable Development Department, the Strategy and Policy Department, and the Regional Economic Monitoring Unit contributed comments on various drafts. The publication would not have been possible without the support of the Office of Administrative Services and the Office of Information Systems and Technology. Finally, the advice and assistance of the Office of External Relations in disseminating the *Outlook* are gratefully acknowledged.

Tadao Chino

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President

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In ERD, the *Outlook* team was led by J.P. Verbiest, Assistant Chief Economist, Macroeconomics and Financial Research Division, assisted by Cindy Houser, Charissa N. Castillo, and James P. Villafuerte. Cindy Houser contributed Part I; Christine Kuo prepared the country chapters on Hong Kong, China; and Singapore; Sailesh Jha contributed the country chapters on the Republic of Korea; Malaysia; and Taipei, China. The preparation of the theme chapter

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