Trade-led Growth in Times of Crisis
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A Pan-Asian Services Market: An Idea Whose Time has Come?

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A Pan-Asian Services Market as a Countercyclical Policy Measure

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Some Basic Statistics

- In 2009 (World Bank projections):
  - Developing country growth to fall to 1.2% from 5.9% in 2008 – ex-China and India, DC growth to shrink by an average 1.9%
  - Net capital flows also declined, though not as much as feared earlier; overall FDI flows to drop by 30% over 2008
  - Global trade volumes are expected to decrease 10% on average
- Trade may not have triggered the crisis, but has been an important vector of transmission of the crisis
- But could also help in charting recovery if open trade regime is maintained
  - New research shows that multilateral disciplines seem to be generally working, though protectionist green shoots evident

Impact of Crisis on Asia

- Unusually adversely affected, given fundamentals
  - Openness of region magnified the impact of the trade channel of transmission of crisis
- Equally rapid initial indications of recovery
  - Resurgence of financial flows helped stock markets rise 40% in the quarter following March 2009
  - No change in underlying conditions – liquidity inflow into high-beta regional markets with positive growth prospects
- What should be done to get back to the earlier high growth path
  - The region is poor and needs to sustain growth momentum

Government Response to Crisis

- Reactive: Provision of fiscal and financial stimulus
- Attempts to enhance domestic consumption (infrastructure, FMCG and social sector spending rise)
- Also, hoping for return of exports as saviour
  - High intra-regional trade is not in final products (vertical)
- But can business-as-usual policies help?
- Proactive action: Invest, open up and integrate services markets within the region (soft infrastructure)
  - Will create an alternative source of consumer demand and trade
  - Will have the positive externality of boosting efficiency and competitiveness of traditional sectors of economic activity

Services in Asian Economies

- Share in GDP
  - Though the region has some of the most dynamic economies in the world, share of services in GDP low at 50% on average
  - Domestic focus, state controlled sectors
- Other than the very high income countries, share of employment in services low at 40% of the population
- Limited regional trade in commercial services
  - Since focus mainly on services that serve trade and transportation sectors (imp for export-led growth model)
  - Lack of indigenous services MNCs in other commercial services that are also the more dynamic sub-sectors
- Boost services as Countercyclical policy for Asia

Integrating Asian Services Markets

- Services growth engine - Scope and Gains
  - Why EAS? – critical mass of demand not existing in smaller sub-regional groupings
  - Efficiency gains – scale economies of sectoral specialisation, in both tradable and non-tradable sectors
  - Efficient operation of key commercial services (infrastructure services as finance, ICT, business and professional services) would benefit internal as well as external suppliers and facilitate economic activity across sectors
- Also easier to coordinate regulations in a contiguous region with cultural similarities
  - Without regulatory coordination the services market development/integration will not work

Telecom (tradable) sector

nt for enhancing global competitiveness

rmance in telecom sector is good, but digital
nues to grow

nities exist, both in increasing subscriber base
ng quality in heavily-penetrated countries
and penetration

the game (regulations, governance and
anagement initiatives) before opening up?

n issues: centralised coordination vs decentralised
e – mixed view on efficacy of both (price vs
n), but trade and innovation better in the latter