

Growth Engines After the Crisis

Peter A. Petri

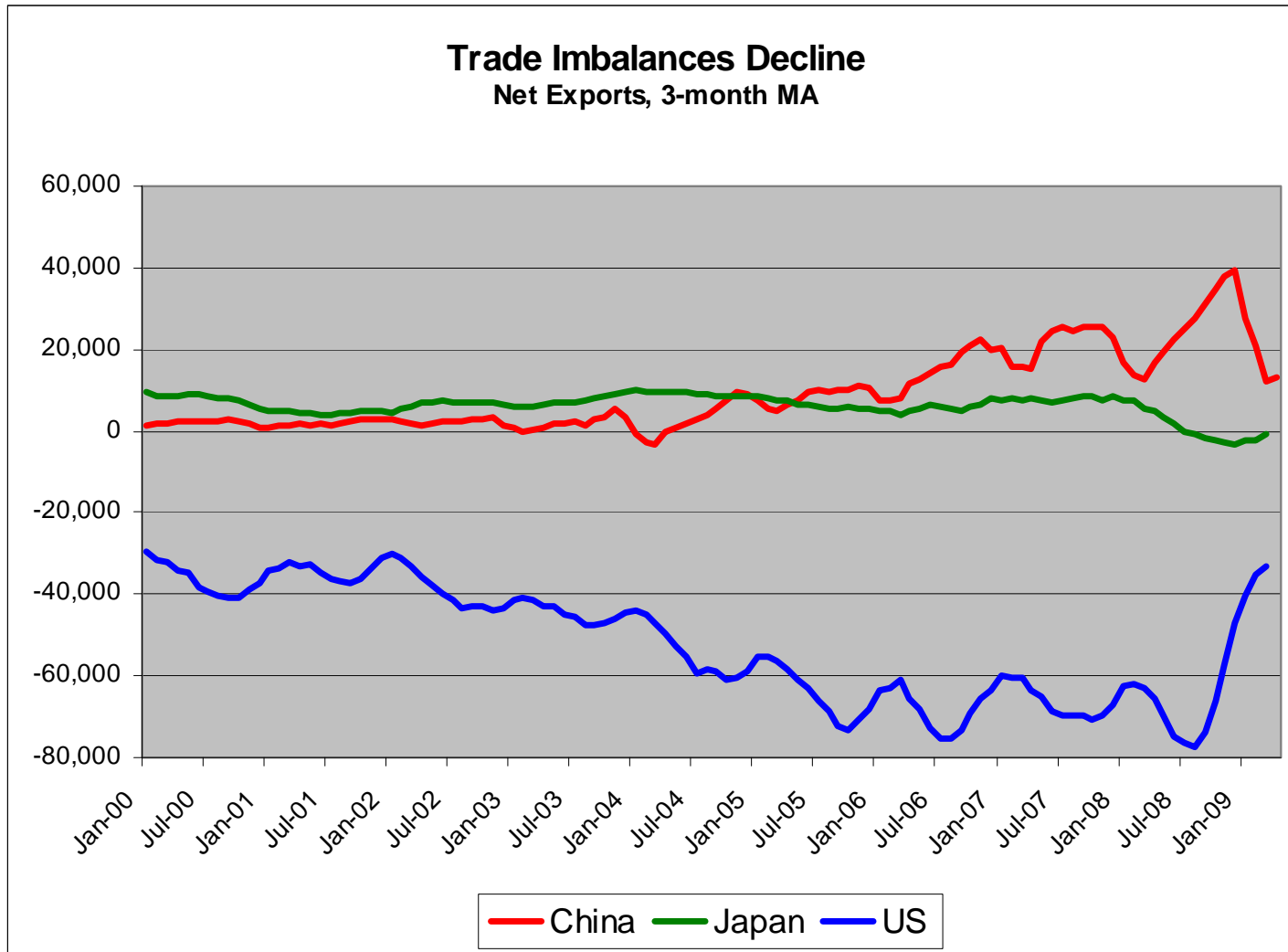
Brandeis University, East-West Center

Conference on China, Japan and US

ADB, Tokyo, May 2009

The views expressed in this presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

Imbalances have become acceptable



Can things stay this way?

- Imbalances are acceptable
 - China: +5% of GDP (high, but partly due to recession)
 - Japan: gone
 - US: -2½% of GDP (tolerable)
- Challenge: recover without rebound in imbalances
- Possible reasons for rebound:
 - consumption recovery itself
 - US government deficits
 - appreciation of US dollar
 - reserve accumulation in Asia (undervaluation)

So what will drive growth?

- Export economy is not dead, but ...
- New regional demand must step up.
- Potential for Asia-Pacific growth is intact
- Savings and technology are intact
- Asian financial systems are intact
- There is headroom for expansionary policy

... new growth engines.

Growth themes

<i>Regional integration</i>	Gaps among countries and regions within countries present opportunities for catchup.
<i>Infrastructure</i>	Substantial investments in power, transport and communications infrastructure are needed to support growth in many places.
<i>Energy and environment</i>	Rising energy costs and climate change require major adjustments in energy consumption and production.
<i>Social priorities</i>	Health, aging and human security represent rising priorities everywhere.

What is a growth engine?

- Induces large investments and output growth (say, \$100b+ investment in 5 years)
- Generates robust demand for some years
- Offers vision and solves “coordination problems” (network effects, positive externalities, demonstration effects)
- Engages private sector
- Has attractive technology and funding prospects

Possible growth engines

<i>Regional integration</i>	<ul style="list-style-type: none">• Closing China's development gap• Integrating ASEAN (also with India?)• China-Taiwan nexus• Financial integration/recycling regional savings• Expanding FTAs: P4+, ASEAN+
<i>Infrastructure</i>	<ul style="list-style-type: none">• Power generation• Urban housing, transport, sanitation• Pan-Asian rail and highway links• High-speed passenger rail
<i>Energy and environment</i>	<ul style="list-style-type: none">• Efficient energy distribution• Alternative electricity generation• Energy research and development• Carbon credits, reforestation• Water resource development
<i>Social priorities</i>	<ul style="list-style-type: none">• Universal health services• Services targeting aging• Life sciences research and development• Education

Enabling policy environment

- Level playing field for non-tradeables
- Structural reform
 - service sector deregulation
 - public sector capacity and accountability
- Exchange rate flexibility
- Effective stimulus
 - Timely, Targeted (on spenders), Temporary (Summers)
 - Timely, Large, Lasting, Diversified, Contingent, Collective, Sustainable (IMF)
 - or: Forward-looking, Productive and Catalytic (especially in Asia)?

Top 10 for 2010

1. China Western Development
2. Universal health insurance
3. Urban housing and transport
4. Asian financial (bond+) markets
5. ASEAN Economic Community
6. Alternative energy
7. Intelligent power grid
8. Electric car
9. Silver services (for aged)
10. Pan-Asian rail and highway links