



## Asia should promote domestic demand and lessen its reliance on electronic exports

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The bulk of Asia's exports runs through, rather than to, the People's Republic of China, leaving the region more exposed to downturns and anti-trade sentiments in developed countries than to a domestic slowdown in China.

Governments should promote domestic growth and trade within Asia to lessen that exposure, economists argue in a new book by the Asian Development Bank Institute, *Slowdown in the People's Republic of China, Structural Factors and the Implications for Asia*.

Peter Morgan, co-chair of the research department at ADBI and one of the editors of the book, explains the conclusions of a paper by Willem Thorbecke of Japan's Research Institute of Economy, Trade and Industry.

**Asian economies need to adjust to potentially slower growth in the PRC, although the impacts are not expected to be too great. They need to make greater efforts to diversify their exports away from dependence on China and the developed economies, and to take steps to promote growth of domestic demand. As China did, Asian economies can spur domestic demand through economic reforms; promotion of financial development, education, and innovation; economic upgrading; and steps to improve social safety nets.**

When Thorbecke modelled export patterns in the region, he discovered that the bulk of East Asia's exports to China were made up of electronic parts and components to be used in goods exported to developed countries.

Goods intended for consumption in China made up less than 8% of Japan's exports and only 4% of the exports from countries in the Association of Southeast Asian Nations, the Republic of Korea, and Taipei, China.

That means Asia's exports to China are much more exposed to a slowdown in the developed world than to any downturn in China itself. It also means China's neighbors are

vulnerable to any protectionist measures taken against China because of its significant trade surpluses with developed countries.

Thorbecke found that exports to China from the rest of Asia dropped sharply in 2012 from what would have been expected from his model of trade trends in the region.

By 2015, exports to China from the rest of Asia were a third lower than what would have been expected had the earlier trade trends continued.

Following through with closer regional integration would promote trade within Asia and help lessen the region's reliance on exports to fuel growth. Instead, inter-Asian trade could focus on domestic consumption, which would also benefit consumers throughout the region.

Asian countries could also allow their currencies to appreciate against the US dollar, which would lower the chances of a political backlash and increase the purchasing power of the region's consumers.

The aim of Asian governments should be to raise living standards and consumption within Asia, rather than a return to frantic growth based on exports to the developed world.

This was based on the work of Willem Thorbecke, senior fellow at Japan's Research Institute of Economy, Trade and Industry, published in ADBI's [\*Slowdown in the People's Republic of China, Structural Factors and the Implications for Asia\*](#), edited by Peter Morgan, co-chair of the Research Department at the Asian Development Bank Institute; Justin Yi-fu Lin, director of the Center for New Structural Economics, Peking University, China; and Guanghua Wan, director of the Institute of World Economy, Fudan University, China. This is part two of a five-part podcast series on the book.

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