

IT exports seen leading Asian growth

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Steady demand for information-technology products worldwide will bolster East Asia's economy next year, according to a report by the Asian Development Bank Monday.

The Manila-based institution said the region's growth had been hurt last year when there was "a temporary weakness in the information technology sector in late 2004 and early this year," in addition to the December tsunami hitting many countries in the region, as well as terrorist attacks and political uncertainties.

But prospects for 2006 look brighter, in part due to an anticipated increase in sales for computers, electronic goods and other IT products that East Asia continues to produce aggressively. In fact, China has recently surpassed the United States as the biggest exporter of IT goods as it steps up efforts to mass-produce high-quality products instead of simply focusing on manufacturing goods cheaply. Furthermore, strong exports are dependent on international markets adhering to current trade rules, which inevitably make them more susceptible to fluctuations in the political arena. Given the ever-growing U.S. trade deficit, compared to the rising trade surplus of many Asian countries, there may well be increased political pressure to keep more Asian products out of their single-biggest market.

Still, under current circumstances and "with a turnaround in global IT demand, the region's exports should get a boost," the ADB stated, as it expects the gross domestic product growth rate for the region averaging 7.2 percent next year, up from the 7.1 percent growth estimated for

2005.

Of course, given the nature of the export market, the ADB's forecast will depend very much on how the world economy fares and whether global demand for products made in Asia will be as robust as economists anticipate. Assuming that sales rise as expected, China will continue to lead the way in growth in the region. Its GDP projection for 2006, however, is under 9 percent, compared to the 9.3 percent increase anticipated for this year. Meanwhile, excluding China, growth in the region is expected to reach 5.3 percent, above the 4.6 percent rise forecast for this year.

That is not to say, however, that there are no downside risks to growth.

The ADB pointed out that higher oil prices and a possible avian-flu pandemic, in addition to a broader slowdown in global economic growth and higher interest rates, could dampen economic prospects in the region.

Another possibility is China floating its currency. The country has continued to come under attack for keeping the yuan's value deliberately low, thereby keeping the price of its exports intentionally cheap and thus more competitive in global markets. Beijing has been facing increasing pressure from industrialized nations to float the yuan, and it had taken the first step earlier this year. The ADB pointed out that China "needs to adopt greater exchange rate flexibility. There is merit in loosening the yuan's tight link to the U. S. dollar as it would foster greater exchange rate flexibility in Asia as a whole and provide greater opportunity for future collective appreciation vis-à-vis the U.S. dollar."

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