

*Developing Asia:  
robust growth will  
prevail*

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# Preview

- Prospects for World Economy in 2005-2007: positive but cloudy
- Developing Asia in 2005-2007: Robust and resilient
- East Asia: growth will consolidate
- Southeast Asia: broad-based recovery
- South Asia: the elephant stirs
- Global and regional risks

# Developing Asia's outstanding performance in 2004

- Overall growth at 7.3%: best performance since Asian crisis
- Led by PRC; Hong Kong, China; India; Malaysia; Singapore; and Viet Nam
- Inflationary pressure subdued and current account balance healthy
- Foreign exchange reserves at \$1.6 trillion, up from \$1.3 trillion in 2003

# Developing Asia responded swiftly to opportunities in 2004

- Opportunities:
  - Robust growth in major industrial countries
  - Significant revival in global electronics market
  - Buoyant intraregional trade
- Responses:
  - Exports grew by 25%
  - Remarkable revival of business investment

# Developing Asia maintains strong resilience

- Macro impact of tsunami will be mild and recovery is expected to be rapid
- Regional economic and trade integration has strengthened
- International reserves provide a cushion against potential financial turbulence

# Growing global imbalances will require adjustments in 2005-2007

- US economy will outpace other major industrial economies
- With global imbalances intensifying, the dollar could be volatile
- Inflationary pressure is building in the US economy; monetary tightening will continue

# High oil prices compound difficulties of maintaining both external and internal balances

- Tight oil market conditions are unlikely to ease sharply during forecast period
- Strong demand continues, particularly from US and PRC
- Geopolitical uncertainties remain significant threat to undisrupted supply
- Market speculation and buildup of strategic reserves will persist, but the current price run-up will abate

# Baseline assumptions: Benign external conditions

	2004	2005	2006	2007
<i>GDP growth (%)</i>				
Industrial countries	3.5	2.5	2.5	2.4
United States	4.4	3.7	3.4	3.1
Euro zone	2.0	1.6	1.8	2.1
Japan	2.7	1.1	1.3	1.3
<i>Memo Items</i>				
US Federal Funds Rate (%)	1.4	3.1	4.2	4.4
Brent crude oil spot prices (\$/bbl)	38.3	41.0	39.0	37.0
World trade volume (% change)	10.2	7.4	6.0	6.0

# Developing Asia will stay on a high growth path in 2005-2007

- Domestic demand will play the key role in supporting overall growth
- Export growth will moderate
- Rising imports will damp contribution of external sector to growth

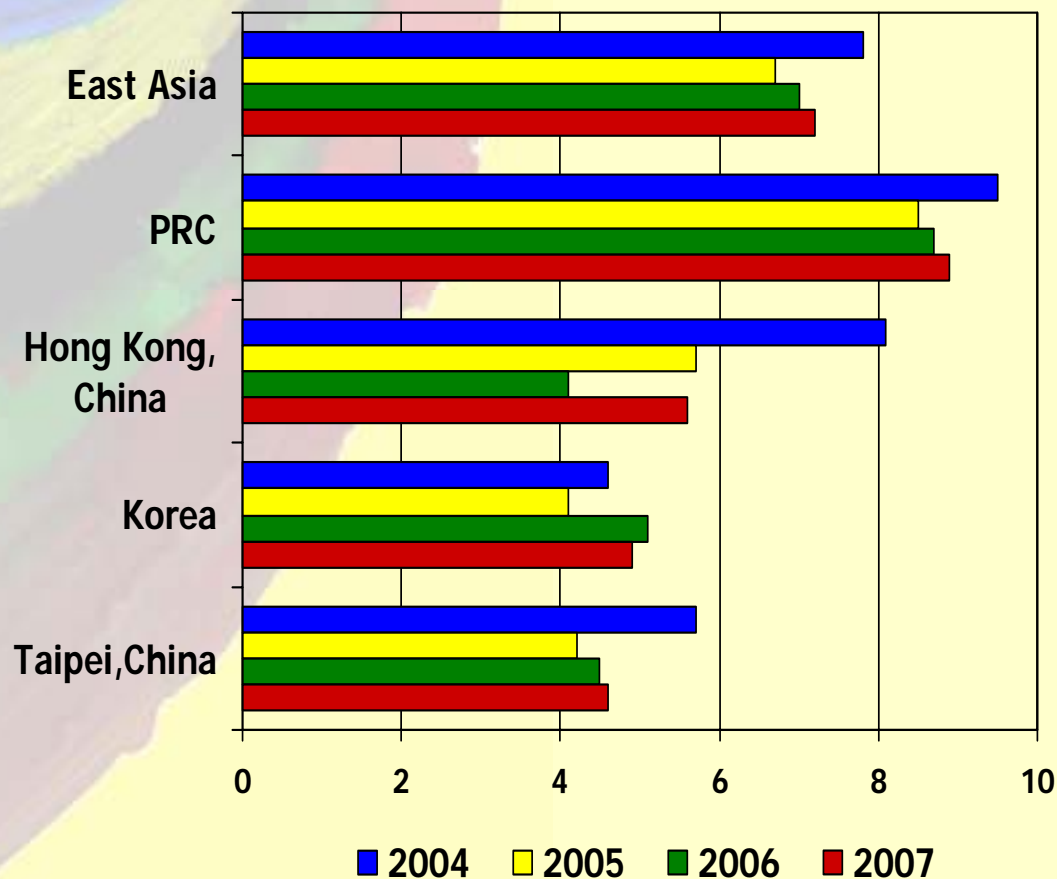
# GDP growth will remain robust

Subregion	2003	2004	2005	2006	2007
Developing Asia	6.7	7.3	6.5	6.6	6.9
East Asia	6.7	7.8	6.7	7.0	7.2
Southeast Asia	5.0	6.3	5.4	5.6	5.9
South Asia	7.8	6.4	6.7	6.2	6.9
Central Asia	10.0	10.4	8.7	8.8	9.2
The Pacific	2.6	2.6	2.3	1.4	2.1

# Sustaining high growth rates in developing Asia hinges on

- Prudent macroeconomic management
- Microeconomic reforms to improve business and investment climate
- Overcoming bottlenecks in infrastructure

# East Asia's growth will consolidate in 2005-2007



- Merchandise export growth will nearly halve in 2005

# PRC will achieve a soft landing in 2005. On the supply side--

- Manufacturing and construction growth will slow to 9-10% as investment slows
- Agriculture will grow by 4.1-4.6% reflecting initiatives to raise rural incomes
- With the opening of more services to external competition, services sector will grow at 8%

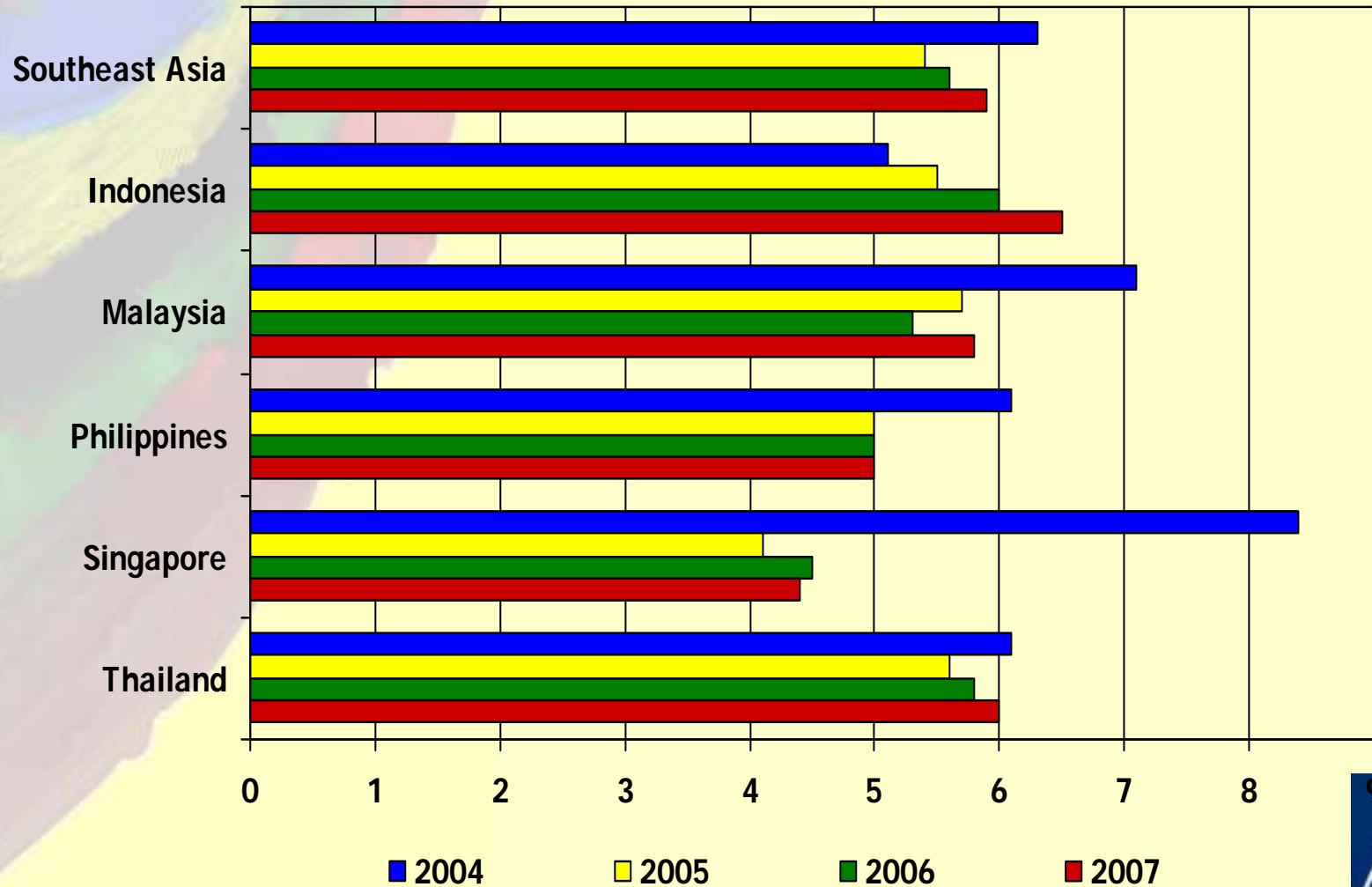
# PRC will achieve a soft landing in 2005. On the demand side --

- Growth of exports will nearly halve in 2005 against 35% in 2004
- Import growth will outpace export growth
- Investment growth will slow to 18% in 2005 (from 25% in 2004)
- Consumption growth will be double digit but significantly lower than investment growth.

# Korea is on the road to slow recovery

- Less buoyant external factors weighing down on export growth will curb near-term performance
- Easing of household debt crisis leads to resumption of consumption growth in 2005
- Significant improvements in corporate balance sheets will spur business investment
- Macroeconomic policies will remain expansionary

# Broad-based recovery in Southeast Asia



## **In 2004 Southeast Asia bounced back**

- Upsurge of business investment has been the most remarkable feature
  - Reduced political uncertainty (peaceful elections)
  - Reduced excess capacity
  - Improved investment and business climate
  - Continued improvement in FDI flows
- Exports rose by 20.3% in 2004 (12.7% in 2003)
- Import growth high: contribution of net exports to growth low

# Southeast Asia: building on 2004 for the outlook period

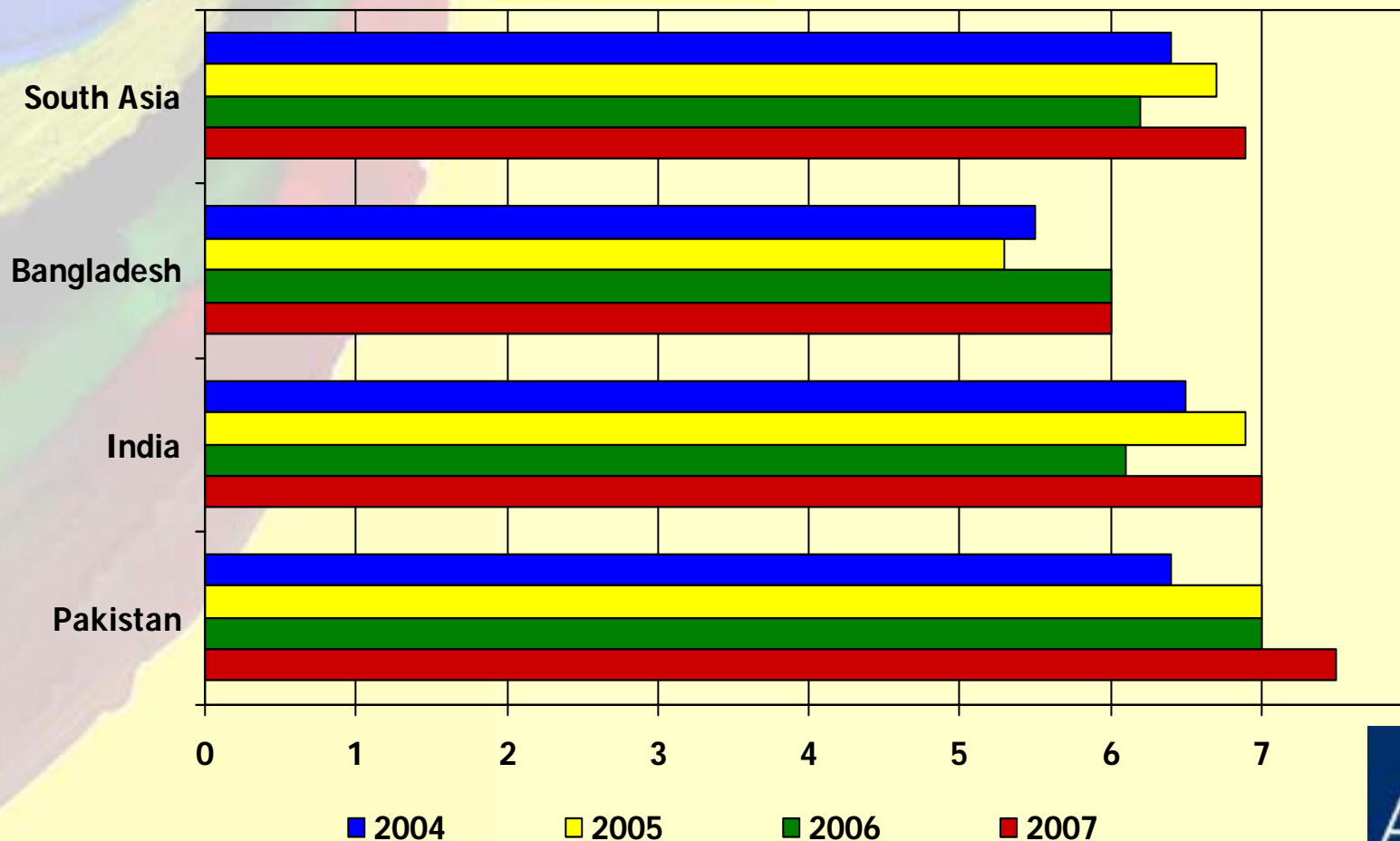
- Consumption and investment will remain main contributors to GDP growth
- Exports and imports will grow more slowly
- Public infrastructure investments – in Thailand, Indonesia
- Singapore, Malaysia, Thailand: improvements in business and investment climate

A stylized map of Southeast Asia is visible on the left side of the slide, showing the outlines of the region in various colors. The title 'Southeast Asia vulnerable to risks' is prominently displayed in blue text on a yellow background.

# Southeast Asia vulnerable to risks

- Pass-through of high oil prices
- Impact on inflation and higher interest rates
- Cross-country exchange rates within Asia
- Vulnerability to epidemics and natural disasters

# South Asia steps up its growth rates



# India's pursuit of growth with equity requires

- Peace and tranquility in the subcontinent
- Rapid integration with global and regional economies
- Mainstreaming bypassed people and regions into the growth process

# India's reform agenda to achieve growth with equity must address

- Imbalances at the macro level
- Infrastructure bottlenecks
- Incentives that distort market signals
- Institutional strengthening for improved governance

# Central Asia will enjoy robust growth

- Nearly all countries performed better than expected in 2004
  - Unexpected strength in the Kyrgyz Republic, Tajikistan, and Uzbekistan
  - Energy exports – principal stimulus
  - Exports surged by 39% in 2004
- Moderate slowing in 2005, advancing in 2006-2007
- Energy producers will continue to drive economic growth in Azerbaijan, Kazakhstan, and Turkmenistan

# Central Asia faces major challenges

- Broader-based growth needed
  - Avoid Dutch disease: deepen economic diversification to expand employment opportunities
  - Reduce exposure to volatility in energy markets
- Political developments uncertain

# Pacific island economies will experience a slowdown in growth to about 2%

- Soft-commodity prices will ease
- The two largest economies will experience a slowdown
  - PNG: depletion of mineral resources, curtailment of logging
  - Fiji will be hurt by end of the Multifibre Arrangement

# Pacific island economies face major challenges

- Physical infrastructure development
- Creation of an effective legal and regulatory environment for businesses (property rights)
- Political uncertainties still a concern
- Public sector reforms needed to improve public service delivery and encourage private sector development

# To summarize, countries in developing Asia will need to

- Strengthen interdependence with industrial countries
- Deepen integration within Asia
- Broaden inclusiveness within countries of developing Asia

# **Benign external environment for now, but significant risks loom. Globally...**

- Uneven growth between major industrial economies aggravating global imbalances
- Forces of global rebalancing could put further pressure to appreciate on Asian currencies
- A rapid increase in US interest rates could pose a threat to financial stability
- High oil prices compound difficulties of maintaining both external and internal balances

# Regionally,

- Lack of coordination of exchange rate policies could lead to higher volatility of regional cross-currency exchange rates
- Speculation on regional currency appreciation triggers private capital inflows, especially short-term flows putting pressure on Asian financial markets
- Overheating in the PRC is still a possibility
- Epidemic outbreaks remain a significant risk to the region

# **Developing Asia must not only be resilient to risks but also contribute to reducing global risks**

- Adjustments in global imbalances will require strong responses from developing Asia
- Developing Asia itself will benefit from contributing to smooth adjustment of global imbalances
- Regional cooperation and integration can play an important role

# Robust growth will prevail in developing Asia in 2005-2007

- Growth will remain robust at 6.5-6.9%
- Growth will be broad based
- Intraregional trade and integration forces are major drivers
- Built-up strengths will enable countries to benefit from opportunities and be resilient to shocks

# Developing Asia must be vigilant

- Positive external environment now but significant risks loom
- Global imbalances pose major risk to region
- Developing Asia must be an important player in the resolution of global imbalances