



ASIAN DEVELOPMENT

Outlook 2009 Update

**Broadening openness
for a resilient Asia**

Asian Development Bank

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6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444
www.adb.org

For orders, please contact:
Department of External Relations
Fax +63 2 636 2648
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Foreword

Developing Asia as a whole is proving to be more resilient to the global economic slowdown than was expected when *Asian Development Outlook 2009 (ADO 2009)* was published in March this year.

Consequently, this *Update* sees somewhat stronger growth for both this year and next than was earlier forecast. The region's economic expansion for 2009 is projected to come in at 3.9%, up slightly from the March forecast of 3.4%, on the back of much stronger growth in East Asia and South Asia. The growth projection for 2010 is likewise upgraded to 6.4% from 6.0% in March.

The global economy is experiencing its worst peace-time slump in eight decades. World trade and industrial production are set to decline sharply this year, leading to a contraction of the world economy.

Unfavorable events originating in the major industrial economies have cascaded on to developing Asia. The region's more open economies were hit the hardest, mainly from falling global demand for their exports. Double-digit declines in exports were common since the last quarter of 2008 through the first half of this year.

As in the major industrial economies, governments and central banks in the region were quick to remedy the growth slack, providing the necessary fiscal and monetary stimuli. Economic activity in the large developing Asian economies rebounded and output looks set for a V-shaped comeback.

But even with a nascent recovery, the region should not be complacent. Downside risks to the outlook remain. A prolonged global recession will reduce the speed at which developing Asia can return to its potential rate of growth. Hasty removal of fiscal and monetary stimuli can likewise degrade the ongoing recovery.

Policy measures to broaden openness need to be adopted to support economic resilience and sustained development. In the last 60 years, the multilateral trading system has underpinned global growth and prosperity. Globalization and openness must continue, but their scope and structure need to be reviewed if the region is to soften some of the economic jolts that hit it every few years.

Before both the 1997–98 Asian financial crisis and the current global downturn, developing Asia enjoyed years of rapid economic growth, reaping the benefits of its financial and trade openness. The onset of both periods of turmoil, however, brought to the fore the perils of excessive and unbalanced openness.

A major lesson from the 1997–98 crisis is that openness must be matched with well-entrenched institutions and regulatory systems that can effectively manage financial globalization. Developing Asia successfully reformed its financial systems in the wake of the 1997–98 crisis, boosting its resilience to financial shocks, which helped shield it from the adverse effects of the current global economic downturn.

Yet the recovery from the 1997–98 crisis carried the seeds of the next dangerous harvest, coming as it did from an overreliance on external demand from the major industrial economies. The ongoing global turmoil has therefore battered the region through plummeting export demand, evaporating capital inflows, and stalling remittance growth. To strengthen its resilience and reduce its vulnerability to external shocks, developing Asia needs to address the geographically unbalanced structure of its trade, capital flows, and movement of workers by promoting closer economic linkages within the region. Such moves, together with a more balanced economy in which domestic demand plays a bigger role, can help the region's economies achieve rapid yet stable growth.

As developing Asia emerges from the global downturn, its footprint on the world economy is becoming more pronounced. So, although the longer-term future looks promising, the region's greatest challenge in the medium term is to live up to the demands of this heightened responsibility.



HARUHIKO KURODA
President

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JONG-WHA LEE
Chief Economist
Economics and Research Department

Contents

Highlights—*ADO 2009 Update*

Part 1 Coping with the global recession 1

- Long recession avoided? 4
- Recovery at hand? 12
- Developing Asia's response to the turmoil 26
- Developing Asia's prospects 29
- A new approach to openness for developing Asia? 31

Part 2 Broadening openness for a resilient Asia 33

- Enhancing intraregional trade 39
- Managing financial globalization 55
- Maximizing the benefits of labor flows 67
- Policies to achieve more balanced openness 73

Part 3 Economic trends and prospects in developing Asia 81

- Subregional summaries 83
- Bangladesh 117
- People's Republic of China 123
- India 129
- Indonesia 135
- Malaysia 140
- Pakistan 145
- Philippines 151
- Thailand 156
- Viet Nam 161

Statistical appendix 167

- Statistical notes and tables 168

Definitions

The economies discussed in *Asian Development Outlook 2009 (ADO 2009) Update* are classified by major analytic or geographic groupings. For purposes of *ADO 2009 Update*, the following apply:

- **Association of Southeast Asian Nations (ASEAN)** comprises Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- **Developing Asia** refers to the 44 developing member countries of the Asian Development Bank and to Brunei Darussalam, an unclassified regional member.
- **Central Asia** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- **East Asia** comprises People's Republic of China; Hong Kong, China; Republic of Korea; Mongolia; and Taipei, China.
- **South Asia** comprises Islamic Republic of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
- **Southeast Asia** comprises Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- **The Pacific** comprises Cook Islands, Fiji Islands, Kiribati, Republic of the Marshall Islands, Federated States of Micronesia, Nauru, Republic of Palau, Papua New Guinea, Samoa, Solomon Islands, Democratic Republic of Timor-Leste, Tonga, Tuvalu, and Vanuatu.
- Unless otherwise specified, the symbol "\$" and the word "dollar" refer to US dollars.

ADO 2009 Update is generally based on data available up to **31 August 2009**.

Acronyms and abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
bpd	barrels per day
CPI	consumer price index
EU	European Union
FDI	foreign direct investment
FY	fiscal year
GDP	gross domestic product
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
PRC	People's Republic of China
US	United States
VAR	vector autoregression
VAT	value-added tax
WTO	World Trade Organization

