

Asian Development Outlook 2003

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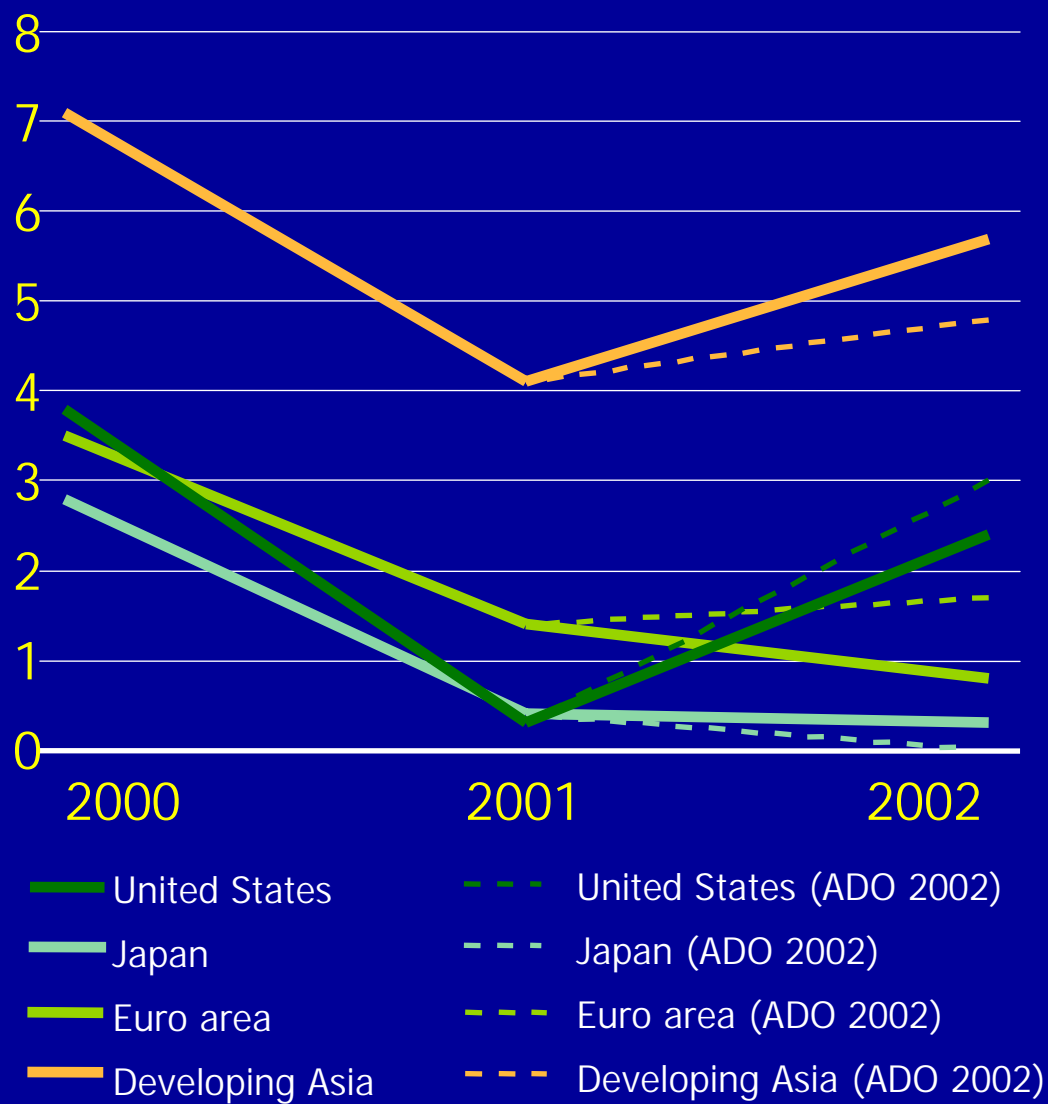
28 April 2003
Tokyo, Japan

- Developing Asia GDP growth strengthened to 5.7% in 2002
- Industrial countries growth recovered in 2002 [\(Figure 1.1\)](#)

In 2002 in Asia

- Strong domestic demand
- Exports stronger
- Expansionary fiscal policies
- Accommodative monetary policies
- Continued reforms

GDP growth, %



Global Baseline Assumptions

Weak Recovery in Industrial Countries
2003-2004

- Growth weak in first half 2003
- Upturn expected 3rd and 4th quarters
- Weaker consumption demand
- Stimulus from fiscal and monetary policies
- Recovery in business investment

	2002	2003	2004
GDP Growth (%) Industrial countries	1.4	1.5–1.7	2.7–2.9
United States	2.4	2.2–2.4	3.4–3.6
Euro area	0.8	0.9–1.4	2.4–2.7
Japan	0.3	0.5–0.7	1.3–1.6
Memorandum Items			
United States Federal Funds rate (%)	1.7	1.4–1.6	2.8–3.2
Brent crude oil spot prices (\$/bbl)	25.0	25.0–27.0	21.0–23.0
Global trade volume (% change)	3.0	5.0-6.0	7.0-8.0

Developing Asia Outlook 2003-2004

- GDP growth somewhat weaker than 2002
- Growth will remain robust
 - Domestic demand
 - Sustained export growth
 - Supportive macroeconomic policies
- Inflation to remain low at average in 2003
- Surplus on current account in 2003 and 2004
- Major economic reforms to continue

GDP Growth by Subregions

Subregion	2001	2002	2003	2004
East Asia	4.4	6.5	5.6	6.2
Southeast Asia	1.7	4.1	4.0	4.8
South Asia	5.0	4.2	5.7	6.1
Central Asia	10.9	7.7	5.8	5.8
The Pacific	0.4	0.9	2.4	2.5

East Asia

GDP growth remains robust
but lower than in 2002

Growth Rate of GDP, 2002-2004

DMC	2002	2003	2004
China, People's Republic of	8.0	7.3	7.6
Hong Kong, China	2.3	2.0	4.0
Korea, Republic of	6.3	4.0	5.3
Mongolia	3.9	5.0	5.2
Taipei, China	3.5	3.7	3.9

- Slower growth in PRC and Korea
- Growth low in Hong Kong, China and Taipei, China
- Mongolia doing better
- Consumption demand weaker in PRC, Hong Kong, China, and Korea
- Investment remains weak
- Export growth healthy
- SARS reduced GDP forecast for 2003

Southeast Asia

Growth is driven by strong domestic demand

Growth Rate of GDP, 2002-2004

DMC	2002	2003	2004
Cambodia	4.5	5.0	5.5
Indonesia	3.7	3.4	4.0
Lao People's Dem.Rep.	5.8	6.0	6.5
Malaysia	4.2	4.3	5.1
Myanmar	-	-	-
Philippines	4.6	4.0	4.5
Singapore	2.2	2.3	4.2
Thailand	5.2	5.0	5.5
Viet Nam	6.4	6.9	7.1

- GDP growth about the same in 2002
- Economies in transition grow faster
- Consumption leads growth
- Investment starting to pick up
- Exports to strengthen
- Large current account surpluses
- Policies supportive
- SARS major risk

South Asia

Outlook improves

Growth Rate of GDP, 2002-2004

- Great diversity
- India's growth rate will improve
- Improved security benefit Nepal, Pakistan, and Sri Lanka
- Improvements in trade deficits
- Fiscal consolidation a pressing concern
- Policy reforms needed

DMC	2002	2003	2004
Bangladesh	4.4	5.2	5.8
Bhutan	7.7	-	-
India	4.4	6.0	6.3
Maldives	4.3	4.2	2.8
Nepal	-0.6	1.5	3.5
Pakistan	3.6	4.5	5.0
Sri Lanka	3.0	5.0	5.5

Central Asia

Settles to more sustainable
growth rates

Growth Rate of GDP, 2002-2004

DMC	2002	2003	2004
Azerbaijan	10.6	9.5	8.0
Kazakhstan	9.5	6.0	6.2
Kyrgyz Republic	-0.5	5.2	4.5
Tajikistan	9.1	7.1	5.0
Turkmenistan	8.6	7.5	7.5
Uzbekistan	4.2	3.5	4.0

- Large investment in oil/gas sector drives economies
- Kyrgyz recovers from gold mine closure
- Tajikistan continues post conflict recovery
- Uzbekistan grows slowly
- Inflation to remain high
- Large current account deficits

The Pacific

Political stability improves
the economic outlook

Growth Rate of GDP, 2002-2004

- Modest rebound in growth
- PNG to grow slowly
- Timor Leste growth negative in 2003
- Fiscal consolidation is a major issue
- Sociopolitical stability important

DMC	2002	2003	2004
Cook Islands	0.3	1.5	3.2
Democratic Republic of Timor Leste	-1.1	-2.3	1.3
Fiji Islands	4.4	5.7	3.6
Kiribati	2.8	2.5	2.3
Marshall Islands	4.0	3.0	2.0
Micronesia, F. S. of	0.8	2.4	1.5
Nauru	-	-	-
Papua New Guinea	-0.5	1.0	2.0
Samoa	1.3	3.6	3.5
Solomon Islands	-4.0	2.0	3.0
Tonga	1.6	2.5	2.7
Tuvalu	2.0	2.0	1.8
Vanuatu	-0.3	1.3	2.2

Risks and Uncertainties to the Outlook

- Global economic uncertainties
- Geopolitical uncertainties
- SARS epidemic

Global Economic Uncertainties

- Global investment fails to revive
- Deflation a serious issue in industrial countries
- Sharp adjustment in US current account and dollar exchange rate

Geopolitical Uncertainties

- Terrorism
- Fall in tourism

SARS Epidemic

- Negative impact likely
- Services sectors most sharply affected
- Impact could spread to manufacturing

Sustaining Growth in Asia

The Way Forward

Priority Reform Areas

- Macroeconomic stability
- Trade reforms
- Financial sector reforms
- Education system reforms
- Exit/entry policies and labor market policies
- Factors and policies to improve the investment climate
- Stronger public/private sector partnerships

Key Messages

Key Messages

- Stronger world economy for 2004
- Growth in industrial economies will at best be weak in 2003
- Growth in Asia remains robust
- Growth is at 5.3% in 2003 and will improve to 5.9% in 2004 (5.7% in 2002)
- Impact of SARS is 0.1 to 0.2 percentage point decline in GDP
- Oil prices are unlikely an issue

Selected Countries

Taipei, China

- Export growth led growth
- The economy is expected to grow
- Weak price pressure and high unemployment
- Economic integration with the PRC

People's Republic of China

- The economy grew in 2002—one of the highest rates in 5 years
- Exports strong
- FDI buoyant
- Growth is likely to be above 7%

Hong Kong, China

- GDP growth increased
- SARS is causing increasing economic concern
- The economy will be burdened in the short term
- Integration with the PRC is a major force

Korea, Republic of

- Economy grew
- Growth is forecast to slow in 2003
- Growth is forecast to rise in 2004
- Continue corporate reforms
- Improve product distribution system

Mongolia

- A mild winter saw growth pick up
- Growth is expected to strengthen
- Structural reforms continue

India

- Growth slowed
- Liberalized foreign exchange market and prepay high-cost external debt
- Strong industrial sector growth is expected to continue
- Improvement in tax administration needed

Afghanistan

- 2002 GDP at \$4.4 billion or \$170 per capita
- Recovery strong in services and construction
- Medium-term growth could well be above 10% annually

Bangladesh

- Moderated GDP growth
- Stronger growth in 2003 and 2004
- Reducing fiscal deficit and market-oriented economy
- Increase in outstanding external debt

Pakistan

- GDP growth rose
- Better fundamentals
- Bright medium-term prospects

Sri Lanka

- GDP expanded
- Positive medium-term outlook
- Growth projected at 5–5.5% (2003 and 2004)

Indonesia

- GDP recorded modest growth
- Economy will show modest growth
- Improving external environment and pickup in investment
- Financial sector reforms strengthen banks
- Budget deficit expected to fall
- Exports growth will be modest

Philippines

- A 4.6% growth rate
- Unemployment remained high
- GDP growth led by consumption and net exports
- Trade and current account balances expected
- Agriculture, investments and services will strengthen
- Rising fiscal deficit
- Tax reforms needed

Thailand

- Solid growth driven by private consumption
- Manufacturing strongest contributor to growth
- Growth expected to remain buoyant
- Exports will remain strong
- Investment spending will weaken
- Inflation expected to remain subdued
- Narrowing budget deficit

Viet Nam

- One of fastest growing economies in 2002
- High growth to continue
- Economic policy and institutional reforms expected
- Exports forecast to increase further
- The trade and fiscal deficits will likely widen
- Competitiveness must improve

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