



ASIAN DEVELOPMENT OUTLOOK 2020

WHAT DRIVES INNOVATION IN ASIA?

Special Topic: The Impact of the Coronavirus Outbreak—An Update

Yasuyuki Sawada

Chief Economist, Asian Development Bank

#ADO2020

ADB

Key Messages

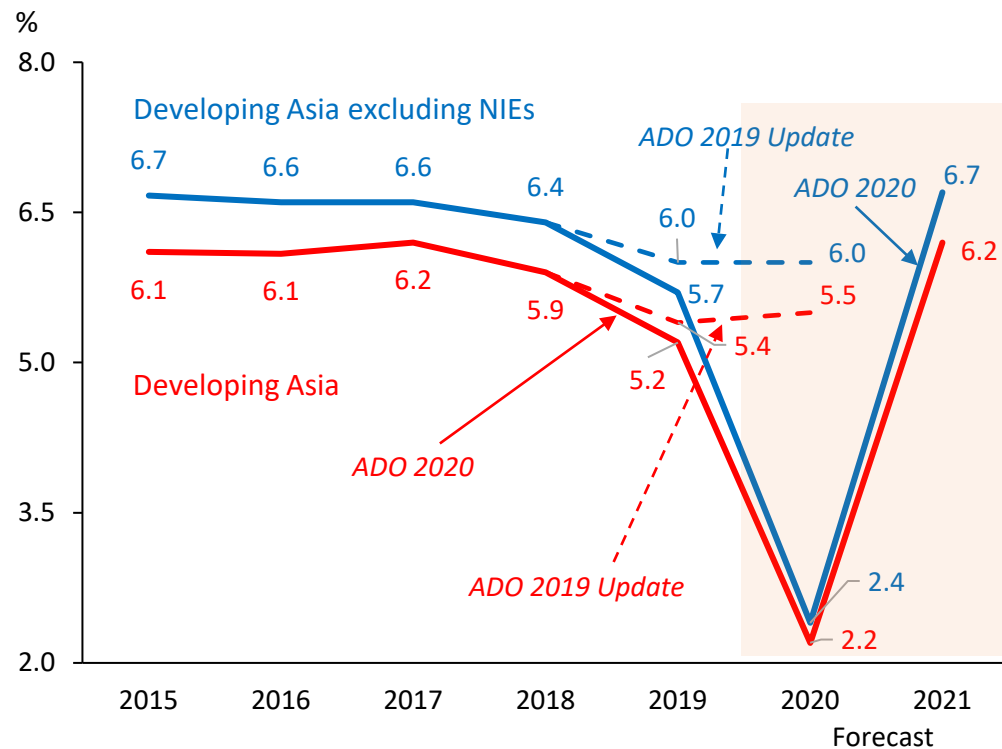
- Developing Asia's growth will slow to 2.2% in 2020 due to the COVID-19 outbreak, but will rebound to 6.2% in 2021
- The growth decline is broad-based, affecting the PRC and India and the rest of developing Asia's economies
- Inflation will tick up to 3.2% in 2020 due to higher food prices before easing to 2.3% in 2021
- Risks are extremely large due to uncertain evolution and effects of the COVID-19 pandemic
- Innovation can unlock faster growth in the region—but it requires sound education systems, innovative entrepreneurship, conducive institutions, deeper capital markets, and dynamic cities

Growth will slow sharply this year, due to the global pandemic

Growth in developing Asia will take a beating from the COVID-19 global pandemic...

... as major advanced economies are set to contract after already slowing in 2019.

GDP growth outlook in developing Asia



Source: Asian Development Outlook database.

Baseline assumptions on the international economy

	2019		2020		2021
	ADO 2019 Update	ADO 2020	ADO 2019 Update	ADO 2020	
GDP growth (%)					
Major advanced economies	1.7	1.7	1.4	-0.3 ▼	1.8
United States	2.3	2.3	1.9	0.4 ▼	2.1
Euro area	1.0	1.2 ▲	1.0	-1.0 ▼	1.6
Japan	1.2	0.7 ▼	0.5	-1.5 ▼	0.9
Brent crude spot prices (average, \$ per barrel)	65.00	64.03 ▼	63.00	35.00 ▼	55.00

▲ = upgraded forecast, ▼ = downgraded forecast, no sign = unchanged.

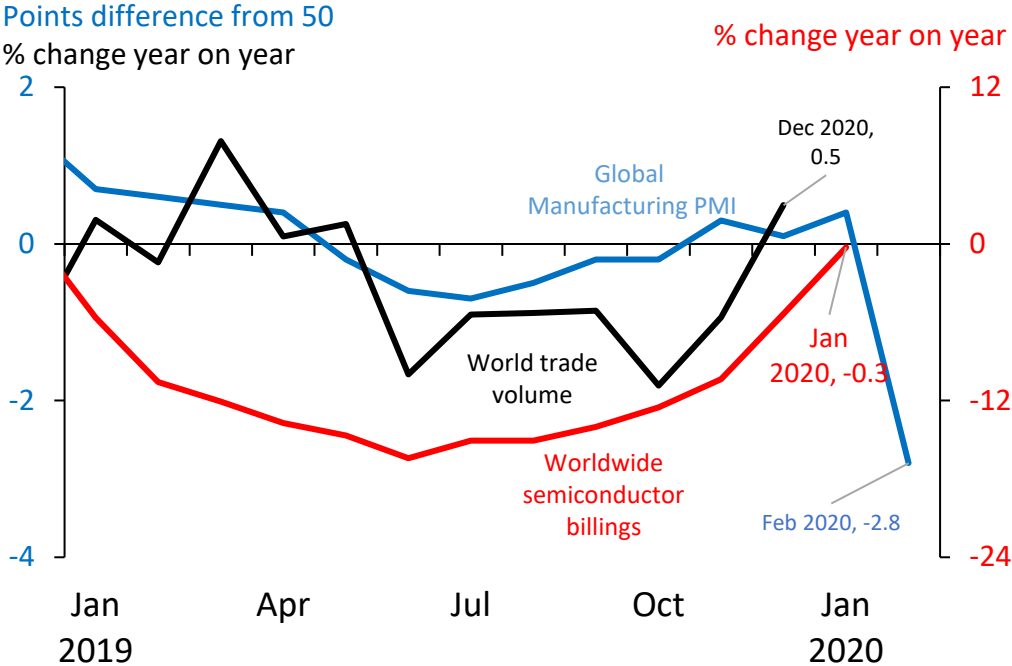
Sources: Bloomberg, Haver Analytics, ADB estimates.

An incipient recovery from a disappointing 2019 was halted, when the outbreak began in the PRC

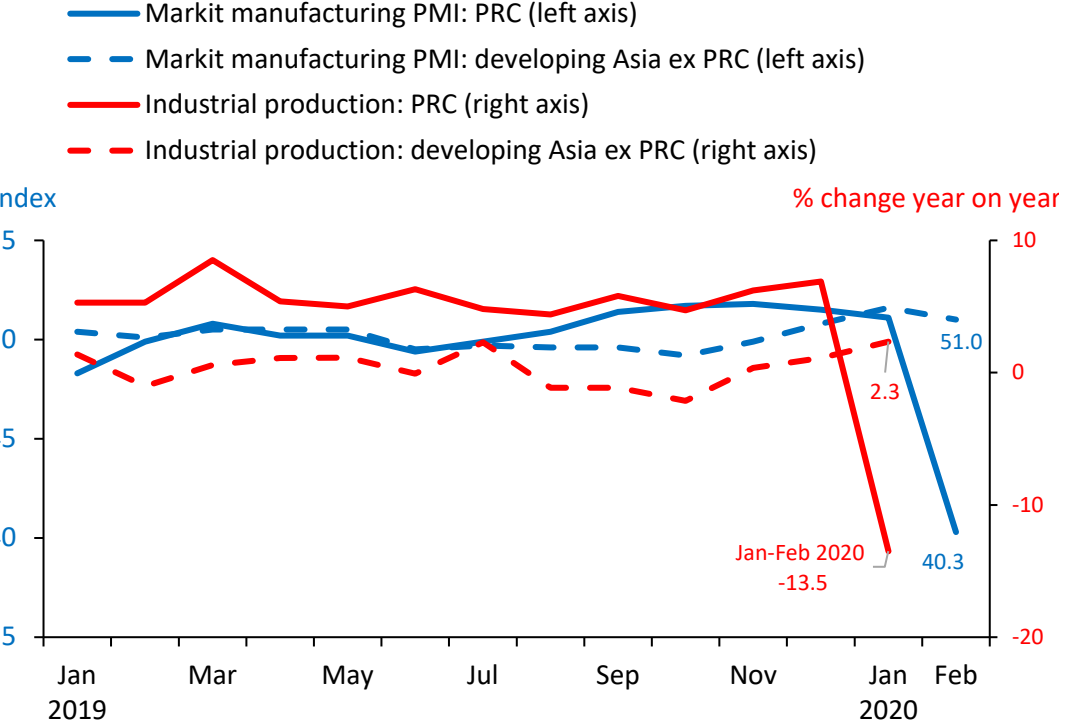
Global activity had shown signs of revival at the end of 2019, but this recovery was snuffed...

... as a coronavirus outbreak began in the PRC in January and put a brake on activity there.

Global activity indicators



Manufacturing PMI and industrial production, Developing Asia



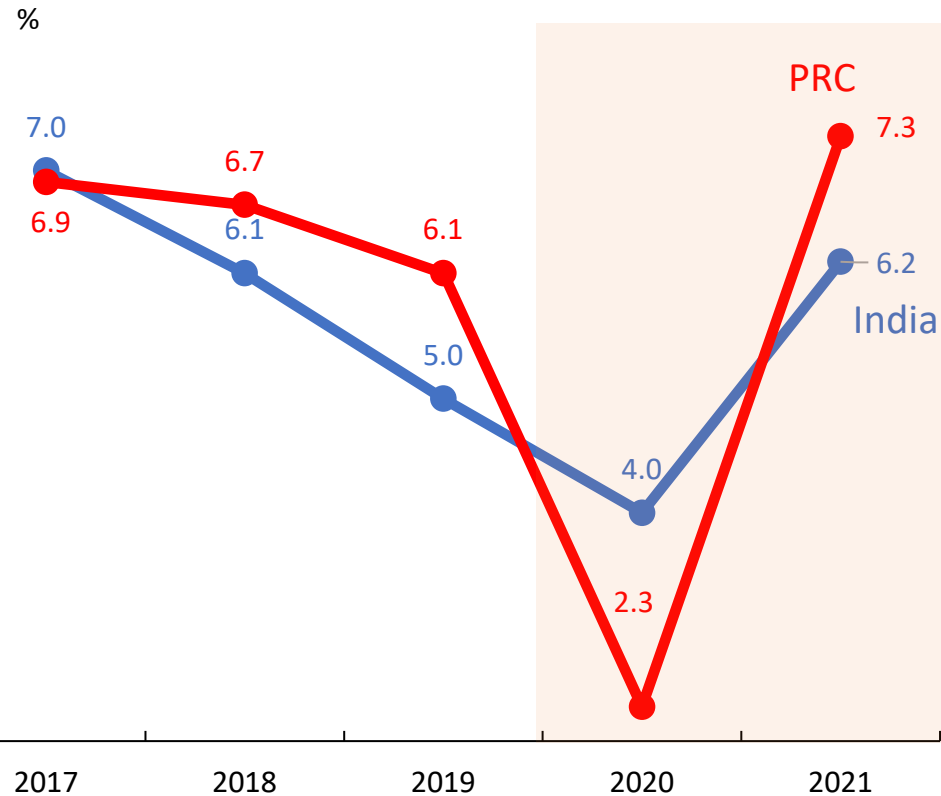
Sources: CEIC Data Company; CPB Netherlands Bureau for Economic Policy Analysis. <https://www.cpb.nl/en/worldtrademonitor>; World Semiconductor Trade Statistics. <http://wsts.tsia.org.tw/>, ADB estimates.

Sources: CEIC Data Company, ADB estimates.

Growth will slow this year in the PRC and India...

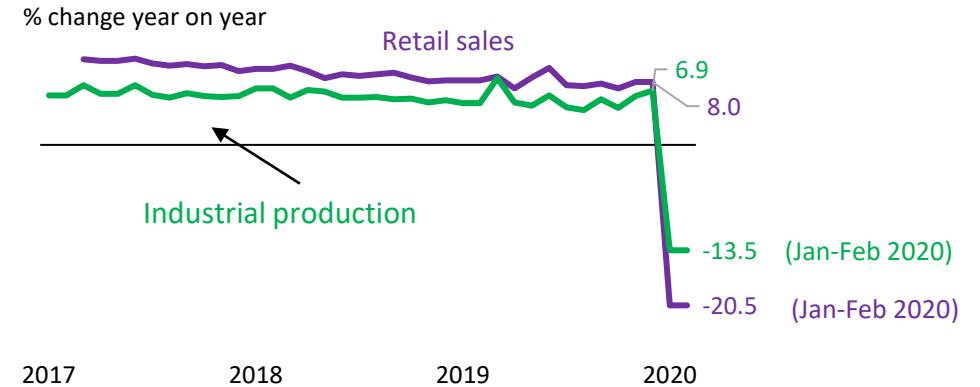
The region's two largest economies will continue to slow before recovering in 2021

Growth in India and PRC

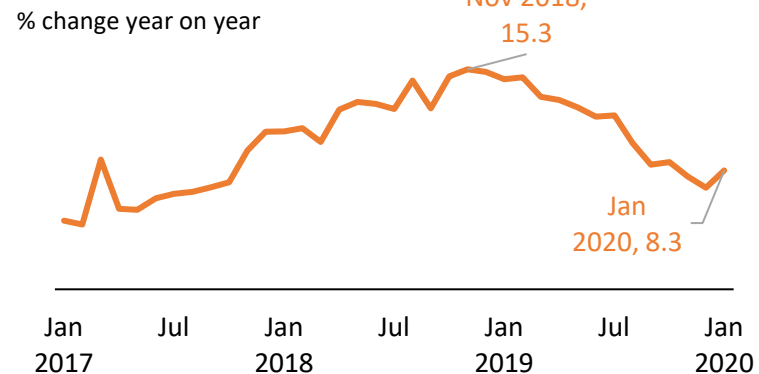


Production fell in the PRC from COVID-19. Efforts to revive credit in India will be offset by a weak global economy.

PRC retail sales and industrial production



India nonfood credit growth



Source: Asian Development Outlook database.

Sources: CEIC Data Company, National Bureau of Statistics (for PRC retail sales and IP).

... and in the rest of developing Asia, before recovering in 2021.

	2019	2020	2021		2019	2020	2021
	<i>Actual</i>	<i>Projections</i>			<i>Actual</i>	<i>Projections</i>	
East Asia	5.4	2.0 ▼	6.5 ▲	South Asia	5.1	4.1 ▼	6.0 ▲
Hong Kong, China	-1.2	-3.3 ▼	3.5 ▲	Bangladesh	8.2	7.8 ▼	8.0 ▲
PRC	6.1	2.3 ▼	7.3 ▲	India	5.0	4.0 ▼	6.2 ▲
Republic of Korea	2.0	1.3 ▼	2.3 ▲	Pakistan	3.3	2.6 ▼	3.2 ▲
Taipei,China	2.7	1.8 ▼	2.5 ▲				
				Central Asia	4.9	2.8 ▼	4.2 ▲
Southeast Asia	4.4	1.0 ▼	4.7 ▲	Azerbaijan	2.2	0.5 ▼	1.5 ▲
Indonesia	5.0	2.5 ▼	5.0 ▲	Kazakhstan	4.5	1.8 ▼	3.6 ▲
Malaysia	4.3	0.5 ▼	5.5 ▲				
Philippines	5.9	2.0 ▼	6.5 ▲	The Pacific	3.8	-0.3 ▼	2.7 ▲
Singapore	0.7	0.2 ▼	2.0 ▲	Fiji	0.7	-4.9 ▼	3.0 ▲
Thailand	2.4	-4.8 ▼	2.5 ▲	Papua New Guinea	4.8	0.8 ▼	2.8 ▲
Viet Nam	7.0	4.8 ▼	6.8 ▲				
Developing Asia	5.2	2.2 ▼	6.2 ▲	excluding the NIEs	5.7	2.4 ▼	6.7 ▲

▲ = upgraded forecast, ▼ = downgraded forecast, no sign = unchanged.

Source: Asian Development Outlook database.

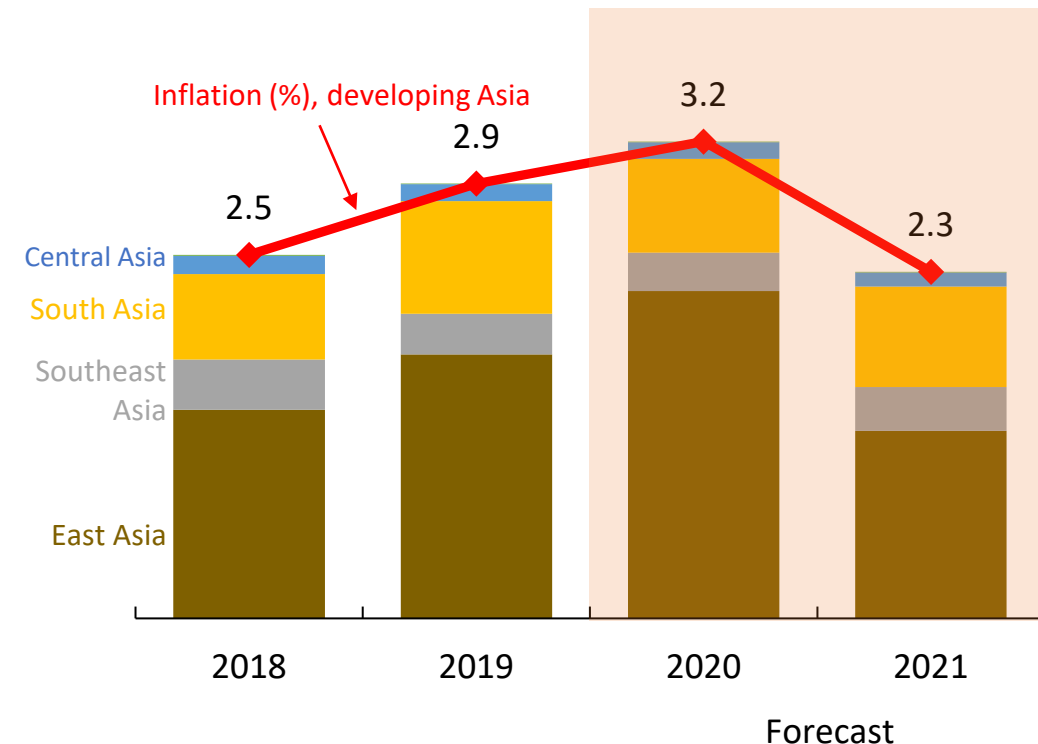
Inflation will tick up this year on increased food prices but will ease in 2021.

Regional inflation will increase mainly on food price increases, but will ease in 2021...

...as elevated pork prices in the PRC and onion prices in India are expected to stabilize.

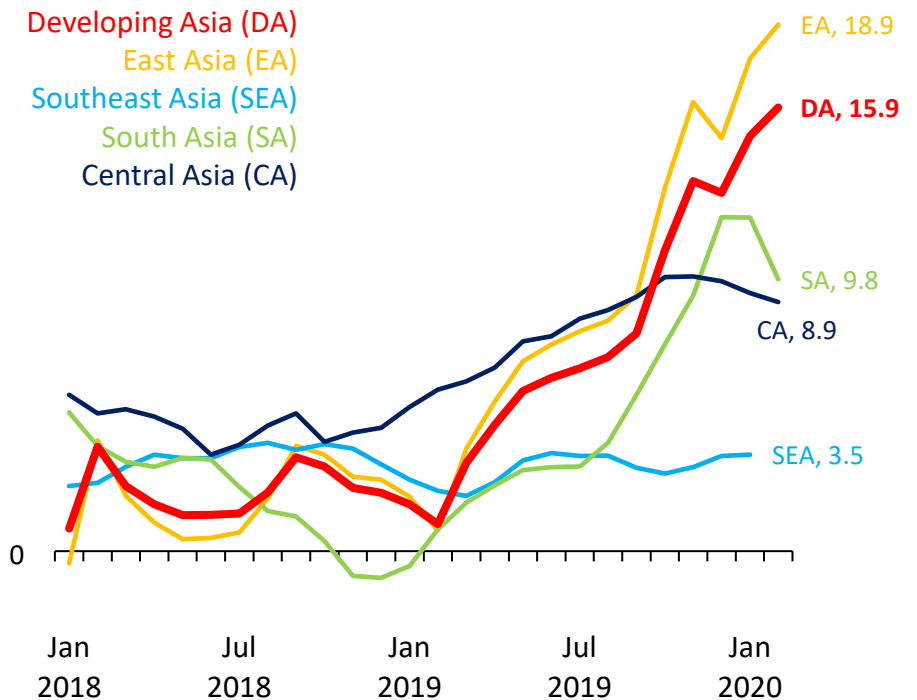
Subregional contributions to inflation in developing Asia

Percentage points



Monthly food inflation in developing Asia

% change year on year



Source: Asian Development Outlook database.

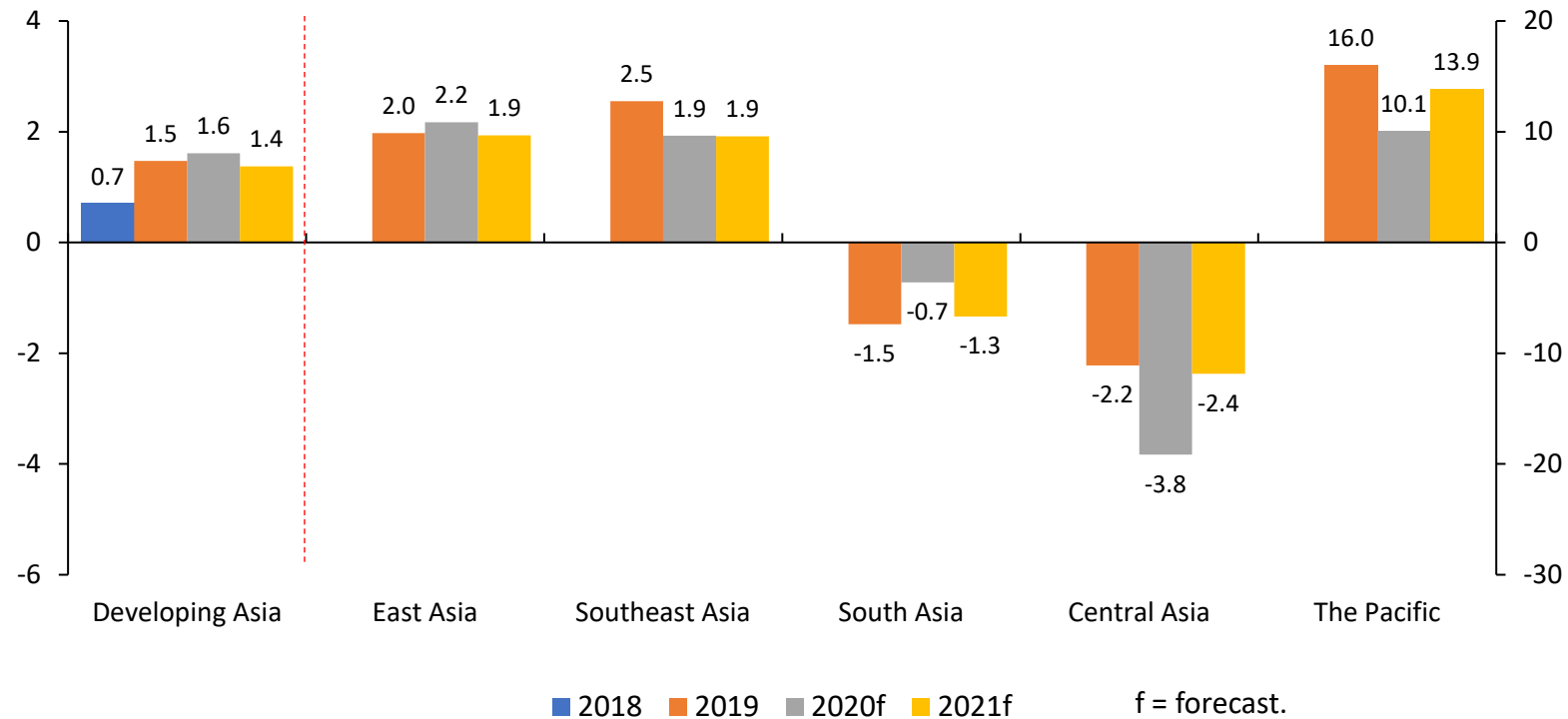
Source: CEIC Data Company, ADB estimates.

The region's current account surplus will widen in 2020 before narrowing in 2021

Trade growth will weaken further this year as demand and supply are disrupted by the COVID-19 outbreak. The regional current account surplus will expand to 1.6% in 2020, before falling back to 1.4% in 2021.

Current account forecast in developing Asia

% of GDP

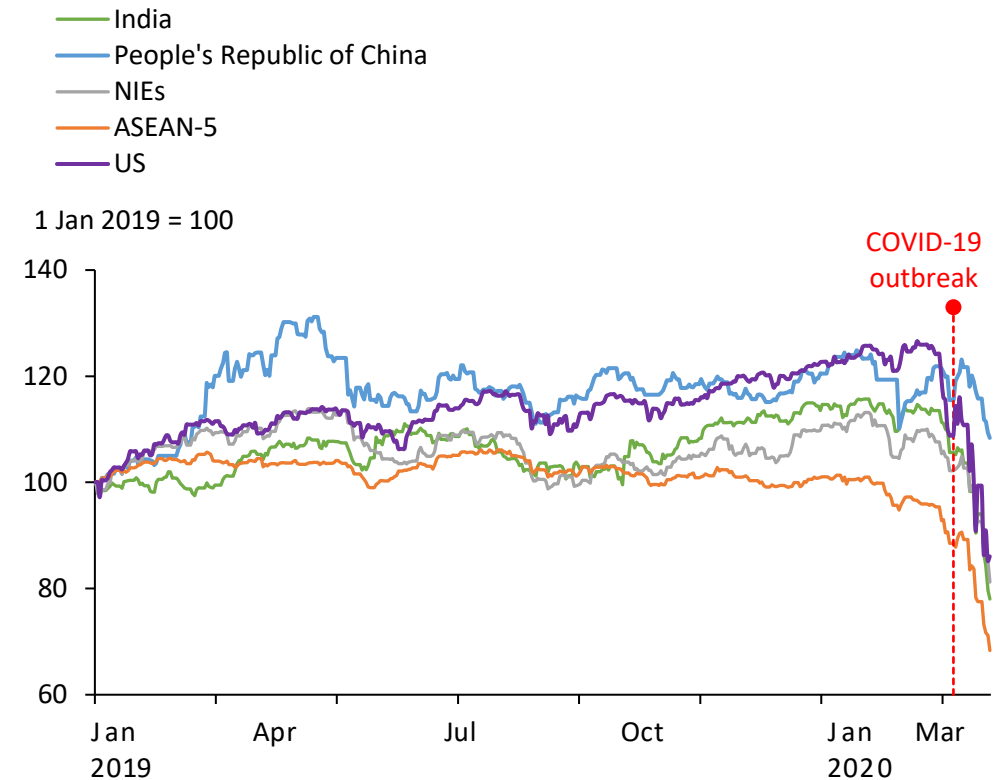


The global pandemic presents an extreme risk to regional and global outlook

- The forecast assumes containment this year, and a return to normal activity next year. But:
 - The outbreak can spread to more countries
 - It may take longer to contain
 - Economic effects may be larger
 - Financial turmoil and crises are possible
 - It could result in fundamental, long-run changes to the global economy
- Quick and decisive policy actions are needed
- Forecasts quickly become outdated in this fast-changing environment; we will update as needed

The global pandemic has resulted in falling stock prices, depreciating currencies, and rising spreads

Equity index, selected economies



Sources: CEIC Data Company, Bloomberg.



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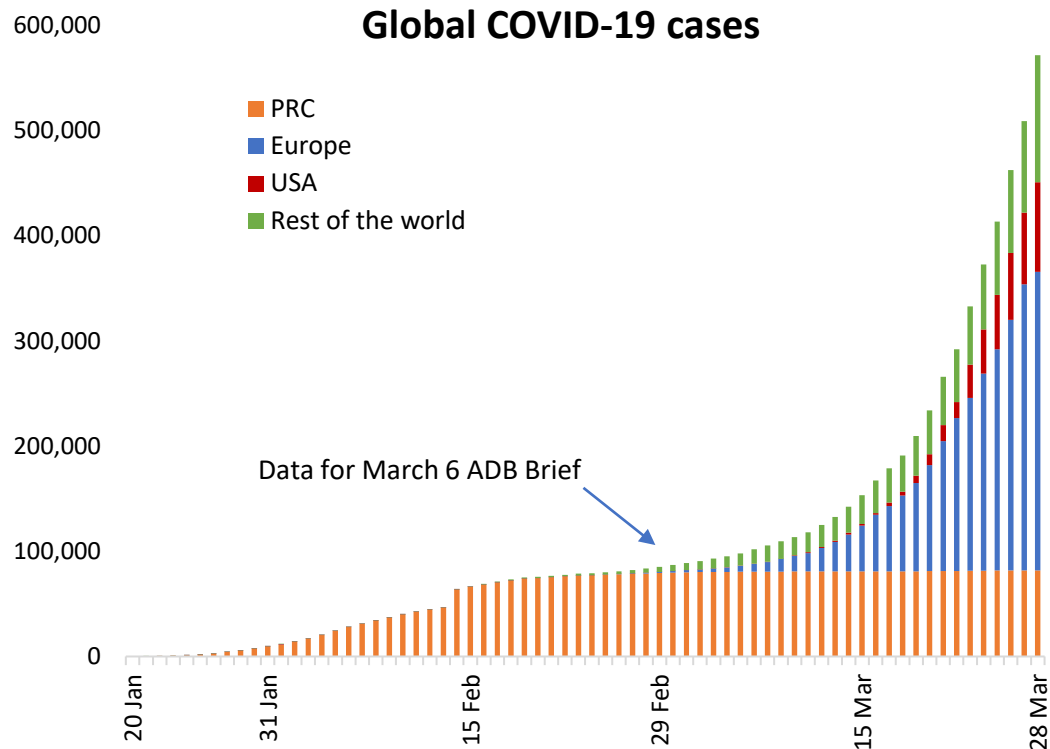
ADO Part I Special Topic:
The impact of COVID-19 on developing
Asia—an update

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Since the ADB's initial estimate of the impact of the COVID-19 outbreak on March 6:

It has become a global pandemic...



Note: The discrete jump in the series in mid-February is due to the change in the diagnostic criterion applied to identify infections.

Sources: CEIC and the World Health Organization (accessed 25 March 2020).

...the use of containment policies has increased dramatically...

Travel bans now affect 550 million international trips—40% of global total

...and PRC data has come out worse than expected.

People's Republic of China (PRC) data:

	Jan-Feb y/y % change
Industrial production	-13.5%
Services production	-13.0%
Retail sales	-20.5%
Investment	-24.5%

As a result, the estimated global and regional economic impacts are now substantially larger

Estimated Global and Regional Impact of the COVID-19 Outbreak

	Shorter containment, smaller demand shocks		Longer containment, larger demand shocks	
	% of GDP	Losses, \$ billions	% of GDP	Losses, \$ billions
World	-2.3	2,013.0	-4.8	4,090.8
People's Republic of China	-4.6	628.0	-5.1	691.6
Developing Asia excluding the PRC	-1.0	93.3	-2.2	200.1
Rest of the world	-2.0	1,291.6	-5.1	3,199.1

Source: ADB estimates.

- Containment and travel bans last either 3 months (shorter) or 6 months (longer); demand shocks are either -2pp on C and I growth (smaller), or -5pp on C growth and -6.25pp on I growth (larger)
- The estimated impact on individual developing Asian economies—and on sectors within these economies—is also available: <https://www.adb.org/covid19>



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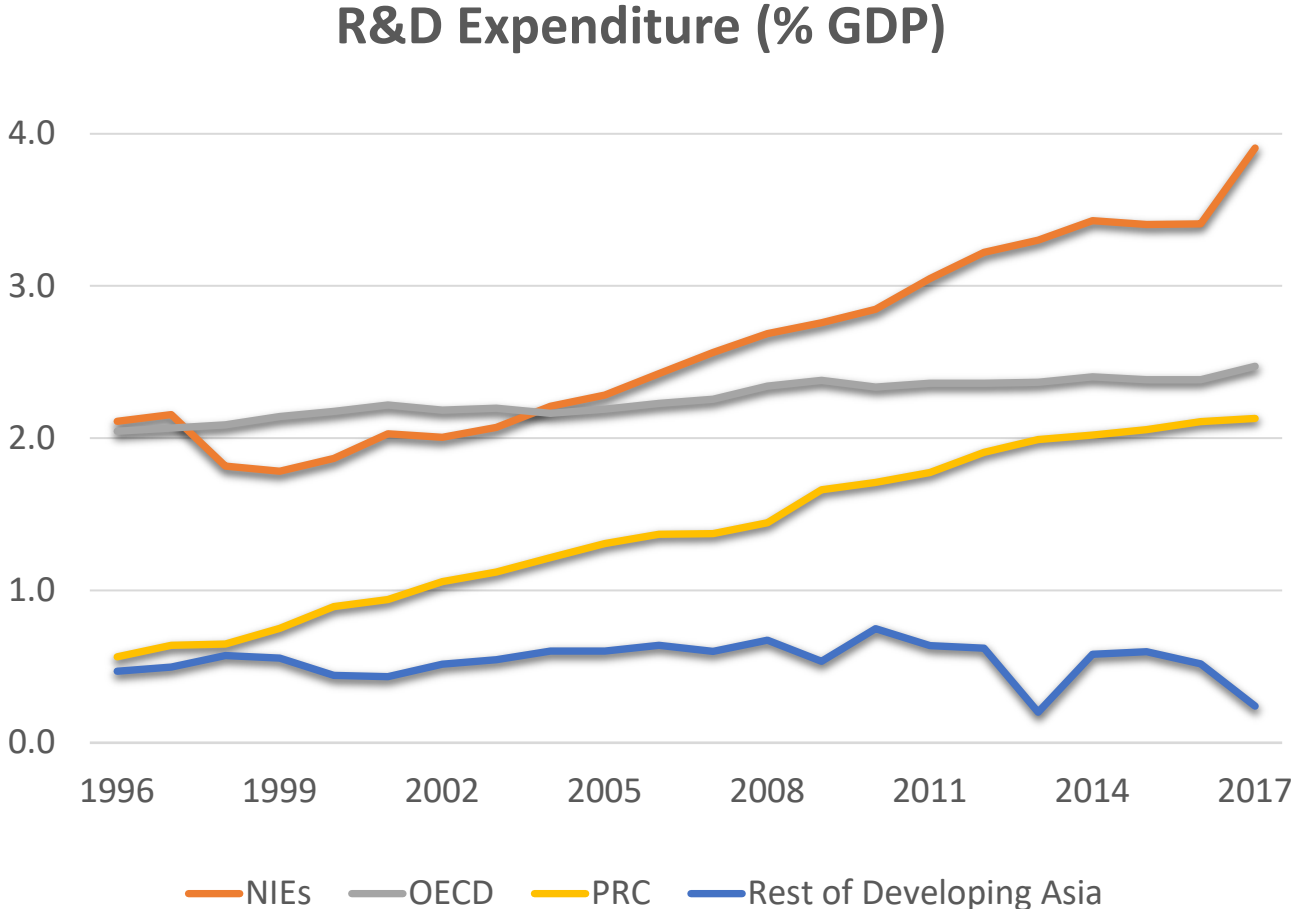
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ADO Theme Chapter:
What Drives Innovation in Asia?

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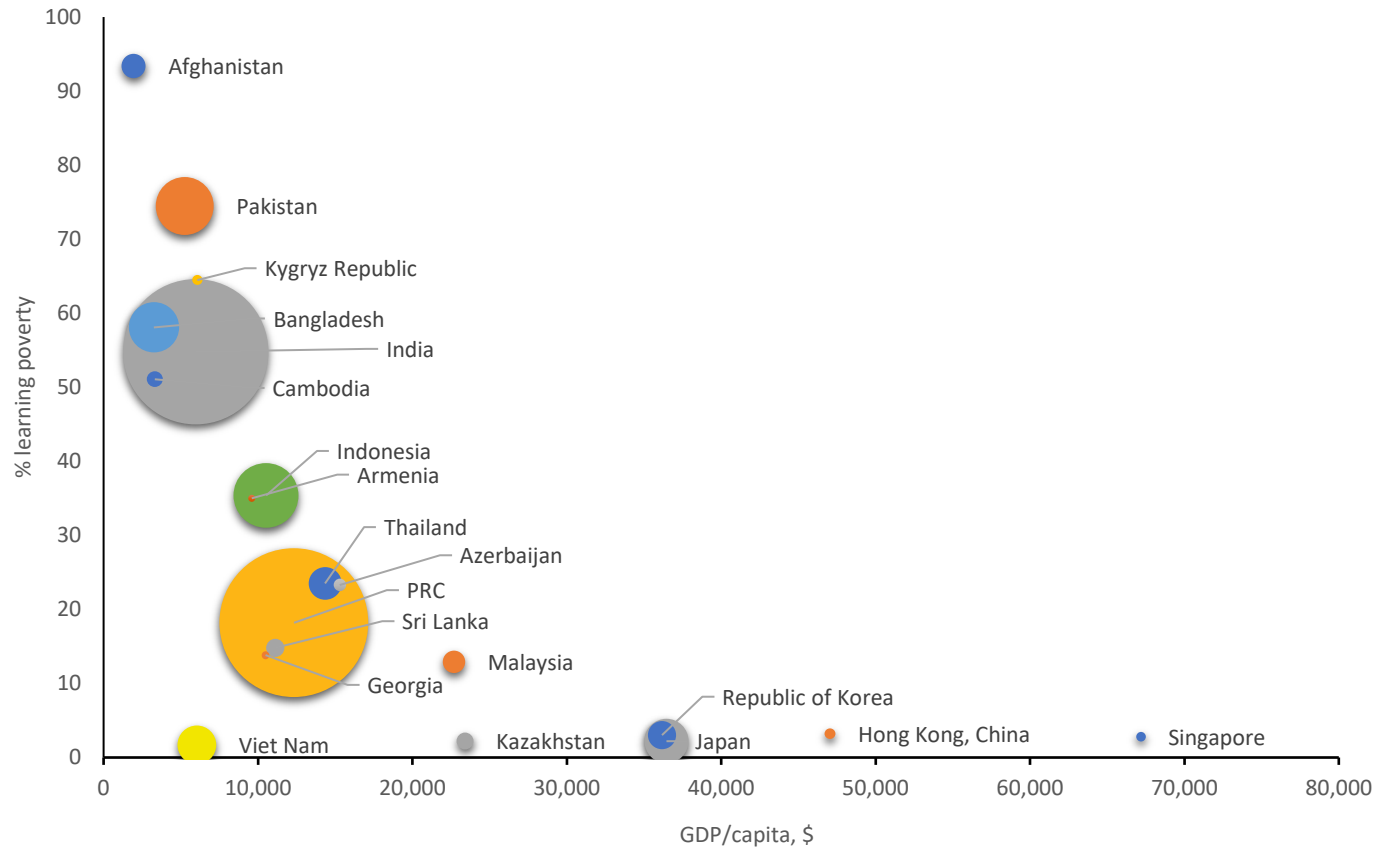
ADB

Some Asian economies are rapidly closing the innovation gap ... but many others lag behind



Get the fundamentals right first—too many of Asia's children aren't getting proper basic education

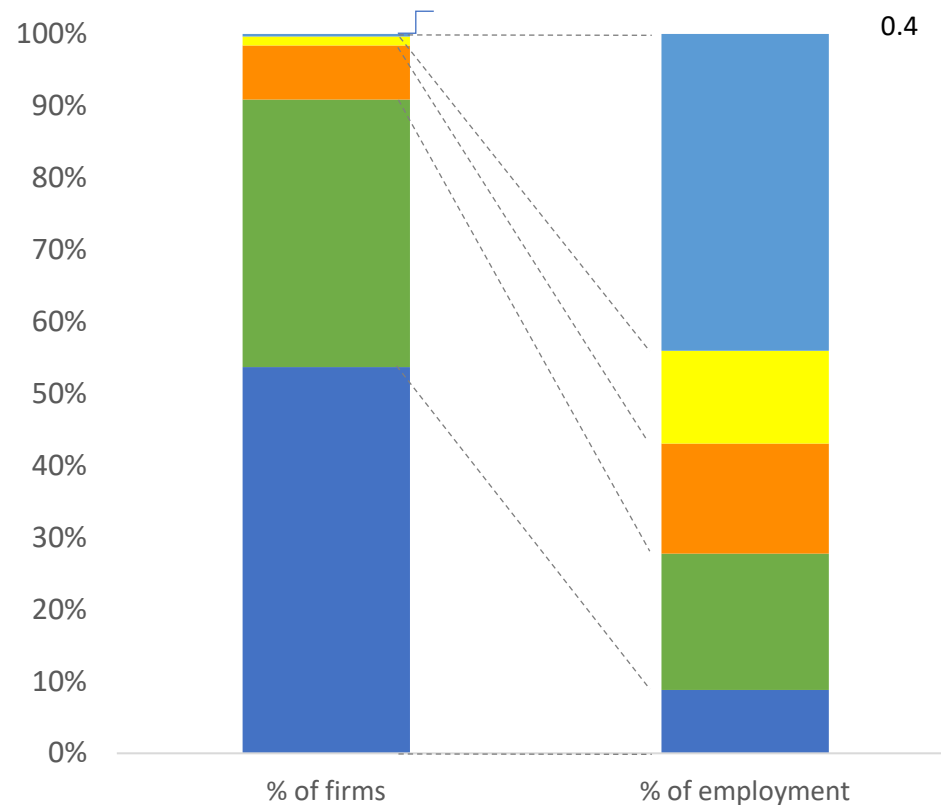
Learning poverty and GDP per capita in Asian economies



1 out of 3 ten-year-olds in developing Asia cannot read adequately

To support innovation, focus on the “gazelles”—they generate the most jobs and innovation

A few baby businesses provide a disproportionate share of employment

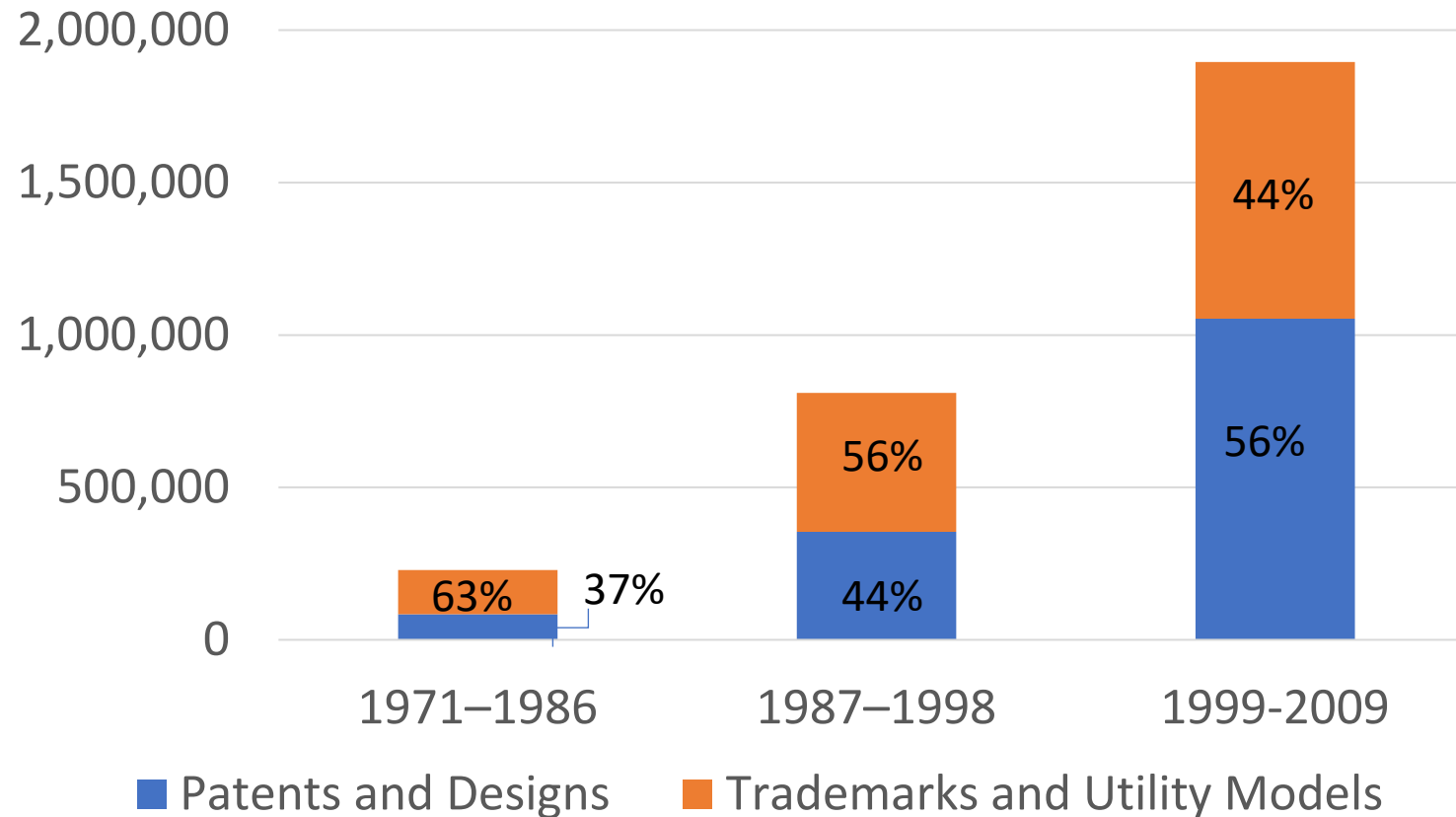


Fewer than 1 in 6 entrepreneurs are involved in innovation activity

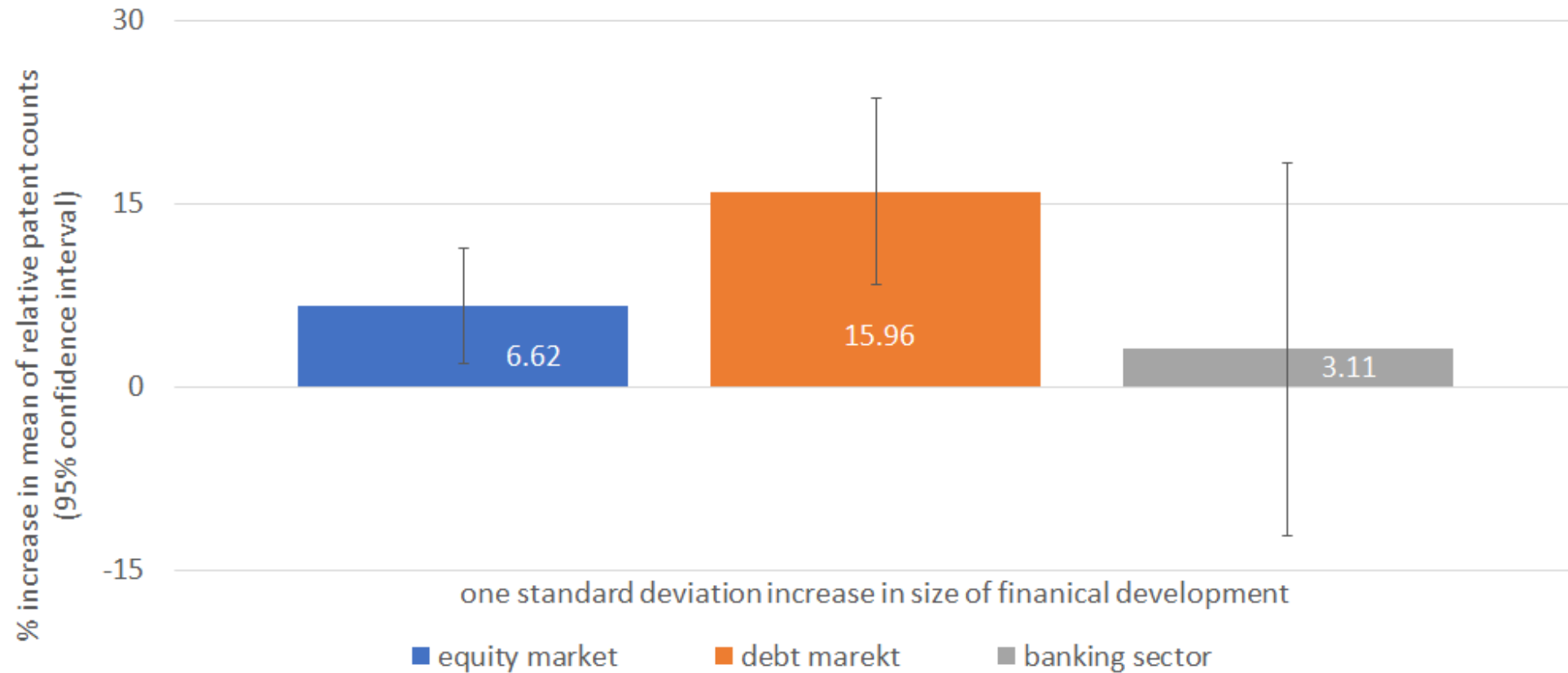
Note: Data cover businesses less than 42 months old, during 2006–2016, for Bangladesh; Georgia; Hong Kong, China; India; Indonesia; Kazakhstan; Malaysia; Pakistan; the PRC; the Philippines; the ROK; Singapore; Taipei, China; Thailand; Tonga; Vanuatu; and Viet Nam.

Different IPRs matter more for innovation at different stages of development

Registration of intellectual property rights in the Republic of Korea, 1970-2010

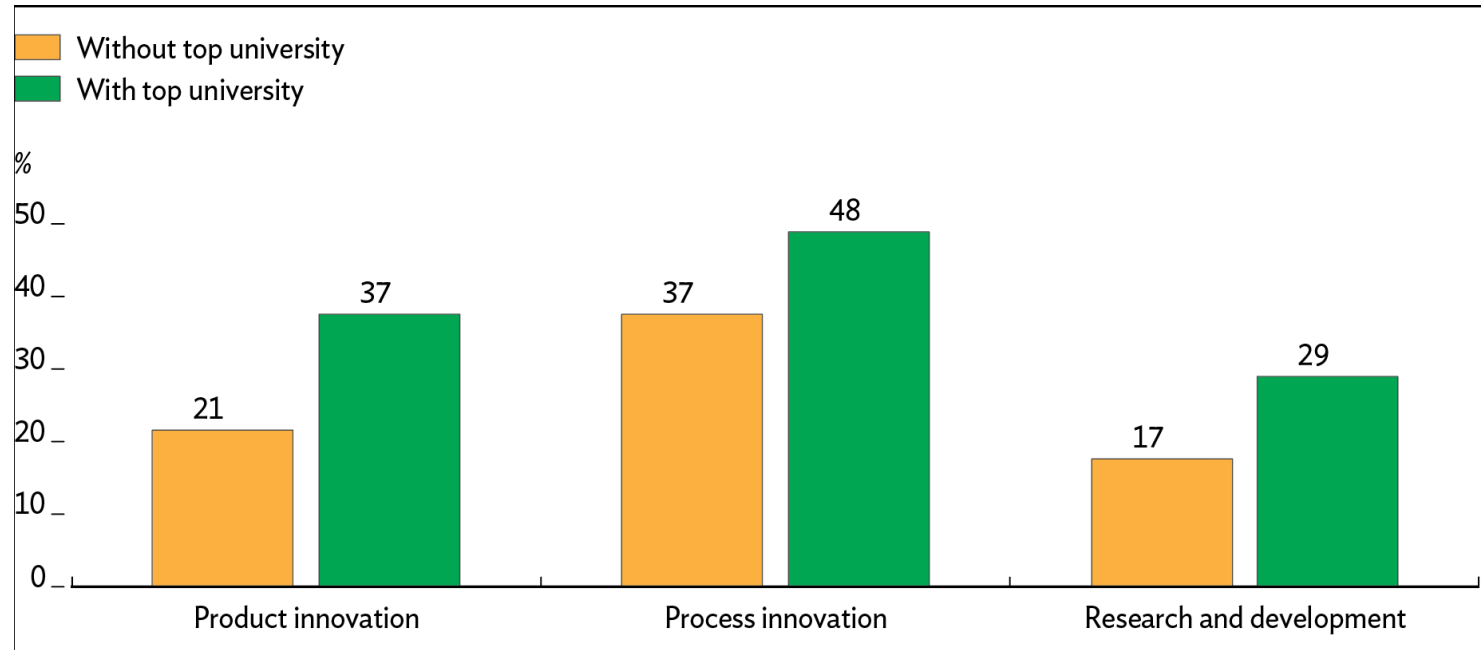


Financial markets have a bigger impact on innovation than banks



Dynamic cities with high-quality universities are hotbeds for innovation

Firm innovation near a top university



Key Messages

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Thank you

Detailed assumptions for COVID-19 impact analysis

	Shorter containment, smaller demand shocks	Longer containment, larger demand shocks
Tourism	<ul style="list-style-type: none"> Outbound PRC tourism drops by 55% for 3 months. Economies that impose travel bans on visitors from outbreak-affected economies earn no tourism receipts from these countries for 3 months. Inbound tourism to outbreak-affected economies falls by 80% for 3 months. Inbound tourism to Asia excluding the PRC, the ROK, and Japan falls by 40% for 3 months. Inbound tourism to Europe excluding the European Union, Norway, Switzerland, and the United Kingdom falls by 30% for 3 months. 	<ul style="list-style-type: none"> Outbound PRC tourism drops by 55% for 6 months. Economies that impose travel bans on visitors from outbreak-affected economies earn no tourism receipts from these countries for 6 months. Inbound tourism to outbreak-affected economies falls by 80% for 6 months. Inbound tourism to Asia excluding the PRC, the ROK, Japan falls by 40% for 6 months. Inbound tourism to Europe excluding the European Union, Norway, Switzerland, and the United Kingdom falls by 30% for 6 months.
Consumption	<ul style="list-style-type: none"> Growth in domestic consumption in the PRC slows by 5 percentage points. Growth in domestic consumption in outbreak-affected economies excluding the PRC declines by 2 percentage points. 	<ul style="list-style-type: none"> Growth in domestic consumption in outbreak-affected economies declines by 5 percentage points.
Investment	<ul style="list-style-type: none"> Growth in domestic investment in the PRC declines by 6.25 percentage points. Growth in domestic investment in outbreak-affected economies excluding the PRC declines by 2 percentage points. 	<ul style="list-style-type: none"> Growth in domestic investment in outbreak-affected economies declines by 6.25 percentage points.

PRC = People's Republic of China, ROK = Republic of Korea.

Note: Outbreak-affected economies are Australia, Brazil, Canada, the European Union (notably France, Germany, Spain, and Italy), Iran, Japan, Norway, the People's Republic of China, the Republic of Korea, Switzerland, Turkey, the United Kingdom, and the United States.

- Travel bans and precautionary behavior will reduce tourism
- Declines in consumption and investment in outbreak-affected economies
- Spillovers through trade and production linkages captured via ADB Multi-Region Input-Output Tables (ADB MRIOT)