ASIAN DEVELOPMENT OUTLOOK

APRIL 2024

Robust Growth amid Uncertain External Prospects
Robust Growth amid Uncertain External Prospects

- Growth in developing Asia remained strong at 5.0% in 2023, driven by domestic demand.
- External demand remained fragile last year, although goods exports bottomed out as semiconductors turned the corner.
- Regional growth is forecast at 4.9% in 2024 and 2025.
- Inflation in the region is projected to continue to gradually decline, from 3.3% in 2023 to 3.2% in 2024 and 3.0% in 2025.
- Downside risks to the outlook pertain to conflicts in the Middle East and geopolitical tensions, the path of US monetary policy, spillovers from the PRC’s property market turbulence, and climate/weather-related disturbances.
Growth strengthened during 2023, driven by domestic demand

Consumption and investment remained robust overall
Demand-side Contributions to Real GDP Growth

<table>
<thead>
<tr>
<th>High-income technology exporters</th>
<th>Developing Asia</th>
<th>Developing Asia (excl. PRC)</th>
<th>PRC</th>
<th>India</th>
<th>Hong Kong, China</th>
<th>Republic of Korea</th>
<th>Singapore</th>
<th>Taipei, China</th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Thailand</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 2023 GDP growth</td>
<td>5.1</td>
<td>5.3</td>
<td>4.8</td>
<td>5.6</td>
<td>5.4</td>
<td>7.2</td>
<td>8.2</td>
<td>4.2</td>
<td>2.2</td>
<td>2.2</td>
<td>4.2</td>
<td>1.6</td>
</tr>
<tr>
<td>H2 2023 GDP growth</td>
<td>5.1</td>
<td>5.1</td>
<td>5.1</td>
<td>5.1</td>
<td>1.8</td>
<td>4.2</td>
<td>1.6</td>
<td>3.2</td>
<td>1.6</td>
<td>3.2</td>
<td>3.2</td>
<td>1.6</td>
</tr>
</tbody>
</table>

ASEAN = Association of Southeast Asian Nations, PRC = People’s Republic of China, H = half-yearly, Q = quarter, yoy = year on year.

Note: Economies included are those that have available quarterly GDP figures with demand-side breakdown, which account for about 90% of developing Asia. Components do not add up to total due to statistical discrepancy and chain-linking method of GDP estimation and reporting. The regional average is calculated using GDP PPP shares as weights. All data are in calendar years and in non-seasonally adjusted terms.

Source: Haver Analytics.
Gradual improvement in manufacturing activity for some economies

Industrial production picked up in some economies in the second half of 2023... 

Industrial Production Index, developing Asia

A. High-income technology exporters
B. ASEAN-5
C. South Asia

Global Semiconductor Billings

% change year on year, 3-mma

ASEAN = Association of Southeast Asian Nations, 3mma = 3-month moving average.
Note: The index refers to manufacturing production, except in India and Viet Nam where they include mining.
Source: CEIC Data Company.

Continued moderation in inflation

Energy, food, and core inflation continue to recede towards pre-pandemic averages.

Contributions to Inflation, developing Asia

A. Developing Asia

B. Developing Asia, excluding the PRC

C. People’s Republic of China

PRC = People’s Republic of China.

Note: Core inflation excludes volatile components, i.e., energy and fuel. Regional average is calculated using GDP PPP shares as weights and covers 22 economies. Sources: Staff calculations using data from Haver Analytics; CEIC Data Company; official sources.
Exports of goods may have bottomed out during 2023

Goods exports growth gradually recovering…

Goods Exports in developing Asia

- People's Republic of China
- High-income technology exporters
- Rest of developing Asia
- Developing Asia

% change year on year

Notes: High-income technology exporters are Hong Kong, China, Republic of Korea, Singapore, and Taipei, China.
Source: CEIC Data Company.

… driven by electronics exports

Contributions to Goods Export Growth by Product

Electronics
Chemicals & plastics
Machines & other electrical
Minerals
Metals & stones
Other
Overall change

Percentage points

Notes: Based on data for 16 economies (approx. 92% of developing Asia's exports): Armenia, Azerbaijan; Hong Kong, China; Fiji; Georgia; India; Indonesia; Malaysia; Mongolia; the People's Republic of China; the Philippines, the Republic of Korea; Singapore; Taipei, China; Thailand; and Uzbekistan.
Source: UN Comtrade, International Trade Center.
Financial market conditions improved since November, overcoming a period of tightening in Q3 2023.

Most equity markets rallied since November, amid expectations of less hawkish US monetary policy.

Net portfolio flows turned positive since November on improved investor sentiment.

Equity Market Performance

Net Portfolio Flows into the Region

Note: Data for March is up to 14 March 2024.
Source: Bloomberg.
Recent stabilization in debt levels and improved fiscal positions, but risks persist

Public debt was mostly flat in 2023 but remains elevated for some economies

Fiscal positions improved for most economies, but deficits remain sizeable for some

Public Debt

Fiscal Balance

FSM = Federated States of Micronesia, Lao PDR = Lao People’s Democratic Republic, PNG = Papua New Guinea, PRC = People’s Republic of China
Source: IMF World Economic Outlook

Source: Asian Development Outlook database.
Slowing global growth will gradually be offset by monetary easing

Major advanced economies will be affected by the ongoing slowdown in global trade.

Monetary policy is expected to start easing by mid-2024

Oil prices will remain around $80; rice prices have climbed.

Major advanced economies will be affected by the ongoing slowdown in global trade.

<table>
<thead>
<tr>
<th>GDP growth, %</th>
<th>2023 Estimate</th>
<th>2024 Forecast</th>
<th>2025 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major advanced economies</td>
<td>1.7</td>
<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>United States</td>
<td>2.5</td>
<td>1.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Euro area</td>
<td>0.5</td>
<td>0.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Japan</td>
<td>1.9</td>
<td>0.6</td>
<td>0.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inflation, %</th>
<th>2023 Estimate</th>
<th>2024 Forecast</th>
<th>2025 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major advanced economies</td>
<td>4.5</td>
<td>2.4</td>
<td>2.0</td>
</tr>
<tr>
<td>United States</td>
<td>4.1</td>
<td>2.6</td>
<td>2.2</td>
</tr>
<tr>
<td>Euro area</td>
<td>5.4</td>
<td>2.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Japan</td>
<td>3.3</td>
<td>1.9</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Sources: Bloomberg; CEIC Data Company; Haver Analytics; IMF World Economic Outlook; Asian Development Bank estimates.

Commodity Prices

Oil prices will remain around $80; rice prices have climbed.

Sources: European Central Bank; US Federal Reserve

Source: Bloomberg
Regional growth is forecast at 4.9% for both 2024 and 2025

<table>
<thead>
<tr>
<th>Region</th>
<th>2022</th>
<th>2023e</th>
<th>2024f</th>
<th>2025f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing Asia</td>
<td>4.3</td>
<td>5.0</td>
<td>4.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Developing Asia excluding the PRC</td>
<td>5.5</td>
<td>4.8</td>
<td>5.0</td>
<td>5.3</td>
</tr>
<tr>
<td>Caucasus and Central Asia</td>
<td>5.2</td>
<td>5.3</td>
<td>4.3</td>
<td>5.0</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>3.2</td>
<td>5.1</td>
<td>3.8</td>
<td>5.3</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>5.7</td>
<td>6.0</td>
<td>5.5</td>
<td>5.6</td>
</tr>
<tr>
<td>East Asia</td>
<td>2.9</td>
<td>4.7</td>
<td>4.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>-3.7</td>
<td>3.2</td>
<td>2.8</td>
<td>3.0</td>
</tr>
<tr>
<td>People’s Republic of China</td>
<td>3.0</td>
<td>5.2</td>
<td>4.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>2.6</td>
<td>1.4</td>
<td>2.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Taipei, China</td>
<td>2.6</td>
<td>1.3</td>
<td>3.0</td>
<td>2.7</td>
</tr>
<tr>
<td>South Asia</td>
<td>6.6</td>
<td>6.4</td>
<td>6.3</td>
<td>6.6</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>7.1</td>
<td>5.8</td>
<td>6.1</td>
<td>6.6</td>
</tr>
<tr>
<td>India</td>
<td>7.0</td>
<td>7.6</td>
<td>7.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Pakistan</td>
<td>6.2</td>
<td>-0.2</td>
<td>1.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>-7.3</td>
<td>-2.3</td>
<td>1.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>5.7</td>
<td>4.1</td>
<td>4.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.3</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>8.7</td>
<td>3.7</td>
<td>4.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Philippines</td>
<td>7.6</td>
<td>5.6</td>
<td>6.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.8</td>
<td>1.1</td>
<td>2.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Thailand</td>
<td>2.5</td>
<td>1.9</td>
<td>2.6</td>
<td>3.0</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>8.0</td>
<td>5.0</td>
<td>6.0</td>
<td>6.2</td>
</tr>
<tr>
<td>The Pacific</td>
<td>7.9</td>
<td>3.5</td>
<td>3.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Fiji</td>
<td>20.0</td>
<td>7.8</td>
<td>3.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>5.2</td>
<td>2.0</td>
<td>3.3</td>
<td>4.6</td>
</tr>
</tbody>
</table>

e = estimate, f= forecast
Source: Asian Development Outlook database.
Inflation is expected to moderate further

Source: Asian Development Outlook database.
Near-term risks

- **Conflicts in the Middle East and geopolitical tensions**
  - Escalations could lead to renewed supply chain disruptions, higher food and energy prices, and increased global economic uncertainty and risk aversion.

- **Path of US monetary policy**
  - Persistent or renewed inflationary pressures could trigger higher-for-longer interest rates, denting global financial conditions. In contrast, faster-than-expected disinflation and policy easing would support growth and alleviate debt sustainability concerns.

- **Spillovers from the PRC**
  - Intensified property market weakness and possible deflation in the PRC, as well as escalating trade frictions, could depress domestic demand, affecting PRC’s trading partners.

- **El Niño and weather-related events**
  - Adverse weather conditions could push up commodity prices and exacerbate food insecurity.
Potential impacts of rising shipping costs on inflation

Conflicts in the Middle East led to a spike in shipping costs

Baltic Exchange Dry Index (BDI)

Oct 7, 2023
Hamas attack

The impact on inflation is estimated to peak in 13 months

Estimated Impacts on Inflation in Asia of Recent Rise in Shipping Costs

Notes: Based on estimates from Carriere-Swallow et al. (2023). Shipping costs and inflation. Journal of International Money and Finance 130 (102771).
Source: Authors calculation.
Higher for longer interest rates scenario

Interest rates in the US and the Euro area kept constant in 2024

US quarterly policy rates

Euro area quarterly policy rates

High-income tech exporters = Hong Kong, China; Republic of Korea, Singapore, and Taipei, China
Rest of developing Asia = Indonesia, Malaysia, the Philippines, and Thailand

Inflationary pressures spill over, while exchange rate depreciation initially benefits growth in the region

GDP growth forecasts - deviations from baseline

Inflation forecasts - deviations from baseline
SPECIAL TOPIC
The growth of artificial intelligence (AI) is lifting demand for Asia's advanced semiconductors

Semiconductor exports rose over 2023, on higher demand for microprocessors and memory chips

Exports of electrical machinery equipment and parts, selected economies, 2020-2023

Asian economies may benefit to varying degrees from the AI boom depending on their specialization

Semiconductor exports by components, selected economies, 2023

SPECIAL TOPIC
The growth of artificial intelligence (AI) is lifting demand for Asia's advanced semiconductors

Semiconductor exports rose over 2023, on higher demand for microprocessors and memory chips

Exports of electrical machinery equipment and parts, selected economies, 2020-2023

Asian economies may benefit to varying degrees from the AI boom depending on their specialization

Semiconductor exports by components, selected economies, 2023

Notes: Semiconductors refer to the sum of HS Code 8541 and HS Code 8542. Other electrical machinery equipment and parts refer to HS Code 85 less semiconductors. Microchips refer to the sum of Microprocessors (HS Code 8542.31) and Memory chips (HS Code 8542.32). Economies covered are as shown on the right panel.

Sources: Staff calculations using United Nations COMTRADE Database, International Trade Center Trade Map, various national government sources.
Robust Growth amid Uncertain External Prospects

• Growth in developing Asia remained strong at 5.0% in 2023, driven by domestic demand.
• External demand remained fragile last year, although goods exports bottomed out as semiconductors turned the corner.
• Regional growth is forecast at 4.9% in 2024 and 2025.
• Inflation in the region is projected to continue to gradually decline, from 3.3% in 2023 to 3.2% in 2024 and 3.0% in 2025.
• Downside risks to the outlook pertain to conflicts in the Middle East and geopolitical tensions, the path of US monetary policy, spillovers from the PRC’s property market turbulence, and climate/weather-related disturbances.
THANK YOU!

Focal person:
Abdul Abiad
Director, Macroeconomic Research
Economic Research and Development Impact Department
Asian Development Bank
aabiad@adb.org