

Strength of Recovery in 2010 Is Exceeding Expectations

The recovery in developing Asia appears to be even stronger than envisaged in the *Asian Development Outlook 2010 Update* (the *Update*), which was released in September. Robust third quarter expansion in gross domestic product (GDP) reaffirms the view that the region is leading the world in the recovery from the recent economic crisis. The region is now expected to expand at a rapid 8.6% in 2010, an upward adjustment from the 8.2% growth forecast in the *Update*. However, recent macroeconomic data continue to support the view that growth will decelerate in 2011. Accordingly, the 2011 forecast for developing Asia is still 7.3%.

The upward adjustment in the 2010 estimate mainly stems from the more robust outlook in East Asia. Overall growth is revised up from 8.6% to 9.2% due to the stronger than anticipated performances of the economies of the People's Republic of China (PRC); Hong Kong, China; and Taipei, China in the third quarter of 2010. In the PRC, though growth eased during this period, the rate was still robust at 9.6% as strong private consumption and exports held up. The vigorous growth in the PRC coupled with continued gains from buoyant private demand also helped the economies of Hong Kong, China and Taipei, China.

In Southeast Asia, the Philippines and Thailand are now expected to outperform the *Update's* forecast, leading to a slight upward revision in the region's aggregate growth. The Philippines expanded by a solid 6.5% in the third quarter propelled by higher consumer spending, low inflation, and robust investments. Thailand is also set for a solid recovery. Backed by the revival in private investment, the easing in the third quarter of the year has been less than anticipated.

Growth in South Asia is broadly in line with the projections set out in the *Update*. India will lead the solid recovery of the region, growing at 8.5% as the economy gets a lift from the good performances of the agriculture and manufacturing sectors. Sri Lanka's growth is nudged up to 7.0% from 6.5% as it continued with its strong recovery in the second quarter of the year, the highest ever quarterly growth since 2002.

A more upbeat outlook in Central Asia, as a whole, also contributed to the upward fine-tuning in developing Asia's growth. Higher oil and mineral prices lifted growth in natural resource exporters Azerbaijan, Kazakhstan, and Turkmenistan while industrial sector growth supported Georgia and Kazakhstan. Continued expansionary fiscal policy also sustained growth in Turkmenistan. Armenia, however, was hurt by the contraction of the agriculture sector and a decrease in remittances.

The Pacific island economies remain on track to meet 2010 growth projections. Solid growth in the resource driven-economies of Papua New Guinea, Timor-Leste and Solomon Islands will underpin the growth in the region.

Currently, inflationary pressures are not a problem for the region, even as the combination of the US Federal Reserve's further quantitative easing and loose monetary policy in much of the rest of the industrial world bolster capital inflows to the region. Although inflation is expected to remain in line with the forecasts in the *Update*, policymakers need to be alert to the dangers of higher inflation, given that the strong economic rebound in most economies has largely eliminated the output gaps that opened up during the recent downturn. Authorities in some countries, such as PRC and India, have already begun to tighten monetary policy to avoid overheating.

GDP growth rate for developing Asia, 2010 (% per year)

| Subregion/Economy | ADO 2010 Update | Revised |
|---------------------------|-----------------|------------|
| Developing Asia | 8.2 | 8.6 |
| Emerging East Asia | 8.4 | 8.8 |
| East Asia | 8.6 | 9.2 |
| China, People's Rep. of | 9.6 | 10.1 |
| Southeast Asia | 7.4 | 7.5 |
| ASEAN-5 | 7.5 | 7.6 |
| South Asia | 7.8 | 7.8 |
| India | 8.5 | 8.5 |
| Central Asia | 5.1 | 5.9 |
| The Pacific | 4.3 | 4.3 |

Note: **Developing Asia** refers to 44 developing member countries of the Asian Development Bank and Brunei Darussalam, an unclassified regional member ; **Emerging East Asia** comprises East and Southeast Asian economies except Mongolia; **East Asia** comprises People's Republic of China; Hong Kong, China; Republic of Korea; Mongolia, and Taipei,China; **Southeast Asia** comprises the **ASEAN-5** (Indonesia, Malaysia, Philippines, Singapore, and Thailand) plus the economies of Brunei Darussalam, Cambodia, Lao People's Democratic Republic, Myanmar, and Viet Nam; **South Asia** comprises Islamic Republic of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka; **Central Asia** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan; and **The Pacific** comprises Cook Islands, Fiji Islands, Kiribati, Republic of the Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea, Republic of Palau, Samoa, Solomon Islands, Democratic Republic of Timor-Leste, Tonga, Tuvalu, and Vanuatu.

Sources: Asian Development Bank. 2010. *Asian Development Outlook 2010 Update*; and ADB estimates.