



ASIAN DEVELOPMENT

# Outlook 2010

## Update

The Future of Growth in Asia

Asian Development Bank

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# Foreword

The region's resilience and subsequent recovery from the recent global economic crisis underscored its growing influence in the world economy. Since the release of the *Asian Development Outlook 2010* in April this year, developing Asia's performance has strengthened further. This *Update* raises the 2010 growth forecast to 8.2% on the back of strong results in the first half of the year. Even amid the predicted slowdown of global growth in 2011, the region's robust momentum should deliver a healthy 7.3% expansion.

In contrast, the recovery of the major industrial economies is more tentative. The global economy continues to grapple with the challenge of stimulating aggregate demand. Labor markets are still weak, and unemployment rates have gone up, delaying households' consumption and firms' investment. Many fiscal stimulus measures were expected to wind down this year, but policy makers in the industrial countries are hesitating—even backtracking—on fiscal consolidation in light of fragile growth prospects. Monetary policies, too, remain expansive in the face of the stuttering recovery.

The uncertain momentum of the global recovery is vulnerable to downside risks. Mixed economic indicators have raised the specter of a second round of contraction—a “double dip”—among industrial countries. Moreover, continued weakness in the United States mortgage market, potential sharp movements in commodity prices, and the threat of sovereign default in the eurozone further cloud the global outlook.

Turning to developing Asia, the region is beginning to assert itself more on the world economic stage: the People's Republic of China, India, the Republic of Korea, and Indonesia have all joined the world's top 20 producers. Growth prospects for the region as a whole are compelling, suggesting it will play a more active role in the global recovery.

Extensive corporate and financial sector restructuring and reform during the 1997–1998 Asian financial crisis sowed the seeds of resilience to the recent global downturn, which developing Asia has now harvested. Decisive fiscal and monetary stimulus played a central role in cushioning the impact of the recent crisis on the region and laid the foundation for recovery. As aggregate demand weakened due to collapsing exports and weak private consumption and investment, the region stepped in as the consumer of last resort and set the region on its way back up.

With relatively sound financial systems, macroeconomic stability, and favorable growth prospects, developing Asia is attracting more and more investment from the rest of the world. Its challenge now is to sustain its recovery as countries within the region begin to normalize their macroeconomic policies.

Despite developing Asia's rapid growth and exceptional resilience, the region remains home to two thirds of the world's poor. Experience shows that there is simply no substitute for rapid, long-run growth—complemented by sound fiscal and social policies—for sustained poverty reduction. Short-run stabilization has paved the way for recovery, but medium- and long-run growth will reassert itself as the region's most pressing macroeconomic priority as the recovery gathers momentum. In the policy arena, structural supply-side policies that foster factor accumulation and stimulate higher productivity will come to the fore.

The theme chapter of this *Update* examines four areas that will be pivotal for medium- and long-run growth. First, trade will continue to be a leading component, with intraregional commerce gaining importance. Human capital investment linked to each country's development needs is another important factor. Infrastructure expansion will keep countries competitive and support urbanization. Finally, financial development will enhance investment efficiency when tempered with appropriate prudential regulation.

Progress in these four areas will jointly expand developing Asia's production capacity. As the dust thrown out by the crisis settles, sustaining this growth is developing Asia's key challenge.



Haruhiko Kuroda  
President  
Asian Development Bank

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## Definitions

The economies discussed in *Asian Development Outlook 2010 (ADO 2010) Update* are classified by major analytic or geographic groupings. For purposes of *ADO 2010 Update*, the following apply:

- **Association of Southeast Asian Nations (ASEAN)** comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.
- **Developing Asia** is composed of the 44 developing member countries of the Asian Development Bank and Brunei Darussalam, an unclassified regional member.
- **Central Asia** covers Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- **East Asia** comprises the People's Republic of China; Hong Kong, China; Republic of Korea; Mongolia; and Taipei, China.
- **South Asia** is made up of the Islamic Republic of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
- **Southeast Asia** refers to Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.
- **The Pacific** consists of the 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.
- Unless otherwise specified, the symbol "\$" and the word "dollar" refer to United States dollars.

*ADO 2010 Update* is generally based on data available up to **14 September 2010**.

## 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
FTA	free trade agreement
FY	fiscal year
GDP	gross domestic product
IMF	International Monetary Fund
LPI	Logistics Performance Index
NIE	newly industrialized economy
OECD	Organisation for Economic Co-operation and Development
PRC	People's Republic of China
SMEs	small- and medium-sized enterprises
TFP	total factor productivity
US	United States
VAR	vector autoregression
VAT	value-added tax
WTO	World Trade Organization