

## Is Recovery Taking Hold in Developing Asia?

For many countries in the region, growth in the third quarter of 2009 has been higher than forecast in the Asian Development Bank's (ADB) *Asian Development Outlook 2009 Update (ADO Update)* published in September this year. However, we remain cautious in our view of the prospects for sustained recovery in the major industrial countries—the eurozone, Japan, and United States. While there is some cause for optimism, the global recovery remains soft, with strong downside risks. This note reassesses developing Asia's outlook for the remainder of 2009 and into 2010 in light of recently available macroeconomic indicators.

### Revised Outlook for Developing Asia

In East Asia, the *ADO Update* highlighted the resilience of the economy of the People's Republic of China (PRC), while noting the vulnerabilities of the trade-dependent newly industrial economies (Hong Kong, China; Republic of Korea (Korea); and Taipei, China). In the PRC, gross domestic product (GDP) grew 7.7% year-on-year in the first nine months of 2009 and is poised to grow 8.2% in 2009, as forecast in the *ADO Update*. Growth is expected to accelerate in 2010, but the pace will depend on the strength of the global recovery. In Korea, after declining for three consecutive quarters, GDP in the third quarter grew 0.9% year-on-year due to relatively better exports and the government's stimulus policies. Hong Kong, China and Taipei, China also performed strongly in the second and third quarters of 2009. As a result, the newly industrial East Asian economies will contract by much less in 2009 and rebound higher in 2010 than projected in the *ADO Update*.

In general, the ASEAN-5 countries (Indonesia, Malaysia, Philippines, Singapore, and Thailand) have grown faster in the second half of 2009 than expected. The contraction in Malaysia's output slowed in the second and third quarters such that the drop in economic activity for 2009 will be less dire than had been anticipated. Thailand's

economy has similarly improved in recent months, and the return to mild growth expected in the fourth quarter should mitigate the decline of the first half of the year. Singapore's GDP began to expand in the third quarter, growing 0.6%, with the momentum expected to continue into the fourth quarter and the contraction in 2009 likely to be much less steep than forecast in the *ADO Update*. Indonesia has grown steadily, in line with ADB forecasts, supported by robust domestic demand and limited dependency on external demand. However, the global downturn appears to be affecting the Philippines with a lag. GDP growth of only 0.7% year-on-year during the first nine months and continued soft economic activity into the fourth quarter will likely drag the 2009 growth rate below the *ADO Update* forecast. The ASEAN-5 economies together are now expected to grow 0.3% in 2009 (as compared with a previously forecast contraction of 0.1%) and 4.5% in 2010. Elsewhere in Southeast Asia, Viet Nam may accelerate in the fourth quarter after growing 4.6% in the first three quarters, which would lift its 2009 growth slightly beyond the *ADO Update* forecast. While tightened monetary policy might restrain the economy somewhat in 2010, strong momentum should allow the economy to achieve the rates of output expansion previously projected.

In South Asia, economic indicators remain broadly within expectations, except in India, where GDP expanded 7.9% in the second quarter of its 2009 fiscal year (FY2009) (third quarter of calendar year 2009). Led by rapid manufacturing sector growth, this was a sharp acceleration from 6.1% in the first fiscal quarter. Managing the rise in inflation is becoming a challenge, however, and coordination between monetary and fiscal policy is extremely important to moderate inflationary expectations while sustaining growth momentum in the second half of FY2009. While wholesale price inflation remains low due to the base effect (i.e., high inflation in the previous year), rapid rises in wholesale food prices (16% year-on-year) are worrisome. Despite these challenges, India is now expected to grow 7.0% in 2009, a full percentage point higher than projected in the *ADO Update*.

For Central Asia, economic indicators suggest most economies will meet *ADO Update* projections. In fact, Azerbaijan, Kyrgyz Republic, and Tajikistan may surprise on the upside. For Kazakhstan, contracting production—particularly industrial output—appears to have bottomed out in the middle of 2009. In contrast, Armenia is struggling. Official forecasts for 2009 are for a 15.6% contraction in GDP, mainly due to the continuing weakness of the Russian Federation economy, falling inflows of remittances and foreign direct investment, and lower prices for metals.

More recent macroeconomic figures for the Pacific suggest the subregion will conform to *ADO Update* forecasts. Higher global oil and commodity prices have continued to support the mining-and-hydrocarbon-exporting economies of Papua New Guinea and Timor-Leste. But a slow, gradual pickup in earnings from tourism and remittances

has damped growth prospects in the other Pacific island economies. The speed of their recovery will depend on further policy responses to this year's slowdown.

Growth in developing Asia as a whole is expected to reach 4.5% in 2009 and rise to 6.6% in 2010, based on stronger-than-expected third quarter 2009 macroeconomic indicators. This represents an upward adjustment of 0.6 percentage points in 2009 and 0.2 percentage points in 2010 over *ADO Update* forecasts. For emerging East and Southeast Asian economies, growth is slightly lower than the developing Asia average in 2009, but is expected to be followed by a stronger recovery in 2010 (growth rates for the emerging East Asian economies are available in the December 2009 Asia Economic Monitor). Overall, recent data reinforces ADB's impression that developing Asia can expect a V-shaped recovery from the global economic downturn.

### GDP growth rate for developing Asia (% per year)

Subregion/Economy			<i>ADO 2009 Update</i>		Revised	
	2007	2008	2009	2010	2009	2010
<b>Developing Asia</b>	9.5	6.1	3.9	6.4	4.5	6.6
<b>Emerging East Asia</b>	9.7	6.1	3.6	6.5	4.2	6.8
<b>East Asia</b>	10.5	6.5	4.4	7.1	5.1	7.3
China, People's Republic of	13.0	9.0	8.2	8.9	8.2	8.9
<b>Southeast Asia</b>	6.4	4.1	0.1	4.3	0.6	4.5
ASEAN-5	6.3	4.0	-0.1	4.2	0.3	4.5
<b>South Asia</b>	8.6	6.3	5.6	6.4	6.4	6.4
India	9.0	6.7	6.0	7.0	7.0	7.0
<b>Central Asia</b>	12.0	5.7	0.5	3.6	0.2	3.6
<b>The Pacific</b>	3.0	5.2	2.8	3.1	2.8	3.1

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. 2009. *Asian Development Outlook 2009 Update*; and staff estimates.