



ASIAN DEVELOPMENT

Outlook 2009

Rebalancing Asia's growth

Asian Development Bank

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Foreword

Asian Development Outlook 2009 (ADO 2009) is the 21st edition of the annual comprehensive economic report on the developing member economies of the Asian Development Bank.

Part 1 of *ADO 2009* sets out the global economic conditions underlying the assessment of and projections for developing Asia. Part 3 of *ADO 2009* evaluates the recent economic performance of 45 economies in Asia, and provides projections for major macroeconomic indicators for 2009 and 2010.

The effects of the unfolding global economic crisis looms large in the outlook for developing Asia. With limited direct exposure to the subprime assets at the heart of the global financial meltdown, it was thought that the region would be spared the worst effects—an impression that was borne out by the resilience of the region's financial institutions. However, as the financial crisis impinges on global demand, it is clear that avoidance is not an option—crisis mitigation measures must now come to the fore.

Transmission of the crisis through trade channels began in earnest in the final quarter of 2008, slowing growth in developing Asia to 6.3%—a sharp deceleration from the record expansion of 9.5% registered in 2007. Growth in all subregions flagged, except for the Pacific. The People's Republic of China (PRC) and India both grew at a healthy pace, but at slower rates than in previous years. Expansion in the PRC was a robust 9%, while growth in India was estimated to have come in at 7.1%. Growth in most other countries slackened as well.

Inflation intensified during most of last year as global food and commodity prices rallied. Despite the rapid decline in oil prices toward the latter part of 2008, consumer price increases averaged 6.9% for the entire year.

Amid the harsh global environment, prospects for developing Asia are also deteriorating. GDP growth is projected to decline to just 3.4% in 2009. Growth in all subregions is expected to ease further, with East Asian and Southeast Asian expansions slipping by at least 3 percentage points. The newly industrialized economies of Hong Kong, China; Republic of Korea; Singapore; and Taipei, China, will all likely contract in 2009, on account of their heavy dependence on trade to support growth.

As the global economy experiences a mild recovery in 2010, regional growth is projected to improve to 6%. Inflationary pressures will abate on the back of slower economic expansion and falling commodity prices. Consumer price increases are projected to ease to 2.4% in 2009 and 2010.

As turbulence in financial markets and volatility in commodity prices continue, global economic conditions remain unfavorable. There are tremendous downside risks to this global outlook, which could further slash the already dismal prospects. The effectiveness of global responses to the crisis remains uncertain. Loud calls for protectionist policies are becoming worrisome. As job losses in the major industrial countries continue, the protectionist voices may only get louder.

As major industrial countries have already slipped into recession, it is tempting to look with envy at even the slower rate of growth in developing Asia. Such views would be misguided—achieving the region's ambitious poverty reduction goals hinges on the rate at which it can expand employment opportunities and incomes. Under the current outlook, more than 60 million people in the region will remain mired in poverty than would have been if the previous high growth had prevailed.

Fortunately, governments in the region have not remained passive. Fiscal stimulus measures have been undertaken in many countries and many more have announced plans to follow suit. However, there is a dearth of information regarding the form, size, and implementation mechanisms of such fiscal packages. The possible impact of these fiscal packages on regional growth thus remains unclear.

The region's sharp slowdown underlines the risks of excessive dependence on external demand. Rebalancing growth is thus fundamentally in the region's own self-interest. Part 2 of *ADO 2009* explores the issue of rebalancing developing Asia's growth toward domestic sources. Looking ahead, Asian policy makers are facing the key challenge of picking out the optimal mix of policies to strengthen domestic demand in the short- and long-run. Regional countries differ with respect to the magnitude and causes of their dependence on external demand. Therefore, there is no one-size-fits-all optimal policy mix for rebalancing. Nevertheless, in all countries effective rebalancing will require a mix of policies that will both revitalize the domestic economy and bolster domestic demand.

Strengthening domestic demand requires policies that develop social safety nets to encourage more private consumption. Priority should likewise be accorded to enhancing the investment climate and using public investment funds wisely. Policies pertaining to financial development and adjustment of the exchange rate can promote a better balance between supply and demand. In addition to domestic policies, regional and global efforts are required to effectively address global imbalances which are, after all, a global problem with global causes and effects.



HARUHIKO KURODA
President

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Ann Quon, Omana Nair, and Andrew Perrin of the Department of External Relations planned and coordinated the dissemination of *ADO 2009*.



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Definitions

The economies discussed in *Asian Development Outlook 2009* (ADO 2009) are classified by major analytic or geographic groupings. For purposes of ADO 2009, the following apply:

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

ADO 2009 is generally based on data available up to **16 March 2009**.

Acronyms and abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CPI	consumer price index
EU	European Union
FDI	foreign direct investment
FY	fiscal year
GDP	gross domestic product
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
PRC	People's Republic of China
US	United States
VAT	value-added tax
WTO	World Trade Organization