



## Developing Asia's Prospects in the Global Slowdown

The global economy is facing a major downturn. The worsening financial problems have caused economic activity to stall and have dimmed the outlook for global growth. With the major industrial countries already in or close to recession, the global slowdown is expected to be deeper and much more prolonged than previously anticipated.

As the deepening financial crisis intensifies its grip on the global economy, its effects have begun to be felt by Asian economies. In light of this, the Asian Development Bank (ADB) established a Regional Economic Outlook Task Force.<sup>1</sup> The task force had reassessed ADB's medium-term growth projections for developing Asia, the most recent of which were published in the *Asian Development Outlook 2008 Update* in September 2008. This special note provides revised estimates of the growth prospects for developing Asia in 2009.

### Revised Outlook for Developing Asia

Developing Asia—which initially looked well positioned to weather the global crisis—has come under increased pressure. As global investors scale back emerging market assets amid continued financial system de-leveraging, Asian equities and external funding conditions have been hurt. Despite the large buildup of foreign exchange reserves since the 1997/98 Asian financial crisis, foreign currency illiquidity is also testing the resilience of Asian banks—with increasing spillovers into domestic bank funding markets. Should credit conditions tighten further, affecting key economic activities, the growth outlook for the region could be further damaged. The impacts of a major global downturn are also to be felt through trade channels. Weakening demand for manufactured goods in major industrial countries means declining export orders from Asia, with knock-on effects for industrial production. Global trade volume is rapidly slowing down and is expected to barely expand in 2009, creating difficulties for regional economies that rely on exports for growth.

The spillovers from the global financial turmoil have been most visible in the newly industrialized economies of Hong Kong, China; Republic of Korea; Singapore; and Taipei, China. Even as the authorities take measures to ease liquidity in financial markets and stabilize their economies, production growth is expected to be nearly flat in 2009 owing to the weak demand for their manufacturing exports from Western consumers.

In the People's Republic of China, GDP growth is expected to slow down to 8.2% in 2009 as the external environment deteriorates sharply amid the global financial turmoil. The government has recently announced a 2-year, \$586 billion stimulus package to boost domestic demand, although there is some question as to how much of this is new spending. Aggregate gross domestic product (GDP) for East Asia is projected to grow by 6.2% in 2009, down from the 7.4% expected this year.

The effects of the worsening global outlook are also beginning to be felt in the economies of the Association of Southeast Asian Nations (ASEAN) countries. Economic growth is expected to moderate further to 3.5% next year, reflecting (i) the drop-off in the growth of major industrialized countries; (ii) higher cost of capital; (iii) faltering consumer and business confidence; and, (iv) for net exporters of commodities, the likely decline in the terms of trade.

Aggregate GDP growth for South Asia is likely to reach 6.1%, with the Indian economy reeling from the direct effects of the global financial crisis on its banking system and financial market. The growth projection for India is now revised to 7.0% and 6.5% in fiscal year (FY) 2008 (ending March 2009) and FY2009, respectively. The Government of India recently unveiled a fiscal stimulus package that includes \$4 billion in new expenditure in FY2008, and further stimulus is likely. For Pakistan, the

<sup>1</sup>The task force is chaired by Assistant Chief Economist, Economics and Research Department, and is composed of economists representing the regional departments and the Office of Regional Economic Integration.

economic climate continues to deteriorate, with the global financial crisis aggravating the situation. Declining reserves, a depreciating rupee, and falling exports have downgraded the country's credit rating to CCC. Growth in FY2009 (ending June 2009) is likely to be limited to 3.8%.

The economies of Central Asia, although less integrated with the global financial system than other parts of developing Asia, will not be immune from the effects of the global financial crisis. In particular, the sharp decline in global commodity prices since the third quarter of 2008 is bound to have adverse repercussions on some economies that depend heavily on hydrocarbons and other commodity exports.

The Pacific economies will be hit hard by weakening merchandise exports and tourism, declining overseas remittances, and higher cost of and more limited access to international capital.

## Risks to the Outlook

A key assumption underlying the less favorable, yet still positive, regional outlook is that regional authorities continue to take measures to stabilize financial market conditions and shore up their economies. The effect of expansionary policies, however, remains to be seen, leaving the outlook subject to greater downside risks now than just a few months ago. Major risks to the outlook include (i) a sharper or prolonged global recession, (ii) persistent financial stress with volatile capital flows, (iii) further tightening of external and domestic funding conditions, and (iv) excessive volatility and overshooting in foreign exchange markets.

GDP growth rate for developing Asia  
(% per year)

Subregion/Economy			ADO 2008 Update		Revised	
	2006	2007	2008	2009	2008	2009
<b>Developing Asia</b>	8.9	9.0	7.5	7.2	6.9	5.8
<b>East Asia</b>	9.4	9.6	8.0	7.7	7.4	6.2
China, People's Republic of	11.7	11.9	10.0	9.5	9.5	8.2
<b>Southeast Asia</b>	6.0	6.5	5.4	5.4	4.8	3.5
ASEAN-5	5.8	6.3	5.3	5.4	4.7	3.4
<b>South Asia</b>	8.9	8.6	7.1	6.7	6.8	6.1
India	9.6	9.0	7.4	7.0	7.0	6.5
Pakistan	5.8	6.8	5.8	4.5	5.8	3.8
<b>Central Asia</b>	13.4	11.6	7.6	8.0	7.3	7.7
<b>The Pacific</b>	2.2	2.4	4.8	3.4	4.8	3.4

Note: **Developing Asia** refers to 44 developing member countries of the Asian Development Bank; **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 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. 2008. *Asian Development Outlook 2008 Update*; and staff estimates.