

# ADO 2007 Update—Highlights

- With growth of 8.3%, 2007 is likely to be another bumper year for developing Asia. This estimate has been revised up from the 7.6% forecast in March made by *Asian Development Outlook 2007*.
- Strong growth in the People's Republic of China (PRC) (now put at 11.2%) and India (8.5%) will spearhead expansion, but there is a more general pattern of high and, in some countries, accelerating growth. In the first half of 2007, the Philippines grew by 7.3%, the highest rate in almost 20 years, and the country is expected to post growth of 6.6% for the full year. In Indonesia, growth continues to edge up and is now expected to finish the year above 6%.
- The outlook for 2008 remains favorable, and the baseline forecast points to only a marginal slowing of growth to 8.2%. Momentum in the PRC and India is seen staying robust. In the PRC, double-digit growth of 10.8% is expected, and the pace of expansion in India should remain at 8.5%. Indonesia's prospects continue to brighten, with growth of 6.4% penciled in.
- Symptoms of overheating suggest that output is growing at close to its potential in the PRC and India. Stoked by rising food prices, inflation pressures are building in the PRC. Credit is expanding, and equity and property markets have posted strong gains. In India, even though inflation has cooled, the central bank remains vigilant and shows no signs yet of easing interest rates.
- Recent convulsions in credit markets and the possibility of spillovers into the real economy heighten uncertainty about the future. Events are still unfolding and predictions at this time are unusually fuzzy, with the chances of downward revisions becoming more likely.

- If growth in the United States (US) lurches down, developing Asia would not be immune. But the tremors from a downturn in the US are likely to be modest and short-lived even if it falls into recession. Available evidence suggests that, depending on timing, severity, and duration, a US recession could clip growth in developing Asia by 1–2 percentage points. If a synchronous steep downturn in the US, euro zone, and Japan were to occur—an event that currently seems improbable—growth in developing Asia would be at greater risk. But stout reserves, improved financial systems, and scope for policy adjustments put the region in a better position to weather any storm.
- A special chapter in this *Update* looks at the dynamics of East Asia's export performance over the past quarter century. Exports have been an important part of its growth story. The analysis reveals important changes over the years in the pattern and direction of exports and traces the emergence of sophisticated supply chains in the region. East Asia has shown itself to be particularly adept at positioning itself in the fastest-growing global export markets.
- As organizational and technological innovations have spurred the separation and refinement of tasks, their geographical dispersal, stimulated by the search for scale and cost advantages, has created trade. The chapter shows that this burgeoning “trade in tasks” is, in the short-run, less sensitive to real exchange rate movements than are exports of primary commodities or finished manufactured goods. Supply-side factors, such as good infrastructure, a welcoming investment climate, and services and logistics support, play an important role in explaining export performance. The chapter finds too that external demand remains an important influence on regional exports. The parts and components that are traded within East Asia and which account for much of the growing regional integration are usually assembled in final products that are shipped to external markets.
- Technical notes look at the *Asian Development Outlook's* forecasting performance and how the choice of aggregation weights influences estimates of regional and subregional growth.