

Developing Asia's Recovery Gains Momentum

Recently released macroeconomic indicators suggest the 2010 growth outlook for developing Asia is stronger than anticipated in the *Asian Development Outlook (ADO) 2010* released in April. Gross domestic product (GDP) in the region is now projected to grow 7.9%, up from the 7.5% originally forecast. Better-than-expected results in the first quarter—driven by buoyant exports, strong private demand, and sustained stimulus policy effects—are behind the revision.

The improved outlook is broad-based, with projections raised across most subregions. Nonetheless, downside risks in the second half of the year call for continued caution, including the uncertain global environment, the sustainability of private domestic demand growth, and the challenge of managing capital inflows and exchange rates. As such, GDP growth in 2011 is still projected at 7.3%.

In East Asia, the newly industrialized economies of Hong Kong, China; Republic of Korea; and Taipei, China are expected to post stronger growth due to impressive first quarter performances. Improved investment has helped support the recovery. Industrial production and consumer spending started picking up in the first half of the year, with exports recovering significantly. While the economy in the People's Republic of China grew 11.1% in the first half of 2010, the GDP growth forecast for the year has been maintained at 9.6%. Recent measures to slow credit growth and cool speculation in the property market will likely lead to slower investment in the coming quarters. Fixed-asset investment growth slowed to 25.5% in the second quarter, the lowest rate of expansion since the stimulus package was announced in 2008. Industrial output figures and the purchasing managers' index also suggest a soft landing.

First quarter growth in the ASEAN-5 economies (Indonesia, Malaysia, Philippines, Singapore and Thailand) also exceeded expectations, fueled by strong exports, robust industrial production, and improved consumer confidence. Singapore is set for a solid 2010 after growing 18.1% in the first half. The

trade-driven economy's growth projection has been upgraded sharply to 12.5% from the 6.3% forecast in April, amid robust demand for its manufactured exports, particularly biomedical products and semiconductors.

In the Philippines, election-related government spending helped propel growth to a strong 7.3% in the first quarter. While this is unlikely to be sustained through the year, with the government already above its fiscal deficit target, growth in 2010 has still been upgraded to 5.0% (from 3.8%). Robust industrial production and strong export growth look likely to continue.

Indonesia, Malaysia, and Thailand are also expected to outperform the *ADO 2010* forecasts. Malaysia and Thailand posted double-digit growth in the first quarter of 2010, although the pace mostly reflects a rebound from the 2009 contraction. Nevertheless, Malaysian growth is now expected at 6.8% in 2010, from 5.3%, supported by robust private consumption and investment and recovery in exports due to the stronger global economic expansion. In Thailand, despite the major disruption of protests in central Bangkok, the economy is forecast to grow 5.5% (from about 4.0% originally) on healthy exports and an expected recovery in tourism toward the end of the year. Indonesia's economy, driven by strong domestic demand, is now projected to expand 6.0%, revised up from 5.5%. Forecasts for the rest of the Southeast Asian economies should meet previous expectations.

In South Asia, economic indicators remain broadly within expectations. GDP growth in India reached 8.6% (year-on-year) in the first quarter, which is consistent with the current forecast of 8.2% for the year. In Sri Lanka, post-conflict reconstruction is pushing up demand such that first quarter growth reached 7.1%, suggesting growth for the year may be more rapid than the *ADO 2010* estimate. Industrial production and exports are increasing in both economies. Asset price build-up in Bangladesh has boosted domestic demand, with preliminary government estimates showing the economy expanded 6.0% in fiscal year 2010 (ending June 2010).

In Central Asia overall, growth prospects are in line with *ADO 2010* forecasts. But improving global conditions and higher oil prices have boosted economies. Remittances from the Russian Federation to the region increased 14.2% year-on-year on average for the first quarter of 2010. Higher oil prices are likely to contribute to current account surpluses in the oil exporting countries. Georgia's manufacturing, transportation, and trade sectors grew much faster than anticipated in the first quarter. In contrast, the economic

situation in the Kyrgyz Republic remains unsettled and its growth prospects muted due to recent civil unrest.

In general, the Pacific island economies also remain on track to meet 2010 growth projections, helped by better prospects for the global economy. But results vary across economies, with weakness in some (e.g., Cook Islands, Nauru, Tonga, and Vanuatu) balanced by resilience elsewhere (e.g., Solomon Islands).

GDP growth rate for developing Asia, 2010 (% per year)

Subregion/Economy	ADO 2010	Revised
Developing Asia	7.5	7.9
Emerging East Asia	7.7	8.1
East Asia	8.3	8.4
China, People's Rep. of	9.6	9.6
Southeast Asia	5.1	6.7
ASEAN-5	5.1	6.8
South Asia	7.4	7.5
India	8.2	8.2
Central Asia	4.7	4.8
The Pacific	3.7	3.8

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. 2010. *Asian Development Outlook 2010*; and staff estimates.