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Asian economic outlook and challenges ahead

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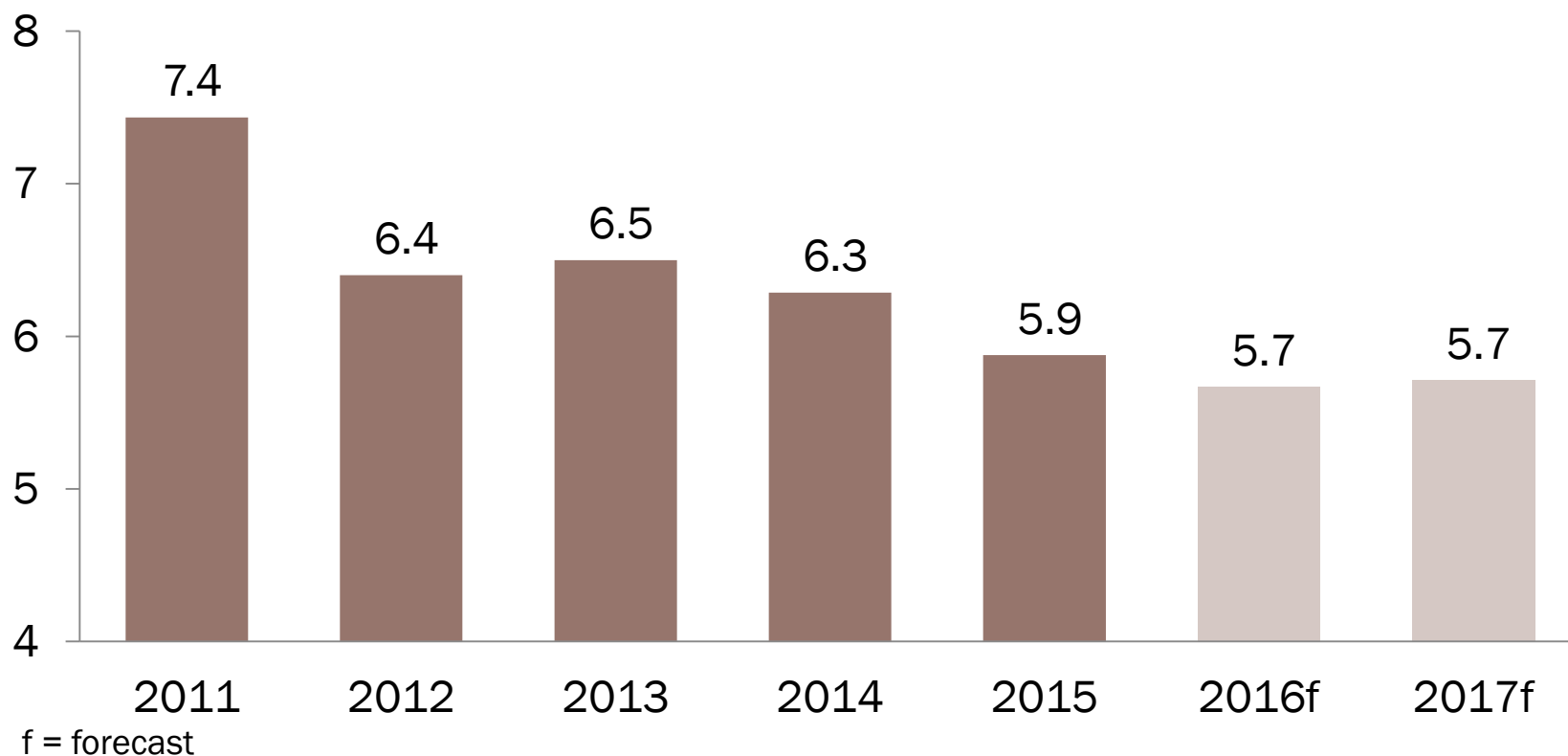
Presentation at the ADB-Asian Think Tank Development Forum, New Delhi, India, 27 October 2016

Key messages

- ∞ Growth in developing Asia steady at 5.7% in 2016 and 2017, despite global headwinds
 - PRC growth upgraded to 6.6% in 2016 and 6.4% in 2017, as policy support eases growth moderation
 - India growth maintained at 7.4% in 2016 and 7.8% in 2017, along with steady progress in reforms
- ∞ Commodity prices picking up, yet inflation remains subdued
- ∞ Short-term risks to the outlook tilted to the down side
- ∞ Asia faces long-term challenges for sustained growth

Developing Asia's growth is steady

GDP growth (%)

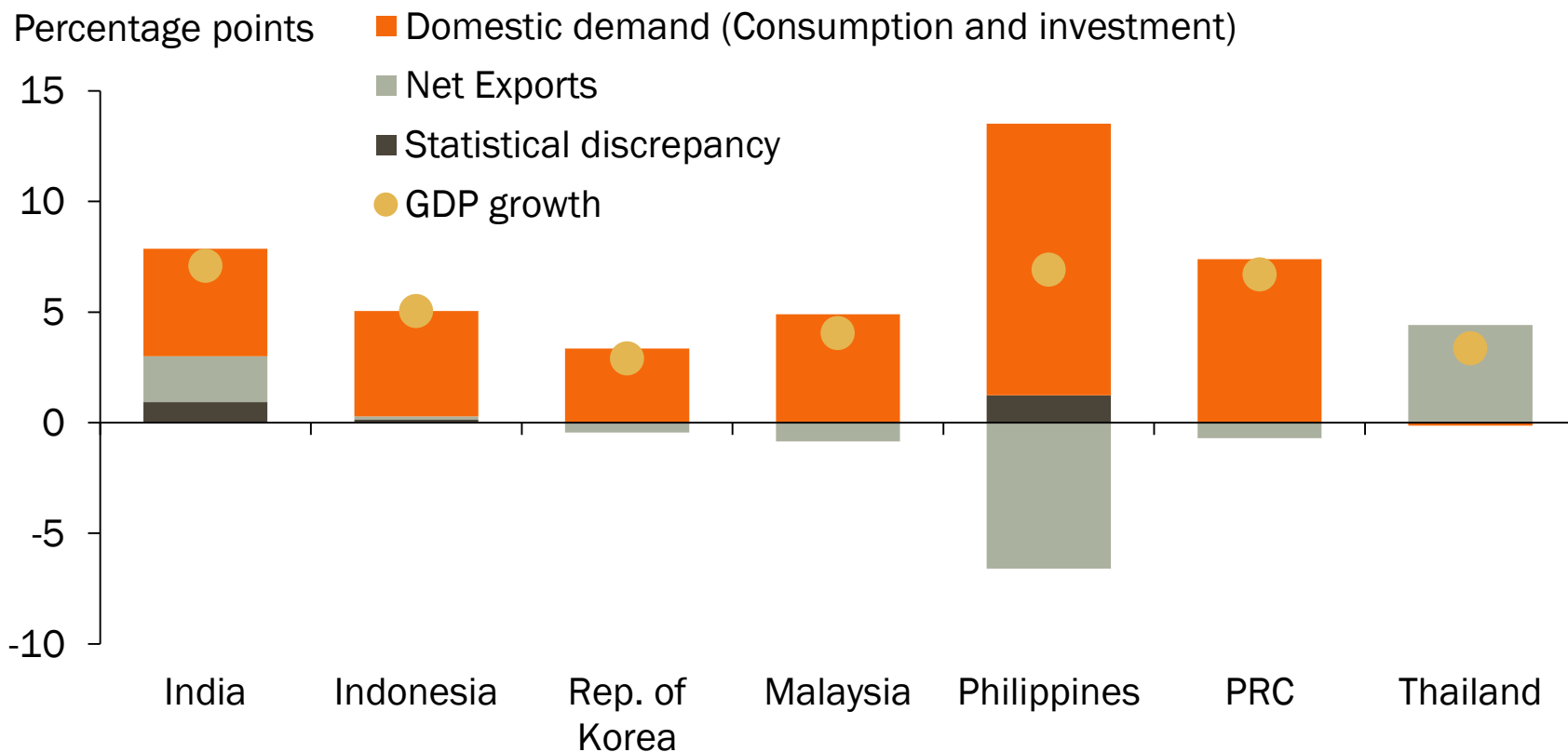


Despite the softer external environment

	2015	2016 growth forecast (%)		2017 growth forecast (%)	
		ADO 2016	Update	ADO 2016	Update
Major industrial economies	1.9	1.8	1.4	1.9	1.8
United States	2.6	2.3	1.5	2.5	2.4
Euro area	1.6	1.5	1.5	1.6	1.4
Japan	0.6	0.6	0.6	0.5	0.8

Domestic demand is holding up

Demand-side contributions to growth, H1 2016



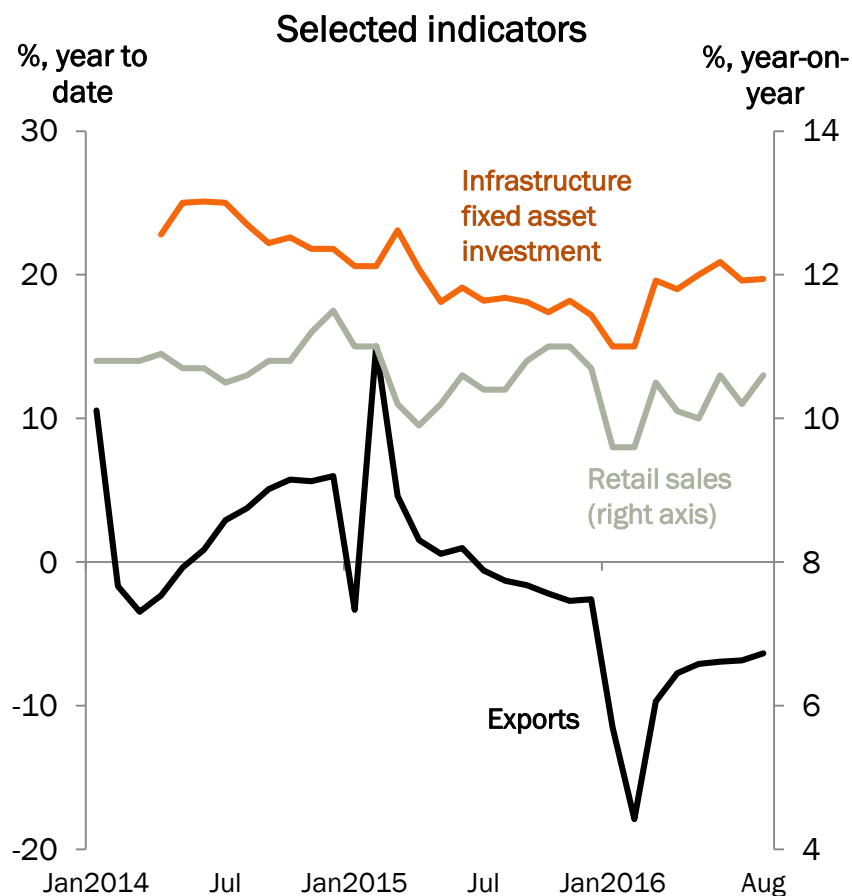
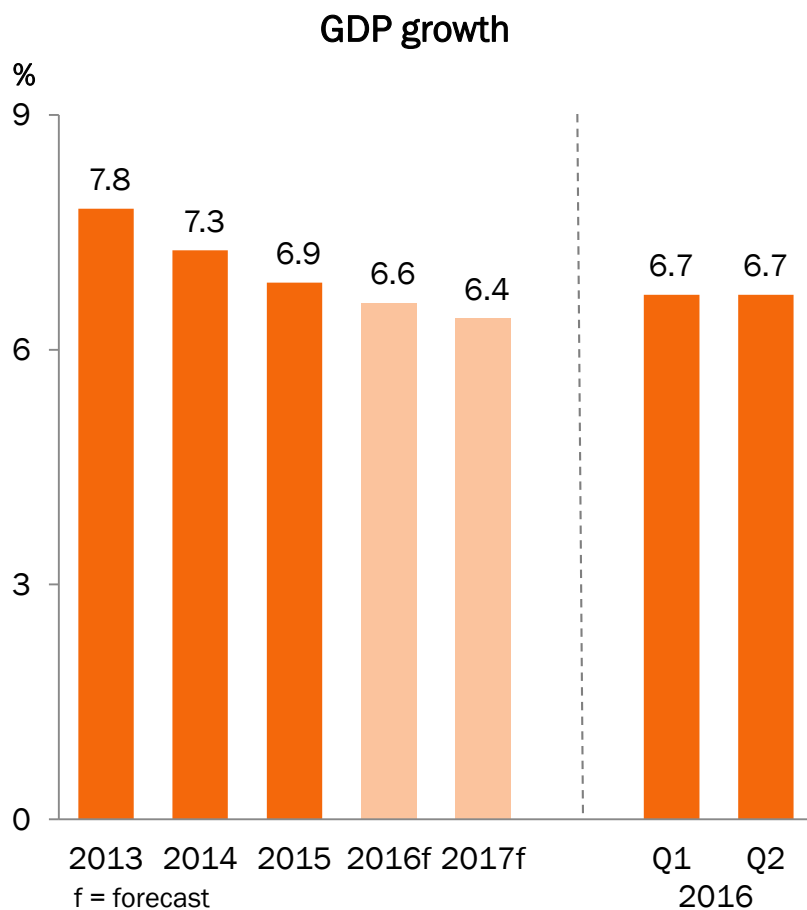
Note: Data for India refer to Q1 of FY2016.

Divergent growth prospects across countries

	2015	2016f		2017f			2015	2016f		2017f	
South Asia	7.0	6.9	↔	7.3	↔	East Asia	6.1	5.8	▲	5.6	↔
Bangladesh	6.6	7.1	▲	6.9	↔	China, People's Rep. of	6.9	6.6	▲	6.4	▲
India	7.6	7.4	↔	7.8	↔	Korea, Rep. of	2.6	2.6	↔	2.8	↔
Pakistan	4.0	4.7	▲	5.2	▲	Taipei,China	0.6	0.9	▼	1.5	▼
Southeast Asia	4.4	4.5	↔	4.6	▼	Central Asia	3.0	1.5	▼	2.6	▼
Indonesia	4.8	5.0	▼	5.1	▼	Azerbaijan	1.1	-2.5	▼	1.0	↔
Malaysia	5.0	4.1	▼	4.4	↔	Kazakhstan	1.2	0.1	▼	1.0	↔
Philippines	5.9	6.4	▲	6.2	▲						
Thailand	2.8	3.2	▲	3.5	↔	The Pacific	7.2	2.7	▼	3.5	▲
Viet Nam	6.7	6.0	▼	6.3	▼	Fiji	4.0	2.4	▼	4.5	↔
						Papua New Guinea	9.9	2.2	▼	3.0	▲

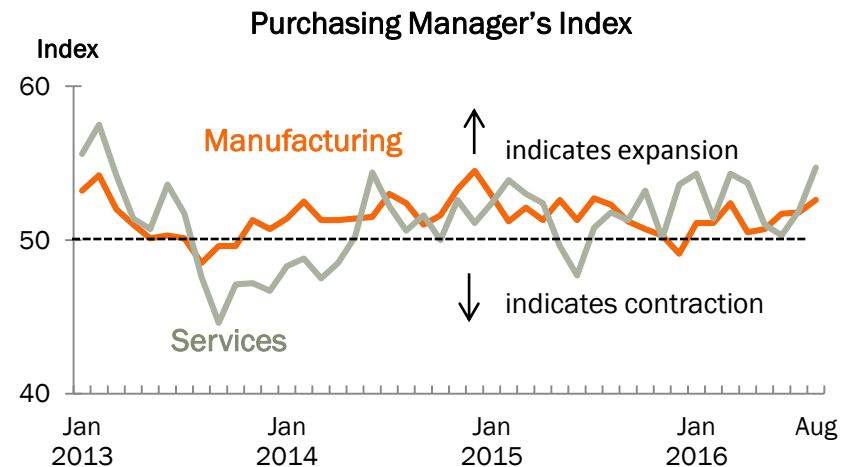
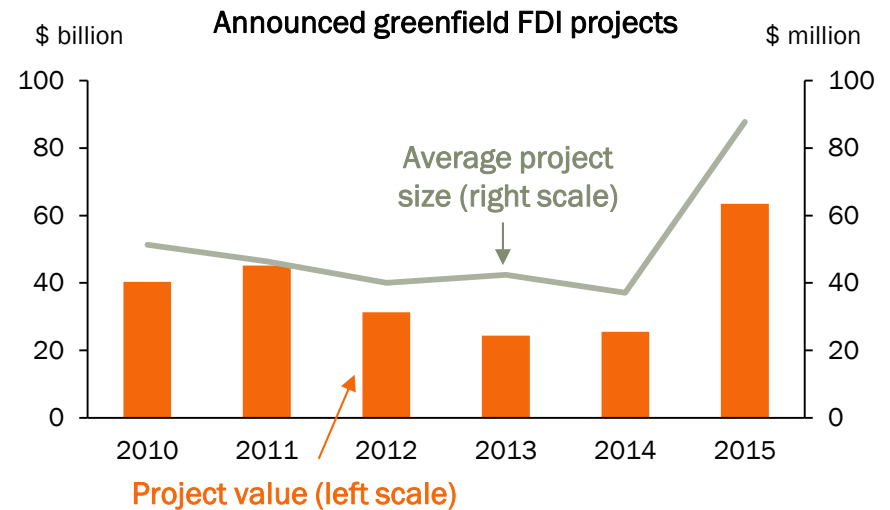
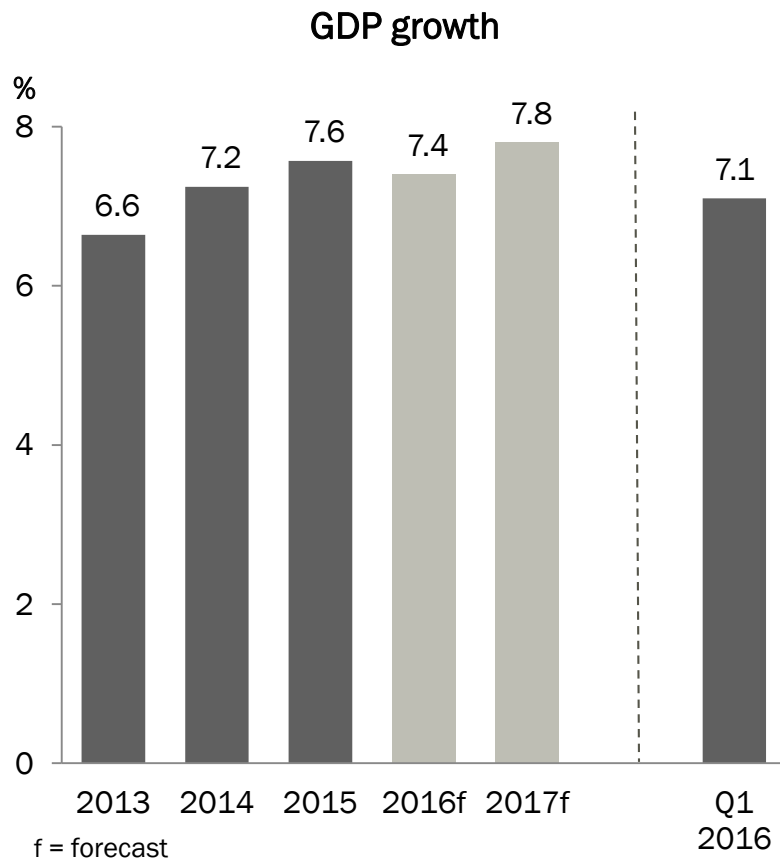
f = forecast, ↔ = retained forecasts in March ADO, ▲ = upgrade, ▼ = downgrade

PRC's growth exceeds expectations



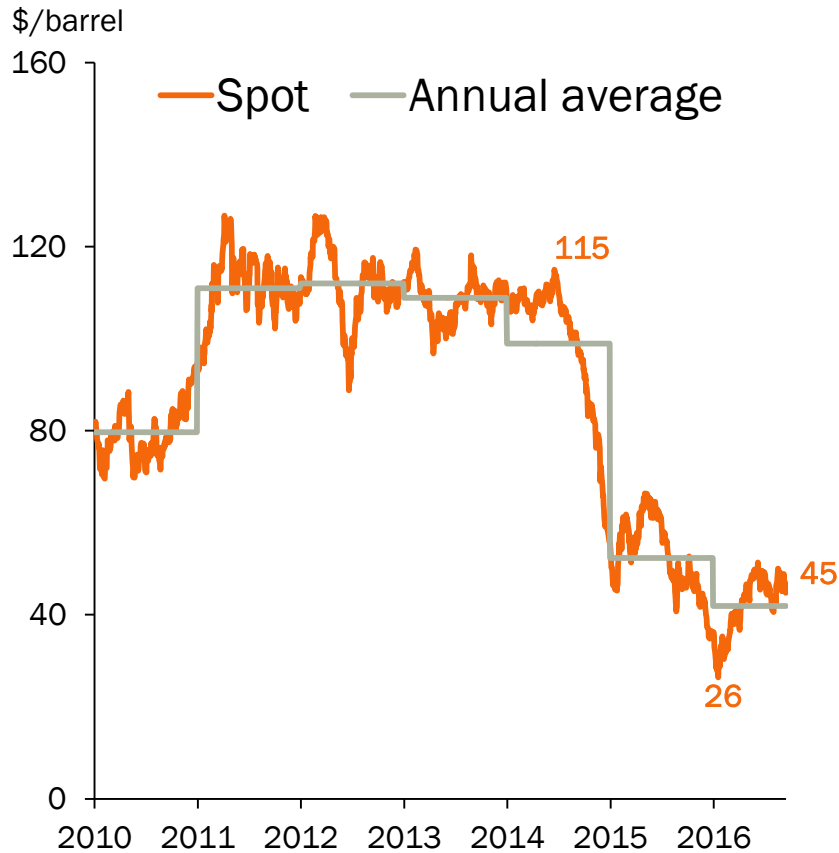
Note: Infrastructure investment and exports refer to year to date year-on-year growth, while retail sales refer to year-on-year growth.

Reform supporting India's solid expansion

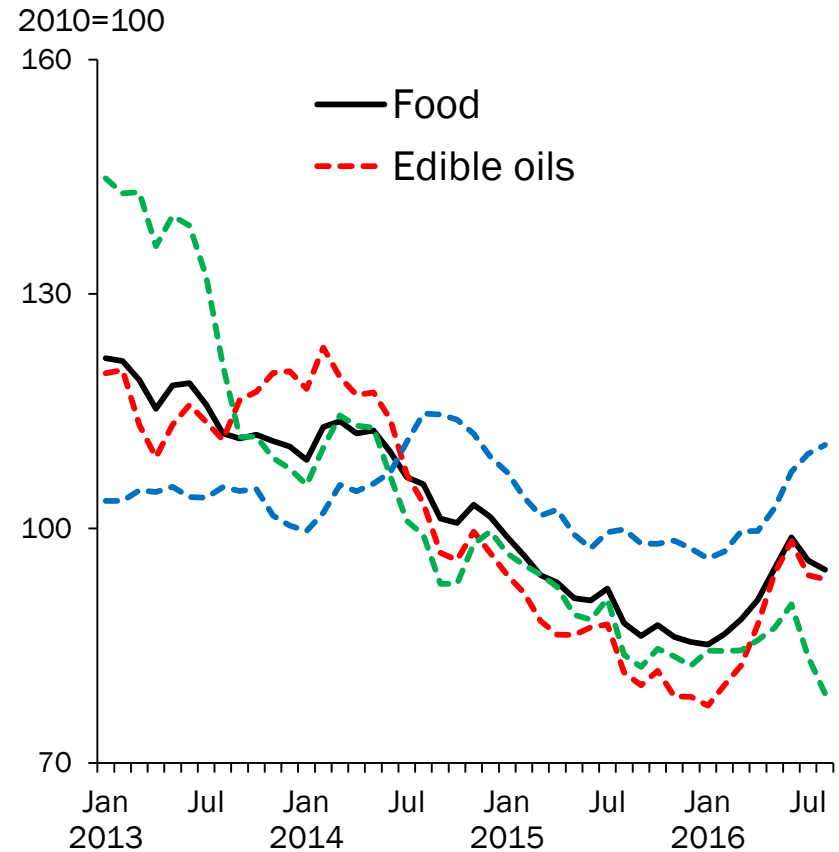


Global commodity prices picking up

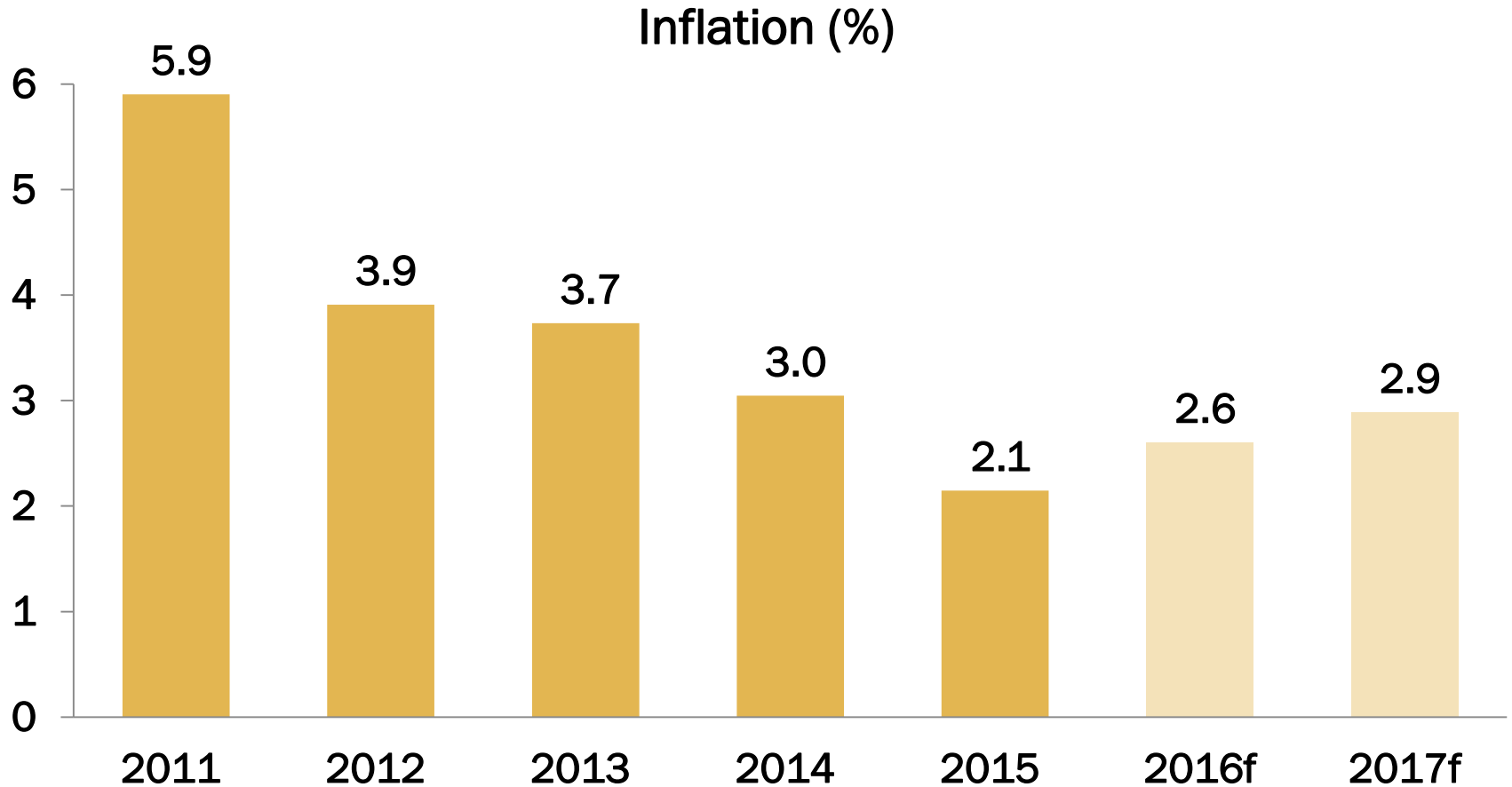
Price of Brent crude oil



Food commodity price indexes



But Asia's inflation largely subdued



f: forecast



Short-term risks are tilted to the downside

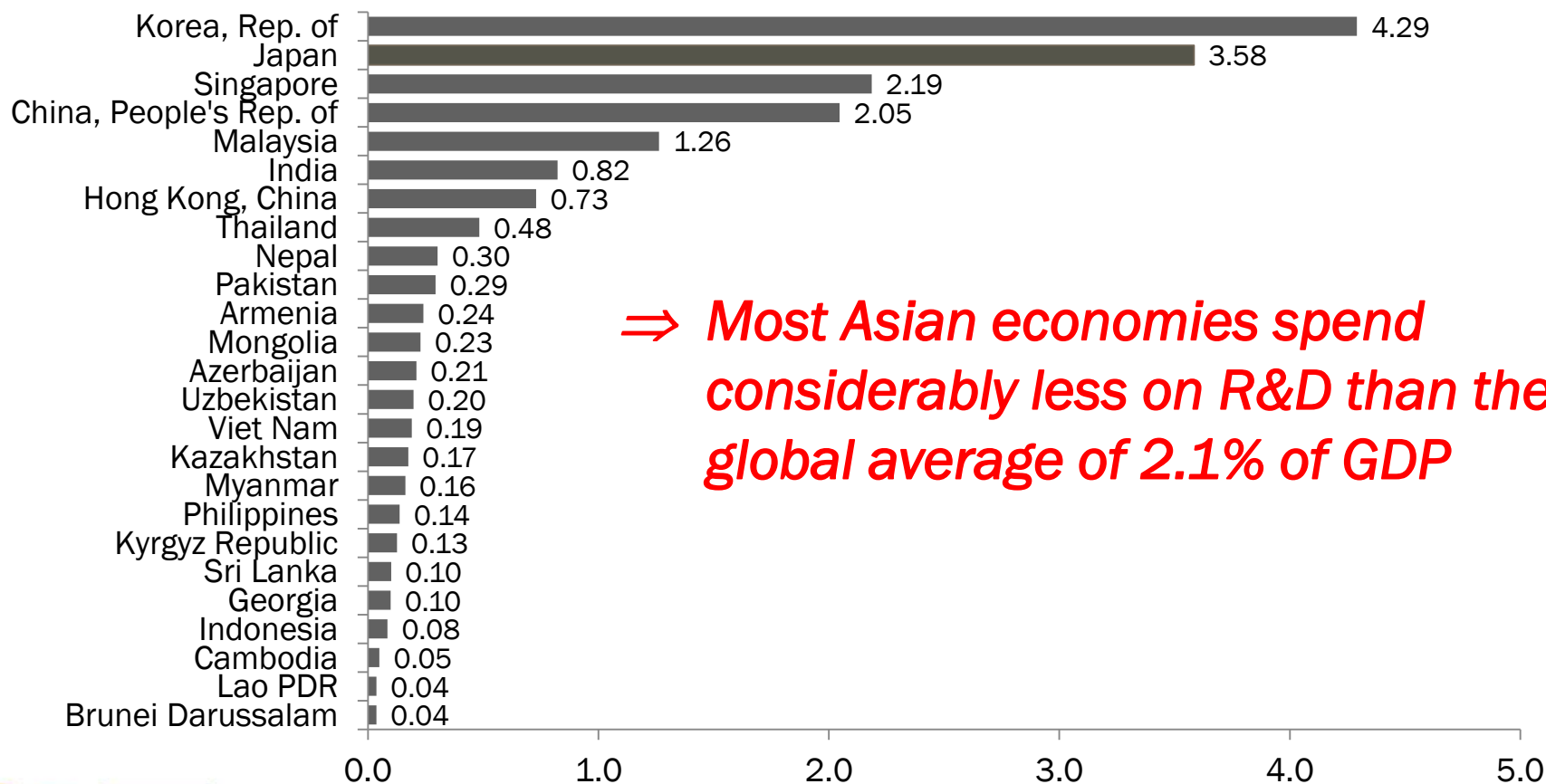
1. Fragile external environment
 - Weak demand from the US, euro area, and Japan
2. Advanced economies' monetary policies
 - Capital flow disruption; complicating macro management
3. Growing protectionism
 - Further impacting the region's already weak exports
4. Rising private debt
 - Requiring close monitoring to prevent systemic risks
5. Natural disasters
 - Increasing vulnerability in view of global climate change

Long-term challenges for sustained growth

1. Innovation and upgrading
2. Closing the infrastructure gap
3. Investing in human capital
4. Addressing rising income inequality
5. Moving toward low-carbon growth
6. Population aging

Innovation and upgrading

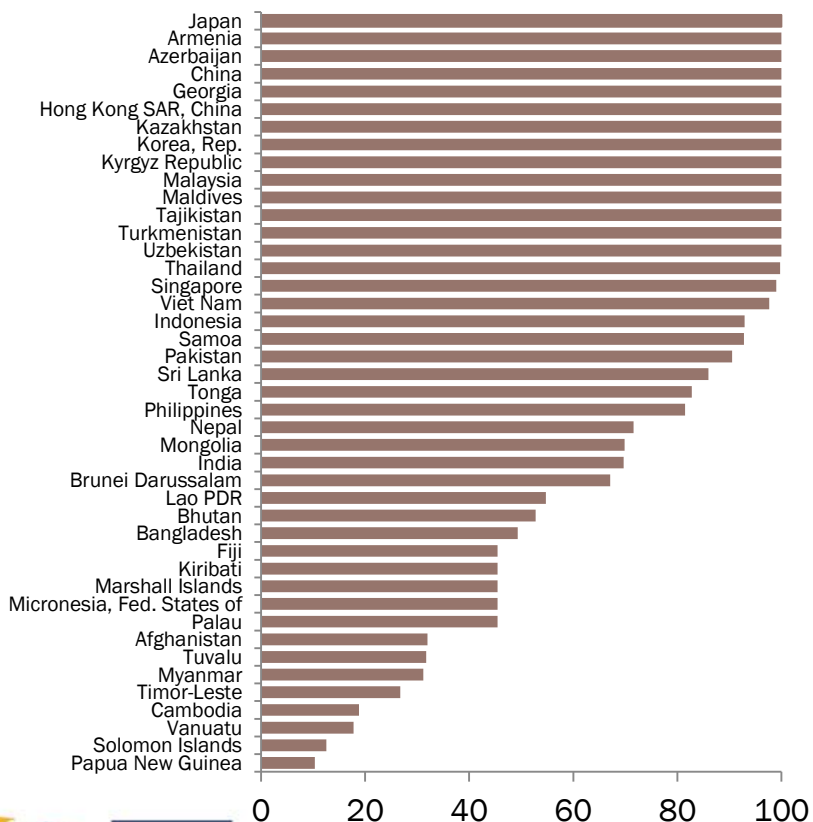
Research and development expenditure (% of GDP)



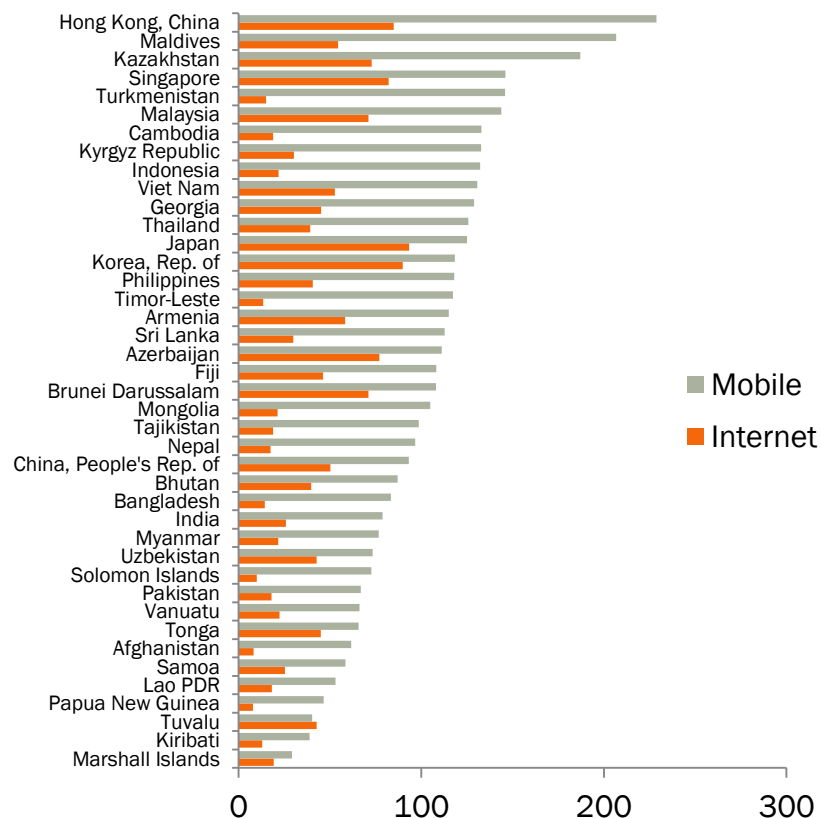
⇒ **Most Asian economies spend considerably less on R&D than the global average of 2.1% of GDP**

Closing the infrastructure gap

Rural access to electricity
(% of rural population)



Mobile cellular subscriptions and internet users (per 100 persons)



■ Mobile
■ Internet

⇒ Large gaps in infrastructure remain

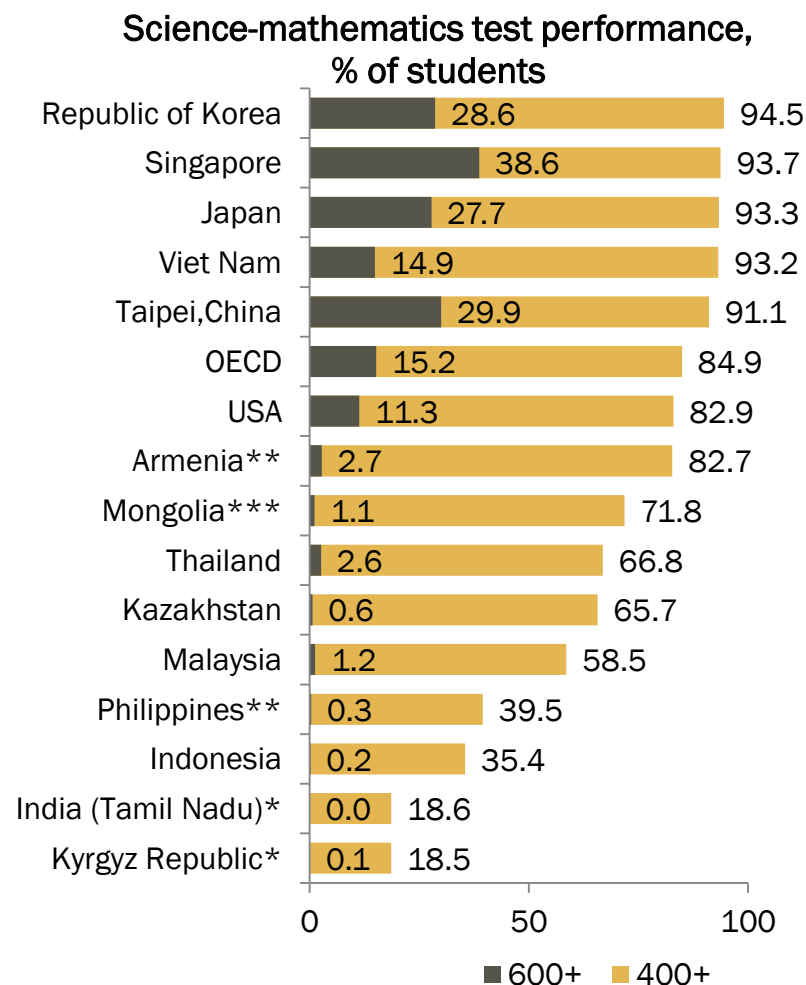
Investing in human capital

⇒ *Many developing Asian economies have not been able to translate educational investments even into basic quality skills*

∞ PISA/TIMSS test scores representative of students aged 14–15

∞ 400 = basic cognitive skills

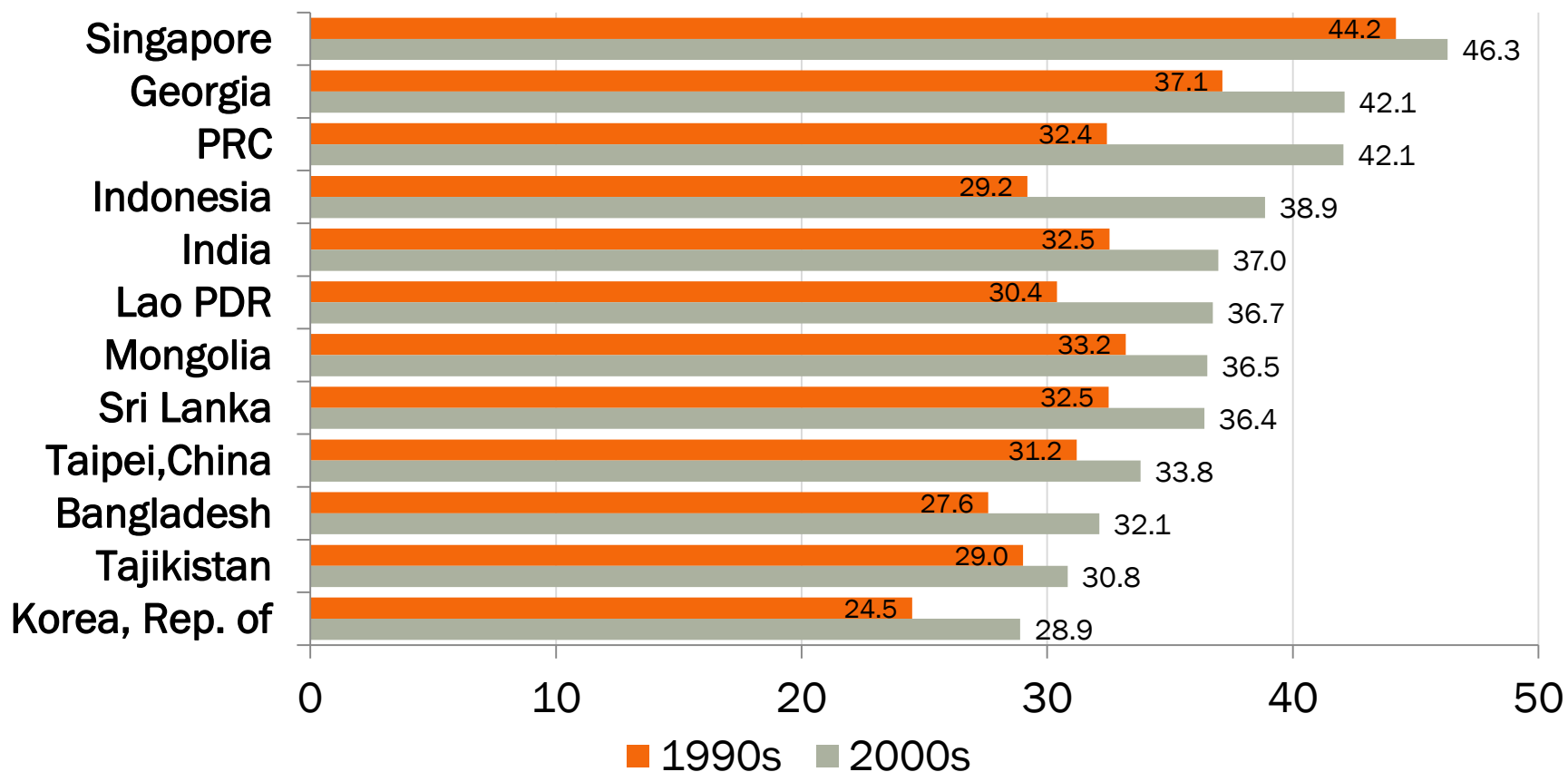
∞ 600 = top-level cognitive skills



Source: PISA 2009* and 2012; TIMSS 2003**, TIMSS 2007***

Addressing rising income inequality

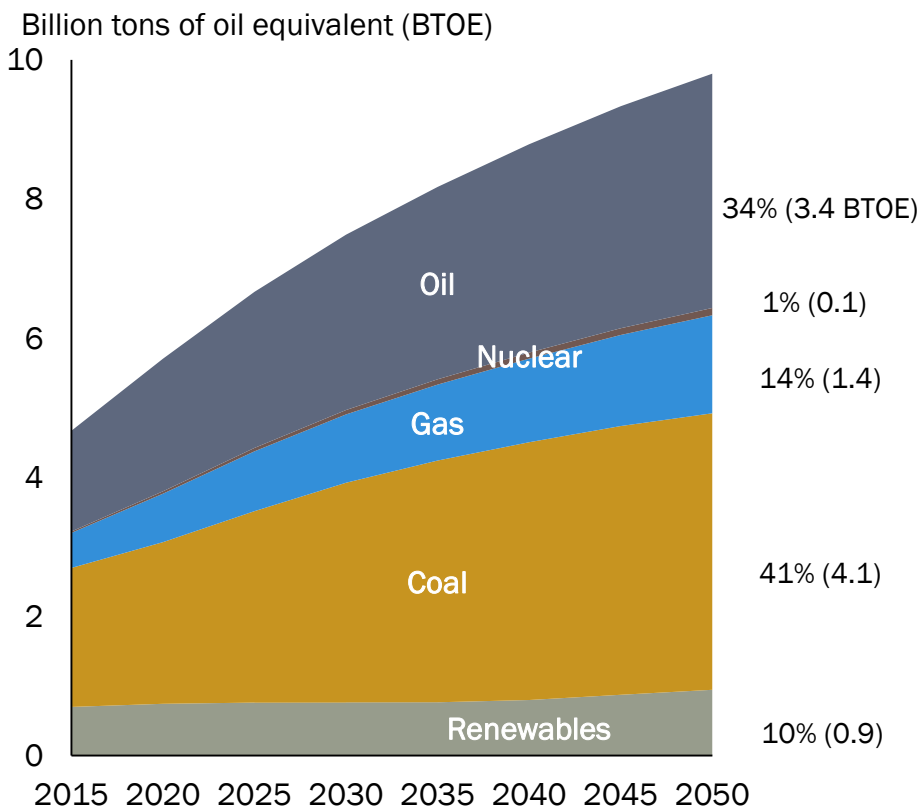
Gini Coefficients, selected Asian economies, 1990s and 2000s



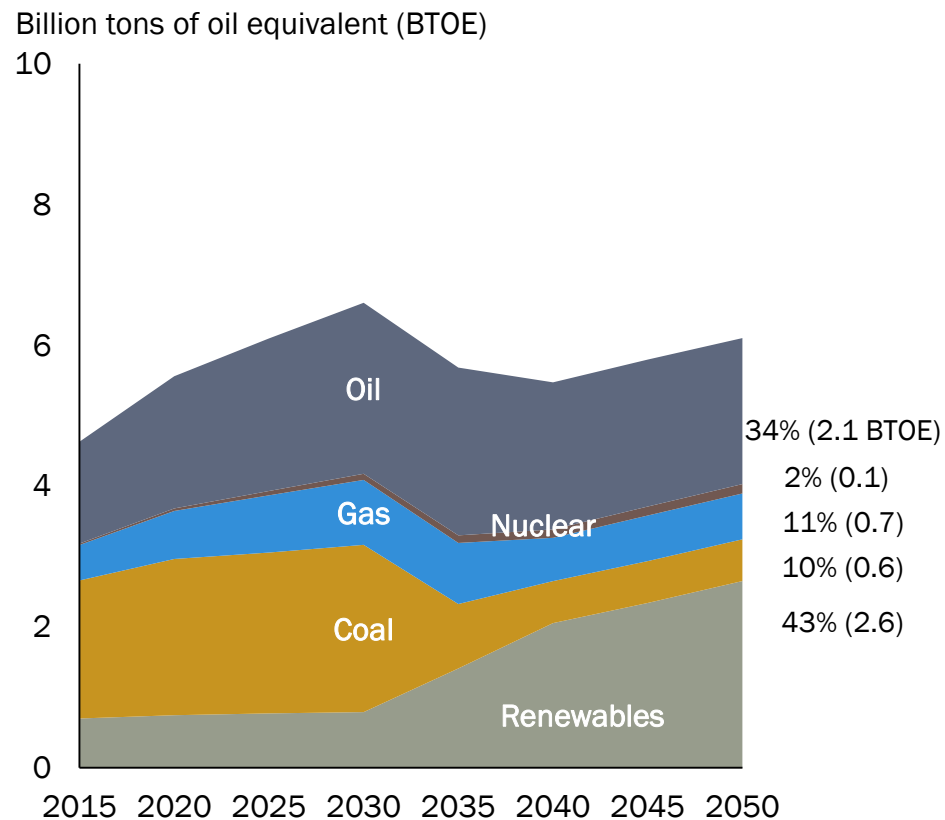
⇒ *A number of economies experienced rising inequality between the 1990s and 2000s*

Moving toward low-carbon growth

Developing Asia's primary energy composition,
Business as usual



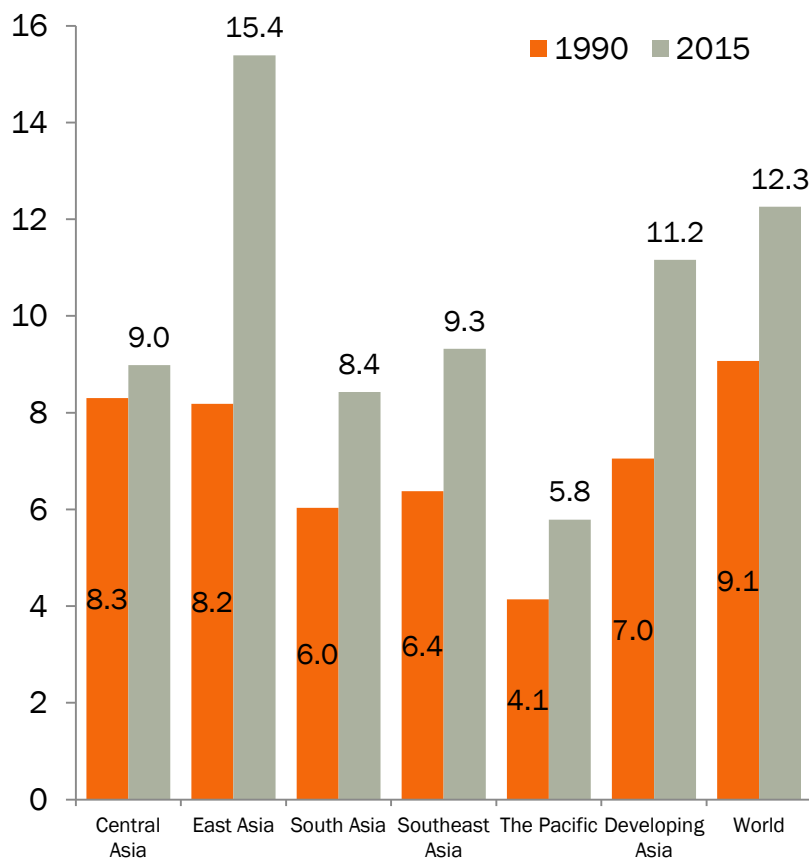
Developing Asia's primary energy composition,
To meet 2°C climate goal



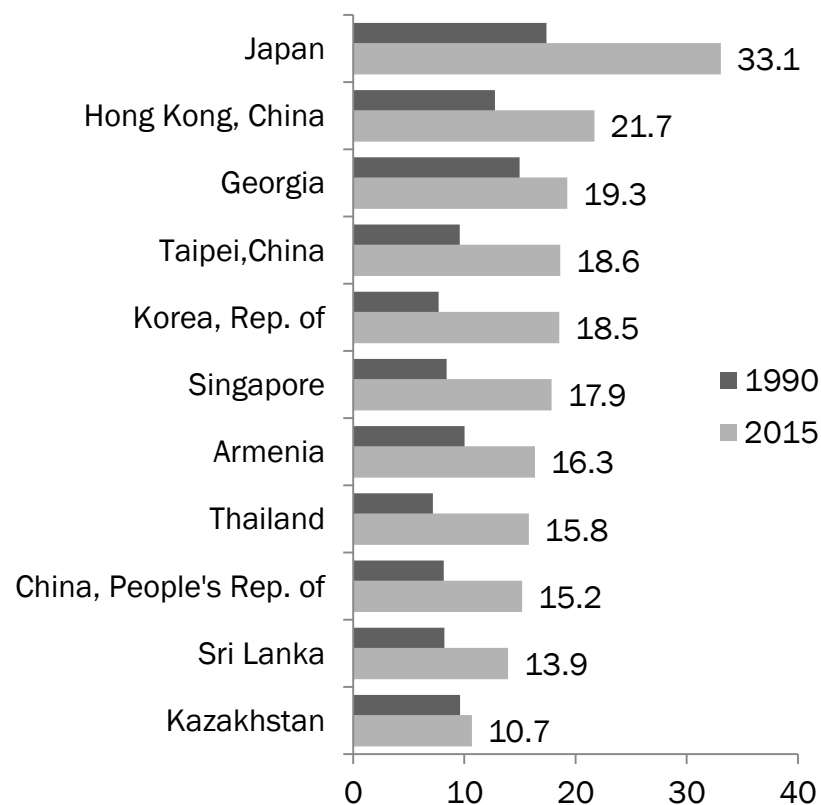
⇒ Energy consumption must fall by 40% to 6 BTOE by 2050, of which only 10% will come from coal and 43% from renewables including wind, solar, hydro, and biomass, to meet the 2°C global climate goal

Population aging

Share of population aged 60 and over (%)



Top 10 economies (plus Japan) with the largest elderly population share (%), 2015



⇒ Asia's population is graying fast, especially in East Asia

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Thank you!



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