



ASIAN DEVELOPMENT OUTLOOK 2019 UPDATE

FOSTERING GROWTH AND INCLUSION IN ASIA'S CITIES

YASUYUKI SAWADA

Chief Economist,
Economic Research and Regional Cooperation Department
Asian Development Bank

#ADO2019

ADB

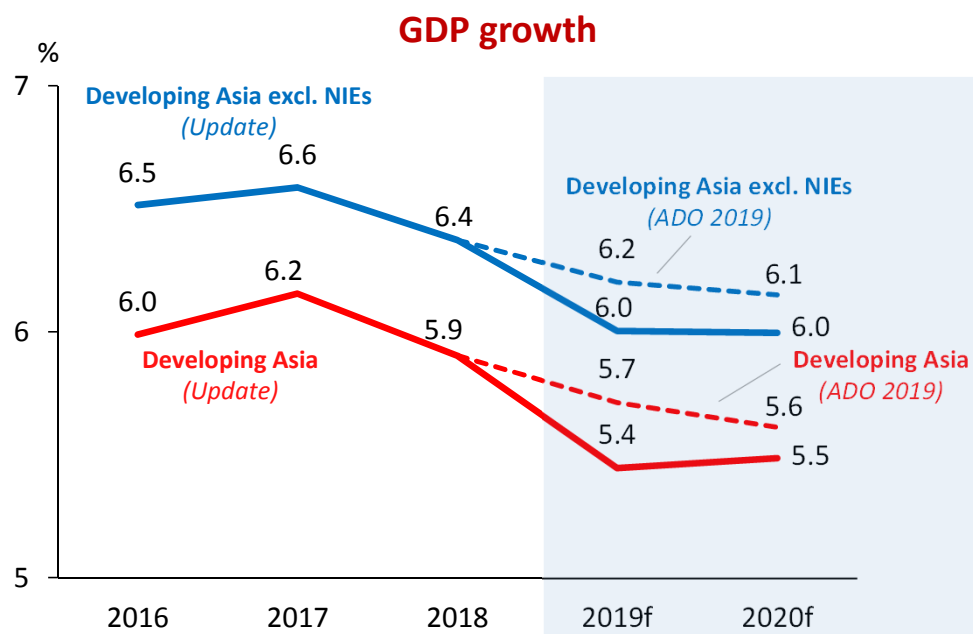
The views expressed in this presentation are the views of the author/s and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this presentation and accepts no responsibility for any consequence of their use. The countries listed in this presentation do not imply any view on ADB's part as to sovereignty or independent status or necessarily conform to ADB's terminology.

Key Messages

- **Developing Asia's growth forecasts are revised down, to 5.4% in 2019 and 5.5% in 2020**
- **Signs of moderating growth are already evident in the PRC and India, and in many other economies in the region**
- **Inflation to pick up slightly due to food prices, but remains muted at 2.7% in 2019 and 2020**
- **Downside risks to the outlook have increased**
- **Realizing the promise of cities as engines of growth and job creation requires overcoming challenges in transport, housing, and urban planning, among others**

Growth prospects in developing Asia dim ...

The revisions are due to:



NIEs = newly industrialized economies of Hong Kong, China; Republic of Korea; Singapore; and Taipei, China

Source: Asian Development Outlook 2019 Update database.

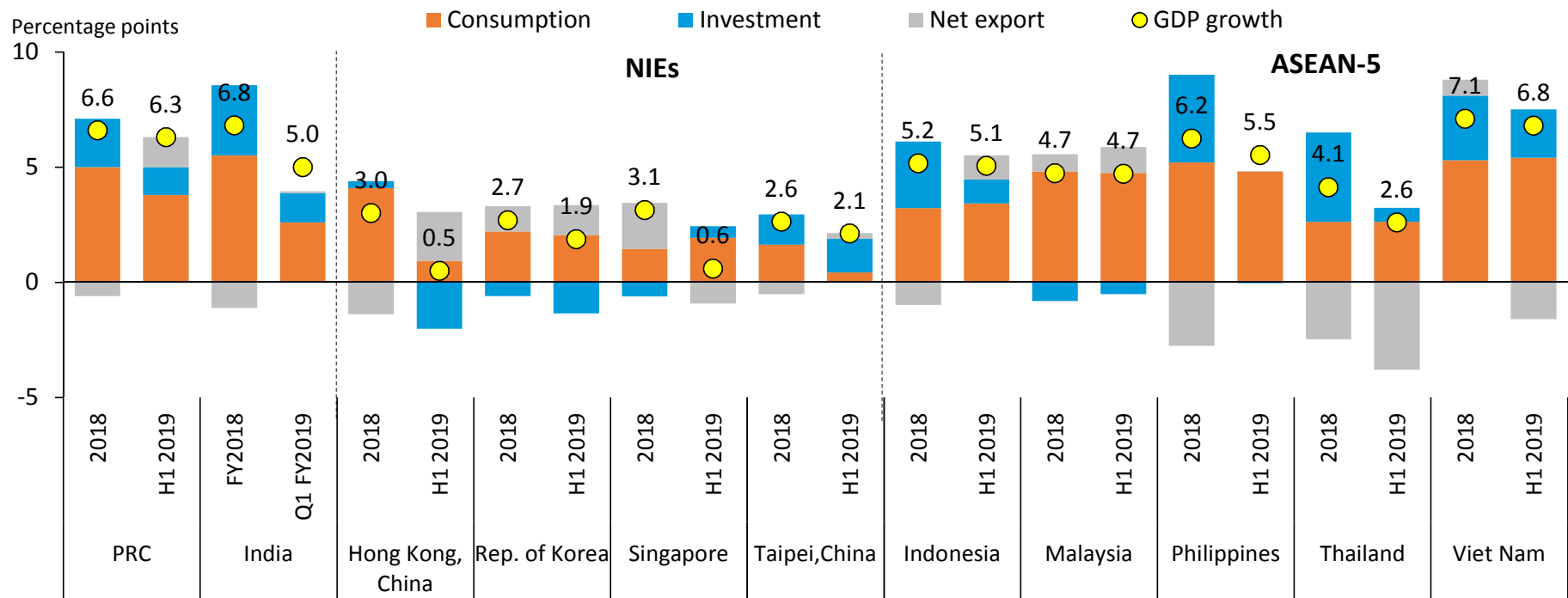
- Slowing global activity and trade

GDP growth (%)	2018	2019		2020	
	Actual	ADO	Update	ADO	Update
Advanced economies ^a	2.2	1.9	1.7 ↓	1.6	1.4 ↓
United States	2.9	2.4	2.3 ↓	1.9	1.9
Euro area	1.9	1.5	1.0 ↓	1.5	1.0 ↓
Japan	0.8	0.8	1.2 ↑	0.6	0.5 ↓

- Re-escalation of the US-PRC trade conflict
- Sharp contraction in global electronics cycle

... with weakening domestic demand.

Demand-side contributions to GDP growth



H = half; NIE = newly industrialized economies; PRC = People's Republic of China.
 Note: For India, data is for the first quarter (April-June) of the corresponding fiscal year.
 Sources: Haver analytics (accessed 2 September 2019); ADB estimates.

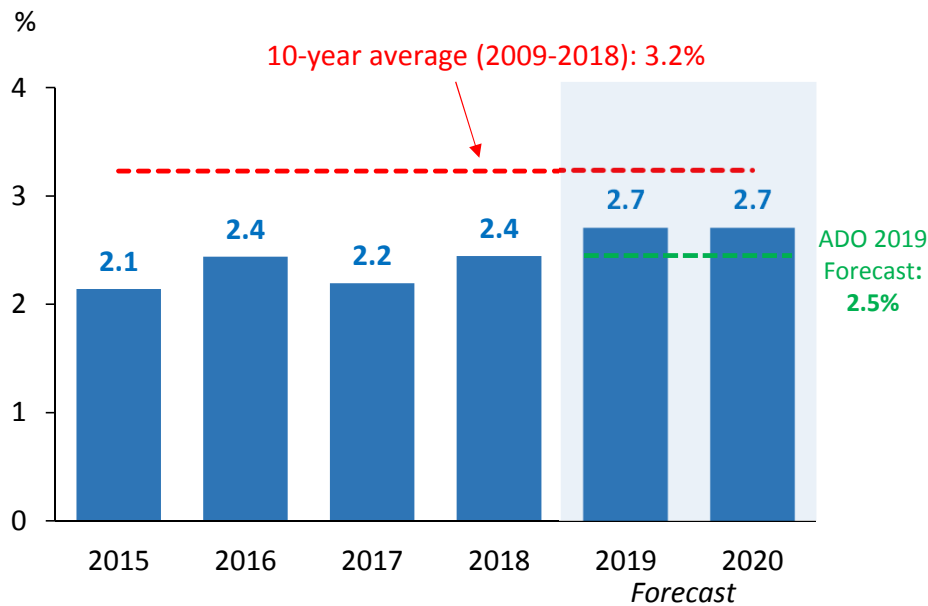
Growth projections are revised down for developing Asia's largest and most open subregions.

	2019		2020			2019		2020	
	ADO	Update	ADO	Update		ADO	Update	ADO	Update
East Asia	5.7	5.5 ↓	5.5	5.4 ↓	South Asia	6.8	6.2 ↓	6.9	6.7 ↓
China, People's Rep. of	6.3	6.2 ↓	6.1	6.0 ↓	Bangladesh	8.0	8.1 ↑	8.0	8.0
Hong Kong, China	2.5	0.3 ↓	2.5	1.5 ↓	India	7.2	6.5 ↓	7.3	7.2 ↓
Korea, Rep. of	2.5	2.1 ↓	2.5	2.4 ↓	Pakistan	3.9	3.3 ↓	3.6	2.8 ↓
Taipei, China	2.2	2.2	2.0	2.0					
Southeast Asia	4.9	4.5 ↓	5.0	4.7 ↓	Central Asia	4.2	4.4 ↑	4.2	4.3 ↑
Indonesia	5.2	5.1 ↓	5.3	5.2 ↓	Azerbaijan	2.5	2.6 ↑	2.7	2.4 ↓
Malaysia	4.5	4.5	4.7	4.7	Kazakhstan	3.5	3.7 ↑	3.3	3.4 ↑
Philippines	6.4	6.0 ↓	6.4	6.2 ↓	The Pacific	3.5	4.2 ↑	3.2	2.6 ↓
Singapore	2.6	0.7 ↓	2.6	1.4 ↓	Fiji	3.2	2.9 ↓	3.5	3.2 ↓
Thailand	3.9	3.0 ↓	3.7	3.2 ↓	Papua New Guinea	3.7	4.8 ↑	3.1	2.1 ↓
Viet Nam	6.8	6.8	6.7	6.7					
Developing Asia	5.7	5.4 ↓	5.6	5.5 ↓	Excluding NIEs	6.2	6.0 ↓	6.1	6.0 ↓

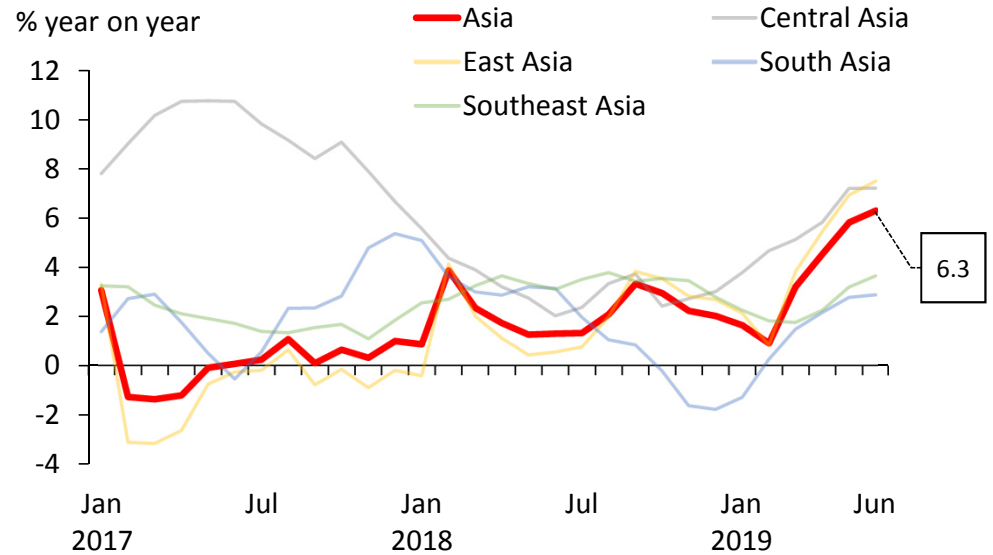
Notes: ↑ Upgraded forecast; ↓ Downgraded forecast; and no symbol = unchanged.

Regional inflation is picking up slightly, but remains benign

Headline inflation



Food inflation



Sources: Haver analytics; CEIC data company (both accessed 5 September 2019); ADB estimates; Asian Development Outlook database.

Escalating trade tensions are a challenge

Chronology of US-PRC trade conflict, 2018-2019

US actions:

Value of total imports from PRC (2018): **\$539.7 bn**

Est. value of tariff-affected imports from PRC:

\$3.4 bn

(22 Jan/23 Mar)

\$46.6 bn

(6 Jul/23 Aug)

\$260 bn

(24 Sep)

\$260 bn

(10 May)

\$374 bn

(1 Sep)

\$374 bn

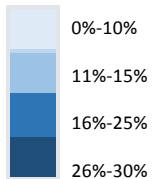
(15 Oct)

\$536.1 bn

(15 Dec)

still to be implemented

Tariff Rates:



PRC actions:

Value of total Imports from the US(2018): **\$155.1 bn**

Est. value of tariff-affected imports from US:

\$3 bn

(2 Apr)

\$53 bn

(6 Jul/23 Aug)

\$113 bn

(24 Sep)

\$113 bn

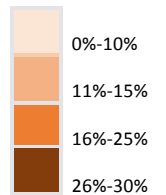
(1 Jun)

\$117.8 bn

(1 Sep)

\$120.5 bn

(15 Dec)



2018

2019

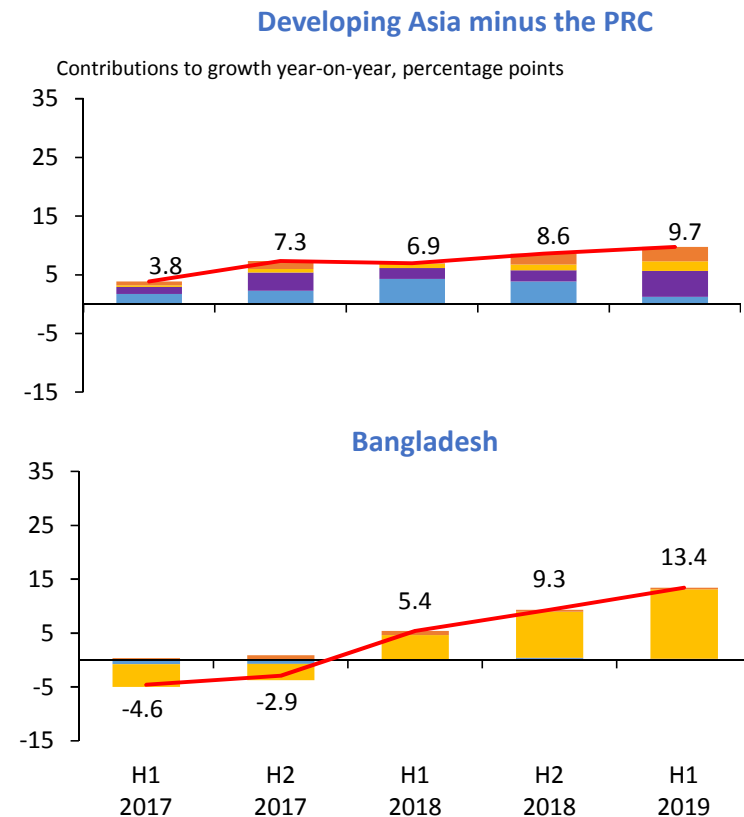
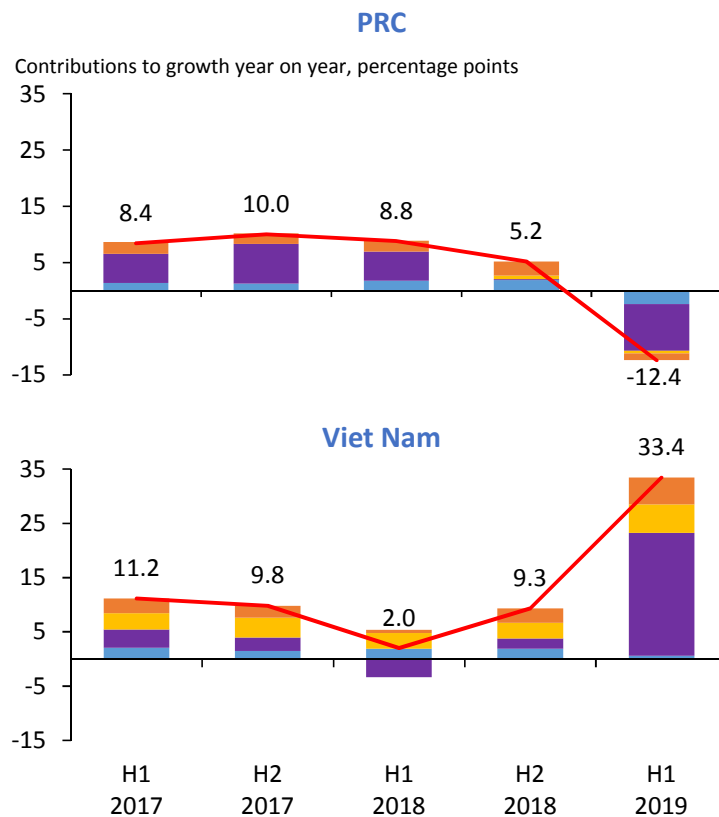
Notes: Bubbles with broken lines (---) show the value of all imports in 2018. Shaded bubbles show the portion affected by tariffs, and shade darkness indicates tariff intensity. The months refer to when the tariffs were implemented.

Source: ADB staff estimates.

Trade redirection is already evident in H1 2019 data...

US imports from selected DMCs, 2017-2019

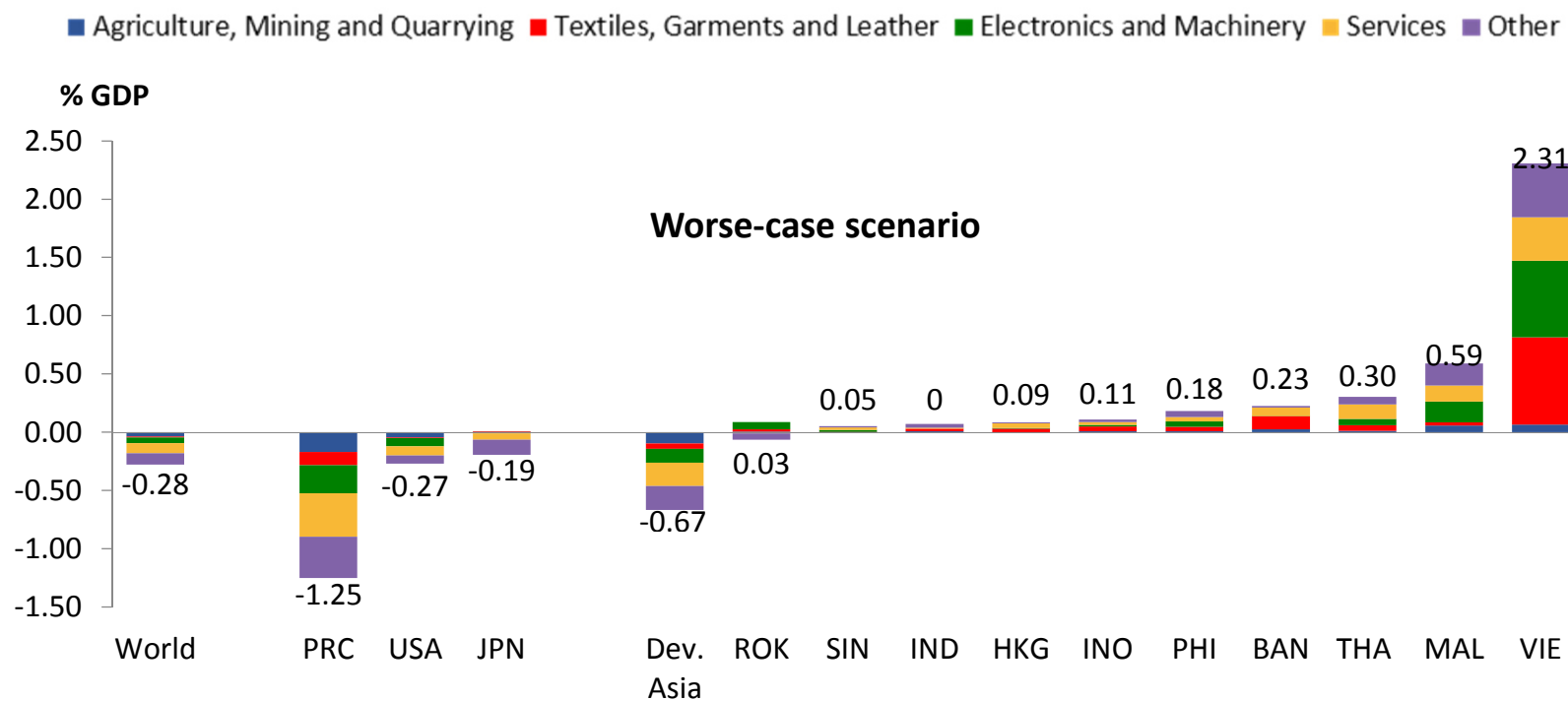
■ Agriculture, Mining and Quarrying
 ■ Electronics and Machinery
 ■ Textile, Garments, Footwear, and Leather
 ■ Others
 — Import growth (% y-o-y)



Source: CEIC Company (accessed 30 August 2019).

... and will continue if the trade conflict persists or escalates.

Medium term impact of the trade conflict on GDP



Note: BAN = Bangladesh; PRC = People's Republic of China; HKG = Hong Kong, China; INO = Indonesia; IND = India; JPN = Japan; ROK = the Republic of Korea; MAL = Malaysia; PHI = the Philippines; SIN = Singapore; THA = Thailand; USA = United States of America; VIE = Viet Nam. Current scenario includes all tariffs implemented as of September 1, 2019. Worse-case scenario includes bilateral escalation (30% tariffs on all US-PRC merchandise trade) and trade war in autos and auto parts. Source: ADB estimates.

Downside risks to the outlook have increased

- Further escalation of the US-PRC trade conflict
- Deeper malaise in advanced economies
- Rising private debt in developing Asia

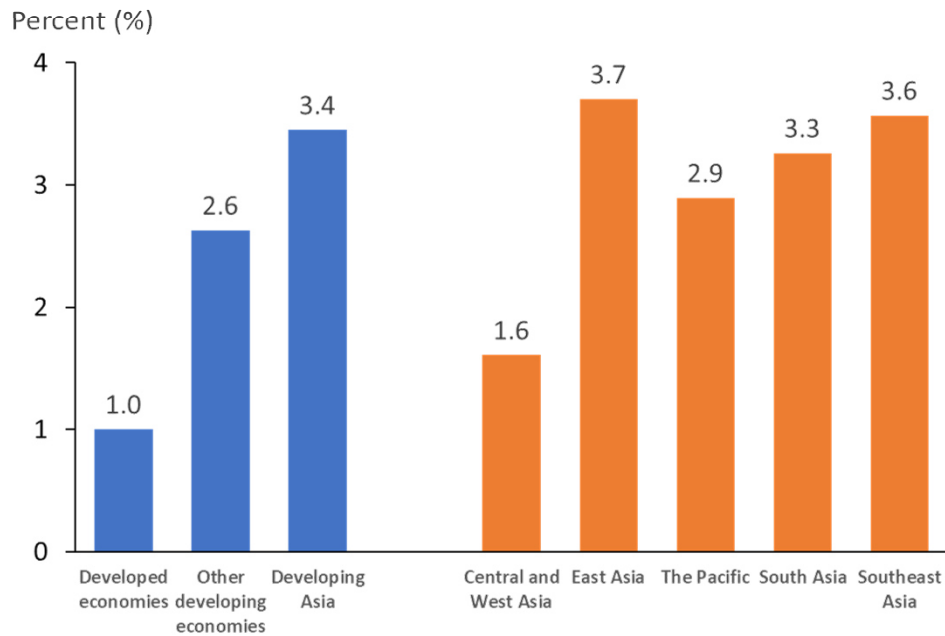


Theme Chapter:
Fostering Growth and Inclusion in Asia's Cities

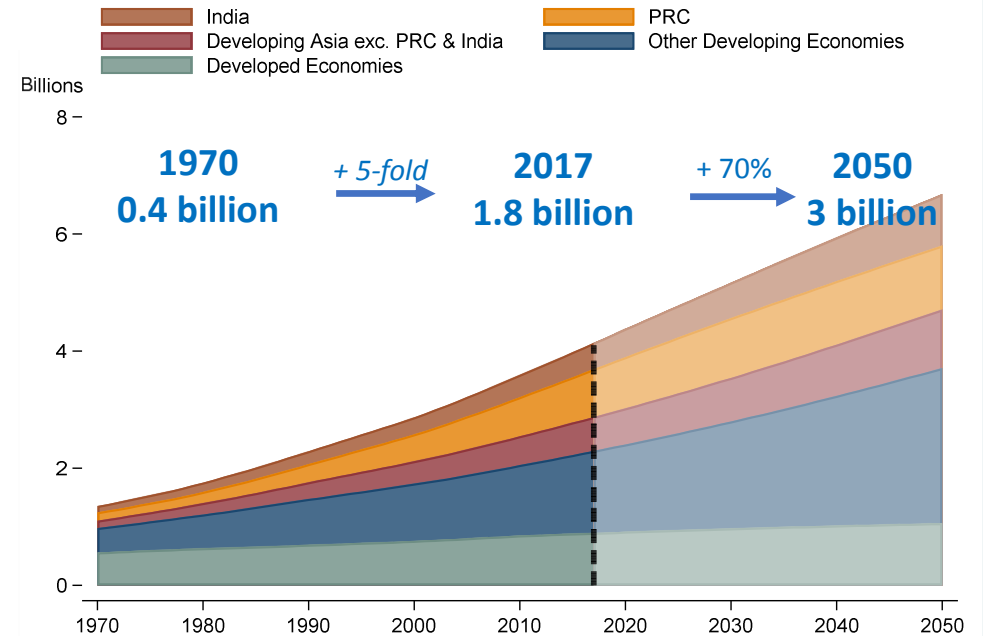


Developing Asia is urbanizing rapidly

Average annual growth rates of urban population (1970-2017)



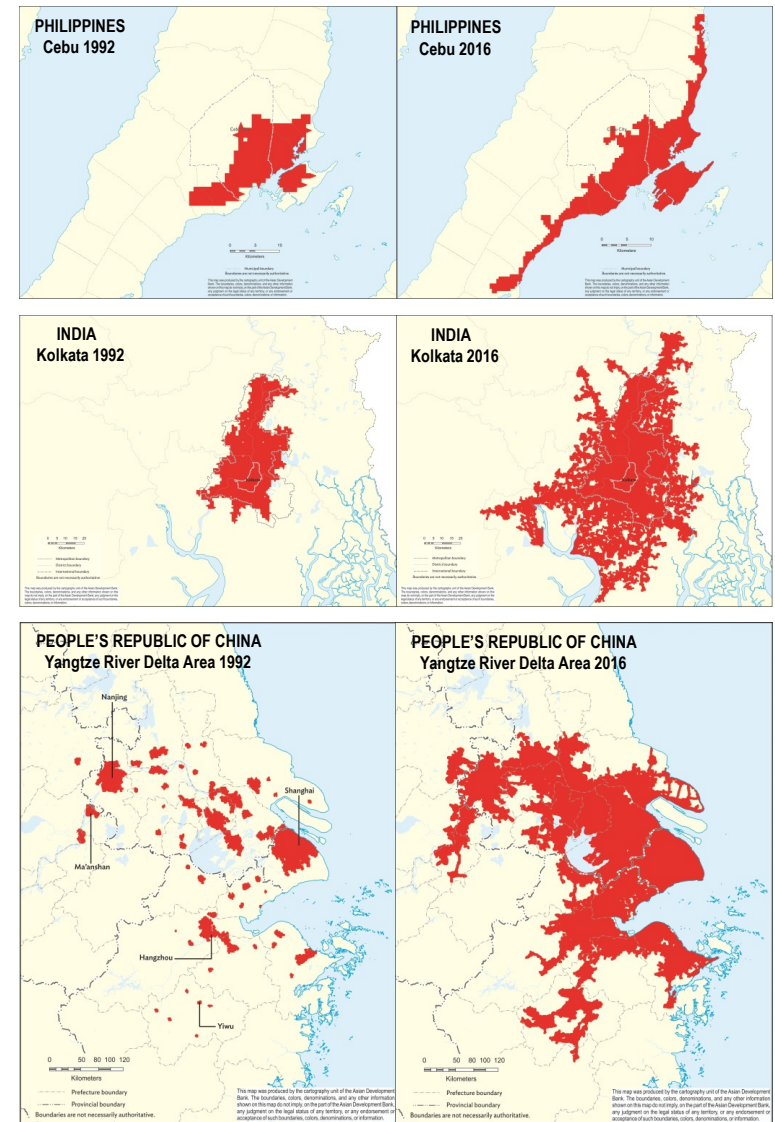
Urban population by region (1970-2050)



Source: World Urbanization Prospects, the 2018 revision.

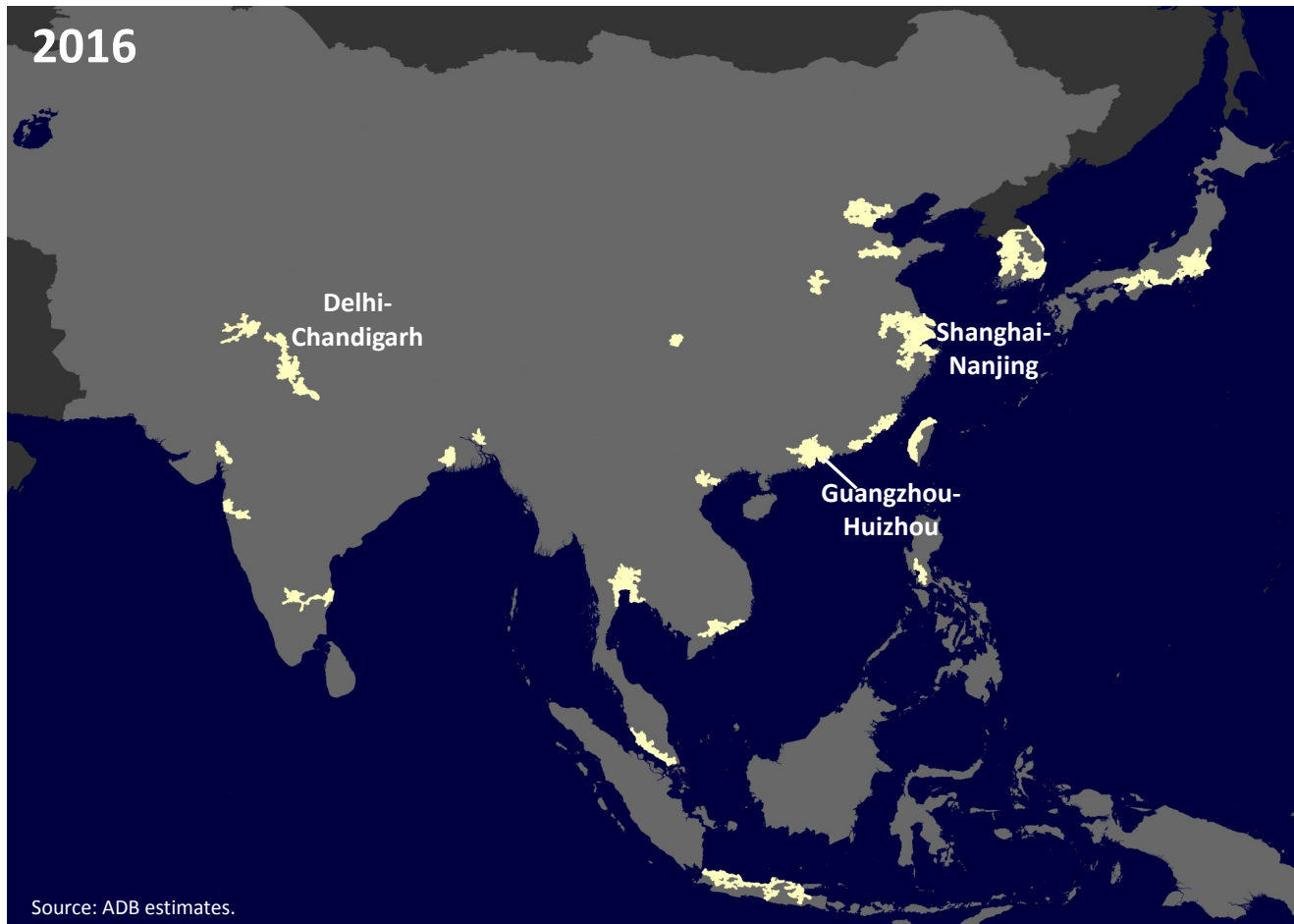
Cities are expanding beyond administrative boundaries

- “**Natural cities**” capture actual urban footprint using nighttime lights satellite imagery.
- A total of 1,459 natural cities are identified in developing Asia, hosting 34.7% of the population on 2.3% of land area.
- Many natural cities have expanded beyond administrative boundaries.
- Some have gotten connected to form **city clusters**.



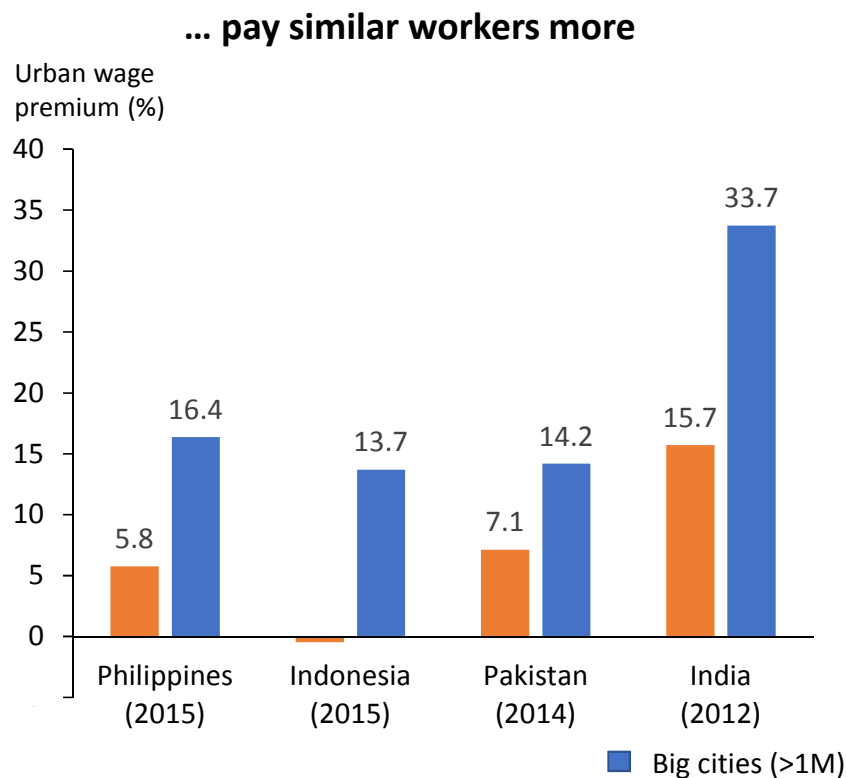
Source: ADB estimates.

28 city clusters in developing Asia have a population of 10 million or more

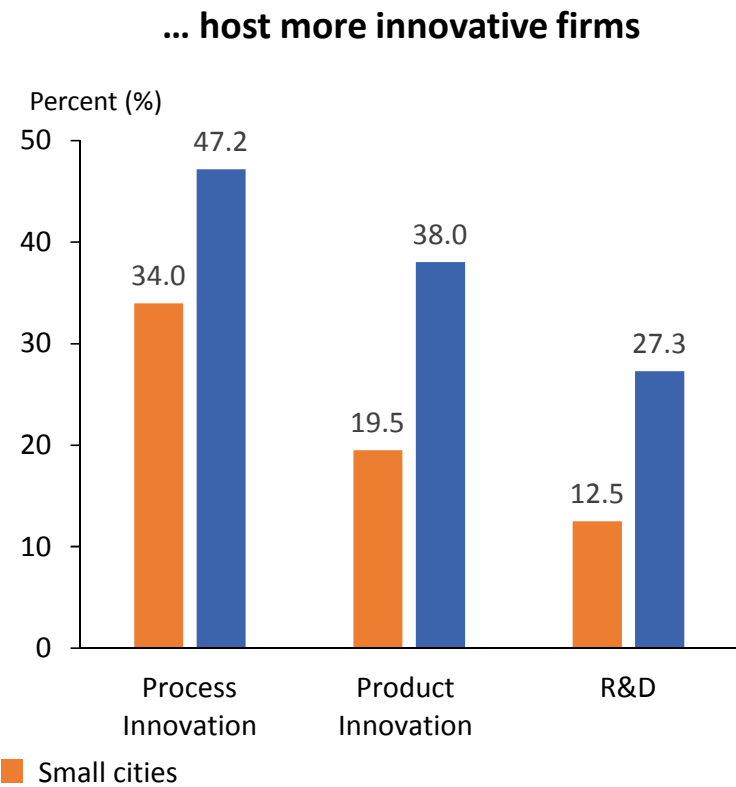


Asian cities benefit from size, “agglomeration economies”

Big cities...



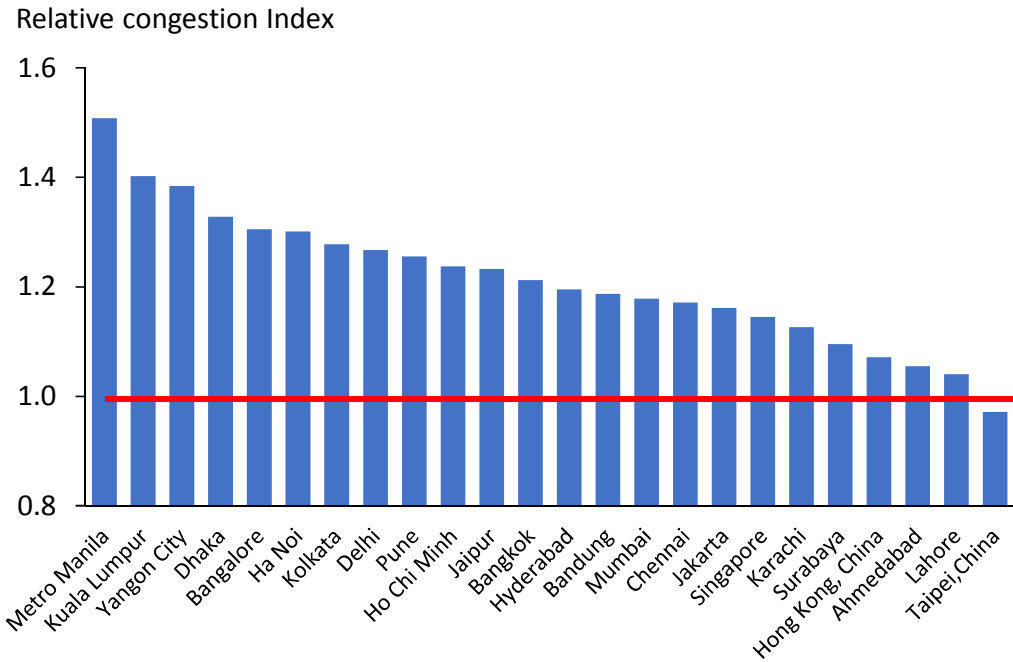
Note: Comparator group is rural workers.
Source: ADB estimates.



Note: Percentage of firms engaged in the activity.
Source: ADB estimates.

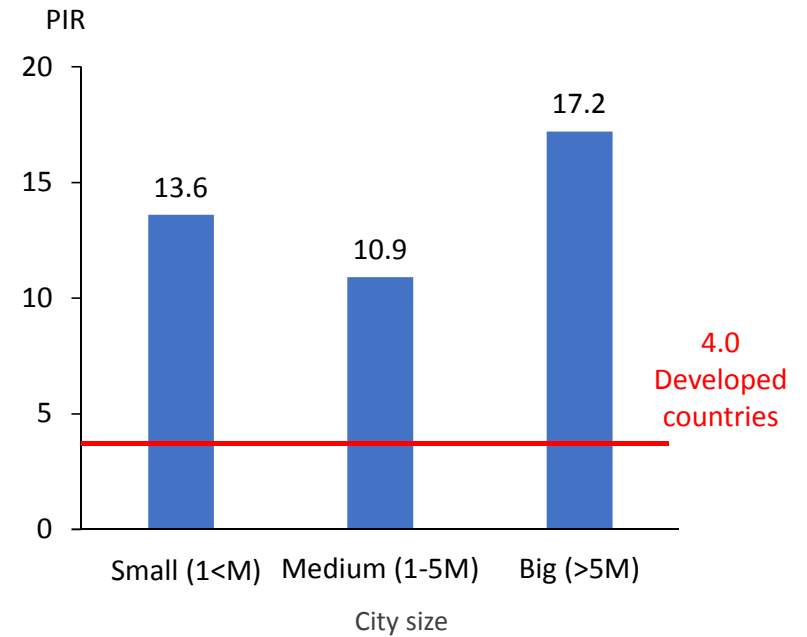
... but also face hindrances in reaping these benefits

**Relative congestion index of natural cities
(with population greater than 5 million)**



Note: Relative congestion equals the citywide congestion level divided by the sample average 1.24.
Source: ADB estimates.

**Housing affordability measured by
price to income ratio (PIR)**

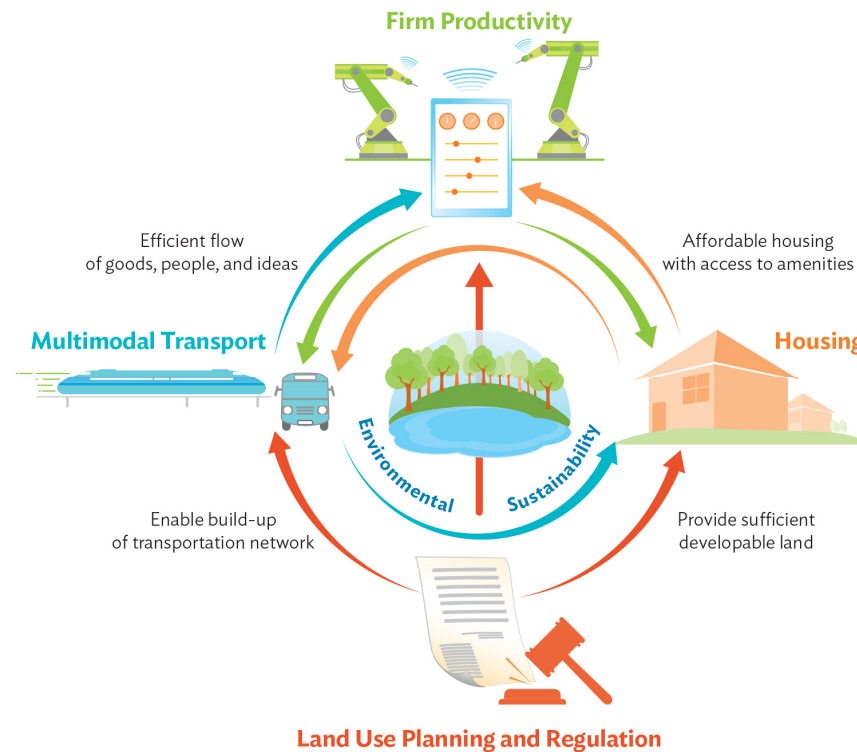


Source: ADB estimates based on 211 cities in 27 DMCs.

Realizing the promise of cities

Cities

- Multi-modal public transport system
- Affordable housing
- Land-use planning and regulations
- Environmental sustainability



Urban systems

- Inter-city connectivity
- Coordination of spatial and economic planning

Key Messages

- **Developing Asia's growth forecasts are revised down, to 5.4% in 2019 and 5.5% in 2020**
- **Signs of moderating growth are already evident in the PRC and India, and in many other economies in the region**
- **Inflation to pick up slightly due to food prices, but remains muted at 2.7% in 2019 and 2020**
- **Downside risks to the outlook have increased**
- **Realizing the promise of cities as engines of growth and job creation requires overcoming challenges in transport, housing, and urban planning, among others**



THANK YOU

#ADO2019

www.adb.org/adou2019