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ADB Regional Economic Outlook

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**Panel Remarks
by
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Plenary 1: Economic Outlook in the Asia-Pacific Region
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I. Introduction

It is an honor for me to brief you this morning on the economic outlook for emerging Asia. I will touch on two issues: first, our short-term prognosis for the region and; second, the risks and policy challenges we face.

II. Outlook for Emerging East Asia

Emerging East Asia rebounded with surprising speed and vigor from the crisis as an engine of global growth. ADB's recent forecasts show that emerging East Asia's gross domestic product will grow 8.4% in 2010, well above the 5.2% rate last year. The V-shaped recovery is driven by a strong revival in exports—a good portion of that from *intra-regional* trade—along with robust private demand and the sustained effects of stimulus. As stimulus is gradually withdrawn, we see growth cooling somewhat in 2011. Nonetheless, it should remain robust at 7.3%.

Emerging East Asia's large economies have flexed their muscles. Stimulus in the People's Republic of China (PRC) brought double-digit growth in the first half. It is now tightening gradually to avoid overheating. We expect GDP growth of PRC for this year at 9.6%, slowing to 9.1% in 2011 as world trade again eases and stimulus is

phased out. The Republic of Korea was hit hard by the economic crisis in 2008, but its GDP growth is now projected to rebound from 0.2% in 2009 to 6.0% in 2010. Almost all Southeast Asian economies are performing well above earlier forecasts, due to a sharp upturn in exports, which fuelled consumption and private investment. In aggregate, Southeast Asia is forecast to grow 7.4% this year, moderating to 5.4% in 2011.

III. Risks and Policy Issues

Of course, there are risks to this positive outlook. The first would be a jolt to the recovery in advanced economies. Even if they can avoid a double dip, there are several nagging, and possibly long term issues—including unemployment, maintaining fiscal discipline without disrupting recovery, and avoiding the lure of protectionism.

Second, capital flows in and out of developing Asia could become destabilizing, complicating macroeconomic management. Robust economic growth means Asia has begun tightening monetary policy before other regions. Several economies have already raised policy rates. Higher yields could draw excessive—and potentially volatile—capital flows. Authorities are watching asset prices carefully with several using well-targeted capital controls to limit speculation. Care must be taken, however, not to create distortions.

Lastly, the timing, pace, and policy mix in withdrawing stimulus are critical. A delicate mix of financial policy and exchange rate adjustment is needed while ensuring targeted fiscal measures generate the greatest public good and maintains the region's financial stability. With the need for rebalancing more towards domestic and regional demand, Asia's strong performance suggests it is already underway. The pace of

unwinding depends, of course, on the speed and strength of recovery. Domestic demand can be strengthened in different ways – for example, PRC needs to raise consumption, while ASEAN needs to raise investment.

IV. Conclusion

To conclude, emerging East Asia has done its share in driving the global economic recovery. The key challenge is to transition back to sustained and more inclusive growth. This will require most economies to increase domestic demand and regional demand. In doing so, they must ensure private demand can fill in for withdrawn stimulus and remain watchful of the possibility of volatile capital flows. The removal of remaining barriers to intra-regional trade must also continue—regional economic cooperation and integration can also contribute to sustained growth.

Thank you.