



ASIAN DEVELOPMENT OUTLOOK 2017

TRANSCENDING THE MIDDLE-INCOME CHALLENGE



Asian Development Outlook 2017

Transcending the Middle-Income Challenge

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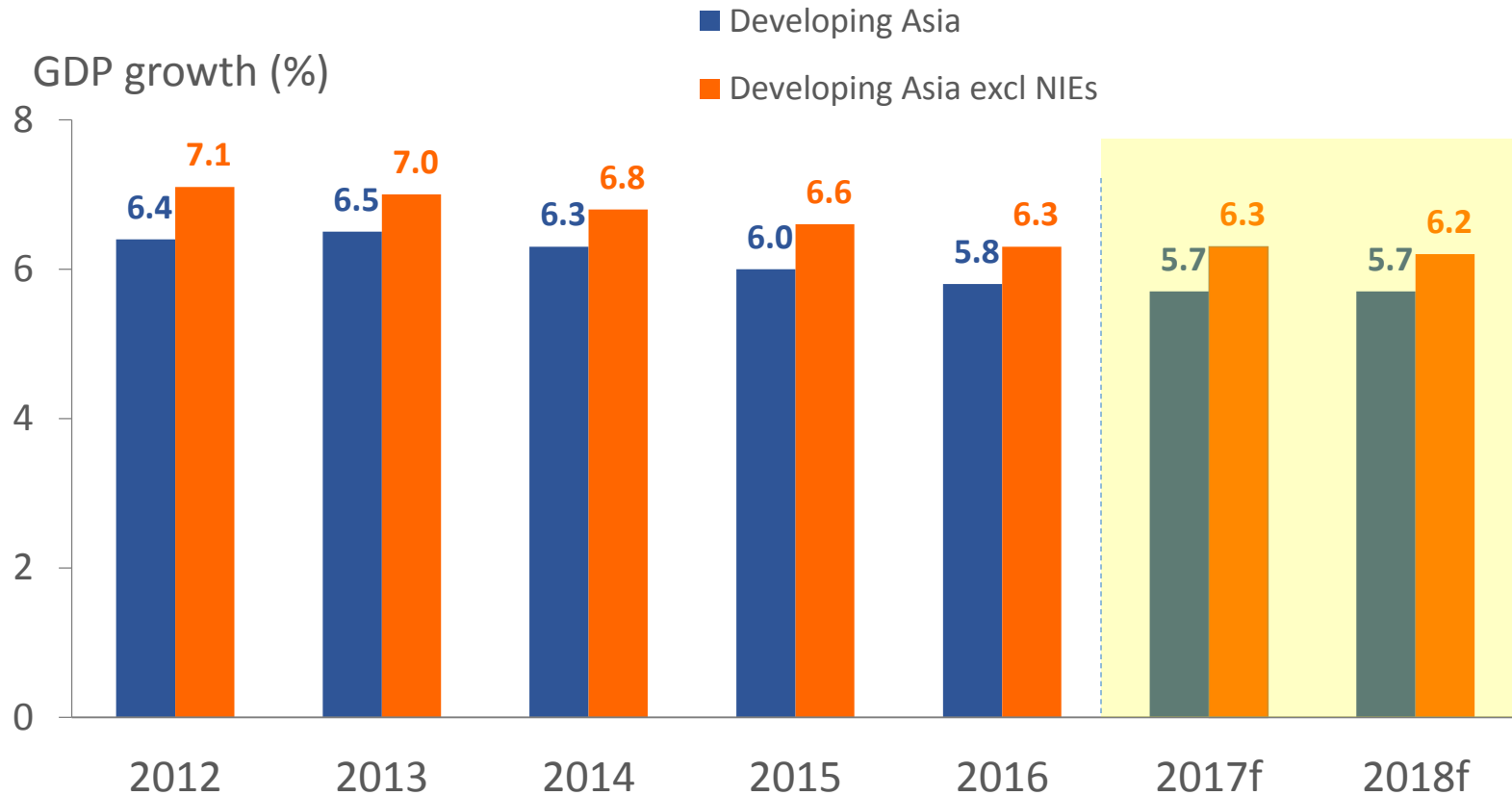


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Key messages

- Solid growth of 5.7% forecast for developing Asia in 2017 and 2018, a slight downtick from 2016
- PRC's controlled growth moderation somewhat offsets the boost from improving prospects in advanced economies
- Global commodity price pickup lifts inflation, but the rate stays below the average for the past 10 years
- The key risks to the outlook stem from uncertain policy directions in advanced economies
- Innovation, human capital, and infrastructure can lift productivity growth of middle income economies to pave the way to high income

Developing Asia's growth to remain solid...



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

Source: Asian Development Outlook 2017 database

...with most economies picking up

GDP growth, %

	2016	2017f	2018f		2016	2017f	2018f
East Asia	6.0	5.8 ↓	5.6 ↓	South Asia	6.7	7.0 ↑	7.2 ↑
China, People's Rep. of	6.7	6.5 ↓	6.2 ↓	Bangladesh	7.1	6.9 ↓	6.9 ↔
Hong Kong, China	1.9	2.0 ↑	2.1 ↑	India	7.1	7.4 ↑	7.6 ↑
Korea, Rep. of	2.7	2.5 ↓	2.7 ↑	Pakistan	4.7	5.2 ↑	5.5 ↑
Taipei, China	1.5	1.8 ↑	2.2 ↑	Southeast Asia	4.7	4.8 ↑	5.0 ↑
Central Asia	2.1	3.1 ↑	3.5 ↑	Indonesia	5.0	5.1 ↑	5.3 ↑
Azerbaijan	-3.8	-1.1 ↑	1.2 ↑	Malaysia	4.2	4.4 ↑	4.6 ↑
Kazakhstan	1.0	2.4 ↑	2.2 ↓	Philippines	6.8	6.4 ↓	6.6 ↑
The Pacific	2.6	2.9 ↑	3.3 ↑	Singapore	2.0	2.2 ↑	2.3 ↑
Fiji	2.0	3.5 ↑	4.0 ↑	Thailand	3.2	3.5 ↑	3.6 ↑
Papua New Guinea	2.0	2.5 ↑	2.8 ↑	Myanmar	6.4	7.7 ↑	8.0 ↑

f = forecast

Source: Asian Development Outlook 2017 database

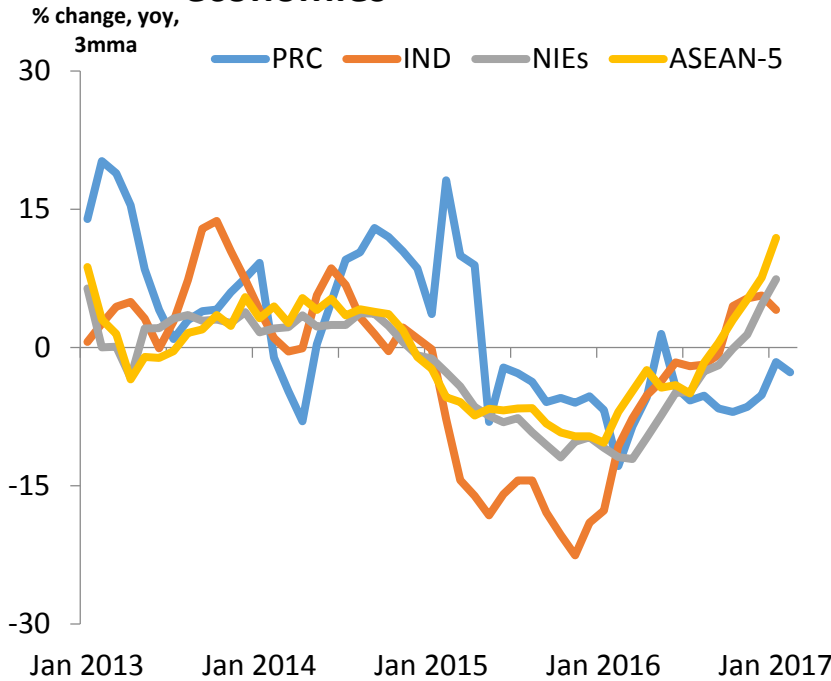
Gathering momentum in major industrial economies...

GDP growth (%)	2015	2016	2017	2018
	Actual		ADO Projection	
Major industrial economies	2.2	1.6	1.9	1.9
United States	2.6	1.6	2.4	2.4
Euro area	1.9	1.7	1.6	1.6
Japan	1.2	1.0	1.0	0.9

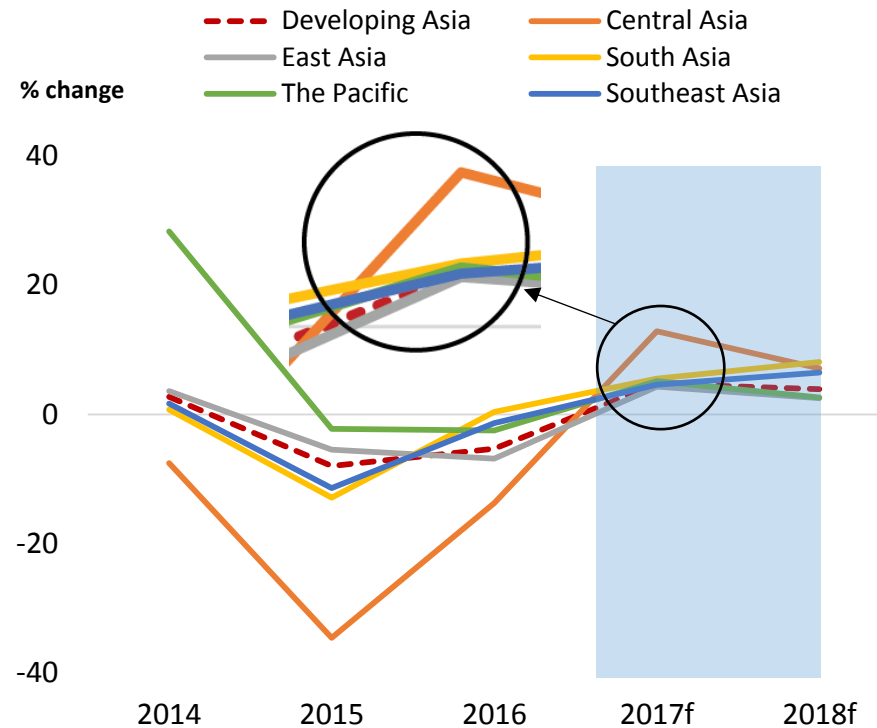
Source: Asian Development Outlook 2017

...will support the rebound in exports...

Exports growth, selected economies



Exports growth, developing Asia



ASEAN-5 = Indonesia, Malaysia, the Philippines, Thailand and Viet Nam.

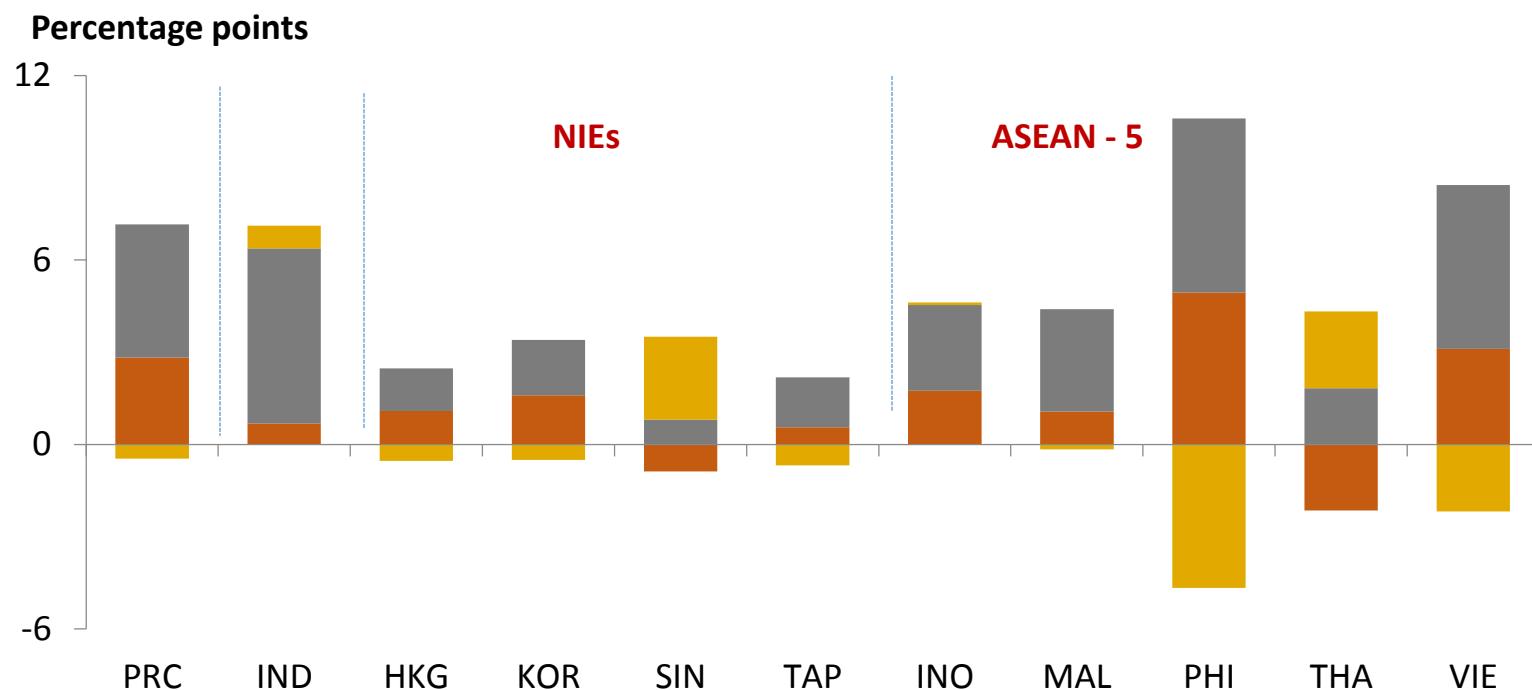
f = forecast; 3mma = 3-months moving average

Source: Asian Development Outlook 2017 database.

...as strong domestic demand set to continue

Demand-side contributions to growth, selected economies, 2016

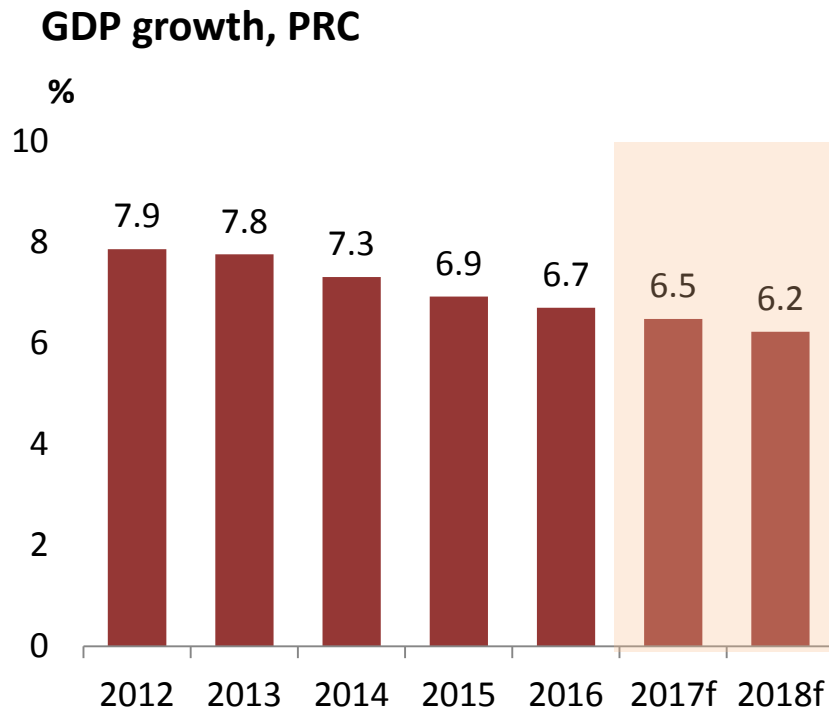
■ Total investments
 ■ Total consumption
 ■ Net exports



Note: HKG = Hong Kong, China; IND = India; INO = Indonesia; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; SIN = Singapore; TAP = Taipei, China; THA = Thailand; VIE = Viet Nam.

The numbers do not sum up to GDP growth due to the omission of Statistical Discrepancy.
 NIEs = newly industrialized economies; ASEAN = Association of Southeast Asian Nations.
 Source: Haver Analytics (accessed 13 March 2017); *Asian Development Outlook 2017* database.

PRC's growth will moderate...



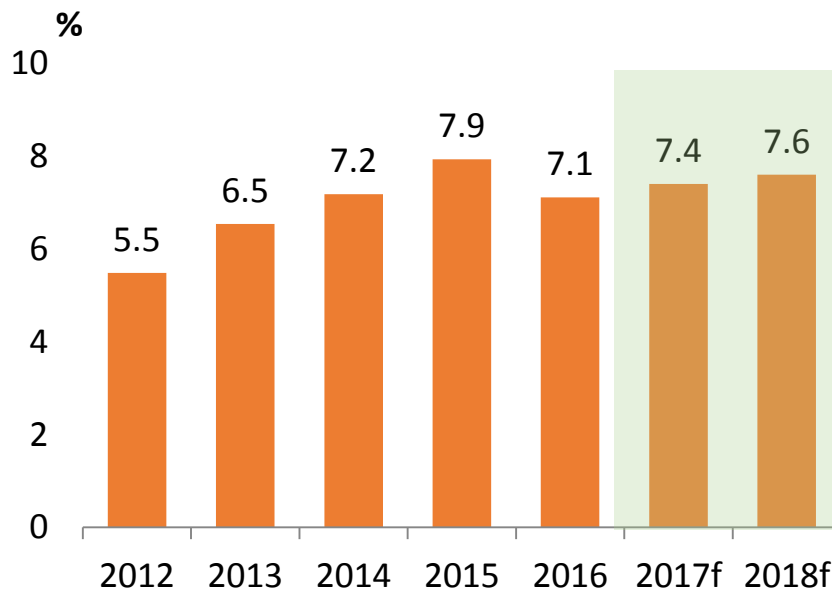
f = forecast

Source: Asian Development Outlook 2017 database.

- Cyclical factors
 - Excess capacity in some sectors
 - Prioritizing financial sector stability
- Structural factors
 - Rebalancing
 - Declining working-age population
 - Convergence to developed economies

...while India's will pick up

GDP growth, India



f = forecast

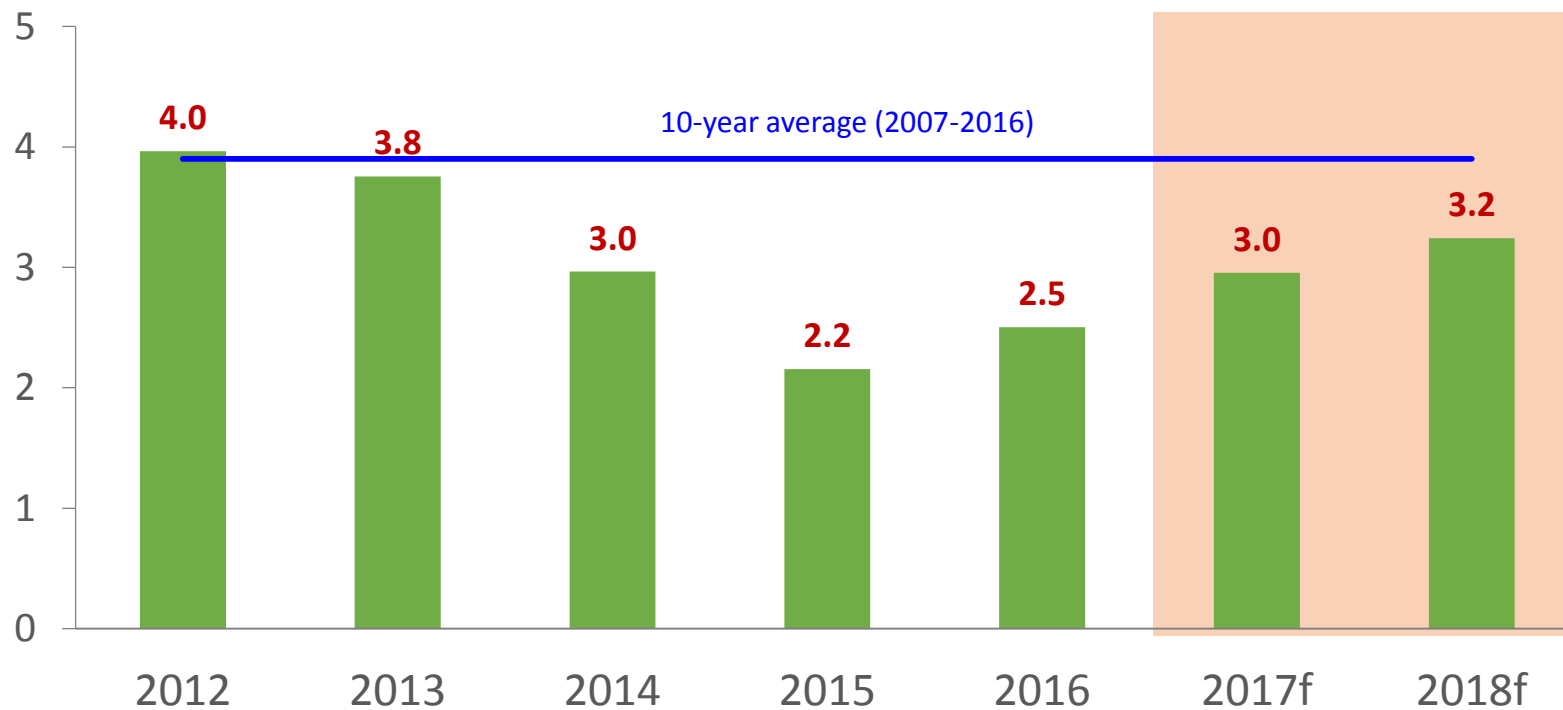
Note: Years are fiscal years ending on 31 March of the next year.

Source: Asian Development Outlook 2017 database.

- Cyclical factors
 - Improved net exports
 - Liquidity squeeze easing; demonetization effect temporary
- Structural reforms can sustain long-term growth
 - Business investment deregulation
 - Goods & Services Tax

Inflation is forecast to inch up...

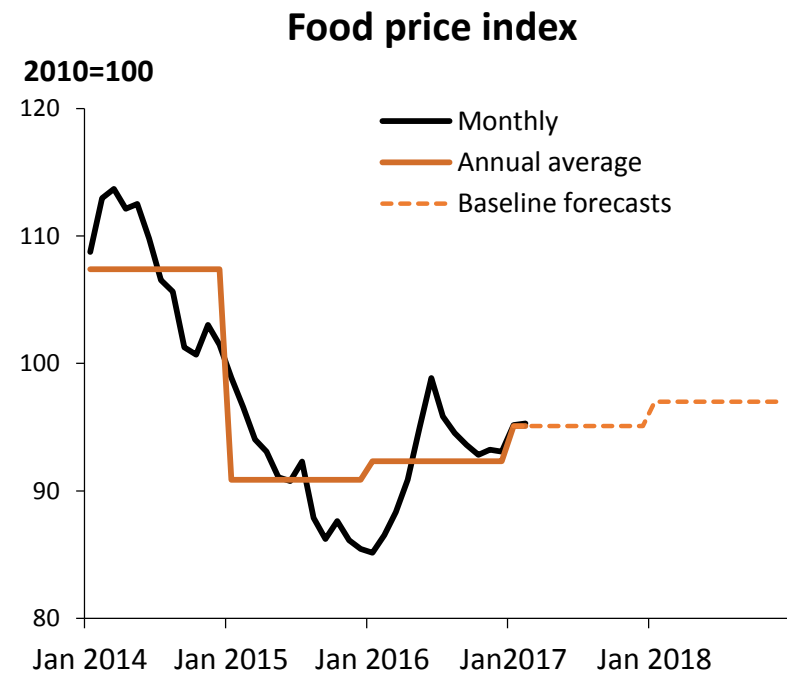
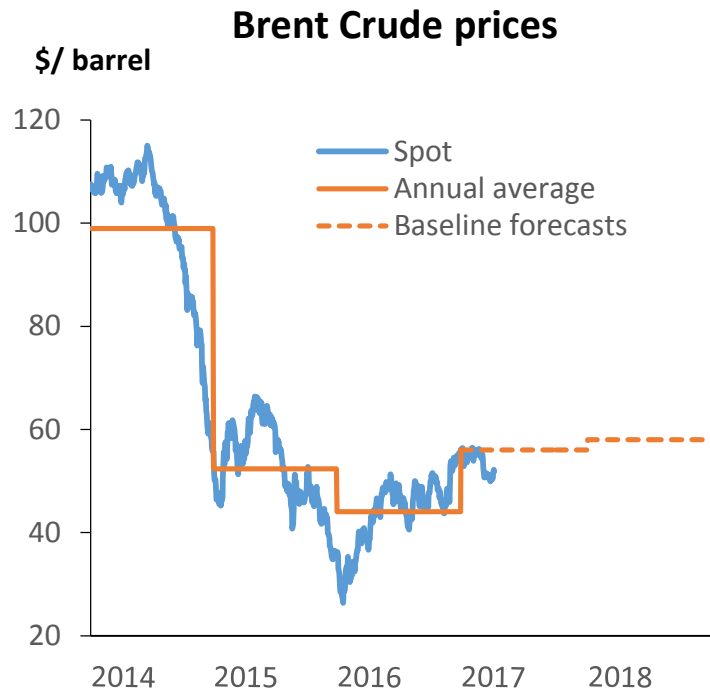
Inflation (%)



f = forecast.

Source: Asian Development Outlook 2017 database.

...reflecting global commodity prices' rebound



Sources: Bloomberg; World Bank. Commodity Price Data (Pink Sheet). [Http://www.worldbank.org](http://www.worldbank.org) (accessed 30 March 2017).

Risks to the outlook

- Spillovers from sharper-than-expected US monetary tightening
 - ✓ Asian central bank response to avoid capital outflows
 - ✓ Impact on highly indebted corporates and households
- Shifts in industrial country trade and tax policies
- Weaker-than-expected oil price recovery
 - ✓ Upside risk for oil importers
 - ✓ Undermine recovery of oil and gas exporters



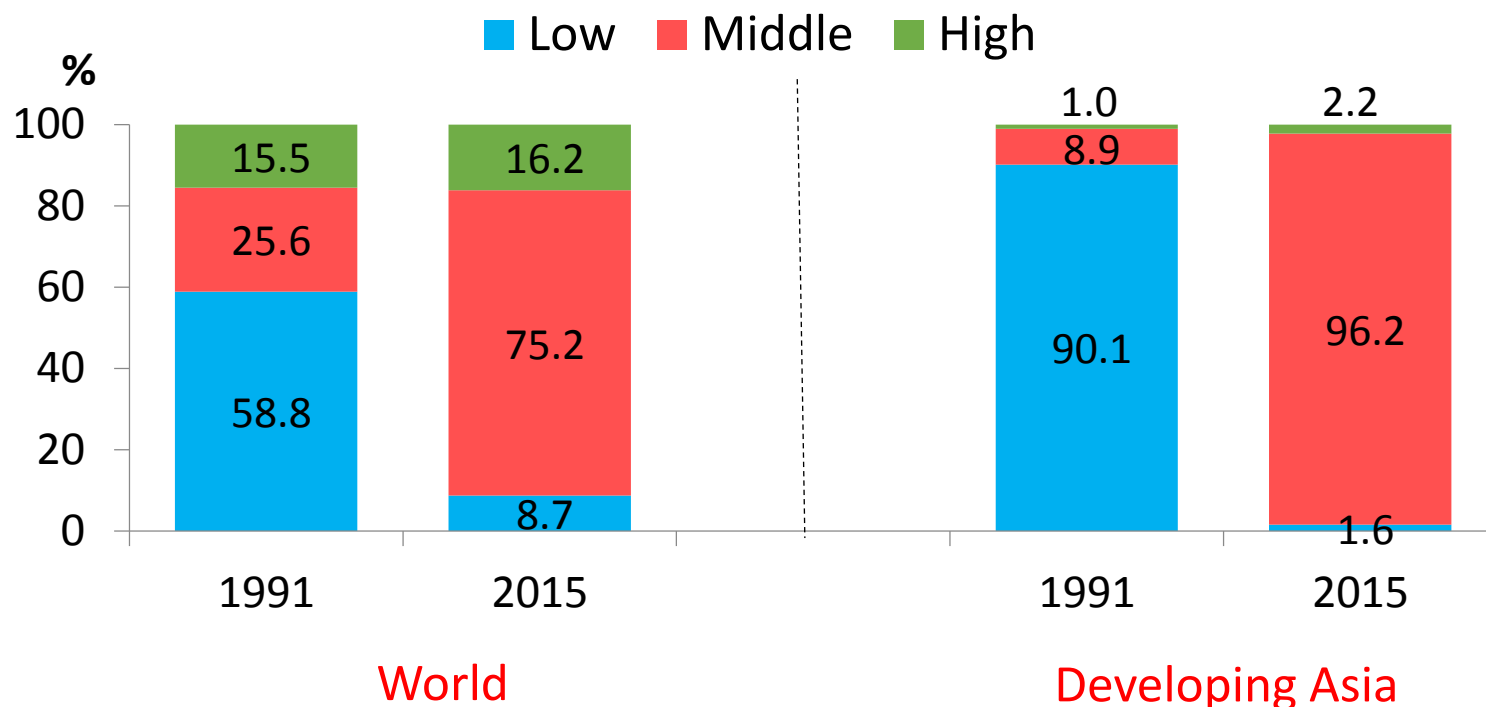
Developing Asia can manage short-term risks

Theme chapter:

Transcending the middle-income challenge

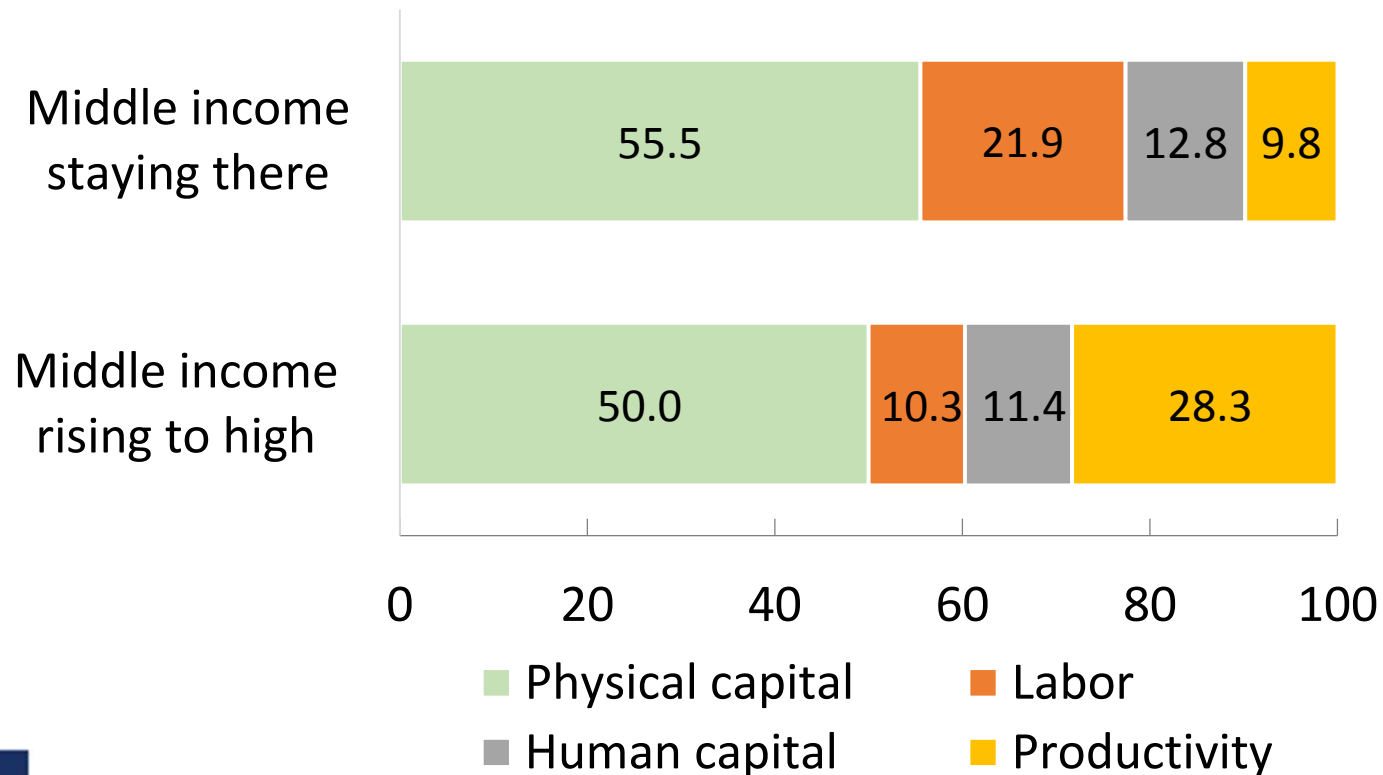
Rapid growth transformed Asia from low to middle income...

Population Shares by Income Group



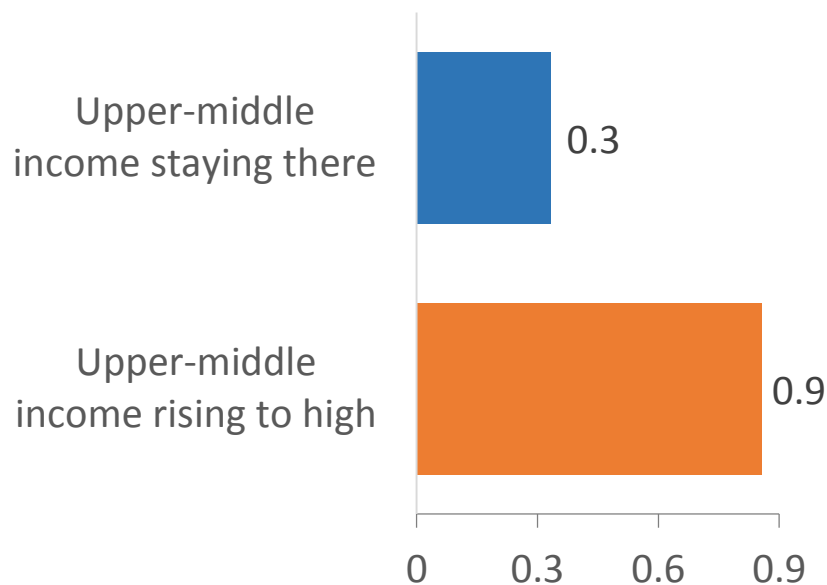
...and now productivity-centered growth is needed to reach high income

Contributions to Growth, 1960–2014 (%)

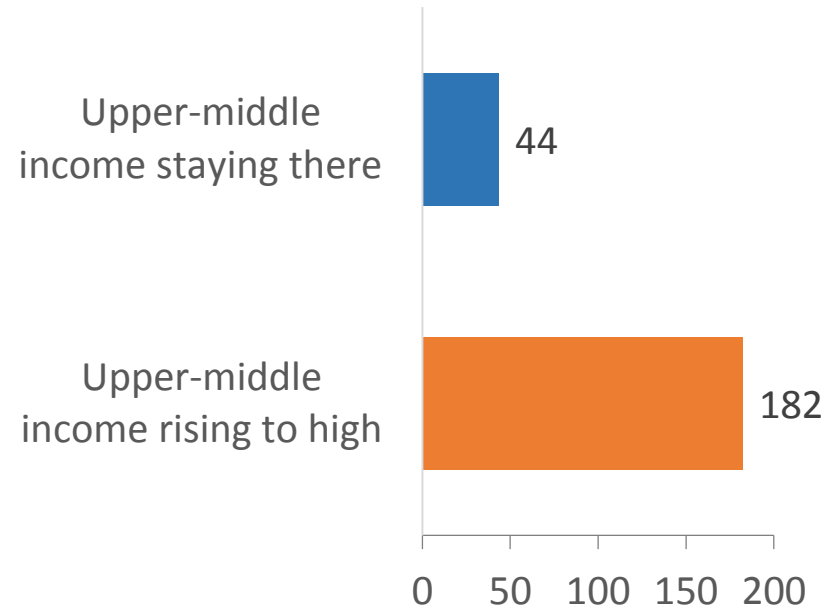


Productivity growth will come from innovation...

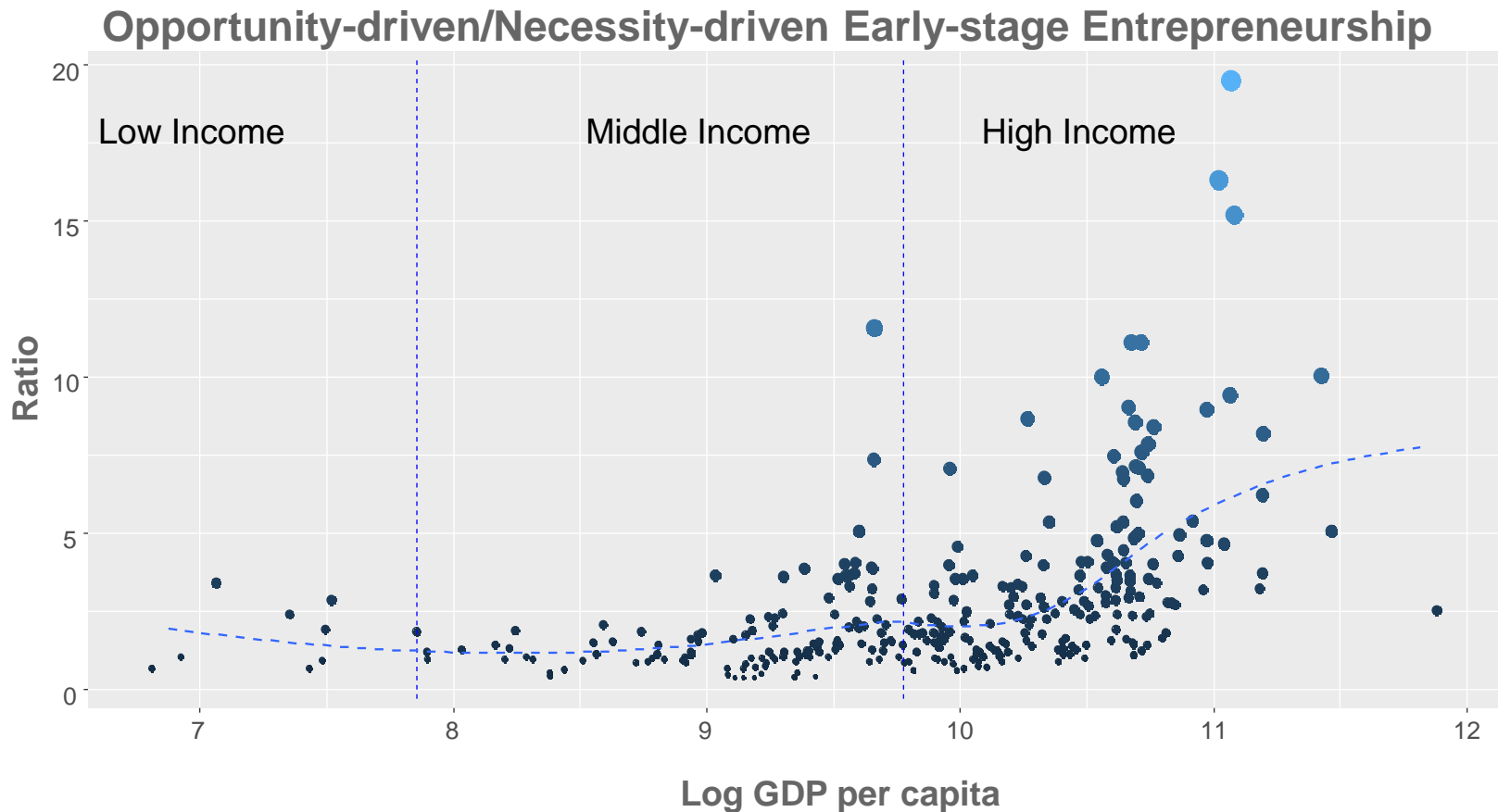
**Research & development stock
per labor hour**



**Patent applications (resident)
per million persons**

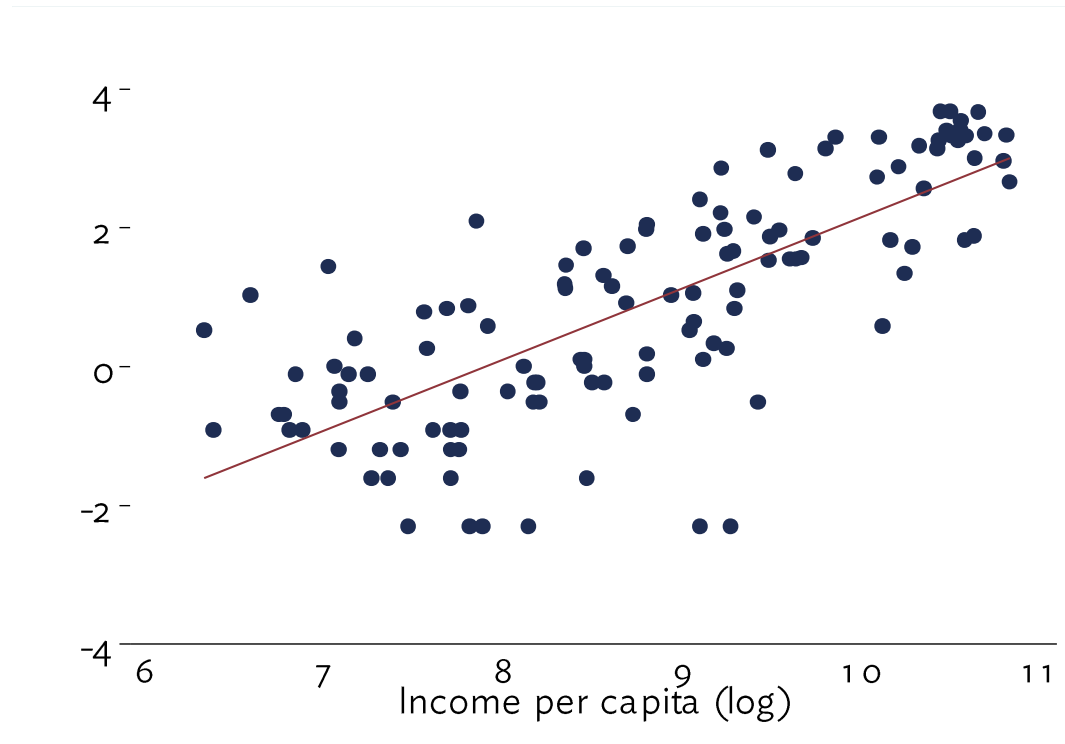


...driven by entrepreneurs with new ideas
or technology...



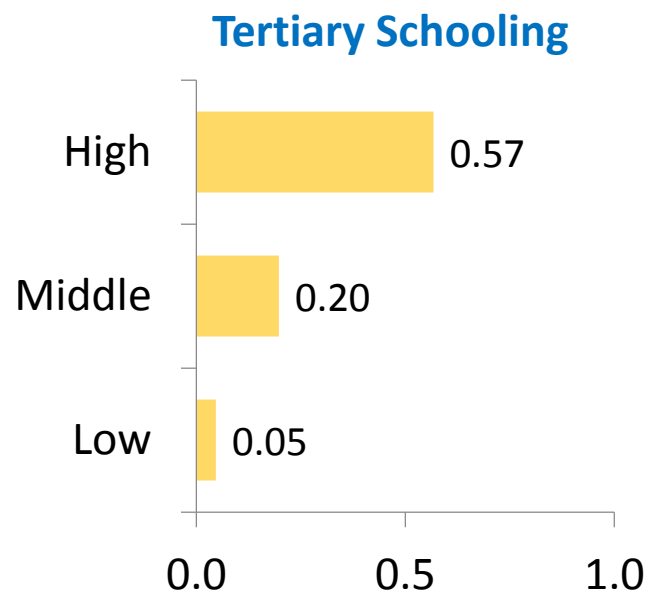
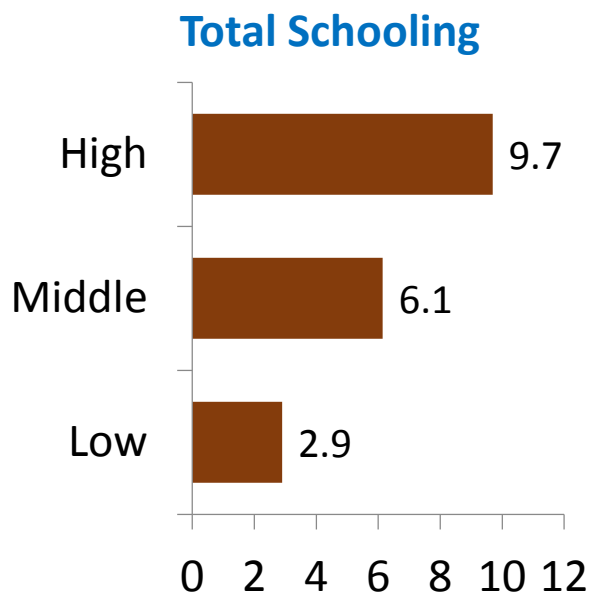
...that create a more diverse, sophisticated product mix

Share of Most Complex Exports



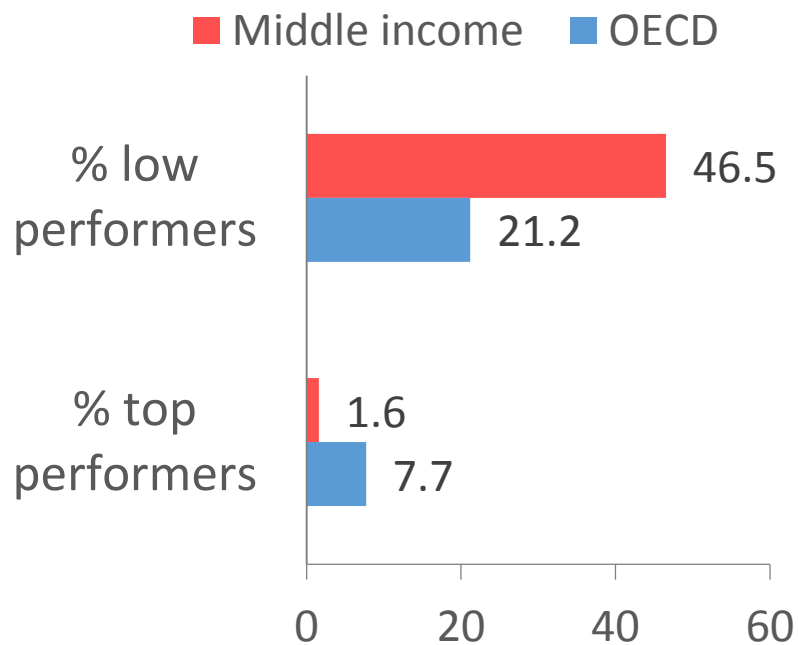
Innovation requires investment in human capital...

Average Schooling Years by Income Group

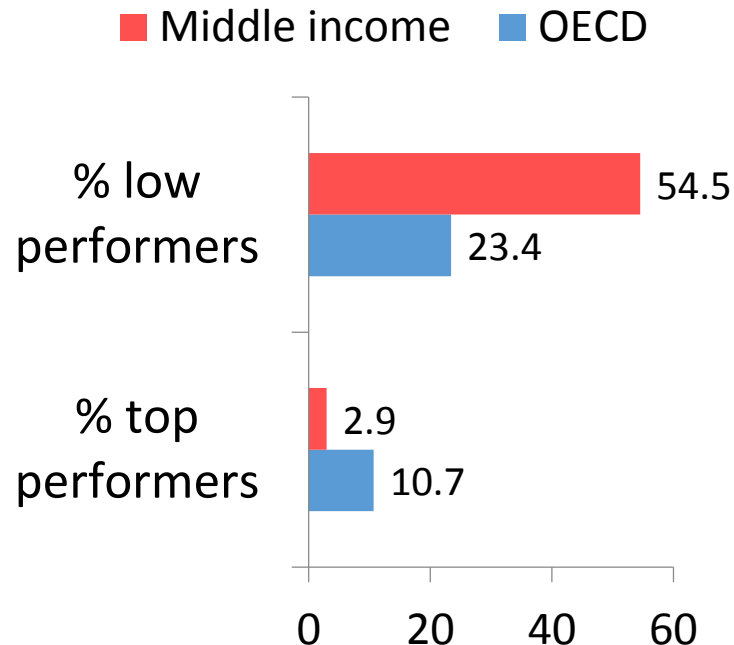


...to close the skills gaps with high-income economies

PISA (Science), 2015

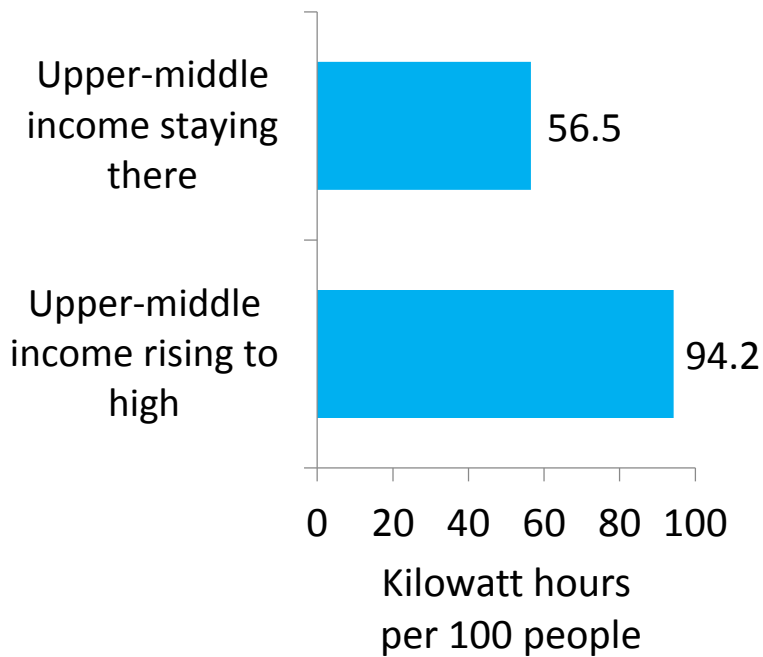


PISA (Math), 2015

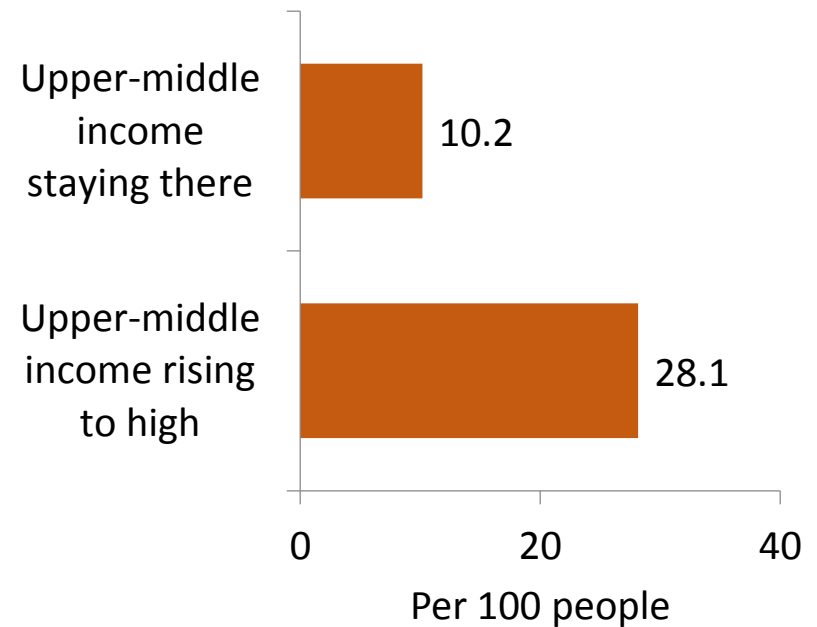


More innovative economies need more advanced infrastructure...

Electricity-generating capacity

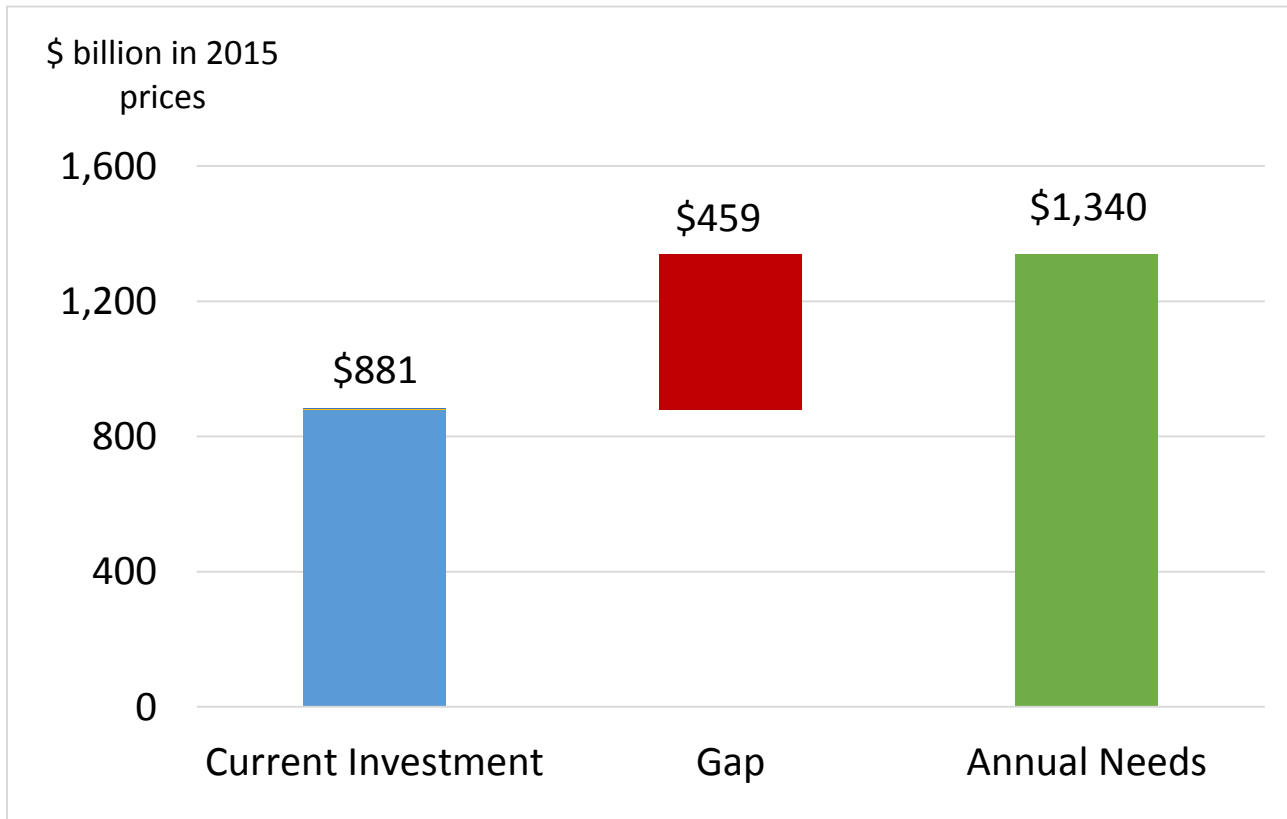


Internet users



...but Asia still has large infrastructure needs

Meeting the Investment Gaps, 2016-2020
(annual averages)



Attaining high income is challenging but within Asia's reach

- Pattern of growth will have to evolve with innovation, human capital, and infrastructure all playing key roles
- Sound policies and institutions are vital to support this evolution
- Role of macroeconomic stability remains indispensable

Key messages

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