

# Asia Pacific: Making the Most of the Upswing

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Asia continues to lead the global economy with strong growth projected at 5.6 percent this year and 5.5 percent in 2018. The strength of many economies in the region provides an opportunity to pursue key reforms that can amplify and accelerate their beneficial effects, boosting living standards for all, said the IMF in its latest regional assessment.

Strong consumption and investment, as well as better than anticipated external demand as driving the pickup in growth. However, with risks to growth, including rapid credit growth in China, rising protectionism, and geopolitical tensions, policymakers cannot slow the pace of reforms.

## **Favorable financial climate**

Financial conditions in Asia are also favorable thanks to sizeable capital inflows in the first half of 2017. While the growth outlook has been revised upward, inflation has been marked downward to 2.3 percent in 2017—0.6 percentage points lower than previous projections in April—mainly because of lower commodity prices and appreciated local currencies.

## **Strong but uneven growth in region**

Overall the region's pickup in growth can be attributed to stronger-than-expected growth in China, Japan, Korea, and countries belonging to the Association of Southeast Asian Nations (ASEAN), which helped compensate for the weaker

outlook in Australia and India.

**China—the region's largest economy—is expected to post a growth of 6.8 percent this year, and 6.5 percent next.**

Strong infrastructure spending and resilience in the real estate sector in the first half of the year. The country has potential to sustain strong growth over the next 3-5 years, but this will require speeding up reforms to make growth less reliant on debt and investment.

**India's** growth slowed in recent quarters due to the temporary disruptions from the currency exchange initiative—demonetization— that took place in November 2016, and the recent rollout of the goods and services tax. This tax is a landmark tax reform that should help unify the domestic market and encourage businesses to move from the informal to the formal sector.

Growth in 2017 was revised downward to reflect the recent slowdown, but is expected to accelerate in the medium term as these temporary disruptions fade.

**Japan** enjoyed growth sustained above-potential for six consecutive quarters through the first half of 2017. The country is expected to grow to 1.5 percent in 2017 driven by a pickup in external demand, as well as consumption supported by fiscal transfers.

Elsewhere, for other countries in Asia and the Pacific, economic prospects remain strong (see table). In particular, the **“ASEAN-5” of Indonesia, Malaysia, the Philippines, Singapore, and Thailand** are expected to expand by 4.9 percent this year and in 2018. Strong growth in these countries is primarily driven by higher investment and exports.

In **Thailand**, projected growth has been revised up from 3.2 to 3.7 percent in 2017 and from 3.3 to 3.5 percent in 2018 on the back of strong private consumption and increased

dynamism in exports of goods and services.

In **Malaysia**, growth in 2017 is expected to increase to 5.4 percent, supported by strong domestic and external demand.

In **Singapore**, growth is projected to rise to 2.5 percent in 2017, reflecting strong performance of the export-oriented sector, and to 2.6 percent in 2018 as private domestic demand recovers.

Other emerging market and developing economics, like **Vietnam**, continue to grow at an impressive rate, well above the average for the region as a whole and supported by positive growth momentum in key trading partners.

## **Outlook: risks and challenges ahead**

With strong overall growth for the region, near-term risks to the outlook are broadly balanced. On the plus side, the cyclical recovery in China and Japan could be stronger and last longer than expected, driven by stronger confidence and more favorable market conditions.

But a sudden tightening in global financial conditions could trigger disruptive capital outflows that would affect particularly those emerging and developing Asian economies and weaken their growth prospects.

A sharp adjustment in China due to unsustainable policies, further increases in debt, and mounting financial imbalances also present risks to the region's outlook.

Furthermore, as Asian economies are especially vulnerable to protectionism because of their trade openness and integration to global value chains, a global shift toward inward-looking policies could suppress Asia's exports and reduce foreign direct investment in the region. Escalating geopolitical risks could also negatively impact the region's medium-term growth prospects.

Additionally, over the longer-term, Asia will need to tackle two key challenges: population aging and lagging productivity growth—a measure of a country's efficiency. The robust recovery and fiscal space in some countries provide an opportunity to offset the short-term costs and build public support for ambitious structural reforms to tackle the medium-term challenges.

## Asia and Pacific Region: Latest Growth Projections

(real GDP growth, percent change)

	Estimates and Latest Projections		
	2016	2017	2018
<b>Asia</b>	<b>5.4</b>	<b>5.6</b>	<b>5.5</b>
<b>Advanced economies (AEs)</b>	<b>1.7</b>	<b>2.0</b>	<b>1.6</b>
Australia	2.5	2.2	2.9
Japan	1.0	1.5	0.7
New Zealand	3.6	3.5	3.0
Hong Kong SAR	2.0	3.5	2.7
Korea	2.8	3.0	3.0
Taiwan Province of China	1.5	2.0	1.9
Singapore	2.0	2.5	2.6
<b>Emerging markets and developing economies (EMDEs)<sup>1</sup></b>	<b>6.4</b>	<b>6.4</b>	<b>6.4</b>
Bangladesh	7.2	7.1	7.0
Brunei Darussalam	-2.5	-1.3	0.6
Cambodia	7.0	6.9	6.8
China	6.7	6.8	6.5
India <sup>2</sup>	7.1	6.7	7.4
Indonesia	5.0	5.2	5.3
Lao P.D.R.	7.0	6.9	6.9
Malaysia	4.2	5.4	4.8
Myanmar	6.1	7.2	7.6
Mongolia	1.0	2.0	2.5
Nepal	0.4	7.5	5.0
Philippines	6.9	6.6	6.7
Sri Lanka	4.4	4.7	4.8
Thailand	3.2	3.7	3.5
Vietnam	6.2	6.3	6.3
<b>Pacific island countries and other small states</b>	<b>3.2</b>	<b>3.7</b>	<b>4.4</b>
<b>ASEAN<sup>3</sup></b>	<b>4.7</b>	<b>5.0</b>	<b>5.0</b>
<b>ASEAN-5<sup>4</sup></b>	<b>4.5</b>	<b>4.9</b>	<b>4.8</b>
<b>EMDEs excluding China and India</b>	<b>5.0</b>	<b>5.4</b>	<b>5.3</b>

Sources: IMF, World Economic Outlook database; and IMF staff estimates and projections.

1/ EMDEs excluding Pacific island countries and other small states.

2/ India's data are reported on a fiscal year basis. Its fiscal year starts from April 1 and ends on March 31.

3/ ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Lao P.D.R., Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

4/ ASEAN-5 comprises Indonesia, Malaysia, the Philippines, Singapore, and Thailand.



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