

ASIAN DEVELOPMENT

Outlook
2003

Update

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ISSN 1655-4809

Publication Stock No. 090803

Printed in Manila

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Foreword

The analyses of macroeconomic trends, policy developments, and short-term forecasts for the developing member countries of the Asian Development Bank (ADB) that were presented in the *Asian Development Outlook 2003 (ADO 2003)* published in April 2003 are reviewed in this *Update*. Despite significant economic shocks linked to the conflict in Iraq, higher oil prices, and the outbreak of the severe acute respiratory syndrome (SARS) epidemic, growth in the Asia and Pacific region continued to be robust during the first three quarters of 2003. This achievement is remarkable as it occurred despite a weaker than expected recovery in the major industrial countries in the first half of 2003. Hence, the projection for aggregate gross domestic product (GDP) growth for 2003 is unchanged compared to that made in *ADO 2003*, and the GDP forecast for 2004 has now been revised upward.

This *ADO 2003 Update* was prepared by the staff of the Asian Development Bank from East and Central Asia Department, Mekong Department, Pacific Department, South Asia Department, Southeast Asia Department, the various resident missions of ADB and the Economics and Research Department (ERD). The analysis in the *Update* has been coordinated by ERD with the ADO team led by Jean-Pierre Verbiest, Assistant Chief Economist, Macroeconomics and Finance Research Division, comprising Douglas Brooks, Emma Xiaoqin Fan, and Akiko Terada-Hagiwara. The economists who contributed individual country analysis include Amanah Abdulkadir (Indonesia), Ramesh Adhikari and Dao Viet Dung (Viet Nam), Giovanni Capannelli and Diwesh Sharan (the Pacific), Yolanda Fernandez-Lommen (Mongolia), Naved Hamid and Safiya Aftab (Pakistan), Rajiv Kumar (Central Asia), Sukanda Lewis (Cambodia), Xuelin Liu (Philippines), Jayant Menon and Rattanatay Luanglatbandith (Lao PDR and Thailand), Sudipto Mundle and Hiranya Mukhopadhyay (India), Sungsup Ra (Nepal), Purnima Rajapakse and Zhahid Hossain (Bangladesh), Min Tang and Jian Zhuang (People's Republic of China), and J. Ernest Zveglic and Shenuka Chanmugam (Sri Lanka). The special chapter on the impact of the SARS epidemic was prepared in cooperation with Oxford Economic Forecasting. Charissa N. Castillo coordinated the overall publication of the *Update*.

Technical and research support was provided by Maritess Manalo, Ludy Pardo, Pilipinas Quising, and Lea Sumulong, assisted by Roshan Ara, Laura Britt-Fermo, Carmela Espina, Ernaly C. Lising, Heidee Lozari, Marife Principe, Cynthia Reyes, Sinha Roy Saikat, and Souksavanh Vixathep.

Richard Niebuhr and Josef Yap added substantive inputs in their capacity as economic editors. Jonathan Aspin did the copy editing and Elizabeth Leuterio was responsible for book design; she was assisted in typesetting by Mercedita Cabañeros. Eva Olanda, assisted by Zenaida Acacio, Patricia Baysa, and Susan Torres, provided administrative and secretarial support. The cooperation of the Printing Unit under the supervision of Raveendranath Rajan contributed significantly to the timely publication of the *Update*. The Office of External Relations planned and conducted its dissemination.



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30 September 2003

Acronyms and Abbreviations

AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
CPI	consumer price index
DMC	developing member country
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GNP	gross national product
IMF	International Monetary Fund
Lao PDR	Lao People's Democratic Republic
NPL	nonperforming loan
OECD	Organisation for Economic Co-operation and Development
PDMC	Pacific developing member country
PICTA	Pacific Island Countries Trade Agreement
PRC	People's Republic of China
SARS	severe acute respiratory syndrome
SME	small and medium enterprise
US	United States
VAT	value-added tax
WTO	World Trade Organization

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Definitions

The economies discussed in the *Asian Development Outlook 2003 (ADO 2003) Update* are classified by major analytic or geographic groupings, such as industrial countries, developing Asia, and transition economies.

For the purposes of *ADO 2003 Update*, the following apply:

- **Association of Southeast Asian Nations (ASEAN)** comprises Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- **Developing Asia** refers to 41 developing member countries (DMCs) of the Asian Development Bank discussed in *ADO 2003*.
- **East Asia** comprises People's Republic of China; Hong Kong, China; Republic of Korea; Mongolia; and Taipei, China.
- **Industrial countries** refer to the high-income OECD countries defined in World Bank, available: www.worldbank.org/data/countryclass/classgroups.htm#High-income.
- **Newly industrialized economies (NIEs)** comprise Hong Kong, China; Republic of Korea; Singapore; and Taipei, China.
- **Southeast Asia** comprises Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
- **Central Asia** comprises Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- **The Pacific** comprises Cook Islands, Fiji Islands, Kiribati, Republic of the Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea, Samoa, Solomon Islands, Democratic Republic of Timor-Leste, Tonga, Tuvalu, and Vanuatu.
- **Transition economies** refer to the countries of Central Asia, Mongolia, Cambodia, Lao PDR, and Viet Nam.
- The **euro zone** comprises Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain.
- Unless otherwise specified, the symbol "\$" and the word "dollar" refer to US dollars.

The *Statistical Notes* give a detailed explanation of how data are derived.

- Billion is 1,000 million.
- Trillion is 1,000 billion.
- Unless otherwise specified, the symbol \$ means United States dollars; dollars are current US dollars.
- Basis points (bps) refer to hundredths of 1 percentage point.
- Growth rates refer to year-on-year percentage change unless otherwise specified.
- This *ADO 2003 Update* is based on data available up to 26 September 2003.

Developing Asia and the World

Economic growth in the Asia and Pacific region will continue to be the fastest in the world in 2003 and 2004. Despite significant shocks in the first half of 2003, including uncertainties linked to the conflict in Iraq, regional terrorist threats, higher global oil prices, and the severe acute respiratory syndrome (SARS) epidemic, most economies of the region—significantly the People’s Republic of China (PRC) and India—expanded at close to the rate projected in the Asian Development Outlook 2003 (ADO 2003), published in April this year.

The forecast for aggregate gross domestic product (GDP) growth in the Asia and Pacific region in 2003 is maintained at 5.3%, with the subregions of South Asia and Central Asia growing somewhat faster than projected in ADO 2003. This outturn is all the more remarkable as it will have occurred after recovery in the major industrial countries, notably the United States and the euro zone, was weak in the first half of 2003. However, the recovery in the industrial countries is now projected to firm up substantially during the second half of 2003, and particularly in 2004, benefiting the region’s economies. Hence, aggregate GDP growth for the region in 2004 has been revised upward to 6.1%.

Two distinct features are associated with the economic developments in the Asia and Pacific region in the first half of 2003. One is the continued rapidly increasing importance of the PRC as a driver of intraregional trade and economic growth—exports from East, South-east, and South Asia to the PRC grew at startling rates during the first half of 2003. The other is the continued substantial accumulation of foreign exchange reserves by several countries over the past year.

Looking ahead, fiscal consolidation, improvements in the investment climate to substantially increase business investment, and reforms of the financial sector pose significant policy challenges for sustaining rapid long-term growth in the region.



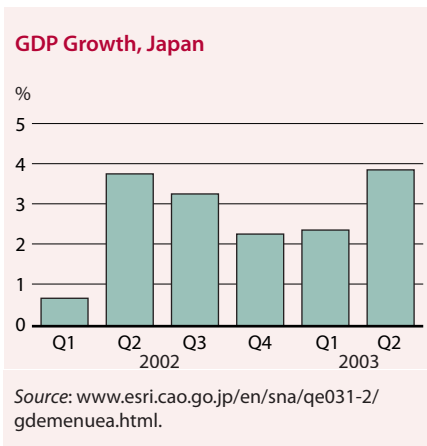
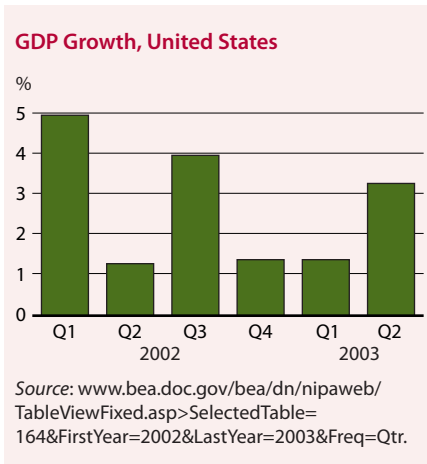


Table 1.1 Baseline Assumptions on External Conditions, 2002–2004

	2002 Actual	2003	2004
GDP Growth			
Industrial countries	1.4	1.6–1.9	2.6–2.9
United States	2.4	2.3–2.6	3.6–3.9
Euro zone	0.8	0.4–0.6	1.6–1.9
Japan	0.3	1.8–2.2	1.4–1.8
Memorandum Items			
United States Federal Funds rate (%)	1.7	1.1	1.1–1.3
Brent crude oil spot prices (\$/bbl)	25.0	27.0–29.0	24.0–26.0
Global trade volume (% change)	3.2	4.0–5.0	6.5–7.5

Note: Staff projections are based on the Oxford Economic Forecasting World Macroeconomic model.

Sources: US Department of Commerce, Bureau of Economic Analysis, BEA News Releases, available: www.bea.doc.gov/bea/dn/nipaweb/; Statistics Bureau & Statistics Center of Japan, available: www.esri.cao.go.jp/en/sna/menu.html; Eurostat Euro Indicators, available: www.europa.eu.int/comm/eurostat/; World Bank Development Economics Prospects Group; US Federal Reserve, available: www.federalreserve.gov/releases/n15/data/fedfund.txt.

Outlook for Industrial Countries, 2003–2004

The weak recovery in the major industrial countries that took place in the first half of 2002 petered out in the second half of that year, and, as projected in *ADO 2003*, remained subdued in the first three quarters of the current year. A return to a growth rate closer to trend is not projected for the United States (US) economy until the first half of 2004, while growth in the euro zone and in Japan, which, although showing some signs of improvement in the third quarter, will lag and remain below potential. Hence, at the end of the third quarter of 2003, nearly 2 years after the official end of the 2001 US recession, the long-awaited firm recovery in the major industrial countries is still some time away. This is perhaps not surprising given the significance of the shocks experienced by the world economy since the end of 2000. While the world economy was adjusting to the burst of the “high tech” bubble and the

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