Global, Regional, and CAREC Outlook

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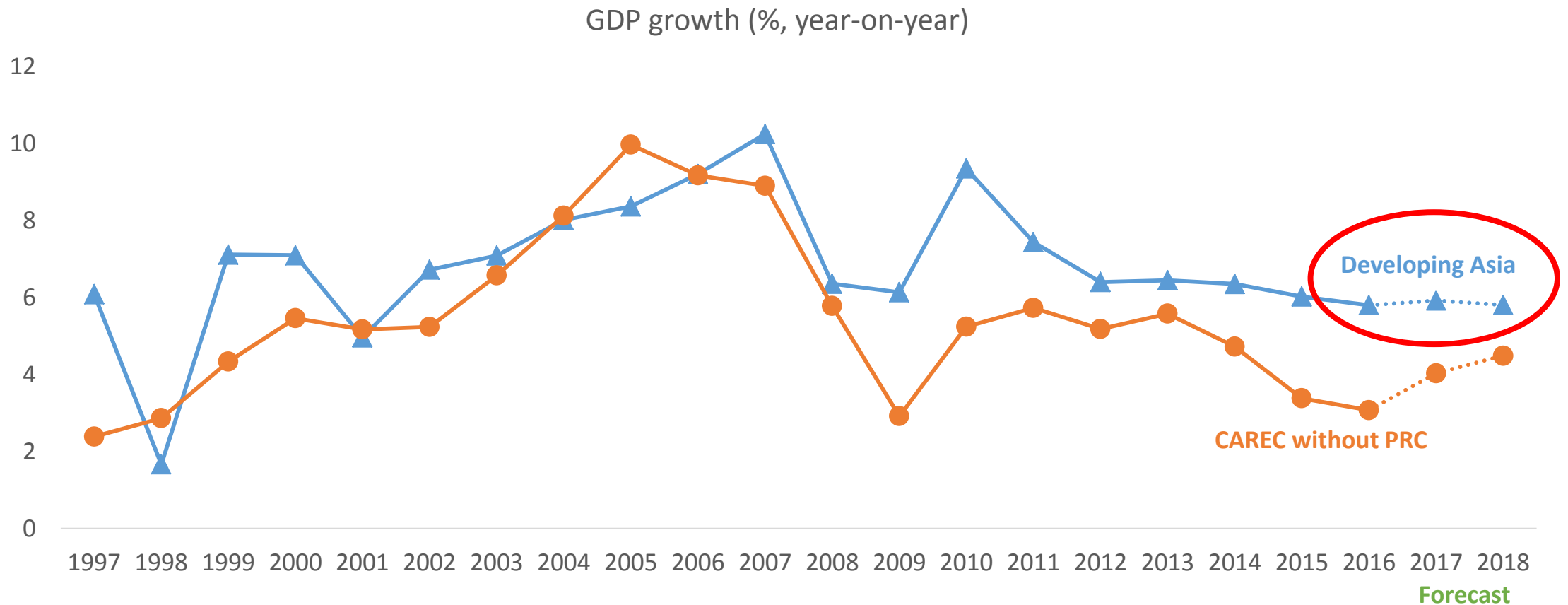
Key messages

- **Growth in developing Asia projected at 5.9% in 2017 and 5.8% in 2018 on trade rebound and PRC momentum**
  - **CAREC excluding PRC: 4.0% in 2017 and 4.5 % in 2018**

- **Inflation expectations are well- anchored in Asia**
  - **But much higher in CAREC countries partly due to currency depreciation.**

- **Innovation, human capital, and infrastructure can lift productivity growth of middle income economies to pave the way to high income**

- **Developing Asia needs $26 trillion (or $1.7 trillion per year) for infrastructure investment in 2016–2030**
  - **For 10 CAREC countries (without PRC), the needs are $1.15 trillion in 2016–2030 or $76.8 billion per year, necessitating increases in both public and private infrastructure finance ⇨ reforms are key**
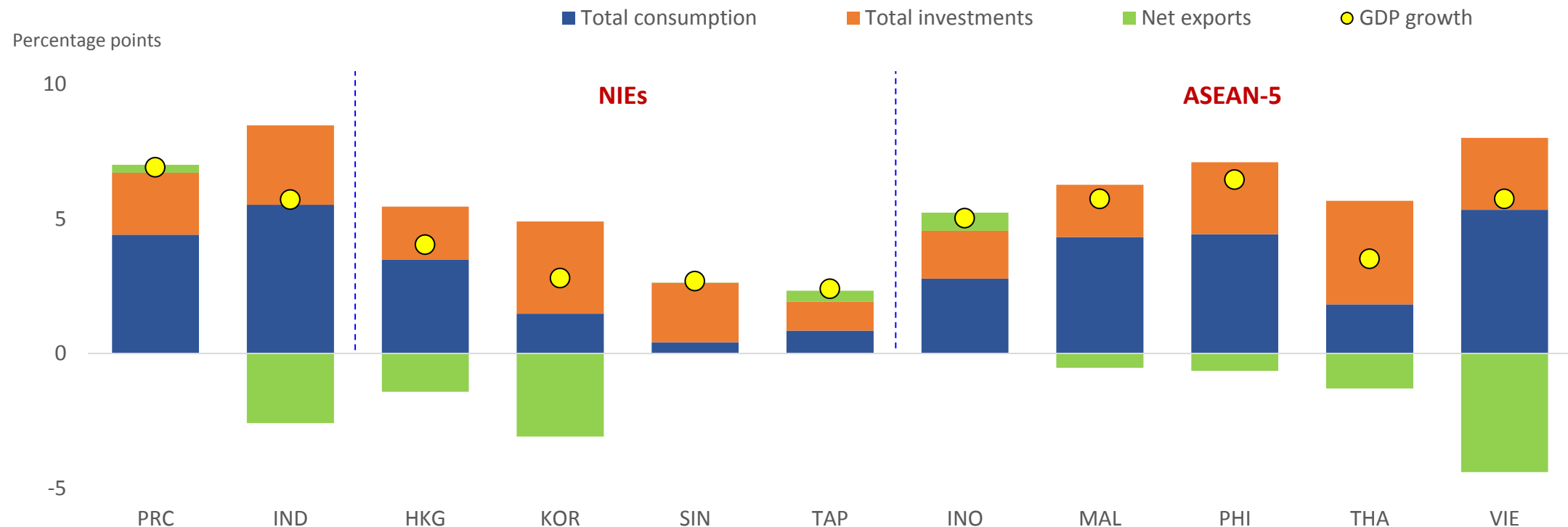
Global and regional outlook

Developing Asia's growth forecast revised up

GDP growth (%, year-on-year)

Developing Asia

CAREC without PRC

Forecast

Source: Asian Development Outlook database.

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Domestic demand still the main growth driver

Demand-side contributions to growth, selected economies, H1 2017

Legend: ■ Total consumption ■ Total investments ■ Net exports ● GDP growth

Percentage points

NIEs   ASEAN-5

PRC IND HKG KOR SIN TAP INO MAL PHI THA VIE

H = half.
Notes: ASEAN = Association of Southeast Asian Nations; NIEs = newly industrialized economies; GDP = gross domestic product; 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. IND data refers to Q1 FY 2017. Components do not add up to total due to a statistical discrepancy.
Sources: Haver Analytics and CEIC Data Company (accessed 15 September 2017); *Asian Development Outlook* database.

Faster recovery in industrial economies...

	2015	2016	2017		2018	
	Actual		ADO 2017	*Update*	ADO 2017	*Update*
GDP growth (%)						
Major industrial economies	2.3	1.5	1.9	2.0	1.9	2.0
United States	2.9	1.5	2.4	2.2	2.4	2.4
Euro area	1.9	1.7	1.6	2.0	1.6	1.8
Japan	1.1	1.0	1.0	1.5	0.9	1.1

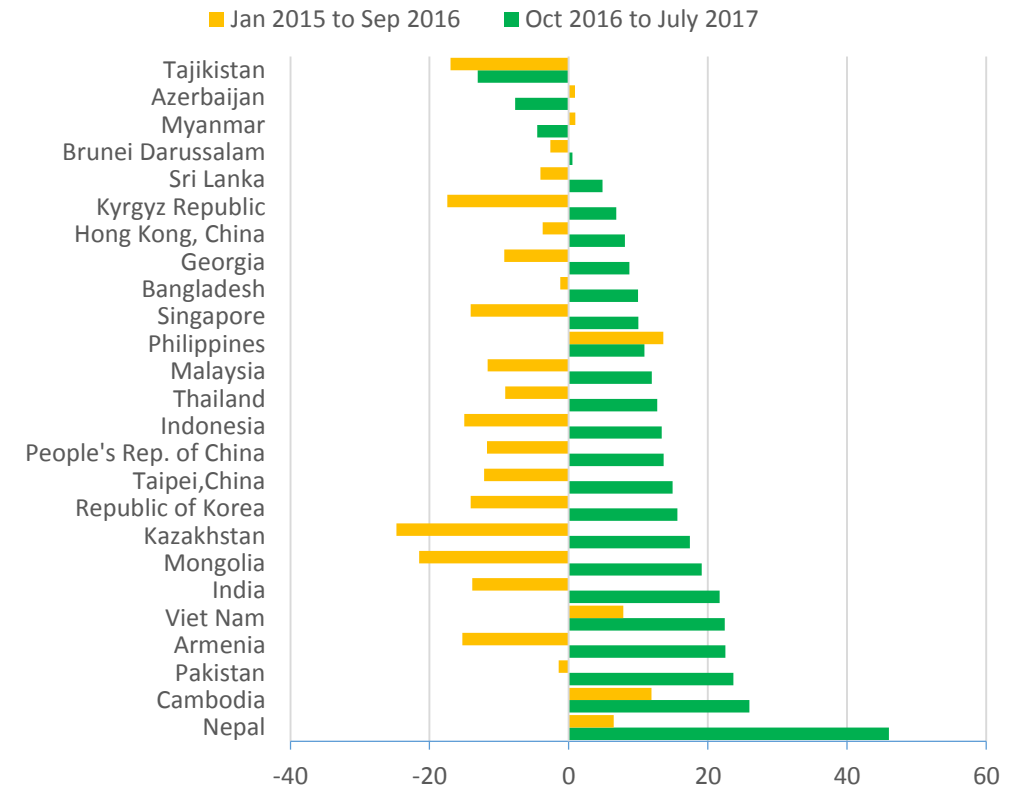*Note:* Average growth rates are weighed by gross national income, Atlas method, in current US dollar.
Source: Asian Development Outlook database.

...supports a synchronized rebound in trade

Average growth in monthly exports

■ Jan 2015 to Sep 2016   ■ Oct 2016 to Jul 2017
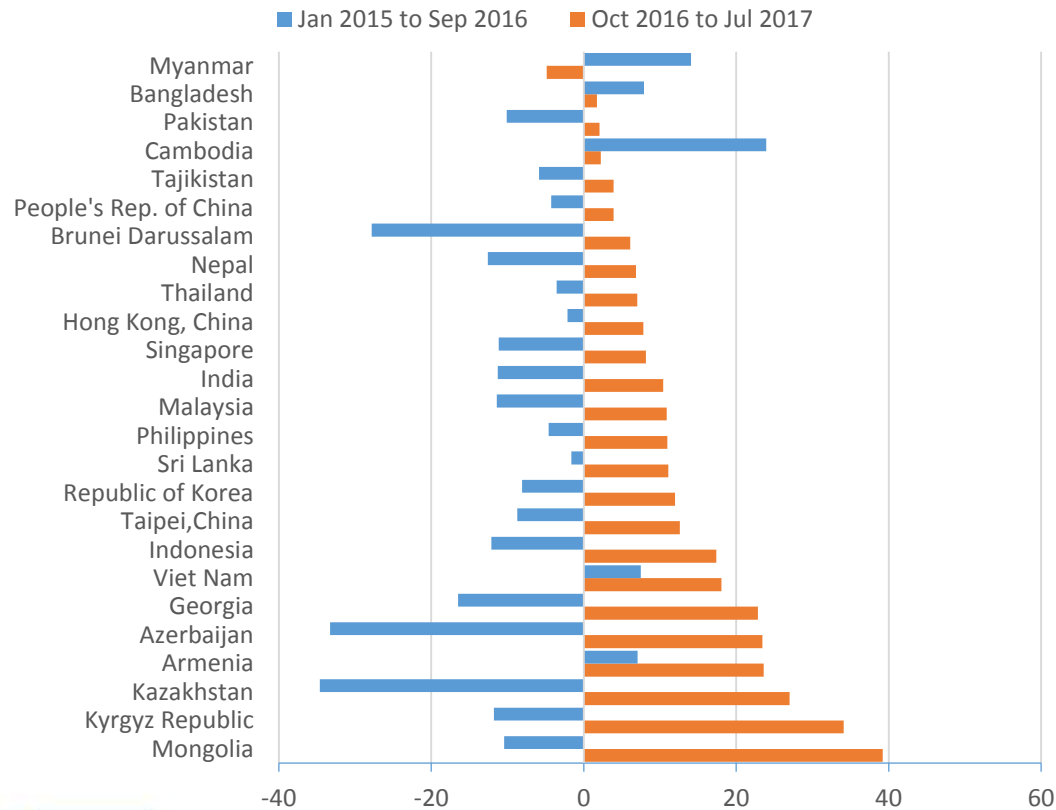
Average growth in monthly imports

■ Jan 2015 to Sep 2016   ■ Oct 2016 to July 2017

Note: For example, the "Jan 2015 to Sep 2016" changes, year on year % changes for each month in the interval of Jan 2015 to Sep 2016, such as % change from Jan 2014 to Jan 2015, are computed. Then these % changes are averaged. Data for Kyrgyz Republic up to April 2017 only, Cambodia up to May, and Bangladesh and Brunei Darussalam up to June.

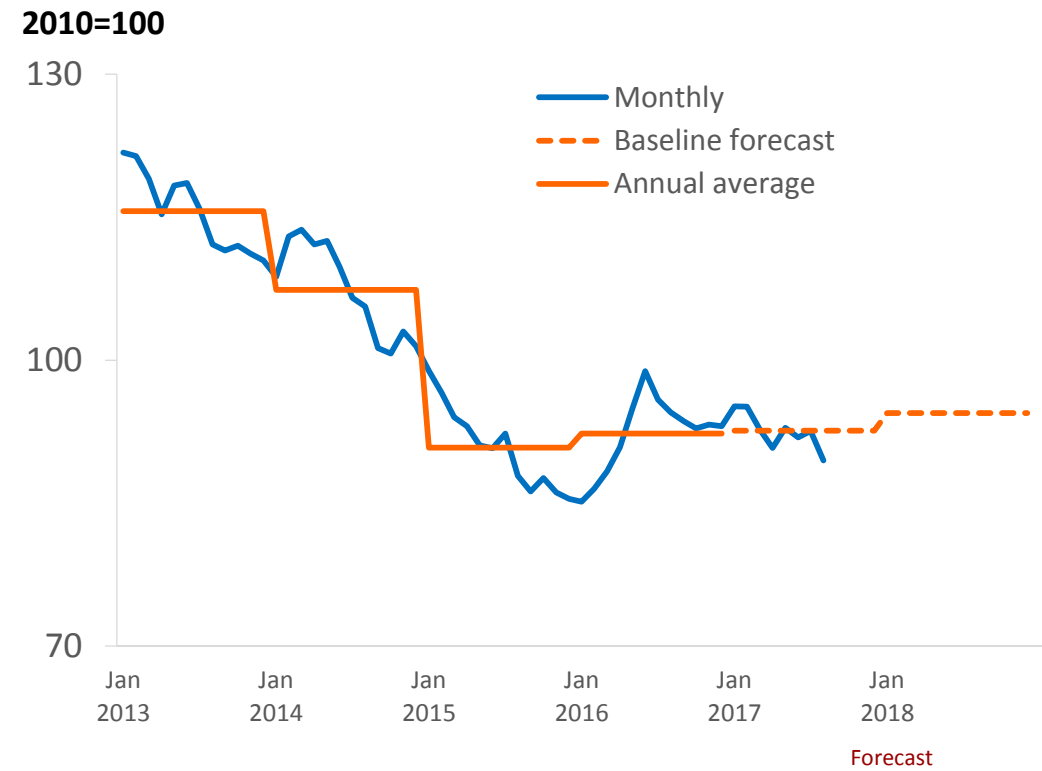Sources: CEIC Data Company and Haver Analytics (accessed 15 September 2017).

Modest pickup in global commodity prices...

Prices of Brent Crude

$/barrel

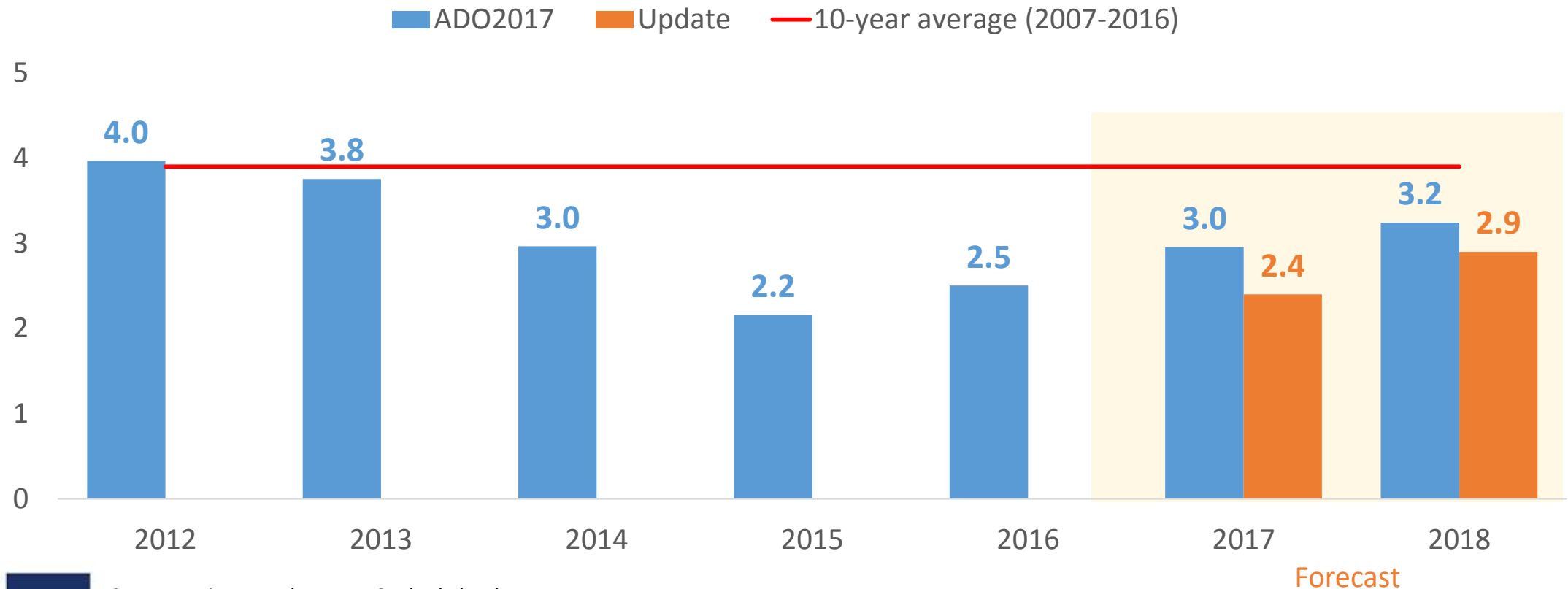
Food prices

2010=100
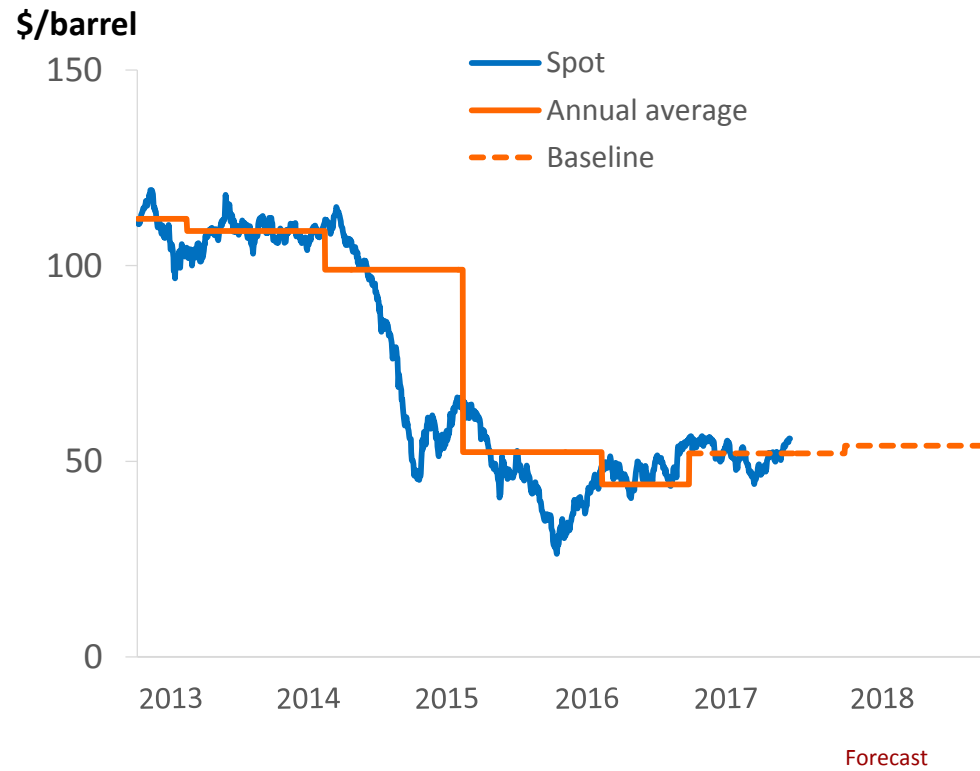
Sources: Bloomberg (accessed 22 September 2017); World Bank. Commodity Price Data (Pink Sheet). http://www.worldbank.org (accessed 8 September 2017).

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...ease inflationary pressures in the region

Inflation, developing Asia (%)

Legend: ▇ ADO2017   ▇ Update   ▬ 10-year average (2007-2016)

Data:
- 2012: 4.0
- 2013: 3.8
- 2014: 3.0
- 2015: 2.2
- 2016: 2.5
- 2017: 3.0 (ADO2017), 2.4 (Update)
- 2018: 3.2 (ADO2017), 2.9 (Update)

Forecast

Source: *Asian Development Outlook* database.

Risks have become more balanced

- Oil price movements

- Policy uncertainty in the US
  - Fed balance sheet normalization
  - Fiscal policy direction

- Managing macroeconomic stability

➡ **Since immediate risks are more balanced, focus on removing constraints to higher productivity**

CAREC outlook

# CAREC characteristics and achievements

Characteristics:

- Landlocked but strategic location
- Resource and energy dependent
- Remittance dependent
- In economic transition
- Sizable market potential with 328 million people (excluding PRC).

Achievements:

- Strong growth
- Poverty reduction (based on headcount ratio)
  - *CAREC w/ PRC*: 39.4% (1996); 2.9% (2013)
  - *CAREC w/o PRC*: 22.9% (1996); 8.5% (2013)
- Improved human capital since late 1990s
- Better connectivity & 7 members ratified WTO TFA
- CAREC achievements (as of Sep 2017):
  - Cumulative investments ($30.5 billion)
    - Transport - $23.4 billion
    - Energy - $6.5 billion
    - Trade facilitation - $0.6 billion
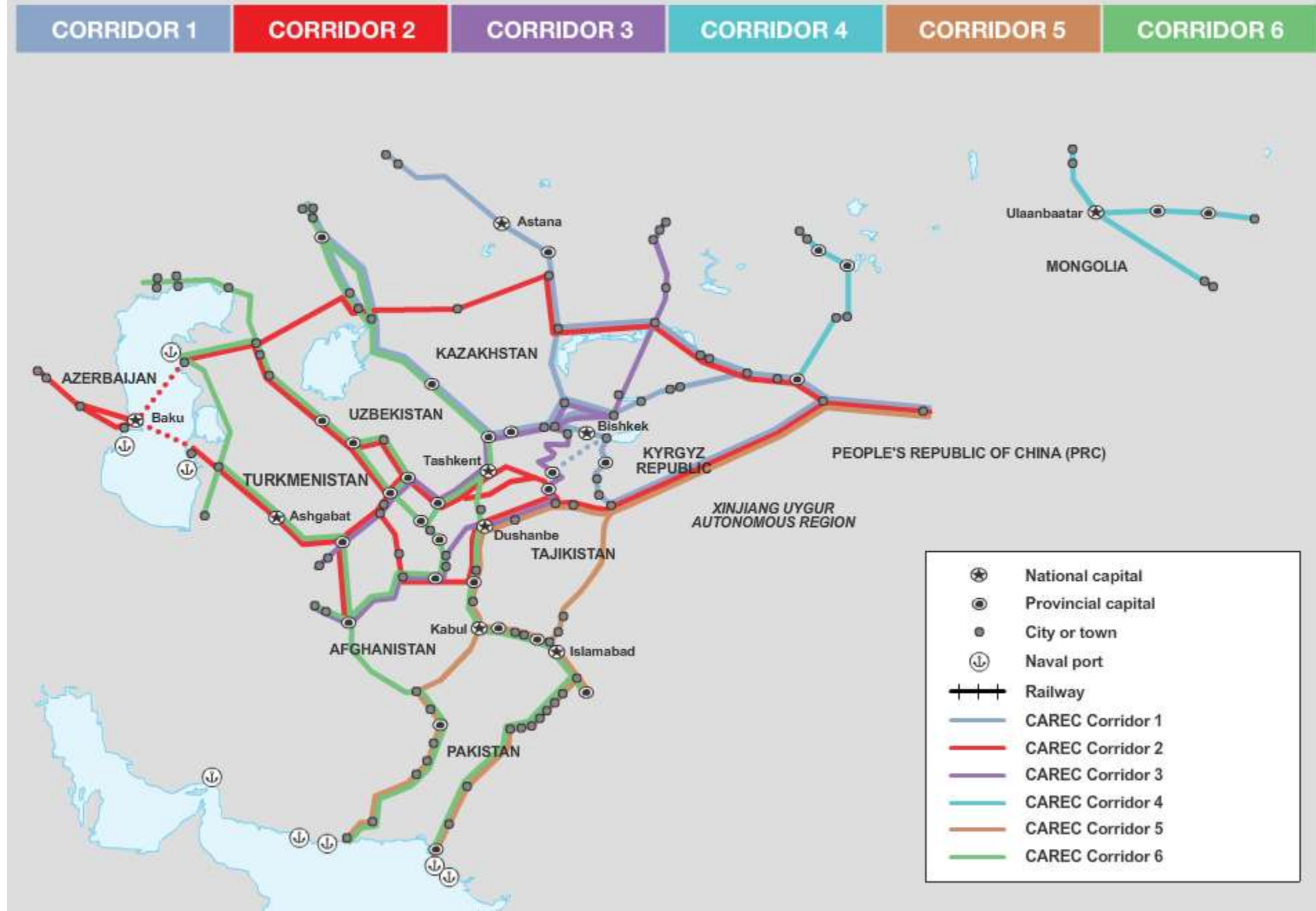 - Technical assistance ($514 million)

CAREC countries continued growth

GDP growth (%, year-on-year)

Developing Asia

CAREC without PRC
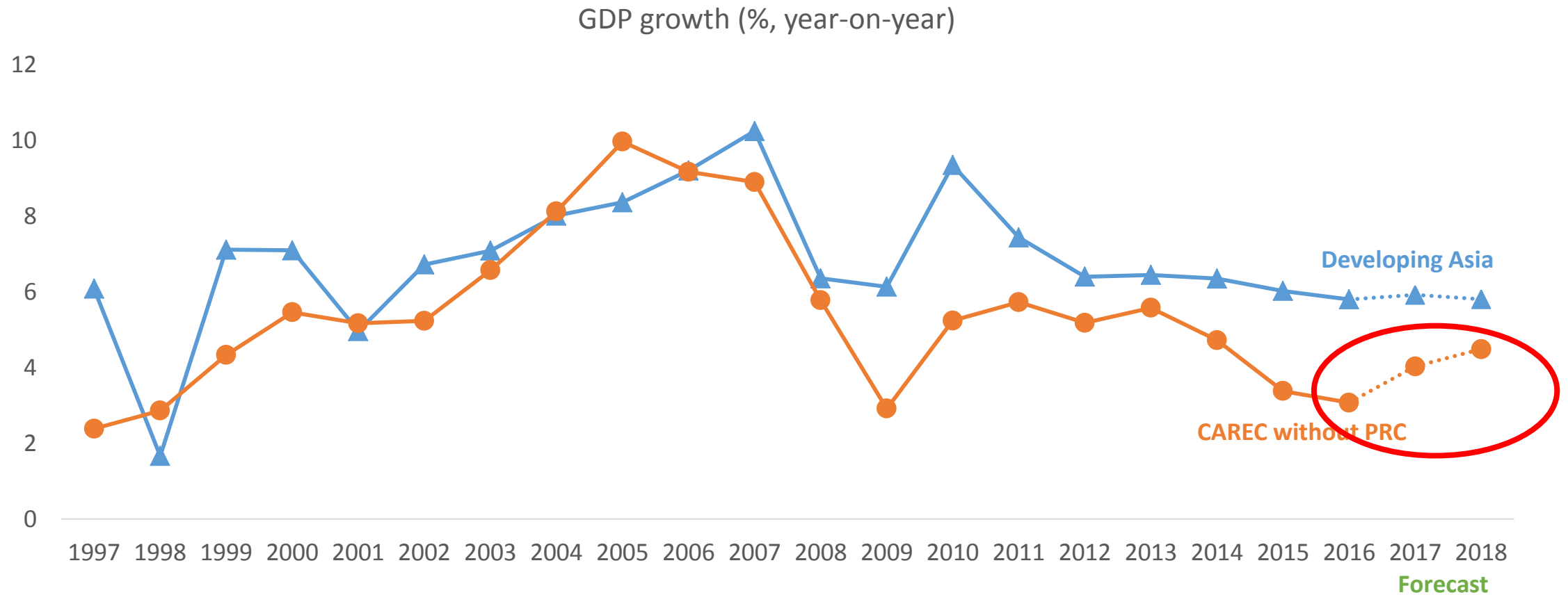
Forecast

Source: Asian Development Outlook database.

Growth forecasts in CAREC upward revised

	2016	2017 (forecast)	2018 (forecast)
Afghanistan	2.0	2.5 ↔	3.0 ↔
Azerbaijan	-3.8	-1.3 ↓	1.0 ↓
China, People's Rep. of (PRC)	6.7	6.7 ↑	6.4 ↑
Georgia	2.7	4.2 ↑	4.5 ↔
Kazakhstan	1.1	2.7 ↑	3.0 ↑
Kyrgyz Rep.	3.8	4.0 ↑	4.0 ↑
Mongolia	1.0	4.0 ↑	3.0 ↑
Pakistan	4.5	5.3 ↑	5.5 ↔
Tajikistan	6.9	5.0 ↑	5.5 ↔
Turkmenistan	6.2	6.5 ↔	6.5 ↓
Uzbekistan	7.8	6.8 ↓	7.5 ↑
CAREC including PRC	*6.5*	*6.5* ↑	*6.3* ↑
CAREC excluding PRC	*3.1*	*4.0* ↑	*4.5* ↑

Key CAREC projects by corridor

CORRIDOR 1 | CORRIDOR 2 | CORRIDOR 3 | CORRIDOR 4 | CORRIDOR 5 | CORRIDOR 6

Legend:
- National capital
- Provincial capital
- City or town
- Naval port
- Railway
- CAREC Corridor 1
- CAREC Corridor 2
- CAREC Corridor 3
- CAREC Corridor 4
- CAREC Corridor 5
- CAREC Corridor 6

Challenges for Asia and CAREC

Long-term challenges for sustained growth

1. **Macroeconomic and financial stability**

2. **Scaling up innovation, upgrading, and diversifying economy for continued growth to overcome the middle income trap**
   - Investing in human capital and facilitating innovations
   - Sustaining trade and investments
   - Creating more jobs and economic opportunities

3. **For CAREC, complete economic transition and facilitate regional integration**

4. **Closing the infrastructure gap**

5. Moving toward low-carbon growth (COP21)

6. Addressing rising income inequality and population aging
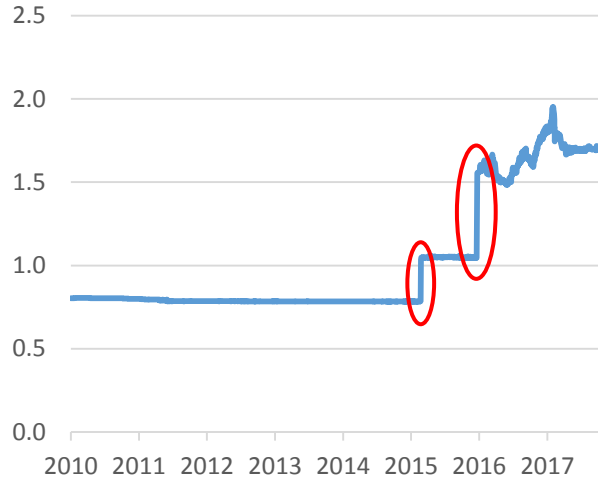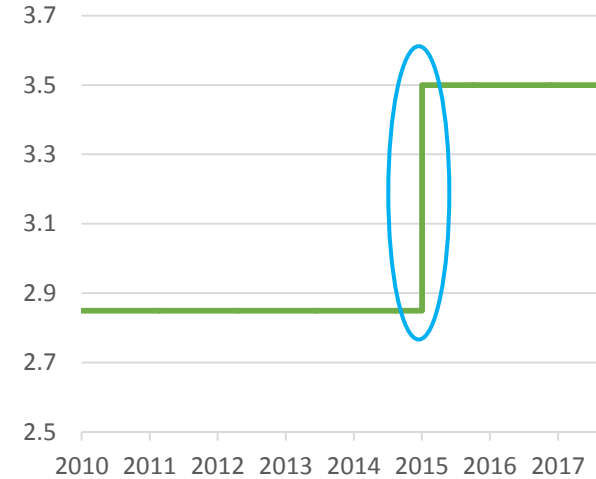
Country-specific factors steer inflation in CAREC
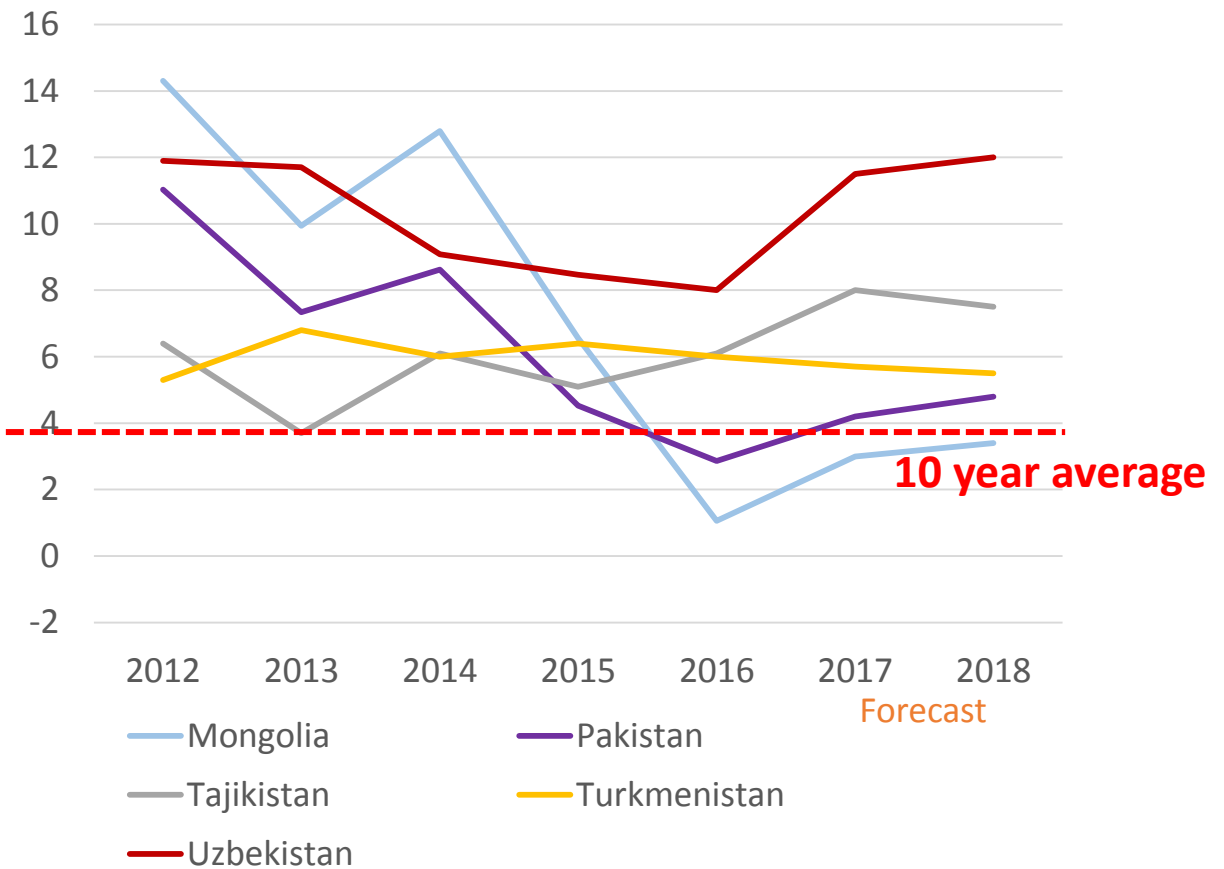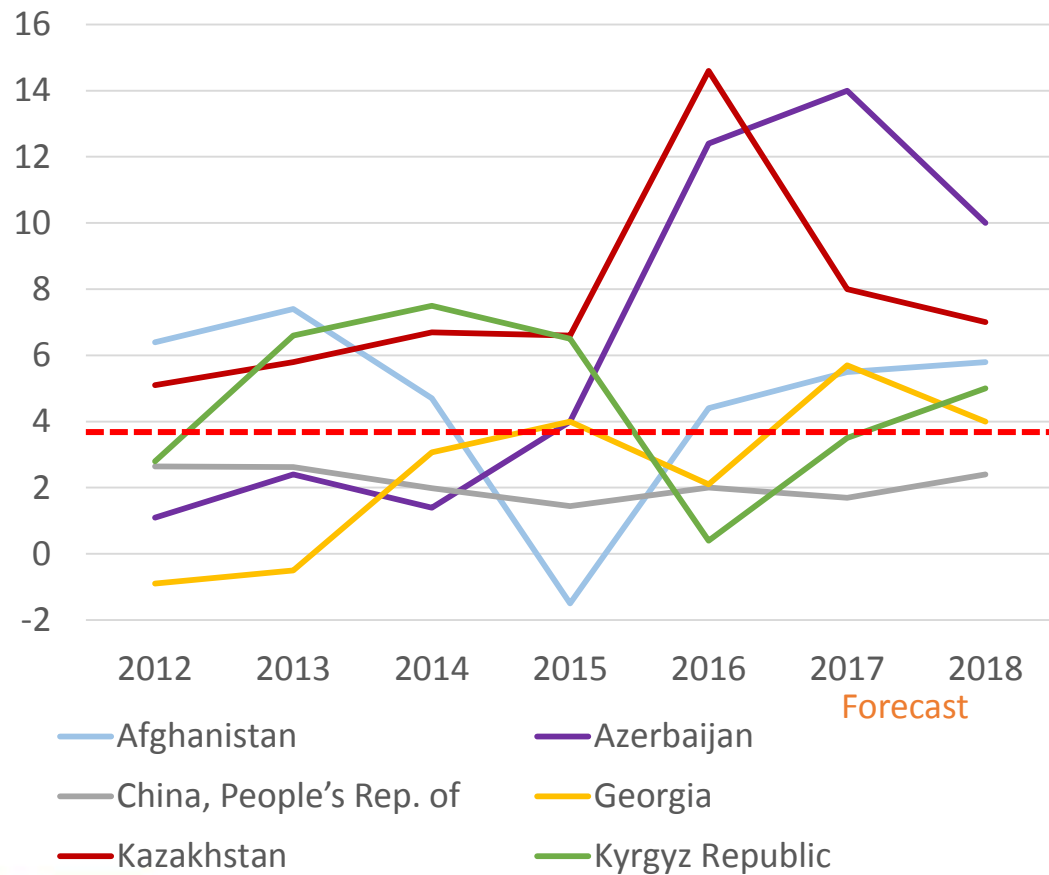
Source: Asian Development Outlook database.
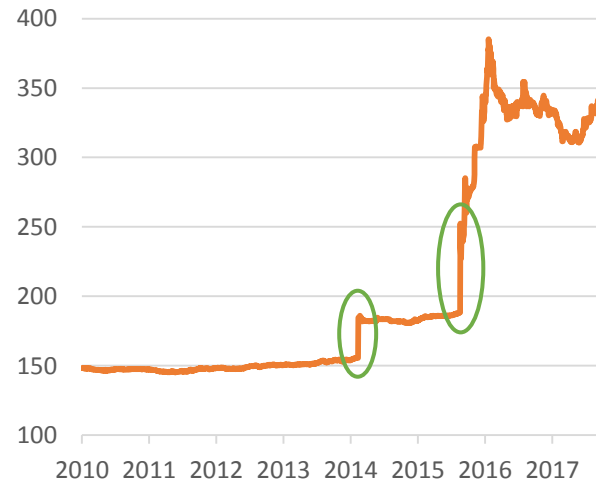
Currency devaluations in selected CAREC countries
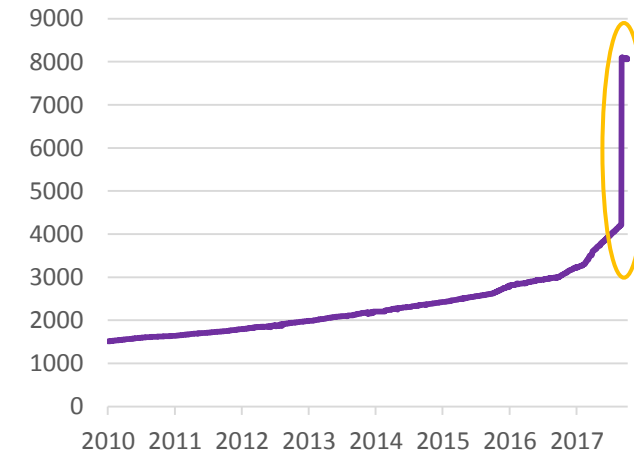

Azerbaijan manat per US dollar
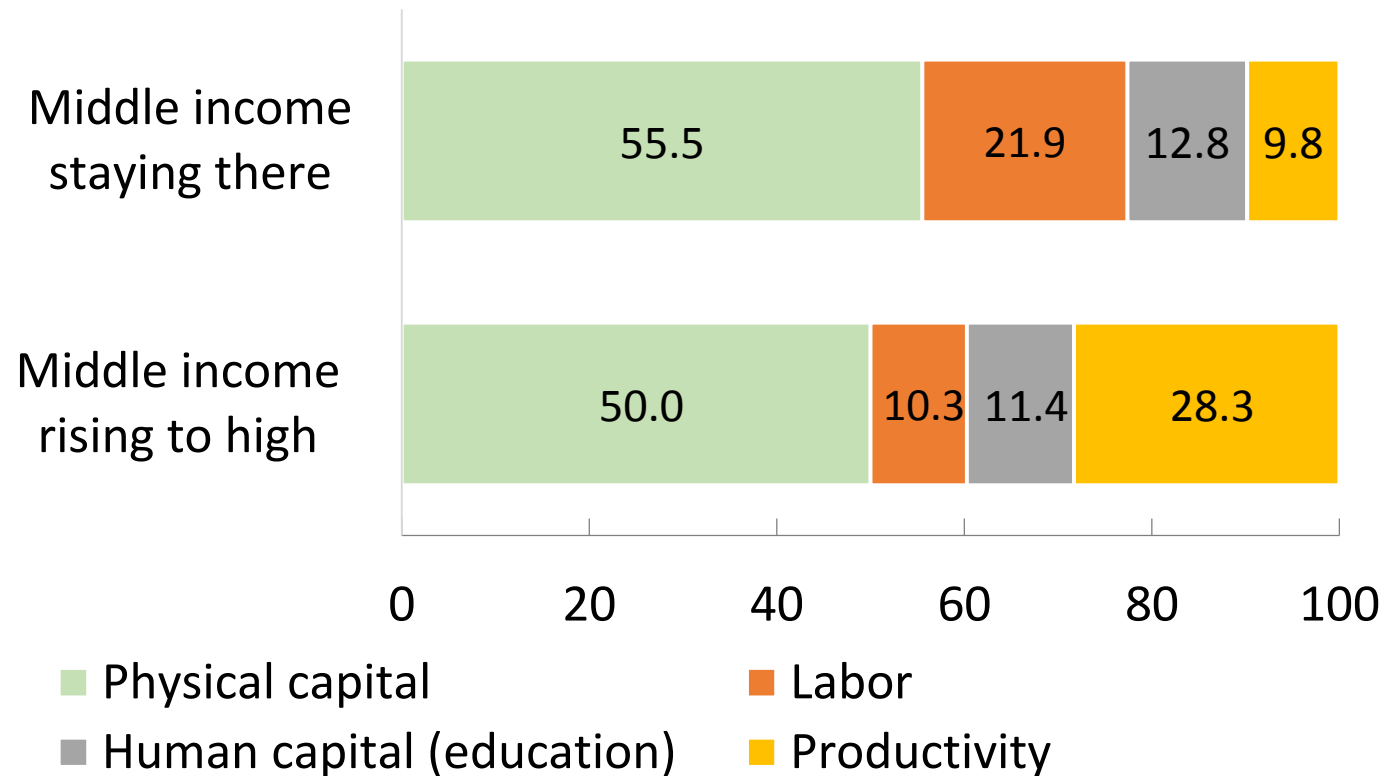

Kazakhstan tenge per US dollar

Turkmenistan manat per US dollar

Uzbekistan soum per US dollar

Productivity-centered growth to reach high income

Contributions to Growth, 1960–2014 (%)

Middle income staying there: Physical capital 55.5, Labor 21.9, Human capital (education) 12.8, Productivity 9.8

Middle income rising to high: Physical capital 50.0, Labor 10.3, Human capital (education) 11.4, Productivity 28.3

Legend: Physical capital, Labor, Human capital (education), Productivity

Infrastructure associated with development
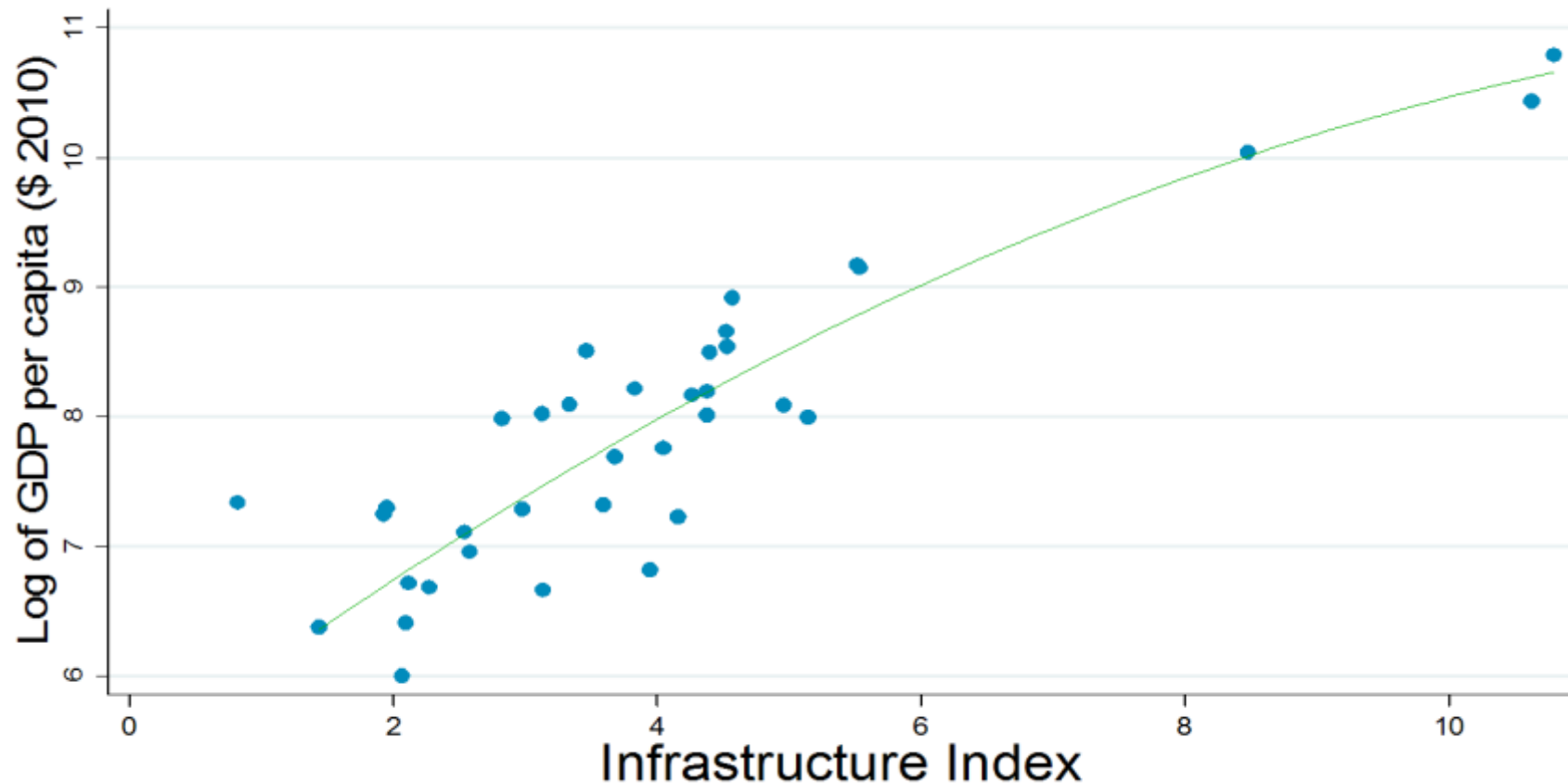
Note: Infrastructure index is computed based on first principal component of infrastructure stocks in roads, airport, electricity, telephone, mobile, broadband, water and sanitation. Higher values represent greater infrastructure availability.
Source: ADB estimates based on data from World Development Indicators, World Bank.

Infrastructure investment needs, 2016–2030 ($ billion in 2015 prices)

	Baseline		Climate adjusted	
	Total	% of GDP	Total	% of GDP
Asia and the Pacific	22,551	5.1	**_26,166_**	5.9
PRC	13,120	5.0	15,267	5.8
11 CAREC* (with PRC)	14,160	5.1	16,419	5.9
10 CAREC* (without PRC)	1,040	7.7	**_1,152_**	8.6
Annual Average	69.3		**_76.8_**	

*Countries include Afghanistan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, and Pakistan.
Sources: 2030 population projections from UN Population Division; others are ADB estimates.

Infrastructure investment needs by sector, 2016–2030 ($ billion in 2015 prices)

CAREC without PRC*
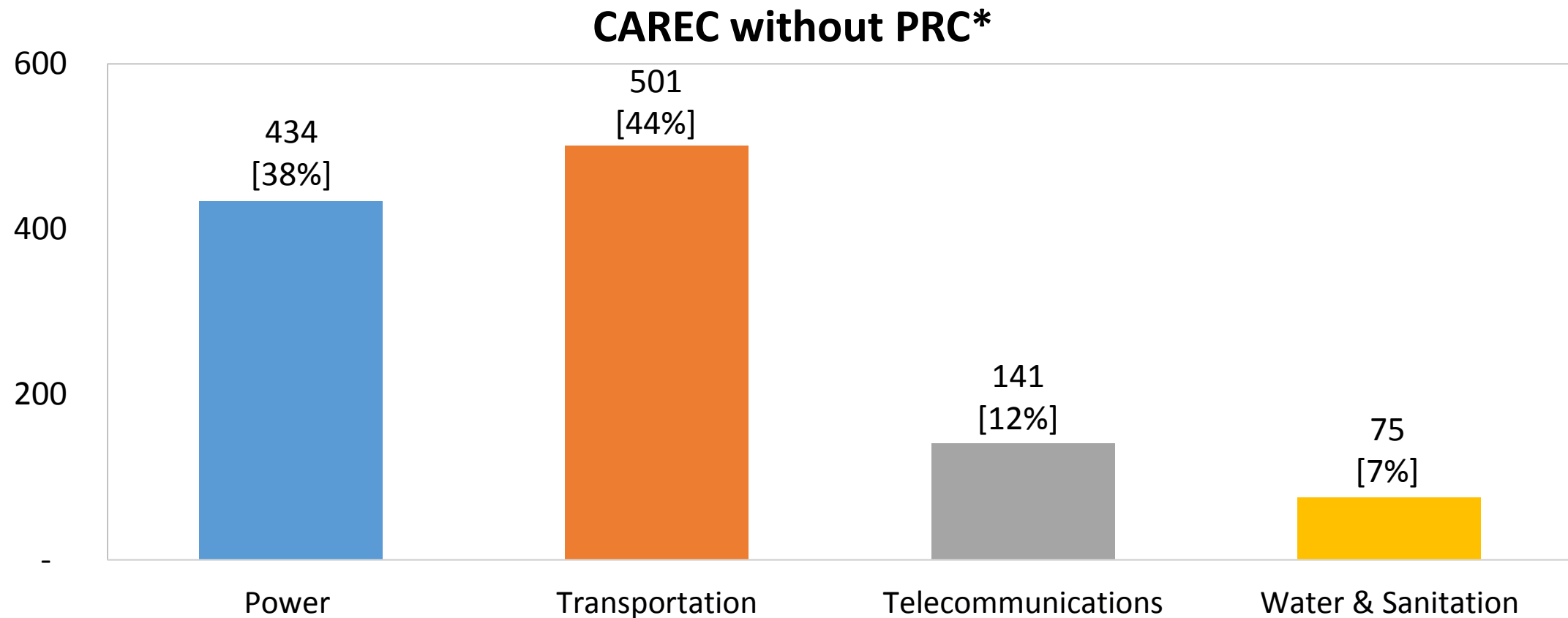
*Countries include Afghanistan, Kazakhstan, Kyrgyz Republic, Mongolia, and Pakistan.
Note: Figures inside the brackets are percentage shares of total.
Source: ADB estimates.

How big are infrastructure investment gaps?

Infrastructure investments and gaps, 2016–2020 ($ billion in 2015 prices)

|	Estimated current investment (2015)	Climate adjusted		
		Annual needs	Gap	Gap as % of GDP
25 DMCs	881	1,340	459	2.4
without PRC	195	503	308	5.0
*6 CAREC**	698	884	186	1.4
(without PRC)	*12*	*47*	*35*	*6.4*
PRC	686	837	151	1.2

Note: Gap = Investment Needs – Current Investment
*Countries include Afghanistan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, and Pakistan.

Bridging the gap: Selected 24 DMCs

Infrastructure investment by financing source, *excluding PRC*,* 2016–2020, (annual average, $ billion in 2015 prices)
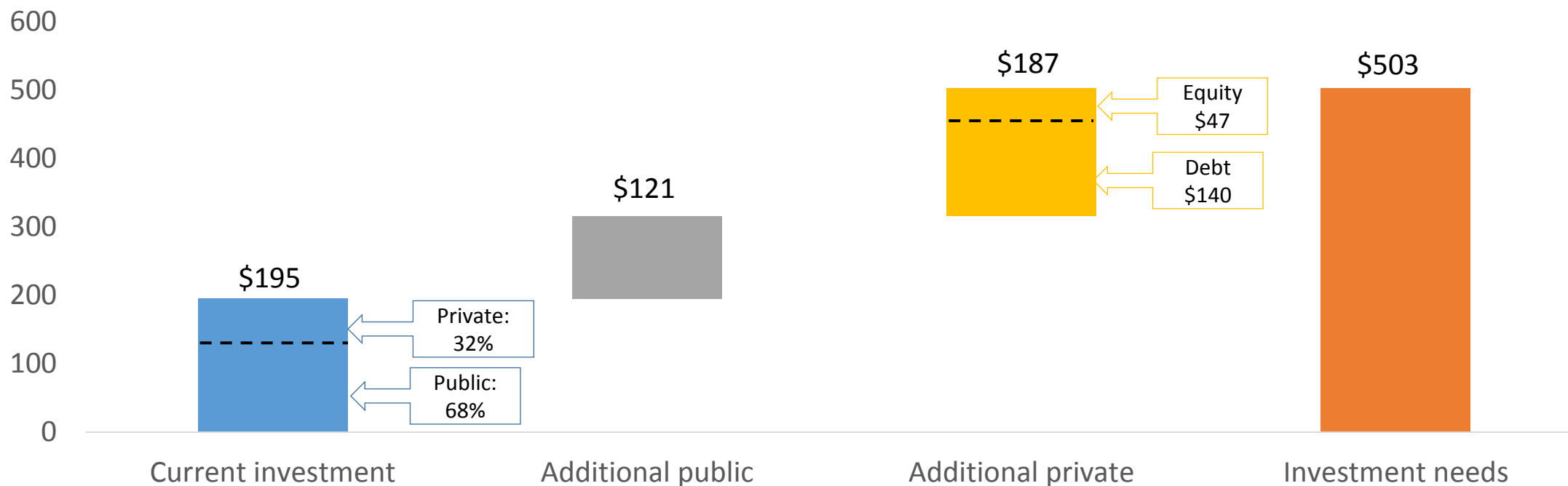
* 25 countries minus the PRC
Note: Numbers may not add up due to rounding.
Source: ADB estimates based on data from country budget documents, NAS data from national statistic offices, IMF Investment and Capital Stock Dataset, Asian Development Bank Key Indicators 2016, World Bank World Development Indicators, World Bank Private Participation in Infrastructure Database.

Policies to close the gap and MDBs

- ## Fiscal reforms
  - Tax reforms; Spending reorientation; Prudent borrowing; Nontax revenues

- ## Promoting private participation
  - Create conducive investment climate
  - Make greater use of pubic-private partnerships (PPPs)
  - Deepen capital markets

- ## Role of MDBs
  - MDB infrastructure financing in Asia = 2.5% of current investment
  - MDB finance for infrastructure will rise (ADB: Scale up annual loan and grant approvals from $17.5 billion in 2016 to more than $20 billion by 2020)
  - Provide guarantees and credit enhancements and develop capital markets
  - Blending finance with expertise and knowledge, support policy reform, promoting regional cooperation

Key messages

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