

Market Focus – IMF optimism towards Asia

July 2010

The IMF raises Asian GDP growth forecasts

- ◆ In its July World Economic Outlook, the IMF has revised 2010 GDP growth forecasts for Asia Pacific upward from 7% in April to 7.5% after better-than-expected economic data in 1H'10, driven by robust export growth and strong private domestic demand. For 2011 they expect regional GDP growth to slow to 6.8% as the inventory cycle will have run its full course.
- ◆ “Chindia” will remain the dual engine leading regional economic growth. The IMF forecasts China’s GDP to grow at 10.5% in 2010 while falling to 9.6% in 2011 given further measures to slow credit growth to maintain financial stability. India’s GDP growth is expected to accelerate to 9.4% in 2010 and 8.4% in 2011.
- ◆ The Newly Industrialized Asian Economies (Hong Kong, Korea, Singapore and Taiwan) are forecast to grow by 6.7% in 2010, driven by rising exports and private domestic demand before declining to 4.7% in 2011. The ASEAN5’s (Indonesia, Malaysia, Philippines, Thailand and Vietnam) projected economic growth in 2010 is 6.4% in 2010 and 5.5% in 2011.
- ◆ For the longer-term, according to the IMF projections Asia will become the world’s largest economic region by 2030 as the strong pace of growth in recent years is expected to continue. Emerging Asia’s share of world trade has doubled and its share of world GDP has tripled over the past two decades.
- ◆ At the recent Asia 21 high-level conference (held on 12-13 July in Korea) Mr. Dominique Strauss-Kahn, Managing Director of the IMF, highlighted the pivotal role of Asia:–

(1) Asia has shown remarkable resilience during the global financial crisis and has emerged as an economic powerhouse that is leading the global recovery. The extensive reforms undertaken over the past decade have been critical in helping to protect Asia from the full brunt of the crisis.

(2) Asia has begun to build a “second engine of growth” - based on investment and consumption - beyond its clear strength in exports. Given that some of Asia’s major trading partners - in particular Europe and the US - are entering a period of lower growth rates, the need to nurture Asia’s domestic demand over the medium-term has become even more crucial.

(3) Asia’s low-income countries have the potential to become the next generation of emerging markets. While major challenges remain in terms of poverty and inequality, many of these countries are building economic, financial and social policies to foster sustainable growth and development.

(4) Asia’s increasing regional cooperation, and integration helped the region withstand the crisis. Asia will benefit from even further intra-regional policy coordination that is underway.

(5) Asia is playing an increasingly important role in global economic policy making, including via the G20. As Asia’s economic weight in the world continues to rise, its representation in the international financial architecture must rise accordingly.

Source: IMF Press Release No. 10/290, 13 Jul 10

What does this mean for Asian markets?

- ◆ Asian exports collapsed during the global financial crisis in 2008 given the sharp decline in demand from developed economies. However, exports recovered both quickly and significantly last year, thanks to the robust domestic demand from China, India and other Emerging Markets. This means that Asia is becoming less dependent on US and European consumers.
- ◆ The Great Recession in 2008 also provided an urgency for Asian governments to further stimulate domestic demand to sustain economic growth through measures to improve the social safety net, as well as huge spending on infrastructure investment where many of the Emerging Asian countries were severely underinvested. Hence, private consumption and infrastructure investment will continue to be key multi-year investment themes for our Asian portfolios.
- ◆ Given Asia's strong growth prospects and the fact that it is becoming more independent from the global cycle, capital inflows from global investors will continue to be increasingly attracted to the region. However, a surge in foreign inflows also creates concerns of overheating for Emerging Asian governments. Therefore, policy risk remains relatively high in the region.
- ◆ Asia has sufficient domestic strength to outperform the developed world for many years to come. We expect its strong economic and corporate earnings growth prospects will translate into outperformance in market returns over the medium-term.

