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## Outlook Is Cloudier For Developing Asia

*Economies to Expect  
Strong Growth in '06,  
But Pitfalls Loom*

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HONG KONG – Developing Asian economies can expect good 2006 growth after a surprisingly strong 2005, but plenty of potential dangers cloud the outlook, the Asian Development Bank said.

"Robust growth will prevail," chief economist Ifzal Ali said at a news conference in Hong Kong on Thursday as the bank upgraded its outlook for developing Asia in its 2006 Asian Development Outlook.

But he acknowledged that preparing the annual report was "particularly challenging" because of "certain clouds on the horizon," including a possible bird-flu outbreak among humans, sharply swinging interest and exchange rates, high oil prices and trade protectionism.

The Manila-based bank, which provides loans and grants to promote economic and social programs of its developing member nations, raised its growth forecast for developing Asia's gross domestic product this year to 7.2% from the 6.6% it had predicted in September.

Developing Asia grew 7.4% in 2005 despite high oil prices, largely because of robust expansion in China and India. Growth was also good in Pakistan and Vietnam.

The bank said China's economy is expected to grow by 9.5% this year, while India's is expected to grow by 7.6%. Its earlier forecast for China's economic growth this year was 8.8%, while that for India was 6.8%.

The growth forecast for Southeast Asia was raised to 5.5% from September's 5.4%. The outlooks for most Southeast Asian economies, except Indonesia, Laos and Thailand, were upgraded. For 2007, developing Asia's economic growth is expected to slow to 7%.

Asian economies face many challenges, including the need to create hundreds of millions of productive jobs in coming years, Mr. Ali said.

The bank remains worried about the possibility of an avian-flu outbreak among humans. Since early 2004, the H5N1 strain of bird flu has been detected in more than 30 countries and has killed more than 100 people, but no epidemic in humans has materialized.

The ADB said an avian-flu pandemic could result in severe economic shock that would cost the Asian-Pacific region \$100 billion to \$300 billion. In a worst-case scenario, "this would essentially halve economic growth for one year and throw the world into an economic recession, the first global recession since 1982," it said.

The bank expects oil prices to remain at current levels, which could harm developing Asia, as those costs are passed through to consumers.

Mr. Ali said he expects the U.S. Federal Reserve to end its recent spate of interest-rate increases at 5% or 5.25%; the central bank's federal-funds rate is at 4.75%. He warned that imbalances in international payments create a risk of "sharp adjustments in exchange rates and interest rates," and added that higher interest rates in the U.S. would cut into demand for goods that Asian nations export there.

But Mr. Ali played down worries about a disorderly depreciation of the U.S. dollar, saying central banks would take concerted action to avoid such a problem. "People have been talking about this for a long time," he said. "It hasn't happened yet."

The ADB said growth in developing Asia largely will be fueled by expansion in major industrial economies, which are forecast to grow close to their potential this year. Industrial economies -- including Japan, the U.S. and the euro zone -- are expected to grow by 2.9% this year and 2.6% in 2007.

Mr. Ali said increasing demand for electronics will provide a boost to Asia's economy, reflecting a trend that began late last year and should last at least until mid-2007.

The bank said developing Asia is expected to continue running a substantial current-account surplus during the next two years, but this should begin to edge down as a proportion of GDP. It said the narrowing current-account surplus suggests that, on average, domestic demand will play a more important role in supporting growth in 2006 and 2007.