

ASIAN DEVELOPMENT

Outlook 2013 Update

Governance and Public Service Delivery

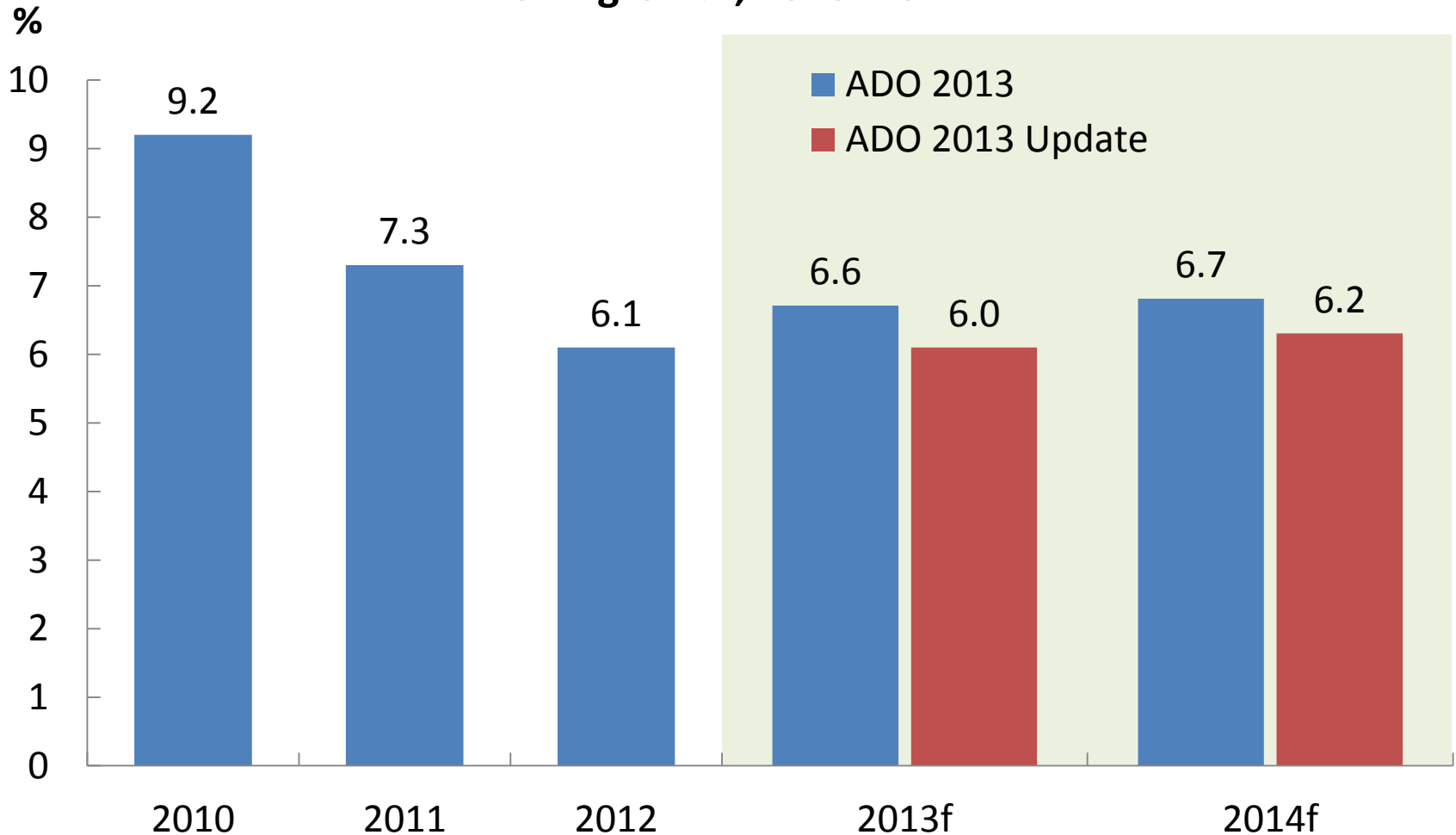
Key findings

- Asia's growth is declining to 6% in 2013 from 6.1% in 2012 before picking up to 6.2% in 2014
- The two giants' growth is moderating despite signs of advanced economies' recovery
- Inflation easing to 3.6% and 3.7% in 2013 and 2014, though country variations exist
- Talk of US quantitative easing taper shook emerging markets, but Asia can weather the storm
- Structural reforms—including governance—are needed to safeguard financial stability and sustain future growth

Economic outlook

Asia's growth slower than expected...

GDP growth, 2010–2014



...despite firming recovery in advanced economies

GDP Growth (%)	2011	2012	2013f		2014f	
			ADO 2013	ADO 2013 Update	ADO 2013	ADO 2013 Update
Major adv. econ.	1.3	1.5	—	0.9	—	1.8
United States	1.8	2.8	—	1.7	—	2.4
Euro area	1.5	-0.6	-0.3	-0.5	1.2	1.2
Japan	-0.6	2.0	1.2	1.9	1.4	1.4

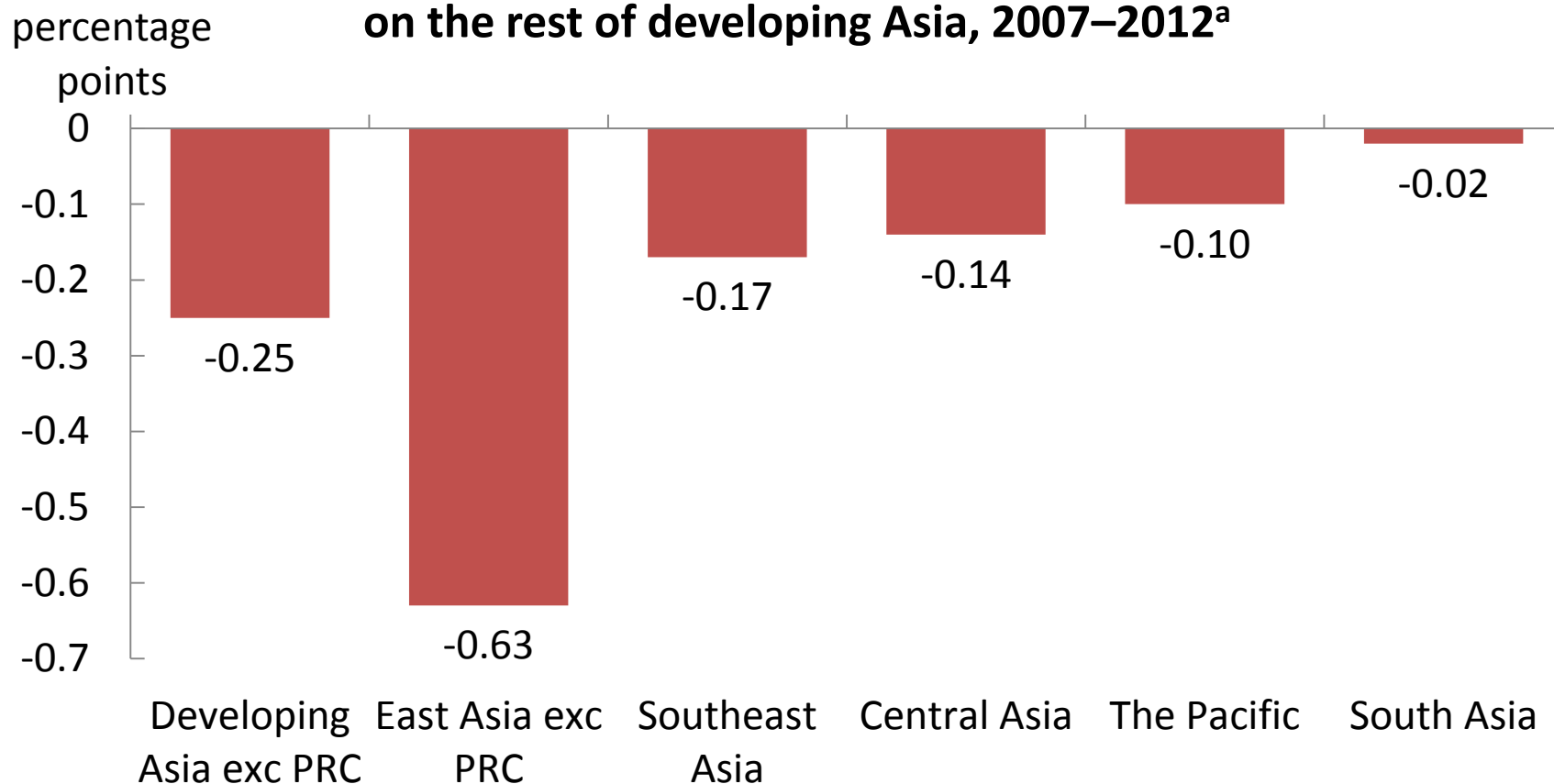
Note: The US rebased national accounts data in July 2013, resulting in a much higher 2012 growth rate and rendering ADO 2013 forecasts incomparable with the forecasts for the Update.

Growth moderation notable in the PRC and India...

	2012	2013 ^f		2014 ^f			2012	2013 ^f		2014 ^f	
		ADO	ADOU	ADO	ADOU			ADO	ADOU	ADO	ADOU
South Asia	5.1	5.7	4.7	6.2	5.5	Central Asia	5.6	5.5	5.4	6.0	6.0
India	5.0	6.0	4.7	6.5	5.7	Kazakhstan	5.0	5.2	4.8	5.6	5.6
Pakistan	4.4	3.6	3.6	3.5	3.0	Kyrgyz Republic	-0.9	5.5	7.5	4.5	4.5
Sri Lanka	6.4	6.8	6.8	7.2	7.2	East Asia	6.5	7.1	6.6	7.1	6.6
Southeast Asia	5.6	5.4	4.9	5.7	5.3	PRC	7.7	8.2	7.6	8.0	7.4
Indonesia	6.2	6.4	5.7	6.6	6.0	Hong Kong, China	1.5	3.5	3.2	3.8	3.8
Malaysia	5.6	5.3	4.3	5.5	5.0	Korea, Rep. of	2.0	2.8	2.8	3.7	3.5
Philippines	6.8	6.0	7.0	5.9	6.1	Taipei, China	1.3	3.5	2.3	3.9	3.3
Singapore	1.3	2.6	2.6	3.7	3.5	The Pacific	7.5	5.2	5.2	5.5	5.5
Thailand	6.5	4.9	3.8	5.0	4.9	Fiji	2.2	2.0	2.8	2.3	2.4
Viet Nam	5.2	5.2	5.2	5.6	5.5	Papua New Guinea	9.8	5.5	5.5	6.0	6.0

East and Southeast Asia more vulnerable to slower PRC growth...

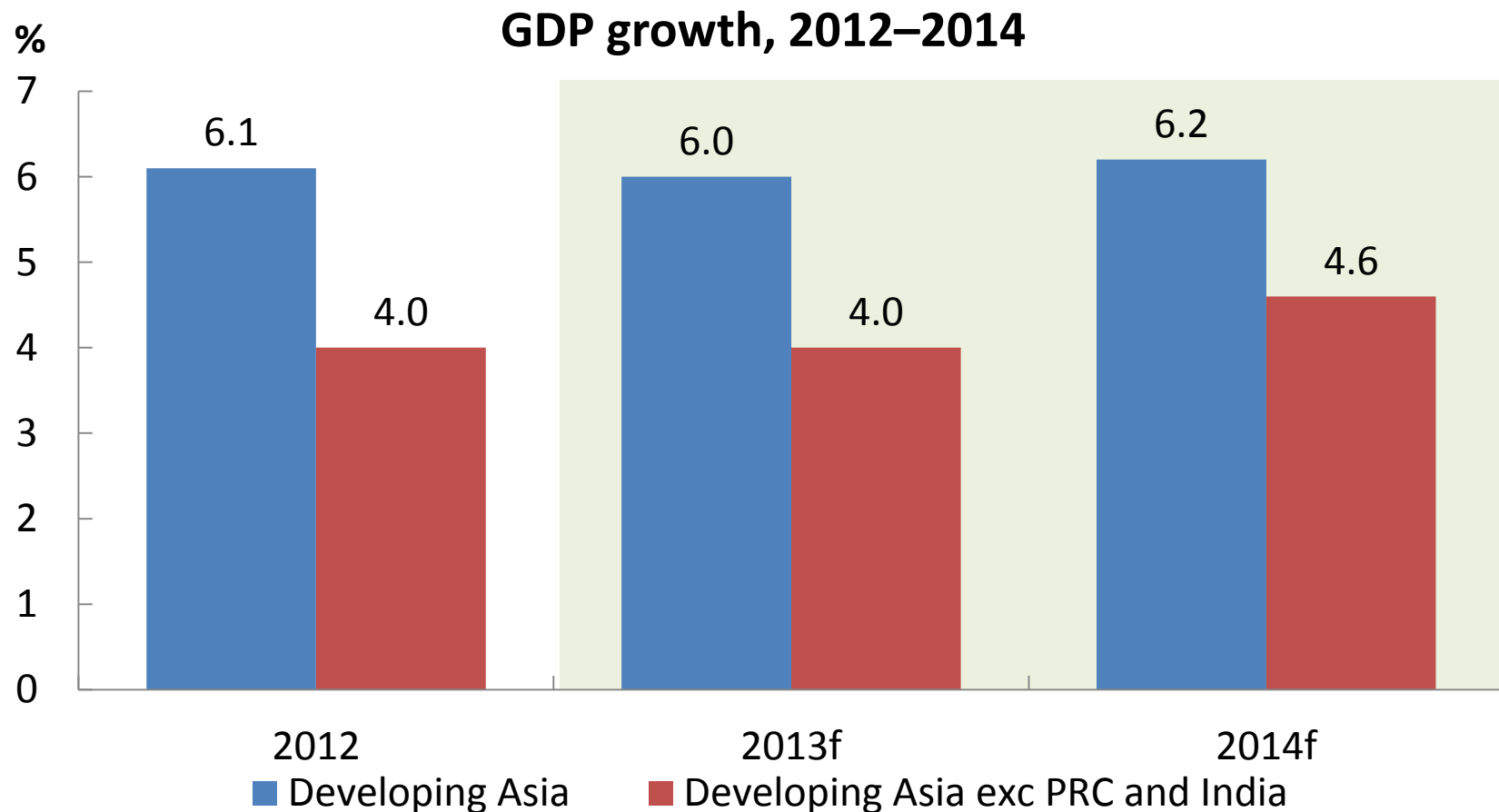
Impact of PRC growth slowing by 1 percentage point on the rest of developing Asia, 2007–2012^a



PRC = People's Republic of China

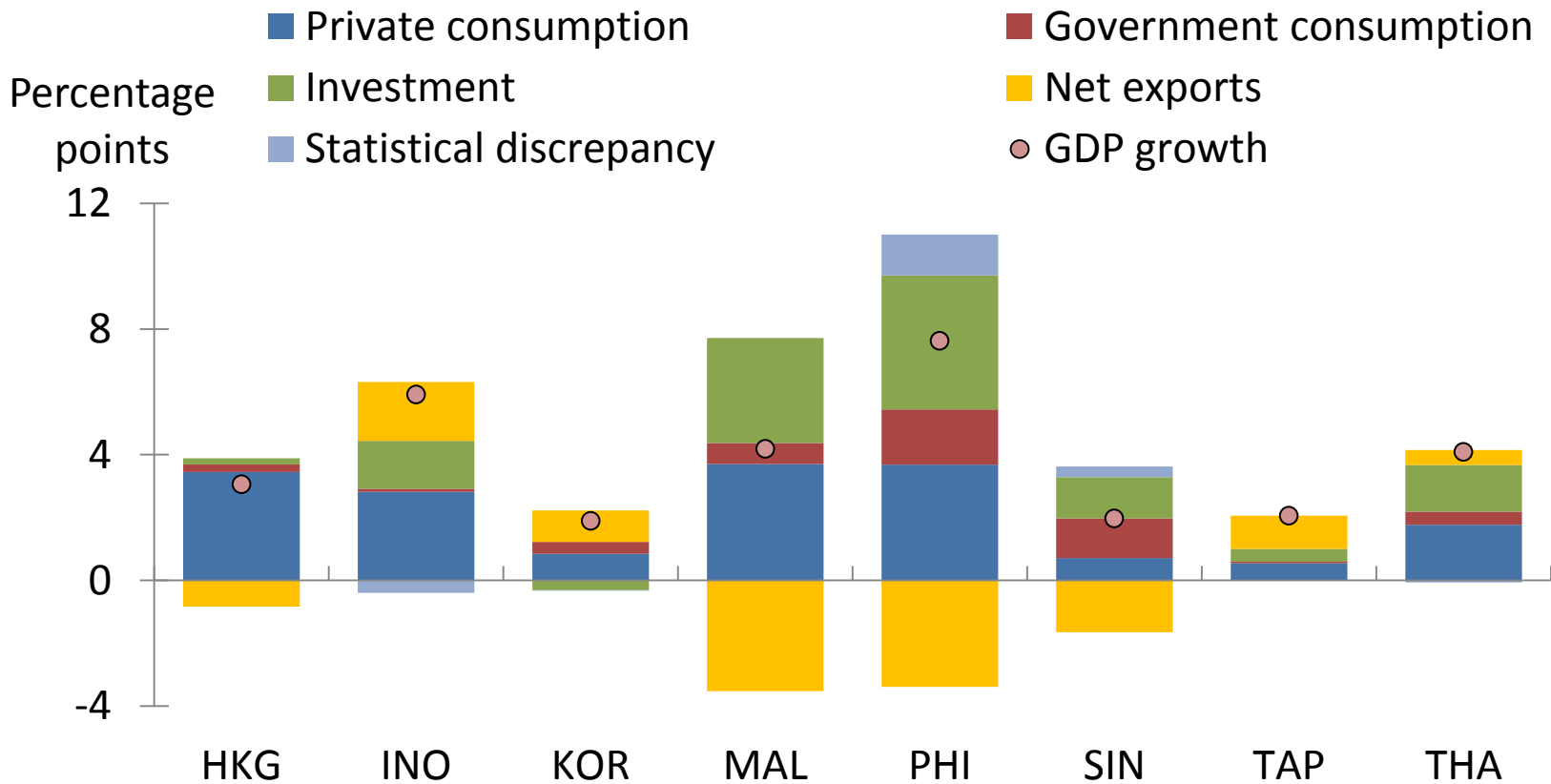
^a Weighted predicted values.

...but two giants' slower growth will not hobble rest of Asia's growth



Growth driven by domestic demand...

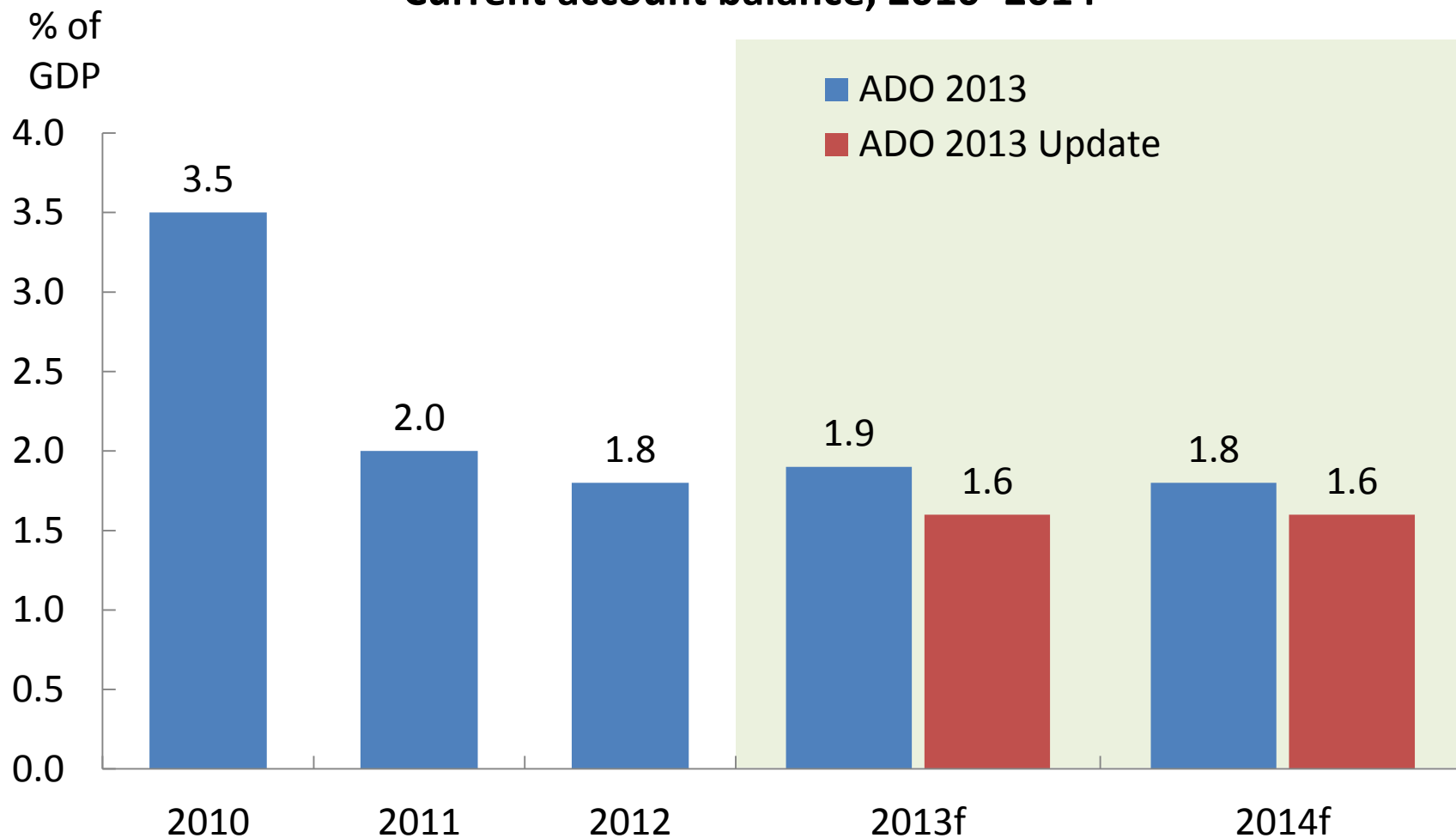
Contributions to growth (demand), first half-2013



HKG=Hong Kong, China; INO=Indonesia; KOR=Rep. of Korea; MAL=Malaysia; PHI=Philippines; SIN=Singapore; TAP=Taipei,China; THA=Thailand.

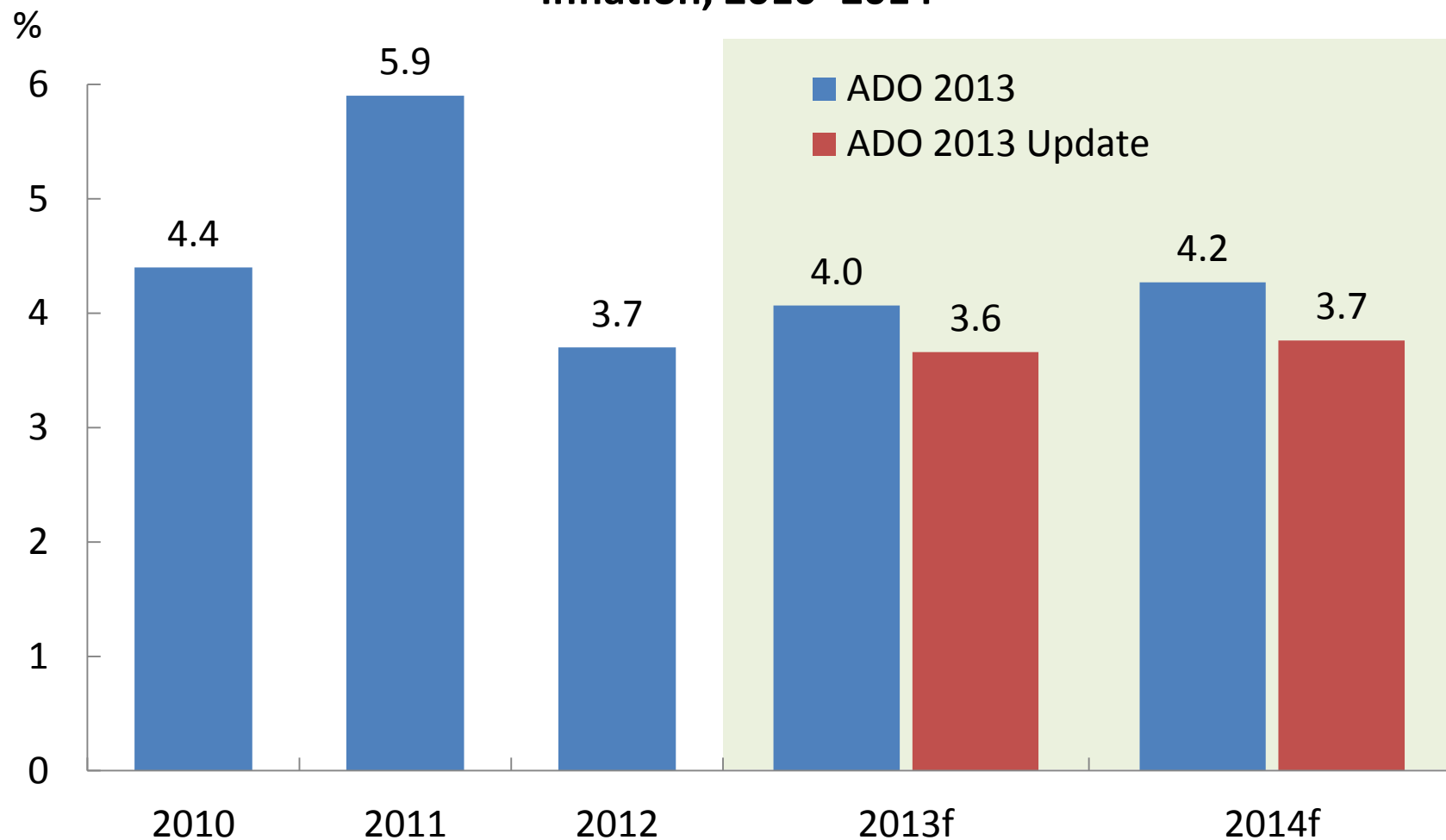
...as Asia's rebalancing continues

Current account balance, 2010–2014



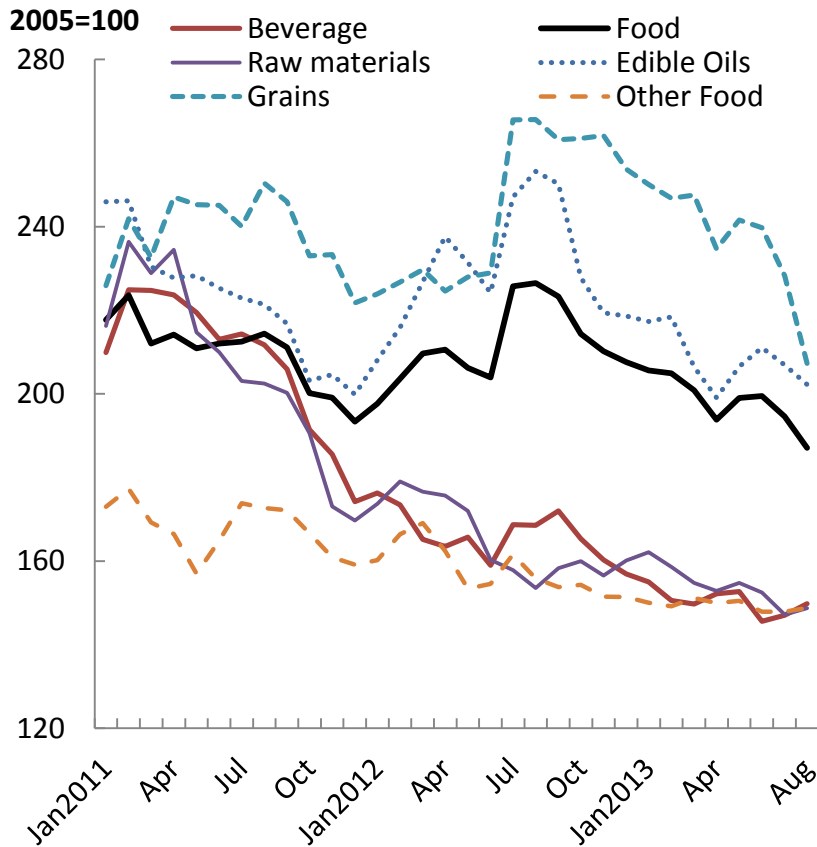
Inflation pressures in check...

Inflation, 2010–2014

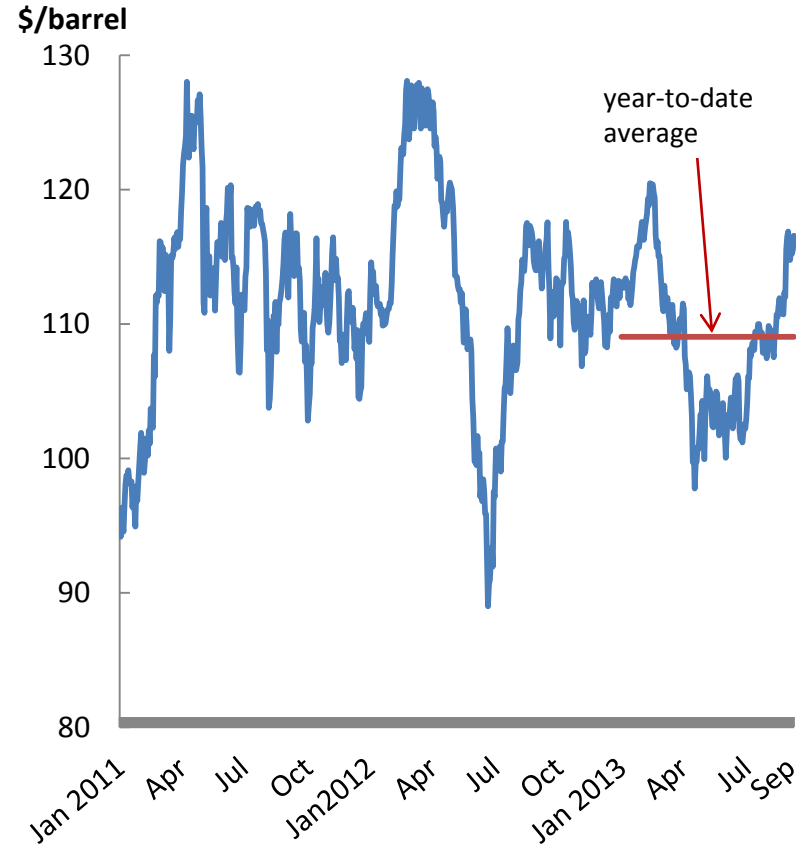


...due to weaker growth and tepid commodity prices...

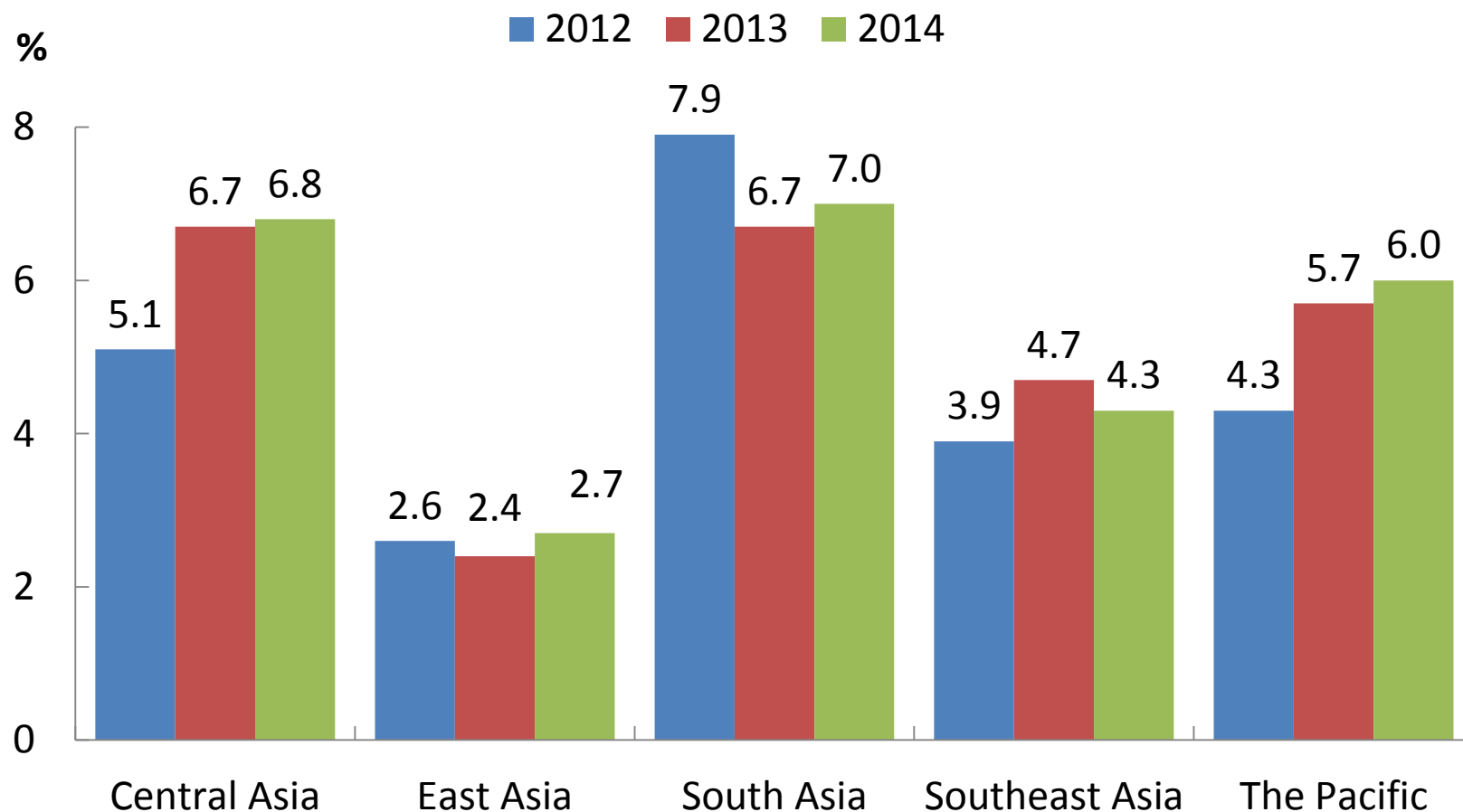
Selected commodity prices



Brent crude spot price



...but subregional variations exist

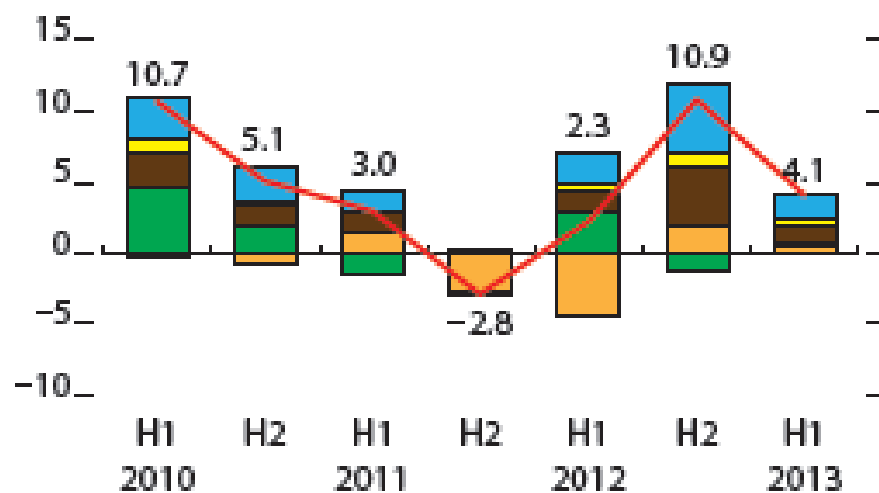


Thailand: updated assessment

3.9.1 Demand-side contributions to growth

- Private consumption
- Government consumption
- Gross fixed capital formation
- Net exports
- Change in inventories
- GDP

Percentage points



Thailand: prospects

3.9.1 Selected economic indicators (%)

	2013		2014	
	<i>ADO</i> 2013	<i>Update</i>	<i>ADO</i> 2013	<i>Update</i>
GDP growth	4.9	3.8	5.0	4.9
Inflation	3.2	2.6	3.1	2.9
Current acct. bal. (share of GDP)	0.8	0.0	0.1	0.5

Source: ADB estimates.

Thailand: prospects

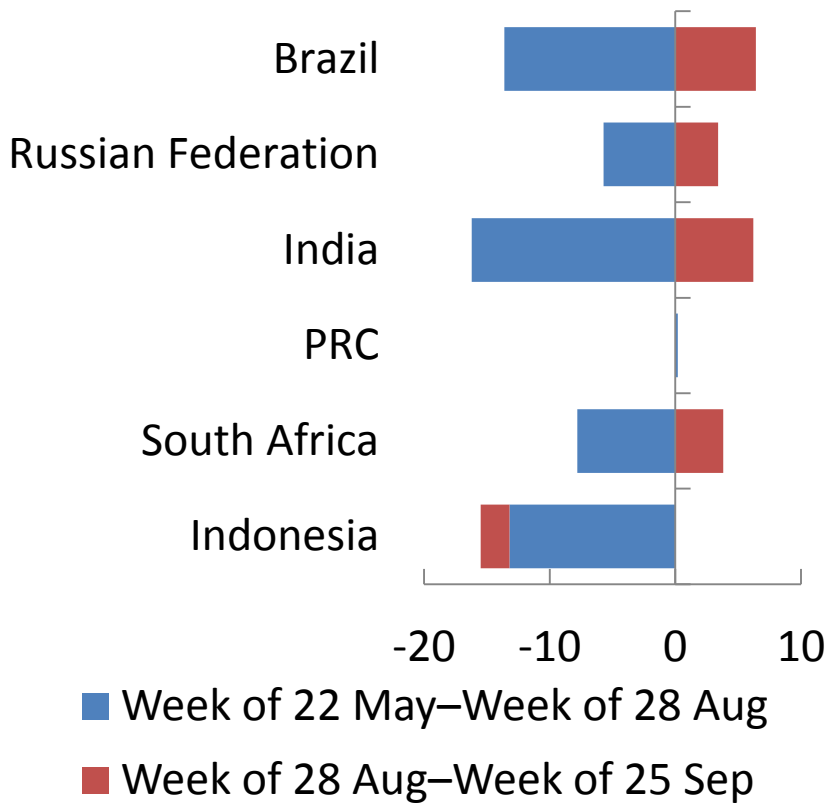
- Decline in consumer confidence and rising household debt
- Implementation of government investment programs
- Spillovers from government investment, accommodative monetary policy and better external outlook to support private investment
- Pick up in exports in line with world trade

Thailand: risks to outlook

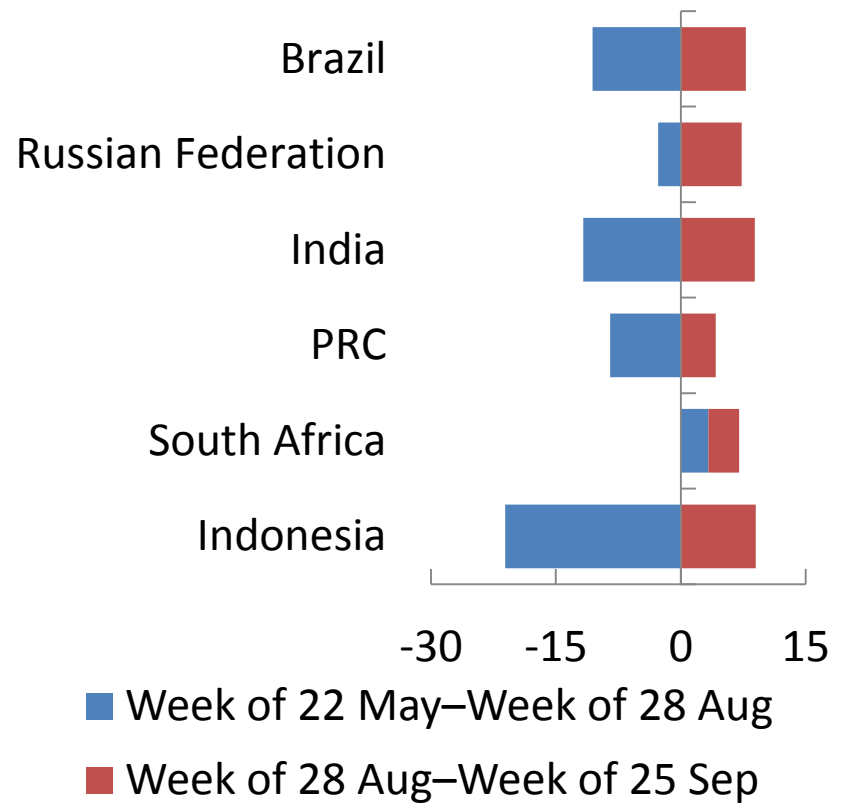
- Delays in government investment projects
- Unexpectedly slow economic growth in major industrial economies or PRC
- Domestic political tensions

Talk of quantitative easing taper shook financial markets...

Change in local currency unit/\$

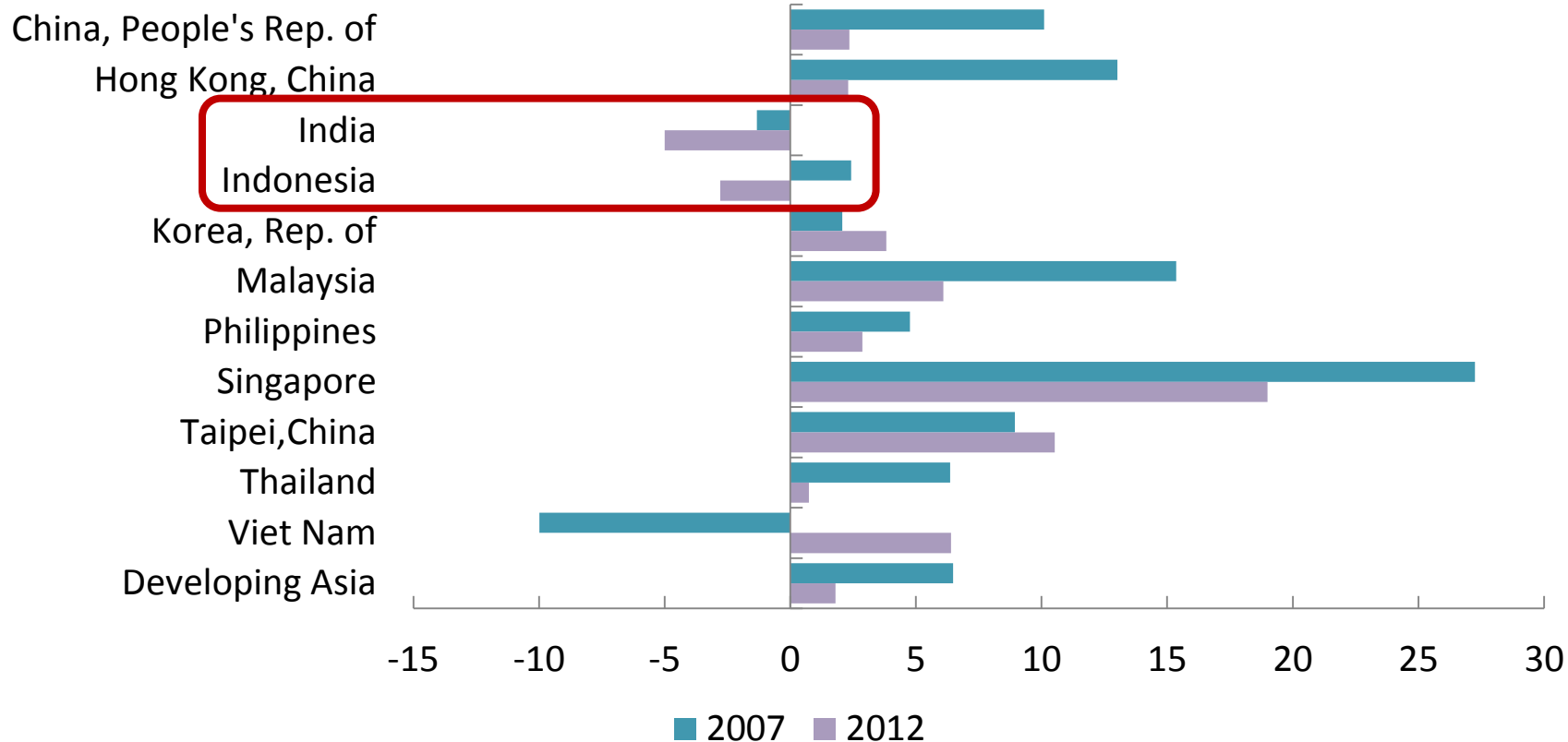


Change in main stock index



...with India and Indonesia hit hard due to widening current account deficits

Current account balance, % of GDP



Fears of a 1997-like crisis unwarranted...

Select Vulnerability Indicators (1997 vs. latest available data)^a

	Fiscal Balance (% GDP)		Current Account (% GDP)		Import cover (months)		Short-Term External Debt / Reserves	
	1996	2012	1997Q2 ^b	2013Q2 ^c	Jun-97	Latest ^d	1997Q2	2012Q4
China, People's Rep. of	-1.8	-1.6	0.8	2.3	10.6	22.1	28.8	12.4
Hong Kong, China	2.1	3.2	—	-0.3	4.0	6.9	280.6	65.3
India ^a	-7.0	-7.5	-3.1	-3.6	0.6	6.8	—	54.0
Indonesia	1.0	-1.8	-1.8	-2.4	5.7	5.2	191.0	49.0
Korea, Rep. of	0.2	-2.9	-2.1	6.7	2.6	5.1	232.0	44.1
Malaysia	0.7	-4.5	-4.4	1.1	4.0	7.7	69.2	25.5
Philippines	0.3	-2.3	-4.2	5.3	3.5	14.5	105.5	21.2
Singapore	21.3	1.1	20.0	20.0	7.4	8.3	245.4	75.1
Taipei,China	-1.4	-1.6	1.5	11.9	9.3	19.4	26.6	12.1
Thailand	2.1	-4.1	-7.9	-5.1	5.4	7.6	157.7	15.8
Viet Nam	-0.9	-6.9	-8.2	4.6	—	2.3	53.3	56.3

^aFor India, latest figures are compared with 1991, not 1997. Fiscal data is for central and state governments.

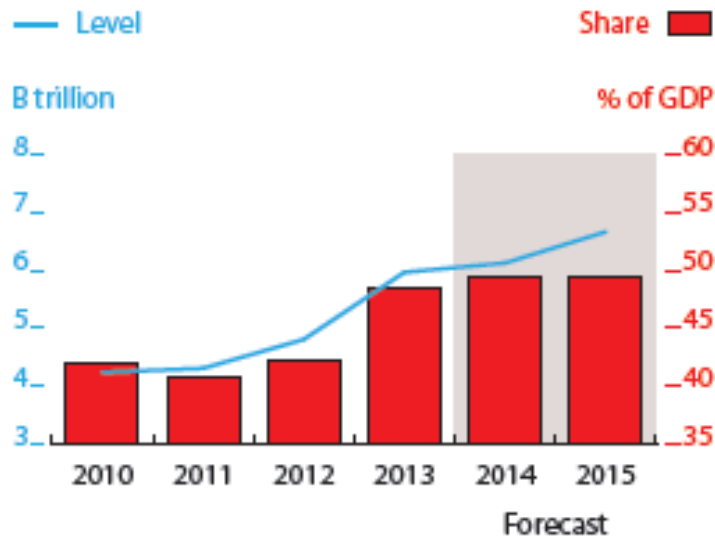
^bAnnual 1996 current account as % of GDP data for the People's Republic of China; Hong Kong, China; India; Malaysia; Philippines; Thailand; and Viet Nam.

^c2012Q4 data for Viet Nam; 2013Q1 data for Hong Kong, China; India; Indonesia; Malaysia; and Philippines.

^dRefers to June 2013 except for Viet Nam (May); Hong Kong, China; and Malaysia (July); India; Indonesia; and Taipei,China (August).

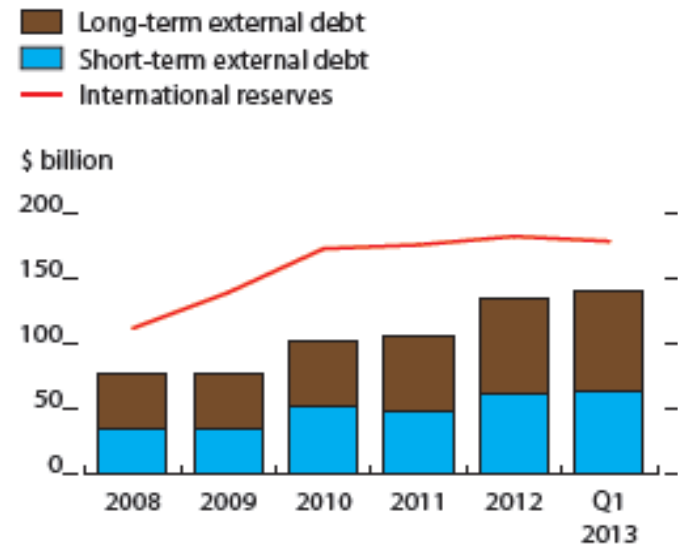
Thailand: reasonable internal and external stability

3.9.10 Public debt



Source: Thailand Ministry of Finance.

3.9.11 International reserves and external debt



Source: Bank of Thailand. <http://www.bot.go.th> (accessed 16 September 2013).

Lessons from the recent global crises

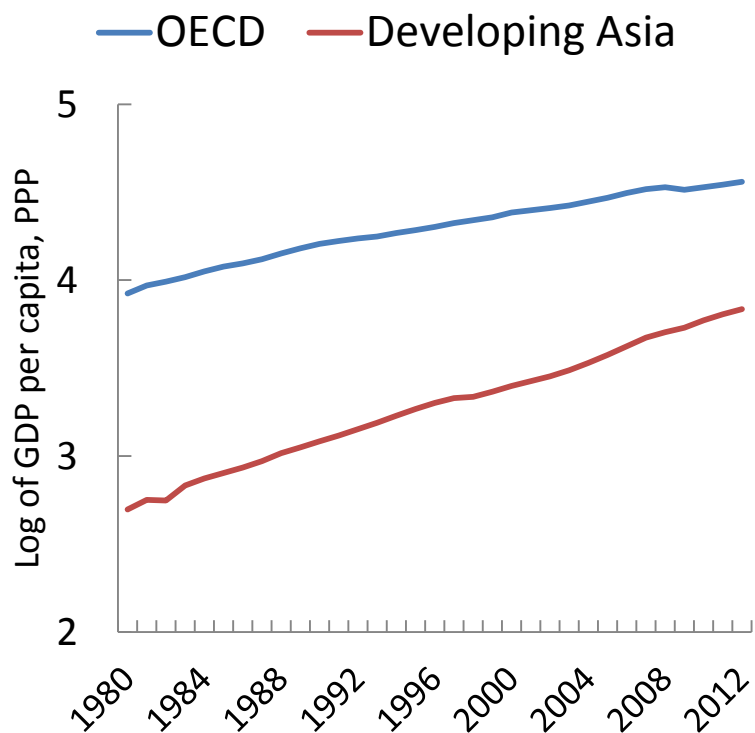
- **Monetary policy:** Crisis response cannot rely solely on easier monetary policy.
- **Exchange rate policy:** Allow exchange rate flexibility while balancing inflation and external debt.
- **Fiscal policy:** Periods of relative calm are times to firm governments' fiscal positions.
- **Bank restructuring:** Respond quickly to asset bubbles; be aggressive in bank restructuring; and recapitalize surviving banks.
- **Safety nets:** Better coordinate multilayer safety nets – domestic (reserve holdings), regional (ESM, CMIM), and global (IMF).
- **Macroprudential regulation:** Monitor capital flows; harmonize and improve transparency and quality of financial market data.

Financial turmoil timely reminder for structural reform

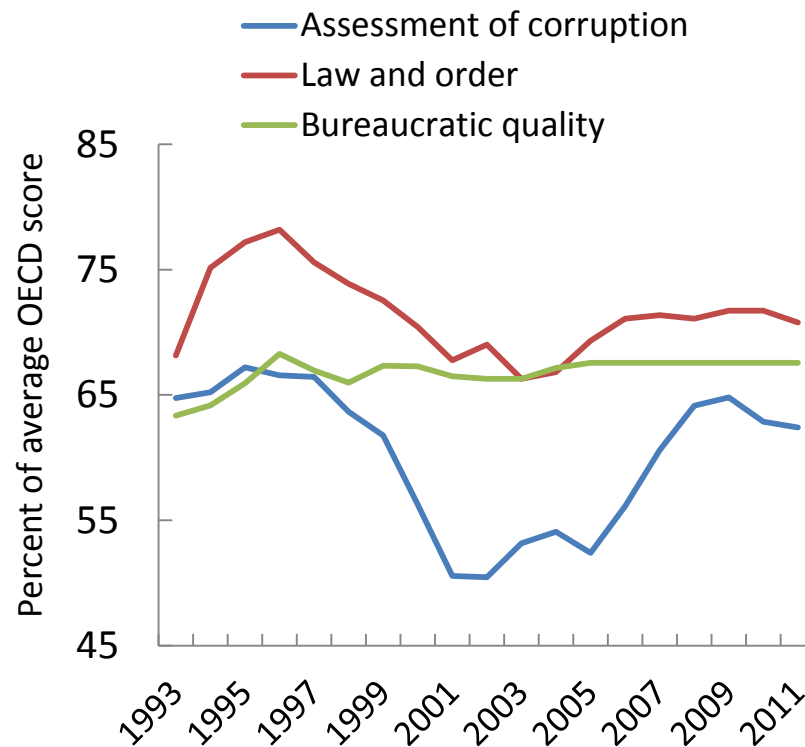
- Prioritize reforms that promote macro/financial stability and alleviate long-term growth constraints:
 - Ease supply-side bottlenecks (e.g., infrastructure gaps and excessive regulations)
 - Enhance human capital
 - Develop financial sector
 - Strengthen social protection
 - Undertake governance reform
 - Asia's growth has outpaced the rest of the world, but governance reform lags

Governance and public service delivery

Developing Asia closing income gap faster than governance gap



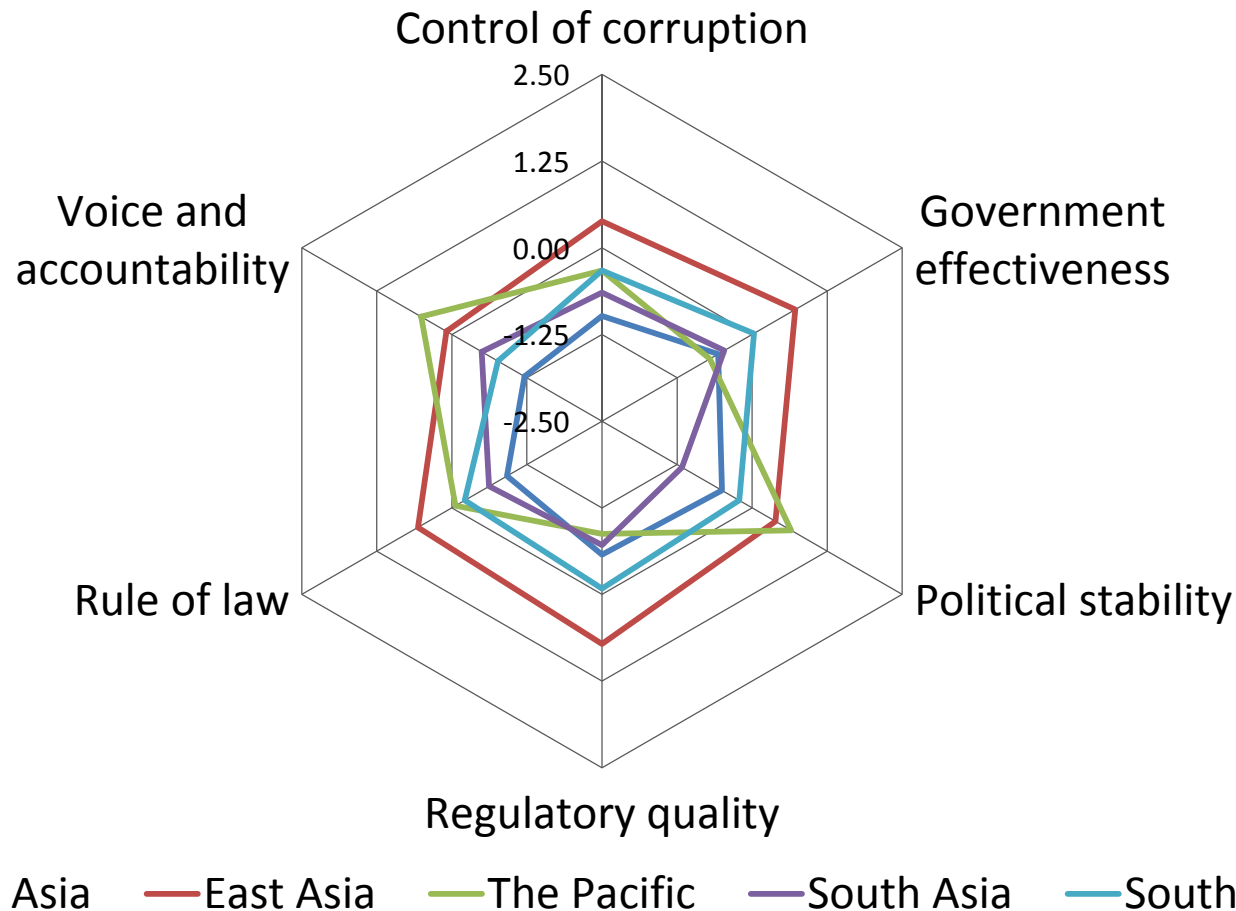
- Developing Asia's GDP per capita increased from 5.5% that of OECD economies in 1980 to more than 18% in 2012.



- But the region has seen less progress in closing the measured perceived governance gaps.

Variations are large within the region

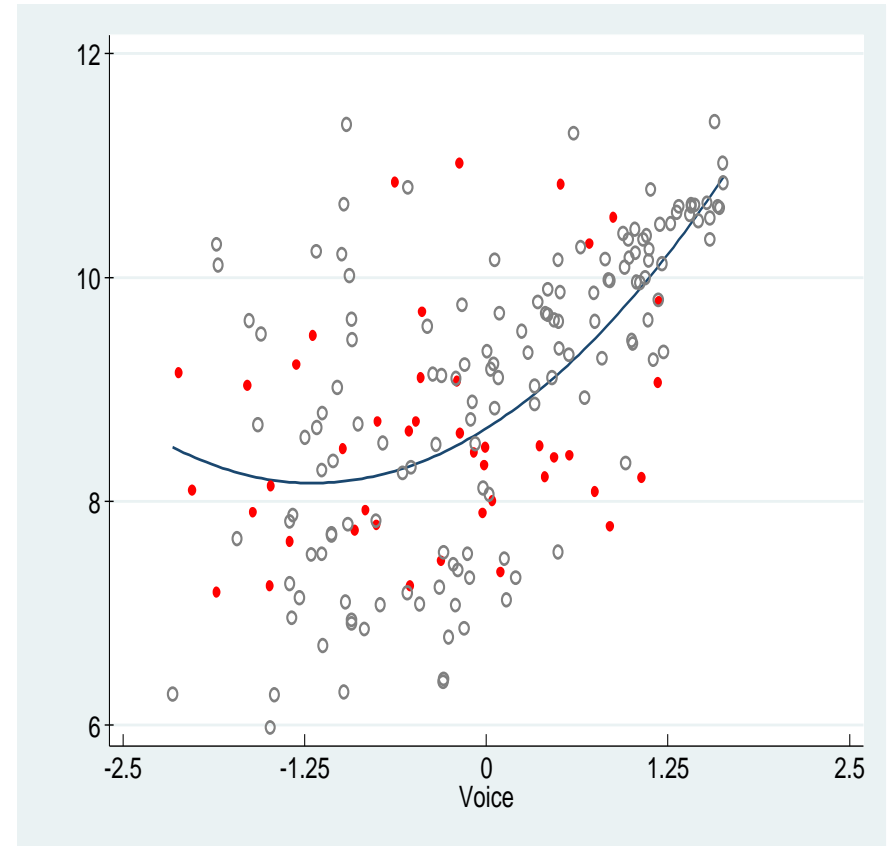
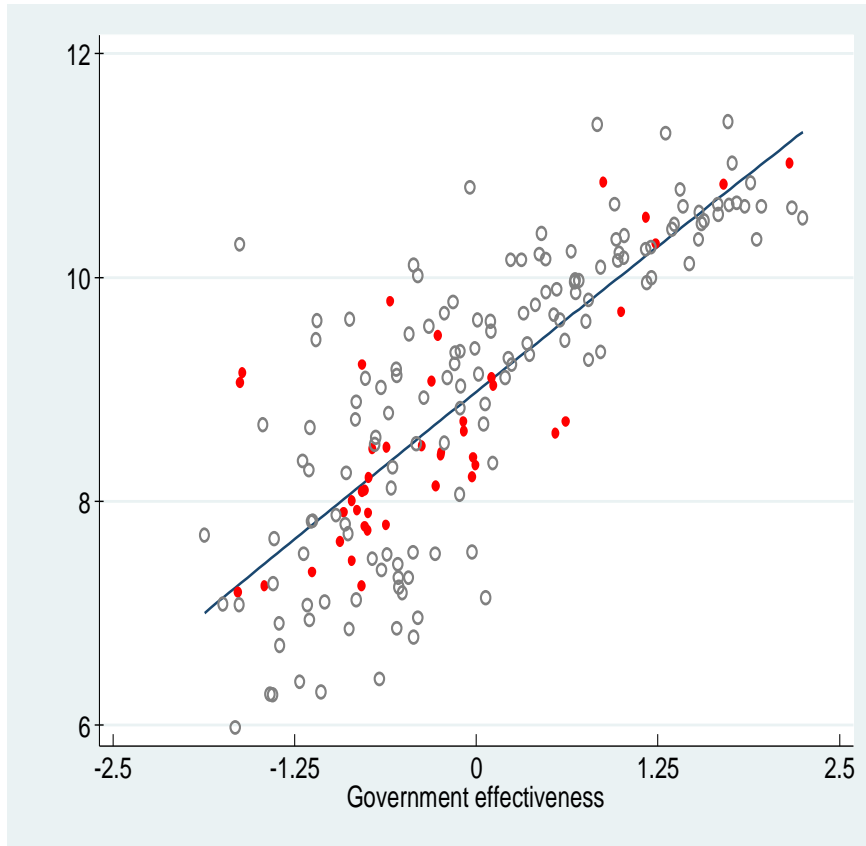
World governance indicators, 2011



Governance matters for growth and development

- Governance matters for attaining high levels of income and better social outcomes.
- Good governance and growth are positively associated; Asia is no exception.
 - Relationship is stronger for government effectiveness, rule of law, regulatory quality, and control of corruption than for voice or political stability.

Governance–development relationship is complex



- The relationship appears to be weak when incomes are low and strengthens after development reaches a certain stage.

Public service is an effective entry point for governance reforms

- Citizens perceive the quality of governance through the quality of public services.
 - Corruption has been cited as the main driver of poor governance and service delivery.
- Weak governance in turn undermines public service quality.
 - Absenteeism of doctors in health clinics and teachers in public schools is high.
 - More effective monitoring could yield high returns.

A multipronged strategy is needed for better public services

- When recipients have the means to demand better public services, quality improves.
- Complementary set of mechanisms for better public services—“3 Es”:
 - Empowering citizens
 - Engaging local governments and private sector
 - Expanding use of information and communication technology (ICT)

Tailoring governance reforms maximizes development impact

- Focus on governance deficiencies that hold a country back from its next stage of development.
 - **Low Income:** Growth-supporting aspects of governance reform take center stage.
 - **Middle Income:** Benchmark advanced economies for wider participation and greater accountability.
 - **All Economies:** Aim governance reforms at actionable areas with many low-hanging fruits.

Governance reform cannot be delayed

- Asian leaders are responding: Fighting corruption is high on the agenda.
 - Anti-corruption has been a key policy centerpiece of many Asian governments.
 - Anti-corruption legislation has been strengthened in some Asian economies.
- Implementation and enforcement are key.
- Asia's journey for governance reform is long and challenging, but payoffs will be large.

Thank you