



Foreword

This issue of the *Asian Development Outlook* is the tenth in a series of annual economic reports on the developing member countries (DMCs) of the Asian Development Bank. In the context of developments in the world economy that have included some difficult challenges, this *Outlook* analyzes the DMCs' recent economic performance, assesses their economic prospects, and reviews the policy issues that confront them.

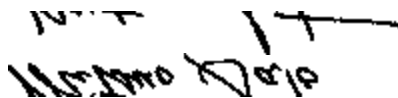
The year 1997 was a difficult one for many countries in developing Asia. Last year's *Outlook* noted the marked slowdown in export growth in East and Southeast Asia during 1996. The substantial decrease in export growth rates was the prelude to the worst year the region has seen since its development began accelerating three decades ago. The export slowdown was followed by a currency and financial crisis that affected much of developing Asia during 1997. The consequences are still unfolding, and are being felt worldwide. Many commercial banks and finance companies in the region were closed, the real estate sector collapsed in some countries, interest rates soared, currencies depreciated rapidly, and many regional stock markets fell to unprecedented lows. In an attempt to rescue Indonesia, Republic of Korea, Philippines, and Thailand, multilateral agencies, including the Asian Development Bank, and several countries arranged a \$117 billion assistance package, which was the largest such program ever put together.

The financial crisis and its consequences are raising the question of whether the Asian miracle is over. Underlying this discussion is the issue of whether deeper reasons lie behind the crisis, in particular, whether a decline in the countries' competitiveness was a partial cause. The success of Asian countries was initially based on the production and export of labor-intensive manufactures. During the last few years, however, a number of other Asian countries capable of producing at lower costs have reached the same stage in the product cycle. Some of the relatively more developed Asian countries are now failing to meet the challenge presented by these economies and to move up the development ladder.

As a result of the events throughout the year, growth rates in East and Southeast Asia in 1997 were below those in previous years, and given recent events, forecasting the region's performance for 1998 and 1999 is more difficult than before. Nevertheless, projections indicate that growth rates will be modest in 1998, and negative in some countries, as the full impact of the crisis has yet to be felt. The year 1998 will be Asia's most difficult since the 1974 oil crisis recession. However, signs of recovery may begin to appear in 1999.

If, in the past, economies had to adjust to changing international conditions to remain competitive, in the present context such adjustment is imperative. First, the region must resolve its financial crisis. Second, it must implement policies to create, once again, an environment for sustained growth. This will require some reforms of institutions and policies, but I am confident that the affected Asian countries will succeed.

The format of this year's *Outlook* is slightly different from that of previous years. Part I is now divided into two chapters. The first chapter briefly surveys recent growth experience and the short-term prospects for the world economy, and then focuses on the Asian and Pacific region. The second chapter, which is an addition to this year's *Outlook*, discusses the financial crisis facing some of the Asian economies. This chapter shows that, while the massive inflows of capital in the form of direct and portfolio investments during the last decade have been an important determinant of growth, they have also proved to be a major source of macroeconomic instability. The structural weaknesses in the region's financial sectors, in conjunction with inappropriate exchange rate management policies and rapid, short-term capital inflows, have been major contributory factors in precipitating the crisis. Part II discusses each of the 35 DMCs in Asia and the Pacific, analyzing their recent economic performance and assessing their prospects for the next two years. Note that this year's country profiles devote greater attention than in the past to discussions of policy and development issues. Part III addresses the important issue of the role of human resources in economic development. It analyzes the links among population, human resources, and competitiveness and stresses their critical importance as determinants of long-run growth. The analysis provides important insights into the issue of the long-run sustainability of the Asian miracle.



Mitsuo Sato
President



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acronyms and abbreviations

ADE	Asian developing economy
ASEAN	Association of Southeast Asian Nations
BOP	Balance of payment
CDF	Commodity Development Framework (Fiji)
CMEA	Council for Mutual Economic Assistance
CRP	Comprehensive Reform Program (Vanuatu)
DMC	Developing member country
EMU	Economic and Monetary Union
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign direct investment
FSM	Federated States of Micronesia
FSU	Former Soviet Union
GDI	Gross domestic investment
GDS	Gross domestic savings
GDP	Gross domestic product
GNP	Gross national product
GNS	Gross national savings
IMF	International Monetary Fund
Lao PDR	Lao People's Democratic Republic
MAS	Monetary Authority of Singapore
MFN	Most Favored Nation
M1	Currency in circulation plus demand deposit
M2	M1 plus savings and time deposit
NIE	Newly industrialized economy
OECD	Organisation for Economic Co-operation and Development
PNG	Papua New Guinea
PRC	People's Republic of China
RBI	Reserve Bank of India
R&D	Research and development
RERF	Revenue Equalization Reserve Fund (Kiribati)
SOE	State-owned enterprise
UN	United Nations
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization



definitions

The classification of economies by major analytic or geographic groupings such as industrial countries, developing countries, Africa, Latin America, Middle East and Europe, and transitional countries follows the classification adopted by the International Monetary Fund. Latin America, however, refers to the Western Hemisphere in that classification and transitional countries include Kazakhstan, Kyrgyz Republic, Mongolia, and Uzbekistan, which are for the purposes of this *Outlook* included in Asia.

For the purposes of this *Outlook*, the following apply:

- **Newly industrialized economies (NIEs)** comprise Hong Kong, China; Republic of Korea; Singapore; and Taipei, China.
- **East Asia** comprises the NIEs, People's Republic of China, and Mongolia.
- **South Asia** comprises Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
- **Southeast Asia** comprises Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Thailand, and Viet Nam.
- **Central Asian republics** comprise Kazakhstan, Kyrgyz Republic, and Uzbekistan.
- **Pacific islands** comprise Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.
- **Developing Asia** refers to the 35 developing member countries of the Asian Development Bank discussed in this *Outlook*.

Billion is 1,000 million.

Trillion is 1,000 billion.

Tons are metric tons, equal to 1,000 kilograms or 2,204.6 pounds.

Unless otherwise specified, the symbol \$ means United States dollars; dollars are current US dollars.

The symbol ... in tables indicates that data are not available or not applicable.

The symbol -- in tables indicates that the figure is nil or negligible.

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