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Foreword

The *Asian Development Outlook 2003* is the 15th edition of the annual comprehensive economic report on the developing member countries of the Asian Development Bank (ADB).

The *Outlook* provides a detailed analysis and assessment of macroeconomic trends, including fiscal, monetary, and balance-of-payments developments, for 41 Asian and Pacific economies for 2002, as well as projections for 2003 and 2004. It also provides a broad diagnosis of macroeconomic conditions, future growth prospects, and progress in poverty reduction in the economies of the region.

After a marked slowdown in 2001, both the world economy and developing Asia got off to a strong start in 2002. As the year advanced, however, the pace of growth in the major industrial countries slowed and became more uneven. The United States' economy showed strong growth in the first and third quarters of 2002, but weaker performance toward the end of the year kept its overall recovery below expectations. Economies in the euro area did not perform as vigorously as projected at the beginning of the year. In Japan, despite stronger than expected growth in gross domestic product in the second half of the year, the economy expanded only slightly in 2002.

In contrast to the industrial countries, economic growth in developing Asia generally strengthened, accelerating further in the second half of 2002 as export demand picked up. Expansionary fiscal policies and accommodative monetary policies, mainly in East and Southeast Asia, contributed to the strengthening of aggregate demand, particularly consumption, while firmer export markets provided a boost to industrial production.

Growth projections for the global economy for 2003 have recently been adjusted downward, reflecting economic slowdown in industrial countries in the early part of the year, concerns about the consequences of the severe acute respiratory syndrome (SARS) epidemic in Asia, and uncertainties, though diminished, relating to the situation in Iraq. Sound policies and structural reforms remain essential for achieving robust, sustainable economic growth.

In developing Asia, aggregate growth projec-

tions have been reduced from those made at the end of last year. Revised estimated growth of 5.3% for developing Asia, with steady domestic and export demand in most countries, will still be robust in 2003 compared with all other regions in the world. Macroeconomic policies are expected to remain generally supportive. However, the economic outlook for Asia is highly dependent on the trends in the global economy, and susceptible to the risks associated with disruptions in tourism as well as other regional and international markets resulting from current uncertainties, including the SARS epidemic.

This year's *Outlook* contains a theme chapter addressing the issue of competitiveness, a topic high on the agenda of policy makers in Asia and the Pacific whose economies face rapid globalization, constant changes in technology, and increasing competition. The chapter analyzes the nature and role of competitiveness in national economic development, emphasizing that competition is first and foremost a firm-level issue. At the same time, governments play a key role in developing appropriate policy measures and creating a conducive environment that will enable the private sector to compete in the global market place.

The preparation of the *Outlook* was made possible through the efforts of many individuals both inside and outside of ADB. I would like to thank external economists and policy makers for their valuable insights and inputs. I would like to acknowledge the contribution of the economists from ADB's five regional departments and the resident missions as well as those from the Economics and Research Department. The publication would not have been possible without the support of ADB's Office of Administrative Services and the Office of Information Systems and Technology. Finally, the advice and assistance of the Office of External Relations in disseminating the *Outlook* are gratefully acknowledged.

Tadao Chino

TADAO CHINO
President

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Contents

Foreword	iii
Acknowledgments	v
Acronyms and Abbreviations	xiii
Definitions	xiv

Part 1 Developing Asia and the World 1

Overview of Economic Trends and Prospects	3
Overview of Economic Trends in Developing Asia in 2002	4
Macroeconomic Conditions in 2002	5
Outlook for Industrial Countries	10
Developing Asia: Subregional Trends and Prospects	14
Developing Asia: Risks and Uncertainties	23
Overview of Fiscal Policy in Developing Asia	28

Part 2 Economic Trends and Prospects in Developing Asia 37

East Asia	38
People's Republic of China	39
Hong Kong, China	46
Republic of Korea	51
Mongolia	56
Taipei, China	60
Southeast Asia	64
Cambodia	65
Indonesia	68
Lao People's Democratic Republic	75
Malaysia	78
Myanmar	82
Philippines	84
Singapore	89
Thailand	93
Viet Nam	98
South Asia	104
Afghanistan	105
Bangladesh	109
Bhutan	114
India	116
Maldives	123
Nepal	125
Pakistan	129
Sri Lanka	135

Central Asia 140

- Azerbaijan 141
- Kazakhstan 144
- Kyrgyz Republic 148
- Tajikistan 151
- Turkmenistan 155
- Uzbekistan 158

The Pacific 162

- Cook Islands 163
- Fiji Islands 166
- Kiribati 170
- Republic of the Marshall Islands 173
- Federated States of Micronesia 176
- Nauru 179
- Papua New Guinea 181
- Samoa 185
- Solomon Islands 188
- Democratic Republic of Timor-Leste 191
- Tonga 194
- Tuvalu 197
- Vanuatu 200

Part 3 Competitiveness in Developing Asia 203

Drivers of Change: Globalization, Technology, and Competition 208

- Competition and Competitiveness 208
- Drivers of Change 211
- Enhancing Entrepreneurial and Technological Capabilities 213

National Competitiveness: A Dangerous Obsession? 217

Aggregate Measures of Competitiveness 219

Institutions, The State, and The Market: A Partnership for Development 224

- Role of Institutions 226
- Areas of State Responsibility 227
- Areas of Shared Responsibility between the State and the Market 236

Global Value Chains 237

- Exploiting Global Value Chains for Economic Development: Ten NIE Entry Strategies 237
- Marketing and Technology Upgrading Strategies 242
- Difficulties, Risks, and Threats Within Global Value Chains 244
- Summary 245

Education and Skills	246
Basic Educational Achievements	246
Correlating Inputs with Science and Technology Outputs	249
Science and Engineering Education	250
Relevance of School and University Education	252
Summary	255

Catch-Up Competitiveness: Some Lessons	257
Catch-Up Competitiveness and Stages of Development	258
Innovations in Policy and Variety in Industrial Structures	261
Insights for Other Countries	262

Conclusions	264
--------------------	------------

References	268
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Statistical Appendix	273
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Boxes

Box 1.1 Asia's International Reserves: Prudent or Overcautious?	6
Box 1.2 Changing Patterns of International Trade in East and Southeast Asia	8
Box 1.3 Shifts in Foreign Direct Investment Flows to Developing Asia	15
Box 1.4 Deflation	24
Box 1.5 Contingent Liabilities	29
Box 2.1 One Year After World Trade Organization Accession	42
Box 2.2 The Reform Agenda and New Leadership	44
Box 2.3 Consumer Credit Growth in Korea	54
Box 2.4 Consultative Group for Indonesia Focuses on Investment	72
Box 2.5 Tenth Five-Year Plan	120
Box 3.1 The Information and Communications Technology Industry in India	210
Box 3.2 Outsourcing and White-Collar Globalization: A Boon to Asia's Developing Countries	212
Box 3.3 The Rise of the PRC: Threats and Opportunities	214
Box 3.4 The O-Ring Theory of Economic Development	225
Box 3.5 Exit Policies in Asian Countries	230
Box 3.6 The Origins of Silicon Valley: Meticulous Planning or Chance?	234
Box 3.7 Success Elements of the Irish Miracle	235
Box 3.8 Low Skills, Vicious Circles, and Traps	251
Box 3.9 Education Reform in Singapore: Toward Greater Creativity and Innovation?	254

Figures

- Figure 1.1 Developing Asia growth generally strengthened in 2002 3
- Figure 1.2 Buoyant consumer spending sustained the growth momentum 5
- Figure 1.3 Growth in industrial countries improved modestly in 2002 7
- Figure 1.4 The dollar weakened as capital inflows slowed 10
- Figure 1.5 The dollar depreciated against the euro and yen in 2002 10
- Figure 1.6 In the US, the yield curve moved down in the second half of 2002 13
- Figure 1.7 The euro benchmark yield curve shows a downward slope at the short end of maturities 14
- Figure 1.8 Sovereign risk spreads for Asia remain below those of other developing regions 14
- Figure 1.9 East Asia's performance will remain strong 16
- Figure 1.10 Southeast Asia's growth is driven by strong domestic demand 17
- Figure 1.11 The South Asian outlook improves 19
- Figure 1.12 Growth in Central Asia slows 21
- Figure 1.13 Political stability improves the Pacific economic outlook 22
- Figure 1.14 The share of social security and welfare spending increased 30
- Figure 1.15 Tax revenue collection in Central Asia is low 31
- Figure 1.16 Tax revenue collection has improved in East Asia and Central Asia 35
- Figure 2.1 Aggregate and Sector Change in GDP, People's Republic of China, 1997–2002 40
- Figure 2.2 Growth of GDP and Its Demand Components, Hong Kong, China, 1999–2002 47
- Figure 2.3 Contribution of Supply Components to Change in GDP, Republic of Korea, 1998–2002 52
- Figure 2.4 GDP Growth and Inflation, Mongolia, 1998–2002 57
- Figure 2.5 GDP Growth, Inflation, and Unemployment, Taipei, China, 1998–2002 61
- Figure 2.6 GDP Growth, Cambodia, 1998–2002 66
- Figure 2.7 Growth of Domestic Demand Components, Indonesia, Q1 1998–Q4 2002 69
- Figure 2.8 GDP Growth, Lao People's Democratic Republic, 1998–2002 76
- Figure 2.9 Role of Fiscal Pump Priming in GDP Growth, Malaysia, 1998–2002 79
- Figure 2.10 Aggregate and Sector Change in GDP, Philippines, 1998–2002 85
- Figure 2.11 Depression in Domestic Demand, Singapore, 2000–2002 90
- Figure 2.12 GDP Growth by Sector, Thailand, 1999–2004 94
- Figure 2.13 GDP Growth, Viet Nam, 1998–2004 99
- Figure 2.14 Foreign Exchange Reserves and Worker Remittances, Bangladesh, FY1993–FY2002 110
- Figure 2.15 GDP Growth, India, FY2001 and FY2002 117
- Figure 2.16 Government Revenues, Expenditures, and Fiscal Deficit, Nepal, FY1997–FY2003 126
- Figure 2.17 Composition of Tax Revenues, Pakistan, FY1997 and FY2002 130
- Figure 2.18 Tourist Arrivals by Month, Sri Lanka, 2000–2002 136
- Figure 2.19 GDP Growth and Investment Ratio, Azerbaijan, 1997–2002 142
- Figure 2.20 Change in GDP and Unemployment, Kazakhstan, 1996–2002 145
- Figure 2.21 External Debt, Kyrgyz Republic, 1994–2002 149
- Figure 2.22 External Debt, GDP Growth, and Overall Budget Balance, Tajikistan, 1996–2004 152
- Figure 2.23 Share of Fuels, Ores, and Metals to Total Exports, Turkmenistan, 1998–2002 156
- Figure 2.24 Visitor Arrivals by Quarter, Cook Islands, Q2 1999–Q2 2002 164
- Figure 2.25 Investment by Sector, Fiji Islands, 1977–2000 167
- Figure 2.26 Government Revenues and Expenditures, Kiribati, 1996–2003 171
- Figure 2.27 GDP Growth, Marshall Islands, 1996–2004 174
- Figure 2.28 Fiscal Balance, Federated States of Micronesia, FY1996–FY2003 177
- Figure 2.29 GDP Growth, Papua New Guinea, 1996–2004 182
- Figure 2.30 GDP Growth, Samoa, 1996–2003 186

Figure 2.31 GDP Growth and Fiscal Deficit, Solomon Islands, 1996–2002	189
Figure 2.32 GDP Growth, Democratic Republic of Timor-Leste, 1996–2004	192
Figure 2.33 GDP Growth and Inflation, Tonga, 1995–2002	195
Figure 2.34 Government Revenues and Expenditures, Tuvalu, 1996–2003	198
Figure 2.35 GDP Growth, Vanuatu, 1996–2004	201
Figure 3.1 Globalization, Technology, and Competition: Drivers of Change	209
Figure 3.2 Entrepreneurial and Technological Capabilities and Labor Productivity	216
Figure 3.3 Achieving Development: Governments and Markets in Partnership	226
Figure 3.4 Diversity of Policy Approaches and Industrial Structures, Selected Asian Economies	263

Tables

Table 1.1 Selected Economic Indicators, Developing Asia, 2000–2004	4
Table 1.2 GDP Growth, Selected Economies, 2001–2004	11
Table 1.3 External Debt, Central Government Debt, and Interest Payments, %	33
Table 2.1 Major Economic Indicators, People’s Republic of China, 2000–2004, %	41
Table 2.2 Major Economic Indicators, Hong Kong, China, 2000–2004, %	48
Table 2.3 Major Economic Indicators, Republic of Korea, 2000–2004, %	53
Table 2.4 Major Economic Indicators, Mongolia, 2000–2004, %	58
Table 2.5 Major Economic Indicators, Taipei, China, 2000–2004, %	62
Table 2.6 Major Economic Indicators, Cambodia, 2000–2004, %	67
Table 2.7 Major Economic Indicators, Indonesia, 2000–2004, %	70
Table 2.8 Major Economic Indicators, Lao People’s Democratic Republic, 2000–2004, %	77
Table 2.9 Major Economic Indicators, Malaysia, 2000–2004, %	80
Table 2.10 Major Economic Indicators, Philippines, 2000–2004, %	86
Table 2.11 Major Economic Indicators, Singapore, 2000–2004, %	91
Table 2.12 Major Economic Indicators, Thailand, 2000–2004, %	95
Table 2.13 Major Economic Indicators, Viet Nam, 2000–2004, %	100
Table 2.14 Major Economic Indicators, Bangladesh, 2000–2004, %	111
Table 2.15 Major Economic Indicators, India, 2000–2004, %	118
Table 2.16 Major Economic Indicators, Nepal, 2000–2004, %	127
Table 2.17 Major Economic Indicators, Pakistan, 2000–2004, %	131
Table 2.18 Major Economic Indicators, Sri Lanka, 2000–2004, %	137
Table 2.19 Major Economic Indicators, Azerbaijan, 2000–2004, %	143
Table 2.20 Major Economic Indicators, Kazakhstan, 2000–2004, %	146
Table 2.21 Major Economic Indicators, Kyrgyz Republic, 2000–2004, %	150
Table 2.22 Major Economic Indicators, Tajikistan, 2000–2004, %	153
Table 2.23 Major Economic Indicators, Fiji Islands, 2000–2004, %	168
Table 2.24 Major Economic Indicators, Papua New Guinea, 2000–2004, %	183
Table 3.1 Growth Competitiveness Index and Components, 2001	220
Table 3.2 Current Competitiveness Index and Components, 1999–2001	221
Table 3.3 Competitive Industrial Performance Index, 1998 and 1985	222
Table 3.4 Drivers of Industrial Performance, Ranking, 1998 and 1985	222
Table 3.5 Drivers of Industrial Performance, Ranking, 1998 and 1985	223

Table 3.6	Cost of Entry of Firms	229
Table 3.7	Gross Foreign Direct Investment Inflows, Selected Asian Economies, \$ million, Selected Years	239
Table 3.8	Early Joint Ventures and Technical Assistance from Japan	240
Table 3.9	Combining Marketing and Technology Strategies: Five Stages	243
Table 3.10	Indicators of Educational Attainment, Selected Asian Economies, Various Years	247
Table 3.11	Indicators of Educational Attainment, Selected Asian Economies, Various Years	248
Table 3.12	Science and Mathematics Average Achievement Scores at Age 14, Selected Economies	249
Table 3.13	Indicators of R&D Effort and Outcomes, Selected Economies, Various Years	250
Table 3.14	Deficiencies in Supply of Work-Related Competencies in Korea, %	253
Table 3.15	Stages of Latecomer Development	258
Table 3.16	Technological Stages in Southeast Asia's Electronics Industry	259

Statistical Appendix Tables

Table A1	Growth Rate of GDP (% per year)	281
Table A2	Growth Rate of Per Capita GDP (% per year)	282
Table A3	Growth Rate of Value Added in Agriculture (% per year)	283
Table A4	Growth Rate of Value Added in Industry (% per year)	284
Table A5	Growth Rate of Value Added in Services (% per year)	285
Table A6	Unemployment Rate (%)	286
Table A7	Gross Domestic Savings (% of GDP)	287
Table A8	Gross Domestic Investment (% of GDP)	288
Table A9	Inflation (% per year)	289
Table A10	Change in Money Supply (% per year)	290
Table A11	Growth Rate of Merchandise Exports (% per year)	291
Table A12	Direction of Exports (% of total)	292
Table A13	Growth Rate of Merchandise Imports (% per year)	293
Table A14	Balance of Trade (US\$ million)	294
Table A15	Balance of Payments on Current Account (US\$ million)	295
Table A16	Balance of Payments on Current Account (% of GDP)	296
Table A17	Foreign Direct Investment (US\$ million)	297
Table A18	External Debt Outstanding (US\$ million)	298
Table A19	Debt Service Ratio (% of exports of goods and services)	299
Table A20	Exchange Rates to the US Dollar (annual average)	300
Table A21	Gross International Reserves (US\$ million)	301
Table A22	Central Government Expenditures (% of GDP)	302
Table A23	Central Government Revenues (% of GDP)	303
Table A24	Overall Budget Surplus/Deficit of Central Government (% of GDP)	304

Acronyms and Abbreviations

AFTA	ASEAN Free Trade Area
AMC	asset management company
ASEAN	Association of Southeast Asian Nations
AusAID	Australian Agency for International Development
CPI	consumer price index
DMC	developing member country
EU	European Union
FATF	Financial Action Task Force
FDI	foreign direct investment
FEZ	free economic zone
GDP	gross domestic product
GNP	gross national product
GVC	global value chain
ICT	information and communications technology
IT	information technology
IMF	International Monetary Fund
Lao PDR	Lao People's Democratic Republic
MNC	multinational corporation
NIE	newly industrializing economy
NPL	nonperforming loan
ODM	own design and manufacture
OECD	Organisation for Economic Co-operation and Development
OEM	original equipment manufacture
OPEC	Organization of Petroleum Exporting Countries
PBC	People's Bank of China
PRC	People's Republic of China
PICTA	Pacific Island Countries Trade Agreement
PRGF	Poverty Reduction and Growth Facility
R&D	research and development
SARS	severe acute respiratory syndrome
SME	small and medium enterprise
SOCB	state-owned commercial bank
UNIDO	United Nations Industrial Development Organization
UK	United Kingdom
US	United States
VAT	value-added tax
WTO	World Trade Organization

Definitions

The economies discussed in the *Asian Development Outlook 2003* are classified by major analytic or geographic groupings, such as industrial countries, developing Asia, and transition economies.

For purposes of *ADO 2003*, the following apply:

- **Association of Southeast Asian Nations (ASEAN)** comprises Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- **Developing Asia** refers to 41 developing member countries (DMCs) of the Asian Development Bank discussed in *ADO 2003*.
- **East Asia** comprises People's Republic of China; Hong Kong, China; Republic of Korea; Mongolia; and Taipei, China.
- **Industrial countries** refer to the high-income OECD countries defined in World Bank, available: www.worldbank.org/data/countryclass/classgroups.htm#High-income.
- **Newly industrialized economies (NIEs)** comprise Hong Kong, China; Republic of Korea; Singapore; and Taipei, China.
- **Southeast Asia** comprises Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
- **Central Asia** comprises Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- **The Pacific** comprises Cook Islands, Fiji Islands, Kiribati, Republic of the Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea, Samoa, Solomon Islands, Democratic Republic of Timor-Leste, Tonga, Tuvalu, and Vanuatu.
- **Transition economies** refer to the countries of Central Asia, Mongolia, Cambodia, Lao PDR, and Viet Nam.
- The **euro area** comprises Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain.
- Unless otherwise specified, the symbol "\$" and the word "dollar" refer to US dollars. Currency abbreviations are given in Statistical Appendix Table A20.

The *Statistical Notes* give a detailed explanation of how data are derived.

ADO 2003 is based on data available up to 21 March 2003.