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Foreword

The *Asian Development Outlook 2004* is the 16th edition of the annual comprehensive economic report on the developing member countries of the Asian Development Bank (ADB).

ADO 2004 provides a detailed analysis and assessment of macroeconomic conditions—including fiscal, monetary, and balance-of-payments developments—for 41 Asian and Pacific economies for 2003, as well as projections for 2004–2005. It also provides a broad diagnosis of macroeconomic challenges and future growth prospects for the region's economies.

The recovery in major industrial countries remained subdued in the first half of 2003, but strengthened considerably in the last 2 quarters of the year and in early 2004, mainly in the United States and Japan, as economic growth in the euro zone was insipid. Despite the upturn in growth, inflation remained generally low while in Japan deflation abated. Hence, monetary policies stayed highly accommodative in major industrial countries. Such a policy stance is likely to continue for most of 2004 with a tightening of monetary policy and higher interest rates likely later in the year and in 2005. Fiscal policies in major industrial countries, which have also been expansionary, are expected to become more neutral to moderately contractionary over 2004–2005.

The economies of developing Asia and the Pacific generally showed remarkable resilience in 2003. Despite the uncertainties caused by the Iraq conflict, high oil prices, and the outbreak of the severe acute respiratory syndrome (SARS) epidemic, gross domestic product growth reached 6.3% in 2003, much better than expected earlier in the year and making it the most dynamic region in the world. Average inflation remained low at 2.3%. The region also posted a sizable aggregate current account surplus of 4.2% of gross domestic product.

Two notable features characterized economic developments in the region over the past 2 years. The first is the emergence of the People's Republic of China as a major engine for intraregional trade, a trend that accelerated in 2003 as exports from the rest of the region to that country continued to surge. The second is the increasing importance of consumer demand as a domestic source of

growth; with some exceptions, consumer spending in 2003 was a significant boost for many regional economies.

Given the strong economic fundamentals in the region, and with the outlook for major industrial countries brighter over the next 2 years, the economies of developing Asia and the Pacific are expected to expand by a robust 6.8% in 2004 and 6.7% in 2005. Such growth performance is expected to be increasingly broad based as domestic demand, particularly business investment, strengthens further, and as external demand, including intraregional trade, remains buoyant. There are, however, several significant risks to this outlook. First, geopolitical risks such as terrorist acts or an epidemic outbreak such as SARS or more recently the avian flu remain a reality. Second, imbalances in the recovery of industrial countries hold significant risks for developing Asia's economies, as their recovery might not be sustainable. Finally, the rapidly increasing regional economic interdependence and the surge in intraregional trade, while a very positive development for the region, also carries uncertainties.

ADO 2004 contains a theme chapter discussing foreign direct investment (FDI) in developing Asia and the Pacific. Such investment in the region has grown rapidly in recent years, both facilitating and being attracted by the region's economic dynamism. Governments throughout the region have been striving to find the best policy mix for FDI that will maximize the net benefits for their economies. The chapter discusses recent trends in FDI flows in the region, their impact on the domestic economy, and the importance of the policy context in which these flows occur. While incentives and regulations targeting FDI may have some effect, a conducive environment for domestic investment and competition is more important.



TADAO CHINO
President

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Acronyms and Abbreviations

AFTA	ASEAN Free Trade Area
AMC	asset management company
ASEAN	Association of Southeast Asian Nations
AusAID	Australian Agency for International Development
BIT	bilateral investment treaty
CEPA	Closer Economic Partnership Arrangement
CPI	consumer price index
DMC	developing member country
DTT	double taxation treaty
EU	European Union
FATF	Financial Action Task Force
FDI	foreign direct investment
FEZ	free economic zone
GDP	gross domestic product
GNP	gross national product
ICT	information and communications technology
IT	information technology
IMF	International Monetary Fund
kWh	kilowatt-hour
Lao PDR	Lao People's Democratic Republic
M&As	mergers and acquisitions
MAI	multilateral agreement on investment
MFA	Multifibre Arrangement
NPL	nonperforming loan
MNE	multinational enterprise
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
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
saar	seasonally adjusted annualized rate
SASAC	State-owned Assets Supervision and Administration Commission
SARS	severe acute respiratory syndrome
SME	small and medium enterprise
SOCB	state-owned commercial bank
SOE	state-owned enterprise
TRIMs	Trade-Related Investment Measures
UK	United Kingdom
UN	United Nations
US	United States
VAT	value-added tax
WTO	World Trade Organization

Definitions

The economies discussed in the *Asian Development Outlook 2004* are classified by major analytic or geographic groupings. For purposes of *ADO 2004*, 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 2004*.
- **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.
- **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, People's Republic of China, Cambodia, Lao People's Democratic Republic, Mongolia, and Viet Nam.
- The **euro zone** 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 A19.

The *Statistical Notes* give a detailed explanation of how data are derived. *ADO 2004* is based on data available up to 31 March 2004.