

ADB

NARO NEWS

Spring 2001

Address:
Asian Development Bank
North American Representative
Office
815 Connecticut Avenue, NW
Suite 325
Washington, DC 20006
USA

Tel: 202.728.1500
Fax: 202.728.1505
Email: adbnaro@adb.org
ADB Web site: www.adb.org

Countries Covered:
Canada and United States

Regional Representative:
Karti Sandilya

Senior Liaison Officer:
Patricia Moser

External Relations Officers:
Sherry Kennedy
Sara Koester

Asian Region Remains World's Fastest Growing

ADB Publishes Annual Asian Economic Growth Forecasts

ADB's annual analysis and forecast of economic trends of the region, the *Asian Development Outlook 2001* (ADO 2001), released on April 19, suggests that developing Asia will continue to be one of the world's fastest-growing regions this year despite a slowdown in growth to 5.3 percent, from 7.1 percent in 2000. ADB's Chief Economist, Arvind Panagariya, commented that "Last year's performance of Asian's developing economies was exceptional, with all subregions faring well."

Several factors are associated with the expected slowdown in 2001, including decreasing demand for Asia's products, particularly in the United States, and the waning of the technology boom. As a result, Asian economies most dependent on high-tech exports will see the largest decline in growth. However, People's Republic of China (PRC) and India, which together comprise half of the total economy of developing Asia, are expected to continue to

grow strongly, propelled by buoyant domestic demand.

Asia's prospects for continued growth over the next two years will depend largely on those of the world economy, led by the US. ADO 2001 is "cautiously optimistic" that the world economy will experience only a relatively shallow and short-term slowdown from 4.8 percent in 2000 to 3.5 percent in 2001, before returning to growth of almost 4 percent in 2002. According to the report, "The effects of the US slowdown on ADB's developing member countries will depend heavily on intraregional trade. This has grown significantly over the last decade and can reduce the region's vulnerability to external factors."

ADO 2001 projects aggregate gross domestic product (GDP) growth in the region's developing countries to rebound to 6.1 percent in 2002. But this figure masks considerable variance among subregions:

(continued on page 2)

ADB Appoints New Chief Economist

Dr. Arvind Panagariya, recently appointed Chief Economist of ADB, assumed office on 9 April, 2001. A professor of economics and co-director for the Center for International Economics at the University of Maryland, the Princeton alumnus has worked extensively with multilateral institutions including the World Bank, the International Monetary Fund and the United Nations.

A renowned international trade economist, Professor Panagariya has been an editor of the *Journal of Policy Reform* and an associate editor of economics and politics. His technical papers have appeared in leading professional journals such as the *American Economic Review*, the *Quarterly Journal of Economics* and the *International Economic Review*. He continues to write a monthly column in the Indian financial daily newspaper, the *Economic Times*. ■

Asian Region Remains World's Fastest Growing

(continued from page 1)

- The newly industrialized economies of Hong Kong, China; Singapore; and Taipei, China are likely to see the sharpest slowdowns as they depend heavily on technology exports and on the US market, although monetary policy is expected to be accommodative. Their GDP grew by 8.4 percent in 2000 and ADO sees this slowing to 4.3 percent in 2001 before picking up to 5.6 percent next year.

- Recovery in the five countries most affected by the economic crisis of 1997 – Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand – was strong in 2000 as a result of domestic and external factors. The export performance of these countries is likely to suffer in 2001 as the global environment becomes less favorable and the boom in electronics moderates. Their GDP growth is forecast to decelerate to below 4 percent in 2001 from 6.8 percent in 2000, before recovering to 5.1 percent in 2002.

- During and following the Asian crisis, the PRC maintained robust growth, driven by strong domestic demand. Its economy is forecast to slow slightly from the 8 percent posted in 2000, but will nevertheless grow by more than 7 percent in 2001 and 2002.

- India, too, remained comparatively immune from the Asian contagion and will hold up well. GDP growth, which was 6 percent in 2000, will largely depend on performance in the agriculture sector and industrial reforms, but should remain in the 6-7 percent range for 2001 and 2002.

- For South Asia as a whole, growth is expected to remain unchanged in 2001 at 5.8 percent, improving to 6.5 percent in 2002.

- Economic growth is expected to tail off in the Central Asian republics, Azerbaijan, and Mongolia as oil prices soften and demand slackens in the Commonwealth of Independent States for these countries' exports. Growth is projected to be in the 3-5 percent range in 2001 and 2002.

- For Cambodia, Lao People's Democratic Republic, and Viet Nam, GDP growth is forecast at 5-7 percent in 2001

and 2002, but will depend on strength in agriculture, export prospects for garments, and further stabilization measures to contain fiscal deficits and maintain stable prices.

- Unrest and political instability affected some Pacific countries in 2000, while the largest economy in the subregion – Papua New Guinea – slowed down significantly owing to weak performance in agriculture and industry. Improved prospects in the industrial sector and a gradual return to normalcy elsewhere in the economy should provide a foundation for more sustained growth, with growth of 3-5 percent for 2001 and 2002.

“Compared with 1997, East Asia's ‘crisis’ economies have stronger external situations, better capital flow structures, more flexible exchange rates, greater transparency, and improved financial systems, so they are in a better position to avoid any renewed loss of confidence,” Mr. Panagariya said.

“But in the face of a global slowdown, there is no room for complacency. Financial sector restructuring is far from complete, non-performing loan levels are high and corporate restructuring is inadequate, with poor profitability and high leverage ratios,” he added. Besides these domestic downside risks, there are also external risks to the regional and subregional outlook:

- The steep rise in world oil prices in late 2000, particularly hitting net oil importers, had a definite impact. However, as prices have now come down from their peak, “in the absence of major supply disruptions, oil prices should not present a major risk,” ADO 2001 says.

- Representing more significant external risks are the continued weakness of the US economy, developments in the technology sector, and uncertain prospects facing the Japanese economy.

ADO 2001 projects continued growth of 1-2 percent for Japan, with momentum sustained by restructuring, and by fiscal and monetary support, while unemployment may level off. After recording GDP growth

of 5 percent in 2000, ADO sees the US economy as slowing abruptly to below 2 percent in 2001, before picking up to about 3 percent next year.

“In view of the broadening of the global recovery in 2000, the risks in this area have clearly receded, but have not entirely disappeared given the size and importance of the US economy and some fragilities in the rest of the world,” ADO 2001 concludes.

The *Asian Development Outlook 2001* can be purchased through the North American Representative Office at 202-728-1500 or on-line at www.adb.org. ■

Canadian Government Launches Climate Change Fund

The Canadian government has agreed to establish the Canadian Cooperation Fund with an initial Can\$5 million (US\$3.2 million). The Fund, administered by ADB, supports activities aimed at reducing the growth of greenhouse gas emissions in the Asian and Pacific region. The Fund reflects Canada's aim to contribute towards poverty reduction in the region through policy dialogue and collaborative programming with ADB on managing climate change. It also enables ADB to assist its developing member countries promote renewable energy and energy efficiency at programming and policy levels. This will help to manage and abate climate change.

Assistance will be given to projects with potential access to treaty mechanisms, including the Global Environment Facility and Clean Development Mechanism. It will also support activities relating to carbon sequestration and adaptation to climate change. ■

Focus on Globalization and Economic Growth

Asian Development Outlook 2001 (ADO 2001) highlights the links between globalization and economic growth. But recent experience with the Asian crisis of 1997 suggests that globalization can also be a source of volatility, impacting not only economies but also their welfare systems. "The challenge for Asia's emerging economies is, therefore, how to capitalize on the opportunities for growth and development afforded by globalization, while simultaneously minimizing the risks," comments ADB President, Tadao Chino.

Risks can range from sharp changes in prices in the world markets to full-blown economic and financial crises. To avoid these pitfalls, it is important to adopt policies and develop institutions to restrict volatility arising from globalization and limit impact on society's most vulnerable groups. Short-term safety nets should provide income for those unable to work, while public works programs must provide jobs for the poor.

Where openness leads poor countries to specialize in the production and export of labor-intensive goods, there is a danger that globalization may draw poor children out of school. Thus, ADO 2001 suggests targeted subsidies for school attendance, as these have been successful in increasing school enrollment in developing countries in the region.

In terms of the policy shifts on economics and trade, human resources, social issues, and institutions that are needed if Asia is to meet the challenges of globalization, ADO 2001 recommends the following:

- Minimize efficiency losses and economic distortions brought about by trade barriers by replacing non-tariff barriers with tariffs and lowering the average level and kind of protection.
- Emphasize basic education, rather than vocational training, to give semi-skilled workers flexibility in adapting to a rapidly changing environment.
- Invest in telecommunications infrastructure and computer literacy

programs, depending on local circumstances, to maintain competitiveness in the new economy.

- Encourage development of securities markets which could prove more efficient in providing venture capital for technology start-ups.

- Develop complementary actions at global, regional and national levels in order for institutions to adapt more efficiently to globalization.

- Strengthen monetary and financial institutions to reduce volatility.

The rapid growth found in parts of Asia during the last three decades was fueled by exports, accompanied by high savings and investment rates, a supportive macroeconomic framework, and inflows of new technology. But Asia's developing countries will have to "graduate" from a growth model based on accumulation to one based on innovation, and adapt their institutions accordingly. They will have to do so in a manner consistent with the opportunities and constraints of globalization. ■

Karti Sandilya Named Regional Representative to NARO

Mr. Karti Sandilya assumed the post of Regional Representative to NARO on March 23, 2001, taking over from Mr. Louis Wong. Prior to joining ADB, Mr. Sandilya, a lawyer by profession and a national of India, held several high-level positions in the Indian Foreign Service, including in the Ministries of Commerce and Finance, where he served as Director and Joint Secretary.

After a 20-year career with the Indian government, Mr. Sandilya joined ADB in 1986. During his career with ADB he has developed extensive knowledge in a wide range of ADB's operations,

including the Office of the Secretary, Agriculture and Social Sectors Department (Senior Project Specialist), Office of External

Relations (Assistant Chief) and most recently, the Strategy and Policy Department (Manager, Poverty Reduction Unit and Governance and Public Management Unit). Among his many accomplishments, Mr. Sandilya is best known for leading the development of ADB's Poverty Reduction Strategy (1999) and coordinating its ADB-wide implementation. He was also instrumental in shaping ADB's Board-approved policy on good governance (1995) and developing ADB's Medium-Term Agenda and Action Plan on Good Governance (2001).

NARO welcomes Karti and looks forward to working with him. ■



NARO's present staff (L-R): Karti Sandilya, Sara Koester, Sherry Kennedy and Patricia Moser pose with NARO's former Director, Louis Wong

Award Winning Site on Asia's Recovery to be Expanded

Since its launch in November 1999, the Asia Recovery Information Center (ARIC) web site, located at www.aric.adb.org, has been recognized as a leading portal of information and analysis on the Asian crisis and recovery. User statistics and external awards and citations are proof of the quality and popularity of this website. As well as monitoring the social and economic impacts of the Asian crisis and recovery process, ARIC provides information on the responses of the international community, concerned governments, NGOs and civil society. It also monitors and contributes to ongoing discussions on the post-crisis policy agenda.

On April 3, ADB announced that the web site would be expanded through a US\$930,000 technical assistance grant financed by the Australian Agency for International Development (AusAID).

Phase I of ARIC covered the five countries most affected by the crisis, namely, Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand. Phase II will see expanded coverage that will include the PRC, Singapore and Viet Nam. ■

Aloha! ADB's Annual Meeting Draws Near

Honolulu, Hawaii will host ADB's 34th Annual Meeting from May 9-11, 2001. In keeping with tradition, this year's meeting will feature a program of free seminars on development-related issues along with country presentations for delegates, guests, and

in particular, the general public. These seminars will take place from May 7 - 11, 2001. For the past seven years, ADB has included these seminars as a means of sparking intellectual debate, new ideas and research to further the cause of development. This year's topics include:

- Pro-Poor Growth: The Renewed War on Poverty
- Child Labor and Poverty
- Globalization - The Emerging Development Challenge
- HIV/AIDS in Asia and the Pacific
- Water in the 21st Century – The Looming Crisis
- Open Forum on Cooperation Between ADB and Non-Government Organizations
- Mayor's Summit: Environmental Issues and Development Policy for Asian Developing Nations

A complete list and descriptions of the annual meeting seminars and activities can be obtained from our web site at www.adb.org. ■

Asian Development Bank
North American Representative Office
815 Connecticut Avenue, NW
Suite 325
Washington, DC 20006
USA

Individual copies of ADB's Annual Report for 2000 will be available in NARO immediately following the Annual Meeting in Honolulu. Call us at 202-728-1500 to request a complimentary copy.