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Foreword

This issue of the *Asian Development Outlook* is the eighth in a series of yearly economic reports on the developing member countries (DMCs) of the Asian Development Bank. Against a background of stable, yet increasingly fragile economic developments in the world economy, the *Outlook* analyzes recent economic performance and prospects for the DMCs and reviews and assesses pertinent policy issues facing these economies.

This *Outlook* broadly follows the format of previous issues. Part I contains a summary of recent growth experience and future prospects for the the world economy, with particular reference to the Asian region. Part II surveys recent economic developments and analyzes future prospects for 34 DMCs in Asia and the Pacific. Part III, which has been expanded in coverage for this issue, discusses the subject of international cooperation and integration with special reference to Asia and the Pacific. International trade and capital movements are covered as is labor migration. Regional and subregional cooperation arrangements are reviewed and assessed and suggestions are made for ways to increase cooperation. Environmental considerations and concerns receive special mention.

In 1995, the world economy continued its recovery from the slow growth regime which characterized the early years of the decade. Growth in industrial countries fell somewhat vis-à-vis 1994; however, this was regarded by many observers as a healthy sign which could foreshadow a prolonged period of modest but sustainable growth accompanied by low rates of inflation. The increase in the volume of world trade was brisk and the terms of trade for primary producers remained firm. However, little progress was made in improving labor market conditions as unemployment remained high in Europe, increased in Japan, and fell only slightly in North America.

Developing economies in Asia continued to prosper; growth was robust and living standards improved. Inflation worsened and external balances deteriorated in a few countries; however, these were often just symptoms of rapid growth. Care must be taken to prevent serious macroeconomic imbalances. Competitiveness in international markets improved as policy adjustments were made to facilitate international trade and the free flow of capital and technology across national boundaries. The potential crisis in financial markets created by the crisis in Mexico at the beginning of the year had a marginal and temporary effect on the developing economies in Asia; performance of stock markets moderated, and there was a leveling in the rate of increase in foreign direct investment as emerging markets

worldwide generally became less attractive as destinations for foreign funds. Several countries in Latin America suffered from the Mexican financial crisis and growth in this region was generally subdued as a result. Some countries in Africa continued to benefit from the adoption of outward-looking policies, although the region as a whole continued to grow slowly. Many transition economies demonstrated renewed and continuing economic vigor in 1995, particularly those that had undertaken wide-ranging economic reforms earlier.

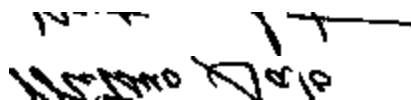
Economic prospects for the world economy in the medium term will depend, to a considerable extent, upon the ability of industrial countries to achieve moderate and sustainable economic growth without inflation. Implementation of prudent macroeconomic policies will play a critical role in achieving these goals.

Within the developing economies of Asia, the challenge will be to achieve high rates of growth while maintaining stability in domestic and external markets. Achievement of these objectives could be complicated by greater volatility in external markets for goods and capital as openness and competition in the world economic community increases.

While on balance developing Asia does well, we must not forget that there is still a hidden Asia where economic progress is slow and grinding poverty remains the norm. In terms of absolute numbers, the overall dimension of poverty still dwarfs that in other regions and, within the poorest countries in Asia, the incidence of poverty remains extraordinarily high.

Nevertheless, it is encouraging to note that significant progress continues to be made in reducing poverty in Asia. The effectiveness of transfers of resources through development assistance, coupled with domestic efforts and private resource flows, is laudable and is helping to achieve the humanitarian objectives of raising living standards for the lowest segments of society as well as for those with higher status.

The *Asian Development Outlook 1996 and 1997* was prepared by the staff of the Asian Development Bank and the analyses and assessments contained herein do not necessarily reflect the views of the Board of Governors or the Governments they represent.



Mitsuo Sato
President



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