



Foreword

The *Asian Development Outlook 2000* is the 12th in a series of annual economic reports on the developing member countries of the Asian Development Bank. The *Outlook* provides a comprehensive analysis of salient macroeconomic and development issues in individual countries as well as at the regional level, from both positive and normative perspectives.

In 1999 the world economy finally shook off the effects of the 1997 Asian crisis and the economic disturbances in Russia and Brazil that followed. Within Asia a moderate to strong upswing replaced negative growth in several countries; interest rates decreased and exchange rates stabilized. Domestic demand and export growth improved. Increased confidence in the region's economic prospects is evident from strengthened capital inflows from overseas investors, increased vitality of equity markets, and revived consumer confidence. All of the countries that were directly affected by the crisis and experienced negative economic growth in 1998 — Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand — recovered to positive growth. The strength of the rebound varied from a strong recovery in the Republic of Korea to a more modest revival in Indonesia. The People's Republic of China (PRC) and South Asia were insulated from the crisis to a certain extent and as a result fared better. In 1999 growth slowed slightly in the PRC, while accelerating by a similar margin in South Asia. Growth in Central Asia showed a strong increase as the effect of the Russian crisis dissipated, and the per-

formance of the Pacific economies improved from the previous year.

To sustain and further reinvigorate the growth process, developing Asia will have to continue with its agenda of reforms and institutional innovations in areas that are considered weak and vulnerable. In particular the crisis has exposed weaknesses in the banking system, capital markets, and corporate sectors of the affected countries. The scale and complexities of the issues involved are enormous. The crisis has rendered a large part of the banking and corporate sectors financially insolvent. In the immediate aftermath of the crisis, the ADB cooperated with other donors in providing emergency financial assistance to stabilize the affected economies and to support urgent structural reforms. On its part, the ADB focused on a structural agenda that included restructuring insolvent financial institutions, improving corporate governance, and deregulating and opening domestic markets. In this regard, the ADB provided loans to assist Indonesia, Korea, and Thailand in implementing financial sector reforms. The crisis countries have made significant progress in bank and corporate sector restructuring and have created new organizational entities to deal with these issues. While much progress has been made, much remains to be done.

However, given the willingness and dedication of the governments to address this unfinished agenda of reform and restructuring, we are confident that the results of these structural reforms and review of policies

and institutions will result in improved economic efficiency, greater transparency, better governance, and improved social equity. The region will emerge stronger and more able to fulfill its potential for sustained economic growth and development.

Part I of this year's *Outlook* comprises two chapters. The first chapter provides a comprehensive review of economic developments in the Asian and Pacific region against a background of developments in the world economy. In the second chapter, the *Outlook* presents a progress report on financial and corporate restructuring in the countries most affected by the crisis. This chapter develops elements of such a strategy, as well as an agenda for strengthening ongoing reforms, improving governance, reducing fiscal imbalances, and developing financial markets.

Part II discusses the recent economic performance and short-term prospects for each of the 37 developing member countries of the ADB. It also reviews and assesses economic management and policy and development issues from a medium-term perspective.

Part III discusses the social challenges the Asian region faces as it moves into the new millennium. It reviews the record of social achievement, analyzes salient factors behind the social challenge, and recommends policies for change. In addition to poverty, this challenge has many dimensions: low literacy, unsatisfactory education, poor health and nutrition, environmental degradation, income and wealth disparities, and discrimination. Several conclusions follow from the analysis, including the importance of

openness and market orientation in sustaining vibrant economic growth that includes the poor and disadvantaged. For growth to be inclusive, renewed and more focused efforts to invest in human resources and physical infrastructure are crucial. The ability and will of governments to address social issues through the political process and good governance must be strengthened. Finally, national governments should create a fiscally prudent social safety net to safeguard the nonpoor from a sudden push into poverty, and the poor from a descent into extreme poverty. While developing an agenda to address social issues is primarily the task of national governments, the international community can assist by increasing foreign assistance (which has declined sharply in recent years); providing international public goods, such as research on tropical diseases and tropical agriculture, which concern the majority of the poor; and improving the global trading environment, which remains encumbered by many restrictions in areas of interests to poor countries.

The ADB has recently adopted poverty reduction as its overarching objective. This *Asian Development Outlook 2000* provides a useful addition to our stock of knowledge on both the location and dimensions of the poverty problem, as well as specific policies to address this crucial social challenge in individual countries.



TADA0 CHINO
President