

Foreword

Asian Development Outlook 2008 (ADO 2008) is the 20th edition of the annual comprehensive economic report on the developing member economies of the Asian Development Bank. This year's *ADO* features changes that aim to serve readers' needs better and enhance the relevance of content.

Parts 1 and 3 provide an assessment of recent economic performance for 44 developing economies in Asia, and projections for major macroeconomic indicators for 2008 and 2009.

In 2007, developing Asia grew by 8.7%, the fastest recorded rate of growth since 1988. The People's Republic of China (PRC) and India both grew at an exceptionally rapid pace, and several other countries, including the Philippines, enjoyed the fastest growth in decades.

But in the latter part of 2007, the global economic outlook began to turn. Problems that germinated in the United States (US) subprime mortgage and housing market began to spread and amplify. A coincident slowing of growth is now under way in the G3 economies (Europe, Japan, and US). There is still considerable dissonance about the extent and duration of the expected slowdown, and the full extent of problems in US and—possibly European—credit markets is yet to be revealed.

In this difficult environment, economic activity in developing Asia is expected to remain strong and growth of 7.6% is expected in 2008. This solid performance in an unsteady global economy is underpinned by favorable policy conditions, strong productivity growth, and the ongoing structural transformation of Asian economies. Still, growth projections for 2008 and 2009 are slightly below the recent historical trend in developing Asia.

Developing Asia will not be immune to the global economic slowdown, nor will it be hostage to it. *ADO 2008* features an examination of how the G3 downturn could be transmitted to developing Asia and concludes that trade channels remain an important conduit for the transmission of shocks. As yet, market penetration by Asian suppliers in the PRC's final goods markets is limited, and strong growth in the PRC will provide only a limited cushion against the G3 downturn.

In the past decade, developing Asia has become much more deeply integrated with global financial markets, raising the potential for contagion. But Asia's financial systems are likely to be spared a credit crunch, though there may be some tightening in credit markets. Asia's banks, which still dominate private financial markets, are generally well capitalized and there does not appear to be substantial value at risk on their balance sheets.

In the near term, the major risk lies not so much in softer growth but in rising commodity prices and accelerating inflation. If inflation expectations are allowed to become ingrained, this could create distortions that damage productivity growth over a protracted period. Though measures to restrict the impact of rising food prices on the poor are understandable, these should not be allowed to jeopardize

adjustments that are needed to bring forth additional supply. As earlier *ADOs* have warned, extensive subsidies on fuel come at high fiscal cost—a rising burden in several countries—as the gap between domestic retail and border prices widens.

Over the medium term, and once developing Asia has passed through the gathering storm of rising commodity prices and inflation, its growth prospects are likely to depend much more on how successfully countries manage their economies and overcome domestic constraints to growth.

Part 2 of *ADO 2008* features three chapters on workers in Asia. The first reviews the creation of decent and productive jobs, a pressing challenge for Asia's young people particularly. Youth joblessness is a ubiquitous feature of Asia's labor markets, despite rising levels of education. Young people, especially women, those in rural areas, and the less educated are at a real disadvantage in finding employment and getting good wages. A large majority of young Asian workers end up in the informal sector with low wages and miserable working conditions. Measures to improve the relevance and quality of school curricula, to provide support for vocational training, and to help kick-start job schemes are among targeted measures that deserve greater attention.

Developing Asia is facing a skills crisis, a scenario discussed in the second chapter of Part 2. The region does not have enough accountants, doctors, pilots and other highly trained workers to meet burgeoning demands. Although these shortages may appear to be localized, they can create bottlenecks that harm the wider economy. A range of short-term measures can help relieve constraints in the short run, including relaxation of restrictions that favor “insider” workers’ groups and more liberal policies toward skilled foreign workers. In the long run, successfully overcoming skills shortages will require wholesale liberalization and reform of Asia's tertiary education systems.

Asia's workers have for long been on the move. But, in developments analyzed in the final chapter of Part 2, recent times have seen a surge of migration within Asia. This surge has been driven by divergences in demography and by widening disparities in economic opportunities between countries—often neighbors. In the future, these trends are likely to become more accentuated and pressures for migration within the region are likely to build further. Unfortunately, policies toward immigration are not keeping pace with the reality faced by migrants themselves, nor do they adequately recognize the potentially large economic gains (to both sending and receiving countries) that flow from greater labor mobility and integrated labor markets. The calculations in this chapter suggest that these losses are large—even relative to trade restrictions. The vision of an integrated Asian labor market is yet to emerge, but it is one where regional cooperation efforts could harvest a substantial dividend.



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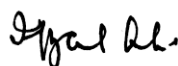
Acknowledgments

Asian Development Outlook 2008 was prepared by the staff of the Asian Development Bank (ADB) from the Central and West Asia Department, East Asia Department, Pacific Department, South Asia Department, Southeast Asia Department, Economics and Research Department (ERD), as well as the resident missions of ADB.

The economists who contributed the sections are bylined in each chapter. The subregional coordinators were Jesus Felipe and Norio Usui for Central and West Asia; Klaus Gerhaeusser and V.B. Tulasidhar for East Asia; Tadateru Hayashi for South Asia; Sharad Bhandari for Southeast Asia; and Craig Sugden for the Pacific.

A team of economists from ERD, led by Frank Harrigan, Assistant Chief Economist, Macroeconomics and Finance Research Division (ERMF), assisted by William James and Edith Laviña, coordinated the overall production of the publication. Technical and research support was provided by Shiela Camingue, Gemma Esther Estrada, Juan Paolo Hernando, Pilipinas Quising, Nedelyn Magtibay-Ramos, Lea Sumulong, and Sining Cuevas. Richard Niebuhr and Anthony Patrick as the economic editors made substantive contributions to the country chapters and other parts of the publication. Jonathan Aspin did the style and copy editing and Elizabeth E. Leuterio was responsible for typesetting and data linking, as well as graphics generation in which she was assisted by Maria Susan Torres. The cover was designed by Joe Mark Ganaban. Zenaida Acacio and Lagrimas Cuevas provided administrative and secretarial support. The publication would not have been possible without the cooperation of the Printing Unit under the supervision of Raveendranath Rajan.

Ann Quon and Saby Mitra of the Department of External Relations planned and coordinated the dissemination of *Asian Development Outlook 2008*.



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Definitions

The economies discussed in *Asian Development Outlook 2008 (ADO 2008)* are classified by major analytic or geographic groupings. For purposes of *ADO 2008*, 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 44 developing member countries of the Asian Development Bank.
- **Central Asia** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- **East Asia** comprises People's Republic of China; Hong Kong, China; Republic of Korea; Mongolia; and Taipei, China.
- **South Asia** comprises Islamic Republic of Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
- **Southeast Asia** comprises Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.
- **The Pacific** comprises Cook Islands, Fiji Islands, Kiribati, Republic of the Marshall Islands, Federated States of Micronesia, Nauru, Papua New Guinea, Republic of Palau, Samoa, Solomon Islands, Democratic Republic of Timor-Leste, Tonga, Tuvalu, and Vanuatu.
- Unless otherwise specified, the symbol "\$" and the word "dollar" refer to US dollars.

ADO 2008 is generally based on data available up to **17 March 2008**.

Acronyms and abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BPO	business process outsourcing
CPI	consumer price index
EU	European Union
FDI	foreign direct investment
FY	fiscal year
GDP	gross domestic product
ICT	information and communications technology
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
PRC	People's Republic of China
US	United States
VAT	value-added tax
WTO	World Trade Organization