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ASIAN DEVELOPMENT

Outlook 2013

HIGHLIGHTS

Asian Development Bank

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ADO 2013—Highlights

Developing Asia is bouncing back from the slowdown of the previous year. Robust domestic demand and greater reliance on regional trade will accelerate growth from 6.1% in 2012 to 6.6% in 2013 and 6.7% in 2014.

Though still relatively stable, inflation is forecast to pick up as regional economies return to their production potential in the midst of rising global liquidity from advanced economies. Consumer prices are expected to rise by 4.0% in 2013 and 4.2% in 2014, up from 3.7% last year.

Developing Asia's recovery phase remains vulnerable to shocks. Strong capital inflows could feed asset bubbles. Political discord surrounding fiscal debates in the United States, austerity fatigue in the euro area, and border disputes in Asia could jeopardize macroeconomic stability.

The region needs an ample supply of clean, affordable energy to continue its rapid growth in the coming decades. To achieve energy security, developing Asia must actively contain its rising demand, aggressively explore new supply sources and technology, and progressively integrate regional energy markets and infrastructure.

Key messages

- Developing Asia's growth is gathering speed after declining somewhat in 2012. Gross domestic product is forecast to expand by 6.6% in 2013 and 6.7% in 2014, following the slower 6.1% pace in 2012. The expected acceleration is occurring broadly across the region, but there are notable differences in the pace.

- Growth will rebound in the People's Republic of China (PRC), from 7.8% in 2012 to 8.2% in 2013 and 8.0% in 2014, driven by strong consumption and investment. The more moderate pace reflects a shift in focus from the growth rate alone toward its quality in terms of being more inclusive and environmentally friendly. India's growth has the potential to pick up from 5.0% in 2012 to 6.0% in 2013 and 6.5% in 2014, but the South Asian giant must create a more favorable environment for investment if it is to sustain this higher rate.

- Southeast Asia is benefiting from robust domestic demand and greater trade with its neighbors in the region. The subregion can reap considerable benefits from further integration among the economies of the Association of Southeast Asian Nations (ASEAN) and with its regional trading partners.

- Continued sluggishness in the United States (US), euro area, and Japan suggests that developing Asia must continue to shift toward more domestic demand and trade with emerging markets. Together, the major industrial economies are expected to manage 1.0% growth in 2013 and 1.9% in 2014. The further narrowing of the region's current account surplus—from 2.0% of gross domestic product (GDP) in 2012 to 1.9% in 2013 and 1.8% in 2014—indicates that the shift to internal sources of growth is progressing.

- Capital flows into the region bounced back rapidly after the crisis, in part because of the unconventional monetary policies pursued by central banks in major industrial economies. Advanced economies will likely continue their accommodative monetary stance, and authorities in developing Asia must safeguard the soundness of the finance sector to avoid the emergence of disruptive asset bubbles.

- Price pressures must be closely monitored in this environment of continued global liquidity expansion. Robust growth has largely eliminated slack productive capacity in many regional economies such that loose monetary policy risks reigniting inflation. Inflation is expected to tick up from 3.7% in 2012 to 4.0% in 2013 and 4.2% in 2014.

- Developing Asia's favorable fiscal position cannot be taken for granted, as longer-term structural issues need to be addressed to ensure inclusive growth in the future. Improved revenue efficiency is needed to finance public investment, while better governance can enhance public service delivery.

- Political risks are emerging as the main threats to the region's continued robust growth over the forecast horizon. Political contention is calling into question the ability of authorities to find compromise solutions to nagging fiscal problems in the US, deepening austerity fatigue in the euro area, and simmering border disputes in Asia.

- With its rising prominence in the global economy, developing Asia has become a major player in commodity markets. The business cycles of the larger regional economic blocks affect commodity prices and their producing economies—India mostly within Asia but the PRC globally. Asia's growing thirst for oil imports makes the region more vulnerable to shocks from geopolitical tensions that may affect the production of this key commodity.

- The region faces a threefold energy challenge. Developing Asia's energy needs will expand in tandem with its growing economic influence, but its own endowment is insufficient. Further, scaling up its current energy mix would be devastating to the environment. Yet, for growth to be truly inclusive, the poor must also have affordable access to energy.

- Policies to restrain demand—such as replacing wasteful general subsidies with targeted ones and planning for cleaner transport and green cities—are part of the solution. Meanwhile, expanded supply must draw more from renewable resources such as wind and solar. Asia is already staking out a leadership position in renewables, but expanding these sources will not be enough to fill the gap. Consequently, Asia needs to invest in making conventional power cleaner and more efficient.

- Asia must aspire to the degree of regional cooperation and integration in energy by 2030 that currently prevails in Europe. Cooperation among the region's leaders at the highest levels is needed to expedite the benefits. It will take action on all fronts—reducing demand, increasing supply, and integrating systems—to realize the future envisioned as the "Clean Asian Century."

Asia builds momentum amid global doldrums

Developing Asia's growth prospects

- **Growth in developing Asia is picking up.** The expansion of GDP in the region is forecast to pick up to 6.6% in 2013 from 6.1% in 2012. Resilient private consumption demand will help maintain that pace into 2014 as the region grows by an expected 6.7%. The rebound is supported by recovery in the PRC and robust growth in the economies of the ASEAN. As economic activity gains strength, so will upward pressure on prices. This will lift the region's inflation to a forecast 4.0% in 2013, up from 3.7% last year, with a further tick to 4.2% in 2014.

  » **Meanwhile, growth in the major industrial economies languishes.** Collectively, the advanced economies managed to grow by only 1.2% in 2012, the same pace as in the previous year, with Japan's rebound from disaster offsetting contraction in the euro area. Though the hazards emanating from the advanced economies—a euro area breakdown or a US fiscal shock—have abated, fiscal consolidation, high unemployment, and austerity fatigue will continue to make their recovery uncertain. Forecasts for 2013 point to a period of consolidation in the first half of the year before growth slowly picks up in the remainder of the forecast period. Overall, GDP is expected to expand by 1.0% in 2013 and 1.9% in 2014.

  » **The process of global rebalancing continues.** Strong domestic demand and intraregional trade, coupled with weak demand from advanced economies, have further narrowed developing Asia's current account surplus. The surplus dropped from 2.5% of GDP in 2011 to 2.0% in 2012. Although exports are projected to pick up, imports will likely rise even more quickly, tightening the overall current account surplus further to 1.9% of GDP in 2013 and 1.8% in 2014.

- **The region's giants are showing different speeds of recovery.** The PRC will expand by 8.2% in 2013 and 8.0% in 2014, compared with 7.8% in 2012, as strong domestic demand continues and export performance picks up. India has considerable potential, but its future performance relies on resolving contentious structural and policy issues that inhibit investment. Strong consumption will continue to drive India's recovery from 5.0% in fiscal year 2012 to 6.0% in 2013 and further to 6.5% in 2014 if reform can build momentum.

- **Robust domestic demand and greater intraregional trade underlie Southeast Asia's recent resilience.** ASEAN was the only subregion to enjoy faster growth in 2012, rising to 5.5% from 4.7% in 2011. Reform-oriented economies less dependent on exports, like the Philippines and Indonesia, relied on their own domestic demand to compensate for soft demand from the major industrial economies. Larger trade with other regional countries—particularly within ASEAN and with the PRC—also helped cushion the impact of the slow recovery in advanced economies. ASEAN's resilience is expected to extend through the forecast horizon, with its member economies averaging growth of 5.4% in 2013 and 5.7% in 2014.

- **Deeper and broader ASEAN economic integration after 2015 can further boost members' income.** The proposed Regional Comprehensive Economic Partnership between ASEAN and its other free trade agreement partners would enlarge trade volumes within a large block of dynamic economies, helping the subregion diversify its export markets. More integration would, however, also expose these economies to stronger spillover from shocks, which would have to be managed properly.

Managing capital flows under quantitative easing

- **The advanced economies will continue the loose monetary policies begun during the global downturn.** As the crisis intensified and policy rates neared zero in 2008, advanced economy central banks resorted to unconventional monetary policy. The US Federal Reserve and others used so-called quantitative easing (QE), expanding their balance sheets with direct purchases of less-liquid assets than their traditional holdings, to support financial markets and prop up economic activity. Recent central bank announcements suggest these measures are likely to continue in the near term in response to lagging recovery.

- **QE seems to have prevented a deeper decline of advanced economies and contributed to the sharp rebound of capital flows into Asia.** In the depth of global financial turmoil, as bank liquidity dried up everywhere, aggregate inflows to 10 large regional economies—the PRC; Hong Kong, China; India; Indonesia; Japan; the Republic of Korea; the Philippines; Singapore; Taipei,China; and Thailand—plummeted to 1.7% of GDP in 2008–2009 from an average of 8.4% the previous 3 years. But inflows rebounded nearly as sharply, returning to an average of 7.4% of GDP in 2010–2012.

- **Asian economies with more open and developed capital markets experienced greater swings in capital inflows.** In particular, large capital flows were manifest more in portfolio investment and other investment such as bank loans than in foreign direct investment. Empirical analysis shows QE, in particular the interventions during the worst of the global crisis, contributed to appreciating local currencies, lowering domestic interest rates, and containing sovereign risk premiums in Asia. Analysis also shows a tradeoff between exchange rates and real estate prices, suggesting that monetary easing in advanced economies can affect Asian economies through either currency appreciation or asset price inflation.

Macroeconomic policy to maintain stability

- **Inflation is expected to remain in check, but price pressures should be closely monitored.** In general, inflation in developing Asia remains contained, partly because food prices are stable throughout the region. But tame inflation does not translate at this juncture into a free hand to wield monetary policy to stimulate economic activity. In an environment of excess global liquidity, central banks in economies where forecast output is close to long-term trend must monitor the potential for price pressures to build up and stand ready to intervene to avoid accelerating inflation. Several countries are already dealing with higher inflation or structural imbalances. Stabilization should be their priority.

- **Potentially volatile capital flows remain a risk to stability.** The spillover of liquidity from further QE raises the concern that asset market bubbles may build up. Moreover, unconventional monetary policy in advanced economies will eventually end, so the region's policy makers must be prepared. They must watch cross-border financial transactions to protect banking sector soundness. Where necessary, macroprudential policy must be reinforced.

- **Fiscal policy should be directed to strengthen future growth.** Current economic conditions in most economies in the region do not warrant using fiscal policy to stimulate demand. The focus of fiscal policy should shift toward supporting long-term structural change for inclusive growth. Governments should prioritize financing longer-term public investments and ensuring the efficient delivery of public goods, while making revenue mobilization more effective to maintain a healthy fiscal balance.

- **Political risk in many forms has emerged as the main threat to the global and regional outlook.** The probability of a US fiscal shock or a euro area breakdown has faded. However, political wrangling over raising the US debt ceiling remains likely, reprising the brinksmanship in 2011 that pummeled global financial markets. Austerity-induced recession in the euro area could undermine the political support needed to continue moving vulnerable countries' sovereign debt back onto a sustainable path. Border disputes in Asia spilled over into the economic arena in 2012. The heated rhetoric has since cooled but could be reignited for political gain. Geopolitical risks in oil-producing countries could shock prices for this critical commodity, spilling over into the region as inflation.

Commodity markets and developing Asia

- **Rising consumption and investment demand has turned developing Asia into a net importer of commodities.** While the major industrial economies have struggled to recover from the global financial crisis, resilient growth has made Asia a heavyweight in markets for commodities such as copper, iron, coal, oil, and cotton. In 2011, the PRC's share of global commodity consumption was 20% for nonrenewable energy resources, 23% for major agricultural crops, and 40% for base metals. The region's expanded role in commodity markets makes it an important "shock emitter" to resource-rich countries through commodity prices.

- **The PRC sources commodities globally, while India looks to its neighbors.** Because its demand for commodities is so large, the PRC cannot limit itself to regional markets. In fact, 9 of the 10 countries that rely the heaviest on PRC commodity purchases are outside of developing Asia. India, on the other hand, tends to rely on regional resource exporters for commodities other than petroleum products. As such, fluctuations in PRC demand have global consequences, while India's impacts are largely contained within the region. The large ASEAN economies are generally net commodity exporters but, like the PRC and India, source petroleum products from outside the region.

- **Developing Asia's energy needs have risen in tandem with its economic expansion.** The region consumes roughly a third of global primary energy. Coal remains the dominant energy source, fueling more than half of the region's production, followed by petroleum. Natural gas consumption is still limited but rising quickly. The price volatility of energy complicates efforts to maintain macroeconomic stability. Looking past this short-term issue, developing Asia's sustainable growth will depend critically on securing adequate energy supply. This issue is explored in depth in the theme chapter.

Outlook by subregion

- **Developing Asia's pickup from 2012 is largely shared in its subregions but with some distinct differences.** The aggregate pace of growth in East and South Asia is forecast to accelerate in 2013, as movements in the larger economies dominate subregional averages. Southeast Asia, which did not experience a slowdown in 2012, and Central Asia will maintain their pace into 2013. The Pacific stands out for its sharp deceleration forecast for 2013, held back by natural resource issues. Inflation is projected to quicken in 2013 in all subregions except South Asia, where average inflation is well above the developing Asia average.

- **Growth in East Asia is set to bounce back in 2013, setting the pace among the subregions.** Emerging from a trough of 6.5% growth in 2012, East Asia's GDP will expand this year and next by 7.1%, the most rapid rate among the subregions. Rising domestic demand and improved export performance are spurring expansion in the PRC, with positive spillovers across East Asia, especially in Taipei,China and Hong Kong, China. The PRC growth rate is forecast to moderate to 8.0% in 2014 from 8.2% this year, as more stringent environmental standards and policies to make growth inclusive may slow the pace of investment. The PRC's inflation rate will trend moderately upward in 2013 and 2014, while Mongolia's rate declines but not out of double digits. Inflation in the subregion is forecast to rise from 2.6% in 2012 to 3.1% this year and 3.3% in 2014.

- **South Asia's growth will turn around after 2 years of softening.** Growth in the region slowed to 5.0% in 2012 from 6.0% in 2011, marking the second year of weaker performance. This mainly reflects India's economic downdraft marked by faltering investment, persistently high inflation, and tight monetary policy that was compounded by weaker export demand. Weaker exports were also a factor in growth slipping in Bangladesh and Sri Lanka. Growth in South Asia is forecast to rise to 5.7% in 2013 and 6.2% in 2014, as India's growth edges up (assuming continued reforms there) to 6.0% and then 6.5%. Pakistan's lack of political consensus prevents it from dealing effectively with its acute economic problems, and the economy will likely again require urgent structural reform and liquidity support to avert balance-of-payments problems. Afghanistan is also at a critical juncture, as it will need to adjust to the withdrawal of international security forces by the end of 2014. South Asia's inflation eased substantially to 8.0% in 2012, aided by relatively stable global commodity prices. Inflation should edge down to 7.4% and then 7.1% over the next 2 years.

- **Southeast Asia will maintain its growth pace in 2013.** The only subregion to record accelerating growth in 2012 owes this distinction largely to Thailand's recovery from floods in 2011 and the Philippines' rebound in public investment. Meanwhile, robust private consumption and investment have offset the impact of soft external demand in many ASEAN economies. Southeast Asia's momentum is forecast to continue in 2013, with growth at 5.4%, and quicken slightly to 5.7% in 2014 as the outlook improves for the industrial economies. Indonesia, the largest ASEAN economy, is set to expand by about 6.5% in both years. Better harvests and more stable global food and oil prices brought down inflation in the subregion in 2012 to an average of 3.9%. But strong domestic demand and wage pressures in several countries will push inflation up to 4.2% in 2013. Inflation is expected to ease again in 2014 but could be higher if Indonesia and Malaysia reduce fuel subsidies as planned.

- **Higher public investment will lift Central Asia's growth in 2013.** Central Asia saw growth slip to 5.6% in 2012 and can expect to roughly maintain that pace, with 5.5% growth in 2013. Higher public investment spending is projected to raise industrial production, oil aside, in both Azerbaijan and Kazakhstan. The more rapid pace of growth in these two economies will offset deceleration in most other countries in 2013. Slower agricultural expansion is projected to hold down growth in Uzbekistan, while less rapid expansion in the hydrocarbon sector will do the same in Turkmenistan. Average regional growth is expected to rise to 6.0% in 2014, as higher public investment catalyzes growth in Azerbaijan, Kazakhstan, and Uzbekistan. Inflation slowed notably in 2012, from 8.9% to 5.3%, largely because of much smaller increases in food prices. Adjustments in administered prices in Kazakhstan, along with higher public spending and the return of more normal inflation affecting food and other items in most countries, are expected to raise average inflation to 6.7% in 2013 and 2014.

- **The Pacific is slowing in 2013 from its rapid pace last year.** The Pacific was the fastest growing subregion in 2012, with natural resource investments in Papua New Guinea—the subregion's largest economy by far—boosting the overall growth rate to 7.3%. But growth in the Pacific is expected to slow to 5.2% in 2013 before rising slightly to 5.5% in 2014. Following the completion of construction on its liquefied natural gas project, Papua New Guinea should expect slower economic activity until gas exports commence at the end of 2014. Timor-Leste will continue its double-digit growth led by oil and gas. The growth outlook for the rest of the subregion is mixed. Inflation in the Pacific is expected to increase to 6.1% in 2013 and 6.3% in 2014 from 5.3% in 2012, despite forecast softness in international food and fuel prices. Again, developments are largely driven by Papua New Guinea, where inflation is forecast to rise in both 2013 and 2014 on high government spending and rising local prices for imports.

Special theme: Asia's energy challenge

Critical energy needs for the Asian Century

- **Energy systems will be challenged to satisfy developing Asia's economic aspirations.** With 6% annual growth, developing Asia could produce 44% of global GDP by 2035. This Asian Century scenario would see the region's share of world energy consumption rise rapidly from barely a third in 2010 to 51%–56% by 2035. With insufficient energy, developing Asia would need to scale back its growth ambitions.

- **Securing adequate energy is a serious challenge because Asia cannot rely solely on its endowment.** The region has abundant coal but currently commands only 16% of the world's proven conventional gas reserves and 15% of technically recoverable oil and natural gas liquids. More renewable energy and nuclear power generation are planned, but not enough to keep pace with demand. To fill the gap, oil imports would have to rise from the current 11 million barrels per day to more than 30 million barrels per day by 2035, making Asia more vulnerable to external energy shocks.

- **On its current energy path, Asia's emissions would soon swamp global targets.** Without radical changes to the region's energy mix, its consumption of fossil fuels would climb, doubling oil consumption and tripling natural gas consumption. Even highly polluting coal consumption would rise by a whopping 81%. This would double carbon dioxide (CO_2) emissions to over 20 billion tons by 2035. Asia alone would then emit almost all of the 22 billion tons that climate change experts see as that year's maximum sustainable CO_2 emissions for the whole world. Locally, expanded fossil fuel use would foul air and water.

- **Ensuring affordable energy for the poor is a key to inclusive growth.** Nearly half of the people in the world without electricity live in Asia. Traditional fuels supply primary energy for 2.8 billion people, who suffer the health risks, paltry energy services, and environmental damage these fuels entail. Universal access to electricity and clean cooking fuel would have high social and economic returns, but getting connections to people without access would require a fivefold increase in annual energy investments globally.

- **The multidimentional energy challenge demands a multipronged approach.** Supply security depends on tapping new energy sources and technology. Environmental sustainability entails aggressively exploring all options to curb burgeoning energy demand. Affordable access will require more inclusive energy policies. Technological developments and policy reforms to integrate regional energy markets will need to be mobilized to realize the Asian Century.

Containing burgeoning energy demand

- **Asia has an array of options by which to check its energy appetite.** But tackling outmoded subsidies requires political will, and green innovation takes imagination.

    - **Energy prices that reflect true costs will send the right signals to households and firms.** Consumer subsidies artificially reduce the price of energy, diverting it from more efficient uses and disproportionately benefiting the nonpoor. Subsidies impose a tremendous burden on public budgets, exceeding 2% of GDP in India, Indonesia, and Viet Nam, and 4% in Bangladesh and Pakistan. If countries around the world eliminated wasteful subsidies, global CO_2 emissions would be an estimated 2.6 billion tons lower in 2035. However, those who benefit from wasteful subsidies invariably resist removing them, despite the large economywide gains.

    - **Urban planning, clean transport, and fuel switching can radically reduce demand.** Green, smart cities and clean transportation offer the promise of affordable, environmentally sustainable ways of powering Asia's growing urbanization. Switching consumers and firms from electricity to gas for applications such as cooking can achieve enormous efficiency gains over time.

- **Behavioral change is essential to reap energy efficiency benefits.** Cost savings from using more efficient technologies can induce people to use more energy, offsetting some of the gains from these initiatives. Avoiding this rebound effect fundamentally requires changing people's behavior. After the Fukushima accident, Japan has succeeded in curbing electricity demand through the Setsuden ("saving electricity") movement, lowering peak usage by 15% during the summer of 2012.

Tapping cleaner energy supplies

- **Expanded clean energy supply must augment demand management to bridge the gap.** Asia's future energy supply must be bigger and its mix much cleaner than it is today. Greater use of renewable energy will play a key role.

  » **Developing Asia can realize the promise of renewable energy from wind and solar.** The region has significant potential for renewable energy. In less than a decade, generating capacity rose from negligible to 82 gigawatts (GW) for wind and to 20 GW for solar, with great potential to further expand both. Asian countries are among the world leaders in the manufacture of renewable energy plants, which already power microgrids commercially in some remote communities. Wind and solar are becoming cheaper and are expected to reach grid parity in some countries in a few years, but in the meantime they require favorable policy and financial incentives.

  » **Hydropower is a well-established renewable energy source in Asia.** The region has 542 GW of hydropower capacity installed or under construction, with potential to quadruple it to 2,204 GW. The costs of large hydropower projects are huge, and addressing their environmental and social impacts a challenge, but these initiatives can have strongly positive outcomes if they are well planned and executed.

  » **Biofuels can dramatically lower CO_2 emissions from transport.** Production technologies under development will avoid pitting fuel against food by using materials such as algae.

- **Renewable energy sources alone are not enough.** The energy mix will evolve slowly as older investments in plant and equipment are retired, but environmental needs are urgent. Asia needs its new conventional power plants to be cleaner and more efficient.

  » **Asia's substantial reserves of shale gas have potential to offset coal use.** Asia's geology is incompletely investigated, but indications are that the PRC has as much as 20% of global reserves of shale gas. India's technically recoverable reserves are much smaller at an estimated 1% of the global total but still substantial at 1.6 billion tons of oil equivalent. As shale gas recovery uses emergent technology, the environmental impacts of drilling and production need to be evaluated for potential risks.

» **Nuclear power contributes to lowering greenhouse gas emissions.** If nuclear power were phased out of the region's energy mix, CO_2 emissions from Asia's power sector would be 8%–13% higher in 2035. But expanding nuclear energy in Asia requires addressing three remaining challenges: proliferation, waste management, and, above all, safety.

» **Emerging technologies make carbon-based fuels cleaner to use.** Carbon capture and storage has potential to lower CO_2 emissions, and Asia is starting to invest in this technology. International support can hasten progress.

Fostering regional market synergies

- **Integrated energy markets can multiply gains from curbed demand and clean energy supply.** Integrating power transmission in the Greater Mekong Subregion would save $14 billion over 20 years by substituting hydropower for power generation using fossil fuels. By 2020, this would avoid 14 million tons of CO_2 emissions annually. Well-designed, unified regional electricity systems can efficiently cover supply failures with integrated regional backup capacity.

- **Political and regulatory barriers inhibit market integration.** Cross-border power and gas grids require standardized regulations, pricing, and contracts. These technical requirements demand in turn that participants be confident, open, and equitable about sharing benefits. To seal multilateral grid agreements and bring plans to fruition, neighboring countries must share information and allay one another's concerns about the reliability of supply.

Achieving a brighter Asian energy future

- **Asia must aspire to create a pan-Asia energy market by 2030.** When it comes to regionally integrated electricity and gas markets, thinking big maximizes benefits. The degree of regional cooperation and integration in energy that currently prevails in Europe should be achievable by 2030. The region must advance the interconnection of electric grids across borders to realize maximum efficiency in power generation and delivery. The first step is to get together and agree on the way forward. Asia should set up a ministerial task force to study the European experience and promote the political will to share more openly information on national power sectors, toward better harmonizing regulations, standards, and pricing policies.

- **Asia must immediately take concrete steps to curb demand.** Replacing inefficient general fuel subsidies with targeted subsidies, such as the system Indonesia is currently setting up, can be a politically acceptable approach to eliminating broad inefficiencies without excluding the poor. Second-generation greenhouse gas emission taxes recycle tax proceeds to help reduce the cost of cleaner inputs, thereby limiting their adverse impact on economic activity while mitigating global warming. Planning for "green cities" is crucial for an increasingly urban Asia.

- **Expanding the supply of clean energy needs to be broadly pursued.** As energy sources vary across the region, options to augment energy supplies depend on country endowments. Each potential source has merits and shortcomings, but every drop—every watt—counts! Developing future technologies requires government support in the beginning. If each country exerts effort on all fronts according to its comparative advantage, then Asia will be able to expand its energy supply. As the biggest energy user, Asia must marshal research and development capacity equal to the task. Technology transfer from developed countries can accelerate the deployment of new technologies.

- **Asia must address the needs of countries with energy deficiencies and low incomes.** Concrete steps to support Energy for All include establishing income policies to secure an adequate energy floor for the poor, selecting appropriate technologies for distributed and off-grid power generation, and promoting community participation. Narrowing differences between countries is critical. Low-income countries need international aid to help them build equitable energy infrastructure that protects the poor.

- **Action is needed on all fronts to secure Asia's energy future.** Curbing demand growth while aggressively exploring cleaner supply options should be part of the larger vision of a regional energy market. The region's leaders must find the political will to realize the future envisioned as the "Clean Asian Century."

Growth rate of GDP (% per year)

Subregion/Economy	2010	2011	2012	2013	2014
Central Asia	**6.8**	**6.8**	**5.6**	**5.5**	**6.0**
Azerbaijan	5.0	0.1	2.2	3.1	4.8
Kazakhstan	7.3	7.5	5.0	5.2	5.6
East Asia	**9.8**	**8.2**	**6.5**	**7.1**	**7.1**
China, People's Rep. of	10.4	9.3	7.8	8.2	8.0
Hong Kong, China	6.8	4.9	1.4	3.5	3.8
Korea, Rep. of	6.3	3.7	2.0	2.8	3.7
Taipei,China	10.8	4.1	1.3	3.5	3.9
South Asia	**8.5**	**6.0**	**5.0**	**5.7**	**6.2**
Bangladesh	6.1	6.7	6.3	5.7	6.0
India	9.3	6.2	5.0	6.0	6.5
Pakistan	3.1	3.0	3.7	3.6	3.5
Sri Lanka	8.0	8.2	6.4	6.8	7.2
Southeast Asia	**7.9**	**4.7**	**5.5**	**5.4**	**5.7**
Indonesia	6.2	6.5	6.2	6.4	6.6
Malaysia	7.2	5.1	5.6	5.3	5.5
Philippines	7.6	3.9	6.6	6.0	5.9
Singapore	14.8	5.2	1.3	2.6	3.7
Thailand	7.8	0.1	6.4	4.9	5.0
Viet Nam	6.8	5.9	5.0	5.2	5.6
The Pacific	**5.5**	**8.3**	**7.3**	**5.2**	**5.5**
Fiji	0.1	1.9	2.5	2.0	2.3
Papua New Guinea	7.4	11.1	9.2	5.5	6.0
Developing Asia	**9.2**	**7.3**	**6.1**	**6.6**	**6.7**

Notes: Developing Asia refers to 44 developing member countries of the Asian Development Bank and Brunei Darussalam, an unclassified regional member. East Asia comprises the People's Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei,China. Southeast Asia comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. South Asia comprises Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Central Asia comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and

(continued on the next page)

Inflation (% per year)

Subregion/Economy	2010	2011	2012	2013	2014
Central Asia	**7.0**	**8.9**	**5.3**	**6.7**	**6.7**
Azerbaijan	5.7	7.9	1.1	6.0	7.0
Kazakhstan	7.1	8.3	5.1	6.7	6.5
East Asia	**3.1**	**5.0**	**2.6**	**3.1**	**3.3**
China, People's Rep. of	3.3	5.4	2.6	3.2	3.5
Hong Kong, China	2.3	5.3	4.1	3.9	4.3
Korea, Rep. of	3.0	4.0	2.2	2.5	2.8
Taipei,China	1.0	1.4	1.9	1.6	1.8
South Asia	**9.4**	**9.3**	**8.0**	**7.4**	**7.1**
Bangladesh	7.3	8.8	10.6	7.8	7.0
India	9.6	8.9	7.5	7.2	6.8
Pakistan	10.1	13.7	11.0	9.0	9.5
Sri Lanka	6.2	6.7	7.6	7.5	6.5
Southeast Asia	**4.1**	**5.5**	**3.9**	**4.2**	**4.1**
Indonesia	5.1	5.4	4.3	5.2	4.7
Malaysia	1.7	3.2	1.7	2.2	3.0
Philippines	3.9	4.6	3.2	3.6	3.8
Singapore	2.8	5.3	4.5	3.8	3.0
Thailand	3.3	3.8	3.0	3.2	3.1
Viet Nam	9.2	18.6	9.2	7.5	8.2
The Pacific	**5.1**	**8.5**	**5.3**	**6.1**	**6.3**
Fiji	5.5	8.7	4.3	4.5	4.0
Papua New Guinea	6.0	8.4	4.1	6.5	7.5
Developing Asia	**4.4**	**5.9**	**3.7**	**4.0**	**4.2**

(continued from the previous page)

Uzbekistan. The Pacific comprises the Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Papua New Guinea, Palau, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

Data for Bangladesh, India, and Pakistan are recorded on a fiscal-year basis. For India, the fiscal year spans the current year's April through the next year's March. For Bangladesh and Pakistan, the fiscal year spans the previous year's July through the current year's June.

Asian Development Outlook 2013 Highlights

The full report is available on the ADB website at
www.adb.org/publications/asian-development-outlook-2013-asias-energy-challenge

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.7 billion people who live on less than $2 a day, with 828 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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