

ASIAN DEVELOPMENT

Outlook 2013 Update

Governance and Public
Service Delivery

Asian Development Bank



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6 ADB Avenue, Mandaluyong City

1550 Metro Manila, Philippines

Tel +63 2 632 4444

Fax +63 2 636 2444

www.adb.org

For orders, please contact:

Public Information Center

Fax +63 2 636 2584

adbpub@adb.org



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Foreword

Six months on since *Asian Development Outlook 2013* was published in April, developing Asia continues to consolidate its growth as the region's two leading economies decelerate somewhat. Growth moderation in the People's Republic of China reflects the authorities' efforts to forge a more balanced and sustainable growth path than the familiar one led by exports and investment. In India, poor infrastructure and a lack of structural reforms continue to weigh on industry and investment, hampering growth. Regionally, developing Asia's pace of growth is expected to ease from 6.1% in 2012 to 6.0% in 2013, before picking up to 6.2% in 2014. Excluding the two regional giants, the rest of developing Asia can expect growth this year equal to the 4.0% recorded in 2012.

Generally strong macroeconomic positions provide some breathing space, as many regional economies run current account surpluses and hold large foreign exchange reserves. The region is well positioned to weather the financial storm expected when Washington begins winding back its quantitative easing program in the coming months. Although the prospect of an end to quantitative easing in the United States has disturbed financial markets in emerging economies, including developing Asia, fears of a meltdown like the 1997 Asian financial crisis are misplaced. Many countries in Asia learned the hard lessons of 1997 and have rightly strengthened macroeconomic management, financial regulation, and corporate governance.

A more economically stable Asia will benefit from a gradual revival in developed markets. Although this is not a time of great optimism, the feeling is palpable that the mature economies have turned the corner. The United States economy is expected to pick up in the coming months, the euro area is showing signs of stabilizing, and Japan is benefiting from the introduction of Abenomics earlier this year. Nevertheless, recovery in the advanced world has yet to translate into revived orders for exports from developing Asia. This lull should be used to further enhance intraregional trade and promote domestic consumption in middle-income developing Asia.

The challenge for the region is to maintain and further consolidate its financial stability while continuing along its solid growth trajectory. The recent turbulence in financial markets underscores the need for continued structural reform to maintain stable growth momentum. Priority areas include financial sector development, industrial diversification, infrastructure and human capital improvement, fiscal consolidation, and social protection.

Strengthening governance is key among reform priorities.

The development community has long stressed that open, transparent, and accountable government is critical to sound and sustainable development—a stance supported by countless empirical studies.

The global evidence shows that better governance correlates with more reliable growth, higher investment, and accelerated poverty reduction. And Asia is no exception. Yet the region is closing its income gap with advanced economies much more quickly than its governance gap.

Most Asians' impressions of governance come from their experience with public services. Improving public service delivery is therefore an effective entry point toward wider governance reform. Because public services are particularly important to the poor, ensuring their effective delivery is critical to making growth inclusive. As demonstrated by the increase in anticorruption initiatives in recent years, developing Asia's leaders recognize this need and are stepping up efforts. The journey is long, and the tasks ahead are challenging, but the payoffs to development will be substantial.



TAKEHIKO NAKAO
President
Asian Development Bank

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Changyong Rhee
Chief Economist
Economics and Research Department

Definitions

The economies discussed in the *Asian Development Outlook 2013 Update* (ADO 2013 Update) are classified by major analytic or geographic group. For the purposes of this publication, the following apply:

- **Association of Southeast Asian Nations (ASEAN)** comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.
- **Developing Asia** refers to the 45 developing member countries of the Asian Development Bank.
- **Central Asia** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- **East Asia** comprises the People's Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei, China.
- **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka.
- **Southeast Asia** comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.
- **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.

Unless otherwise specified, the symbol "\$" and the word "dollar" refer to US dollars. ADO 2013 Update is generally based on data available up to 6 September 2013.

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