

ASIAN DEVELOPMENT

Outlook 2013 Update

Governance and Public Service Delivery

Key findings: Economic Outlook

- Asia's growth is declining to 6% in 2013 from 6.1% in 2012 before picking up to 6.2% in 2014
- The two giants' growth is moderating despite signs of advanced economies' recovery
- Talk of US quantitative easing taper shook emerging markets, but Asia can weather the storm
- Time for Vigilance and Structural Reform: Financial turmoil is a timely reminder
- Structural reforms—including governance—are needed to safeguard financial stability and sustain future growth

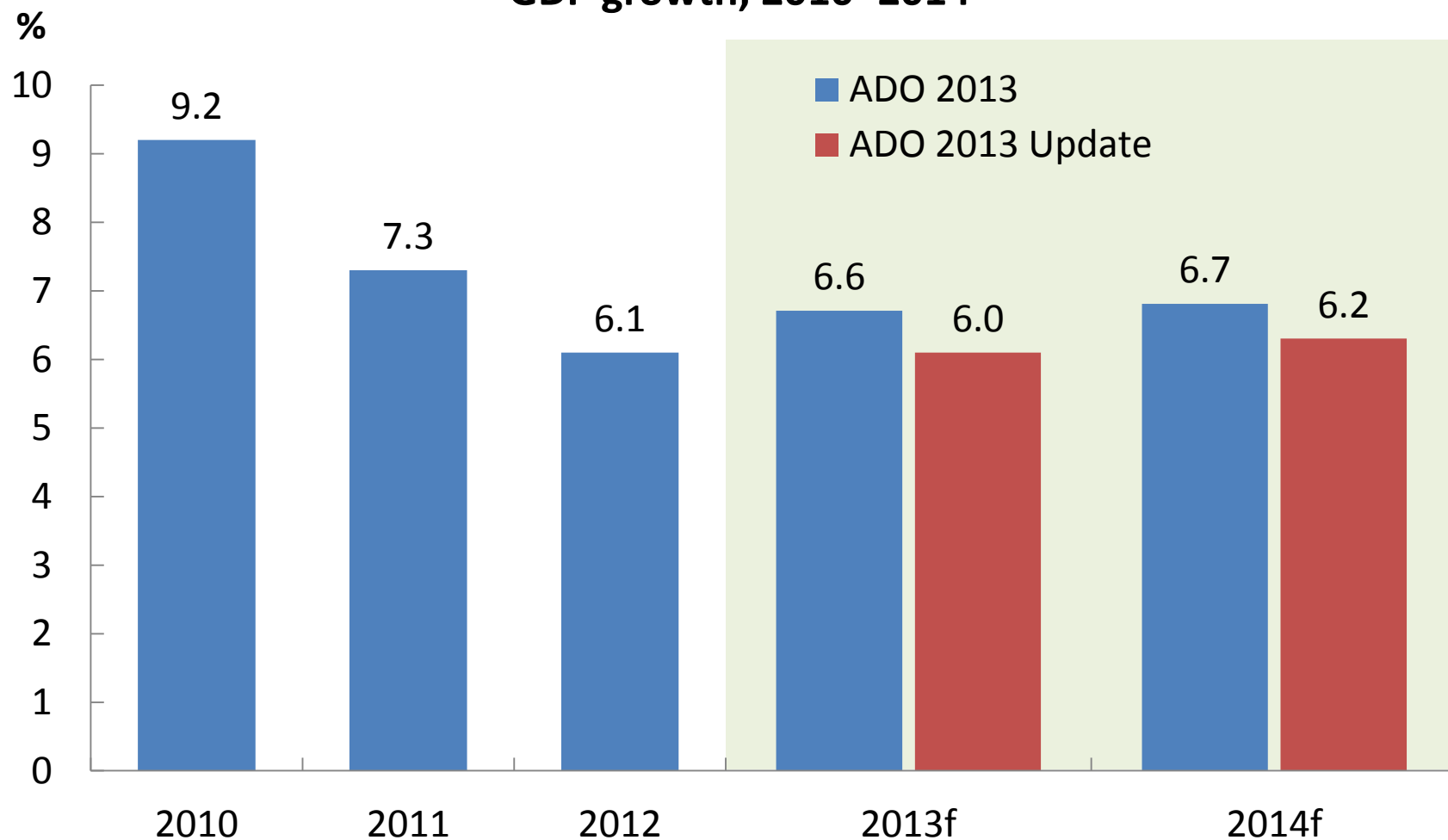
Key Findings: Governance

- The region has seen less progress in closing the governance gap with advanced economies despite its phenomenal growth.
- Governance performance within the region is diverse.
- Governance matters for growth and development. Asia is no exception.
- The relationship with development varies across dimensions of governance and a country's development stage.
- Improving public service delivery is an effective entry point toward wider governance reform.
- Governance reform cannot be delayed.

Economic outlook

Asia's growth slower than expected...

GDP growth, 2010–2014



...despite firming recovery in advanced economies

GDP Growth (%)	2011	2012	2013f		2014f	
			ADO 2013	ADO 2013 Update	ADO 2013	ADO 2013 Update
Major adv. econ.	1.3	1.5	—	0.9	—	1.8
United States	1.8	2.8	—	1.7	—	2.4
Euro area	1.5	-0.6	-0.3	-0.5	1.2	1.2
Japan	-0.6	2.0	1.2	1.9	1.4	1.4

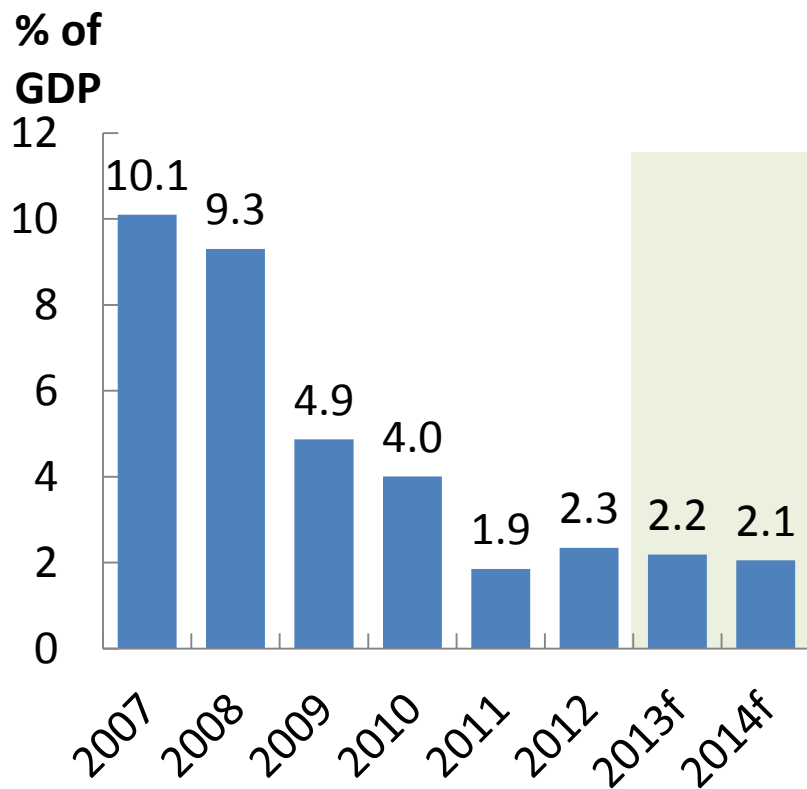
Note: The US rebased national accounts data in July 2013, resulting in a much higher 2012 growth rate and rendering ADO 2013 forecasts incomparable with the forecasts for the Update.

Growth moderation notable in the PRC and India...

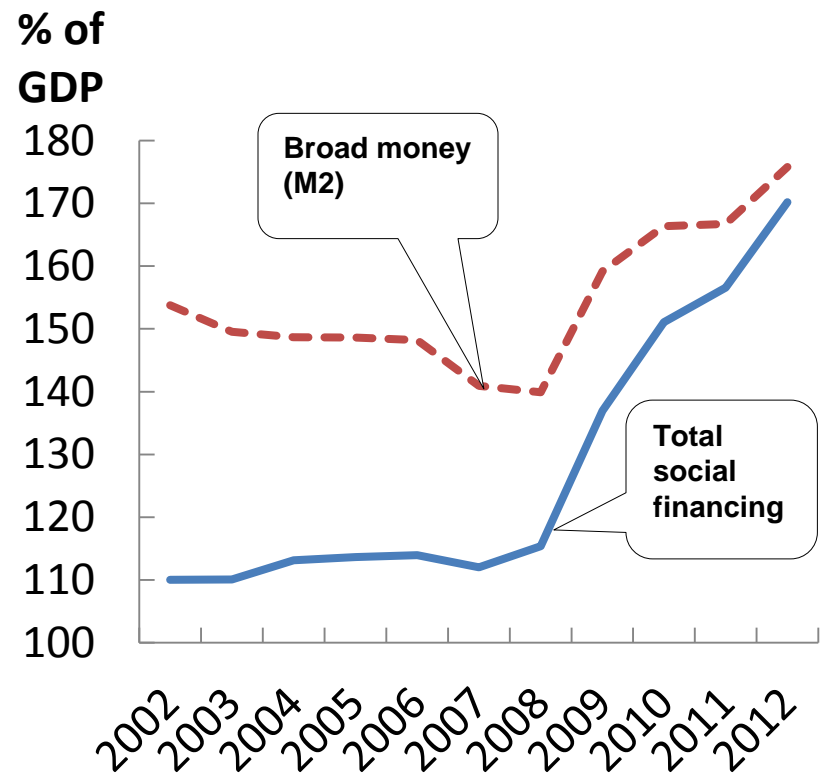
	2012	2013 ^f		2014 ^f			2012	2013 ^f		2014 ^f	
		ADO	ADOU	ADO	ADOU			ADO	ADOU	ADO	ADOU
South Asia	5.1	5.7	4.7	6.2	5.5	Central Asia	5.6	5.5	5.4	6.0	6.0
India	5.0	6.0	4.7	6.5	5.7	Kazakhstan	5.0	5.2	4.8	5.6	5.6
Pakistan	4.4	3.6	3.6	3.5	3.0	Kyrgyz Republic	-0.9	5.5	7.5	4.5	4.5
Sri Lanka	6.4	6.8	6.8	7.2	7.2	East Asia	6.5	7.1	6.6	7.1	6.6
Southeast Asia	5.6	5.4	4.9	5.7	5.3	PRC	7.7	8.2	7.6	8.0	7.4
Indonesia	6.2	6.4	5.7	6.6	6.0	Hong Kong, China	1.5	3.5	3.2	3.8	3.8
Malaysia	5.6	5.3	4.3	5.5	5.0	Korea, Rep. of	2.0	2.8	2.8	3.7	3.5
Philippines	6.8	6.0	7.0	5.9	6.1	Taipei, China	1.3	3.5	2.3	3.9	3.3
Singapore	1.3	2.6	2.6	3.7	3.5	The Pacific	7.5	5.2	5.2	5.5	5.5
Thailand	6.5	4.9	3.8	5.0	4.9	Fiji	2.2	2.0	2.8	2.3	2.4
Viet Nam	5.2	5.2	5.2	5.6	5.5	Papua New Guinea	9.8	5.5	5.5	6.0	6.0

...as the PRC undertakes structural reform and reins in credit growth...

Current account balance, PRC



Liquidity levels, PRC



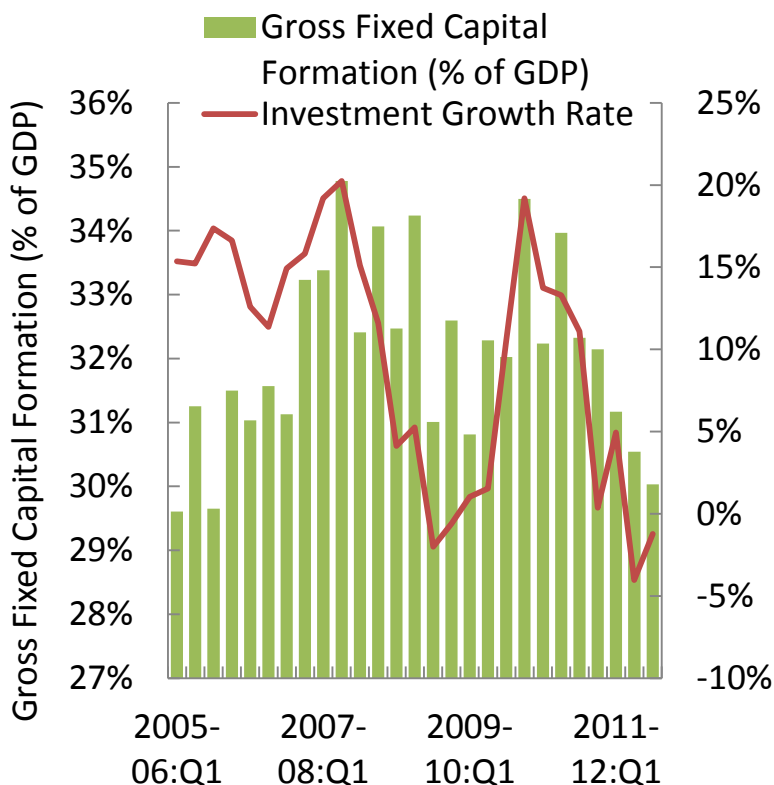
Sources: CEIC Data company; ADO database.

Note: Total social financing represents the total fundraising by PRC non-state entities.

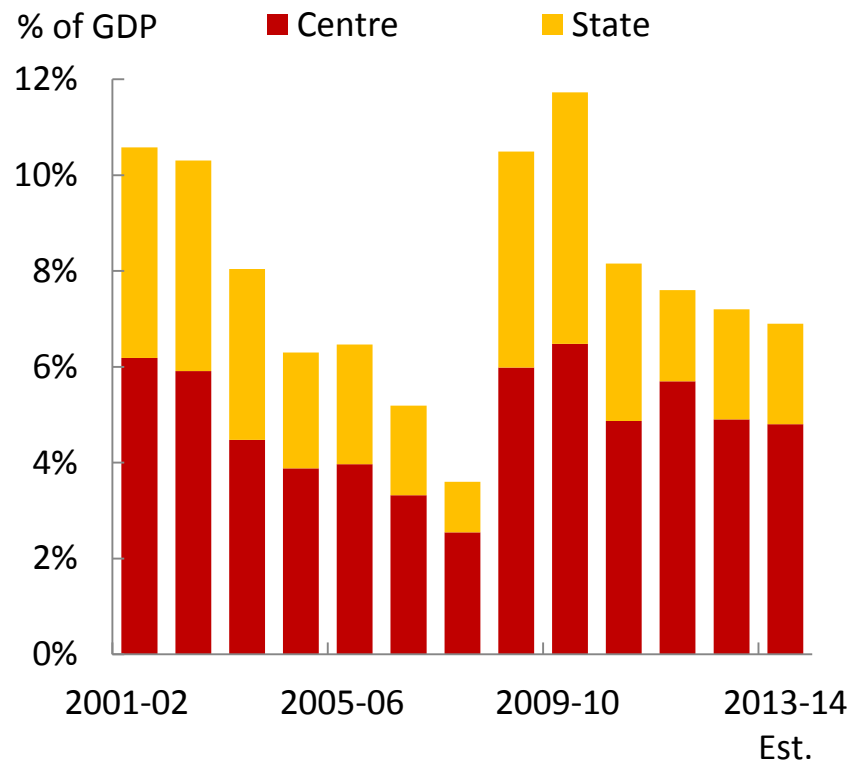
Sources: People's Bank of China, Asian Development Bank staff estimates.

...and India's structural problems dent business confidence

Fixed capital formation and investment

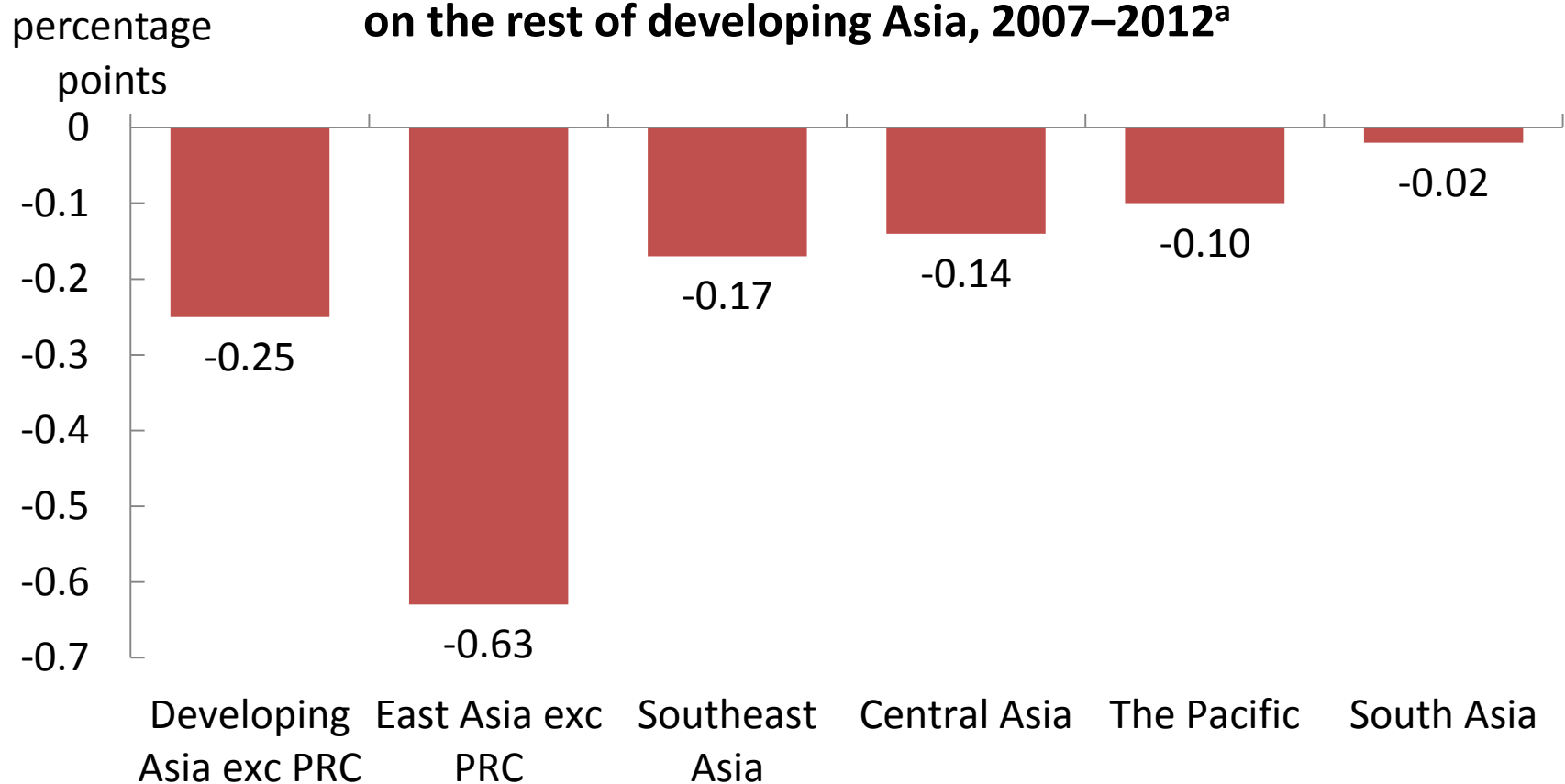


Consolidated fiscal deficit



East and Southeast Asia more vulnerable to slower PRC growth...

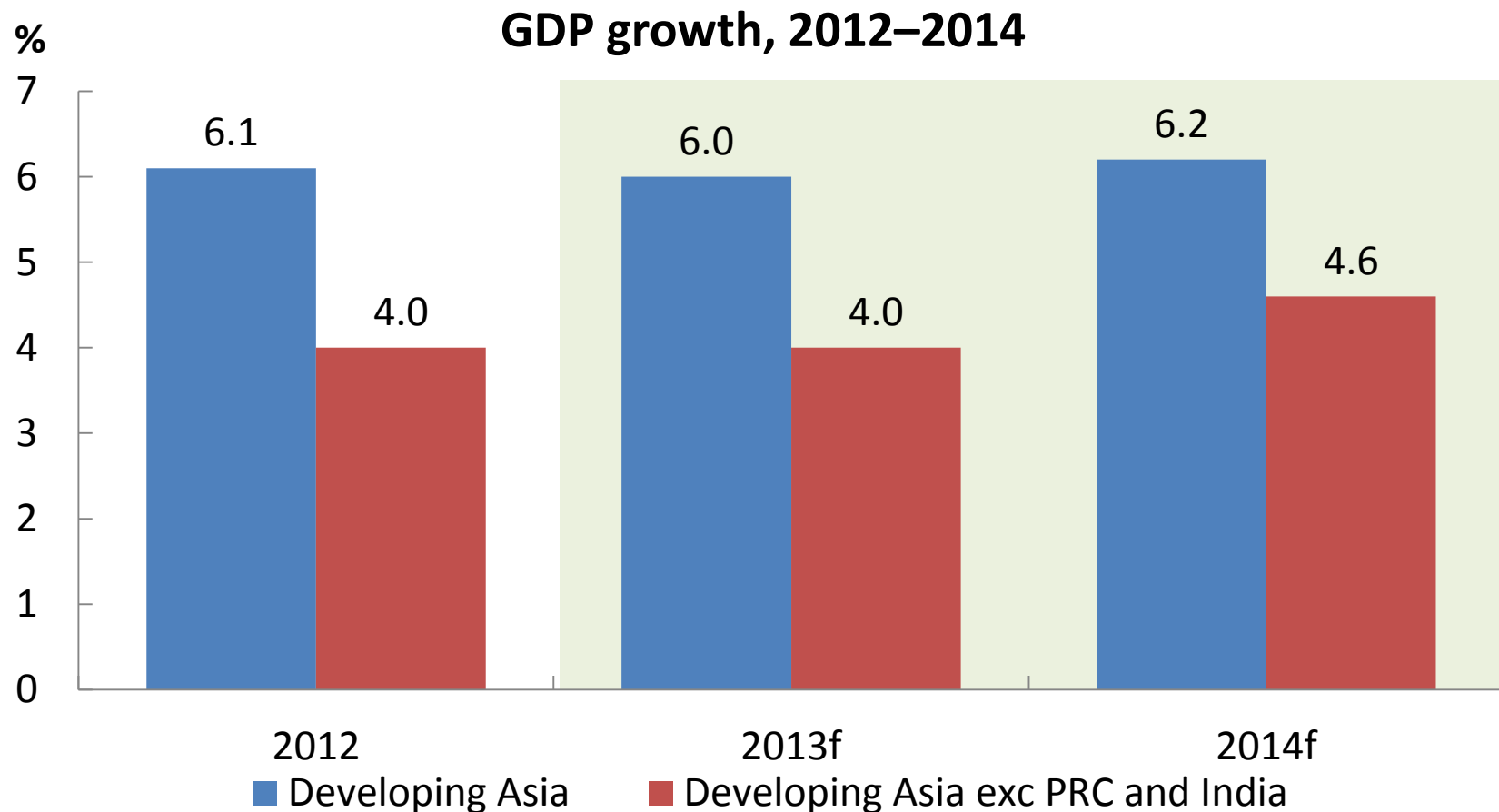
Impact of PRC growth slowing by 1 percentage point on the rest of developing Asia, 2007–2012^a



PRC = People's Republic of China

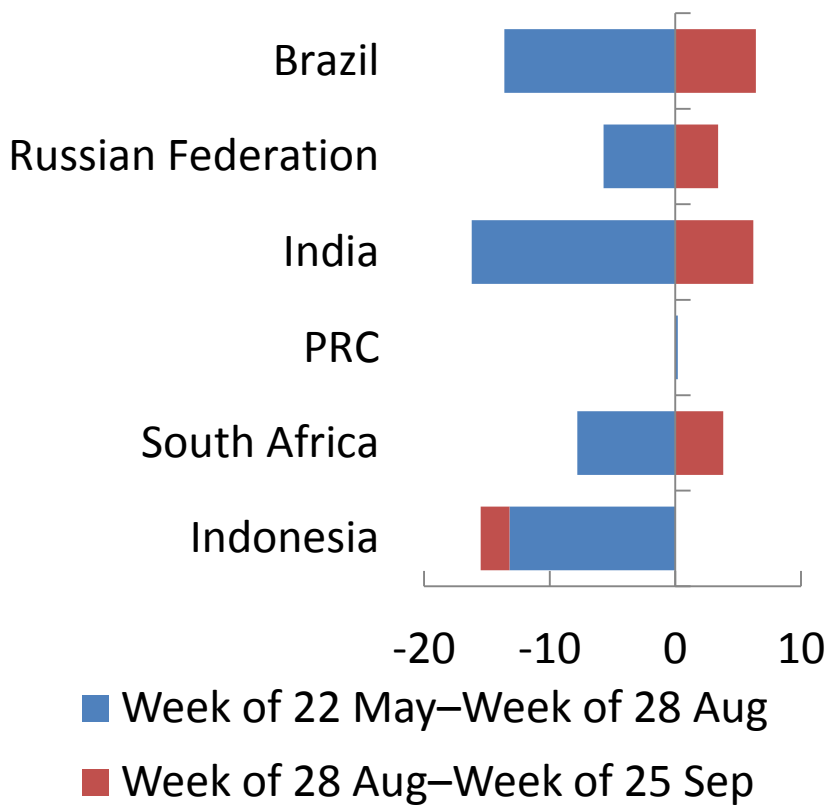
^a Weighted predicted values.

...but two giants' slower growth will not hobble rest of Asia's growth

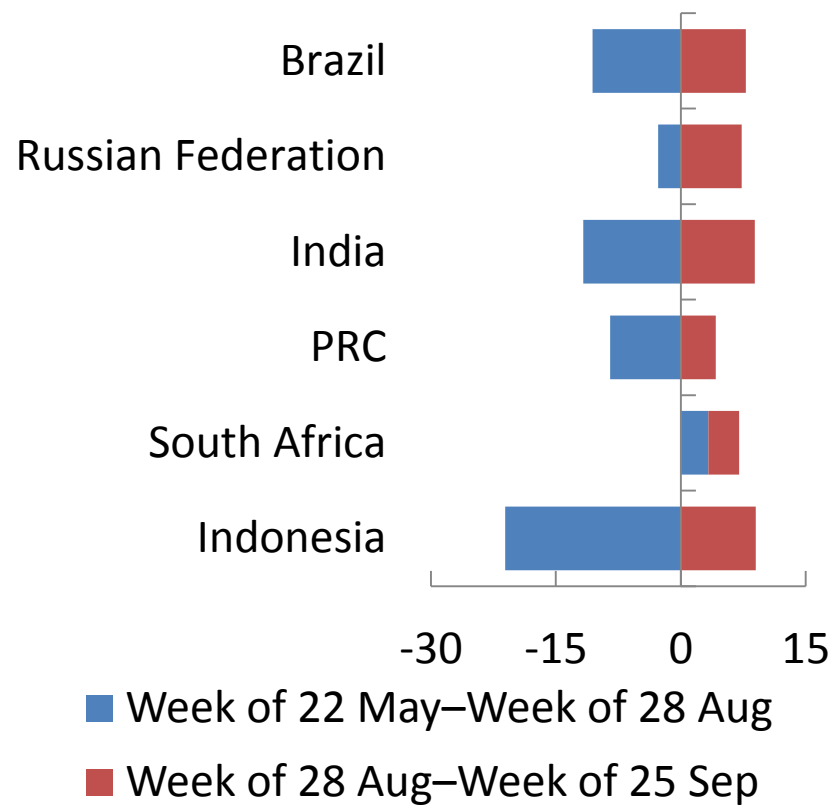


Talk of quantitative easing taper shook financial markets...

Change in local currency unit/\$



Change in main stock index



...with India and Indonesia hit hard due to widening current account deficits

Current account balance, % of GDP



Fears of a 1997-like crisis unwarranted...

Select Vulnerability Indicators (1997 vs. latest available data)^a

	Fiscal Balance (% GDP)		Current Account (% GDP)		Import cover (months)		Short-Term External Debt / Reserves	
	1996	2012	1997Q2 ^b	2013Q2 ^c	Jun-97	Latest ^d	1997Q2	2012Q4
China, People's Rep. of	-1.8	-1.6	0.8	2.3	10.6	22.1	28.8	12.4
Hong Kong, China	2.1	3.2	—	-0.3	4.0	6.9	280.6	65.3
India ^a	-7.0	-7.5	-3.1	-3.6	0.6	6.8	—	54.0
Indonesia	1.0	-1.8	-1.8	-2.4	5.7	5.2	191.0	49.0
Korea, Rep. of	0.2	-2.9	-2.1	6.7	2.6	5.1	232.0	44.1
Malaysia	0.7	-4.5	-4.4	1.1	4.0	7.7	69.2	25.5
Philippines	0.3	-2.3	-4.2	5.3	3.5	14.5	105.5	21.2
Singapore	21.3	1.1	20.0	20.0	7.4	8.3	245.4	75.1
Taipei,China	-1.4	-1.6	1.5	11.9	9.3	19.4	26.6	12.1
Thailand	2.1	-4.1	-7.9	-5.1	5.4	7.6	157.7	15.8
Viet Nam	-0.9	-6.9	-8.2	4.6	—	2.3	53.3	56.3

^aFor India, latest figures are compared with 1991, not 1997. Fiscal data is for central and state governments.

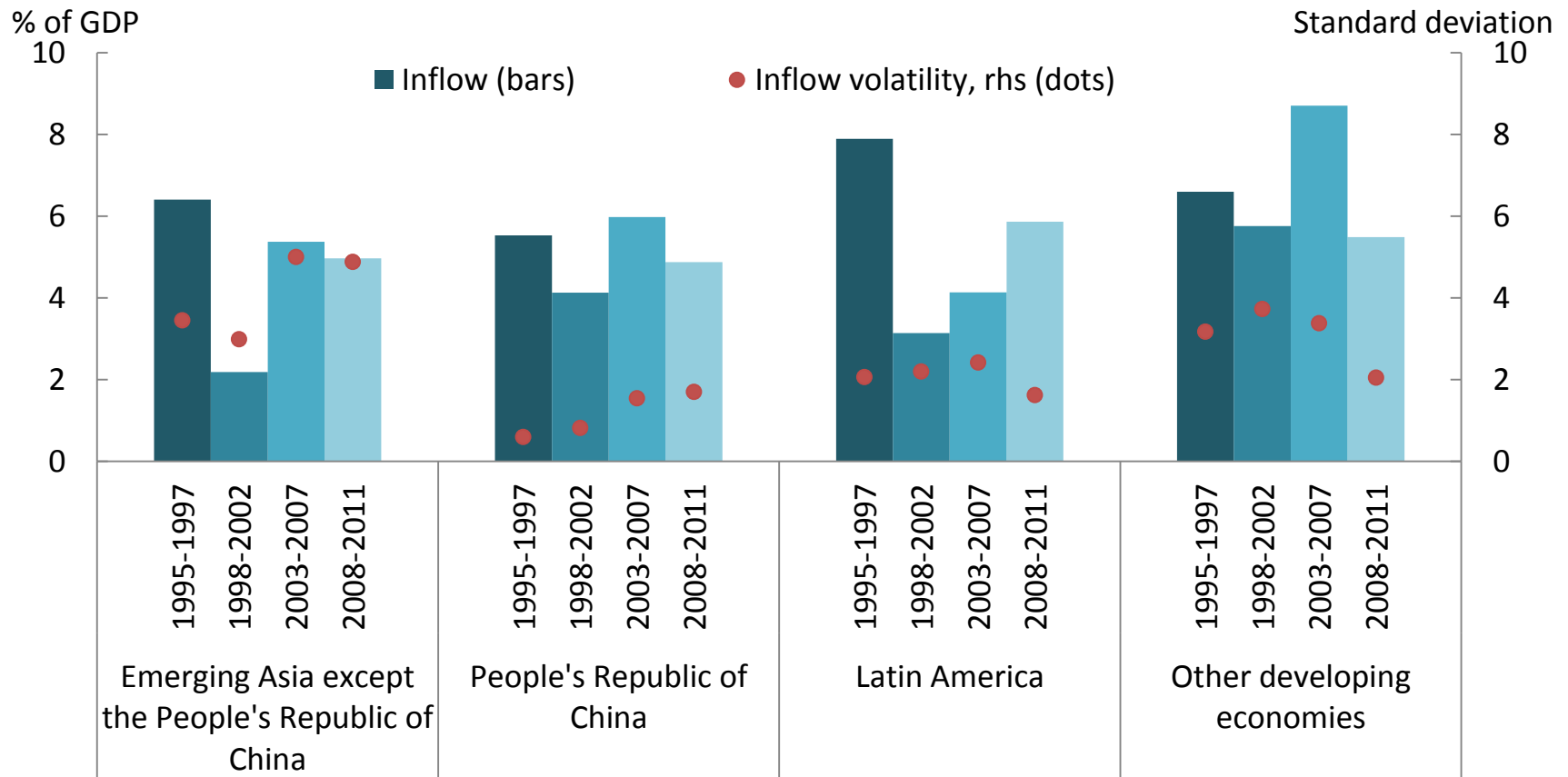
^bAnnual 1996 current account as % of GDP data for the People's Republic of China; Hong Kong, China; India; Malaysia; Philippines; Thailand; and Viet Nam.

^c2012Q4 data for Viet Nam; 2013Q1 data for Hong Kong, China; India; Indonesia; Malaysia; and Philippines.

^dRefers to June 2013 except for Viet Nam (May); Hong Kong, China; and Malaysia (July); India; Indonesia; and Taipei,China (August).

...but growing financial volatility calls for vigilance

Capital inflow and volatility

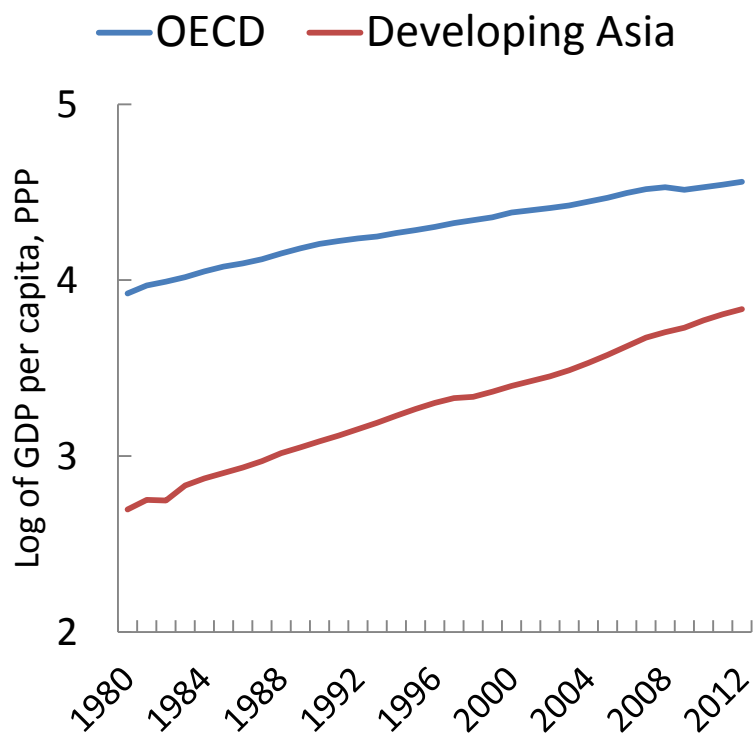


Financial turmoil timely reminder for structural reform

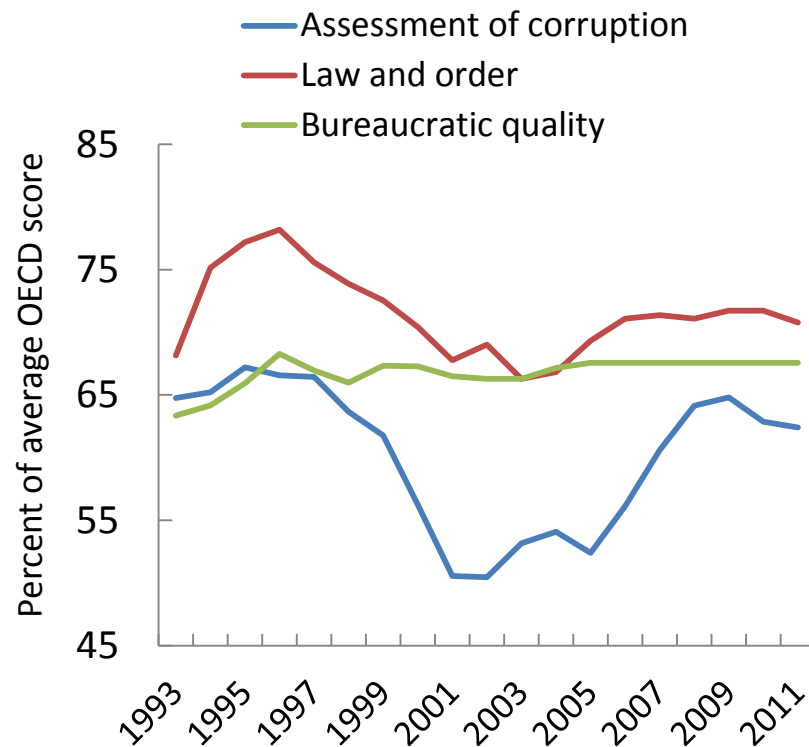
- Prioritize reforms that promote macro/financial stability and alleviate long-term growth constraints:
 - Ease supply-side bottlenecks (e.g., infrastructure gaps and excessive regulations)
 - Enhance human capital
 - Develop financial sector
 - Strengthen social protection
 - Undertake governance reform
 - Asia's growth has outpaced the rest of the world, but governance reform lags

Governance and public service delivery

Developing Asia closing income gap faster than governance gap



- Developing Asia's GDP per capita increased from 5.5% that of OECD economies in 1980 to more than 18% in 2012.



- But the region has seen less progress in closing the measured perceived governance gaps.

Governance deficits remain even after controlling for income



Sources: ADB estimates using data from World Bank, World Governance Indicators online database.

Average deviation from predicted WGI scores by world region, 2011

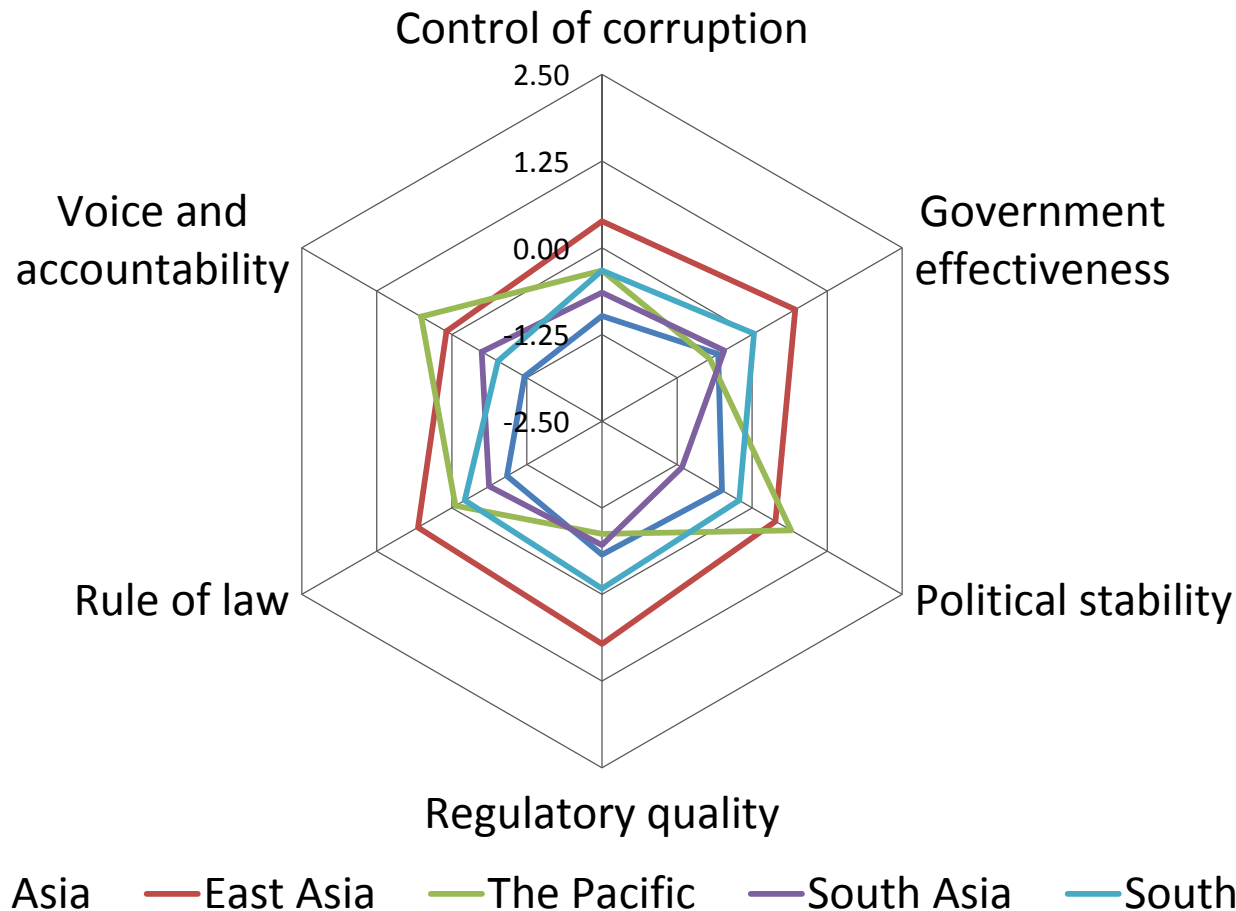
Region	Controlling corruption	Government effectiveness	Political stability	Regulatory quality	Rule of law	Voice and accountability
Developing Asia	-0.208	-0.071	0.062	-0.202	-0.043	-0.171
LAC	-0.024	-0.089	0.029	-0.093	-0.243	0.295
MENA	-0.429	-0.394	-0.694	-0.389	-0.365	-1.025
Non-OECD Europe	-0.400	-0.262	-0.164	-0.013	-0.265	0.004
OECD	0.567	0.477	0.181	0.471	0.523	0.599
Sub-Saharan Africa	0.191	0.085	0.16	0.117	0.133	0.012

LAC = Latin America and the Caribbean, MENA = Middle East and North Africa, OECD = Organisation for Economic Co-operation and Development.

Notes: Regional values are simple averages of country residuals from a linear regression of each World Governance Indicator against log per capita GDP using a sample of 187 countries. Negative values signify a region is in deficit on average against the global benchmark for that indicator and vice versa.

Variations are large within the region

World governance indicators, 2011



Average deviation from predicted WGI scores by Asian subregion, 2011

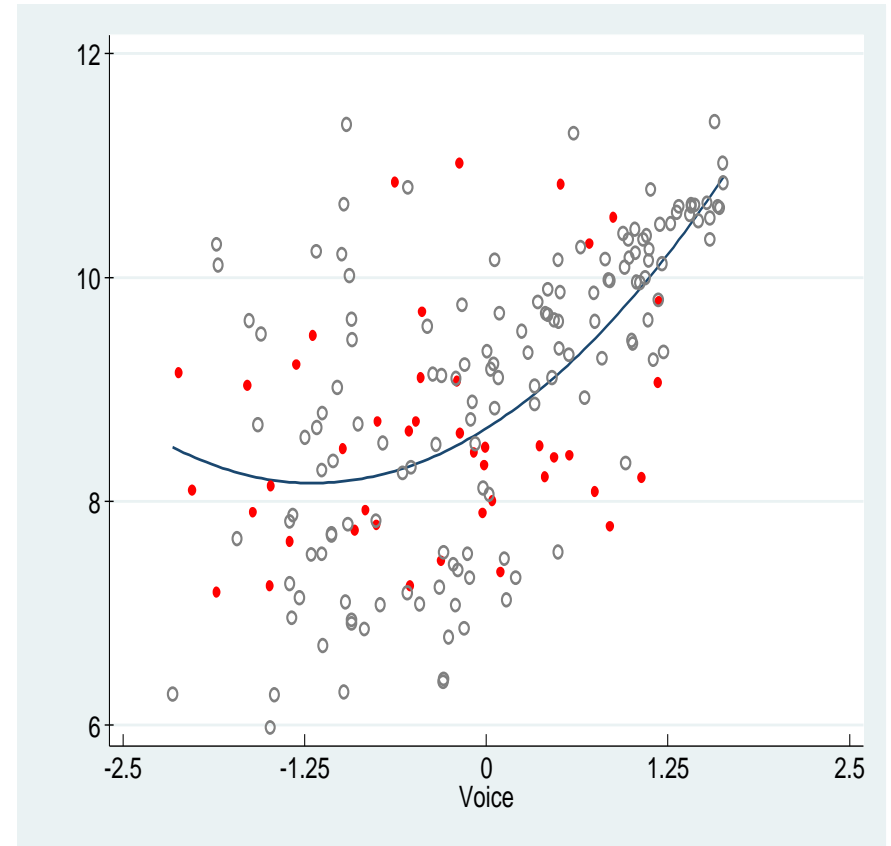
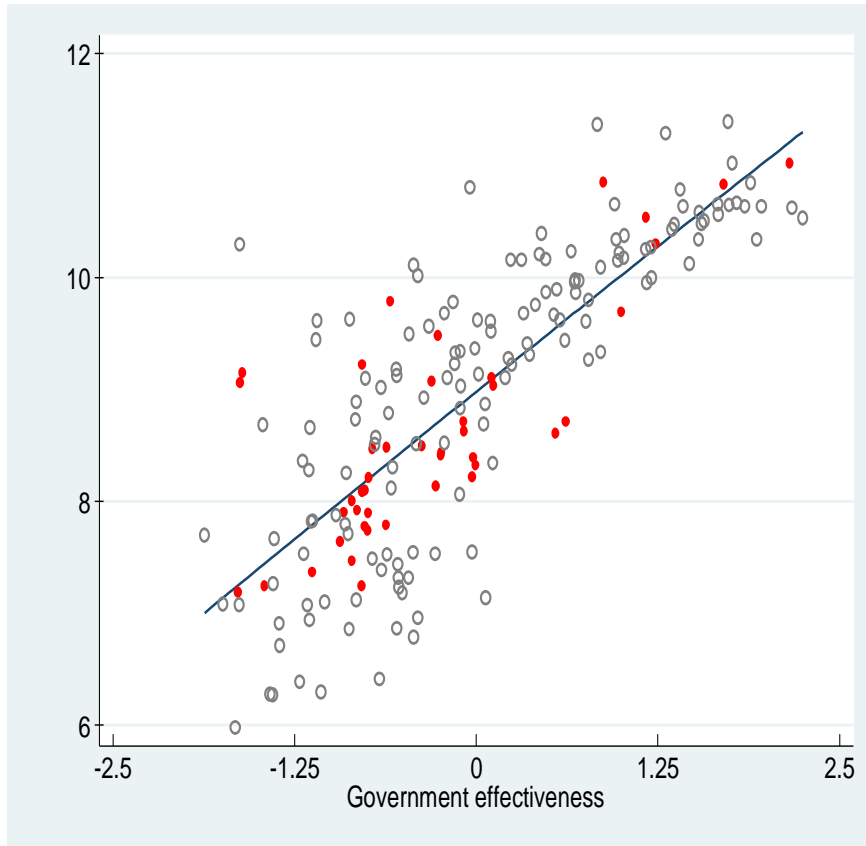
Region/Subregion	Controlling corruption	Government effectiveness	Political stability	Regulatory quality	Rule of law	Voice and accountability
Developing Asia	-0.208	-0.071	0.062	-0.202	-0.043	-0.171
Central Asia	-0.736	-0.315	-0.280	-0.341	-0.641	-1.010
East Asia	-0.057	0.210	0.042	0.236	0.108	-0.246
Pacific	0.030	-0.308	0.956	-0.475	0.329	0.773
South Asia	-0.116	0.104	-0.709	-0.182	-0.040	-0.074
Southeast Asia	-0.221	0.128	-0.108	0.003	-0.089	-0.674

Notes: Subregional values are simple averages of country residuals from a linear regression of each World Governance Indicator against log per capita GDP using a sample of 187 countries. Negative values signify a subregion is in deficit on average against the global benchmark for that indicator.

Governance matters for growth and development

- Governance matters for attaining high levels of income and better social outcomes.
- Good governance and growth are positively associated; Asia is no exception.
 - Relationship is stronger for government effectiveness, rule of law, regulatory quality, and control of corruption than for voice or political stability.

Governance–development relationship is complex

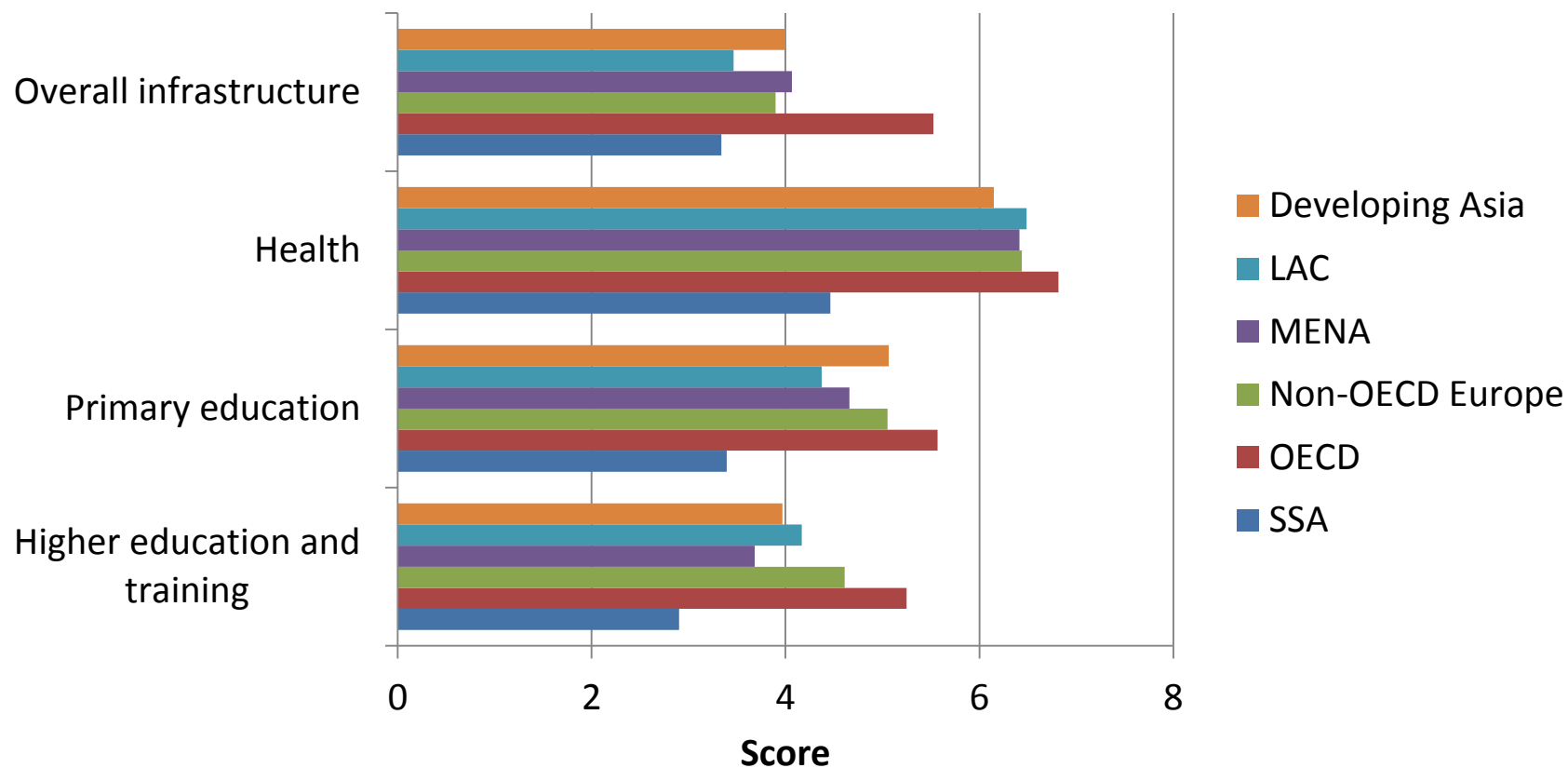


- The relationship appears to be weak when incomes are low and strengthens after development reaches a certain stage.

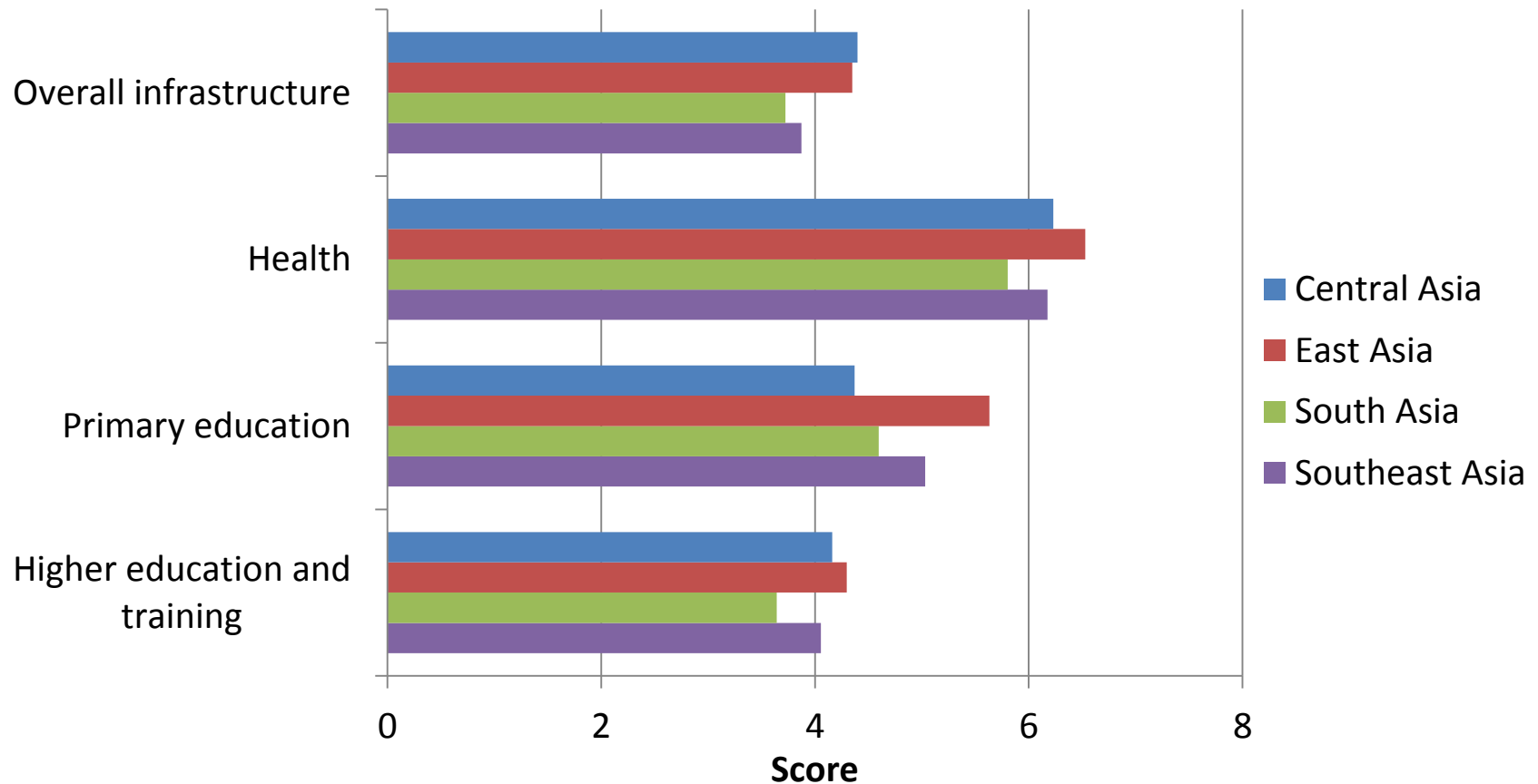
Public service is an effective entry point for governance reforms

- Citizens perceive the quality of governance through the quality of public services.
 - Corruption has been cited as the main driver of poor governance and service delivery.
- Weak governance in turn undermines public service quality.
 - Absenteeism of doctors in health clinics and teachers in public schools is high.
 - More effective monitoring could yield high returns.

Quality of public services by region, 2013



Quality of public services by Asian subregion, 2013



Note: 1 = worst, 7 = best.

A multipronged strategy is needed for better public services

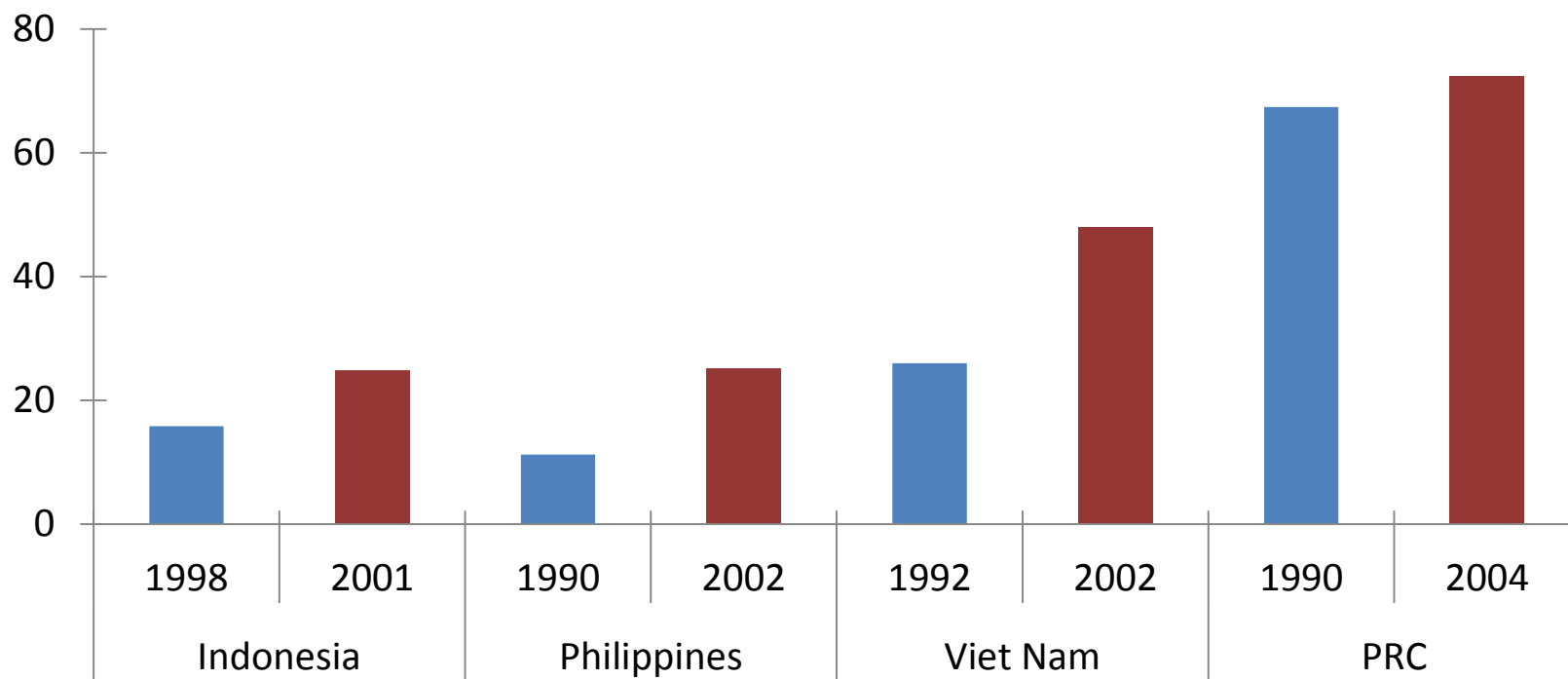
- When recipients have the means to demand better public services, quality improves.
- Complementary set of mechanisms for better public services—“3 Es”:
 - Empowering citizens
 - Engaging local governments and private sector
 - Expanding use of information and communication technology (ICT)

Extent of fiscal decentralization in South Asia and the world

Country	% of government revenue raised by subnational government	% of government expenditure done by subnational governments	Transfer to subnational units as a share of subnational revenues
India	33.6	52	39
Bangladesh	<2	3–4	64–70
Pakistan	7.3	30.3	81.1
Sri Lanka	7	12	82.5
World	21.7	29.1	32.5
China, People's Rep. of	59.7	81.5	35
Canada	52.2	59.7	21.3
United States	41.1	49.3	28.9
Mexico	23.5	23.1	47

Subnational governments' share of public spending

share of public spending (%)

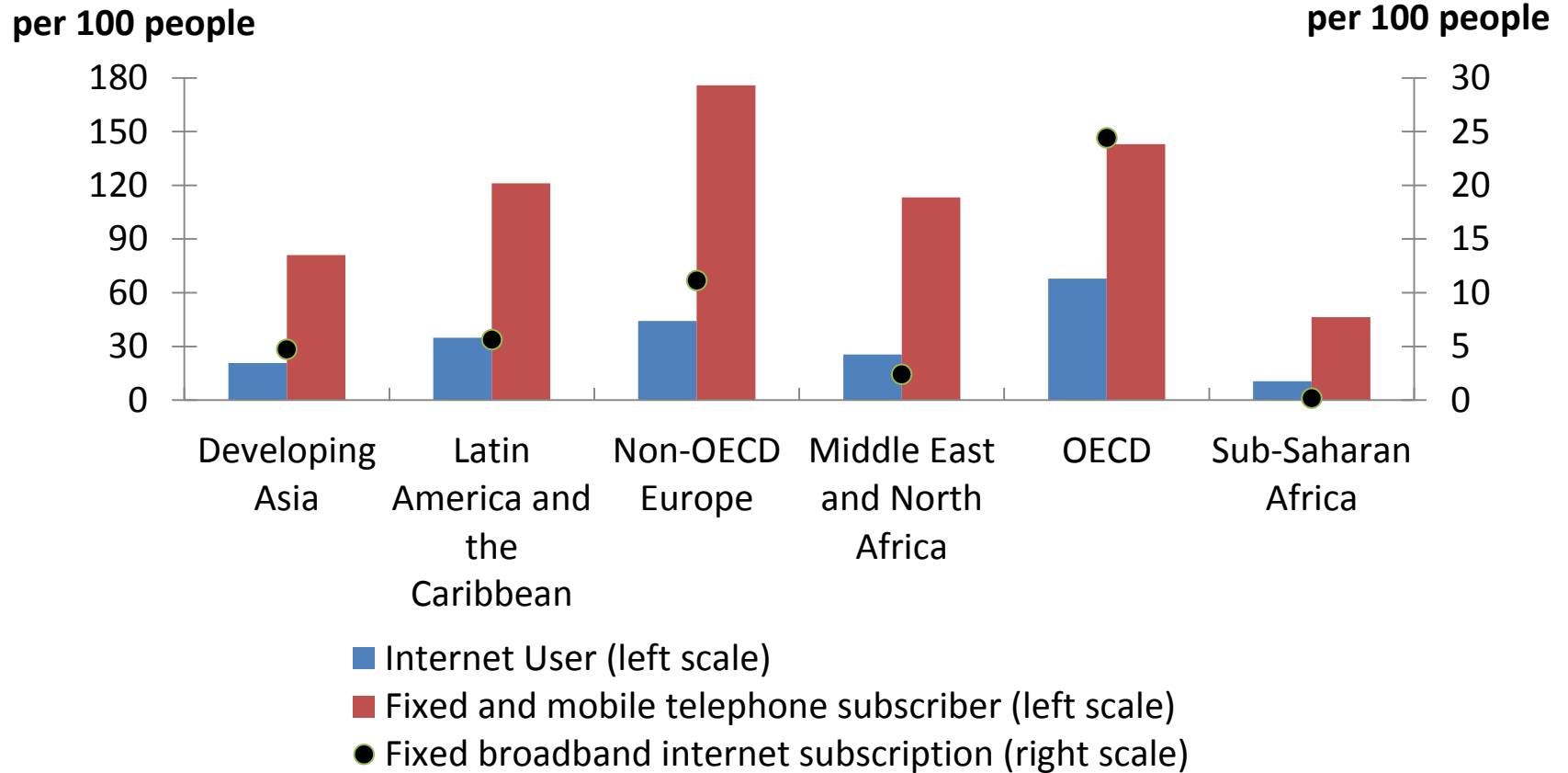


Expanding ICT should be the priority

Three Es	Pros	Cons
Empowering citizens	<ul style="list-style-type: none"> • Leads to greater citizen rights • Helps to improve transparency and accountability 	<ul style="list-style-type: none"> • Fiscal sustainability is an issue
Engaging local governments / private sector	<ul style="list-style-type: none"> • Better information and risk management • Greater incentives • Greater innovation and efficiency 	<ul style="list-style-type: none"> • When institutions are weak, services could be affected and corruption perpetuated
Expanding ICT	<ul style="list-style-type: none"> • Greater citizen participation in local governance • Faster access to information • A feedback channel for better-quality services • Promotes accountability and reduces scope for corruption 	<ul style="list-style-type: none"> • Poor citizens lack access to internet or e-literacy • Fiscal strain for large ICT projects

- As an effective service delivery channel, ICT complements the other channels.
- ICT mitigates unintended consequences of empowerment and decentralization through greater transparency.

Internet, mobile, and broadband users by region



Tailoring governance reforms maximizes development impact

- Focus on governance deficiencies that hold a country back from its next stage of development.
 - **Low Income:** Growth-supporting aspects of governance reform take center stage.
 - **Middle Income:** Benchmark advanced economies for wider participation and greater accountability.
 - **All Economies:** Aim governance reforms at actionable areas with many low-hanging fruits.

Governance reform cannot be delayed

- Asian leaders are responding: Fighting corruption is high on the agenda.
 - Anti-corruption has been a key policy centerpiece of many Asian governments.
 - Anti-corruption legislation has been strengthened in some Asian economies.
- Implementation and enforcement are key.
- Asia's journey for governance reform is long and challenging, but payoffs will be large.