

Keynote Speech by
Managing Director Rajat M. Nag
Asian Development Bank

2012 Business Opportunities Fair

21 March 2012

Manila

Ladies and gentlemen.

On behalf of the Asian Development Bank, may I extend a very warm welcome to all of you at the third Business Opportunities Fair.

Nearly all ADB-financed projects, whether loans, grants or technical Assistance (TA), are delivered in conjunction with consultant, contractors or suppliers in the private and non-governmental sectors. I would like to thank you who worked on ADB Program and projects for your valuable contribution.

You have a rich program of lecture and discussion over the next couple of days. Let me try to put these in the context of Asia and the opportunities and challenges we face as a region.

Asia's rapid rise over the past four decades and its increasing influence in the global economy have prompted many to say that the 21st century belongs to Asia. The transformation has indeed been quite dramatic. Millions of Asians have been lifted from poverty. The People's Republic of China (PRC) and India have gained status as global economic powerhouses, while countries such as Indonesia, Thailand, and Viet Nam are progressing toward middle-income status. However, many developing economies are still mired in modest or low growth rates. Thus, the two faces of Asia. The rapid yet uneven rise offers both important opportunities and significant challenges; Asia's future success is plausible but not pre-ordained.

Given our region's extremely diverse and complex social and economic landscape, the rapid—yet uneven—rise to date proffers both important opportunities and significant challenges.

Let's postulate two scenarios: The Asian Century Scenario and the Middle Income Trap. Under the Asian Century, some 3 billion more Asians would become more affluent and enjoy higher living standards. But the Middle Income Trap Scenario

would bring a very different set of outcomes. Under the Middle Income Trap, Asia's GDP per capita would be only about half of what could be achieved under the Asian Century Scenario. Each scenario underscores the potential payoff of proactive policies compared to the cost of inaction. The two scenarios are rough sketches of how Asia's future might unfold depending on how policy choices are made and pursued.

The next 40 years in Asia will be shaped by risks associated with inequalities within and across countries, the middle income trap, competition for finite natural resources, climate change, and rising urbanization. Our future calls upon us to meet the challenge of providing good governance and strong institutions to maintain continuous growth momentum while addressing inequality issues and avoiding conflicts to foster peace and prosperity across the region.

The risks will mutually interact with the new realities that will drive Asia's future—particularly the changing demographic structure and its effect on the labor force, the emerging middle class, globalization, communication and technology, and regional cooperation and integration.

To rise to the challenges and translate these into opportunities, Asian leaders need to devise bold and innovative national policies, while pursuing avenues for regional and global cooperation.

Challenges ahead, but let me briefly touch on seven key ones – not in any particular order but which could all be mutually reinforcing.

First, promotion of inclusive growth will require policy instruments focused on human capital development and upgrading of infrastructure services. Job creation for the wider population should be on top of the policy agenda, supported by provision of education for the poor to help them acquire the skills needed for higher-paying jobs. Policies should also involve sector interventions in areas such as healthcare, nutrition, and sanitation. Inclusive growth also calls for improved access to finance for the poor and vulnerable. Policy prescriptions abound but it will only make a tangible difference if the policy agenda is carefully designed and implemented to ensure that the most vulnerable groups are provided targeted assistance.

Second, the region could surpass the members of the Organization for Economic Co-operation and Development well before 2050 to become the largest energy consuming block in the world. In forty years, it is expected that Asia will account for over 40% of global energy consumption. With this comes a growing responsibility to take the necessary action to address energy security. Countries should prioritize diversifying energy resources—particularly renewable energy—and promoting energy efficiency. This must be accompanied by a combination of price adjustments, technological breakthroughs, and changes in consumption patterns. In addition to local initiatives, there are also important opportunities for Asia to address energy security through regional cooperation, including transfer and sharing of renewable energy and transport

technologies, creation of joint petroleum stockpiles and integration of electricity and gas networks across the region.

Third, the burden on Asia to take responsibility in addressing climate change is also set to intensify in the next four decades. Asian economies face very serious consequences if they fail to act decisively and collectively and make significant efforts to mitigate climate change. Under a business-as-usual scenario wherein current trends in climate change persist, developing Asian economies could suffer economic losses estimated at 1.2% of GDP. Recent studies show that the damages are lessened significantly if Asian economies act to reduce their carbon emissions jointly with developed countries in other regions as the economic losses associated with the resulting temperature increase become significantly smaller. Clearly, concerted effort from all Asian economies is necessary to create an important impact on the outcome of the global climate and it is in our interest to act accordingly.

Fourth, we need a financial system that efficiently intermediates our savings to meet our massive investment needs in infrastructure, urbanization, climate change mitigation, and adaptation, as well as technological development and business creation. Inclusive finance should be a particular priority. A poorly managed financial system will be highly disruptive to trade, investment and economic growth.

Fifth, another opportunity and a challenge facing Asia is the rapid urbanization. In the next 40 years, the urban population will almost double from about 1.6 billion to 3.1 billion as cities become the epicenter of economic life, higher education, innovation and technological development. This requires our renewed attention to the urgent need for investments in urban planning, infrastructure, health and sanitation. Asia needs to adopt a new approach to urbanization by building more compact and eco friendly cities. It also needs to rely much more on mass transit and Asians must change their lifestyles to alleviate pressures on finite resources.

Sixth, education and innovation must be key driver of economic development and equity. Asia's rapid growth has been based on and needs to be sustained through continuous improvement in quality of education and overall human capital. For Asia to avoid the Middle Income Trap and improve the lives of millions, we need to efficiently absorb technology and appropriately accumulate human capital so that we avoid skills-technology mismatch. We need to significantly increase and sustain the level of investment in quality and availability of education at all levels. At the same time, it is very important to maintain and improve quality and relevance of higher education, which need to properly catch up the rapid change in labor market needs and economic development.

Human capital development should also be aligned with more focus on encouraging and promoting innovation. Without efforts for constant innovation and strengthened entrepreneurship, we may not build and maintain sufficient soft and intellectual assets which are key to generating multiplying and securing economic values in the fast changing digital and technological era.

Seventh, policy prescriptions for good governance abound, but true change will need to come from within the region. There is no short-cut to building good governance. We believe that endogenous factors—changing demographics, increasing urbanization, an expanding middle class—will drive demand for good governance in the region. These drivers are not mutually exclusive and, in fact, can reinforce each other in accelerating the demand for reform. It is hoped that the new aspirations accompanying the prospect of realizing the Asian Century and attaining higher living standards as well as quality of life will transform governance across the region.

There is general consensus that good governance is the bedrock of sustainable, broad-based development and there is no dearth of policies supporting reforms for more effective, transparent, and accountable governance. However, enforcing of rules and compliance with reforms is not the sole responsibility of the state—full observance of good governance will rest with the general public, including the business community, in the everyday choices that they make to either support or undermine effective reform.

The governance of procuring goods, service, and works is of paramount concern to all of us gathered here in this forum. ADB has a fiduciary responsibility to ensure our funds are used for the purposes intended in an economic, efficient and transparent manner, with zero tolerance of corruption. However, financing from international finance institutions such as ADB is a small part of total public procurement. According to the Organization of Economic Cooperation and Development (OECD) estimates, public procurement globally amounts to about 15% of gross domestic product. This can exceed 25% in many Asian countries – for example Viet Nam, India, and PRC. Efficient public procurement remains an underutilized tool by many governments, but those which have embraced it have collectively realized billions of dollars in savings.

In 2011, ADB approved a total of \$21.7 billion in new projects, of which \$7.7 billion was cofinanced by ADB's donor partners. This brought our total sovereign and nonsovereign portfolio by the end of 2011 to \$66 billion. Over 90% of our portfolio is contracted to consultants, contractors, and suppliers to implement projects managed by our government clients.

We need you as our partners and the more we get to know each other, the better we can serve the region.

Conclusion

I hope that this Business Opportunities Forum will create opportunities for us to work more effectively together to support governments meet the challenges the region must tackle to make the prospect of an Asian Century a reality.

I wish you a very fruitful discussion and a successful forum over the next two days.

Thank you.