

**Speech by  
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Asian Development Bank  
at  
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**I. Introduction**

Good afternoon, ladies and gentlemen.

I am very pleased to be here with you today. I would like to thank the Federation of Indian Chambers of Commerce and Industry (FICCI) for inviting me to speak about developing Asia’s prospects for growth – in particular, the outlook for India. I will also take this opportunity to touch upon ADB’s 46<sup>th</sup> Annual Meeting, which will be held in New Delhi in May.

Let me begin with the economic prospects for the Asian region.

**II. Economic Prospects for Developing Asia**

We all know that in the aftermath of the global economic crisis, the developing Asia’s swift rebound stood out. But as the slowdown in the major industrial economies drags on, growth in developing Asia cannot help but be affected. We estimate regional growth cooled to 6% last year, and will pick up slightly to 6.6% in 2013. Despite recent signs of stabilization, downside risks remain.

Sustained recovery in the United States, euro area, and Japan remains elusive. In the US, it seems that the partial resolution of the “fiscal cliff” issue has only opened the door to further political wrangling in the coming months. In the euro area, even though some short-run pressure has been lifted, fiscal consolidation could still undermine prospects in the months ahead. Japan, too, is making a sluggish recovery from the recent earthquake, and may take some time to revive domestic activities, although we need to see the impact of the economic policy after the election last December. Overall, the three major industrial economies are likely to expand collectively by only 1.3% in 2013—about the same rate as last year.

This global slump will likely place a serious drag on the region’s major economies, particularly on the two Asian giants, India and China. The external sectors of both countries have clearly been hit hard. But the slowdown in Asia’s two largest economies is not just due to the weak global environment. In India, for example, fixed asset investment rose by only 2.3% in the first half of fiscal year 2012, compared to 9% in the same period in the previous year. Consumption in both economies is also stagnating.

But all is not bad news in Asia. China continues rebalancing and is expected to grow over 8% this year. India is also taking positive policy measures and is expected to grow 6.5% this year. Quite remarkably, ASEAN countries are showing good performance despite the difficult external environment. The subregion’s prospects are positive, particularly as ASEAN moves toward economic integration by 2015, Myanmar undertakes reform, the Philippines improves its governance and investment

climate, and other Southeast Asian economies continue to bolster domestic demand. That is why I am cautiously optimistic that Asia will keep on leading global growth despite the daunting tasks we are facing.

### **III. India: Achieving High and Inclusive Growth**

Moving specifically to India, we project economic growth in fiscal year 2012 to slow to 5.4% before picking up to 6.5% in 2013. Unlike China, which has shown clear signs of stabilization from the second half of last year, there is no clear evidence yet of growth recovery in India. Among many factors, the delay in implementing necessary reforms has hampered India's competitiveness. But we expect that recent government reforms will help steer the economy back to strong growth. What is challenging is that these reforms must also make growth more inclusive.

In my view, the Government should address four key issues to ensure that India's growth is sustainable and inclusive.

First is the need to upgrade the service sector. As you know, India already has a large service sector, which has been a major growth source. Considering India's young and growing labor force, the service sector needs to create more jobs for the millions who will join the workforce every year. However, the service sector has been dominated by traditional services with low wages in informal sectors, such as restaurants and personal services. For inclusive growth, there is a need to shift toward modern services such as internet connectivity technology, finance, legal, and other professional business services. We all know that India has to

reduce burdensome regulations to allow the sector to be more competitive and dynamic. Recent government service sector reform is most welcome.

Second, improvements in the investment climate are vital, especially if India is to realize its potential in manufacturing. India needs to dramatically expand the sources and volume of available infrastructure financing. This will not be possible without private sector participation. Private sector participation in turn requires a business environment that ensures adequate return on investment, transparency in procurement, and excellent governance and regulation.

Third, while India possesses some of the world's best managers, scientists, and engineers, a large portion of its workforce is unskilled or semi skilled.<sup>1</sup> The low employability of this work force may constrain India's efforts towards inclusive growth. In this context, I am happy to see the unfolding of the National Skills Policy. The policy marks a paradigm shift from the traditional government-led model of skill development and vocational training to one which emphasizes private sector-led skills development.

Lastly, there is the challenge of urbanization. As has happened elsewhere, India's rural population is steadily moving into urban areas. New towns are emerging and existing cities are expanding.<sup>2</sup> But recent flooding in megacities such as Bangkok and Beijing demonstrate that rapid

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<sup>1</sup> 57% of India's youth suffer from some degree of unemployment. Graduates constitute only 7% of the 15 to 60 year-old working age population. 40% of this cohort is illiterate. Only 52% of those who pass the secondary level enroll for higher education. While 90% of the employment opportunities require vocational skills, India's education system continues to focus on rote learning. Moreover, recent surveys show that only 30% of India's IT graduates, 25% of engineering graduates, 15% of finance and accounting professionals are suitable for employment.

<sup>2</sup> India's urban population has increased from about 290 million in 2001 to 377 million in 2011, or from 27% to 30% of the total population. It is projected that by 2030, out of a total population of 1.4 billion, over 600 million people may be living in urban areas. According to recent estimates, the urban sector currently contributes around 63% of India's GDP. This share is projected to increase to 75% by 2021.

urbanization without proper infrastructure planning can cause severe damage to the economy and human lives. India must learn from their experience and adopt green urban planning early on. For instance, mass transport systems should link satellite cities to ports and megacities without excessive reliance on private vehicles that aggravate pollution. New cities should also be eco-friendly and energy-conserving. The Indian Government's recent promotion of dynamic economic corridors between major urban cities is a step in the right direction.

India is expected to continue to benefit from the so-called demographic dividend and to lead global growth in coming decades. Everybody sees great potential in India. Timely reforms on key issues will open the door to a bright future for the people of India.

#### **IV. ADB's Work in India**

Ladies and gentlemen, ADB is a privileged partner to India in meeting these challenges. In line with our traditional strength in infrastructure development, we remain committed to strengthening India's energy, transportation, and urban infrastructure—sectors that are critical for a vibrant investment climate. In fact, 80% of our ongoing sovereign loan portfolio, amounting to almost \$9 billion, is in these three sectors.

We are also working on innovative mechanisms for bringing more finance to the infrastructure sector. I'm pleased to mention the recent partial credit guarantee facility set up by India Infrastructure Finance Company Limited in collaboration with ADB. By boosting the credit ratings

of infrastructure projects via credit enhancements, this facility will allow pension funds and insurers to invest in infrastructure projects.

A large share of our assistance is focused on India's lagging states, making our work strongly inclusive. As all of you would agree, nothing is more important to improving economic opportunities in these areas than ensuring better connectivity, power, and promoting new growth centers through appropriate infrastructure. ADB's support will now also include skills development, especially to foster skills required by the infrastructure sectors, and strengthening skills design and delivery systems.

Finally, we are exploring possibilities for focusing a subset of our operations around a few high-priority economic corridors. In doing so, we can use ADB's expertise in energy, transport, urban, and skills development sectors to ensure that these corridors fulfill their full potential and contribute to high and inclusive growth.

## **V. Regional Cooperation and Integration**

The discussion on economic corridors leads me naturally to the issue of regional cooperation and integration. With India playing a major role, the benefits of cooperation are immense, both within South Asia and across the larger Asian region. Through cooperation, South Asia can achieve shared prosperity that is both inclusive and sustainable.

However, currently only 5.4% of South Asia's trade is intra-regional, compared to 51% in East Asia. Major hurdles include poor transport connectivity and stifling non-tariff barriers. These impact growth and

undermine welfare in Nepal, Bhutan, Bangladesh and the north-eastern part of India.

With strong support from India, the South Asia Subregional Economic Cooperation Program, known as SASEC, has achieved much success in prioritizing trade facilitation; developing regional road and rail projects in Nepal, Bhutan and Bangladesh and India; and agreeing on a time bound investment program, including investment in the Siliguri corridor. Improved connectivity and trade will not only boost growth, but also provide an economic lifeline for millions of poor residing especially in the northeast parts of South Asia.

The rich resource endowment of this region means regional cooperation has to focus on sustainable development. One of the important challenges for the 21<sup>st</sup> Century is to ensure carbon neutral growth. By improving inter-country grid connectivity, sharing energy efficiency practices and developing common energy markets, we can improve energy security and achieve green growth.

Let me now touch upon India's role in fostering inter-regional cooperation to unlock Asia's full growth potential. India is flanked by two highly dynamic economies, namely, China and ASEAN. According to a study commissioned by ADB – Asia 2050 – Asia is expected to contribute more than 50% of global GDP by 2050, provided the right policies are undertaken. India is likely to contribute close to one-third of this GDP.

With significant reforms in Myanmar, the potential land based connectivity and trade between India, China and ASEAN could change the economic landscape of South Asia and the broader region. This would

allow us to build new economic corridors as global and regional production networks seek new homes with more competitive input costs.

ADB is facilitating stronger inter-regional transport connectivity through its SASEC and Greater Mekong Sub-region programs, and will prioritize investments to strengthen the inter-regional connectivity. In all our initiatives and plans, India occupies a very strategic role in building regional infrastructure, connectivity and economic corridors. We believe that how India integrates with rest of Asia will define the course of the so-called “Asian Century”.

## **VI. Annual Meeting in New Delhi**

Before closing, let me say a few words about our 46th Annual Meeting. We very much look forward to the event, which will be held at the India Expo Mart in Greater Noida.

The Annual Meeting is expected to attract over 4,000 participants, including finance ministers and central bank governors from around the region and beyond. With participation from academia, international organizations, the private sector, media, and civil society, I expect we will see rigorous, in-depth debate on many critical development issues.

Seminars at the Annual Meeting will focus on the theme of 'Development through Empowerment.' This is an issue close to the heart of both ADB and the Indian Government. Discussions will range from how to diversify the region's economic activities to high productivity sectors, to job



creation in these sectors, disaster risk management, and improved public services delivery.

It is my sincere hope that we will see many of you there.

## **VII. Concluding Remarks**

In closing, I would like to reiterate that the continued weakness in the international economic environment provides a unique opportunity for developing Asia to undertake structural reforms for inclusive and sustainable growth. The challenge is great, but the potential for gains is undeniable. I firmly believe that Asia, and especially India, is ready to take on this challenge. The benefits will be felt for generations to come.

Thank you.

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