

Launch of

ECONOMIC AND SOCIAL SURVEY
OF ASIA AND THE PACIFIC **2015**

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United Nations Economic and Social Commission for
Asia and the Pacific (ESCAP)

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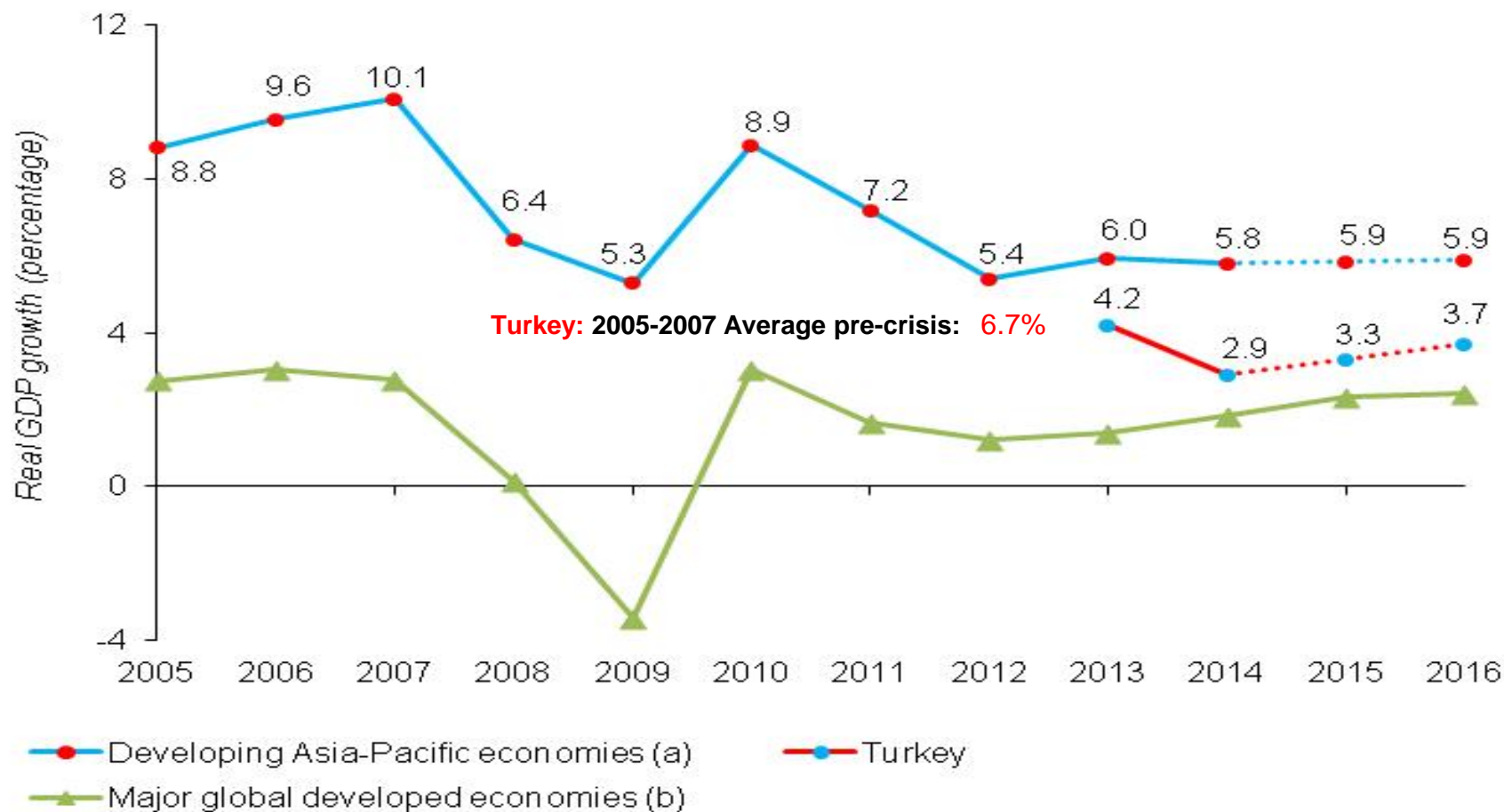


Economic and
Social Survey
of Asia and the
Pacific 2015

Key messages

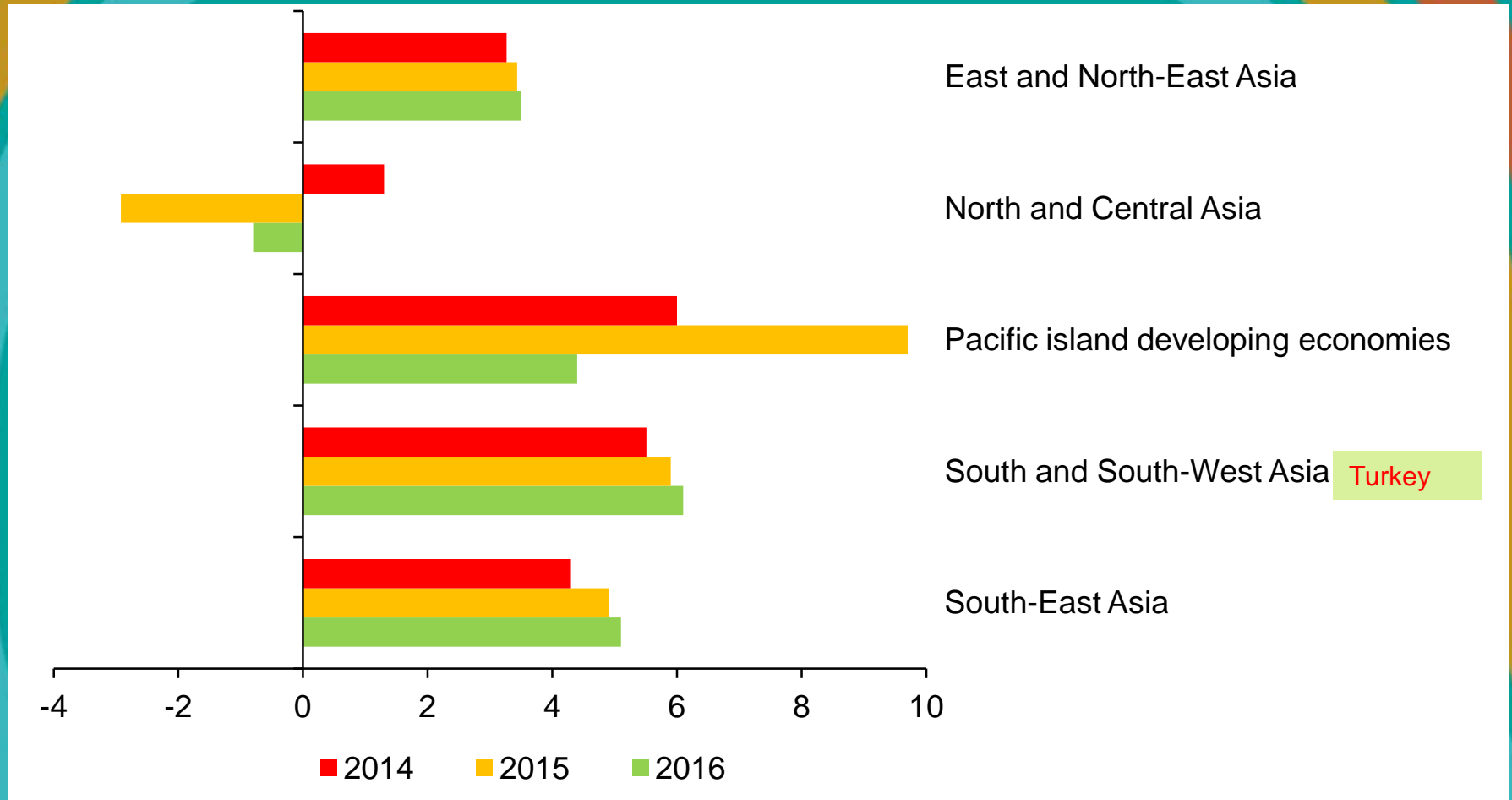
- **Pursuit of inclusive growth is critical – economic growth is necessary, but not sufficient for achieving development.**
 - Policymakers need to internalize the aspects of inclusive growth and sustainable development into their domestic policy frameworks.
- **Economic growth in Asia-Pacific developing economies will experience only a slight increase in 2015.**
 - Unless reforms are vigorously pursued, downside risks to the growth trajectory could increase.
- **Inflation has declined and led to interest rate reductions.**
 - Prudence is required given likely volatility in capital flows and recent increases in oil prices, especially in economies with weak fundamentals.
- **Economic growth has not been inclusive within countries.**
 - Inequality of income and of opportunity has risen between different geographies and sections of society such as rural and urban areas and women and men.

Growth moderation – region has slowed down with implications for the global economy as well as individual countries



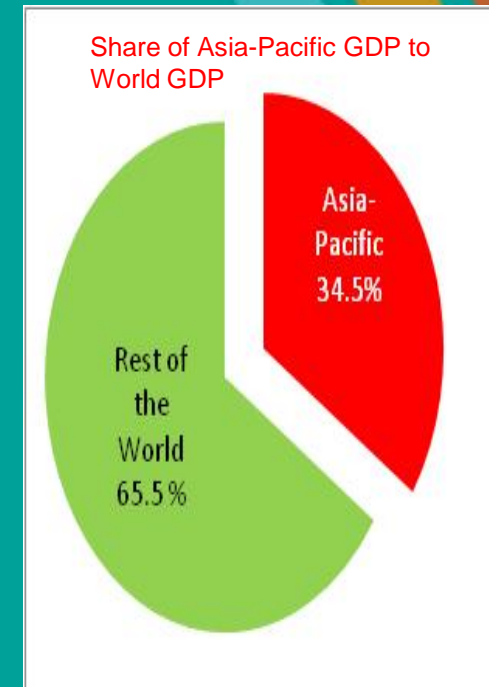
Sub-regional growth: uneven

Real annual GDP growth (%)



Factors behind Asia-Pacific growth slowdown

- **Economic growth in developing Asia-Pacific forecast to rise only by 0.1 percentage point to 5.9% in 2015.**
- **Growth slowdown in Asia-Pacific is primarily driven by domestic factors, such as:**
 - (i) Delay in structural reforms
 - (ii) Growth of economies dependent on oil exports
 - (iii) Economic rebalancing in China
 - (iv) Emphasis on short-term economic management
- **Growth is below potential in the region due to**
 - (i) significant infrastructure shortages
 - (ii) commodity dependence
 - (iii) low productivity
 - (iv) insufficient job generation
- **Asia and the Pacific growth has implications for global growth**
 - (i) In 2010, the region's growth was 5.8 percentage points higher than developed countries' average growth.
 - (ii) In 2015, this differential is expected to narrow to 3.6 percentage points.



Economic diversification critical for economies with high commodity dependence

Countries where commodity export-to-GDP ratio exceeded 10% in 2000-2013

30% plus	Azerbaijan (-3.5), Brunei Darussalam (3.3), Islamic Republic of Iran (2.8), Kazakhstan (-4.5), Mongolia (-8.2), Myanmar (0.0), Papua New Guinea (9.9), Timor-Leste (1.1) and Turkmenistan (-0.7)
10-30%	Australia (-0.1), Bhutan (2.6), Indonesia (-0.2), Malaysia (0.2), the Russian Federation (-5.3) and Viet Nam (0.7)

Note: Figures in parentheses show the percentage point difference between real GDP growth in 2013 and the 2015 forecast.

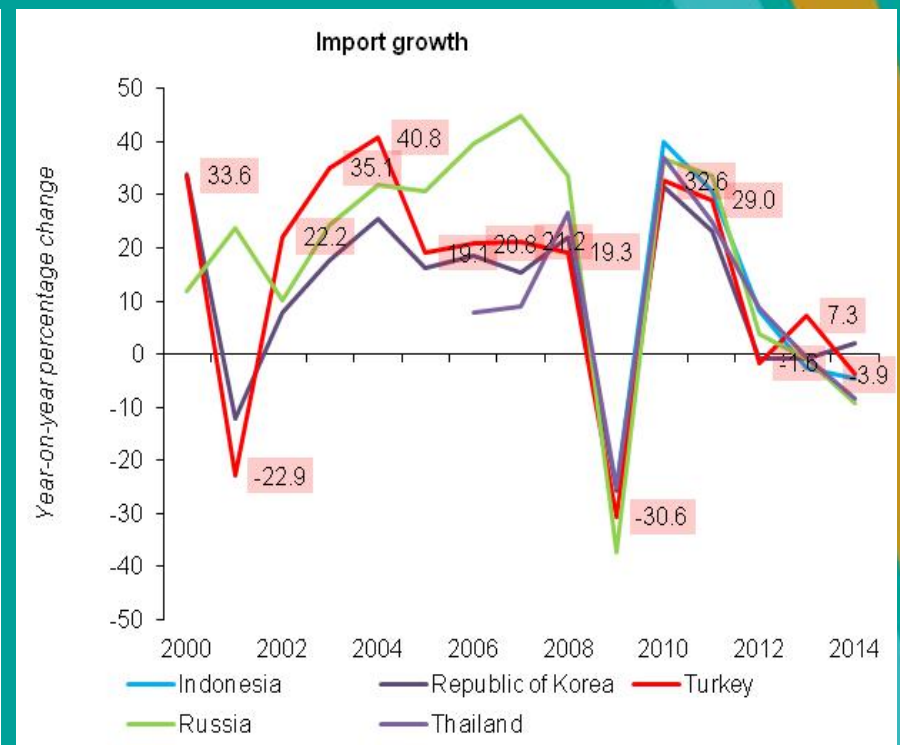
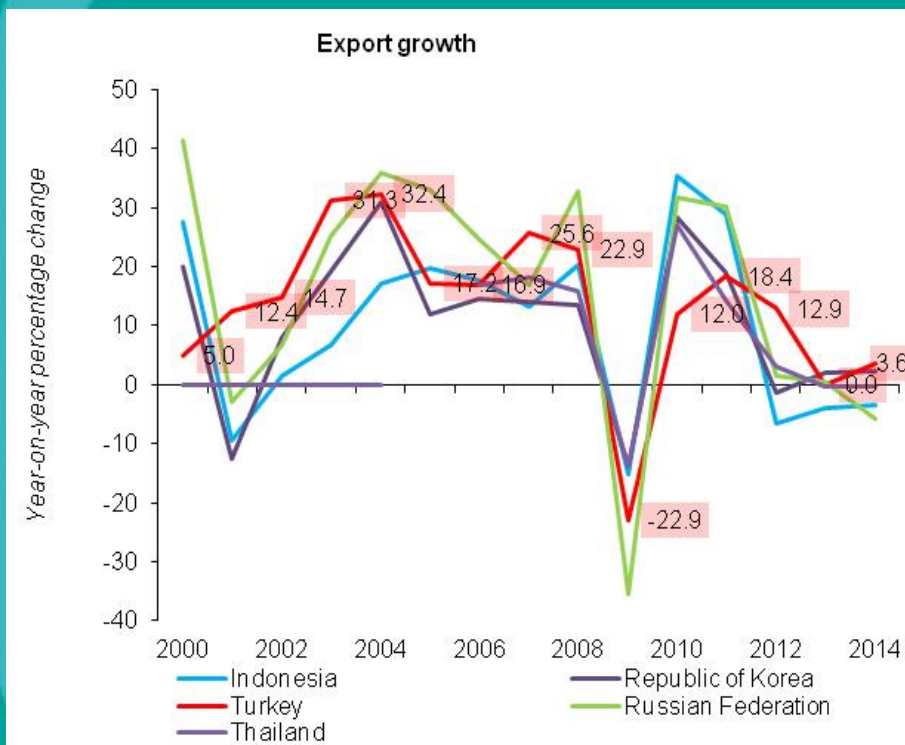
Commodity exporting economies face heightened vulnerabilities as evident from the recent oil price movements, which have strained budgets and balance of payments as well as generating exchange rate and inflationary pressures.

To mitigate the negative implications, countries could consider:

- 1. Targeting a cyclically-adjusted fiscal balance that takes into account the potential revenue shocks due to large movements in commodity prices.**
- 2. Developing a production-oriented index to control inflation as it is more appropriate for countries susceptible to terms-of-trade shocks.**

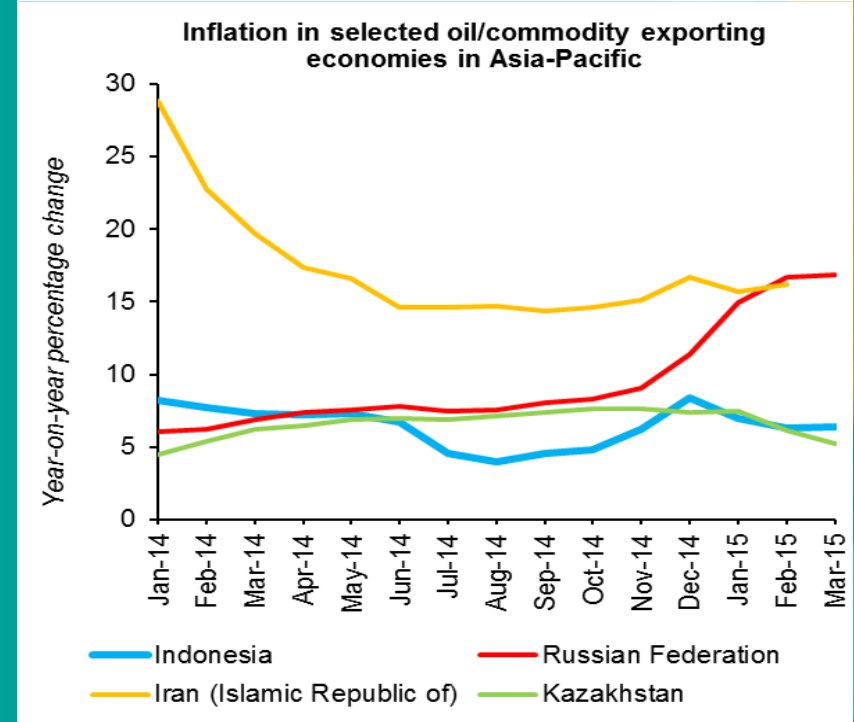
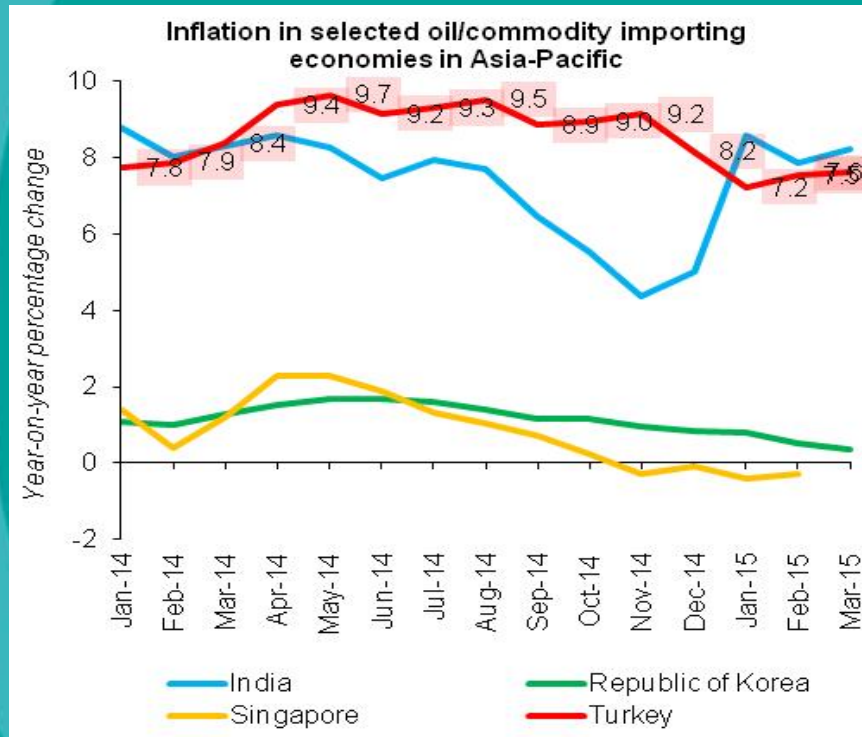
External demand remains challenging

- Exports of the region have been declining for a few years now;
- Similarly, sluggish import demand of major economies in the region will impact intraregional trade;
- Thus the trade outlook is not much changed, primarily due to the fragile economic recovery in most advanced economies.



Inflation dynamics

- Inflation is forecast to decline in 2015: falling by 0.4 percentage point to 3.3% - this is largely due to lower international oil prices and reduced demand pressure in export-led economies.
- For net oil importing economies, the decline in oil prices is and will remain beneficial. In contrast, oil exporting economies have seen pressure on their currencies and thus imported inflation.



Importance of prudent macroeconomic management

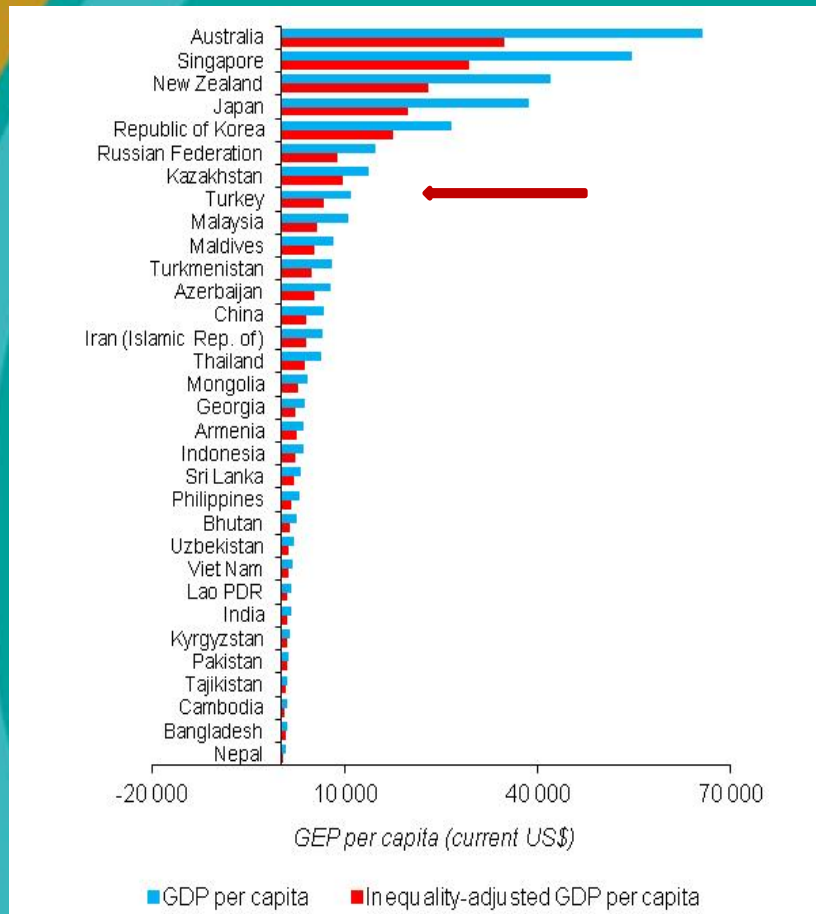
- Lower oil prices have allowed for removal of untargeted fuel subsidies, providing fiscal space for development spending.
- Declining inflation has provided space for reducing interest rates in many economies.
- Policymakers will therefore have to weigh up the pros and cons of these developments when setting their monetary policy stance.
- Those countries with weak macroeconomic fundamentals will be most at risk of capital outflows and will need to raise domestic interest rates to stem capital outflows more sharply than countries with stronger fundamentals.
- Macroprudential policies offer an important complementary method of managing capital flows while allowing governments to preserve monetary policy flexibility and level of foreign exchange reserves together with maintaining domestic financial stability.

Realizing inclusive growth

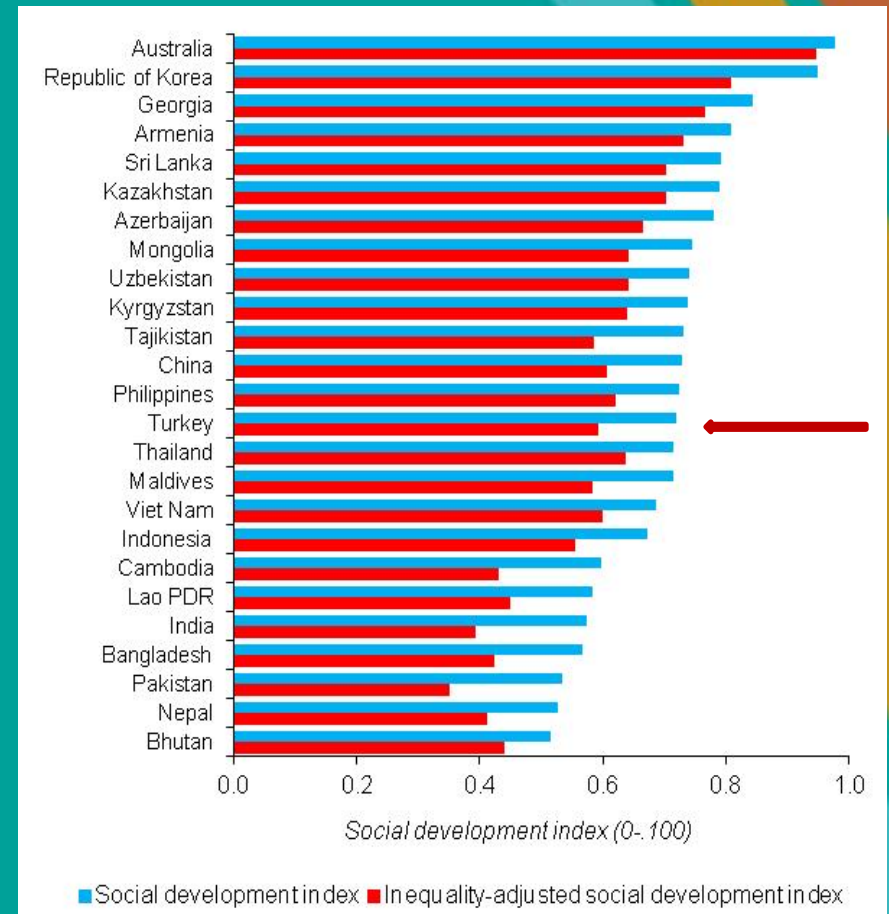
- ***Inclusiveness* is typically measured using income-related indicators.**
- **Yet, inclusiveness is a multidimensional concept that goes beyond economic measures. It should also capture social and environment dimensions of development.**
- **Inclusiveness is broadly defined in terms of:**
 - (a) increasing the average standard of living of the population;**
 - (b) reducing income inequality;**
 - (c) reducing levels of extreme poverty; and**
 - (d) expanding and broadening equality in opportunities (social and environment related).**
- ***Survey 2015* finds that economic growth has been more inclusive at the country level, yet large divergences in indicators of inclusiveness exist within countries between genders and across the rural and urban sectors, as well as between regions in countries.**

Cost of inequality

Inequality-adjusted GDP per capita



Inequality-adjusted social development index



ESCAP's Inclusiveness Index

- ESCAP has created an 'Inclusiveness Index' that comprises three sub-indices, covering the economic, social and environmental dimensions of development, to track how inclusive growth has been.
- The ESCAP Inclusiveness Index tracks 16 countries, accounting for 92% of the region's population and 88% of its GDP, for the 1990s and the period 2000-2012.
- The components of the index reflect only *outcome* variables, not policy variables.
- Scoring is methodological, with scores normalized between 0 and 1 (1 being the highest obtainable score in the region, 0 the lowest).
- Each indicator is weighted equally. No subjective assignment of weights.

ESCAP Inclusiveness Index

On the macro level, growth has been inclusive: scores have increased since the 1990s.

Some countries have made more progress than others, such as large increases in scores for China, the Islamic Republic of Iran and Sri Lanka.

Yet, growth has not been inclusive within countries, as the following slides show.

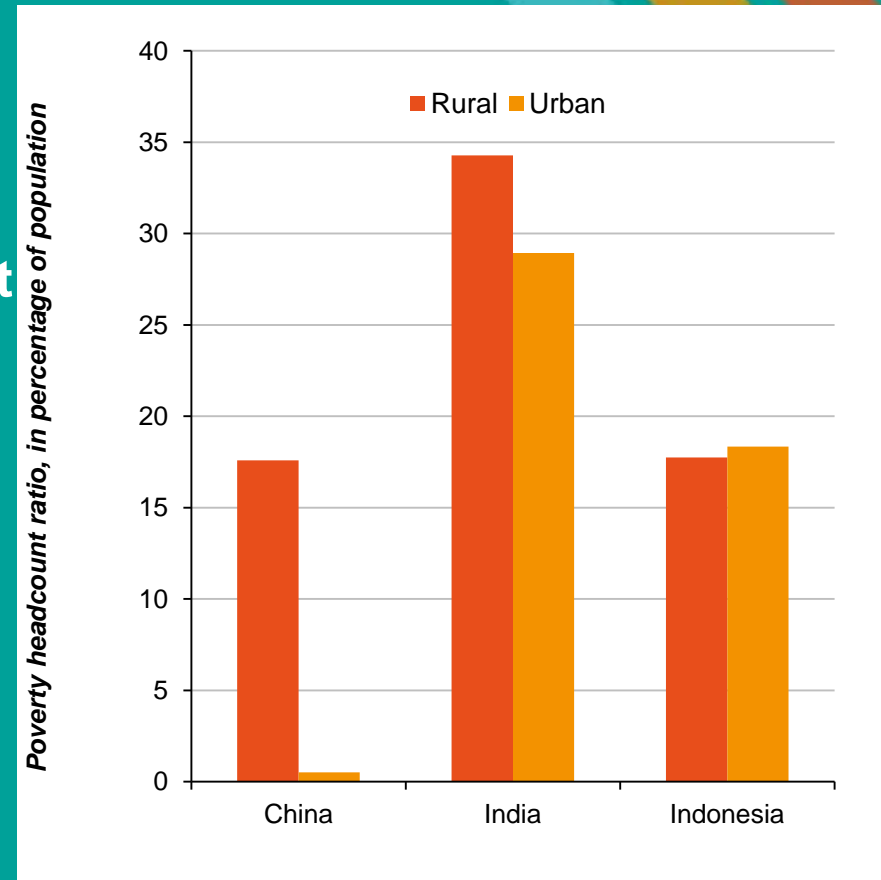
Country	Social, economic and environmental inclusiveness			
	Score		Rank	
	1990-1999	2000-2012	1990-1999	2000-2012
Kazakhstan	0.80	0.82	1	1
Russian Federation	0.77	0.80	2	2
Thailand	0.73	0.79	3	3
Malaysia	0.72	0.78	4	4
Sri Lanka	0.71	0.77	6	5
Iran (Islamic Republic of)	0.66	0.73	8	6
China	0.65	0.73	10	7
Tajikistan	0.72	0.73	5	8
Turkey	0.65	0.72	9	9
Philippines	0.66	0.70	7	10
Indonesia	0.58	0.68	11	11
Bangladesh	0.54	0.60	12	12
Nepal	0.48	0.60	15	13
India	0.53	0.60	13	14
Cambodia	0.51	0.56	14	15
Pakistan	0.46	0.55	16	16

Economic inclusiveness

Comprises:

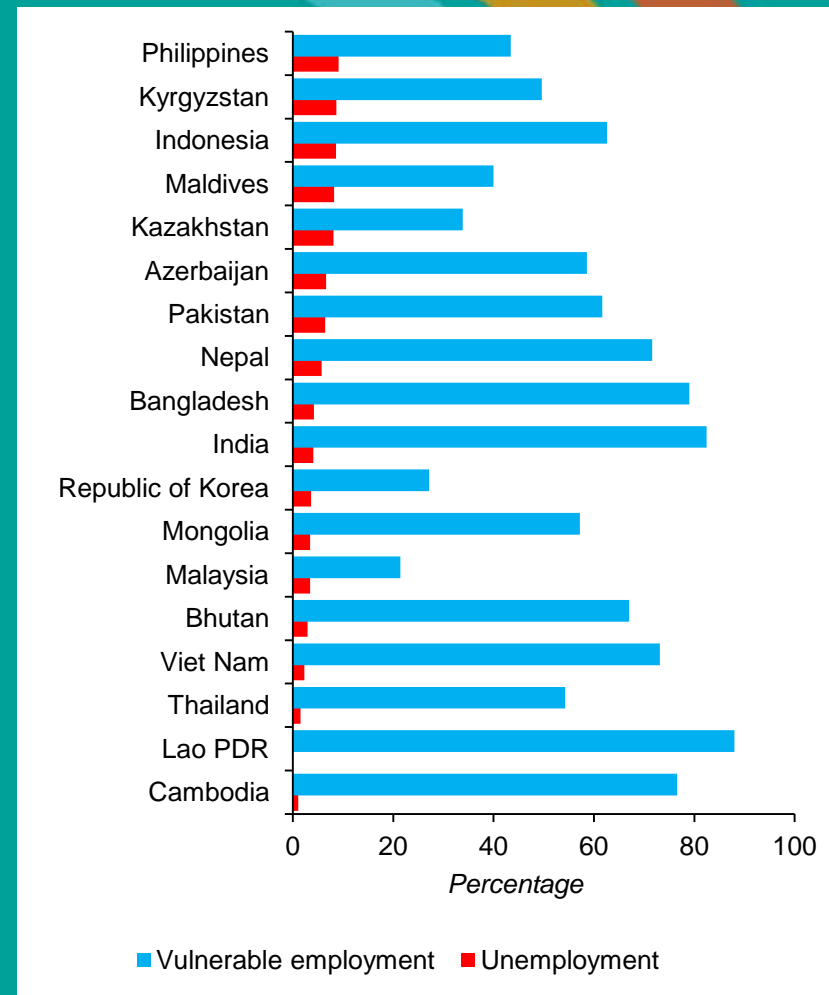
1. Headcount ratio (rate of poverty) at \$1.25 per day in 2005 PPP
2. Gini coefficient;
3. Ratio of incomes of the highest quintile to the incomes of the lowest quintile;
4. The unemployment rate; and
5. Ratio of the female-to-male labour-force participation rate.

Rates of extreme poverty have declined but significant differences between urban and rural sectors remain.



Economic inclusiveness

- Since the 1990s, income inequality has increased in many countries in the region, especially in the major developing countries (including India, China, Indonesia, Bangladesh).
- Inequality between sectors diverges: in China, rural inequality is higher than urban inequality; in India and Indonesia, urban inequality is significantly higher.
- Economic growth has not resulted in a commensurate rise in employment. Indeed, lack of productive employment and high vulnerable employment is a major reason for the high incidence of poverty in many countries.



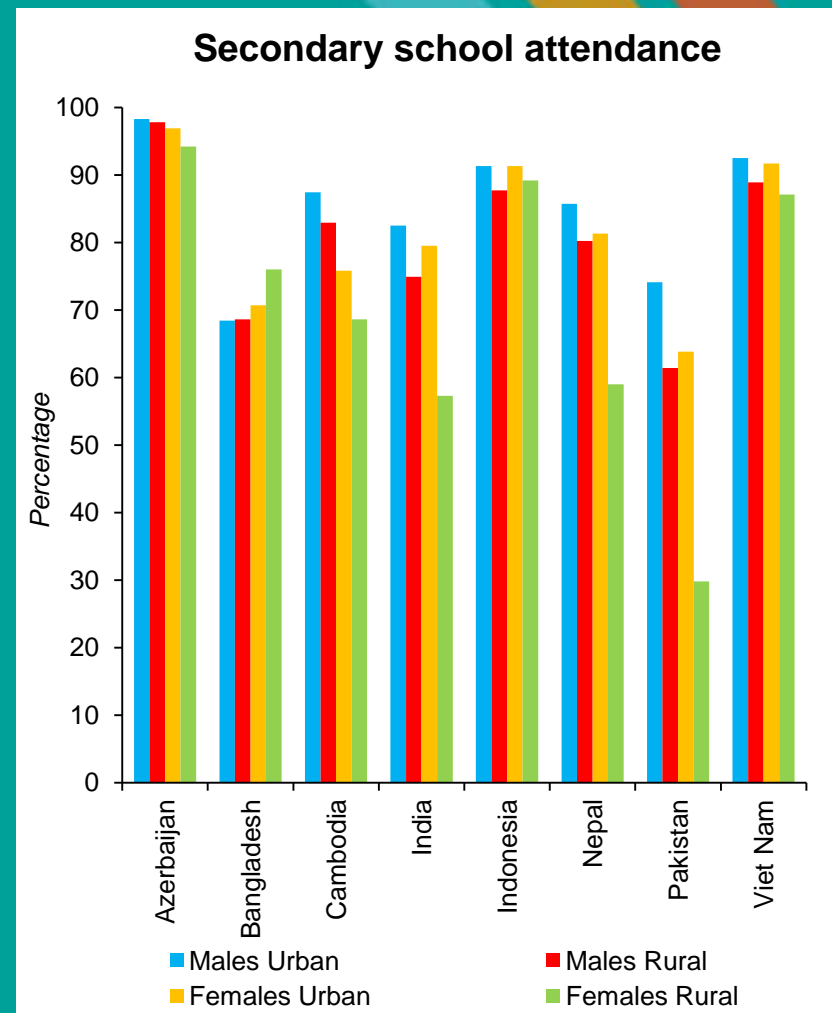
Social inclusiveness

Comprises:

1. Gender parity at the secondary school level;
2. Gross secondary school enrolment;
3. Average years of schooling;
4. Percentage of live births attended by skilled health staff; and
5. Mortality rate of children under age 5

Large disparities in secondary school attendance across rural/urban sector and across gender.

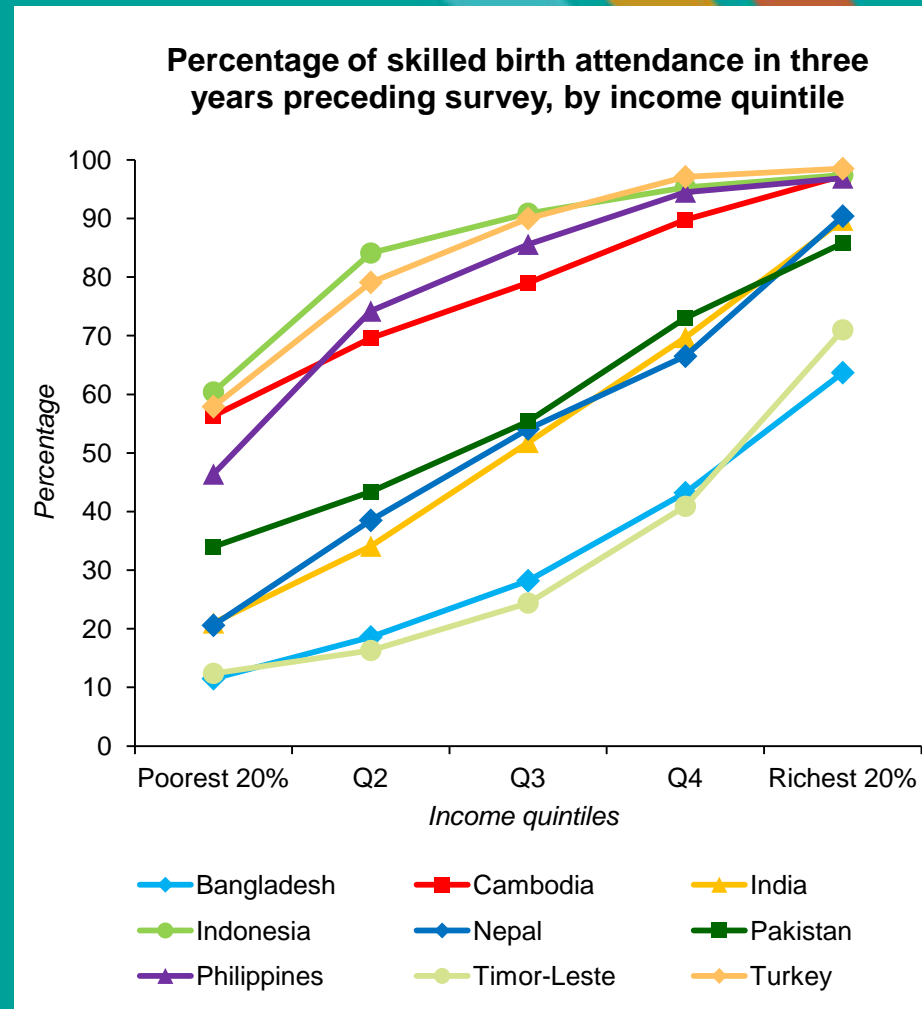
Survey 2015 also shows large social disparities across income quintiles in many countries.



Social inclusiveness

Access, affordability and acceptability of health services are critical in identifying whether growth is inclusive.

- Access to health services such as skilled birth attendance, varies significantly across countries and across income groups.
- *Survey 2015* also reports large spatial differences in provision of health services in rural/urban settings.
- High 'out-of-pocket payments' affect particularly low-income persons.



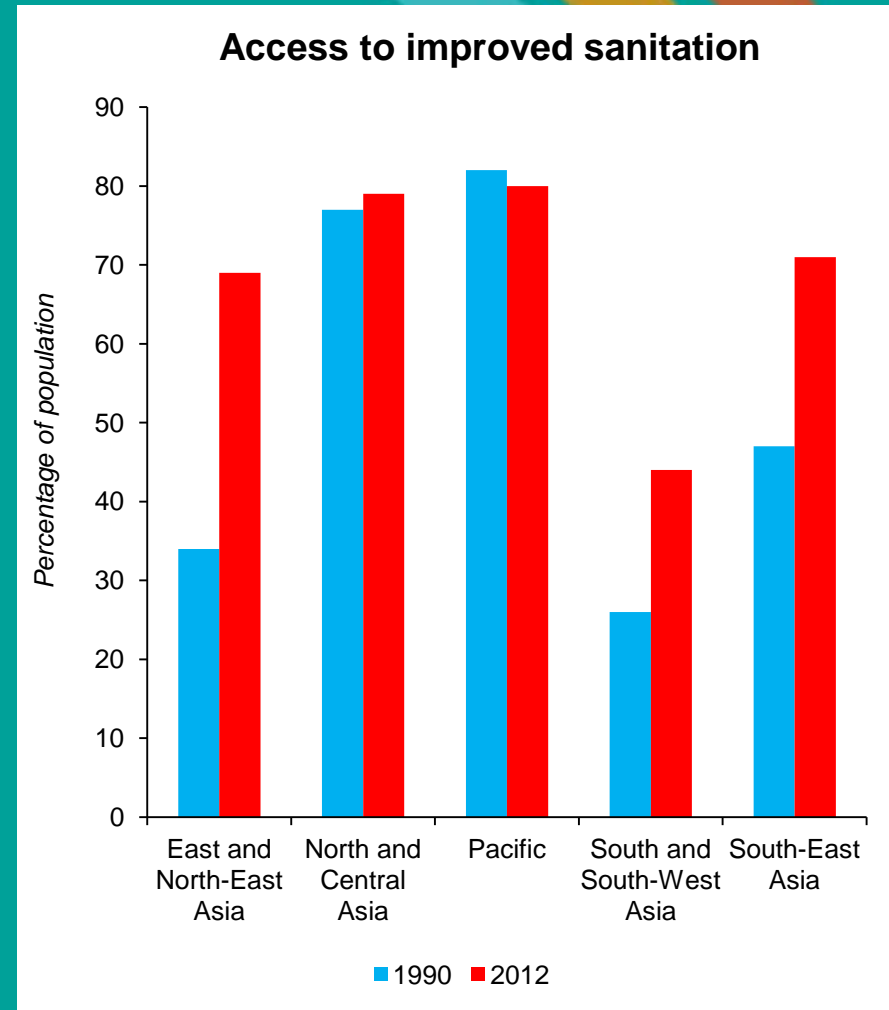
Environmental inclusiveness

Comprises:

1. Access to improved sanitation;
2. Access to improved water sources;
3. Annual increase in total greenhouse gas (GHG) emissions;
4. Annual change in forest area; and
5. Annual change in the share of fossil-fuel energy consumption in total consumption of energy.

The poor are particularly affected by environmental degradation.

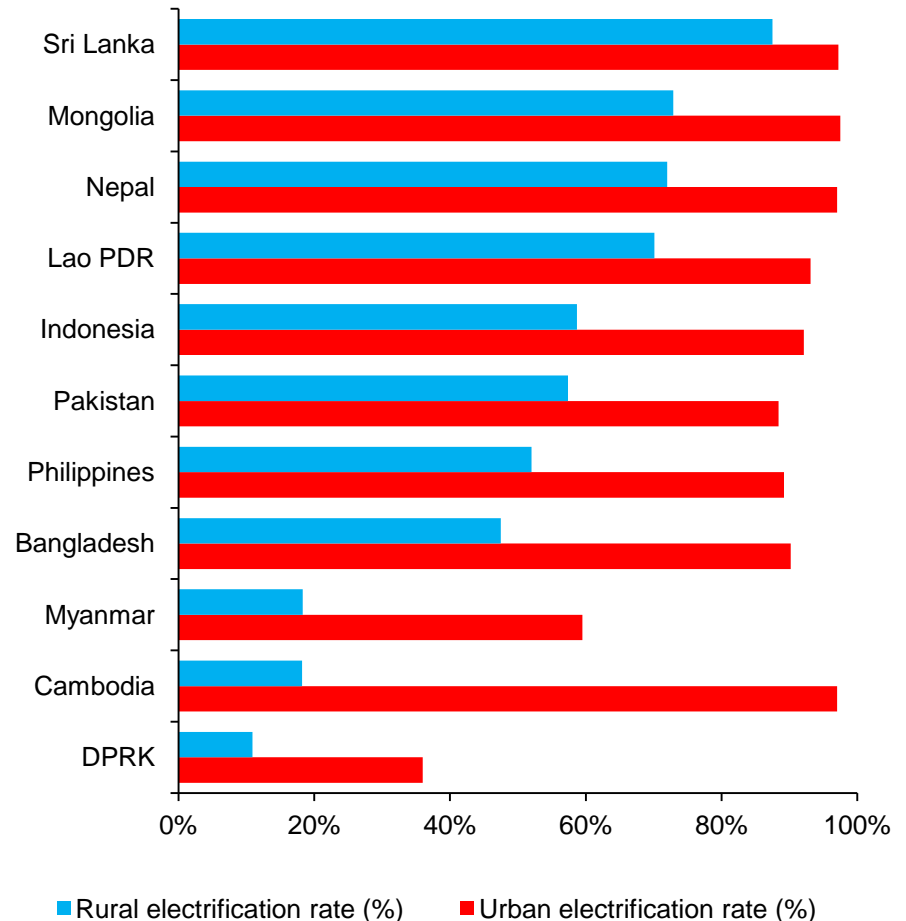
Environmental degradation can also be an outcome of economic inequality.



Environmental inclusiveness

- At least 620 million people lack access to electricity in the region.
- Large disparities between rural and urban sectors.
- More than 1 million premature deaths annually in India and China can be attributed to exposure to household air pollution.

Access to electricity, 2012



Policy recommendations

General Conclusion: The irrefutable lesson of recent decades is that although economic growth is vital and necessary, it is not sufficient to create shared and sustainable prosperity. This requires shifting the focus of development policies to address not only 'inequalities of income' but also 'inequalities of opportunity.'

Governments need to launch integrated and well-designed packages of inclusive policies to boost opportunities for decent employment and job security, equitable access to finance, and to provide adequate access to basic services such as education, health, energy and water.

Addressing the shortcomings of inclusive growth, together with prudent and consistent management of risks to growth, has to be a key part of our transformation for the sustainable future we want. In the process there is need to

1. Address the neglect of the rural sector.
 - Increase agricultural productivity by focusing on quality and standards, investments in R&D.
 - Develop non-farm sector through rural industrialization.
2. Strengthen financial development, foster financial inclusion.
3. Foster creation of small and medium-sized enterprises.

Policy recommendations

4. **Strengthen the developmental role of macroeconomic policy by making existing expenditure more development-oriented:**
 - **Reduce non-development expenditure (defence, energy subsidies).**
 - **Increase access to and the affordability of health systems.**
 - **Strengthen social protection programmes.**
 - **Expand investment in education.**

Thank You!

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