ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC
2013

Forward-looking Macroeconomic Policies for Inclusive and Sustainable Development

Survey launch in 37 locations

28 Locations in Asia-Pacific
New York, Geneva, 3 Regional Commissions, Rome
Helsinki, Paris, and Brasilia
A win-win development agenda for the region

- Asia-Pacific growth to remain subdued in 2013; challenged by uncertainty in the euro zone & US + structural impediments
- Survey offers a blueprint for economic, social and environmental resilience
- “Grow first, distribute & clean up later” no longer viable and acceptable
- Investing in people and planet is also good economics
- Affordable, doable and economically sustainable
- Forward-looking macroeconomic policies for inclusive and sustainable development

2013: Subdued regional growth

- Growth is forecast to increase to 6% in 2013 from 5.6% in 2012
  - China to grow at 8%, up from 7.8% in 2012
  - India to grow at 6.4%, up from 5% in 2012
- Inflation likely to remain at 5.1% in 2013
  - Risk of oil and food price increase
- Lower growth could be “new normal” as region shows signs of strain from developed world uncertainty; estimated output loss of $1.3 trillion by end-2017
  - Pre-crisis (2000-2007): 8%
  - Projected growth (2013-2017): 6.5%
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Outlook: Regional and country groups

Subregions

- GDP growth
- Inflation

LDCs, LLDCs and SIDSs

- GDP growth
- Inflation

Outlook: Timor-Leste economy

- Growth remains high (10%)
- Inflation expected to decline
  - From 12% in 2012 to 8% in 2013
- Macroeconomic policies supportive of the national development plan
  - Oil revenues allowing for policy space
  - Investing heavily in infrastructure (electrification and road upgrades).
- Current account surplus
  - From 55% of GDP in 2011 to 43.5% of GDP in 2012
  - Lower petroleum revenue and rising imports
Policy challenge 1: Uncertain global environment

- Fiscal crisis in the euro zone + Policy uncertainty in US
  
  Impact on Asia-Pacific
  - Decreased economic activity through the trade and finance channel
  - Estimated regional GDP loss of 3% since the onset of the global crisis five years ago - $870 billion

- Loose monetary policies, quantitative easing (QE), of the developed world including in US
  
  Impact on Asia-Pacific
  - Short-term capital flows volatility
  - Rapid short-term currency appreciation

- Food and fuel price volatility
  
  Impact on Asia-Pacific
  - Poverty and inflation

Policy challenge 2: Regional slowdown

- China growth slowdown affects the region
  - China is currently the largest individual export market for the rest of the region
  - About 50% of imports of intermediate goods to China are sourced from developing Asia-Pacific economies and Japan

- China export growth decelerated significantly
  - After mid-2012, 10.5% in the second quarter to 4.5% in the subsequent quarter

- India growth and exports still subdued
Structural impediment 1: Growing inequality

- Income inequality (Gini index) increased from 33.5 in the 1990s to 37.5 in the latest available year
- Actual purchasing power in societies with income highly skewed towards the rich are lower than that in a more equal societies
- Increases in inequality reduce social development gains

Structural impediment 2: Inadequate tax revenue + progressivity

- Many economies in the region have failed to raise sufficient tax revenue despite rapid growth
- Region has lowest tax burden of any developing region in the world
- The low tax revenue restricts governments' fiscal space
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Structural impediments 3: Infrastructure deficit

- Impediment to growth, especially in South Asia and the Pacific islands
  - LDCs of the region, such as Afghanistan, Cambodia and Myanmar have the largest infrastructure deficits
  - Power is the most critical bottleneck and then transportation

- Economic cost of traffic congestion:
  - Indonesia: 1.2% of GDP
  - Thailand: 2.1% of GDP
  - Republic of Korea: 2.6% of GDP

- Financing requirement in the region
  - $600 billion to $800 billion per year

Structural impediment 4: Unsustainable resource use

- The Asia-Pacific economy is requiring more resources to produce one dollar of GDP as the economy grows, although there are differences across subregions

- Future growth of resource use in several countries holds significant implications for overall resource demand

- Vulnerability to natural disasters
  - 42% of the global economic losses due to natural disasters
  - Disaster losses since 1980 have increased by 16 times in Asia while GDP per capita has grown by only 13 times
Forward-looking macroeconomic policies

- Rio+20+ 2010 MDGs Summit recognized forward-looking macroeconomic policies should include:
  - Safeguard the sustainability of public investment strategies
  - Not focus narrowly on debt stabilization and curbing inflation
  - Often necessary to relax unnecessarily stringent fiscal and monetary restrictions
  - Use countercyclical fiscal and monetary policies
  - Strengthen mobilization of domestic resources
  - Enhanced international cooperation to strengthen tax revenue collection

Objective:
- Supportive of growth of real output and employment.
- Minimize the impact of external and other shocks on poverty
- Buttress the fiscal capacities of all Governments

Developmental macro policies

- Greater emphasis on the quality and composition of public expenditure
  - Rather than on aggregate budget deficits, public debts and targeting inflation at a very low level
- Higher investment in health, education, social security and environment
- Inclusive finance
  - SMEs and agriculture development
Examples of win-win policies

- China’s economic rebalancing to make growth more inclusive; good for region and beyond
  - Increase exports to China by other Asia-Pacific countries by $13 billion during 2013-2015
- Minimum wage policy also good for employers and the economy
  - Thailand’s minimum wage adjustment to boost job growth by 0.6% and GDP growth by 0.7% by 2015
- National rural jobs scheme in India
  - 48 million households provided employment in over 600 districts in 2012-13
- Inclusive finance in Bangladesh
  - 10 million new bank accounts for smallholder farmers

Impact of China rebalancing: Export growth

- Export growth (percentage point)

Estimated impact of minimum wage hikes in Thailand

- GDP growth and employment growth (%)

Illustrative policy package

- A job guarantee programme
  - 100 days per year for participants
- A universal, non-contributory pension
  - For all aged 65 or older
- Benefits to all persons with disabilities
  - Ages of 15 and 65
- Increasing the share of public health expenditures
  - 5% of GDP by 2030
- Universal enrolment in primary and secondary education
  - Primary by 2020 and Secondary by 2030
- Energy access to all
  - Modern energy services by 2030

Illustrative package of policies to promote inclusive and sustainable development in 10 Asia-Pacific countries
Investing in inclusive and sustainable development

- Overall public expenditure and investment requirements to implement such a policy package vary across countries
- The cost of the package by 2030 is less than 10% of the GDP in 8 out of 10 countries
  - The cost ranges from 4.7% of the GDP in the Russian Federation to 9.8% of the GDP in the Philippines
- The cost exceeds 10% of the GDP only in Fiji and Bangladesh

Package is affordable, doable and sustainable

- Most countries can self-finance it
  - broadening tax bases
  - making tax regimes more progressive
  - making tax administration more efficient
  - imposing tighter regulations to ensure tax compliance
  - fighting corruption
  - reducing non-development expenditures
- Countries with special needs (LDCs, SIDs) will need significant external assistance from development partners to complement their domestic resource mobilisation efforts
- ESCAP analysis shows that such investment would not jeopardize macroeconomic stability
Need for macroeconomic course correction

New development paradigm

- Grow now, distribute + clean up later is dead end
- Investing in social and environment pillars fortifies economic pillar…
  - Leads to sustained, inclusive and equitable economic growth
- Leaders in the Asia-Pacific should pledged to adopt forward-looking macroeconomic policies to promote inclusive and sustainable development

Thank you

Economic and Social Survey of Asia and the Pacific 2013 is downloadable on:
www.unescap.org/Survey2013/
email: escap-mpdd@un.org