

UNITED NATIONS
ESCAP
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**ECONOMIC AND SOCIAL
SURVEY OF ASIA AND
THE PACIFIC**
2013

**Forward-looking Macroeconomic Policies
for Inclusive and Sustainable Development**

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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


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Forward-looking Macroeconomic Policies for Inclusive and Sustainable Development

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

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Forward-looking Macroeconomic Policies for Inclusive and Sustainable Development

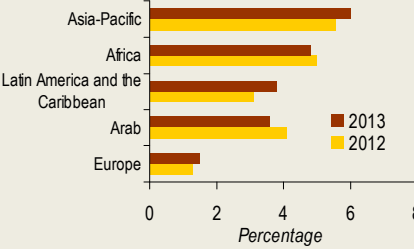
2013: Subdued regional growth

- 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%



GDP growth

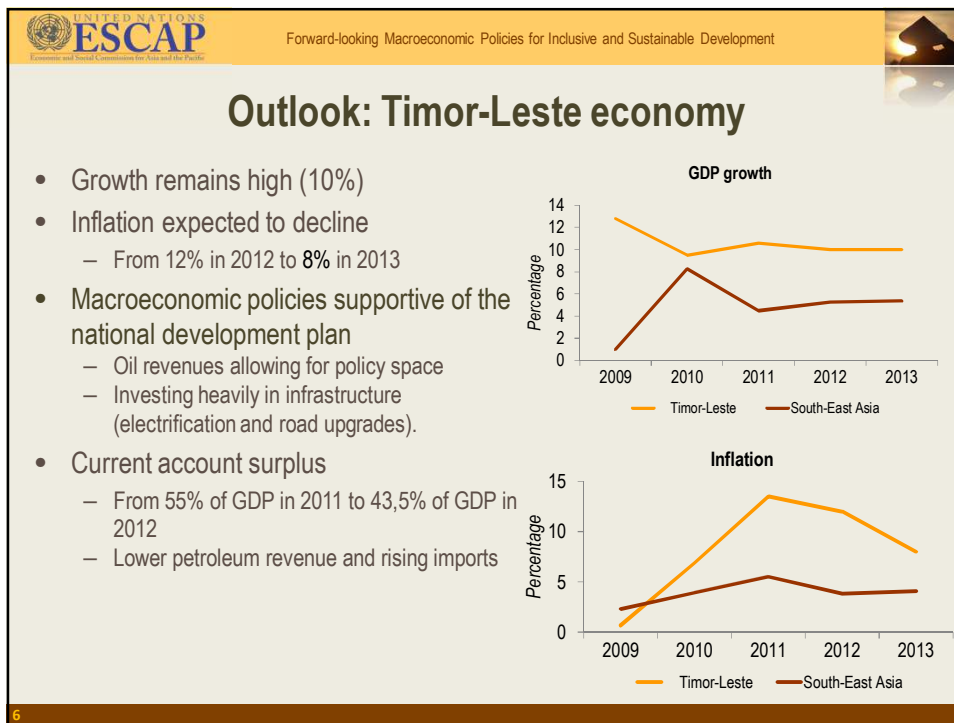
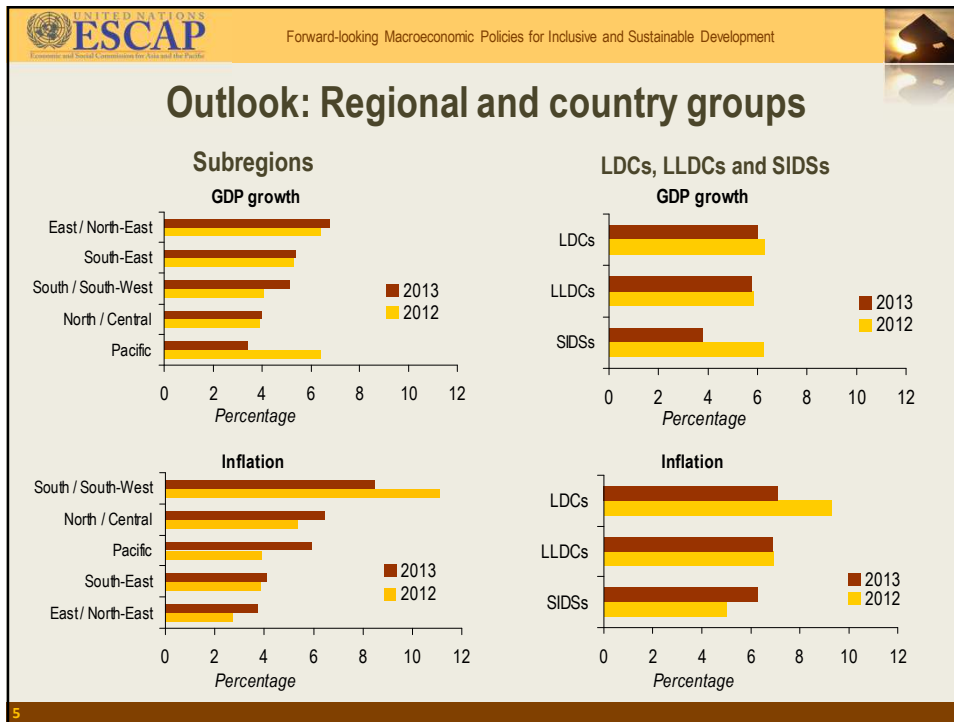
Year	Developing Asia-Pacific (%)	Asia-Pacific (%)
2009	4.5	0.5
2010	8.5	6.5
2011	6.5	4.0
2012	5.5	4.0
2013	6.0	4.5




GDP growth by region (2012 vs 2013)

Region	2012 (%)	2013 (%)
Asia-Pacific	5.6	6.0
Africa	4.8	5.2
Latin America and the Caribbean	3.8	4.2
Arab	3.5	4.0
Europe	1.5	1.8

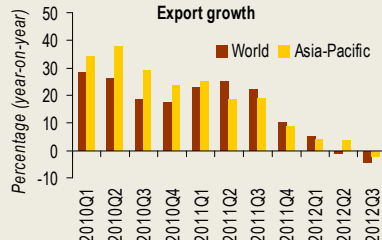
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Policy challenge 1: Uncertain global environment

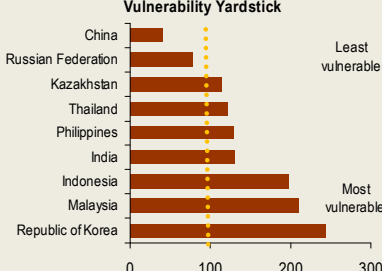
- Fiscal crisis in the euro zone + Policy uncertainty in US
 - Impact on Asia-Pacific**
 - Decreased economic activity through the trade and finance channel
 - Estimated regional GDP loss of 3% since the onset of the global crisis five years ago - **\$870 billion**
- Loose monetary policies, quantitative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



Export growth

Percentage (year-on-year)

Legend: World (dark blue), Asia-Pacific (light blue)



Vulnerability Yardstick

Least vulnerable (left) to Most vulnerable (right)

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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



China: Monthly import growth

Legend: Imports: Ordinary Trade (red), Imports: Processing and Assembling (grey), Imports: Equipment Imported for Processing and Assembling (orange)


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Structural impediment 1: Growing inequality

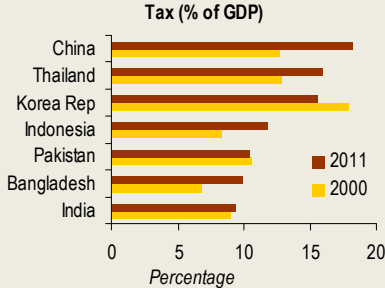
- Income inequality (Gini index) increased from 33.5 in the 1990s to **37.5** in the latest available year
- Actual purchasing power in societies with income highly skewed towards the rich are lower than that in a more equal societies
- Increases in inequality reduce social development gains

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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




Country	2000	2011
China	~13.5	~18.5
Thailand	~13.5	~15.5
Korea Rep	~15.5	~17.5
Indonesia	~10.5	~11.5
Pakistan	~10.5	~10.5
Bangladesh	~10.5	~7.5
India	~9.5	~8.5

Tax (% of GDP)

Percentage

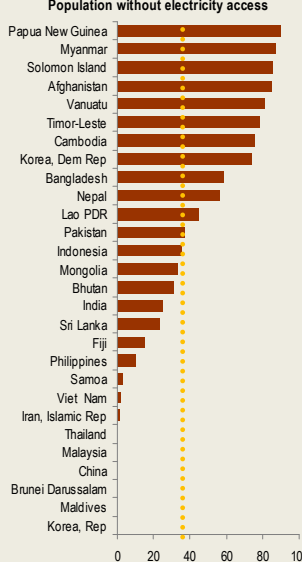
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Structural impediments 3: Infrastructure deficit


- 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

Population without electricity access



Country	Percentage
Papua New Guinea	85
Myanmar	80
Solomon Island	78
Afghanistan	75
Vanuatu	72
Timor-Leste	70
Cambodia	68
Korea, Dem Rep	65
Bangladesh	60
Nepal	55
Lao PDR	50
Pakistan	45
Indonesia	42
Mongolia	40
Bhutan	38
India	35
Sri Lanka	32
Fiji	30
Philippines	28
Samoa	25
Viet Nam	22
Iran, Islamic Rep	20
Thailand	18
Malaysia	15
China	12
Brunei Darussalam	10
Maldives	8
Korea, Rep	5

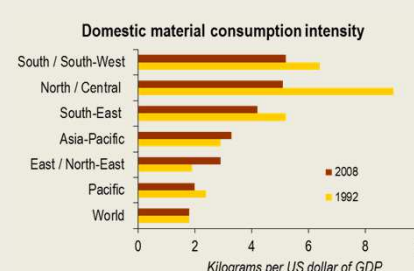
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Structural impediment 4: Unsustainable resource use

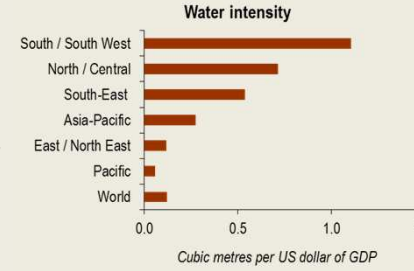
- The Asia-Pacific economy is requiring more resources to produce one dollar of GDP as the economy grows, although there are differences across subregions
- Future growth of resource use in several countries holds significant implications for overall resource demand
- Vulnerability to natural disasters
 - 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

Domestic material consumption intensity




Subregion	1992	2008
South / South-West	6.5	5.5
North / Central	9.5	5.5
South-East	5.5	4.5
Asia-Pacific	4.5	3.5
East / North-East	3.5	2.5
Pacific	2.5	1.5
World	1.5	1.5

Water intensity



Subregion	2008
South / South West	1.2
North / Central	0.8
South-East	0.5
Asia-Pacific	0.3
East / North East	0.2
Pacific	0.1
World	0.1

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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

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Developmental macro policies


Social expenditures and inequality



General government social expenditures over total government outlays (per cent)

- 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

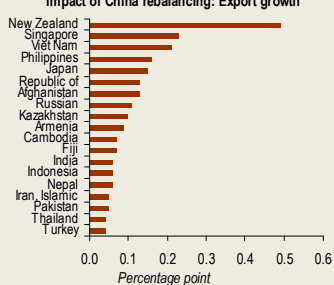
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Examples of win-win policies


- 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



Country	Percentage point
New Zealand	0.55
Singapore	0.45
Viet Nam	0.35
Philippines	0.25
Japan	0.20
Republic of	0.15
Afghanistan	0.12
Russian	0.10
Kazakhstan	0.08
Armenia	0.07
Cambodia	0.06
Fiji	0.05
India	0.04
Indonesia	0.03
Nepal	0.02
Iran Islamic	0.01
Pakistan	0.01
Thailand	0.01
Turkey	0.01

Estimated impact of minimum wage hikes in Thailand



Year	GDP growth	Employment growth
2011	0.0	0.0
2012	0.1	0.0
2013	0.0	0.0
2014	0.5	0.4
2015	0.7	0.6
2016	0.6	0.5
2017	0.5	0.4

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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

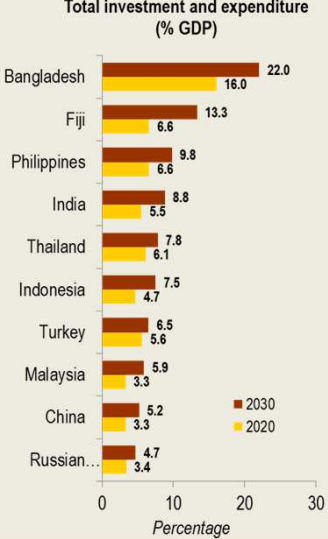
➤ Illustrative package of policies to promote inclusive and sustainable development in 10 Asia-Pacific countries


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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

Total investment and expenditure (% GDP)



Country	2020 (%)	2030 (%)
Bangladesh	16.0	22.0
Fiji	6.6	13.3
Philippines	6.6	9.8
India	5.5	8.8
Thailand	6.1	7.8
Indonesia	4.7	7.5
Turkey	5.6	6.5
Malaysia	3.3	5.9
China	3.3	5.2
Russian...	3.4	4.7

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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

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Forward-looking Macroeconomic Policies for Inclusive and Sustainable Development

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

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Thank you

Economic and Social Survey of Asia and the Pacific 2013 is downloadable on:

www.unescap.org/Survey2013/

email: escap-mpdd@un.org

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