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Inclusive Growth: Challenges For The East Asia Region

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Overview

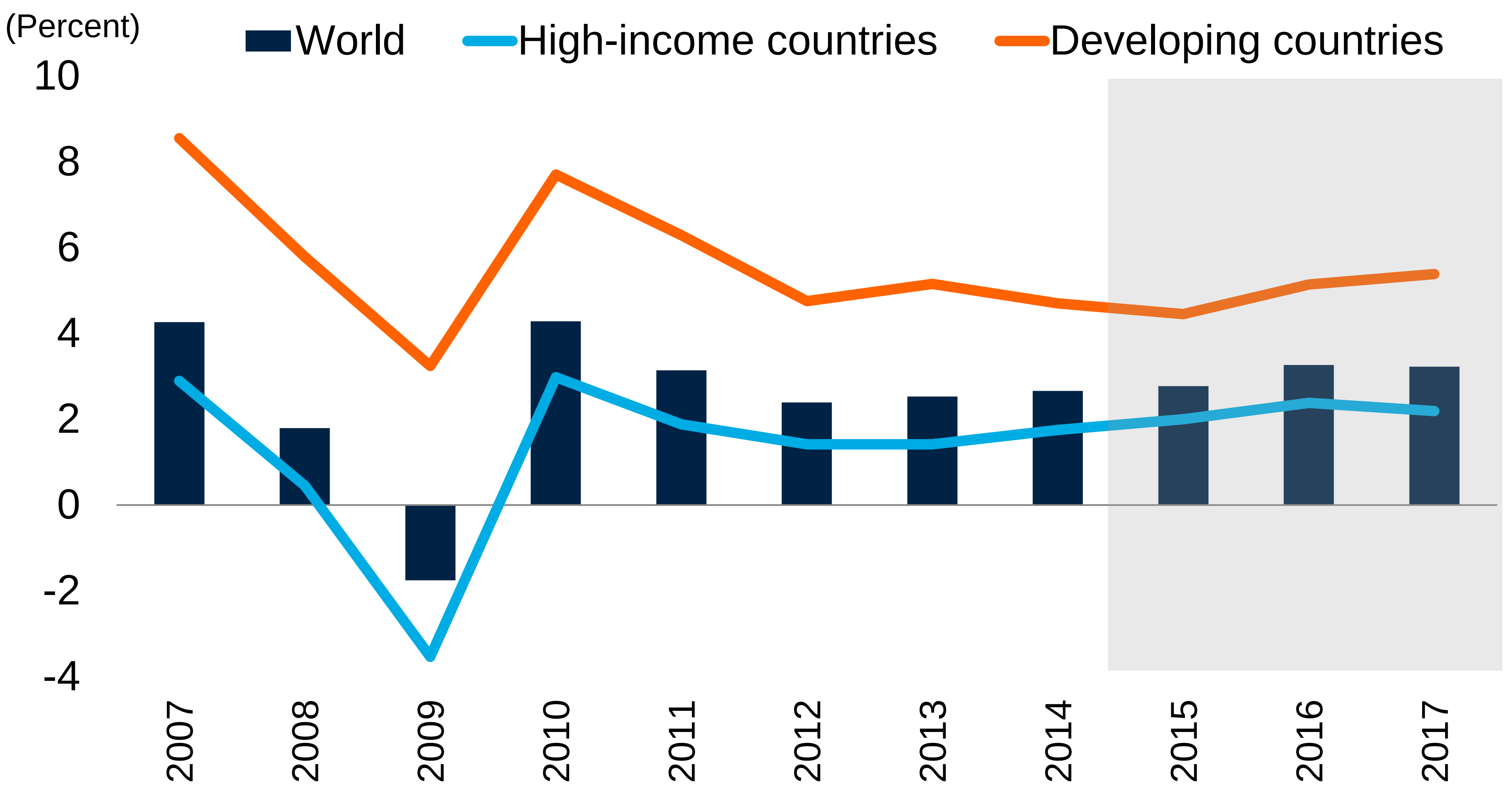
- Global economic trends: growth is slow, but East Asia OK
- Inclusive growth: more than growth, need to tackle poverty, agriculture and inequality
- East Asian economic trends: global driver of growth
- Structural reform agenda: trade-related examples
- Reforms to foster inclusive growth: good leaders are necessary, but not enough—need coalitions

Global Economic Trends:

growth is slow, but East Asia OK

Because growth is slow…

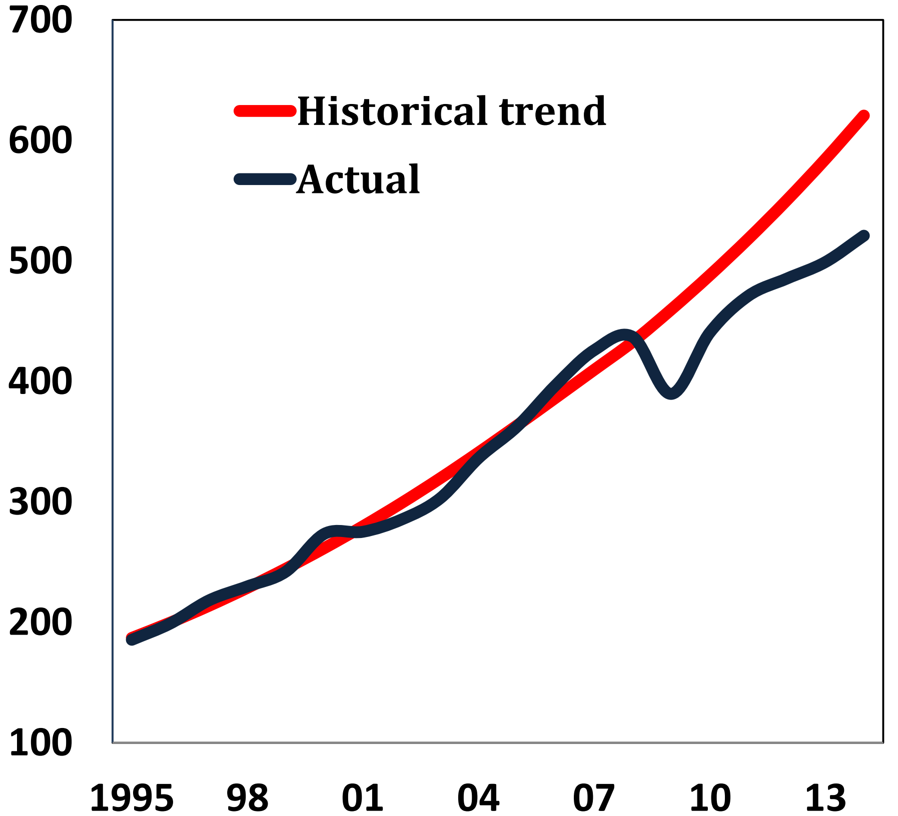
GDP growth



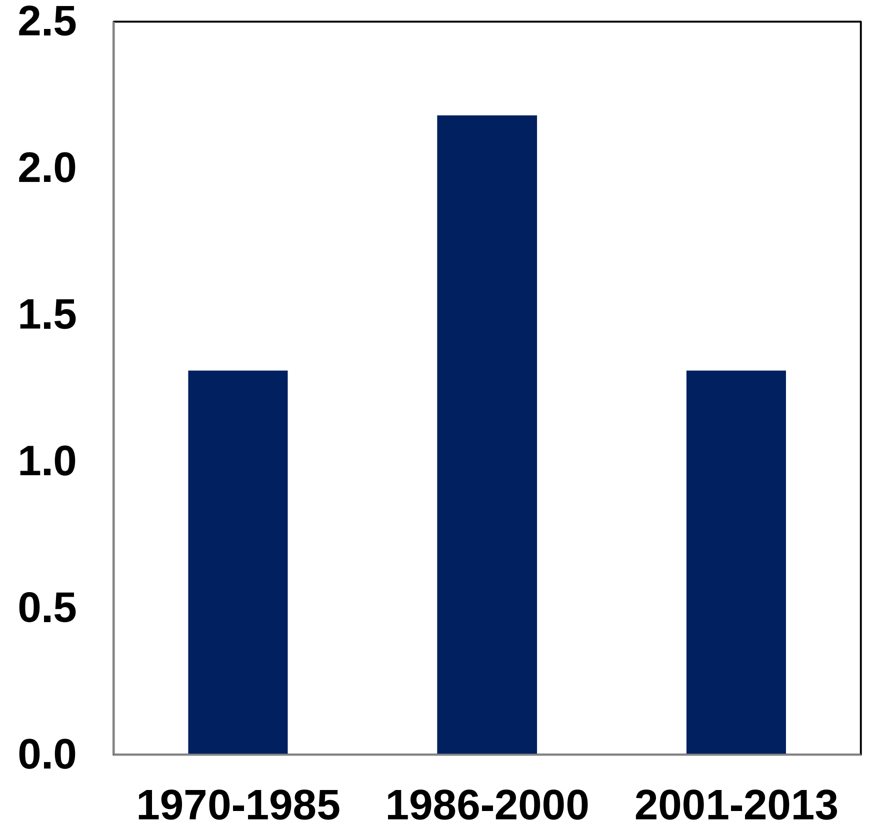
Source: Global Economic Prospects, World Bank, June 2015

Weak global trade: are we in a new era?

Actual and Trend Import Volume
(Index. 1980 = 100)



Long-Run Trade Elasticity
(Estimates of elasticity)



Sources: World Bank, Constantinescu, Mattoo and Ruta (2014)
Note: Left panel: The post-crisis trend level growth is assumed to be equivalent to the average growth rate during 1980-2008.Using this, the trend level for 2014 is rebased to 100. Hence, bars below or above 100 show deviations from trends in 2014; Right panel: Each bar represents the long-run elasticity estimated from a cointegration model between imports and GDP

Oil, the Fed and Food

- **Lower commodity prices:**
  - Net exporters: GDP down, fiscal, exchange rate and monetary pressures
  - Net importers: more fiscal and monetary space, lower inflation
- **Anticipated US tightening:**
  - Developing countries' currencies weaker (stimulus for exports)
  - Concerns about foreign debt exposure and asset bubbles (yes, but "chronicles of an interest rate increase foretold")
- **Opportunities and challenges:**
  - In oil-importing countries: subsidies can be tackled, macroeconomic easing and buffer building, spending on infrastructure, poverty reduction
  - In oil-exporting countries: macroeconomic challenges, fiscal tightening
  - Low oil prices benefit the poor: 70 percent of the world's poor live in oil-importing countries
  - Food prices respond to low energy prices: low food prices benefit poor (but may need food trade regime reform)

Inclusive growth:

more than growth, need to tackle poverty, inequality and agriculture

Inclusive growth challenge: More than growth

- Growth may be necessary but is not sufficient to ensure poverty reduction…
  - How **broadly based** growth is—i.e., how pro-poor the distribution of growth is—also matters…
    - Raising the returns to labor—the main asset of the poor by…
      - …increasing value-added per worker in agriculture
      - …moving workers out of agriculture to higher value-added activities in manufacturing and service
  - …as does how **resilient** growth is and the extent to which poor and vulnerable households are **protected** from shocks
    - Putting in place appropriate social protection schemes
    - …and raising human capital endowments

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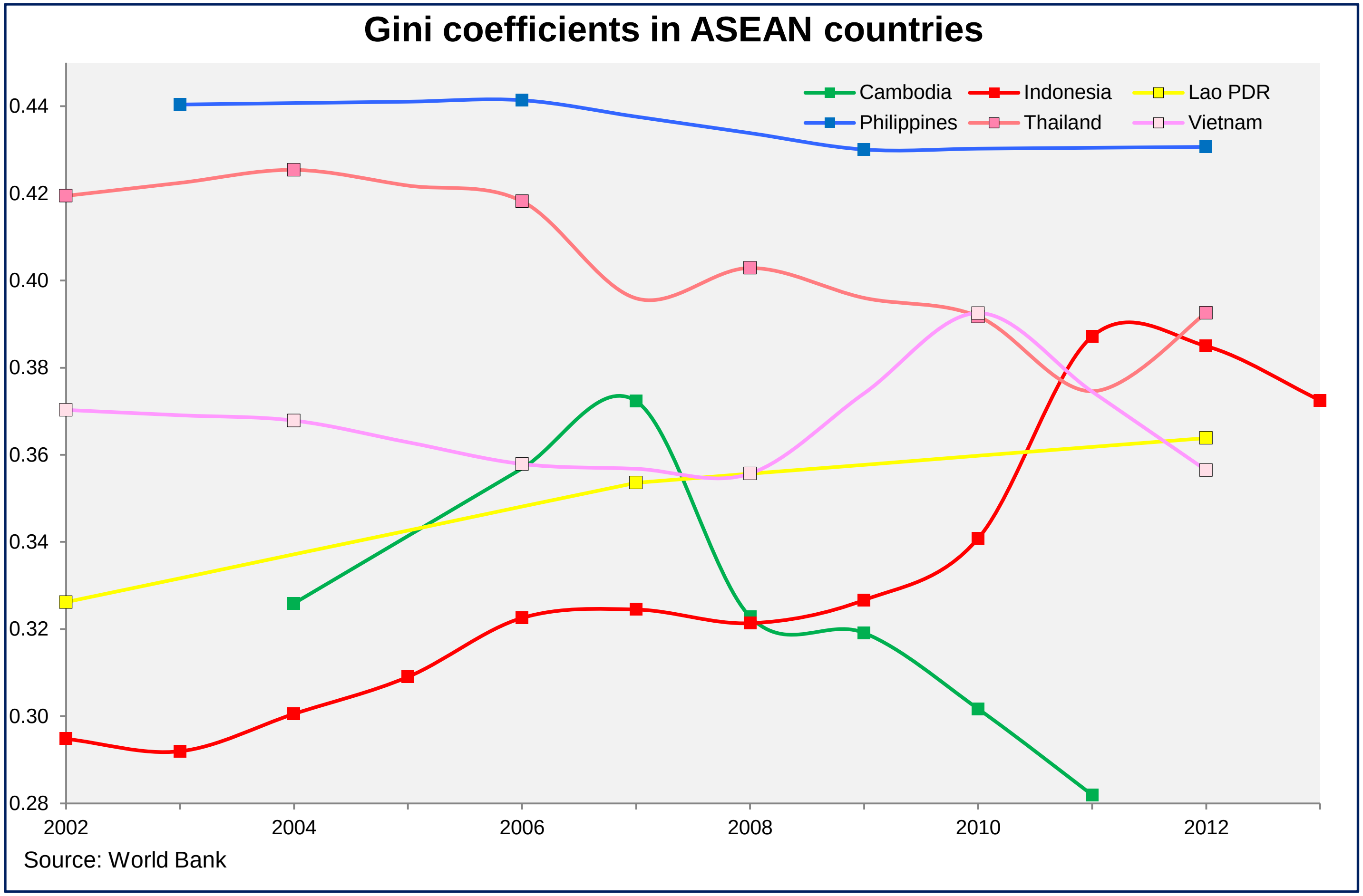
Inequality in East Asia: mixed record



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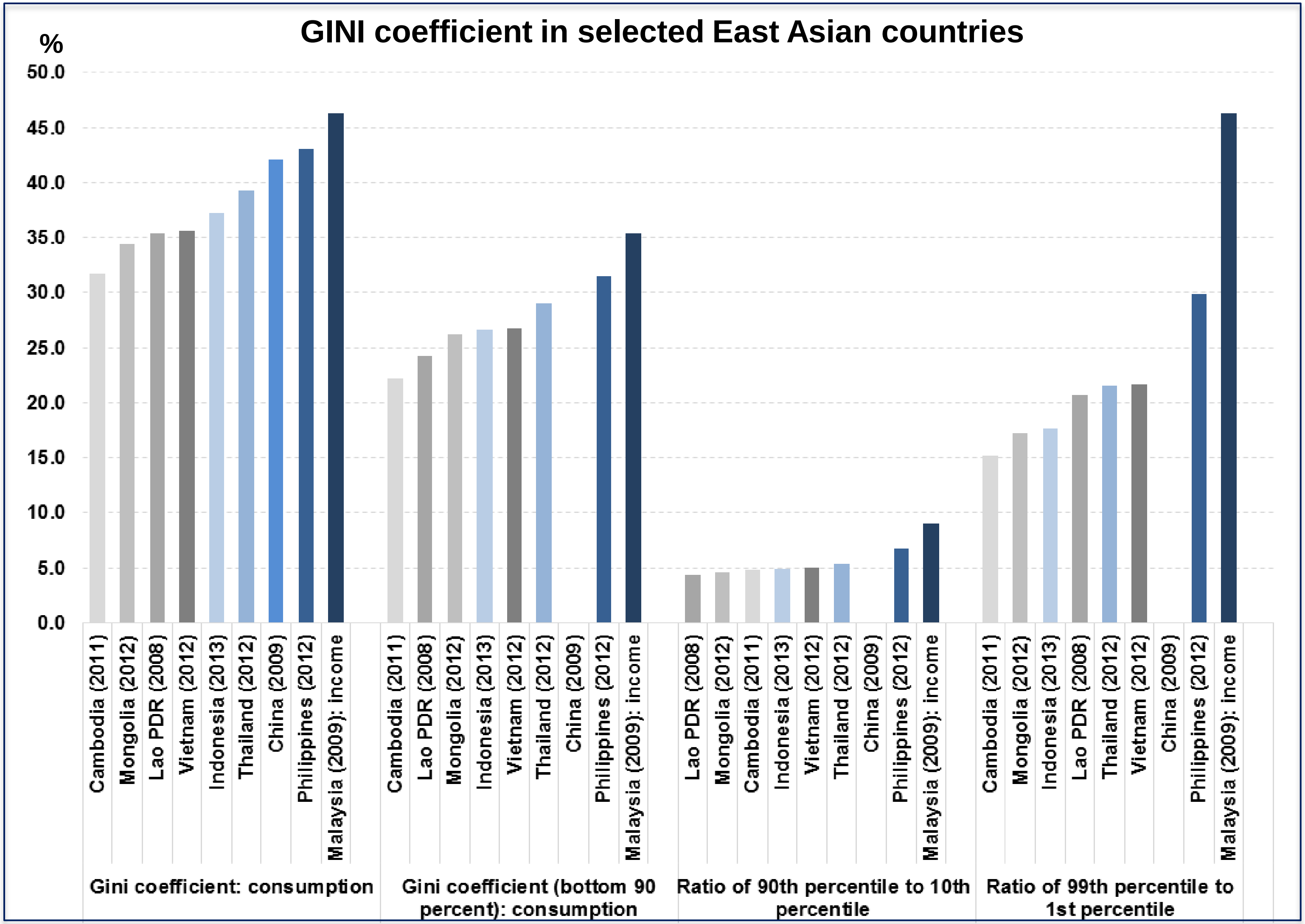
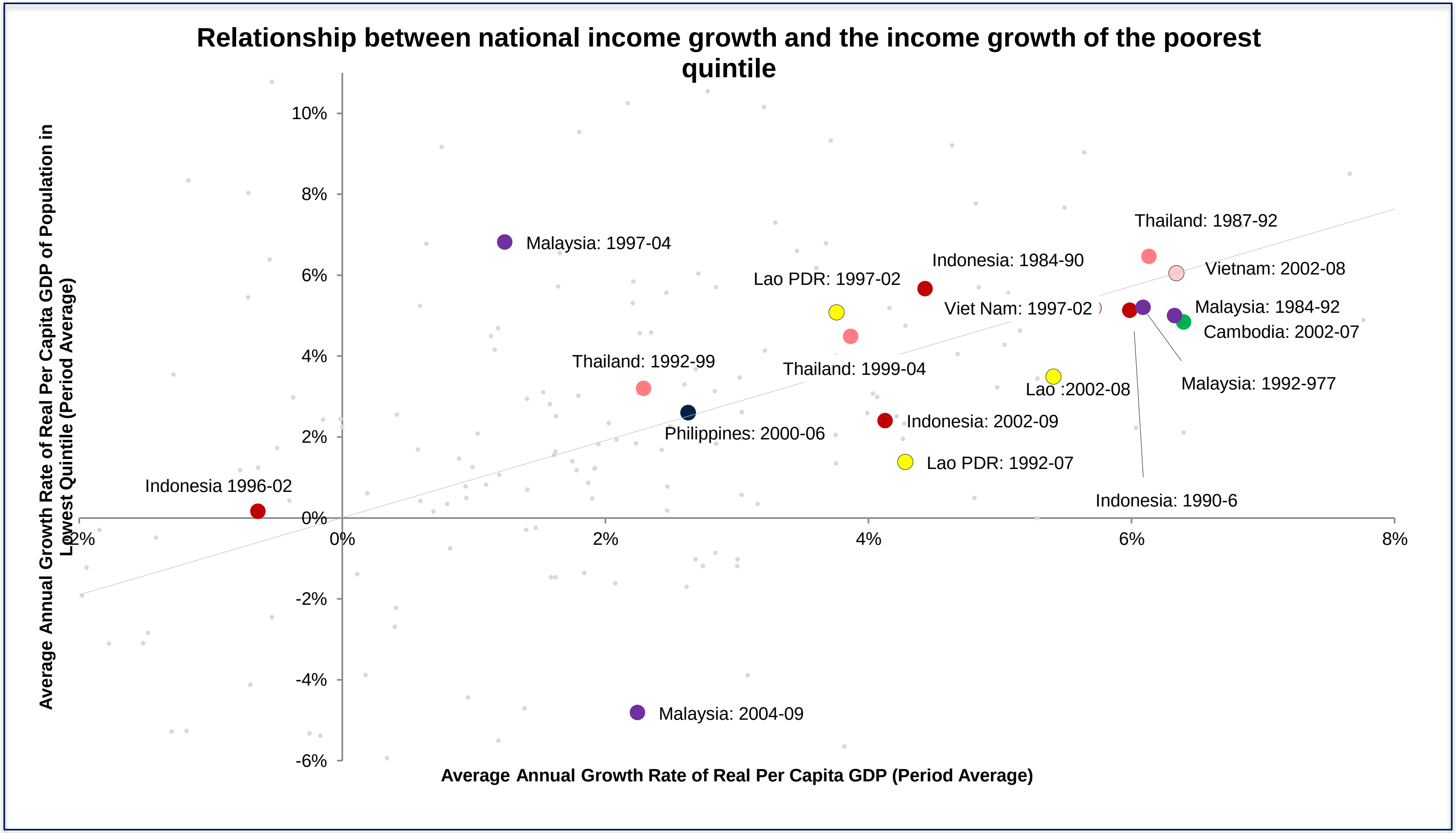
Inequality in East Asia

If the top 10 percent is taken out, on average the Gini falls by 10 percentage points



Source: World Bank

But need to reduce inequality to support growth



Source: World Bank

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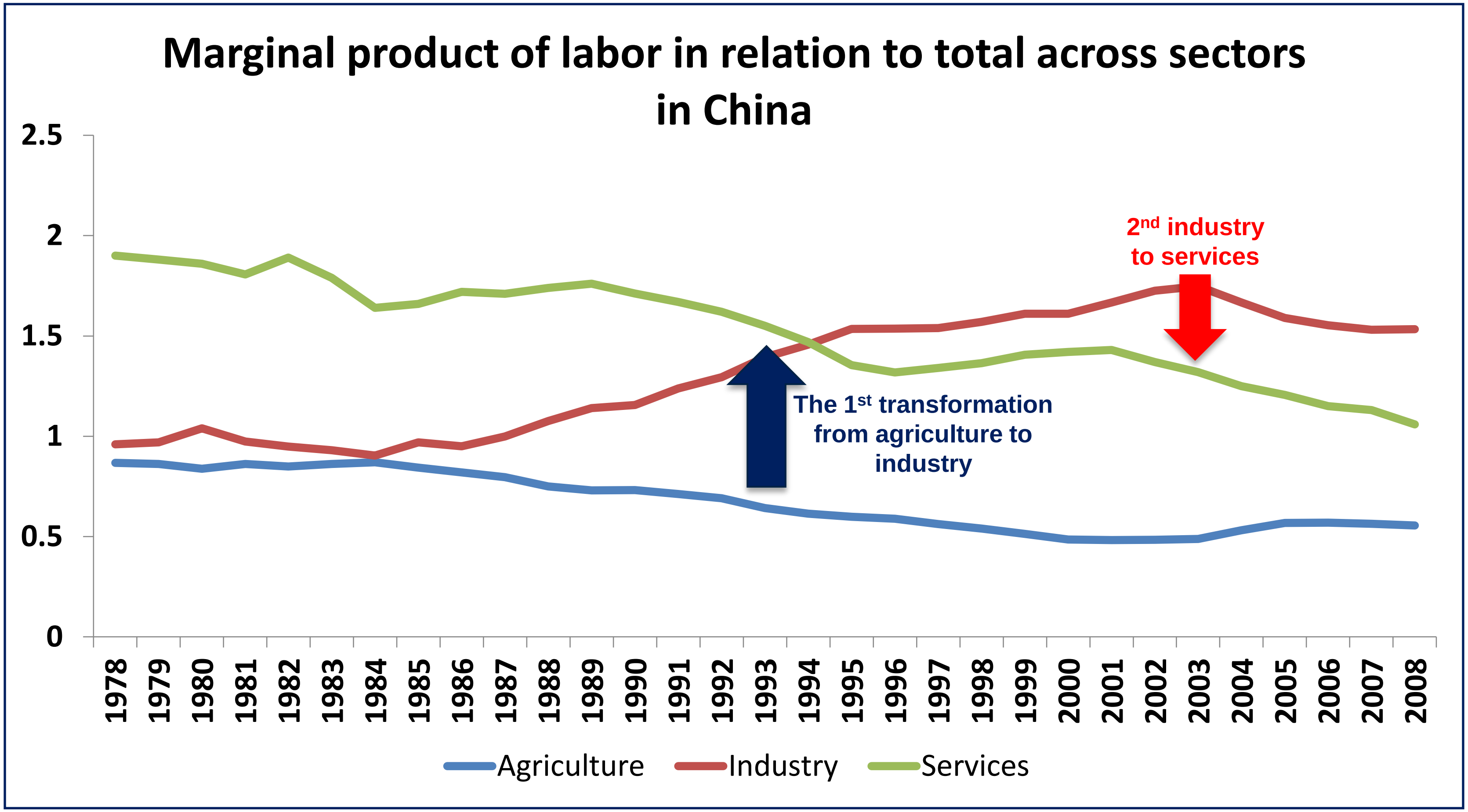
Important role of agriculture

China lifted 600 million people out of poverty.

Agriculture: first poverty "responder"

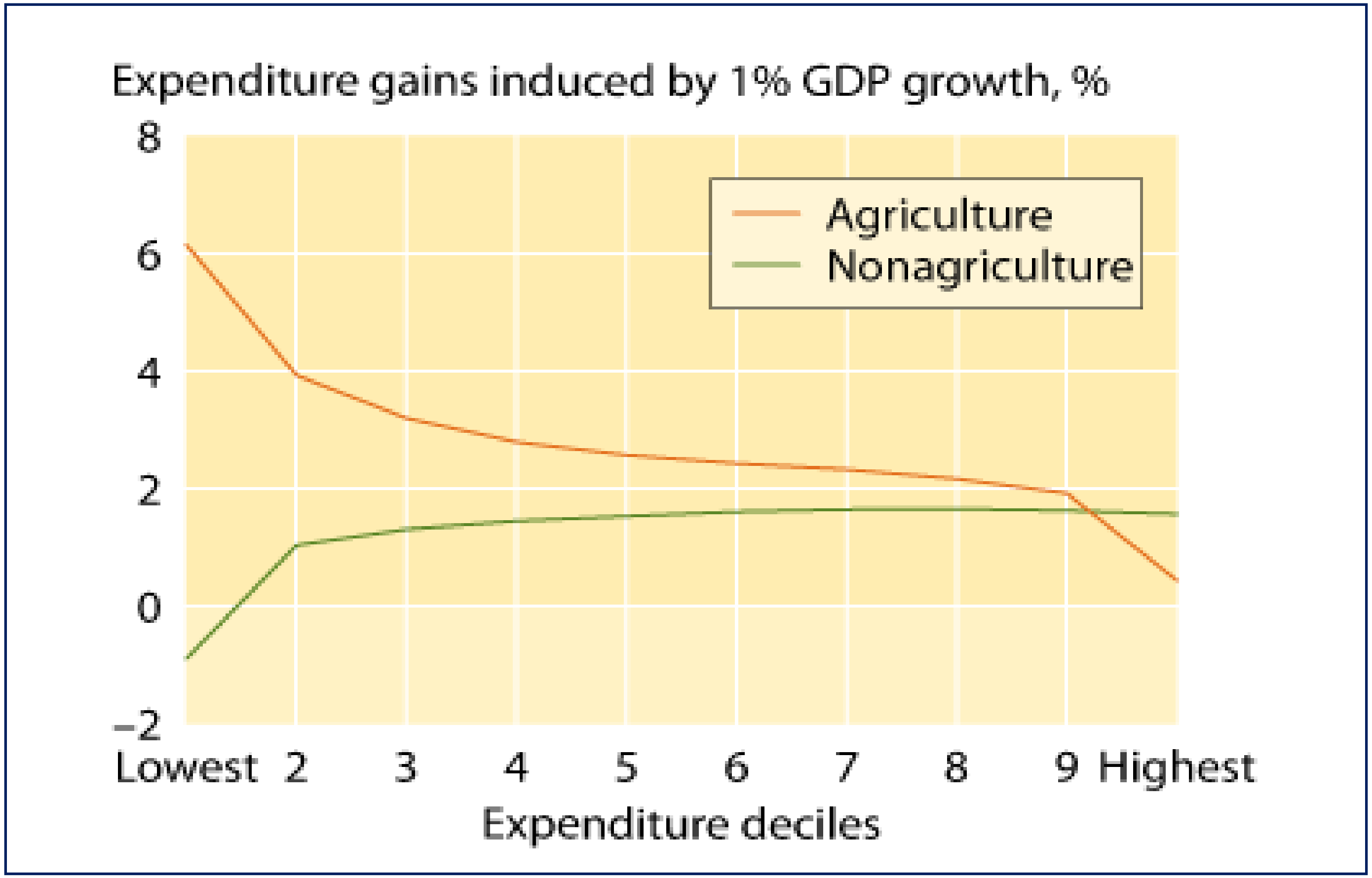
Manufacturing is the second: 300 million people moved from farms to factories



Source: Urban China 2014

Agriculture

GDP growth originating in agriculture benefits the poor more.



Source: Ligon and Sadoulet, 2007. Background paper to the WDR 2008 (see website). Based on data from 42 countries (1983-2003).

East Asian economic trends:

global driver of growth

East Asia growth projections: still excellent performance

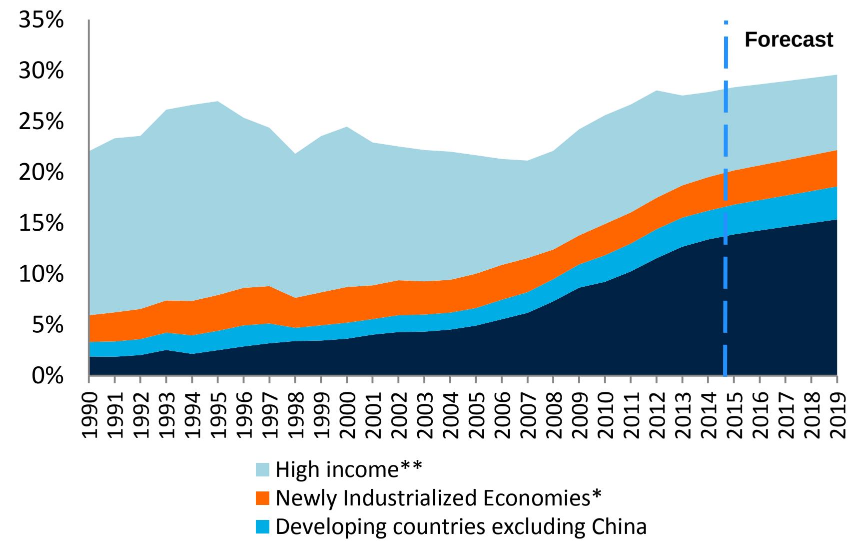
	Actual		Estimate/Forecast		
	2013	2014	2015	2016	2017
Developing East Asia	7.1	6.8	6.5	6.4	6.3
China	7.7	7.3	6.9	6.7	6.5
Indonesia	5.6	5.0	4.7	5.3	5.5
Malaysia	4.7	6.0	4.7	4.7	5.0
Philippines	7.1	6.1	5.8	6.4	6.2
Thailand	2.8	0.9	2.5	2.0	2.4
Vietnam	5.4	6.0	6.2	6.3	6.3
Cambodia	7.4	7.1	6.9	6.9	6.8
Lao PDR	8.5	7.5	6.4	7.0	6.9
Myanmar	8.5	8.5	6.5	7.8	8.5
Mongolia	11.6	7.8	3.3	4.1	4.0
World	2.4	2.6	2.5	3.0	3.1
High-income countries	1.2	1.7	1.7	2.1	2.1
Developing countries	5.2	4.9	4.3	5.0	5.3

Source: World Bank East Asia and Pacific Update

East Asia and Pacific (EAP): global driver of growth

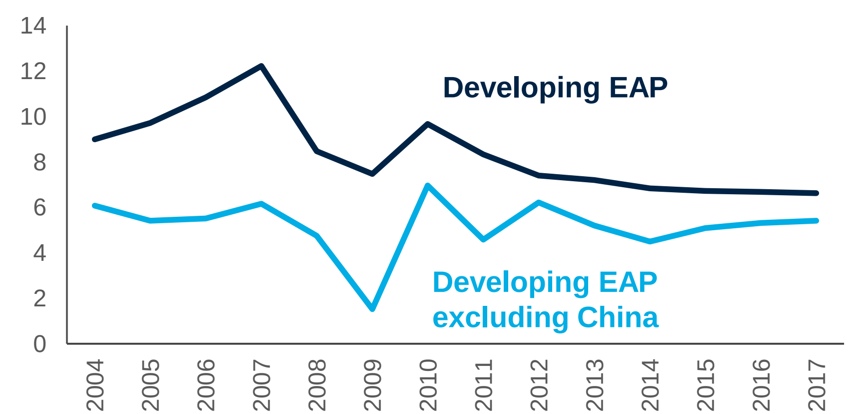
- **EAP accounts for over 25% of world GDP, and its share will continue to rise.**
  - At current real growth rates of 7% annually, developing EAP countries will add a further $7 trillion by 2019: China 2nd largest economy, Indonesia 10th
  - Connected through trade and FDI with all regions
- **China will remain growth driver in the region and globally.**
  - Growth model being recalibrated to emphasize economic and environmental sustainability
  - Focus on land, labor, and capital market reforms
- **Regional integration is increasing.**
  - ASEAN integration this year presents opportunities for furthering reforms
  - Nearly 50% of FDI in ASEAN countries originates within EAP
  - TPP, APEC: further opportunities
- **Challenges and Risks**
  - Need to move forward with structural reforms and investments to raise factor productivity and address vulnerabilities

EAP Share of Global GDP



*Includes Hong Kong SAR, China; Taiwan, China; Singapore; and S Korea
**Includes Japan, Australia, New Zealand, and Brunei Darussalam

Real GDP Growth (%)



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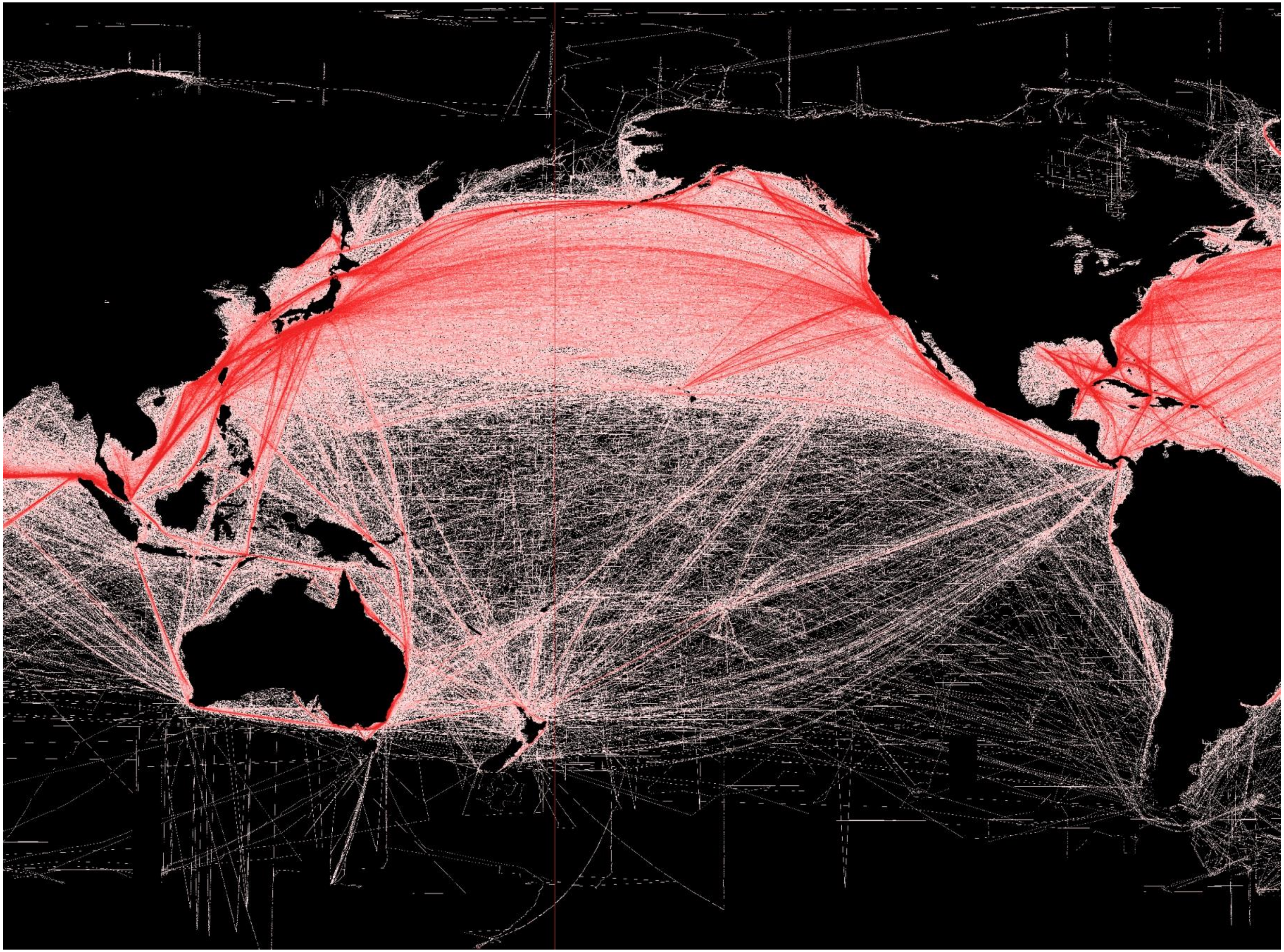
Regional Supply Chains

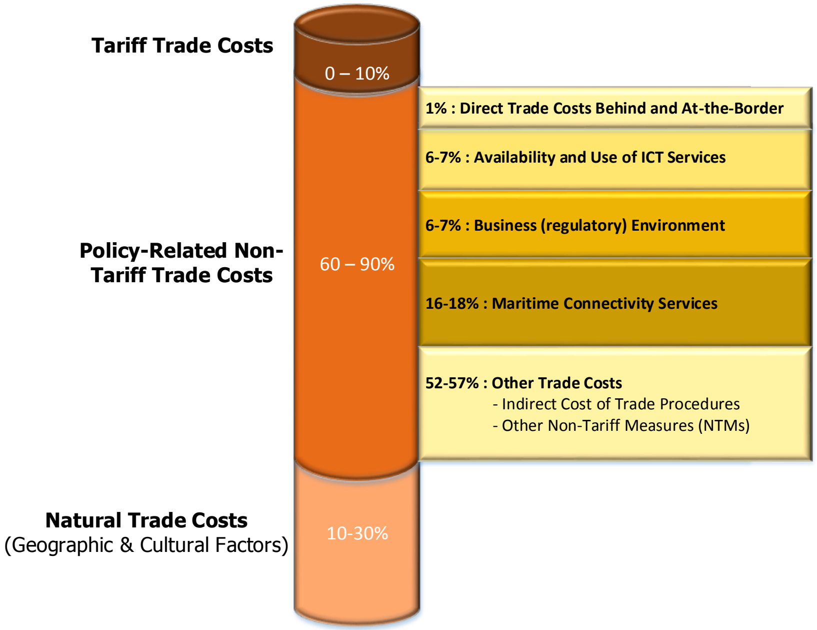
Shipping lanes



Supply chain trade: connectivity matters

- **Two types of 'trade':**
  - Standard trade = goods crossing borders
  - Supply chain trade = production tasks sharing
- **In East Asia, the proportion of Global Value Chains in the regions' total trade is now 40 percent more than two decades ago**
  - Data from OECD-WTO, Trade in Value Added (TiVA)—new data base
  - Share of imported intermediate inputs in its exports
  - GVC participation rate is half of all trade in East Asia, larger than any other developing region
  - ASEAN 2015, APEC, TPP can give this another boost
  - Note: tariffs now only constitute only 10 percent of total trade costs

Trade Costs

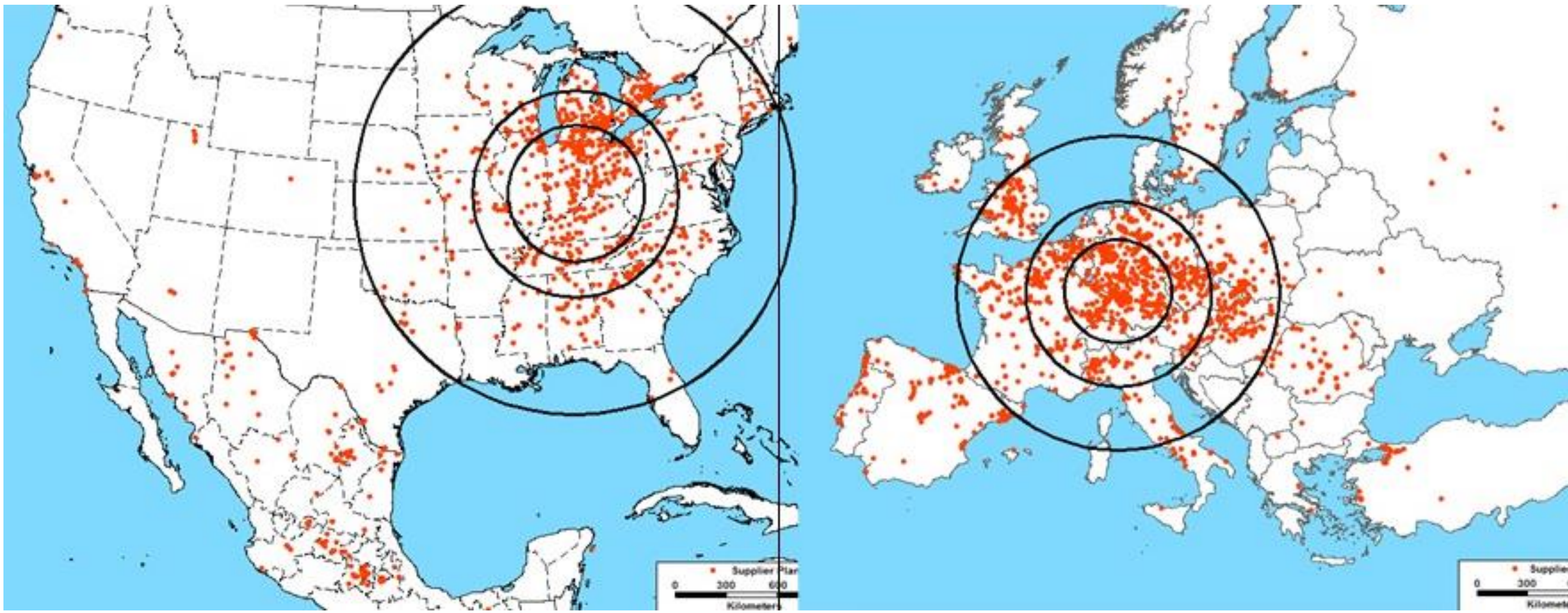


Source: EAP Economic Update, April 2014

New era of better communications and transport technology

but supply chains still constrained by face-to-face contacts;

managers prefer being able to visit production sites within a reasonable time (hours, not days)



Car manufacturing supply chains in the US and Europe

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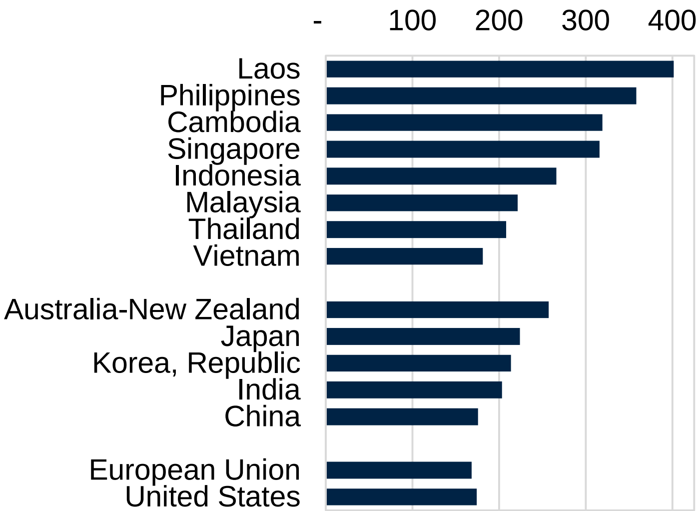
Structural reform agenda:

trade-related examples

Tariff reform ✓

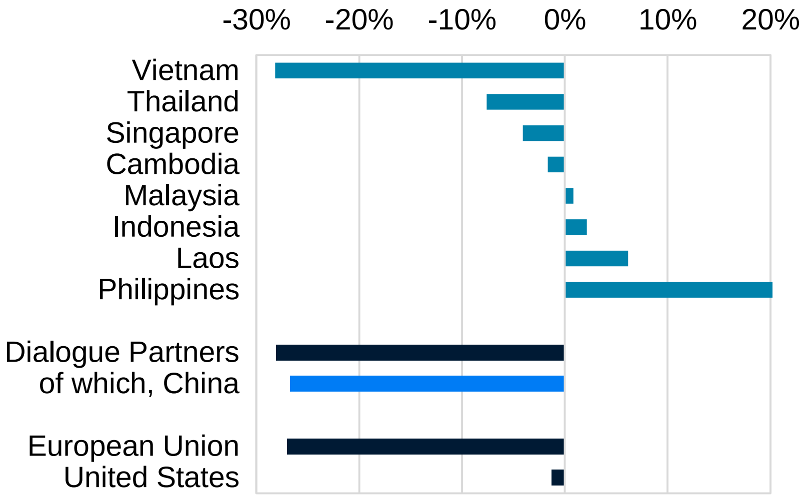
- **Tariff reform: done**
- **Border and behind-the-border procedures are the real constraints, and they will not disappear on Jan. 1, 2016**
- **Non-tariff costs: myriad of licenses, permits and certificates and …. corruption**
- **This is especially constraining for SMEs, which are key for job creation**

High trade costs (ad-valorem tariff equivalents)



Source: EAP Economic Update, April 2014

Change in trade costs (ad-valorem tariff equivalents) 2010-11 versus 2000-01



Source: EAP Economic Update, April 2014

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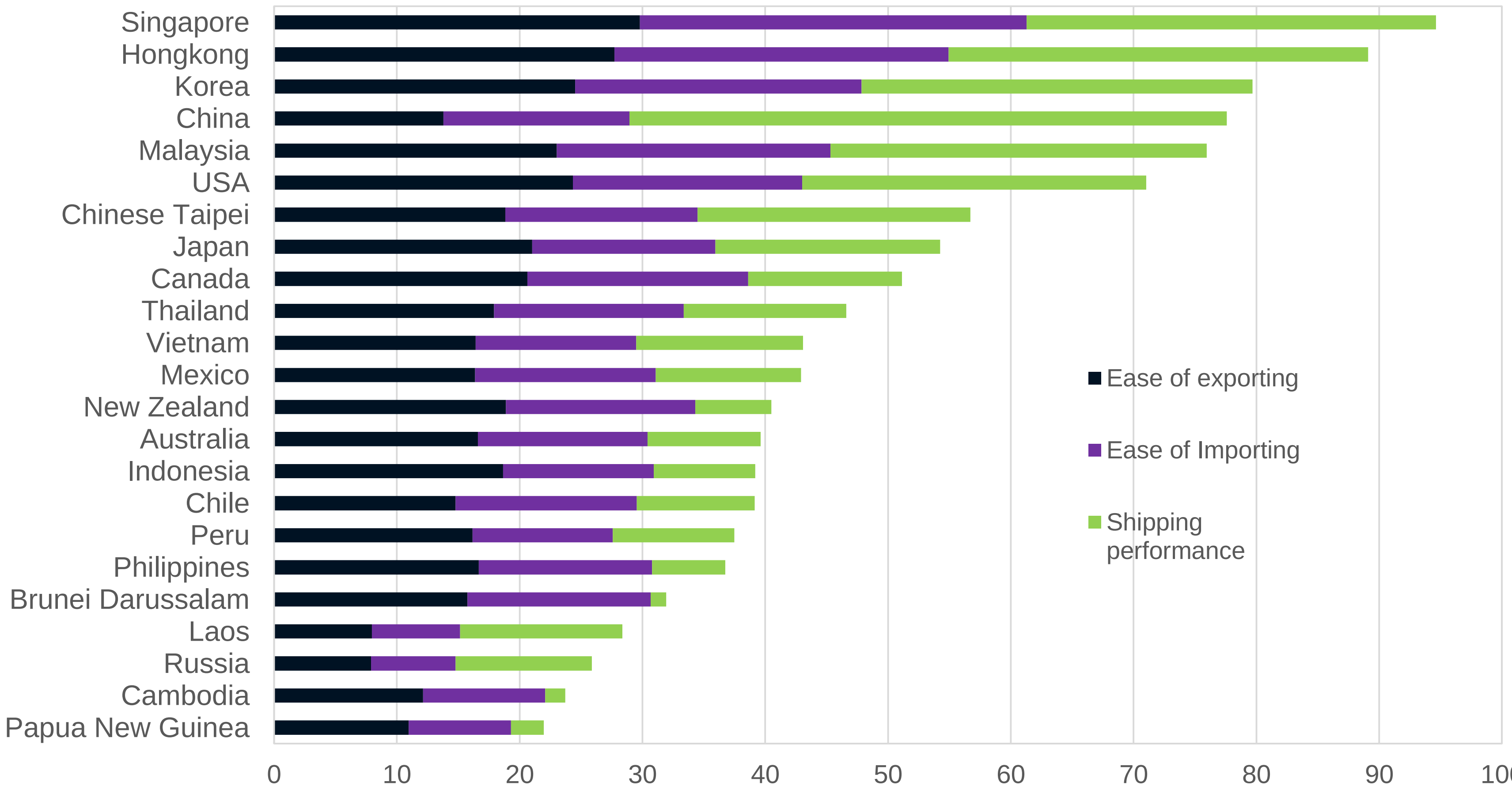
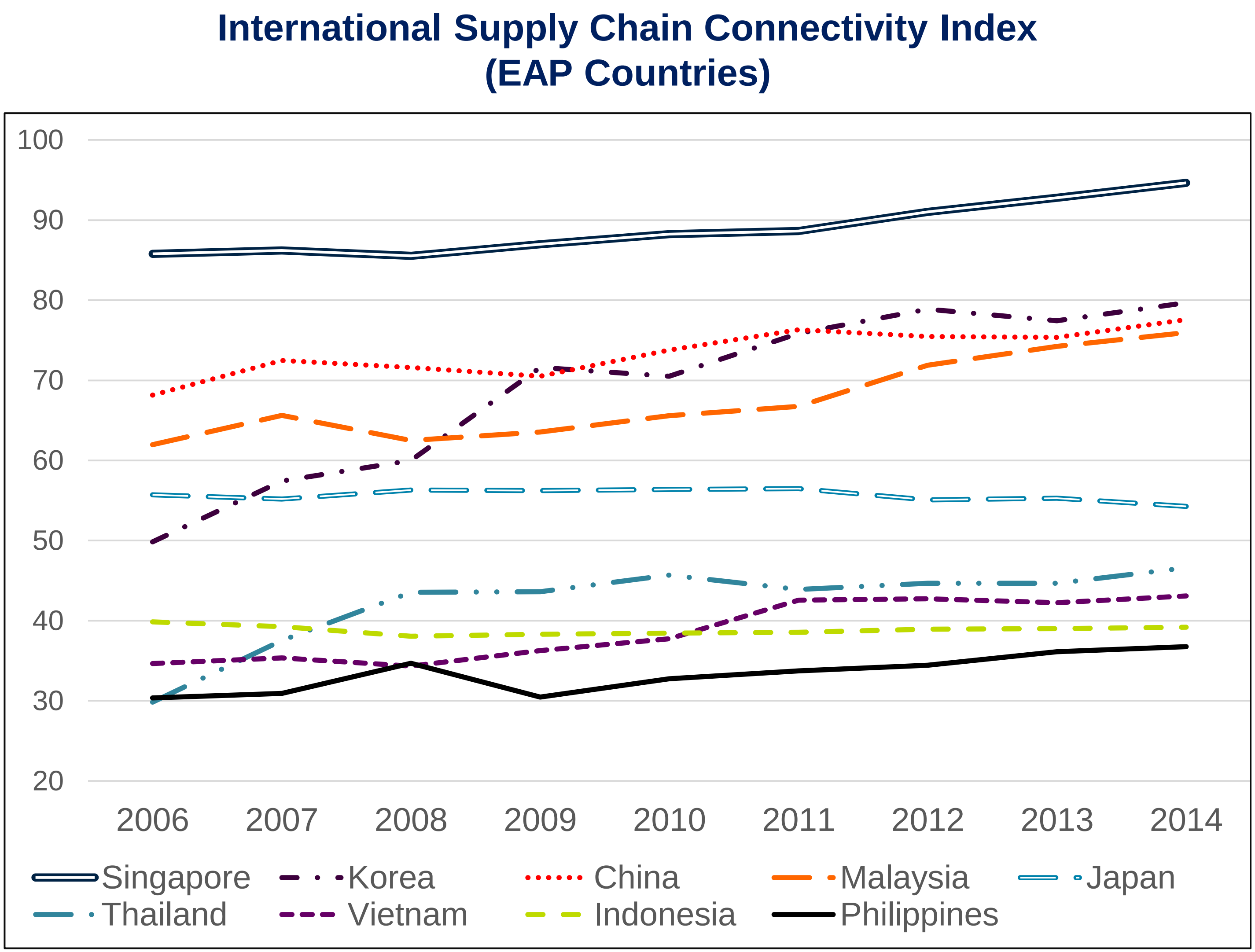
Need to improve connectivity

Contribution to total International Supply Chain Connectivity Index (APEC + ASEAN Countries)



Source: ESCAP, International Supply Chain Connectivity Index (2014)
Notes: This index measures connectivity performance based on the average of trading-across-borders indicators for exports and imports in the World Bank's Doing Business Report, and in UNCTAD's Linear Shipping Connectivity Index.

Supply chain connectivity: mixed picture



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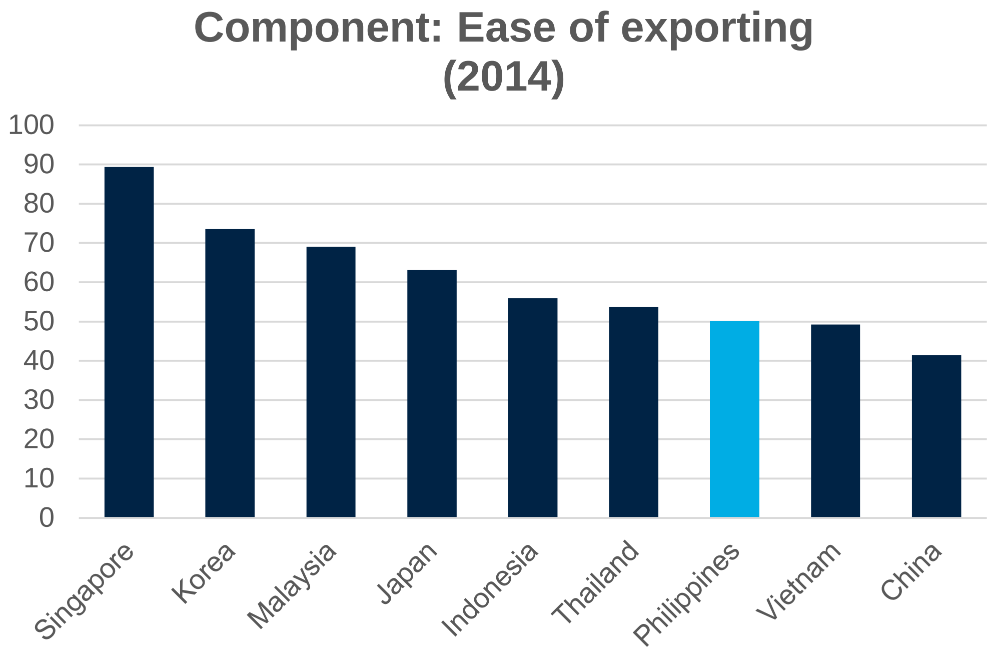
Trading across borders is not easy…

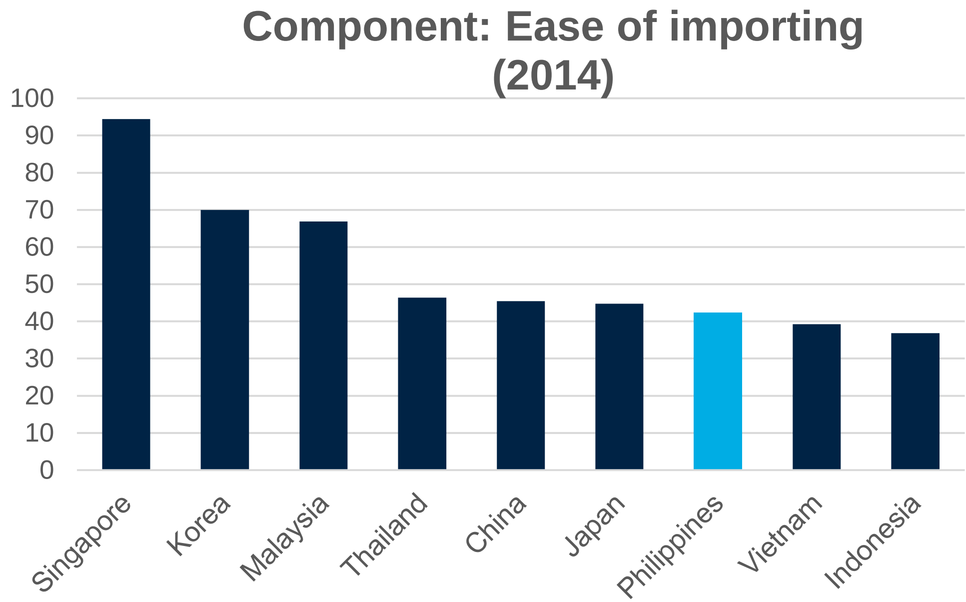


Sub-indicators:

Documents to export (number)
Time to export (in calendar days)
Cost to export (US Dollar)

Sub-indicators:

Documents to import (number)
Time to import (in calendar days)
Cost to import (US Dollar)



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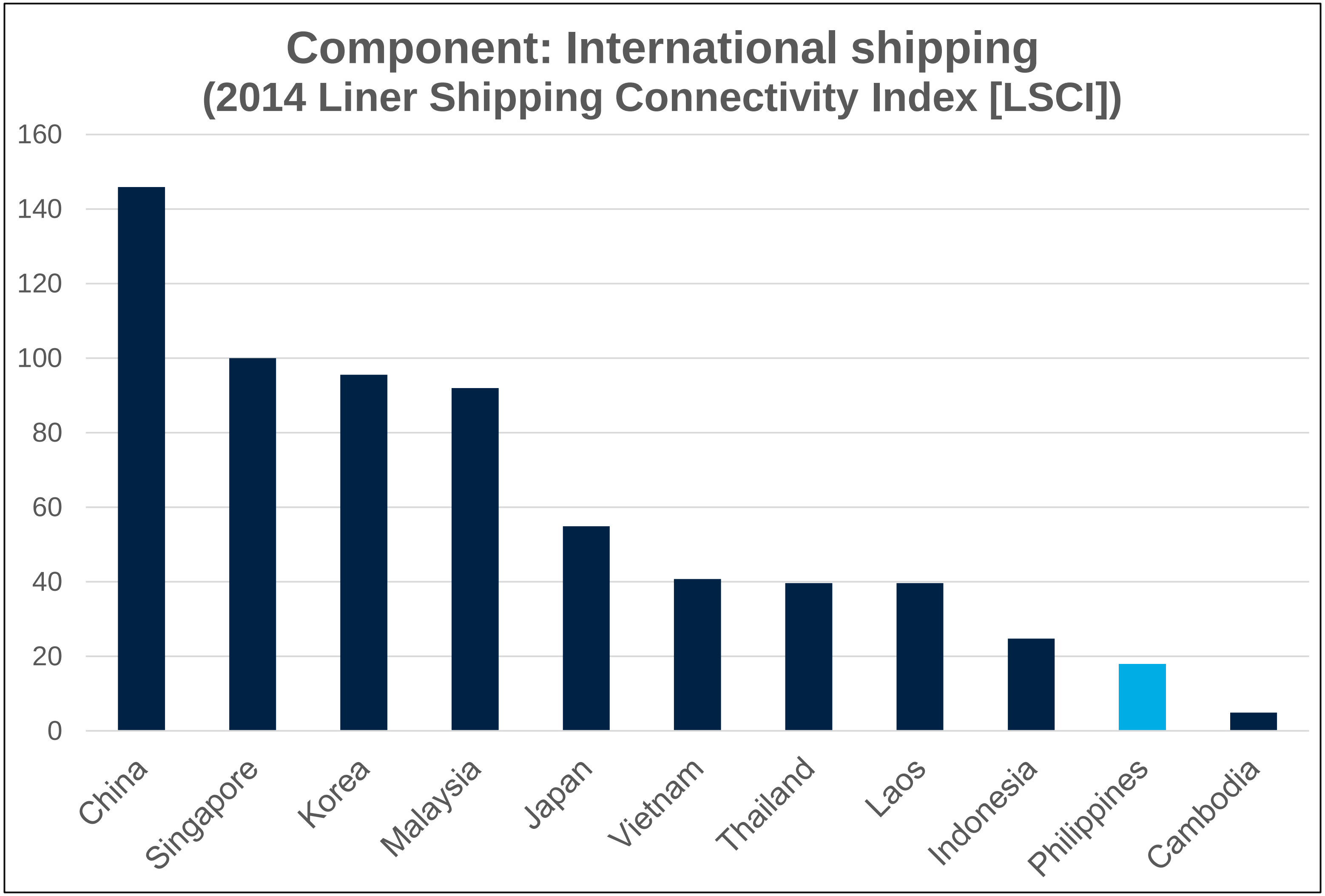
International shipping: not easy



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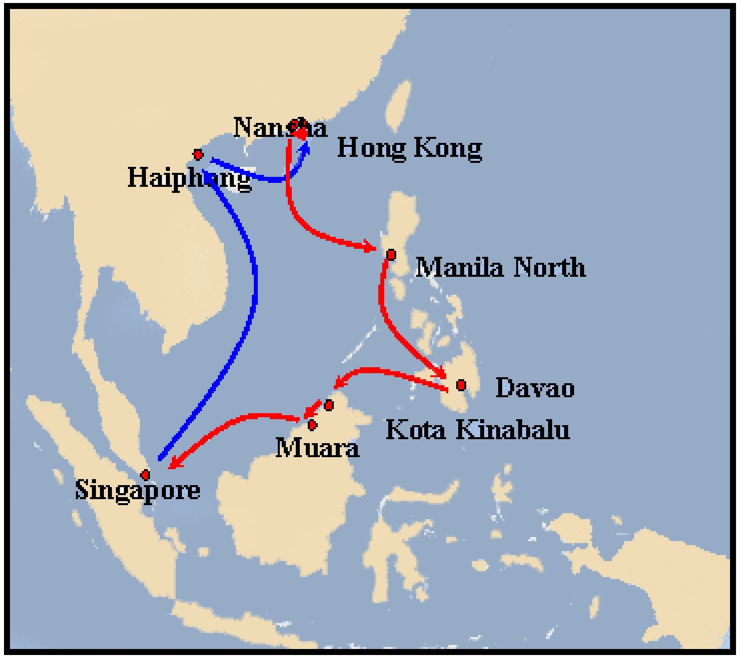
Shipping example from the Philippines: combining overseas – domestic routes not easy



- Philippine flagged vessels are not allowed to run combined routes without special permits
- Creation of a single registry to facilitate overseas-domestic routes
- Philippine shipping companies could partner with international companies and enter regional and international markets

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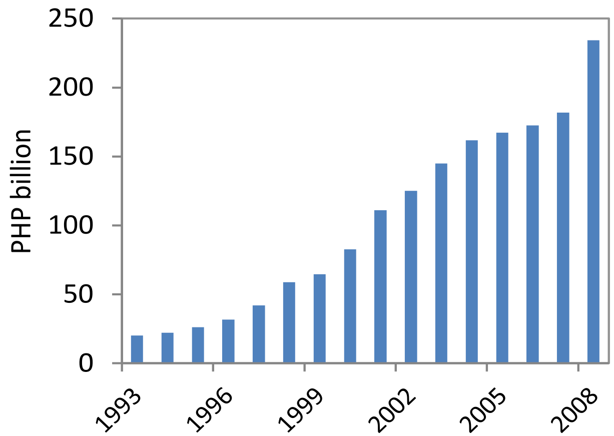
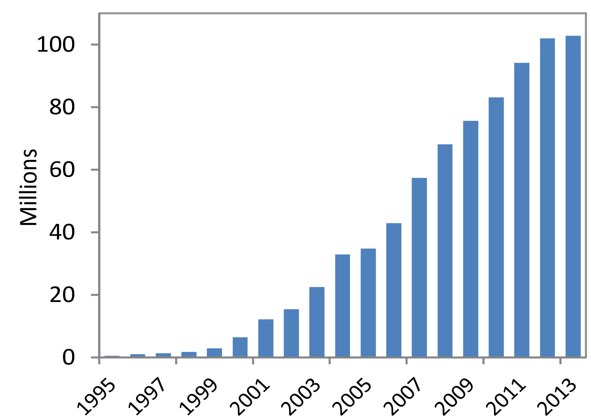
Philippines: Strongly contested reforms in the 1990s… but now… booming services sector, with 5 million jobs

Telecommunications revenues



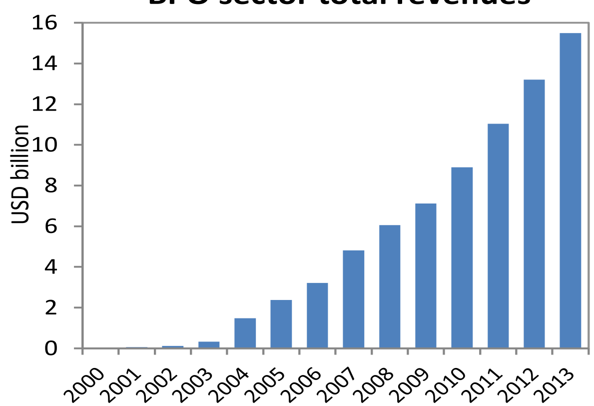
Sources: Securities and Exchange Commission (SEC)

Mobile phone subscriptions



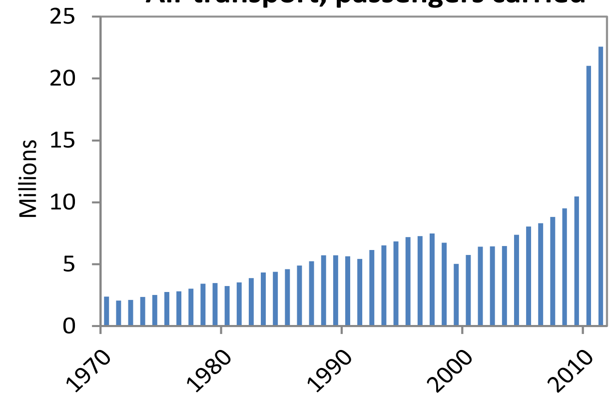
Source: WDI

BPO sector total revenues



Source: Business Processing Association of the Philippines (BPAP)

Air transport, passengers carried



Source: WDI
Note: Data include passengers of both domestic and international flights.

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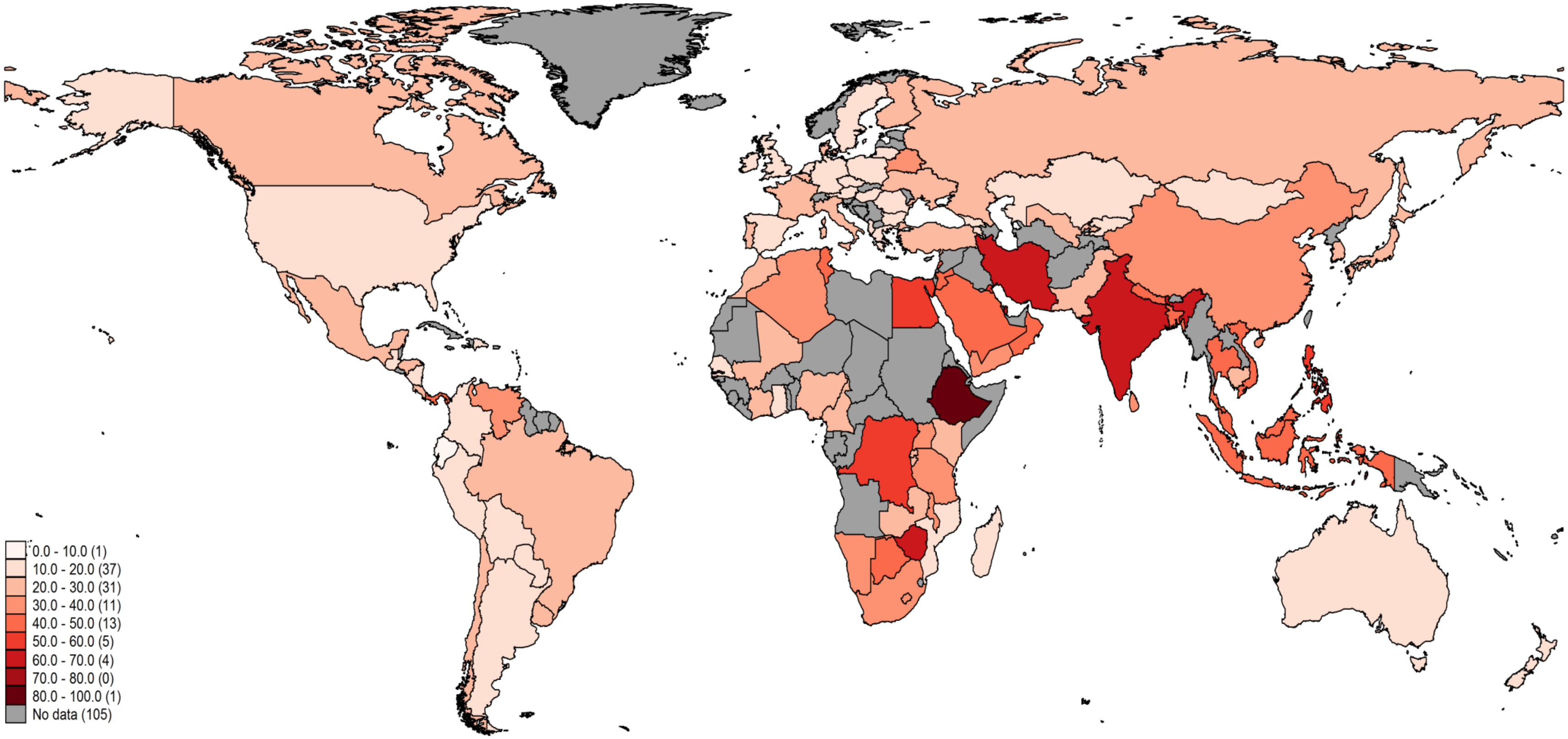
Despite significant unilateral liberalization, services protection persists - including in some of the most dynamic countries

World Bank Database covers 18 services sectors of 103 countries (of which 79 are developing)



Source: Borchert, Gootiiz and Mattoo (2013)

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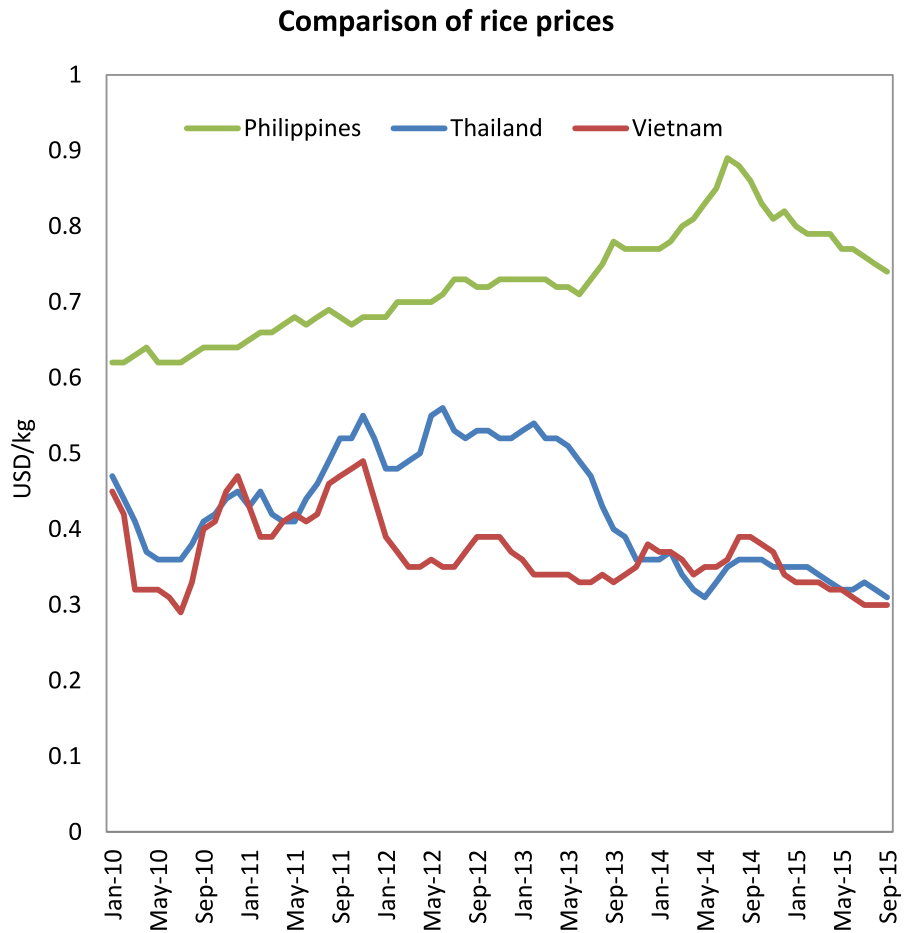
Rice trade:
strong resistance to reform



Source: FAO

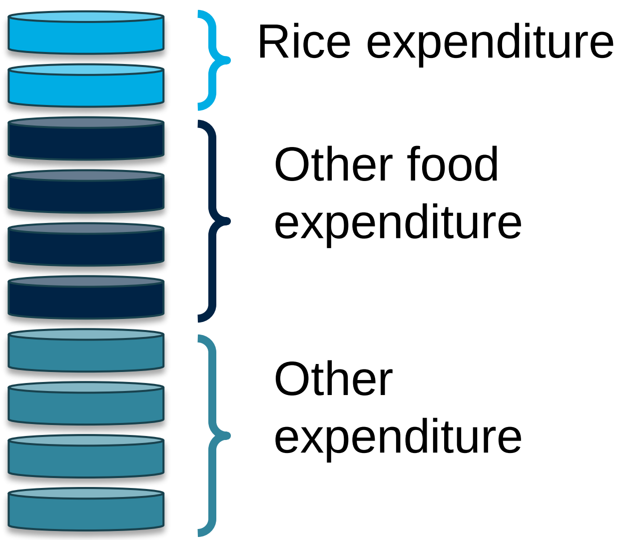
In Sept 2015, 1kg of rice cost PHP 34 in Philippine markets.

In contrast, the Thai and Vietnamese are paying the equivalent of PHP 14.

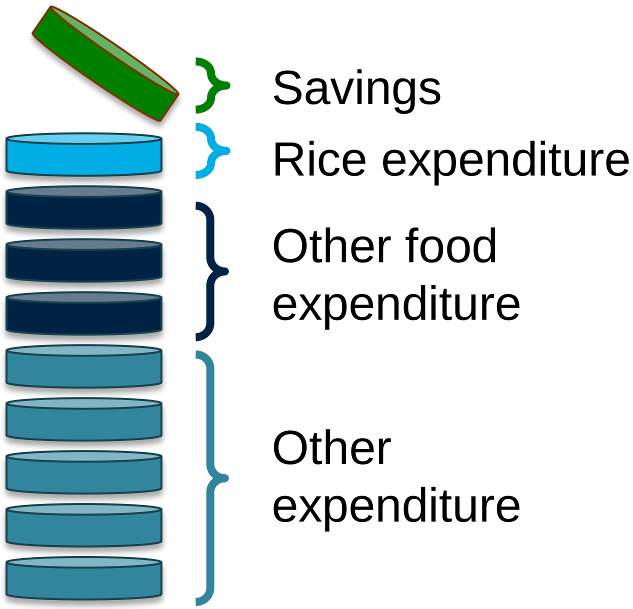
Source: FAO GIEWS Price Tool

Rice and the poor:
The poor spend over 20% of expenditures on rice

Expenditure breakdown of the poor, Philippines (2012)



If the price of rice fell to the world price…



Source: World Bank staff calculations using Family and Income Expenditure Survey (FIES) 2012

Reforms are difficult:

good leaders are necessary, but not enough—coalitions needed

“We all know what to do. We just don’t know how to get re-elected after we’ve done it.”

Jean-Claude Juncker: former Minister of Finance and Prime Minister of Luxembourg, current President of the European Commission, when talking about economic reforms

For reforms to continue: need coalitions

- Structural reforms, say increased competition, often face strong opposition from vested interests
- And the public needs to develop trust in public institutions
- The challenge is in fostering a broad coalition of stakeholders, led by committed leaders, which supports a reform package, because they anticipate that inclusive growth makes everybody better off in the long run, even if some will face losses in the short run
- These coalitions can form at many levels—sectorally, regionally, and locally—and around many themes
- This can be done…..but it needs the stakeholders
- Need to focus on a package, so that there can be a give-and-take

A bright future…but only if we work together

Summary

- Global economic trends: growth is slow, but East Asia OK
- Inclusive growth: more than growth, need to tackle poverty, agriculture and inequality
- East Asian economic trends: global driver of growth
- Structural reform agenda: trade-related examples
- Reforms to foster inclusive growth: good leaders are necessary, but not enough—need coalitions

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YOU!

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