



**Asia-Pacific  
Economic Cooperation**

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**2014/ISOM/SYM/006**

Session: 2

## **Towards Inclusive Growth in APEC Economies**

Submitted by: ADB



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PHILIPPINES  
2 0 1 5

**Symposium on APEC 2015 Priorities  
Manila, Philippines  
8 December 2014**

# Towards Inclusive Growth in APEC Economies

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Presentation at Informal Senior Officials' Meeting (ISOM) Symposium on APEC 2015 Priorities  
8 December 2014, Makati City, Philippines

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## Outline

- Short term growth outlook
- Long term growth potential and constraints
- Towards inclusive growth



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## Short term growth outlook

In 2014 and 2015, APEC members are likely to contribute about 70% of global growth.

APEC members	GDP growth forecast	
	2014	2015
United States	2.1	3.0
Brunei Darussalam	1.1	1.2
People's Republic of China	7.5	7.4
Hong Kong, China	2.5	3.2
Indonesia	5.3	5.8
Japan	1.0	1.4
Republic of Korea	3.7	3.8
Malaysia	5.7	5.3
Papua New Guinea	6.0	21.0
The Philippines	6.2	6.4
Singapore	3.5	3.9
Chinese Taipei	3.4	3.3
Thailand	1.6	4.5
Viet Nam	5.5	5.7
APEC average	3.8	4.3
Developing Asia average	6.2	6.4

Sources: ADB Asian Development Outlook 2014 Update (September 2014), IMF World Economic Outlook Update (October 2014), Focus Economics (November 2014).

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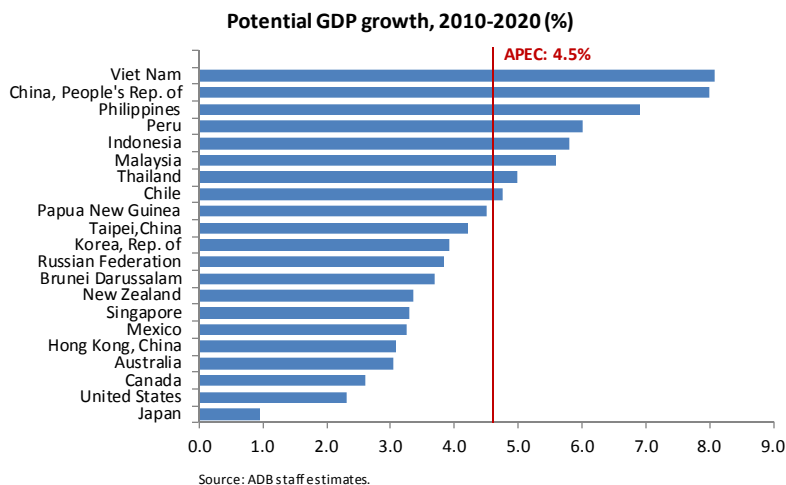
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## Long term growth potential and constraints

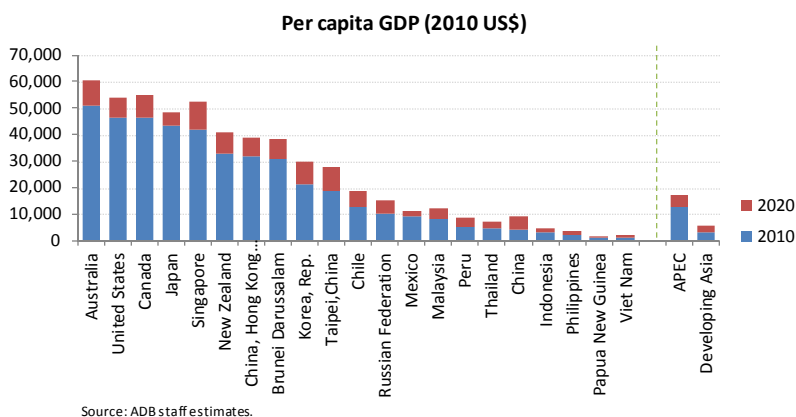
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- According to ADB staff estimates, potential growth of APEC members in 2010-2020 varies from 8% for Viet Nam and PRC to 1-2.5% for Japan, US and Canada.



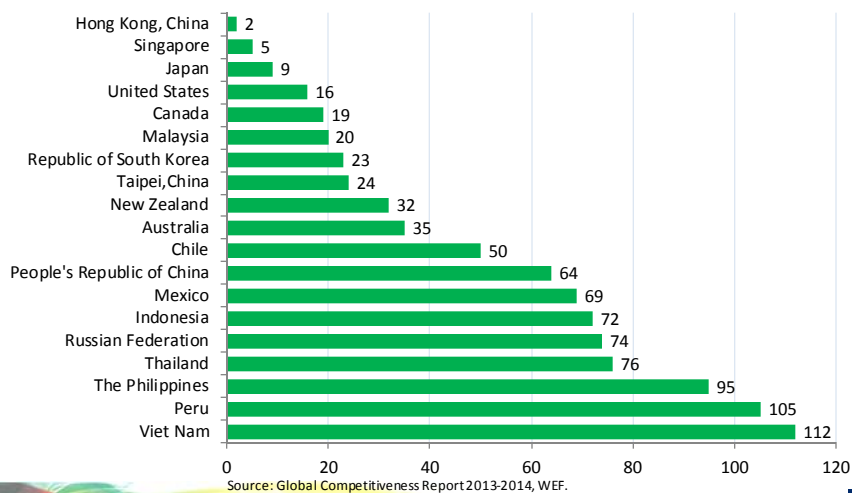
- At these growth rates, there will be a significant convergence in per capita income among APEC members: the Gini coefficient will decline from 43 to 37.



- However, achieving this convergence requires addressing many critical constraints to growth.

- Infrastructure inadequacy – some cross-country studies show elasticity of GDP with respect to infrastructure stock in the range of 0.1-0.3.

**Infrastructure adequacy rank, APEC economies, 2013-2014**

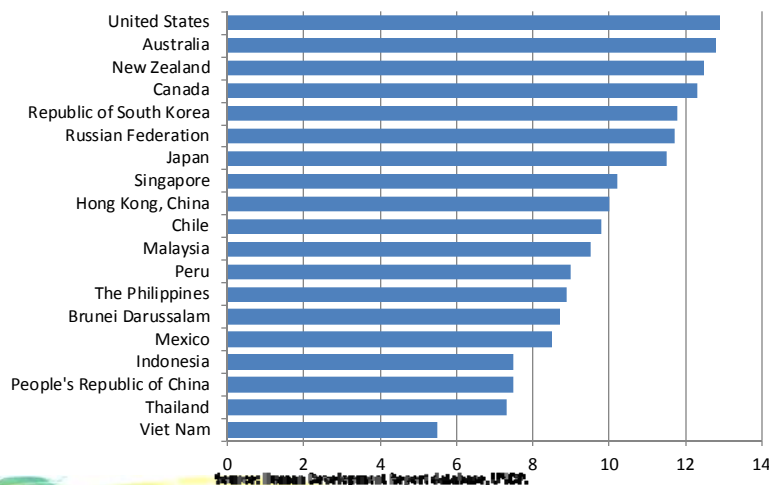


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- Human capital gap – Cross-country studies show 1 additional year of schooling predicts a significant increase in average annual growth in the long run.**

**Average years of schooling, APEC economies, 2012**

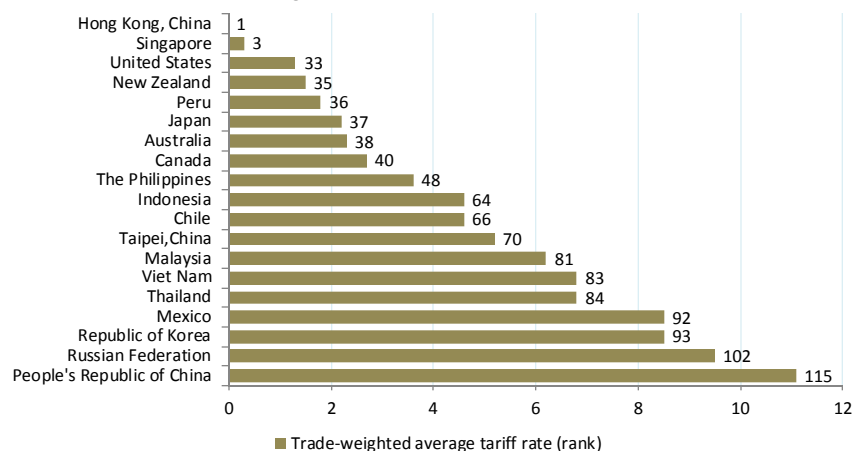


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- **Need for greater openness – Numerous studies show trade openness contributes to growth through channels such as comparative advantage, capital accumulation, and knowledge spillovers.**

**Trade tariffs (%) and ranking**

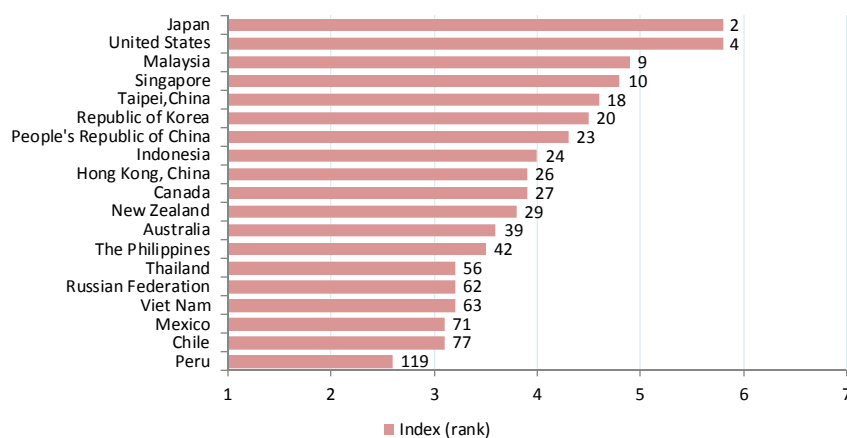


Source: Global Competitiveness Report 2013-2014, WEF.

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- **Innovation and upgrading will be the key to sustain growth**

**Company spending in R&D and ranking**



Note: 1 represents no spending in R&D; 7 represents heavy spending in R&D.  
Source: Global Competitiveness Report 2013-2014, WEF.

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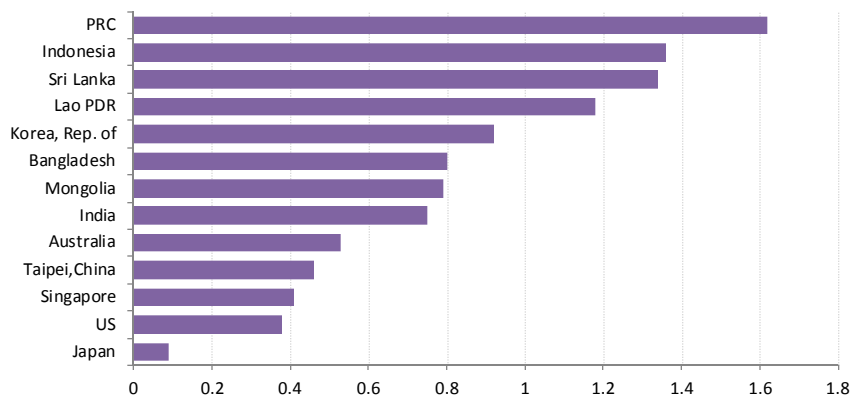
## Towards Inclusive Growth

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- Many countries, developing and developed, among APEC members or elsewhere, have experienced rising inequality in the last 2-3 decades

Annual increase of Gini coefficient from 1990s to 2000s, %

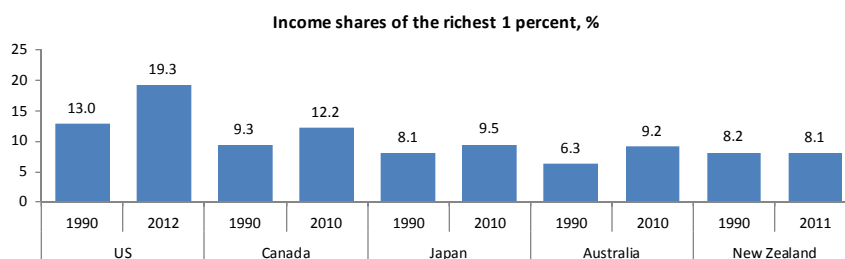


Sources: ADB estimates based on PovcalNet, supplemented by household survey data; OECD Stat database.

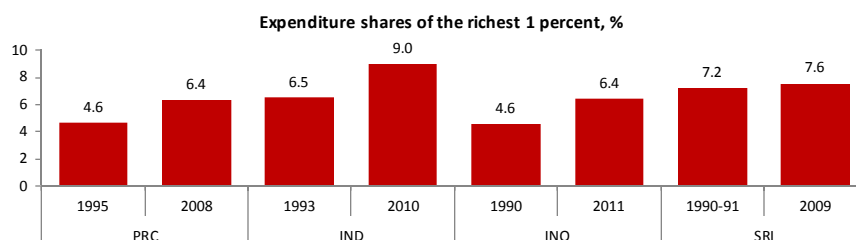
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## ... leading to widening gaps between rich and poor



Source: World Top Income Database



Source: ADB estimates using household survey data.

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## Why inequality matters?

- If inequality had been stable, additional 240 million (6.5% of Asia's population) would have been lifted out of poverty
- Inequality can weaken the basis of growth itself by:
  - leading to a waste of human capital
  - undermining social cohesion
  - hollowing out the middle class
  - worsening the quality of governance
  - increasing pressure for inefficient populist policies

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## Drivers of rising inequality

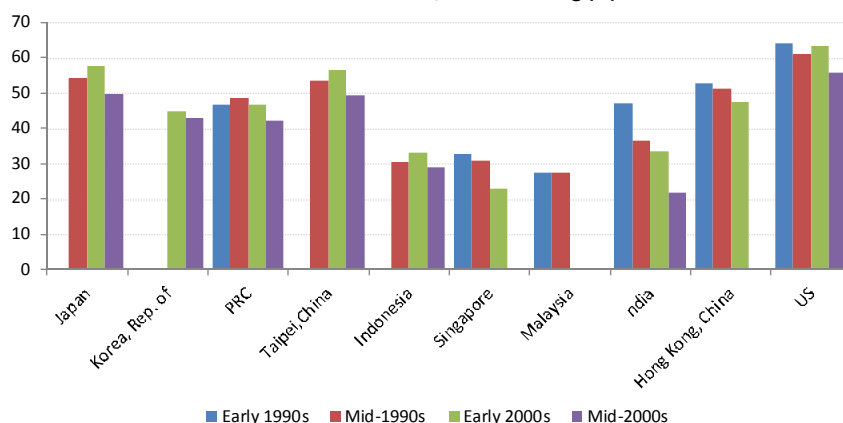
- Technological progress, globalization, market-oriented reform have created enormous new opportunities, but working together they have favored:
  - capital over labor
  - skilled over unskilled workers
  - cities/coastal regions over rural/inland areas
- These impacts have been compounded by unequal access to opportunity due to weaknesses in governance and social exclusion.

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## Share of labor income declined, and of capital income— which is more unequal—increased.

Labor Income Share, Manufacturing (%)



Sources: OECD Stat database; Felipe and Sipin (2004); Bai and Qian (2009); Felipe and Kumar (2010).

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## Skill premium is rising.

Income inequality decomposition by educational attainment of household head

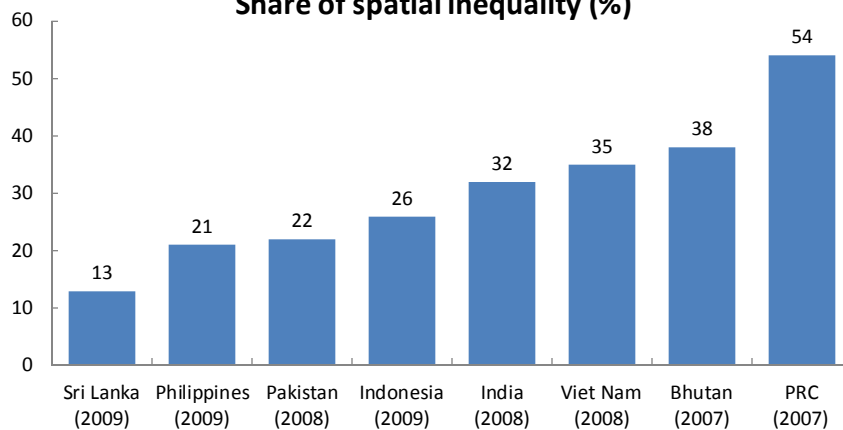


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## In some countries, spatial inequality—urban-rural and inter-province combined—accounts for a large share of total inequality

Share of spatial inequality (%)



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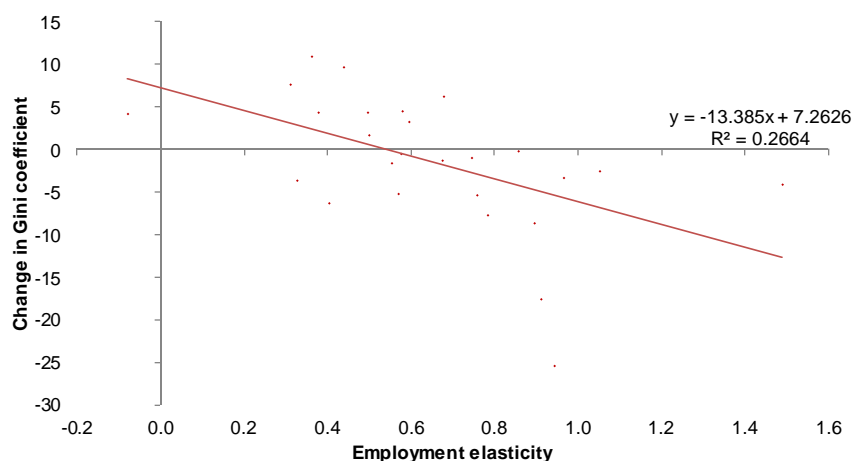
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- Response to rising inequality: Three drivers of growth cannot be hindered.
- But policy makers should act to address rising inequality through
  - Job creation and labor market reform
  - Fiscal measures to reduce inequality in human capital
  - Interventions to reduce spatial inequality
  - Reducing inequality in opportunity

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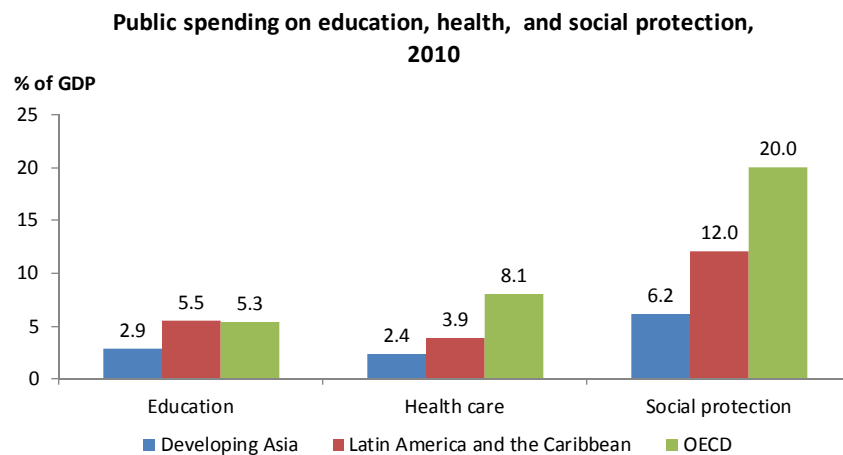
**Higher employment elasticity of growth is associated with lower increase or larger reduction in inequality**



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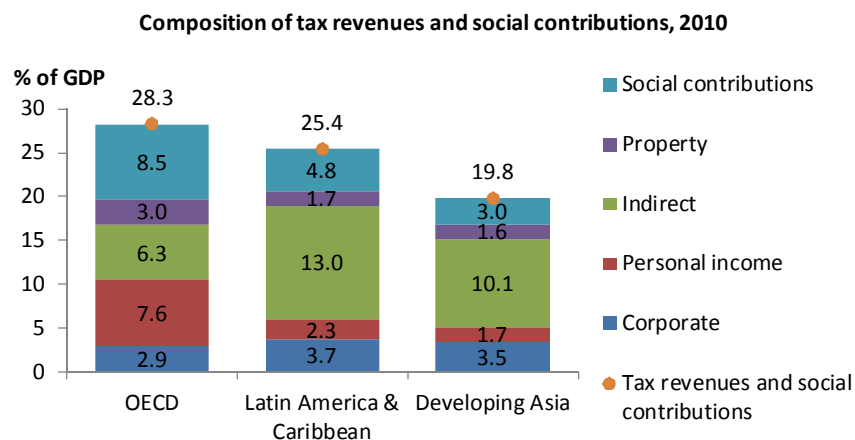
## Asia has scope to spend more on equity-promoting programs...



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## ...Asia must also strengthen the revenue side for fiscal sustainability



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## More broadly, we need inclusive growth: growth coupled with equality of opportunity

Figure 1 Policy Pillars of Inclusive Growth



Source: Adapted from Zhuang (2010).

# Thank you!

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