

# **Inclusive Growth in Asia: Trends and Issues**

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## **Presenters**

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*Inclusive Growth in Asia: Trends and Issues*

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*Hyun H. Son:* My name is Hyun H. Son from the Independent Evaluation Department of ADB. I am based in Manila.

Inclusive growth is a relatively new concept in the field of development, as you know. In recent years several definitions have been proposed by the Indian Planning Commission, World Bank, African Development Bank, IMF and ADB.

But there is no great single definition of inclusive growth. I think inclusive growth is a multidimensional concept. And it is also, by many concepts, looking at change over time. We are not talking about level. I think what is important is the pattern of growth that matters most for inclusive growth. And to foster inclusive growth, economic growth needs to be sustained to help increase the average living standard for greater income and consumption; that is the first objective.

And second, how inclusive growth is depends on whether growth is accompanied by poverty reduction. That is another important element of inclusive growth. And, third: growth that is inclusive needs to be broad-based, reaching as many segments of the population as possible while protecting the vulnerable and the poor. So in essence we are talking about reducing inequality.

I think there is a difference between pro-poor growth and inclusive growth. When we talk about pro-poor growth we are actually focusing on the inequality component that has direct impact on the poor. But inclusive growth, when we talk about inclusive growth, it talks about all segments of the population. We are

covering all sections of this society. So that is the difference between pro-poor growth and inclusive growth.

And then fourth: inclusive growth encompasses access to health, education, employment opportunities, which help to level the playing field for all segments of the population in enhancing well-being. These four social objectives which I call our means to achieving social wellbeing, where social wellbeing can be defined by Sen's functioning and capabilities.

So according to Sen functionings are directly related to what kind of life people actually lead, whereas capabilities are concerned with the freedom people have in their choice of life. Anyway, we have a framework of inclusive growth. I think we need to sort out what are the means and what are the ends. I think that is very important.

These four social objectives are not independent of each other. And they interact with each other. There are tradeoffs between all of these four social objectives, and by looking at tradeoffs, how growth, poverty, and inequality, they interact with each other, then later on we make a judgment, to determine whether growth in Asia, or in a specific country, has been inclusive or not.

Let me talk about the measurement issue, some people are saying that we need to have one single index, like a composite index, human development index, like that, by collapsing all these four social objectives into a single indicator. And I'm not in favor of that approach. One reason for that is weight. I mean to come up with the composite index we have to assign specific weight to each of these social objectives. Whichever method I use there is always a debate on the weights, in the method I use.

Also I think that if each of these dimensions can be monitored separately, then why do we need the

composite index. And the main advantage of having a composite index is very simple and actually you can rank. So that's the only main advantage I can see. But in my view each of these four social objectives should be monitored separately and for each social objective we can have a separate indicator.

From now on I'm going to present just some results our independent evaluation department is working on, relating to the four social objectives which I just talked about. So for this presentation I focused on trying to find developing countries in Asia representing almost 2.9 billion in the 1990s and 3.4 billion in the 2000s.

So 25, this number of Asian countries selected for study, depends on the availability of data, largely household surveys. So this slide, what I want to say is the extent to which economic growth gets translated into improvements in average living standard in Asia is the point I'm trying to make. So what this table says is that population in Asia grew an annual rate of 1.2 percent in the 1990s, which slowed down to less than 1.0 percent in the 2000s, right?

And when you look at GDP, its economic growth was more than 9 percent in the 1990s, which reduced to say 8.2 percent in the 2000s. So we had enormous growth in GDP. And then when we look at household consumption actually its annual growth was about 5 to 6 percent in the last two decades. And after that I want to link how growth gets translated into average living standard. And actually the relationship I'm trying to look at is the relationship between GDP and household consumption. So, average living standard is measured here by household consumption.

What I'm talking about here is actually growth elasticity for consumption. That elasticity indicates the extent to

which economic growth gets converted to improving average living standard.

From this table what we can say is the following is true: outstanding performance in GDP growth is not translated into improvements in living standards to the same extent. We had more than 9 percent growth in GDP in the 1990s, but when I calculated the growth elasticity of consumption it was around 0.58 percent, meaning that 1 percent GDP, 1 percent growth in GDP gets converted to growth in household consumption by 0.58 percent, that's what it means. So we had outstanding growth in the 1990s, but its ability to translate to improvements in living standard was not that high.

And then also by interpreting the growth elasticity of consumption people tend to have the wrong perception that higher economic growth leads to higher living standard, but in the 1990s we had much higher growth than in 2000s, right. 9 percent versus 8.2 percent. But the growth elasticity of consumption was much lower in the 1990s than the following decade. So it's not necessary to have very high economic growth, to have a high average standard of living to the same extent. So what is important here is growth patterns, focusing on the translation of economic growth into improvements in average living standard.

Then sometimes we ask the question to what extent China contributes to Asia's outstanding performance in growth; that's the question we often ask. To answer that question I have excluded China from the 25 country sample, then I repeated this same exercise as Table 2, to see whether it makes a difference. And actually it made a difference. This is the result.

So the results say growth performance of China has been the main contributor to the outstanding economic growth in Asia during 1990s and 2000s.

And then the second social objective is poverty, and growth has to be accompanied with poverty reduction to achieve inclusive growth. So we look at this table -- this presents poverty estimates in Asia based on \$1 and \$2 a day poverty lines. What it says is there are two lessons emerging from this table.

The first one is Asia has made impressive progress in poverty reduction, but yet it still has the largest number of people living in absolute poverty. For instance if you look at the percentage of the poor, based on the \$1 a day poverty line it says almost 43 percent of the Asian population lived in absolute poverty in the 1990s, which reduced to around 24 percent in the following decade.

But if you look at poverty based on \$2 a day and we increase poverty line a little bit higher, then Asia's progress in poverty reduction has been less impressive. So it depends on which poverty line we are talking about. Then also this poverty measures – if you are wondering about, what this is. Percentage of poor is what we largely talk about, the proportion of the population living under the poverty line. And then as we move to the poverty gap and severity of poverty, we are giving more weight to the open end of the distribution; we are more concerned about the very extreme poor. So weights are increased as we move from percentage of growth into poverty gap and severity of poverty.

Let's skip this one.

Inclusive growth should be concerned about the effectiveness of growth in poverty reduction. And the degree of effectiveness of this may be measured by the growth elasticity of poverty, which is defined as the ratio of rate of poverty reduction to growth rate of GDP. This table presents growth elasticity of poverty for all

poverty measures based on both: \$1 and \$2 a day poverty lines.

There are two messages coming out of this table. The first one is -- let me interpret the one \_\_\_\_\_ to say minus 0.82 percentage of poor based on \$1 a day poverty line, right? So how do I interpret this one? This one says that 1 percent growth in GDP, reduced the percentage of extreme poor, 0.82 percent in the 1990s, but that corresponding elasticity became 1.37 in the 2000s, right? So it has become more effective, that's what it means.

So effectiveness of growth in poverty reduction in Asia has improved substantially in the 2000s compared to 1990s. So the result is the same for poverty, all poverty measures based on the \$2 a day poverty line. And then the second message is that economic growth is very active in lifting people from poverty. Which means that economic growth in Asia has been very effective in moving people across the poverty line. But it's not effective in reducing gaps for those who are not able to cross the poverty line. So that result emerges from the growth elasticity of poverty for poverty gap and severity of poverty. Those results are saying that. So it's very important message actually.

What it means is that economic growth alone is not much helpful in lifting the incomes of those extremely poor. I think -- I always say I'm not that much concerned about those who are crossing the poverty line -- up and down, up and down; we are saying that those are very \_\_\_\_\_. So if there are the shocks and people go up and down, up and down. I'm not that much concerned -- I'm not saying we should not help those people, we should help those people. But what I'm really concerned about is those who are actually stuck at the bottom of the distribution, the extremely poor. Those people we need, we actually need to support. We need to have very well-



designed safety net programs to help them to get out of that extreme poverty

So in Asia economic growth has been outstanding, but it's been very helpful for those people just below the poverty line, but growth was not that effective in helping those who are actually very poor, at the bottom of the distribution. That's what it means. In this case then governments need to have very well-designed safety net programs, very well targeted at those people, I think to help those who are very extremely poor, you need to have a very good targeting system behind then to identify those.

Then inequality. This inequality reducing growth insures that the benefits of economic growth are more equitably shared among the population. So I talked about the main difference between pro-poor growth and inclusive growth. So when you talk about inclusive growth actually we are covering all sections of society, including the poor.

This table -- what I'm trying to say is that we say -- people say that inequality in Asia has increased because 11 out of 28 countries in Asia experienced an increase in inequality, but that's not good enough. It's just counting how many countries experienced it. So what I'm doing here is that it's \_\_\_\_\_ the results to test that argument actually. I have 171 \_\_\_\_\_, and then I took into account the country fixed \_\_\_\_\_ and \_\_\_\_\_ and then I actually looked at it to see if inequality in Asia has worsened between '90 to 2010.

Take a look at the last column of the top panel. The asterisk means that it is statistically significant. So when you look at two decades as a whole yes, inequality in Asia has worsened significantly; it has worsened. But it was mainly contributed to by significant increase in the '90s, not much in the 2000s. In 2000 yes, inequality

increased but statistical significance disappears. So we cannot say that with statistical confidence.

And then what about the contribution of China? So I excluded China from the sample, to see whether we get the same results. And if we look at the last column of the bottom panel it says that yes, inequality increases. Sign is right at the \_\_\_\_\_ but there is no statistical significance when we exclude China. So it's difficult to say that. So when we say okay, inequality in Asia has increased in the last two decades then we are talking about the top panel, the last column.

And then inequality of opportunity -- I'm talking about the fourth social objective: broadening access to economic opportunities. Inequality is usually measured in terms of income or consumption. But the concept is now being extended to cover many other dimensions of living standard such as inequality of outcomes in health, education, and basic infrastructure.

So governments usually provide opportunities in education, health, security, and the basic infrastructure, among others. But not all citizens are able to avail those basic opportunities. So I think it is very important to understand the inequality of opportunities and these basic opportunities prior to designing policies in the universal provision of these basic opportunities.

What I have done, what ADB has done -- I included some graphs, but anyway, the inequality of opportunity is measured by the human opportunity index proposed by the World Bank. Actually it's a composite index of two factors. One is average opportunity available to the population and then the other factor is the distribution of opportunities. And it looks at how equitably a given opportunity is distributed across population.

So we looked at this opportunity index for primary and secondary education, and then access to safe water and

sanitation, and then also access to electricity. The findings are as follows:

For primary and secondary education, the results show that countries in the region face greater challenges in ensuring that all children age 12 to 17, secondary school age, attended school, then ensuring all children of primary school age attended school. This is somewhat expected.

The opportunity costs of sending children to school are higher at the secondary level than at the primary level. But that is expected. But it has some implications for programs like CCT programs. What it means is that if the main objective of CCT is to increase the enrollment rate then it is better, it is more effective to target older children, that's what it means.

In the Philippines, they have this CCT program called \_\_\_\_\_ so what they think, the World Bank has done an Impact Evaluation study. And it came up with saying that, okay, it succeeded in increasing enrollment rates and it actually improved some health indicators as well. But it didn't increase -- it did not contribute to significant reduction in poverty; that's what they came up with.

So I think now they are looking at actually test targeting these older children, or giving more money to these older children. But when the program was introduced in 2008 I did some assumptive analysis. There I think this targeting scenario simulation, so one of targeting scenario simulations was, you increase the benefit by ten percent as the child's age goes up by one year because it -- the government provides free education to children.

But there are other costs involved in sending children to school too: lunch and transportation costs -- it is very costly. So it's not just that you provide education, they use it, but some people are not actually able to use that opportunity. That's where this CCT program comes in.

Because the CCT program is designed to address the non-\_\_\_\_\_ constraints, given the supply-side constraints are addressed, right?

So I think it is very -- it is really worthwhile, giving more transfers to older children because it's more costly and also there are higher opportunity costs of sending children to school at the secondary level.

*Male Speaker:*

You have about one minute to finish up.

So when you look at inequality of opportunity in access to basic services they tend to perform much poorer than access to basic services. So Asia has a greater challenge in providing basic services than providing basic education.

And then poverty reduction in terms of inclusive growth. I mean jobs. \_\_\_\_\_ there many concerns in every developing country, not only developing country but most countries in the world at the moment is jobless growth. So to promote growth we need growth with jobs, right? So I think a key challenge for most developing Asian countries is to facilitate the process of the structural transformation to transfer large amounts of rural agriculture \_\_\_\_\_ labor to urban manufacturing and services sectors where most of the potentially productive jobs will be created. So for that to happen we need a business environment that is more conducive to growth and we need to have a good infrastructure, especially electricity, and good roads. And then we need to reduce regulatory burdens on enterprises or industry and we have a bunch of challenges to meet. And then sometimes we need public employment schemes to decrease unemployment and underemployment. I would say these kinds of schemes are actually temporary.

For instance, in Korea, during the Asian Financial Crisis, they quickly introduced a public works program. I think it is temporary but it worked very well. So the problem with the government is that when the crisis happens that

they start thinking about it. These social safety nets, emergency schemes, I mean the governments have to think through a long time before. So when the crisis comes and then response has to be very quick and prompt; it should be right, you know?

And then we have this -- in India -- this rural employment agri scheme but it more -- it has different nature. And then -- this is skills development, I mean in Asia the labor force is too highly educated, I mean a bunch of people are coming out of university degrees but the labor market is not that academic enough to absorb the new entrants to the labor market. So what are you going to do with all those skilled labor? So not only producing skilled labor is important, how we utilize those skills is very important. So that is some of the challenges.

*Male Speaker:* I'm afraid we have to stop because we're really running late already.

*Hyun H. Son:* Yeah, so just some policies regarding fiscal policies and social production policies but during discussion we can, if issues are discussed we can talk about. Thank you.  
[Applause].

*Male Speaker:* Just a reminder: we talked about how all the presentations are going to be online; you will have access to them. So the full presentation will be available to people to go back and look into.

We've got about five minutes to ask any specific questions or make a very quick comment. Anything from anybody?

*Audience:* I have just one comment on your statement that people far below the poverty line are not doing so well. I don't see your evidence for that. The severity of poverty is dropping, poverty gaps are falling, and I don't see any evidence about the ultra poor, or people who are unusually poor. And so what's the -- you have the basis

for most of your statements in here, are in your tables. But I don't see your basis for this one.

*Hyun H. Son:* You know that one of the tables showed that the growth elasticity of poverty for poverty gap ratio and severity poverty, those elasticities are much larger than elasticity for head count ratio. So the way that elasticity measured is that one component is lifting people out of poverty, and then the other component is actually reducing income gaps among those who are unable to cross. The first component was much larger than the second component. So the argument I made was based on that.

*Male Speaker:* Any other questions?

*Bob Burkeness:* Thanks Michael. Bob Burkeness from RDMA program office. I have a question about on the policy side if we were looking at regional institutions like ASEAN or APAC what would we tell them? What would we like to see? How would we like to see their policies be aligned with your recommendations to be more aligned with inclusive growth?

*Hyun H. Son:* I was talking about this other growth with jobs. There are many elements which are relevant to many of the countries in Asia. And then when you look at also, government spending on health and education, the spending has to be greater and better to promote coverage and equitable access to these basic services. If you look at government spending on healthy in Asia, say in like late 2000s it was less than five percent as compared to OECD averages of 9.4 percent. And then also if you look at spending on education in Asia, Asian governments spend less than 4percent. But if you look at OECD's average it is about 5.4 percent. So Asian governments spend much less on health than education. Also they need to have -- governments should spend more, and not only more actually it should be spent much more effectively.

And then to finance those services then this revenue mobilization is very important. And also in tax reform is undergoing in many governments in Asia. So to make distribution more equitable, you need to have a very good federal designed tax policy reforms. And in Asia the problem with tax revenue is largely relied on this indirect taxes which is regressive by nature. So to be able to make indirect tax system more equitable, it is very important to know the consumption patterns of the people. There are certain items that are consumed largely by the poor should be exempt from the indirect taxes. So there are lots of issues we can think about.

*Male Speaker:* Thank you very much for your presentation.

*[End of Audio]*