

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

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# What is Inclusive Growth?

- No agreed, single definition of inclusive growth
- Inclusive growth is a multidimensional concept and can thus be defined by social objectives: (i) sustained economic growth; (ii) poverty reduction; (iii) inequality reduction; and (iv) broadening opportunities.
- These social objectives are means to achieving social well-being defined by Sen in terms of functioning and capabilities.
- On their own, these social objectives also have intrinsic values.

# Aggregate Indicators for Living Standards in Asia

**Table 1: Aggregate indicators of average standards of living in Asia**

	<b>1990s (1990-1999)</b>	<b>2000s (2000-2010)</b>
<b>Number of countries</b>	<b>25</b>	<b>25</b>
<b>Number of spells</b>	<b>64</b>	<b>107</b>
<b>Population (in billion)</b>	<b>2.87</b>	<b>3.35</b>
<b>GDP (in \$PPP trillion)</b>	<b>5.50</b>	<b>12.70</b>
<b>Per capita GDP (in \$PPP per year)</b>	<b>1917</b>	<b>3792</b>
<b>Household consumption (in \$PPP trillion)</b>	<b>1.95</b>	<b>3.79</b>
<b>Per capita household consumption (in \$PPP per year)</b>	<b>681</b>	<b>1132</b>
<b>Household consumption as a share of GDP (%)</b>	<b>35.55</b>	<b>29.84</b>

Source: Author's calculations.

# Economic Growth Rates in Asia

**Table 2: Annual growth rates of indicators of average standard of living in Asia**

	<b>1990s (1990-1999)</b>	<b>2000s (2000-2010)</b>
<b>Population</b>	<b>1.20</b>	<b>0.97</b>
<b>Gross Domestic Product</b>	<b>9.03</b>	<b>8.19</b>
<b>Per capita Gross Domestic Product</b>	<b>7.83</b>	<b>7.22</b>
<b>Household consumption</b>	<b>5.72</b>	<b>5.54</b>
<b>Per capita household consumption</b>	<b>4.52</b>	<b>4.57</b>

Source: Author's calculations.

# Contribution of People's Republic of China to Asia's Growth Performance

- \* **PRC's growth performance of PRC has been the main contributor to the stellar economic growth in Asia during the 1990s and 2000s.**
- \* **Without PRC, Asia's growth could still be deemed high and sustained but it would not be as remarkable as it was over the past two decades.**

**Table 3: Annual growth rates of indicators of average standard of living in Asia, excluding PRC**

	<b>1990s (1990-1999)</b>	<b>2000s (2000-2010)</b>
<b>Population</b>	1.70	1.33
<b>Gross Domestic Product</b>	4.30	6.27
<b>Per capita Gross Domestic Product</b>	2.60	4.94
<b>Household consumption</b>	4.56	4.00
<b>Per capita household consumption</b>	2.86	2.67

Source: Author's calculations.

# Poverty in Asia

- \* By international standards, Asia does suffer from severe poverty and is still home to the largest number of people living in absolute poverty.**
- \* However, Asia has made impressive progress in reducing its poverty.**

**Table 4: Average poverty estimates in Asia**

	<b>1990s (1990-1999)</b>	<b>2000s (2000-2010)</b>
<b><i>\$1.25-a-day poverty line</i></b>		
<b>% of poor</b>	<b>42.96</b>	<b>23.50</b>
<b>Number of poor (billion)</b>	<b>1.23</b>	<b>0.79</b>
<b>Poverty gap</b>	<b>13.92</b>	<b>5.83</b>
<b>Severity of poverty</b>	<b>6.19</b>	<b>2.06</b>
<b>Cost of eliminating poverty (billion \$)</b>	<b>182.19</b>	<b>89.08</b>
<b>Potential to eliminate poverty (% of GDP)</b>	<b>3.31</b>	<b>0.70</b>
<b>Annual cost of lifting a person out of poverty</b>	<b>147.87</b>	<b>113.16</b>
<b><i>\$2-a-day poverty line</i></b>		
<b>% of poor</b>	<b>69.66</b>	<b>48.27</b>
<b>Number of poor (billion)</b>	<b>2.00</b>	<b>1.62</b>
<b>Poverty gap</b>	<b>30.04</b>	<b>17.12</b>
<b>Severity of poverty</b>	<b>16.12</b>	<b>7.88</b>
<b>Cost of eliminating poverty (billion \$)</b>	<b>628.96</b>	<b>418.76</b>
<b>Potential to eliminate poverty (% of GDP)</b>	<b>11.44</b>	<b>3.30</b>
<b>Annual cost of lifting a person out of poverty</b>	<b>314.78</b>	<b>258.97</b>



# Asia's Performance in Poverty Reduction

- \* **The pattern of poverty reduction in Asia is lifting a great number of poor out of poverty, but not improving the average standard of living of those who are unable to escape poverty.**
- \* **Asia's growth pattern is not much helping those who may be called ultra-poor or those poor whose income is far below the absolute poverty line.**

## Table 5: Annual growth rates of poverty in Asia

	1990s (1990-1999)	2000s (2000-2010)
<i>\$1.25-a-day poverty line</i>		
% of poor	<b>-7.36</b>	<b>-11.24</b>
Number of poor (billion)	<b>-6.16</b>	<b>-10.27</b>
Poverty gap	<b>-8.71</b>	<b>-12.40</b>
Severity of poverty	<b>-9.40</b>	<b>-12.65</b>
<i>\$2-a-day poverty line</i>		
% of poor	<b>-4.11</b>	<b>-8.36</b>
Number of poor (billion)	<b>-2.91</b>	<b>-7.39</b>
Poverty gap	<b>-6.28</b>	<b>-10.29</b>
Severity of poverty	<b>-7.47</b>	<b>-11.22</b>

Source: Author's calculations

# How Effective Is Economic Growth in Reducing Poverty?

- \* **Inclusive growth should be concerned with the effectiveness of growth in reducing poverty (EGRP).**
- \* **Since an increase in GDP provides additional output to people's material consumption, the degree of its effectiveness may be measured by the growth elasticity of poverty (defined as the ratio of rate of poverty reduction to growth rate of GDP).**

**Table 6: Effectiveness of economic growth in reducing poverty in Asia**

	<b>1990s (1990-1999)</b>	<b>2000s (2000-2010)</b>
<b><i>\$1.25-a-day poverty line</i></b>		
<b>% of poor</b>	<b>-0.82</b>	<b>-1.37</b>
<b>Number of poor (billion)</b>	<b>-0.68</b>	<b>-1.25</b>
<b>Poverty gap</b>	<b>-0.96</b>	<b>-1.51</b>
<b>Severity of poverty</b>	<b>-1.04</b>	<b>-1.54</b>
<b><i>\$2-a-day poverty line</i></b>		
<b>% of poor</b>	<b>-0.46</b>	<b>-1.02</b>
<b>Number of poor (billion)</b>	<b>-0.32</b>	<b>-0.90</b>
<b>Poverty gap</b>	<b>-0.70</b>	<b>-1.26</b>
<b>Severity of poverty</b>	<b>-0.83</b>	<b>-1.37</b>

Source: Author's calculations

# Trends in Inequality

- \* **Inequality-reducing growth ensures that benefits of economic growth are more equitably shared among the population.**
- \* **Reducing inequality should clearly be a social objective to achieve inclusive growth.**

**Table 7: Annual growth rates of inequality in Asia, weighted by population**

	1990s (1990-1999)	2000s (2000-2010)	1990-2010
<b>Gini index</b>	1.22*	0.44	1.04*
<b>Atkinson index</b>	2.04*	0.73	1.84*
<b>Quintile index</b>	1.03*	0.37*	0.62*

\* With a significant increase or decrease in inequality at the 5% level of significance.

Source: Author's calculations

**Table 8: Annual growth rates of inequality in Asia, excluding PRC**

	1990s (1990-1999)	2000s (2000-2010)	1990-2010
<b>Gini index</b>	-0.11	-0.11	0.31
<b>Atkinson index</b>	-0.08	-0.23	0.59
<b>Quintile index</b>	-0.26	0.05	0.19

\* With a significant increase or decrease in inequality at the 5% level of significance.

Source: Author's calculations

# Inequality of Opportunity in Asia

- \* **A just, inclusive society is one that provides equal opportunity to all. Aside from addressing inequality of outcomes in terms of income, policy-making has also now largely focused on dealing with inequality of opportunity, i.e. disparities in non-income dimensions of living standards such as health and education.**
- \* **In some Asian countries, inequality of opportunity remains a challenge as seen in unequal access to basic services including education, safe water and sanitation, and electricity.**

# Inequality of Opportunity in Asia

- \* **Inequality of opportunity arises from disparities due to circumstance variables, or factors over which an individual has no control (i.e. gender, race, ethnicity).**
- \* **In Asia, circumstance variables including household expenditure and location of residence in rural or urban areas were found to be crucial in influencing access to education and basic infrastructure.**



# Inequality of Opportunity in Asia

- \* **Inequality of opportunity in Asia remains a challenge in promoting inclusive growth in the region. How can inequality of opportunity in Asia be addressed?**
  - **Bolster the demand side of the provision of education and basic infrastructure – e.g., CCT**
  - **Compensate for the lack of demand and incentive to provide basic infrastructure services in rural areas – e.g., subsidies to rural communities**
  - **Decentralize to improve the delivery of basic services**

# Policy Responses toward Inclusive Growth

## \* Policies for Promoting Growth with Jobs

- structural transformation for job generation, and balancing sector composition of growth
- public employment schemes to address unemployment and underemployment
- Promoting skills development through e.g. support for technical and vocational education
- Removal of labor market restrictions e.g. gender bias to ensure equality of employment opportunities

# Policy Responses toward Inclusive Growth

## \* Fiscal Policies

- Better spending on health and education to bolster coverage and equity in access to these basic social services
- Fiscal transfers to impoverished areas
- To help narrow the urban-rural divide, improve transportation and communication networks.
- More equitable revenue mobilization

# Policy Responses toward Inclusive Growth

## \* **Social Protection Policies**

- focused on skills and capabilities rather than on compensating taxes and transfers
- covering appropriate pension and safety net schemes to assist marginalized groups such as elderly or disabled
- Needs to be well targeted to minimize leakage



**Thank you!**