



How to achieve sustainable growth in Asia

“Asia and Europe in Times of Global Changes”

Asia-Europe Economic Forum

Berlin, May 2014

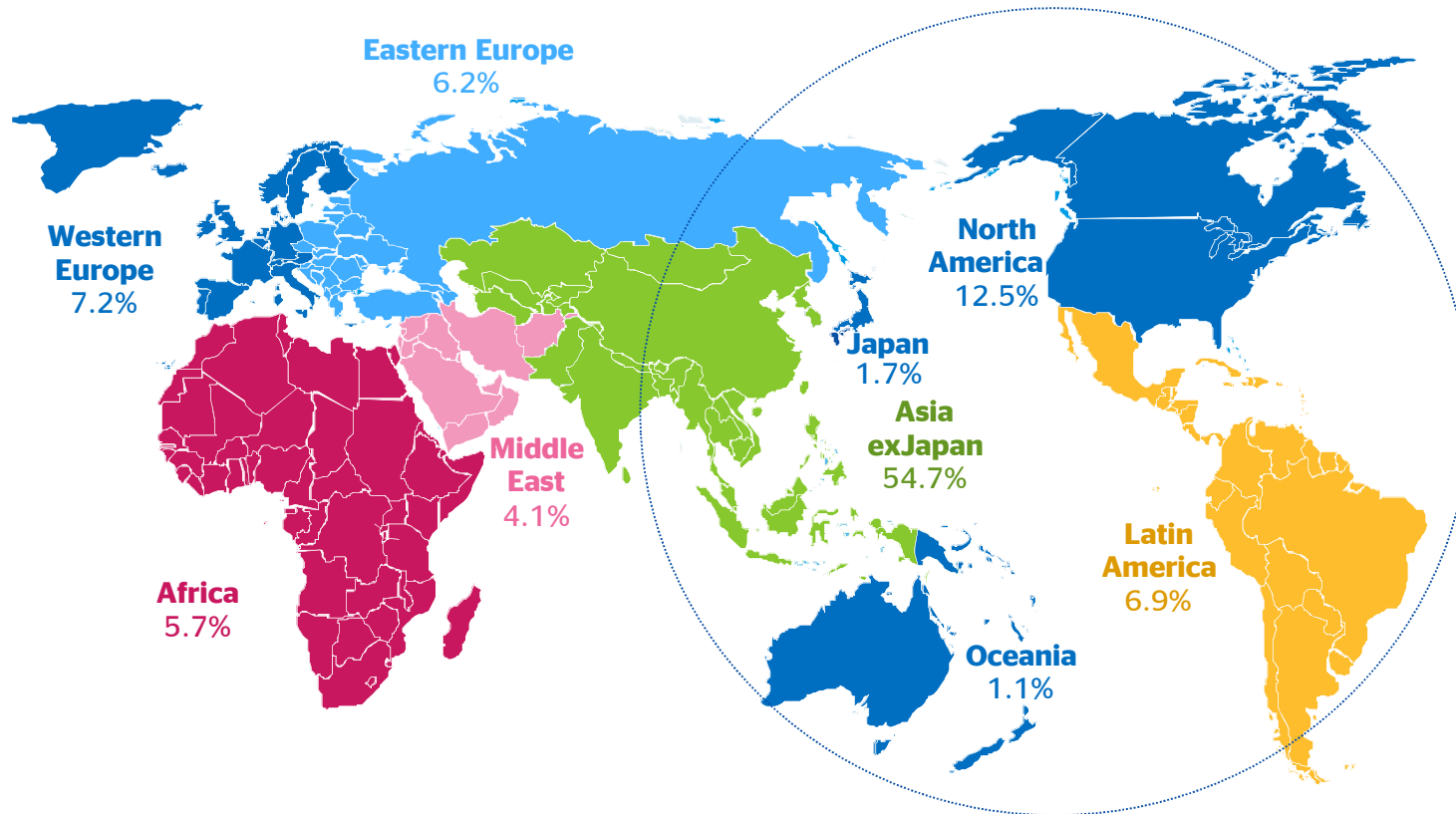
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Emerging Asia to dominate world growth in following decades: key for global stability

Expected contribution to global growth in the next ten years (%)

Source: BBVA Research, IMF

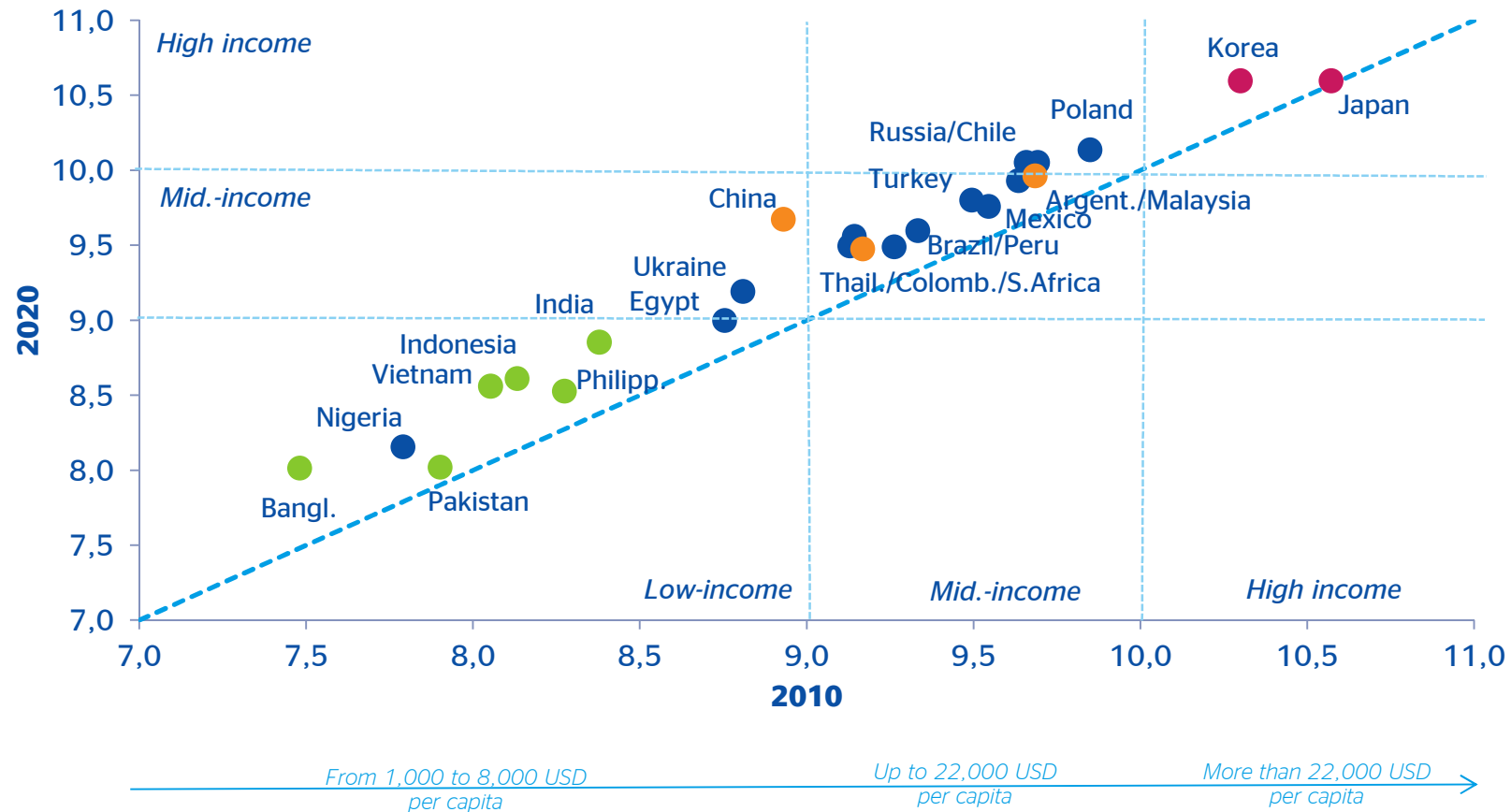




Development transition is heterogeneous among Asian countries...

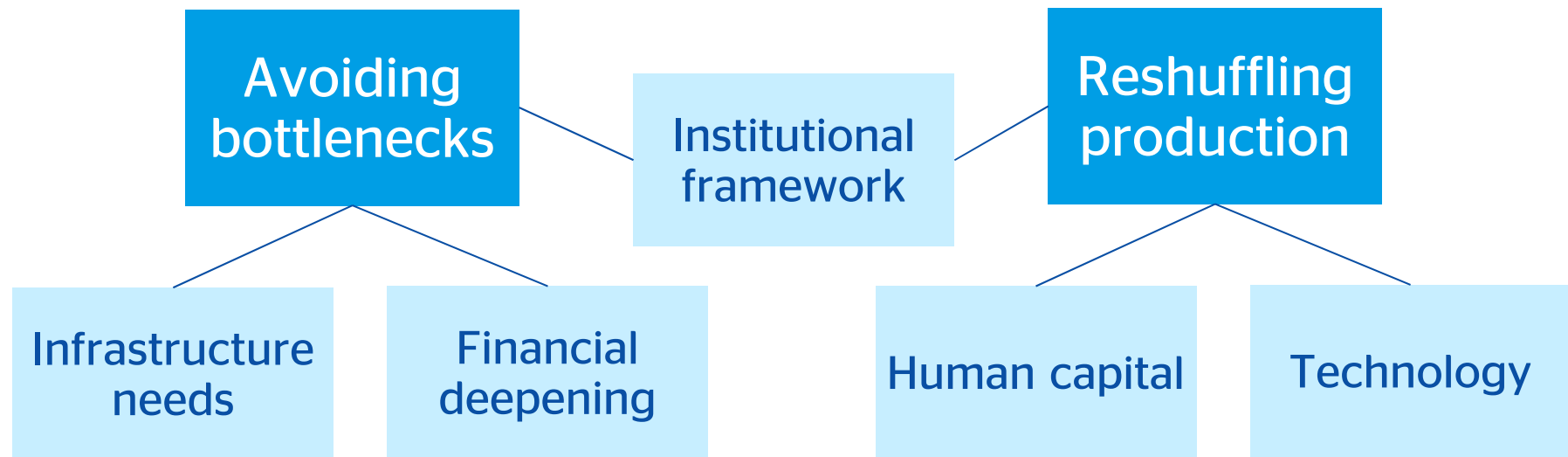
Income transition between 2010 and 2020

(GDP per capita in natural logs)
Source: BBVA Research, Haver



Asia must search for new growth sources...

Even though the pace is not homogenous, population premium is fading away across the board of Asia...

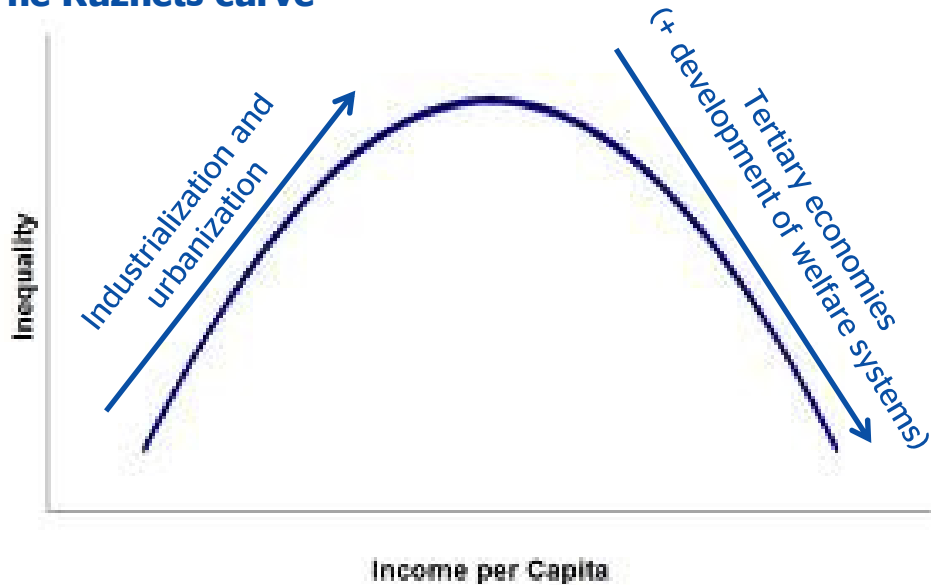


...but let me address it through inequality issues



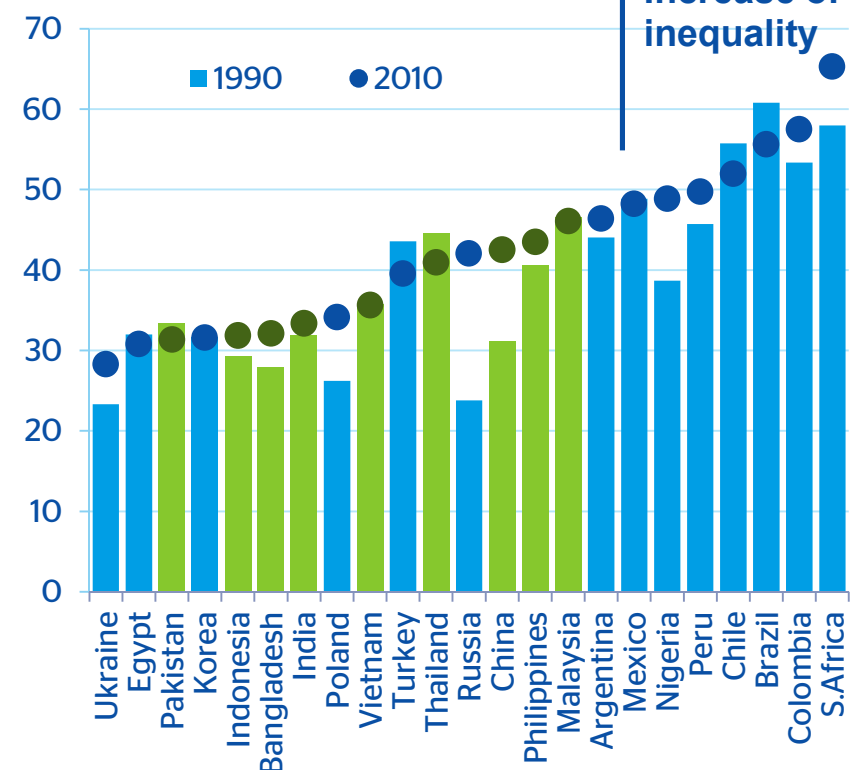
Inequality is a by-product of rapid growth at early stages of development

The Kuznets curve



Gini index in the 90s and 00s*

Source: BBVA Research, WB, OECD



*As continuous data for the Gini index is not available, averages are computed around the starting (1986-1990) and ending point (2006-2010)

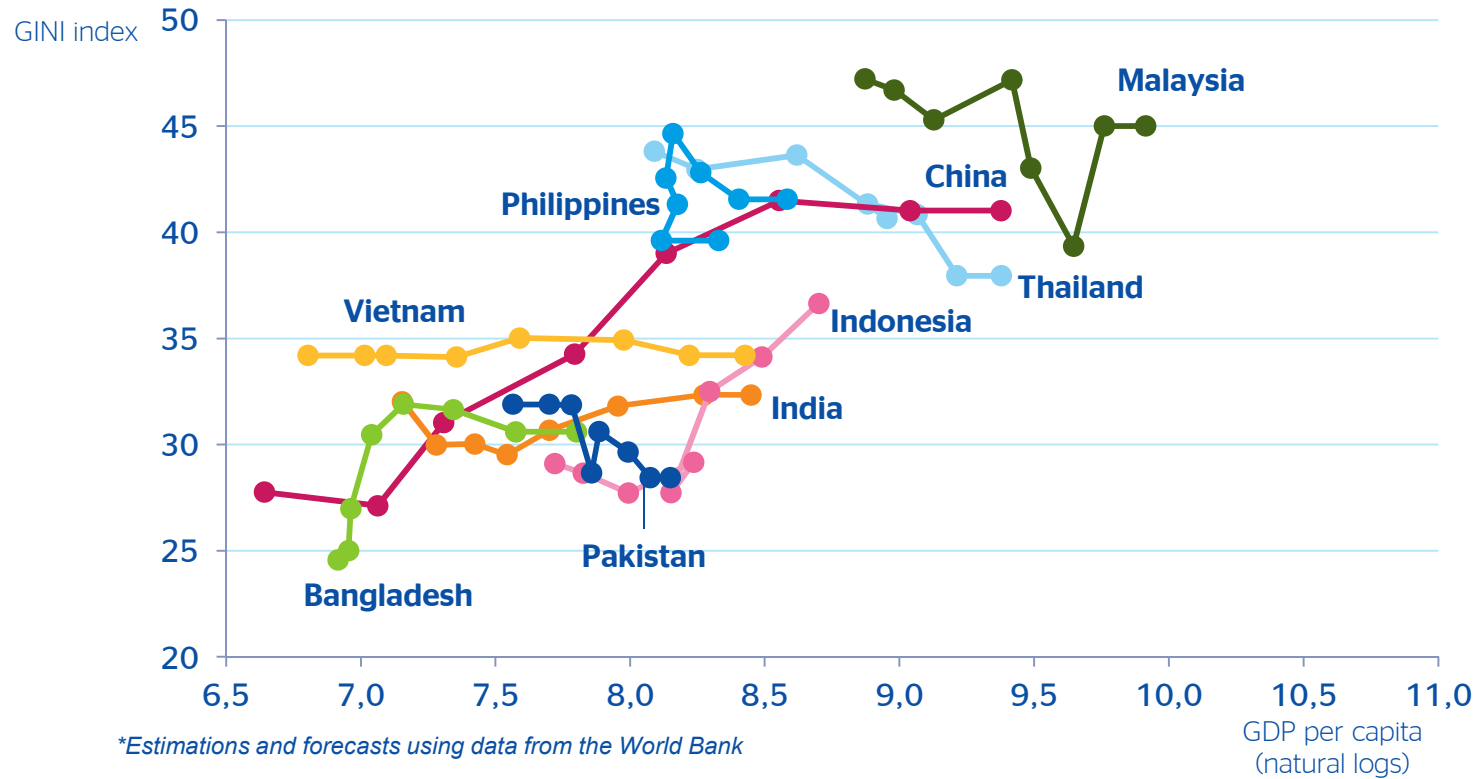
Read more at: "Inclusive growth in emerging markets? Rapid poverty reduction but increasing inequality"
http://www.bbva.com/KETD/fbin/mult/130107_EW_EAGLEs_Inclusive_Growth_tcm348-364126.pdf?ts=1292013



Should we expect further inequality increases in Asia as development continues?

GDP per capita (constant PPP-adjusted USD) and GINI index* (1980-today)

Source: BBVA Research, UN



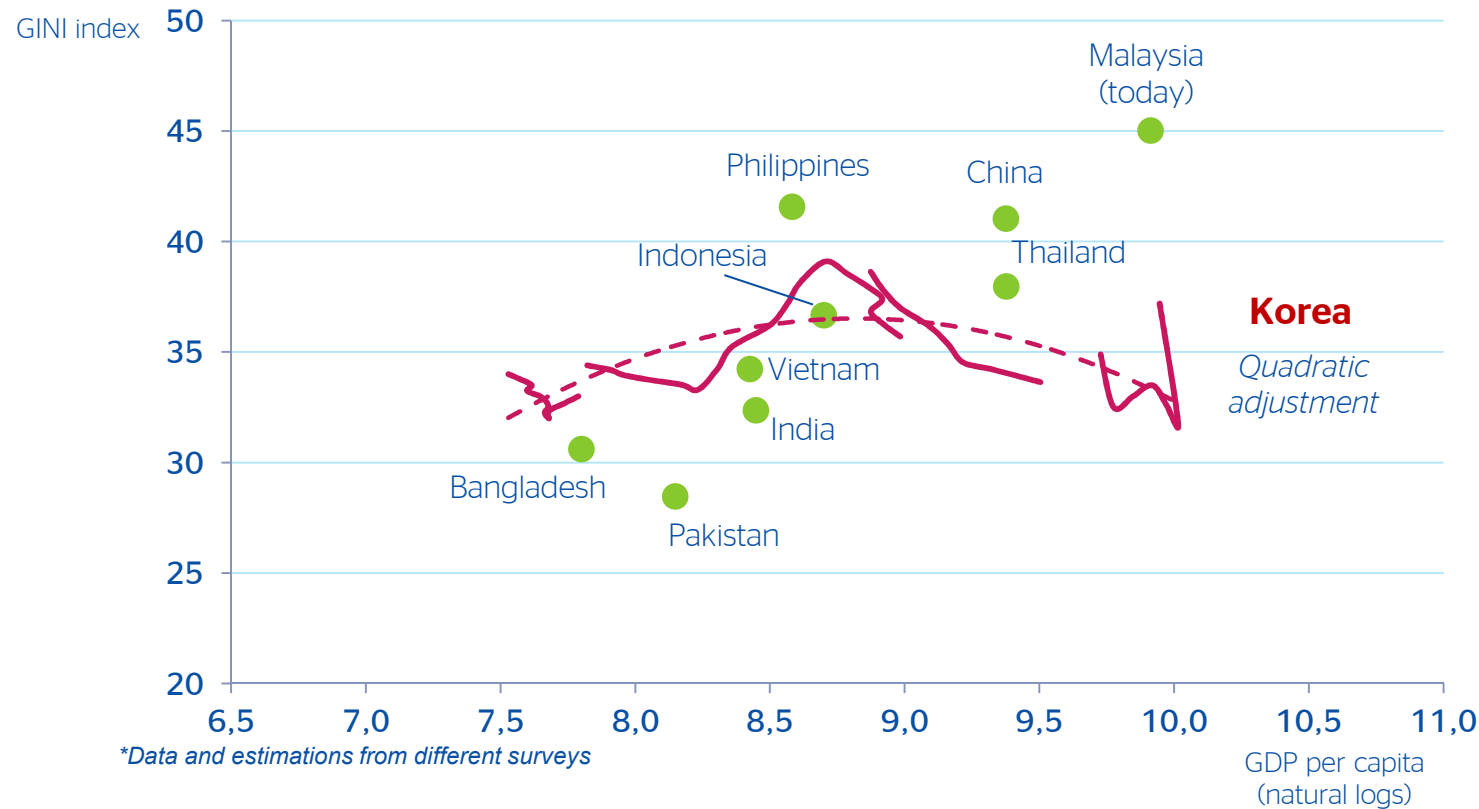
*Estimations and forecasts using data from the World Bank



Korea's experience shows that upward trends of inequality can be reverted at some point,...

GDP per capita (constant PPP-adjusted USD) and GINI index in Korea* (1953-1997)

Source: BBVA Research, UNU-WIDER

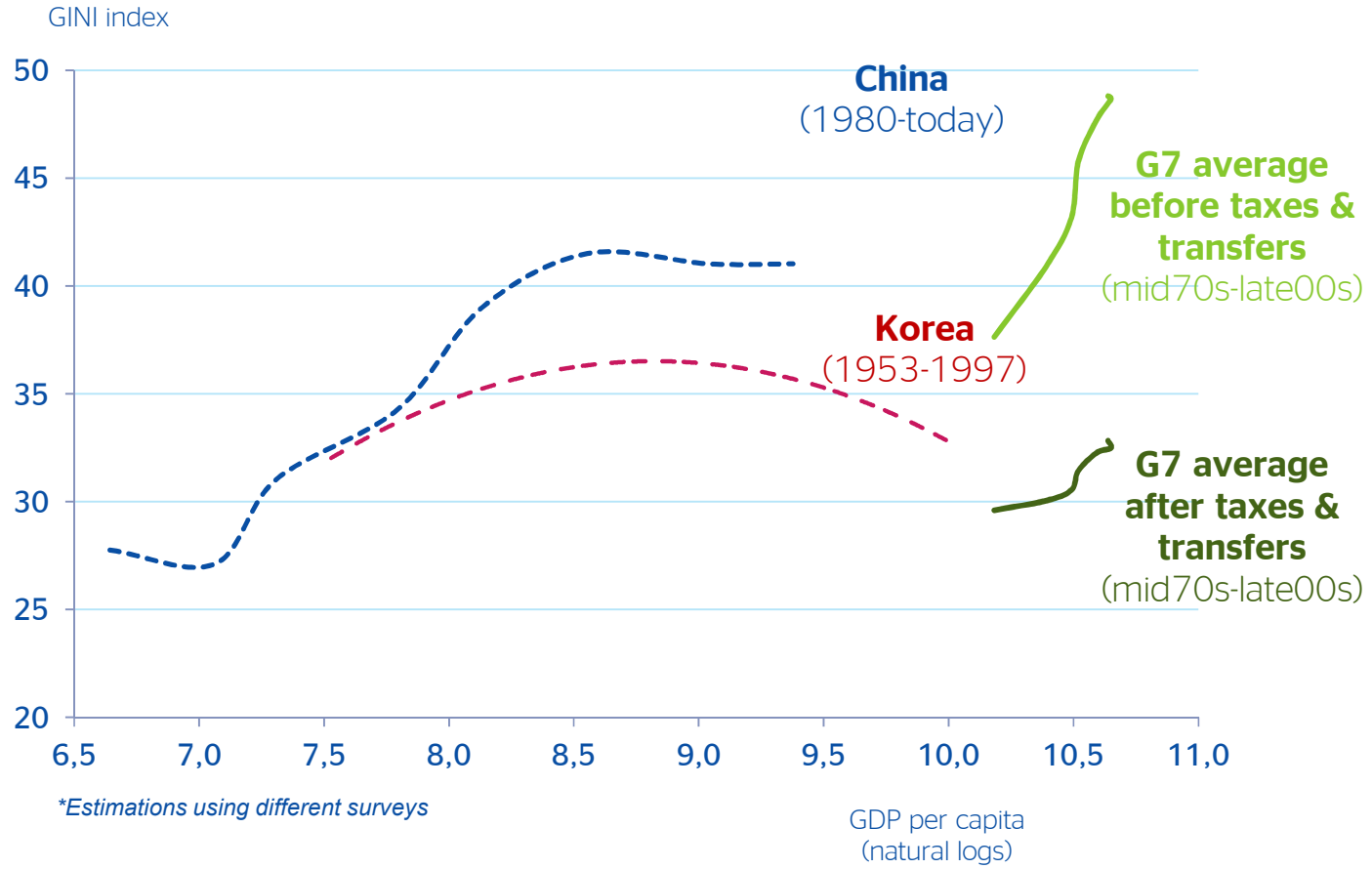




....but there is also evidence that the expected inverted “U” can turn into a “N-shaped” curve

GDP per capita (constant PPP-adjusted USD) and GINI index for selected regions and periods

Source: BBVA Research, UNU-WIDER, OECD



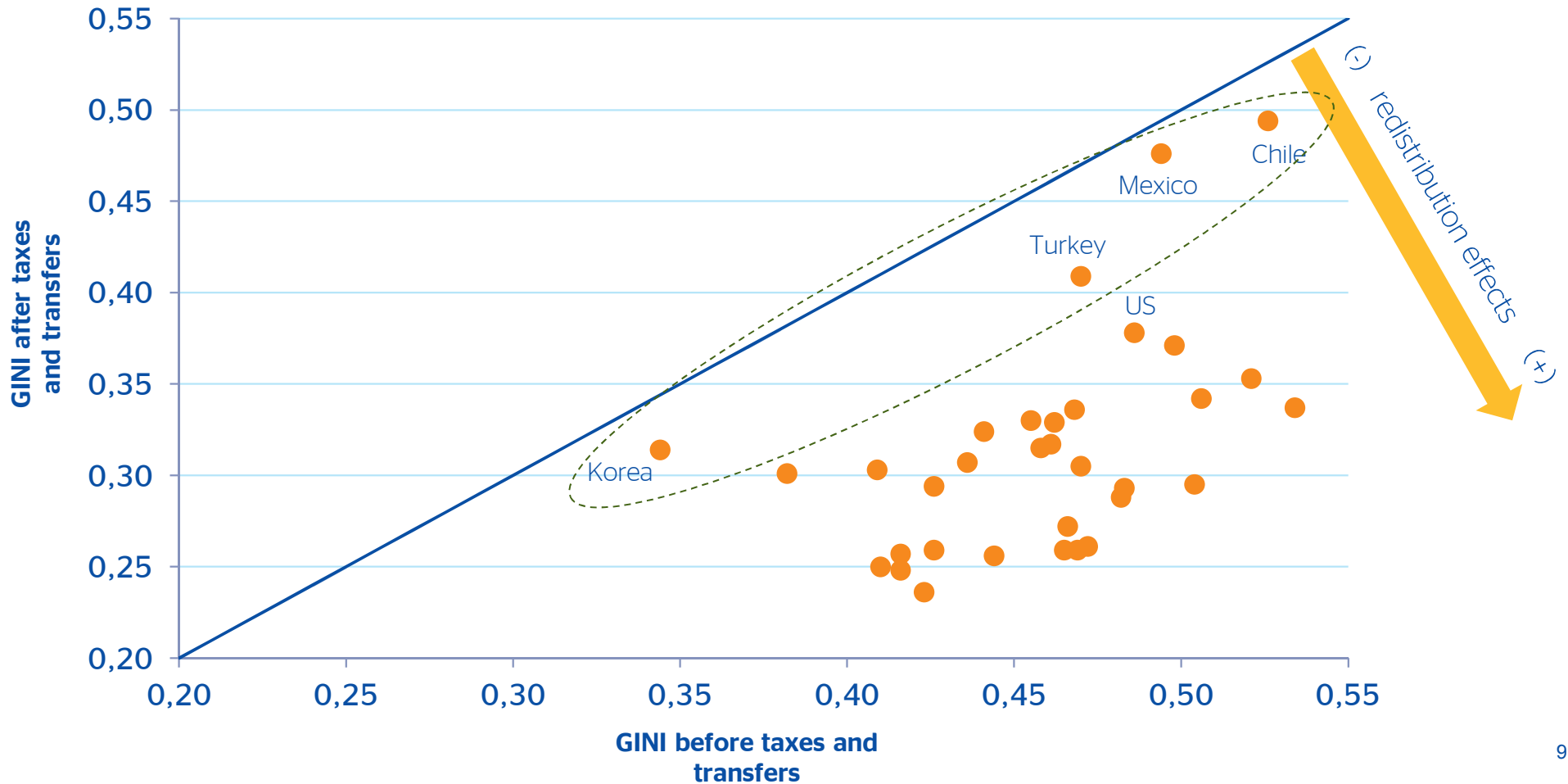
*Estimations using different surveys



However, redistribution policies could help to soften inequalities in emerging economies

GINI index in OECD countries before and after taxes & transfers (late 00s)

Source: OECD

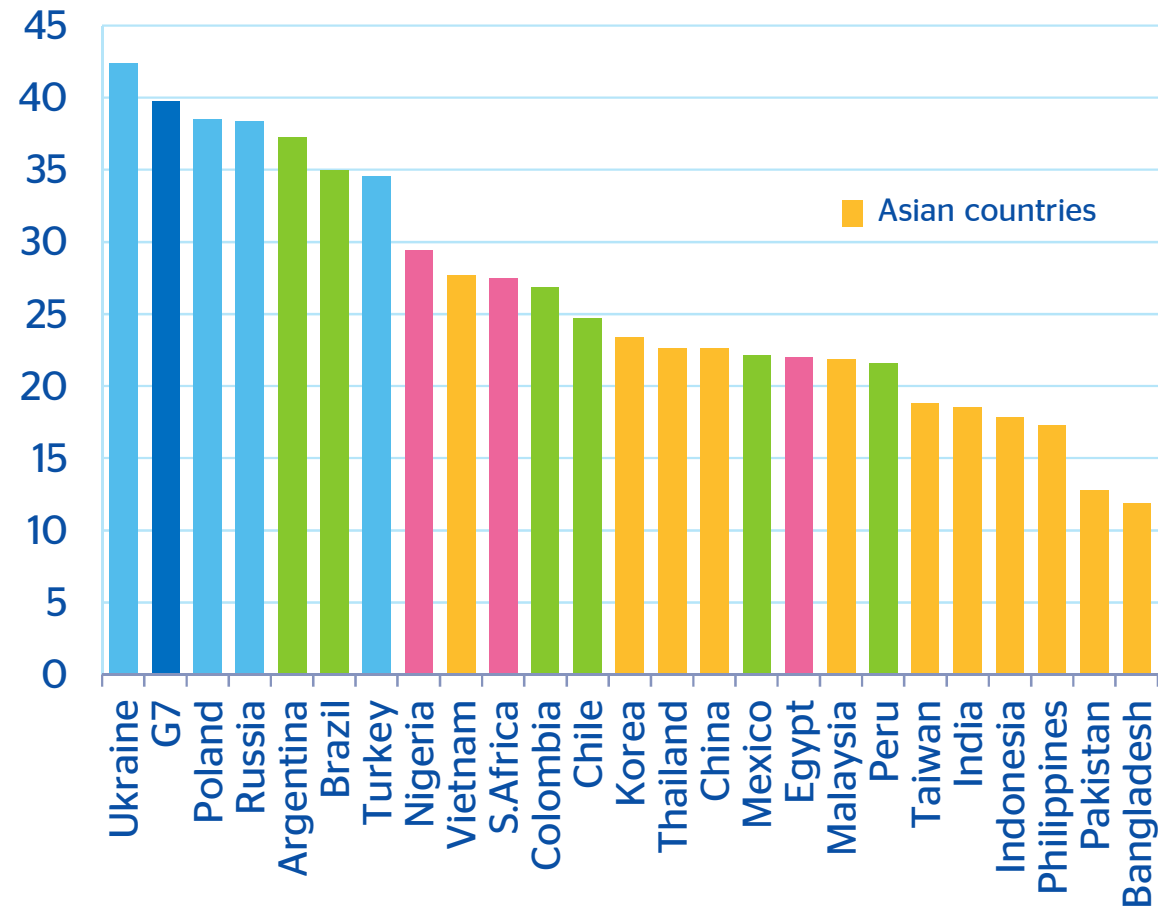




For this purpose, Asian countries need to strengthen fiscal revenues

Fiscal revenues (% of 2011 GDP)

Source: IMF



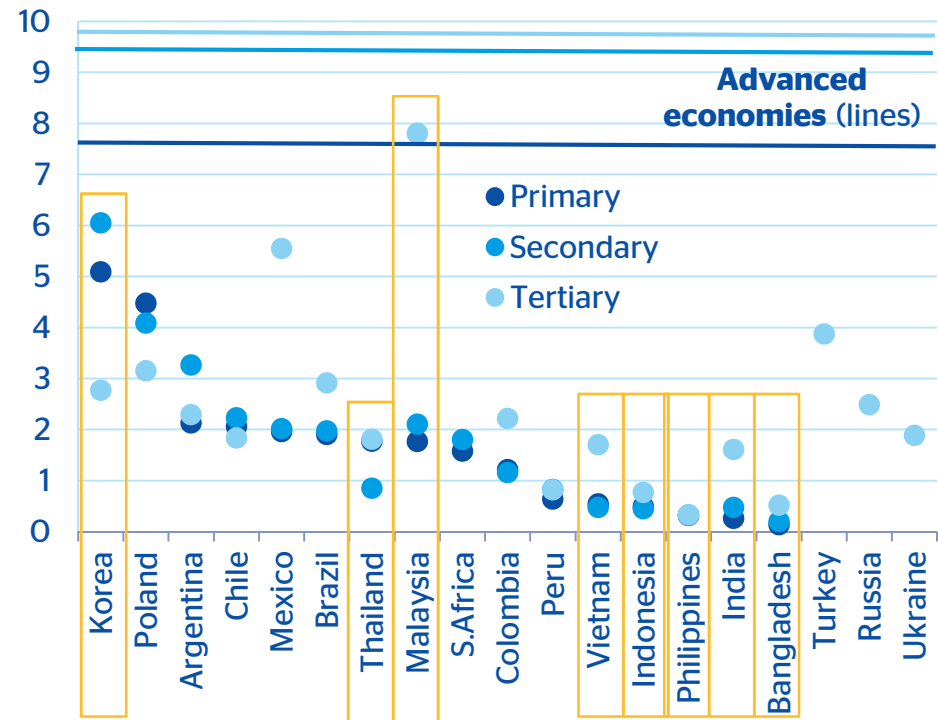
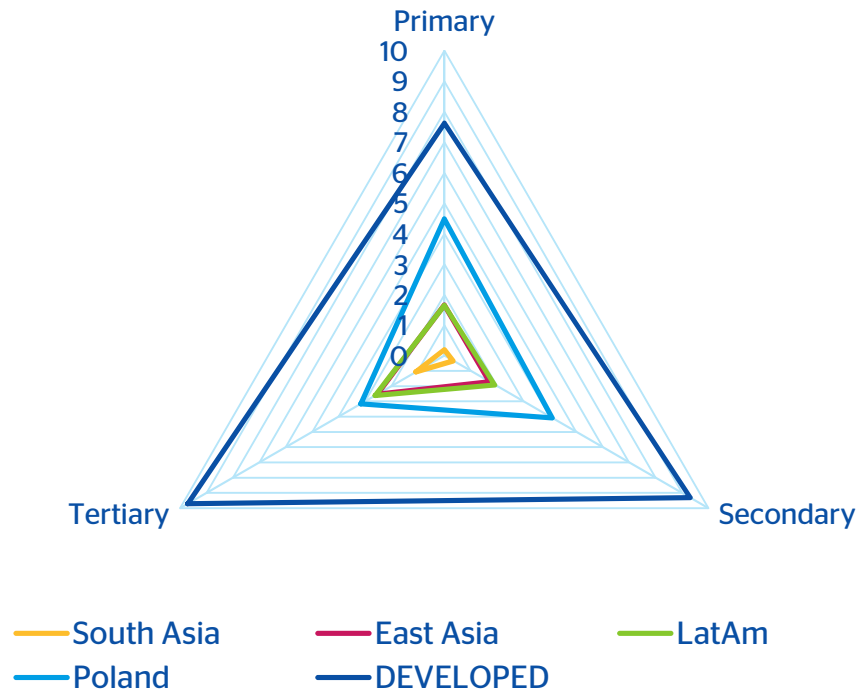


Need to develop the welfare system: education

Public expenditure by education level

(thousands of PPP-adj. USD per student) (2006-2010)

Source: BBVA Research, WB, IMF



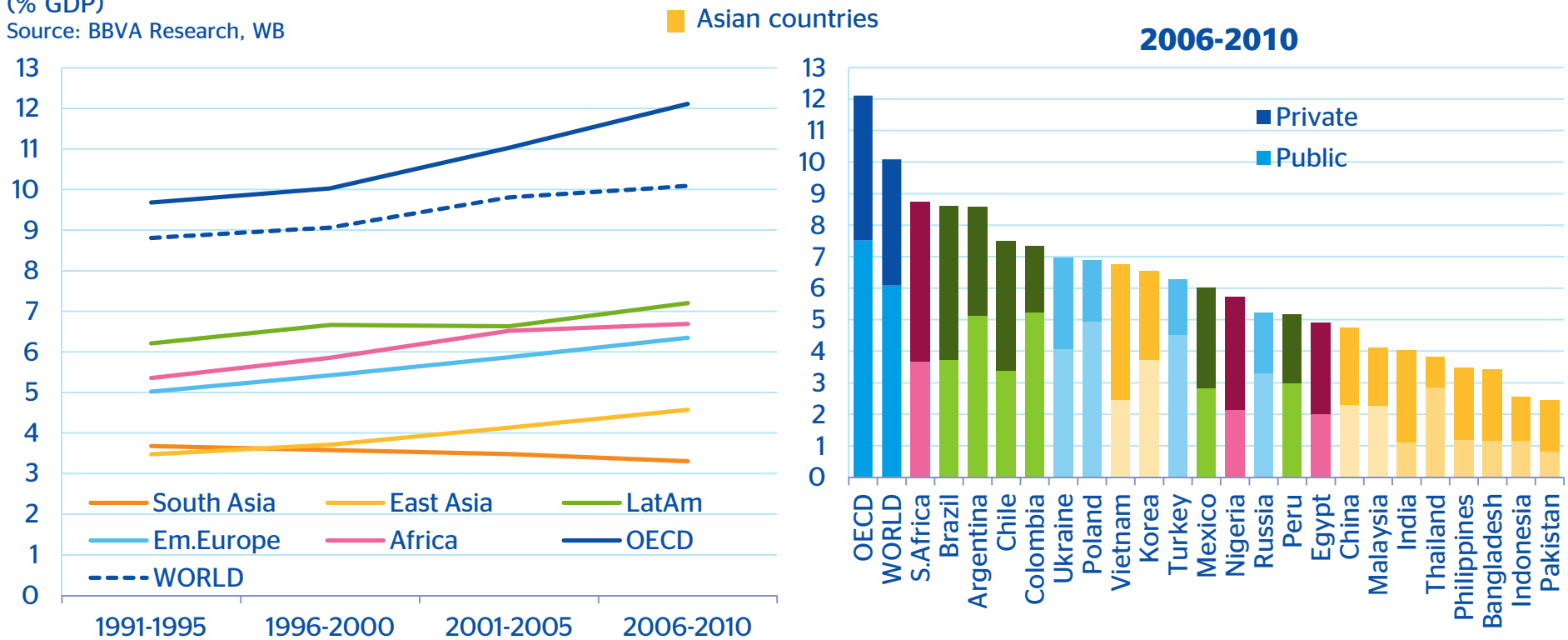


Need to develop the welfare system: health

Health expenditure

(% GDP)

Source: BBVA Research, WB

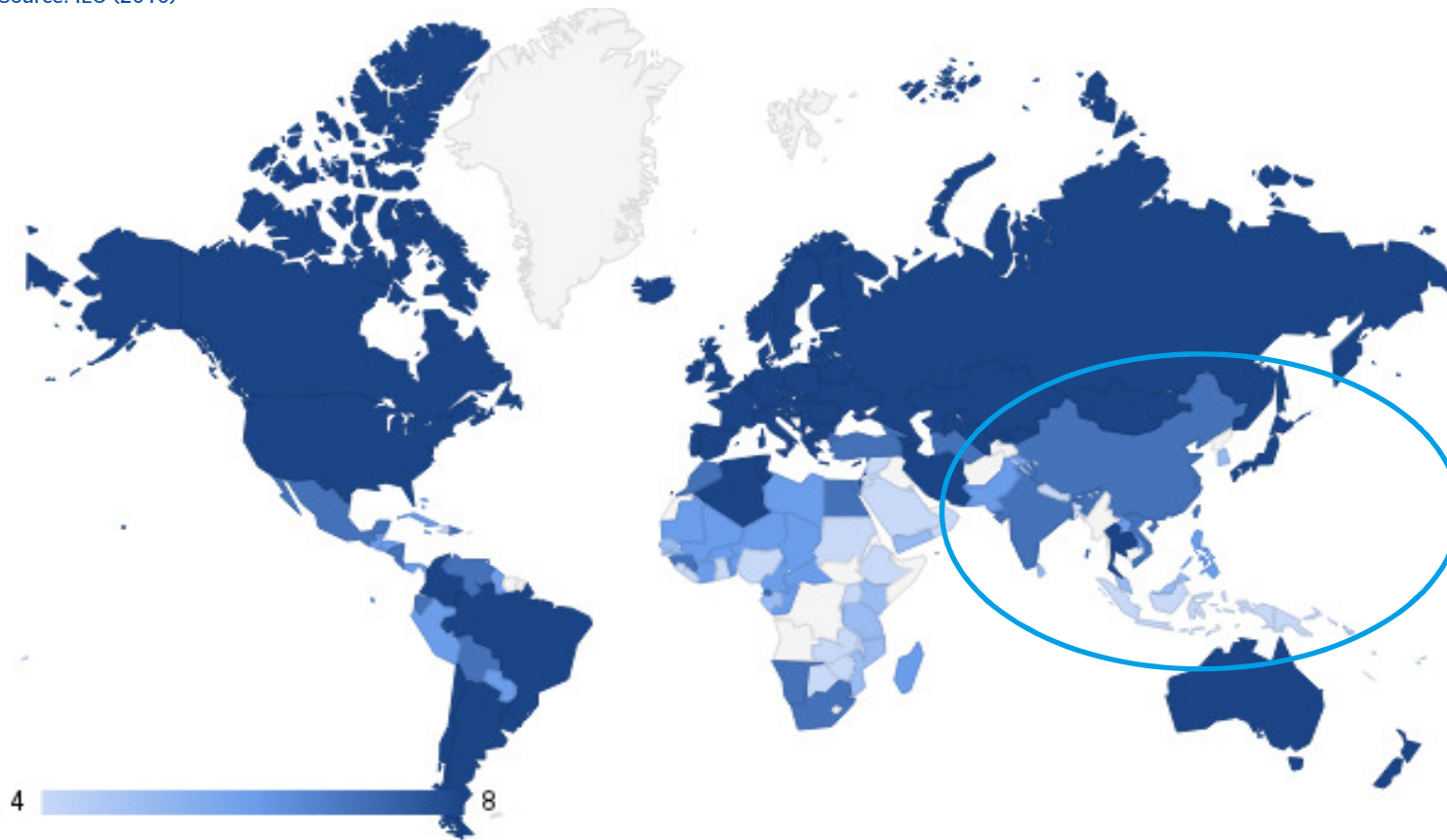




Need to develop the welfare system: social protection

Number of branches covered in at least one program of social security* **

Source: ILO (2010)



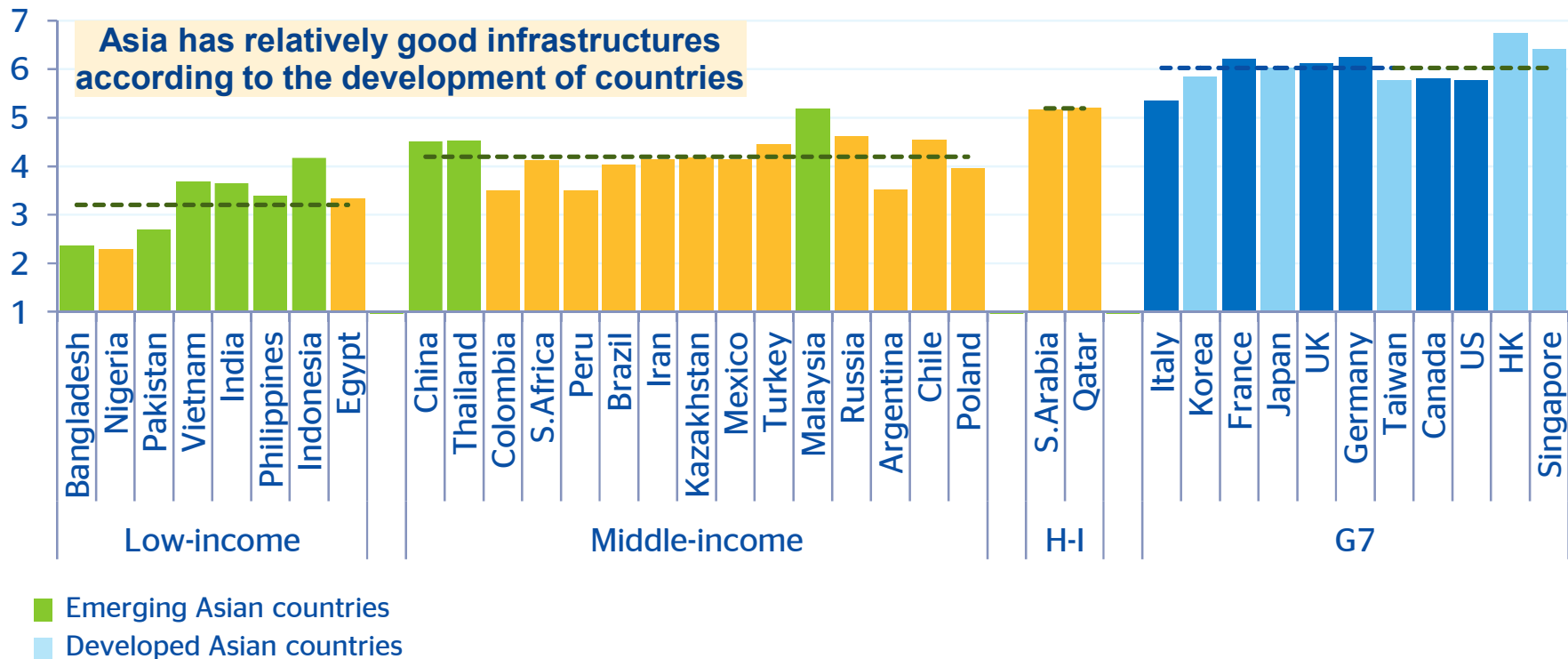
**There are 8 branches considered: sickness, maternity, old age, invalidity, survivors, family allowances, employment injury and unemployment*

***Number 4 covers 4 or less branches*

Growth bottlenecks also harm chances for income mobility: lack of infrastructures

Quality of overall infrastructure (1-7) in EAGLEs, Nest and G7 countries (2013-2014)

Source: BBVA Research, WEF

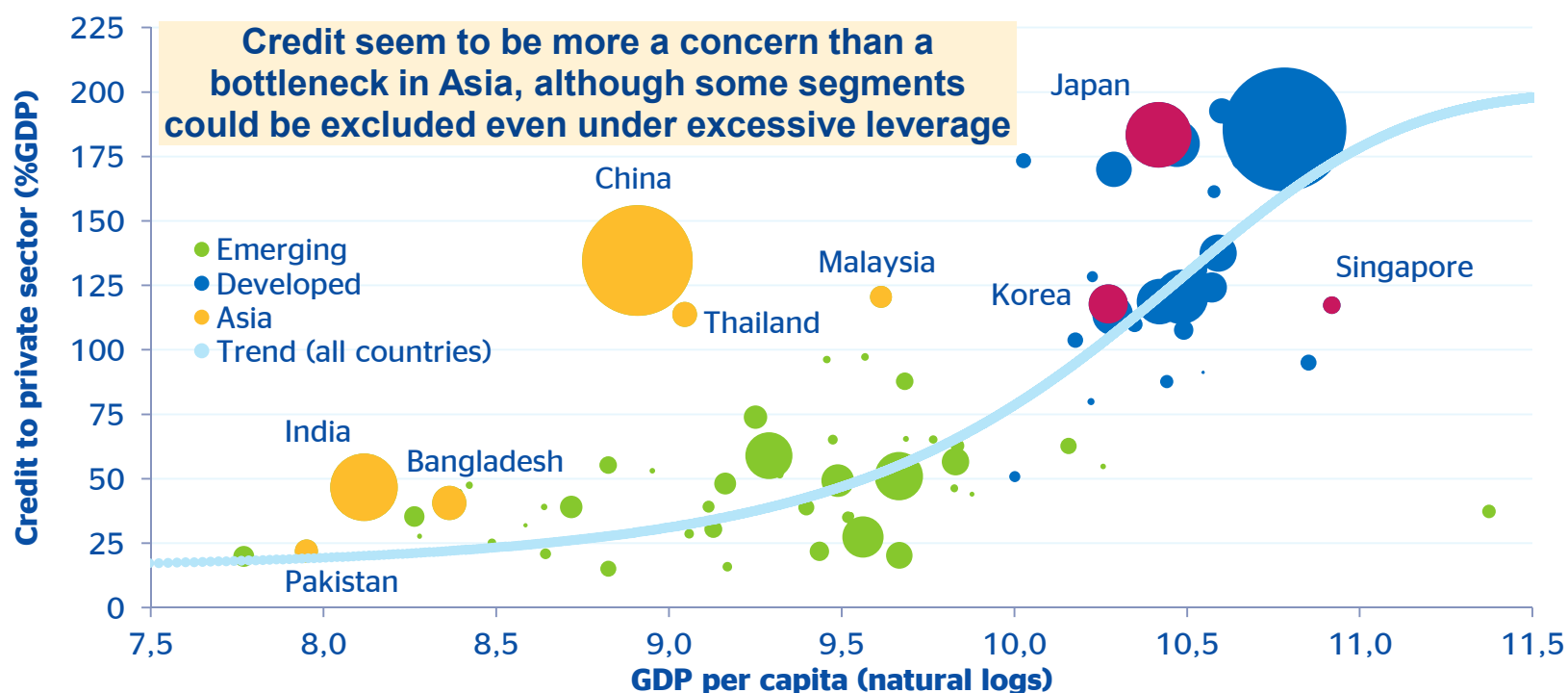


H-I = High-Income emerging economies

Growth bottlenecks also harm chances for income mobility: financial constraints

Credit to the private sector and GDP per capita (2013)

Source: BBVA Research, IMF



Note: the trend represents long-term relation between GDP per capita and the ratio of credit regardless of other variables which play a relevant in our model; the size of the bubbles are proportional to the absolute value of GDP



Conclusions

- Keeping sustainable development in Asia is crucial for global economic stability (even more in future decades).
- As population premium softens, the region should search for new sources of growth, avoiding bottlenecks such as the lack of infrastructures and financial constraints.
- However development levels are quite heterogeneous and so are needs and challenges.
- While inequality is a by-product of growth at earlier stages, policymakers could explore in middle-income countries (China, Thailand and Malaysia) whether high inequality damages growth if social protection and redistribution policies are not well developed.
- Higher fiscal revenues are needed for these purposes. However, the experience of OECD countries show that welfare systems also have limits tackling inequality under current trade, institutional and technological trends.



Thank you!



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