

Inclusive Growth and social Protection in Asia: Some facts

Salzburg Global Seminar
Economic Growth and Social Protection in Asia
Salzburg, 8th November 2011

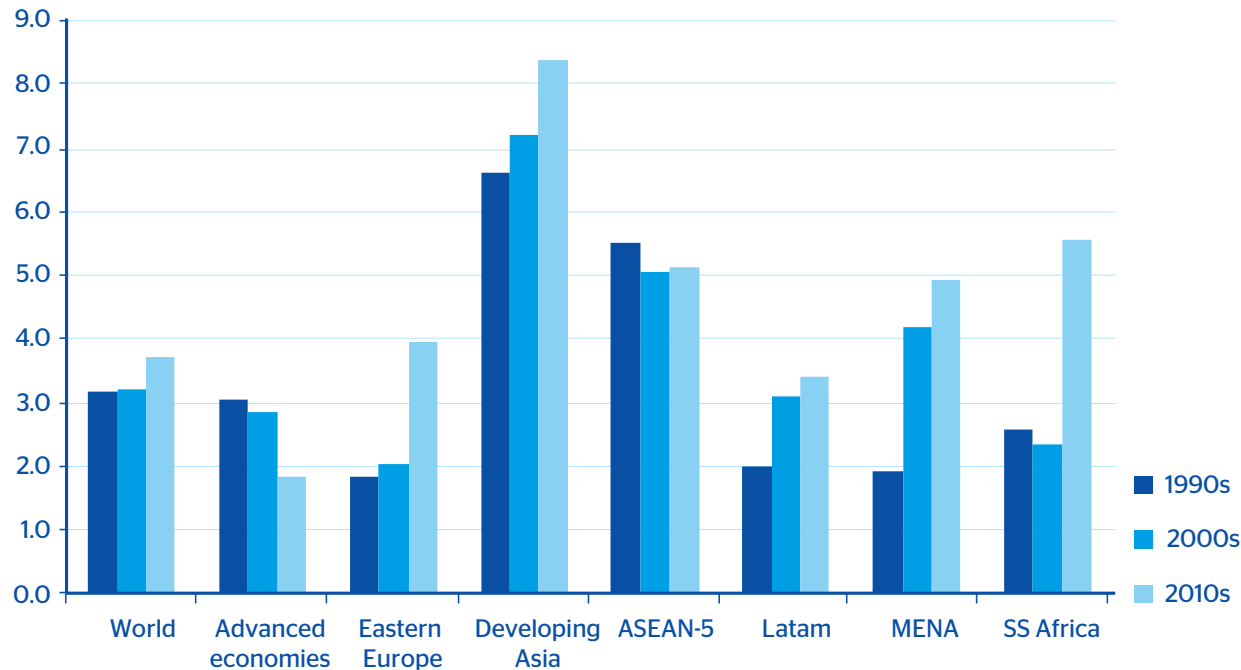
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BBVA Research

Asian economic growth has been impressive

World GDP Growth (10 year avg PPP adjusted real gdp growth rates)

Source: BBVA Research and IMF



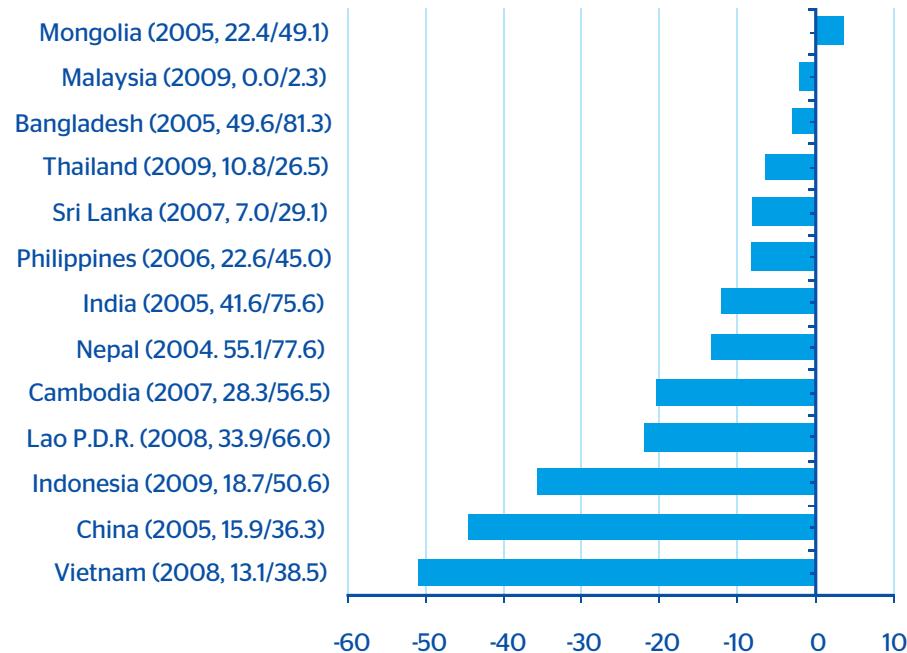
And, to some extent, pro-poor

- Growth has significantly reduced poverty in Asian countries since the nineties.
- But Asia still presents high poverty levels relative to other areas and concentrates a very high proportion of poor people in the world

Selected Asia: Change in Poverty Headcount Ratio

(in percentage points, since 1990)

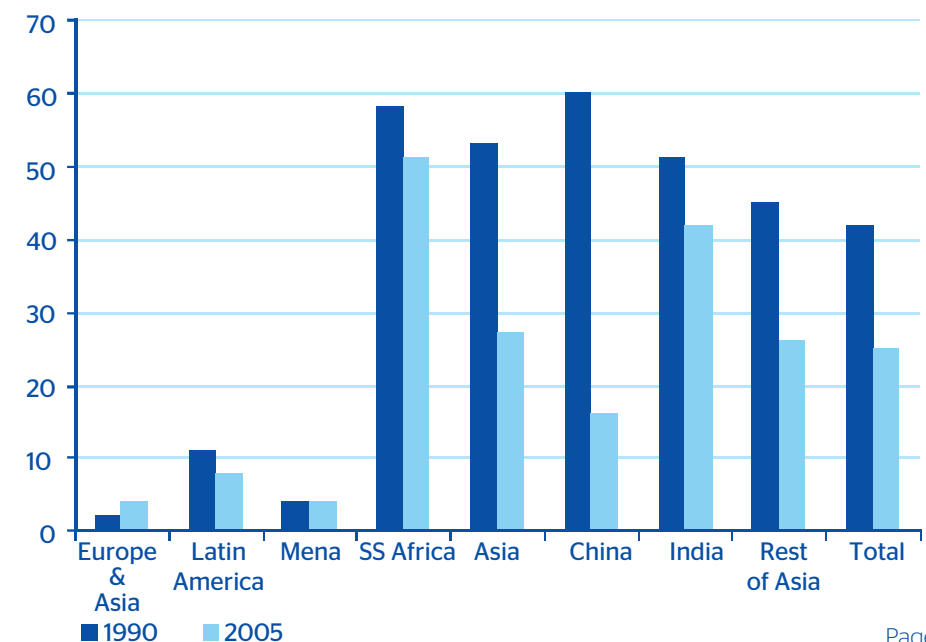
Source: IMF Regional Economic Outlook: Asia and Pacific



Poverty: % of People living under 1.5\$ per day

(at 2005 ppp prices)

Source: IMF Regional Economic Outlook: Asia and Pacific

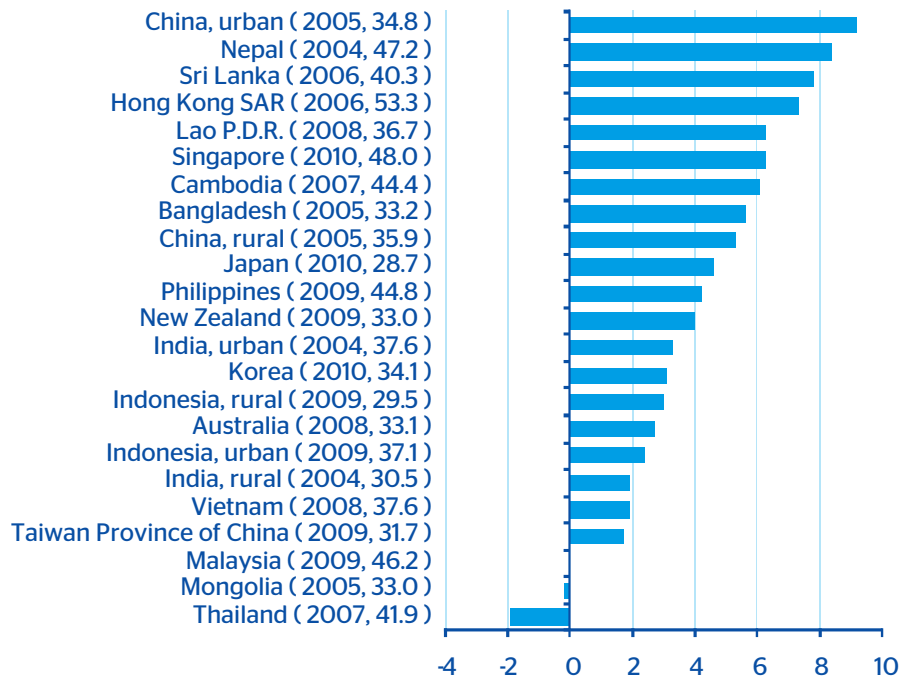


But growth generally “unequal”

- Growth in Asia has been generally associated with an increase in income inequality. Which happened in most of the world (excepts Latin America & Africa)

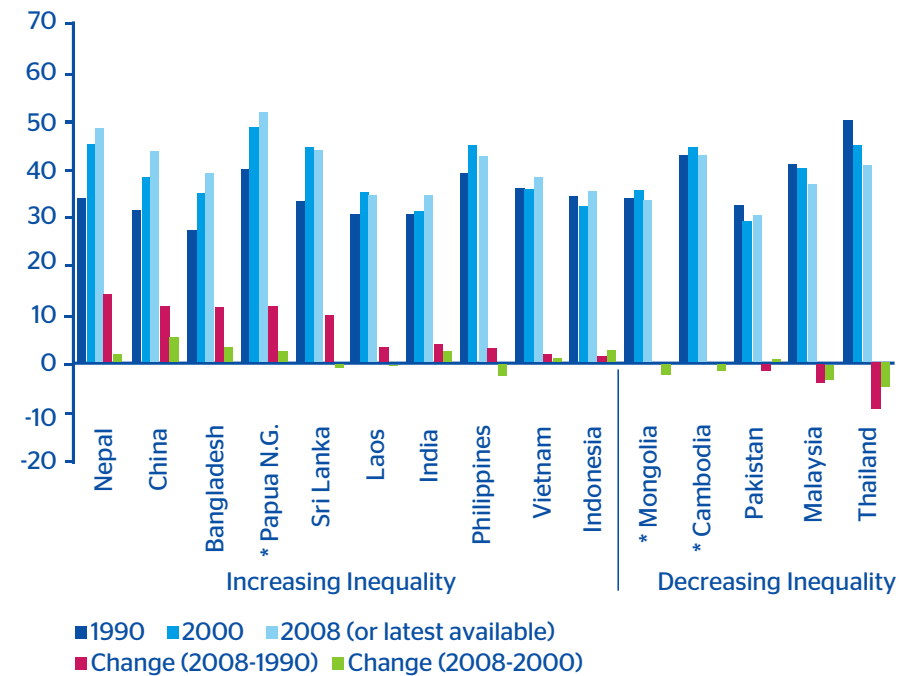
Change in Gini Index since 1990 (percentage points)

Source: IMF Regional Economic Outlook: Asia and Pacific



Change in Gini Index since 1990 (percentage points)

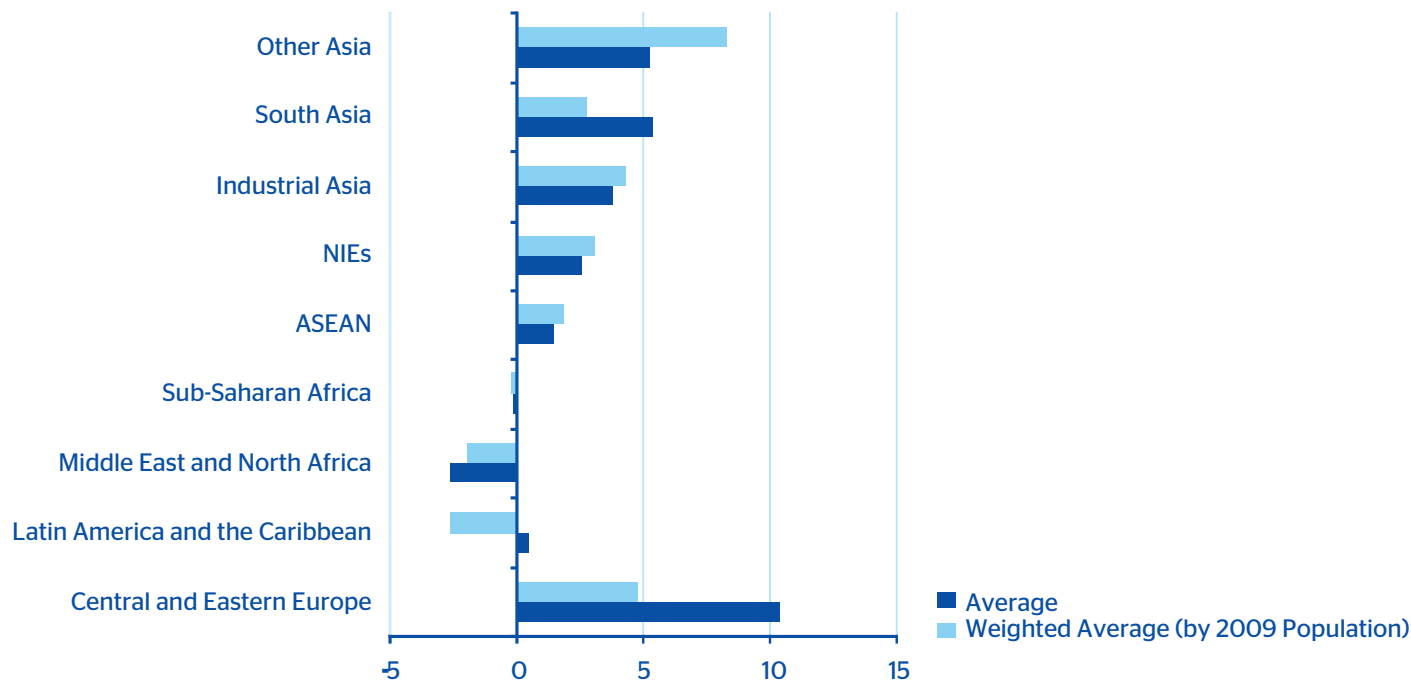
Source: UNICEF



Even compared with other Emerging Markets

Change in Gini Index since 1990 (percentage points)

Source: IMF Regional Economic Outlook: Asia and Pacific

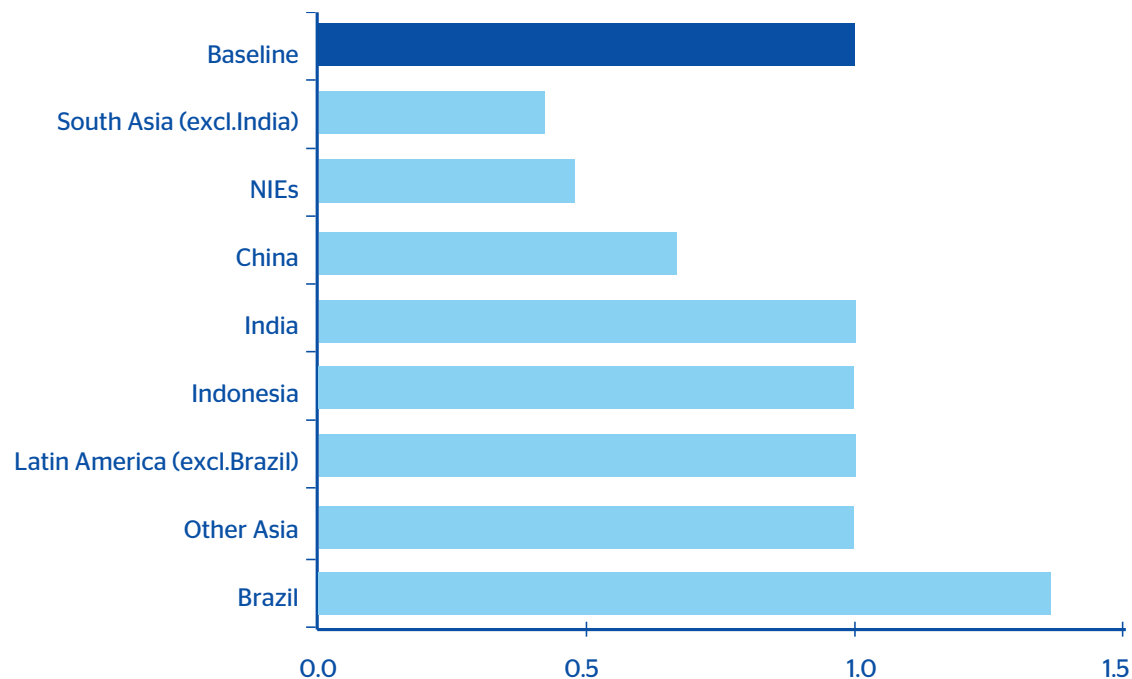


Growth not specially inclusive in Asia

Degree of inclusiveness of growth

(impact on income of the bottom quintile of a 1-percent increase in per capita income; in %)

Source: IMF Regional Economic Outlook: Asia and Pacific



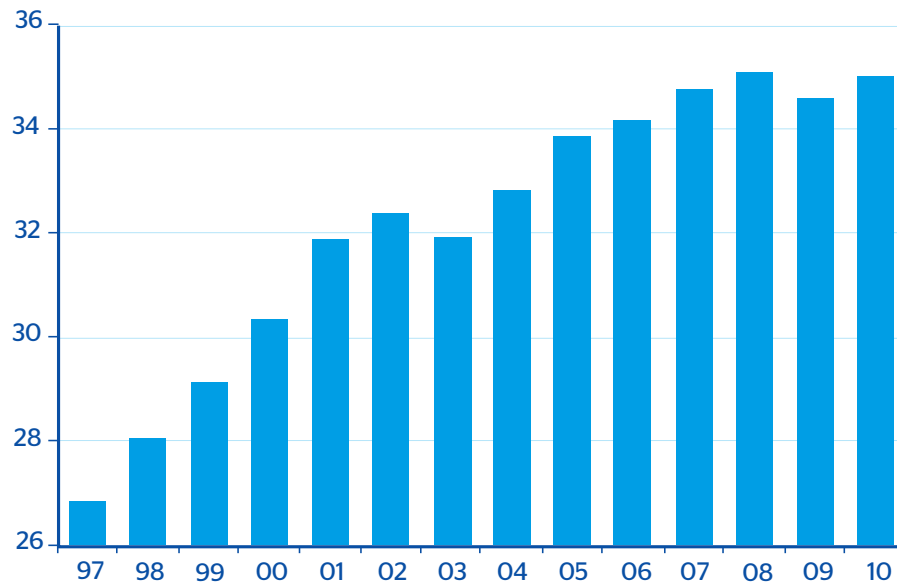
Some success stories I

Top down preliminary explanations by Brazilian Authorities

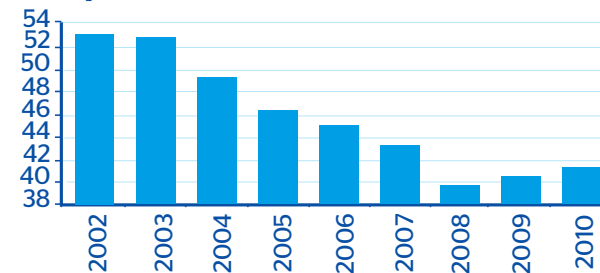
- The aggregate tax burden increased significantly, allowing both significant reduction in debt and increases in transfer to the poor

Aggregate tax burden (% of GDP)

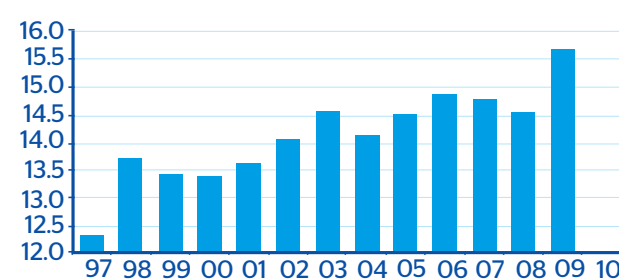
From "Notes on the Relatively Recent Brazilian Experience of Economic Growth with (Government-Led) Income Redistribution" (IPEA, Brazil):



Net public debt (% of GDP)



Government transfers (% of GDP)



Some success stories II

Top down preliminary explanations by Brazilian Authorities

From “Notes on the Relatively Recent Brazilian Experience of Economic Growth with (Government-Led) Income Redistribution” (IPEA, Brazil:

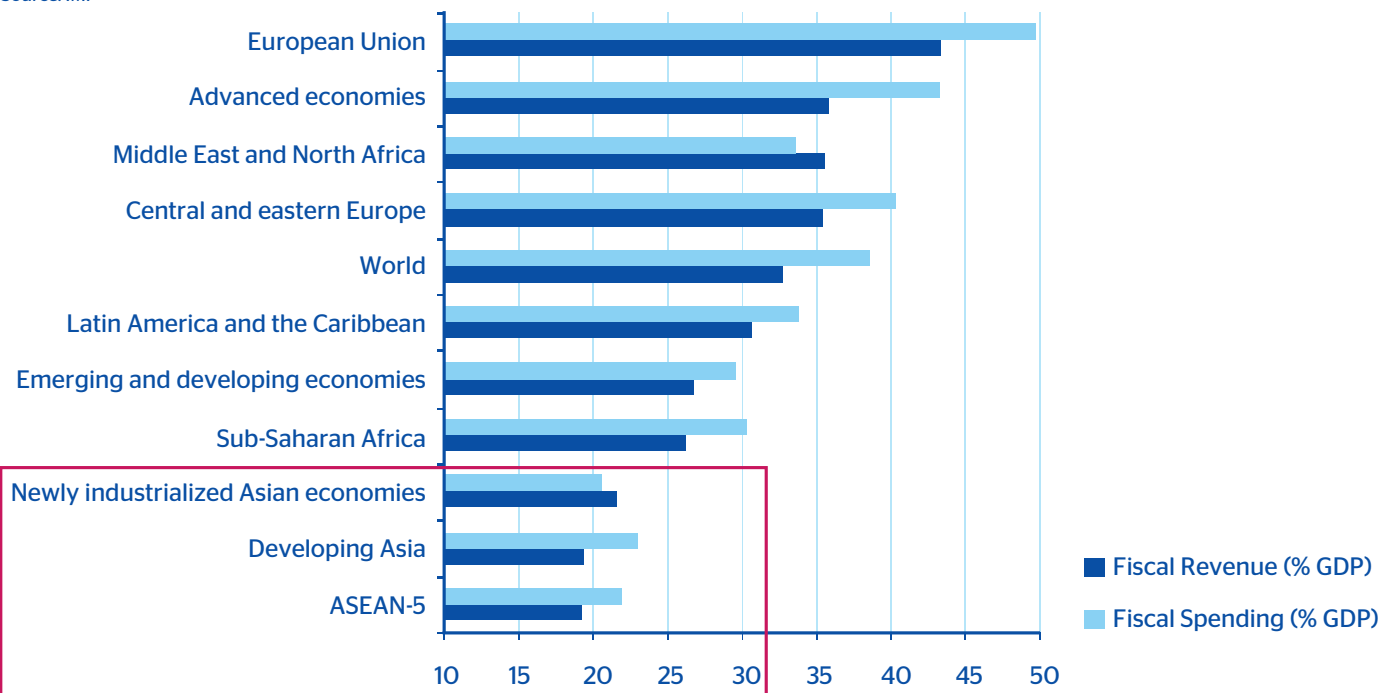
- From a macroeconomic perspective the recent Brazilian “inclusive growth” experience can be seen as the result of:
 - good external environment (relaxation of the external constraint);
 - increased (and better targeted) government transfers;
 - increases in the availability of credit to the poor; and
 - larger “fiscal space” (and domestic saving) provided by increases in the tax burden (and despite the increase in consumption of the poor).
- This seem to me a good first approximation of the “main drivers” of Brazil’s “inclusive growth strategy”

How is this story in Asia?

Unfortunately, fiscal revenue is very low (Personal Income tax and VAT)

Fiscal revenue and spending 2010 (% GDP)

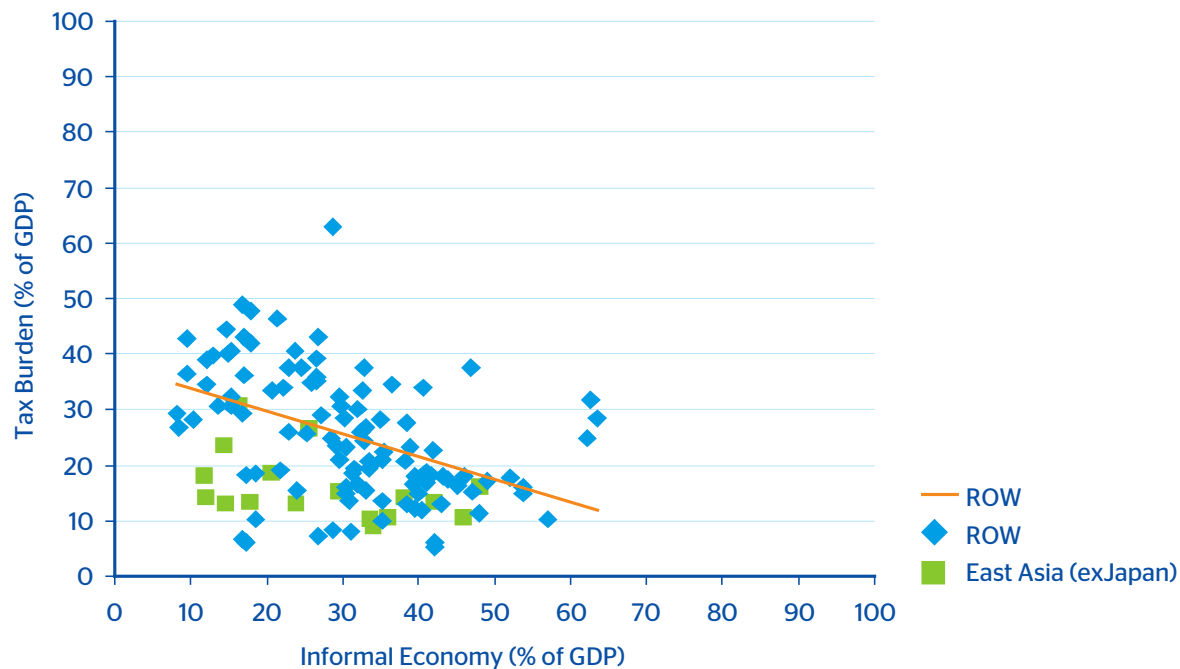
Source: IMF



Informal economy and tax burden

Informal economy and tax burden

Source: Heritage Foundation and World Bank



East Asia includes: Bangladesh, Cambodia, China, HK, India, Indonesia, Malaysia, Mongolia, Nepal, Pakistan, Singapore, Korea, Taiwan, Thailand, Philippines and Vietnam; ROW =Rest of the World

Dampening potential for social spending and inclusiveness

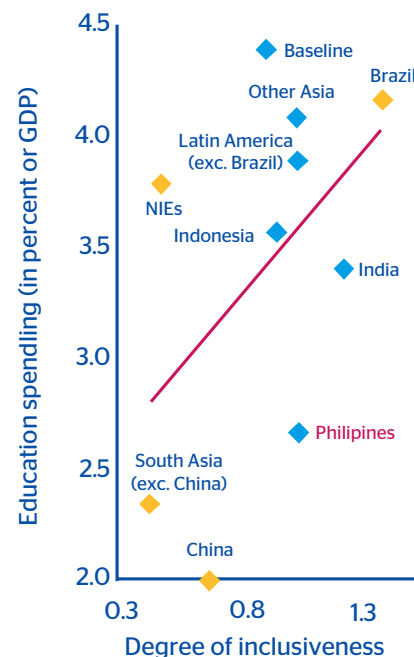
Social spending (% of GDP)

Source: IMF

	Pension 2010 1/	Health 2010 1/	Education 2007 1/
ASEAN-5			
Indonesia	0.9	1.3	3.5
Malaysia	2.9	2.9	4.5
Philippines	1.1	1.4	2.6
Singapore	0.6	1.0	3.2
Thailand	0.8	1.6	4.9
Other Asian Economies			
China	2.2	2.2	1.9
India	1.7	0.9	3.2
Vietnam	1.6	1.5	5.3
Regional average			
ASEAN-5	1.3	1.6	3.7
Advanced	7.4	7.0	-
Emerging	4.2	2.7	-

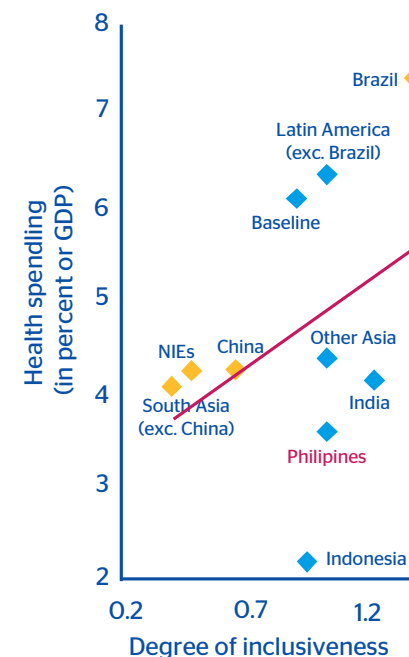
Education and inclusiveness

Source: IMF Regional Economic Outlook: Asia and Pacific



Health and inclusiveness

Source: IMF Regional Economic Outlook: Asia and Pacific



And limiting infrastructure finance

“Infrastructure financing gap”

Infrastructure indicators

Region/Subregion	Overall infrastructure Score, ^a 2008/09	Roads			Electricity		Telecommunication
		Road Density, Latest (km/sq km)	Quality of Roads, ^a 2008/09	Paved Roads, 2006 (%)	Electricity Consumption, 2006 (kWh/capita)	Quality of Electricity, ^a 2008/09	Phone Lines, 2007/08 (per 100 population)
Developing Asia	3.90	0.369	3.99	54.91	1,976	4.02	66.42
Eastern Europe	3.40	0.772	3.25	81.70	3,459	4.56	130.42
Former Soviet Union ^b	3.87	0.070	3.25	76.09	3,047	4.29	87.80
Latin America and Caribbean	3.75	0.158	3.59	37.45	1,630	4.34	91.56
Middle East	4.99	0.116	5.00	82.38	7,600	5.39	111.31
North Africa	3.84	0.069	3.72	44.28	1,235	5.08	88.60
OECD	5.32	0.082	5.05	77.25	9,469	6.11	150.54
Sub-Saharan Africa	3.24	0.495	3.17	20.45	418	3.23	38.12
Within Developing Asia							
Central and West Asia ^c	3.20	0.114	3.70	47.33	480	2.20	36.21
East Asia	4.60	0.321	4.50	83.00	2,505	5.18	106.79
Pacific	2.30	0.057	1.90	-	-	2.00	48.16
South Asia	3.00	1.095	3.00	48.70	282	2.73	49.94
Southeast Asia	4.29	0.274	4.28	49.05	2,661	4.58	76.78

^a Ranges from 1 (extremely underdeveloped) to 7 (extensive and efficient by international standards).

^b Former Soviet Union includes Belarus, Moldova, Russian Federation, and Ukraine.

^c Central and West Asia includes Afghanistan, Armenia, Georgia, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

km/sq km = kilometers per square kilometer, kWh = kilowatt-hour, OECD = Organisation for Economic Co-operation and Development.

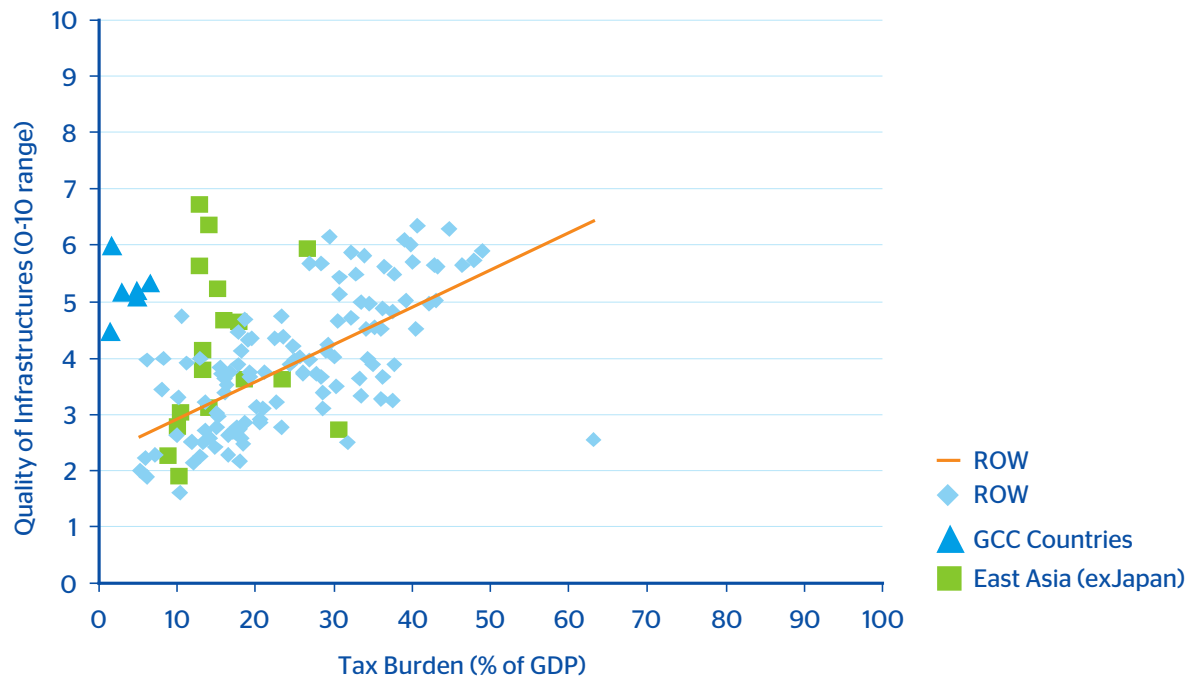
Note: Figures are weighted averages, except those pertaining to scores and quality, which are simple averages.

Source: World Development Indicators Online Database (World Bank 2010c), Global Competitiveness Report 2009–2010 (World Economic Forum 2008).

Tax burden and infrastructure

Tax burden and infrastructures

Source: Heritage Foundation and Global Competitiveness Report



East Asia includes: Bangladesh, Cambodia, China, HK, India, Indonesia, Malaysia, Mongolia, Nepal, Pakistan, Singapore, Korea, Taiwan, Thailand, Philippines and Vietnam; GCC countries include Bahrain, Kuwait, Oman, Qatar, UAE and Saudi Arabia; ROW =Rest of the World

However, some governments are trying to change this situation

Planned and Ongoing Fiscal Reforms in selected Asian Countries

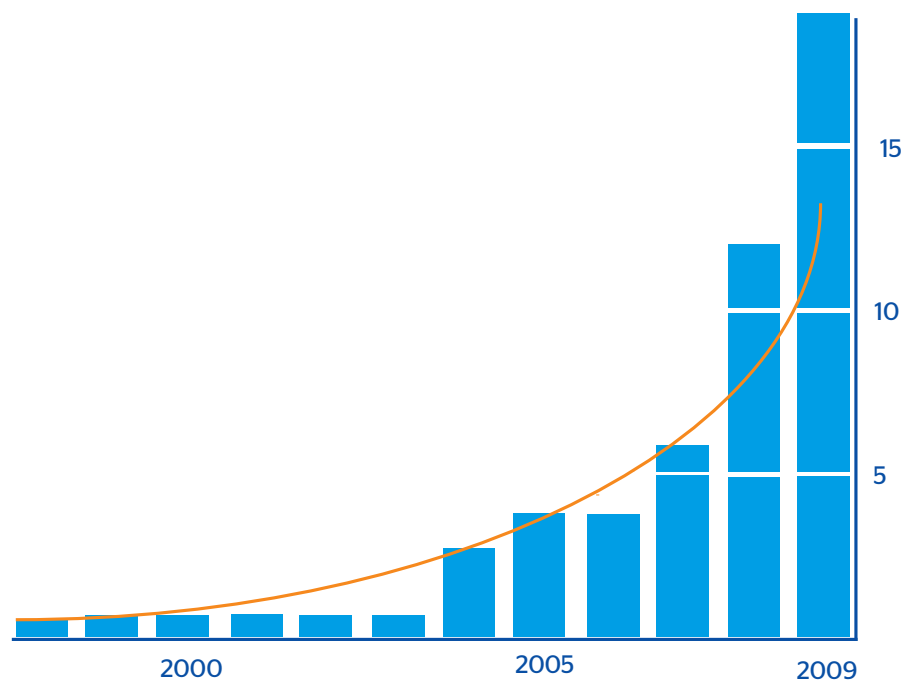
Source: IMF

	Bangladesh	Cambodia	Lao PDR	Nepal	Sri Lanka	Vietnam
Revenue Side						
Vat introduction or reform	X	X	X		X	
Income tax reform	X				X	
Excises reform		X				
Investment tax reform					X	
Trade tax reform					X	
Tax administration reform		X	X	X	X	X
Expenditure Side						
Review wage bills / allowances		X				
Reprioritize development projects			X			X
Reduce / eliminate subsidies				X	X	
Reduce recurrent expenditure					X	
Public Financial Management	X	X	X	X		X

Financial inclusion as a way to foster inclusive growth

Financial inclusion (number of economies with a strategy document)

Source: World Bank

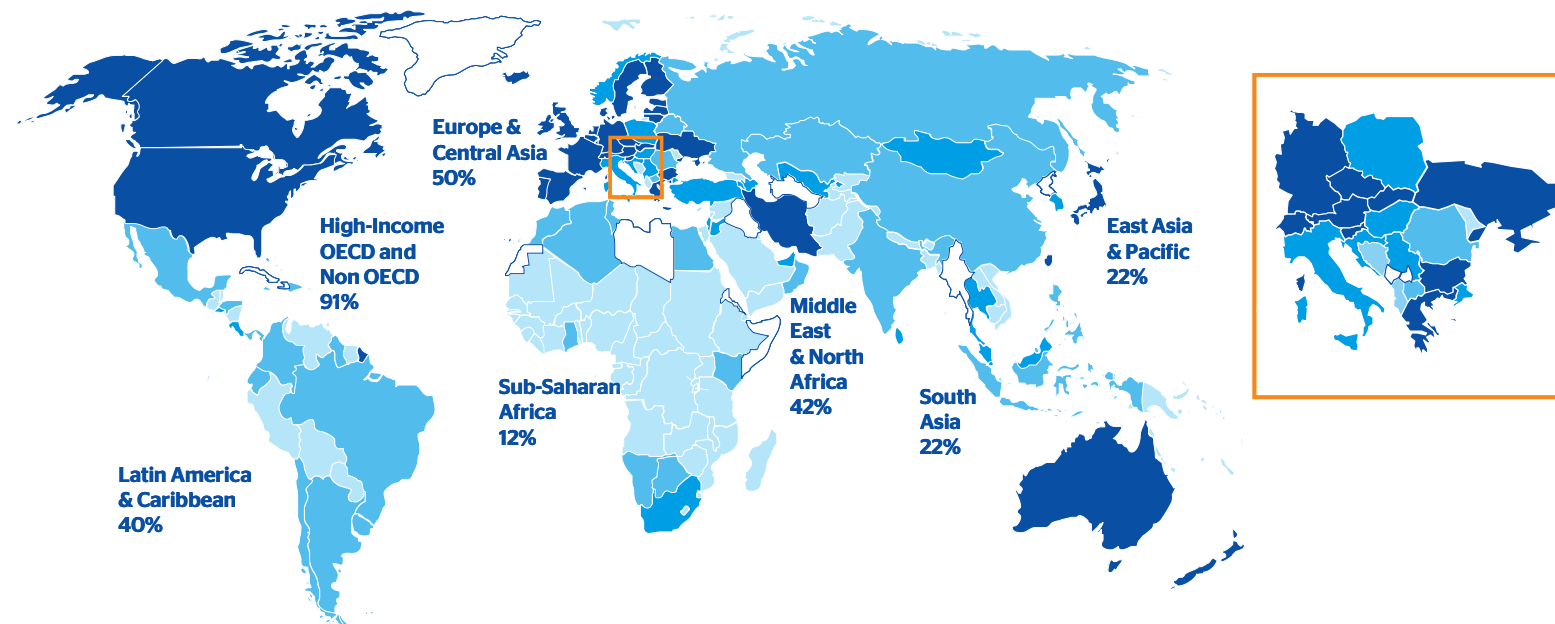


Asia's situation in financial inclusion relatively good

Asian Households financial access is similar to other EM

Financial Inclusion: Households 2010 (% of households with a deposit account in a formal financial institution)

Source: xxxxx



% of households with a deposit account in a format financial institution

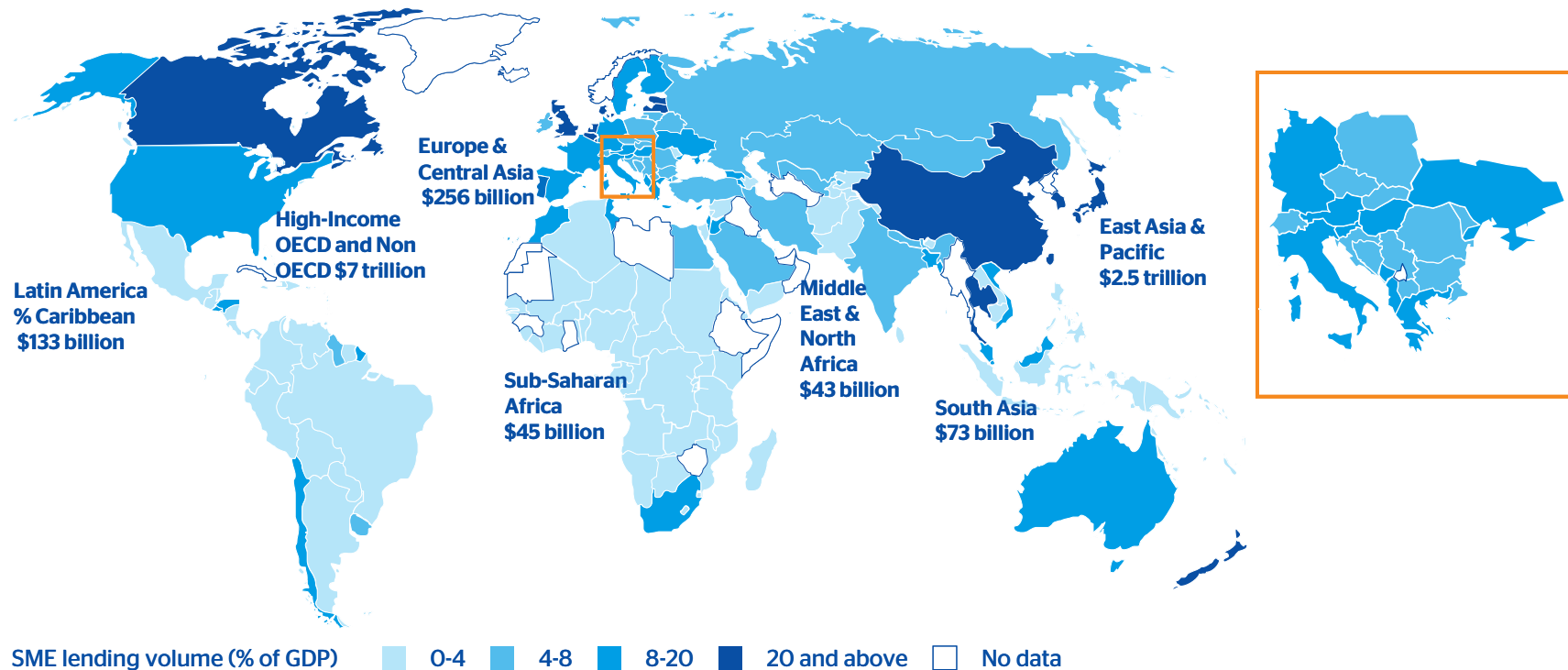
0-25	25-50	50-75	75-100	No data
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Note OECD = Organisation for Economic Co-operation and Development
 The map uses data from household surveys including Living Standard Measurement Surveys Where available, as well as regional sources: for the EU, the European Commission's Eurobarometer, Special Barometer 260 (2007); for Africa, FinMark Trus't's FinScope; for Latin America, Tejerina and Westley (2007) and the MECOVI database and Barr et al. (2007); and Nenova et al. (2009). For countries for which these data are unavailable, predictions based on an econometric model with number of deposit accounts per 1,000 adults and number of branches per km² from the *Financial Access* database are used. See the section on Methodology for more details. Data for Taiwan (China), Hong Kong SAR (China), and Puerto Rico (US) have been broken out from the national dataset.

Specially when compared with emerging markets

Financial Inclusion: Small Medium Companies

(SME lending Volume in % GDP)



Note OECD = Organisation for Economic Co-operation and Development

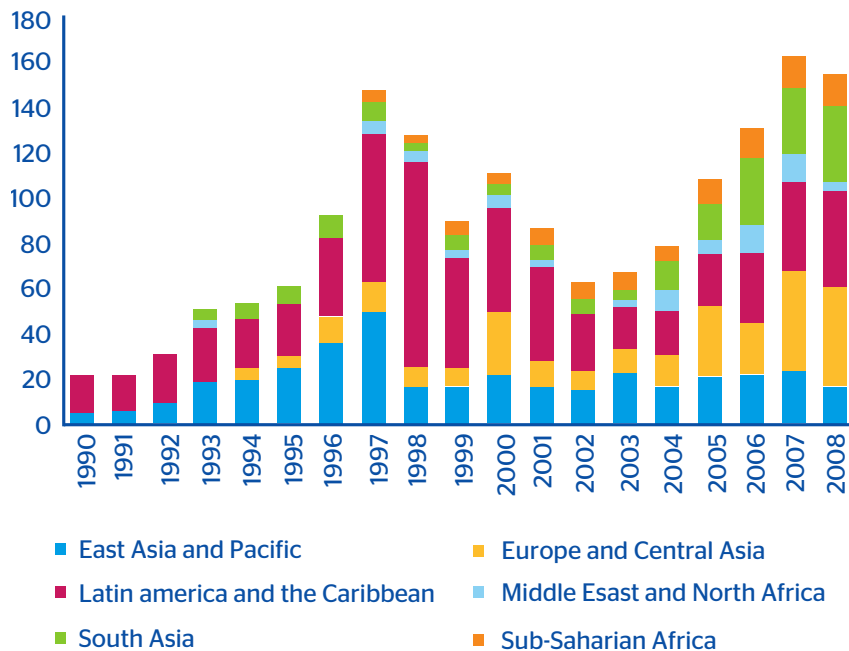
The map pilots a ratio of SME lending volume to GDP. Actual data is presented for 50 economies that provided information. For the remainder of the economies, the ratio of SME lending to GDP is predicted by a regression model controlling for the ratio of private credit to GDP, the number of days to start a business (*Doling Business database*) and a dummy for offshore financial centers. See Ardic, Mylenko and Saltane (forthcoming) for detailed methodology. Data for Taiwan (China), Hong Kong SAR (China), and Puerto Rico (US) have been broken out from the national dataset.

Public Private Initiatives also providing some help

but they are not immune to the financial crisis

Investment commitments to infrastructure projects with private participation in developing countries (billions of USD)

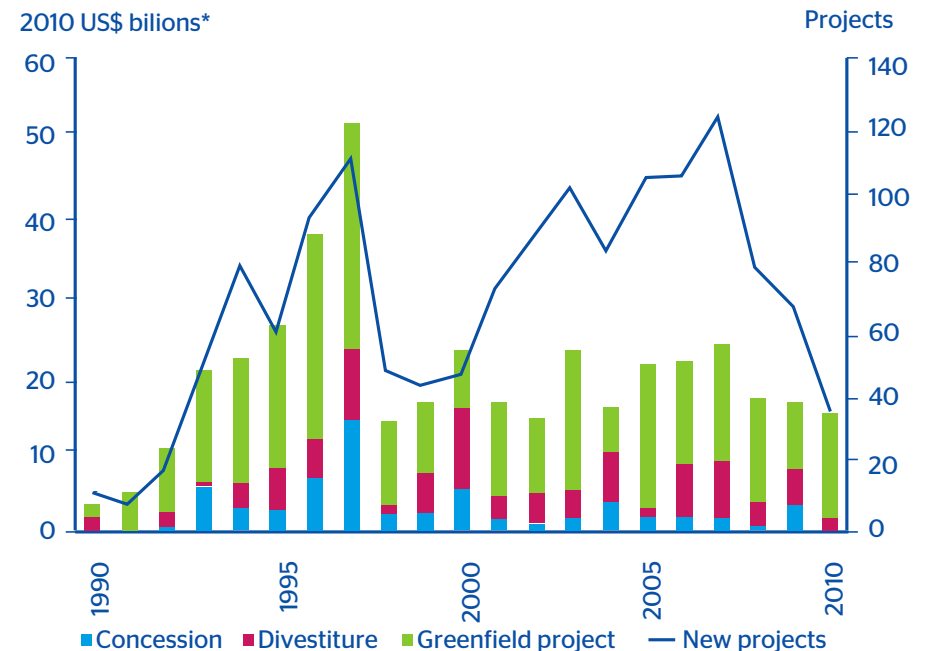
Source: World Bank



Investment in PPI projects in East Asia and Pacific by type of PPI

Source: World Bank

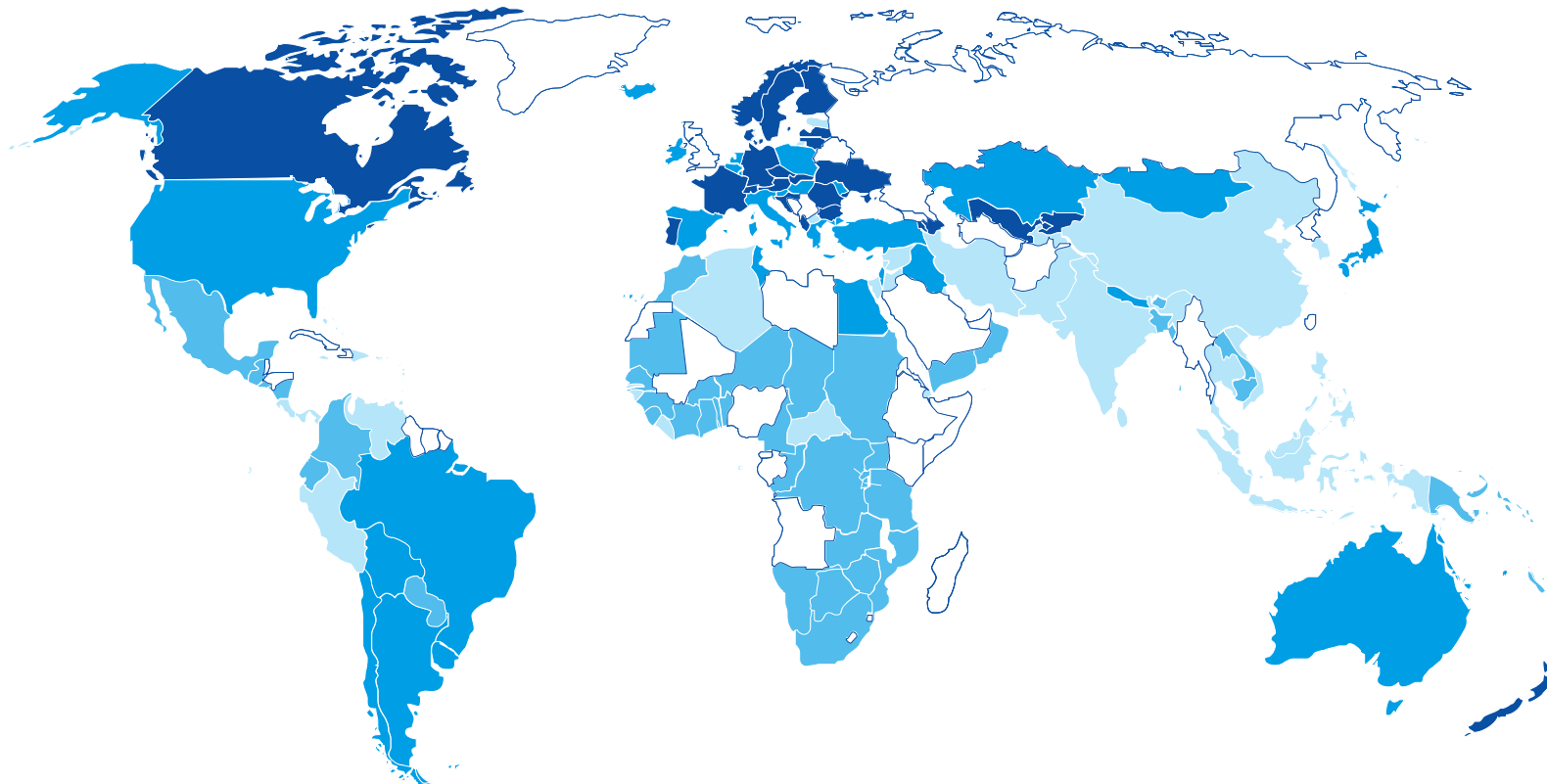
2010 US\$ billions*



Asian social protection has room to improve: 1) for elderly

Old-age pension beneficiaries (% of population above retirement age)

Source: ILO

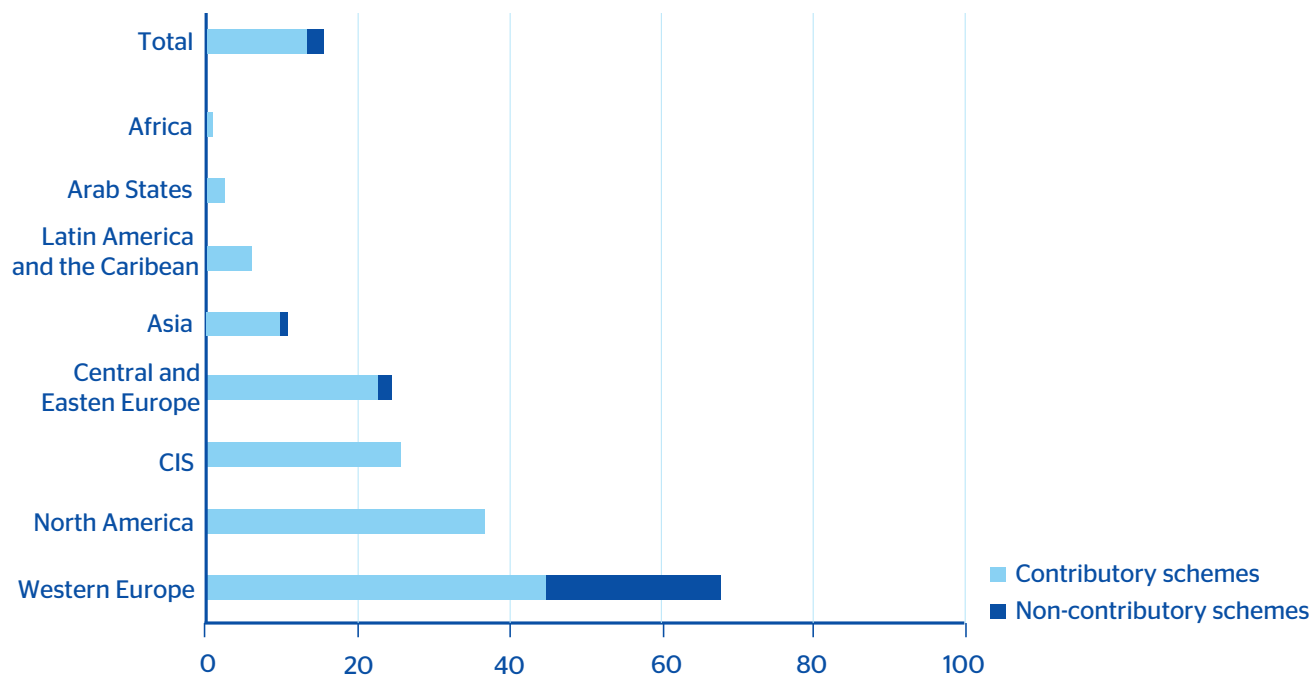


■ Less than 20 per cent (46)
 ■ Between 20 and 50 per cent (24)
 ■ Between 50 and 90 per cent (39)
 ■ 90 per cent and over
 No data

2. For working population

Unemployment effective coverage worldwide (% of unemployed)

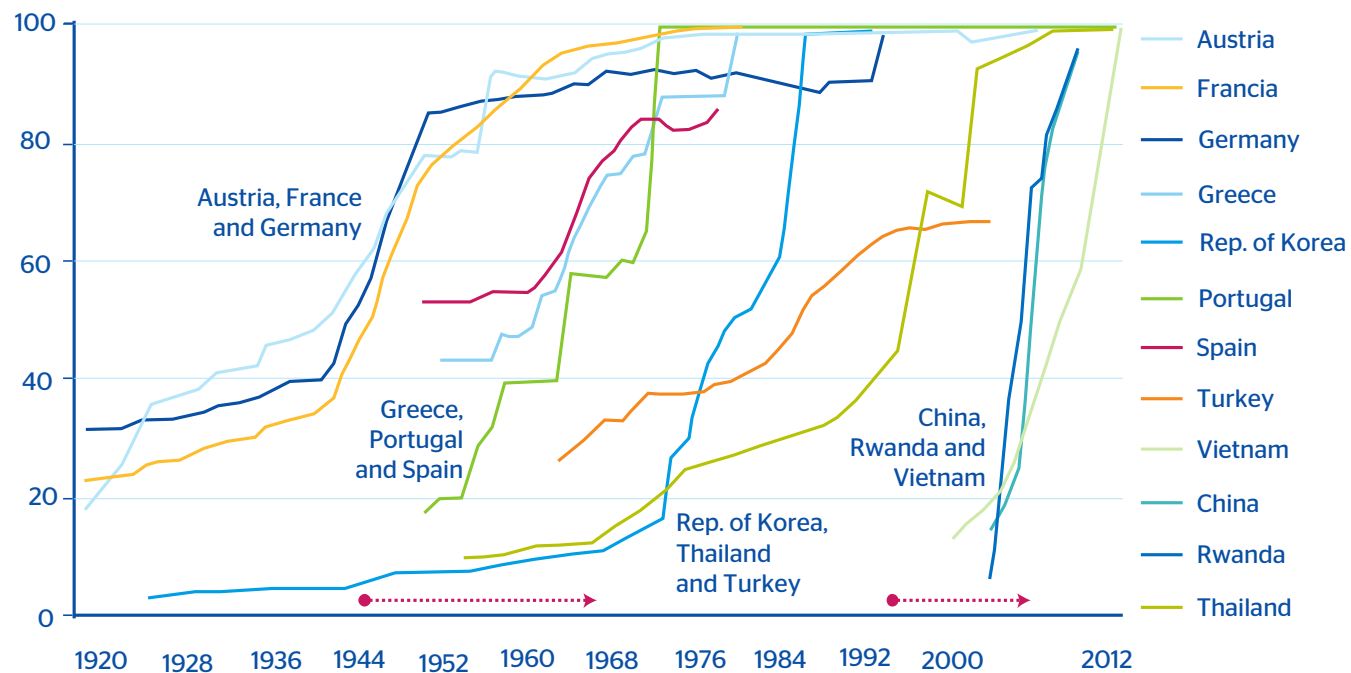
Source: ILO



But good pace of improvement

Health protection coverage for selected countries (% of total population)

Source: ILO



In sum

- Asia has experienced an impressive economic growth
- Economic growth has been “pro poor” but accompanied by inequality
- Low fiscal revenues poses a significant constraint
- The “private initiative” support provided some buffer and financial inclusion is improving
- Social protection is still low
- But from an “historical” perspective, it is improving faster than previous Western experiences