

Subdued Asia-Pacific growth in 2013 as region impacted by developed world policy uncertainty

ESCAP flagship Survey calls for a paradigm shift in macroeconomic policies to make growth inclusive and sustainable

Beijing (UN ESCAP Strategic Communications and Advocacy Section) – Asia-Pacific economies will see subdued growth in 2013 after last year’s sharp slowdown caused by external factors, the United Nations said here today, adding that efforts to stimulate demand must go hand in hand with macroeconomic course correction to promote broad-based and sustainable development.

Noting that the region’s economic progress has been marked by widening income inequalities and severe natural resources depletion, the *Economic and Social Survey of Asia and the Pacific 2013: Forward-looking macroeconomic policies for inclusive and sustainable development* argues that macroeconomic policies can play a vital role in reorienting the region towards a more inclusive and sustainable growth path – a high priority of its post-2015 development agenda.

Inclusive and environment-friendly growth is key to creating new sources of economic dynamism amidst the persisting global uncertainty, says the flagship publication of the Bangkok, Thailand-based United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) which estimates that economic policy uncertainty in the eurozone and the United States since the onset of the global crisis has shaved 3 per cent off regional GDP – a loss of \$870 billion in output.

“The 2013 *Survey* reminds us that this is no time for complacency, as the need for a more inclusive and sustainable pattern of economic and social development continues to be critical,” United Nations Under-Secretary-General and Executive Secretary of ESCAP, Dr. Noeleen Heyzer said in her preface to the *Survey*.

“In the light of the region’s high degree of economic insecurity, large development and infrastructure gaps and heightened environmental fragility along with extreme exposure to climate change-related risks, it is necessary to better balance the stabilization and the developmental roles of macroeconomic policies,” Executive Secretary Heyzer added.

Limited pick up in growth

The expected improvement in global demand arising from steady growth in the United States and the limited rebound in major emerging economies is projected to help raise developing Asia-Pacific growth to 6.0 per cent in 2013 from 5.6 per cent last year.

China is estimated to record a moderate increase in growth from 7.8 per cent in 2012 to 8 per cent while **India** is projected to recover somewhat from last year’s low of 5 per cent to 6.4 per cent in 2013.

Oil and gas exporting **North and Central Asia** will continue to benefit from high global energy prices, maintaining steady growth. In **South and South-West Asia**, the economies of **Afghanistan, Bangladesh, Bhutan** and **Sri Lanka** are projected to grow 6 per cent or more in 2013.

The export-led economies in **East and North-East Asia** as well as **South-East Asia** are expected to gain from “improved, although still tepid, global trade”. However, domestic demand will be the main economy driver in **Indonesia**, giving it a robust growth of 6.6 per cent in 2013. Strong private consumption will support growth in the **Philippines** (6.2 per cent in 2013) and **Thailand** (5.3 per cent in 2013) while **Viet Nam**’s economy is expected to pick up in the second half of 2013 to 5.5 per cent.

Growth is expected to decelerate in **Pacific island** developing economies in 2013 due to a sharp, energy sector-led slowdown in **Papua New Guinea**, the largest Pacific island economy.

“New normal” of lower growth underlines need to make development inclusive and sustainable

The *Survey* cautions that “much lower growth compared to recent years could become a new normal for many regional economies if present economic trends were to continue” and this could cause an estimated economic output loss of about \$1.3 trillion by end-2017.

Long-term structural issues, such as rising inequality, energy and infrastructure shortages are compounding the regional slowdown and the *Survey* says the “structural solution to invigorating the domestic drivers of growth...will lie in making the development process more inclusive and sustainable”.

With the region home to nearly two-third of the world’s poor and having more than a billion people with insecure livelihoods, the *Survey* highlights the economic benefits of social protection. It makes a first-time estimation of the public investment requirement of a package of social protection and sustainable development policies comprising a job guarantee programme, a universal pension scheme, disability benefits, increased public health spending , universal school enrolment and universal access to modern sources of efficient energy.

Requiring between 5 and 8 per cent of GDP in many Asia-Pacific countries surveyed, this can be self-financed by most countries, although least developed countries, some geographically disadvantaged nations and small island developing states would also require external support.

Moreover, these investments do not carry any risk of macroeconomic destabilization.

Thailand and China show the way

Among measures to support inclusive development, the *Survey* makes a case for a minimum wage policy which can also benefit employers and the economy. It estimates that the recent minimum wage hikes in Thailand could increase job growth by up to 0.6 per cent and real GDP growth by 0.7 per cent by 2015.

Another model of a pro-inclusive growth policy is the ongoing rebalancing of China’s economy which aims to reduce reliance on exports and boost domestic consumption-driven demand by promoting inclusive and sustainable growth. ESCAP estimates this will also benefit intraregional trade, triggering an additional \$13 billion worth of exports by other Asia-Pacific countries to China during 2013-2015 and cause regional export growth to pick up by up to 0.5 percentage points above the level it would otherwise have been.

“The good news is that Asia and the Pacific has already started to rethink and reinvent itself. These efforts should be supported, enhanced and propagated throughout all countries in the region,” Dr. Heyzer said.

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