A number of distinct phases of economic growth have occurred in the Asia-Pacific region over the past four decades. In the 1980s and 1990s, when surplus labour in agriculture began to migrate to jobs in manufacturing and services, regional economies underwent major structural changes. With the emergence of China as the “factory of the world” and the currency adjustments following the 1997 Asian financial crisis, regional economic growth became increasingly dependent on the export of merchandise to advanced economies. When external demand collapsed during the global financial and economic crisis that started in 2008, concerns were raised that the Asia-Pacific region would also be severely affected. However, after a brief downturn, the region’s economic growth rate recovered on the back of fiscal stimulus programmes and rapid credit growth, demonstrating the dynamism of Asia and the Pacific, which accounted for about two thirds of global growth in the years that followed.

This resilience reflected the region’s increased purchasing power, but this was also a time when households and corporates became highly leveraged, despite the existence of excess capacity in certain sectors. Consequently, asset bubbles began to emerge in the context of ample liquidity injected into the global system by the advanced economies. This situation proved unsustainable, and a series of events and trends – sluggish exports, China’s policy-led economic growth moderation, commodity price declines, strengthening of the United States dollar and normalization of its monetary policy, growing inequality and demographic challenges – have pushed the region into a low-growth and high-risk scenario.

The next phase of Asia-Pacific economic growth should, therefore, be driven by further rebalancing towards generation of domestic and regional demand, as well as by broad-based productivity gains. Supporting this strategy requires higher and more targeted fiscal spending, enhanced skills for workers and better infrastructure. Improving agricultural productivity and rural industrialization will also be critical, as 55% of the people in the Asia-Pacific region still live in rural areas. Productivity-led growth will, however, need to be accompanied by steady increases in real wages to support domestic demand and implementation of the 2030 Agenda for Sustainable Development. This approach will improve the quality of growth by making it more inclusive and sustainable.

Recent volatility in financial markets, including exchange rate depreciations, is a reflection of the changing underlying dynamics, which policymakers are finding increasingly challenging to manage. Consumer spending is constrained by high household debt and a declining share of wages in national incomes, while private investment has not been as forthcoming in view of the high levels of corporate debt as well as domestic and global uncertainties. Moreover, despite record low overall inflation in the region, declining global commodity prices have had adverse impacts on commodity exporters, and manoeuvring room for monetary policy has been limited by capital outflow pressures as well as domestic financial stability concerns. Along with the economic slowdown and emerging policy challenges, progress on poverty reduction is slowing, inequalities are rising and prospects of decent employment are weakening.

These are some of the cross-cutting challenges facing the region that are dealt with in this issue of the Survey, which also contains analyses and policy suggestions tailored to specific subregions and countries. These challenges include population ageing and fiscal sustainability issues in East and North-East Asia; economic diversification and development of the services sector in North and Central Asia; natural disasters and risk-sharing mechanisms in the Pacific; female labour force participation in South and South-West Asia; and reforms of tax policy and administration in South-East Asia.
Fiscal policy can play an important role in supporting domestic demand through countercyclical measures and in strengthening the foundations for inclusive and productivity-led growth through better education, health care and infrastructure. A proactive fiscal policy could also alleviate the pressure on public services arising from rapid urbanization and a rising middle class in the region. One caveat is that such fiscal measures should be accompanied by sustained reforms towards achieving an efficient and fair tax system which delivers the necessary revenues.

Active labour market policies are also needed to support employment in times of economic slowdown and to foster a virtuous cycle in which high-quality education and vocational training increase labour productivity and translate into higher wages. At the same time, enhancing social protection for the poor and near-poor is an urgent priority as these groups tend to be highly vulnerable to economic downturns. Regional economic cooperation and integration, particularly in the areas of capital markets, intraregional trade, infrastructure development, and energy and information and communications technology connectivity, are other important avenues to boost domestic and regional demand.

It is also significant that total factor productivity growth has slowed considerably in recent years, as suggested by a sharper decline in output than can be explained by changes in employment and investment. Although cyclical elements may also be in play, fundamental bottlenecks in skills and infrastructure seem to be holding back the productivity potential of the region.

Access to high-quality education and higher research and development spending are important for effective diffusion of technology and innovation. There are also opportunities for productivity gains to be made from agglomeration and scale economies associated with urbanization – for which high-quality infrastructure is critical. At the same time, to ensure that productivity growth is inclusive and broad-based, greater attention needs to be paid to revitalizing agriculture and the rural economy, as well as to enhancing financing for small and medium-sized enterprises. Finally, there is a need to reorient the discussion on productivity to reflect such issues as intensity of resource use – particularly that of energy – and the associated environmental degradation.

All of these issues are closely related to the 2030 Agenda. As the most comprehensive intergovernmental platform for regional cooperation in Asia and the Pacific, ESCAP is strengthening its work in the areas of financing for development, science, technology and innovation, trade facilitation, energy and capacity-building, all of which are critical enablers and means of implementation for sustainable development.

The multidimensional nature of poverty and inequality requires multidimensional solutions. This is why ESCAP is focused on supporting the efforts of member States to revive economic growth across the region and to make it more inclusive, resilient and sustainable.

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