

How inclusive is growth in the Asia-Pacific region?

On September 25, 2015, the international community adopted the *2030 Agenda for Sustainable Development*, a framework that comprises, as a succession to the Millennium Development Goals (MDGs), a set of 17 Sustainable Development Goals (SDGs), with 169 corresponding targets.¹ This framework, which is the culmination of years of deliberations and negotiations that have taken place since the Rio+20 outcome document, *The future we want*, will guide the formulation of development policies for the next 15 years.

The Asia-Pacific region made tremendous progress towards reaching the MDGs. On the back of impressive economic growth, millions of people were lifted out of extreme poverty to the extent that the region reached before the 2015 deadline the first target under the Millennium Development Goal of eradicating extreme poverty and hunger by halving the proportion of people whose income is less than \$1 a day.² Yet, the region still faces significant development challenges. Thus, while it is still home to more than 740 million people, accounting for two-thirds of the world's extremely poor, the region faces an unfinished development agenda in the areas of health, education, gender equality, decent employment and access to safe sanitation and drinking water: an estimated 21 million children are not enrolled in primary school, and 1 in 5 children under age of five, representing 75 million children in total, are underweight. A staggering 1.7 billion people still lack access to safe sanitation.³

These figures suggest that development and economic growth in the region have not been sufficiently *inclusive*. Indeed, the *Economic and Social Survey for Asia and the Pacific (Survey) 2015* demonstrated that the gains of development have been unevenly spread in the region and that large disparities in development outcomes exist between and within cohorts.

As the *Survey for 2015* highlights, *inclusiveness* is a multi-dimensional concept that spans economic, social and environmental dimensions of development. It can therefore not easily be expressed by considering only individual development indicators that relate to any of the three dimensions individually. In the *Survey for 2015*, ESCAP therefore measures the concept

of *inclusiveness* by creating an index to assess how inclusive growth has been across the three dimensions of development in 16 countries in the Asia-Pacific region, accounting for 92 per cent of the region's population and 88 per cent of its GDP.

The *ESCAP Inclusiveness Index* joins the ranks of other composite indicators that relate to "inclusiveness", such as the World Bank's *Country Policy and Institutional Assessment* rating; the *Human Development Index* of UNDP and the *Framework of Inclusive Growth Indicators* of the Asian Development Bank. However, the scoring method of the *ESCAP Inclusiveness Index* is clear, with equal, rather than subjective, weights attached to the indicators that only comprise output variables of inclusiveness, rather than representing a mix of input variables (that represent policies) and output variables.

ESCAP's Inclusiveness Index suggests that growth has been inclusive over recent years at the macroeconomic level in the Asia-Pacific region. It also shows that some countries made more progress than others in increasing their scores. For instance, China, the Islamic Republic of Iran and Sri Lanka saw a rapid increase in scores between the 1990s and the period 2000-2012. Also, despite little change in ranking, the scores increased significantly in those economies ranked at the bottom of the table in the 1990s.

Table 1. ESCAP Scores (and ranking) of inclusiveness index, 1990s and 2000-2012

Countries	1990-1999	2000-2012	Countries	1990-1999	2000-2012
Bangladesh	0.54 (12)	0.6 (12)	Nepal	0.48 (15)	0.6 (13)
Cambodia	0.51 (14)	0.56 (15)	Pakistan	0.46 (16)	0.55 (16)
China	0.65 (10)	0.73 (7)	Philippines	0.66 (7)	0.7 (10)
India	0.53 (13)	0.6 (14)	Russian Federation	0.77 (2)	0.8 (2)
Indonesia	0.58 (11)	0.68 (11)	Sri Lanka	0.71 (6)	0.77 (5)
Iran (Islamic Republic of)	0.66 (8)	0.73 (6)	Tajikistan	0.72 (5)	0.73 (8)
Kazakhstan	0.8 (1)	0.82 (1)	Thailand	0.73 (3)	0.79 (3)
Malaysia	0.72 (4)	0.78 (4)	Turkey	0.65 (9)	0.72 (9)

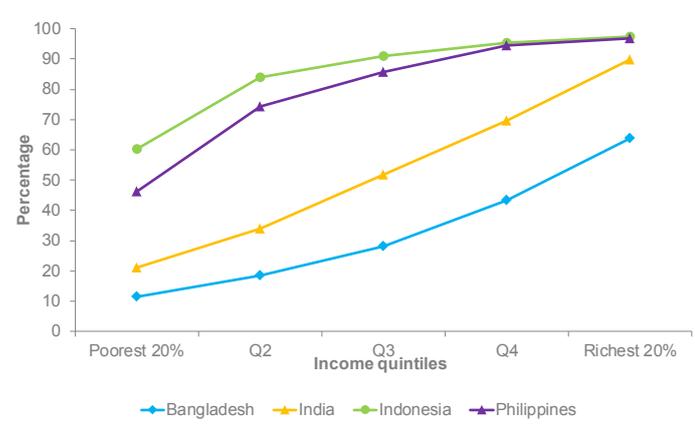
Source: ESCAP calculations.

Note: Scores between 0 and 1, where higher scores are associated with more inclusiveness

The findings of the *Survey* for 2015 are, however, worrying as they point to significant differences in access to critical public goods, such as education and health services, across income quintiles and that women and rural people are usually worse off than men and urban people. For instance, whereas in Sri Lanka almost all children (99.4%) in the primary school age group are attending school, attendance of children in Pakistan is largely determined by the economic circumstance of parents, with only 57.4% of children from lowest-income quintile attending primary school in 2007/08 compared with 93.2% of those in the top quintile. Gender differences are also prevalent across income groups: in India, for instance, girls in the lowest income quintile receive only 3 years of education on average, compared to 5.5 years for boys; in the highest income quintile they receive as much as boys (11 years). In Pakistan, girls in the poorest quintile receive less than a third of the 3.8 years that boys receive, while the gender gap almost disappears in the richest quintile, where boys and girls receive 9.1

Differences are also observable in access to health services. In many countries, the use of skilled birth attendants increases with income, but not proportionally. This suggests that other factors in addition to affordability also play a role. For instance, in Indonesia among the poorest 20% of the population, only 7.8% of babies were delivered by doctors in 2014 compared with more than 40% for the richest 20% of the population. In Bangladesh, skilled birth attendants were present for only one in ten of births for the lowest-income quintile, compared to almost two-thirds for the highest-income quintile (figure 1).

Figure 1. Percentage of skilled birth attendance in three years preceding the survey, by income quintile. Most recent household data available.



Source: ESCAP calculations.

These differences in access to services are particularly worrying in view of the widening income inequalities that have been observed in many countries, particularly the region's more populous economies, including Bangladesh, China, India and Indonesia.

One reason for the uneven progress is that economic growth has not created enough decent jobs in a region where large parts of the labour force are in the informal sector. Thus, while agriculture contributes only 10 per cent to total GDP, it still accounts for 40 per cent of all employment in the region. In this regard, the development of small and medium-sized enterprises and rural industrialization is crucial for generating adequate livelihoods for the majority.

Inclusive growth also requires public expenditure to promote equality of opportunity, for example, by broadening access to education and health services and strengthening social safety nets. Indeed, the *Survey* for 2013 highlighted that financing a package of policies that provided (i) a 100-day-per year job guarantee to all informal sector workers; (ii) a universal pension; (iii) disability benefits to all persons with disabilities; (iv) universal health coverage by 2030; (v) universal basic schooling by 2030; and (vi) universal access to modern energy services by 2030, would require public spending between 5 and 8 per cent of GDP in ten Asia-Pacific countries. As demonstrated in *Survey* for 2014, there is ample tax potential in many countries in the Asia-Pacific region, such that harnessing such investments would not jeopardize fiscal sustainability and price stability, making this a win-win policy approach for people, planet and the economy.

In view of these challenges, and despite the progress that has been registered in recent years, the Asia-Pacific region clearly needs to fully embrace the SDGs and to complete its unfinished development agenda.

¹ See A/RES/70/1

² The line of extreme poverty was updated to \$1.90 a day measured at 2011 international prices adjusted for purchasing power parity (PPP) in October 2015.

³ ADB, ESCAP and UNDP (2015). *Asia-Pacific Regional MDGs Report 2014/15. Making It Happen: Technology, Finance and Statistics for Sustainable Development in Asia and the Pacific*. Poverty figures in this report are based on the \$1.25 a day line.

The MPDD Policy Briefs aim at generating a forward-looking discussion among policymakers, researchers and other stakeholders to help forge political will and build a regional consensus on needed policy actions and pressing reforms. Policy Briefs are issued without formal editing. This issue is prepared by Oliver Paddison. This policy brief benefitted from comments and suggestions by Hamza Ali Malik and Steve Loris Gui-Diby. For further information on this issue, please contact Aynul Hasan, Director, Macroeconomic Policy and Development Division, ESCAP (escap-mpdd@un.org).

www.unescap.org/pdd