Lunch Keynote Speech: Dr. Masahiro Kawai (Dean, ADBI / JANCPEC Member)

The motivation for the keynote speech was to fully explain the difference between poverty reduction and inclusive growth.

As a background to this issue, Dr. Kawai said that he would first discuss the trans-pacific growth rebalancing issue. East Asian economies had been running large current account surpluses for years by exporting to North America and Europe. Export levels had fallen as the economies in these two locations contracted as a result of the financial crisis. Even with economic recoveries in North America and Europe, no one could be sure if East Asia's export levels would return to what they once were. The challenge faced by East Asian countries was how to achieve economic growth without excessively relying on exports to these external markets.

Both demand-side and supply-side efforts were vital. On the demand side, Dr. Kawai hoped household consumption could be raised on a sustained basis. Investment would also help the overall growth strategies of countries where investment was stagnant. On the supply side, a number of shifts were necessary, including those to reduce market distortions, enhance the production of services, promote green industries, improve investment climates, support SMEs, and develop human resources.

There was a need for an environment in which East Asian economies could produce and export more within the region in order to reduce dependence on the outside. Asia was also in need of a new development paradigm to redress imbalances by encouraging inclusive growth. Inclusive growth meant the promotion of greater access to opportunities and efforts to make the benefits of growth more equitably and broadly shared. It focused on the needs of low income people aspiring to join the middle class.

The concept of inclusive growth included poverty reduction, but its primary focus was different. Dr. Kawai showed the meeting a chart detailing the average income levels of each country in East Asia. He noted that, as an example, in 1990 about 65% of Chinese were in the lowest income bracket, earning between US$0-1,000 per household per year. That number had shrunk to 9% in 2008. The biggest income group was now the US$1,000-5,000 group, which accounted for 57%, followed by the US$5,000-35,000 group accounting for 33%. In other words, the majority of the people in China were no longer in the "poor" group but were now in the low income and middle income groups. Poverty reduction continued to be important because 9% of the country's population was still impoverished, but if the government was to be truly effective, it had to focus policy on the majority group, which was now slightly wealthier. Throughout Asia, people were shifting from the poor to the low-income group, and to the middle class. This was why policy programs were shifting from poverty reduction to inclusive growth. Newly emerging people required new policies

One of the challenges for inclusive growth is to address inequalities in income distribution. Rising gaps in income and non-income inequalities may negatively affect economic growth. According to available statistics, there had been a slight increase in income inequality in China, Indonesia, Philippines, and Vietnam, and large increases in Hong Kong, Singapore, and Japan. Korea, Malaysia, and Thailand had seen declines, though there may be some data problem in Korea and Malaysia.

There were two tracks for creating inclusive growth. One was to create new opportunities for balanced and sustainable growth through the right macro, trade, and financial sector policies combined with good governance. The second track was the promotion of social inclusion, through social sector protection programs, which could broaden access to opportunities for all members of society. In this context, support for infrastructure, education, health, housing, unemployment systems, SMEs, and microfinance was important.

Dr. Kawai noted that, for some participants, his emphasis on infrastructure as a basis for inclusive growth may be a surprise. He said that infrastructure programs to improve water, electricity, and transportation had a strong impact on each country’s economic well-being and public health. Soft infrastructure was important as well; if there was no clear rule of law, transparency or accountability in government, citizens in society had nothing to protect them.

The Asian Development Bank has compiled an index concerning the amount spent on social protection in each country in the region and found that Japan and South Korea were the East Asian countries which spent the most as a share of GDP (Japan being the first and Korea the fifth). However, when compared to countries in the industrialized world, Japan ranked number 20, and South Korea ranked number 30 and lowest among 30 OECD countries – facts which Dr. Kawai said highlighted that countries in East Asia did not spend enough on social protection. Countries in the region spent on average only 4.8% of their GDP on social protection, and more than a half of this usually went to social insurance, which more than likely only benefited those working in the formal sector.

East Asian countries needed to work to transform their economies and shift their sources of growth away from dependency on extra-regional demand toward domestic and regional demand. At the same time, Dr. Kawai hoped that the region could work to foster inclusive growth in order to help low- and middle-income people cope with risks and make greater contributions to the region.