Policy Dialogue
Economic and Social Survey of Asia and the Pacific 2016

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Kathmandu, Nepal
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Asia-Pacific Region’s *Survey* since 1947

ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC

1947-2016
Outline

1: Economic outlook and policy challenges

2: Perspectives from subregions and countries

3: Increasing productivity

4: Way forward
Key messages

• The Asia-Pacific region has experienced considerable slowdown in economic growth and productivity gains in recent years

• The Asia-Pacific region’s progress on poverty reduction is slowing, inequalities are rising and prospects of decent employment are weakening

• Productivity and SDG are closely linked; investing in these goals will increase productivity and help economic growth
Regional perspectives

Economic outlook and policy challenges
Growth outlook is broadly stable but clouded by uncertainty

• Growth is declining since 2010
• A moderate pickup is expected
• A confluence of macroeconomic risks cloud the outlook

Real GDP growth in developing Asia-Pacific, advanced economies and world, 2006-2017

- Year-on-year percentage change

Developing Asia-Pacific
Advanced economies
World
Key policy challenges

• Weak trade and subdued domestic demand

• Capital flow and exchange rate developments contribute to uncertainty

• Navigating monetary policy trade-offs remains challenging

• Fiscal policy requires balancing fiscal discipline and flexibility

• Growing household and corporate debt indicate increasing risks
Survey views..

Percentage growth in exports to China for selected Asia-Pacific economies, 2010-2015

Exchange rate indices in selected Asia-Pacific economies, 2013-2016
Survey views..

Monthly inflation and policy interest rates in selected Asia-Pacific economies, 2013-2016

- Average policy rate: net commodity importers
- Average inflation: net commodity importers
- Average inflation: commodity exporters

Household and corporate debt in selected Asia-Pacific economies

- Household debt
- Corporate debt

Average policy rate: net commodity importers
Average inflation: net commodity importers
D/E 2014
D/E 2014 (RHS)
D/E 2007 (RHS)

Average inflation: commodity exporters

United Nations ESCAP
Economic and Social Commission for Asia and the Pacific
Improving quality of growth

• Poverty reduction and addressing growing inequality

• Rising middle class creates challenges but also offers opportunities

• Phenomenon of urbanization

• Labour market policies for growth with decent employment opportunities and adequate wage
Average rate of reduction of the poverty headcount ratio at $1.90 a day, pre-crisis and post-crisis periods

Gini coefficients of inequality, 1990s and latest

Percentage income distribution in selected Asia-Pacific economies, 2013
Key policy suggestions

• Financial sector measures to manage growing household and corporate debt

• Enhancing tax revenues through base-broadening

• Regional cooperation and integration to foster domestic demand
Survey views..

Number of macroprudential measures used in selected Asia-Pacific economies

Income and property tax revenues, % of GDP, in selected Asia-Pacific economies

- Borrower targeted
- Financial institution targeted
- Total in 2007

- Personal income tax
- Corporate income tax
- Property tax

United Nations ESCAP
Economic and Social Commission for Asia and the Pacific
Subregional perspectives

Economic outlook and policy challenges
Divergence in growth outlook

- Divergence is prevalent across and within subregions
- Macroeconomic policy challenges determine growth outlook

Real GDP growth in subregions in Asia-Pacific, 2012-2017

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Cautiously optimistic outlook in South and South-West Asia

**Real GDP growth**

- South and South-West Asia
- Asia-Pacific region
- World

**Consumer inflation**

- South and South-West Asia
- Asia-Pacific region
- World

**Note:** South and South-West Asia subregion consists: Afghanistan, Bangladesh, Bhutan, India, Iran (Islamic Republic of), Maldives, Nepal, Pakistan, Sri Lanka and Turkey
Growth outlook in Nepal

Real GDP growth

Year-on-year percentage change

2014 2015 2016 2017

Developing Asia-Pacific: 5.4%
South and South West Asia: 3.4%
Nepal: 2.2%

Nepal (Average pre-crisis growth): 3.3%

Consumer inflation

Year-on-year percentage change

2014 2015 2016 2017

Developing Asia-Pacific: 7.6%
South and South West Asia: 6.4%
Nepal: 3.7%
Policy issues and messages in Nepal

• Near-term
  ✓ Catastrophic earthquakes in April 2015
  ✓ Subpar monsoon season that resulted in weak agricultural growth
  ✓ Recent strikes and disruptions of trade routes in certain parts of the country

• Medium-term
  ✓ A trade agreement with the USA
  ✓ An agreement with India to develop two large-scale hydropower projects

• Policy messages
  ✓ To address persistent under disbursement of allocated budgets
  ✓ Tax administration and compliance could be improved
  ✓ Government announced the issuance of a reconstruction bond
Theme topic: Productivity

Increasing productivity
Productivity and the SDGs are closely linked

Investing in the Sustainable Development Goals will also foster productivity growth, creating a virtuous cycle between sustainable development and productivity.
Key observations

• Slowing down in productivity growth

• Disconnect between wages and productivity

• De-industrializing and agriculture is lagging behind
## Trend in total factor productivity growth, by region

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<td>2.32</td>
<td>0.86</td>
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Survey views...

Labour income share from 1991 to 2011 in Asia-Pacific (percentage of output)
Why regional productivity is slowing down?

• Lack of quality of labour (including knowledge, skills and health of the workforce)

• Firms need to be exposed to different products and processes, and are more likely to innovate and benefit from technological diffusion.

• FDI is required to transfer of technology and generate knowledge spillovers

• Poor infrastructure for energy supply and distribution

• Availability of finance, particularly for SMEs
Survey views…

Research and development expenditure (% of GDP)

Decline in foreign direct investment and labour productivity growth in the Asia-Pacific region

Average change of labor productivity growth between 2000-2007 and 2008-2013 (in %)

Average change of FDI between 2000-2007 and 2008-2013 (in % of GDP)
Productivity story in Nepal

Share of agriculture in GDP and employment

Agricultural productivity gap

- AVA in GDP (1981-1990)
- AVA in GDP (2011-2013)
- SAE (%) (1981-1990)

- Gap 1981-1990
- Gap 2011-2013
Productivity story in Nepal

Ratio between agriculture VA per worker and GDP per capita

Decomposition of aggregate labour productivity growth, 1990s and 2000s

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<tr>
<td>Bangladesh</td>
<td>14.04</td>
<td>32.98</td>
<td>52.98</td>
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Graph showing the ratio between agriculture VA per worker and GDP per capita for various countries, with a focus on Nepal, Turkey, Sri Lanka, India, Pakistan, and Bangladesh. The graph also shows the decomposition of aggregate labour productivity growth for the 1990s and 2000s, with data for Agriculture, Industry, and Services.
## Sources of agricultural output growth

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<td>1.69</td>
<td>2.52</td>
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- **Output growth due to expansion of land area**
- **Output growth due to intensive use of agricultural inputs (inputs/area)**
- **Output growth due to growth in total factor productivity**
- **Total agricultural output growth**
Observations in Nepal

• Near-term
  ✓ Catastrophic earthquakes in April 2015
  ✓ Subpar monsoon season that resulted in weak agricultural growth
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• Medium-term
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Policy messages

- Raising productivity in the rural sector is important for attainment of the SDGs

- ESCAP estimates if agriculture productivity is raised, at least 110 million people could be lifted out of extreme poverty by 2030 in Asia-Pacific.
Way forward

Regional policy messages with a reference to Nepal
Key policy recommendations

• Improving quality of growth, and driven by broad-based productivity gains and rebalancing of economies towards domestic and regional demand

• Using fiscal policy (efficient and fair tax system) and supportive social protection measures

• Enabling steady growth in real wages

• Targeting fiscal spending, enhanced skills through quality education, better infrastructure and improved agriculture productivity

- Asia-Pacific countries with special needs (CSN): LDCs, LLDCs and SIDS
- Theme: “Adapting the 2030 Agenda for Sustainable Development at the National Level”

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