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ASIAN DEVELOPMENT

# Outlook 2012

Confronting Rising Inequality in Asia

Asian Development Bank

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# Outlook 2012

**Confronting Rising Inequality in Asia**

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# Contents

Foreword	v
Acknowledgments	vii
Definitions	viii
Acronyms and abbreviations	viii

## **ADO 2012—Highlights** ix

### **Part 1: Maintaining growth in an uncertain world** 1

Steady growth amid global weakness	4
Eurozone uncertainties and developing Asia	14
Macro-policy directions for developing Asia	24
Annex The external environment	30

### **Part 2: Confronting rising inequality in Asia** 37

Rising inequality concerns in Asia	38
Income inequality in Asia	45
Inequality of opportunity	53
What drives inequality in developing Asia?	62
Confronting rising inequality: Policy options	74

### **Part 3: Economic trends and prospects in developing Asia** 97

#### **Central Asia** 98

Armenia	99
Azerbaijan	103
Georgia	107
Kazakhstan	111
Kyrgyz Republic	116
Tajikistan	120
Turkmenistan	124
Uzbekistan	126

#### **East Asia** 130

People's Republic of China	131
Hong Kong, China	137
Republic of Korea	141
Mongolia	146
Taipei, China	150

**South Asia 154**

Afghanistan 155  
Bangladesh 158  
Bhutan 163  
India 166  
Maldives 171  
Nepal 173  
Pakistan 177  
Sri Lanka 182

**Southeast Asia 186**

Brunei Darussalam 187  
Cambodia 189  
Indonesia 193  
Lao People's Democratic Republic 199  
Malaysia 202  
Myanmar 206  
Philippines 209  
Singapore 214  
Thailand 218  
Viet Nam 223

**The Pacific 228**

Fiji 229  
Papua New Guinea 232  
Timor-Leste 236  
Small Pacific countries 239

**Statistical appendix 250**

Statistical notes and tables 251

# Foreword

The economies of developing Asia are maintaining their impressive growth trajectories. Yet the global backdrop in 2012 is one of uncertainty: the eurozone is grappling with its sovereign debt crisis; and more generally, stagnation in the major industrial economies of the United States, Europe, and Japan—developing Asia’s main trading partners—is stunting demand for Asia’s products. For these reasons, the *Asian Development Outlook 2012* forecasts that growth in developing Asia will ease to 6.9% in 2012 (from 7.2% in 2011) before coming back to 7.3% in 2013.

Developing Asia will have to adjust to lower export demand from the advanced economies for some time to come. These economies are expected to expand by just 1.1% in 2012 and 1.7% in 2013, as austerity measures, fiscal consolidation, and weak private domestic demand stall their growth for the next 2 years—at least. Increased local demand in Asia has offset some of this lost trade, but it will need to take up more of the slack.

Fortunately, the commodity price pressures that built up in early 2011 are subsiding. Inflation in the region is expected to slow to 4.7% in 2012 and 4.4% in 2013. Political instability in the Middle East, however, could lead to sudden cuts in oil supplies, resulting in temporary spikes in the price of this critical commodity and reviving inflation in developing Asia.

The greatest risk to Asia’s enviable growth rates in the near term is the sovereign debt crisis in the eurozone. Although a second international bailout of Greece in March 2012 prevented a disorderly default and diminished the risk of a liquidity crunch in the short run, the crisis is far from over—and the eurozone is teetering on the brink of recession. Europe’s problems are having global repercussions, but Asia is fairly well placed to weather the storm.

Developing Asia’s policy makers cannot, however, be complacent. They need to be ready to respond if the eurozone deteriorates, particularly as global value chains—Asia’s growth-generating cross-border production networks—and sudden reductions in trade finance can magnify an external shock.

Even if a major external risk to the forecasts materializes, developing Asia has some scope for macroeconomic policy responses. Since the last global crisis eased, budget deficits have been narrowed, policy interest rates have been raised, and regional and global safety nets for liquidity support have been strengthened.

The eurozone crisis highlights the need for developing Asia to rebalance its economies toward domestic and regional demand and from dependence on exports destined for advanced countries. It also provides added urgency to efforts to broaden and deepen regional cooperation, reduce trade barriers, and promote intraregional trade.

Of perhaps greater threat to developing Asia's long-term growth and stability is the widening disparity in the region between the "haves" and "have nots"—an issue of growing concern explored in this year's theme chapter. Despite the region's rapid growth, the last two decades have witnessed widening income disparities. Most people in the region—about four-fifths of them—live in countries that are becoming more unequal.

Inequitable access to new technology, education, infrastructure, and investment are fueling the divide, particularly between rural and urban areas and between coastal and inland provinces. Bridging this growing gap is essential to promote inclusive growth, and to make growth sustainable. The social and political consequences of an Asia left to divide itself by wealth can no longer be ignored.

It is time for governments in Asia to focus on policies that share the benefits of development fairly, and that maintain healthy growth rates. These policies include fiscal policy enhancements such as increases in spending on education and health, conditional cash transfers for the poor, and more equitable revenue mobilization; more investment in infrastructure to reduce imbalances between developed and lagging areas; and employment-friendly measures to encourage the creation of high-quality jobs.



Haruhiko Kuroda  
President  
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# Definitions

The economies discussed in the *Asian Development Outlook 2012 (ADO 2012)* are classified by major analytic or geographic groupings. For purposes of *ADO 2012*, the following apply:

- **Association of Southeast Asian Nations (ASEAN)** comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.
- **Developing Asia** refers to the 44 developing member countries of the Asian Development Bank and Brunei Darussalam, an unclassified regional member.
- **Central Asia** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- **East Asia** comprises the People’s Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei, China.
- **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka.
- **Southeast Asia** comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.
- **The Pacific** comprises the Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Papua New Guinea, Palau, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.
- Unless otherwise specified, the symbol “\$” and the word “dollar” refer to US dollars.

*ADO 2012* is generally based on data available up to **16 March 2012**.

# Acronyms and abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CPI	consumer price index
EFSF	European Financial Stability Facility
EU	European Union
FDI	foreign direct investment
FY	fiscal year
GDP	gross domestic product
IMF	International Monetary Fund
HOI	human opportunity index
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PRC	People’s Republic of China
SME	small and medium-sized enterprise
UNCTAD	United Nations Conference on Trade and Development
US	United States
VAT	value-added tax
WTO	World Trade Organization