

# **ASIAN DEVELOPMENT**

# Outlook 2012

**Confronting Rising Inequality in Asia** 

Asian Development Bank



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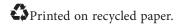
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# **Foreword**

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 highquality jobs.

Haruhiko Kuroda

President

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