

# ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC

2012



## PURSUING SHARED PROSPERITY

IN AN ERA OF TURBULENCE AND HIGH COMMODITY PRICES

ESCAP is the regional development arm of the United Nations and serves as the main economic and social development centre for the United Nations in Asia and the Pacific. Its mandate is to foster cooperation between its 53 members and 9 associate members. ESCAP provides the strategic link between global and country-level programmes and issues. It supports Governments of countries in the region in consolidating regional positions and advocates regional approaches to meeting the region's unique socio-economic challenges in a globalizing world. The ESCAP office is located in Bangkok, Thailand. Please visit the ESCAP website at [www.unescap.org](http://www.unescap.org) for further information.



*The shaded areas of the map indicate ESCAP members and associate members.*

### **The cover design concept**

The concept of the cover is inspired by a stone garden. A difficult path meanders through irregular and uneven stones towards a zone of light and prosperity. This depicts the message of the *Survey* that through appropriate policies the region can steer its development amidst a backdrop of global turbulence and high commodity prices towards the objective of achieving shared prosperity for all in Asia and the Pacific.

*Cover design by Marie Ange Sylvain-Holmgren*

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## FOREWORD

Growth in the Asia-Pacific region slowed in 2011 as the region grappled with inflation, weakening economic prospects in Western developed economies and several catastrophic natural disasters, including an earthquake and tsunami in Japan, an earthquake in New Zealand and floods in Australia, Pakistan and Thailand.

The region continues to face serious challenges to growth and financial stability as a result of the sovereign debt crisis in the euro area and renewed commodity price volatility. With tight macroeconomic policies and prolonged anaemic growth in developed economies, there is a risk that restrictive measures on trade and investment will intensify.

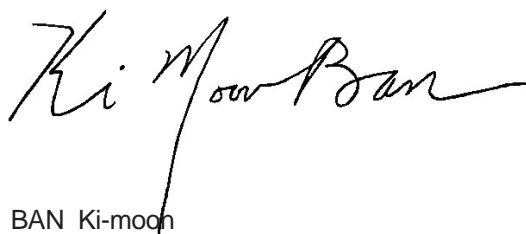
Such developments would place additional burdens on the least developed countries and other low-income countries, which are the most sensitive to protectionist policy measures owing to their high dependence on markets in advanced economies. There remains a need for concerted efforts to conclude the Doha Round with a development-oriented outcome, as was reiterated in the Istanbul Programme of Action adopted at last year's Fourth United Nations Conference on the Least Developed Countries. Doing so would boost confidence in the global trading system and create much-needed opportunities for low-income countries to build and diversify their export base.

Despite the slowdown in Asia and the Pacific, the region was the fastest growing in the world in 2011 and remains the engine of global economic growth. With robust domestic demand in several Asia-Pacific economies, the region is becoming increasingly important for other developing regions. To support these trends, Asia-Pacific economies should complement their active participation in global trade with greater efforts to increase domestic demand. Such an approach would deepen

South-South cooperation and generate further gains for low-income countries. This *Survey* proposes a number of policies that would contribute to such a rebalancing, and that would benefit poor people in particular, of whom nearly 900 million live in the Asia-Pacific region.

The forthcoming United Nations Conference on Sustainable Development is an important opportunity for the world and for the region. A good outcome at Rio+20 can solidify a more holistic approach to the economic, social and environmental pillars of sustainable development – connecting the dots among key issues such as water, food and energy security, climate change, urbanization, poverty, inequality and the empowerment of the world's women. Rio+20 is also a chance to support the development of a green economy across the Asia-Pacific region, including by increasing agricultural productivity through investment and knowledge-intensive farming. This is especially critical in the context of rising food and commodity prices and given the importance of the rural sector, which is home to the majority of the region's poor.

This *Survey* provides a timely and thorough look at the challenges confronting the Asia-Pacific region. I commend its analysis and policy advice to a wide regional and global audience.

A handwritten signature in black ink, reading "Ban Ki-moon". The signature is fluid and cursive, with a long vertical line extending downwards from the end of the name.

BAN Ki-moon  
Secretary-General of the United Nations

April 2012



## PREFACE

Asia and the Pacific faces a challenging external environment in 2012 with the world economy entering a second stage of the financial crisis. The slow growth of developed economies, and the impact of some of the measures to revive their economies, particularly loose monetary policies and trade protection, present persistent headwinds for the region. Slackening demand for the region's exports from advanced economies and higher costs of capital are forecast to contribute to a further slowdown in growth to 6.5% in 2012.

Despite the slowdown, Asia and the Pacific will continue to be the fastest growing region globally and an anchor of stability in the world economy. With its continued dynamism, the region has begun to play the role of a growth pole for other developing regions, such as Latin America and Africa, helping them to reduce their dependence on the low-growth developed economies as South-South trade becomes an important trend.

A critical challenge for the region is commodity price volatility, which continues to raise global concerns about inflation, hunger and poverty. This year has seen a renewed bout of oil price increases, while food prices have also stayed at close to record levels in many cases. The *Survey* argues that, in addition to price volatility, there is a long-term trend of rising commodity prices, which has long-lasting and deep consequences. The increases in the prices of oil and other commodities should be viewed against the backdrop of the strong and rising economic performance of emerging economies. Tight global supply coupled with financial speculation in the commodity markets, global liquidity and non-economic supply shocks, such as political instability in oil-producing countries, are likely to produce a "new normal" of persistent volatility and a long-term rise in commodity prices.

The impact of the commodity boom will depend on the extent to which price shifts alter incentives within economies towards or away from diversification and structural transformation. Prices of primary products also soared during the industrial revolution, creating incentives for poor periphery countries to further specialize in primary products. This not only delayed their industrialization but gave rise to the great income divergence between core and periphery countries, much of which persists today. This time around, the dynamics are more complex but the asymmetric incentives resulting from the commodity boom again create long-term risks for increasing global divergence.

As development in Asia and the Pacific remains buffeted by the crisis, increasing inequalities in the region have become a growing concern. Income inequality has increased strikingly in the region as a whole in recent years, with many of the major developing economies among those experiencing rises. Social progress in Asia and the Pacific has been hampered by increasing income inequality. Achievement of the health-related and educational aspects of human development, when adjusted for inequality, is considerably lower for many countries in the region, ranging from a potential loss in achievement of 10% to 30%. Another challenge is the inability of strong economic growth in the region to create adequate employment opportunities in the formal sector, especially for youth. As a result, more than one billion workers in Asia and the Pacific are in vulnerable employment. It is abundantly clear that the region must improve the quality of its growth to make it more inclusive of those who have been left behind.

To meet the challenges to the region's progress, the good news is that most countries are in a favourable position to undertake a wide range of actions to stimulate and rebalance growth to make it more durable and better serve those most in need. An inclusive development path would be one that boosts new growth drivers by addressing the wide gaps in income and social progress in Asia and the Pacific. Widening disparities between countries make it ever more important for countries in the region to deepen their integration. The 2012 edition of the *Survey* outlines

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