

# **ECONOMIC AND SOCIAL SURVEY OF ASIA AND THE PACIFIC 2010**

**SUSTAINING  
RECOVERY AND DYNAMISM  
FOR INCLUSIVE DEVELOPMENT**

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 vertical structures (red and green) represent patterns of development pursued in the past. The inability to return to 'business as usual' in the aftermath of the crisis has led to a discussion on the need for a rebalancing in favour of greater domestic and regional demand. The *Survey* argues that this could be achieved through more inclusive and sustainable growth. This is represented by the orange structure which is horizontal and wider, thus more stable and durable, signifying inclusiveness and sustainability whereas vertical structures strive upwards monolithically, leaving out people, ideas and issues.

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*Sustaining Recovery and Dynamism  
for Inclusive Development*

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# FOREWORD



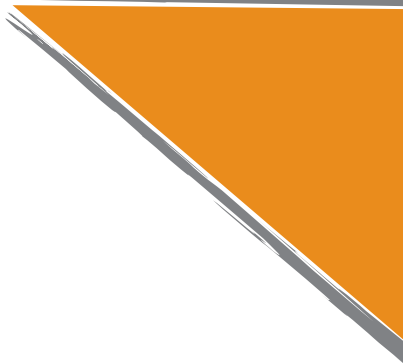
The Asia-Pacific region leads the process of recovery from the global financial and economic crisis and emerges as a focus of global growth and stability.

However, the recovery of the world economy at large remains fragile. This poses risks for sustained recovery in Asia as well, given its export dependence. A more balanced recovery is needed and this will require more globally concerted policy efforts.

As we embrace the emerging role of the region as a significant driver of economic growth, we should not lose sight of the challenges ahead. In parts of Asia, unemployment rates are still up and poverty remains widespread. Without addressing the poverty and climate change challenges, economic growth will prove elusive over time.

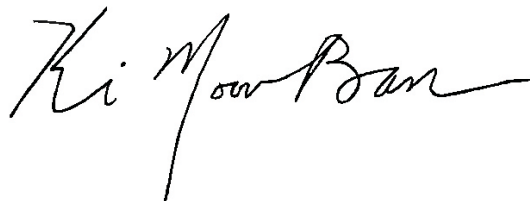
The challenges are linked. Our solutions must be, too. We must recognize our interdependence; no nation can hope to find economic security without taking into account the well-being of others. Therefore our strategies must address both global and regional imbalances, and must do so in many spheres at once: economic, social and environmental.

The United Nations will convene a Summit in September 2010 to review progress in achieving the Millennium Development Goals (MDGs). The Asia-Pacific region has made remarkable headway, which demonstrates that the MDGs are indeed achievable. But more needs to be done to scale up successes and identify and remove barriers and obstacles. Five years before the 2015 deadline, the Summit provides us with a timely opportunity to address major interconnected development challenges and to give the MDGs a final push, including in the Asia-Pacific region.



In this regard, the *2010 Economic and Social Survey of Asia and the Pacific* provides a comprehensive analysis of the challenging policy landscape and offers recommendations for the way forward. In the aftermath of the crisis, we see clear momentum for regional economic cooperation. ESCAP, as the only intergovernmental forum which brings together all the countries and territories in the Asia-Pacific region, will be playing a critical role in leading the deliberations over next steps.

As it turns out, the global crisis may give new impetus for establishing a robust regional framework for economic cooperation that will help us build more equal and sustainable economies in Asia and the Pacific. This would not only be the region's gain, but essential for the sustainable development of the world at large.



BAN Ki-moon  
Secretary-General of the United Nations

April 2010

# EXECUTIVE SECRETARY'S PREFACE



By early 2010, following the first global economic contraction in modern history, the contours of a V-shaped rebound were evident in the Asia-Pacific economies – assisted in large part by a number of unprecedented fiscal stimulus packages. But the rebound remains fragile and uneven, with a number of downside risks. While 2009 was a year of emergency crisis management, 2010 will be a year when economic policy making will be even more complex. Turning the rebound into a sustained recovery will mean keeping up the momentum while maintaining macroeconomic stability in the face of rising inflationary tendencies and the potential for asset bubbles.

The crisis has also drawn attention to the underlying global and regional structural imbalances built up over decades. Redressing these multiple imbalances and development gaps, and achieving a sustained recovery after the withdrawal of the fiscal stimuli, will require moving towards fairer, more balanced and sustainable patterns of development. Asia and the Pacific is unlikely to be able to return to business as usual. Instead it will increasingly have to drive its own development and create new sources of economic growth from within the region.

In this radically altered global panorama, the Asia-Pacific region is now emerging as a central participant in international economic relations. To fulfil this potential, however, it will need to implement an ambitious set of policies. The *Economic and Social Survey of Asia and the Pacific 2010* explores this complex environment and – lest the V-shaped rebound induces complacency – outlines the elements of a coherent regional policy agenda.

## *2009: an uneven pattern of impacts*

Even at the height of this crisis, Asia and the Pacific displayed a new-found resilience. Its developing economies achieved an annual growth rate of 4.0%, making it the fastest-growing region in the world. However, almost all of this growth came from the two most populous countries: China, which grew by 8.7%, and India, by 7.2%. Indeed, excluding these fast-growing sub-continental economies, the Asia-Pacific developing economies contracted in 2009 by 0.6%.

These contrasting performances resulted from many different factors. The first concerned the extent of dependence on developed country markets. All the worst-affected countries had shares of exports to GDP that exceeded 60%, and the greater the share of these exports that were absorbed by the developed markets the greater was the economic contraction. Related to this, the countries most exposed to global trade perturbations were those, including many in East and South-East Asia, whose exports involved regional production networking arrangements – for products such as apparel, machinery, electronics, and motor vehicles. They saw their exports plummet almost twice as rapidly as in the 1997 crisis. On the other hand, countries such as Bangladesh, which exported simpler products such as low-cost garments, became more competitive and gained market share. There is also evidence that intra-regional trade has continued to expand, especially through exports to China and India.

The second factor concerned the extent of exposure to the exit of portfolio capital as investors sought to cover their losses in the western capital markets. This brought pressures on exchange rates and created financial instability as well as liquidity problems in countries that did not have adequate reserves. Although, compared with the 1997 crisis, more countries had strong foreign exchange reserves, some had to arrange bilateral swaps, as the Republic of Korea and Singapore, or seek liquidity from the IMF, as Pakistan and Sri Lanka. Nevertheless, it is by no means clear what is an optimum stock of foreign reserves since, as the crisis revealed, holding foreign reserves idle also entails both costs and risks. *Survey 2010* proposes a yardstick for gauging such vulnerabilities.

The third factor explaining the contrasting experiences was the varying capacity to respond. The countries best able to mount rapid and large counter-cyclical spending programmes were those that entered the crisis with strong macroeconomic fundamentals; in particular, stable inflationary trends, sound fiscal balances and low ratios of public debt to GDP. The massive additional fiscal spending helped reduce the impact of lower exports and the falling demand for services such as tourism, as well as reduced growth of migrant remittances. Even more important, the stimulus also afforded some protection to the vulnerable workers who had lost their jobs, typically the unskilled and young

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