

# Asia's *Coming Shift*

BY PETER PETRI AND VINOD THOMAS

*It is time for some  
new priorities.*

**A**fter several decades of extraordinary economic growth, most Asian economies are now slowing. Asian growth is facing stiff headwinds in part from the slow recovery of the global economy. But some problems are home-grown: rising income disparities are weakening demand, environmental destruction is taking a toll, health costs are escalating, and governance failures are diverting resources from development.

In many ways, the side effects of growth are becoming impediments to growth itself. While challenging, the implications are potentially positive—the result could be better approaches to growth that lead to more meaningful development. So in this time of creative stock-taking, we ask: What has worked among the region's strategies, and what needs fundamental change?

## PAST VERSUS THE FUTURE

Since the early 1990s, developing Asia has more than tripled living standards and has become a driver of global growth and prosperity. The region reduced extreme poverty—the percentage of people with incomes below \$1.25 a day—from nearly 55 percent to just over 20 percent. Under some projections, Asia is seen to comprise one-half of the global output by mid-century.

What the most successful Asian economies have in common is a pragmatic, flexible pursuit of diverse policies that work—what might be labeled evidence-based policy. Details

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*Peter Petri is Carl Shapiro Professor of International Finance at Brandeis University, and Vinod Thomas is Director General of Independent Evaluation at the Asian Development Bank.*

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220 I Street, N.E., Suite 200

Washington, D.C. 20002

Phone: 202-861-0791 • Fax: 202-861-0790

[www.international-economy.com](http://www.international-economy.com)

[editor@international-economy.com](mailto:editor@international-economy.com)

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vary across the diverse economies, but the successful ones use a trial-and-error approach to identify robust growth policies—outward orientation, stable macroeconomics, and high savings and investments, often in human capital. Governments (but not always state enterprises) play a large role.

Some argue for continuing the same policies that generated rapid growth in the past. But the emerging evidence calls for new priorities to continue the progress. An important debate about these priorities is taking shape—from China (fairness and social security) and India (economic rights) to Malaysia (a new economic model) and Korea (the happiness era).

Income inequality has worsened in countries accounting for 80 percent of region's population over the last decade. Meanwhile, developing Asia has become the world's leading emitter of greenhouse gases, accounting for 35 percent of global carbon dioxide emissions, twice its share of global GDP. Without sharp interventions, this share will rise to 44 percent by 2030. Asia has the world's worst urban air pollution, and environmental degradation is threatening its water, soil, biodiversity, and forests.

The hopeful perspectives offered by the Kuznets curve—that the deterioration in income equality and the environment will be followed by improvements at higher income levels—are correct in principle, but empirical Gini and carbon dioxide Kuznets curves predict modest improvements, and only over a long period of time. The Kuznets process is not operating nearly fast enough.

A new strategy is necessary not because Asia has followed failed policies in the past, but rather because Asia is developing with much greater momentum in a highly demanding global setting. New global environmental challenges, the communications revolution, and the scale of the Asian region itself make social and environmental constraints far more binding today than they were only decades ago.

#### **A STRATEGY THAT DELIVERS**

The first step that many Asian countries are now considering is to shift development priorities toward a

triple bottom line—a simultaneous focus on growth, social inclusion, and environmental sustainability. The shift cannot be confined to the introductory pages of national plans, but must be sustained and ambitious enough to yield tangible results.

The region is familiar with taking action under difficult odds. In the 1960s, a war-devastated Japan modernized its economy, developed export markets for increasingly sophisticated products, and sharply raised income levels. Later, Korea and others followed. Eventually the rest of Southeast Asia and China joined this process, which is now being emulated in the rest of the region.

A similar wave of learning followed the Asian financial crisis of 1997–98, focusing on financial regulation, market oversight, and foreign exchange policies. Mechanisms were developed to manage bankruptcies and bank failures, to monitor financial markets, and to foster macroeconomic resilience. Exchange rates were allowed to settle at relatively favorable levels and foreign exchange reserves were built up to defend against currency runs.

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Government effectiveness has been vital in these periods of revitalization. In many countries, the absence of resource wealth linked government viability closely to economic growth. Governments gained performance legitimacy by assembling capable bureaucracies, monitoring performance, and reacting quickly to poor results and economic threats.

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The root of Asia's past successes was not luck or culture (as some would put it, "what's in the water"). Success emerged from adversity, failure, and hard experience. The list of prominent failures is long—from the Great Leap Forward in the People's Republic of China and the dominance of the License Raj in India to many missed opportunities in the Philippines (now among the fastest growing) and elsewhere. But the common denominator was learning to get things right.

#### **TOWARDS INCLUSION AND SUSTAINABILITY**

The triple bottom line will now require a similar era of innovation. In countries that have too little investment, it will require building communications networks, clean energy sources, and energy-saving ports and transport systems. In countries that invest too

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much, it will require boosting education and research, health spending, and social protection.

But it will not be easy to implement the broader priorities politically. The region is no longer as poor as it was, and those with access to wealth will want to retain their hold. To adopt wider objectives, governments will have to depend on the people who will most benefit from new efforts. Promoting accountability and transparency, and creating new feedback mechanisms between citizens and government, will be critical elements for getting that support.

Three approaches could make a difference. First, the toolkit of governance has to be updated to the requirements of changing priorities and the vast opportunities opened by the communications revolution. This involves fresh experiments with accountability. Technology enables stronger, more distributed capabilities for monitoring policy results and for getting real-time feedback to help implement social and environmental goals.

Second, persuasive evidence will be required to establish the benefits of the new strategy and to gain public acceptance. Evidence will be also critical for

Asian governments to make informed policy choices among technically complicated alternatives. The feedback cycle between policies and the evaluation of results will have to be speeded up. Most importantly, public feedback in the design and implementation of policy will be central to its success.

Third, international financial institutions will have to revitalize partnerships. They can provide financing to support the new directions. They can share knowledge to aid governments in countering vested interests, and champion regional and global perspectives. These goals, however, raise difficult questions about resources and relationships between international agencies and their national partners.

#### **POLICY IMPLICATIONS**

Asia needs to confront the ill effects of growth and set development on a sustainable, resilient path. Emphatically, this does not mean abandoning growth. The threat of an economic slowdown in middle-income Asia is real, and accelerating growth in the poorest countries is urgent. Rather, it means that multiple goals will have to be addressed simultaneously.

Early actions that prioritize inclusion and sustainability should focus on win-win policies, that is, actions such as ending energy subsidies that generate positive distributional, environmental, and economic results. Beyond these, there will be need for net-win policies, that is, those such as switching to low-carbon energy, that impose economic costs but generate social and environmental benefits as well as economic gains in the long run. Good options for win-win and net-win policies exist because the region has fiscal headroom, the new strategies are in their early phases, and there is considerable room to address market failures and distortions.

Optimism on Asia's actions on the triple bottom line rests on the region's vaunted methods of pragmatic learning and innovation. But, as elsewhere, success will depend on the region's vision, good governance, and ability to take on special interests as well as international support. ♦

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