

Summary

Inclusive Growth Toward a Prosperous Asia: Policy Implications

Developing Asia is now embracing inclusive growth as a key development goal because of rapidly rising income and nonincome inequalities, leading to increasing concerns that the benefits of Asia's spectacular GDP growth are not being equitably shared, which could derail the growth process itself. This paper clarifies that inclusive growth is growth with equal opportunity that emphasizes both the creation of and equal access to opportunities for all. Inclusive growth differentiates inequalities due to differences in efforts from those due to differences in individual circumstances: the former reflects market-based incentives and should not be disregarded; while the latter is often reflective of social exclusion associated with market, institutional, and policy failures, and should be eliminated. Inclusive growth is not based on a redistributive approach. A development strategy anchored on inclusive growth as the overarching goal encompasses the key elements of an effective poverty reduction strategy and, more importantly, advances the development agenda significantly.

This paper argues that from the perspective of a DMC, a development strategy with inclusive growth as the overarching goal should have two mutually reinforcing strategic anchors: first, high and sustainable growth to create productive and decent employment opportunities; and second, social inclusion to ensure equal access to opportunities.

The paper further argues that ADB should respond to the emerging needs of developing Asia by adopting inclusive growth as its overarching goal to remain a relevant and responsive development institution. This shift, if adopted, would require ADB to modify its corporate strategy. The paper proposes that if the shift is adopted, ADB may consider changing its vision from "*an Asian and Pacific region free of poverty*" to "*Asia and the Pacific—a region of prosperity, equal opportunity, and free of poverty*"; and its mission from "*to help its DMCs reduce poverty and improve living conditions and the quality of life*" to "*to promote inclusive growth in its DMCs.*"

The paper also proposes a strategic framework for ADB to promote inclusive growth consisting of two strategic pillars, namely, (i) *Investing in Creating Opportunities* to support high and sustainable growth in DMCs; and (ii) *Investing in Broadening Access to Opportunities* to support social inclusion in developing Asia. While (i) focuses on investing in the economy, (ii) emphasizes the imperative of investing in people. In addition, a set of core operational priorities are outlined: *Infrastructure, Energy and Environment, Financial Sector Development, and Regional Cooperation* for the first strategic pillar; and *Education, Health, and Water and Sanitation* for the second pillar. Further still is a set of thematic priorities: *Private Sector Development, Good Governance, Knowledge Management, and Gender Equality*.

The paper points out that the proposed corporate strategy anchored on inclusive growth would have important implications for ADB's country and regional operations. The inclusive growth strategy would (i) lead to more interventions designed to support high and sustainable growth, promote good governance and strong institutions, and facilitate domestic and regional integration; (ii) provide scope for greater selectivity; (iii) allow ADB to move further away from the direct poverty targeting approach; and (iv) require ADB to expand the scope of analytical work for country/regional operations beyond poverty analysis to focus on identifying market and government failures that often constitute the binding constraints to inclusive growth. The paper argues that supporting inclusive growth does not mean that all ADB projects and programs should have specific inclusiveness-enhancing components. The objectives of promoting high and sustainable growth and broadening inclusiveness should be achieved through different interventions. Any attempt to achieve two policy objectives with one policy instrument will most likely turn out to be counterproductive. The overall outcome of inclusive growth is what matters.

The proposed inclusive growth strategy also embraces environmental protection and regional cooperation. Growth would not be sustainable if the environment is not protected. The proposed new vision of ADB that emphasizes prosperity refers to both intracountry and intercountry prosperity. Regional cooperation and integration will facilitate intracountry prosperity by contributing to creating higher demand for a country's goods and services through going beyond national boundaries; and by reducing supply costs through focusing on only those activities in which a country has a global comparative advantage. Intercountry prosperity will be facilitated by regional cooperation and integration through fostering the leveling of playing fields across countries. While the primary focus of inclusiveness is on domestic integration, efficient and high growth so essential in creating

productive opportunities requires integration with regional and global markets. Thus the proposed ADB strategy for inclusive growth would contribute to integration within countries and across countries within Asia, and with the rest of the world.