



KEY INDICATORS for Asia and the Pacific

2013

44th Edition

SPECIAL CHAPTER

Asia's Economic Transformation: Where to, How, and How Fast?



HIGHLIGHTS

Asian Development Bank



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Printed in the Philippines.

ISBN 978-92-9254-214-6 (Print), 978-92-9254-215-3 (PDF)
Publication Stock No. ARM135926-2


The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent.

Note:

In this publication, “\$” refers to US dollars.

6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444
www.adb.org

For orders, please contact:
Department of External Relations
Fax +63 2 636 2648
adbpub@adb.org

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Key Indicators for Asia and the Pacific 2013 Highlights

The *Key Indicators for Asia and the Pacific 2013* is the flagship annual statistical publication of the Asian Development Bank (ADB). The *Key Indicators* presents the latest available indicators for ADB's 48 regional members. It contains analyses and statistical tables on the Millennium Development Goals (MDGs) and seven other economic, financial, social, and environmental themes. The *Key Indicators* also includes a special chapter—Asia's economic transformation: Where to, how, and how fast?—that reviews the direction and pace of Asia's transformation during recent decades and sketches the main contours of economic transformation that can be expected in coming decades.

Part I: Special Chapter

Asia's economic transformation: Where to, how, and how fast?

Asia's transformation during the last 4–5 decades has been unprecedented but heterogeneous

- Developing Asia has experienced significant structural change during the last 4–5 decades, but it has been very uneven. Five economies—Japan; Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China—underwent the greatest transformation and became modern industrial and service economies. In many other Asian economies, structural transformation is taking place slowly and without significant deepening.
- In general, labor productivity growth due to intersectoral relocation of labor into higher-productivity sectors has been less important than the growth of labor productivity within sectors.
- Agriculture's share of total output has declined significantly, but agriculture is still the sector with the lowest productivity. The share of employment in agriculture has also fallen, but the sector still engages over 700 million workers—42.82% of Asia's total employment.
- Many Asian economies have attained high manufacturing output shares (hence the term “Factory Asia,” especially applied to the People's Republic of China [PRC]). Asia's most advanced economies have industrialized when measured by employment shares, but most of the other economies have not. Some Asian economies appear to not have industrialized significantly and to have weak supply chains. As a consequence, their economic structure has not deepened.
- Measured by gross domestic product (GDP) shares, Asia is a service region, but the service sector is heterogeneous with both traditional, low-productivity services and modern, high-productivity services. In many Asian economies, structural transformation appears as a shift from agriculture into not low-productivity service subsectors.

- The export baskets of Asia's advanced economies have become more diversified and more sophisticated, but this is not the case in many other economies. Global value chains are a mechanism for firms and farms in developing countries to access the world market and advanced technologies, but only a few Asian countries are strongly linked to these chains. The share of value added Asian countries retain from their exports varies significantly.
- More diversified economies are more inclusive—they have lower Gini coefficients.

Several priorities merit consideration for Asia's continuing transformation

- Developing Asia needs to make a significant qualitative leap in structural transformation and to focus on transferring labor from sectors of low productivity (typically agriculture) into sectors of high productivity.
- But future transformation will most likely not resemble in pace and direction that seen in Japan and the newly industrialized economies during the second half of the 20th century, as the overall economic environment is very different today. The rest of developing Asia may not be likely to transform as quickly as this group.
- Policymakers ought to focus on facilitating firms and workforces to develop the capabilities they need to manufacture new products, to enter new markets, and to move up the development ladder (i.e., to make and provide increasingly sophisticated and complex products and services).
- Developments in agriculture will be key for Asia's future, in particular for the low-income economies. Agriculture has to “industrialize” (i.e., develop agribusiness and adopt modern methods) for the sector to achieve productivity levels similar to those in the economy as a whole. Increases in agricultural productivity allow for wage increases, which lead to investments in farm and human capital that are key for poverty reduction and, ultimately, for inclusive growth. During the coming decades, agriculture's share of GDP is likely to decline in most Asian economies to levels similar to those in developed countries, while agriculture's employment share will still be high

in some countries. Technological advances in agriculture will help increase its productivity, and links to global agricultural value chains can facilitate the adoption of new technology.

- History suggests that manufacturing is important and that industrialization has been nearly essential for an economy to achieve high income levels. No country has achieved high-income status without its manufacturing sectors reaching at least an 18% share of total employment. Modern industrial and service economies have manufacturing at their core. We estimate that an economy where the shares of manufacturing in total employment and output are at least 18% has a 42% probability of achieving high income levels, but the probability of an economy with a small manufacturing sector (in both output and employment) achieving high-income status is less than 5%.
- Other factors are also important. Results also indicate that a country that industrializes in output and (i) has 17 kilometers of road per 1,000 persons has a 44.5% chance of being high income, (ii) has liquid liabilities representing 75% of GDP has a 43.5% chance of being high income, (iii) where workers have 9 years of average schooling has a probability of 48.5% of being a high income, (iv) with a share of high-tech manufacturing output representing 52% of total manufacturing GDP has a 75% chance of being high income, and (v) with a share of high-tech manufacturing employment representing 49% of total manufacturing employment has also a 75% chance of being high-income.
- These conclusions about the importance of manufacturing imply that a diversified manufacturing base remains important for economic development, so that labor does not simply move from low-productivity agriculture into low-productivity services.
- Upcoming inventions may revolutionize manufacturing, but they are likely to benefit developed countries first and foremost. Upcoming inventions tend to be very technology-intensive and will not create the millions of jobs that developing Asia needs. Factory Asia may continue to thrive for some time, but manufacturing will not be able to absorb 25%–30% of the region's workforce.
- The experience so far with global value chains is that if countries get stuck in the least desirable stages of the chains, they will not serve as a springboard for fast development.

- Countries that have based their industrial development strategies on foreign direct investment and disregarded the importance of local firms, can lack industrial deepening.
- Services will become the largest employer in most countries. Like manufacturing, some services have displayed high productivity growth (e.g., modern business services and finance), but others have not. In many countries, services provide significant employment, but much of it is of lower productivity than that in manufacturing. Policymakers need to identify niches of high labor productivity within services to ensure growth, implement reforms to increase the sector's competitiveness, and encourage the expansion of labor-intensive services to accommodate employment.
- Provision of primary education and education of high quality facilitate export diversification. However, the process of diversification is “path dependent”—economies cannot readily jump from exporting unsophisticated products such as t-shirts to exporting very sophisticated ones such as cars; rather they need to progress through gradual steps along the path. Education achievement alone does not help countries leapfrog into significantly more sophisticated products than those they currently export, but the provision of good quality education reduces path dependence.
- Countries need to implement policies and develop institutions that facilitate desirable structural transformation. These are needed to promote mobility across occupations and sectors and movement into high-productivity activities.

The analytical results have different implications for different country profiles

- Countries with large shares of employment in agriculture (such as Bangladesh, the PRC, India, Pakistan, and Thailand) need to develop industries and services that absorb labor. Concomitantly, the countryside will have to industrialize.
- The PRC and India are investing in science and engineering. So far, their efforts have been directed toward making inexpensive versions of existing goods. Over time, their role as innovators has to increase.

- For India and other economies that have bypassed industrialization or are experiencing transition from agriculture into low-quality services, the recommendation is to develop a deeper and broader industrial base.
- For the advanced Southeast Asian economies, the main recommendation is to focus on upgrading, as they are already quite diversified. Countries such as Malaysia and Thailand have developed institutional capacity to diversify their economies, but need to deepen and upgrade their industries to avoid being caught in the middle-income trap. To escape this trap, the Philippines needs to develop a much deeper industrial base to complement its service sector.
- Small, low-income economies such as Cambodia, the Lao People's Democratic Republic, and Nepal can benefit from their comparative advantage in labor-intensive activities. But they should also implement policies and develop institutions that facilitate the accumulation of capabilities, foster diversification and upgrading, and target specific activities in more advanced industries, in order to progress from the simplest products into complex products and services.
- Most islands in the Pacific subregion will have difficulty industrializing. For them, the future lies in developing niches in some services.
- Economies that are rich in natural resources (e.g., Kazakhstan) need to manage those resources well and think about diversification.
- Countries that are just embarking on a deep reform process, such as Myanmar, can benefit from the experiences of other countries that have gone through the process.

Part II: Millennium Development Goals

Part II contains the Millennium Development Goals (MDG) indicators and short commentaries on progress toward achieving the specified targets. Two years before the MDG deadline in 2015, the region continues to make progress toward achieving the MDGs, although unevenly across the goals and economies. Most of the region has achieved significant progress in reducing poverty, improving access to universal primary education, and promoting gender equality and women's empowerment. However, progress in reducing child mortality and malnourishment and in improving maternal health will probably not suffice to meet the 2015 targets.

While the majority of economies have achieved the MDG target to improve access to safe drinking water, at least half could miss the target on improved sanitation. On the environment, the region has extended protected areas, which are dedicated to safeguarding and maintaining biological diversity and natural or cultural resources. The percentage of slum dwellers in urban populations has declined. With respect to global partnerships, official flows to ADB developing members have increased during most recent years but declined in 2011. The proportion of bilateral development assistance that is untied has turned down.

MDG 1: Eradicate extreme poverty and hunger

- Most economies in Asia and the Pacific—17 of 22 with available data—have already achieved the target to halve the share of population living in extreme poverty. Nevertheless, about 800 million people in the region still live on less than \$1.25 a day.
- While the number of working poor declined in most economies, a significant proportion of workers across the region earned too little to lift their families out of poverty.
- The proportion of vulnerable workers, often without formal work arrangements, exceeded 40% of total employment in 18 economies, and was over 80% in two of the most populous economies—Bangladesh and India.
- Thirteen economies have already achieved or are on track to meet the MDG target to halve the percentage of children under 5 years of age who are malnourished. Discouragingly, 11 are making slow progress and will likely miss the target by 2015, and three are making no progress.

MDG 2: Achieve universal primary education

- The majority of developing member economies have reached the primary school enrollment target, with 26 achieving enrollment rates of 95% or better. But a dozen economies are likely to miss this goal.
- Many children do not stay in primary school through the last year. Expected primary school completion rates increased, but 18 of 34 reporting economies could fall short of the MDG target, including several of the most populous ones.
- Youth literacy rates exceeded 95% in 31 of 42 economies with data in the latest year. Most economies with low youth literacy rates showed an improving trend.

MDG 3: Promote gender equality and empower women

- All but 3 of 42 reporting economies have already achieved or expected to achieve gender equality at the primary education level by 2015. At the secondary level, only 5 economies might fall short of the target.
- The performance on gender equality in tertiary education has improved, but 13 economies are lagging, including two of the most populous ones—Bangladesh and India.
- Women held less than 40% of the wage-earning jobs outside of agriculture in 16 of 34 reporting economies, and less than 20% in three of the most populous ones despite some improvement over time. Women's representation in national parliaments increased in 29 of 40 reporting regional members between 2000 and the latest year.

MDG 4: Reduce child mortality

- Child mortality was reduced by about half across the region between 1990 and 2011. In some cases, including the PRC, deaths of children under 5 years old fell by 70%. For 29 of 43 reporting members, though, the target of a two-thirds reduction by 2015 is beyond reach unless they accelerate progress.

- Further reductions in child mortality require greater attention to the health of babies under 12 months old, who account for most of the under-5 child mortality. Only 12 of 45 economies have already lowered or are expected to lower infant mortality by two-thirds by 2015.
- Measles immunization programs have made strong progress. About 86% of the region's 1-year-olds were immunized against this disease in 2011. However immunization rates were low in some economies, and declining in others.

MDG 5: Improve maternal health

- Maternal health improved significantly in the region, with the maternal mortality ratio reduced by more than half between 1990 and 2010. Still, 28 of 38 reporting economies could fall short of achieving the target, which is a 75% reduction in maternal mortality ratio by 2015.
- The proportion of births attended by skilled health personnel is high in most economies. However, 23 of 41 economies with data are expected to miss the target to reduce births without skilled attendants by 75%.
- Renewed efforts are needed to provide women with access to good quality healthcare during pregnancy. The target of at least one antenatal care visit has been met or is expected to be met in 19 of 32 reporting economies, including the PRC and Indonesia, but the target may not be achieved in Bangladesh, India, Pakistan, and 10 others.

MDG 6: Combat HIV/AIDS, malaria, and other diseases

- HIV prevalence in the region declined between 2001 and 2011 in countries with relatively high rates of the infection. Of the 27 reporting economies, 18 have already met or are expected to meet the target to halt and start to reverse the spread of HIV/AIDS, but 9 are not making progress.
- In 2011, most economies increased access to antiretroviral drugs to people with advanced HIV infection; only two economies reached 80% coverage, though.
- Of 44 reporting economies, 40 have either met the target to reverse the incidence of tuberculosis or are expected to do so by 2015.

- Malaria remains a problem and deaths from the disease are relatively high in the Pacific.

MDG 7: Ensure environmental sustainability

- The target to provide households with improved drinking water has been met by twenty five of 42 reporting economies, including PRC and India.
- Progress on the sanitation target is less encouraging. Twenty five of 42 economies are expected to fall short of the target to halve the proportion of people using unimproved sanitation by 2015, including four of the five most populous countries.
- The percentage of slum dwellers in urban populations declined in most economies that report data on slums.
- The region has increased protected areas, which are dedicated to safeguarding and maintaining biological diversity and natural or cultural resources, and some progress is being made on forest cover. However, sustained economic growth has driven increases in emissions of carbon dioxide.

MDG 8: Develop a global partnership for development

- Net official development assistance to developing economies worldwide fell by 2% in real terms in 2011 and preliminary data indicate a further 4% decline in 2012.
- The proportion of untied official development assistance to total development assistance declined from 66% in 2008 to 49% in 2011.
- Although official flows from all sources to ADB developing members eased by 7% in 2011, they were up by 83% since 2006. Almost 20% of total disbursements of official flows to ADB members in 2011 went to Afghanistan.
- Growth of 19% in merchandise exports from Asia and the Pacific contributed to a general decline in debt-service to export ratios in 2011. Duty free access to developed country markets continued to improve.

Millennium Development Goals Progress Tracking

Goal	1	2	3	4	5	6	7
Developing Member Economies	\$1.25 per day poverty	Underweight children	Primary enrollment	Reaching last grade	Gender Primary	Gender Secondary	Gender Tertiary
Central and West Asia							
East Asia							
South Asia							

● = Early Achiever ▲ = On track ■ = Slow ▲ = No progress/regressing

continued on next page

Note: Staff estimates based on UNESCAP, ADB, and UNDP method for assessing the MDGs (Accelerating Equitable Achievement of the MDGs, February, 2012).

Goal		1	2	3	4	5	6	7
Developing Member Economies		\$1.25 per day poverty	Underweight children	Primary enrollment	Reaching last grade	Gender Primary	Gender Secondary	Gender Tertiary
Southeast Asia	Brunei Darussalam							
	Cambodia							
	Indonesia							
	Lao PDR							
	Malaysia							
	Myanmar							
	Philippines							
	Singapore							
	Thailand							
	Viet Nam							
The Pacific	Cook Islands							
	Fiji							
	Kiribati							
	Marshall Islands							
	Micronesia, Fed. States of							
	Nauru							
	Palau							
	Papua New Guinea							
	Samoa							
	Solomon Islands							
	Timor-Leste							
	Tonga							
	Tuvalu							
	Vanuatu							
Developing Member Economies								
The Pacific								
Developing Member Economies								
The Pacific								

● = Early Achiever ▲ = On track ■ = Slow ▲ = No progress/regressing

Note: Staff estimates based on UNESCAP, ADB, and UNDP method for assessing the MDGs (Accelerating Equitable Achievement of the MDGs, February, 2012).

Part III: Region at a Glance

Although economic growth in the region was subdued in 2012, the message all the regional tables reinforce is that of Asia's growing importance in the world. The Asia and Pacific region now accounts for over half of the global population, more than one-third of global GDP (in purchasing power parity terms), and about a third of world exports. However, this growing importance brings with it increasing concerns. The region now consumes two-fifths of world energy, continues to increase its emissions of greenhouse gases and other pollutants, and faces increasing traffic congestion and rising consumption of scarce resources.

Inflation eased across Asia and the Pacific in 2012. The quality of life as measured by the human development index continues to improve in most of the region. Migrant workers' remittances remain a significant source of foreign exchange and, in a growing number of economies, services have become important contributors to exports. For businesses, the time it takes to start a business and the cost of registering a new business are declining. Efforts to reduce corruption need to be stepped up, though, with about half the region's economies falling into the bottom one-third of the global corruption rankings.

People

- Asia and the Pacific accounts for nearly 55% of the global population and six of the world's 10 most populous economies. The region's population is forecast to grow by almost 1 billion by 2050.
- Population growth rates have slowed in most economies, but remain high in some. India's population is expected to surpass that of the PRC in the next 15 years.
- The region's population is aging, which has implications for economic growth. ADB's developed members already have a relatively high proportion of older people.
- Based on the human development index, about half the economies are in the "medium human development" category and nearly all show some improvements.

Economy and output

- The region (including Japan) generated 36% of global GDP in 2012, using purchasing power parity terms. Together, the PRC, India, and Japan accounted for 70% of the region's output.
- GDP growth moderated in nearly two-thirds of the region's economies in 2012, dampened by weakness in exports.
- Services continued to grow in importance and generated at least half of GDP in two-thirds of regional economies.
- Over half the region's economies have raised investment spending in recent years, expanding productive capacity to pave the way for further growth in output.

Money, finance, and prices

- Inflation eased across the region in 2012, reflecting softer economic growth, relatively stable global food and commodity prices, and currency appreciation in some economies.
- Six economies (including India and Pakistan) recorded double-digit inflation on average between 2008 and 2012.
- Capital inflows contributed to appreciation of regional currencies against the United States dollar during 2011–2012, although South Asian currencies mostly depreciated.
- Banks' nonperforming loans generally declined, based on the data from reporting economies.

Globalization

- The Asia and Pacific region accounted for about one-third of the world's merchandise exports. Subdued demand from major markets dampened export growth in 2012.

- Intraregional trade has increased and accounted for almost 56% of merchandise exports and 50% of imports in 2012.
- Services have become important contributors to exports in some economies.
- Migrant workers' remittances are a major source of foreign exchange across the region.

Transport, electricity, and communications

- Road networks have expanded rapidly in most economies in the region since 1990. The latest data show that the PRC and India account for almost two-thirds of the region's road network.
- Vehicle ownership has surged. Thirteen economies have at least 100 vehicles per thousand people. Deaths from road accidents are high in some developing economies.
- As demand for and production of electricity expanded, several major power producing economies have increased their reliance on coal to generate electricity since 1990.
- Cellular phone subscriptions showed huge growth, while fixed-line phones increased more moderately and decreased in some economies.

Energy and environment

- The region accounts for almost 40% of global energy demand.
- Most economies in the region rely on imports of energy and the biggest energy users have increased their dependence on imports since 2000.
- Energy efficiency—GDP per unit of energy—has improved in most economies.
- Greenhouse gas emissions continued to rise, but most economies eliminated ozone-depleting chlorofluorocarbons.

Government and governance

- Fiscal deficits were prevalent in 2012 as governments in the region supported economic growth in the face of a subdued global outlook.
- Government revenue increased in two-thirds of regional economies in 2012. However, low rates of tax collection still constrained public investment in some economies.
- The average time taken to start a business fell from 45 days in 2005 to 26 days in 2012. The cost of starting a business also declined in much of the region.
- Corruption remains a problem in many economies. About half the regional economies were in the bottom one-third of the global rankings in the Corruption Perceptions Index 2012.

Key Indicators for Asia and the Pacific 2013 Highlights

This publication summarizes the vital issues discussed in the *Key Indicators for Asia and the Pacific 2013 (Key Indicators)*, the annual flagship publication of the Asian Development Bank (ADB). *Key Indicators* presents the latest available indicators for ADB's 48 regional members. It contains analyses and statistical tables pertaining to the Millennium Development Goals and seven other economic, financial, social, and environmental themes. It also includes a special chapter—Asia's Economic Transformation: Where to, How, and How Fast?—that reviews the direction and pace of Asia's transformation during recent decades and sketches the main contours of economic transformation that can be expected in coming decades.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.7 billion people who live on less than \$2 a day, with 828 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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