

Finalized Report

Report of the NEAT Working Group Meeting on “Sharing the Experiences of Inclusive Growth”

Singapore

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Co-hosted by NEAT Singapore and NEAT Indonesia

I Preamble

1 “Economic growth” is commonly defined as increases of a country’s GDP (gross domestic product) over time. “Economic development” carries a broader meaning. Apart from achieving GDP/GNP growth, successful economic development will also have to satisfy the basic needs of the people in terms of employment, income distribution, poverty elimination and balanced regional development.

2 Many developing countries have experienced “economic growth” but without “development” as their economic growth process has been accompanied by rising income inequalities and other acute socio-economic problems.

3 Accordingly, policy makers today are focusing on the new development strategy of “inclusive growth”, which targets the development process, beyond GDP increases, at meeting broader social objectives, ranging from the satisfaction of the people’s basic needs and greater income equality to better environmental protection.

4 In East Asia, Japan and South Korea have clearly achieved very impressive economic development so that they have now reached the high-income economy and developed society status. But with emerging problems like ageing population, they too need to make their future economic growth more inclusive.

5 For some low-income ASEAN countries, they are still at the stage of struggling with their primary objective of maximizing economic growth in order to provide the material basis for poverty reduction. Other middle-income ASEAN countries have achieved remarkable economic growth; but they still have to fulfill their other development needs, including reducing their high income inequalities.

6 Suffice it to say that the ASEAN plus Three (APT) countries are at different stages of development with different development needs and priorities. But the inclusive growth development strategy can be designed to deal with the diversity of development objectives.

7 In fact, the development process of any country, to be sustainable, has to embrace inclusive growth as its basic strategy. Inclusive growth should also form the basis for building the future East Asian Community.

8 In line with this thrust, the NEAT Working Group (WG) on “Sharing the Experiences of Inclusive Growth” met in Singapore on 28 June 2012 to, first, share their individual country experiences on their basic development strategies; and then to deliberate on the ways and means of making use of inclusive growth to promote regional cooperation. A set of recommendations to promote such cooperation can be found in the final section of this report. The WG comprised representatives from the APT countries plus the ASEAN Secretariat. A list of the representatives is at **Annex**.

II Achieving Inclusive Growth

9 The APT governments generally recognized the importance of embracing inclusive growth in their national development strategies or plans so as to ensure that the development process in their countries is sustainable in the long run. However, as the APT countries are at different stages of development with different circumstances, priorities and needs, their policies and measures to bring about inclusive growth would therefore vary.

10 Despite the differing conditions in each APT country, it was observed that the policies and measures to achieve inclusive growth ought to involve a whole-of-a-government or comprehensive approach that cuts across the economic, social and political dimensions. The onus is on each APT country to find the right mix of these dimensions in line with its local conditions.

11 On the economic front, the foremost task of APT governments is to ensure continued economic growth so as to grow the economic pie. This will then generate the resources to help citizens obtain a fair share of the pie. Sustaining economic growth would require constant upgrading and restructuring of the economy through ways such as promoting higher skills, encouraging innovation, raising productivity and improving infrastructure. Greater attention is also needed to ensure that growth takes place in tandem with more efficient use of natural resources and better environmental protection. While allowing market forces to work to determine which businesses are viable, the APT governments ought to also introduce various schemes and incentives to help as many businesses to retain a presence in their respective countries. Assistance should also be rendered to assist citizens who may be displaced find new jobs.

12 Inclusive growth also aims at developing a more inclusive society. On the social front, social policies and measures need to be stepped up as well. In education, for instance, there is a need to allow individuals better access to quality education, to continue education reforms to broaden the pathways to success as well as to ensure that the education system produces graduates relevant to the needs of businesses. In addition, with the growing trend of aging population in a number of countries, there is a need to encourage this group of people to work longer, stay healthier and have better social security. It is also necessary to provide better healthcare and affordable housing for not only the elderly but also other vulnerable groups such as children, the youth, women and those with disabilities. It is also important to keep up social mobility in each generation and to prevent a permanent underclass from forming in each society.

13 The expected increases in spending in health, housing and social protection calls for a right balance to be struck in the public finances of APT governments. It is important to avoid the path of many developed countries, where successive governments, across the political spectrum, committed themselves to continually expand social entitlements – in social security, healthcare and unemployment – without the ability to pay for them. Their massive public debts have now resulted not just in a financial crisis, but also a social crisis, with their citizens being forced to make painful adjustments in living standards for many years to come.

14 On the political front, there is a need to ensure that the existing political system in the APT countries provides sufficient avenues for its citizens to give feedback on policies as well as allow them to express their concerns on any government related issues. In this way, their views can be taken on board in either refining existing policies or measures or in introducing new ones. More importantly, by allowing them a means to participate, the citizens will feel a sense of ownership of the policies or measures that is being implemented.

15 It is also worthwhile to add that achieving inclusive growth is not the sole responsibility of the APT governments alone. Other interested actors such as the private sector, non-governmental organizations, international organizations and even individuals can help to complement the government efforts in promoting inclusive growth. The private sector (whether they are MNCs, government-linked companies or SMEs) plays an indispensable role in various economic sectors and it is essential for them to work hand-in-hand with the government. In addition, the private sector as well as other interested actors can be encouraged to initiate and participate in activities to give back to society and strengthen the social compact.

III Challenges Faced

16 It was found that the inclusive growth-related challenges the APT countries face cover areas of economic priorities, economic structure, governance (including supervision, implementation and coordination issues), capacity building, infrastructure, financing and technology. In addition, globalization has aggravated economic fluctuation and social instability. Globalization has also brought about great polarization effects on the economy and society. Effective domestic policies must be put up to counter the negative impact of globalization.

17 In any society, those who do not participate in economic development will also not benefit from the development process. Efforts must be made to bring in those “marginal groups” into the development process.

18 The list of key challenges includes:

- Inadequate focus and integration of the strategy of inclusive growth into mainstream national and local development plans and initiatives
- Over-reliance on a sector that is highly vulnerable to fluctuations in commodity prices (e.g. natural resource sector) and which leads to little value-added for the domestic economy

- Insufficient or inconsistent supervision, inspection and evaluation of programs and initiatives on inclusive growth
- Multiplicity of institutions overlooking inclusive growth programs and initiatives, leading to overlapping functions, unclear responsibilities and poor coordination
- Limited technological capabilities, and inadequate or poorly-trained human resources
- Poor physical infrastructure (e.g. roads, highways, irrigation and electricity distribution networks)
- Poor educational and healthcare infrastructures
- Lack of financial resources and inadequate budget allocation

IV Recommendations

19 If well conceived and implemented, the strategy of inclusive growth will contribute to a more harmonious society and ultimately enhance the legitimacy of APT governments. In this important endeavor, the APT governments can complement their national efforts to achieve inclusive growth by tapping on each other's strengths and advantages. And regional cooperation will not only facilitate exchanges of information, capacities, technology and country experiences, but also spur actions to lay a stronger foundation for an East Asian Community.

20 Below are key recommendations to promote cooperation on inclusive growth among the APT countries:

- (a) Strengthen the macro-economic fundamentals in all APT countries so as to make inclusive growth more sustainable
- (b) Deepen the economic, trade and investment linkages among the APT countries to take advantage of the opportunities of rapid growth in the region
- (c) Improve labor mobility and capital flows, as well as technological transfers among the APT countries to facilitate the upgrading and restructuring of economies
- (d) Promote further development of SMEs in the local economy
- (e) Enhance human resource capacity in the APT countries through measures such as better access to quality education and training to enable individuals to be gainfully employed and to upgrade themselves
- (f) Improve institutional capabilities and coordination among government ministries and agencies related to inclusive growth in the APT countries

- (g) Identify and implement regular programs and initiatives to help the vulnerable groups in the APT countries
- (h) Publicize best practices and successful examples of inclusive growth in the APT countries
- (i) Involve, recognize and encourage stakeholders such as organizations and individuals to contribute to broad-based participation in implementing the strategy of inclusive growth in the APT countries
- (j) Consider introducing an APT blueprint to support inclusive growth and development

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Annex

List of Participants
(in alphabetical order by country)

<u>No.</u>	<u>Country</u>	<u>Name</u>	<u>Organization</u>	<u>E-mail</u>
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