



Opening remarks by Dr. Anis Chowdhury, Director, Macroeconomic Policy and Development Division, ESCAP

High-level Policy Dialogue “Macroeconomic Policies for Sustainable Growth with Equity in East Asia”, 15-17 May 2013, Yogyakarta, Indonesia

Mr. Mahendra Siregar, Vice-Minister of Finance of Indonesia,
Dr. Perry Warjiyo, Deputy Governor of Bank Indonesia,
Dr. Adrianus Mooy, former Governor of Bank Indonesia and Executive Secretary of ESCAP,
Distinguished participants,
Dear colleagues,

On behalf of UN ESCAP, it is my great pleasure to welcome you to this timely policy dialogue on ‘sustainable growth with equity’, a vision of increasing relevance to East Asia.

I wish to thank all the distinguished participants for bringing your rich expertise and experiences to this international conference. We have some 14 countries represented here today, as well as international organizations, academia and civil society. I truly look forward to benefiting from your rich insights over the next two days.

My deep appreciation goes to our generous hosts, Bank Indonesia and the Ministry of Finance of the Republic of Indonesia. It has been a great partnership. Indonesia, as we well know, is one of the most dynamic economies in the world today. But I also applaud the people and the government of Indonesia for looking beyond rapid growth to ensure that growth is inclusive and sustainable. This vision, I believe, is well reflected in the conference agenda, which we developed together.

In speaking of the friendship between Indonesia and ESCAP, I must acknowledge Dr. Adrianus Mooy, former Executive Secretary of ESCAP. We are very delighted and honoured to have him with us, and I look forward to listening to you during today’s luncheon and tomorrow’s roundtable discussion on rethinking macroeconomic policies.

Distinguished participants, dear colleagues,

Allow me to briefly share my thoughts on the agenda ahead of us – which is about ‘sustainable growth with equity’ and how macroeconomic policies could contribute to achieving this vision.

Needless to say, East Asia is a bright spot in the world economy today, contributing handsomely to global growth and emerging as an anchor for global recovery. East Asia today is not only the

world's major production base, composed of intricate supply chains, but also a growing consumer market with vibrant domestic demand.

Nevertheless, the global environment is a very challenging one, perhaps the most challenging in many decades. As highlighted in the latest ESCAP *Economic and Social Survey*, we are witnessing a 'new normal' of lower economic growth, coupled with increased volatility in financial and commodity markets.

Much of this is due to the prolonged weakness and policy uncertainty in the advanced economies. And the impact has been very clear here in East Asia, where exports have been depressed while exchange rates and asset markets have seen upward pressure from massive short-term capital flows. Global food and fuel prices also remain a constant threat to inflation and the livelihoods of people.

So we face multiple challenges. And we need multiple tools. Since the onset of the global financial crisis, there has been a renewed focus on financial stability and the role of macro prudential measures and capital controls. Even the IMF now acknowledges that targeted capital controls may be warranted. Countries in the region, of course, knew this much earlier.

In realm of fiscal policy, its counter-cyclical role and fiscal sustainability issues are being hotly debated. In Europe, it seems like there was some miscalculation of fiscal multipliers in designing austerity programmes. Unemployment keeps on rising in Greece and Spain.

The situation is quite different here in East Asia, where there is relatively more fiscal space. But here, the focus should not be limited to 'stimulus versus exit strategy.' If we just look around ourselves, wide development gaps remain – in education, health, social protection, infrastructure, agricultural and rural development.

This prompts us to go beyond managing short-term macroeconomic stability. We need long-term development financing. We need to be more forward-looking in our approach to policy making.

If we don't invest in education now, where will the future productivity growth come from? This is also true for jobs. While overall unemployment figures tend to be low, over 1 billion workers in developing Asia-Pacific are in what we call 'vulnerable employment', with low wages, difficult working conditions, low productivity, and no job security. How can we talk about Asia's rebalancing without tackling these issues?

Infrastructure and agricultural investments have also been overlooked for too long. But if we look at the region's own history, successful countries like Korea did not shy away from making bold investments even when per capita income was very low and it looked as if such investments were fiscally unsustainable, if not impossible. But major projects like Korea's Gyeongbu expressway became the backbone of the country's rapid industrialization. These examples show that fiscal sustainability ultimately depends on the productivity of our expenditures and investments.

Moreover, ESCAP analysis shows that social expenditures and public investments are important for inclusive and equitable growth. Rising inequality is perhaps the foremost emerging challenge

for East Asia, which traditionally has seen more equitable growth compared to other regions like Latin America. But in the past two to three decades, inequality has been increasing rapidly in several East Asian countries, threatening social harmony as well as the sustainability of growth.

Just few weeks ago, ESCAP had its annual Commission session. In one of the panel discussions, a former finance minister pointed out that once inequality starts to increase, it is very difficult to bring it down due to vested interests. The old paradigm of ‘grow first, distribute later’ – the ‘trickle down’ hypothesis – was also challenged. In fact, across the world, we seem to be witnessing a ‘great disconnect’ – whereas economies seem to rebound and stock markets set new records, large segments of the society are left behind and even worse off in some cases.

Macroeconomic policies are powerful tools to reverse this trend. Perhaps not surprisingly, study shows a close relationship between the share of social expenditures in total government outlays and income inequality – the lower the share, the higher the inequality. Expanding energy access is also important for equitable growth, particularly in lower income countries. Inclusive finance for SMEs and low income households are vital for equitable growth.

Through such policies, we could build more inclusive, sustainable and resilient economies. And such policies will be more important in the years ahead, as new growth drivers and enhanced social safety nets are needed in the new normal of lower growth and increased volatility. It is high time that we complement the region’s rapid growth with an enhanced focus on equity, social inclusion, and full and productive employment.

Distinguished participants, dear colleagues,

With these words, let me once again, on behalf of UN ESCAP, thank you all for your time and commitment. I very much look forward to an interactive, fruitful discussion over the next two days. In fact, this kind of policy dialogue should be frequent and ongoing. As the Asia-Pacific region continues its development journey, there is so much to discuss, debate, and learn from each other. There is also much to cooperate, as we will see more in tomorrow’s session on mechanisms to pool regional funds for liquidity and infrastructure financing.

For this purpose, ESCAP has organized a series of high-level policy dialogues since the onset of the financial crisis, including with the Ministry of Economy and Finance of Cambodia in 2010 and Banko Sentral ng Pilipinas (BSP) in 2011. But the global environment and the challenges we face keep on evolving – and so as our understanding of the challenges and the policy options. So

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