



International Monetary Fund



Achieving Strong, Sustainable and Inclusive Growth in Asia

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Tokyo, October 13, 2011

Plan of the presentation

A Growth Strategy For Japan

- Need to revitalize growth while dealing with aging population and ensuring fiscal sustainability
- Promote start-ups and SME restructuring, pursue regional integration, tap underutilized sources of labor

Transforming China's Economic model

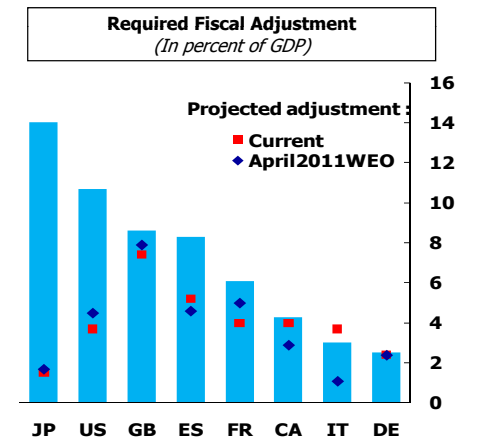
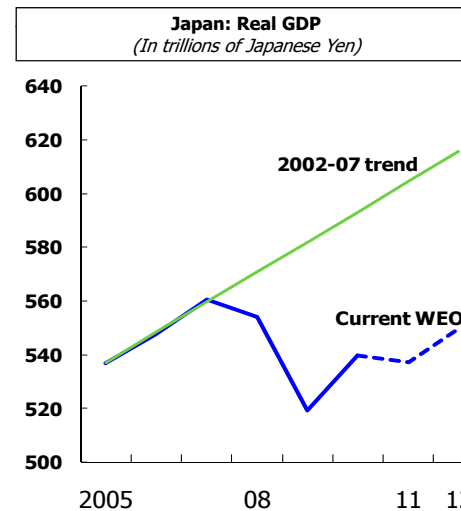
- Heavy reliance on export is becoming a question also for China
- To boost domestic consumption and make growth more sustainable a reform of the financial system is needed—sequencing is important

Asia' Quest for Inclusive Growth

- These policies will also make growth more inclusive
- Indeed, income inequality has increased across most of Asia
- More spending on health and education can help

A GROWTH STRATEGY FOR JAPAN

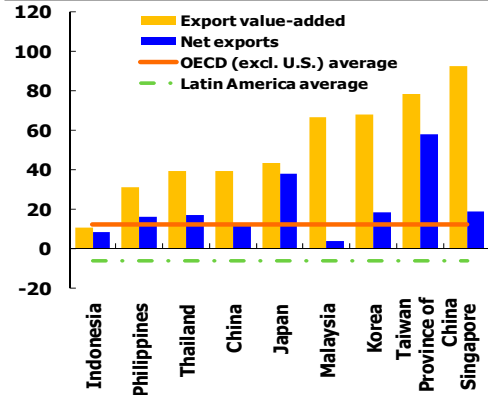
Near and long-term challenges require comprehensive reforms that will jumpstart growth



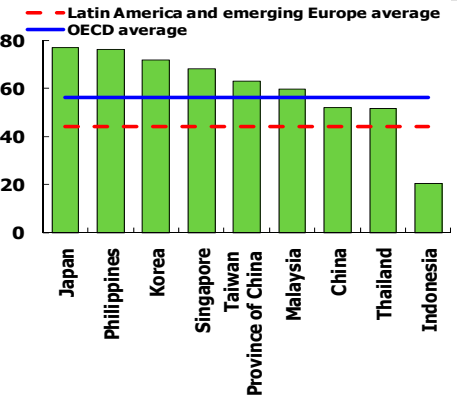
Sources: IMF, *Fiscal Monitor*; and IMF staff calculations.
CA: Canada, FR: France, DE: Germany, IT: Italy, JP: Japan, ES: Spain, GB: United Kingdom, US: United States.
Cyclically adjusted primary balance adjustment needed to the debt ratio to 60 percent in 2030, except for Japan.

Exports important contributor to Japan's growth

Selected Asia: Average Contribution to Real GDP Growth
(In percent of real GDP growth)

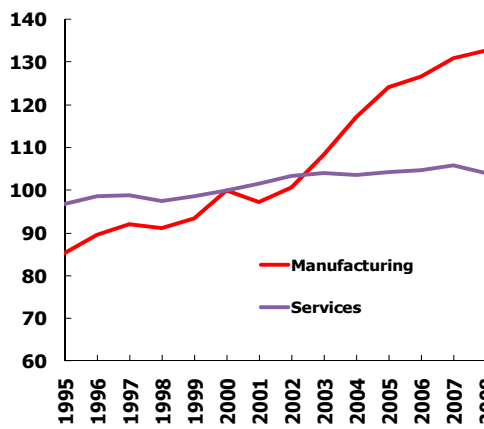


Selected Asia: Share of Medium and High-Tech Goods in Total Exports
(Average over 2000-10)

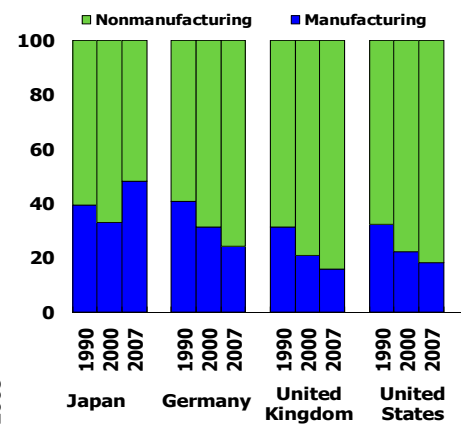


Service sector is the laggard

Japan: Labor Productivity Index
(2000=100)

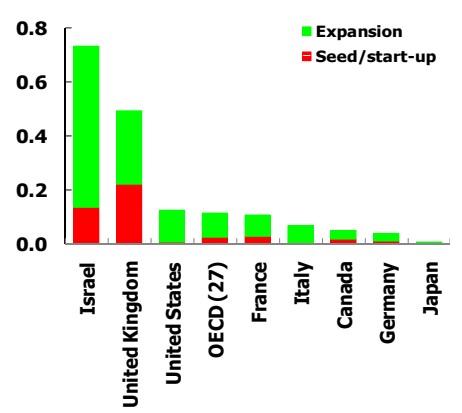


Composition of Investment By Sector
(In percent of total, at constant 1995 prices)

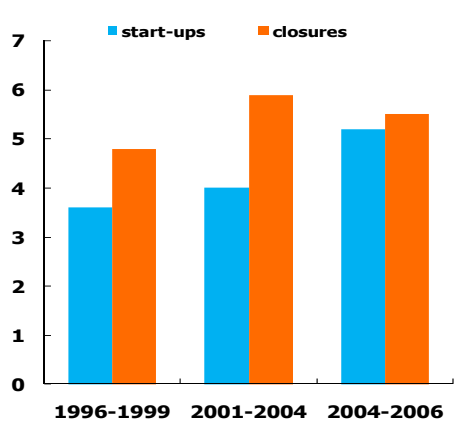


Growth Strategy: Promote start-ups and SME restructuring

Selected advanced economies: Venture Capital Investment
(In percent of GDP)

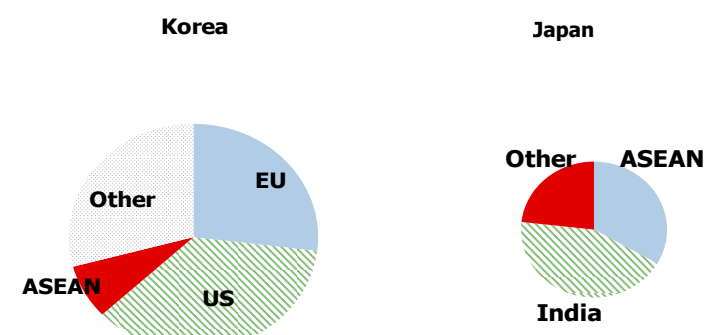


Japan: Business Start-ups and Closures of Establishments
(In percent of existing establishments, annual average)



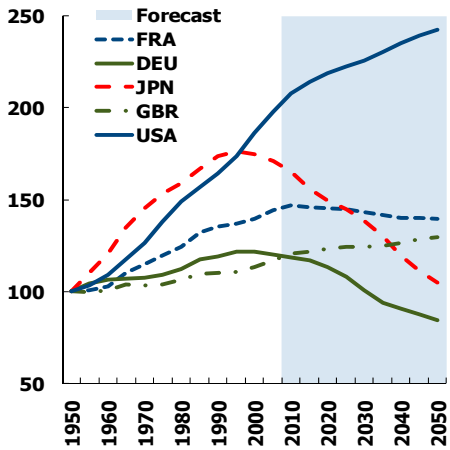
Growth Strategy: pursue regional integration

Free Trade Agreements that are in effect, concluded, or under negotiation
(In PPP GDP ratios)

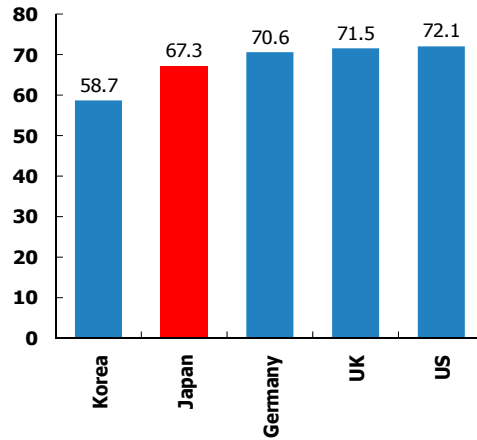


Growth Strategy: tapping underutilized sources of labor

Change in Working-age Population, 1950-2050
(Index, 1950=100)



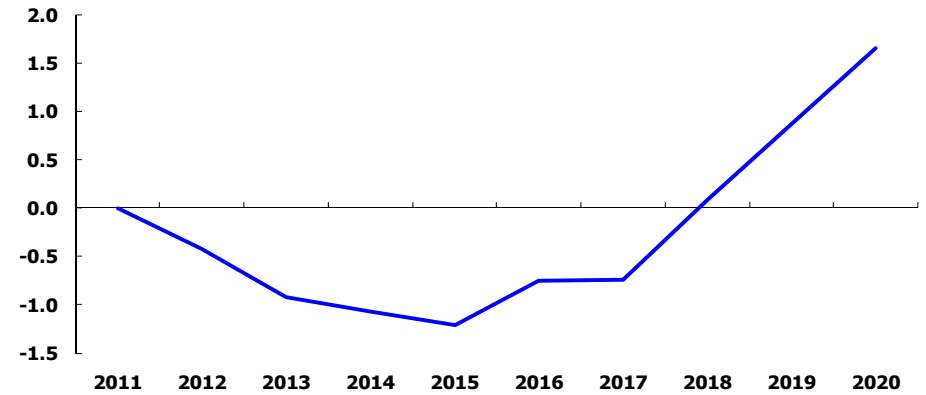
Female Labor Participation Rate, 2008
(In percent)



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A reform package could offset partly the negative growth effects from fiscal consolidation

Japan: GDP Level Impact of Adjustment Scenario¹
(In percent of GDP)



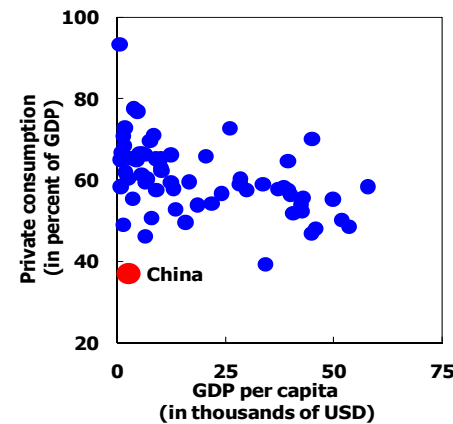
¹ GDP impact is measured as the deviation from the GDP level under no fiscal adjustment.

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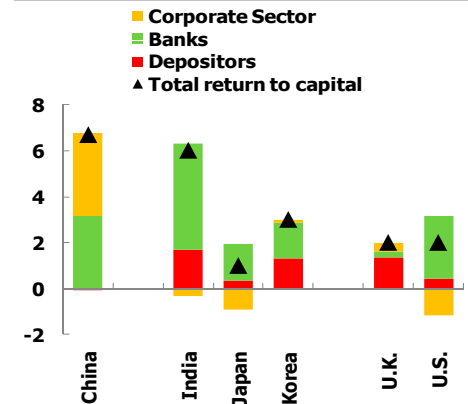
TRANSFORMING CHINA'S ECONOMIC MODEL

In China, the financial system contributes to low household income and consumption...

Average Consumption Expenditure, 2004-10
(Industrial countries and emerging markets)

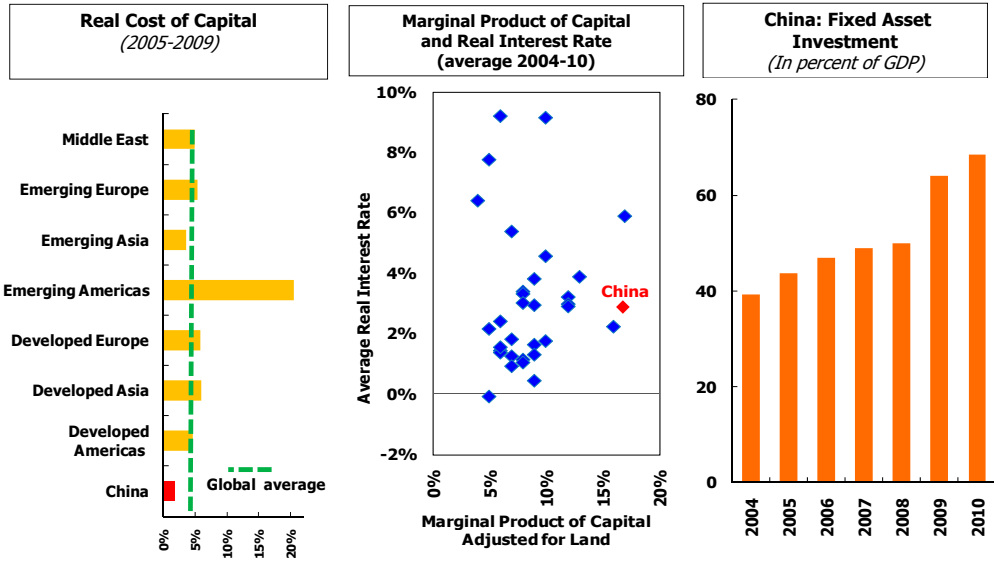


Distribution of Returns to Bank-Intermediated Capital
(Real returns; in percent)

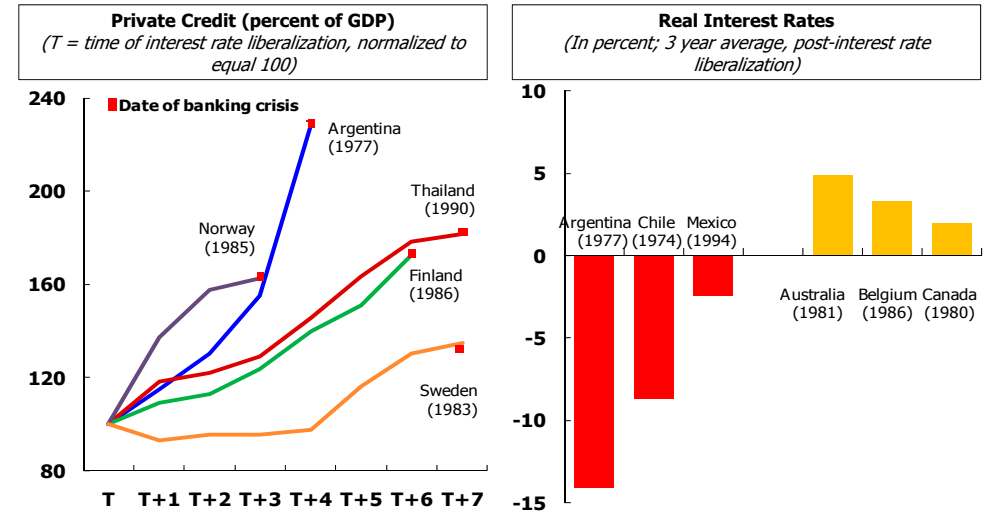


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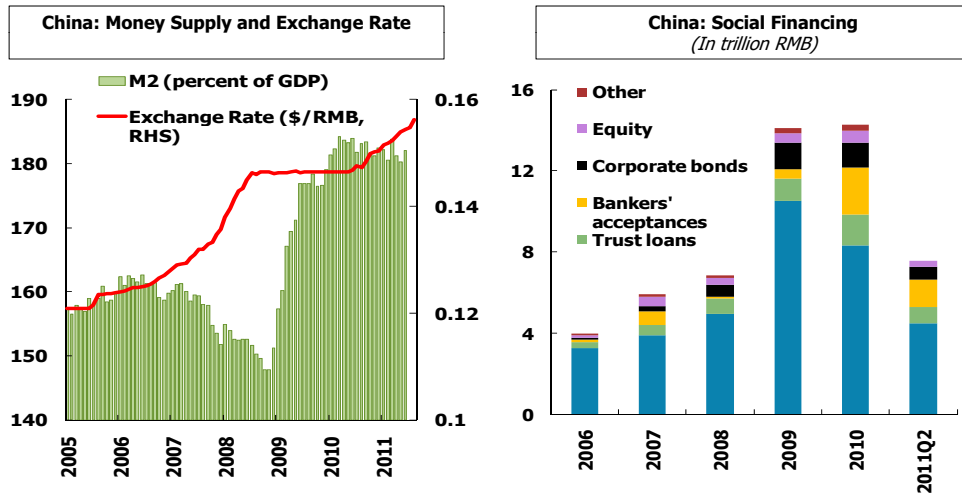
...low cost of capital and high investment levels



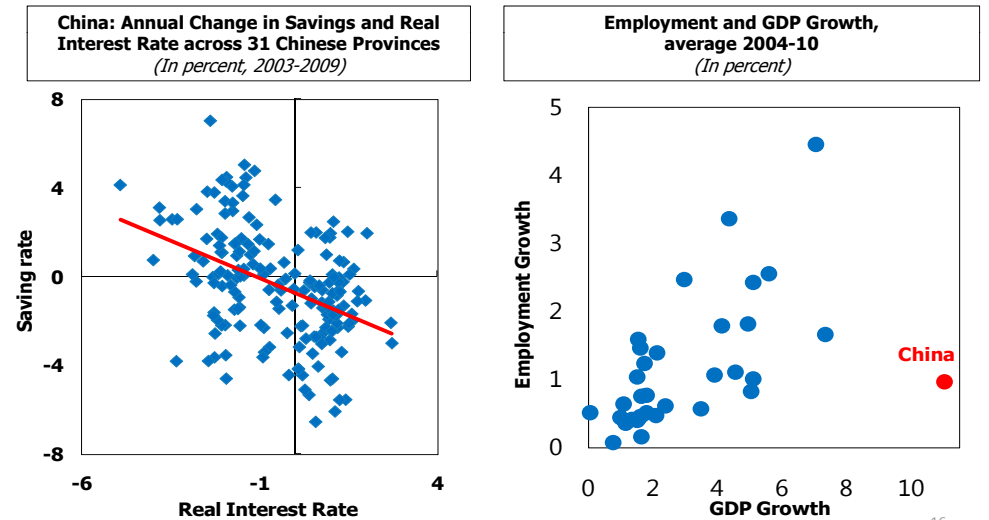
Financial reforms are needed to make growth more balanced Sequencing matters



A stronger renminbi and a new monetary framework should precede interest rate and capital account liberalization



Higher real interest rates could lower household saving A more balanced growth could generate higher job growth



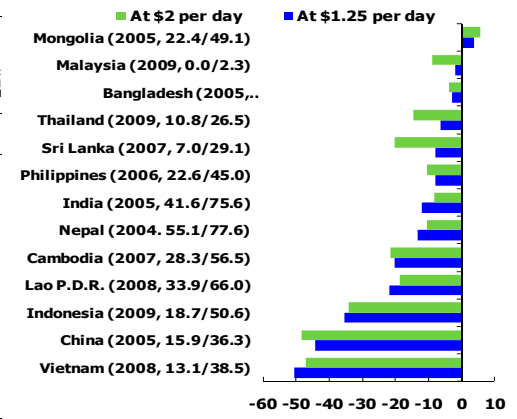
ASIA' QUEST FOR INCLUSIVE GROWTH

Asia has still largest number of world's poor despite significant progress in poverty reduction

Number of People Living on Less than \$1.25/day
(At 2005 purchasing power parity-prices)

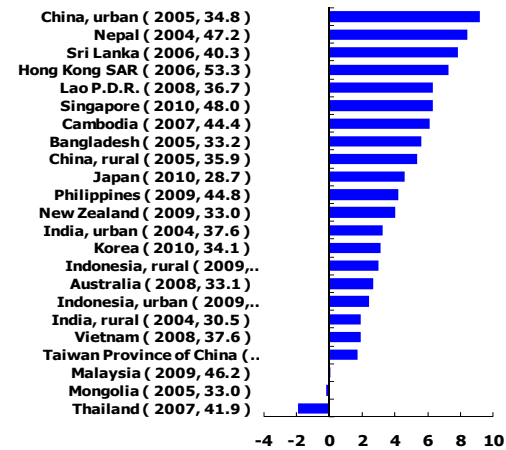
	Percent of population		Number (millions)		Percent of world total	
	1990	2005	1990	2005	1990	2005
Europe and Central Asia	2	4	9	<1	17	1
Latin America and the Caribbean	11	8	50	3	45	3
Middle East and North Africa	4	4	10	1	11	1
Sub-Saharan Africa	58	51	297	16	388	28
Asia	53	27	1452	80	912	66
China	60	16	683	38	208	15
India	51	42	436	24	456	33
Rest of Asia	45	26	333	18	248	18
Total	42	25	1818		1374	

Selected Asia: Change in Poverty Headcount Ratio
(In percentage points, since 1990)

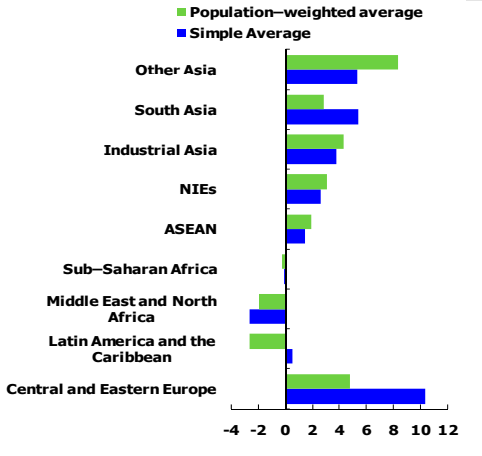


Income inequality increased across Asia even more than in other regions

Selected Asia: Change in Gini Index
(In Gini points, since 1990)

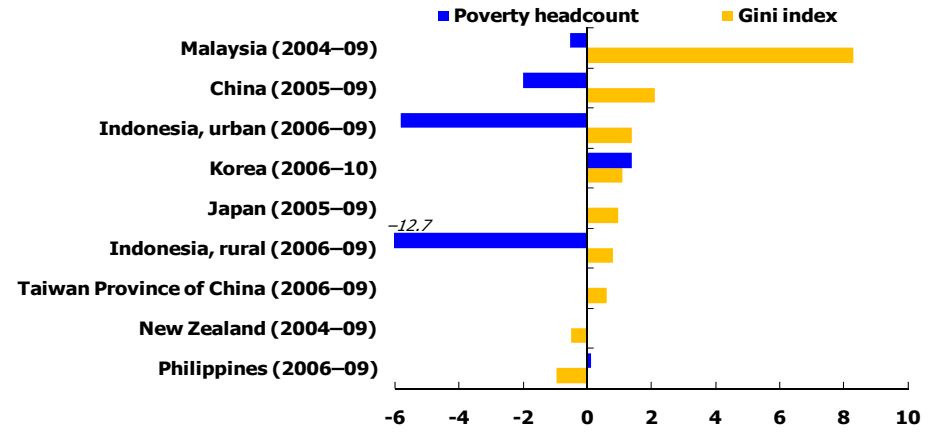


Change in Gini Index
(In Gini points, since 1990)

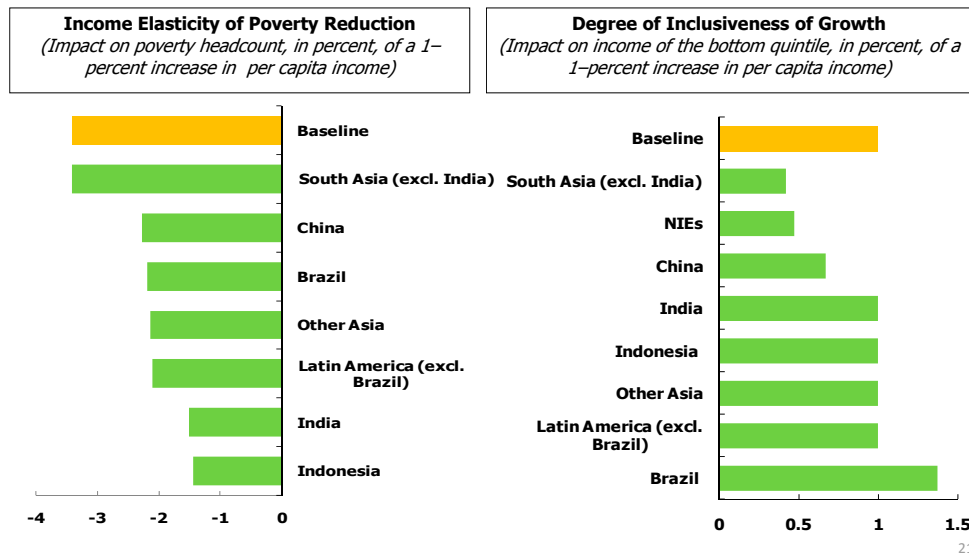


And the global crisis seems to have made things worse

Selected Asia: Change in Poverty and Inequality During the Global Crisis
(In percentage points)

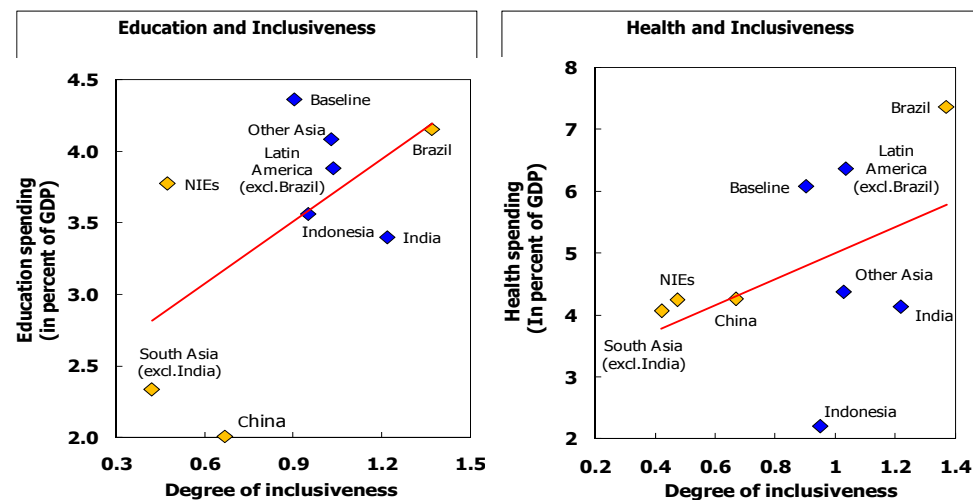


Growth in Asia is pro-poor but not inclusive



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More spending on health and education may help make growth more inclusive



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Conclusions

- In Japan, near and long-term challenges require comprehensive reforms that will jumpstart growth. This may require promoting investment and efficiency in service sector, tapping labor force, and deepening trade integration.
- In China, boosting domestic consumption and developing the service sector would require reforms of the financial intermediation system. Sequencing is important: a stronger exchange rate and a change in the monetary policy framework should have priority.
- Policies to revitalize growth and make it more sustainable would also need to make growth more inclusive—indeed, inclusive growth is a challenge across all Asia, as income inequality has increased even more than in other regions. Reprioritizing spending towards social chapters may help in this regard.

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