Economic and Social Survey of Asia and the Pacific 2007

Surging Ahead in Uncertain Times

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ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

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FOREWORD

Asian and Pacific nations are rapidly emerging as engines of global growth. In 2006, the 7.9 per cent increase in the size of the region's developing economies represented a third of worldwide growth. Significantly, these gains were broadly distributed among all subregions. The area's developed economies expanded by a healthy 2.2 per cent, while even countries affected by the 1997 Asian financial crisis reported robust 5 per cent growth and a reassuring macroeconomic outlook, with inflation under control, improved external accounts and stronger financial systems.

These encouraging trends are set out in the *Economic and Social Survey of Asia and the Pacific 2007*. However, the *Survey* cautions against complacency. Deeper integration into the global economy offers exciting opportunities for Asian and Pacific nations, but it also poses its own unique challenges. This year's *Survey* identifies some of these concerns, and analyses the near- and medium-term policy implications.

The *Survey* also addresses the issue of gender discrimination. Restrictions on women's choices and opportunities carry significant socio-economic costs at all levels of society. The *Survey* proposes action in four basic sectors: economic participation; education; health; and empowerment. In each area, examples of best practices illustrate the proven efficacy of the recommendations.

This publication is a timely and valuable contribution towards a better understanding of the many development challenges faced by the nations of Asia and the Pacific. I hope it will prove particularly useful to policymakers as they work to grow their economies and achieve the Millennium Development Goals.

Ban Ki-moon
Secretary-General

March 2007

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EXECUTIVE SUMMARY

Impressive growth in 2006 amid rising risks

Developing economies in the Asia-Pacific region grew at 7.9% in 2006, up from 7.6% in 2005. The continuing buoyancy of external demand remained a source of growth for many countries. Exports of electronics continued to be a key source of growth, while oil and gas exports remained strong in the Islamic Republic of Iran and the oil and gas exporters of North and Central Asia, and South-East Asia. Domestic demand drove gross domestic product (GDP) growth in South and South-West Asia, particularly on the back of high investments.

The region's impressive economic performance was against the backdrop of a riskier global environment. Oil prices hit a record high in the middle of 2006, while stock markets plummeted across the Asia-Pacific region, raising fears of a downturn. Global imbalances steadily widened, with the current account balance of the United States of America deteriorating by a further $100 billion in 2006, increasing the possibility of an abrupt depreciation of the United States dollar. The sharp appreciation of major currencies in the region against the United States dollar made it difficult to keep exchange rates competitive while addressing inflationary pressure. The suspension of the Doha Development Round in July 2006 did not bode well for a region driven by trade and ready to gain from further liberalization.

Despite high and volatile oil prices in 2006, developing economies in the Asia-Pacific region kept inflation under control at 4.3%, similar to that of the previous year. Asian currencies were strong, reflecting larger-than-expected current account surpluses and capital flows, including those for speculative purposes. Developing countries in the region continued to add to their sizeable foreign exchange reserves, which had reached an unprecedented $2.5 trillion at the end of 2006. The large increase in reserves points to continuing efforts to push down the region's currencies by official intervention. Current account balances deteriorated across the region in 2006, mainly a result of rising oil imports. Strong exports in many countries offset some of the effects of rising oil prices. The region's exports grew at an impressive 18%, benefiting from healthy global demand.

Subregional performance – led by East and North-East Asia

Economic growth has been widely shared, with all subregions performing robustly. In keeping with the region's rapid integration into the global economy and the sectors in which it is most competitive internationally, the process of expansion has been concentrated in the industrial and services sectors.

East and North-East Asia had stronger than expected growth of 8.5%. Investment continues to accelerate in China, while investment and consumption posted healthy gains in Hong Kong, China and Macao, China. Except in China, some significant impediments still constrain domestic demand, leaving the subregion dependent on global growth to sustain its expansion. The challenges and opportunities emerging for Asia-Pacific economies from China's reshaping of global and regional trade patterns is examined in a policy research feature.

Averaging around 7.5%, economic growth was also strong in North and Central Asia in 2006, its seventh consecutive year of rapid growth. High oil prices continued to fuel inflation and the rapid growth of net oil exporters, such as Azerbaijan, Kazakhstan and the Russian Federation. The oil boom raises concerns about "Dutch disease", however, and this is examined in a policy research feature.

With few exceptions, Pacific island countries showed positive economic growth, ranging from slightly less than 2% in Tonga to more than 6% in Vanuatu. Growth was led by the primary sector in Papua New Guinea and the services sectors in the smaller countries. Pacific island developing countries are urbanizing at an alarmingly rapid pace, and the challenges associated with their urbanization are examined in a policy research feature.

Strong economic growth continued in South and South-West Asia, with industry and services the major contributors. India led the growth momentum by expanding 9.2%. Exports increased in all countries in the subregion, but imports grew even faster, partly due to higher oil prices. The Islamic Republic of Iran, the only net

exporter of oil in the subregion, grew by 6.1%, the result of higher oil prices. The lack of physical infrastructure is constraining growth in the subregion, so investment in physical infrastructure is a priority, which is examined as a policy research feature.

Driven by strong external demand, economic growth in South-East Asia stood at a robust 5.9% in 2006. Strong external demand, especially for electronics, was the principal driver of growth. As a result, the current accounts of major economies in the subregion are estimated to have remained in surplus. Recognizing the importance of having well-functioning bond markets, a policy research feature focuses on corporate bonds, and re-examines the role of public policy.

All three developed countries in the region enjoyed modest growth. Capacity constraints tightened in Australia and New Zealand, creating inflationary pressure. Japan still looked for firm signs of graduating from deflation with limited growth in wages despite signs of labour shortages. The issue of poverty and inequality in Japan which came to prominence during the recession is highlighted in a policy research feature.

Outlook for 2007 – continuing dynamism

For developing economies in the Asia-Pacific region, economic growth is projected at 7.4% in 2007, slower than in 2006. The external environment is expected to be less favourable, mainly due to the slowing United States economy. A moderate decline in global electronics demand in 2007 may dampen the Asia-Pacific region's prospects. And the easing of commodity prices, including that of oil, comes as a mixed blessing.

As the international economic environment weakens, momentum in the region is expected to come from China, India and Japan. Together, these three economies contribute over 60% of the GDP of the Asia-Pacific region and close to 45% of imports, thereby creating considerable opportunities for the region.

Inflation will be less of a problem in 2007. For developing Asia-Pacific economies, it is projected at 3.8% for 2007, down from 2006. The fall in oil prices is expected to lessen inflationary pressures, while tight monetary policies across the region are also expected to help. Exchange rates, expected to appreciate further in 2007, would be an added brake on inflationary pressure. The current account surplus for emerging Asian economies is expected to fall slightly in 2007, though it will remain high. Further appreciation of exchange rates and reduced global demand in electronics and information technology components together with a rebound in domestic demand would contribute to the decline in current account surpluses.

Currency appreciation is expected to continue in 2007. It will be increasingly difficult for monetary authorities to pursue an independent monetary policy in response to shocks, as was the case in 2006, while targeting exchange rates against the backdrop of more open capital accounts. Monetary authorities can choose any two of three policy options: monetary autonomy, exchange rate targeting and capital convertibility – but not all three.

Greater exchange rate flexibility is one sustainable solution. It should take away the "one-way bet" that encourages even more capital inflows than otherwise because markets would quickly realize that the currency could move in either direction. In those economies where the central bank has not made a commitment to price stability, they could continue to manage their nominal exchange rates, but they would have to forego the practice of sterilized intervention and allow the real exchange rate to appreciate through increases in the price level.

Downside risks not to be ignored

The growth forecast of Asia-Pacific economies in 2007 is rather robust but the increased level of vulnerability observed in some of the major economies over the last 12 months suggests that the baseline forecast will be increasingly tilted towards the downside risks. Six downside risks merit attention:

- An oil price shock
- An abrupt cooling of housing markets in the United States
- A disorderly unwinding of global imbalances
- A reversal of the sustainability of the Japanese economic recovery

- Economic "overheating" in China
- An avian flu pandemic

Key economic issues on the watch list

The region's prospects, in both the short and long run, are naturally tempered by numerous forces. Considered in the report are five issues for policymakers to keep on their economic watch list:

Monitoring vulnerability to currency crises: Today's uncertainty in financial markets warrants careful monitoring of economic vulnerability to recognize danger signals as early as possible. Relying on economic growth as an indicator can be misleading, masking the build-up of vulnerability and lulling policymakers into inaction. The 1997 East Asian financial crisis shows, in the run-up to the crisis, that good growth did precisely that. To assess a country's vulnerability to a currency crisis through a sudden reversal of capital flows, ESCAP developed a composite vulnerability index with data from nine emerging countries in the Asia-Pacific region: five East Asian countries affected by the 1997 crisis and four other emerging countries. Crisis-affected countries, except for Malaysia, are displaying renewed vulnerability in 2006. Vulnerability is also a concern in some of the region's other emerging economies.

Boosting domestic demand through private investment, especially in East Asia: The relatively low domestic demand in East Asian economies indicates that these economies have increased their reliance on exports to drive economic growth, exposing them to declines in external demand. Except in China, investment was the brake on demand, rather than domestic consumption, which remained fairly stable. Especially in crisis-affected economies, the decline in investment was due to a drop in private investment's share in GDP, which has not yet recovered to its pre-crisis level. Shortages of capital funds are found to be hindering the recovery of private investment in these economies. A decisive policy response is needed to promote private investment in East Asian economies. Two critical reforms in the financial sector warrant attention. First, an improved system of risk management should be put in place so that banks are no longer excessively cautious when lending for investment activities. Second, to curb excessive growth of consumer credit, authorities should adopt minimum payment and income requirements for credit cards. Capital markets, which increased in importance after the crisis, should be further developed as an alternative source of funds for investors. Governments should also take measures to improve the investment climate for private investment, particularly in addressing corruption and improving customs clearance systems.

Reaping the one-off demographic dividend: The rapid decline in fertility and increase in life expectancy in the region is opening an historic, one-time only "demographic window" that provides an opportunity to spur economic growth. Whether countries capture this opportunity will depend on the social and economic policies and institutions they adopt to absorb a rapidly growing labour force. Not exploiting the demographic dividend can be costly. The report finds that a few key policies will help determine the ability of a country to exploit the demographic dividend: expanding access to basic education and improving its quality, more flexible labour markets, openness to trade and foreign investment, and well-developed financial markets.

Managing urban growth: Over the past three decades, many urban centres and surrounding areas in the Asia-Pacific region have been engines of economic growth. Yet, 570 million slum-dwellers in the region – more than half the world's total – experience the cumulative impact of labour oversupply, tenure insecurity, poor infrastructure, pollution and congestion. If these challenges are not managed, economic growth will be offset by the higher costs of keeping urban centres functioning. The report examines what policy actions need to be undertaken to arrest the problem before it explodes.

Promoting green growth to sustain development: The Asian and Pacific region's contribution to global GDP has been steadily rising over the past decade. As a result, the region shoulders a greater share of regional and global environment-related burdens. National policy failure to address the growing environmental pressures will eventually take their toll on economic growth. "Green growth" is a solution. It is the growth in GDP that maintains or restores environmental quality and ecological integrity, while meeting the needs of all people. ESCAP proposes a five-track approach to green growth: introducing green taxation and budget reform, developing sustainable infrastructure, promoting sustainable consumption and production, promoting green business, and monitoring progress through eco-efficiency indicators.

Gender inequality continues – at great cost

Gender discrimination has widespread ramifications and clear economic and social costs. The Asia-Pacific region has made good progress in reducing gender discrimination in recent years, but appalling disparities remain. The region is losing $42-$47 billion per year because of restrictions on women's access to employment opportunities – and another $16-$30 billion per year because of gender gaps in education. Those are just the economic costs – added to them are social and personal costs.

Gender discrimination in the region is most visible in the low access of women and girls to education and health services, to economic opportunities and to political participation. Female primary school enrolment can be as much as 26% lower than that of males. Such disparities are also reflected in access to health. The female-to-male ratio in the population is deteriorating, particularly in North and Central Asia, South Asia and the Pacific island countries, partly reflecting women's inadequate access to health services. In some countries, one in every 10 girls dies before reaching the age of one, and one in every 50 women dies during pregnancy and delivery. Meanwhile, violence against women continues, unabated, indicating how voiceless women are in households and in countries.

One of the fundamental reasons women are subject to discrimination is that they do not have a voice in decision-making at home or in society, even when the matters are directly related to themselves. They are powerless intellectually, materially and politically. With women accounting for half of the population, one would naturally expect that they should have at least equal representatives in elected bodies at the local, regional and national levels. However, the reality in the region is starkly different. Only seven countries had parliaments in which more than 20% of representatives were women, with New Zealand having the highest rate, at 28%.

The report proposes several specific recommendations in four critical dimensions: economic participation, education, health and empowerment. Best practices highlighted from across the region and elsewhere show that gender balance can be achieved with limited resources, but this requires changes at the household, societal and national levels. In particular, political leadership and commitment will go a long way towards correcting abject discrimination against women.

CONTENTS

Page

Foreword iii

Acknowledgements iv

Executive summary v

Chapter 1. Regional economic developments and prospects 1

Fastest growth in the world – 7.9% in 2006 1

Successfully fighting inflation 3

Living with high oil prices 5

Pressure on currencies to appreciate 9

Record level of foreign reserves 11

Strong exports – but high oil prices take a toll on current accounts 11

Getting the best out of bilateral and regional trade agreements 12

Outlook for 2007 – continuing dynamism amid rising risks 17

Inflation – less of a problem 18

Managing exchange rates – the biggest challenge in 2007 18

Current account surpluses – to deteriorate slightly 19

Downside risks not to be ignored 19

Key economic issues on the watch list 22

Monitoring vulnerability to currency crises 22

Boosting domestic demand through private investment, especially in East Asia 25

Reaping the one-off demographic dividend 30

Managing urban growth 33

Promoting green growth to sustain development 34

Appendix 1: Composite index of vulnerability to currency crisis – concept and measurement 37

References 38

Chapter 2. Subregional performance, challenges and policies 41

Widespread growth across Asia and the Pacific 41

East and North-East Asia – external demand boosts growth 43

Excess liquidity keeps the heat on 44

Current accounts remain in surplus 46

CONTENTS *(continued)*

Page

Weaker global demand poses a risk for medium-term prospects 47

Policy research feature 2.1: China's wake-up call to exporters in the Asia-Pacific region 49

North and Central Asia – oil and gas fuel spectacular growth 55

High and rising inflation widespread 56

Current account surpluses for oil exporters – workers' remittances boost external revenues for others 58

Foreign direct investment flows in 58

Foreign debt burden eases 59

Medium-term prospects are strong 60

Pacific island countries – robust growth, continuing challenges 61

External sector set to gain from the partnership with the European Union 63

Impact of higher oil prices 64

Policy research feature 2.2: The challenge of urbanization 66

South and South-West Asia – growth momentum sustained 70

Least developed countries forge ahead 71

High oil prices sustained inflationary pressures 72

Budget deficit – a serious problem in several countries 74

Current account deficits widen due to high oil prices 75

Outlook for 2007 – growth expected to remain strong 76

Policy research feature 2.3: Electricity and roads to reduce rural poverty 77

South-East Asia – growth accelerates on the back of strong exports 79

Higher oil prices – a catalyst for rethinking monetary policy 80

External sector helped by strong global economy 81

Medium-term prospects – dependence on global demand raises concerns 83

Policy research feature 2.4: Developing East Asian corporate bond markets 10 years after the crisis 85

Developed countries – modest growth but Japan's revival bodes well for the Asia-Pacific region 92

Policy research feature 2.5: Are inequality and poverty rising in Japan? 95

References 100

CONTENTS *(continued)*

Page

Chapter 3. Gender inequality continues – at great cost 103

Economic and social costs of gender discrimination 104

Cost of restrictions on labour force participation – $42-$47 billion a year 104

Cost of gender gaps in education – $16-$30 billion a year 105

Cost of restrictions on access to health services 107

Social costs of gender discrimination 107

Progress towards narrowing the gender gap 108

Economic participation – women's autonomy is the key to success 108

Educational attainment – a large gap, greater effort required 111

Health and survival – the gender gap exacerbated 112

Voice and empowerment – a wider gap 119

Eliminating gender discrimination – policy recommendations 126

Improve access to education 126

Improve access to health care 126

Enhance economic participation of women 127

Enhance access to material resources 127

Take steps to empower women by facilitating social mobilization 128

Hear the voice of women 128

References 129

Statistical annex 131

BOXES

		Page
1.1.	The growing impact of the Asia-Pacific region on the world economy	2
1.2.	Reducing oil dependency – country experiences	8
1.3.	Making the Doha Development Round a success	14
1.4.	Why the falling share of consumption in China? Precautionary savings could be the main reason	28
1.5.	India – less reliant than many others on exports for growth	31
1.6.	Pro-poor green business: Lekhani Paper and Power Project in Nepal	36
2.1.	Sri Lanka takes the initiative in textiles and apparel	54
2.2.	Is there evidence of "Dutch disease" in North and Central Asia?	57
2.3.	The impossible trinity and the monetary regime in South-East Asia	82
2.4.	Asia-Pacific economies set to benefit from Japan's revival	93
3.1.	The cost of the gender gap in education – empirical evidence	106
3.2.	Closing the gender gap in the Philippines	110
3.3.	Avoiding the penalties of gender inequality	117
3.4.	Reducing maternal mortality in Bangladesh	118
3.5.	Empowering women through microcredit	123
3.6.	A quota system for women's representation in local government: The experience of South Asian countries	125

TABLES

		Page
1.1.	Rates of economic growth and inflation of selected economies in the ESCAP region, 2005-2007	4
1.2.	Impact of a 10% increase in oil prices on selected Asian economies	6
1.3.	Ratio of foreign exchange reserves to short-term external debt in selected Asia-Pacific countries, 2005 and 2006	12
1.4.	Current account balances of selected developing economies and North and Central Asian economies, 2003-2006	13
1.5.	Comparison of the trade agreements in Asia and the Pacific with the good practice model	15
2.1.	Summary of external accounts for selected East and North-East Asian economies, 2005-2006	47
2.2.	Countries face competition from China in third-country markets: Export competition with China in country markets in 2005 and world market share change, 2001-2005	49
2.3.	Potential and direct export competition with China, 2001-2005	51
2.4.	Intermediate goods are the main export of middle-income Asia-Pacific economies to China: China's imports by stages of production from selected countries, 2000 and 2005	51
2.5.	... and distinctly outweigh China's exports of intermediate products to these countries: China's exports by stages of production to selected countries, 2000 and 2005	51
2.6.	Low-income countries depend on unskilled labour-intensive exports: Export structure by relative factor intensities in selected economies, 2000 and 2004	53
2.7.	Summary of external accounts for North and Central Asian economies, 2005-2006	59
2.8.	Summary of external accounts for selected Pacific island economies, 2005-2006	63
2.9.	Summary of external accounts for selected South and South-West Asian economies, 2005-2006	75
2.10.	Summary of external accounts for selected South-East Asian economies, 2005-2006	83
2.11.	Electronics production in selected South-East Asian economies, 2002-2005	84
2.12.	Cumulative net portfolio flows in East Asia, 2001-2005	89
2.13.	Current accounts improve	94
3.1.	Impact of gender equality in labour force participation, 2000-2004	105
3.2.	Economic gains from increased female labour force participation in developing countries in the Asia-Pacific region	105
3.3.	Economic gains from better gender balance in education in the region	106

FIGURES

		Page
1.1.	Real GDP growth rising in developing ESCAP economies, 1997-2006	1
1.2.	Inflation in the ESCAP region, 2005 and 2006	5
1.3.	Nominal and real oil prices rose to record highs in 2006	6
1.4.	Declining impact of rising oil prices on growth and inflation	7
1.5.	Trends in oil intensity in production for selected countries in the Asia-Pacific region	9
1.6.	Less movement in real effective exchange rates compared to nominal rates, 2005-2006	10
1.7.	Unprecedented level of foreign reserves in the developing ESCAP region, 2005 and 2006	11
1.8.	Real GDP growth forecast for selected developing economies in the ESCAP region	17
1.9.	Consumer price inflation largely under control	18
1.10.	Current account balances of selected developing economies in the ESCAP region, 2006 and 2007	20
1.11.	Vulnerability in crisis-affected countries	23
1.12.	Vulnerability in other emerging economies	24
1.13.	Declining private investments and increasing reliance on exports	26
1.14.	Percentage differences between the recent shares of disaggregate demand and its long-term trend	27
1.15.	Construction and machinery and equipment investment in selected East Asian economies, 1990-2005	29
1.16.	Demographic dividend – percentage of the population aged between 15-64 in ESCAP subregions	32
2.1.	Rates of growth of real GDP in the ESCAP region, 2005-2006	41
2.2.	The move away from agriculture to industry and services	43
2.3.	Savings continue to outpace investment	43
2.4.	Credit growth is a concern in China and the Republic of Korea	45
2.5.	Booming housing prices in the Republic of Korea	46
2.6.	Index of exchange rates against the United States dollar of selected East and North-East Asian economies, 1996-2006	46
2.7.	High and middle-income economies have substantial opportunities to export to China: Trade complementarity of selected economies with China, 1996-2005	50
2.8.	Azerbaijan leads the pack	55

FIGURES *(continued)*

		Page
2.9.	Inflation – generally high and rising	56
2.10.	Oil and gas revenues pushed some currencies higher against the dollar	56
2.11.	Real GDP and sectoral growth in selected Pacific island economies, 2004-2006	61
2.12.	Moving to towns and cities	66
2.13.	Industry and services perform well: Economic growth rates and sectoral contributions in selected South and South-West Asian countries, 2005-2006	70
2.14.	Investment higher than savings, except in the Islamic Republic of Iran, 2006	71
2.15.	Inflation and money supply growth (M2) in selected South and South-West Asian economies, 2003-2006	72
2.16.	Budget balance as a per cent of GDP in selected South and South-West Asian countries, 2004-2006	74
2.17.	Industry and services drive growth: Rates of economic growth and their sectoral contributions in selected South-East Asian countries, 2005-2006	79
2.18.	Lagging investment in middle-income South-East Asian economies, 2006	80
2.19.	By the end of 2006 currencies regained strength	81
2.20.	Ratio of non-government debt to GDP increasing	86
2.21.	Ratio of non-government debt to investment rising over time	86
2.22.	Ratio of private domestic bonds on issue relative to bank credit	87
2.23.	Raw bid-ask spreads on corporate bonds – most markets less liquid	88
2.24.	Shadow bid-ask spread on corporate bonds – Singapore and Hong Kong, China more liquid	88
2.25.	Areas where reform is most critical – the degree of policy success	90
2.26.	Economic growth picks up in Japan	92
2.27.	The share of non-regular workers	96
2.28.	Annual income of regular workers	97
2.29.	Annual income of part-time workers	97
2.30.	Share of wages and salaries and employers' social contribution in national income	97
2.31.	Share of beneficiaries of social assistance	98
3.1.	Female labour force participation in selected countries, 1990-2004	104
3.2.	The gender gap index, 2006	108

FIGURES *(continued)*

		Page
3.3.	Gender gap indices of selected countries	109
3.4.	Comparison between male and female labour force participation rates in Asia and the Pacific	111
3.5.	Schooling, literacy and agricultural employment	112
3.6.	Share of women working outside of agriculture, by subregion	112
3.7.	Impact of women's education on health	113
3.8.	Gender gap in secondary education, latest year available between 1990 and 2000	114
3.9.	Total fertility rate, 2004	115
3.10.	GNI per capita and total fertility rate of countries in the ESCAP region, 1990-2004	116
3.11.	Maternal mortality, by subregion	116
3.12.	Maternal mortality rates	117
3.13.	Infant mortality, by subregion	119
3.14.	Infant mortality rates	120
3.15.	Male and female life expectancy in the Asia-Pacific region, 2004	121
3.16.	Female to male ratio in the population, 2005	122
3.17.	Women in parliament in selected Asia-Pacific countries, 2004	124

EXPLANATORY NOTES

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The term "Central Asian countries" in this issue of the *Survey* refers to Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

The term "East and North-East Asia" in this issue of the *Survey* refers to China; Hong Kong, China; Mongolia; and the Republic of Korea.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Mention of firm names and commercial products does not imply the endorsement of the United Nations.

The abbreviated title *Survey* in footnotes refers to the *Economic and Social Survey of Asia and the Pacific* for the year indicated.

Many figures used in the *Survey* are on a fiscal year basis and are assigned to the calendar year which covers the major part or second half of the fiscal year.

Growth rates are on an annual basis, except where indicated otherwise.

Reference to "tons" indicates metric tons.

Values are in United States dollars unless specified otherwise.

The term "billion" signifies a thousand million. The term "trillion" signifies a million million.

In the tables, two dots (..) indicate that data are not available or are not separately reported, a dash (–) indicates that the amount is nil or negligible, and a blank indicates that the item is not applicable.

In dates, a hyphen (-) is used to signify the full period involved, including the beginning and end years, and a stroke (/) indicates a crop year, fiscal year or plan year. The fiscal years, currencies and 2005 exchange rates of the economies in the ESCAP region are listed in the following table:

Country or area in the ESCAP region	*Fiscal year*	*Currency and abbreviation*	*Rate of exchange for $1 as at December 2006*
Afghanistan	21 March to 20 March	afghani (Af)	50.10[a]
American Samoa	..	United States dollar ($)	1.00
Armenia	1 January to 31 December	dram	363.50
Australia	1 July to 30 June	Australian dollar ($A)	1.26
Azerbaijan	1 January to 31 December	Azeri manat (AZM)	0.87
Bangladesh	1 July to 30 June	taka (Tk)	69.07
Bhutan	1 July to 30 June	ngultrum (Nu)	44.25
Brunei Darussalam	1 January to 31 December	Brunei dollar (B$)	1.53
Cambodia	1 January to 31 December	riel (CR)	4 099.00[b]
China	1 January to 31 December	yuan renminbi (Y)	7.81
Cook Islands	1 April to 31 March	New Zealand dollar ($NZ)	1.42
Democratic People's Republic of Korea	..	won (W)	140.95[c]
Fiji	1 January to 31 December	Fiji dollar (F$)	1.68[b]
French Polynesia	..	French Pacific Community franc FCFP)	94.48[d]

Country or area in the ESCAP region	*Fiscal year*	*Currency and abbreviation*	*Rate of exchange for $1 as at December 2006*
Georgia	1 January to 31 December	lari (L)	1.71
Guam	1 October to 30 September	United States dollar ($)	1.00
Hong Kong, China	1 April to 31 March	Hong Kong dollar (HK$)	7.77
India	1 April to 31 March	Indian rupee (Rs)	44.25
Indonesia	1 April to 31 March	Indonesian rupiah (Rp)	9 020.00
Iran (Islamic Republic of)	21 March to 20 March	Iranian rial (Rls)	9 223.00
Japan	1 April to 31 March	yen (¥)	118.95
Kazakhstan	1 January to 31 December	tenge (T)	127.00
Kiribati	1 January to 31 December	Australian dollar ($A)	1.26
Kyrgyzstan	1 January to 31 December	som (som)	38.12
Lao People's Democratic Republic	1 October to 30 September	new kip (NK)	10 187.00[e]
Macao, China	1 July to 30 June	pataca (P)	8.01
Malaysia	1 January to 31 December	ringgit (M$)	3.53
Maldives	1 January to 31 December	rufiyaa (Rf)	12.80
Marshall Islands	1 October to 30 September	United States dollar ($)	1.00
Micronesia (Federated States of)	1 October to 30 September	United States dollar ($)	1.00
Mongolia	1 January to 31 December	tugrik (Tug)	1 164.00[b]
Myanmar	1 April to 31 March	kyat (K)	5.66
Nauru	1 July to 30 June	Australian dollar ($A)	1.26
Nepal	16 July to 15 July	Nepalese rupee (NRs)	71.10
New Caledonia	..	French Pacific Community franc (FCFP)	94.48[d]
New Zealand	1 April to 31 March	New Zealand dollar ($NZ)	1.42
Niue	1 April to 31 March	New Zealand dollar ($NZ)	1.42
Northern Mariana Islands	1 October to 30 September	United States dollar ($)	1.00
Pakistan	1 July to 30 June	Pakistan rupee (PRs)	60.92
Palau	1 October to 30 September	United States dollar ($)	1.00
Papua New Guinea	1 January to 31 December	kina (K)	3.03
Philippines	1 January to 31 December	Philippine peso (P)	49.13
Republic of Korea	1 January to 31 December	won (W)	929.60
Russian Federation	1 January to 31 December	ruble (R)	26.33
Samoa	1 July to 30 June	tala (WS$)	2.69
Singapore	1 April to 31 March	Singapore dollar (S$)	1.53
Solomon Islands	1 January to 31 December	Solomon Islands dollar (SI$)	7.62[a]
Sri Lanka	1 January to 31 December	Sri Lanka rupee (SL Rs)	107.71
Tajikistan	1 January to 31 December	somoni	3.43
Thailand	1 October to 30 September	baht (B)	36.05
Timor-Leste	1 July to 30 June	United States dollar ($)	1.00
Tonga	1 July to 30 June	pa'anga (T$)	2.00[b]
Turkey	1 January to 31 December	Turkish lira (LT)	1.41
Turkmenistan	1 January to 31 December	Turkmen manat (M)	5 200.00
Tuvalu	1 January to 31 December	Australian dollar ($A)	1.26
Uzbekistan	1 January to 31 December	som (som)	1 235.00
Vanuatu	1 January to 31 December	vatu (VT)	106.48
Viet Nam	1 January to 31 December	dong (D)	15 983.00[f]

Sources: United Nations, *Monthly Bulletin of Statistics* website, <http://esa.un.org/unsd/mbs/mbssearch.asp>; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, February 2007); and Economist Intelligence Unit website, <http://www.eiu.com>.

[a] September 2006.
[b] November 2006.
[c] October 2006.
[d] July 2006.
[e] June 2006.
[f] Average 2006.

ABBREVIATIONS

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
APEC	Asia-Pacific Economic Cooperation
BTAs	bilateral trade agreements
BIS	Bank for International Settlements
c.i.f.	cost, insurance, freight
CD-ROM	compact disk read-only memory
CIS	Commonwealth of Independent States
CPI	consumer price index
ECE	Economic Commission for Europe
ECO	Economic Cooperation Organization
EIU	Economist Intelligence Unit
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
f.o.b.	free on board
FTA	free trade agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNI	gross national income
GSP	Generalized System of Preferences
HIPC	heavily indebted poor countries
HIV/AIDS	human immunodeficiency virus/acquired immunodeficiency syndrome
ICT	information and communication technology

ABBREVIATIONS *(continued)*

ILO	International Labour Organization
IMF	International Monetary Fund
IMR	infant mortality rate
IT	information technology
M2	broad money supply
MDGs	Millennium Development Goals
MFA	Multifibre Arrangement
MMR	maternal mortality rate
NAFTA	North American Free Trade Agreement
NGO	non-governmental organization
NPL	non-performing loan
ODA	official development assistance
OCR	official cash rate
OECD	Organisation for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
PPP	purchasing power parity
R&D	research and development
RTA	regional trade agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SME	small and medium-sized enterprise
TFR	total fertility rate
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund

ABBREVIATIONS *(continued)*

UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
VAT	value added tax
WEF	World Economic Forum
WHO	World Health Organization
WTO	World Trade Organization

CHAPTER 1. REGIONAL ECONOMIC DEVELOPMENTS AND PROSPECTS

Fastest growth in the world – 7.9% in 2006

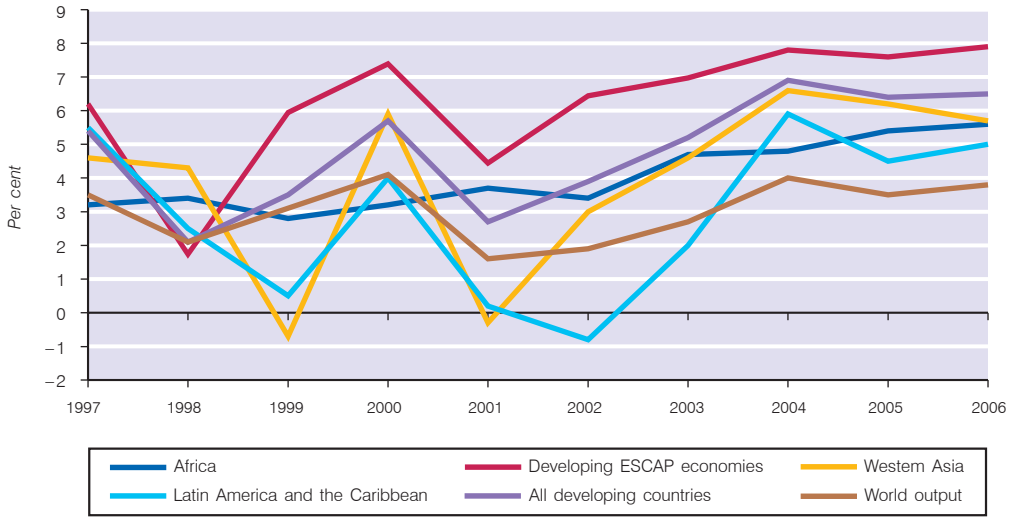
For the eighth consecutive year, developing economies in the Asia-Pacific region grew faster than those in all other regions at 7.9% in 2006, up from 7.6% in 2005 (figure 1.1). With Asian and Pacific developing economies accounting for more than one third of global growth in 2006, the region is becoming the locomotive of global growth (box 1.1). Economic growth has been widely shared, with all subregions performing robustly. In keeping with the region's rapid integration into the global economy and the sectors in which it is most competitive internationally, the process of expansion has been concentrated in the industrial and services sectors.

The continuing buoyancy of external demand remained a source of growth for many countries – as the anticipated slowdown in the United States failed to materialize and the continuing revival of the Japanese economy provided added stimulus. China served as an export platform for the region, while its appetite for raw materials and fuels kept global oil and commodity prices high, aiding exporters throughout the region.

Exports of electronics continued to be a key source of growth in South-East Asia. Oil and gas exports remained strong in the Islamic Republic of Iran, as well as many economies of North and Central Asia, and the South-East Asian economies of Brunei Darussalam, Malaysia and Viet Nam. Service exports also performed well in 2006. Information technology and back-office services showed signs of continuing growth in India, while in Hong Kong, China financial and business support exports also grew rapidly. The economies of Cambodia and Macao, China were boosted by growing tourism.

Domestic demand drove GDP growth in South and South-West Asia, particularly on the back of high investments in India and Turkey. But it has been relatively weak in much of the two East Asian subregions, except for China.

Figure 1.1. Real GDP growth rising in developing ESCAP economies, 1997-2006



Sources: ESCAP, based on United Nations, *World Economic Situation and Prospects 2007* (United Nations publication, Sales No. E.07.II.C.2); International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, September 2006); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); Interstate Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com>, 26 Feburary 2007; and ESCAP estimates.

Note: Data for 2006 are estimates.

Box 1.1. The growing impact of the Asia-Pacific region on the world economy

The dynamic growth seen in the world economy in 2006 has largely been driven by developing Asia-Pacific countries. They accounted for more than 16% of world GDP in 2006 and one third of world GDP growth. In purchasing power parity terms, their contribution is much higher at 30% of world GDP in 2002-2004 and 58% of world GDP growth (box figure a).

By far the largest contribution to global growth since 2000 has been the dynamism of China and the emergence of India. China was responsible for 32% of world GDP growth in 2001-2004 (box figure a). And India's growth contribution nearly doubled over the past two decades to reach 10% in 2001-2004. As a result of their rapid growth China and India have marched up the rankings of the world's largest economies. China was the world's second largest economy in 2005 in PPP terms and India the fourth largest.

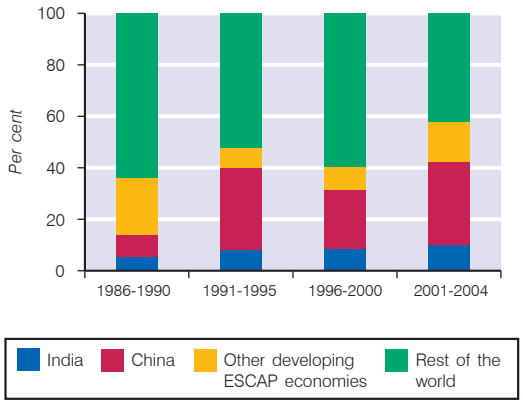
Developing countries in Asia and the Pacific are changing the global real sector through their ever-increasing levels of world trade and have nearly tripled their contribution to world trade since 1990 (box figure b); China has seen a nearly seven-fold increase in its trade and is now the world's third largest trading economy, after the United States and Germany. Its exports account for 90% of the world's toys, 50% of apparel and 16% of consumer electronics – it imports about 45% of global cement and 20% of aluminium and copper. China's global trade surplus was $178 billion in 2006, roughly 75% higher than that of a year earlier. Trade with China provides a massive impetus to many countries' export prospects. China runs significant trade deficits with many economies – primarily global energy producers and neighbouring Asian economies supplying intermediate inputs.

China influences global monetary policy because of the sheer size of its economy coupled with its enormous amount of trade. China's low export prices have held inflation down. Its hourly compensation for manufacturing workers is still only 3% of that in the main industrial economies (Roach, 2006). Its fairly fixed exchange regime also contributes to low export prices. And its undervalued yuan affects exchange rate management in the rest of the Asian economies.

In 2001-2005, according to ESCAP analysis, inflation in the United States was reduced by 0.28 percentage points annually due to China's export price effect, 0.37 percentage points in the European Union, 0.70 points in Singapore and 0.65 points in Japan.

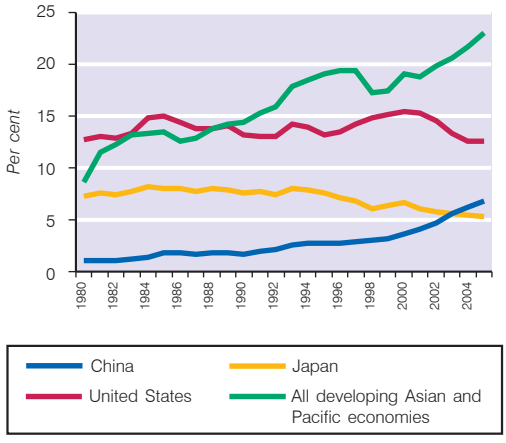
Figure a. Contribution of developing ESCAP economies to global growth, 1986-2004

(PPP constant 2000 United States dollar prices)



Sources: Calculations based on *World Bank, World Development Indicators 2006* (Washington, D.C., World Bank, 2006).

Figure b. Total trade of ESCAP selected economies as a percentage of world trade



Source: International Monetary Fund, *Direction of Trade Statistics* (CD-ROM) (Washington, D.C., IMF, August 2006).

(Continued on next page)

Box 1.1 *(continued)*

China does, however, exert upward pressure on global inflation by pushing up commodity prices. One third of the increase in global oil demand since 2000 has come from China, now the world's biggest consumer of aluminium, steel, copper and coal.

ESCAP analysis shows that China's demand for oil during the period 2001-2005 increased world oil prices by 22.5% – and inflation in the United States by 0.23 percentage points annually, 0.35 points in the European Union, 1.11 points in India, and 0.73 points a year in Thailand and the Philippines each.

So the positive and negative impacts of China on global inflation apparently cancel each other out. Countering the downward pressure on export prices and wages from low-cost production in China and the managed value of the yuan are raising world commodity prices due to high demand from China. It is likely that China's export prices will be on an upward trend because of increasing wages in China and a possible revaluation of the yuan.

These developments in China have kept interest rates in the United States lower than they would otherwise have been, with inflation held down by the aggregate effect of China on consumer prices and wages in the United States. China has also kept United States interest rates lower through its purchases of United States government debt. According to ESCAP analysis, China's purchases of foreign assets reduced the interest rate on United States 10-year treasury bills by 0.15 percentage points annually between 2001 and 2005.

Ten years after the Asian financial crisis, crisis-affected countries – Indonesia, Malaysia, the Philippines, the Republic of Korea and Thailand – have made great progress in reviving the strength of their economies. Between 1999 and 2006, average per capita income in these countries grew by more than 8%. Enormous strides were made in reducing the poverty and unemployment that had resulted from the events of 1997. More recently, the crisis-affected countries displayed robust GDP growth of more than 5% in 2006. They have taken significant macroeconomic policy measures to improve resilience to shocks: inflation is below pre-crisis levels, current account surpluses have averaged around 5% of GDP since 1999; there is less dependence on portfolio capital inflows; financial sectors have improved; and these countries have established considerable foreign currency reserves.

> *"The impressive economic performance was against the backdrop of a riskier global environment"*

The region's impressive economic performance was against the backdrop of a riskier global environment. Oil prices hit a record high in the middle of 2006, while stock markets plummeted across the Asia-Pacific region, raising fears of a downturn. Global imbalances steadily widened, with the current account balance of the United States deteriorating by a further $100 billion in 2006, increasing the possibility of an abrupt depreciation of the United States dollar. The sharp appreciation of major currencies in the region against the United States dollar made it difficult to keep exchange rates competitive while addressing inflationary pressure. The suspension of the Doha Development Round in July 2006 did not bode well for a region driven by trade and ready to gain from further liberalization.

Successfully fighting inflation

High and volatile oil prices were one of the central sources of difficulty in macroeconomic management in the region in 2006. Inflationary pressures in oil-importing economies intensified with the relentless increase in oil prices through August 2006. Further reductions in fuel subsidies during 2006 by China, India, Malaysia and Taiwan Province of China added to inflationary pressures in their economies.

> *"High and volatile oil prices were one of the central sources of difficulty in macroeconomic management in 2006"*

Governments across the region promptly responded to inflationary pressures by tightening monetary policies, which they had begun doing so in mid-2005.

Table 1.1. Rates of economic growth and inflation of selected economies in the ESCAP region, 2005-2007

(Per cent)

	Real GDP			Inflation[a]		
	2005	2006[b]	2007[c]	2005	2006[b]	2007[c]
Developing economies[d]	7.6	7.9	7.4	4.3	4.3	3.8
East and North-East Asia	8.1	8.5	7.8	2.0	1.6	2.1
China	10.4	10.7	9.9	1.8	1.5	2.0
Hong Kong, China	7.3	6.2	5.7	0.9	2.0	2.3
Mongolia	6.2	7.5	6.0	9.5	5.1	..
Republic of Korea	4.0	5.2	4.8	2.7	2.5	2.5
Taiwan Province of China	4.0	4.2	4.1	2.3	0.6	1.7
North and Central Asia	7.1	7.5	7.1	11.8	9.4	8.8
Armenia	13.9	13.4	8.0	0.6	2.9	3.0
Azerbaijan	26.4	34.5	30.0	9.6	8.3	8.0
Georgia	9.3	7.0	5.0	8.2	9.2	7.0
Kazakhstan	9.5	10.5	10.0	7.6	8.6	7.5
Kyrgyzstan	–0.6	2.7	6.0	4.3	5.7	5.4
Russian Federation	6.4	6.7	6.4	12.7	9.7	9.0
Tajikistan	6.7	7.0	7.0	7.8	11.9	6.5
Turkmenistan	6.0	14.0	7.0	10.6	11.0	9.7
Uzbekistan	7.0	7.3	6.5	6.9	7.5	8.0
Pacific island economies	2.7	3.8	3.7	2.4	2.8	2.7
Cook Islands	0.1	1.8	3.5	2.5	3.0	1.5
Fiji	0.7	3.6	2.0	2.7	3.5	4.0
Papua New Guinea	3.3	3.7	4.5	1.7	1.7	1.5
Samoa	5.1	3.5	4.7	1.9	3.2	4.0
Solomon Islands	5.0	6.2	5.0	7.2	8.2	8.4
Tonga	2.3	1.9	0.9	9.6	7.2	..
Vanuatu	6.8	7.0	7.0	0.9	2.3	2.4
South and South-West Asia[e]	8.0	7.8	7.4	6.7	7.6	6.2
Bangladesh	6.0	6.7	6.0	6.5	7.2	7.0
India	9.0	9.2	9.0	4.4	6.0	5.0
Iran (Islamic Republic of)	5.4	6.1	6.0	12.1	11.0	9.1
Nepal	2.7	1.9	4.3	4.5	8.0	6.0
Pakistan	8.6	6.6	7.0	9.3	8.0	7.0
Sri Lanka	6.0	7.0	6.5	11.6	13.0	7.0
Turkey	7.4	6.0	5.0	8.2	9.5	7.1
South-East Asia	5.6	5.9	5.6	6.0	6.8	4.4
Cambodia	13.4	8.0	7.0	5.8	5.0	4.0
Indonesia	5.6	5.5	6.2	10.5	13.1	6.8
Lao People's Democratic Republic	7.2	7.5	7.6	7.2	7.0	7.0
Malaysia	5.3	5.6	5.7	3.0	3.6	3.2
Philippines	5.0	5.5	5.6	7.7	6.5	4.5
Singapore	6.4	7.6	4.7	0.4	1.0	1.5
Thailand	4.5	5.0	4.7	4.5	4.6	3.6
Viet Nam	8.4	8.2	8.3	8.3	7.5	6.8
Developed economies	2.0	2.2	2.0	0.0	0.5	0.9
Australia	2.7	2.5	3.0	2.7	3.5	2.5
Japan	1.9	2.2	1.9	–0.3	0.2	0.7
New Zealand	2.1	1.9	1.8	3.1	3.4	2.0

Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); Interstate Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com>, 26 February 2007; and ESCAP estimates.

[a] Changes in the consumer price index.
[b] Estimate.
[c] Forecast.
[d] Based on data for 38 (developing) economies representing more than 95% of the population of the region (including the Central Asian republics); GDP figures in market prices in United States dollars in 2004 (at 2000 prices) have been used as weights to calculate the regional and subregional growth rates.
[e] The estimates and forecasts for countries relate to fiscal years defined as follows: fiscal year 2005/06 = 2005 for India and the Islamic Republic of Iran; and fiscal year 2004/05 = 2005 for Bangladesh, Nepal and Pakistan.

Exchange rate appreciation in many parts of the region also absorbed some of the price increases for oil and other imports. Developing economies in the Asia-Pacific region kept inflation under control at 4.3% in 2006, similar to that of the previous year (figure 1.2). Only Indonesia, the Islamic Republic of Iran, Sri Lanka, Tajikistan and Turkmenistan had double-digit inflation in 2006.

In December, India increased key interest rates for the fourth time in the year and raised the cash reserve ratio by 50 basis points to 5.55%. The Republic of Korea raised interest rates three times, in August reaching their highest level in five years. It also increased its reserve ratio for demand deposits by 2% to 7%, the first increase in 17 years. China increased its rates in April and August and raised the reserve ratio in November for the third time in the year.

South-East Asian countries were cautious about raising interest rates with inflation lessening by the fourth quarter. Indonesia lowered its benchmark interest rate in December for the seventh time in 2006, returning to single digits for the first time in more than a year. Also in November, Malaysia experienced its lowest inflation in 16 months. Malaysia has left its interest rate unchanged since April 2006, and Thailand has not increased its interest rate since June 2006 after two years of rate rises.

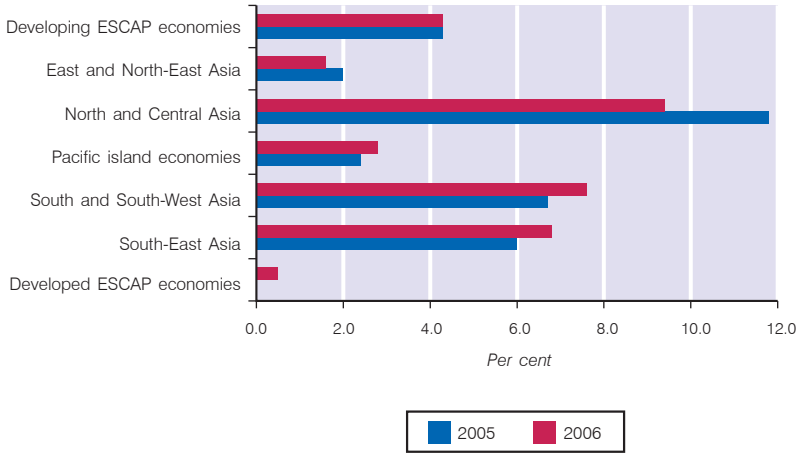
Living with high oil prices

High and volatile oil prices posed major difficulties for macroeconomic management – stoking inflationary pressures, eroding current account surpluses and reducing foreign reserves in some countries. They passed $70 per barrel in early August, in real terms surpassing their previous peak in the 1979-1980 shock (figure 1.3).

Prices have since trended downward, with some tensions eased in the Middle East, a hurricane season without major disruptions in the Gulf of Mexico and a warmer than usual winter in Europe and North America. But further disruptions by political instability in the Middle East and elsewhere cannot be ruled out, especially with the unusually low spare production capacity of major producers. Prospects for a continuing fall in prices to pre-2002 levels thus remain uncertain.

Aided by strong exports, high capital inflows and a benign global economic environment, regional growth has been resilient, despite high oil prices. But a slowing United States economy and declining global demand for electronics could change this in 2007. New oil price hikes would undermine regional economic growth, inflation and current account balances. In oil-dependent Asia-Pacific economies, the impact is much more pronounced than for industrial countries (table 1.2).

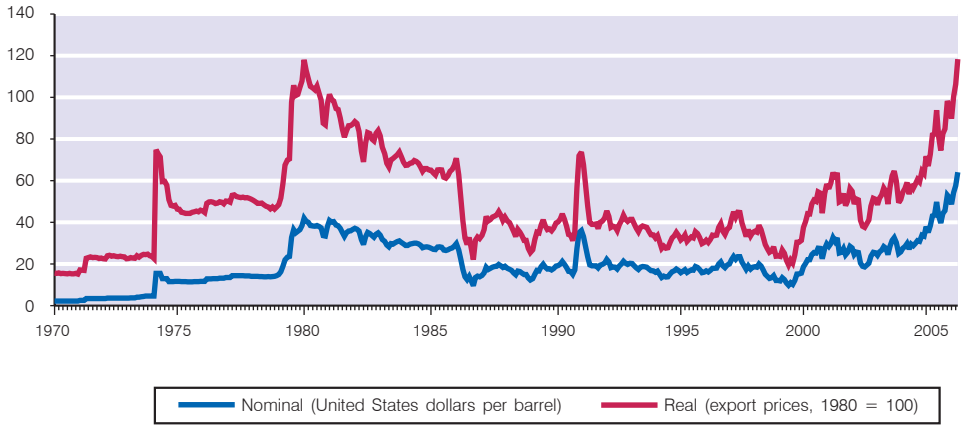
Figure 1.2. Inflation in the ESCAP region, 2005 and 2006



Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF,. September 2006); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); Interstate Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com>, 26 February 2007; and ESCAP estimates.

Notes: Data for 2006 are estimates. Inflation rates refer to changes in the consumer price index.

Figure 1.3. Nominal and real oil prices rose to record highs in 2006



Sources: International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, August 2006); PTT Public Company Limited; and ESCAP calculations.

Notes: Oil prices refer to Brent. Real oil prices are calculated only up to May 2006, given the limited data on export prices deflator.

Table 1.2. Impact of a 10% increase in oil prices on selected Asian economies

(Percentage change)

	Real GDP growth (December 2006)	*Consumer price inflation (December 2006)*	*Current account as a per cent of GDP (December 2006)*
China	–0.20	0.13	–0.33
Hong Kong, China	–0.13	0.07	–0.52
India	–0.13	0.78	–0.26
Indonesia	–0.20	0.48	–0.07
Malaysia	–0.20	0.60	0.20
Philippines	–0.33	0.61	–0.20
Republic of Korea	–0.07	0.33	–0.52
Singapore	–0.33	0.52	–0.39
Taiwan Province of China	–0.07	0.20	–0.65
Thailand	–0.33	0.72	–0.39
Developing Asian economies	**–0.16**	**0.44**	**–0.31**
United States	–0.10	0.12	–0.12
European Union	–0.20	0.20	–0.20
OECD	–0.17	..	..

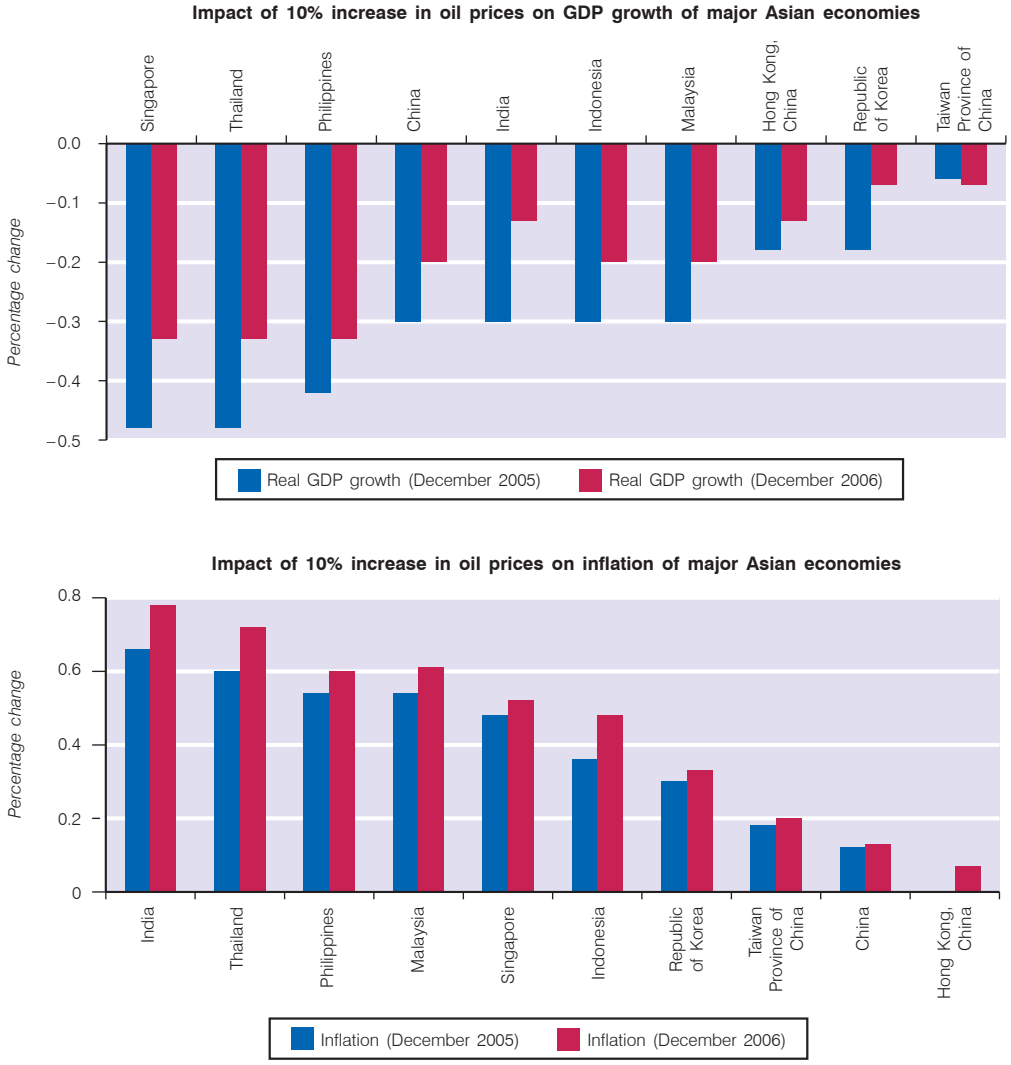
Source: ESCAP calculations.

ESCAP simulations indicate that emerging Asia's growth would be reduced by 0.16 percentage points if there is a sustained 10% increase in world oil prices. Singapore, Thailand and the Philippines would be hardest hit because of their oil intensities. While consumer price inflation would increase for all emerging Asian economies, the effects would be mostly felt in India, Thailand, the Philippines and Malaysia. Current account balances would deteriorate in all emerging Asian countries, particularly in Taiwan Province of China, Hong Kong, China, and the Republic of Korea. In emerging Asia, current account balances would deteriorate on average by 0.31 percentage points of GDP.

> *"Emerging Asia's growth would be reduced by 0.16 percentage points if there is a sustained 10% increase in world oil prices"*

The region's economies are learning to live with high oil prices by shifting demand from oil to other sources of energy, increasing oil efficiency in production and promoting energy conservation (box 1.2). So any negative impact has declined – a 10% rise in oil prices would, as noted, shave 0.16 percentage points

Figure 1.4. Declining impact of rising oil prices on growth and inflation



Source: ESCAP calculations, based on the Oxford Economic Forecasting Model.

off current growth, down from 0.27 percentage points in 2005 (figure 1.4). Because the reductions in oil import volumes have been greater than price increases, the expected deterioration of current account balances as a percentage of GDP has eased slightly from a year ago. But inflationary pressures from further oil price increases appear higher, as countries in the region move away from fuel subsidies and pass higher oil prices on to consumers and producers.

Oil dependency is being reduced, but not enough. Since 2000, the Republic of Korea has seen the oil intensity of its production decline by 27%, India by 25% and China by 10% (figure 1.5). But their oil intensities are still considerably higher than in the more energy-efficient United States. ESCAP estimates that increasing energy efficiency in the major energy users of developing Asia would have a significant impact on world oil prices and growth in the region. Reducing oil intensity in China, India and the Republic of Korea to match that in the United States, would, on average and over the next five years, reduce world oil prices by around 20%, while the GDP of developing Asia would improve by 1.4% a year. China would see its GDP growth accelerate by 3% a year on average, India by 1% and the Republic of Korea by 0.5%.

Box 1.2. Reducing oil dependency – country experiences

Improving transport efficiency could lead to substantial fuel savings for consumers, up to two or three times the additional cost for new vehicles. Between 2005 and 2030, the estimated savings of the global oil-import bill would be $1.9 billion with an additional investment of $800 billion in more efficient cars and other oil-consuming goods.

Several countries are implementing programmes to encourage alternative fuels, such as compressed natural gas (CNG), liquefied petroleum gas, biofuel, biodiesel, electricity and hydrogen.

- Thailand is pursuing oil and energy savings and alternative energy, such as biodiesel and ethanol, aggressively promoting energy efficiency in all sectors. The measures come in the wake of estimates that oil consumption accounts for 11% of GDP. An energy conservation fund, set up in 1992, promotes energy efficiency.

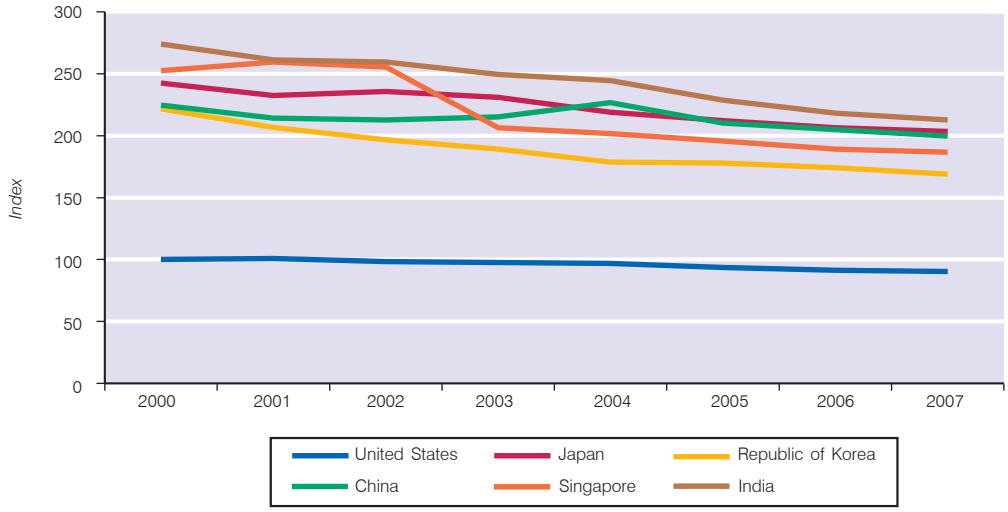
- In the Philippines, energy conservation is encouraged in public buildings. The operating hours of gasoline stations have been reduced. Import tariffs for fuel-intensive vehicles have been increased. And energy efficiency programmes are being enhanced across all sectors. The Government recently issued an executive order removing all import duties on components, parts and accessories for hybrid, electric, flexible fuel and CNG vehicles. This measure reflects its wish to become a manufacturing centre for vehicles running on alternative fuels, curbing air pollution and reducing dependency on imported oil in the process. Oil consumption in the Philippines dropped almost 7% between 2004 and 2005, even though total energy consumption increased by 1.4%. Oil made up 58% of the fuel mix in 2005, compared with 63% in 2004.

- In February 2006, Pakistan announced a decision to introduce CNG buses to cut an estimated $700 million from the diesel import bill every year. The Government is encouraging CNG as a cheap and environmentally friendly fuel, and almost 900,000 vehicles already use it.

The oil market will likely remain volatile. But key stakeholders need to contain such volatility and seek win-win solutions for all. They could establish a regular forum of oil exporters and importers in the Asia-Pacific region. And they should do more to diversify their energy options and improve the energy efficiency and the eco-efficiency of their economic growth by changing consumption and production patterns. Further research and development is needed to promote wider use of alternative energy sources, coupled with greater diffusion of advanced fossil fuel and renewable energy-efficient technologies. As many Governments have come to realize, there are some real alternatives in managing the risks of oil prices.

Sources: IEA/OECD (2006); Thailand (2006); and Sina Corporation (2006); and IANGV (2006).

Figure 1.5. Trends in oil intensity in production for selected countries in the Asia-Pacific region



Source: ESCAP calculations, based on Oxford Economic Forecasting Database.

Notes: Data for 2006 and 2007 are estimates. Oil intensity index is calculated by taking the ratio of demand for oil to GDP, using the United States oil intensity ratio in 2000 as the base.

Pressure on currencies to appreciate

Asian currencies were strong in 2006, reflecting larger-than-expected current account surpluses and capital flows, including those for speculative purposes. High interest rates in some countries, investor appetite for risk and excess global liquidity attracted record portfolio flows to the region. Major currencies appreciated significantly, even with the sudden portfolio capital outflows in mid-2006 that sent stock markets reeling and currencies depreciating across the region. By the end of 2006, the Thai baht had appreciated by 13% against the United States dollar – the highest in the region. The Korean won reached a nine-year peak against the United States dollar and the Japanese yen. The Indonesian rupiah, Singapore dollar and Phillipine peso all appreciated by close to 8% against the United States dollar.

> *Currency appreciation in 2006 did not seriously erode the competitiveness of exporting industries*

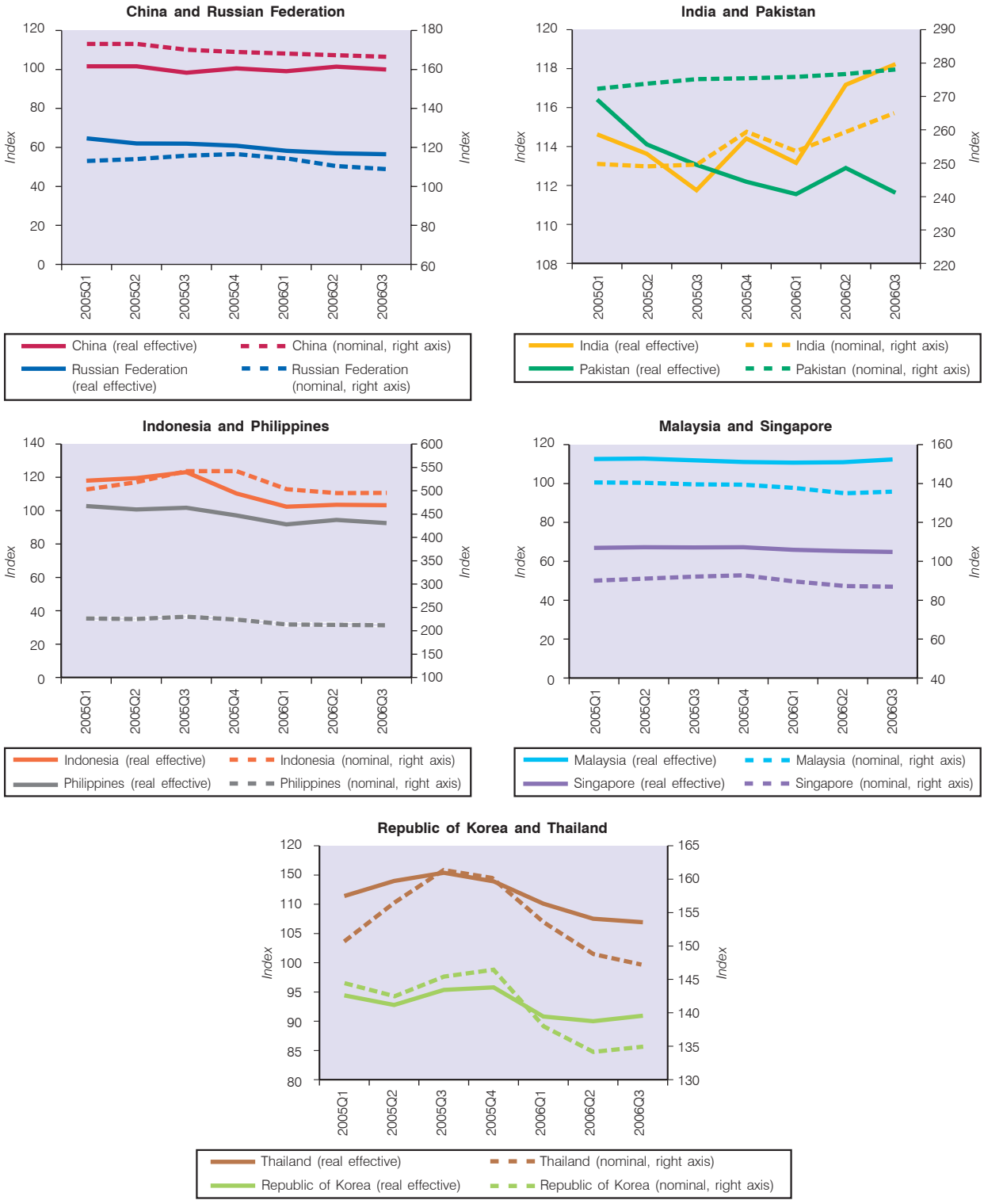
Despite widespread fears, currency appreciation did not seriously erode the competitiveness of exporting industries. Movements in real effective exchange rates, the most appropriate measure to gauge competitiveness, show that the appreciation was smaller than the nominal appreciation against the United States dollar (figure 1.6). For example, in real effective terms the Thai baht appreciated by only about 3% by the third quarter of 2006, the Korean won by a negligible 0.16%. And exports from these countries continued to perform well, implying that any loss of competitiveness through currency adjustments may not have been significant.

Even so, policymakers responded to fears of adverse effects on exports by intervening in foreign exchange markets and accumulating foreign reserves to reduce upward pressure on their currencies. In a dramatic move, Thailand imposed capital controls on short-term flows, which resulted in the Thai stock market losing close to 15% in one day. Markets recovered the following day when the authorities partly reversed the measures.

Containing inflationary risks and preventing exchange rates from appreciating presents a dilemma. It is impossible to juggle all three policy objectives – free movement of capital, control over exchange rates, and an independent monetary policy to manage inflation (see box 2.3 in chapter 2). Yet, in 2006 many policymakers in East Asia tried to do just that. As interest rates rose to combat inflation and authorities accumulated foreign exchange reserves to keep exchange rates from appreciating, liquidity built up beyond desired levels, exacerbated by speculative flows. In response, central banks took some unorthodox steps. The Bank of Korea and the People's Bank of China increased reserve requirements on bank deposits, while the Bank of Thailand introduced capital controls.

Figure 1.6. Less movement in real effective exchange rates compared to nominal rates, 2005-2006

(1990 = 100; except for Russian Federation 1999 = 100)



Source: Calculated from International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006).

Record level of foreign reserves

Developing countries in the region continued to add to their sizeable foreign exchange reserves, which had reached an unprecedented $2.5 trillion at the end of 2006 (figure 1.7). China, India, Republic of Korea, Russian Federation, Hong Kong, China, and Taiwan Province of China accounted for more than 82% of the total reserves. Eclipsing Japan to become the world's largest reserves holder, China accounted for 40% of the reserves of developing countries in the region (close to $1 trillion).

> *"The prudent level of reserves necessary to safeguard a country from financial instability should be balanced against the potential capital losses and quasi-fiscal costs"*

While the huge appetite for reserves in the Asia-Pacific region is partly a reaction to the Asian financial crisis, the large increase in 2006 points to continuing efforts to push down the region's currencies by official intervention. It is time to consider seriously the benefits and costs of holding excessive reserves, by balancing the prudent level of reserves necessary to safeguard a country from financial instability against the potential capital losses and quasi-fiscal costs.

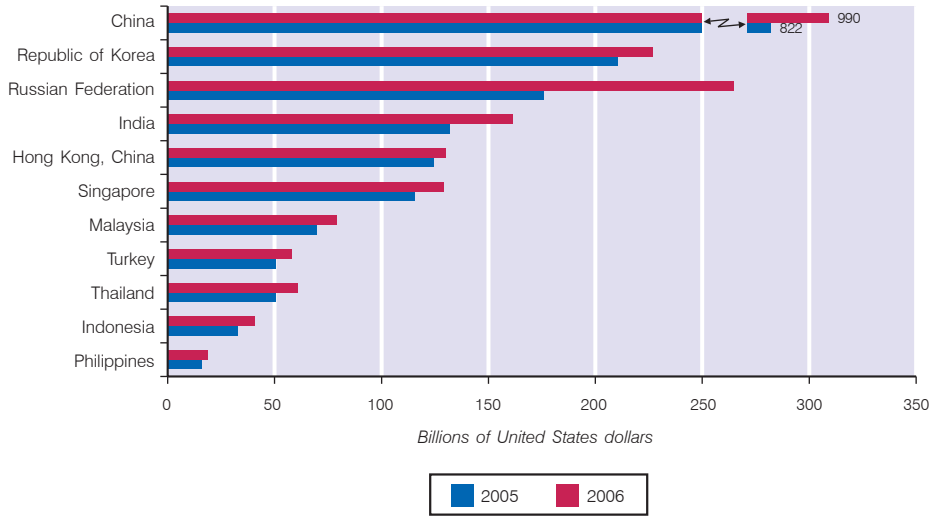
The conventional wisdom is that countries should have enough reserves to cover their short-term external debt, and large reserve holders in the region have adequate cover (table 1.3). India's reserve cover is 21 times its short-term external debt. This ratio has increased over 2005 levels in all countries, except in Pakistan and Thailand. In the meantime, some of the cost factors have been rising. Since the majority of reserves are in United States dollar-denominated assets, the continuing weakening of the United States dollar during 2006 led to capital losses.

Central banks can incur costs when issuing government securities to absorb excess liquidity, if interest rates on government securities are higher than the corresponding rates earned on foreign reserve holdings. It may be time for countries to channel reserves into more productive investments, such as infrastructure.

Strong exports – but high oil prices take a toll on current accounts

Current account balances deteriorated across the region in 2006, mainly as a result of rising oil imports – though the impact was somewhat cushioned by an appreciation of currencies that made imports cheaper

Figure 1.7. Unprecedented level of foreign reserves in the developing ESCAP region, 2005 and 2006



Source: International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006).

Notes: Foreign reserves exclude gold. Data for 2006 refer to October or latest available month.

Table 1.3. Ratio of foreign exchange reserves to short-term external debt in selected Asia-Pacific countries, 2005 and 2006

	2005	2006Q3[a]
China	6.6	7.6
India	17.5	21.1
Indonesia	1.3	1.6
Malaysia	4.5	5.0
Pakistan	3.3	2.8
Philippines	0.3	0.4
Russian Federation	1.1	1.3
Thailand	3.2	2.9

Source: Oxford Economic Forecasting Model Database.

[a] Except Indonesia and Pakistan, where the latest data are from 2006Q2.

(table 1.4). Strong exports in many countries offset some of the effects of rising oil prices. The region's exports grew at an impressive 18%, about the same as in 2005, while import growth picked up to 19%, from 17% a year before.

> *The region's exports grew at an impressive 18% in 2006, while import growth picked up to 19%, from 17% a year before*

The region's exports benefited from healthy global demand. Robust growth in the United States was a key driver of demand, supported by improving demand in Europe and Japan. South-East Asian economies benefited from the cyclical upswing in demand for electronic products that began in mid-2005. Apparel exports across the region have performed better than expected after the global liberalization of apparel in 2005, in part due to the enforcement of restrictions on Chinese imports into the United States and the European Union. There is also evidence that apparel-exporting countries have diversified their production and export destinations and maintained their price competitiveness in world markets. The revival of the Doha Development Round would be of help to this region, which has benefited from freer trade in developing its economies (box 1.3).

The region's economies are increasingly driven by trade linkages with China (see policy research feature 2.1). Firms are linked in supply chains to the Chinese production hub. Inputs are being sourced from abroad for further processing, with China the final export platform. China's imports from Asia were up 19% in 2006 to $526 billion, or 66% of its total imports. The positive effect on regional exports is reflected in China's growing trade deficit with the major economies of the region, except India. But some countries are competing with China for their exports to third markets.

> *India is emerging as a force in manufacturing exports, dominated by capital-intensive engineering, chemicals and petroleum products*

India is emerging as a force in manufacturing exports. Until recently, India's services exports, especially those related to outsourcing and IT, have been a success story. But manufacturing exports have surged, growing 37.3% year-on-year in United States dollar terms between April and September 2006. Manufactured exports are dominated by capital-intensive engineering, chemicals and petroleum products. The main engineering products are iron and steel, feeding large global demand, especially from China. India's automotive sector is also expanding rapidly.

Getting the best out of bilateral and regional trade agreements

The lingering uncertainties about the Doha Development Round are partly responsible for the proliferation of bilateral and regional trading agreements in the Asia-Pacific region. The 62 members and associate members of ESCAP have implemented 62 bilateral trade agreements (BTAs). Another 11 regional trade agreements (RTAs), with an average of eight members, are also in effect. Most of these agreements were signed after 2000, a new trend.

More frequently trade agreements are between partners with different economic and political power in different development hemispheres (North and South). Not surprisingly, negotiations may be driven by the partner with greater bargaining power, possibly tilting the net outcome in favour of that partner. Civil society, including academia, is increasingly questioning the quality of such agreements, not just for trade flows but for their impact on larger developmental goals.

> *Civil society is increasingly questioning the quality of bilateral and regional trade agreements, not just for trade flows but for their impact on larger developmental goals*

"Bad" outcome agreements are not only those associated with "large" and "small" country combinations. Any agreement leading to price distortions, misallocations of resources and net trade diversions should be considered inferior agreements that do not improve welfare. Even where agreements remain only "paper agreements," not implemented for a variety of reasons, the negotiating and opportunity cost of not

Table 1.4. Current account balances of selected developing economies and North and Central Asian economies, 2003-2006

(Per cent of GDP)

	Current account balance as a per cent of GDP			
	2003	2004	2005	2006[a]
East and North-East Asia				
China	3.1	3.5	7.2	7.1
Hong Kong, China	10.4	9.5	11.1	10.1
Republic of Korea	2.0	4.1	2.1	0.4
Taiwan Province of China	9.8	5.7	4.7	6.1
North and Central Asia				
Kazakhstan	–0.9	1.1	–0.9	0.2
Kyrgyzstan	–5.2	–4.6	–8.4	–12.8
Russian Federation	8.2	9.9	10.9	10.0
Turkmenistan	0.7	–4.4	1.9	2.6
Uzbekistan	8.7	9.7	10.1	10.7
South and South-West Asia				
Bangladesh	0.3	0.3	–0.9	0.9
India	2.3	–0.4	–1.1	–1.6
Iran (Islamic Republic of)	0.6	0.9	7.5	7.4
Nepal	2.6	2.9	2.2	2.4
Pakistan	4.9	1.9	–1.4	–3.9
Sri Lanka	–0.4	–3.2	–2.8	–5.3
Turkey	–3.4	–5.2	–6.4	–8.0
South-East Asia				
Indonesia	3.4	0.6	0.3	0.8
Malaysia	12.8	12.6	15.7	13.2
Philippines	4.4	2.4	2.5	2.4
Singapore	24.1	24.5	28.5	25.9
Thailand	5.6	4.2	–2.1	1.2
Viet Nam	–4.7	–2.0	0.4	0.9

Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); and ESCAP estimates.

[a] Estimates.

Box 1.3. Making the Doha Development Round a success

The Doha Development Round was suspended in July 2006. Estimates of the direct losses from a failure to fully liberalize trade vary from $79 billion to $175 billion annually. Among developing countries, East Asia will lose the most (38%). These estimates do not include indirect losses, which could be considerable. The resulting spread of bilateralism and regionalism may distort the global trading system and induce tremendous welfare losses. It could also reverse unilateral economic reforms to comply with WTO requirements.

Looking at the reasons for the suspension of the Doha Development Agenda, Governments could consider the following actions to help move the round towards successful completion.

- Overcome the "you first" mentality in negotiations and stop perceiving liberalization as a concession to others. It should be looked on as an opportunity to tap other markets for cheaper resources, better technology, innovative ideas and greater knowledge.
- Adjust the negotiation process to make it more flexible and consider sectoral and plurilateral tracks.
- Give more prominence to special and differential treatment, which could create the "policy space" requested by many developing countries.
- Promote the development-oriented "Aid for Trade" framework to build trade capacity.
- Work within regional trading agreements capable of delivering new rules.

The future of WTO, and by implication multilateralism, is in the hands of its members.

Sources: Mehta and P. Kumar (2006); and Lamy (2006).

pursuing alternative policy options could be substantial for smaller developing countries. And with each additional agreement, the advantages of trading under transparent rules-based and non-discriminatory principles at the multilateral level are slowly being eroded. Many analysts suggest that BTAs and RTAs, rather than easing trade, fragment markets and increase trade costs, reducing trade volumes and global and national welfare.

ESCAP analysis shows that existing BTAs and RTAs do not stand up to scrutiny (table 1.5). While most agreements aspire to an eventual free trade area (typically 10-15 years down the road), countries are settling for framework agreements that do not contain explicit operational details on how to achieve this. Typically, agreements between developing countries are short on modes of implementation, agreements on rules of origin and information on what recourse is available for non-compliance.

Indeed, these agreements signal that free trade and trade integration are not the core issues. Governments may be using the agreements to put together a framework of cooperation in several (non-trade-related) areas, often with strategic political and foreign policy objectives as the driving forces.

Checklist for a better trade deal

The proliferation of BTAs and RTAs is now a fact of life. Policymakers across the region, particularly in smaller economies, might use a check list to help minimize costs and maximize benefits to the economy. The checklist here examines issues to consider at the conceptual, design, negotiation and implementation phases of an agreement:

- Why is the proposed trade agreement with a particular trading partner(s) important to the country?
- Is the main objective to enhance goods trade, services trade and/or foreign direct investment, ensure support for overall economic reform (as a stability anchor), or for political and security cooperation?
- Is it possible to obtain the same results through other liberalization tracks (unilateral, multilateral)?

- Might any sectors in the economy and social segments be adversely affected by the agreements, and what are the planned measures to ease those effects? Will this require excluding such sectors from the agreement?
- Which sectors will benefit? And can measures be implemented to ensure that adjustment costs in "losing" sectors are alleviated to ensure a more equitable distribution of the gains from trade?
- Are the likely production restructuring, employment, revenue and other socio-economic welfare effects consistent with the objectives of a long-term development plan for the country?

Policymakers should aim, as a rule of thumb, to bring the preferential agreement as close as possible to the WTO-compliant agreement. From the vast literature on the issue – key areas of relevance to the Asia-Pacific region are (see Limão, 2006; Plummer, 2006; and Zhai, 2006):

- For trade in goods, a comprehensive coverage of products is the best approach, by using a "negative listing" approach with few (if any) exceptions covering tariffs and quantitative barriers and speedy elimination of those exceptions. In contrast, the "positive listing" approach is the worst mechanism because the exclusion of products used as inputs in an industry that has not been excluded exaggerates the protection of value added in that industry. In addition, this type of listing will also divert trade by promoting more trade between partners of the agreement at the cost of more efficient and lower cost non-partners.
- Broad coverage in services and a reasonable period for implementation is the desired outcome. Some

Table 1.5. Comparison of trade agreements in Asia and the Pacific with the good practice model

Area	*Current state of affairs (actual agreements)*	*Number of PTAS examined*	*Good practice model*
Liberalization in goods	Liberalization still based on positive listing; full liberalization over longer transition of 10 years.	*31 PTAs with positive listings * 33 PTAs with negative listings	Agreement based on negative listing and covering both tariffs and non-tariff barriers.
Rules of origin	Bilateral cumulation, some diagonal cumulation; product-specific rules.	*33 PTAs	Simple and transparent in style; low and symmetrical in terms of demand; consistent across all agreements.
Comprehensive coverage of the "other than goods" sectors	Only smaller share of agreements include preferential commitments in the "other than goods" areas; coverage is variable and far from comprehensive.	11 - mobility of labour 24 - services 22 - competition 23 - government procurement 26 - trade facilitation 33 - investments 28 - intellectual property rights	Comprehensive scope accounting for all sectors with exclusions necessary only for appropriately designed policy space.
Consultations and dispute settlement	Only small proportion of agreements covers dispute settlements. Largely relies on consultations.	32 PTAs cover this area more specifically.	Avoid duplication with the WTO dispute settlement whenever possible.
Consistency and compliance with WTO	About one third of all PTAs in force are not notified to WTO.	16 BTAs, 5 country-bloc 4 RTAs are not notified to WTO	Notification to the WTO and regular update of non-members; open for accession of third parties.
Transparency	Some countries do not place electronic versions of the agreements on the Internet.	About 10-15% of agreements are not updated.	Making full text available to all partners in English and in electronic form.

Sources: Compiled from the ESCAP Asia-Pacific Trade and Investment Agreements Database (APTIAD), November 2006; and Goode (2005).

Note: The information was compiled for 117 BTAs and RTAs that had a legal text in an updated and electronic format in English.

services are relatively easier to liberalize (tourism, movements of some professional services), some are highly sensitive. Educational, postal and some transport services are highly protected worldwide. Countries need to assess the benefits of liberalizing these sectors to modernize and to increase competition and efficiency.

- Including clauses for transparency, consultation and dispute settlement is important for the agreement's smooth functioning. The dispute settlement model of the North American Free Trade Agreement (NAFTA) is heralded as a good practice.
- Using simple and transparent rules of origin, customs procedures and standards will minimize the confusion and administrative costs common to most agreements. The US-Singapore trade agreement provides a good example because the "integrated sourcing initiative" allows Singapore to apply rules of origin to selected products produced elsewhere.
- Including competition policy, mobility of people and mutual recognition of various standards can lead to deeper integration and should thus feature in negotiations.

> *Policymakers should aim to bring the preferential agreement as close as possible to the WTO-compliant agreement*

An ESCAP analysis shows that consolidating bilateral and regional agreements into a smaller number of larger agreements under a harmonizing framework will bring significant benefits. Of course, harmonization is difficult, complicated by the heterogeneity of the economies in the agreements. Negotiations can start in areas that are less controversial and have clear evidence of the high costs of not consolidating. Measures for harmonizing rules to reduce transaction costs for business were discussed at the 14th APEC Ministerial Meeting (Hanoi, Viet Nam, 18-19 November 2006). Leaders committed themselves to completing a comprehensive model for trade negotiating teams by 2008 to facilitate a fast-track approach towards WTO consistency and multilateral liberalization. ESCAP could build on this work, by extending it to its non-APEC members.

Outlook for 2007 – continuing dynamism amid rising risks

For developing economies in the Asia-Pacific region, economic growth is projected at 7.4% in 2007, slower than the 7.9% in 2006 (figure 1.8). The external environment is expected to be less favourable, mainly due to the slowing United States economy. With an easing in consumer demand and a cooling housing market, its GDP is expected to grow at 2.2%, down from 3.2% in 2006. The European Union's GDP is expected to grow at 2.4% in 2007, slipping from 2.7% in 2006. A moderate decline in global electronics demand in 2007 may dampen the Asia-Pacific region's prospects. And the easing of commodity prices, including those of oil, will come as a mixed blessing.

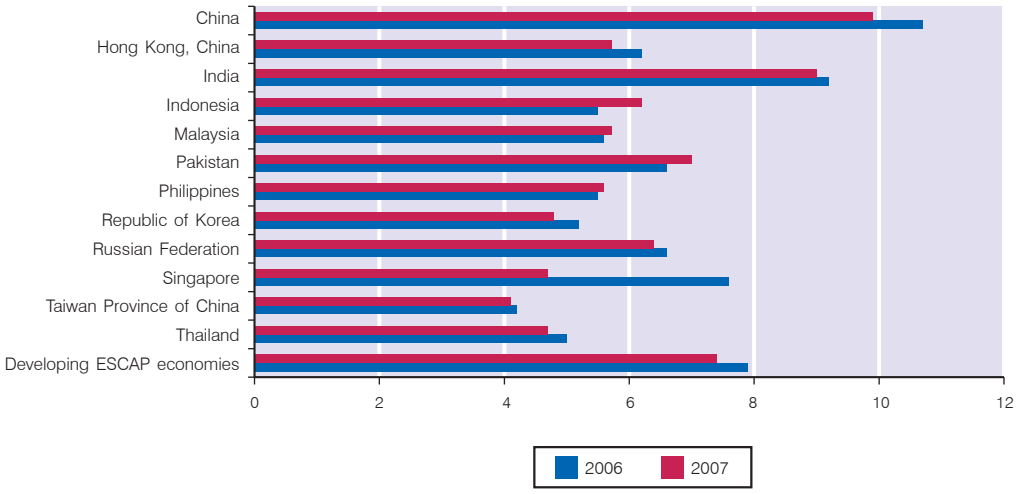
> *"Growth momentum in the region is expected to come from China, India and Japan"*

As the international economic environment weakens, momentum in the region is expected to come from China, India and Japan. Together, these three economies contribute over 60% of the GDP of the Asia-Pacific region and close to 45% of imports, thereby creating considerable opportunities for the region.

- In China growth is expected to be about 9.9% in 2007, less than the 10.7% growth in 2006. Exports and investment will still be the driving forces. A stronger yuan and weaker electronics demand would reduce exports, while tighter domestic policy would slow investment.
- India is expected to grow at 9.0% in 2007, led by services and accelerating industrial production. This growth will be on top of 9.2% achieved in 2006. The Reserve Bank is likely to continue to nudge interest rates up over the next 12 months, and the programme of fiscal consolidation now under way is set to continue.
- In Japan, ongoing fiscal consolidation, exchange rate appreciation and the slowdown of the United States economy will push growth down to 1.9% in 2007, from 2.2% in 2006.

Figure 1.8. Real GDP growth forecast for selected developing economies in the ESCAP region

(Per cent)



Source: ESCAP estimates and forecast.

Notes: Data for 2006 are estimates. Data for 2007 are forecasts.

A rebound in economic growth in South-East Asian economies will add to the growth momentum of the region. Domestic demand, particularly investment, is expected to pick up.

- In Indonesia, investment would be boosted by lower interest rates and new pro-business regulations that are coming into effect.
- In Malaysia, strong electronics exports and higher development spending under the Ninth Plan (2006-2010) would boost investment.
- In the Philippines, energy reforms would strengthen the investment climate and raise investor confidence, leading to more investment.
- In Thailand, GDP growth is expected to be about 4.7% in 2007. But with ongoing political tensions, the macroeconomic outlook will still be subject to greater downside risks than in other South-East Asian economies.

In North and Central Asia, growth is projected to slightly ease to 7.1%. The Russian Federation is projected to grow at 6.4% in 2007. The country is expected to benefit from strong export earnings, although commodity prices are expected to ease in 2007. Domestic demand will also receive a boost from high foreign exchange earnings. Meanwhile, significant progress in resolving banking system problems is also expected to improve private investment.

Political instability could act as a significant drag on growth over the medium term in several countries in the Asia-Pacific region. From Fiji to Sri Lanka, investment and tourism are likely to be the main casualties of increased political instability that emerged in 2006. Geopolitical tensions are also weakening investor and consumer confidence in the Islamic Republic of Iran and on the Korean Peninsula.

Inflation – less of a problem

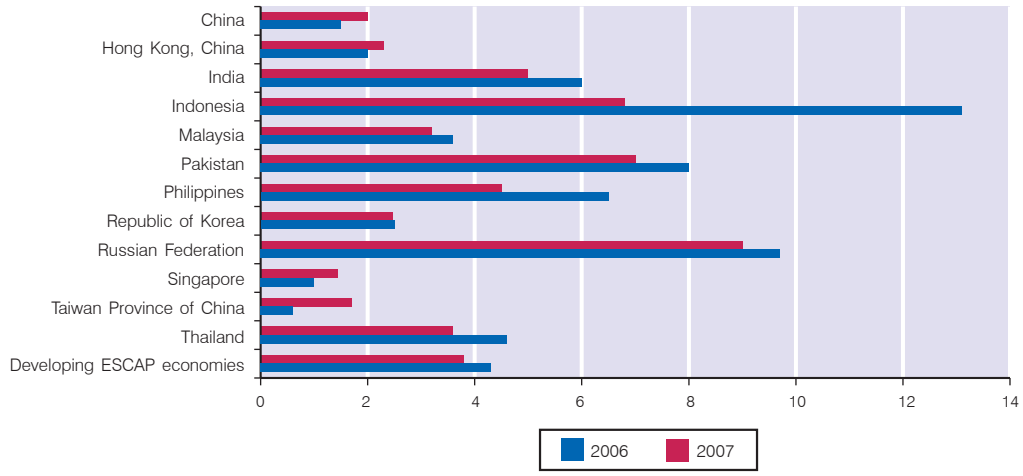
Inflation in developing Asia-Pacific economies is projected at 3.8% in 2007, down from 2006 (figure 1.9.). The fall in oil prices is expected to lessen inflationary pressures, while tight monetary policies across the region are expected to reduce inflationary expectations. The exchange rates, expected to appreciate further in 2007, would also reduce inflationary pressure in the region. Even in India, Indonesia and Malaysia – which have continued to remove oil subsidies and allowed retail oil prices to reflect international prices – inflationary pressures are expected to be subdued. For some East and North-East Asian economies – such as China and Hong Kong, China, and Taiwan Province of China – tightening labour and land markets will bring inflationary pressures, partly offset by tightening monetary policy and appreciating exchange rates.

Managing exchange rates – the biggest challenge in 2007

Nominal exchange rates in most of the region, especially in East and South-East Asia, appreciated signifi-

Figure 1.9 Consumer price inflation largely under control

(Per cent)



Source: ESCAP estimates and forecast.

Notes: Consumer price inflation refers to changes in the consumer price index. Data for 2006 are estimates. Data for 2007 are forecasts.

cantly against the United States dollar in 2006, despite interventions to keep currencies down. This appreciation is expected to continue in 2007 with the large United States current account deficit and the continuing flow of capital into the region.

> *Currency appreciation is expected to continue in 2007 with the large United States current account deficit and the continuing flow of capital into the region*

It will be increasingly difficult for monetary authorities to pursue an independent monetary policy in response to shocks, as was the case in 2006, while targeting exchange rates against the backdrop of more open capital accounts. As outlined in chapter 2, monetary authorities can choose any two of three policy options: monetary autonomy, exchange rate targeting and capital convertibility – but not all three.

Thailand decided to break the link between these three policy options when the authorities imposed capital controls in December 2006 to thwart speculative short-term capital inflows. However, experience has shown that capital controls may not be a long-term, sustainable solution. First, the design and actual implementation of such controls are fraught with difficulties (Eichengreen *et al.,* 1995; ul Haq *et al.,* 1996; Fischer, 2001). Second, they may lead to a significant deterioration of the overall investment climate, a situation that South-East Asian economies in particular cannot afford, as they have seen a steady decline in investment share in GDP since the 1997 crisis (see discussion on domestic demand below). Finally, as economic agents, particularly speculators, become accustomed to such interventions and gradually identify ways and means of circumventing them, they become increasingly ineffective (Edwards, 1999; Corbo, 2002; and Corden, 2002).

> *Greater exchange rate flexibility should take away the "one-way bet" that encourages even more capital inflows than otherwise*

Greater exchange rate flexibility is one sustainable solution. It should take away the "one-way bet" that encourages even more capital inflows than otherwise because markets would quickly realize that the currency could move in either direction. The fear of exchange rate volatility and the resultant economic costs are well founded when foreign exchange markets are not well equipped to hedge against fluctuations. Small and medium-sized exporters in the region are not able to make use of hedging instruments to manage risks, so attention is needed to develop such instruments and further strengthen and deepen financial markets.

In those economies where the central bank has not made a commitment to price stability, they could continue to manage their nominal exchange rates. But they will have to forego the practice of sterilized intervention and allow the real exchange rate to appreciate through increases in the price level.

Interventions by monetary authorities to keep currencies down have partly led to inflated asset values in some countries in recent years. The situation has been further exacerbated by a global liquidity bonanza that saw borrowing in cheap foreign currencies, especially the yen, to buy international assets. Asia-Pacific equity markets rose by 29% in 2006. Indonesia, for example, saw a 55% rise for the year. Some countries have also seen large housing price rises over recent years, fuelled by growing household debt. One example is the housing market in the Republic of Korea. Apartment prices in Seoul rose by more than 24% in 2006, and house prices rose nationally by more than 11%. Authorities will have to be vigilant about the wider impacts of active exchange rate management.

Current account surpluses – to deteriorate slightly

The current account surplus for emerging Asian economies is expected to deteriorate slightly in 2007, though it will remain high. For 12 emerging Asian economies, it is projected to be 4.5% of GDP, compared with 5.1% in 2006 (figure 1.10). Domestic demand is expected to rebound, particularly for investment in South-East Asian economies and consumption in China. Further appreciation of exchange rates and the reduced global demand in electronics and IT components would also contribute to the decline in current account surpluses. In China, a moderate decline in the current account surplus is expected because of policy measures supporting consumption, reduction in oil subsidies and greater exchange rate flexibility.

Downside risks not to be ignored

The growth forecast of Asia-Pacific economies in 2007 is rather robust but the increased level of vulnerability indicators observed in some of the major economies over the last 12 months (see section on the vulnerability index) suggests that the baseline forecast will be

increasingly tilted towards the downside risks. Six downside risks merit attention:

An oil price shock. Oil prices should ease further in 2007, but low spare capacity and tight supplies could renew pressure on prices.

An abrupt cooling of housing markets in the United States. An abrupt adjustment in housing prices could reduce economic growth in the United States, a key export destination of emerging Asia, especially East Asia. Recent data shows that the housing market in the United States is now softening, with a falling demand for mortgages and a declining rate of increase in housing prices. The market adjustment has so far been orderly. However, a sharper than expected decline in housing prices still cannot be ruled out.

> *A sharp and abrupt depreciation of the United States dollar will lead to a real appreciation of regional currencies by about 33%*

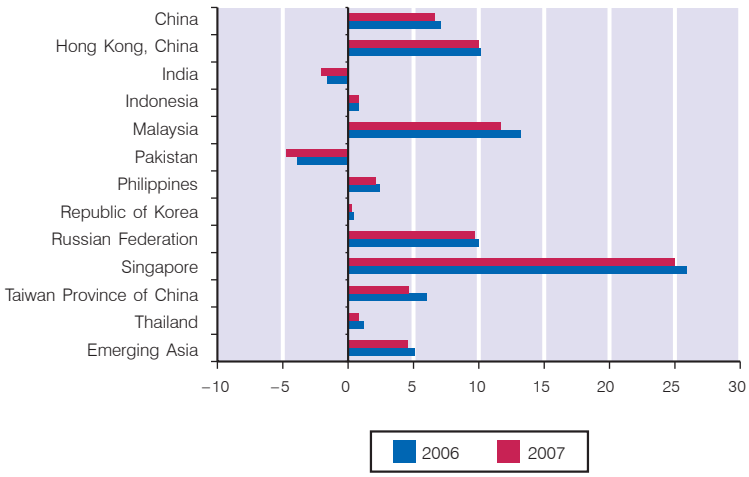
A disorderly unwinding of global imbalances. The steadily rising current account deficit and a significant increase in United States international debt positions could lead to a rapid loss of investor confidence. If that happens, it would lead to a rapid fall in the United States dollar and a sharp contraction of economic growth in the United States.

- A sharp depreciation of the United States dollar would lead to a drastic reduction in the foreign exchange reserves of the Asia-Pacific region, the majority of which are held in United States dollar-denominated assets. The depreciation of the United States dollar together with the slowdown in United States growth would also negatively affect Asian exports.
- The disorderly adjustment of the United States dollar could also lead to global financial market turmoil. United States interest rates would increase dramatically in response to the sizeable depreciation of the United States dollar, thereby significantly reducing equity prices. Meanwhile, a sharp adjustment in financial risks would lead to abrupt price corrections in equity markets and cause considerable volatility and instability.

ESCAP estimates show that a sharp and abrupt depreciation of the United States dollar could bring the United States current account deficit to a sustainable 3% of GDP within one year, but at significant cost to its trading partners, particularly in Asia. On average, Asian currencies would experience an immediate, real appreciation of about 33%, with Singapore, the

Figure 1.10. Current account balances of selected developing economies in the ESCAP region, 2006 and 2007

(Per cent of GDP)



Source: ESCAP estimates and forecast.

Notes: Emerging Asia comprises selected developing Asian economies. Calculations based on the weighted average of real GDP figures in United States dollars in 2004 (at 2000 prices) of those developing Asian economies. Data for 2006 are estimates. Data for 2007 are forecasts.

Philippines, Malaysia and Thailand experiencing appreciations of more than 45%. Current account balances across the region would decline by about 2.3 percentage points.

A reversal of the sustainability of the Japanese economic recovery. Even though consumer price inflation in Japan has been in positive territory since January 2006 after seven years of negative price growth, and economic growth performance has been impressive for the last three years, the sustainability of the Japanese recovery is still vulnerable to risks. The high level of public debt could reduce consumer and investor confidence and threaten the Japanese recovery. Maintaining the ongoing process of fiscal consolidation to address ballooning debts will be crucial to ensure a sustainable recovery.

Economic "overheating" in China. The Government of China has implemented a number of policies to cool down the rate of investment growth. And signs exist that these cooling policies are helping. However, most of the policies were administrative measures that could only be effective in specific sectors (ESCAP, 2006a). Implementing a tight monetary policy under a rather fixed exchange rate regime and in the face of increasingly open capital account could make it difficult to control liquidity and ensure that investment growth curtailed. Thus, there is a risk of further acceleration in investment growth resulting in overheating of the Chinese economy. ESCAP estimates that if China's GDP growth declines to 7%, its trend rate for the past two decades, net exports in developing Asia (excluding China) would decline by almost 2 percentage points, GDP growth by 0.2 percentage points.

An avian flu pandemic. A full-blown pandemic could generate significant economic and social costs in the region (ESCAP, 2006b). The structure of the poultry industry in the region, consisting of many small-scale operations, makes the region more vulnerable to the disease. The disease has spread significantly during 2006 and cases of human-to-human contagion are suspected in some countries, such as Indonesia.

Key economic issues on the watch list

The region's prospects, in both the short and long run, are naturally tempered by numerous forces. Considered here are five issues for policymakers to keep on their economic watch list:

- Monitoring vulnerability to currency crises.
- Boosting domestic demand through private investment.
- Reaping the one-off demographic dividend.
- Managing urban growth.
- Promoting green growth to sustain development.

Monitoring vulnerability to currency crises

In mid-2006, Asia-Pacific equity markets experienced their biggest drop since 2004. They continued falling throughout May and June. After a brief respite at the end of June, they were volatile again in July. All countries in the region were affected, suffering record falls for the year. The volatility reversed a sustained period of rising values for financial assets.

Markets took a significant dip again in February 2007, and more turbulence cannot be ruled out. Further hikes in developed country interest rates – particularly in the United States, the Euro Zone and Japan – are possible if inflation shows signs of gaining momentum. Renewed oil price rises could trigger such hikes. An abrupt unwinding of global imbalances, leading to a deep depreciation of the United States dollar, would do the same. The result may be a global economic slowdown, with Asian economies contracting with lower demand for their exports. All these factors may reduce the appetite of investors for Asian financial assets, and shocks could be amplified by investor overreaction and by contagion from portfolio outflows in other countries.

> *"Relying on economic growth as an indicator of vulnerability can be misleading"*

Today's uncertainty in financial markets warrants careful monitoring of economic vulnerability to recognize danger signals as early as possible. Relying on economic growth as an indicator can be misleading, masking the build-up of vulnerability and lulling policymakers into inaction. The 1997 East Asian financial crisis shows, in the run-up to the crisis, that good growth did precisely that.

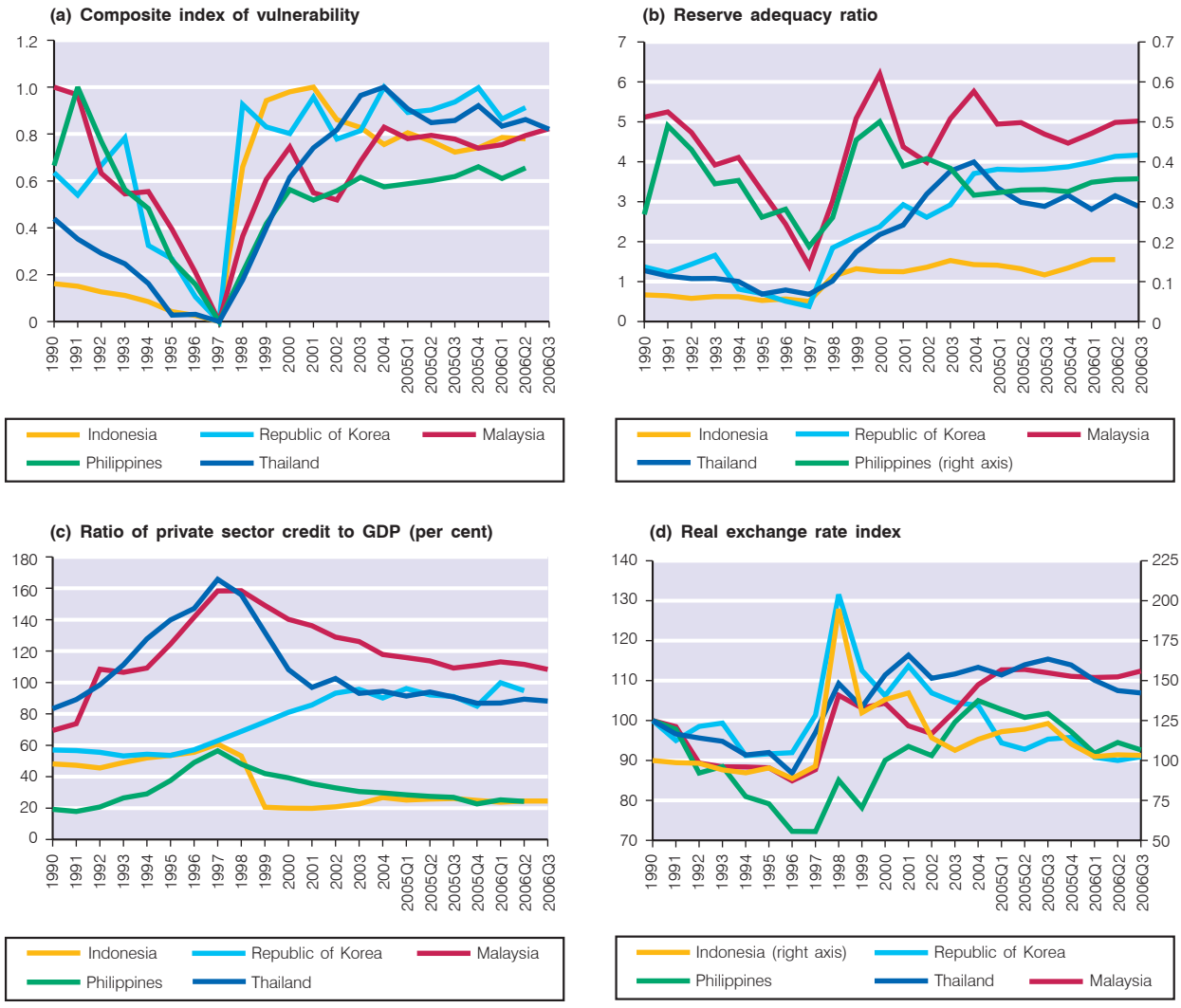
To assess a country's vulnerability to a currency crisis through a sudden reversal of capital flows, ESCAP developed a composite vulnerability index covering nine emerging countries in the Asia-Pacific region with data: five East Asian countries affected by the 1997 crisis – Indonesia, the Republic of Korea, Malaysia, the Philippines and Thailand; and four other emerging countries – China, India, Pakistan and the Russian Federation. The composite index combines three aspects of vulnerability to crisis: inadequacy of foreign exchange reserves to cover short-term debts, excessive expansion in private domestic credit, and real exchange rate appreciation (see appendix 1 for concepts and measures). In the run-up to the 1997 financial crisis, the composite index exhibited a persistent downward trend in all of the crisis-affected countries (figure 1.11). It bottomed out in 1997, when the crisis began. That downward trend was not, by contrast, observed in such non-crisis countries as China, India and Pakistan (figure 1.12).

Some crisis-affected countries are becoming more vulnerable

Crisis-affected countries, except for Malaysia, are displaying renewed vulnerability in 2006. They were less vulnerable to financial crisis in 2000-2004 than in the mid-1990s, as the upward trend of the vulnerability composite index shows (figure 1.11a). But the recent reversal merits closer examination. Two factors are in play: the appreciation of their nominal exchange rates driven by short-term capital inflows; and the pass-through of higher oil prices into non-traded goods, adding to inflationary pressures.

Increased vulnerability in Thailand also stems from a decline in the ratio of foreign reserves to short-term debt. The United States dollar value of oil imports rose as higher oil prices eroded current account balances and slowed the accumulation of reserves. Meanwhile, short-term capital inflows increased, building up short-term debt from $12 billion in 2004 to $21 billion in 2006Q3. As a result, the ratio of reserves to short-term debt declined to 2.9 in 2006Q3 from 3.3 in 2004. For Indonesia, the Philippines and the Republic of Korea the vulnerability of foreign reserves is limited because the build-up of short-term debt is slower than foreign reserve accumulation, so the ratio of foreign reserves to short-term debt increased. The build-up of private

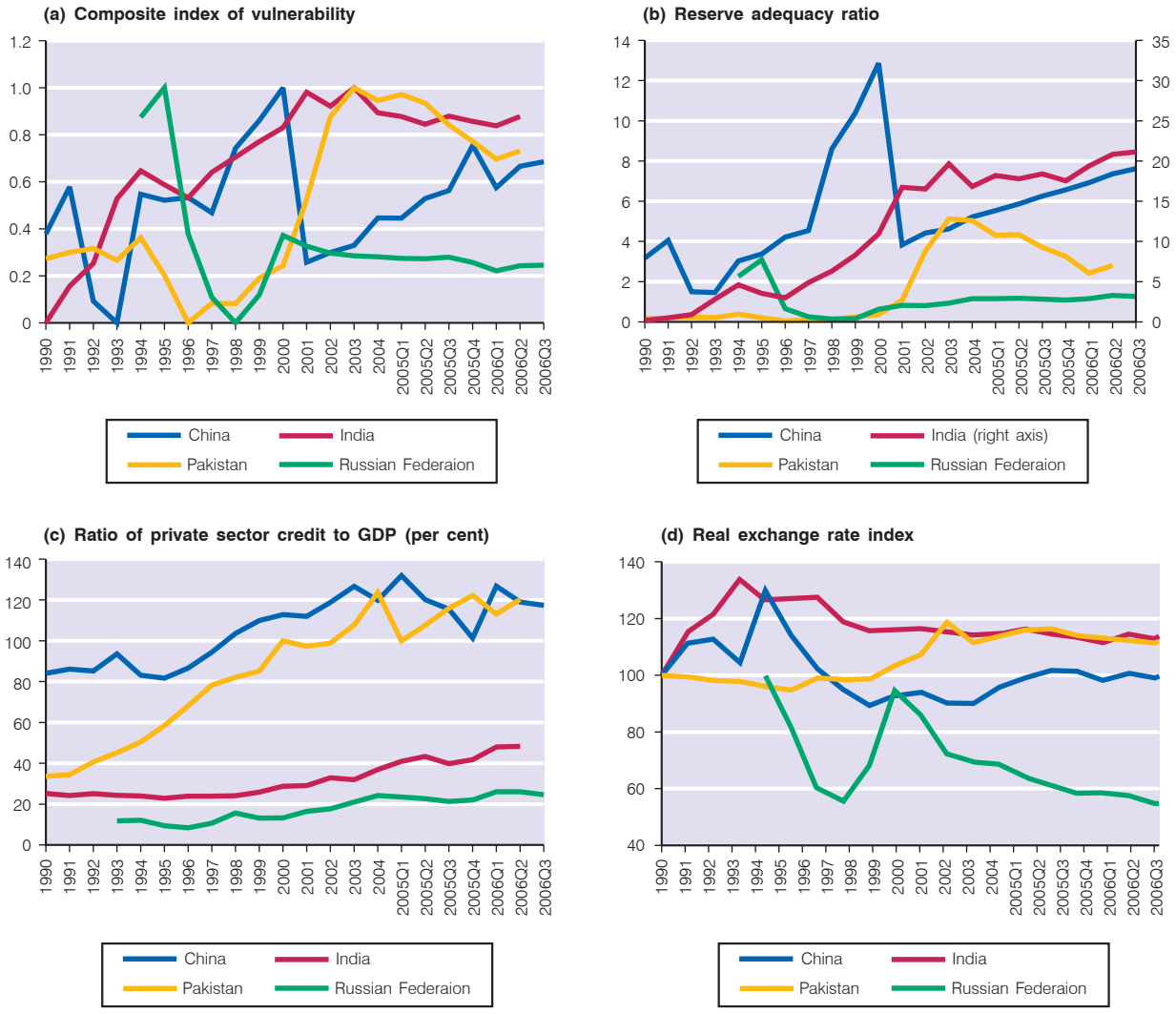
Figure 1.11. Vulnerability in crisis-affected countries



Sources: International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); Oxford Economic Forecasting Model Database; CEIC Data Company Ltd; and ESCAP calculations.

Notes: The composite index lies between 0 and 1. An increase in the index reflects a reduction of a country's vulnerability. An increase of the real exchange rate index (1990 = 100) refers to a real depreciation.

Figure 1.12. Vulnerability in other emerging economies



Sources: International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); Oxford Economic Forecasting Model Database; CEIC Data Company Ltd; and ESCAP calculations.

Notes: The composite index lies between 0 and 1. An increase in the index reflects a reduction of a country's vulnerability. An increase of the real exchange rate index (1990 = 100) refers to a real depreciation. The 1994 is set as the base year (=100) in the case of the Russian Federation's real exchange rate. The (quarterly) GDP of Pakistan is approximated by industrial production index.

domestic credit has also been a less of a concern. Indeed, the problem is low domestic credit, which may constrain domestic demand and the potential for growth.

> *Economic vulnerability seems less of a concern in Malaysia, as the real appreciation was rather limited and the foreign reserve adequacy ratio improved*

Economic vulnerability seems less of a concern in Malaysia, even though vulnerability increased slightly in 2005 due to a real exchange rate appreciation and a decline in the foreign reserve adequacy ratio. But since the first quarter of 2006, vulnerability has declined as the real appreciation was rather limited and the foreign reserve adequacy ratio improved. In the third quarter, the nominal exchange rate slightly depreciated against the United States dollar. In addition, the financial sector has been rather robust, with ongoing financial reforms and private domestic credit kept manageable.[1]

Vulnerability is a concern in the region's other major emerging economies

Pakistan experienced some deterioration after the first quarter of 2005, but its vulnerability index has nonetheless improved steadily over the past seven years (figure 1.12). The main contributor to the deterioration was the oil price hike and the high oil import dependency, eroding current account balances and foreign reserves. The oil price hike also pushed up the real exchange rate. Consumer price inflation rose from 2.9% in 2003 to 8.4% in 2006Q3. Short-term capital inflows increased from $1.9 billion in 2004 to $4.1 billion in 2006Q2, building up short-term debt and reducing foreign reserves in relation to that debt. A significant build-up of private credit also took place.

In the Russian Federation, commodity price increases over the past five years have led to a persistent and significant appreciation of the real exchange rate. By 2006Q3 the real exchange rate had appreciated by more than 26% from its level in 2001. Because the country is an oil exporter, higher oil prices led to a surge in trade and current account surpluses, increasing the money supply and domestic prices. The current account surplus increased from 8.2% of GDP in 2003 to 11% in 2006, while broad money (M2) increased from 92% of GDP to 130%. Consumer price inflation in 2006, though declining slightly, was still close to double digits. Even though the Russian Federation has tightened monetary policy and established a special stabilization fund for oil to absorb the massive monetary inflows, the real exchange rate is still appreciating.

Concerns about economic vulnerability in China and India are muted even though their indexes are worsening slightly because of the rise in private domestic credit. "Overheating" remains a possibility, but the economic fundamentals in both countries are still strong. Foreign reserve adequacy has been increasing over the past five years, and there has been no evidence of any significant real exchange rate appreciation. In China successive current account surpluses and high levels of foreign direct investment boosted its foreign reserve adequacy, even though short-term capital inflows and debt have been building. In India continued inflows of foreign direct investment maintain high foreign exchange reserves, even though the current account balance was in deficit for the past three years.

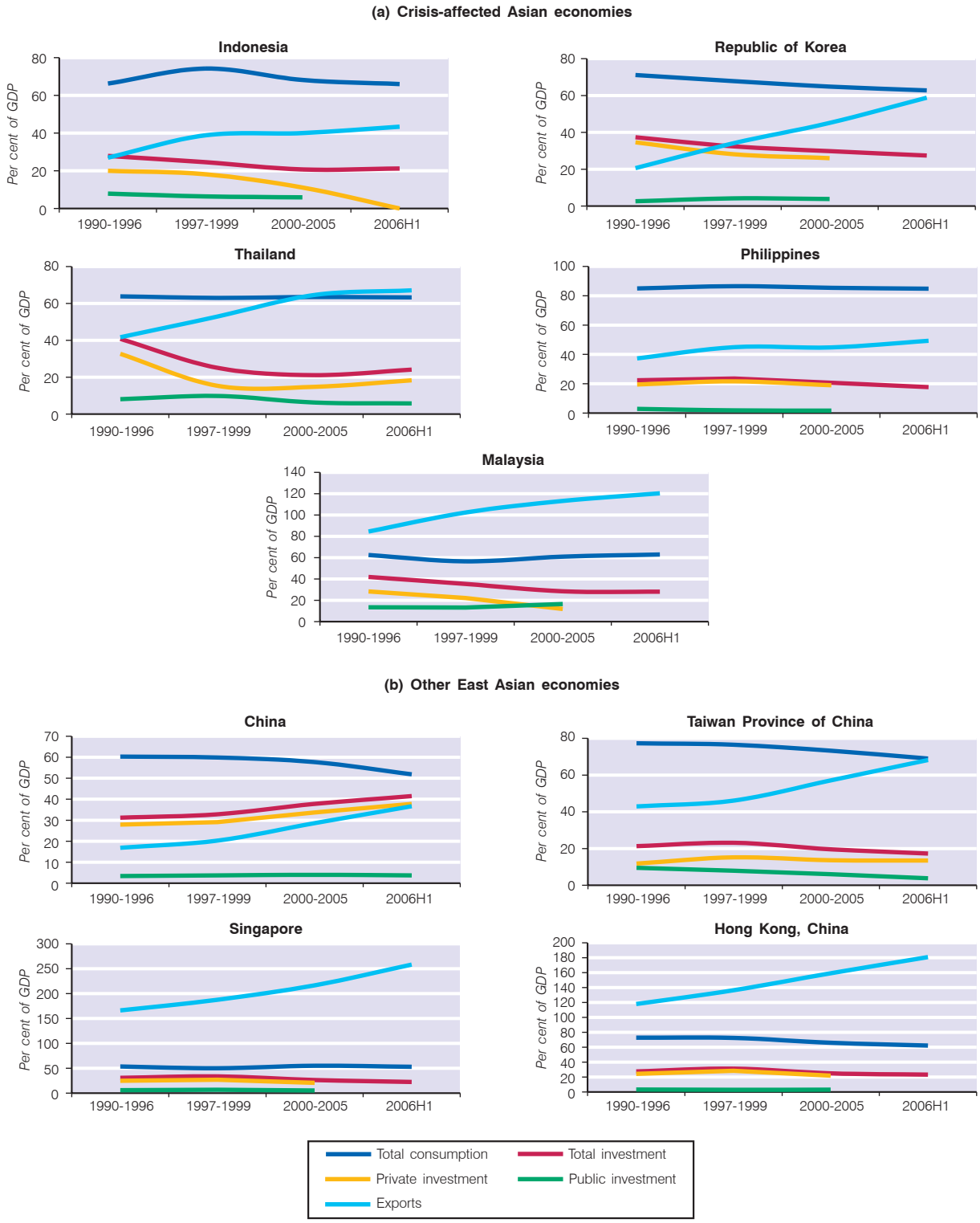
Boosting domestic demand through private investment, especially in East Asia

The relatively low domestic demand in East Asian economies has given rise to two concerns. One is that it is a source of widening global imbalances. The other is that these economies have increased their reliance on exports to drive economic growth, exposing them to significant declines in external demand. Understanding the causes of weak domestic demand and identifying policy measures to correct it are important for growth in East Asia and in the region.

Since the Asian financial crisis, the contribution of domestic demand to economic growth has declined in East Asia, except in China (see box 1.4). The share of domestic demand in GDP in Thailand dropped by 19 percentage points in 2000-2006, compared with pre-crisis levels, followed by Malaysia and the Republic of Korea (figure 1.13). Meanwhile the share of exports has been rising steadily. Investment was the brake on demand, rather than domestic consumption, which remained fairly stable, except in the Republic of Korea.

[1] The ratio of non-performing loans to total commercial bank loans was about 5.6% in 2005-2006, compared with more than 10% in 2001-2002. The capital adequacy ratio is well above 8%, the international standard, reflecting tighter prudential regulation, better risk management and higher bank profits.

Figure 1.13. Declining private investments and increasing reliance on exports



Sources: CEIC Data Company Ltd.; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); and ESCAP calculations.

The decline in investment was due to a drop in private investment's share in GDP, which has not yet recovered to its pre-crisis level. Private investment was badly hit in Indonesia, where its share in GDP fell by nearly half, followed by Thailand and Malaysia. The share of public investment has been relatively constant.

> *Private investment's share in GDP has not yet recovered to its pre-crisis level in East Asia*

The picture in China is very different. Domestic demand has been relatively high, rising from 92% of GDP in 1990-1996 to 96% in 2000-2005 on the back of the tremendous increase in investment. The investment share in China increased from 31% in 1990-1996 to a high of 42% in 2005. The share of consumption, by contrast, declined from 60% in 1990-1996 to 52% in 2005, with most of the reduction coming from private consumption (box 1.4). Investment in China grew almost 20% faster than its long-term trend, while private consumption declined by 10%, the steepest fall in the region (figure 1.14).

Construction contributed much to the falling share of investment in GDP in East Asia. It accounts for well over half of total investment, more than one third of which is residential investment. The decline began in Thailand in early 1997 when a large real estate company defaulted on its foreign debt, and investments in the rest of the countries dropped quickly throughout 1997 and 1998 (figure 1.15a). Among non-crisis economies, Singapore was hardest hit.

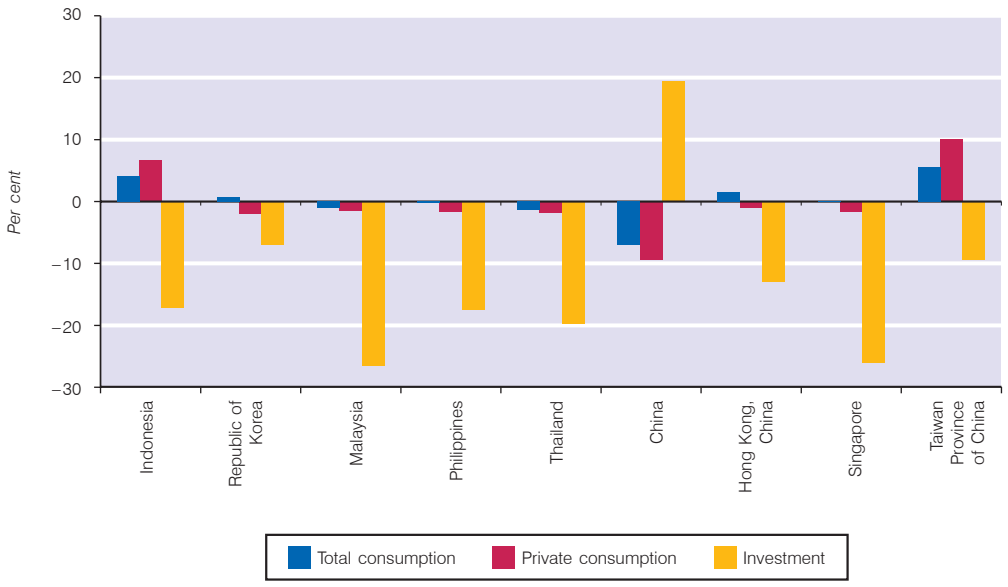
Investment in machinery and equipment also declined during the crisis period, if more moderately (figure 1.15b). It has yet to recover.

The decline of construction investment could represent a healthy adjustment to the boom of the early 1990s, especially in residential investment. But the decline in machinery and equipment raises concerns about growth's sustainability, since this investment component is tied to an economy's production capacity.

Credit shortage limits private investment

Shortages of capital funds are hindering the recovery of private investment in East Asia. The stock of private domestic credit as a percentage of GDP declined after

Figure 1.14. Percentage differences between the recent shares of disaggregate demand and its long-term trend



Sources: CEIC Data Company Ltd; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); and ESCAP calculations.

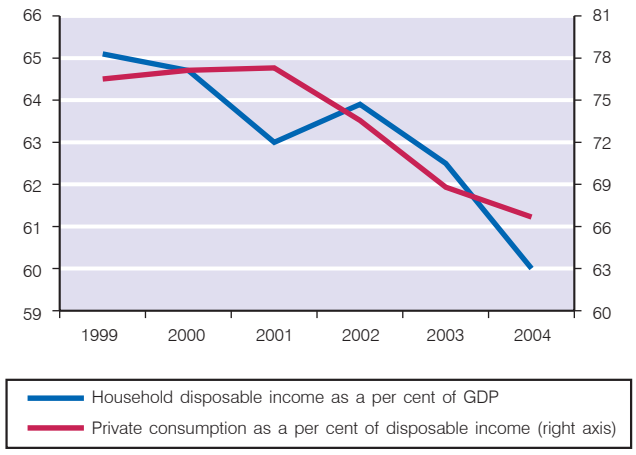
Note: The long-term trend is the average level of each component in 1980-2005, while the recent share is the average level in 2000-2005.

Box 1.4. Why the falling share of consumption in China? Precautionary savings could be the main reason

China's declining share of private consumption in GDP is partly due to the falling share of disposable income in GDP, down from 65% in 2000 to 60% in 2004. Because the share of household disposable income fell less than the share of private consumption in GDP, the marginal propensity to consume has also declined – from 77% in 2001 to 66% in 2004 (box figure).

Figure. Declining trend in disposable income and private consumption, 1999-2004

(Per cent)



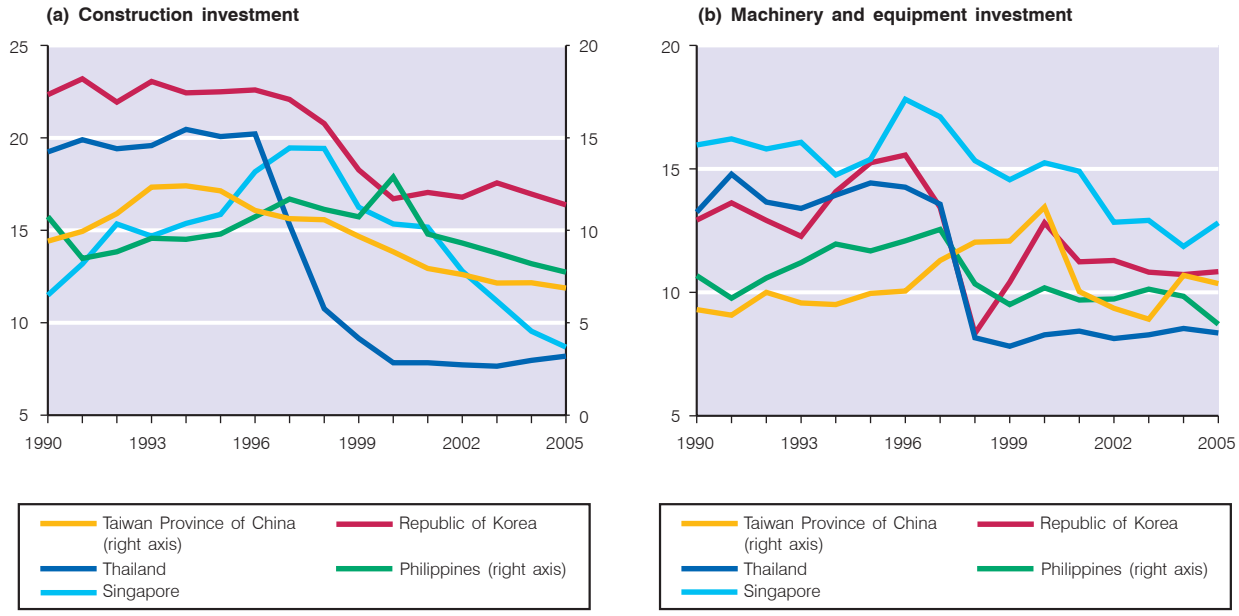
Sources: International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); World Bank, *World Development Indicators 2006* (Washington, D.C., World Bank, 2006); and ESCAP calculations.

How can China's economy be rebalanced towards greater reliance on consumption?

- Fiscal policy can do much to reduce precautionary savings. Higher budgetary spending on education, health care and pensions would lower precautionary savings and promote consumption. In addition, local government could ensure that households have access to publicly delivered social services.
- Financial markets need to be further developed to facilitate consumer borrowing. A wide range of household credit instruments should be promoted to help households smooth their consumption by facilitating borrowing against future income. Greater participation of households in equity markets would diversify their portfolios and allow them to benefit from rising market values of firms. This would in turn enable them to increase their consumption. China's insurance market could also help households to pool their risks and protect themselves against adverse shocks, such as large health care expenses or job losses.

Figure 1.15. Construction and machinery and equipment investment in selected East Asian economies, 1990-2005

(Per cent)



Source: CEIC Data Company Ltd.

the crisis. It is unlikely that the lower stock of credit was due to a fall in demand for loans because capacity utilization in these economies rose after the crisis, except in Hong Kong, China, Malaysia and Singapore. Credit shortages were even more pronounced in Thailand and Indonesia because loans were allocated more for consumption. The share of individual consumption loans to total loans in Thailand reached 24% in the first half of 2006, up from 12% between 2000 and 2005, and reached 33% in Indonesia, up from 26%.

The excess capacity in Hong Kong, China, in Malaysia and in Singapore makes the case of declining private investment likely, rather than credit shortages, leading private enterprises to postpone their investment plans.

Decisive policy responses needed

Further financial reforms are needed to promote private investment in East Asian economies. Although progress has been significant in strengthening financial systems after the 1997 crisis, more can be done to ensure that prudent investors have access to credit. For this to happen, two critical reforms are needed. First, an improved system of risk management should be put in place so that banks are no longer excessively cautious when lending for investment activities. Second, to curb excessive growth of consumer credit, authorities should adopt minimum payment and income requirements for credit cards.

Capital markets, which have increased in importance after the crisis, should be further developed as an alternative source of funds for investors. The shares of equities and debt securities in GDP have increased in East Asia (see the policy research feature 2.4). But they remain much less important than bank loans. In addition, only large corporations use capital markets. For example, in Thailand more than 70% of total bonds and long-term debt securities between 1999 and 2005 were issued by corporations with assets above 50 billion baht.

Governments should also take measures to improve the investment climate for private investment. The three main features of the investment climate are: (1) macroeconomic stability, including macroeconomic policy, policy credibility and certainty; (2) adequate infrastructure; and (3) good governance, including political stability. Governance is emerging as a major consideration in private investment decisions.

According to the investment climate survey by the World Bank,[2] there are two areas where Governments in developing East Asia need to work most to improve their investment climate. First, businessmen view corruption as a major impediment to doing business. Survey respondents in China (73%), Indonesia (44%), Philippines (45%) and Viet Nam (37%) stated that they had to pay bribes to get things done. Governments need to avoid complicated regulations to enhance transparency and limit policy discretion, leaving less room for corruption. They can provide data and applications online, standardize application forms, simplify filing requirements and standardize international practices.

> *"Corruption and customs clearance are two areas where Governments in developing East Asia need to work most"*

Second, it still takes a long time to clear goods through customs in several developing East Asian economies. Claiming imported goods from customs took 7.2 days in the Philippines, 6.7 days in the Republic of Korea and 7.3 days in India, compared with the developing country average of 6 days. Electronic filing of all documents for trading, time limits on customs clearance and one-stop service facilities can shorten these delays.

Reaping the one-off demographic dividend

Total fertility rates fell from a high of 6 children per woman in 1950-1955 to 2.4 in 2000-2005 in the region. There was also a remarkable decline in mortality rates preceding the fertility decline. This sequence of declines in mortality and fertility created a bulge in the age distribution, concentrated on the younger ages. Over time, the bulge has moved upward through the age structure to produce a large and rising working-age population – with fewer dependent children and older persons to support. The growth in the labour force, along with increasing savings resulting from falling dependency ratios, can provide a tremendous boost to investment and growth. This window of opportunity opens only once in a lifetime, closing within a generation as the population ages and dependency increases.

All subregions in the Asia-Pacific region, while at various stages of the demographic transition, have experienced significant increases in the proportion of working-age population since the 1970s (figure 1.16). They are either entering the peaks of the demographic bulge or reaching it – and in both cases are well placed to reap the "demographic dividend" before their populations start ageing once again.

> *"Population dynamics have produced a large and rising working-age population across the region"*

The demographic transition has been fastest and most pronounced in East and North-East Asia, where the working-age population, about 57% in 1970, is expected to peak at 72% in 2010, before declining rapidly. North and Central Asia and the Pacific are also at advanced stages of the demographic transition, peaking in 2010 as well. In South-East Asia and South and South-West Asia, swelling numbers should peak around 2025, and then settle in a long plateau in the case of South Asia. There is naturally diversity within subregions. The transition is fairly advanced in Thailand, with the numbers of young people declining. It is peaking in Viet Nam, while the peak will be much later in the Philippines.

The one-off opening of a demographic window will not automatically translate into economic growth. It merely creates the potential for growth. Whether countries capture this "demographic dividend" will depend on the social and economic policies and institutions they adopt to absorb a rapidly growing labour force (Kinsella and Phillips, 2005).

East Asia shows what is possible.[3] Some studies suggest that the demographic dividend accounts for one fourth to two fifths of East Asia's "economic

[2] The survey covered 41,000 firms in 77 developing countries, measuring business perceptions of the investment climate. Data are available at <http://www.enterprisesurveys.org/>.

[3] East Asia refers here to China; Hong Kong, China; Macao, China; the Democratic People's Republic of Korea; Japan; Mongolia; and the Republic of Korea.

Box 1.5. India – less reliant than many others on exports for growth

Domestic demand is important for promoting economic growth in India (box table). Private consumption is by far the largest contributor, with a stable share over the last 25 years and a large contribution to GDP growth. Private investment, in contrast to East Asian economies, has edged up over the years, steadily increasing from 14% of GDP in 1990-1996 to 18% in 2005. Its contribution to GDP growth also increased, from 0.8 points in 1997-1999 to 1.5 points in 2000-2005. There have been no significant changes in investment either in construction or in machinery and equipment, and the high share of machinery and equipment investment supports medium- and long-term growth (box figure).

Table. Components of GDP, 1990-2005

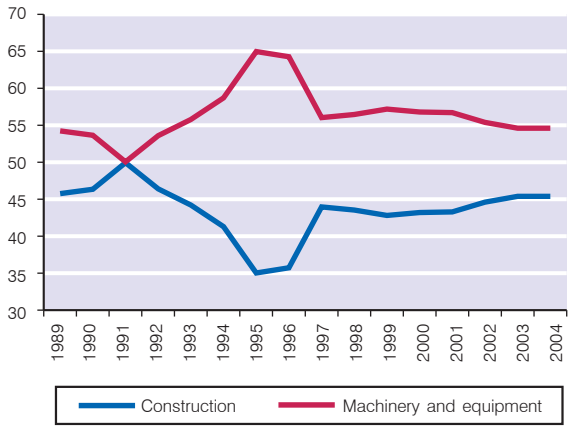
(Per cent)

	Total consumption	*Private*	*Public*	*Total investment*	*Private*	*Public*	*Net exports*	*Exports*
Share in GDP								
1990-1996	77.1	66.0	11.1	22.6	14.3	8.2	–0.7	9.5
1997-1999	77.1	64.9	12.2	21.7	15.3	6.3	–1.6	11.3
2000-2005	76.1	64.2	11.9	22.7	16.7	6.0	–1.2	14.9
2005	73.9	62.5	11.5	24.6	18.2	6.5	–2.0	19.0
Contribution to GDP growth								
1990-1996	3.7	3.3	0.4	1.3	1.2	0.1	–0.1	1.0
1997-1999	5.2	3.7	1.5	0.9	0.8	0.1	–0.4	1.0
2000-2005	3.6	3.2	0.4	1.9	1.5	0.4	–0.1	2.4
2005	4.0	3.1	1.0	3.7	2.7	1.0	–0.9	5.6

Sources: CEIC Data Company Ltd.; and ESCAP calculations.

Figure. Construction and machinery and equipment investment in GDP, 1989-2004

(Per cent)



Source: CEIC Data Company Ltd.

miracle" (Boom, Canning and Sevilla, 2003). The phenomenal growth of per capita income, which rose by more than 6% a year between 1965 and 1990, is partly credited to the working-age population growing nearly four times faster than the dependent population. With the benefits of a good education and a liberalized trade environment, this huge workforce was absorbed into the labour market, increasing the subregion's capacity for economic production.

> *The one-off opening of a demographic window will not automatically translate into economic growth – but not exploiting it can be costly*

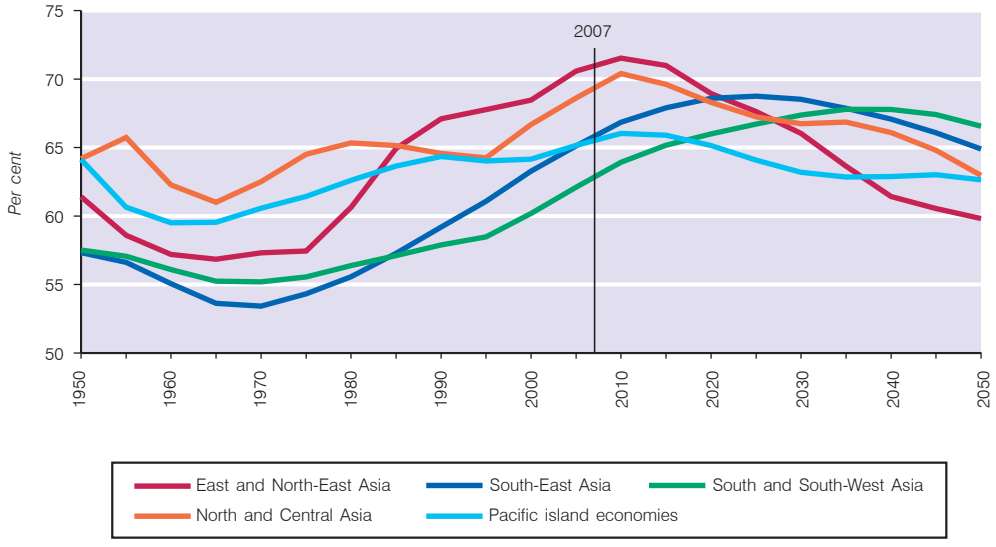
The East Asian and Latin American demographic transitions closely resemble one another, but Latin America did not reap the demographic dividend because of weak governance, inward-oriented economies and persistent macroeconomic instability (Boom, Canning and Sevilla, 2004). These conditions were not conducive to the higher level of investment and production that would have absorbed the growing labour forces.

Not exploiting the demographic dividend can thus be costly. High unemployment, especially among youth, wastes human resources and can lead to higher crime, social unrest and political instability, with further ramifications on socio-economic prospects. Jobless growth and high and rising unemployment among youth (aged 15-24) in the region may indicate inadequate preparation to reap the benefits of the demographic dividend. It is worrying that despite growing at 6% a year in the past decade, the Asia-Pacific region has seen unemployment rise steadily. Youth have been the most affected, as they make up only one fourth of the working-age population but half of the unemployed.

Success stories from East Asia and elsewhere show that a few key policies may determine the ability of a country to exploit the demographic dividend:

- Expanding access to basic education and improving its quality will create a better educated labour force. Having a cadre of young people with good basic education and technical skills that match the demands of the labour market is crucial. Higher investment in education is feasible because of rising savings from the low dependency ratios during the demographic transition (Wongboonsin and Guest, 2005).
- More flexible labour markets can better absorb the rapidly growing working-age population. Particular attention should go to easing regulations on the entry of young people and improving flexibility and mobility across sectors. Rigid employment protection laws and excessively high minimum wages need to be carefully reviewed and reformed because they are the main barriers preventing young people from entering labour markets.

Figure 1.16. Demographic dividend – percentage of the population aged between 15-64 in ESCAP subregions



Source: United Nations, *World Population Prospects: The 2004 Revision* (United Nations publication, Sales No. E.05.XIII.7).

- Openness to trade and foreign investment will offer job opportunities if exports specialize in labour-intensive products, a major factor in East Asia's success.
- Well-developed financial markets will mobilize the savings of the working-age population for productive investment. Throughout the Asia-Pacific region, the demographic transition has generated conditions for higher savings, but channeling them into investments has become a challenge for many countries, particularly in the aftermath of the 1997 financial crisis.

Getting the policy and institutional environment right helped East Asia benefit from the demographic dividend. The rest of the Asia-Pacific region now needs to do more. Policymakers need to be aware of the relevance of the demographic dividend and its potential benefits and costs so that they can put the right policies in place.

Managing urban growth

Over the past three decades, many urban centres and surrounding areas in the Asia-Pacific region have been engines of economic growth. Yet, 570 million slum-dwellers in the region – more than half the world's total – experience the cumulative impact of labour oversupply, tenure insecurity, poor infrastructure, pollution and congestion (UN Habitat, 2006). If this is not dealt with economic growth will be offset by the higher costs of keeping urban centres functioning.

Sanitation coverage in many Asian cities has improved significantly over the past two decades, even in urban areas in some of the poorest countries (UN Habitat, 2006, p. 87). Some urban authorities in the region have also realized that to create livable cities, municipal policies and practices have to be driven by a quest for political and infrastructural inclusion. Yet, many cities continue to suffer the neglect of policymakers.

Cities do have higher per capita outputs and incomes, but personal wealth and institutional control over economic assets are concentrated in certain areas of a given city. On the socio-economic side of growth, "capability poverty" is instructive (Sen, 1997). Urban centres are commonly regarded as sites of opportunity. What is overlooked, however, is that large percentages of the urban population are excluded from the opportunities offered by urban areas to those who are better educated, healthier and more affluent and who possess a more effective political voice through access to institutions and personal networks (UN Habitat, 2003). Recent UN Habitat data show that while female literacy is generally higher in cities, the intracity discrepancies between slum and non-slum areas are remarkable. In Indonesia and the Philippines, illiteracy in deprived urban neighbourhoods approaches that in rural areas rather than better-serviced urban areas. Whereas the prevalence of diarrhoea among children aged under five in Viet Nam, Nepal, Pakistan and Kyrgyzstan is higher in rural areas, in Bangladesh, Indonesia, Kazakhstan and Uzbekistan it is higher in urban areas. And in Kazakhstan and Nepal, children under five living in urban slums are more likely to contract respiratory infections (UN Habitat, 2006, p. 199).

National Governments must pay attention to the city-specific facets of urban poverty by adopting complementary policies (but not at the expense of fighting rural poverty). Urbanization as an empirical demographic trend is irreversible, and unless urban areas are managed well, slum growth will accompany urban growth, hampering the sustainability of cities as motors of national economies. The link between intracity inequities and their effect on national economic development is tangible, and the resulting need for pro-poor policies in cities is obvious. To many managers and activists at the municipal level, this argument is familiar. But at the national policy level, the notion that eradicating urban poverty is key to any effective national poverty reduction strategy deserves greater awareness. Such a strategy should be marked by strong institutions to ensure secure tenure and efficient land markets and settle land-related disputes. Slum-dwellers should be included in political decision-making. Basic sanitation and transportation systems should be extended to poor neighbourhoods. Technical and financial support should be provided for disaster mitigation. And land should be freed up for low-income housing.

> *"In Thailand and Malaysia urban development has benefited greatly from well-managed urban land markets"*

Some city authorities in Asia have shown that an institutionally flexible approach to tackling urban poverty is both feasible and economically prudent. They have shown that the urban poor are key to sustainable economic development. If they are included in the formal urban fabric, productivity gains are more equitable and more sustainable. If they remain excluded, the fiscal, managerial and political burden on city and national Governments will only continue to grow.

In Thailand and Malaysia, urban development has benefited greatly from well-managed urban land markets that consider the needs and demands of low-income dwellers. In Singapore, housing has been made affordable by embedding housing policies in a coherent long-term planning framework, with transparent needs-based allocation as one of the pillars (Yuen, 2005). In some Indonesian cities, performance-based budgeting has helped balance local accounts, limit corruption and make urban development processes more accessible and transparent to all residents (ADB, 2006).

Promoting green growth to sustain development

The Asia and Pacific region's contribution to global GDP has been steadily rising over the past decade. As a result, the region shoulders a greater share of regional and global environment-related burdens. Indeed, consumption pressures in more than half the region's countries – their ecological footprints – exceed the available bio-productive area (productive natural resource endowment) per capita (ESCAP, 2006c). National policy failure to address the growing environmental pressures will eventually take their toll on economic growth.

Evidence already shows that the economic base provided by the environment is being undermined in the region. Land has been eroded, fisheries depleted, forest and coastal ecosystems degraded and air and water polluted. While afforestation and reforestation have slowed the loss of forest cover, natural forests are in decline, driving the rapid global decline in biodiversity. For example, some 60% of the region's mangrove forests have been converted to aquaculture.

The costs of water shortages are evident in industry and agriculture, the biggest users of water at 20% and 70% respectively. India's industrial water use, for example, is expected to almost quadruple by 2050 (India, 2004), but water shortages could slow industrial activities, as parts of India have already experienced. In China, water shortages have been responsible for an estimated annual loss of $28 billion in industrial output in recent years (China, 2004).

Air and water pollution impose enormous costs on human health and the environment. Asia harbors seven out of ten of the world's most polluted cities. In Dhaka the total economic cost of suspended particulate matter alone was 3-4% of GDP (Azad, Sultana and Jahan, 2003). In many countries, only a small portion of solid waste is properly disposed of (40% in the Philippines, 20% in China), with the rest contaminating rivers and groundwater.

> *"The most severe impacts of climate change will be in the Asian and Pacific region, with poor countries likely to suffer earliest and the most"*

Greenhouse gas emissions and climate change will have significant impacts on the region. The Stern Report, recently released by the Government of the United Kingdom, predicts that if consumption and production patterns continue along "business as usual", climate change will cut global GDP by up to 20%, create 200 million "climate" refugees through drought and floods (Myers, 2005) and cause a severe global recession. The most severe impacts of climate change are predicted to be in the Asian and Pacific region, with poor countries likely to suffer earliest and the most:

- Crop yields are expected to decline by up to 70% for typical crops in northern India if the temperatures rise by 2-3^{o}C, placing 30 to 200 million people at risk of hunger.
- The already dry areas of southern China and the Indian subcontinent will lose 30% of their water availability if temperatures rise by 2^{o}C, while parts of South Asia could receive 10% more water and experience regular floods.
- A temperature increase of 3-4^{o}C would cause sea levels to rise and storms in coastal areas and islands. Many Asian coastal cities – such as Hong Kong, Shanghai, Mumbai, Kolkata, Karachi and Tokyo and many island economies – will risk inundation at massive economic and social cost.

Clean up now

"Grow now, clean up later" does not apply in a region with such a limited natural resource base and with such a large and growing population directly dependent on natural resources. Moreover, the cost of preventing the loss of the economic base provided by the environment is only a small fraction of the cost to repair it, if the damages are reversible. Indeed, the cost to "clean up" now is, in many cases, much smaller than policymakers would expect. More than 90% of the resources harvested from nature are wasted in producing food, machines, vehicles and infrastructure. A priority is finding economic growth strategies that support and reinforce environmental sustainability.

"Green growth" is a solution. This is the growth in GDP that maintains or restores environmental quality and ecological integrity, while meeting the needs of all people. It fundamentally changes the way societies operate by improving efficiency in the use of the environment for production and consumption. Such "eco-efficiency" in national development planning can decouple economic growth from its negative environmental impacts and make environmental sustainability and economic growth complementary.

The efficient use of natural resources is often pro-poor because the poor, particularly in rural areas, are the most affected by shortages of water, losses of land, forests or fisheries, and other forms of environmental degradation.

Five tracks to green growth

Conventional environmental management has focused on improving environmental performance by controlling and regulating pollution and effluents from production processes. Environmental regulation remains a part of green growth, particularly to reduce pollution. But a broader array of policies, economic instruments and management practices are required to fundamentally change consumption and production patterns. ESCAP proposes a five-track approach to green growth:

> *"Green taxes could generate revenues to reduce other distorting taxes – thereby overcoming resistance to new taxes"*

Track 1. Introducing green taxation and budget reform. Many tax and subsidy policies indirectly promote environmentally damaging activities. Moreover, the price of natural resources does not typically capture the full social and environmental cost of their use, an incentive for waste and inefficiency. Environmental taxes, by contrast, internalize environmental costs – but may not be popular. To overcome resistance to new tax structures, "green taxes" could generate revenues to reduce other (distorting) taxes. They should be combined with reforms of fiscal budgets that align public revenues and expenditures with environmentally sound considerations.

Germany taxes energy and environmentally harmful transport, using the revenues to reduce the social security tax that companies pay. The net effect: a protected environment and new jobs. Other benefits include the move to petrol-saving vehicles, greater use of public transport, better building insulation, electricity savings and greater energy efficiency in production.

Track 2. Developing sustainable infrastructure. Governments need to plan for environmentally friendly infrastructure that fosters efficient use of resources and minimizes pollution as cities grow, highways lengthen and water, energy and sanitation services expand. But failing to recognize the environmental realities of rapid urbanization in infrastructure decisions creates unnecessary costs related to air and water quality, waste management, transportation and congestion. Infrastructure projects rarely consider long-term ecological impacts. Nor do they consider infrastructure investment's external effects or hidden costs of pollution, health and social impacts and overuse of energy, water and raw materials.

Track 3. Promoting sustainable consumption and production. Governments throughout the region are promoting cleaner production. For example, Russia's Cleaner Production Programme has more than 1,700 engineers and specialists from 500 industrial and agricultural production enterprises working to develop and implement projects focused on resource savings. The projects range from waste management to alternative energy sources. The annual economic benefits of the pilot projects alone were 5-7 times the value of the initial investment.

More needs to be done to promote cleaner consumption. In Bangladesh, where only 15% of the population is served by the electricity grid, Grameen Shakti provides soft financial options for home solar systems in rural and remote off-grid areas. Today, more than 65,000 systems with an installed capacity of 3.25 MW are up and running. The users report higher incomes, better children's education and higher quality of daily activities.

Track 4. Promoting green business. Corporations and small and medium enterprises across the region are becoming the agents of change for environmental sustainability (box 1.6). They have turned protecting the environment into business opportunities by enhancing the eco-efficiency of their production systems. Less use of resources, less energy-intensive production, more use of non-conventional and renewable energy sources and re-use of production waste products for new production processes have proven cost-effective and profitable. Eco-efficient and less material-intensive production may also sharpen the competitive edge of countries in the region in global niche markets for environmentally conscious consumers in industrial countries.

Track 5. Monitoring progress through eco-efficiency indicators. To enable countries in the region to move towards green growth strategies, eco-efficiency indicators are needed, particularly if environmental considerations are to be incorporated in national economic development planning. These indicators can assess a country's pattern of economic growth, monitor policy outcomes that promote eco-efficiency and allow comparisons of eco-efficiency measures across countries. Such a tool will help countries in their efforts to decouple economic growth from its negative environmental impacts. These indicators will also provide a powerful advocacy tool to influence consumption and production patterns.

Box 1.6. Pro-poor green business: Lekhani Paper and Power Project in Nepal

Approximately 2 billion people still have no access to electricity, relying on expensive fuel-based lighting that often provides poor light. White light-emitting diodes combined with solar photovoltaic technology are now seen as a viable way of providing clean, sustainable and affordable light to thousands of homes while also creating income generation opportunities.

One promising solution can be found in Lekhani, Nepal. The "Paper and Power" Project initiated by a private company aims to help the rural poor through income-generating activities at the village level. Its Home Employment and Lighting Package (HELP™) provides implementation costs and improving livelihoods. The project also helps generate revenues to help pay for the lighting system by producing paper and paper products from a wide range of locally available plant resources. Subsequent revenues become a new source of income for the family. The project is being co-funded by the UNDP Global Environment Facility Small Grants Programme and private business.

Source: Based on the description of the project at <http://www.hlf.org.np/lekhani.htm>.

Appendix 1: Composite index of vulnerability to currency crisis – concept and measurement[1]

Vulnerability refers to susceptibility to a currency crisis – rapid financial capital outflows in anticipation of a sharp currency depreciation (devaluation), leading to reserve depletion, financial instability and economic contraction. Vulnerability itself does not lead to a currency crisis. A crisis happens when a trigger changes vulnerability into collapse.

Measurements of vulnerability to currency crisis

Three factors determine a country's vulnerability to a currency crisis:

Reserve adequacy. Reserve adequacy assesses foreign exchange reserves in relation to short-term debts. A broad definition of short-term debts is used, covering non-FDI items with maturity of less than one year. After sudden capital outflows, the authorities might defend the currency and allow reserves to decline until confidence is restored. This policy is possible if, and only if, a country has adequate foreign reserves to offset potential capital outflows (short-term foreign liabilities).

Financial fragility. The total outstanding institutional credit lent to the private sector as a ratio of GDP is a widely used indicator of banking system soundness. A country with a rapid build-up of bank credit would have a more fragile banking system and more bad loans. In addition, a rapid build-up of credit may imply a growing share of lending to less creditworthy borrowers – a sign of a weakening banking system.[2]

A sound banking system is necessary when policymakers use interest rate policy to respond to a sudden decline of capital outflows. An interest rate increase helps maintain relative expected returns to investment by compensating for the potential loss of return due to the (expected) exchange rate depreciation, easing the downward pressure on reserves. An increase may also lower domestic absorption (private consumption and investment), reducing the negative value of the net balance on current accounts – and again easing the downward pressure on reserves. But if domestic financial institutions are unhealthy, an interest rate increase is likely to lead to a domestic credit squeeze, bank failures and business bankruptcies and, ultimately, economic collapse.

Real exchange rate. The real exchange rate is approximated by available domestic and world price indices and nominal exchange rates. The real exchange rate is EP*/P, where E denotes the nominal exchange rate, P* is an index of foreign prices (approximated by producer (wholesale) prices) and P is an index of domestic consumer prices. E and P* are weighted averages computed across trading partner countries.

A persistent and significant appreciation of the real exchange rate forces the Government to try to stem the capital outflow. To lower the pressure from the sudden outflows, the real exchange rate must depreciate to reduce the current account deficit. To stabilize the currency, authorities might implement a monetary or fiscal contraction to reduce non-tradable prices, leading to real depreciation rather than currency depreciation. But if the required magnitude of recession is too large, authorities may not be able to use this avenue.

Composite index of vulnerability

The composite index provides a single measure of a country's vulnerability to a currency crisis.

To obtain a composite index, the three constructed indicators are converted into an index (1990 = 100) to unify measurements.[3] To combine them with equal weight, the geometric average is taken. The final step is to standardize the averaged value to create a composite index. The standardization method in this study is based on the following formula:[4]

$$V_{i,t} = \frac{X_{i,t} - \mathrm{Min}X_{i,t}}{\mathrm{Max}X_{i,t} - \mathrm{Min}X_{i,t}}$$

where i = country and t = period. The variable $V_{i,t}$ will be between 0 and 1. The higher the value of $V_{i,t}$ the lower the vulnerability to a currency crisis.

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1 Most of the material in this appendix is drawn from Athukorala, P. and P.G. Warr (2002), pp. 33-57 and works cited therein.

2 Although the standard indicators of banking system health, such as non-performing credit ratio and the capital adequacy ratio are examined, these measures have limitations. During a credit boom, creditors can arrange credit rollover through their banks (a process known as evergreening) and historical summary measures become adequate indicators of future performance.

3 The ratio of private domestic credit over GDP is reversed in order to solve the directional problem in explaining the composite index.

4 See the application of this formula in Briguglio (1995), pp. 1615-1632.

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CHAPTER 2. SUBREGIONAL PERFORMANCE, CHALLENGES AND POLICIES

Widespread growth across Asia and the Pacific

The Asia-Pacific region grew strongly in 2006, with developing countries growing at a rate of 7.9% and developed countries by 2.2% (figure 2.1). In many respects, the region's economic performance reflected the ongoing rapid integration and growth of the global economy. North and Central Asia, Australia, the Islamic Republic of Iran and a number of other countries witnessed strong growth in commodity exports, while much of East Asia experienced strong demand for manufactured goods, such as electronics.

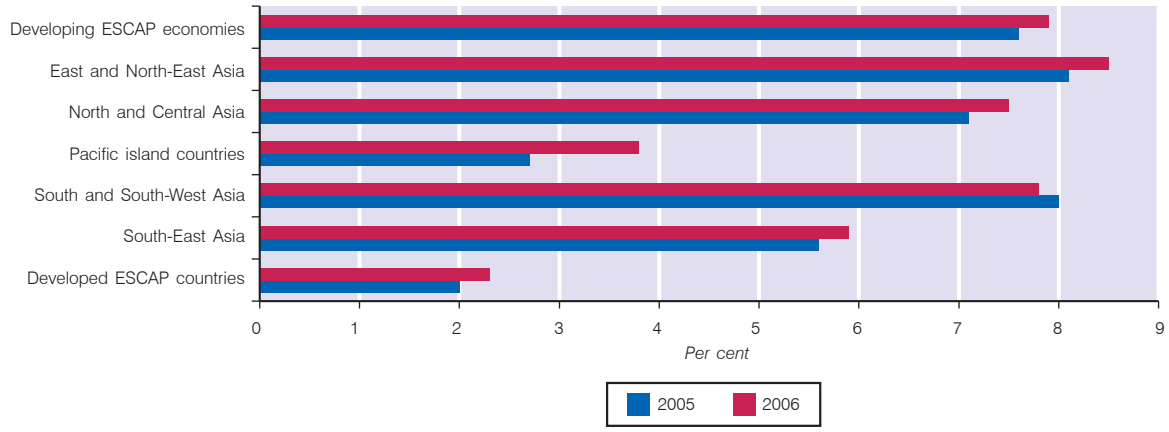
> *Growth momentum of the region is concentrated in the industrial and services sectors, with agriculture growing more slowly*

East and North-East Asia had stronger than expected growth of 8.5%. Investment continues to accelerate in China, while investment and consumption posted healthy gains in Hong Kong, China and Macao, China. Except in China, some important impediments still constrain domestic demand, leaving the region dependent on global growth to sustain its expansion. In China, consumption growth appears to have weakened, and although investment growth is rapid, concerns that it is being poorly allocated remain widespread. Elsewhere, particularly in the Republic of Korea, geopolitical uncertainties linger and consumption and investment remain fragile.

> *North and Central Asia enjoyed its seventh consecutive year of rapid growth*

Economic growth was also strong in North and Central Asia, averaging around 7%, its seventh

Figure 2.1. Rates of growth of real GDP in the ESCAP region, 2005-2006



Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, September 2006); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); and website of the Interstate Statistical Committee of the Commonwealth Independent States, available at <www.cisstat.com>, 26 February 2007; and ESCAP estimates.

Note: Data for 2006 are estimates.

consecutive year of rapid growth. High oil prices continued to fuel inflation and particularly the rapid growth of net oil exporters, such as Azerbaijan, Kazakhstan and the Russian Federation. But the oil boom raises concerns about "Dutch disease", which is examined below.

> *Increased receipts from tourism helped Pacific island countries to maintain their balance of payments and foreign exchange reserves*

With few exceptions, Pacific island countries showed positive economic growth, ranging from slightly less than 2% in Tonga to more than 6% in Vanuatu. Growth was led by the primary sector in Papua New Guinea and the services sectors in the smaller countries. Most countries in the subregion maintained trade deficits as imports, pushed higher by rising oil prices, continued to outpace exports. In many countries, the trade deficit was financed largely by aid and remittances. Increased receipts from tourism and foreign direct investment are thus essential for them to maintain their balance of payments and foreign exchange reserves. But political instability in some countries threatens not only tourism but also agriculture, construction and financial services.

Strong economic growth continued in South and South-West Asia. India, the largest economy in the subregion, led the growth momentum by expanding 9.2%. Afghanistan, Bangladesh, Pakistan and Sri Lanka posted growth rates of more than 6.5%, with industry and services the major contributors. Exports increased in all countries in the subregion, but imports grew even faster, partly due to higher oil prices, widening the current account deficits in Pakistan, Sri Lanka and Turkey. The Islamic Republic of Iran, the only net exporter of oil in the subregion, grew by 6.1% and increased its current account surplus, thanks to higher oil prices.

Driven by strong external demand, economic growth in South-East Asia stood at a robust 5.9%, up from 5.6% in 2005. As in previous years, strong external demand, especially for electronics (and to a lesser extent, commodities), was the principal driver of growth. As a result, the current accounts of major economies in the subregion are estimated to have remained in surplus, ranging from 25.9% in Singapore to a modest 0.9% in Viet Nam.

> *Many South-East Asian countries allowed their exchange rates to appreciate rather than relying solely on interest rate rises to cool their economies*

As in the other subregions, higher oil prices were a source of inflationary pressure. Many countries allowed their exchange rates to appreciate rather than rely solely on interest rate rises to cool their economies. Stronger currencies gave monetary authorities an opportunity to end the cycle of interest rate tightening that began in 2004.

All three developed countries in the region enjoyed modest growth. Capacity constraints tightened in Australia and New Zealand, creating inflationary pressure, while Japan still looked for firm signs of graduating from deflation with limited growth in wages despite signs of labour shortages. Higher labour incomes supported household consumption in Australia and New Zealand, while sluggish labour incomes eroded it in Japan. The fiscal positions of Australia and New Zealand remained strong due to the robust economic growth they have experienced in the past few years. But in Japan, the large public debt accumulated in the decade-long recession of the 1990s still haunted the fiscal outlook.

Despite high oil prices, growth continued and even picked up in many countries, and with oil prices stabilizing, inflationary pressure has eased. However, policymakers continue to face serious challenges in maintaining growth and development, and some of these are examined in detail in the policy research features and boxes in this chapter.

East and North-East Asia – external demand boosts growth

Growth jumped in East and North-East Asia from 8.1% in 2005 to an estimated 8.5% in 2006. Once again, China's relentless expansion dominated the picture, with growth of 10.7% (figure 2.2). The services sector is particularly notable for its increase to 10.3%. Services also showed good growth in the Republic of Korea (5.0%) and Hong Kong, China (6.5%).

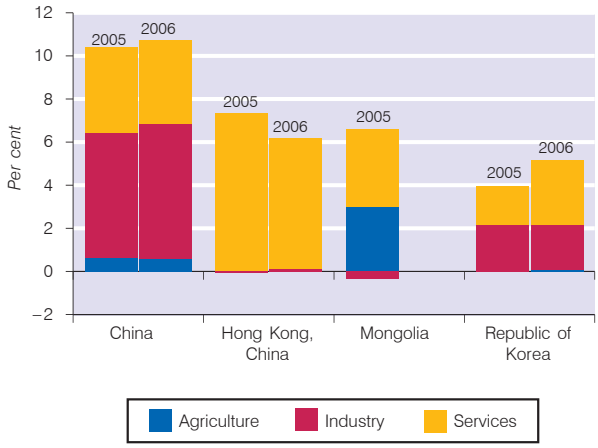
> *China's relentless expansion continued, with growth of 10.7% in 2006*

On the demand side, China's exports increased their share of GDP to 37%, although export growth decelerated slightly from 28.4% in 2005 to 27.2% in 2006. Gross fixed investment increased its share of GDP to 43.6% from 42.6% (figure 2.3). Reorientation of the economy towards consumer demand was yet to be seen as private consumption decreased its share of GDP from 38 to 37%.

China's rapid economic expansion has had an important impact on the country's environment. Economic losses from environmental pollution reached $65 billion in 2004 (China, 2006a). In response, the Government is actively pursuing a "green growth" strategy, with investments expected in wastewater treatment, air quality improvement, natural gas and renewable energy. Over the next five years it plans to reduce discharges of pollutants by 10%, and raise forest coverage to 20%.

Although the Republic of Korea grew faster, economic confidence wavered in 2006 as a result of political tensions with the Democratic People's Republic of Korea, higher oil prices and interest rates and industrial disputes. Thus domestic demand, while growing at a reasonable pace, it remains fragile. Consumption grew at 5% in the first quarter (year-on-year), but declined to a more modest 4.4% in the third quarter after industrial disputes in July and the nuclear test conducted by the Democratic People's Republic of Korea. Similarly, after growing at 3.8% year-on-year in the first quarter gross fixed capital formation dipped to 0.8% in the second quarter due to a collapse in

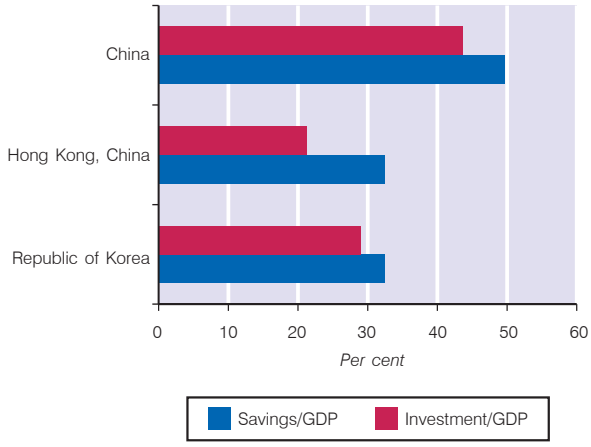
Figure 2.2. The move away from agriculture to industry and services



Sources: ESCAP data based on national sources.

Note: Data for 2006 are estimates.

Figure 2.3. Savings continue to outpace investment



Sources: ESCAP estimates.

Note: Data for 2006 are estimates.

construction. However, plant and equipment investment growth showed remarkable resilience and accelerated to 10.1% in the third quarter, laying the foundation for a rebound in gross fixed capital formation to 4%.

In keeping with the role of Hong Kong, China, as an intermediary facilitating the flow of goods trade and investment between China and the rest of the world, the most impressive service growth in the first half of 2006 was in finance (14% annualized) and transportation (9%) (China, 2006b). Service exports grew by an annual average of just over 9% in the first three quarters, contributing to a service export surplus of more than $25 billion in the first three quarters of 2006. Domestic demand was also strong, with growth in spending on machinery, equipment and computer software averaging a remarkable 19.5% over the first three quarters.

> *"Macao, China, is growing rapidly by transforming itself into "Asia's Las Vegas"*

Macao, China, is growing rapidly by transforming itself into "Asia's Las Vegas". It grew by 17.6% in the first half of the year and 11.4% in the third quarter. Much – if not all – of this growth is tied to its booming tourism and gaming sectors. Tourist arrivals were up by 17.7% in the first quarter of 2006 and 15.9% in the second quarter (year-on-year), while gambling revenues, estimated at $6.8 billion, are expected to exceed those of Las Vegas (estimated at $6.6 billion) (BBC News, 2006). Construction, aimed at expanding the number of hotel rooms, gaming facilities and theme parks, grew by a phenomenal 84% in the second quarter and contributed to strong gross fixed capital investment of 26.7% in the third quarter (China, 2006c and EIU, 2006a).

Mongolia, celebrating its 800th year of nationhood, posted a strong growth performance (estimated at 7.5%). Foreign tourists taking part in the national celebrations, as well as telecommunications, helped growth in services which is estimated to have contributed 4.2 percentage points to overall growth. The industrial sector (manufacturing in particular) also performed well, although there are indications that the expansion in mining may have largely stabilized following particularly strong growth in 2005.

Excess liquidity keeps the heat on

Inflation is generally low, but credit growth is proving to be a problem in China and the Republic of Korea (figure 2.4). In China, it has fueled investment and contributed to GDP growth. ESCAP analysis shows that overheating is not generalized but that it is affecting some sectors (ESCAP, 2006a).

Inflation in the Republic of Korea remained within the central bank's target range, but housing prices appeared to accelerate late in the year. Apartment prices in Seoul rose by more than 24% in 2006, and house prices rose nationally by more than 11% (see figure 2.5). The higher prices partly reflect supply constraints, but the rapid price increase has raised the spectre of a bubble, which could threaten economic and financial stability.

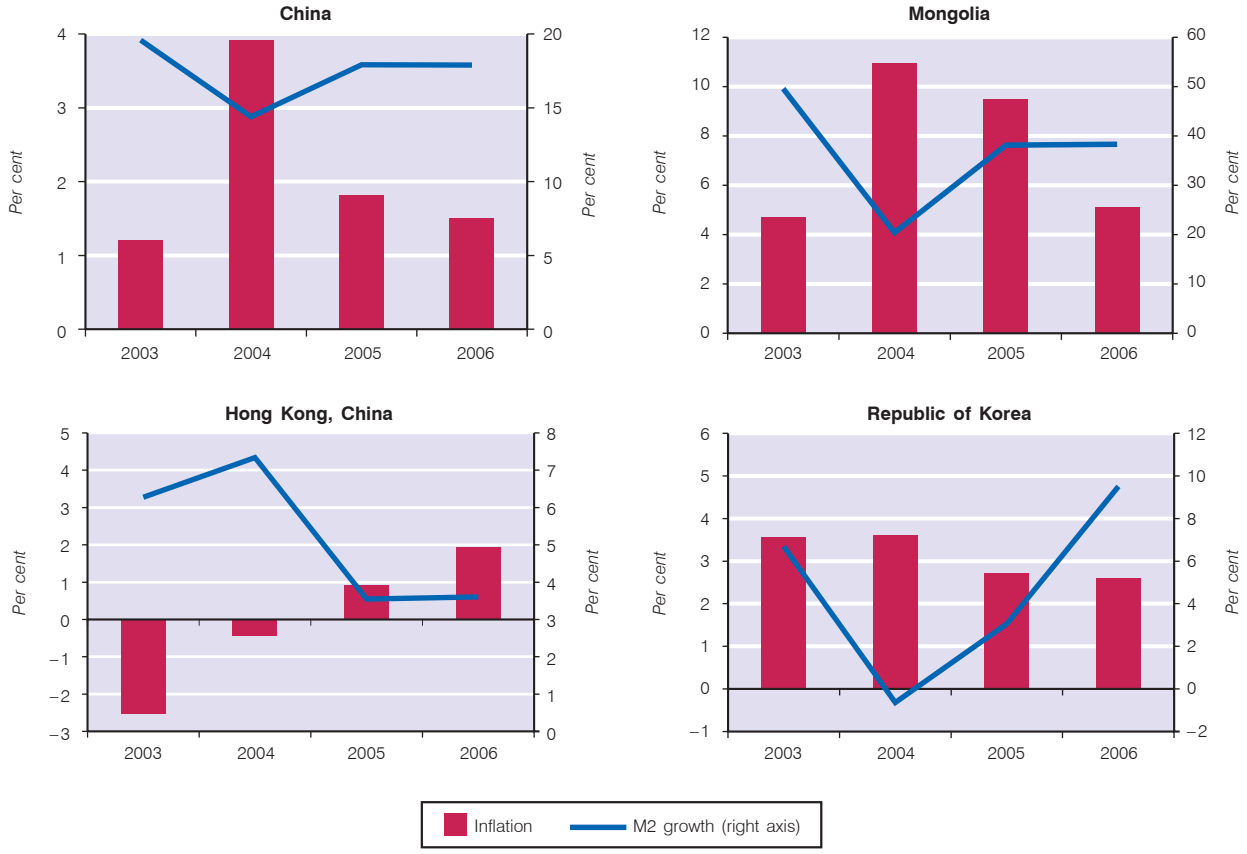
> *"Credit growth is proving to be a problem in China and the Republic of Korea"*

China placed administrative curbs on investment by foreign investors and local governments in some sectors in response to the growing liquidity. Monetary measures included higher bank reserve requirements and two hikes in the lending interest rate. But GDP has nonetheless continued upward.

The Bank of Korea increased interest rates, allowed the won to appreciate and raised the reserve ratio on deposits. Its policy rate reached 4.5% in August before leveling off in December 2006. The won appreciated by about 8% for the year (see figure 2.6). Despite the appreciation, foreign reserves still rose by more than $21 billion ($9 billion in November and December), thereby expanding liquidity. The central bank did not want to raise interest rates further, which could dampen investment growth and stimulate additional financial inflows, or to allow a further appreciation, which could harm exports. So it took the unusual measure of increasing the required reserve ratio on demand and foreign currency deposits from 5 to 7%, the first time it had resorted to such measures since February 1990.[1]

[1] The Bank of Korea has cited the pressures associated with monetary expansion from the build-up of foreign exchange reserves as one reason for its decision.

Figure 2.4. Credit growth is a concern in China and the Republic of Korea



Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, September 2006); and ESCAP estimates.

Notes: Data for 2006 are estimates. Inflation refers to changes in consumer price index. Money supply for 2006 refer to the months from January to October and inflation refers to the months from January to June for Mongolia.

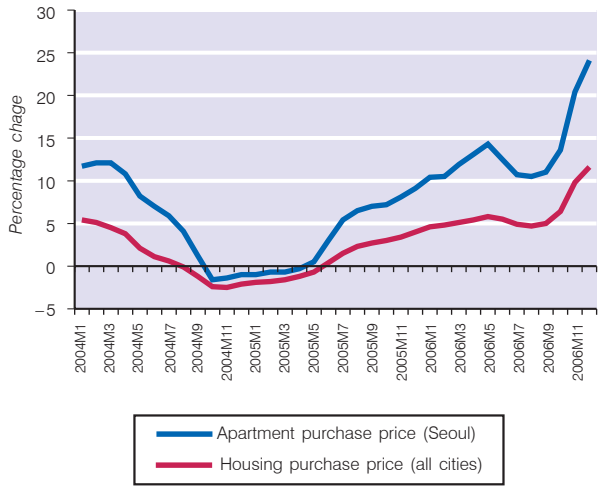
> *Cooling measures in China are beginning to feed into asset investment, industrial production and GDP growth*

In China, cooling measures are beginning to feed into fixed asset investment, industrial production and GDP growth. All three indicators slowed in recent quarters. The growth of credit and the M2 measure of money supply also slowed. But pressure remains on money growth due to potential liquidity injections from the buying of dollars to manage the exchange rate.

The Hong Kong Monetary Authority adjusted its base interest rate in step with increases in the United States federal funds rate, while the balance of payments surplus continued to generate a growing money base in Hong Kong, China. So inflation rose throughout 2006, stabilizing at 2% by year's end. Such a process was expected and, unlike in the Republic of Korea where inflationary pressures threatened the central bank's inflation target, the inflationary process is in keeping with the linked exchange rate system of Hong Kong, China, which explicitly pegs the Hong Kong dollar to the United States dollar. Consequently, inflationary expectations remain well anchored.

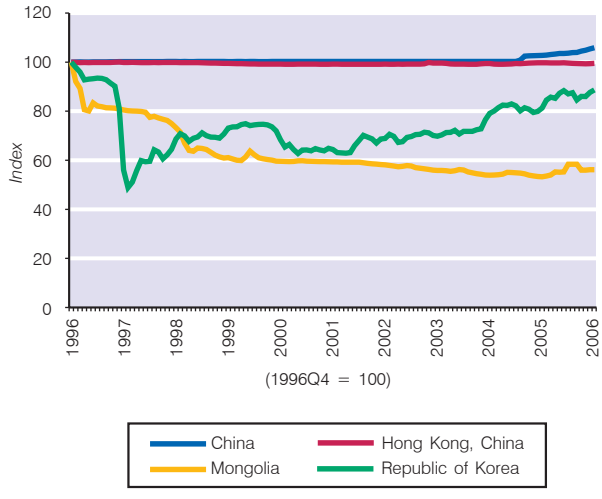
Compared with August 2005, when inflation was running at more than 11%, Mongolia's inflation rate fell dramatically to 4.7% in August 2006, but M2 grew by more than 35% in the first quarter (year-on-year).

Figure 2.5. Booming housing prices in the Republic of Korea



Source: Bank of Korea.

Figure 2.6. Index of exchange rates against the United States dollar of selected East and North-East Asian economies, 1996-2006



Sources: International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); and *The Economist* databases.

Note: Data for 2006 are estimates.

Current accounts remain in surplus

China's current account surplus set record highs on booming exports and cooling imports (table 2.1), although as a proportion of GDP it remained steady. Trade between China and India is expected to reach $20 billion in 2007, a fourfold increase over 2002, making India China's eleventh largest trading partner and China India's second largest partner. China exports a wide variety of manufactured and resource-based goods to India, while India's exports are concentrated in primary and resource-based products, particularly iron ore. The comparatively low absolute value of bilateral trade between the two countries promises significant room for future increases (see the policy research feature below).

In 2006 came the inevitable moment when China's accumulation of foreign exchange reserves passed the $1 trillion mark. The forces contributing to reserve accumulation – i.e. the current account surplus, FDI net inflows and the managed exchange rate – are likely to remain in place in the near future. China is gradually moving away from generalized FDI and encouraging investment in particular sectors to upgrade quality. In 2006, FDI to China stabilized and decreased slightly. Even so, China remains Asia's premier FDI destination by a wide margin, and its outward FDI has grown at a fast pace, especially in the information, telecommunications, mining and manufacturing sectors.

In Hong Kong, China, although "total" exports of goods rose by an estimated 9.7%, "domestic" net exports, which exclude re-exports, contracted. Overall, the balance on the goods trade is in deficit, while the services trade is in substantial surplus, contributing to a current account surplus of about 10.1% of GDP.[2]

> *The current account surplus declined in the Republic of Korea due to the strong won and higher oil prices*

The current account of the Republic of Korea reached a modest $1.6 billion by the end of October, a much smaller amount than the $15 billion surplus recorded in the same period the year before. One of the reasons

[2] In 2005 the services surplus was three times the size of the goods trade deficit.

Table 2.1. Summary of external accounts for selected East and North-East Asian economies, 2005-2006

(Per cent)

	Exports/GDP		Imports/GDP		Current account balance/GDP	
	2005	2006	2005	2006	2005	2006
China	33.9	36.8	29.0	32.9	7.2	7.1
Hong Kong, China	162.9	167.6	167.1	175.0	11.1	10.1
Mongolia	55.4	..	61.6	..	5.5	..
Republic of Korea	36.1	50.9[a]	33.1	48.3[a]	2.1	0.4

	Growth rates (Per cent)					
	Exports			Imports		
	2004	2005	2006	2004	2005	2006
China	35.4	28.4	27.2	36.0	17.6	20.0
Hong Kong, China	15.9	11.6	9.7	16.9	10.5	11.6
Mongolia	41.2	22.4	43.6	27.5	16.0	25.7
Republic of Korea	31.0	12.0	14.4	25.5	16.4	18.4

Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); and ESCAP estimates.

Notes: Data for 2006 are estimates.

[a] Data refer to January-September.

was the strong won, which encouraged imports and foreign travel; the other reason was higher oil prices. Financial flows generated an overall financial and capital account surplus of $12.7 billion in the first 10 months (compared with $4.8 billion for the same period in 2005). The substantial inflow was largely due to short-term foreign currency borrowing, reflecting speculation that the won would appreciate.

Weaker global demand poses a risk for medium-term prospects

With growth widely supported by external demand, slowdown in the United States economy continues to be a major concern for growth in the subregion. It is clear that the United States will experience a decline in GDP growth in 2007. China is expected to be able to withstand a moderate slowdown, which would not have any significant impact on the country, however, a larger-than-expected decline in GDP growth would be of concern. For the other countries in the subregion, a sharp slowdown in the United States would have a double impact as it is a principal export market for these countries, and many of these countries are also producing intermediate inputs for final assembly by China to supply the United States market. Countries in the Asia-Pacific region accounted for 66% of China's imports in 2006.

To reduce its dependence on foreign demand, China is reorienting its growth and economic structure, as well as undertaking policy measures to alter the drivers of economic growth. The weight of credit and investment is being reduced to prevent overcapacity in some industrial products and overcome structural weaknesses in the banking sector. Instead, private consumption is expected to increase its share of the economy as employment, wealth and wages rise. The economy is also being guided towards less energy-intensive production to reduce dependence on imported fuel and other natural resources.

> *"The slowdown in the United States economy continues to be a major concern for the subregion"*

Weakening external demand could also pose some challenges for the subregion's banking systems. In

Mongolia, concerns have been expressed about poor risk management and weak corporate governance in the banking sector, and that the financial system could be vulnerable to a downturn in global commodity prices. In response to these challenges, the authorities should continue efforts to improve bank supervision and ensure strict compliance with capital adequacy norms.

If external demand does not weaken, the economies of the subregion will have to deal with the ever-growing liquidity and inflation risks associated with their sizeable balance-of-payments surpluses. Policy-makers have a limited number of options. First, they could increase interest rates further. But doing so would probably be ineffective as higher interest rates would attract short-term capital inflows and add to excess liquidity. In the Republic of Korea, raising rates could also threaten the already fragile investment climate, something the central bank would prefer to avoid.

Second, the authorities could employ a wider range of fiscal and regulatory incentives. In China, for example, further controls could be placed on lending and investment in overheated assets and industrial sectors. In the Republic of Korea, the Government may want to consider initiatives that directly increase the supply of housing and reduce access to credit, such as further increases in the reserve ratio.

Continuing appreciation is the main alternative. However, in the Republic of Korea, investment demand is already weakened by geopolitical tensions, and export growth remains the foundation for economic growth in the country. The authorities will be reluctant to see the won appreciate too fast – as it is already weakening profits in some exporting sectors.

Policy research feature 2.1: China's wake-up call to exporters in the Asia-Pacific region

China's size and the rapid growth of its exports and imports are reshaping trade patterns in the Asia-Pacific region. China is now the world's third-largest trading nation, after the United States and Germany, accounting for about 7% of world trade. Its exports also compete with those of other countries in the region in third-country markets. But its imports offer opportunities for Asia-Pacific exporters.

China exerts stiff competition in international markets

Some countries in the region face stiff competition from China in third-country markets. Export competition with China is measured by comparing each country's main export products to third-country markets. All countries display some overlap of their top 10 export products with that of China in 2005, with the overlap depending roughly on their level of development and technological sophistication (table 2.2). For example, the exports of the high-income economies of Japan, the Republic of Korea and Singapore overlap with the exports of China in electrical machinery and equipment, as well as machinery and appliances. The low-income economy of Mongolia overlaps in apparel and clothing and knitted clothes.

China represents either a direct or potential export challenge for all countries in the region (table 2.3). Competition is direct when a country faces a loss in its world market share and China gains. Competition is potential when a country has a gain in its world market share less than China's. It is potential in the sense that without competition from China the share of a country's gain in world markets might have been

Table 2.2. Countries face competition from China in third-country markets: Export competition with China in country markets in 2005 and world market share change, 2001-2005

Indonesia	*Japan*	*Republic of Korea*	*Mongolia*	*Malaysia*
Electrical machinery and equipment products (–) Machinery and appliances (+) Apparel and clothing (+) Furniture (+)	Electrical machinery and equipment products (–) Machinery and appliances (+) Optical, photo (–) Articles of iron or steel (–) Plastics and articles (+)	Electrical machinery and equipment products (+) Machinery and appliances (+) Articles of iron or steel (+) Plastics and articles (+)	Apparel and clothing (–) Knitted clothes (+)	Electrical machinery and equipment products (+) Machinery and appliances (+) Optical, photo (+) Furniture (+)
Philippines	***Russian Federation***	***Singapore***	***Thailand***	
Electrical machinery and equipment products (–) Machinery and appliances (+) Apparel and clothing (+) Optical, photo (–)	Machinery and appliances (+) Minerals, fuels (–)	Electrical machinery and equipment products (–) Machinery and appliances (+) Optical, photo (–) Articles of iron or steel (–) Plastics and articles (+)	Electrical machinery and equipment products (+) Machinery and appliances (+) Plastics and articles (+) Knitted clothes (+)	

Source: ESCAP APTIAD database, 2006.

Notes: Change of percentage of world market share is shown between 2001-2005 by a (+) or (–) sign. Exports between China and the relevant country are excluded.

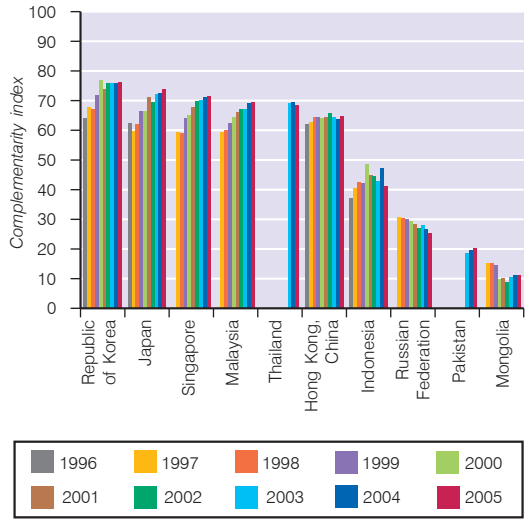
greater. All of China's top 10 export products in 2005 displayed large increases in world market share.

> *China represents either a direct or potential export challenge for all countries in the region*

Many opportunities for Asia-Pacific countries to export to China

High and middle-income regional economies have great opportunities to export to China, this is measured by a complementarity index that shows the overlap between a country's export profile and China's import profile (figure 2.7). A high complimentarity index level indicates a higher potential for trade. The highest overlap is for Japan, the Republic of Korea and Singapore, followed by the middle-income ASEAN economies of Thailand and Malaysia. The lowest overlap is for Mongolia and Pakistan, followed by Indonesia.

Figure 2.7. High and middle-income economies have substantial opportunities to export to China: Trade complementarity of selected economies with China, 1996-2005



Source: ESCAP APTIAD database, 2006.

Note: The complementarity index has a maximum value of 100, which indicates a perfect overlap between the product export shares of an economy with those of China.

Overall export prospects differ greatly across products

There are clear export opportunities for countries in natural resource-related and agricultural products. China has emerged as a major importer of these products. For example, it is now the world's largest importer of logs. Major natural resource exporters include Indonesia, Mongolia and the Russian Federation. Agriculture is a major export for countries such as Thailand and Indonesia, as well as for many low-income countries in the region.

China is still not specialized in sophisticated hi-tech products, for which the high-income economies of Japan, the Republic of Korea and Singapore are the largest exporters and are therefore best placed to benefit.

> *Technology-intensive intermediate-input exports present a substantial opportunity for middle-income economies*

Technology-intensive intermediate-input exports currently present a substantial opportunity for middle-income economies, as well as a possible future challenge. They are mainly intermediate inputs for China's production of technology-intensive final goods.

In 2005, China's imports of intermediate goods accounted for over 50% of its imports from a number of Asia-Pacific trading partners (see table 2.4). Viet Nam was an exception among China's trading partners as only 12% of its exports to China were intermediate products. Relatively technology-intensive intermediate goods, as seen through the imports of parts and components, constituted the majority of intermediate imports from middle-income countries. China's exports of intermediate goods to countries in the region were also high, generally accounting for close to 50% of the total (table 2.5). However, imports of intermediate goods from middle-income economies – with the exception of Thailand – strongly outweighed the export of intermediate goods to these economies. China's imports of final goods from its regional trading partners were distinctly smaller than its imports of intermediate goods except for Viet Nam, ranging from 13% for Malaysia to 38% for Singapore. China's exports of final goods were relatively high, ranging from 34% of total exports to the Philippines to 49% of total exports to Singapore.

Table 2.3. Potential and direct export competition with China, 2001-2005

Product	Potential	Direct
Apparel	Indonesia, Philippines	Mongolia
Electrical machinery	Republic of Korea, Malaysia, Thailand	Indonesia, Japan, Singapore, Philippines, Mongolia
Machinery and appliances	Indonesia, Japan, Malaysia, Philippines, Singapore, Thailand, Russian Federation	
Plastics	Japan, Republic of Korea, Singapore, Thailand	

Source: ESCAP APTIAD database, 2006.

Table 2.4. Intermediate goods are the main export of middle-income Asia-Pacific economies to China: China's imports by stages of production from selected countries, 2000 and 2005

(Per cent of total merchandise imports)

	Indonesia		Malaysia		Philippines		Singapore		Thailand		Viet Nam	
	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005
Primary goods	27.3	29.3	9.9	5.4	4.6	1.4	0.4	0.2	11.5	10.0	88.0	76.0
Intermediate goods	66.7	54.5	76.1	81.9	74.4	75.9	59.6	61.6	72.4	58.5	8.0	11.7
Semi-finished	60.2	45.9	34.2	20.3	14.8	1.9	26.2	23.6	41.9	29.3	7.2	9.4
Parts and components	6.5	8.6	41.9	61.6	59.6	73.9	33.3	38.0	30.5	29.2	0.7	2.3
Final goods	6.0	16.3	14.0	12.7	21.0	22.7	40.0	38.2	16.0	31.6	4.0	12.3
Capital goods	3.5	10.9	10.5	9.9	16.0	20.9	21.7	20.4	7.8	24.6	0.4	3.1
Consumption goods	2.5	5.3	3.5	2.8	5.0	1.9	18.3	17.8	8.2	6.9	3.6	9.2

Source: United Nations Statistics Division, United Nations Commodity Statistics Database (UNCOMTRADE).

Note: Classification using the Broad Economic Category (BEC) classification of the United Nations Statistics Division.

Table 2.5. ... and distinctly outweigh China's exports of intermediate products to these countries: China's exports by stages of production to selected countries, 2000 and 2005

(Per cent of total merchandise exports)

	Indonesia		Malaysia		Philippines		Singapore		Thailand		Viet Nam	
	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005
Primary goods	14.3	7.9	10.9	3.1	8.4	4.5	1.7	1.6	10.3	1.3	3.8	1.8
Intermediate goods	41.7	50.3	44.7	54.8	56.8	61.6	47.3	49.8	62.4	64.1	41.7	59.9
Semi-finished	27.9	35.5	21.7	19.4	29.1	9.1	16.5	14.8	35.4	41.8	36.5	50.9
Parts and components	13.8	14.9	23.0	35.4	27.8	52.5	30.8	35.1	27.0	22.3	5.2	9.0
Final goods	44.0	41.7	44.5	42.2	34.8	33.9	51.0	48.6	27.3	34.6	54.5	38.3
Capital goods	16.3	16.7	22.1	25.2	10.8	14.3	21.4	27.3	17.2	23.3	7.5	12.5
Consumption goods	27.7	25.0	22.4	17.0	24.0	19.6	29.6	21.3	10.1	11.3	47.0	25.8

Source: United Nations Statistics Division, United Nations Commodity Statistics Database (UNCOMTRADE).

Note: Classification using the Broad Economic Category (BEC) classification of the United Nations Statistics Division.

Over the past five years, China has increased its exports share of technology-intensive intermediate goods to middle-income countries. These goods categories continue to represent a substantial net export opportunity for the region's middle-income economies, as reflected in their share of exports and imports.

This pattern shows that China is the hub for assembling technology-intensive products that are then exported as final exports to the region and the rest of the world. China thus appears to display a comparative advantage in labour-intensive assembly processes that convert intermediate inputs into final goods for onward export. China has definitely not yet moved up the technological value chain to specialize in technology-intensive intermediate goods; this presents an opportunity for other countries to export these goods to China.

Labour-intensive goods continue to account for many of China's main export subsectors

China's exports to third markets present considerable challenges to labour-intensive products from regional economies. Although labour-intensive goods account for a declining share of China's exports, they nonetheless continue to account for many of the country's main export subsectors, such as apparel, knitted clothes, furniture, toys and footwear. Low-income countries in the region depend on unskilled labour-intensive manufactured exports, particularly in textiles and apparel (table 2.6). Until recently, they benefited from quotas on Chinese exports under the Multi-Fibre Agreement, which ended in 2005. Chinese textiles exports have since been restricted until 2008 by quota agreements with the European Union and the United States. Unless regional exporters can plan and implement strategies to counter them free trade in these goods may exert considerable challenges (box 2.1).

Meeting challenges – exploiting opportunities

ESCAP findings show that China's exports are still dominated by labour-intensive processes, even in technology-intensive subsectors. While China's exports to third countries indicate a growing presence in technology-intensive subsectors, ESCAP analysis of intra-industry trade within the region shows that China's role in technology-intensive exports is predominantly in the assembly of technology-intensive intermediate components from countries in the region. In this regard ESCAP analysis arrives at conclusions different from those contained in recent papers by Schott (2006) and Rodrik (2006), who propose that China's technology-intensive export structure indicates that it has rapidly moved up the ladder of technological sophistication. One reason for these different conclusions is that, in addition to considering China's export composition, ESCAP also evaluates the country's import composition. This additional information provides insights into China's prominence in assembly operations.

China's exports are still dominated by labour-intensive processes, even in technology-intensive subsectors

China's strength in labour-intensive production and processes is influencing export structures across the region. For high-income economies, such as Japan, the Republic of Korea and Singapore, China offers the opportunity to increase their export concentration in high-technology exports. For middle-income countries that are technology-intensive producers of intermediate inputs, such as Malaysia, Thailand and the Philippines, China's role as a hub for assembling technology-intensive products continues to offer considerable export opportunities. But competition is intense in low-skilled labour-intensive products in third markets, and China may be displacing regional competitors.

One of the reasons exporters are establishing bases in China is that it allows them to exploit economies of scale from the large domestic Chinese market. Exporting companies can benefit from economies of scale by both selling to the domestic market and exporting abroad. Similar conditions can be created for other countries by reducing trade barriers in the Asia-Pacific region, thereby increasing the size of the domestic Asian market for exporters based in the region. ASEAN, for example, represents a potential market of 500 million consumers. ASEAN countries could move rapidly to deepen and consolidate economic integration in order to form an integrated ASEAN common market and production base. This should lead to a true removal of trade restrictions, including tariff and non-tariff barriers (see the discussion on trade agreements in chapter 1).

Table 2.6. Low-income countries depend on unskilled labour-intensive exports: Export structure by relative factor intensities in selected economies, 2000 and 2004

(Per cent of total merchandise exports)

	China		Bangladesh	
	2000	2004	2000	2004
Agricultural resource intensive	6.6	4.0	8.5	9.8
Mineral resource intensive	6.3	5.8	0.3	0.8
Textiles/apparel	21.1	16.1	84.7	83.3
Other unskilled	18.5	14.5	3.6	4.9
Skill-intensive	15.9	17.2	0.4	0.7
Technology-intensive	1.3	42.1	2.5	0.4
	India		**Indonesia**	
	2000	2004	2000	2004
Agricultural resource intensive	14.1	10.7	12.5	19.2
Mineral resource intensive	22.9	30.3	30.9	25.6
Textiles/apparel	26.9	17.1	13.4	11.9
Other unskilled	5.1	4.5	13.2	11.5
Skill-intensive	14.0	19.3	11.0	13.0
Technology-intensive	14.8	17.0	18.4	18.5
	Pakistan		**Cambodia**	
	2000	2004	2000	2004
Agricultural resource intensive	13.4	11.7	3.8	2.9
Mineral resource intensive	1.8	3.5	0.0	0.0
Textiles/apparel	73.3	68.7	70.8	71.7
Other unskilled	6.5	9.6	4.4	1.9
Skill-intensive	1.1	1.9	20.1	23.0
Technology-intensive	3.7	4.5	0.4	0.4

Source: United Nations Statistics Division, United Nations Commodity Statistics Database (UNCOMTRADE).

Note: Classification based on Garnaut and Anderson (1980), Krause (1982) and Park and Park (1991).

> *Countries should create the conditions for a competitive and flexible economy*

Countries could benefit from their comparative advantages by creating the conditions for a competitive and flexible economy. Countries in the region need to sharpen their competitiveness in order to compete on a level playing field with China and other economies. A conducive business environment that enhances firm flexibility is crucial. Exporters need to have access to both hard infrastructure, e.g. in transport (ports, roads, airports), communications and energy, and soft infrastructure in terms of adequate financial sector facilities and simplified rules and regulations. Countries should also ensure flexibility by transforming their export structure, which would be done by giving priority to education, both basic and technical, with the level of sophistication depending on the development levels of the countries in question.

Some countries have coped with export competition by identifying niches within specific product groups. A useful case study of measures which can be taken to cope in the face of strong Chinese competition is contained in efforts made by the textiles and apparel sector after the full phasing out of the Multi-Fibre Agreement on 1 January 2005, and before the imposition of export curbs on China later that year. While many producers suffered declining exports, some

countries did better than expected. Cambodia identified an international niche in its production process by emphasizing socially responsible labour practices – a growing concern for developed country customers – and launched the "Better Factories Cambodia" project to enhance its labour standards, an important factor in maintaining its textiles and clothing exports. Sri Lanka weathered the new environment by focusing on quality products and innovation, particularly in the design and finishing of garments. It implemented a five-year strategy to shift from the low-end of the market to the middle and upper-end of the market (Kelegama, 2005).

Labour-intensive production in economies of the region may develop in response to rising wage costs in parts of China. Unskilled labour-intensive exports are very sensitive to labour costs. Wages have been rising in the southern coastal regions of China, where the majority of unskilled labour-intensive production has been based. The monthly average wage in southern China in 2006 was between $160 and $190, much higher than the $90-$110 paid for similar work in Viet Nam (JETRO, 2006). Although China has a large supply of low-cost unskilled workers, they are based further inland, and establishing production bases in these areas raises transport and other costs. There is some evidence of relocation of coastal production from China to lower wage-cost countries, such as Viet Nam and Cambodia. Countries creating a conducive business climate can hope to acquire the labour-intensive production that is becoming costly in parts of China.

This feature study raises important issues for further analysis. It has left aside the critical aspect of foreign investment in China's exports. Enterprises with some foreign participation account for the majority of China's exports. The interaction between the technology content of exports and foreign participation is of special importance. Policies towards foreign investment and technological transfer may become important in the technological upgrading of China's exports.

Box 2.1. Sri Lanka takes the initiative in textiles and apparel

Many analysts predicted that the full phasing out of the Multi-Fibre Agreement on 1 January 2005 would pose severe challenges for garment producers, exposing them to intense international competition. But Sri Lanka's garment industry formulated a comprehensive plan in 2002. A five-year strategy initiated by the Joint Apparel Association Forum analysed the strengths, weaknesses, opportunities and threats of the garment industry in the country. It recommended a strategy aimed at doubling turnover to $4.5 billion by 2007 (representing an annual growth of 12%); moving from being a manufacturer to a provider of a fully integrated service; increasing penetration in premium market segments; gaining recognition as a superior manufacturer in specific product categories; and consolidating and strengthening the industry to meet the challenges of a quota-free era.

Although the growth of apparel exports has not reached the annual target of 12%, exports have nonetheless been steadily increasing. Large and middle-sized firms have established strong marketing links with buyers and entered the branded and high-value clothing markets. Developing a niche as a quality garment producer presents distinct industrial advantages. Labour standards and factory conditions have improved considerably, and compliance with international labour and environmental standards has helped the industry comply with the ethical requirements of the buyers. Efforts are currently being undertaken to diversify into high value-added products with improved technology. The threats to the garment industry are still real – but so is the optimism.

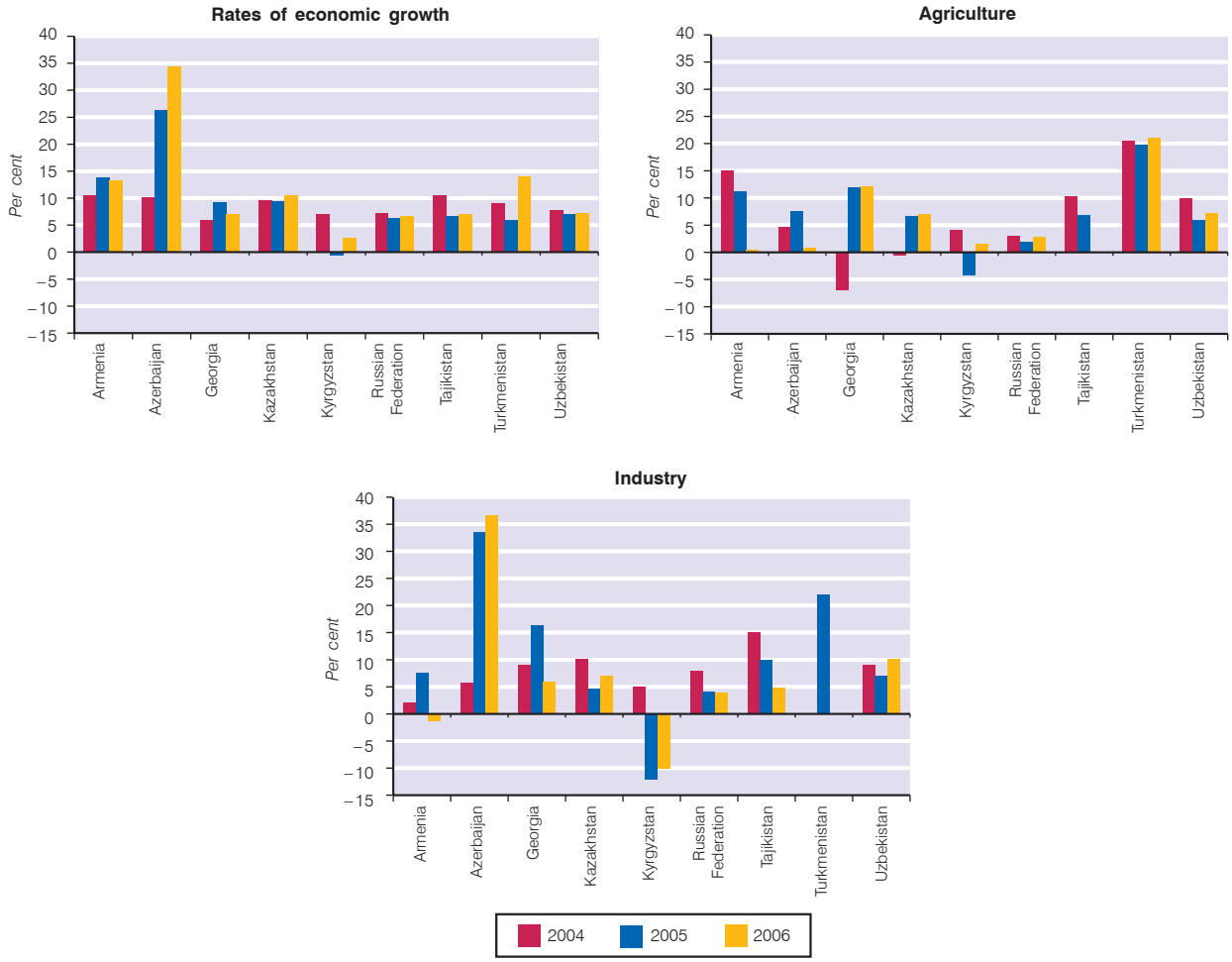
Sources: Kelegama (2005); and Institute of Developing Economies (2006).

North and Central Asia – oil and gas fuel spectacular growth

As oil prices soared, so did the gross domestic products of the oil and gas exporters in North and Central Asia, transforming it into one of the world's fastest growing regions. Heading the pack was the world's fastest growing country, Azerbaijan, which is estimated to have grown at the spectacular rate of 34.5% in 2006 (figure 2.8). The other major oil and gas exporters in the subregion also posted rapid expansions: Kazakhstan grew by an estimated 10.5%, the Russian Federation by 6.7% and Turkmenistan by 14%.

As the hydrocarbon sector grew, so did the demand for services and investment. In the Russian Federation, fixed capital expenditure grew by 13.5% in 2006 (year-on-year). There was also more demand for services. Retail trade grew by 13.5% in Azerbaijan, 13.0% in the Russian Federation in 2006, and 23.4% in Turkmenistan during the first half of 2006.

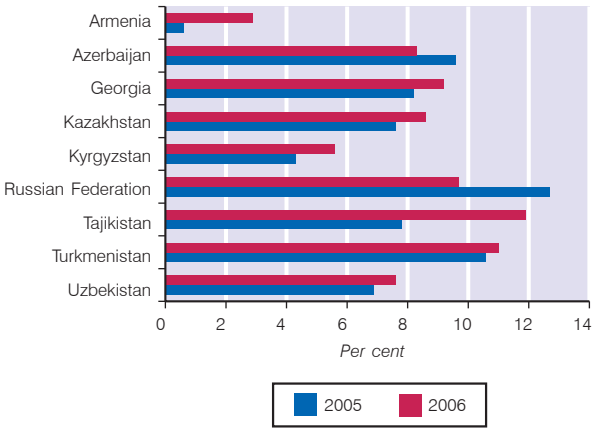
Figure 2.8. Azerbaijan leads the pack



Sources: ESCAP, based on data obtained on the website of the Interstate Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com>, 26 February 2007; ESCAP estimates; and national sources.

Notes: Growth rates for 2006 are estimates. Agricultural growth rates for Turkmenistan refer to January-September.

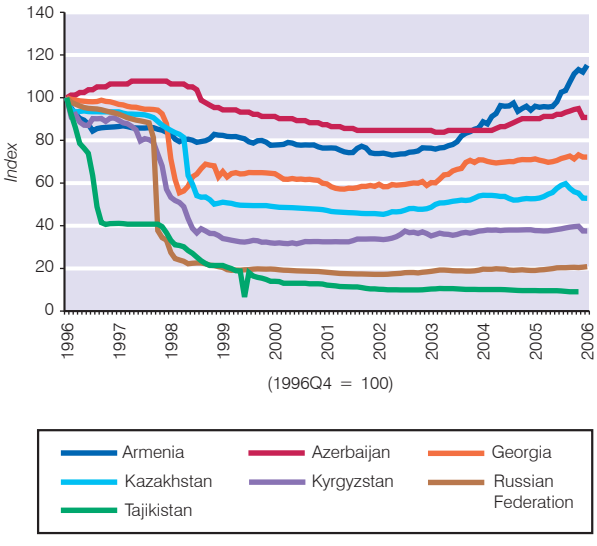
Figure 2.9. Inflation – generally high and rising



Sources: ESCAP, based on data obtained on the website of the Interstate Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com>, 26 February 2007; and ESCAP estimates.

Notes: Inflation rates refer to percentage changes in the consumer price index. Data for 2006 are estimates.

Figure 2.10. Oil and gas revenues pushed some currencies higher against the dollar



Sources: International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, September 2006); and *The Economist* databases.

Note: Data for 2006 are estimates.

> *Another year of sustained high economic growth performance*

Growth was also strong elsewhere in the subregion:

- Armenia grew by 13.4%, owing mainly to a construction boom.
- Georgia's economic expansion continued, with 7.0% growth.
- Uzbekistan continued its strong economic performance, growing by an estimated 7.3% in 2006.
- Tajikistan's GDP is expected to have increased by 7.0%.
- Kyrgyzstan is expected to have expanded by a modest 2.7%, owing to positive trends in agriculture, construction and trade – reversing the decline in 2005.

High and rising inflation widespread

Monetary policy was generally targeted at stabilizing currencies and containing inflation, which was generally high and rising (figure 2.9). For non-oil exporting countries, such as Georgia and Tajikistan, rising oil prices and lax monetary policy in the first half of the year contributed to an increase in inflation. For oil and gas exporters, the substantial increase in export revenues contributed to inflation, while at the same time pushing currencies higher against the dollar (figure 2.10). Higher oil prices, the rapid growth in the oil sector and rising real exchange rates for the region's oil exporters raised concerns about the possible occurrence of "Dutch disease" (see box 2.2).

> *Export revenues contributed to inflation*

The exception was Armenia, where consumer price inflation rose by a modest 2.9% in 2006. One reason has been the willingness of the authorities to allow the national currency, the dram, to appreciate significantly. Since the end of 2003, the value of the dram increased by more than 40% in United States dollar terms, owing mainly to a substantial increase in remittance flows into the economy. Although the appreciation of the dram kept prices down, it hurt local exporters and Armenian citizens dependent on external remittances for daily expenses.

Box 2.2. Is there evidence of "Dutch disease" in North and Central Asia?

Economic progress in the oil-exporting countries of North and Central Asia has been very impressive over the past five years, mainly driven by high oil prices since 2001. However, there are concerns regarding the forces behind the economic success, especially in Azerbaijan, Kazakhstan and the Russian Federation.

High economic growth and record current account surpluses are presenting challenges for subregional Governments on how they should handle rising inflation, resulting from huge foreign currency inflows, which in turn increased money supply and led to an appreciation of national currencies in real terms. As this could cause a decline in non-oil sector exports, concern has been voiced that these economies are affected by "Dutch disease".

In general, "Dutch disease" creates unbalanced growth in the booming hydrocarbon export sector, at the expense of the tradable goods sector. Non-tradable sectors, such as retail trade, restaurants, hotels and construction, have also flourished as a result of additional spending of oil wealth. The prices of non-tradable goods are expected to rise and the real exchange rate is expected to appreciate. The resultant real appreciation of currency will affect the competitiveness of the tradable goods sectors, particularly exports.

In the Russian Federation, the increase in oil prices has led to a surge in trade and current account surpluses. High inflation has resulted in a real effective appreciation of the rouble by more than 50% between 2000 and 2006, leading to reduced profit margins in the industrial sector. However, the structure of the economy has not changed over time. The share of industry and services in GDP remained relatively unchanged between 2000-2005, and the strongest industrial sector growth has been registered in the construction sector, whose share in GDP increased from 6.6% in 2000 to 7.4% in 2004. Manufactured and agricultural exports remained relatively competitive in 2000-2005. However, the share of manufactured exports in total merchandise exports declined to 24.1% in 2005 from 30% in 2000.

Azerbaijan's current account was in a slight deficit in 2001 but turned around to a 1.3% of GDP surplus in 2005 owing to large inflows of oil export revenue. The national currency, the manat, appreciated 7.2% in real terms in 2006, as compared with 2005. The Government allowed the exchange rate to appreciate in nominal terms against the United States dollar in order to restrain the expansion of the money supply and keep inflation under control. As a result, the real effective exchange rate remained below its level in 2000. The share of the industrial sector in Azerbaijan's economy increased from about 40% of GDP in 2000 to more than 60% in 2005, and industry has been the main contributor to the country's economic growth. Azerbaijan's export revenues grew by about 2.5 times between 2000-2005 owing to increased demand for crude oil and refined products. Oil products remained the country's largest export and accounted for 85.1% of total export revenues in 2000 and 76.8% in 2005. Manufactured goods accounted for 7% of merchandise exports in 2000 and 12.4% in 2005.

High inflation in Kazakhstan from 2000 to 2004 forced the Government to shift its priority from focusing on exchange rate policy to maintaining price stability. The real effective exchange rate appreciated significantly during this period. High oil prices in the meantime led to a doubling of merchandise export revenues between 2000 and 2004. Greater reliance on hydrocarbon resources has adversely affected the structure of the economy of Kazakhstan and has exacerbated the differences between the oil and non-oil sectors. Between 2000 and 2005, the contribution of agricultural and industrial sectors to GDP fell by 2 and 1 percentage points, respectively. The construction sector benefited from the effects of rapid oil sector growth. Its share in GDP increased from 5.3% in 2000 to 6.2% in 2004. In the exports sector, oil remained the country's principal export, its share in total export revenues increased from 52% in 2000 to 64.7% in 2004. And the share of manufactured exports in total merchandise exports fell from 31.8% in 2000 to 24.2% in 2004, reflecting the impact of oil-led currency appreciation on this sector.

(Continued on next page)

Box 2.2 *(continued)*

All three Governments undertook tight monetary and fiscal policies along with other macroeconomic measures to address symptoms of "Dutch disease". Relevant measures have been undertaken to keep macroeconomic fundamentals within permissible limits and create stabilization funds to sterilize a large part of oil revenue. The State Oil Fund of Azerbaijan (SOFAZ) set aside a share of the oil profits for long-term investment in public infrastructure and social welfare projects. Through the Fund, the Government is expected to develop the economy, particularly the non-oil sector, build up the country's infrastructure and reduce poverty, as well as improve the country's business climate. The Russian Federation's stabilization fund was expected to reach more than $90 billion by the end of 2006 in order to meet the Government's commitments to the pension fund and pay its outstanding debt to the Paris Club of leading creditor countries ahead of schedule. The National Oil Fund of Kazakhstan had assets in excess of $14 billion by the end of 2006 and used some of them to reduce its foreign debt.

The above analysis on the economic situation of the net oil-exporting countries in North and Central Asia shows that there is some evidence of "Dutch disease" in Azerbaijan, Kazakhstan and the Russian Federation. However, Azerbaijan seems to have successfully avoided "Dutch disease" through its tight monetary policy and effective sterilization of hard-currency inflows into the stabilization fund. The Russian Federation shows some signs of "Dutch disease". However, the country has the largest and most diversified economy of all the countries in the subregion, and is therefore much less dependent on oil exports. Kazakhstan seems to rely more heavily on the export of hydrocarbon resources than other countries in the subregion and derives a large portion of its GDP from oil and gas revenues. It is therefore likely that "Dutch disease" will represent a more serious issue for the country's economy.

Current account surpluses for oil exporters – workers' remittances boost external revenues for others

Again, rising oil and gas revenues dominated the current accounts of the major hydrocarbon exporters. Azerbaijan is expected to record a surplus of 11.2% of GDP (table 2.7).

> *Higher revenues from oil and gas contributed to current account surpluses*

In Kazakhstan, where income payments abroad kept the 2005 current account in deficit, higher oil prices increased the trade surplus from $7.9 billion recorded in the first nine months of 2005 to $11.0 billion during the corresponding period in 2006. As a result of better exports, the current account was estimated to have moved into surplus in 2006.

The Russian Federation expected a current account surplus of 10% of GDP in 2006, owing mainly to a rise in the foreign trade surplus.

Turkmenistan was expected to keep its current account in surplus, with export earnings up by 9.6%, to $4.9 billion. Uzbekistan expected a current account surplus of 10.7% of GDP, owing to a large trade surplus and an increase in workers' remittances from abroad. Armenia, Georgia, Kyrgyzstan and Tajikistan were also helped by remittances from workers abroad.

Foreign direct investment flows in

Foreign direct investment (FDI) is an important contributor to the balance of payments in North and Central Asian economies, most of it flowing into hydrocarbons. Azerbaijan received $4.5 billion in FDI in 2005, while oil and gas in Kazakhstan attracted over one half of gross FDI inflows in the first quarter of 2006.

> *There has been a large inflow of FDI into oil-producing countries*

Foreign direct investment in the Russian Federation reached more than $20 billion in the first nine months of 2006 alone, reflecting new opportunities for entre-

preneurs active in special economic zones, concessions and other government business development initiatives. However, it is expected that regulations restricting foreign investment in strategic enterprises will be prepared in the course of 2007. Capital inflows were significantly weaker in the non-oil exporting economies.

Foreign debt burden eases

In August 2006, the Russian Federation paid off the final installment of its $23 billion debt to the Paris Club of creditor countries. An agreement with the Paris Club enabled it to repay its foreign debt ahead of time, saving around $7.7 billion in debt service.

External debt ratios show marked improvement

Kyrgyzstan's external debt of about $2 billion in 2006 was equivalent to 90% of its GDP. It was expected to apply to IMF and the World Bank for assistance under the enhanced heavily indebted poor countries (HIPC) initiative and reduce its foreign debt by $1 billion in

Table 2.7. Summary of external accounts for North and Central Asian economies, 2005-2006

(Per cent)

	Exports/GDP		Imports/GDP		Current account balance/GDP	
	2005	2006	2005	2006	2005	2006
Armenia	19.4	17.5	36.1	37.7	–3.9	–5.6
Azerbaijan	34.8	64.0	33.7	26.0	1.3	11.2
Georgia	..	..	..	..	–11.7	–10.0
Kazakhstan	50.1	83.0	31.2	48.2	–0.9	0.2
Kyrgyzstan	38.6	51.8	57.2	85.8	–8.4	–12.8
Russian Federation	31.9	..	18.0	..	10.9	10.0
Tajikistan	..	..	..	..	–0.8	2.6
Turkmenistan	..	..	..	..	1.9	2.6
Uzbekistan	..	..	..	..	10.1	10.7

	Growth rate (per cent)					
	Exports			Imports		
	2004	2005	2006	2004	2005	2006
Armenia	6.0	36.2	–1.1	5.8	33.2	19.7
Azerbaijan	42.6	104.4	94.1	31.5	21.4	17.2
Georgia	31.4	34.8	20.7	36.7	33.8	56.3
Kazakhstan	55.7	37.4	39.0	44.6	30.1	32.0
Kyrgyzstan	24.2	33.3	16.3	24.9	98.7	47.0
Russian Federation	34.8	32.9	28.7	28.0	28.7	36.2
Tajikistan	14.8	15.9	55.8	56.1	97.0	28.9
Turkmenistan	6.6	27.6	9.6	32.2	9.6	5.3
Uzbekistan	32.4	14.9	11.8	27.2	13.1	15.3

Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); website of the Economic Commission for Europe, <http://w3.unece.org/pxweb/Dialog/Saveshow.asp>, 12 December 2006, and *Economic Survey of Europe*, 2005, No. 2; website of the Interstate Statistical Committee of the Commonwealth of Independent States, <www.cisstat.com>, 12 December 2006; and ESCAP estimates.

Notes: Data for 2006 are estimates. Trade figures for 2006 refer to January-September, except for Turkmenistan and Uzbekistan whose estimates are for the whole year. All import data are expressed in f.o.b. Exports/GDP and imports/GDP for 2006 refer to the first three quarters.

2006. Tajikistan improved its debt-GDP ratio from 90% in 2000 to 32% in September of 2006 after bilateral restructuring agreements with the IMF, the Russian Federation, Pakistan and the Islamic Republic of Iran. The World Bank was expected to write off more than $300 million of Tajikistan's debt in 2006. The gross external debt of Georgia amounted to $1.7 billion by mid-2006, equivalent to about 23% of GDP.

Medium-term prospects are strong

Prospects in North and Central Asia remain strong and growth should continue in 2007-2008. But because it is a major commodity-exporting region, those prospects depend on trends in global commodity prices. The Russian Federation's performance (the subregion's largest trading partner and an important investor in the economies of the region) will also be important.

> *Strong growth momentum is to be maintained*

Strong domestic demand and increased oil and gas production should enable the Russian Federation to continue its expansion in 2007-2008. Annual GDP growth rates could average more than 5%. Inflationary pressures could accelerate due to a surge in fiscal expenditure, increased inflows of foreign exchange and domestic demand. Because growth has so far largely been due to the modernization of older factories, further institutional reforms are necessary to attract new investment to sustain growth.

Robust growth is expected to continue in other oil-exporting countries. As discussed in box 2.2, "Dutch disease" could pose some challenges.

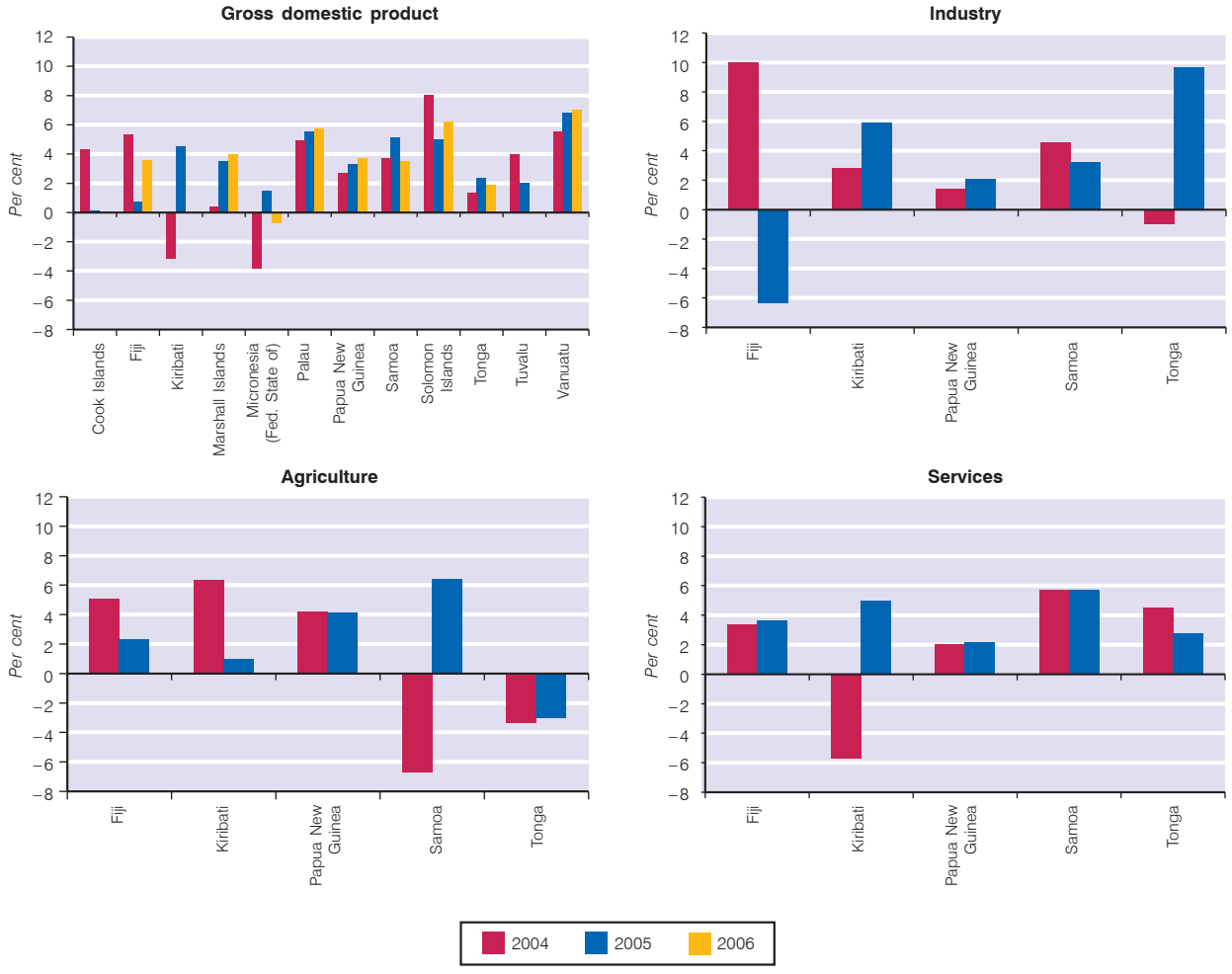
- Azerbaijan is forecast to grow by 30% in 2007, its main policy challenge will be to maintain macroeconomic stability.
- Kazakhstan is expected to achieve 10% GDP growth in 2007. The sharp rise in GDP and the steady increase in the inflation rate both suggest that the economy may be "overheating".
- Turkmenistan's annual GDP growth is forecast at around 8% in 2007-2008, and inflation has already risen to double digits. To ease inflationary pressure and reduce risks of a downturn in fuel prices, it may be prudent to pursue a moderate fiscal policy and a tough monetary policy.
- GDP growth in Armenia is expected to remain at 8% in 2007.
- Tajikistan is expected to grow by 7% in 2007.
- Kyrgyzstan expects the investment climate to improve and GDP growth to increase to 6% in 2007. As the economy stabilizes and growth picks up, inflation could rise, boosted by rising inflows of workers' remittances.
- Uzbekistan's average annual GDP growth in 2007-2008 is expected to be higher than in 2006, owing to favourable trends in global commodity prices.

Pacific island countries – robust growth, continuing challenges

The economies of Melanesia – Fiji, Papua New Guinea, Solomon Islands and Vanuatu, together with New Caledonia – grew strongly despite their internal and external challenges (figure 2.11).

Before the political impasse late in 2006, real GDP growth in Fiji was projected to pick up from an estimated 0.7% in 2005 to 3.6% in 2006. The services sector dominated growth and expansion was registered in construction, electricity, water, transport, communication and finance, which all performed well on the back of a strong tourism sector. On the demand side, economic growth in Fiji was largely driven by increased consumption (financed from credit and re-

Figure 2.11. Real GDP and sectoral growth in selected Pacific island economies, 2004-2006



Sources: ESCAP, based on national sources; Department of Treasury and Planning, Papua New Guinea, *2006 National Budget* (Port Moresby, November 2005); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006).

Notes: Growth rates for 2006 are estimates. Fiji's economic growth refers to real GDP at factor cost. Industry comprises mining and quarrying; manufacturing; electricity, gas and power; and construction.

mittances) and investment in resort and retail centre development. Inflation remained fairly low, reflecting the fixed exchange rate anchor on prices, modest wage demands and good supply conditions for local produce. Real GDP growth was expected to slow to 2% in 2007 as construction of resort hotels by the private sector tapers off. Uncertainties associated with the political impasse, however, may push this number lower, especially if tourist numbers fall.

Economic growth in Fiji was largely driven by increased consumption and investment in resort and retail centre development

Real GDP in Papua New Guinea rose by an estimated 3.7% in 2006 as higher commodity prices and better weather bolstered the mining and agriculture sectors. As a result, the primary sector's share of GDP, which includes mining, continued to rise, although actual mining output fell. The expansion of the country's primary industry is set to continue. Two new gold mines started operations in 2006. The Queensland-Highland gas project, which involves the construction of a gas pipeline to northern Australia, is expected to offset declining proceeds from the oil sector. Growth in real GDP is expected to increase to 4.5% in 2007.

Real GDP in Solomon Islands was expected to rise from 5% in 2005 to 6.2% in 2006 despite the riots that occurred following the general election in April 2006. Log exports accounted for two thirds of total exports, 14% of tax revenue and 10% of GDP. Since the harvest of 1.1 million cubic metres in 2005 is considered unsustainable, new sources of private sector growth are now considered essential for the country's economy. The inflation rate in 2006 remained at 7%, the same average rate as in 2004 and 2005.

Real GDP growth in Vanuatu was estimated at 7% for 2006, up slightly from 2005. As in Fiji, tourism has been important for growth as it generates three quarters of export earnings and accounts for one sixth of the economy.

Micronesia comprises Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru and Palau, together with the Commonwealth of the Northern Mariana Islands and Guam. Economic activity consists primarily of subsistence farming and fishing, in addition to public sector activities.

- Real GDP in Kiribati rose by more than 4% in 2005 owing to strong growth in the services sector. The government sector accounted for slightly less than half of real GDP, followed by agriculture, including fisheries and seaweed production, construction and wholesale and retail trade.
- Real GDP in the Marshall Islands rose from 3.5% in 2005 to 4.0% in 2006 owing to an expansionary fiscal stance and improvements in agriculture. However, high government wages and public sector employment discourage private sector growth, and nearly a third of the labour force is unemployed. As a consequence, the government sector (centred predominantly in Majuro and Ebeye) accounts for more than 70% of GDP, and economic activity is vulnerable to fluctuations in government expenditure and external grant flows.
- Real GDP growth in the Federated States of Micronesia declined from 1.5% in 2005 to –0.7% in 2006. The medium-term economic outlook appears fragile owing to reductions in United States assistance, as well as slow public sector growth.
- Economic activity in Palau rose by an estimated 5.5% in 2005 owing to an increase in visitor arrivals, with the start of new airline routes and externally funded government projects.

Real GDP growth in Tonga slowed as a result of the downsizing of government services

Polynesia comprises Samoa, Tonga and Tuvalu, together with American Samoa, the Cook Islands, French Polynesia and Niue.

- Real GDP in Samoa grew by 5.1% in 2005, the highest rate since 2001. Agricultural production picked up from the devastation by Cyclone Heta, while construction, commercial and tourism activities were strong as Samoa prepared for the South Pacific Games. But real GDP growth still slowed in 2006.
- Real GDP growth in Tonga slowed from 2.3% in 2005 to an estimated 1.9% in 2006, and is forecast to slow even further to 0.9% in 2007 with the downsizing of government services. The political violence in November 2006 also hurt growth, especially in sectors linked to the already stagnating tourism sector.

External sector set to gain from the partnership with the European Union

The Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Papua New Guinea, the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu negotiated an Economic Partnership Agreement with the European Union in November 2006. Parties to the agreement endorsed the appointment of a Chief Trade Negotiator to represent these countries in negotiating free trade agreements with Australia and New Zealand. They also requested the Pacific Islands Forum Secretariat to implement recommendations on trade with China and Japan, and asked the Forum Representative to the WTO to work closely with other WTO Members to ensure that fisheries access fees were not considered as subsidies.

> *Exports in Fiji were hit by the sharp decline in garment exports following the expiry of the Multi-Fibre Arrangement*

Fiji. Exports were hit by the sharp decline in garment exports following the expiry of the Multi-Fibre Arrangement and the long-term fall in sugar production (table 2.8). Business and unit labour costs have remained high when compared with other garment-manufacturing countries; and establishing niche markets for specialized products requires greater expertise in product design and marketing. Import values have increased owing to higher petroleum prices, more import of materials and equipment for construction of resorts and office buildings and growth in consumption financed by credit and remittances. Remittances from expatriate Fijians working abroad as nurses, teachers and army and security personnel rose sevenfold between 2000 and 2005.

Papua New Guinea. Even with the liberalization of trade and exchange controls, restoration of confidence kept the balance of payments in surplus in 2006. As a result, the kina appreciated by 15% against the United States dollar. The Government announced temporary tariff increases on some imports after industry calls for tariff reforms to be abandoned. Gross international reserves reached a record $1.2 billion in September 2006.

Solomon Islands. Imports increased sharply in 2005 with the rising cost of fuel, price increases in machinery and transport equipment for aid-related projects and the relaxation of foreign exchange controls. Foreign exchange reserves rose to the equivalent of 5.7 months of imports of goods and non-factor services in June 2006. Agreements between the Solomon Islands and the Honiara Club in 2005 helped to reduce its debt service burden.

Table 2.8. Summary of external accounts for selected Pacific island economies, 2005-2006

(Per cent)

	Growth rates				Current account balance/GDP	
	Exports		Imports			
	2005	2006	2005	2006	2005	2006
Fiji	−6.8	−11.3	2.6	13.2	−17.1	−6.2
Papua New Guinea	28.4	15.0	4.6	−12.2	13.1	4.5
Samoa	0.9	−15.0	20.9	21.9	−7.5	..
Solomon Islands	33.6	20.7	51.6	17.5	0.7	−15.8
Tonga	15.9	−0.6	27.3	8.2	−4.8	−6.2
Vanuatu	14.3	..	14.1	..	−11.3	−8.8

Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006).

Notes: Data for 2006 are estimates. Trade figures for 2006 refer to January-March for Papua New Guinea, January-June for Fiji, January-October for Samoa and whole fiscal year for Tonga. Trade figures for Tonga are preliminary estimates for 2004 and 2005 and projections for 2006. Import values are in f.o.b. for Samoa and Vanuatu. Current account balance for 2006 refers to March for Fiji.

Vanuatu. Agricultural exports declined in 2005 with falls in coconut oil, cocoa and copra output. Although Vanuatu has the largest coconut production and processing capacity among Pacific island countries, its output has declined because of an industrial dispute that forced the closure of its main processing mill. Cocoa exports also fell as a result of a decline in export prices. The tourism sector and financial inflows to purchase real estate were major sources of foreign exchange.

> *The tourism sector and financial inflows to purchase real estate were major sources of foreign exchange for Vanuatu*

Micronesia. The limited scope for export diversification has led to significant trade deficits in Micronesia.

- Exports from *Kiribati,* consisting mainly of aquarium fish, copra, seaweed and bêche-de-mer (sea cucumber), covered 5% of its food, machinery and transport equipment and mineral fuels imports. Property income credits and current transfers from the official sector reduced the overall balance of payments deficit.
- *Marshall Islands* exports consist of coconut oil, fish and re-exports of diesel fuel to fishing boats. Nearly all raw materials and consumer and capital goods are imported. The trade deficit widened in 2005 with higher import growth.
- In the *Federated States of Micronesia,* food and beverage imports accounted for nearly a third of total imports in 2004. Major exports included offshore fish, garments and betelnuts to the United States, Japan and Guam.
- Primary imports to *Palau* were machinery, fuels, food and chemicals from the United States, Singapore, Guam and Japan. Foreign direct investment into the country was negatively affected by a ban on foreigners owning land or using it as collateral and the requirement that one fifth of all employees should be Palau nationals.

Samoa. As a result of the robust economic activity in the largely externally financed construction sector and the public sector wage hikes, imports to Samoa increased rapidly. In 2005, the merchandise trade balance worsened. Exports of noni juice, which represent a quarter of Samoan exports, also increased, while fish exports declined. Remittances to Samoa increased by a quarter in 2005 and accounted for a quarter of GDP, while tourism receipts accounted for another sixth of GDP. Even so, both the current account and the overall balance of payments showed deficits at the end of 2005. The balance of payments deficit increased during the first quarter of 2006, and foreign exchange reserves fell to 3.7 months of import coverage.

Tonga. Exports of agricultural and fishery products, representing more than three quarters of all exports, recovered in 2006. Tonga relies heavily on remittances to finance its balance of payments. In order to maintain foreign exchange reserves at a level above the equivalent of three months of import cover, the exchange rate of the pa'anga is periodically adjusted by up to 5% per month relative to its currency basket. The stability of the nominal exchange rate since 2004 suggests a real appreciation of the pa'anga as it has a higher inflation rate relative to its main trade partners.

Tuvalu. Exports covered less than 1% of imports, which are mainly composed of fuel, prepared foodstuffs, machinery, live animals and vegetables from Australia, Fiji, New Zealand and Japan.

Impact of higher oil prices

High oil prices pose considerable challenges for policymakers in Pacific island countries. For Papua New Guinea, which is both a producer and refiner, high oil, copper and gold prices have boosted government revenues. In previous commodity booms, revenue windfalls were seldom well managed, and recurrent expenditures rose to unsustainable levels. In this cycle, however, Papua New Guinea is devoting most of its revenue – beyond those amounts allocated in the 2006 budget – to investments in transport infrastructure, education, health, law and justice. In the 2007 budget, the windfall revenues expected from high copper and oil prices will be spent on equity injections into State-owned enterprises and natural gas pipeline projects, and repayments of public debt.

> *Papua New Guinea is devoting most of the revenue windfalls from high oil prices to investments in transport infrastructure, education, health, law and justice*

But for other Pacific island countries, high oil prices have reduced their terms of trade and led to a deterioration in their trade balances and current accounts.

The 250% rise in the price of West Texas Intermediate petroleum has translated into sharply higher import bills and to higher costs for businesses and consumers, thereby reducing incomes and stoking inflationary pressures. And the cost of international air travel is rising just as tourism was beginning to improve in several Pacific countries.

Fiji, Samoa and Tonga have absorbed the fuel price increase by reducing their foreign exchange reserves. The Solomon Islands and Vanuatu have kept their reserves steady, thanks to aid inflows and limited reliance on imported oil. None of the five countries have devalued their currencies to lessen any negative impact on their terms of trade. To reduce demand for imports Fiji, Samoa and Tonga have tightened their monetary policy by increasing interest rates or restricting liquidity. Such policies would, however, reduce the investment needed to promote economic growth.

Pacific island countries have begun to focus on alternative sources of energy, such as biofuels, solar and wind power and hydropower. A coconut oil-diesel fuel blend is being promoted as a biofuel substitute for electricity generation in Samoa and Vanuatu, while *bagasse,* a by-product of sugar production, is being used to generate electricity in Fiji. Wind and solar power could substitute for imported oil in smaller and more remote Pacific islands.

Policy research feature 2.2: The challenge of urbanization

Pacific island developing countries are urbanizing at an alarmingly rapid pace, as can be seen in cities from Port Moresby to Majuro, and from Suva to Koror. In Guam 93% of the population live in towns because there is no land left for other activities (figure 2.12). Kiribati's annual population growth, a staggering 5% a year, would double the urban population in 15 years – to more than 72,600, or more than two thirds of the national population of 108,800 then.

Urban poverty on the rise

Poverty – the preferred term in the subregion is hardship – is definitely on the rise. In early 2006, Tuvalu and Kiribati had to absorb returning citizens following the closure of the phosphate industry in Nauru. And the lack of access to basic services is severe in Port Moresby, Lae, Suva, Port Vila and Honiara. Without external assistance, countries have practically no capacity to deal with major health threats, such as HIV/AIDS, avian influenza and lifestyle diseases.

Among the hardest hit are the unemployed and landless. The subregion's unemployment rate is 25-35%,[3] suggesting that between 1.1 and 1.6 million people are unemployed at any given time, most of them in urban areas.[4] Other vulnerable groups include women, especially single mothers, youth, orphaned or abandoned children and elderly widowers without support.

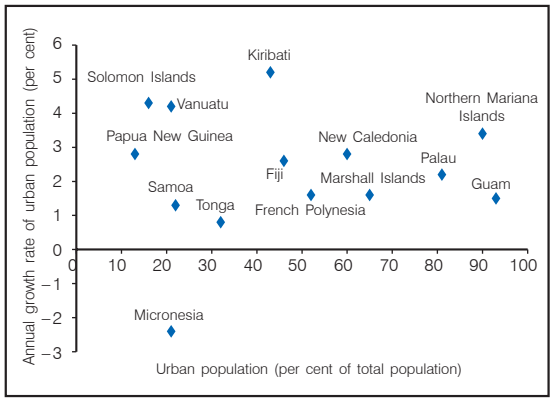
> *Without external assistance, many countries have no capacity to deal with major health threats, such as HIV/AIDS and avian influenza*

Underemployment and unemployment contribute to the growth of informal sectors, which have their own rules and livelihoods. A big issue is how Governments can support people and activities in the informal sector, while not whittling away the informality that keeps the parallel economy ticking.

In Fiji, urban poverty was estimated at 28% of the population in 1997, and in 2006 at 33-35%. In both Kiribati and Vanuatu, more than half of the urban population is considered to be poor (Storey, 2005, p.11). Urbanization's impact on infrastructure, utilities and housing is the most visible and controversial issue facing local authorities. A 2003 study by the Squatter Resettlement Unit in Fiji and the ESCAP Pacific Operations Centre found 82,350 people living in 182 squatter settlements in Fiji. The squatter population in Suva increased by 73% between 1996 and 2003. By 2006, it is estimated that there will be 90,000 people (10% of Fiji's population) living in informal settlements in the Suva-Nausori urban corridor (Jones, 2003, p. 11).

The quality of housing is low, and housing often has no access to municipal water and sewage systems. Most Governments and municipal authorities do not regard it their responsibility to provide housing for squatters in peri-urban areas outside town boundaries.

Figure 2.12. Moving to towns and cities



Source: Secretariat of the South Pacific Community, *Pacific Island Populations 2004* (Noumea, SPC)

[3] The percentage of the labour force (15-65-year-olds) not in regular waged work, whether or not they are actively looking for work.

[4] Computed from country statements presented at the EU/University of the South Pacific Regional Conference on Institutions, Globalization and their Impacts on Labour Markets in Pacific Island Countries, University of South Pacific, Suva, Fiji, October 2006.

> *Urbanization's impact on infrastructure, utilities and housing is the most visible and controversial issue facing local authorities*

Where housing is provided, as in Fiji, it only meets less than 2% of the demand for squatter houses. One survey found the average number of people per dwelling in poor households was 11.7 compared to 7.7 per household in high-income residential areas. In Vanuatu almost 80% of informal dwellers in some parts of peri-urban Port Vila rent their dwellings, and a rentier/landlord class has emerged. The Kiribati Housing Corporation estimates that 1,038 houses were needed to meet demand on South Tarawa, where around one third of the urban population is squatting (Eritai, 2003).

Effective institutions needed for urban planning and management

Towns and cities in the subregion have not only been badly planned but many have also been poorly managed since independence. Routine municipal tasks such as garbage collection are major achievements, not to speak of more complex activities such as awarding contracts for municipal projects and businesses. Some countries have proper legal frameworks in place, including town planning regulations and policies, but urban management and enforcement are pivotal.

> *Public utilities and infrastructure are creaking, schools are overcrowded, health facilities inadequate and land for housing is not readily available*

Most towns and cities are a patchwork. Public utilities and infrastructure are creaking under the weight of population demands for services. Schools are overcrowded, health facilities inadequate and land for housing is not readily available. The provision of affordable piped water, sewage systems, roads, electricity and communications infrastructure would have the greatest impact on the poor.

Land is scarce and not readily available for development because a large part of it is held under traditional kin ownership, as in Fiji.[5] Even where agreement has been secured to lease land, landowners keep pressing for higher rental prices, especially when investors appear to be making profits from the land. In urban areas in the subregion, land is needed for both settlement and commerce; for locating factories and building roads, health and educational facilities and other essential amenities for the bourgeoning urban populations. As long as prospects for change in the land tenure system remain dim, urban demand for land will not be met, and a comprehensive approach to urban planning and development will not be possible.

Because of the difficulties of servicing scattered communities, most commercial, financial and industrial activities are in one centre, usually in the capital and seat of government. Such concentration benefits urban centres, not least because of the economies and synergies that result, but it also contributes to congestion and an array of undesirable social and environmental costs.

Sub-centres, normally smaller towns, such as Ba, Labasa and Nadi in Fiji and Christmas Island in Kiribati, are essential service distribution nodes. They also provide other support to the main centre as residential corridors and industrial sites, as in the case of the towns of Lami and Nasinu, near Suva. In countries where populations are scattered over wide expanses of sea, sub-centres are essential. To work well as service distributors, sub-centres need to be well serviced from the centre, with proper infrastructure, including administrative and legal frameworks.

Land and the environment are under severe stress from the growing towns and cities. The small size of most of Pacific island countries, especially the atoll countries and their restrictive land tenure systems only makes matters worse, particularly in atoll countries where the land is degraded, water tables are polluted and exhausted and the foreshores eroded, increasing vulnerability to tidal surges. In Tuvalu, the use of foreshore material for construction over the past 20 years has removed protection against tidal surges in the country's only town. Lagoons in several atoll urban centres are also overfished, their carrying capacities exceeded several times over.

[5] A total of 88% of Fijian land is "native land", 7% is freehold and 5% is "crown land".

Policy analysis and conclusions

The first policy issue in tackling urban poverty is for national and municipal planners and decision makers to appreciate that economic policies have social impacts that can be measured at the level of the poorer households. Urban poverty is multifaceted, so holistic approaches are needed to resolve it. Successful pro-poor policies ensure that the poor are involved in all stages of developing policy, from formulation and implementation to monitoring and evaluation. The way informal communities organize themselves according to "wantokism" or "islandism"[6] has proved effective in securing results. Another aspect of poverty in Pacific island countries that is not usually cited is that "hardship" does not exist in squatter settlements only. In Samoa, there are no visible "squatter" settlements, yet families experience much hardship (Jones, 2003, p. 14).

> *"The multiple roles that Governments play in urban development as planners, regulators and service providers create duplication and confusion"*

Part of the problem lies in the multiple roles that Governments play in urban development as planners, regulators and service providers. The unclear demarcation of responsibilities and functions of government, local authorities and traditional governance institutions leads to duplication and conflict. In those countries where these functions are clearly defined, enforcement has sometimes been weak. For the informal sector a clearer understanding of the operation of governance mechanisms in squatter settlements could contribute to improved policy.

Many of the Pacific island countries have made some headway in merging imported decision-making structures with local governance institutions (Fiji's parliament and Great Council of Chiefs or Vanuatu's parliament and Chief's *nakamal*). In some countries, local institutions have been empowered to make laws and national law-making processes include requirements for all bills to be referred to traditional governing institutions before the legislature passes them into law. Public consultations on major policies, such as a national sustainable development strategy, are standard in some countries, although other countries in the subregion have yet to adopt them.

In many Pacific island countries, town planning concepts, such as "zoning" are often misunderstood and ignored. In small atoll countries, the limited amount of land makes it difficult to implement adequate land zoning for purposes other than residence. The result is a total disregard for urban planning regulations where they exist and an unsightly mish-mash of industrial and commercial activities in residential areas. The town planning function has been reduced to settling land boundary disputes and checking compliance with building codes – to the detriment of overall strategic planning and policy.

The responsibility for managing the provision and delivery of urban services is another issue that needs to be addressed. In some countries of the subregion local governments and municipalities are responsible, but cannot afford to provide the required infrastructure because they lack the necessary resources. A few countries have tried privatizing certain public infrastructure services formerly provided by the Government. Efforts to privatize power, water and telephones services proved profitable in Vanuatu and Fiji but most "squatter" dwellers still cannot afford them. However, these achievements are not easily replicated in other countries.

> *"Efforts to privatize power, water and telephones services proved profitable in Vanuatu and Fiji but most "squatter" dwellers still cannot afford them"*

Town planning and the planning process typically focus on the demarcation of town boundaries, the regulation of land use and the assessment of land and property values. Both legislation and practice are silent on what happens on the other side of the town boundary, which often directly affects the life of the town. In Fiji, the eviction of cane farmers after the non-renewal of farm leases led to the growth of marginal settlements in peri-urban areas outside many towns. Squatters could avoid municipal regulations, including local taxes, while continuing to enjoy the amenities towns offer.

[6] Wantokism or islandism is the practice of grouping according to a person's village of origin, language and culture. It takes precedence over nationalism.

Another related issue is that town planning and environment departments are separate entities in many local governments. So the critical link or impact of urban development activities on the economic, social and environment tends to be overlooked by both. The Millennium Development Goals urge the States Members of the United Nations to meet targets to provide secure tenure to at least 100 million slum dwellers by 2020 and to raise the proportion of urban and rural populations with access to improved sanitation and water.

All Pacific island developing countries need to develop a clearer vision of where they want their urban development to go in the future, how they might get there and who will be responsible for the different tasks. Policies aimed at poverty reduction could first aim at rehabilitating those in dire danger of losing their lives due to extreme poverty – and second at providing sustainable income-generating opportunities. Some of the key policy recommendations arising from this policy research feature are listed below:

Stronger urban institutions and governance

- Urban planning needs to be fully participatory, and urban planners should be accountable to the people affected by their plans.
- The roles and responsibilities of national and local authorities for urban planning and management should be more clearly defined and performed and monitored more diligently by the responsible authorities.
- Urban planning functions should be set up in national and local authorities and staffed by trained professionals. Town planning is linked to sustainable environmental development and the two functions should be integrated.
- Encourage greater use of communal modes of operation, including squatter community governance systems and consultations with all stakeholders.
- A national association of squatter settlers could be set up by squatter dwellers to voice their concerns more clearly in public and national policy arenas.
- Urban planning and policies could be made more realistic with better information and knowledge about towns and cities.

Improved access to housing, services and infrastructure

- Governments and NGOs can provide more active support to those prepared, on a self-help basis, to commit themselves to building dwellings in line with agreed housing and utility service standards.
- Building homes could become more affordable through the provision of simple and functional house designs and the use of appropriate technology, low-priced construction materials, community labour and affordable financing.
- Utility services, especially water and electricity, should be more affordable and more widely available in squatter settlements.
- The provision of housing and services could be privatized, with government subsidies being allocated to the poor.

Broader access to land

- Governments should support community efforts to secure access to land, including titles to land and dwellings in informal settlements.
- Consultations should be encouraged between landowners and tenants using traditional or local communication or negotiating channels to secure agreement on issues related to tenancy and land use.
- Lease and tenancy agreements need to be legally enforceable – and to ensure flexibility they should first be reviewed within a reasonable period of time, say within the lifetime of the lessor.

South and South-West Asia – growth momentum sustained

India maintained its growth momentum in 2006 with GDP growing at 9.2%, – a higher percentage than the 9.0% achieved in 2005 (figure 2.13). While there was some deceleration in agriculture, both industry and services performed well over the year. Having concluded that the country's physical infrastructure is not sufficiently developed to sustain high growth, the Government is therefore promoting large-scale infrastructural development projects. Rural infrastructure remains a key issue (see policy research feature 2.3).

> *India's impressive growth is driven by industry and services*

India's strong economic performance has generated growing private sector demand for transport, communications, financial services and trade-related activities. This – together with the rapid increase in spending on public administration, social services, rural extension services and defence – has pushed up the share of services in GDP to 55.1% in 2006. Investment demand is also up – with gross domestic investment increasing from 33.8% of GDP in 2005 to 35.1% in 2006 (figure 2.14).

Pakistan's economy has grown at an average of more than 7.5% over the last three years, although it moderated to 6.6% in 2006. The slowdown in 2006 reflected the extraordinary surge in oil prices, the devastation caused by the October 2005 earthquake and adverse weather conditions. Agriculture grew at just 2.5% in 2006, down from 6.7% in 2005, with negative downstream impacts on the textile and sugar industries. Large-scale manufacturing grew by 9%, down from 15.6% the previous year. Services improved from 8% in 2005 to 8.8% in 2006 and investment hit a record high of 20% of GDP.

Figure 2.13. Industry and services perform well: Economic growth rates and sectoral contributions in selected South and South-West Asian countries, 2005-2006

Sources: ESCAP, based on national sources; Bangladesh Bank, http://bangladesh-bank.org (accessed 6 December 2006); Royal Monetary Authority of Bhutan, *Selected Economic Indicators* (Thimphu, June 2006); Maldives Monetary Authority, *Monthly Statistics,* vol. 7, No. 12 (December 2006); State Bank of Pakistan, *Statistical Bulletin, November 2006* (Islamabad, 2006); Central Bank of Sri Lanka, *Recent Economic Developments Highlights of 2006 and Prospects for 2007* (Colombo, 2006); Central Bank of the Republic of Turkey, *Annual Report 2005* (Ankara, 2006).

Note: Data for 2006 are estimates.

Growth in Pakistan remains strong despite some deceleration

Despite internal difficulties, Sri Lankan economy expanded by 7% in 2006, up from 6% in 2005. Agriculture performed better, with higher output of major crops and fisheries, confirming its recovery from the devastating Tsunami in December 2004. Export-oriented industries and domestic market-oriented industries, along with the continued expansion in construction, bolstered industry. Trade, telecommunication, transportation and financial services supported the expansion in services.

The Islamic Republic of Iran is the subregion's only net exporter of oil. High oil prices coupled with an expansionary fiscal policy and an accommodative monetary policy are continuing to fuel strong GDP growth of 6.1%, up from 5.4% in 2005.

Turkey has enjoyed high growth over the past few years; in 2006 its rate of growth fell to 6%, down from 7.4% in 2005, a result of higher inflation and rising interest rates. Tighter monetary conditions hit both private spending and investment at a time of already tight government spending.

Least developed countries forge ahead

Despite a difficult security environment, GDP growth in Afghanistan remained strong, fuelled by an inflow of resources from the foreign donor community. GDP was estimated to have grown by 8% in 2006, slower than the 14% growth rate registered in 2005. Construction and services performed most strongly, while agricultural output (mainly cereals) contracted due to poor weather conditions. Opium production, not counted in official GDP measures, increased significantly in 2006.

Bangladesh continues to enjoy robust growth

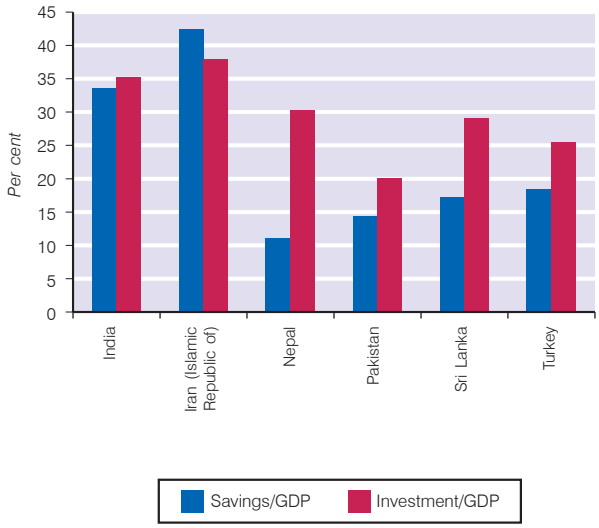
Bangladesh's economy grew by 6.7%, despite persistent high oil prices and the phasing out of the Multi-Fibre Agreement. Agriculture rebounded sharply after the flood-related setbacks of 2005 and industry expanded as a result of export-oriented manufacturing. Buoyant private consumption led the growth momentum, while investment grew at 8%.

Bhutan's GDP grew by 10% in 2006, largely due to the commissioning of the Tala hydroelectric project, a major project which the Government hopes will place the country's economy on a more sustainable path and create a more diversified economy with increased business activities and linkages to the rural economy. Mining, quarrying, manufacturing, electricity, water and construction also grew robustly, as did services, reflecting strength in tourism.

The Tsunami that hit Maldives in December 2004 caused great damage and brought the country's decade-long expansion to an abrupt halt; GDP contracted by 4.5% in 2005 and tourism, which accounts for one third of GDP, contracted 33%. The strong pickup in tourist arrivals and recovery in the fisheries sector, resulted in GDP growing at an estimated 18.7% in 2006.

The political stalemate and escalating conflict in Nepal, continued to impede growth, which remained unchanged at an estimated 1.9% in 2006 – the average growth rate of the past few years. The recent peace agreement has, however, brought new hope and growth is expected to improve.

Figure 2.14. Investment higher than savings, except in the Islamic Republic of Iran, 2006



Sources: ESCAP, based on national sources; India, Ministry of Finance, *Economic Survey of India 2006-2007* (New Delhi, 2007); Central Bank of the Islamic Republic of Iran, *Economic Trends* (Tehran, 2006); Pakistan, *Economic Survey of Pakistan 2005-06* (Islamabad, 2006); Central Bank of Sri Lanka, *Annual Report 2005* (Colombo, 2006); Central Bank of the Republic of Turkey, *Annual Report 2005* (Ankara, 2006).

Note: Data for 2006 are estimates.

High oil prices sustained inflationary pressures

Most countries felt inflationary pressures in 2006 on the back of high oil prices. Food prices also rose significantly in several countries, hurting the poor particularly:

- In India, inflation rose to 6%, led by sugar and other food items, petroleum products, chemicals and chemical products and cement.
- Prices in Pakistan rose to 7.9%, with higher aggregate demand compounded by shortages of principal commodities.
- A shortfall in cereal production contributed to inflation in Afghanistan.
- In Bangladesh, inflation marginally increased to 7.2% in 2006.
- In Nepal, inflation went up by 3.5 percentage points to 8% in 2006, driven mainly by rising petroleum and food prices.
- Inflation in Sri Lanka increased to 13% in 2006, with upward adjustments in retail oil prices, rapid credit expansion and higher civil service wages contributing to inflationary pressures.
- Inflation remained high at 11% in the Islamic Republic of Iran, with the Government spending a large part of the oil price windfall and an accommodative monetary policy.
- Turkey brought down inflation from 45% in 2002 to 8.2% in 2005, but energy prices and the depreciation of the lira pushed it higher to 9.5% in 2006.

"Countries pursued tighter monetary policies to contain inflation"

To contain inflation, most countries in the subregion pursued tighter monetary policies. In India, the Government's anti-inflationary policies included effec-

Figure 2.15. Inflation and money supply growth (M2) in selected South and South-West Asian economies, 2003-2006

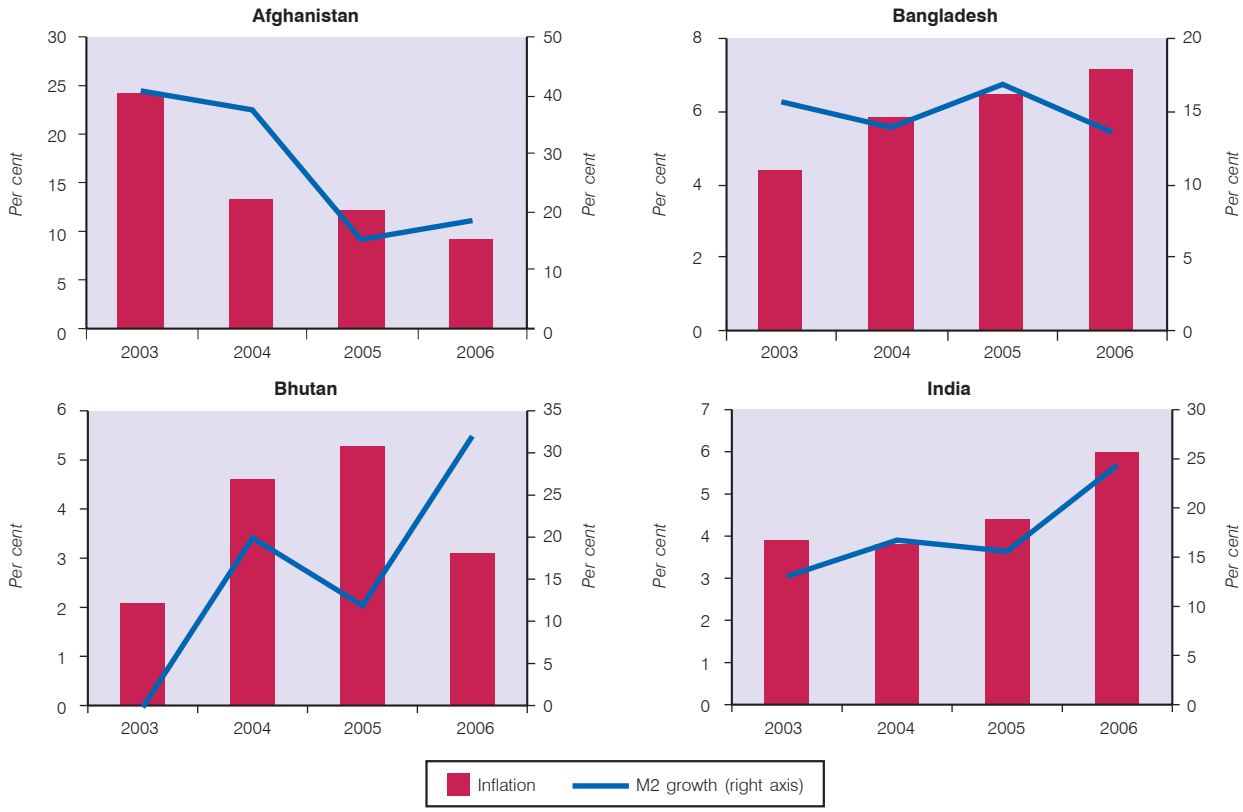


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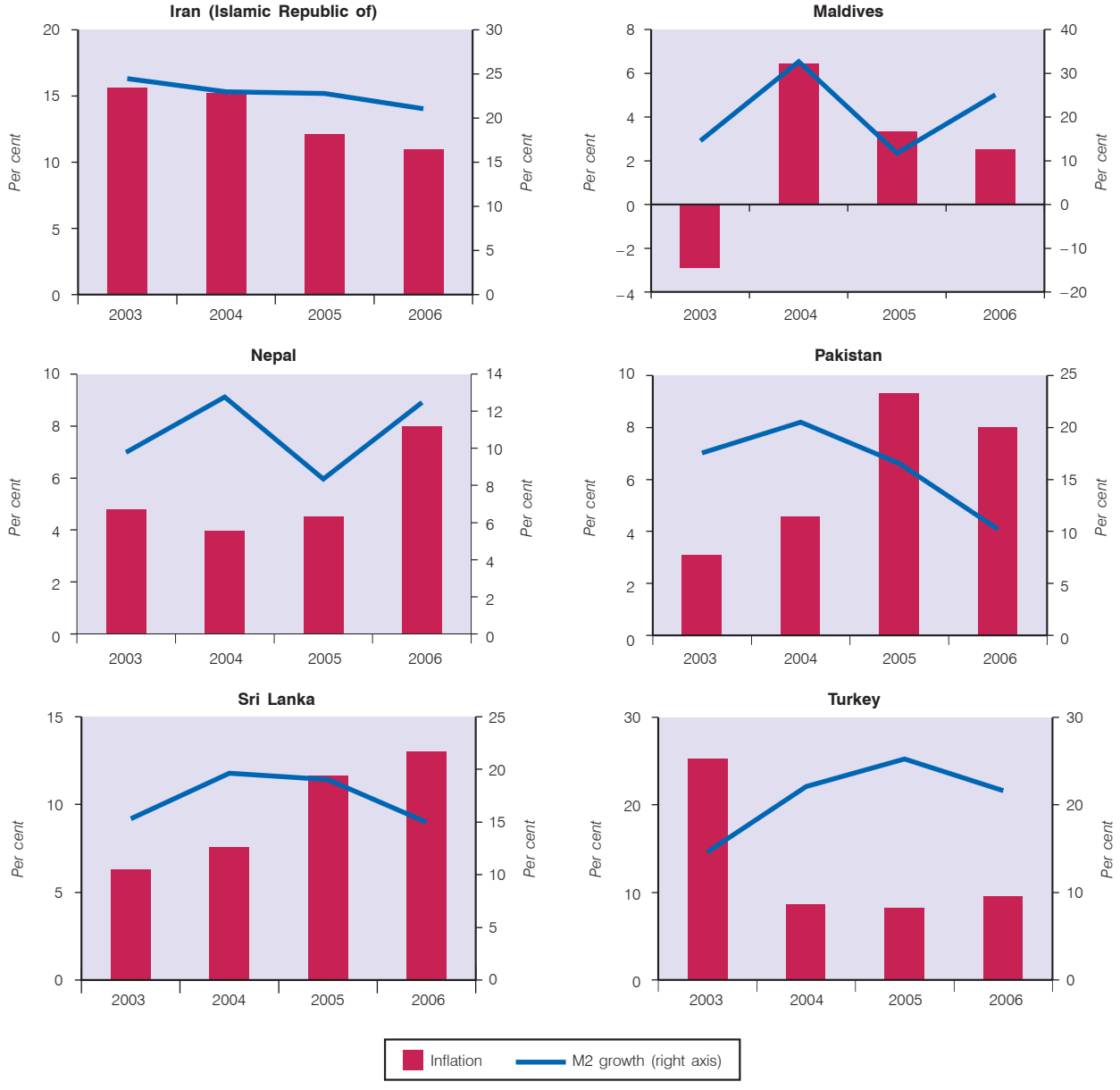
Figure 2.15 *(continued)*



Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006), "Islamic Republic of Afghanistan: Seventh review under the staff-monitored program and request for a three-year arrangement under the poverty reduction and growth facility", and *IMF Country Report No. 06/251* (Washington, D.C., IMF, July 2006); and ESCAP estimates.

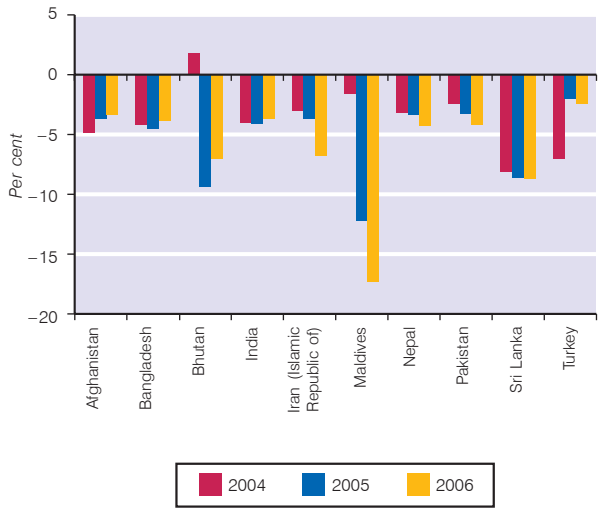
Note: Data for 2006 are estimates. Inflation refers to changes in the consumer price index. For India it refers to consumer prices for industrial workers and for Sri Lanka to Colombo. Money supply growth rates for 2006 refer to January-April for India, January-February for the Islamic Republic of Iran, January-June for Maldives and January-March for Nepal.

tively managing supply and demand for essential consumer goods and raw materials by means of a liberal imports policy and strengthening the public distribution system for food grains, sugar and kerosene oil. Similar measures were taken by other countries. The Islamic Republic of Iran has a vast system of subsidies in place on petroleum products and food items to check increases in the price of essential items.

Budget deficits – a serious problem in several countries

Budget deficits remain high and public debt is a serious problem throughout the subregion. In India, the fiscal deficit of the Central Government in 2006 was contained at 3.7% of GDP, compared with 4.1% in 2005 (figure 2.16). Recent budgets increased expenditure on social services, especially rural employment, irrigation, drinking water, education and health, and improved both rural and urban infrastructure to make development and growth more inclusive. However, persistent fiscal deficits have led to a steady accumulation of public debt. The high GDP growth rate, however, is expected to bring the debt-GDP ratio down to 64% of GDP by the end of March 2007; about 5% of this debt is external debt.

Figure 2.16. Budget balance as a per cent of GDP in selected South and South-West Asian countries, 2004-2006



Sources: ESCAP, based on national sources; India, Ministry of Finance, *Economic Survey of India 2006-2007* (New Delhi, 2007); Central Bank of the Islamic Republic of Iran, *Economic Trends* (Tehran, 2006); Pakistan, *Economic Survey of Pakistan 2005-06* (Islamabad, 2006); Central Bank of Sri Lanka, *Annual Report 2005* (Colombo, 2006); and Central Bank of the Republic of Turkey, *Annual Report 2005* (Ankara, 2006).

Notes: Data for 2006 are estimates. Budget balances exclude grants in the cases of the Islamic Republic of Iran, Pakistan and Sri Lanka.

The budget deficit widened in Pakistan and Sri Lanka. In Sri Lanka, the budget deficit remained high at 8.7% of GDP in 2006, partly as a result of higher military spending. In fiscal 2006, Pakistan's fiscal deficit was estimated at 4.2% of GDP, higher than the 3.3% of GDP in the previous year. The higher deficit in 2006 owed to an increase in expenditure following the October 2005 earthquake. Following the debt reduction strategy, the public debt-to-GDP ratio fell from 85% in June 2000 to 65% by June 2005 and to 59% by June 2006.

"Budget deficit increased in Pakistan and Sri Lanka"

In Bangladesh, the budget deficit fell from 4.5% in 2005 to 3.9% in 2006, partly due to a shortfall in development expenditure. Public sector debt, comparatively low, stands at 47.1% of GDP, with the external debt component hovering around 30% of GDP, largely on concessional terms. In Bhutan, fiscal restraint reduced the budget deficit in 2006. With increasing revenues from electricity sales to India, the fiscal situation is expected to further improve in the coming years.

In Nepal, the fiscal situation remains weak with growing recurrent expenditure, low capital spending and a high budget deficit, which increased to 4.3% in 2006 from 3.4% in 2005. The budget deficit in Maldives remains in the double digits, partly due to the post-Tsunami reconstruction effort. There is an urgent need to bring it to a more sustainable level by broadening the tax base and containing expenditures.

"The Islamic Republic of Iran pursues an expansionary fiscal policy financed by high oil prices"

In the Islamic Republic of Iran, the Government's top priority is to tackle unemployment through job creation in the non-oil sector; an expansionary fiscal policy financed by high oil revenue is being pursued to this end. However, fiscal restraint is required to help monetary policy reduce high persistent inflation and to build fiscal savings to cushion against an unexpected downturn in oil prices.

Current account deficits widen due to high oil prices

India's current account deficit in 2006 remains manageable at 1.6% of GDP. High oil prices contributed to an estimated 31.5% increase in imports (table 2.9). But exports also grew at close to 30%, reflecting good performance in the key exporting sectors of engineering goods, chemicals, automobiles, ore and minerals and basic metals and petroleum products. The significant growth in research and development, information technology, IT-enabled services and offshoring activities that India has experienced in recent years have contributed to a boom in services exports. India is now the 18th largest exporter of services in the world, with its share in world exports rising from 0.6% in 1990 to 1.8% in 2004.

In Pakistan, exports and imports continued to grow at double digit rates. The trade deficit widened to a record $8.4 billion, with 45% of the increase due to a higher import bill for crude oil and petroleum products. Imports of raw material and machinery also increased sharply. Even so, the current account continued to benefit from large remittances from expatriate workers, estimated at $4.6 billion in 2006. On the financial account, foreign direct investment, at $3.5 billion in 2006, was the highest ever recorded.

Table 2.9. Summary of external accounts for selected South and South-West Asian economies, 2005-2006

(Per cent)

	Exports/GDP		Imports/GDP		Current account balance/GDP	
	2005	2006	2005	2006	2005	2006
Bangladesh	14.3	17.0	21.8	23.8	–0.9	0.9
Bhutan	25.8	28.2	56.9	58.7	–22.0	–15.1
India	13.0	15.1	19.5	22.8	–1.1	–1.6
Iran (Islamic Republic of)	31.8	..	21.7	..	7.5	7.4
Maldives	21.5	24.8	99.2	102.2	–33.6	–36.2
Nepal	11.1	10.1	28.3	28.8	2.2	2.4
Pakistan	13.8	13.5	19.7	23.5	–1.4	–3.9
Sri Lanka	27.0	26.2	37.6	39.8	–2.8	–5.3
Turkey	20.3	20.9	32.3	34.7	–6.4	–7.9
	Growth rates Percentage)					
	Exports			Imports		
	2004	2005	2006	2004	2005	2006
Bangladesh	16.1	13.8	21.6	12.9	20.6	12.2
Bhutan	39.7	18.0	25.3	29.2	67.6	18.0
India	28.5	23.4	30.0	48.6	32.0	31.5
Iran (Islamic Republic of)	29.0	36.9	38.0	29.2	7.3	30.6
Maldives	19.1	–10.7	39.7	36.3	16.1	26.5
Nepal	8.9	14.8	–1.1	10.6	15.6	11.2
Pakistan	10.3	16.9	14.3	27.6	32.1	38.8
Sri Lanka	12.2	10.2	9.1	19.9	10.8	18.9
Turkey	33.7	16.3	13.4	40.7	19.7	17.8

Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006).

Notes: Data for 2006 are estimates. Trade figures for Bangladesh, Bhutan, India, the Islamic Republic of Iran, Nepal and Pakistan are for the fiscal year. Trade figures for 2006 refer to first two quarters for the Islamic Republic of Iran, January-September for Turkey. Import value in f.o.b. for the Islamic Republic of Iran.

Considerable remittances from workers were also important in Bangladesh and Nepal, which both recorded current account surpluses in 2006. Exports in Bangladesh, helped by a sharp depreciation of the domestic currency in the previous year, grew by 21.6%, imports by 12.2%. The country has successfully weathered the phasing out of the Multi-Fibre Agreement, with garment exports seeing robust growth. More than 70% of the country's total exports consist of textiles and clothing.

> *Considerable remittances helped to contain a current account deficit in Pakistan and contributed to a current account surplus in Bangladesh and Nepal*

In Sri Lanka, export earnings grew by 9.1% in 2006, led by tea, rubber, textiles and garments. Imports grew much faster at 18.9%, reflecting strong domestic demand for intermediate and investment goods in the manufacturing and construction industries. The current account deficit widened to 5.3% of GDP, while the capital account recorded a surplus with higher foreign direct investment and project-related flows to the Government.

Bhutan's very high current account deficit of recent years is mainly due to imports of construction material for hydropower projects. More than 50% of its export earnings come from selling electricity to India. With the commissioning of a large hydropower project in 2006, those earnings should increase significantly. Expanding tourism will also dampen the current account deficit.

In Maldives, the recovery of the tourism sector did not alleviate the current account deficit, which stood around 36% of GDP; this was largely due to post-Tsunami construction of 46 new resorts and record high fuel costs.

The Islamic Republic of Iran's current account surplus increased to 7.5% of GDP in 2005. The country's exports rose by 36.9% in 2005, around 80% of which were oil and gas-related products. Imports grew by 7.3%. In 2006, the current account surplus remained essentially unchanged at 7.4% of GDP on the back of high oil prices.

> *Turkey recorded a high current account deficit*

In Turkey, the current account deficit stood at 7.9% of GDP in 2006. High oil prices, strong investment demand and a strong currency contributed to the deficit. The energy import bill, for example, almost doubled between 2003 and 2005. Despite this worrying picture, capital inflows comfortably financed the deficit. Foreign direct investment tripled to $10.7 billion in 2005, and reached close to $9 billion in the first six months of 2006.

Outlook for 2007 – growth expected to remain strong

India is expected to grow around 9% in 2007, underpinned by a strong performance by the industrial and services sectors. The Government's target is to increase growth to 10% in coming years. Growth prospects for Pakistan are fairly promising and a small increase to 7% in 2007 is expected following a recovery in agriculture and improved performance of the manufacturing sector. To sustain future growth rate of 7-8%, more investment is needed to develop human resources and physical infrastructure. Given the recent escalation of ethnic conflict and violence, Sri Lanka's growth is expected to slow to 6.5% in 2007. In the Islamic Republic of Iran, volatile oil prices and international tensions over its nuclear programme have created uncertainties for the economic outlook. In Turkey, high inflation and rising interest rates will continue into 2007, with its GDP forecast to grow by 5%.

Among the least developed countries, GDP growth in Bangladesh could moderate to around 6% in 2007, reflecting political uncertainties related to the elections. In Bhutan, construction of new hydropower projects are expected to keep growth strong. With the peaceful resolution of the armed insurgency, Nepal is now looking for new momentum, with its GDP expected to grow by 4.3% in 2007. GDP growth in Maldives is expected to moderate to a more normal 7% in 2007.

Maintaining reform momentum to sustain high growth

Reform needs to be maintained to sustain high growth and rapid poverty reduction. With fiscal adjustment still a challenge, more progress is needed in tax collection and resource mobilization to reduce large budget deficits. This will allow redirecting resources from servicing public debt to economic development and social programmes, while at the same time creating an enabling environment for private investment. An increase in consumer prices is a genuine concern in most countries. Striking an appropriate balance between promoting economic growth and price stability remains a challenge because inflationary pressures accompany rapid economic expansions. As the current account deficit is becoming serious in some countries, this will have implications for the balance of payments. If oil prices remain high, they will have to devise ways to contain their deficits.

The lack of physical infrastructure also constrains growth, so investment in physical infrastructure should remain a priority to reduce poverty in much of the subregion (policy research feature 2.3).

Policy research feature 2.3: Electricity and roads to reduce rural poverty

Infrastructure reduces poverty in two ways. It promotes growth, which generally benefits the poor. And it directly benefits the poor by improving their incomes and the quality of their lives. Physical infrastructure that directly benefits the poor is more likely to reduce poverty, whereas growth may not always do so. Since most of the poor still live in the rural areas, rural infrastructure is key to reducing poverty.

Rural physical infrastructure covers roads, electricity, irrigation, telecommunications and much more. The impact of various types of infrastructure on rural economies and poverty reduction is maximized when provided in unison. Prioritizing the different types of infrastructure that should be provided is difficult as different localities and areas have different needs and would view one type of infrastructure as more important than another. However, the present study is focused on rural roads and electricity.

> *Together, rural roads and electricity improvements had a significant impact on poverty reduction in India, China and Thailand*

In South Asia, only 65% of the rural population lives within two kilometres of an all-weather road, far less than the 95% in East Asia. Only 43% of the population has access to electricity, far less than the 88% in East Asia (Jones, 2006). Access varies from 15% in Nepal to 67% in Sri Lanka, with access in India and Pakistan having around at 53-56% mark (Bhattacharyya, 2006). A recent comprehensive study assessed the impact of transport and energy on poverty in India, China and Thailand (ADB, DFID, JBIC and WB, 2005). It concludes that improvements in rural transport have a significant impact, although the evidence for electricity is less conclusive. Together, however, rural roads and electricity improvements had a significant impact on poverty reduction.

Progress in providing roads

The transport sector has attracted a great deal of interest for investment from the private sector. Promoting public-private partnerships in transport can help reduce the burden on the public sector and can help public resources for investment in priority areas such as rural roads, which the private sector finds less attractive. China's success suggests that private financing can have a significant role in the development of major road networks. This freed some public resources for developing rural and feeder roads and had a strong poverty reduction impact.

> *In India, a million rupees spent on roads led to seven times the poverty reduction as a million rupees spent on anti-poverty programmes*

In the Lao People's Democratic Republic, rural poverty fell by 9.5% between 1997 and 2003 – 13% of this decline could be attributed to improved access to roads alone (Warr, 2005). In Viet Nam, poor households living in rural communes with paved roads had 67% higher chance of escaping poverty than those without paved roads (Jones, 2006). In India, a million rupees spent on roads led to seven times the poverty reduction as a million rupees spent on specific anti-poverty programmes (Weiss, 2003). In China, the situation repeated itself, though the gain was of a smaller magnitude.

Often poorly targeted and governed, anti-poverty programmes could not match the simple effectiveness of building roads. The logic is simple: roads are the arteries that go where poor people live, improving their lives in concrete, immediate ways:

- Reducing the cost of transporting input and outputs.
- Saving precious time that the poor can spend on farm or household work.
- Increasing the availability and accessibility of education and health care services in rural areas.
- Boosting the productivity of agriculture by enabling shifts from subsistence to higher-earning commercial farming.
- Spreading access to employment opportunities in urban areas, increasing rural wages and incomes.

Some successes in electrifying rural areas

To distribute electricity to smaller populations scattered over vast areas through conventional means, such as extending the electricity grid, can be complex and expensive. More preferred is distributing energy by using locally available resources, mainly renewable resources such as small hydropower, solar power, wind

power and biomass power. Some innovative ways to provide rural populations with an off-grid, decentralized supply of electricity are highlighted below (ESCAP, 2006b, pp. 14-16).

> *Providing rural populations with an off-grid, decentralized supply of electricity is a key to success*

Bangladesh. More than two thirds of Bangladeshis live in rural areas, lacking access to the electricity grid. But under the Power Development Board, cooperatives, called "Palli Bidyut Sangstha" (rural electrification societies), supply electricity to a substantial share of rural households. Several other organizations are targeting the remaining populations through off-grid solutions using renewable energy. The Local Government Engineering Department provides electricity through mostly solar home systems. Grameen Bank's "Grameen Shakti" programme provided financing for 16,500 solar home systems. The Government intends to expand these programmes to supply electricity to all households by 2020.

China. The Government has very ambitious programmes of renewable energy sources, particularly for rural areas. In 2001, it launched a renewable energy-based rural electrification programme, "Song Dian Dao Xiang" (sending electricity to townships). Electricity generated from the programme consisted of 20 megawatts from photovoltaic sources, 840 kilowatts from wind sources and 200 megawatts from small hydropower sources. The Government provided $240 million to subsidize the capital costs of equipment and drafted guidelines for tariffs and system ownership. The Village Electrification Programme 2005-2010 will electrify another 20,000 villages in China's off-grid western region.

China's Renewable Energy Law, which came into effect in early 2006, requires power grid operators to purchase electricity from registered renewable energy producers. The law also provides for a national fund to foster renewable energy development and discounted lending and tax benefits for renewable energy projects. The Government plans to boost the use of renewable energy capacity from 7% to 16% by 2020. About 30 million people, mostly in remote and rural areas, still are not connected to the power grid. Village photovoltaic and wind power systems provide a cost-effective alternative to these areas.

India. The Government established the Department of Non-conventional Energy Sources in 1982 and upgraded it to a full-fledged ministry in 1992, alongside other energy ministries. The Indian Renewable Energy Development Agency provides technology, finance (based on cost recovery) and technical services. The Government targets providing electricity to all households by 2009-2010, a tremendous task that will inevitably involve the private sector.

Policy conclusions

Countries in the subregion are aware of deficits in infrastructure. India, for example, has estimated that it will take $320 billion over the next five years to expand and upgrade physical infrastructure.[7] Megaprojects may be essential to accelerate growth, but projects that directly benefit the rural poor should be given equal importance, if not more. Some broad policy recommendations:

- ***In the absence of interest from the private sector, more public investment should go to rural infrastructure.*** In Asia's developing countries, the private sector financed less than 30% of infrastructure investment, much of it concentrated in a few countries in East Asia. With concessional aid covering 3%, the public sector financed the bulk of the residual (Weiss, 2003).
- ***Physical infrastructure for the poor should be a donor priority.*** The current situation is not promising. The share of the transport and energy sectors in official development assistance to South Asian countries fell from 27.1% in 1990-1995 to 15.3% in 2000-2004 ($15.4 billion to $7.6 billion).
- ***Governments should set up an effective regulatory framework.*** This includes independent regulatory agencies to protect consumers and ensure financial transparency and a fair return on investment. To deal with electricity losses and theft, electricity should be generated and distributed by separate government departments. Later privatization of electricity distribution can help reduce losses and improve services.
- ***Pricing is complex because of efficiency and equity.*** Tariff rates should be competitive and reflect market conditions, with some provisions for poor households. Tariff rates should be kept low, affordable for small consumers. To cover the losses of public utilities, the Government can allocate a certain amount of subsidy in its general budget and pass it on to public utilities distributing electricity. A more targeted approach of giving vouchers to the poor so that they can pay electricity bills at market rates is worth considering. Poor households can be asked to pay a fixed percentage of the electricity bill, with the remainder covered through the voucher.
- ***Reach the extreme poor.*** Microcredit programmes can help in buying energy-efficient equipment and appliances, and electricity connection charges can be recovered through a small monthly rental fee affordable by poor.

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7 "Prime Minister inaugurates Conference on Infrastructure", 7 October 2006, available at <http://pmindia.nic.in/speech/content4 print.asp?id=414>.

South-East Asia – growth accelerates on the back of strong exports

The economy of South-East Asian countries is estimated to have grown by 5.9% in 2006, up from 5.6% in 2005. Singapore and Viet Nam experienced GDP growth of more than 7%, on the back of impressive performances in industrial production. Indonesia, Malaysia, the Philippines and Thailand registered GDP growth of 5-6%, with fairly rapid growth in services (figure 2.17). Despite higher oil prices, oil-rich Brunei Darussalam grew at just under 3%.

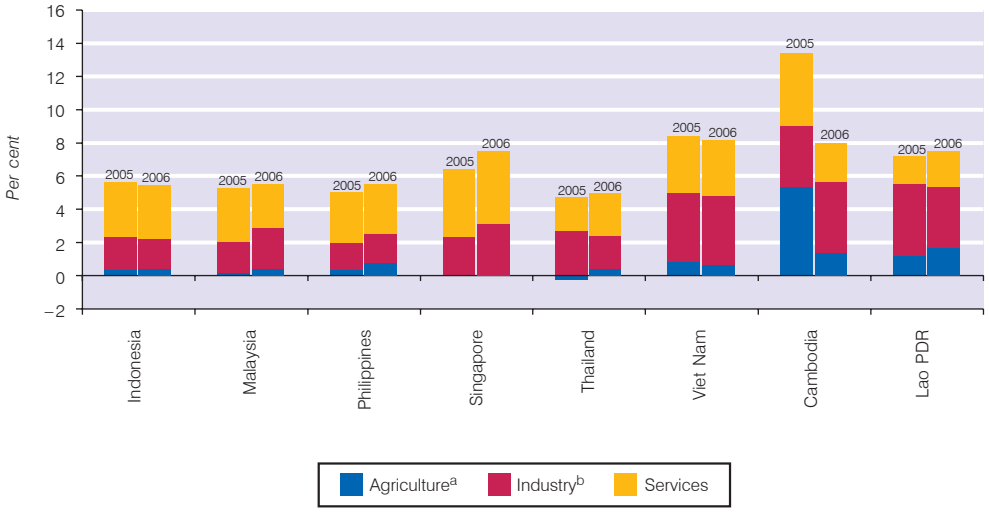
With strong global growth for electronics and commodities, export growth generally accelerated in 2006. It was strongest in Singapore (21.2%) and Viet Nam (21.9%), and weaker in Malaysia (13.4%), the Philippines (15.5%), Indonesia (16.2%) and Thailand (16.8%). But for all these countries, export growth was stronger than in 2005, except for Indonesia.

GDP growth in the subregion's least developed countries was impressive:

> *"GDP growth in South-East Asian least developed countries was impressive"*

- Having grown at 13.4% in 2005, Cambodia's real GDP grew by a more modest 8% in 2006.
- The Lao People's Democratic Republic, which had grown by 7.2% in 2005, grew by 7.5% in 2006.
- Myanmar's GDP grew by 13.6% in fiscal 2004; it has not been possible to assess macroeconomic performance in subsequent years because of a lack of data.
- Timor-Leste looked poised to post a year of reasonable economic growth in 2006, but was hampered by the violent political and social crisis that erupted in April.

Figure 2.17. Industry and services drive growth: Rates of economic growth and their sectoral contributions in selected South-East Asian countries, 2005-2006



Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); and ESCAP estimates.

Note: Growth rates for 2006 are estimates.

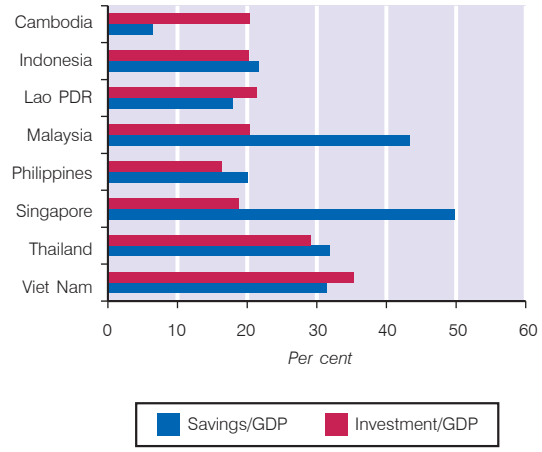
[a] Agriculture for Singapore includes quarrying.
[b] Industry comprises mining and quarrying, manufacturing, electricity, gas and power and construction.

Viet Nam's strong economic performance is expected to receive an additional boost from its accession to WTO in January 2007

Investment grew relatively modestly or slipped in 2006, constrained by political factors and higher oil prices and interest rates (figure 2.18).

- In Indonesia, investment contracted by about 0.3% over the first three quarters (year-on-year). In the Philippines, investment contracted by about 2.5% in the first two quarters of 2006.
- In Thailand, private investment increased by 4.4% in the first three quarters of 2006, down from 12% in 2005 (Thailand, 2006).
- In Malaysia, investment grew at 10.1% in 2006, up from 8.5% in 2005.
- In Singapore, private investment picked up from a low base – it had contracted by 1.4% in 2005 – to average close to 16% in the first three quarters of 2006 (Malaysia, 2006 and Singapore, 2006a).
- In Viet Nam, investment growth is estimated at 10.2% for 2006 (EIU, 2006b). The country's strong economic performance is expected to receive an additional boost from its accession to WTO in January 2007.

Figure 2.18. Lagging investment in middle-income South-East Asian economies, 2006



Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); and ESCAP estimates.

Note: Data for 2006 are estimates.

Higher oil prices – a catalyst for rethinking monetary policy

With oil prices on the rise, 2006 started amid concerns about inflation exceeding 10% in Indonesia, 7% in the Philippines and 5% in Thailand. Central banks in the region, which had raised interest rates in 2004 and 2005, also allowed their exchange rates to appreciate to offset inflationary pressures. Between January and May, both the Malaysian ringgit and the Singapore dollar appreciated by more than 5%, the Thai baht by more than 8%, and the Indonesian rupiah by 11%.

But following the unexpected increase in United States interest rates on 10 May 2006, many markets in South-East Asia experienced an increase in gross portfolio outflows, a widening of interest rate spreads on foreign currency debt and a fall in equity prices. Currencies were also allowed to depreciate, which had the effect of erasing earlier gains (figure 2.19).[8] As the situation settled, interest rate spreads returned to historic lows and equity prices rose. The Philippine peso and the Thai baht regained lost ground, followed by other currencies, such as the Singapore dollar.

Despite the currency appreciations, foreign exchange reserves had also grown, suggesting that authorities were managing currencies through official intervention

By year's end, most exchange rates had appreciated significantly against the United States dollar. The stronger currencies alleviated inflationary pressures by reducing the cost of imports (especially oil) and allowing monetary policy to be somewhat more accommodative than in the past. As a result interest rates flattened (except in Indonesia, where they had already begun to fall), and real (ex-post) interest rates remained low or even negative. Despite these currency appreciations, foreign exchange reserves had also grown dramatically, suggesting that authorities were attempting to limit upward pressure on the region's currencies through official interventions.

On 19 December 2006, the Bank of Thailand decided to limit capital inflows by requiring that 30% of all

[8] See ESCAP (2006c) for a detailed discussion of this topic.

new foreign financial investments be held in an interest-free deposit at the central bank. The Thai stock market lost more than 14% of its value in one day as a result. Although markets improved the next day, when the authorities effectively reversed the measure by exempting equities, the move highlighted the dilemma the authorities face when they have both an inflation target and an exchange rate target (box 2.3)

External sector helped by strong global economy

Apart from the adjustment to the external financial conditions in May and June, generally favourable external conditions left much of the region with a balance of payments surplus in 2006 (table 2.10). The growing demand for electronics remains a crucial component of the subregion's export performance. Its electronics production accounts for roughly 10% of global electronics output (table 2.11). Most is exported to major markets, such as Japan and the United States, but some goes to China as intermediate goods to be incorporated in China's exports to the country markets (see the policy research feature 2.1).

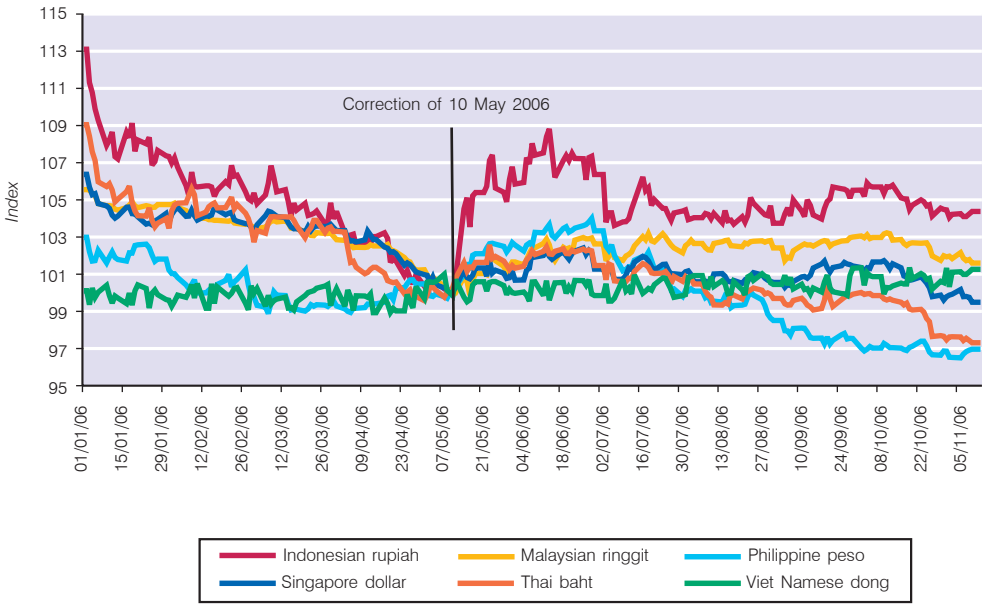
"The steady expansion in tourism earnings, healthy exports and an increased inflow of FDI helped Cambodia to cope with the rising cost of oil during 2006"

Exports and foreign direct investment boost least developed countries

Although Cambodia's current account deficit remained large, the steady expansion in tourism earnings, healthy exports and an increased inflow of FDI helped it cope with the rising cost of oil in 2006. Gross official reserves rose from $915 million in 2005 to around $1 billion at the end of the first quarter of 2006. In the Lao People's Democratic Republic, exports of mineral products, particularly gold, continued their upward trend in 2006, reflecting the buoyant global demand for gold and copper. Imports also grew sharply, dominated by imports of equipment and machinery investment in the mining and hydropower sectors. The trade deficit was about $500 million in 2006.

Figure 2.19. By the end of 2006 currencies regained strength

(Local currency per United States dollar)
(Base: 10 May 2006 = 100)



Source: Calculated based on data from International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006).

BOX 2.3. The impossible trinity and the monetary regime in South-East Asia

In principle, monetary authorities can choose any two of three options: monetary autonomy (for example discretion in setting short-term interest rates); an exchange rate target; and capital account convertibility (i.e. no capital controls). Choosing all three options is likely to fail, hence the term "impossible trinity".

If the authorities wish to counter an inflationary shock, and also maintain the exchange rate at its current level and there are no impediments to capital controls, the central bank could lose control over its monetary policy. And it will be ineffective in containing inflation.

If the authorities increase interest rates to cool the economy, they risk generating short-term capital inflows that the central bank would then be obliged to purchase to keep the exchange rate at its desired level. If the central bank purchases the foreign exchange with domestic currency, the expansion in the money supply would push down domestic interest rates and offset the original monetary intervention aimed at cooling the economy. But if the authorities sterilize the capital inflows by expanding the stock of sovereign bonds, the intervention will keep the domestic interest rate differential above its long-run equilibrium level, generating an ongoing inflow and growing sovereign bond issuance. This could ultimately pose challenges for the banking system and create difficulties for the authorities as they seek to unwind their positions in the future.

Another strategy could consist of raising interest rates and allowing the exchange rate to appreciate. The appreciation would ease inflationary pressure by reducing import prices and export demand. It would also reduce some of the pressure on the authorities to raise interest rates, thereby reducing the negative impact on investment spending.

A third possibility could be to peg the exchange rate while raising interest rates but to restrict capital inflows. If the capital controls bite, the authorities could pursue both a high interest rate and the exchange rate target. But capital controls carry certain costs, such as weakening financial sector development, particularly if the controls are maintained over an extended period of time. For example, attempts to develop a regional bond market would be hindered by capital market restrictions.

After the 1997 crisis, Malaysia adopted the third option, Singapore and Thailand pursued the first, and Indonesia and the Philippines adopted a variant of the second option. Recently, the monetary authorities have leaned towards adopting the second alternative of more flexible exchange rates and open capital accounts, granting them more independence in monetary policy.

The move towards adopting relatively flexible exchange rates is a major departure from the previous practice by the monetary authorities in the subregion. The reduced weight placed on a nominal exchange rate anchor suggests a move towards other nominal targets, such as an inflation target, as shown in the case of Indonesia, the Philippines and Thailand. Such a change can produce benefits over the longer term but brings challenges in the short term.

For example, if the central bank has a reputation for pursuing a monetary policy consistent with an inflation target, the authorities could respond to weakening external demand by letting the exchange rate depreciate and possibly lowering interest rates to stimulate aggregate demand, even if this results in temporary inflation. The central bank's reputation for pursuing low inflation gives it some discretion to temporarily pursue a stabilization policy without creating the expectation of an ongoing increase in prices.

However, if the central bank lacks credibility, its commitment to low inflation may be discounted by the market, and the depreciation and lower interest rates could be viewed as a signal that inflation will persist. Capital flight may ensue. In such a situation, the central bank may instead find itself having to raise interest rates and defend the currency, even if it results in a recession.

Another factor determining whether a central bank can lower interest rates and allow the exchange rate to depreciate is the currency of borrowing. If it has borrowed in local currency from an overseas source, it is insulated from exchange rate fluctuations. If it has borrowed in a foreign currency, the value of corporate liabilities would rise with the depreciation, possibly placing the corporate sector under financial stress.

Interestingly, research (see the policy research feature 2.4) shows that a firm's ability to obtain financing in a domestic currency is also linked to the credibility of the central bank's commitment to a sound monetary policy. The implication of this is that the manner in which a central bank responds to a negative external shock is likely to depend crucially on the credibility of its commitment to a sound monetary policy.

Medium-term prospects – dependence on global demand raises concerns

Since the Asian crisis, the subregion has experienced strong export-led growth based on maintaining exchange rates conducive to large trade and balance of payments surpluses. This strategy, however, leaves the subregion exposed to certain risks.

First, the heavy dependence on exports has left the subregion vulnerable to a downturn in global demand. Softening global GDP growth may have already revealed itself in electronics. Analysts point to a weakening in the book-to-bill ratio, which measures the value of orders on the books of electronics producers relative to the amounts which have been billed. In addition, technology stocks in the region experienced sharp corrections in response to poor earnings reports and expectations of a moderation in demand. A further sign of an expected downturn in electronics

Table 2.10. Summary of external accounts for selected South-East Asian economies, 2005-2006

(Per cent)

	Exports/GDP		Imports/GDP		Current account balance/GDP	
	2005	2006	2005	2006	2005	2006
Cambodia	47.0	49.7	63.4	70.1	–4.3	–5.5
Indonesia	30.1	27.7	24.7	21.5	0.1	0.8
Lao People's Democratic Republic	17.6	..	28.2	..	–6.7	–10.0
Malaysia	107.7	107.7	87.5	88.6	15.7	13.2
Myanmar	..	..	..	..	0.1	..
Philippines	45.2	46.1	54.5	52.9	2.5	2.4
Singapore	196.8	210.1	171.4	184.8	28.5	25.9
Thailand	62.4	63.8	66.9	64.6	–2.1	1.2
Timor-Leste	..	..	..	..	42.7	..
Viet Nam	69.9	74.7	61.3	74.1	0.4	0.9

	Growth rates (per cent)					
	Exports			Imports		
	2004	2005	2006	2004	2005	2006
Cambodia	24.1	12.4	22.2	22.5	20.2	22.1
Indonesia	12.6	20.1	16.2	28.0	26.2	15.6
Lao People's Democratic Republic	8.3	52.2	29.5	54.2	23.8	36.1
Malaysia	20.8	11.0	13.4	26.4	8.5	14.1
Myanmar	14.1	14.5	9.4	7.1	1.5	11.9
Philippines	9.5	4.0	15.5	8.8	7.7	9.0
Singapore	24.2	15.7	21.2	27.4	15.3	21.6
Thailand	20.6	14.9	16.8	25.7	25.9	7.1
Timor-Leste	14.3	25.0	0.0	–8.6	5.9	1.9
Viet Nam	31.4	22.4	21.9	26.7	15.7	20.1

Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); International Monetary Fund, *International Financial Statistics (*CD-ROM) (Washington, D.C., IMF, 2006), *Democratic Republic of Timor Leste: 2005 Article IV Consultation, IMF Country Report No. 05/245* (2005), *Direction of Trade Statistics* (CD-ROM) (Washington, D.C., IMF, 2006), *Public Information Notice* (PIN), No. 05/92; and ESCAP estimates.

Notes: Data for 2006 are estimates. Trade figures for 2006 refer to January-March for Brunei Darussalam and Myanmar, January-October for Philippines exports, Malaysia, Thailand, January-September for Philippines imports and Singapore, and whole year projections for Indonesia. Cambodia's trade figures for 2005 are estimates and those for 2006 are projections. For Timor-Leste, trade figures for 2004 are estimates and those for 2005-2006 are projections. Trade figures for 2006 are estimates for Lao People's Democratic Republic and Viet Nam. Import value in f.o.b. for Cambodia, Indonesia and Singapore. All exports/GDP and imports/GDP for 2006 refer to the first three quarters except for Viet Nam, the data refer to the first quarter. The current account for Cambodia includes transfers. Calculations for Myanmar's current account are based on official exchange rates. The current account of Timor-Leste includes international assistance.

Table 2.11. Electronics production in selected South-East Asian economies, 2002-2005

(Millions of United States dollars)

	2002	2003	2004	2005[a]
Indonesia	9 446	8 941	9 454	9 734
Malaysia	38 571	41 318	45 905	47 435
Philippines	11 332	11 415	12 597	13 426
Singapore	36 383	39 396	44 101	45 477
Thailand	15 728	17 675	20 096	21 071
Viet Nam	1 548	1 671	1 846	1 926
Total	113 008	120 416	133 999	139 069
Total (world)	1 056 755	1 142 996	1 275 634	1 338 894

Source: Scottish Enterprise, *Global Electronics Report* (Glasgow, Scottish Enterprise, June 2006).

[a] Estimated.

exports was reflected in Singapore's October production figures, which saw electronics production fall by 14.3%. Although the decline masks a 14% year-on-year gain in semiconductor output, the production of computer peripherals and data storage equipment contracted sharply (Singapore, 2006b).

The growing trade in raw commodities and more sophisticated intermediate goods between China and Asia-Pacific countries poses another risk (see the policy research feature 2.1). The resilience of this trade to a significant appreciation of the yuan, or for that matter a downturn in the economy of China, is untested but both risks loom. An ESCAP simulation found that a slowdown in China's GDP growth would hurt countries in South-East Asia, primarily through a fall in export demand (ESCAP, 2006a).

> *"It is unlikely that export-fuelled growth can continue indefinitely without additional growth in investment spending"*

Second, it is unlikely that export-fuelled growth can continue indefinitely without additional growth in investment spending. At some point, resource constraints will become binding due to insufficient capital and infrastructure.

Third, balance of payments surpluses create liquidity problems that central banks must, at some future date, have to deal with. Authorities in the subregion have looked to greater exchange rate flexibility to ease persistent balance of payments surpluses. Currency appreciation is expected to reduce the cost of imported machinery and equipment, and other goods and services, as well as stimulate investment and consumer spending. In addition, greater exchange rate flexibility would offer central banks greater flexibility in monetary policy, which can also stimulate domestic investment.

Although authorities in the subregion have already taken the necessary first steps, more could be done. On monetary policy, they need to be clear about their policy objectives. They must also ensure that market participants understand those objectives, and pay specific attention to potential conflicts between, say, an exchange rate objective and an inflation or other nominal target. Avoiding ambiguity in monetary objectives can prevent unnecessary and unwanted currency speculation and better anchor expectations.

Financial sector development, and development of particularly the bond markets, is also seen as an important part of the solution. By assisting firms in tapping into domestic savings, better bond markets can raise investment growth and reduce dependence on exports.

There are other risks, of course. Political risks seem to be ever-present in some form throughout much of the subregion. Cambodia faces a possible breakdown in its fragile political stability, and it is unclear how the political situation in Thailand will play out.

Policy research feature 2.4: Developing East Asian corporate bond markets 10 years after the crisis

It has been 10 years since the Asian financial crisis rocked South-East Asian and other nations in East Asia. Policymakers were quick to identify a lack of bond markets as one of the reasons the crisis had such devastating effects (Greenspan, 2000). Since then, emerging East Asian (EEA) bond markets have grown by more than 180%.[9] Despite their rapid growth, they continue to attract considerable attention among policymakers and market players. Concerns remain that bond markets are illiquid and not a good source of investment finance. This section provides an overview of the current state of bond markets and re-examines the role of public policy. The main focus is on the corporate bond market rather than government bond markets.

Bond markets became the focus of attention in the wake of the 1997-1998 Asian crisis because it was thought that the region had become overreliant on the banking system and that local currency bond markets appeared to be missing. As a result, firms had difficulty borrowing money on a long-term basis in a domestic currency, resulting in maturity and currency mismatches – two factors thought responsible for the crisis. This missing or incomplete markets hypothesis raised questions as to why bond markets had failed to develop and what public policy could do to promote them (Eichengreen and Hausmann, 1999).

> *Although corporate bond markets have grown since the 1997 crisis, they are not channeling funds to firms to the same extent as equity markets, and also lack liquidity*

Although corporate bond markets have grown in recent years, they are not channeling funds to firms to the same extent as equity markets, and also lack liquidity. This feature highlights the need for policy responses aimed at creating an environment that reduces key risks associated with holding long-dated financial securities. These include currency risk, which reduces the willingness of the market to hold domestic currency bonds and credit risk.

Bond markets – growing but still undeveloped and lacking liquidity

The state of bond market development within the region varies dramatically and has changed over time. All measures tell a similar story. There has been rapid growth in the stock of both government and corporate bonds. The average amount of total bonds on issue in 2001-2005 ranges from 33% of GDP for Indonesia to more than 120% for Malaysia, up from 3% and 87% respectively in 1991-1995. Government debt on issue, while less than that in other emerging markets and advanced economies (reflecting a history of prudent fiscal policies), now generally exceeds 20% of GDP, excepting Hong Kong, China, where it averages 10%. Corporate bonds in 2001-2005 exceed 50% of GDP in the Republic of Korea and Malaysia and less than 25% in most other markets (figure 2.20).

> *Asian economies make less use of bond markets to finance investment than might be suggested by the size of their economies*

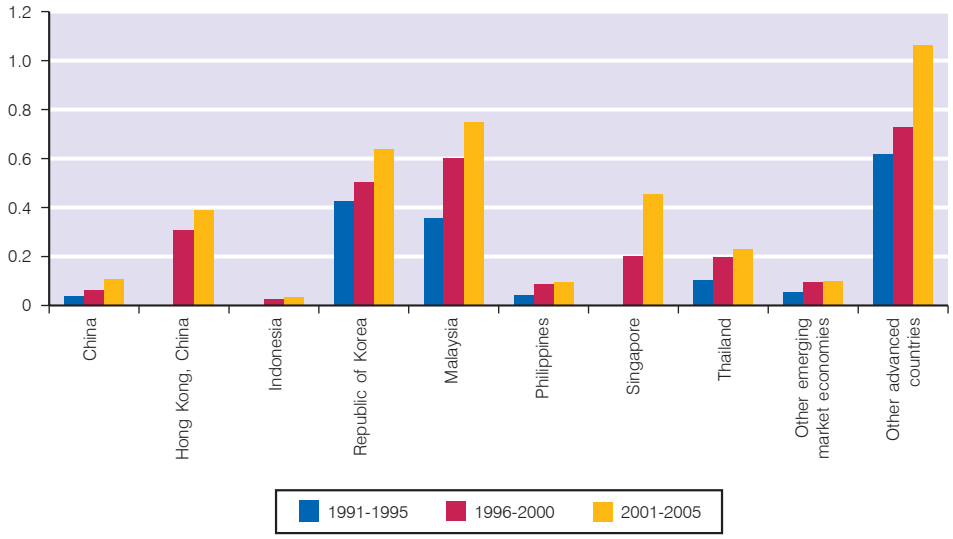
Outstanding debt relative to annual investment tells a similar story. Asian economies make less use of bond markets to finance investment than might be suggested by using GDP as a measure, and correspondingly resort less to using bond markets to finance investment than advanced economies (figure 2.21). But the corporate bond markets of Malaysia and the Republic of Korea look more like advanced economy markets when measured against the size of bank credit (figure 2.22). Most other countries in the region continue to look "over-banked" in relation to the average in advanced economies.

Portfolio allocations and flows – bond markets are not a key source of foreign funds

The ability to mobilize local savings to finance investment within the region is another indicator of Asian bond market development. Ignoring official reserve holdings, overall portfolios are roughly balanced. At

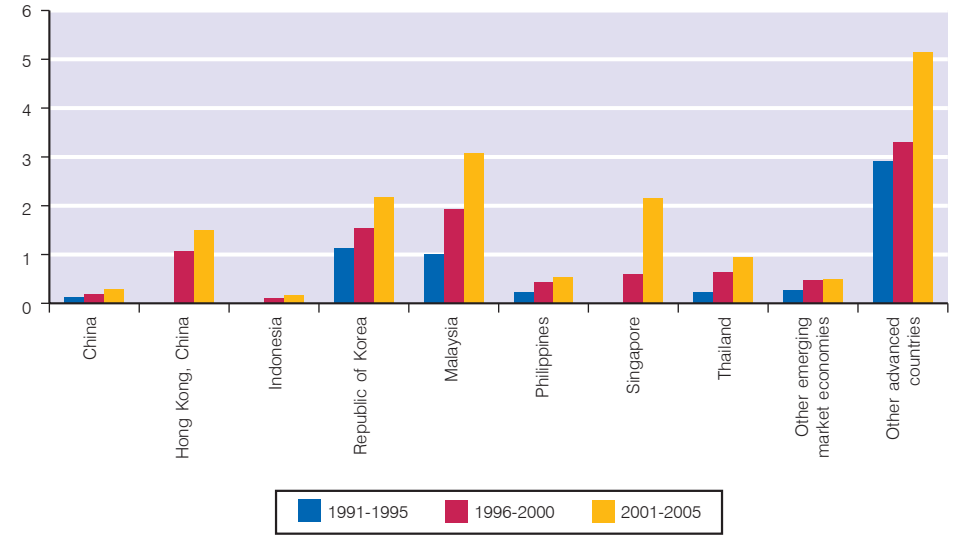
[9] In this study the emerging East Asia region refers to the economies of China, Hong Kong, China, Indonesia, Republic of Korea, Malaysia, Singapore and Thailand. For some of the analysis countries may have to be dropped if data limitations do not allow for consideration of all countries.

Figure 2.20. Ratio of non-government debt to GDP increasing



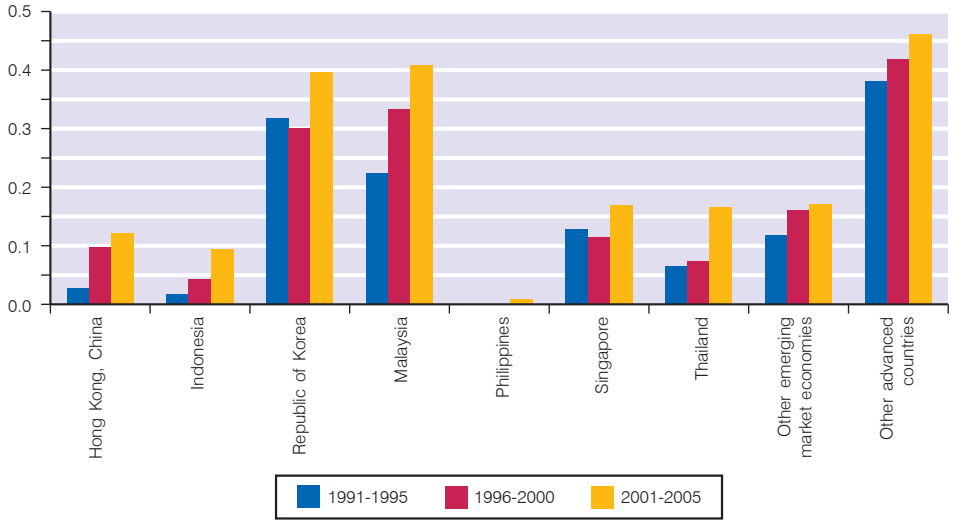
Sources: Bank for International Settlements, tables 12 and 16, except for Hong Kong, China, Indonesia and Singapore 1991-1995 from World Bank Financial Structure Database; GDP data from *World Bank Development Indicators;* and ESCAP estimates.

Figure 2.21. Ratio of non-government debt to investment rising over time



Sources: Bank for International Settlements, tables 12 and 16, except Hong Kong, China, Indonesia and Singapore 1991-1995 from World Bank Financial Structure Database; GDP data from *World Bank Development Indicators;* and ESCAP estimates.

Figure 2.22. Ratio of private domestic bonds on issue relative to bank credit



Source: World Bank, *Financial Structure Database* (Washington, D.C., World Bank, 2006).

the end of 2004, EEA economies held about $380 billion in advanced economy assets, while advanced economies held about $393 billion of EEA assets. However, EEA investors seem to prefer holding advanced economy bonds, while advanced economies prefer not to hold the region's bonds. EEA, for example, held about $268 billion in advanced economy bonds, compared to the holdings of advanced economies of just $78 billion of EEA debt securities. On the other hand, the stock of EEA equities held by advanced economy investors was about $311 billion, while EEA investors held about $111 billion of advanced economy equities. This suggests that bond markets channel capital out of the region, while equity markets attract funds into the region.[10]

Balance of payments flow data, which break down portfolio flows into equity and bond flows, tell a similar story (table 2.12). On the whole, the region experienced an outflow of capital though net purchases of foreign bonds and an inflow through foreign net purchases of domestic equities.

Market liquidity – the main problem

A lack of liquidity can also be a problem: the market is illiquid, participants find it difficult to buy and sell bonds and the market ceases to be a true market. So liquidity is probably the best indicator of bond market development. Bid-ask spreads, i.e. the difference between the buyer's bidding price and the seller's asking price, are a common measure of liquidity, with a smaller spread indicating a more liquid market.

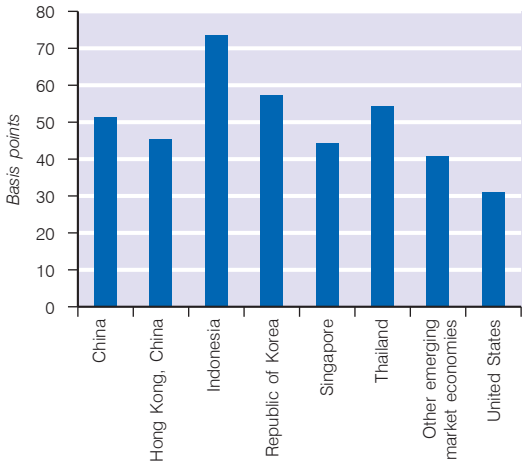
> *Market liquidity is a significant problem in China, Indonesia, the Republic of Korea and Thailand*

Figure 2.23 presents raw bid-ask estimates for corporate bond markets. According to this measure, all bond markets are less liquid, including the United States market and other emerging markets as well.[11]

[10] These statistics are based on the International Monetary Fund Consolidated Portfolio Investment Survey. Note: there is no data for China. For this study, the advanced economies consist of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Isle of Man, Italy, Japan, Liechtenstein, Luxembourg, Netherlands, New Zealand, Spain, Sweden, Switzerland, United Kingdom and the United States of America.

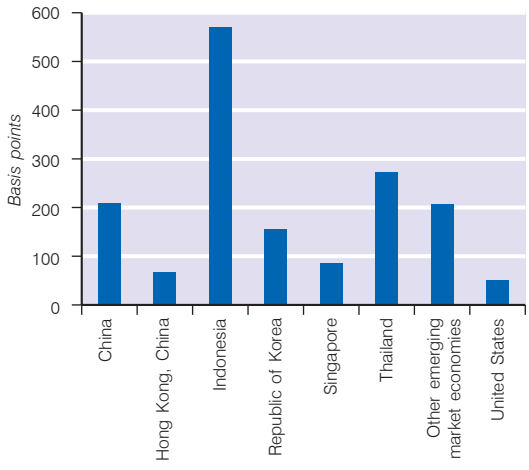
[11] The other emerging markets in figures 2.23 and 2.24 are: Argentina, Brazil, Chile, India, Kazakhstan, Mexico, Poland, Russian Federation and South Africa. Some caution is required in comparing markets because the credit risk in the sample is not the same across countries, e.g. the United States market contains bonds of lower credit quality than emerging markets, such bonds typically have higher bid-ask spreads.

Figure 2.23. Raw bid-ask spreads on corporate bonds – most markets less liquid



Sources: Hund and Lesmond (2007); Chen, Lesmond and Wei (2007); and ESCAP calculations.

Figure 2.24. Shadow bid-ask spread on corporate bonds – Singapore and Hong Kong, China more liquid



Sources: Hund and Lesmond (2007); Chen, Lesmond and Wei (2007); and ESCAP calculations.

However, the raw bid-ask measure is sometimes considered biased as it ignores cases when no bids or offers are made on a potentially tradable bond. The LOT liquidity measure (limited dependent variable model) (figure 2.24) accounts for this by including estimated shadow bid-ask spreads (see Lesmond *et al,* 1999). Once the adjustment is made, the markets of Singapore and Hong Kong, China appear much more liquid, but less liquid than the United States markets. Liquidity, by either measure, is a significant problem in China, Indonesia, the Republic of Korea and Thailand.

The market participant's view – reforms to creditor rights and exchange rate regimes are critical

A recent survey assessed how the current policy environment could be improved to promote commercially viable local currency bond markets in the Asia-Pacific region (Parrenas, 2006).[12] It found that capital market development was a problem in the Asia-Pacific region, and particularly for East Asia. The survey score measuring successful capital market development was 2.49 out of a possible 4 for the Asia-Pacific region (reflecting a view by survey respondents that the policy objective was just "partially to mostly met") and 2.37 for East Asia. The survey also found the objective of deep and liquid markets to be particularly poor; for the Asia-Pacific region the average survey score was 2.27, and for East Asia, 2.09.

> *"Market liquidity, creditor rights, well established government bond markets identified as most critical"*

The survey also asked participants to identify the areas in which reform was most critical, regardless of the degree to which the objectives had been successfully attained (see figure 2.25). Aside from market liquidity, which was perceived as requiring the most urgent attention across all markets, three other areas were identified. For less developed markets, clearly defined creditor rights, better insolvency proceedings

[12] Conducted by the APEC Business Advisory Council, the Pacific Economic Cooperation Council and the Asian Bankers' Association, the survey included respondents from 14 emerging markets in the Asia-Pacific region and received responses from 40 private financial sector institutions, more than two-thirds of whom were banks.

Table 2.12. Cumulative net portfolio flows in East Asia, 2001-2005

(Millions of United States dollars)

	Non-government bonds	All bonds	Equities
China	–25 379.2	–21 411.3	42 128.2
Hong Kong, China	–80 329.3	–80 329.3	–85 166.7
Indonesia	3 071.9	9 463.1	4 258.4
Malaysia	176.8	2 626.3	5 484.7
Philippines	–3 257.0	1 842.0	2 767.0
Republic of Korea	19 365.3	8 593.6	26 621.0
Singapore	..	..	..
Thailand	–2 482.1	–2 206.8	7 598.9
Total	–88 833.5	–81 422.4	3 691.6
Total excluding China	–72 548.0	–68 952.0	3 181.0

Source: International Monetary Fund, *Balance of Payments Statistics* (Washington D,C., IMF, September 2006).

and effective enforcement of creditor rights were seen as being most critical for bond market development.[13] In East Asia, these areas were of less concern in the more developed markets of Hong Kong, China, Malaysia and Singapore, but were clearly viewed as areas that required improvement in most of the other economies. Survey participants highlighted the benchmark government yield curve as an area requiring the most urgent attention of policymakers for the more advanced markets.[14] In East Asia, the objective of having a well established benchmark yield curve was seen as needing improvement in most markets, with an average score of 2.33 out of 4.[15]

The survey respondents from the most advanced markets also highlighted the need for the market to be opened up to many players (both domestic and foreign), continuity in economic policies and an exchange rate regime conducive to capital flows, as critical to local currency and regional bond market development. These responses suggest that market respondents are concerned with the "impossible trinity" discussed in box 2.3. That is, monetary policy needs to be consistent with the exchange rate regime and international capital mobility. Certainly monetary credibility and soundness are often identified in the theoretical literature on the subject (Eichengeen and Hausmann, 1999).

The lack of liquidity in East Asian markets is generally attributed to a preference for "buy and hold". Institutional investors, such as pension funds, buy long-dated fixed income securities to match their liabilities and have relatively little need to redeem them until maturity (IMF, 2005). But in corporate bond markets, weak creditor rights could be another reason for the apparent buy and hold strategy – the need to privately enforce one's creditor rights can make a bond too risky to hold for all but a limited number of "related" investors. For example, Malcolm (1997) reports on liquidity problems in the pre-crisis Hong Kong, China "Dragon Bond" market, where the lack of mechanisms to protect investors from credit risk, and keep them informed of such risks, meant that large banks, which had the resources to actively monitor and evaluate the activities of the borrowers, were the main buyers of bonds. Consequently, there was very little secondary trading, and the bond market acted as a quasi-banking sector.

Reforms to creditor rights and monetary policy could help

The foregoing review of the region's illiquid and relatively small corporate bond markets suggests some role for public policy to improve their functioning:

- establishing and maintaining a benchmark government yield curve;
- pursuing sound monetary policy;
- improving creditor rights.

[13] Less developed markets include China, Indonesia, Mexico, Peru, Philippines, Russian Federation, Thailand and Viet Nam.

[14] These markets included Chile, as well as the East Asian economies of Hong Kong, China, Republic of Korea, Malaysia, Singapore and Taiwan Province of China.

[15] Hong Kong, China, Singapore and Malaysia achieved the highest scores, suggesting that the objective had been mostly met in these countries, while China, Indonesia, Republic of Korea and Thailand received the lowest scores suggesting considerable room for improvement there.

Benchmark government yield curve

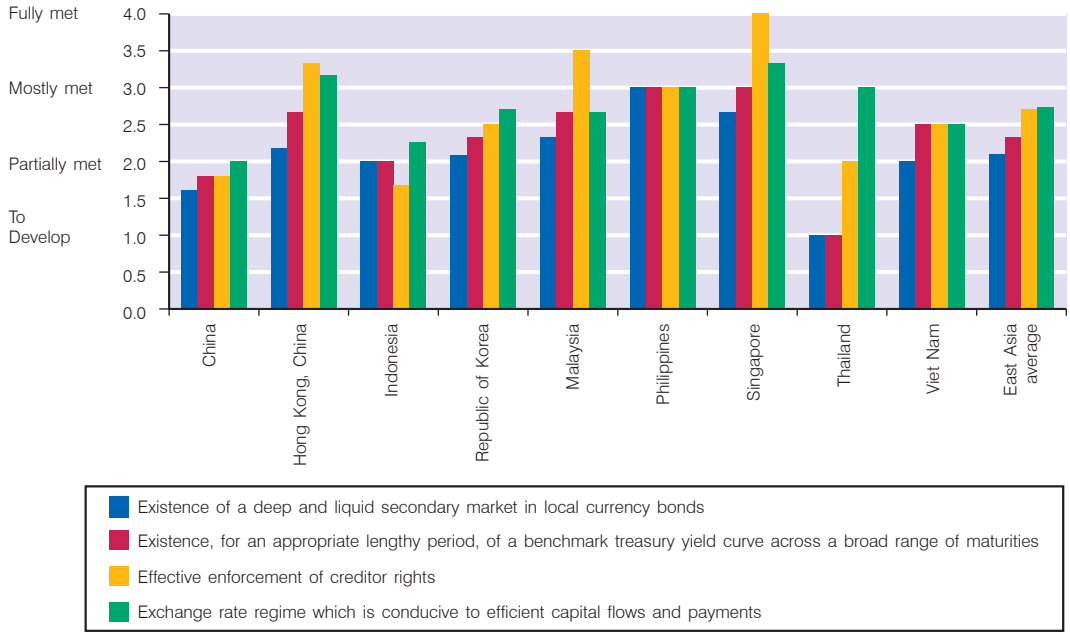
The theoretical benefits of a benchmark yield curve stem from the flow of information on the cost of funds and sovereign risk. Sovereign bonds are relatively well suited for this role because of their fairly straightforward nature. They are easy to price, straightforward to understand and, when market-determined, provide markets with important benchmark information. Since information has "public good" characteristics, the case for Governments to establish these markets as a means of providing this information is relatively uncontroversial. Moreover, the existence of a benchmark Government security can help investors to hedge against macroeconomic risks. Using data from emerging bond markets, Dittmar and Yuan (2006) found that the issuance of benchmark government bonds enhances corporate bond markets by providing more information, stimulating information production and improving liquidity in emerging corporate bond markets.

Sound monetary policies

Creating demand for local currency bonds (both corporate and government) involves adopting policies that produce what Caballero, Cowan and Kearns (2005) refer to as currency trust, i.e. the confidence of investors in the monetary authority's ability to commit to a sound monetary policy. If domestic borrowers are able to issue bonds in domestic currency, they are insured against external shocks that may cause volatility in the exchange rate. Foreign investors will offer this insurance only if they trust that the central bank will not behave opportunistically. If the market lacks confidence that the central bank can guarantee stable monetary policy, lenders will be reluctant to hold bonds denominated in domestic currency (box 2.3 elaborates on some aspects of monetary policy credibility).

Jeanne (2003) develops a formal model to explain why countries with no currency trust face higher local currency borrowing costs, which in turn leads to domestic borrowers preferring to borrow in foreign currency. Burger and Warnock (2006) test the currency trust hypothesis by using a data set that covers 49 domestic bond markets. They find that a history of high inflation volatility (a proxy for poor currency trust) significantly impedes the development of the local bond market and the share of a country's outstanding bonds dominated in local currency. An ESCAP analysis of the effect of past inflationary experience on the currency composition of debt finds that lower money supply growth, lower inflation and less variable inflation are all associated with a greater issuance of domestic

Figure 2.25. Areas where reform is most critical – the degree of policy success



Source: Parrenas (2006).

corporate debt relative to the total amount issued; the association is statistically significant.[16]

Creditor rights

The foregoing discussion suggests that better creditor rights and the enforcement of those rights are important for corporate bond market development and liquidity. This view is consistent with the findings of La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998), who showed that legal protection of creditor rights is important in the development of financial markets. The argument has also been applied to the development of corporate bond markets, and several commentators have claimed that improving and enforcing creditor rights is important in the development of the corporate bond market and market liquidity (see Knight, 2006; and Sundaresan, 2006). The paucity of good and reliable data has not made it possible to conduct an empirical analysis of the effects of creditor rights on corporate bond market liquidity. However, ESCAP analysis, based on a limited set of available data, supports the view that creditor rights are important for emerging bond market liquidity. Again, the association is statistically significant.[17] Further research in this area is crucial to determine what aspects of creditor rights are most important for liquidity and to generalize the findings to a wider range of countries.

Lessons

East Asian bond markets have grown rapidly in recent years, but nonetheless remain underdeveloped, and have not realized their full potential. They are not attracting foreign savings in the same manner that the region's equity markets do, and are not as liquid as might be hoped. Market participants have identified reasons, but among those needing most urgent attention are the lack of a well established government benchmark bond yield curve, concern that the exchange rate regime may not be compatible with capital flows, and weak creditor rights and ineffective enforcement of these rights. These concerns are consistent with available data and economic theory.

In many respects, the recommendation that Governments develop better government bond markets, improve monetary policy and develop better creditor rights is not new. Even so, the foregoing discussion suggests that these issues remain critical if bond markets are to deepen in the East Asian region. Although there are a number of important issues for policymakers to tackle, such as removing taxes and impediments to capital flows, encouraging fair and unbiased credit rating systems and developing the micromarket structure, many of these efforts will fail to bear fruit as long as underlying credit and currency risks remain.

[16] The data set covered the period 2001-2005 for 39 emerging market and advanced economies.

[17] The data set covers 14 emerging markets and uses liquidity measures taken from Hund and Lesmond (2007) and a variety of creditor rights and investor protection measures.

Developed countries – modest growth but Japan's revival bodes well for the Asia-Pacific region

In Australia, the economy grew by 2.5%, marking 16 years of expansion (figure 2.26). As in 2005, better terms of trade and strong business investment led the growth in domestic demand. The Japanese economy expanded by 2.2% in 2006, up from 1.9% in the previous year. Business investment was particularly important (see box 2.4). New Zealand continued to expand but at a weaker pace than in 2006, following the considerable slowdown it had experienced in 2005. Domestic demand, the key component of demand growth since 2002, remained weak, prompting a contraction of imports.

> *Australia's exports to China grew at 22.5% per year from 2000 to 2005 while exports to India expanded at 28.8%*

Australia's exports to Asia expanded at 5.9% per year in 2000-2005. Exports to China grew by 22.5% per year in the same period. Exports to India expanded at 28.8% in 2001-2005, jumping from 13th place to the 7th largest export partner of Australia. The growth in the value of exports was outpaced by strong imports in 2006. The current account deficit improved to 5.7% of GDP in 2006 (table 2.13).

For Japan, too, Asian economies, notably China, account for a larger share of trade in recent years. Almost half of Japanese exports go to East Asia, the source of more than 40% of Japanese imports. Export demand recorded double-digit growth in the second half of 2005 and the first half of 2006.

Strong export growth was exceeded, however, by robust merchandise imports in 2006, driven by higher prices for oil and raw materials. Continuing growth of domestic demand, in particular in business investment, also contributed to the strong growth of imports.

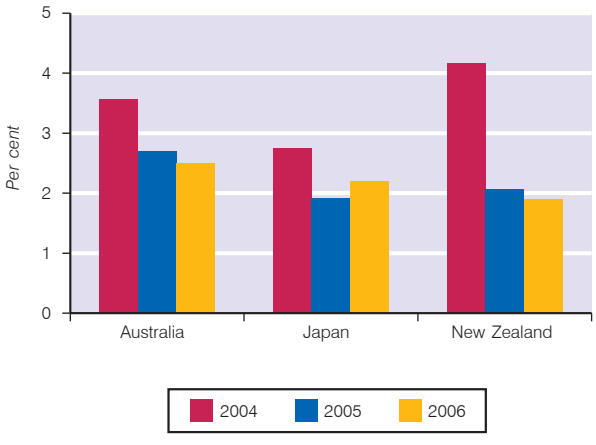
> *Almost half of Japanese exports go to East Asia, the source of more than 40% of Japanese imports*

In New Zealand, the trade deficit has narrowed since late 2005. International prices of the country's key primary commodities have risen to near historical highs in recent years, reflecting tight supplies. The growth of agricultural exports, however, was muted by weak manufacturing exports, which struggled with a strong currency, international competition and increasing input costs. Imports slowed significantly mainly as a result of reductions in capital equipment and intermediate goods, thereby continuing the decline that had begun in late 2005. The current account deficit remained alarmingly high at 8.1% of GDP in 2006.

Inflation pressure appeared to be looming in Australia, reflecting the combination of higher commodity prices and tight capacity. Consumer price inflation was contained, although the high prices of oil and bananas pushed the consumer price index from 2.7% in 2005 to 3.9% for the year to September 2006.

Japan appeared to have finally moved out of a seven-year-long period of deflationary pressure. Corporate

Figure 2.26. Economic growth picks up in Japan



Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); and ESCAP estimates.

Note: Data for 2006 are estimates.

Box 2.4. Asia-Pacific economies set to benefit from Japan's revival

The end of deflation has confirmed the recovery of the Japanese economy. GDP growth has continued to be robust this year, following on the good performance of the three previous years. Consumer price inflation was positive in the first half of 2006, following seven years of negative price growth. Japan's low but positive inflation rate augurs well for the healthy functioning of the economy as falling prices had discouraged investment and firms experienced eroding profitability and rising real debt burdens.

Japanese growth is being supported by increasing private consumption. Exports fuelled economic development in the past few years as the domestic economy remained subdued. Japanese enterprises are once again beginning to hire new workers following buoyant corporate profits.

Japan's revival will help the Asia-Pacific region to counteract the effects of a slowing United States economy, which remains the main market for most Asian economies. The size of the Japanese economy, the world's second largest and about twice the size of China, implies that even a modest expansion will have enormous effects on the region.

ESCAP simulations show that, if Japanese consumption were to grow at the same average annual rate of 4.4% as it did in the late 1980s, GDP growth in Japan and developing Asian economies would increase by 1.4 and 0.2 percentage points, respectively. Net exports of developing Asian economies would improve by 2.3 percentage points, while their current account balance as a percentage of GDP would increase by 0.1 percentage point.

Japan's economic revival is both a cause and consequence of China's success; Japanese enterprises are producing final goods in China, which have been assembled using inputs from Japan, and being sold in the United States. China was Japan's second largest trading partner in 2005, representing 17% of Japan's total trade – a slightly lower share than its total trade with the United States. Japan is China's third largest trading partner – with close to 13% of China's total trade – after the United States and the European Union. China is by far Japan's largest source of imports, accounting for 21% of Japan's total imports in 2005. These developments confirm how the economic prospects of Japan and China are now inextricably linked.

Renewed economic vigour in Japan has created significant export opportunities for other Asian economies as well. East Asian exports (excluding those of China) to Japan have increased by 32% in the past five years and accounted for more than 20% of Japanese imports. These exports have been driven by increased demand for primary commodities, as well as surging consumer demand for final goods. Commodity-producing economies, such as Indonesia and some of the Central Asian countries, will continue to benefit from this development. Increased demand for consumer goods will also benefit ASEAN economies. These countries are particularly favoured by Japanese enterprises as overseas manufacturing bases to satisfy demand for home electronics in Japan.

With the growing importance of Asian countries as trade partners, a solid recovery of Japanese economy will benefit the countries in the region, while the sustainability of the current growth depends largely on the growth of Japan's domestic consumer demand.

price inflation, which registers changes in wholesale prices, was growing fast, while consumer price inflation was hovering around zero. In New Zealand, the consumer price index recorded an annualized increase of 4% in the second quarter of 2006, followed by 3.5% in the third quarter.

In Australia, economic growth is expected to continue in the coming years, expanding at around 3%. Domestic demand is expected to remain strong. In Japan, growth is also expected to continue in the coming years, although at less than 2%. The performance of the corporate sector will remain favourable, while the growth of consumer expenditure may depend on income growth. In New Zealand, weaker consumer demand and business investment will drag GDP growth to around 1.8% in 2007, with an expected rebound the following year.

Table 2.13. Current accounts improve

(Per cent)

	Exports/GDP		Imports/GDP		Current account balance/GDP	
	2005	2006	2005	2006	2005	2006
Australia	15.4	17.7	17.4	19.0	−6.0	−5.7
Japan	12.5	14.0	10.4	12.3	3.6	3.7
New Zealand	20.0	22.0	24.2	25.1	−8.8	−8.1
	Growth rates (per cent)					
	Exports			Imports		
	2004	2005	2006	2004	2005	2006
Australia	−2.9	14.7	22.6	−3.4	7.5	16.7
Japan	20.5	5.4	7.5	19.3	15.8	13.6
New Zealand	15.9	9.4	−4.2	20.7	14.5	−2.1

Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006); and ESCAP estimates.

Notes: Data for 2006 are estimates. Trade figures for 2006 refer to January-October, except New Zealand which refers to January-September. New Zealand's import values are expressed as f.o.b. Exports/GDP and imports/GDP for 2006 refer to the first three quarters.

Policy research feature 2.5: Are inequality and poverty rising in Japan?

Recent increases in the Gini coefficient and relative poverty rate are leading observers to conclude that inequality and poverty are on the rise in Japan (OECD, 2006). This contrasts with the perception of Japan as an egalitarian society with most Japanese considering themselves as "middle class". Some observers see the deterioration of living conditions as more psychological rather than actual, with higher unemployment, declining household income and more homeless people in urban areas.[18] Others see the inequality and poverty that became prevalent during the decade-long recession as serious. Japan's challenges may be a signal of what other countries may have to face in the future: an ageing population; an unsustainable social security scheme to support the elderly; economic recessions prompting budget deficits and social spending on the unemployed.

> *Some observers see the deterioration of living conditions as more psychological than actual*

A less equal society? Income inequality is rising

The inequality of household income, as measured by the Gini coefficient, has been increasing gradually in Japan since the 1980s and is now rising much faster than the average in the OECD countries (OECD, 2006). Other measures, such as the P90/P10 decile ratio,[19] reflect similar trends.

This development is considered as a reflection of changing demographic and household composition.[20] Older people typically exhibit wider income inequality within their own age group because many of them do not receive any wage income. So an increase in the size of the elderly population increases the weight of low-income groups, thereby pushing up the Gini coefficient. Moreover, observations of household sizes indicate a growing number of one-person households and thus low-income households, contributing to the higher Gini coefficient.

> *The widening wage disparity among young people is a great concern as it reflects a rising number of lower paid non-regular workers*

Japan's ageing population and inequality among the elderly is creating a growing pool of poor and old people. Moreover, the widening wage disparity among young people is of great concern as it reflects a rising number of lower paid non-regular workers (Ota, 2005). In the long run, their limited income prospects could translate into wider and more persistent inequality among the population as a whole (Japan, Ministry of Health, Labour and Welfare, 2006a).

Wage inequality, too, is rising

The inequality of individual wages has also increased in the past decade, particularly among younger generations. The Gini coefficient of wage income for those aged 25-34 increased from about 0.22 in 1994 to about 0.25 in 2005, while that of those aged 45-54 remained about 0.3 (JRI, 2006). This trend reflects an increase in non-regular workers, who typically earn much lower salaries than regular workers, as well as a large increase in non-regular workers among the young. The wages for non-regular workers are on average 40% lower than those of regular workers, and many do not have the same social security coverage that regular workers enjoy. The number of non-regular workers has doubled in the past five years and many of them hold part-time jobs (figure 2.27). The increase in part-time workers among younger age groups is particularly significant, as reflected in the proportion of male part-time workers aged 20-24, which jumped from around 3% in 1990 to almost 25% in 2005.

The above observations prompt concern over a further widening of inequality. Many young low-income earners live with their parents or expect some support from them, so the impact on household inequality has not yet become apparent. Non-regular workers seeking regular employment face towering barriers.

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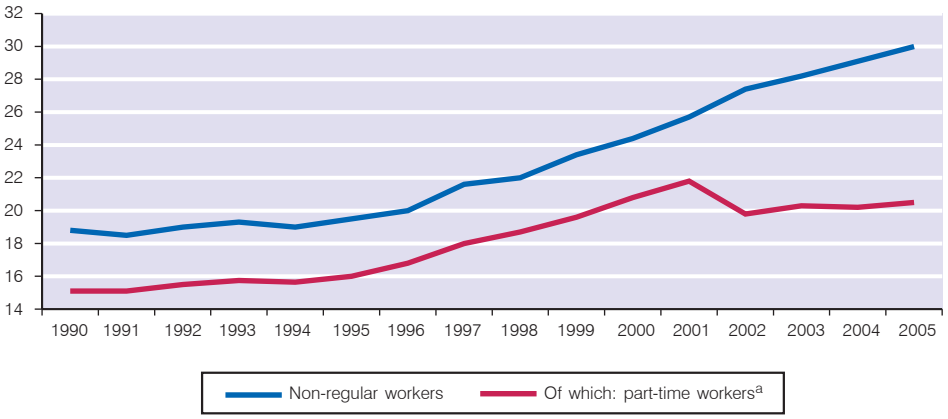
18 Ministry of Health, Labour and Welfare website, <www.mhlw.go.jp/houdou/2003/03/no326-5.html>.

19 The ratio of the lower bound value of the top income decile to that of the bottom.

20 Japan, Cabinet Office website, reference material for Monthly Economic Report, <http://www5.cao.go.jp/keisai3/getsurei-s/0601/pdf>, January 2006.

Figure 2.27. The share of non-regular workers

(Per cent of total employed persons)



Source: Organisation for Economic Co-operation and Development, *Economic Survey: Japan* (Paris, OECD, 2006).

[a] The significant fall in the number of part-time workers in 2002 and the rise in the other categories is thought to be due to a change in the questionnaire.

Young regular workers can expect higher incomes as they approach retirement, while the wages of those in part-time work will remain almost flat until their retirement (figures 2.28 and 2.29). For non-regular full-time workers, the hourly wages are not necessarily lower than those of regular workers. But their limited social security coverage – either because they were themselves unwilling to seek proper coverage due to a reluctance on the part of the employers – and limited on-the-job training opportunities inject uncertainty into their earning prospects.

> *Young people who missed the opportunity to start their career as regular workers during the recession are continuing to experience difficulties in transferring to regular employment*

Recent data show some increase in regular employment along with economic recovery, with the share of part-time workers unchanged or declining among the young. However, the share of part-time workers aged 25-29 is still edging up, suggesting that those who missed the opportunity to start their career as regular workers during the recession may be continuing to experience difficulties in transferring to regular employment.

Employees receive fewer benefits of growth

Despite the economic recovery, employees do not seem to have shared the benefits. The share of employee income in the national income has declined over the past five years as corporate income has increased steadily (figure 2.30).[21]

Evidence of poverty

Relative poverty.[22] Examining poverty in a developed country requires different indicators from those for developing countries. According to the OECD, the relative poverty rate increased in Japan from 11.9% in the mid-1980s to 15.3% in 2000. Poverty gaps – the extent to which the average income of the poor falls below the poverty threshold – has also increased. A combination of these two indicators rates Japan as having the third highest incidence of poverty among the 27 OECD countries, following Mexico and the United States.[23]

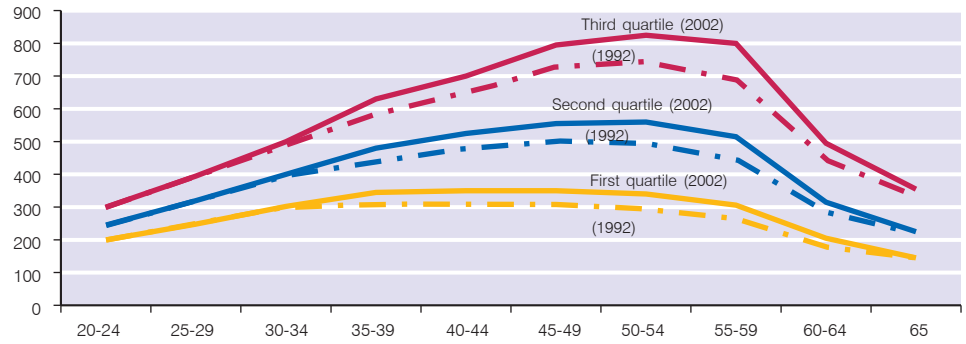
[21] Japan, Cabinet Office website, <http://www.esri.cao.go.jp/en/sna/h16-kaku/96ffm2_en.xls>.

[22] The relative poverty rate is the share of people with equalized disposable income less than half of the median income.

[23] It is the poverty rate multiplied by the poverty gap, measuring the size of the income transfer required to raise all those in poverty up to the poverty threshold.

Figure 2.28. Annual income of regular workers

(10 000 yen)

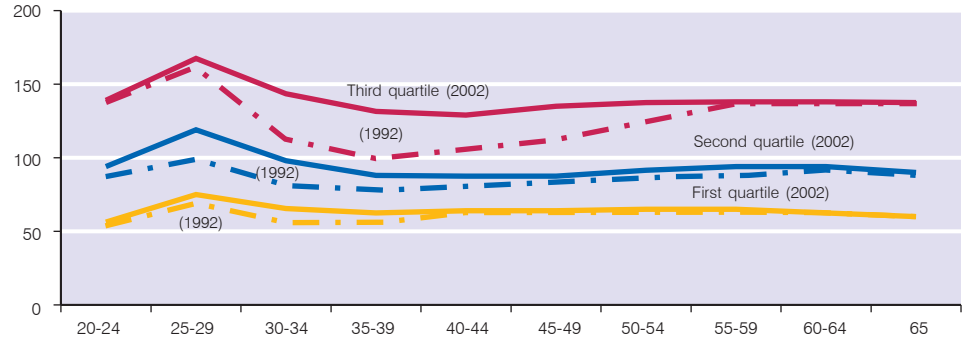


Source: Japan, Ministry of Health, Labour and Welfare, *Analysis of Labour Economy* (Tokyo, 2006).

Note: The data above shows the annual income (2002 in solid line and 1992 in broken line) for the lowest three quartiles of population by income.

Figure 2.29. Annual income of part-time workers

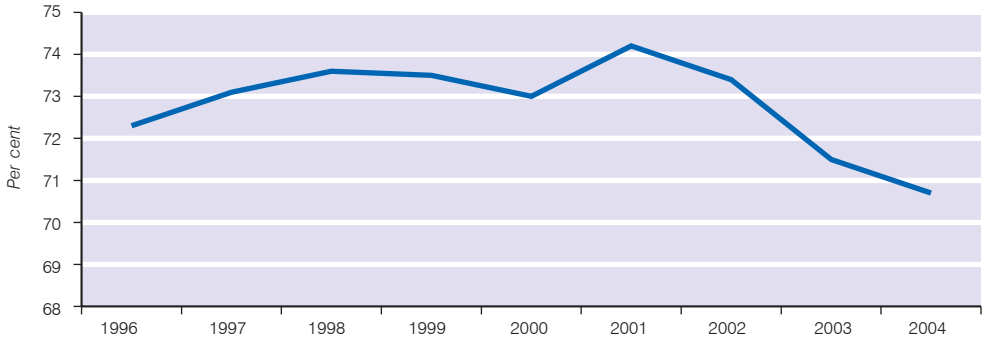
(10 000 yen)



Source: Japan, Ministry of Health, Labour and Welfare, *Analysis of Labour Economy* (Tokyo, 2006).

Note: The data above shows the annual income (2002 in solid line and 1992 in broken line) for the lowest three quartiles of population by income.

Figure 2.30. Share of wages and salaries and employers' social contribution in national income



Source: Japan, Cabinet Office, *Distribution of National Income and National disposable Income* (Tokyo, 2006).

> *Using the threshold for social assistance for different types of households, poverty rates increased from 7.5% in 1995 to 10.8% in 2001*

Absolute poverty. While there is no clearly defined national poverty line in Japan, the criterion for assistance under the social welfare scheme, those persons who are unable to provide a minimum living standard – may be considered as a proxy for the absolute poverty line. The threshold amount varies depending on the size of households, age of family members and geographic locations. For instance, in 2004, it was set at ¥162,170 for a household with three family members in a large city, and ¥62,640 for a household of one elderly person in a rural area.[24] Using the threshold for social assistance for different types of households, one study estimates that poverty rates increased from 7.5% in 1995 to 10.8% in 2001, and from 7.5% to 16.5% for working age one-person households (Tachibanaki and Urakawa, 2006).

More dependence on social security

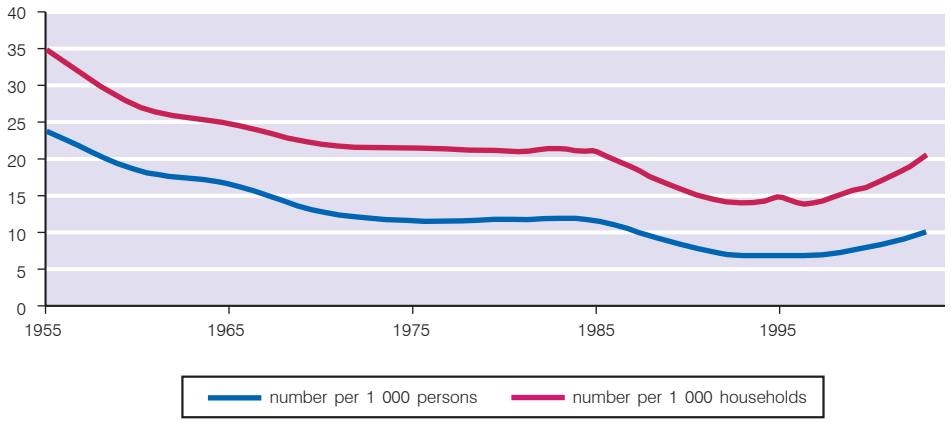
The number of people relying on social security has increased since the mid-1990s. The number of beneficiaries rose from less than 0.6% to more than 1% of total population (figure 2.31). By 2005, more than 1.2 million people received income support. And according to some estimates, the actual number of beneficiaries is less than 20% of those eligible.

Fewer households saving

In 2003, one household in five said it had no savings. The ratio of total savings to GDP has fallen from around 16% in 1992 to just around 6% in 2002. And the share of households with no savings or financial assets has increased to 21.8% in 2003, a sharp contrast to the 5-10% in the 1970s and mid-1980s. The increase is particularly significant among the young, partly reflecting consumption patterns and the rise in low-paid part-time work.

The over 60 age group has reduced its savings rate in the past 10 years, while other age groups maintained more or less similar trends, suggesting that the older generations were obliged to dissave to meet pressing needs.

Figure 2.31. Share of beneficiaries of social assistance



Source: Japan, National Institute of Population and Social Security Research.

Note: The long-term decline over the last 50 years reflects the income level at the time as well as changes in the coverage of the scheme in terms of income thresholds and eligibility criteria.

[24] Japan, Ministry of Health, Labour and Welfare website, <http://www.mhlw.go.jp/bunya/seikatsuhogo/seikatuhogo.html>.

More people without State pensions

The population not covered by any pension scheme has increased from 31.2% (male) and 36.6% (female) of the total population in 1995 to 36.3% and 41.4% in 2004 (Japan, Ministry of Health, Labour and Welfare, 2006b). Those receiving State pensions, including many non-regular workers, are receiving pensions that are lower than the threshold for social assistance. This contrasts starkly with pensions for regular workers who receive a basic pension in addition to a pension based on their earnings, which is on average three times the amount of the basic pension.[25]

Fewer opportunities to move out of poverty?

Some argue that income inequality is not a major issue as long as there is reasonable equality in mobility opportunities among the different income groups. But there are difficulties in moving from non-regular employment, or unemployment to regular employment, which around 70% of young people (20-34 years old) prefer (Japan, 2005). And employers are still reluctant to take on more regular workers and convert non-regular workers into regular workers. Higher education will not resolve this problem as the cost is prohibitively high for low-income households, which in turn limits their opportunities and their prospects for higher incomes.

[25] Japan, Tokyo Metropolitan Government, Bureau of General Affairs website, <http://www.toukei.metro.tokyo.jp/ssihyou/ss05qd0100.pdf>.

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CHAPTER 3. GENDER INEQUALITY CONTINUES – AT GREAT COST

Gender discrimination has widespread ramifications and clear economic and social costs. Blocking the access of women and girls to education and health is detrimental to human capital development and labour force participation, and thus to individual welfare and economic growth. The opportunities that women must forgo have an intergenerational impact, impairing the health, education and well-being of their children and grandchildren. Women's voicelessness and inability to exercise rights deprive them of assets and obstruct economic and social participation. Violence against women has life-long psychological costs, robbing them of self-esteem and aspirations.

> *"Gender discrimination is widespread and has intergenerational effects"*

The Asia-Pacific region has made good progress in reducing gender discrimination in recent years, but appalling disparities remain. This chapter first assesses the economic and social costs of gender discrimination in the region. It finds those costs to be enormous. The region is losing $42-$47 billion a year because of restrictions on women's access to employment opportunities. Gender gaps in education costs $16-$30 billion a year. These are just the economic costs – added to them are social and personal costs.

The chapter next analyses the status of gender inequality and the factors contributing to it. Gender discrimination in the region is most visible in the low access women and girls have to education and health services, to economic opportunities and to political participation. Female primary school enrolment can be as much as 26% lower than that of males. Such disparities are also reflected in access to health. The female-to-male ratio in the population is deteriorating, particularly in North and Central Asia, South Asia and the Pacific island countries, reflecting women's inadequate access to health services. In some countries one in every 10 girls dies before reaching the age of one, and one in every 50 women dies during pregnancy or delivery. Meanwhile, violence against women continues unabated, indicating how voiceless women are in households and in countries.

The chapter then proposes several policy recommendations to reduce gender discrimination:

- Establish schools closer to villages and provide safe transport for girls. Safety concerns make the lack of schools close to where girls live a key constraint. Providing gender-specific facilities, such as toilets, may also be necessary.
- Implement legislation ensuring the rights of women to equal access to basic health services in countries where institutional barriers, cultural practices and misconceptions prevent access. Political leadership and commitment will be needed for success.
- Ensure that women are not discriminated against in recruitment, wages or promotions. The public sector should be a model for the private sector.
- Focus on achieving gender equality in the family – where gender discrimination often has its roots, so that efforts spill over to society at large.

Economic and social costs of gender discrimination

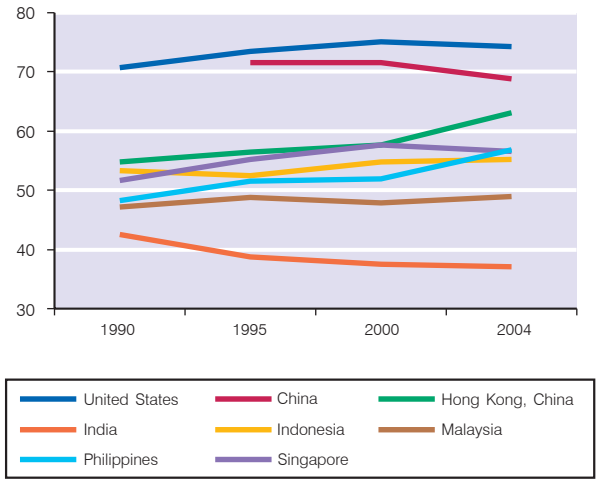
The economic and social costs of gender discrimination are huge. Discrimination obstructs women's participation, reduces their productivity and diverts resources. Barriers to female employment raise labour costs and lower international competitiveness, preventing women from entering the market at competitive wages.

Cost of restrictions on labour force participation – $42-$47 billion a year

A 30-40% gap in male-female labour force participation rates is common in the region's developing countries (figure 3.1). To evaluate the effects on economic growth and output of gender discrimination in labour force participation, a simulation study was conducted for 2000-2004, covering seven economies in the region. These economies account for nearly two thirds of the region's developing-country output and three-quarters of its population. The United States – with the highest female labour force participation rate (86.0%) among OECD countries – was taken as the benchmark. To estimate the impact of gender equality on output and growth, labour force participation in the selected Asian economies was increased to the benchmark. Estimates were also made for an alternative policy scenario, a permanent 10% increase in female labour force participation. It is assumed that the unemployment rate remains the same as the baseline. This scenario would mean a significant increase in the participation of women in India, Indonesia and Malaysia.

Figure 3.1. Female labour force participation in selected countries, 1990-2004

(Per cent)



Sources: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006); International Labour Organization website, <http://laborsta.ilo.org>; and ESCAP calculations.

> *Huge economic and social costs of gender discrimination should open the eyes of all stakeholders*

Higher female participation and the (assumed) increase in employment would raise output and output growth in the region (table 3.1). If the increase is absorbed to generate productive employment, per capita GDP will rise even if wages and productivity remain the same. Both supply and demand effects play a role. Increased employment could boost production, especially in labour-intensive sectors. Higher income from new employment could also stimulate consumption and domestic demand.

The greatest effects would be felt where female labour force participation is currently lowest: in India, Malaysia and Indonesia. If India's female participation rate reached parity with that of the United States, its GDP would increase by 4.2% a year and its growth rate by 1.08 percentage points – an annual gain of $19 billion. A 10% permanent increase in female participation would mean a gain of $5 billion a year. Malaysia's GDP would grow by 2.88% if female participation rose to the United States level, a 0.77 percentage point increase in the growth rate, and Indonesia's GDP would grow by 1.38% – a 0.56 percentage point increase in the growth rate. The impact on countries with relatively higher female labour force participation, such as China, would be relatively low.

Table 3.1. Impact of gender equality in labour force participation, 2000-2004

Country	Impact of an increase in the female labour force participation rate to the benchmark level		Impact of a 10% (permanent) increase in female labour force participation rate	
	Percentage point change in the growth rate	Amount in billions of dollars	Percentage point change in the growth rate	Amount in billions of dollars
China	0.03	1.1	0.05	2.5
Hong Kong, China	0.22	1.2	0.22	1.0
India	1.08	19.0	0.31	5.4
Indonesia	0.56	2.4	0.32	1.3
Malaysia	0.77	1.7	0.33	0.7
Philippines	0.54	0.2	0.33	0.1
Singapore	0.55	1.2	0.34	0.7

Source: ESCAP estimates.

Table 3.2. Economic gains from increased female labour force participation in developing countries in the Asia-Pacific region

Method	Estimation results	Gain for the region (Billions of dollars)
Simulation study for seven major developing economies in the Asia-Pacific region.	Increase in female labour force participation rate to United States level could increase growth 0.03-1.08%.	42.7[a]
Simulation study for seven major developing economies in the Asia-Pacific region.	Same as above. Average GDP (level) elasticity of female labour force participation 0.01.	47.3[b]

Source: ESCAP calculations.

[a] The results of the simulation on the seven countries are extrapolated for the region as a whole by using GDP shares.
[b] Estimates for other developing countries in the region are based on the average growth elasticity of the female labour force participation rate of the seven countries.

The change would imply a gain of $42.7 billion a year for the region, extrapolating these estimates based on GDP shares. Using an average elasticity of 0.01 to calculate the impact of gender equality in other developing countries indicates an annual gain of $47.3 billion for the region (table 3.2).[1]

These estimates, although based on strong assumptions, highlight the opportunity costs of gender discrimination. While absorbing many women into the labour force quickly could present difficulties for countries with high unemployment, Japan and other labour-importing countries with low female participation could benefit greatly in the medium to long term.

Cost of gender gaps in education – $16-$30 billion a year

The potential gains from educating women are huge, but so are the costs of inaction. Because women invest more in children's health and education, the returns from educating women could exceed those for men – and create an intergenerational spillover. Greater access to education and labour force participation will lower child mortality and undernutrition and increase education for the next generation. But continuing gender bias in education compromises progress in other important development goals (Abu-Ghaida and Klasen, 2002). When less able boys are substituted for girls, this bias could act as a distortionary tax, leading to misallocation of resources and lower economic growth (Dollar and Gatti, 1999).

[1] These estimates cover only developing countries in the region. Including developed countries, doubles the gain to $89 billion a year – Japan would gain as much as $37 billion.

> *Economic returns from women's education could exceed those for men*

Deficits in female education also impose direct economic costs by lowering labour productivity. Economic growth depends on human capital and education. An educated labour force spurs growth by thinking creatively and adapting to new tasks and technologies. In the United States, more than two thirds of output growth over the past 40 years has come from labour productivity: Education contributes 13-30% of this growth.

How large are the costs of not educating women? According to ESCAP estimates, a 1% increase in female secondary school enrolment rates would lead to a 0.23% increase in the region's annual growth, results that are consistent with the 0.3 coefficient of Dollar and Gatti (1999) for developed countries. The results of ESCAP estimates are also consistent with Knowles and others (2002) where a 1% increase in the average years of female schooling would increase average GDP by 0.37%. They also find that a 1% increase in female schooling would increase GDP growth by 0.2% (table 3.3).

The region loses $16-$30 billion a year from gender inequality in education. Because of diminishing returns, countries with the lowest levels of schooling will benefit most from investing in women's education.

Box 3.1. The cost of the gender gap in education – empirical evidence

Several studies have considered gender inequality in education and its impact on economic growth. The results are not conclusive. Barro and Lee (1994) and Barro and Sala-i-Martin (1995) find a negative relationship between female primary and secondary years of schooling and economic growth. Criticizing these estimates as the result of multicollinearity, Dollar and Gatti (1999) show that an increase in female secondary education leads to an increase in output in developed countries. Their results, however, are insignificant – though positive for developing countries and the full sample (both developing and developed countries).

Hill and King (1995) and Knowles and others (2002) suggest a positive relationship between female education and growth. They find that female education has a significant positive effect on growth. The male coefficient is insignificant. Klasen (1999) finds that if more had been done in South Asia and sub-Saharan Africa in 1960 to promote gender-balanced growth in education, annual economic growth could have been 0.9% faster. Gender inequality in employment may have reduced growth by another 0.3% compared with East Asia. There is a consensus that the relationship between female education and growth is positive, but the methodological issues and differences in estimates indicate the need for further research.

Table 3.3. Economic gains from better gender balance in education in the region

Method	*Estimation results*	*Gains for the region (Billions of dollars)*
Panel data regression for 27 countries	Elasticity: 0.227	17.6
Cross-country level and growth regressions	Growth regression: elasticity of 0.2	16.0
Cross-country level and growth regression	Level regression: elasticity of 0.37	30.9

Sources: ESCAP calculations; Knowles and others (2002).

Notes: The elasticity was used to compute the impact of raising female secondary education to the level of male secondary education in all developing countries in the ESCAP region. The reported value is the annual average for the period 2000-2004.

Cost of restrictions on access to health services

Gender discrimination in access to health services imposes further economic costs, both direct and indirect:

- Increased service charges and costs for drugs and transport.
- The loss of income and social assets (such as education) during sickness.
- Diminished productivity, reducing income and output.
- Deterioration of children's health and education.
- A shrinking labour force – lower life expectancy reduces labour supply.

Many female health problems are linked to gender discrimination, especially discrimination in accessing health services. Improved health enhances productivity by increasing workers' strength, endurance and cognitive functioning and reasoning – the link is well established (Bloom and Canning, 2005). Good health means longer life expectancies and a larger workforce – an important factor of production, particularly in labour-intensive sectors.

Infant and maternal mortality – often resulting from women's lack of access to health services – is negatively correlated with output: Lower output and income are linked to higher maternal and infant mortality, while higher income leads to better outcomes. The relationship is especially strong at low incomes (figures 3.10 and 3.11). But improved health can drive growth only with a strong macroeconomic environment, efficient institutions and good governance.

An increase in life expectancy by one year could increase output by 4% (Bloom, Canning and Sevilla, 2001). It would have a greater impact in South Asia, where gender discrimination has left women's life expectancy 10% lower than in North and Central Asia. Improved nutrition would also have significant effects: a cross-country study found that an increase in the dietary energy supply of a person by 500 kilocalories a day could raise economic growth by 0.5 percentage points (Wang and Taniguchi, 2002). Countries with high child malnutrition and female nutritional deficiencies would benefit the most.

The spectre of HIV/AIDS also haunts the region's women. Women's disempowerment means that they cannot force partners to use condoms during sex, much less during sexual assault or rape. The cost of HIV/AIDS is now so high that some countries can no longer afford to bear it. The region lost $7.3 billion in HIV/AIDS-related treatment costs in 2001 – an amount that is likely to increase to $17.6 billion by 2010 (ADB/UNAIDS, 2004).

Social costs of gender discrimination

The social costs of gender discrimination are large, though difficult to assess quantitatively. Gender-based violence can have a lasting psychological impact on its victims, lowering women's self-esteem, productivity and wages and destroying marriages – with all of the costs that children ultimately pay. It can lead to depression, post-traumatic stress and alcohol and substance abuse. Violence before and during pregnancy also has serious health consequences: miscarriage, premature delivery and low birth weight. Violence against women imposes financial costs – counseling fees, medical expenses and legal bills. Estimates for the region are not readily available, but in Canada the costs are about $900 million a year, indicating their potential magnitude (UNFPA, 2000).

> *"The death of a mother increases 3-10 times the chance that her children below age 10 will die within two years"*

About a million Asian children, mostly girls between 5 and 15, are lured or forced to work in the commercial sex market every year.[2] The psychological damage lasts a lifetime and perhaps into the next generation, with resentments passed from mother to child. Diminished self-esteem and aspirations restrict opportunities, leaving women feeling trapped and helpless.

The key role of the mother in household affairs – particularly in children's health and education – means that her education and aspirations can shape a stimulating home. This makes women an important defence against all the costs of shortcomings in children's education: crime, prostitution and violence.

A mother's illness and death deals a powerful blow to families, especially children. In nuclear families, in cities and among the middle class, widowed husbands find it especially difficult to manage household affairs without their wife. More often, girls take on the mother's role. The death of a mother increases 3-10 times the chance that her children below age 10 will die within two years (Strong, 1992).

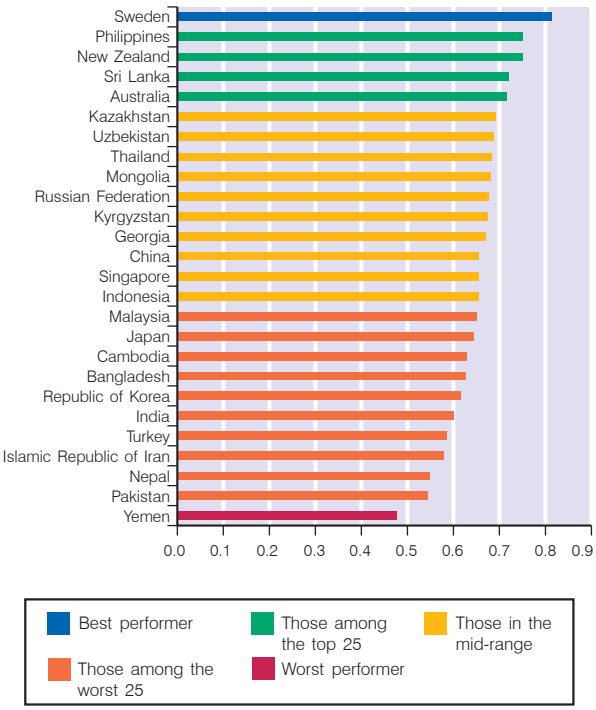
[2] See the Worst Forms of Child Labour in Asia, available at <http://www.cwa.tnet.co.th/Issues/ChildLabourAsia/worst_forms_child_labour.html>.

Progress towards narrowing the gender gap

Substantial progress has been made in reducing gender discrimination in Asia and the Pacific, though the pace has been uneven between subregions and individual countries:

- Women's life expectancy increased from 44 years during 1950-1955 to 70 years in 2000-2005, with a slightly higher growth rate for women than men.
- Infant mortality has declined from 171 deaths per 1,000 live births in 1955 to 52 deaths in 2000, while adult female mortality has dropped by more than 40% since 1960 for most of the countries in the region.
- Women's literacy rate increased from a range of 1-99 in 1960 to a range of 21-100 in 2000.
- The number of women parliamentarians has increased 50% since 1997.

Figure 3.2. The gender gap index, 2006



Source: World Economic Forum, *The Global Gender Gap Report 2006* (Geneva, WEF, 2006).

But pockets of extreme discrimination persist. And some gender discrimination exists, almost unnoticed, throughout the region.

> *Gender discrimination has no boundaries – it is everywhere*

The Philippines and New Zealand are the only countries in the region in the top ten of a global index of gender equality (figure 3.2).[3] The Philippines is the regional leader, with good performance in all four areas of the index: economic participation and opportunity, educational attainment, health and survival and political empowerment. Sri Lanka and Australia were the only other countries among the top 25. Australia ranked high in education, economic participation and political empowerment, while Sri Lanka scored high in gender equality in health and political empowerment. But almost all South Asian countries, with the exception of Sri Lanka, and the Republic of Korea, were among the bottom 25, with large gender imbalances in economic participation, health and education.

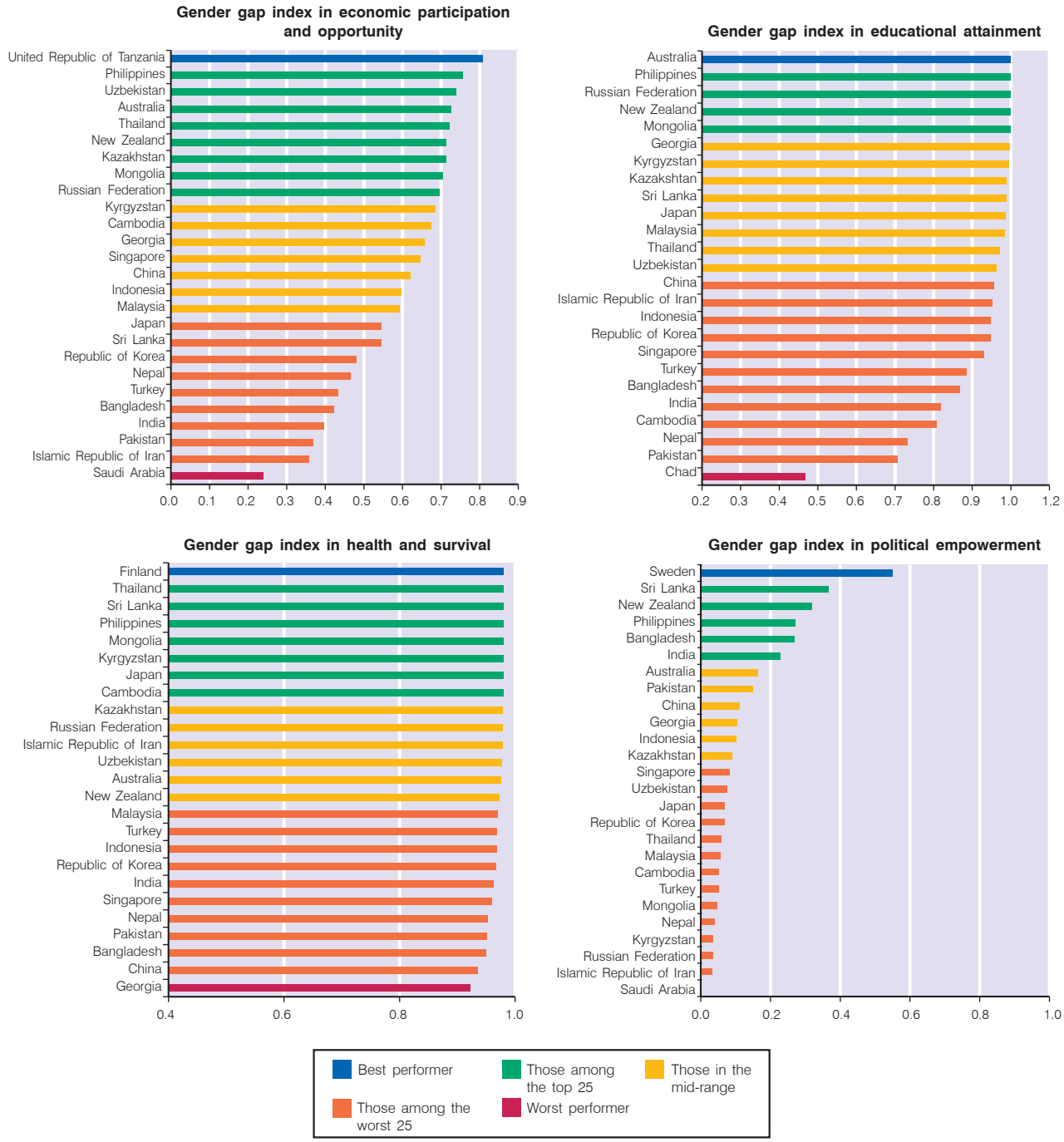
There are wide differences among countries of the region in women's economic participation and political empowerment (figure 3.3). Some perform better than others. The Philippines is the regional leader in three of the four areas (box 3.2). But gender discrimination is high in most South and South-West Asian countries in economic participation, education and health. Despite strong health scores for some countries, many others have poor records, especially Nepal, Pakistan, Bangladesh, China and Georgia. South Asia performs better in political empowerment, while women in Central Asia have less political empowerment.

Economic participation – women's autonomy is the key to success

Women's labour force participation – and thus their role in the economy – is restricted by many obstacles:

[3] The index is an unweighted average of gender gap subindices for economic participation and opportunity, educational attainment, health and survival and political empowerment. The value ranges from 0 (inequality) to 1 (equality).

Figure 3.3. Gender gap indices of selected countries



Source: World Economic Forum, *The Global Gender Gap Report 2006* (Geneva, WEF, 2006).

Box 3.2. Closing the gender gap in the Philippines

A recent study ranked the Philippines the top Asia-Pacific country in achieving gender balance and sixth in the world. The only country in the region to have closed the gender gap in both education and health, the Philippines is also one of only five countries in the world to have done so (World Economic Forum, 2006).

There are more literate women than men among 15-24-year-olds (ratio 1.01:1.0). Women fare better in school enrolment, with the gap widening at higher grades. Women outpace men by 20% in secondary enrolment and 28% in tertiary enrolment. At 61.5 years, healthy life expectancy is 8% higher for women and is rising more quickly than for men. Female employees account for 53% of the total workforce, dominating the bureaucracy. In non-agricultural wage employment, the female to male ratio is 0.83, relatively high for the region. Women contribute more than men in agriculture, fishery, forestry, manufacturing, finance, insurance, wholesale and retail trade, real estate and business services and community, social and personal services (Virola, 1998).

The success of the Philippines reflects past history and current policy. Even during pre-colonial times, women enjoyed a degree of economic independence. Dominant in the daily management of the household, women allocated limited resources to satisfy needs as fairly as possible (Villegus, 1996). In the past two decades, government policies raised women's status, making gender issues part of development long before it became an international norm.

After constitutionally affirming women's equality in 1987, the Government introduced the 1987-1992 Medium-Term Philippines Development Plan, followed by similar plans in the years that followed. These policies empowered women by increasing their participation in decision-making and improving their access to education, health and employment. To promote shared parenthood and non-stereotyped gender roles, gender concepts have been included in public school curricular. Women's access to technology-based education and training has been improved, while literacy classes and livelihood training have been conducted for rural women. Services are provided in safe motherhood, adolescent and youth health and treatment of breast and reproductive cancers.

Gender responsive legislation (for example, laws penalizing sexual harassment in the workplace) and affirmative action have improved women's employment conditions, income opportunities and access to microcredit and employment assistance. Policy reforms requiring the consent of both spouses in land-related transactions have made agrarian reform more gender-responsive. Programmes promoting leadership training for women, encouraging more women candidates in elections and providing welfare services for women to enter politics have enhanced women's participation in decision-making.

While many countries in the region have similar policies, they have failed to deliver. The success of the Philippines reflects the need for commitment at the highest level of Government.

lack of proper education, discrimination in wages and promotions, cultural attitudes, harassment at work and difficulties in reconciling work-life balance (child-rearing). The largest shortfall in female participation is in South and South-West Asia (figure 3.4). In 2004, female participation was especially low in Turkey (26.4%), Pakistan (26.5%) and India (28.3%). In North and Central Asia, however, female participation is approaching parity in several countries, reflecting better access to education and employment. In Cambodia, women are more active in the labour force than men, even without a conscious policy to promote gender balance – thirty years of conflict left many widows as the main breadwinners.

Even when women are active in the labour market they may not have a decent job. The informal sector, with its low wages and limited opportunities to gain

skills, provides jobs for the majority of employed women. The low skills required in the informal sector suits the low educational achievements of many women, making it the employer of last resort. Women also make up the majority of the unemployed. In Pakistan, women's unemployment was 17% in 1997-2003, compared with 7% for men. The rates were similar in Sri Lanka (15% for women and 6% for men) and Armenia (14% for women and 6% for men).

> *Lack of education, discrimination in wages and promotions, cultural attitude, and harassment at work restrict women's entry into the labour market*

More than 80% of employed women in Bangladesh and the Lao People's Democratic Republic work in agriculture. The agriculture share is over 70% in Cambodia and Pakistan. Women's lack of education drives them to agriculture – note the high correlation between illiteracy and female employment in agriculture (figure 3.5). The services sector, however, is growing as an employer of women, with agriculture declining almost everywhere.

Women's employment outside of agriculture is higher in countries with better education. The share of women in the non-agricultural labour force is higher in much of North and Central Asia, countries with better social, educational and health indicators than others with comparable per capita incomes. Similarly, the share of women outside agriculture has grown since 1990 in several East Asian economies (Mongolia and Macao, China) and South-East Asian countries (Cambodia and Viet Nam). Women in South Asia, however, depend heavily on agriculture (except in Sri Lanka and Maldives), though some progress has been made. The share of women outside of agriculture is 8.7% in Pakistan and 17.5% in India, reflecting limited autonomy for women, limited opportunities for skill development and limited access to health and education.

The limited autonomy of women has restricted their decision-making power in South Asia, especially in employment. According to a family health survey for India, only 32% of women did not need permission to go to the market and 24% did not need permission to visit friends or relatives (IIPS, 1995). Although women who earn money have more freedom, only 25% of women in South Asia work outside the home, compared with 50% in sub-Saharan Africa (Ramalingaswami and others, 1996).

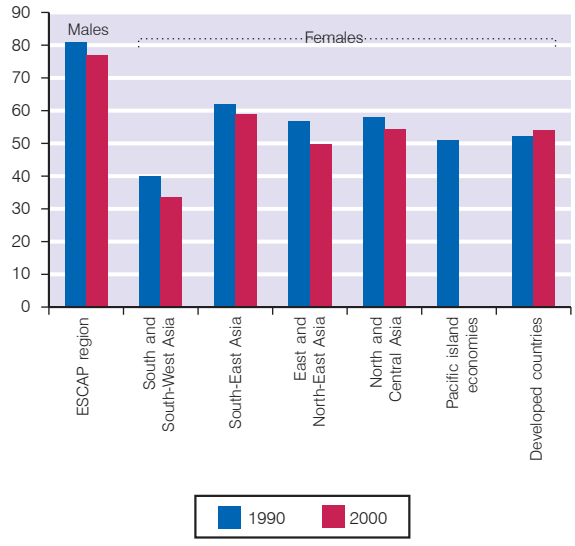
Unlike other aspects of gender discrimination, the gap in wages does not narrow with economic progress. Even in developed countries with a greater gender balance in other areas, women often receive much lower wages than men for similar work. The Republic of Korea and the Russian Federation have wide gaps in the wages of men and women, quite close to those in Nepal, Bangladesh and Pakistan. But women in Thailand, Singapore and Malaysia face less wage discrimination. Women in Bangladesh receive only 41% of wages paid to men for similar work; Thailand's ratio is 81% (World Economic Forum, 2006).

Educational attainment – a large gap, greater effort required

Women's education, particularly its intergenerational effects on children's health and education, is important for economic development. The more education women receive, the more infant and maternal mortality

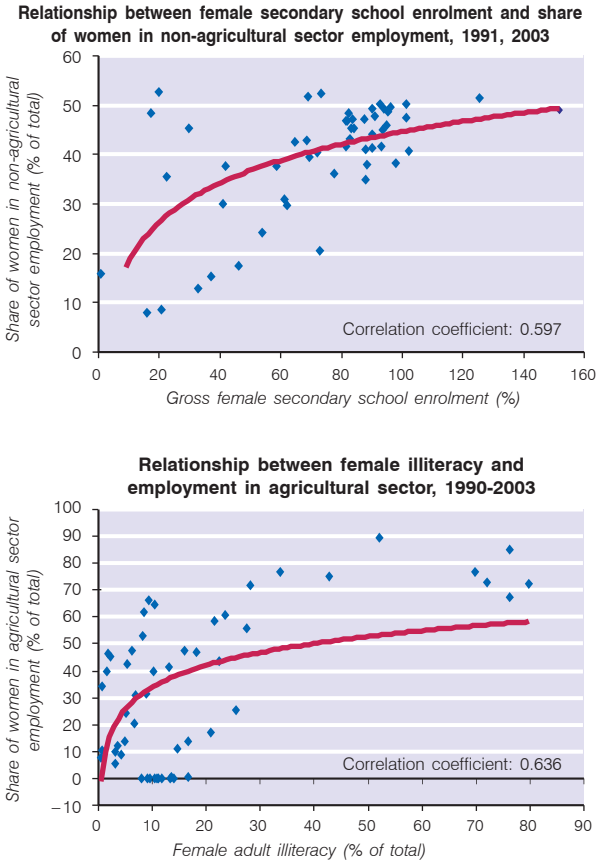
Figure 3.4. Comparison between male and female labour force participation rates in Asia and the Pacific

(Per cent)



Sources: International Labour Organization, *Key Indicators of Labour Market,* 3rd Edition (Geneva, ILO, 2003); World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

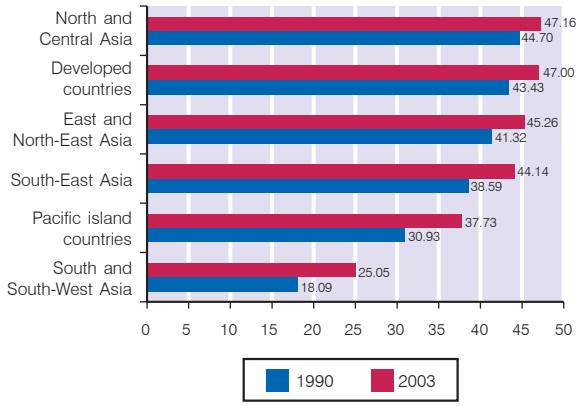
Figure 3.5. Schooling, literacy and agricultural employment



Sources: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006); and International Labour Organization, *Key Indicators of the Labour Market,* 3rd edition (Geneva, ILO, 2003).

Figure 3.6. Share of women working outside of agriculture, by subregion

(Per cent of total)



Source: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

falls (figure 3.7). An educated mother is more able to take care of the health and education of her children by avoiding unwanted pregnancies, seeking pre- and post-natal care and spacing child births. Moreover, panel 3 of figure 3.7 indicates a positive relationship between women's education and economic growth.

The Asia-Pacific region has fallen short in gender equality in education. With the exception of Australia, Mongolia, New Zealand and the Russian Federation, gender discrimination is pervasive. South Asia's performance is particularly weak (except for Sri Lanka). There are many reasons for low female school attendance: poverty, cultural restrictions, distance to schools, and girls' role in housekeeping.[4]

The gender gaps in gross primary school enrolment are wide, though several Pacific island countries attained gender parity:

- In Afghanistan, 47% fewer girls than boys enroll in primary school.
- In Pakistan, 29% fewer girls than boys enrol.
- The Lao People's Democratic Republic, Nepal and Cambodia have gender gaps of more than 10%.

Nearly half the region's countries, however, achieved gender parity in secondary school enrolments, with women even becoming the majority in some places (figure 3.8). Kiribati, Mongolia, Samoa, Malaysia and Tonga were the top performers.

Adult literacy rates highlight the bias against women in primary education. In countries with low gender discrimination in education, literacy rates for women are high, but those with severe biases have very low literacy rates. High discrimination in primary education can spill over to secondary and tertiary education.

Health and survival – the gender gap exacerbated

The region's performance in gender balance in health and survival is equally disturbing. Many health issues

[4] In countries such as the Philippines, which has fared better than many developing countries in gender equality, the significance of housekeeping responsibilities as a deterrent to female school attendance is declining and other factors, such as employment concerns and the high cost of education, have gained prominence.

including maternal mortality, infant mortality and life expectancy are closely related with gender discrimination. High fertility and food distribution even within a family is very much dependent on women's autonomy. A detailed discussion is given below.

Total fertility rate

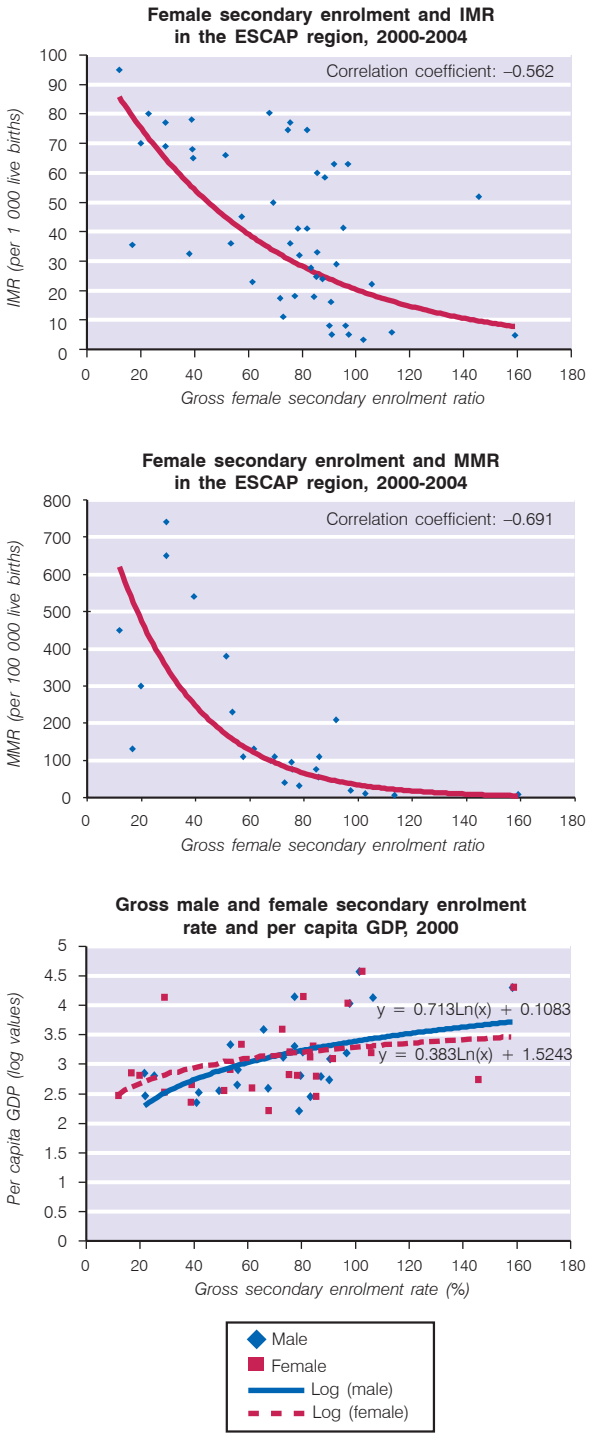
The total fertility rate (TFR) is an important determinant of development because the resources available per capita are fundamental to the development process. A high TFR squeezes resources (per capita) within a household, as well as at the national level, diminishing the health and education of children and the well-being of families. High fertility leads particularly to poor health and education of women and children, creating a vicious cycle. A low TFR, however, enables countries to spend more on health and education, leading to improved social welfare.

> *"There has been a significant drop in fertility, but it is still a binding constraint on the health and education of children, particularly in South Asia"*

Historical experience bears out this argument. The TFR declined quickly in Europe and North America and during the industrialization of Australia and Japan, the newly industrialized economies in Asia, and the emerging economies in South-East Asia, helping to achieve a higher per capita income. The Republic of Korea, Singapore and Hong Kong, China had TFRs below the replacement rate by 1990. Sri Lanka and Thailand also experienced a significant drop in the TFR, falling to the replacement rate in the mid-1990s. In contrast, most other developing economies in South-East Asia and South Asia still have TFRs as high as 3-4, despite rapid declines over the years (figure 3.9).

There is a high correlation between TFR and per capita income, with higher TFR leading to lower incomes (figure 3.10). The TFR is also a good indicator of women's control over their reproductive rights and health, of progress in gender relations, and of education, particularly that of women.

Figure 3.7. Impact of women's education on health



Source: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

Maternal mortality: access to health care is critical

High maternal mortality, particularly in South Asia, is one of the most tragic results of severe gender discrimination (figure 3.11). The high probability of dying during childbirth in Nepal (0.74%), the Lao People's Democratic Republic (0.65%), Pakistan (0.5%), India (0.54%) and Cambodia (0.45%) should urge policy-makers and civil society to take collective action against poverty and gender discrimination (see box 3.3).

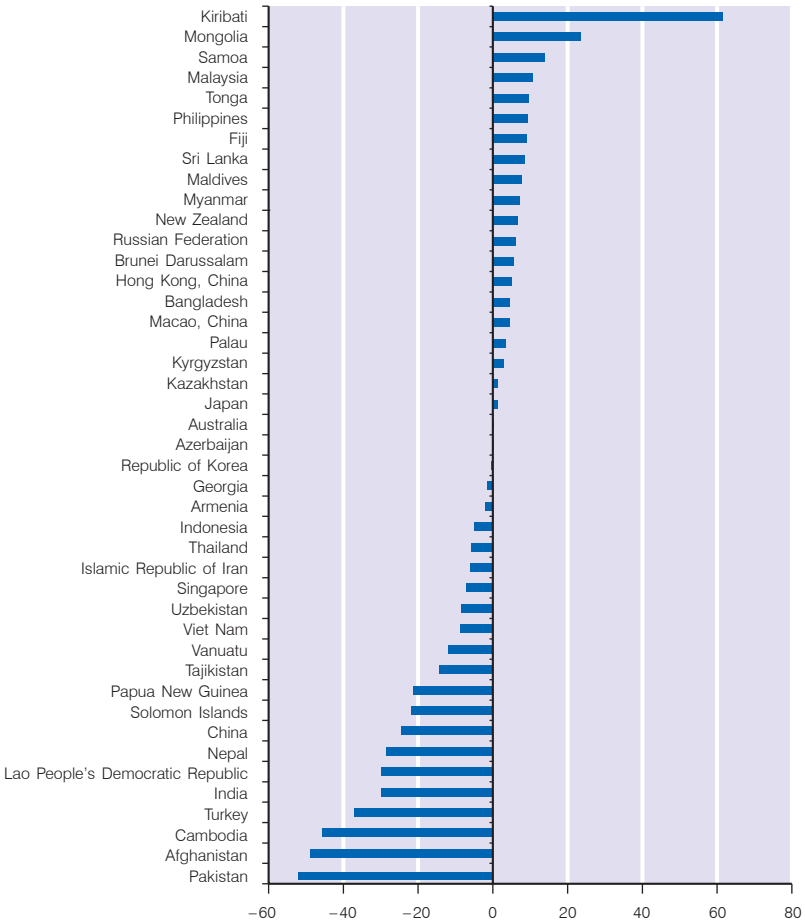
Maternal mortality is high when women have limited access to health care. Male dominance in decision-making about the health of their wives also restricts women's access to health care. In Nepal men made 51% of the decisions on women's health. In Bangladesh, 48% (UNICEF, 2006). Cultural restrictions also mean that women depend heavily on the decisions of others to have antenatal examinations, in arranging for a skilled delivery attendant or in obtaining transport in an obstetric emergency. In some countries cultural rules forbid male physicians from directly examining women patients, thereby placing pregnant women at a greater risk.

> *"High maternal mortality is a tragic reflection of gender discrimination"*

Maternal mortality has important implications for household income. A study in India found that when women died, their husbands struggled to manage the

Figure 3.8. Gender gap in secondary education, latest year available between 1990 and 2000

(Per cent)



Source: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

household budget and affairs (Basu, 1998). In such situations, older children often drop out of school, especially the girls, to take over household affairs.

The more births attended by skilled health staff, the lower the MMR (figure 3.12). Higher income levels (GDP) also reduce the MMR significantly. As such, Governments can do a great deal to reduce MMR by providing opportunities for women to raise their income and improving women's access to health care (see box 3.4).

Infant and child mortality: pre- and post-natal care vital

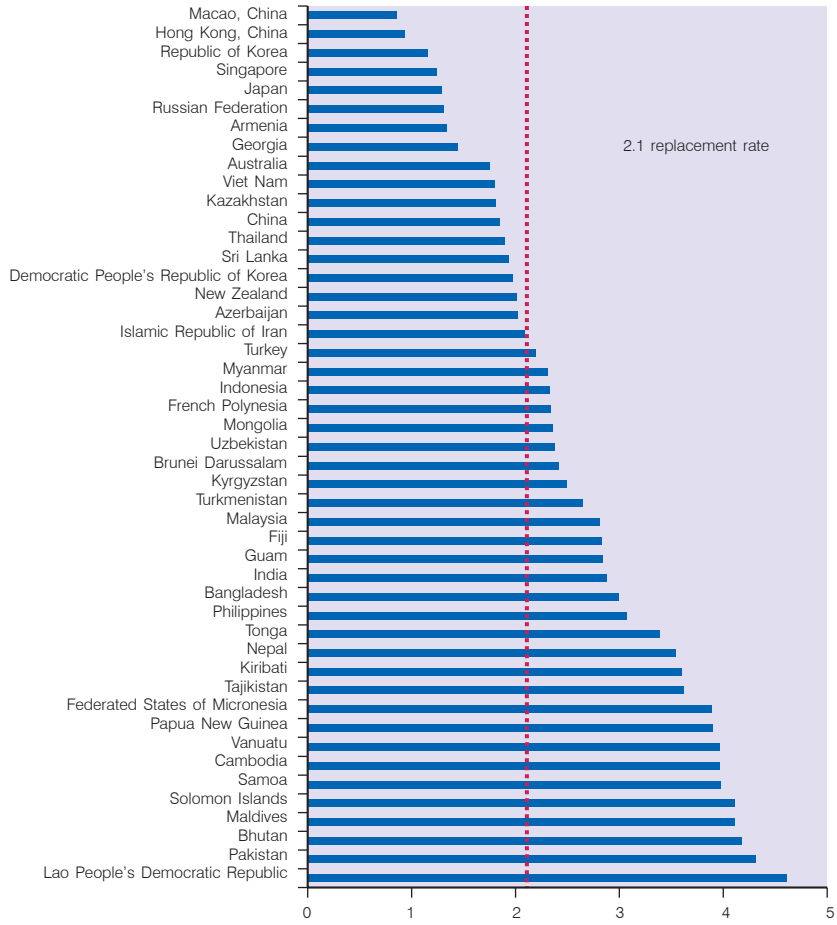
Gender discrimination adversely affects infant and child mortality, as does poverty and lack of education. Here again, South Asia's record is less than satisfactory – six out of eight countries have an infant mortality rate (IMR) of more than 50 (figure 3.13). Afghanistan has an IMR of 165 for 1,000 live births. Mortality rates among children under 5 are similar.

> *"Societal taboos and cultural factors are also responsible for high maternal, infant and child mortality"*

Gender discrimination leads to high infant and child mortality through several channels. Societal taboos and cultural practices keep women from timely and effective prenatal care. In Afghanistan, Bangladesh and Nepal, the share of births attended by skilled

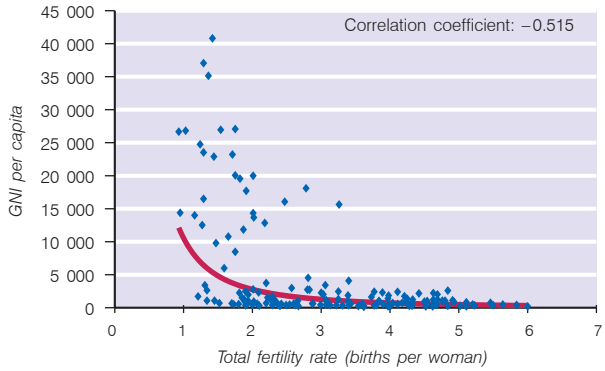
Figure 3.9. Total fertility rate, 2004

(Births per woman)



Source: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

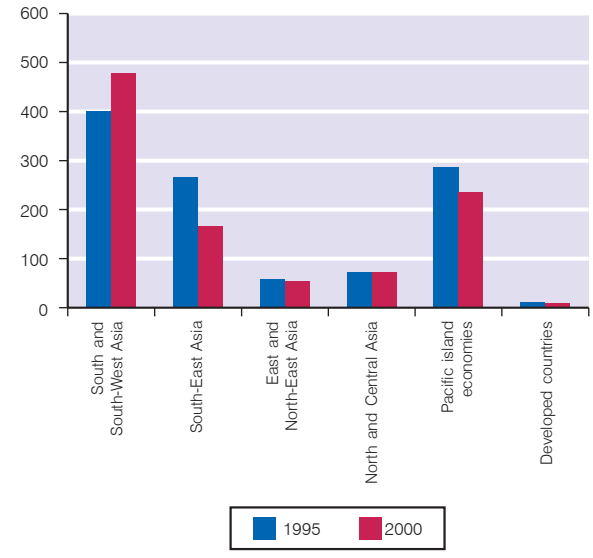
Figure 3.10. GNI per capita and total fertility rate of countries in the ESCAP region, 1990-2004



Source: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

Figure 3.11. Maternal mortality, by subregion

(Per 100 000 live births)



Source: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006); and WHO/UNICEF/UNFPA, *Maternal Mortality Estimates* (Geneva, WHO, 1995 and 2000).

health personnel is 13-15%. Even when medical services are available, women may not be allowed to seek professional care independently or if the services are provided by a male. Only 28% of women in India decide for themselves when seeking health care (IIPS, 1999). But increasing the number of births attended by professional staff could reduce the infant mortality significantly (figure 3.14).[5] Poverty is also directly linked with high infant mortality. As figure 3.14 indicate an increase in income (GDP) reduces IMR at a faster rate than at low income levels.

> *"Gender bias in food distribution is seen even within families"*

Malnutrition among girls, often a result of gender discrimination, leads to high maternal and child mortality: a woman shorter than 148 cm or with a body weight of less than 49 kg places herself and her infant at risk during delivery. Poverty and cultural habits determine how food is distributed within the family. In poor households, the mother will feed her husband and her sons first, which often leaves only inadequate or poor quality food for the females. Half of the world's malnourished children are in Bangladesh, India and Pakistan. In India, 13% of women in India are below 145 cm in height (IIPS, 1999). Stunting is highest among illiterate women. Between 40% and 60% of women in South Asia are underweight (Quisumbing, 2003). While poverty has played a dominant role, gender discrimination has had a significant impact on South Asia's performance in underweight, wasted and stunted children.

The reproductive rights of women are another determining factor of infant mortality with strong links to gender discrimination. In patriarchal societies, decisions about women's reproductive rights are usually taken by men. Some poor fathers, particularly in South Asia, are still marrying their adolescent girls, sometimes even before they reach the age of menarche, to older men to pay off debts. But if a woman's body is not yet fully developed, the health of the mother and the child during pregnancy and delivery are at risk. Women also do not have the autonomy to decide on the spacing of pregnancies or how many children to bear – key factors in high infant and child mortality.

5 Note that there are a large number of outliers: countries with a high rate of births attended by professional health staff with high IMR. These outliers are mainly in North and Central Asia, reflecting the deteriorating health conditions in the 1990s.

Box 3.3. Avoiding the penalties of gender inequality

Osmani and Sen (2002) identify five stylized facts of relative deprivation of women: (a) greater undernourishment of girls than boys; (b) higher maternal undernourishment; (c) greater incidence of low birth weight; (d) larger incidence of child undernutrition; and (e) larger incidence of adult ailment. These arise mainly from neglecting the health care of girls and the nutritional disadvantage suffered by women. They further argue that all of these distinctive features of South Asia are interconnected. The starting point of this chain is gender bias, which leads to ill-health and high maternal undernutrition. This retards in the intrauterine growth of the foetus, which leads both to a high rate of child undernutrition and adult ailments. These links suggest that gender inequality in South Asia accounts for the prevalence of ill-health (Osmani and Bhargava, 1998). The heavy penalties – high infant and maternal mortality, as well as ill health – could be avoided if the link between gender bias and maternal undernutrition is broken.

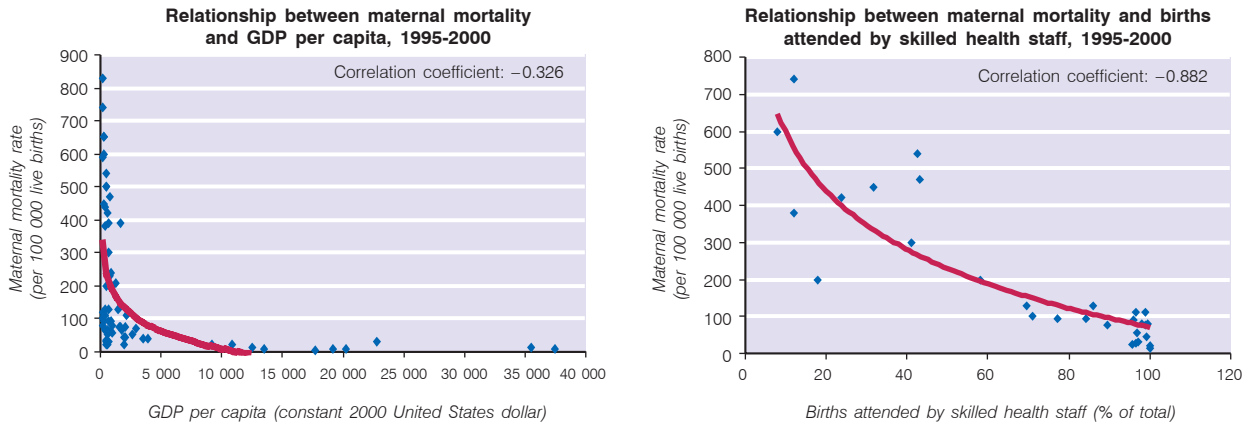
Life expectancy and sex ratio: some evidence of gender discrimination

While life expectancy has made remarkable gains in the region, the gap between female and male life expectancies remains a concern, particularly in South Asia (figure 3.15). The impact of gender discrimination, particularly in women's access to health care, is clearly reflected in life expectancy outcomes. In the Republic of Korea and Japan, the life expectancy of women at birth is 9 to 10% higher than men. However, in other countries, such as Nepal, Pakistan, India and Bangladesh, the life expectancy of women at birth is only 1.5-2.7% higher than that of men.

Another indicator of possible gender discrimination is the ratio of females to males in the population (measured as the number of females per 1,000 males). Because women live longer than men for biological reasons, the natural expectation is that the share of women in the total population of any country will be higher than that of men. As expected, North and Central Asia, the developed countries, and a few in South-East Asia have a sex ratio above 1,000 (figure 3.16).

All countries in South Asia, with the exception of Nepal, and the Pacific islands have a sex ratio well below 1,000, indicating a gender bias in sex selection, as well as women's limited access to health care, education and resources. The situations in China and India point to serious gender bias in sex selection at birth. In India, there has been no improvement in the sex ratio over the past four decades, with the state of Punjab and Haryana recording sex ratios below 900. The only exception is in the state of Kerala, which had

Figure 3.12. Maternal mortality rates



Sources: WHO/UNICEF/UNFPA, *Maternal Mortality Estimates* (Geneva, WHO, 1995 and 2000); and World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

Box 3.4. Reducing maternal mortality in Bangladesh

Over the past 10 years, the MMR in Bangladesh has been reduced by 55%, from 850 (per 100,000 live births) to 380. The reductions have occurred in all age brackets and in low-income communities. Although the current rate remains high, Bangladesh has made significant progress in improving maternal health and is on track to achieve Millennium Development Goal 5 of a 75% reduction in the maternal mortality rate.

Bangladesh has accomplished this progress through numerous policy and grass-roots initiatives as well as strong partnerships with donors and non-governmental organizations. The Government has prioritized reproductive health in its Poverty Reduction Strategy Paper and Millennium Development Goal report. In addition to its Millennium Development Goal 5 targets, Bangladesh has set an additional national target of Reproductive Health Services for All, which incorporates reducing maternal malnutrition and increasing the median age of girls at first marriage.

In the early 1990s, Bangladesh introduced the Essential Obstetrics Care programme to improve the availability and quality of care in existing maternal and child welfare centres, district hospitals and urban clinics. The number of public facilities that provide comprehensive emergency obstetric care has increased more than seven-fold since 1994. Between 1994 and 2005, there was a 93% increase in deliveries at emergency obstetric care centres.

In 2001, the Government adopted a rights-based national maternal health strategy with the theme of safe motherhood. The strategy aims to improve access to family planning, antenatal care, safe childbirth practices through skilled birth attendants, Essential Obstetrics Care and post natal care. This strategy was integrated into the Health and Population Sector Programme (1998-2003) as well as the follow-up Health, Nutrition and Population Sector Programme (2004-2006). These programmes have included interventions promoting good nutrition and training skilled health providers.

In partnership with UNFPA and WHO, the Government is working to train 13,500 skilled birth attendants in rural Bangladesh by 2010. Skilled birth attendants are recruited from active family welfare assistants and female health assistants who already work at the community level. As 77% of births are currently attended by traditional birth attendants, this strategy should have a far-reaching impact on national reproductive health. The number of births attended by skilled health personnel has risen from 5% in 1990 to 12% in 2000, although much of this increase has occurred among higher-income groups.

Access to family planning services, in particular among young women and girls, has considerably improved progress. The total fertility rate has declined from 6.3 in the 1970s to 3 today, and the rate of contraceptive use has risen from 31% in 1989 to 58% in 2005. Moreover, there has been a large decrease in abortion-related deaths, in part due to increased accessibility to menstrual regulation services.

Efforts to expand and improve girls' education and to discourage early marriage also contribute to reproductive health successes. Bangladesh has one of the highest rates of adolescent motherhood, a segment of the population for which maternal mortality is double the national level. At the primary education level, Bangladesh increased girls' enrolment by over 30% during the 1990s and has achieved gender parity. Enrolment at the secondary level has also increased considerably, in part due to the highly successful Female Stipend Programme, which provides stipends for tuition fees and other expenses. Such interventions, in addition to extensive Government and NGO advocacy activities, aim to improve retention in school both to enhance employment opportunities and to delay marriage, and hence early motherhood.

Strategies to further reduce maternal mortality are increasingly shifting their focus to raising general awareness of reproductive health and helping women and families, especially in poor and rural communities, to access existing safe motherhood services.

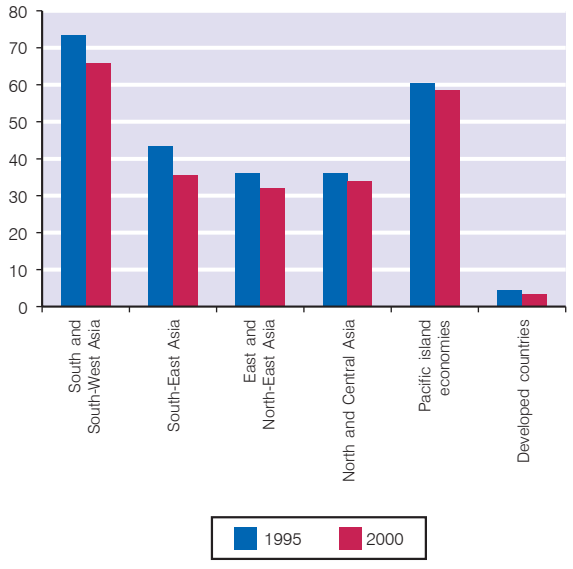
a sex ratio of over 1000. The main reason behind the low sex ratio in India is the preference for boys and the resulting clandestine sex-selective abortions (UNICEF, 2006; UNFPA, 2003). China's one-child policy has also encouraged sex-selection with a bias toward males, giving China a sex ratio of 947 (UNICEF, 2006). Similar bias against women appears to be the underlying reason for low sex ratios in the Pacific island countries and South Asian countries.

Voice and empowerment – a wider gap

One of the fundamental reasons women are subject to discrimination is that they do not have a voice in decision-making at home or in society, even when the matters are directly related to them. They are powerless intellectually, materially and politically. As a result, even if women are allowed to take independent action, their efforts are not productive because they are denied access to resources. Whether it is a question of exercising reproductive rights, actively participating in the labour force, or accessing social (health care and education) and material resources (land, houses and credit), women's autonomy plays an important role in gender equality.

Figure 3.13. Infant mortality, by subregion

(Per 1 000 live births)



Source: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

Women's lack of autonomy over reproduction and sexuality not only leads to unwanted pregnancies and high fertility rates, but also puts them at risk of contracting sexually transmitted diseases (STDs). Because of their lower social status and their economic dependence on men, women are not in a position to negotiate the use of condoms as a preventive measure against STDs, including HIV.

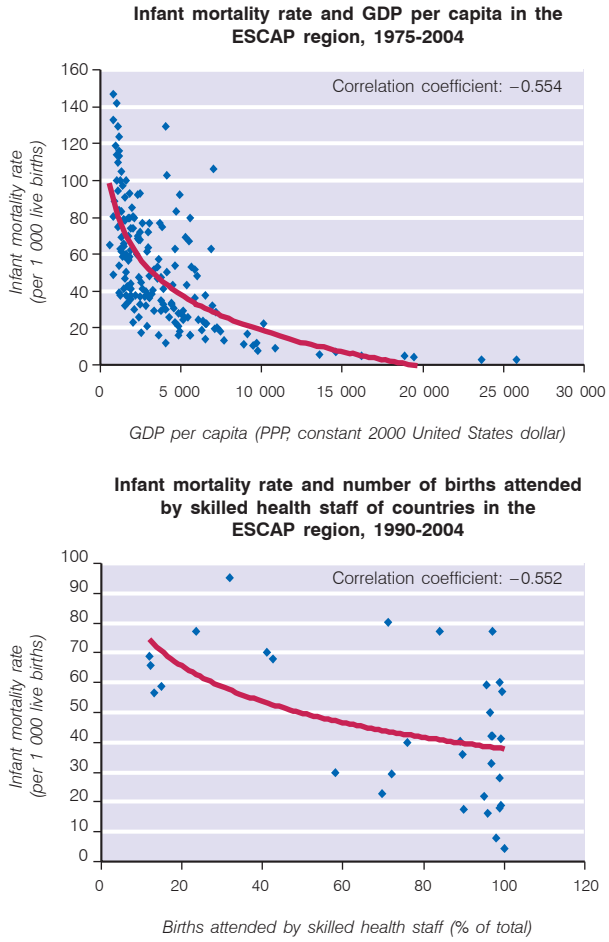
> *"Women are powerless intellectually, materially and politically"*

Violence against women is another indicator of women's lack of autonomy. Unlike other aspects of gender discrimination, violence against women cuts across all social and economic conditions. In 1999, three of the four countries with the highest rate of violence against women in the world were in the Asia-Pacific region (Heise and others, 1999). Papua New Guinea had the highest gender violence, with 67% of women reporting physical assault by a male partner. Bangladesh (47%) and India (40%) also reported high rates of violence. In 2005, 62% of women in a province in Bangladesh experienced physical or sexual violence by an intimate partner (WHO, 2005).

"Honour" killings are another example of the discriminatory violence that some women in the region face. According to Jahangir (2000), this practice exists in several countries in West Asia and South Asia. At least 1,000 women were killed in "honour" killings in Pakistan in 1999 (UNFPA, 2000).

Limited access to assets, such as land and houses, is also a reflection of the negligible voice women have within the household and in society as a whole. For example, sons in Nepal are entitled to a share of ancestral property at birth, but daughters' entitlements are severely restricted. Although later amendments have recognized a daughter's right to inherit ancestral property, the girls lose their entitlements once they are married (UNIFEM, 1998). Traditional values give men precedence over women with respect to inheriting land and owning property in many Pacific island countries. Only 2% of all arable land in the world is owned or registered in the name of a women (FAO, 1996). Without secure land rights, women have little or no access to credit. The benefit of membership in rural organizations, which is often important to obtain inputs and services, is also curtailed. For example, poor and uneducated women in South Asia are almost invisible

Figure 3.14. Infant mortality rates



Source: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

to formal financial institutions and receive less than 10% of commercial credit. It is this gender bias in credit that led to the establishment of microcredit institutions in Bangladesh (see box 3.5).

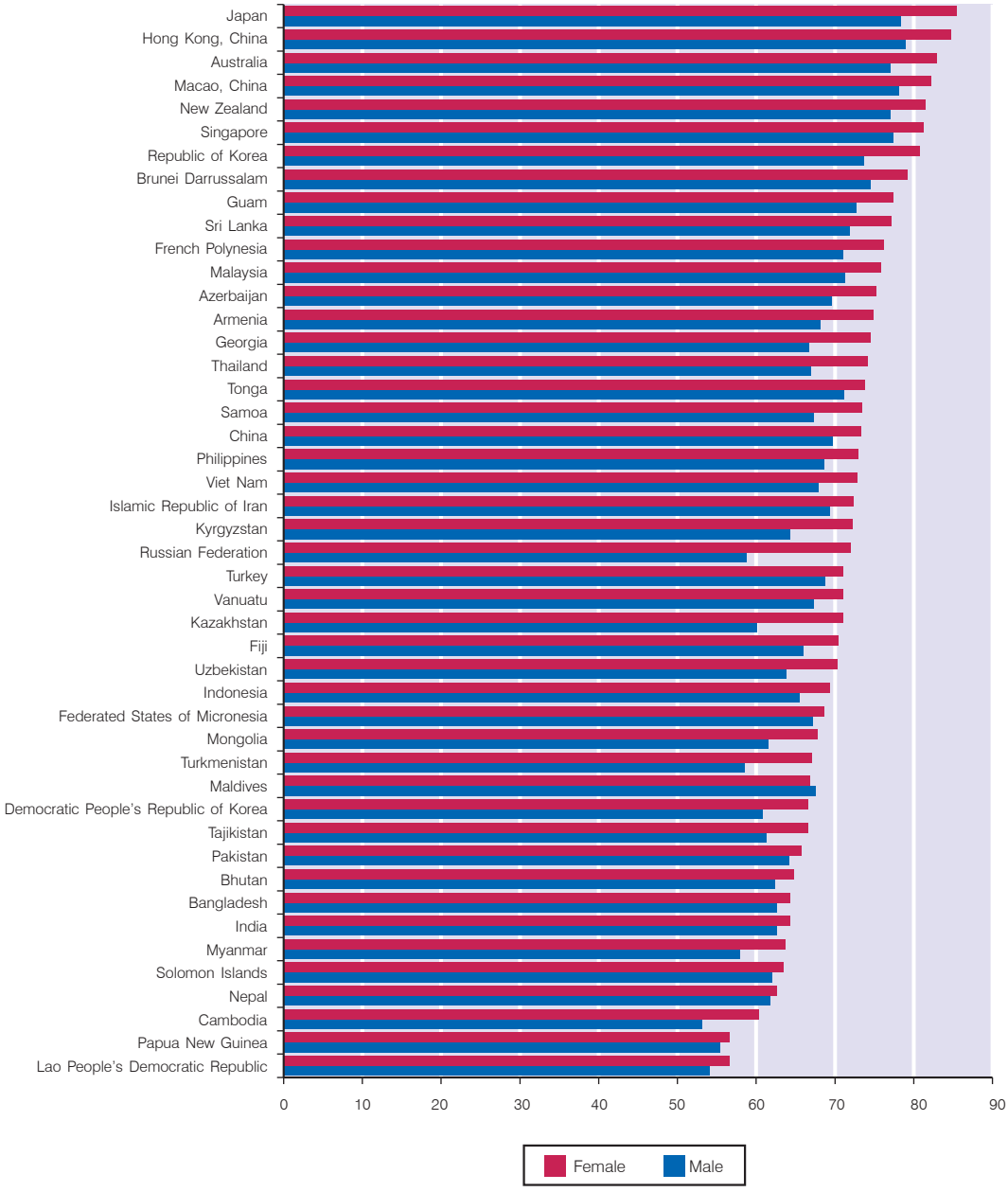
With women accounting for half of the population, one would naturally expect that they should have at least equal representatives in elected bodies at the local, regional and national level. However, the reality in the region is starkly different. Only seven countries had parliaments in which more than 20% of representatives were women, with New Zealand having the highest rate, at 28% (figure 3.17).

Even in North and Central Asia, where women had fared much better than in most other subregions until 1991, the representation of women in parliament is low. Until 1991, these former centrally planned economies reserved a certain share of parliamentary seats for women and so the representation of women was much higher than anywhere else in the world. But once the reservation was removed, the share of women in parliament fell. Among the developing countries in the region, only Viet Nam (27%), Turkmenistan (26%), Timor-Leste (26%), the Lao People's Democratic Republic (23%), Pakistan (22%) and China (20%) had shares of women in parliament equal to or exceeding 20%. In Pakistan, the share of women in parliament increased rapidly from 2% in the late 1990s to 22% per cent since 2003 as a result of a change in the election system that required a certain proportion of seats to be reserved for women (see box 3.6).

> *"A broad-based societal change is needed to check gender discrimination"*

Women's representation in local government or parliament does not guarantee their empowerment or the elimination of gender discrimination. Bangladesh, India, Pakistan and Sri Lanka have had female Heads of State. Bangladesh and India had female Heads of State for 15 of the last 50 years, and in Sri Lanka for 21 years. Yet, South Asia has not been able to deliver the broad-based societal change required to make an impact on gender discrimination at the local level. However, women parliamentarians can be instrumental in putting in place more gender-sensitive legislation that would facilitate gender balance.

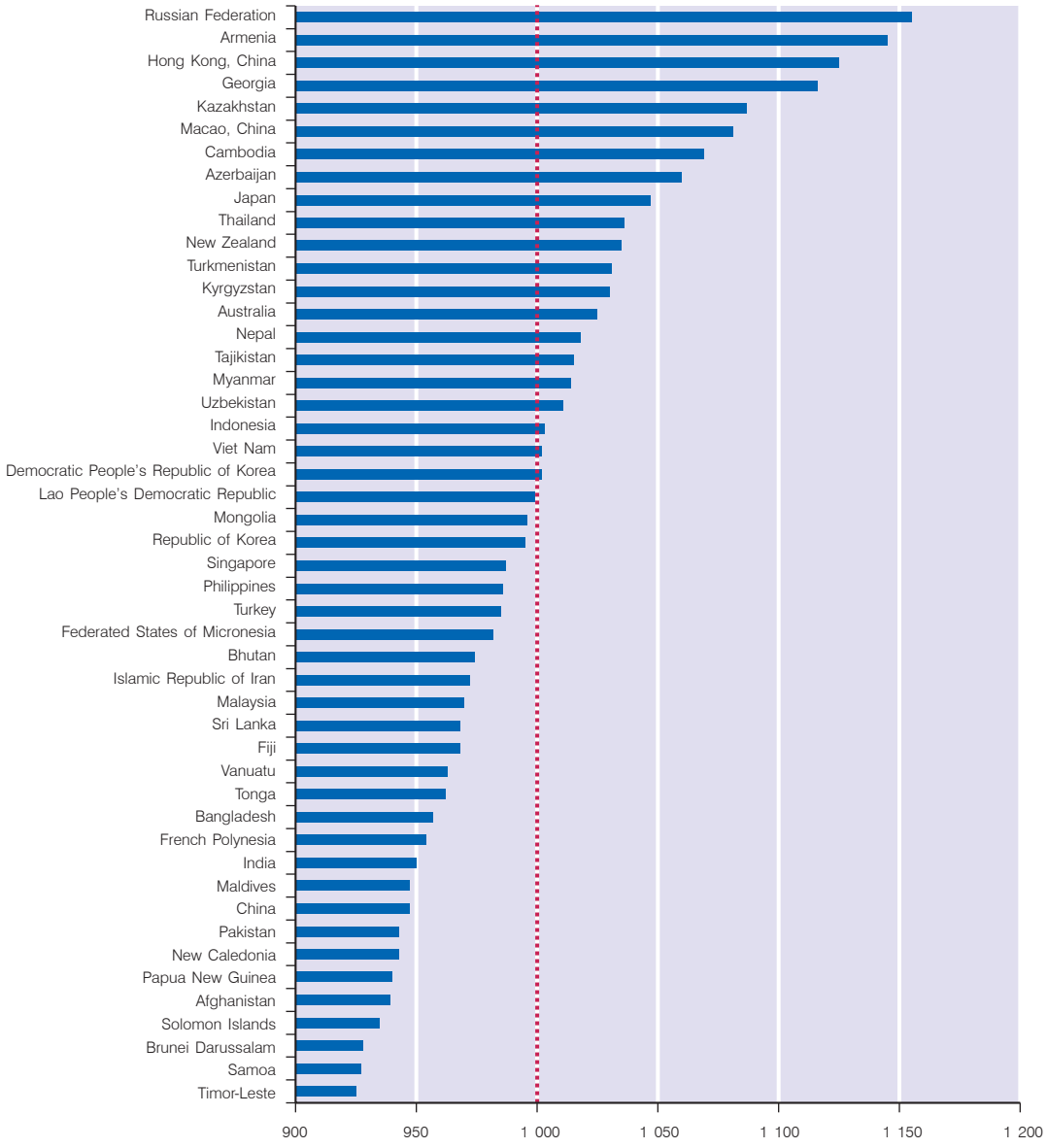
Figure 3.15. Male and female life expectancy in the Asia-Pacific region, 2004



Source: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

Figure 3.16. Female to male ratio in the population, 2005

(Per 1 000 male population)



Source: United Nations Population Division, Department of Economic and Social Affairs (New York, United Nations, 2006).

Box 3.5. Empowering women through microcredit

Microcredit programmes stimulate an increase in incomes and other indicators of the standard of living. A large number of these programmes have focused on supporting women, who bear the brunt of poverty and have been left out of most poverty reduction programmes in the past. In many programmes, women make up as many as 90% of borrowers.

Microcredit has increased recognition of women's productive roles in society. Some studies show that greater financial independence has helped women assert themselves, stand up to abusive spouses or serve as role models in the community. Lending to women also has a greater multiplier effect because they pass on the benefits to children through increased spending on the household, education and nutrition.

In Bangladesh, microcredit programmes have increased mobility and strengthened networks among women who were previously confined to the home. Borrowers build solidarity through their participation in lending circles and village organizations. Some studies also suggest more far-reaching social impact, including decreases in fertility rates, which are linked to increased financial self-reliance and greater voice in family matters for women.

The growth of microcredit programmes over the last 10 years has been impressive. In Bangladesh over 4 million microborrowers are served by the Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA), Proshika, RD-12 or some other microcredit provider. The repayment rates in well-managed programmes are very high, around 95%.

Women's control of loans and benefits, however, remains compromised. About 20-50% of Bangladeshi women hand over the entire loan to males in the family. Nevertheless, as part of a broader effort to raise awareness and mobilize women, credit plays an important role in empowering women. First, women increase their interaction and strengthen their networks with other women through meetings. Second, women's ability to take loans, repay them and accumulate savings can increase their self-confidence and sense of self-worth. Third, participating in credit programmes can increase women's status in the household and community.

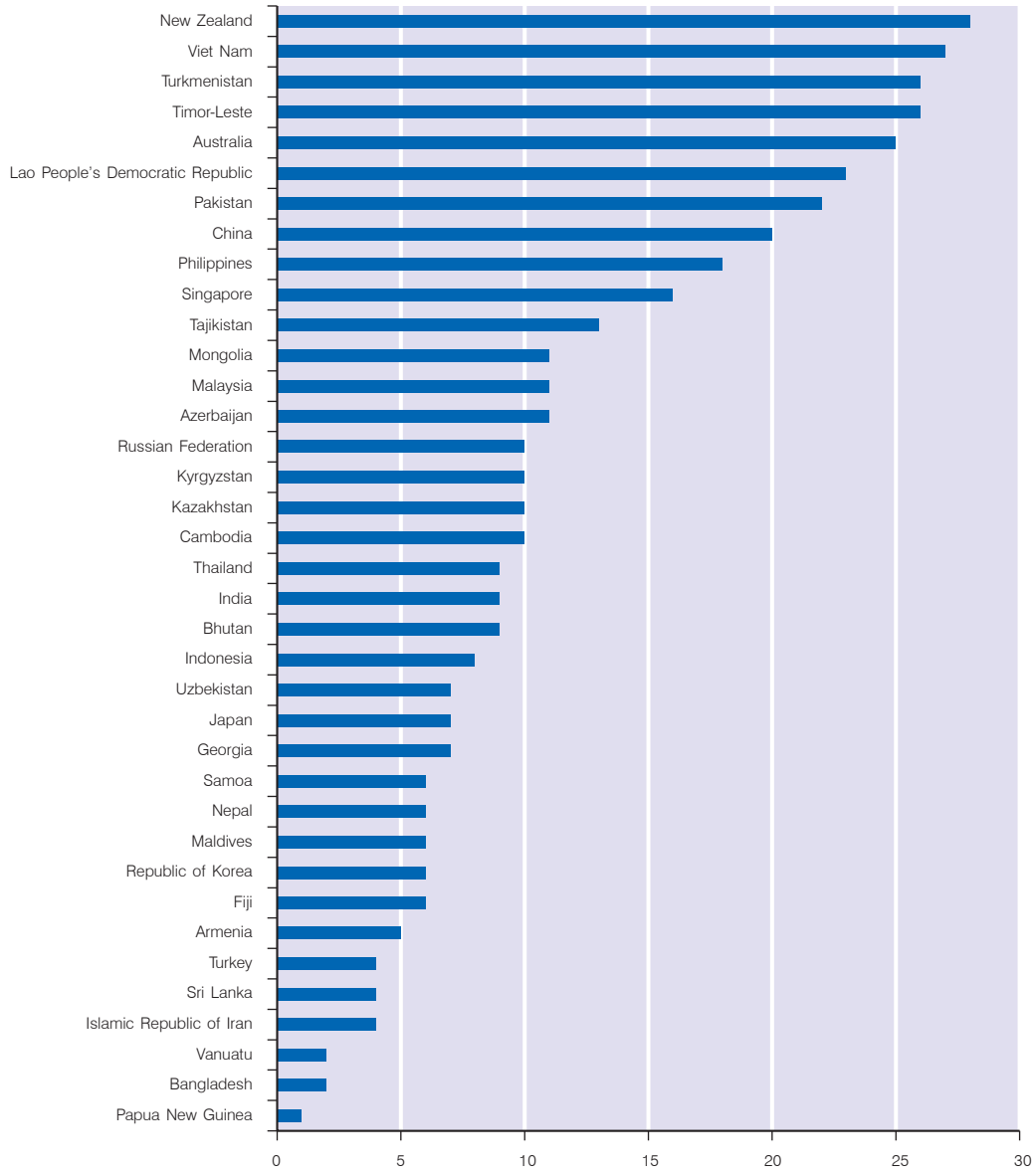
Microcredit has a flipside, however. It can contribute to women's dual burden of productive and reproductive work. Inequity in family relations may create worst case scenarios where microcredit results in increased work for women in exchange for increased revenues controlled by men. Although microcredit strengthens women's ability to stand up to family violence, in some cases it has increased violence against women and family break-ups.

A number of important gender aspects must be considered in microcredit policy formulation. Increasing women's income alone will not increase their status. Attention must also be paid to increasing the social impact and the empowerment of women, as well as the vulnerability of the poor. Microcredit may not be the appropriate poverty-reduction intervention for women in all cases. Effective gender-focused poverty alleviation strategies involve moving beyond microcredit to engender macroeconomic policies in an intersectoral and multidimensional approach.

Source: MacIsaac (1997).

Figure 3.17. Women in parliament in selected Asia-Pacific countries, 2004

(Per cent of total seats occupied in lower or single house)



Source: World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

Box 3.6. A quota system for women's representation in local government: The experience of South Asian countries

There are several barriers to the representation and participation of women in local government in South Asia. In many South Asian societies, culture and religion have restricted women's roles to their reproductive and household activities. Low literacy rates, poor access to health services, poverty within the household, higher unpaid workloads, and lack of economic independence have also created high barriers to both the participation and representation of women in politics.

At the same time, women have had more success in obtaining decision-making positions in local government than in central government (ESCAP, 2001). This is mainly due to the fact that:

- Local government duties are easier for women to fit into their lives along with family responsibilities and employment;
- Local government has more positions available and less competition than in central legislatures;
- There is more acceptance of women in local government because it is seen as an extension of women's involvement in their communities.

To overcome barriers for women in decision-making positions, particularly at the local levels, the Governments of Bangladesh, India, Nepal and Pakistan have introduced quota systems for women in local government. Although the quota system has increased the number of women in local government, whether women councilors were able to influence decision-making or change prevailing attitudes towards women depended on the way the quota system was designed.

In Bangladesh, Nepal and Pakistan women councilors were elected through a special ballot or through a proportional representational system. In both cases they did not have their own constituency and were therefore regarded by their directly elected – and mostly male colleagues – as unequal.

Because the women were nominated and elected by their parties and had no power base of their own, they were beholden to the party leaders. They were often excluded from decision-making, unable to mainstream the debate on issues of concern to them, and relegated to committees dealing with women's or children's issues. Without their own constituency, few people approached them for assistance in resolving problems.

In India, on the other hand, rather than fill the quota through party lists or election through special ballots, one third of the total wards in a particular district were reserved solely for women candidates. This meant that only women candidates could run from these wards, thus ensuring that a woman was elected. These "women-only" wards were rotated at every election. In adopting this approach, the Government ensured that:

- Women candidates had a specific and defined constituency on the same basis as their male counterparts.
- Male councilors and civil servants were forced to deal with women councilors as they were the sole representatives of their wards;
- Residents in a ward, particularly men, had no other option but to approach the woman councilor to solve their problems;
- Women councilors, now holding positions of power, served as role models for other women.

The overall result of this approach was that gender barriers in local governments and in society were being broken down. In many instances, when the wards were rotated, the incumbent women councilors were able to win elections against strong male candidates. The women-only ward system provided an incubation period for local women politicians, equipping them to enter politics, learn the roles and then run against male candidates in open elections. Some Indian states now have parity in the number of women and men councilors. In the state of Karnataka 45% of elected councilors are women, while in Uttar Pradesh 54% of district presidents are women (Nanivadekar, 2005). This has also resulted in more women contesting elections for higher office. The number of women candidates for parliamentary elections has increased from 295 in 1999 to 355 in 2004, an increase of 20%. Many of these women were former mayors, district presidents or councilors.

Source: See the ESCAP country reports on the state of women in urban local government, available at <http://www.unescap.org/huset/women/reports/>.

Eliminating gender discrimination – policy recommendations

Gender balance can be achieved with limited resources, but this requires changes at the household, societal and national levels. In particular, mainstreaming gender concerns in public policies and programmes could make a difference in achieving a gender balance.

Improve access to education

Education is one of the best paths to freedom for women. However, financials costs, poverty, safety concerns, and cultural norms prevent women from achieving a reasonable level of education. Addressing these issues is vital for improved access to education for women.

> *The opportunity cost of lost education is highest at the primary level and thus require greater focus*

Provide free primary education. In many countries primary education is not free, even though all countries in the Asia-Pacific region are signatories to the Convention on the Rights of the Child.[6] The opportunity cost of lost education is highest at the primary level. As such, providing primary education free of charge should be a prime objective for all Governments. Where primary education is already free, other fees should be eliminated or minimized to reduce the burden on the poor. This is particularly important for girls in poor families, who usually are the victims of high financing costs.

Address safety and privacy concerns. Establish schools in close proximity to villages and provide safe transport for girls to increase their attendance. Providing gender-specific facilities, such as toilets, are necessary to address concerns of girls. While these suggestions appear simplistic and known to most policymakers, many countries have failed to provide such facilities. For poorer countries, such simple measures could make a significant difference in gender equality.

Provide adult education for women. Many women in the region are illiterate, which has significant negative implications for the health and education of children and, in particular, girls. Providing education for adult women and girls is highly productive given the spillover effects from one generation to the next. Such programmes could be initiated at the community level and tailored to suit sociocultural conditions.

Provide scholarships for girls. Girls in poorer communities could be given an equal opportunity to scale the educational and professional ladder by providing scholarships (up to the university level) to the best performers in a competitive evaluation conducted at the end of the primary education cycle. Such a system, if administrated properly, would not only guarantee poor children an opportunity to access better schools and professions, but would also serve as an incentive for younger generations to go to school.

Eliminate gender-biased restrictions in professions. Effective laws to address sexual abuse at school and in the workplace are necessary in order to make them safe places for women.

Improve access to health care

The region has not performed well in the area of health. Four out of five countries in South Asia rank among the bottom 15 in the global ranking of gender equality in health and survival. Addressing the high levels of malnutrition, infant mortality and maternal mortality – which reflect not only a policy failure but also a breakdown in the moral responsibilities at societal and household levels – requires a holistic approach involving Governments, civil society and individuals at the household level. Public policies necessary to address the barriers imposed on women and girls include:

> *In themselves, laws and policies are not enough, they must also be effectively implemented and backed up by a strong political leadership*

- Implementing legislation to ensure the rights of women to equal access to basic health services

[6] United Nations, *Treaty Series,* vol. 1577, No. 27531

where institutional barriers, cultural practices and misconceptions prevent such access.

- Improving basic health services. Mobile clinics may be effective in areas where access is limited due to a difficult physical environment. Introducing community-based emergency transport could also save millions of maternal and infant deaths. The Maternal and Child Welfare Centre of Bangladesh and the Castle Street Hospital for Women in Colombo, Sri Lanka, have had good results in reducing maternal mortality. Scaling up such initiatives could go a long way towards reducing maternal mortality at the national level at a low cost. Providing health care should go hand-in-hand with educating mothers and adolescent girls.

> *"Addressing malnutrition and infant and maternal mortality, particularly in South Asia is critical for gender equality"*

- Promoting pro-poor growth policies at the microlevel to address malnutrition, such as free midday meals for school children and nutritional packages for pregnant mothers. Micronutrient deficiency in girls and women could be addressed not only by providing nutritional and vitamin supplements but also by introducing appropriate laws and regulations on issues such as the content of iodine in table salt.
- Increasing the number of trained health professionals. Human resource policies in the health sector should match needs. For example, having more health professionals with midwifery training, rather than medical doctors, could address maternal and infant mortality in rural communities.
- Promoting the use of condoms and making them widely available could make a big difference in tackling HIV/AIDS. Despite the high risk of HIV/AIDS, an open discussion of sex and condom use is still taboo in some societies and countries. But even 60% condom use can reverse the spread of HIV, which disproportionately affects young women.
- Involving non-governmental and civil society organizations in improving health outcomes. These organizations can form partnerships with public sector institutions to promote family planning and safe motherhood programmes and adolescent health. They could also be effective in eliminating misconceptions or cultural taboos that prevent women's access to health care.

Enhance economic participation of women

Direct and indirect restrictions placed upon women by employers, the working environment, public policies, cultural attitudes and the constant struggle to find a balance between work and family life force women to withdraw from the labour force. Changes in policies towards the employment of women and the mindset of individuals is a necessary requirement to stimulate the participation of women in the labour force:

> *"Direct and indirect restrictions placed upon women's economic participation should be removed"*

- Governments need to ensure that women are not discriminated against in recruitment, wages and promotions and should make the public sector a role model for the private sector in this respect. Other helpful policies include eliminating extra tax burdens on the second income earner of a household and providing childcare subsidies and parental leave.
- A flexible labour market would help female workers engage in part-time work, particularly relevant in more advanced economies where flexibility in changing jobs and longer periods of maternity leave are very much in demand. At the same time, social security systems should adjust to changing needs by allowing female employees to withdraw funds in case they wish to withdraw from the labour market before retirement.
- Legislation is needed to address harassment at the workplace in both the public and private sectors.
- Cultural attitudes are perhaps the major obstacle to the employment of women, particularly in South Asia. Changing mindsets without compromising sensitive cultural practices requires engaging community and religious leaders in open dialogue on access to health, education and employment.

Enhance access to material resources

To have a voice in society, women must have access to material resources, such as land, houses and credit. A change in the traditions and laws that restrict

women's ownership of property and differentiate between sons and daughters is essential to make an impact on gender bias on asset ownership.

> *Removing restrictions on asset ownership and access to resources could benefit freedom of choice*

Both the lack of education, which limits employment opportunities in the formal sector, and the inability to own assets restrict women's access to credit, an essential ingredient of self-employment and enterprise development. The strict rules and regulations governing lending by formal financial sector institutions make microcredit programmes key to economic independence for women. The Grameen Bank of Bangladesh, which exclusively focuses on women, is a good example. Similar initiatives are in place in other countries, but they must be scaled up – and be self-sustaining and adapted to local conditions – in order to have a real impact.

Take steps to empower women by facilitating social mobilization

Individually, women are powerless to overcome their difficulties and constraints. But poor women can be empowered to assert their rights and identify their own potential through social mobilization. The process could entail social guidance by a support organization of professionals and volunteers trained in social mobilization techniques.

With the support of public sector, civil society and non-governmental organizations, small groups of like-minded women can build up their capacity to acquire knowledge and generate capital through savings. Initiatives by the AgHa Khan Foundation in Pakistan, for example, have been proven effective in empowering women, becoming a conduit for technology transfer and a forum for education and learning. The skills women acquire enable them to become planners at home and in society and to make their voices heard. However, to make an impact on the lives of women at the societal level, independent organizations need to scale up these initiatives and Governments should do more to facilitate the process.

Hear the voice of women

Women's voices need to be heard at every level in order to reduce gender discrimination. But this requires a change in attitudes. Education is one effective way of addressing this. Educated fathers, husbands and brothers are more likely to treat their daughters, wives and sisters as equals than uneducated ones. An educated woman is also in a better position for equal representation than an uneducated woman, even at home. Cultural influences could also be addressed in a flexible manner through education. Civil society should take the lead in changing the mindset of men while Governments could provide support by eliminating gender-related restrictions on recruitment for public and private sector employment.

> *Civil society should take the lead in a broader societal change for gender balance*

Removing gender-biased restrictions on women's participation in public service, the private sector and civil society should be the primary means of increasing women's representation at all levels. Positive gender discrimination, such as reserving a certain percentage of positions in local government bodies and national parliaments, may warrant consideration. However, the objective of giving women freedom of choice should not be lost by imposing conditions. Women in different societies and cultures may have different aspirations and need to be respected.

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STATISTICAL ANNEX

List of tables

		Page
1.	Real GDP growth rates	132
2.	Gross domestic savings rates	133
3.	Gross domestic investment rates	134
4.	Inflation rates	135
5.	Budget balances	136
6.	Current account balances	137
7.	Change in money supply	138
8.	Merchandise export growth rates	139
9.	Merchandise import growth rates	140
10.	Population, size and dynamics	141
11.	Population, structure	142
12.	International migration	143
13.	Education, primary level	144
14.	Education, secondary and tertiary levels	145
15.	Health, life expectancy	146
16.	Health, morbidity	147
17.	Mortality	148
18.	Poverty and malnutrition	149
19.	Gender parity and legislation on violence against women	150
20.	Employment, dynamics and share of total population	151
21.	Employment, by economic activity	152
22.	Employment, by status	153
23.	Labour productivity, by economic activity	154
24.	Unemployment, by gender and age group	155
25.	Telecommunications	156
26.	Infrastructure and transport	157
27.	Land area and use	158
28.	Energy and water use	159
29.	Pollution and access to water and sanitation	160
	Technical notes	161

Table 1. Real GDP growth rates

(Per cent)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Developing ESCAP economies	7.6	7.2	6.2	1.7	5.9	7.4	4.4	6.4	7.0	7.8	7.6	7.9
East and North-East Asia	9.5	8.5	7.7	3.4	7.5	8.2	5.6	7.6	7.3	8.4	8.1	8.5
China	10.9	10.0	9.3	7.8	7.6	8.4	8.3	9.1	10.0	10.1	10.4	10.7
Hong Kong, China	3.9	4.3	5.0	−5.5	4.0	10.0	0.6	1.8	3.2	8.6	7.3	6.2
Mongolia	6.3	2.4	4.0	3.5	3.2	1.1	1.0	4.0	5.6	10.6	6.2	7.5
Republic of Korea	9.2	7.0	4.7	−6.9	9.5	8.5	3.8	7.0	3.1	4.7	4.0	5.2
North and Central Asia	−4.4	−2.8	1.7	−4.0	6.1	9.7	5.9	5.3	7.5	7.5	7.1	7.5
Armenia	6.9	5.9	3.3	7.3	3.3	5.9	9.6	13.2	13.9	10.5	13.9	13.4
Azerbaijan	−11.8	1.3	5.8	10.0	7.4	11.1	9.9	10.6	11.2	10.2	26.4	34.5
Georgia	2.6	11.2	10.5	3.1	2.9	1.8	4.8	5.5	11.1	5.9	9.3	7.0
Kazakhstan	−8.2	0.5	1.7	−1.9	2.7	9.8	13.5	9.8	9.3	9.6	9.5	10.5
Kyrgyzstan	−5.4	7.1	9.9	2.1	3.7	5.4	5.3	0.0	6.7	7.0	−0.6	2.7
Russian Federation	−4.1	−3.6	1.4	−5.3	6.4	10.0	5.1	4.7	7.3	7.2	6.4	6.7
Tajikistan	−12.4	−16.7	1.7	5.3	3.7	8.3	9.6	10.8	11.0	10.6	6.7	7.0
Turkmenistan	−7.2	6.7	−11.4	7.1	16.9	17.6	20.4	12.0	13.0	9.0	6.0	14.0
Uzbekistan	−0.9	1.7	5.2	4.3	4.3	3.8	4.2	4.0	4.4	7.7	7.0	7.3
Pacific island economies	−0.4	5.4	−3.9	3.3	6.8	−1.3	1.7	0.7	3.0	3.8	2.7	3.8
Cook Islands	..	−0.3	−2.3	−0.8	2.7	13.9	4.9	2.6	8.2	4.3	0.1	1.8
Fiji	2.5	4.7	−2.3	1.2	9.2	−2.8	2.7	4.3	1.0	5.3	0.7	3.6
Kiribati	5.6	3.1	4.6	15.8	8.7	−0.7	2.9	−1.2	5.6	−3.1	4.5	..
Papua New Guinea	−3.4	6.6	−6.3	4.7	7.6	−1.2	1.8	−1.0	2.2	2.7	3.3	3.7
Samoa	6.6	7.3	0.8	2.4	2.2	6.1	7.0	1.0	3.5	3.7	5.1	3.5
Solomon Islands	..	1.9	−0.9	1.4	−0.5	−14.3	−8.7	−2.1	6.4	8.0	5.0	6.2
Tonga	4.5	0.0	−3.2	3.5	2.3	5.4	2.6	3.0	3.2	1.4	2.3	1.9
Tuvalu	−5.0	−7.1	5.6	19.7	−0.5	13.4	5.9	1.2	4.0	4.0	2.0	..
Vanuatu	0.0	2.5	8.6	4.3	−3.2	2.7	−2.7	−4.9	2.9	5.5	6.8	7.0
South and South-West Asia	6.5	7.1	5.0	4.9	3.3	5.2	2.3	5.2	7.2	7.4	8.0	7.8
Bangladesh	4.9	4.6	5.4	5.2	4.9	5.9	5.3	4.4	5.3	6.3	6.0	6.7
Bhutan	7.3	5.8	4.2	5.8	7.8	9.9	7.5	8.5	7.1	7.5	6.1	..
India	7.3	7.8	4.8	6.5	6.1	4.4	5.8	3.8	8.5	7.5	9.0	9.2
Iran (Islamic Republic of)	3.2	5.8	3.4	1.6	2.8	5.1	3.3	7.5	6.7	4.8	5.4	6.1
Maldives	7.4	9.1	10.4	9.8	7.2	4.8	3.5	6.5	8.5	9.5	−4.5	18.7
Nepal	3.3	5.3	5.3	2.9	4.5	6.1	5.6	−0.6	3.3	3.8	2.7	1.9
Pakistan	5.2	5.5	1.7	3.5	4.2	3.9	1.8	3.1	4.7	7.5	8.6	6.6
Sri Lanka	5.5	4.0	6.3	4.7	4.3	6.0	−1.5	4.0	6.0	5.4	6.0	7.0
Turkey	7.2	7.0	7.5	3.1	−4.7	7.4	−7.5	7.9	5.8	8.9	7.4	6.0
South-East Asia	8.3	7.6	4.7	−6.9	3.9	6.2	2.4	4.6	5.1	6.5	5.6	5.9
Brunei Darussalam	3.0	3.6	4.1	−4.0	2.5	2.8	3.1	2.8	3.1	1.7	3.0	2.5
Cambodia	6.5	5.3	5.7	5.0	12.6	8.4	5.5	5.2	8.6	10.0	13.4	8.0
Indonesia	8.2	7.8	4.7	−13.1	0.8	4.9	3.8	4.4	4.7	5.1	5.6	5.5
Lao PDR	7.0	6.9	6.9	4.0	7.3	5.7	5.8	5.9	5.8	6.9	7.2	7.5
Malaysia	9.8	10.0	7.3	−7.4	6.1	8.5	0.3	4.4	5.4	7.1	5.3	5.6
Myanmar	6.9	6.4	5.7	5.8	10.9	13.7	11.3	10.0	13.8	5.0	4.5	..
Philippines	4.7	5.8	5.2	−0.6	3.4	4.4	4.5	4.4	4.5	6.0	5.0	5.5
Singapore	8.0	8.2	8.6	−0.8	6.8	9.6	-2.0	3.2	2.9	8.7	6.4	7.6
Thailand	9.2	5.9	−1.4	−10.5	4.4	4.8	2.2	5.3	7.0	6.2	4.5	5.0
Timor-Leste	..	..	..	..	−35.0	15.0	17.0	−6.7	−6.2	0.3	2.3	..
Viet Nam	9.5	10.8	4.1	5.8	4.8	6.8	6.9	7.1	7.3	7.8	8.4	8.2
Developed ESCAP economies	1.7	3.4	2.1	−0.5	0.4	2.5	0.6	0.5	1.9	2.8	2.0	2.2
Australia	3.4	4.2	3.9	5.3	4.3	3.2	2.5	4.1	3.1	3.6	2.7	2.5
Japan	2.0	2.7	1.6	−2.0	−0.1	2.9	0.2	0.3	1.4	2.7	1.9	2.2
New Zealand	4.2	3.4	3.0	0.7	4.7	3.8	2.5	4.7	3.7	4.2	2.1	1.9

Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, December 2006); and *IMF Country Reports;* Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); and website of the Interstate Statistical Committee of the Commonwealth Independent State, available at <http://www.cisstat>, 26 February 2007; and ESCAP estimates.

Table 2. Gross domestic savings rates

(Per cent)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Developing ESCAP economies												
East and North-East Asia												
China	42.5	41.1	41.5	40.8	39.4	39.0	39.4	40.3	42.4	44.6	47.0	48.8
Hong Kong, China	29.6	30.1	30.7	29.4	30.1	32.0	29.8	31.1	31.2	30.7	33.0	32.4
Mongolia	23.4	18.9	25.8	14.3	14.6	10.4	5.7	3.7	8.8	..	..	..
Republic of Korea	36.5	35.7	35.8	37.9	35.8	33.9	31.9	31.4	33.0	35.0	33.3	32.5
North and Central Asia												
Armenia	−4.6	−2.6	−5.3	−4.3	0.0	−0.6	3.3	8.0	13.4	13.2	..	..
Azerbaijan	2.9	0.3	12.9	4.8	8.6	20.4	24.9	27.3	29.6	34.1	52.2	..
Georgia	−12.8	0.7	-8.5	0.4	3.1	4.9	7.5	9.6	9.7	..	..	..
Kazakhstan	15.3	19.8	17.1	15.9	16.1	26.4	28.7	30.1	30.8	34.9	37.5	..
Kyrgyzstan	9.3	3.4	14.3	−8.2	1.2	14.2	12.6	13.6	4.5	4.9	..	..
Russian Federation	28.8	27.9	24.2	21.6	31.9	38.7	34.6	30.7	32.0	..	..	..
Tajikistan	23.9	18.9	13.0	6.4	15.9	7.3	4.8	5.0	4.3	..	..	..
Turkmenistan	..	..	..	..	..	..	..	..	..	..	..	..
Uzbekistan	27.1	22.7	18.7	19.9	17.3	19.4	20.0	21.8	26.9	31.2	32.7	..
Pacific island economies												
Cook Islands	..	..	..	..	..	..	..	..	..	..	..	..
Fiji	10.3	11.8	11.7	13.5	10.8	5.1	9.8	..	..	..	..	..
Kiribati	..	..	..	..	..	..	..	..	..	..	..	..
Papua New Guinea	40.2	31.2	22.4	22.6	13.2	23.7	12.6	11.7	..	..	..	..
Samoa	..	..	..	..	..	..	..	..	..	..	..	..
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..
Tonga	−14.6	−17.2	−13.1	−17.2	−10.2	−9.4	−21.0	−22.5	−12.8	−16.0	..	..
Tuvalu	..	..	..	..	..	..	..	..	..	..	..	..
Vanuatu	17.0	11.8	20.3	22.4	19.2	19.3	20.6	15.6	14.9	..	..	..
South and South-West Asia												
Bangladesh	13.3	14.9	15.9	17.4	17.7	17.9	18.0	18.2	18.6	19.5	20.0	20.3
Bhutan	46.1	35.6	23.5	22.9	22.5	42.5	47.5	42.0	40.2	28.5	32.8	..
India	25.1	23.8	24.6	22.6	24.9	23.5	23.6	26.5	28.9	29.1	29.5	30.5
Iran (Islamic Republic of)	15.7	18.0	20.7	25.5	25.4	26.8	38.4	38.5	38.6	39.6	40.6	42.5
Maldives	46.8	49.2	45.9	46.7	44.2	44.2	44.9	46.3	51.4	..	..	..
Nepal	14.8	13.8	14.0	13.8	13.6	15.2	15.1	12.1	12.0	12.6	12.4	11.1
Pakistan	15.8	12.6	13.0	16.0	12.9	17.1	17.8	18.1	17.6	15.7	14.5	14.4
Sri Lanka	14.6	15.3	17.3	19.1	19.5	17.4	15.8	14.4	15.9	15.9	17.2	17.1
Turkey	22.3	20.1	21.8	23.2	21.4	18.4	17.3	19.1	19.1	20.2	20.3	18.3
South-East Asia												
Brunei Darussalam												
Cambodia	5.1	5.3	9.0	9.5	7.3	6.8	9.5	9.5	7.3	5.8	6.7	6.4
Indonesia	30.6	30.1	31.5	26.5	25.8	26.6	23.4	22.9	22.4	23.0	22.8	21.6
Lao PDR	11.5	12.4	9.4	14.8	16.4	15.1	15.4	17.9	17.0	18.2	17.3	17.9
Malaysia	39.7	42.9	43.9	48.7	47.4	47.3	42.3	42.3	42.5	43.9	43.3	43.4
Myanmar	13.4	11.5	11.8	11.8	13.0	12.3	11.5	10.5	..	..	..	..
Philippines	14.5	14.6	14.2	12.4	14.3	17.3	17.1	19.1	19.3	20.5	20.1	20.0
Singapore	50.2	51.1	52.1	53.0	49.0	47.4	44.2	44.2	43.7	47.0	48.6	49.9
Thailand	34.1	33.8	32.9	33.3	30.7	30.4	29.4	29.3	30.5	31.2	29.4	31.8
Timor-Leste	..	..	..	..	−13.0	−46.0	−44.0	−48.0	−34.0	6.0	27.0	..
Viet Nam	18.2	17.2	20.1	21.5	24.6	27.1	28.8	28.7	27.4	28.5	30.2	31.4
Developed ESCAP economies												
Australia	21.7	22.6	22.3	21.9	22.1	22.0	22.6	22.2	22.1	..	..	..
Japan	29.6	29.6	29.8	28.7	27.6	27.7	26.4	25.3	25.6	..	..	..
New Zealand	23.5	22.8	21.6	19.8	20.7	22.4	23.8	22.5	22.7	..	..	..

Sources: ESCAP, based on national sources; and Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

Table 3. Gross domestic investment rates

(Per cent of GDP)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Developing ESCAP economies												
East and North-East Asia												
China	40.8	39.6	38.2	37.7	37.4	36.3	38.5	40.2	43.9	50.5	42.6	43.6
Hong Kong, China	34.1	31.6	34.0	28.9	24.8	27.5	25.3	22.8	21.9	21.8	20.5	21.3
Mongolia	31.7	29.9	28.1	35.2	37.0	36.2	36.1	32.2	38.0	36.5	35.5	..
Republic of Korea	37.7	38.9	36.0	25.0	29.1	31.0	29.3	29.1	30.0	30.4	30.1	29.1
North and Central Asia												
Armenia	18.4	20.0	19.1	19.1	18.4	18.6	19.8	21.7	24.3	24.9	29.7	..
Azerbaijan	23.8	29.0	34.2	33.4	26.5	20.7	20.7	34.6	53.1	54.5	45.7	..
Georgia	4.0	18.7	18.6	19.4	21.8	20.5	20.9	21.1	23.4	..	..	..
Kazakhstan	23.3	16.1	15.6	15.8	17.8	18.1	26.9	27.3	25.9	26.3	27.5	..
Kyrgyzstan	18.3	25.2	21.7	15.4	18.0	20.0	18.0	17.6	11.8	14.5	12.2	..
Russian Federation	21.1	20.0	18.3	16.2	14.4	16.9	18.9	17.9	18.2	17.9	17.5	..
Tajikistan	21.3	13.3	17.7	13.4	16.6	9.4	9.2	10.8	10.8	..	..	..
Turkmenistan	..	..	38.7	45.5	4.0	35.4	32.6	26.7	25.5	..	..	..
Uzbekistan	24.2	23.0	18.9	20.9	17.1	19.6	21.1	21.2	20.8	23.9	23.0	..
Pacific island economies												
Cook Islands	..	..	..	..	..	..	..	..	..	..	..	..
Fiji	13.6	11.4	11.7	16.0	14.4	12.4	14.9	..	..	..	..	..
Kiribati	..	..	..	..	..	..	..	..	..	..	..	..
Papua New Guinea	21.9	22.7	21.1	17.9	16.1	21.3	21.8	19.8	..	..	..	..
Samoa	..	..	..	..	..	..	..	..	..	..	..	..
Solomon Islands	..	..	..	..	..	..	..	..	..	..	..	..
Tonga	20.1	22.6	19.5	19.0	20.2	19.4	18.5	20.4	18.9	17.5	..	..
Tuvalu	..	..	..	..	..	..	..	..	..	..	..	..
Vanuatu	23.2	20.2	18.8	17.7	20.3	22.2	20.0	21.2	19.8	..	..	..
South and South-West Asia												
Bangladesh	19.1	20.0	20.7	21.6	22.2	23.0	23.1	23.2	23.4	24.0	24.5	25.0
Bhutan	46.7	43.0	33.0	35.7	39.7	47.4	58.0	59.3	57.9	61.0	61.0	..
India	26.9	24.5	24.6	22.6	26.0	24.2	23.0	25.3	27.2	30.1	30.8	32.1
Iran (Islamic Republic of)	14.9	15.3	16.2	24.7	26.0	27.1	32.6	33.9	35.1	35.7	36.2	37.9
Maldives	31.5	30.5	33.2	30.1	33.6	26.3	28.1	25.5	32.3	..	..	..
Nepal	25.2	27.3	25.3	24.8	20.5	24.3	24.1	24.2	25.8	26.4	28.9	30.3
Pakistan	18.5	19.0	17.9	17.7	15.6	17.4	17.2	16.8	16.9	16.6	18.1	20.0
Sri Lanka	24.2	24.2	24.4	25.1	27.3	28.0	22.0	21.2	22.1	25.0	26.5	29.0
Turkey	25.6	25.0	25.6	24.3	24.0	25.0	15.9	21.4	23.3	26.4	27.4	25.4
South-East Asia												
Brunei Darussalam												
Cambodia	12.8	15.2	14.4	12.0	17.0	17.3	21.2	20.1	21.5	17.5	19.7	20.3
Indonesia	31.9	30.7	31.8	25.4	21.8	21.1	19.2	19.0	19.0	21.8	22.0	20.2
Lao PDR	24.5	29.0	26.2	24.9	22.7	20.5	21.0	24.0	21.4	17.5	21.1	21.4
Malaysia	43.6	41.5	43.0	26.7	22.4	27.3	23.9	24.0	21.6	22.6	19.8	20.4
Myanmar	14.2	12.3	12.5	12.4	13.4	12.4	11.6	10.4	..	..	..	..
Philippines	22.5	24.0	24.8	20.3	18.8	21.2	19.0	17.7	16.7	17.1	16.7	16.3
Singapore	34.2	35.8	39.2	32.3	32.0	32.5	26.0	22.8	15.6	19.4	18.6	18.8
Thailand	42.1	41.8	33.7	20.4	20.5	22.8	24.1	23.8	24.9	27.1	31.6	29.2
Timor-Leste	..	..	..	35.0	21.0	41.3	41.8	35.7	31.3	28.4	..	..
Viet Nam	27.1	28.1	28.3	29.0	27.6	29.6	31.2	33.2	35.4	35.5	35.4	35.2
Developed ESCAP economies												
Australia	22.3	22.3	23.2	23.6	24.2	21.7	22.7	24.4	24.5	25.4	25.7	..
Japan	28.2	29.1	28.7	26.9	26.0	26.3	25.8	24.0	23.9	23.8	24.4	..
New Zealand	21.5	21.5	20.5	19.2	20.1	19.6	20.0	20.4	21.7	23.5	24.3	..

Sources: ESCAP, based on national sources; and Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); World Bank, *World Development Indicators 2006* (CD-ROM) (Washington, D.C., World Bank, 2006).

Table 4. Inflation rates

(Per cent)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Developing ESCAP economies	31.0	14.6	9.2	11.9	10.4	5.6	6.3	4.8	4.3	4.6	4.3	4.3
East and North-East Asia	12.3	6.9	3.1	1.5	−0.9	0.6	1.2	−0.1	1.3	3.3	2.0	1.6
China	17.1	8.3	2.8	−0.8	−1.4	0.4	0.7	−0.8	1.2	3.9	1.8	1.5
Hong Kong, China	9.0	6.4	5.8	2.8	−4.0	−3.8	−1.6	−3.1	−2.5	−0.4	0.9	2.0
Mongolia	56.7	46.9	20.5	6.0	7.5	8.1	7.9	1.6	4.7	11.0	9.5	5.1
Republic of Korea	4.4	5.0	4.4	7.5	0.8	2.2	4.1	2.7	3.6	3.6	2.7	2.6
North and Central Asia	212.6	56.1	17.3	24.9	73.8	19.6	20.0	14.9	12.7	10.0	11.8	9.4
Armenia	176.0	19.0	13.8	9.0	0.6	−0.8	3.1	1.1	4.8	6.9	0.6	2.9
Azerbaijan	412.0	20.0	3.7	−1.0	−8.6	1.8	1.6	2.8	2.2	6.7	9.6	8.3
Georgia	163.0	39.0	7.1	4.0	19.2	4.1	4.7	5.6	4.8	5.7	8.2	9.2
Kazakhstan	176.0	39.0	17.4	7.0	8.4	13.2	8.3	5.8	6.4	6.9	7.6	8.6
Kyrgyzstan	43.0	32.0	23.0	10.0	35.9	18.7	7.0	2.1	3.1	4.1	4.3	5.6
Russian Federation	197.5	47.7	14.8	27.7	85.7	20.8	21.5	15.8	13.7	10.9	12.7	9.7
Tajikistan	443.0	270.0	72.0	43.0	26.0	24.0	36.5	10.2	17.1	6.8	7.8	11.9
Turkmenistan	1 005.3	992.4	83.4	17.2	24.1	7.2	11.6	8.8	5.6	5.9	10.6	11.0
Uzbekistan	304.6	54.0	58.8	17.8	29.0	24.9	27.2	27.6	10.3	1.7	6.9	7.6
Pacific island economies	10.4	7.6	3.8	10.5	8.7	10.0	6.7	8.0	10.1	3.4	2.4	2.8
Cook Islands	0.9	−0.6	−0.4	0.8	1.3	3.2	8.7	3.4	2.0	0.9	2.5	..
Fiji	2.2	2.4	2.9	8.1	0.2	3.0	2.3	1.6	4.2	3.3	3.0	4.0
Kiribati	4.1	−1.8	2.6	4.3	0.6	0.9	7.0	1.6	2.6	−1.9	−0.5	..
Papua New Guinea	17.3	11.6	4.0	13.6	14.9	15.6	9.3	11.8	14.7	2.2	1.7	1.7
Samoa	−2.9	5.4	6.9	2.2	0.3	1.0	3.8	8.0	0.1	16.3	1.8	4.6
Solomon Islands	9.6	11.7	8.1	12.3	8.0	7.1	7.7	9.3	10.0	6.7	7.2	8.2
Tonga	1.5	3.0	2.1	3.3	4.5	6.3	8.3	10.4	11.1	11.8	9.6	7.2
Tuvalu	5.6	0.0	1.6	0.6	4.0	3.9	1.4	5.0	3.3	2.8	3.2	..
Vanuatu	1.8	1.1	3.3	3.3	2.2	2.5	3.4	2.2	3.1	1.6	0.9	2.3
South and South-West Asia	30.5	25.6	24.9	28.1	18.5	15.4	15.6	13.9	9.7	6.3	6.7	7.6
Bangladesh	8.9	7.0	3.7	9.0	7.0	2.8	1.9	2.8	4.4	5.8	6.5	7.2
Bhutan	9.5	8.8	6.5	10.6	6.8	4.0	3.4	2.5	2.1	4.6	5.3	3.1
India	10.2	9.4	6.8	13.1	3.4	3.8	4.3	4.0	3.9	3.8	4.4	6.0
Iran (Islamic Republic of)	49.4	23.2	17.3	20.0	20.1	12.6	11.4	15.8	15.6	15.2	12.1	11.0
Maldives	5.5	6.3	7.5	−1.4	3.0	−1.2	0.7	0.9	−2.9	6.4	3.3	2.5
Nepal	7.6	8.1	8.1	8.3	11.4	3.5	2.4	2.9	4.8	4.0	4.5	8.0
Pakistan	13.1	10.7	11.8	7.8	5.7	3.6	4.4	3.5	3.1	4.6	9.3	8.0
Sri Lanka	7.7	15.9	9.6	9.4	4.7	6.2	14.2	9.6	6.3	7.6	11.6	13.0
Turkey	88.1	80.3	85.7	84.6	64.9	54.9	54.4	45.0	25.3	8.6	8.2	9.5
South-East Asia	6.3	5.7	4.9	21.4	7.8	2.3	4.9	4.7	3.4	4.1	6.0	6.8
Brunei Darussalam	6.0	2.0	1.7	−0.4	−0.1	1.2	0.6	−2.3	..	0.9	1.1	..
Cambodia	7.8	7.1	7.9	14.8	4.0	−0.8	0.2	3.3	1.2	3.9	5.8	5.0
Indonesia	9.4	7.9	6.2	58.5	20.3	3.6	11.5	11.9	6.6	6.1	10.5	13.1
Lao PDR	19.7	13.0	27.6	90.9	128.4	25.1	7.8	10.6	15.5	10.5	7.2	7.0
Malaysia	4.0	3.4	2.8	5.2	2.8	1.5	1.4	1.8	1.2	1.4	3.0	3.8
Myanmar	25.2	16.3	29.7	51.5	18.4	−0.1	21.1	57.1	36.6	4.5	9.4	..
Philippines	6.7	7.5	5.6	9.3	5.9	4.0	6.8	3.0	3.5	6.0	7.7	6.5
Singapore	1.8	1.4	2.0	−0.3	0.1	1.3	1.0	−0.4	0.5	1.7	0.4	1.1
Thailand	5.7	5.9	5.6	8.1	0.2	1.7	1.6	0.6	1.8	2.8	4.5	4.7
Timor-Leste	..	..	..	..	..	3.0	−0.3	9.5	4.2	1.8	0.9	..
Viet Nam	16.8	5.7	3.2	7.3	4.1	−1.7	−0.4	3.8	3.1	7.8	8.3	7.3
Developed ESCAP economies	0.3	0.3	1.7	0.6	−0.1	−0.2	−0.2	−0.5	0.0	0.2	0.0	0.5
Australia	4.6	2.6	0.3	0.8	1.5	4.5	4.4	3.0	2.8	2.3	2.7	3.6
Japan	−0.1	0.1	1.7	0.6	−0.3	−0.7	−0.7	−0.9	−0.3	0.0	−0.3	0.2
New Zealand	3.8	2.4	1.1	1.3	−0.1	2.6	2.6	2.6	1.8	2.3	3.1	3.4

Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, December 2006); and *IMF Country Reports;* Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); website of the Interstate Statistical Committee of the Commonwealth Independent States, <www.cisstat.com>, 26 February 2007; and ESCAP estimates.

Table 5. Budget balances

(Per cent of GDP)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Developing ESCAP economies												
East and North-East Asia												
China	−1.0	−1.9	−2.0	−2.6	−3.2	−3.1	−2.8	−3.2	−2.7	−1.5	−1.1	−1.6
Hong Kong, China	−0.3	2.1	6.5	−1.8	0.8	−0.6	−4.9	−4.8	−3.3	1.6	1.0	1.1
Mongolia	−1.5	−2.6	−9.1	−14.3	−11.6	−7.7	−4.5	−5.8	−4.2	−2.1	3.2	..
Republic of Korea	0.3	0.2	−1.4	−3.9	−2.5	1.1	1.2	3.3	1.1	0.7	0.6	1.0
North and Central Asia												
Armenia	..	..	−4.7	−3.7	−7.4	−6.3	−3.8	−2.4	−3.2	−2.3	−2.9	−2.4
Azerbaijan	..	..	−2.8	−2.0	−2.8	−1.9	−2.0	−1.2	−1.2	0.8	0.6	1.1
Georgia	..	..	..	..	−6.7	−4.7	−2.0	−2.2	−1.3	−3.0	−2.4	−2.1
Kazakhstan	−2.4	−4.4	−4.0	−4.4	−3.3	−0.1	−0.4	−0.4	−1.0	−0.3	0.6	0.5
Kyrgyzstan	−11.5	−5.4	−5.2	−3.0	−2.5	−1.9	0.4	−1.1	−0.8	−0.5	0.2	−1.8
Russian Federation	−4.9	−7.4	−6.4	−4.8	−1.2	2.4	3.1	1.7	2.4	4.9	7.5	7.7
Tajikistan	..	..	−3.3	−3.8	−3.1	−0.6	−0.6	−2.4	−1.8	−2.4	−3.8	−4.4
Turkmenistan	..	..	0.0	−2.6	0.9	0.4	0.9	−2.7	−1.8	−2.2	−3.2	−3.2
Uzbekistan	..	..	−2.5	−2.3	−3.2	−3.9	−3.6	−0.8	−0.4	−0.4	0.1	0.3
Pacific island economies												
Cook Islands	−2.8	−7.8	1.1	−2.5	−2.4	−1.8	1.3	0.2	−0.8	−0.6	−1.1	..
Fiji	−0.2	−4.7	−6.5	5.0	−0.3	−3.2	−6.5	−5.7	−6.2	−3.4	−3.6	−3.0
Kiribati	16.2	−11.0	25.7	40.9	17.1	18.7	..	..	..	..	..	..
Papua New Guinea	−0.5	0.5	0.2	−1.8	−2.4	−1.8	−3.1	−3.4	−1.0	1.5	0.1	0.0
Samoa	−7.0	1.4	2.2	2.0	0.3	−0.7	−2.3	−2.1	−0.6	−0.9	−0.3	−3.8
Solomon Islands	−4.6	−4.3	−3.6	3.0	5.0	−0.6	−7.4	−20.2	−5.8	4.9	−0.9	−1.4
Tonga	1.2	0.8	−1.2	−2.5	−0.2	0.8	−0.2	1.2	0.9	2.4	−6.7	−1.5
Tuvalu	..	..	−31.8	19.1	−3.5	−2.2	−45.7	33.7	..	..	..	..
Vanuatu	−2.7	−1.7	−0.5	−9.4	−1.6	−7.0	−3.7	−2.1	−1.8	1.3	2.3	−0.1
South and South-West Asia												
Bangladesh	−4.6	−4.7	−3.7	−3.4	−4.6	−6.1	−5.1	−4.7	−4.2	−4.2	−4.5	−3.9
Bhutan	0.1	2.2	−2.3	0.9	−1.7	−3.8	−10.5	−3.9	−9.5	1.8	−9.4	−7.0
India	−5.1	−4.9	−5.8	−6.5	−5.4	−5.7	−6.2	−5.9	−4.5	−4.0	−4.1	−3.7
Iran (Islamic Republic of)	−0.2	−0.2	−1.0	−2.2	−0.2	−0.2	−0.4	−4.1	−3.4	−3.0	−3.7	−6.8
Maldives	−6.4	−2.5	−1.3	−1.9	−4.1	−4.4	−4.7	−4.9	−3.4	−1.6	−12.2	..
Nepal	−4.8	−5.6	−5.1	−5.9	−5.3	−4.7	−5.9	−5.4	−3.6	−3.2	−3.4	−4.2
Pakistan	−5.6	−6.5	−6.4	−7.6	−6.1	−5.4	−4.3	−4.3	−3.7	−2.4	−3.3	−4.2
Sri Lanka	−10.1	−9.4	−7.9	−9.1	−7.5	−9.9	−10.8	−8.9	−8.0	−8.2	−8.7	−8.7
Turkey	−4.1	−8.4	−7.8	−7.1	−11.7	−10.3	−16.0	−14.4	−11.2	−7.0	−2.0	−2.4
South-East Asia												
Brunei Darussalam	..	..	..	..	..	..	..	..	..	..	..	..
Cambodia	−7.3	−6.3	−3.8	−5.4	−3.9	−4.9	−6.8	−6.5	−6.0	−4.7	−3.4	−2.6
Indonesia	2.2	1.0	0.5	−1.7	−2.5	−1.1	−2.4	−1.5	−1.7	−1.1	−0.5	−1.6
Lao PDR	−9.0	−9.1	−8.4	−11.1	−7.6	−6.0	−7.6	−4.9	−7.4	−3.7	−9.9	−4.9
Malaysia	0.8	0.7	2.4	−1.8	−3.2	−5.7	−5.5	−5.6	−5.3	−4.3	−3.8	−3.7
Myanmar	−3.2	−2.2	−0.9	−5.7	−4.5	−8.4	−5.9	−4.1	−4.5	..	..	..
Philippines	0.6	0.3	0.1	−1.9	−3.8	−4.0	−4.0	−5.3	−4.7	−3.9	−2.7	−2.1
Singapore	7.8	6.9	3.4	2.5	0.5	2.0	1.6	−1.1	−1.6	−1.1	−0.3	−0.1
Thailand	3.0	0.9	−1.5	−2.8	−3.3	−2.2	−2.4	−1.4	0.4	0.1	−0.6	−0.6
Timor-Leste	..	..	..	..	..	..	2.0	0.4	3.1	9.8	..	..
Viet Nam	..	..	−4.8	−2.6	−1.4	−2.4	−4.7	−4.5	−3.3	−4.3	−4.9	−5.0
Developed ESCAP economies												
Australia	−2.1	−0.9	0.1	0.8	1.7	1.4	0.1	0.3	1.1	1.7	2.3	2.2
Japan	−4.7	−5.1	−3.8	−5.6	−7.5	−7.7	−6.4	−8.2	−8.1	−6.3	−5.6	−5.2
New Zealand	3.3	2.7	2.2	2.1	1.5	1.3	1.6	1.7	3.4	4.6	4.8	4.4

Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, December 2006), *IMF Country Reports;* and World Economic Outlook databases (Washington, D.C., IMF, 2006); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); and ESCAP estimates.

Table 6. Current account balances

(Per cent of GDP)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Developing ESCAP economies												
East and North-East Asia												
China	0.2	0.9	4.1	3.3	2.1	1.9	1.5	2.7	3.1	3.5	7.2	7.1
Hong Kong, China	..	..	−4.5	1.5	6.4	4.1	5.9	7.6	10.4	9.5	11.1	10.1
Mongolia	−6.8	−5.8	−5.5	−7.8	−6.7	−5.7	−7.6	−9.6	−7.5	3.9	5.5	..
Republic of Korea	−1.7	−4.1	−1.6	11.7	5.5	2.4	1.7	1.0	2.0	4.1	2.1	0.4
North and Central Asia												
Armenia	−17.0	−18.2	−18.7	−22.1	−16.6	−14.6	−9.4	−6.2	−6.7	−4.5	−3.9	−5.6
Azerbaijan	−16.6	−29.3	−23.1	−30.7	−13.1	−3.2	−0.9	−12.3	−27.8	−30.4	1.3	11.2
Georgia	−19.1	−18.7	−14.4	−7.6	−7.1	−8.8	−6.5	−6.5	−9.4	−8.3	−11.7	−10.0
Kazakhstan	−1.2	−3.7	−3.8	−5.8	−1.0	2.0	−6.3	−4.2	−0.9	1.1	−0.9	0.2
Kyrgyzstan	−15.7	−23.3	−7.8	−25.1	−20.2	−9.1	−3.7	−5.0	−5.2	−4.6	−8.4	−12.8
Russian Federation	2.2	2.8	0.0	0.1	12.6	18.0	11.1	8.4	8.2	9.9	10.9	10.0
Tajikistan	−16.9	−7.2	−5.4	−9.1	−3.1	−6.8	−6.7	−1.4	−0.3	−2.7	−0.8	2.6
Turkmenistan	0.2	0.1	−21.6	−34.5	−20.5	6.4	0.2	1.7	0.7	−4.4	1.9	2.6
Uzbekistan	−0.2	−7.0	−3.9	−0.6	−0.8	1.6	−1.0	1.2	8.7	9.7	11.6	10.7
Pacific island economies												
Cook Islands	..	..	..	..	..	..	..	..	..	..	..	..
Fiji	−1.0	3.1	1.5	−0.3	−3.8	−6.3	−7.2	−0.1	−8.0	−17.4	−17.1	−6.2
Kiribati	−6.1	−19.9	20.3	30.4	3.3	3.9	17.0	−1.5	−17.2	−14.2	..	..
Papua New Guinea	13.9	6.0	−2.4	1.6	3.9	9.1	9.6	−4.3	3.9	2.8	13.1	4.5
Samoa	..	..	3.9	6.6	2.4	4.8	−11.4	−7.3	−0.5	−4.6	−7.5	..
Solomon Islands	2.5	4.0	−10.1	2.7	6.6	−15.4	−12.0	−1.5	11.4	24.3	0.7	−15.8
Tonga	−13.3	−5.8	−0.9	−11.5	−0.9	−6.4	−10.1	5.0	−3.1	4.2	−4.8	−6.2
Tuvalu	4.7	−16.7	39.0	−17.7	2.1	61.5	−29.8	11.7	..	..	..	..
Vanuatu	..	..	−1.1	2.7	−5.4	2.1	0.8	−7.9	−10.3	−7.6	−11.3	−8.8
South and South-West Asia												
Bangladesh	−1.8	−3.2	−1.3	−11.7	−1.1	−1.0	−2.5	0.3	0.3	0.3	−0.9	0.9
Bhutan	−11.6	−11.9	−7.6	10.6	2.2	5.4	−5.4	−8.9	−10.7	−7.6	−22.0	−15.1
India	−1.7	−1.2	−1.4	−1.0	−1.0	−0.6	0.7	1.3	2.4	−0.8	−1.1	−1.6
Iran (Islamic Republic of)	..	3.9	1.4	−1.1	12.0	17.5	7.1	3.1	0.6	0.9	7.5	7.4
Maldives	−4.6	−1.6	−6.8	−4.1	−13.4	−8.2	−9.4	−5.6	−4.5	−15.8	−33.6	−36.2
Nepal	−8.1	−8.7	−8.0	−1.5	0.1	4.5	4.9	4.3	2.6	2.9	2.2	2.4
Pakistan	−3.7	−7.4	−6.0	−2.9	−3.1	−0.3	0.5	3.7	4.9	1.9	−1.4	−3.9
Sri Lanka	−6.1	−4.9	−2.6	−1.4	−3.6	−6.5	−1.4	−1.4	−0.4	−3.2	−2.8	−5.3
Turkey	−1.4	−1.3	−1.4	1.0	−0.7	−4.9	2.3	−0.8	−3.4	−5.2	−6.4	−7.9
South-East Asia												
Brunei Darussalam	46.6	41.9	56.0	..	..	..	69.7	59.3	68.5	68.7	68.4	..
Cambodia	−3.2	−3.1	0.6	−5.8	−5.1	−2.8	−1.1	−1.5	−3.7	−2.3	−4.3	−5.5
Indonesia	−3.2	−3.4	−2.4	4.3	4.1	4.8	4.2	3.9	3.4	0.6	0.3	0.8
Lao PDR	−19.5	−18.5	−17.5	−11.7	−8.3	−0.5	−4.7	0.3	−2.0	−7.7	−6.7	−10.0
Malaysia	−9.8	−4.4	−5.9	13.2	15.9	9.4	8.3	8.4	12.8	12.6	15.7	13.2
Myanmar	−0.2	−0.2	0.0	−0.2	−0.1	−0.1	0.0	0.0	0.0	0.0	0.1	..
Philippines	−4.4	−4.8	−5.3	2.4	9.5	8.2	1.9	5.5	4.4	2.4	2.5	2.4
Singapore	17.5	15.0	15.6	22.3	17.4	11.6	13.7	13.4	24.1	24.5	28.5	25.9
Thailand	−7.9	−7.9	−2.1	12.8	10.2	7.6	5.4	5.5	5.6	4.2	−2.1	1.2
Timor-Leste	..	..	..	−5.4	2.2	11.7	12.5	7.6	5.1	35.1	..	..
Viet Nam	−9.0	−8.2	−5.7	−3.9	4.1	3.6	2.1	−1.7	−4.7	−2.0	0.4	0.9
Developed ESCAP economies												
Australia	−5.4	−3.9	−3.1	−5.0	−5.7	−4.1	−2.1	−4.0	−5.6	−6.3	−6.0	−5.7
Japan	2.1	1.4	2.2	3.0	2.6	2.5	2.1	2.9	3.2	3.8	3.6	3.7
New Zealand	−4.9	−5.8	−6.4	−3.9	−6.1	−5.0	−2.7	−4.1	−4.4	−6.6	−8.8	−8.1

Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, December 2006); and *IMF Country Reports;* Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); and ESCAP estimates.

Table 7. Change in money supply

(Per cent)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Developing ESCAP economies												
East and North-East Asia												
China	29.5	25.3	19.6	14.8	14.7	12.3	15.0	19.4	19.6	14.4	17.9	17.9
Hong Kong, China	10.6	12.5	8.7	11.1	8.3	9.3	−0.3	0.5	6.3	7.3	3.5	3.6
Mongolia	32.9	25.8	32.5	−1.7	31.6	17.6	27.9	42.0	49.6	20.4	38.1	38.3[a]
Republic of Korea	15.6	15.8	14.1	27.0	27.4	25.4	13.2	11.0	6.7	−0.6	3.1	9.5
North and Central Asia												
Armenia	64.3	35.1	29.2	36.7	14.0	38.6	4.3	34.0	10.4	22.3	27.8	21.3[a]
Azerbaijan	25.4	17.1	41.4	−15.2	20.1	73.4	−11.3	14.4	26.8	47.7	23.2	68.4[b]
Georgia	..	41.4	44.0	−1.1	21.1	39.4	18.5	17.9	22.8	42.4	26.5	31.4[b]
Kazakhstan	108.2	20.9	24.1	−14.1	84.4	45.0	40.2	30.1	34.2	68.2	26.3	59.1[a]
Kyrgyzstan	..	14.8	32.2	17.5	33.7	11.7	11.3	33.9	33.4	32.1	10.0	41.1[a]
Russian Federation	112.6	29.6	28.8	37.6	56.7	58.0	36.3	33.8	38.5	33.7	36.3	38.3[a]
Tajikistan	..	78.7	105.1	28.2	37.3	63.3	35.1	40.4	40.9	9.8	25.9	48.2[a]
Turkmenistan	567.8	247.8	107.2	67.7	75.7	83.3	23.8	1.5	40.9	13.4	..	..
Uzbekistan	151.9	119.0	45.6	27.5	32.7	37.1	54.3	29.7	27.1	47.8	56.1	..
Pacific island economies												
Cook Islands	..	−3.2	31.2	12.1	16.7	8.1	14.4	3.2	9.9	9.6	−5.2	..
Fiji	4.5	0.9	−8.7	−0.5	13.6	−1.5	−3.1	7.8	25.1	10.4	15.0	14.9[c]
Kiribati	..	..	..	..	..	..	..	..	..	..	..	..
Papua New Guinea	13.7	30.7	7.7	2.5	9.2	5.0	6.2	7.3	−4.4	14.8	29.5	30.4[a]
Samoa	24.4	6.3	15.2	2.5	15.7	16.3	6.1	10.2	14.0	8.3	15.6	15.9[a]
Solomon Islands	9.2	15.3	6.7	2.5	7.0	0.6	−13.6	6.0	25.4	17.5	38.8	24.2[c]
Tonga	0.7	5.3	7.8	14.7	11.9	18.8	14.9	7.8	13.4	18.6	12.1	14.2[c]
Tuvalu	..	..	..	..	..	..	..	..	..	..	..	..
Vanuatu	13.3	10.1	−0.4	12.6	−9.2	5.5	5.7	−1.7	−0.8	9.9	11.4	6.5[d]
South and South-West Asia												
Bangladesh	16.1	8.3	10.8	10.4	12.8	18.6	16.6	13.1	15.6	13.8	16.8	13.5
Bhutan	36.0	9.4	58.6	16.4	31.4	16.1	7.6	28.5	−0.2	19.9	11.9	32.0[d]
India	11.0	18.7	17.7	18.2	17.1	15.2	14.3	16.8	13.0	16.7	15.6	24.4[c]
Iran (Islamic Republic of)	30.1	32.5	23.7	20.4	21.5	22.4	27.6	24.9	24.5	23.0	22.8	21.1[e]
Maldives	15.6	26.0	23.1	22.8	3.6	4.1	9.0	19.3	14.6	32.6	11.7	25.1[a]
Nepal	16.1	14.4	11.9	21.9	20.8	21.8	15.2	4.4	9.8	12.8	8.3	12.5[f]
Pakistan	13.8	20.1	19.9	7.9	4.3	12.1	11.7	16.8	17.5	20.5	16.5	10.2
Sri Lanka	35.8	11.3	15.6	13.2	13.4	12.9	13.6	13.4	15.3	19.6	19.1	15.0
Turkey	103.6	117.3	97.5	89.7	100.3	40.5	86.2	29.1	14.6	22.1	25.2	21.6
South-East Asia												
Brunei Darussalam	6.7	−2.3	−4.6	−12.9	16.8	25.9	−7.1	−1.4	22.2	17.4	..	..
Cambodia	44.3	40.4	16.6	15.7	17.3	26.9	20.4	31.1	15.0	30.4	16.1	27.5
Indonesia	27.6	29.6	23.2	62.3	11.9	16.6	12.8	4.7	8.1	8.1	16.4	15.9
Lao PDR	16.4	26.7	65.8	113.3	78.4	46.0	13.7	37.6	20.1	21.6	5.1	5.9[f]
Malaysia	24.0	19.8	22.7	1.5	13.7	5.2	2.2	5.8	11.1	25.4	15.4	13.2[a]
Myanmar	36.5	38.9	28.8	34.2	29.7	42.4	43.9	34.7	1.4	32.4	27.3	25.1[f]
Philippines	23.9	23.7	23.1	8.6	16.9	8.1	3.6	10.4	3.6	9.9	6.4	12.6
Singapore	8.5	9.8	10.3	30.2	8.5	−2.0	5.9	−0.3	8.1	6.2	6.2	6.0
Thailand	17.0	12.6	16.4	9.5	2.1	3.7	4.2	2.6	4.9	5.4	8.2	4.9
Timor-Leste	..	..	..	..	..	..	155.5	6.8	32.4	21.9	12.3	..
Viet Nam	22.6	25.7	24.3	23.5	66.5	35.4	27.3	13.3	33.1	31.0	30.9	26.9
Developed ESCAP economies												
Australia	8.5	10.6	7.3	8.4	11.7	3.7	13.2	5.6	13.3	11.7	7.7	12.6[c]
Japan	2.7	2.3	3.1	4.1	3.4	1.1	2.2	3.4	1.8	1.6	2.0	1.3[g]
New Zealand	9.3	16.1	5.2	1.8	5.0	2.3	6.8	7.7	10.6	5.1	5.2	14.0[g]

Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, January 2007); and Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006).

[a] October compared with the corresponding period of previous year.
[b] November compared with the corresponding period of previous year.
[c] September compared with the corresponding period of previous year.
[d] August compared with the corresponding period of previous year.
[e] February compared with the corresponding period of previous year.
[f] March compared with the corresponding period of previousyear.
[g] June compared with the corresponding period of previous year.

Table 8. Merchandise export growth rates

(Per cent)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Developing ESCAP economies												
East and North-East Asia												
China	22.9	1.5	21.0	0.5	6.1	27.9	6.7	22.4	34.6	35.4	28.4	27.2
Hong Kong, China	14.8	4.0	4.0	−7.5	−0.1	16.1	−5.9	5.4	11.8	15.9	11.6	9.7
Macao, China	7.2	−0.1	7.6	−0.3	2.8	15.4	−9.4	2.4	9.5	9.0	−12.0	3.0
Mongolia	45.9	−10.4	6.4	−23.5	3.8	30.1	11.9	0.5	17.5	41.2	22.4	43.6
Republic of Korea	30.3	3.7	5.0	−2.8	8.6	19.9	−12.7	8.0	19.3	31.0	12.0	14.4
North and Central Asia												
Armenia	26.0	7.0	−19.3	−2.1	7.9	25.5	13.9	45.6	35.4	6.0	36.2	−1.1[a]
Azerbaijan	−2.5	5.2	25.5	−16.1	51.2	81.3	11.9	10.9	13.9	42.6	104.4	94.1[a]
Georgia	−1.3	29.2	20.6	−20.2	10.0	39.1	8.1	21.6	37.8	31.4	34.8	20.7[a]
Kazakhstan	62.5	15.7	9.6	−14.9	2.0	55.1	−3.9	12.3	32.0	55.7	37.4	39.0[a]
Kyrgyzstan	20.3	29.8	18.8	−15.2	−13.5	10.4	−6.1	3.8	18.5	24.2	33.3	16.3[a]
Russian Federation	22.3	8.8	−3.1	−14.3	1.5	39.0	−3.0	5.3	26.7	34.8	32.9	28.7[a]
Tajikistan	52.2	2.8	−3.1	−20.0	15.4	13.8	−16.8	13.0	8.1	14.8	15.9	55.8[a]
Turkmenistan	−12.3	−10.6	−55.4	−20.9	100.3	110.1	4.8	9.0	27.2	6.6	27.6	9.6[b]
Uzbekistan	10.7	49.3	-4.4	−20.1	−0.6	0.9	−16.3	−7.1	26.9	32.4	14.9	11.8[b]
Pacific island economies												
Fiji	3.6	24.1	−23.9	−11.6	19.4	−13.7	0.1	3.6	34.5	−0.7	−6.8	−11.3[c]
Papua New Guinea	13.4	−2.4	−14.8	−16.1	9.1	7.3	−13.7	−9.5	34.4	15.6	28.4	15.0[d]
Samoa	151.4	14.8	45.5	30.5	..	..	9.7	−8.9	5.2	−18.4	0.9	−15.0[e]
Solomon Islands	17.1	−3.5	7.5	−27.6	4.4	−47.4	−5.0	−21.8	38.6	−4.4	33.6	20.7[d]
Tonga[f]	6.2	−24.8	0.4	−17.8	12.6	−9.9	8.3	50.8	−1.1	−21.6[g]	15.9[g]	−0.6[h]
Vanuatu	13.2	6.7	16.9	−4.0	-24.2	5.8	−26.8	1.0	32.3	28.6	14.3	..
South and South-West Asia												
Afghanistan[i]	..	..	..	..	..	..	−37.7	82.1	46.7	−13.3	−2.6	7.9
Bangladesh[f]	..	11.8	13.8	16.8	2.9	8.3	12.4	−7.4	9.4	16.1	13.8	21.6
Bhutan[f]	10.2	39.7	1.7	12.1	−5.9	9.2	−12.9	4.5	8.7	39.7	18.0	25.3[b]
India[f]	20.3	5.6	4.5	−3.9	9.5	21.1	1.5	20.3	23.3	28.5	23.4	30.0[h]
Iran (Islamic Republic of)[f]	−5.5	22.0	−17.9	−28.6	60.3	35.3	−16.0	18.1	20.4	29.0	36.9	38.0[c]
Maldives	12.7	−6.0	12.3	6.6	−4.3	18.8	1.4	20.1	14.8	19.1	−10.7	39.7[b]
Nepal[f]	−9.8	2.3	9.8	12.7	17.4	37.6	4.6	−18.8	4.3	8.9	14.8	−1.1[b]
Pakistan[f]	19.4	7.0	−4.4	3.7	−9.8	10.1	7.4	−0.7	22.2	10.3	16.9	14.3
Sri Lanka	18.6	7.8	13.3	1.9	−2.6	19.8	−12.8	−2.4	9.2	12.2	10.2	9.1[h]
Turkey	19.5	7.3	13.1	2.7	−1.4	4.5	12.8	15.1	31.0	33.7	16.3	13.4[a]
South-East Asia												
Brunei Darussalam	3.0	8.3	8.3	−50.2	28.9	23.9	5.5	3.1	28.6	2.0	26.6	18.0[d]
Cambodia	74.3	−24.6	33.9	4.4	41.1	23.7	12.5	12.7	17.9	24.1	12.4[b]	22.2[h]
Indonesia	..	5.8	12.5	−10.5	1.7	27.6	−12.3	3.1	8.4	12.6	20.1	16.2[h]
Lao PDR	..	..	−1.4	7.7	−10.5	9.5	−3.3	−5.9	11.6	8.3	52.2	29.5[b]
Malaysia	21.0	7.0	−27.1	32.7	12.1	16.2	−10.4	6.9	11.3	20.8	11.0	13.4[e]
Myanmar	..	−1.2	−4.3	0.6	22.4	42.1	33.1	5.2	-0.1	14.1	14.5	9.4[d]
Philippines	29.4	17.7	22.8	16.9	18.8	8.7	−15.6	9.5	2.9	9.5	4.0	15.5[e]
Singapore	22.5	5.8	0.0	−12.2	4.4	20.3	−11.8	2.8	27.9	24.2	15.7	21.2[a]
Thailand	24.8	−1.3	4.4	−6.8	7.4	19.3	−6.6	4.6	17.4	20.6	14.9	16.8[e]
Timor-Leste	..	..	..	..	..	..	−20.0	50.0	16.7	14.3[b]	25.0[h]	0.0[h]
Viet Nam	34.4	33.2	26.6	1.9	23.3	25.5	3.8	11.2	20.8	31.4	22.4	21.9[b]
Developed ESCAP countries												
Australia	11.5	13.6	6.3	−12.7	0.0	13.1	25.7	−9.0	−24.4	−2.9	14.7	22.6[e]
Japan	12.1	−7.2	2.3	−8.5	7.9	13.8	−16.6	3.1	13.3	20.5	5.4	7.5[e]
New Zealand	14.5	9.7	−1.7	−16.8	8.7	1.9	10.3	14.8	22.1	20.7	14.5	−2.1[a]

Sources: ESCAP, calculated from national sources; International Monetary Fund, Direction of Trade Statistics database; and Economist Intelligence Unit, *Country Reports*; United Nations Economic Commission for Europe, *Economic Survey of Europe*, 2005, No. 1 (United Nations publication, Sales No. E.05.II.E.7); and website of the Interstate Statistical Committee of the Commonwealth Independent States, available at <www.cisstat.com>, 27 February 2007; and ESCAP estimates.

[a] Refers to first 9 months of 2006.
[b] Estimate.
[c] Refers to first 6 months of 2006.
[d] Refers to first 3 months of 2006.
[e] Refers to first 10 months of 2006.
[f] Fiscal year data.
[g] Preliminary.
[h] Projection.
[i] All figures are estimates, except for 2006 data which are projection. Figures exclude opium and flows associated with US Army and most International Security Assistance Force activities.

Table 9. Merchandise import growth rates

(Per cent)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Developing ESCAP economies												
East and North-East Asia												
China	14.2	5.1	2.5	−1.5	18.2	24.4	12.6	27.1	39.9	36.0	17.6	20.0
Hong Kong, China	19.1	3.0	5.1	−11.6	−2.7	18.5	−5.5	3.3	11.7	16.9	10.5	11.6
Macao, China	−3.8	−2.1	4.1	−6.1	4.4	10.5	5.9	6.0	8.9	26.3	12.5	16.3
Mongolia	87.3	8.6	3.9	7.5	1.9	19.8	3.8	8.3	16.0	27.5	16.0	25.7
Republic of Korea	32.0	11.3	−3.8	−35.5	28.4	34.0	−12.1	7.8	17.6	25.5	16.4	18.4
North and Central Asia												
Armenia	71.1	12.8	4.3	1.6	−10.5	7.2	0.0	14.2	28.0	5.8	33.2	19.7[a]
Azerbaijan	−14.1	35.8	2.8	25.4	−16.9	7.4	−4.8	24.4	49.4	31.5	21.4	17.2[a]
Georgia	13.9	78.4	37.4	−14.5	−13.2	12.4	7.8	4.4	34.5	36.7	33.8	56.3[a]
Kazakhstan	6.9	24.4	8.3	−7.0	−15.4	26.1	11.6	1.2	18.8	44.6	30.1	32.0[a]
Kyrgyzstan	24.6	47.5	−17.5	17.0	−27.1	−8.0	−11.2	27.1	26.6	24.9	98.7	47.0[a]
Russian Federation	24.1	8.8	5.7	−19.4	−31.9	13.5	19.8	13.4	24.8	28.0	28.7	36.2[a]
Tajikistan	48.1	−17.5	12.3	−5.2	−6.8	1.8	1.9	4.8	22.2	56.1	97.0	28.9[a]
Turkmenistan	−7.1	−25.9	17.0	−14.8	48.8	18.7	32.0	−9.8	18.5	32.2	9.6	5.3[b]
Uzbekistan	5.6	71.5	−11.2	−25.3	−4.0	−5.0	−1.3	−13.8	9.8	27.2	13.1	15.3[b]
Pacific island economies												
Fiji	0.6	14.0	−10.1	−19.7	25.3	−7.9	4.8	9.2	39.1	14.6	2.6	13.2[c]
Papua New Guinea	7.8	23.3	−1.6	−27.0	−0.1	−7.0	−6.4	14.6	10.3	22.4	4.6	−12.2[d]
Samoa	15.1	7.4	1.2	1.9	..	..	30.9	12.9	−7.6	23.3	20.9	21.9[e]
Solomon Islands	8.6	−1.9	42.4	−40.8	−13.7	−24.5	−13.0	−19.0	36.3	30.1	51.6	17.5[d]
Tonga[f, g]	35.4	−8.6	−12.9	18.6	−21.2	12.8	−2.9	0.8	21.0	11.6[h]	27.3[h]	8.2[i]
Vanuatu[g]	6.4	5.5	−3.5	−5.6	9.3	−7.2	0.8	−4.5	16.4	6.0	14.1	..
South and South-West Asia												
Afghanistan[f,j]	..	..	..	..	..	..	−8.9	52.5	50.9	2.3	9.0	10.1
Bangladesh[f]	..	18.8	3.2	5.1	6.5	4.6	11.5	−8.5	13.1	12.9	20.6	12.2
Bhutan[f]	4.6	14.1	18.4	3.7	19.3	14.0	6.1	−5.2	2.2	29.2	67.6	18.0[b]
India[f]	21.6	12.1	4.6	−7.1	16.5	4.6	12.3	14.5	24.1	48.6	32.0	31.5[i]
Iran (Islamic Republic of)[f,g]	1.2	17.3	−5.8	1.2	−6.0	12.3	20.2	21.6	34.1	29.2	7.3	30.6[c]
Maldives	..	12.6	15.6	1.5	13.6	−3.4	−0.3	1.1	20.2	36.3	16.1	26.5[b]
Nepal[f]	21.9	6.1	21.2	−11.8	−11.0	22.1	−0.2	−10.6	13.6	10.6	15.6	11.2[b]
Pakistan[f]	21.4	13.6	0.8	−14.9	−6.8	9.3	4.1	−3.6	18.2	27.6	32.1	38.8
Sri Lanka	11.4	2.4	7.8	0.4	1.5	22.4	−18.4	2.2	9.3	19.9	10.8	18.9[i]
Turkey	53.5	22.2	11.3	−5.4	−11.4	34.0	−24.0	24.5	34.5	40.7	19.7	17.8[a]
South-East Asia												
Brunei Darussalam	7.2	18.8	−10.3	−26.0	−43.1	7.5	−7.9	23.8	−17.7	22.4	0.3	25.5[d]
Cambodia[g]	59.5	−9.7	1.9	−1.7	36.4	21.7	8.2	12.8	13.0	22.5	20.2[b]	22.1[i]
Indonesia[g]	..	8.1	4.5	−30.9	−4.2	31.9	−14.1	2.8	10.9	28.0	26.2	15.6[i]
Lao PDR	..	..	−6.0	−14.7	0.3	−3.4	−4.7	−12.4	3.4	54.2	23.8	36.1[b]
Malaysia	25.5	2.0	−27.2	5.7	9.1	25.1	−10.0	8.2	4.4	26.4	8.5	14.1[e]
Myanmar	..	14.4	6.9	−17.6	7.2	20.2	−12.4	11.5	8.7	7.1	1.5	11.9[d]
Philippines[g]	24.4	22.2	10.8	−17.5	3.6	12.2	−4.2	18.7	3.1	8.8	7.7	9.0[a]
Singapore	21.5	5.6	0.8	−23.3	9.4	21.3	−13.9	0.4	17.1	27.4	15.3	21.6[a]
Thailand	31.9	0.6	−13.4	−33.8	16.9	31.3	−3.0	4.6	17.4	25.7	25.9	7.1[e]
Timor-Leste	..	..	..	..	..	..	17.4	−6.3	−16.9	−8.6[b]	5.9[i]	1.9[i]
Viet Nam	40.0	35.0	5.2	−4.8	3.8	33.2	3.7	22.1	27.8	26.7	15.7	20.1[b]
Developed countries												
Australia	14.7	6.2	2.6	−2.0	7.3	4.1	13.0	1.6	−15.4	−3.4	7.5	16.7[e]
Japan	22.6	4.0	−3.0	−18.1	11.5	22.0	−8.9	−4.3	14.1	19.3	15.8	13.6[e]
New Zealand[g]	22.0	4.5	−0.3	−14.5	3.4	−0.5	0.4	14.8	22.1	20.7	14.5	−2.1[a]

Sources: ESCAP, calculated from national sources; International Monetary Fund, Direction of Trade Statistics database; and Economist Intelligence Unit, *Country Reports*; United Nations Economic Commission for Europe, *Economic Survey of Europe*, 2005, No. 1 (United Nations publication, Sales No. E.05.II.E.7); and website of the Interstate Statistical Committee of the Commonwealth Independent States, available at <www.cisstat.com>, 27 February 2007; and ESCAP estimates.

[a] Refers to first 9 months of 2006.
[b] Estimate.
[c] Refers to first 6 months of 2006.
[d] Refers to first 3 months of 2006.
[e] Refers to first 10 months of 2006.
[f] Fiscal year data.
[g] f.o.b. value.
[h] Preliminary.
[i] Projection.
[j] All figures are estimates, except for 2006 data which are projection.

Table 10. Population, size and dynamics

	Population, mid-year (1 000)			Population growth rate (%) Annual average over the period				Total fertility rate (%) Children per woman		
	1990	2000	2005	90-95	95-00	00-05	2005	90-95	95-00	00-05
Developing ESCAP economies										
East and North-East Asia										
China	1 155 305	1 273 979	1 315 844	1.1	0.9	0.6	0.6	1.9	1.8	1.7
DPR Korea	19 690	21 862	22 488	1.2	0.9	0.6	0.5	2.3	2.1	2.0
Hong Kong, China	5 704	6 637	7 041	1.6	1.4	1.2	1.1	1.2	1.1	0.9
Macao, China	372	444	460	2.1	1.4	0.7	0.6	1.6	1.1	0.8
Mongolia	2 216	2 497	2 646	1.5	0.9	1.2	1.2	3.4	2.7	2.4
Republic of Korea	42 869	46 779	47 817	1.0	0.8	0.4	0.4	1.7	1.5	1.2
North and Central Asia										
Armenia	3 545	3 082	3 016	−1.9	−0.9	−0.4	−0.3	2.4	1.8	1.3
Azerbaijan	7 212	8 143	8 411	1.6	0.9	0.6	0.7	2.9	2.2	1.9
Georgia	5 460	4 720	4 474	−1.6	−1.3	−1.1	−1.0	2.0	1.6	1.5
Kazakhstan	16 500	15 033	14 825	−0.8	−1.1	−0.3	−0.1	2.5	2.1	2.0
Kyrgyzstan	4 395	4 952	5 264	0.9	1.5	1.2	1.2	3.6	3.0	2.7
Russian Federation	148 370	146 560	143 202	0.0	−0.2	−0.5	−0.5	1.6	1.2	1.3
Tajikistan	5 303	6 159	6 507	1.7	1.3	1.1	1.2	4.9	4.3	3.8
Turkmenistan	3 668	4 502	4 833	2.7	1.4	1.4	1.4	4.0	3.0	2.8
Uzbekistan	20 515	24 724	26 593	2.2	1.5	1.5	1.5	3.9	3.0	2.7
Pacific island economies										
American Samoa	47	58	65	2.4	1.7	2.3	2.3			
Cook Islands	18	19	18	1.7	−1.2	−0.9	−0.7			
Fiji	724	811	848	1.2	1.1	0.9	0.8	3.4	3.2	2.9
French Polynesia	195	236	257	2.0	1.8	1.7	1.5	3.1	2.6	2.4
Guam	134	155	170	1.7	1.3	1.8	1.7	3.1	3.2	2.9
Kiribati	72	90	99	2.3	2.2	2.1	2.0			
Marshall Islands	47	52	62	1.5	0.4	3.5	3.8			
Micronesia (Fed. States)	96	107	110	2.2	0.0	0.6	0.7	4.8	4.5	4.4
Nauru	9	12	14	2.6	2.5	2.3	1.9			
New Caledonia	171	215	237	2.5	2.2	1.9	1.8	2.9	2.6	2.4
Niue	2	2	1	−2.2	−2.0	−2.1	−1.1			
Northern Mariana Islands	44	70	81	5.2	4.1	3.0	2.7			
Palau	15	19	20	2.7	2.1	0.7	0.5			
Papua New Guinea	4 114	5 299	5 887	2.6	2.5	2.1	2.0	5.0	4.6	4.1
Samoa	161	177	185	0.8	1.1	0.8	0.7	4.7	4.7	4.4
Solomon Islands	317	419	478	2.8	2.9	2.7	2.6	5.1	4.8	4.3
Tonga	94	100	102	0.5	0.7	0.4	0.3	4.5	4.0	3.5
Tuvalu	9	10	10	0.8	0.7	0.5	0.4			
Vanuatu	149	191	211	2.9	2.1	2.0	1.9	4.8	4.6	4.2
South and South-West Asia										
Afghanistan	14 606	23 735	29 863	7.2	2.8	4.7	4.5	8.0	8.0	7.5
Bangladesh	104 047	128 916	141 822	2.3	2.1	1.9	1.9	4.1	3.5	3.2
Bhutan	1 642	1 938	2 163	1.1	2.3	2.2	2.2	5.6	5.0	4.4
India	849 415	1 021 084	1 103 371	2.0	1.8	1.6	1.5	3.8	3.4	3.1
Iran (Islamic Republic of)	56 674	66 365	69 515	1.9	1.3	0.9	1.0	4.3	2.5	2.1
Maldives	216	290	329	3.1	2.9	2.6	2.5	6.0	5.2	4.3
Nepal	19 114	24 431	27 133	2.6	2.4	2.1	2.0	5.0	4.4	3.7
Pakistan	111 698	142 648	157 935	2.5	2.5	2.1	2.0	5.7	5.0	4.3
Sri Lanka	17 786	19 848	20 743	1.2	1.0	0.9	0.8	2.4	2.1	2.0
Turkey	57 300	68 234	73 193	1.8	1.7	1.4	1.3	2.9	2.7	2.5
South-East Asia										
Brunei Darussalam	257	333	374	2.8	2.5	2.3	2.2	3.1	2.7	2.5
Cambodia	9 738	12 744	14 071	3.1	2.3	2.0	2.0	5.4	4.5	4.1
Indonesia	181 414	209 174	222 781	1.5	1.3	1.3	1.2	2.9	2.5	2.4
Lao PDR	4 132	5 279	5 924	2.5	2.4	2.3	2.3	5.8	5.3	4.8
Malaysia	17 845	22 997	25 347	2.7	2.5	2.0	1.8	3.6	3.3	2.9
Myanmar	40 753	47 724	50 519	1.8	1.4	1.1	1.0	3.8	3.0	2.5
Philippines	61 104	75 766	83 054	2.3	2.1	1.9	1.8	4.1	3.6	3.2
Singapore	3 016	4 017	4 326	2.9	2.9	1.5	1.2	1.8	1.6	1.4
Thailand	54 639	61 438	64 233	1.3	1.0	0.9	0.8	2.1	2.0	1.9
Timor-Leste	740	722	947	2.7	−3.2	5.6	6.8	4.8	4.9	7.8
Viet Nam	66 206	78 671	84 238	2.0	1.5	1.4	1.3	3.3	2.5	2.3
Developed ESCAP economies										
Australia	16 873	19 071	20 155	1.2	1.2	1.1	1.1	1.9	1.8	1.7
Japan	123 537	127 034	128 085	0.3	0.2	0.2	0.1	1.5	1.4	1.3
New Zealand	3 411	3 818	4 028	1.4	0.9	1.1	1.0	2.1	2.0	2.0

Source: United Nations Population Division, *World Population Prospects, The 2004 Revision* (New York, UNPD, 2006), <http://esa.un.org/unpp/> (November 2006).

Table 11. Population, structure

	Share of the total population (%)						Women per 100 men			Urban population, as a share of the total population (%)		
	Children (0-14 yrs old)			Elderly (65 yrs old and above)								
	1990	2000	2005	1990	2000	2005	1990	2000	2005	1990	2000	2005
Developing ESCAP economies												
East and North-East Asia												
China	27.7	24.8	21.4	5.6	6.8	7.6	93.9	94.4	94.7	27.4	35.8	40.4
DPR Korea	26.9	26.5	25.0	4.7	5.6	6.8	98.2	99.4	100.2	58.4	60.2	61.6
Hong Kong, China	21.5	16.5	14.4	8.5	11.0	12.0	95.2	107.0	112.5	99.5	100.0	100.0
Macao, China	25.7	22.3	16.3	6.5	7.3	7.7	106.0	107.0	107.8	99.8	100.0	100.0
Mongolia	41.7	35.1	30.5	4.0	3.8	3.8	100.4	99.8	99.7	57.0	56.6	56.7
Republic of Korea	25.8	20.8	18.6	5.0	7.4	9.4	98.8	98.8	99.5	73.8	79.6	80.8
North and Central Asia												
Armenia	30.4	25.9	20.8	5.6	10.0	12.1	106.2	112.6	114.5	67.5	65.1	64.1
Azerbaijan	34.3	31.0	25.8	4.2	5.9	7.1	104.4	104.9	106.0	53.7	50.9	51.5
Georgia	24.6	21.6	18.9	9.3	12.5	14.3	110.4	110.9	111.6	55.2	52.7	52.2
Kazakhstan	31.8	27.5	23.1	5.2	6.9	8.5	105.6	107.7	108.7	56.3	56.3	57.3
Kyrgyzstan	37.6	34.8	31.5	5.0	5.6	6.1	104.5	103.1	103.1	37.8	35.4	35.8
Russian Federation	23.0	18.2	15.3	10.0	12.3	13.8	113.5	114.6	115.5	73.4	73.4	73.0
Tajikistan	43.2	42.3	39.0	3.8	3.4	3.9	101.3	99.5	101.5	31.5	25.9	24.7
Turkmenistan	40.5	36.2	31.8	3.8	4.4	4.7	102.8	102.8	103.0	45.1	45.1	46.2
Uzbekistan	40.9	37.2	33.2	4.0	4.3	4.7	102.3	101.2	101.1	40.1	37.3	36.7
Pacific island economies												
American Samoa										80.9	88.8	91.3
Cook Islands										56.9	65.2	70.4
Fiji	37.9	33.3	31.7	3.1	3.4	3.9	96.9	96.8	96.8	41.6	48.3	50.8
French Polynesia	35.3	31.5	27.8	3.2	4.3	4.9	92.1	93.8	95.5	55.9	52.4	51.7
Guam	30.2	30.5	30.0	3.9	5.4	6.1	87.7	95.9	96.4	90.8	93.2	94.0
Kiribati										35.0	43.0	47.4
Marshall Islands										64.7	65.8	66.7
Micronesia (Fed. States)							95.5	97.6	98.8	25.8	22.3	22.3
Nauru										100.0	100.0	100.0
New Caledonia	32.3	29.9	28.2	4.6	5.3	6.0	95.7	95.0	94.8	59.6	61.9	63.7
Niue										30.9	33.7	36.7
Northern Mariana Islands										89.8	93.3	94.5
Palau										69.6	69.6	69.6
Papua New Guinea	41.3	41.5	40.3	2.7	2.3	2.4	90.8	93.4	94.0	13.1	13.2	13.4
Samoa	40.9	40.9	40.7	3.9	4.4	4.6	90.4	92.2	92.2	21.2	21.9	22.4
Solomon Islands	45.8	42.4	40.6	2.7	2.4	2.4	93.2	93.7	93.7	13.7	15.7	17.0
Tonga	39.3	37.5	35.9	4.4	5.5	6.0	98.0	96.6	96.1	22.7	23.2	24.0
Tuvalu										40.7	46.0	48.1
Vanuatu	43.9	42.1	39.9	3.6	3.3	3.4	94.2	95.5	96.2	18.7	21.7	23.5
South and South-West Asia												
Afghanistan	45.7	46.8	46.5	2.8	2.7	2.7	93.5	93.8	93.9	18.3	21.3	22.9
Bangladesh	40.9	37.5	35.5	3.2	3.4	3.6	94.1	95.2	95.7	19.8	23.2	25.1
Bhutan	41.6	41.2	38.4	3.7	4.3	4.6	97.7	97.4	97.4	7.2	9.6	11.1
India	36.6	34.1	32.1	4.3	4.9	5.3	93.7	94.5	95.0	25.5	27.7	28.7
Iran (Islamic Republic of)	44.7	35.2	28.7	3.5	4.5	4.5	95.1	96.8	97.2	56.3	64.2	66.9
Maldives	46.5	43.8	40.7	3.3	3.5	3.5	95.0	94.7	94.8	25.8	27.5	29.6
Nepal	41.9	40.9	39.0	3.4	3.5	3.7	98.4	101.4	101.8	8.9	13.4	15.8
Pakistan	43.6	41.3	38.3	3.3	3.7	3.8	93.9	94.3	94.3	30.6	33.1	34.9
Sri Lanka	32.1	26.2	24.1	5.3	6.6	7.3	95.2	96.3	96.8	17.2	15.7	15.1
Turkey	35.7	30.7	29.2	4.0	5.1	5.4	97.7	98.1	98.5	59.2	64.7	67.3
South-East Asia												
Brunei Darussalam	34.5	31.3	29.6	2.7	2.9	3.2	89.1	92.0	93.0	65.8	71.1	73.5
Cambodia	44.5	40.7	37.1	2.8	3.2	3.4	110.2	107.5	106.9	12.6	16.9	19.7
Indonesia	35.8	30.2	28.3	3.8	4.9	5.5	99.6	100.0	100.3	30.6	42.0	48.1
Lao PDR	43.8	42.7	40.9	3.8	3.5	3.7	101.3	100.3	99.9	15.4	18.9	20.6
Malaysia	36.5	33.7	32.4	3.7	4.1	4.6	97.0	96.9	97.0	49.8	61.8	67.3
Myanmar	37.3	32.5	29.5	4.5	4.7	4.9	100.7	101.0	101.4	24.9	28.0	30.6
Philippines	40.9	37.5	35.1	3.2	3.5	3.9	98.6	98.6	98.6	48.8	58.5	62.7
Singapore	21.5	21.8	19.5	5.6	7.2	8.5	98.7	98.6	98.7	100.0	100.0	100.0
Thailand	31.9	25.6	23.8	3.9	6.0	7.1	101.0	102.8	103.6	29.4	31.1	32.3
Timor-Leste	41.5	45.5	41.1	2.0	2.8	2.9	93.3	88.7	92.6	20.8	24.5	26.5
Viet Nam	38.9	33.5	29.5	5.0	5.4	5.4	100.7	100.3	100.2	20.3	24.3	26.4
Developed ESCAP economies												
Australia	21.9	21.2	19.6	11.2	12.1	12.7	100.3	102.7	102.5	85.4	87.2	88.2
Japan	18.4	14.6	14.0	12.0	17.2	19.7	103.7	104.3	104.7	63.1	65.2	65.8
New Zealand	23.4	22.9	21.3	11.1	11.9	12.3	102.7	104.0	103.5	84.7	85.7	86.2

Source: United Nations Population Division, *World Population Prospects, The 2004 Revision* (New York, UNPD, 2006), <http://esa.un.org/unpp/> (November 2006).

Table 12. International migration

	Immigrant population						Net migration rate (%)		
	Share of total population (%)			Women per 100 men			per 1 000 population		
	1990	2000	2005	1990	2000	2005	90-95	95-00	00-05
Developing ESCAP economies									
East and North-East Asia									
China	0.0	0.0	0.0	96.5	96.5	96.5	−0.2	−0.3	−0.3
DPR Korea	0.2	0.2	0.2	96.5	113.7	117.2	0.0	0.0	0.0
Hong Kong, China	38.9	40.7	42.6	97.1	116.9	117.6	10.1	9.4	8.8
Macao, China	54.9	54.2	55.9	112.5	120.0	123.3	8.4	7.7	4.4
Mongolia	0.3	0.3	0.3	96.5	113.7	117.2	−5.2	−7.4	−3.9
Republic of Korea	1.3	1.2	1.2	86.2	100.3	115.0	−0.5	−0.3	−0.3
North and Central Asia									
Armenia	18.6	10.2	7.8	143.5	143.5	143.5	−29.5	−14.3	−6.6
Azerbaijan	5.0	2.0	2.2	129.6	135.7	136.8	−3.1	−3.2	−2.4
Georgia	6.2	4.6	4.3	63.9	62.7	59.8	−21.3	−14.4	−10.8
Kazakhstan	21.9	19.1	16.9	129.6	135.7	136.8	−18.7	−17.1	−8.0
Kyrgyzstan	14.2	7.5	5.5	139.3	139.3	139.3	−12.2	−1.1	−2.9
Russian Federation	7.8	8.1	8.4	129.6	135.7	136.8	2.5	3.1	0.6
Tajikistan	8.0	5.4	4.7	129.6	135.7	136.8	−11.3	−11.6	−10.9
Turkmenistan	8.4	5.4	4.6	129.6	135.7	136.8	2.5	−2.3	−0.4
Uzbekistan	8.1	5.5	4.8	129.6	135.7	136.8	−3.1	−3.4	−2.3
Pacific island economies									
American Samoa	45.0	35.7	31.4	94.5	95.5	96.1			
Cook Islands	14.1	15.3	17.0	79.6	79.8	79.8			
Fiji	1.9	2.0	2.0	94.0	92.7	92.0	−9.3	−8.8	−8.4
French Polynesia	13.2	13.0	13.1	67.2	69.5	70.7	−0.5	1.4	2.1
Guam	52.4	62.2	66.9	77.8	87.1	87.1	−4.6	−7.9	0.0
Kiribati	3.0	2.7	2.6	95.2	95.1	95.1			
Marshall Islands									
Micronesia (Fed. States)	3.2	3.2	3.2	53.7	53.8	53.8	−4.4	−25.4	−18.4
Nauru	41.5	37.4	36.1	78.5	81.8	81.8			
New Caledonia	21.4	19.0	18.2	80.0	80.0	80.0	5.8	5.2	4.7
Niue	11.4	8.7	7.6	94.0	105.9	111.5			
Northern Mariana Islands	11.0	7.3	6.5	76.4	76.4	76.4			
Palau	12.7	13.5	15.2	57.8	57.8	57.8			
Papua New Guinea	0.8	0.5	0.4	74.1	72.5	71.8	0.0	0.0	0.0
Samoa	3.6	4.5	5.0	88.4	91.0	92.3	−15.8	−16.2	−15.5
Solomon Islands	1.3	0.8	0.7	78.6	74.2	72.1	0.0	0.0	0.0
Tonga	3.2	1.6	1.1	94.9	94.9	86.1	−18.3	−14.5	−14.1
Tuvalu	3.2	3.1	3.1	128.6	128.8	128.0			
Vanuatu	1.4	0.7	0.5	82.2	85.5	87.4	−1.1	−6.3	−6.0
South and South-West Asia									
Afghanistan							37.6	−3.6	16.0
Bangladesh	0.8	0.8	0.7	16.1	16.1	16.1	−0.5	−0.5	−0.5
Bhutan	0.5	0.5	0.5	81.9	81.7	81.3	−14.2	−0.5	0.0
India	0.9	0.6	0.5	88.5	89.5	90.0	−0.3	−0.3	−0.3
Iran (Islamic Republic of)	6.7	3.5	2.8	74.7	68.7	65.9	−5.1	−1.4	−4.1
Maldives	1.2	1.1	1.0	81.8	81.7	81.3	0.0	0.0	0.0
Nepal	2.2	2.9	3.0	252.4	234.3	223.9	−1.0	−0.9	−0.8
Pakistan	5.9	3.0	2.1	81.9	81.8	81.3	−4.4	−0.1	−2.4
Sri Lanka	2.6	2.0	1.8	104.0	111.0	114.8	−2.0	−1.7	−1.6
Turkey	2.0	1.8	1.8	102.0	108.0	111.2	0.2	0.4	−0.7
South-East Asia									
Brunei Darussalam	28.5	31.2	33.2	74.9	83.3	88.0	2.6	2.2	2.0
Cambodia	0.4	1.9	2.2	101.1	103.9	105.4	3.7	1.7	−0.1
Indonesia	0.3	0.2	0.1	102.5	90.7	85.2	−0.8	−0.9	−0.9
Lao PDR	0.6	0.5	0.4	92.9	92.9	92.9	−0.5	−0.3	−0.2
Malaysia	5.7	6.1	6.5	80.8	74.3	71.3	2.4	3.6	1.2
Myanmar	0.2	0.2	0.2	85.5	85.5	85.5	−0.6	0.3	0.3
Philippines	0.3	0.4	0.5	96.5	96.5	96.5	−2.8	−2.5	−2.3
Singapore	24.1	33.6	42.6	101.0	101.0	101.0	15.4	19.6	9.6
Thailand	0.7	1.4	1.6	54.4	101.8	131.5	−0.3	−0.3	−0.2
Timor-Leste	0.7	0.7	0.6	85.4	90.6	90.8	5.8	−51.0	19.2
Viet Nam	0.0	0.0	0.0	86.0	85.9	85.9	−0.8	−0.5	−0.5
Developed ESCAP economies									
Australia	23.6	21.4	20.3	97.1	103.3	106.6	4.5	5.5	5.1
Japan	0.7	1.3	1.6	98.9	112.5	116.6	0.4	0.4	0.4
New Zealand	15.5	18.5	15.9	100.8	105.5	110.7	4.5	1.1	4.0

Source: United Nations Population Division, *World Migrant Stock, The 2005 Revision* (New York, UNPD, 2006), <http://esa.un.org/migration/> (November 2006).

Table 13. Education, primary level

	Net enrolment rate (%)		Girls to boys ratio		Completion rate (%)					
					Both sexes		Boys		Girls	
	1991	2004	1991	2004	1991	2004	1991	2004	1991	2004
Developing ESCAP economies										
East and North-East Asia										
China	97.4		0.93	1.00	103.3					
DPR Korea										
Hong Kong, China		93.0	1.01	0.94	102.2	111.0		113.5		108.5
Macao, China	81.1	89.2	0.96	0.92		102.1		102.3		101.8
Mongolia	90.1	84.2	1.02	1.02		95.5		94.7		96.3
Republic of Korea	99.7	99.4 (05)	1.01	0.99 (05)	97.9	104.1 (05)	97.6	104.1 (05)	98.3	104.1 (05)
North and Central Asia										
Armenia		93.7		1.03		106.6		105.6		107.6
Azerbaijan	88.8	83.8	0.99	0.98		96.1		97.0		95.2
Georgia	97.1	92.8	1.00	1.00		85.6		83.8		87.5
Kazakhstan	89.3	92.6	0.99	0.99		110.0		110.4		109.5
Kyrgyzstan	92.3	90.1		1.00		93.1		92.7		93.4
Russian Federation	98.6	91.5	1.00	1.00						
Tajikistan	76.7	96.7	0.98	0.95		91.9		94.2		89.6
Turkmenistan										
Uzbekistan	78.2		0.98	0.99 (04)		96.7		96.9		96.5
Pacific island economies										
American Samoa										
Cook Islands		77.4 (00)		0.98 (03)		87.9 (99)		89.8 (99)		85.9 (99)
Fiji		96.2	1.00	0.98 (04)		104.9		104.7		105.1
French Polynesia										
Guam										
Kiribati		97.0 (99)		1.03 (04)		118.1		116.1		120.3
Marshall Islands		89.6 (03)		0.94 (03)		125.0 (03)		122.6 (03)		127.5 (03)
Micronesia (Fed. States)										
Nauru				0.99 (03)		74.1 (02)		70.9 (02)		77.8 (02)
New Caledonia										
Niue		98.5 (99)		1.19 (04)		81.1		88.9		73.7
Northern Mariana Islands										
Palau		96.4 (00)		0.82 (04)		98.8 (00)		106.7 (00)		90.4 (00)
Papua New Guinea			0.88	0.88 (03)	47.4	53.9 (03)	52.2	57.9 (03)	42.5	49.5 (03)
Samoa		90.4	1.02	1.00 (04)		96.1		94.2		98.2
Solomon Islands		79.6	0.86	0.97 (04)	71.6					
Tonga		95.8 (01)	0.97	0.95 (04)	102.6	106.9 (02)	106.7	108.0 (02)	98.4	105.5 (02)
Tuvalu				1.07 (04)		103.1		94.3		113.3
Vanuatu		93.9	0.96	0.97 (04)		87.2		88.2		86.2
South and South-West Asia										
Afghanistan			0.55	0.44						
Bangladesh		93.8		1.03		76.4		74.1		78.8
Bhutan										
India		89.7	0.76	0.93		88.5		92.9		83.9
Iran (Islamic Republic of)	92.4	88.6	0.90	1.10	91.2	94.6	96.9	92.3	85.2	96.9
Maldives		89.7 (02)		0.97		99.7		97.8		101.7
Nepal		78.0 (03)	0.63	0.91 (05)	50.9	74.7 (05)		79.6 (05)		69.5 (05)
Pakistan	33.4	66.2		0.73						
Sri Lanka		97.1	0.95	0.99 (03)	97.0		97.6		96.4	
Turkey	89.2	89.3	0.92	0.94	89.7	87.8	93.2	93.1	86.0	82.3
South-East Asia										
Brunei Darussalam	92.0		0.94	1.00	100.0	111.9		111.7		112.1
Cambodia	69.3	97.6	0.81	0.92		81.7		85.4		77.8
Indonesia	96.6	94.3	0.98	0.98	90.7	101.5		100.8		102.1
Lao PDR	62.6	84.4	0.79	0.88		74.0		78.3		69.6
Malaysia		93.2 (03)	1.00	1.00 (03)	91.4	91.0 (03)	91.4	90.8 (03)	91.5	91.1 (03)
Myanmar	98.1	90.2 (05)	0.96	1.02 (05)		77.8 (05)		76.5 (05)		79.1 (05)
Philippines	96.5	94.0	0.99	0.99		96.6		93.4		99.9
Singapore			0.97							
Thailand	75.8		0.96	0.95 (05)		86.2 (99)		87.7 (99)		84.6 (99
Timor-Leste										
Viet Nam	90.2	92.9 (02)	0.93	0.93		100.8 (03)		103.9 (03)		97.6 (03)
Developed ESCAP economies										
Australia	99.1	95.8	0.99	1.00 (04)		98.2		97.4		99.0
Japan	99.7	99.9	1.00	1.00	101.4		101.3		101.6	
New Zealand	97.5	99.3	0.99	1.00 (04)	99.7		100.6		98.7	

Source: United Nations Statistics Division, *Millennium Development Goals Indicators* (New York, UNSD, 2006), <http://mdgs.un.org/unsd/mdg/Default.aspx> (November 2006).

Table 14. Education, secondary and tertiary levels

	Secondary level				Tertiary level			
	Net enrolment rate (%)		Girls to boys ratio		Gross enrolment rate (%)		Women to men ratio	
	1999	2004	1991	2004	1999	2004	1991	2004
Developing ESCAP economies								
East and North-East Asia								
China			0.75	1.00	6.4	19.1	0.52	0.85
DPR Korea								
Hong Kong, China	73.6 (01)	77.7	1.05	0.97	28.2 (01)	32.1		0.97
Macao, China	62.0	76.8	1.11	1.04	27.5	68.8	0.48	0.65
Mongolia	55.4	82.3	1.14	1.14	25.7	38.9	1.89	1.64
Republic of Korea	96.6	90.4 (05)	0.97	1.00 (05)	66.0	89.9 (05)	0.49	0.62 (05)
North and Central Asia								
Armenia	84.7 (00)	88.7		1.03	23.7	26.2		1.21
Azerbaijan	73.2	77.0	1.01	0.97	15.4	14.8	0.67	0.87
Georgia	77.0	80.7	0.97	0.99	35.9	41.5	1.18	1.03
Kazakhstan	85.3 (00)	92.1	1.04	0.98	24.5	48.0		1.38
Kyrgyzstan			1.02	1.01	29.0	39.7		1.19
Russian Federation			1.06	0.99		68.2	1.27	1.36
Tajikistan	62.6	79.4		0.84	13.6	16.4	0.62	0.33
Turkmenistan								
Uzbekistan			0.91	0.97	15.2 (02)	15.3		0.80
Pacific island economies								
American Samoa								
Cook Islands	59.0	57.2 (00)		1.02 (03)				
Fiji	79.0	82.6	0.95	1.07		15.3		1.20
French Polynesia								
Guam								
Kiribati		70.4		1.22				
Marshall Islands		74.4 (03)		1.04 (03)	16.9 (01)	17.0 (03)		1.30 (03)
Micronesia (Fed. States)								
Nauru				1.07 (03)				
New Caledonia								
Niue	93.4			0.95				
Northern Mariana Islands								
Palau				1.14	40.6 (00)	40.2 (02)		2.15 (02)
Papua New Guinea			0.61	0.79 (03)	2.1			0.55 (99)
Samoa	71.6	65.7	1.96	1.12	11.5			0.93 (01)
Solomon Islands	22.2	26.4 (03)	0.61	0.81 (03)				
Tonga	71.3	67.7	1.03	1.08	3.3	6.1		1.67
Tuvalu				0.93 (01)				
Vanuatu	29.4	39.3	0.80	0.86	4.0	5.0		0.58
South and South-West Asia								
Afghanistan			0.51	0.21		1.1		0.28
Bangladesh	45.8	48.0 (03)		1.11 (03)	5.8	6.5 (03)		0.50 (03)
Bhutan								
India			0.60	0.80	10.2 (00)	11.8	0.54	0.66
Iran (Islamic Republic of)		78.1	0.75	0.94	18.8	22.5	0.48	1.11
Maldives	31.7	51.3 (02)		1.14	0.0	0.0		2.37
Nepal			0.46	0.86 (05)	4.1 (00)	5.6	0.33	0.40
Pakistan		21.8	0.48	0.73	2.6 (02)	3.2	0.58	0.80
Sri Lanka			1.08	1.00			0.55	
Turkey			0.63	0.75	21.5	29.0	0.53	0.73
South-East Asia								
Brunei Darussalam			1.09	1.05	9.7	14.8 (05)		1.98 (05)
Cambodia	14.7	25.8	0.43	0.69	2.2 (00)	2.9		0.46
Indonesia	48.6 (00)	56.9	0.83	0.99	14.4 (01)	16.7		0.79
Lao PDR	26.7	37.1	0.62	0.76	2.5	5.9		0.63
Malaysia	68.9	75.5 (03)	1.05	1.14 (03)	23.3	32.4 (03)		1.41 (03)
Myanmar	30.7	37.2 (05)	0.98	0.99 (05)	6.9	11.3 (02)		1.76 (01)
Philippines	50.8	61.1	1.04	1.11	28.7	28.8	1.42	1.28
Singapore			0.93				0.71	
Thailand			0.94	1.03 (05)	32.5	43.0 (05)		1.11 (05)
Timor-Leste	20.1 (01)					10.2 (02)		1.48 (02)
Viet Nam	59.1	64.8 (02)		0.95	10.7	10.2		0.77
Developed ESCAP economies								
Australia	88.6 (00)	85.5	1.03	0.96	65.7	72.2	1.19	1.23
Japan	99.4	99.9	1.02	1.00	45.1	54.0	0.65	0.89
New Zealand		91.1 (02)	1.02	1.09	67.0	85.8	1.14	1.40

Sources: United Nations Statistics Division, *Millennium Development Goals Indicators* (New York, UNSD, 2006), <http://mdgs.un.org/unsd/mdg/Default.aspx> (November 2006); UNESCO Institute for Statistics, *Global Education Digest 2006* (CD-ROM) (Montreal, UNESCO, 2006).

Table 15. Health, life expectancy

	Life expectancy, years								
	Both sexes			Male			Female		
	90-95	95-00	00-05	90-95	95-00	00-05	90-95	95-00	00-05
Developing ESCAP economies									
East and North-East Asia									
China	68.1	69.7	71.5	66.5	67.8	69.8	70.0	71.9	73.3
DPR Korea	64.6	63.1	63.0	62.2	60.4	60.1	67.3	66.2	66.1
Hong Kong, China	77.6	80.0	81.5	75.5	77.2	78.6	81.0	83.0	84.6
Macao, China	77.3	78.8	80.0	75.2	76.5	77.8	79.8	80.9	82.0
Mongolia	61.2	61.9	63.9	59.4	59.9	61.9	63.2	63.9	65.9
Republic of Korea	72.2	74.6	76.8	68.5	70.9	73.2	76.5	78.5	80.5
North and Central Asia									
Armenia	68.7	70.4	71.4	65.3	66.9	67.9	72.1	73.7	74.6
Azerbaijan	65.6	66.3	66.9	62.2	62.6	63.2	69.5	70.0	70.5
Georgia	70.5	70.5	70.5	66.5	66.5	66.5	74.3	74.3	74.3
Kazakhstan	65.2	63.1	63.2	60.5	57.7	57.8	70.3	68.9	68.9
Kyrgyzstan	65.8	65.7	66.8	61.5	61.5	62.6	70.0	70.0	71.1
Russian Federation	66.8	66.0	65.4	60.6	60.0	59.1	72.8	72.5	72.2
Tajikistan	63.1	63.3	63.5	60.5	60.7	61.0	65.7	66.0	66.3
Turkmenistan	63.3	62.9	62.4	59.2	58.8	58.2	67.6	67.2	66.7
Uzbekistan	66.2	66.5	66.5	63.0	63.3	63.3	69.4	69.7	69.7
Pacific island economies									
American Samoa									
Cook Islands									
Fiji	66.6	66.8	67.8	64.6	64.8	65.7	68.8	69.0	70.0
French Polynesia	70.2	71.8	73.0	67.9	69.5	70.6	72.8	74.6	75.8
Guam	72.6	73.5	74.6	70.4	71.4	72.4	75.0	76.0	77.0
Kiribati									
Marshall Islands									
Micronesia (Fed. States)	66.4	67.1	67.5	65.9	66.5	66.9	67.0	67.6	68.2
Nauru									
New Caledonia	71.5	74.0	75.0	69.2	71.5	72.6	74.5	76.7	77.8
Niue									
Northern Mariana Islands									
Palau									
Papua New Guinea	52.5	53.7	55.1	51.9	53.2	54.7	53.6	54.5	55.8
Samoa	66.0	68.4	70.0	63.1	65.4	67.1	69.7	71.9	73.5
Solomon Islands	60.9	61.2	62.2	60.4	60.7	61.6	61.5	61.7	62.9
Tonga	70.1	71.1	72.1	69.0	70.0	70.9	71.4	72.3	73.4
Tuvalu									
Vanuatu	65.1	66.5	68.4	62.9	65.0	66.8	65.9	68.3	70.4
South and South-West Asia									
Afghanistan	45.5	45.6	46.0	45.3	45.4	45.8	45.9	45.9	46.3
Bangladesh	56.3	59.9	62.6	55.8	59.5	61.8	57.0	60.5	63.4
Bhutan	55.9	59.7	62.7	54.9	58.6	61.5	57.1	60.9	63.9
India	59.5	61.5	63.1	59.0	60.4	61.7	60.1	62.7	64.7
Iran (Islamic Republic of)	66.1	68.3	70.2	65.1	67.2	68.8	67.5	69.6	71.7
Maldives	61.0	63.9	66.3	62.3	64.8	66.9	59.8	63.0	65.8
Nepal	55.9	59.4	61.4	56.0	59.1	60.9	55.8	59.6	61.7
Pakistan	60.9	61.3	62.9	60.6	60.9	62.7	61.4	61.7	63.1
Sri Lanka	71.4	73.0	73.9	69.1	70.5	71.3	74.3	75.8	76.7
Turkey	66.1	67.8	68.6	64.0	65.6	66.3	68.5	70.2	70.9
South-East Asia									
Brunei Darussalam	74.5	75.5	76.3	72.4	73.4	74.2	77.1	78.1	78.9
Cambodia	55.0	55.5	56.0	52.9	52.2	52.1	56.9	58.5	59.6
Indonesia	62.6	64.9	66.5	61.0	63.0	64.6	64.5	66.8	68.6
Lao PDR	50.8	52.5	54.5	49.5	51.3	53.3	52.0	53.8	55.8
Malaysia	70.7	71.9	73.0	68.7	69.6	70.8	73.1	74.5	75.5
Myanmar	56.7	58.6	60.1	54.8	56.2	57.4	59.0	61.1	62.9
Philippines	66.5	68.6	70.2	64.5	66.5	68.1	68.7	70.7	72.4
Singapore	75.8	77.2	78.6	73.9	75.1	76.7	78.3	79.3	80.5
Thailand	68.7	69.0	69.7	65.9	65.3	66.0	71.8	73.0	73.7
Timor-Leste	47.8	52.6	55.1	47.1	51.7	54.1	48.7	53.6	56.3
Viet Nam	66.4	68.8	70.4	64.6	66.9	68.4	68.5	70.7	72.4
Developed ESCAP economies									
Australia	77.6	78.7	80.2	74.7	75.9	77.6	80.6	81.5	82.8
Japan	79.5	80.5	81.9	76.2	77.1	78.3	82.4	83.8	85.3
New Zealand	76.1	77.6	79.0	73.3	75.0	76.7	78.9	80.1	81.3

Source: United Nations Population Division, *World Population Prospects, The 2004 Revision* (New York, UNPD, 2006), <http://esa.un.org/unpp/> (November 2006).

Table 16. Health, morbidity

	HIV/AIDS			Malaria prevalence			Tuberculosis			
	Number of adults (15 yrs old and over) with HIV/AIDS		Share of total in age group 15-49 yrs (%)	Number of cases			Incidence		Prevalence	
	Total	Female		Per 100 000 population			Per 100 000 population			
	2005	2005	2005	1990	2000	2003	2004	1990	2000	2004
Developing ESCAP economies										
East and North-East Asia										
China	650 000	180 000	0	8	1		101	327	271	221
DPR Korea					337	74	178	424	368	178
Hong Kong, China								148	86	77
Macao, China								124	86	90
Mongolia	<500	<100	<0.1				192	574	285	209
Republic of Korea	13 000	1 400	<0.1	0	9	2	90	130	139	125
North and Central Asia										
Armenia	2 900	<1000	0	0	5	1	78	43	88	98
Azerbaijan	5 400	<1000	0	0	19	6	75	57	113	90
Georgia	5 600	<1000	0	0	5	7	82	52	98	89
Kazakhstan	12 000	6 800	0				151	96	146	160
Kyrgyzstan	4 000	<1000	0	0	0	9	122	90	157	137
Russian Federation	940 000	210 000	1				115	82	188	160
Tajikistan	4 900	<500	0	3	310	85	177	195	193	277
Turkmenistan	<500		<0.1	0	1	0	65	106	130	83
Uzbekistan	31 000	4 100	0	0	1	0	117	114	140	156
Pacific island economies										
American Samoa								117	62	49
Cook Islands							28	117	57	51
Fiji	<1000	<500	0				28	85	50	41
French Polynesia								117	41	56
Guam								303	113	91
Kiribati							59	303	75	59
Marshall Islands							59	303	87	59
Micronesia (Fed. States)								218	94	59
Nauru							28	117	52	35
New Caledonia								243	105	117
Niue							28	117	68	57
Northern Mariana Islands								303	75	68
Palau							59	169	149	91
Papua New Guinea	57 000	34 000	2	2 550	1 532	1 242	233	843	628	448
Samoa							28	84	43	43
Solomon Islands				36 766	16 212	19 962	59	303	82	59
Tonga							28	92	44	42
Tuvalu							28	117	68	57
Vanuatu				19 274	3 354	7 496	59	303	94	64
South and South-West Asia										
Afghanistan	<1000	<100	<0.1	2 174		2 172	333	826	713	661
Bangladesh	11 000	1 400	<0.1	52	43	42	229	640	494	435
Bhutan	<500	<100	<0.1	578	306	184	107	371	217	184
India	5 600 000	1 600 000	1	238	199	166	168	570	458	312
Iran (Islamic Republic of)	66 000	11 000	0	137	30	35	27	57	40	35
Maldives				7	7	1	49	155	87	57
Nepal	74 000	16 000	1	120	31	36	184	616	310	257
Pakistan	84 000	14 000	0	71	58	82	181	430	415	329
Sri Lanka	5 000	<1000	<0.1	1 616	1 058	52	60	109	109	91
Turkey				15	17	13	28	82	49	45
South-East Asia										
Brunei Darussalam	<100	<100	<0.1				54	114	56	63
Cambodia	130 000	59 000	2	1 271	490	527	510	947	789	709
Indonesia	170 000	29 000	0	95	117		245	443	327	275
Lao PDR	3 600	<1000	0	533	758	334	156	474	357	318
Malaysia	67 000	17 000	1	283	55	26	103	197	139	133
Myanmar	350 000	110 000	1	2 427	1 241	1 448	171	419	292	180
Philippines	12 000	3 400	<0.1	141	48	54	293	893	554	463
Singapore	5 500	1 500	0				40	62	46	41
Thailand	560 000	220 000	1	501	133	59	142	360	250	208
Timor-Leste					6 902	3 846	556	1 186	1 108	692
Viet Nam	250 000	84 000	1	187	79	46	176	499	251	232
Developed ESCAP economie										
Australia	16 000	<1000	0				6	7	6	6
Japan	17 000	9 900	<0.1				30	71	46	39
New Zealand	1 400		0				11	11	11	11

Sources: UNAIDS/WHO, *2006 Report on the Global AIDS Epidemic* (Geneva, UNAIDS/WHO, 2006); WHO, *World Malaria Report 2005* (Geneva, WHO, 2006) and *World Health Statistics 2006* (Geneva, WHO, 2006).

Table 17. Mortality

	Infant mortality rate			Under 5 mortality rate			Children 1 yr old immunized against measles (%)		Maternal mortality rate		
	Deaths per 1 000 live births								Deaths per 100 000 live births		
	1990	2000	2004	1990	2000	2004	1990	2004	1990	1995	2000
Developing ESCAP economies											
East and North-East Asia											
China	38	33	26	49	41	31	98	84	95	60	56
DPR Korea	42	42	42	55	55	55	98	95	70	35	67
Hong Kong, China									7		
Macao, China										20	
Mongolia	78	50	41	108	65	52	92	96	65	65	110
Republic of Korea	8	5	5	9	5	6	93	99	130	20	20
North and Central Asia											
Armenia	52	33	29	60	37	32	93 (92)	92	50	29	55
Azerbaijan	84	77	75	105	93	90	66 (92)	98	22	37	94
Georgia	43	41	41	47	45	45	16 (92)	86	33	22	32
Kazakhstan	53	63	63	63	73	73	89 (92)	99	80	80	210
Kyrgyzstan	68	60	58	80	70	68	94 (92)	99	110	80	110
Russian Federation	23	20	17	29	25	21	83 (92)	98	75	75	67
Tajikistan	99	93	91	128	120	118	84 (92)	89	130	120	100
Turkmenistan	80	77	80	97	99	103	76 (92)	97	55	65	31
Uzbekistan	65	59	57	79	71	69	84 (92)	98	55	60	24
Pacific island economies											
American Samoa											
Cook Islands	26	20	18	32	24	21					
Fiji	25	18	16	31	22	20	84	62	90	20	75
French Polynesia										20	20
Guam										12	12
Kiribati	65	52	49	88	70	65	75	56			
Marshall Islands	63	55	52	92	68	59	52	70			
Micronesia (Fed. States)	26	20	19	31	24	23	81	85			
Nauru		25	25		30	30		40			
New Caledonia										10	10
Niue							99	99			
Northern Mariana Islands											
Palau	28	24	22	34	29	27	98	99			
Papua New Guinea	74	70	68	101	95	93	67	44	930	390	300
Samoa	40	28	25	50	34	30	89	25	35	15	15
Solomon Islands	38	36	34	63	60	56	70	72		60	130
Tonga	26	22	20	32	26	25	86	99			
Tuvalu	40	38	36	56	53	51	95	98			
Vanuatu	48	38	32	62	48	40	66	48	280	32	32
South and South-West Asia											
Afghanistan	168	165	165	260	257	257	20	61	1 700	820	1 900
Bangladesh	100	66	56	149	92	77	65	77	850	600	380
Bhutan	107	77	67	166	100	80	93	87	1 600	500	420
India	84	68	62	123	94	85	56	56	570	440	540
Iran (Islamic Republic of)	54	36	32	72	44	38	85	96	120	130	76
Maldives	79	45	35	111	60	46	96	97		390	110
Nepal	100	69	59	145	95	76	57	73	1 500	830	740
Pakistan	100	85	80	130	108	101	50	67	340	200	500
Sri Lanka	26	16	12	32	19	14	80	96	140	60	92
Turkey	67	38	28	82	44	32	78	81	180	55	70
South-East Asia											
Brunei Darussalam	10	8	8	11	9	9	99	99	60	22	37
Cambodia	80	95	97	115	135	141	34	80	900	590	450
Indonesia	60	36	30	91	48	38	58	72	650	470	230
Lao PDR	120	77	65	163	101	83	32	36	650	650	650
Malaysia	16	11	10	22	14	12	70	95	80	39	41
Myanmar	91	78	76	130	110	106	90	78	580	170	360
Philippines	41	30	26	62	40	34	85	80	280	240	200
Singapore	7	3	3	9	4	3	84	94	10	9	30
Thailand	31	19	18	37	22	21	80	96	200	44	44
Timor-Leste	130	80	64	172	102	80		55		850	660
Viet Nam	38	23	17	53	30	23	88	97	160	95	130
Developed ESCAP economies											
Australia	8	6	5	10	6	6	86	93	9	6	8
Japan	5	3	3	6	5	4	73	99	18	12	10
New Zealand	8	6	5	11	8	6	90	85	25	15	7

Source: United Nations Statistics Division, *Millennium Development Goals Indicators* (New York, UNSD, 2006), <http://mdgs.un.org/unsd/mdg/Default.aspx> (November 2006).

Table 18. Poverty and malnutrition

	Share of population below $1 [1993 PPP] per day (%)		Share of population below the national poverty line (%)		Gini coefficient of income distribution		Children under 5 moderately or severely underweight (%)	
	1990	2004	1990	2004	1990	2004	1990	2004
Developing ESCAP economies								
East and North-East Asia								
China	33.0	16.6 (01)		4.6 (98)		0.45 (01)	19.1	7.8 (02)
DPR Korea								23.4
Hong Kong, China						0.43 (96)		
Macao, China								
Mongolia	13.9 (95)	27.0 (98)	36.3 (95)	35.6 (98)	0.33	0.30 (98)	12.3 (92)	12.7 (00)
Republic of Korea						0.32 (98)		
North and Central Asia								
Armenia		2.0 (03)		50.9 (01)	0.44	0.34 (03)		2.6 (00)
Azerbaijan	10.9 (95)	3.7 (01)	68.1 (95)	49.0 (01)	0.36	0.37 (01)		6.8 (01)
Georgia		6.5 (03)		54.5 (03)	0.37	0.40 (03)		3.1 (99)
Kazakhstan	2.0 (93)	2.0 (03)		34.6 (96)	0.33	0.34 (03)		4.2 (99)
Kyrgyzstan	8.0 (93)	2.0 (03)		47.6 (01)	0.54	0.30 (03)		11.0 (97)
Russian Federation	6.1 (94)	2.0 (02)	30.9 (94)		0.48	0.40 (02)	3.0 (95)	
Tajikistan		7.4 (03)			0.32	0.33 (03)		
Turkmenistan	20.7 (93)	12.1 (98)			0.35	0.41 (98)		12.0 (00)
Uzbekistan	3.3 (93)	17.3 (00)		27.5 (00)	0.33	0.27 (00)		7.9 (02)
Pacific island economies								
American Samoa								
Cook Islands								
Fiji							7.9 (93)	
French Polynesia								
Guam								
Kiribati								
Marshall Islands								
Micronesia (Fed. States)								
Nauru								
New Caledonia								
Niue								
Northern Mariana Islands								
Palau								
Papua New Guinea				37.5 (96)		0.51 (96)		
Samoa								
Solomon Islands								
Tonga								
Tuvalu								
Vanuatu								
South and South-West Asia								
Afghanistan								39.3
Bangladesh	35.9 (92)	36.0 (00)		49.8 (00)	0.28	0.32 (00)	65.8	47.5
Bhutan								18.7 (99)
India	42.3 (93)	36.0 (99)	36.0 (93)	28.6 (99)			53.4 (93)	48.5 (99)
Iran (Islamic Republic of)	2.0	2.0 (98)			0.44	0.44 (98)		10.9 (98)
Maldives							38.9 (94)	30.4 (01)
Nepal		24.1		30.9	0.38	0.47		48.3 (01)
Pakistan	47.8 (91)	17.0 (02)	28.6 (93)	32.6 (99)	0.33	0.31 (02)	40.4 (91)	37.8 (02)
Sri Lanka	3.8	5.6 (02)	20.0	25.0 (96)	0.30	0.40 (02)		29.4 (00)
Turkey	2.4 (94)	3.4 (03)	28.3 (94)	27.0 (02)	0.42	0.44 (03)	10.4 (93)	3.9 (03)
South-East Asia								
Brunei Darussalam								
Cambodia		34.1 (97)		35.9 (99)		0.40 (97)	39.8 (94)	45.2 (00)
Indonesia	17.4 (93)	7.5 (02)		27.1 (99)	0.34	0.34 (02)		28.2 (03)
Lao PDR	7.8 (92)	27.0 (02)	45.0 (93)	38.6 (97)	0.30	0.35 (02)	44.0 (93)	40.0 (00)
Malaysia	2.0 (92)	2.0 (97)			0.48	0.49 (97)	23.3 (93)	10.6 (03)
Myanmar							32.4	31.8 (03)
Philippines	19.8 (91)	15.5 (00)	40.6 (94)	36.8 (97)	0.44	0.46 (00)	33.5	27.6 (03)
Singapore						0.42 (98)		
Thailand	6.0 (92)	2.0 (02)	18.0		0.46	0.42 (02)	18.6 (93)	
Timor-Leste								45.8 (03)
Viet Nam	14.6 (93)	2.2 (02)		28.9 (02)	0.36	0.38 (02)		28.4 (03)
Developed ESCAP economies								
Australia					0.35	0.35 (94)		
Japan					0.25			
New Zealand						0.36 (97)		

Sources: United Nations Statistics Division, *Millennium Development Goals Indicators* (New York, UNSD, 2006), <http://mdgs.un.org/unsd/mdg/Default.aspx> (November 2006); World Bank, *World Development Indicators Online* (Washington, D.C., World Bank, 2006), <http://devdata.worldbank.org/data-query/> (November 2006).

Table 19. Gender parity and legislation on violence against women

	Women wage employment in non-agricultural sector, as a share of total non-agricultural employees (%)			Women in parliamentary seats, as a share of total parliamentarians (%)			Quality index of legislation on violence against women		
							Domestic violence	Rape and sexual assault	Sexual harassment
	1990	2000	2004	1990	2000	2005	2003	2003	2003
Developing ESCAP economies									
East and North-East Asia									
China	37.7	39.7	40.9	21.3	21.8	20.2	1.00	0.50	0.00
DPR Korea	40.7			21.1	20.1	20.1	0.00	0.00	0.00
Hong Kong, China	41.2	44.8	47.3						
Macao, China	42.7	49.0	49.5						
Mongolia	44.3	48.5	50.3	24.9	7.9	6.8	1.00	0.50	0.00
Republic of Korea	38.1	40.1	41.6	2.0	3.7	13.0	0.25	0.50	0.50
North and Central Asia									
Armenia	47.9	45.5	46.5	35.6	3.1	5.3	0.00	0.50	0.00
Azerbaijan	32.8	43.6	48.8		12.0	10.5	0.00	0.50	0.00
Georgia	48.4	49.3	50.3		7.2	9.4	0.00	0.50	0.00
Kazakhstan	44.8	47.6	49.4		10.4	10.4	0.50	0.50	0.50
Kyrgyzstan	48.2	44.4	43.8		1.4	10.0	1.00	0.50	0.00
Russian Federation	48.8	50.1	50.9		7.7	9.8	0.50	0.50	0.50
Tajikistan	39.3	49.0	53.3		2.8	12.7	0.00	0.50	0.50
Turkmenistan				26.0	26.0		0.00	0.50	0.00
Uzbekistan	46.7	41.7	39.5		6.8	17.5	0.00	0.50	0.00
Pacific island economies									
American Samoa	41.3								
Cook Islands	38.4	39.0	39.4				0.00	0.00	0.00
Fiji	29.9	33.9	35.9		11.3	8.5	0.00	0.50	0.00
French Polynesia	42.7	42.4	41.9						
Guam	42.5	44.1	44.2						
Kiribati				0	4.9	4.8	0.00	0.00	0.00
Marshall Islands						3.0	0.00	0.00	0.00
Micronesia (Fed. States)					0	0	0.00	0.00	0.00
Nauru				5.6	0	0	0.00	0.00	0.00
New Caledonia									
Niue									
Northern Mariana Islan									
Palau					0	0	0.00	0.50	0.00
Papua New Guinea	20.3	32.1	35.4	0	1.8	0.9	0.00	0.50	0.00
Samoa				0	8.2	6.1	0.00	0.00	0.00
Solomon Islands				0	2.0	0	0.00	0.00	0.00
Tonga				0		0	0.00	0.00	0.00
Tuvalu				7.7	0	0	0.00	0.00	0.00
Vanuatu				4.3	0	3.8	0.00	0.00	0.00
South and South-West Asia									
Afghanistan	17.8			3.7			0.00	0.00	0.00
Bangladesh	17.6	22.9	23.1	10.3	9.1	2.0	0.50	0.25	0.25
Bhutan	12.0			2.0	2.0	9.2	0.00	0.25	0.00
India	12.7	16.6	17.3	5.0	9.0	8.3	1.00	0.50	0.50
Iran (Islamic Republic of)	11.9	13.6	13.7	1.5	4.9	4.1	0.00	0.00	0.00
Maldives	31.8	36.7	35.6	6.3		6.0	1.00	0.00	0.00
Nepal				6.1	5.9	5.9	1.00	0.50	0.00
Pakistan	6.6	7.4	8.6	10.1		21.3	0.50	0.50	0.00
Sri Lanka	39.1	46.0	43.2	4.9	4.9	4.9	1.00	0.50	0.50
Turkey	15.0	19.0	19.9	1.3	4.2	4.4	0.25	0.50	0.00
South-East Asia									
Brunei Darussalam	11.3	30.3	31.5				0.50	0.00	0.00
Cambodia	53.5	51.9	51.3		8.2	9.8	1.00	0.50	0.00
Indonesia	29.2	31.7	31.1	12.4		11.3	1.00	1.00	0.00
Lao PDR	42.1			6.3	21.2	22.9	1.00	0.50	0.00
Malaysia	37.8	36.7	36.9	5.1		9.1	0.25	0.50	0.00
Myanmar	36.4						0.00	0.50	0.00
Philippines	39.7	41.1	40.4	9.1	12.4	15.3	1.00	0.25	0.25
Singapore	42.5	45.4	47.0	4.9	4.3	16.0	0.50	0.50	0.00
Thailand	45.3	46.1	46.4	2.8	5.6	8.8	1.00	0.50	0.50
Timor-Leste	19.0					25.3	1.00	0.00	0.00
Viet Nam	52.1	49.7	49.1	17.7	26.0	27.3	0.00	0.50	0.00
Developed ESCAP economies									
Australia	44.6	48.1	48.6	6.1	22.4	24.7	0.50	0.50	0.00
Japan	38.0	40.0	41.2	1.4	4.6	7.1	0.25	0.00	0.00
New Zealand	47.9	50.5	50.5	14.4	29.2	28.3	0.25	0.00	0.25

Sources: United Nations Statistics Division, *Millennium Development Goals Indicators* (New York, UNSD, 2006), <http://mdgs.un.org/unsd/mdg/Default.aspx> (November 2006); United Nations Development Fund for Women, *Not a Minute More: Ending Violence Against Women* (New York, UNIFEM, 2003).

Table 20. Employment, dynamics and share of total population

	Employment growth rate (%)				Employment to population (15-64 yrs old) ratio					
	Annual average over the period				Total		Men		Women	
	91-95	96-00	01-05	2005	1990	2005	1990	2005	1990	2005
Developing ESCAP economies										
East and North-East Asia										
China	1.3	1.2			82.9	82.3 (02)				
DPR Korea										
Hong Kong, China	1.4	2.0	1.1	2.3	67.9	65.3	83.2	76.8	51.3	55.4
Macao, China	2.0	1.6	4.0	9.1	64.7	68.0	79.2	74.3	51.2	62.2
Mongolia		1.1	3.7	1.9	58.7 (93)	55.6	60.7 (93)	55.0	56.6 (93)	56.2
Republic of Korea	2.5	0.7	1.6	1.3	61.0	66.4	71.4	76.4	50.4	56.2
North and Central Asia										
Armenia		−2.9	−2.9	2.2	73.0 (93)	54.6	76.4 (98)	63.3 (02)		49.2 (02)
Azerbaijan	−0.5	0.5	0.8	1.1	83.5	68.2	79.4 (99)	74.3		62.6
Georgia			−1.1	−2.2		58.4	59.3 (98)	64.3		53.0
Kazakhstan			2.3	2.8 (04)		71.4 (04)		76.5 (04)		66.6 (04)
Kyrgyzstan				3.1 (04)		61.9 (04)		71.8 (04)		52.3 (04)
Russian Federation	−3.4	0.3	0.9	1.3	71.6 (92)	67.1	76.9 (92)	70.7	66.5 (92)	63.8
Tajikistan	5.8				68.8 (91)		83.0 (91)	60.2 (96)	54.8 (91)	
Turkmenistan										
Uzbekistan	0.5	2.2			70.3		78.1 (91)	73.2 (95)	64.8 (91)	
Pacific island economies										
American Samoa		2.3								
Cook Islands										
Fiji										
French Polynesia										
Guam	1.0				49.4		52.8 (92)		48.1 (92)	
Kiribati										
Marshall Islands										
Micronesia (Fed. States)										
Nauru										
New Caledonia							60.6 (96)			
Niue										
Northern Mariana Islands										
Palau										
Papua New Guinea										
Samoa										
Solomon Islands										
Tonga						59.0 (03)		59.2 (03)		46.6 (03)
Tuvalu										
Vanuatu										
South and South-West Asia										
Afghanistan										
Bangladesh		−1.3			86.2	53.9 (03)	101.4	81.8 (03)	70.0	24.6 (03)
India		1.4			63.1 (94)		86.3 (94)	81.6 (00)	38.2 (94)	
Iran (Islamic Republic of)										
Maldives		5.2					74.6 (95)	73.1 (00)		
Nepal								73.6 (99)		
Pakistan	1.1	3.3	3.1	2.2	50.3	47.0	86.1	75.3	12.1	16.4
Sri Lanka	−2.3	3.5	3.7	5.2 (04)	53.6	51.9 (04)	69.3	69.0 (04)	36.8	33.8 (04)
Turkey	−0.1	1.6	0.4	1.2	57.7	46.1	78.1	67.5	36.8	24.1
South-East Asia										
Brunei Darussalam						64.8 (01)		72.9 (01)		56.0 (01)
Cambodia			5.6			80.6 (04)		81.6 (04)		79.7 (04)
Indonesia	1.1	2.3	1.1	1.3	69.3	64.4	84.8	82.5	53.7	46.4
Lao PDR										
Malaysia	2.7	4.1	2.5	5.6	62.6	66.0	79.7	80.7 (04)	45.1	46.7 (04)
Myanmar	3.4				64.2					
Philippines	2.7	1.6	3.4	3.6	66.0	64.9	83.6	79.4	48.3	50.3
Singapore	2.8	2.6	0.3	1.6 (04)	67.6 (91)	67.5 (04)	81.0 (91)	73.6 (04)	54.0 (91)	61.3 (04)
Thailand	1.1	0.3	1.9	1.7	87.9	81.7	94.3	89.3	81.5	74.5
Timor-Leste										
Viet Nam	2.7	2.1	2.5	2.8 (04)	81.5	79.2 (04)	80.5 (96)	81.4 (04)		77.1 (04)
Developed ESCAP economies										
Australia	1.0	1.7	2.2	3.3	69.4	73.0	80.0	80.8	58.5	65.2
Japan	0.7		−0.3	0.4	72.7	74.9	86.3	87.1	59.0	62.5
New Zealand	2.0	1.7	3.1	2.8	66.3	77.5	74.9	85.0	57.8	70.3

Source: ILO Laborsta database, <http://laborsta.ilo.org/> (November 2006).

Table 21. Employment, by economic activity

	Share of total employment (%)								
	Agriculture			Industry			Services		
	1990	2000	2005	1990	2000	2005	1990	2000	2005
Developing ESCAP economies									
East and North-East Asia									
China	64.9	60.6		23.1	22.7		12.1	16.7	
DPR Korea									
Hong Kong, China	0.9	0.3	0.3	36.7	20.3	15.2	62.4	79.4	84.5
Macao, China	0.2	0.2	0.1	42.5	28.2	25.2	57.3	71.6	74.7
Mongolia		48.6	39.9		14.1	16.8		37.2	43.3
Republic of Korea	17.9	10.6	7.9	35.4	28.1	26.9	46.7	61.3	65.2
North and Central Asia									
Armenia			46.9 (04)			16.0 (04)			37.1 (04)
Azerbaijan	36.4	41.0	39.3	26.9	10.9	12.1	36.6	48.1	48.6
Georgia		52.2	54.3		9.8	9.3		38.0	36.4
Kazakhstan			33.5 (04)			17.4 (04)			49.1 (04)
Kyrgyzstan	32.7	53.1	48.0	27.9	10.5	12.5	39.4	36.5	39.5
Russian Federation		14.5	10.2		28.4	29.8		57.1	60.0
Tajikistan	47.9 (91)			24.7 (91)			27.4 (91)		
Turkmenistan									
Uzbekistan		48.0 (99)			8.2 (99)			43.8 (99)	
Pacific island economies									
American Samoa									
Cook Island									
Fiji									
French Polynesia									
Guam									
Kiribati									
Marshall Islands									
Micronesia (Fed. States)									
Nauru									
New Caledonia									
Niue									
Northern Mariana Islands									
Palau									
Papua New Guinea		73.3			3.7			23.0	
Samoa									
Solomon Islands									
Tonga									
Tuvalu									
Vanuatu									
South and South-West Asia									
Afghanistan									
Bangladesh	69.5	64.8		13.6	10.7		16.9	24.5	
Bhutan									
India									
Iran (Islamic Republic of)			24.9			30.4			44.7
Maldives		22.1			30.7			47.2	
Nepal									
Pakistan	51.2	48.4	43.1	19.8	18.0	20.3	29.0	33.5	36.6
Sri Lanka	48.6			20.9			30.5		
Turkey	46.9	36.0	30.7	20.7	24.0	25.7	32.4	40.0	43.6
South-East Asia									
Brunei Darussalam									
Cambodia									
Indonesia	56.0	45.1	44.0	13.8	17.5	18.0	30.3	37.3	38.0
Lao PDR									
Malaysia	26.0	18.4	14.8 (04)	27.5	32.2	30.1 (04)	46.5	49.5	55.1 (04)
Myanmar	69.7			9.2			21.1		
Philippines	45.2	37.5	37.0	15.0	16.0	14.9	39.7	46.5	48.1
Singapore	0.3 (91)	0.3 (01)	0.3 (04)	35.2 (91)	43.3	38.0	64.5 (91)	56.7	62.0
Thailand	64.0	48.8	42.6	14.0	19.0	20.3	22.0	32.2	37.1
Timor-Leste									
Viet Nam		65.3	57.9 (04)		12.4	17.4 (04)		22.3	24.8 (04)
Developed ESCAP economies									
Australia	5.6	5.0	3.7	25.1	21.7	21.1	69.3	73.3	75.2
Japan	7.3	5.1	4.5	34.2	31.4	28.3	58.5	63.5	67.2
New Zealand	10.6	8.7	7.2	24.7	23.3	22.1	64.7	68.0	70.8

Source: ILO Laborsta database, <http://laborsta.ilo.org/> (November 2006).

Table 22. Employment, by status

	Share of total sex-specific employment (%)											
	Employees				Employers				Other self-employed			
	Men		Women		Men		Women		Men		Women	
	1990	2005	1990	2005	1990	2005	1990	2005	1990	2005	1990	2005
Developing ESCAP economies												
East and North-East Asia												
China												
DPR Korea												
Hong Kong, China	85.0 (93)	83.2	94.7 (93)	93.3	8.4 (93)	6.8	1.7 (93)	1.8	6.6 (93)	10.0	3.6 (93)	4.9
Macao, China	86.2 (96)	86.0	93.0 (96)	93.4	5.4 (96)	6.2	1.0 (96)	1.5	8.4 (96)	7.8	6.0 (96)	5.1
Mongolia		39.5 (00)		43.7 (00)		1.7 (00)		0.8 (00)		58.8 (00)		55.5 (00)
Republic of Korea	63.1	66.0	56.8	67.1		10.0		3.5	36.9	24.1	43.2	29.4
North and Central Asia												
Armenia												
Azerbaijan												
Georgia	43.3 (98)	34.4	43.8 (98)	34.6	2.6 (98)	1.7	0.4 (98)	0.4	54.1 (98)	63.9	55.8 (98)	65.0
Kazakhstan		64.1 (04)		60.2 (04)		1.6 (04)		0.6 (04)		34.3 (04)		39.1 (04)
Kyrgyzstan		48.4 (04)		48.7 (04)		1.2 (04)		0.8 (04)		50.4 (04)		50.5 (04)
Russian Federation	89.9 (92)	91.7	94.4 (92)	92.7	0.2 (92)	1.5	0.0 (92)	1.0	10.0 (92)	6.7	5.6 (92)	6.2
Tajikistan												
Turkmenistan												
Uzbekistan												
Pacific island economies												
American Samoa												
Cook Islands												
Fiji												
French Polynesia												
Guam												
Kiribati												
Marshall Islands												
Micronesia (Fed. States)												
Nauru												
New Caledonia	80.5 (96)		89.1 (96)						19.5 (96)		10.9 (96)	
Niue												
Northern Mariana Islands												
Palau												
Papua New Guinea												
Samoa												
Solomon Islands												
Tonga												
Tuvalu												
Vanuatu												
South and South-West Asia												
Afghanistan												
Bangladesh	19.7 (96)	14.2 (03)	9.3 (96)	14.0 (03)	0.5 (96)	0.5 (03)	0.2 (96)	0.2 (03)	79.9 (96)	85.4 (03)	90.6 (96)	85.9 (03)
Bhutan												
India												
Iran (Islamic Republic of)	53.0 (96)	52.4	56.2 (96)	41.5	4.1 (96)	7.1	1.0 (96)	1.2	42.9 (96)	40.5	42.8 (96)	57.2
Maldives	35.5 (95)	25.9 (00)	46.4 (95)	42.1 (00)	6.0 (95)	5.5 (00)	2.4 (95)	1.6 (00)	58.5 (95)	68.6 (00)	51.1 (95)	56.3 (00)
Nepal												
Pakistan	35.4 (95)	39.2	24.8 (95)	31.2	1.1 (95)	1.0	0.3 (95)	0.1	63.5 (95)	59.7	74.9 (95)	68.7
Sri Lanka		57.9 (03)		59.6 (03)		3.6 (03)		0.9 (03)		38.6 (03)		39.5 (03)
Turkey	50.6 (98)	57.8	30.8 (98)	43.8	8.1 (98)	6.6	0.8 (98)	0.9	41.3 (98)	35.6	68.4 (98)	55.3
South-East Asia												
Brunei Darussalam												
Cambodia		19.1 (01)		13.6 (01)		0.2 (01)		0.1 (01)		80.7 (01)		86.3 (01)
Indonesia												
Lao PDR												
Malaysia	72.5 (95)	75.5 (03)	72.9 (95)	77.5 (03)	3.4 (95)	4.6 (03)	0.7 (95)	1.2 (03)	24.2 (95)	19.9 (03)	26.3 (95)	21.3 (03)
Myanmar												
Philippines		50.8		49.7		5.9		2.4		43.4		47.9
Singapore	82.8 (91)	81.2 (04)	92.4 (91)	91.9 (04)	7.4 (91)	7.0 (04)	2.0 (91)	2.2 (04)	9.8 (91)	11.8 (04)	5.5 (91)	5.9 (04)
Thailand	31.0	44.5 (04)	25.6	42.9 (04)	1.8	4.3 (04)	0.6	1.5 (04)	67.2	51.2 (04)	73.9	55.5 (04)
Timor-Leste												
Viet Nam	20.2 (96)	29.8 (04)	13.6 (96)	21.2 (04)	1.1 (96)	0.7 (04)	0.4 (96)	0.3 (04)	78.7 (96)	69.5 (04)	86.0 (96)	78.5 (04)
Developed ESCAP economies												
Australia	82.8	84.4	87.8	90.1	5.6	3.8	3.7	2.4	11.6	11.8	8.5	7.5
Japan	81.1	85.4	72.5	85.0	4.3	3.6	1.3	1.1	14.6	11.0	26.2	13.8
New Zealand	74.6 (91)	77.0	85.5 (91)	86.6	10.3 (91)	8.4	4.8 (91)	4.3	15.1 (91)	14.5	9.7 (91)	9.1

Source: ILO Laborsta database, <http://laborsta.ilo.org/> (November 2006).

Table 23. Labour productivity, by economic activity

	Agriculture			Industry			Services		
	United States dollar		Avg. annual growth rate	United States dollar		Avg. annual growth rate	United States dollar		Avg. annual growth rate
	1990	2005		1990	2005		1990	2005	
Developing ESCAP economies									
East and North-East Asia									
China	308	497 (02)	4.1	1 333	5 257 (02)	12.1	2 030	3 044 (02)	3.4
DPR Korea									
Hong Kong, China	7 856	8 654	0.6	18 039	24 840	2.2	32 885	43 262	1.8
Macao, China	0	0		10 205	12 803		24 297	29 530	
Mongolia	575 (93)	510	−1.0	2 255 (93)	3 781	4.4	1 493 (93)	2 160	3.1
Republic of Korea	6 547	14 004	5.2	15 375	40 813	6.7	13 877	17 052	1.4
North and Central Asia									
Armenia		1 130 (04)			4 734 (04)			1 788 (04)	
Azerbaijan	1 543	1 010	−2.8	2 311	11 832	11.5	1 933	1 672	−1.0
Georgia	1 023 (98)	1 165	1.9	3 926 (98)	6 380	7.2	1 911 (98)	3 465	8.9
Kazakhstan		2 563 (04)			6 440 (04)			3 449 (04)	
Kyrgyzstan	1 502	1 122	−1.9	1 976	1 412	−2.2	1 062	677	−3.0
Russian Federation	7 802 (97)	9 355	2.3	6 552 (97)	8 553	3.4	4 266 (97)	5 717	3.7
Tajikistan	752		−4.1	2 274 (91)		−10.7	3 617		−17.4
Turkmenistan									
Uzbekistan	1 323 (95)		−0.1	5 831 (91)		−0.1	714 (95)		0.8
Pacific island economies									
American Samoa									
Cook Islands									
Fiji									
French Polynesia									
Guam									
Kiribati									
Marshall Islands									
Micronesia (Fed. States)									
Nauru									
New Caledonia	10 876 (96)			40 546 (96)			50 746 (96)		
Niue									
Northern Mariana Islands									
Palau									
Papua New Guinea		1 014 (00)			23 894 (00)			3 310 (00)	
Samoa									
Solomon Islands									
Tonga									
Tuvalu									
Vanuatu									
South and South-West Asia									
Afghanistan									
Bangladesh	284	609 (03)	6.1	1 009	2 687 (03)	7.8	1 805	1 786 (03)	−0.1
Bhutan									
India									
Iran (Islamic Republic of)	6 121 (96)	5 813	−0.6	10 023 (96)	10 679	0.7	11 233 (96)	13 432	2.0
Maldives	2 095 (95)	2 994 (00)	7.4	2 291 (95)	3 698 (00)	10.1	10 267 (95)	12 829 (00)	4.6
Nepal									
Pakistan	825	1 094	1.9	1 991	2 702	2.1	2 597	2 844	0.6
Sri Lanka	640	956 (03)	3.1	1 709	2 760 (03)	3.8	1 798	2 338 (03)	2.0
Turkey	2 815	4 793	3.6	11 631	15 539	2.0	11 599	14 233	1.4
South-East Asia									
Brunei Darussalam		59 462 (01)			67 848 (01)			68 260 (01)	
Cambodia		525 (04)			5 410 (04)			2 571 (04)	
Indonesia	576	854	2.7	4 722	6 037	1.7	2 274	2 839	1.5
Lao PDR									
Malaysia	3 855	5 541 (04)	2.6	10 095	16 428 (04)	3.5	6 262	9 998 (04)	3.4
Myanmar	279		3.2	388		2.9	520		1.1
Philippines	953	1 137	1.2	4 511	4 895	0.5	2 161	2 282	0.4
Singapore	22 638 (91)	14 568 (04)	−3.3	24 695 (91)	43 947	4.2	27 471 (91)	59 902	5.7
Thailand	539	869	3.2	6 141	8 687	2.3	5 424	4 912	−0.7
Timor-Leste									
Viet Nam	131 (96)	182 (04)	4.2	349	894 (04)	7.0	4 542	556 (04)	−13.9
Developed ESCAP economies									
Australia	25 016	40 579	3.3	42 117	56 988	2.0	35 243	45 721	1.8
Japan	17 205	22 813	1.9	55 980	68 228	1.3	50 526	58 294	1.0
New Zealand	18 046	32 585	4.0	30 980	35 790	1.0	29 325	31 351	0.4

Sources: ILO Laborsta database, <http://laborsta.ilo.org/> (November 2006); United Nations Statistics Division, *National Accounts Main Aggregates Databases* (New York, UNSD, 2006), <http://unstats.un.org/unsd/snaama/selectionbasicFast.asp> (November 2006).

Table 24. Unemployment, by gender and age group

	Unemployment rate (%)			Women to men ratio		Youth to adult ratio			
						Men		Women	
	1990	2000	2005	1990	2005	1990	2004	1990	2004
Developing ESCAP economies									
East and North-East Asia									
China	2.5	3.1	4.2						
DPR Korea									
Hong Kong, China	1.3	4.9	5.6	1.0	0.7	4.0	2.3 (03)	4.7	2.1 (03)
Macao, China							3.1 (03)		1.9 (03)
Mongolia		4.6	3.3	1.2 (93)	1.2		1.5 (02)		1.6 (02)
Republic of Korea	2.4	4.4	3.7	0.6	0.9	4.1	3.7	6.9	4.0
North and Central Asia									
Armenia				0.9 (97)					
Azerbaijan									
Georgia		10.8	13.8	0.9 (98)	0.9		1.9 (03)		3.3 (03)
Kazakhstan		12.8			1.4 (04)		2.2 (03)		1.8 (03)
Kyrgyzstan					1.2 (04)		2.2 (02)		1.7 (02)
Russian Federation		9.8		1.0 (92)	1.1 (04)			2.8 (95)	2.3 (99)
Tajikistan									
Turkmenistan									
Uzbekistan									
Pacific island economies									
American Samoa									
Cook Islands									
Fiji	6.4								
French Polynesia									
Guam	2.8								
Kiribati									
Marshall Islands			25.4	1.4 (99)	1.0				
Micronesia (Fed. States)									
Nauru									
New Caledonia				1.4 (96)					
Niue									
Northern Mariana Islands									
Palau									
Papua New Guinea	7.7	2.8		0.7	0.3 (00)				
Samoa									
Solomon Islands									
Tonga									
Tuvalu									
Vanuatu									
South and South-West Asia									
Afghanistan									
Bangladesh	1.9	3.3		1.0	1.2 (03)				14.7 (00)
Bhutan									
India		4.3		1.1 (94)	1.0 (00)	4.1 (94)		3.0 (94)	4.3 (00)
Iran (Islamic Republic of)			11.5		1.7				5.4 (96)
Maldives								5.0 (95)	2.8 (00)
Nepal									
Pakistan	3.1	7.8	7.7	0.3	1.9	3.1 (94)	3.2 (02)	1.1 (94)	1.4 (02)
Sri Lanka	14.4	8.0	7.7	2.6	2.2	4.7	9.1 (03)	3.5	4.4 (03)
Turkey	7.5	6.5	10.3	1.0	1.0	3.4	2.4	2.9	2.9
South-East Asia									
Brunei Darussalam									
Cambodia		2.5			1.5 (01)				4.3 (98)
Indonesia		6.1		1.5 (96)		8.5 (92)		9.1 (92)	8.3 (96)
Lao PDR								4.9 (95)	
Malaysia	5.1	3.0		1.4 (95)	1.0 (03)				7.0 (00)
Myanmar									
Philippines	8.1	10.1	7.4	1.4	1.0	2.6	3.0 (03)	2.9	4.4 (03)
Singapore				0.9 (91)	1.0 (04)	1.9 (92)	1.0 (03)	3.7 (92)	2.2 (03)
Thailand	2.2	2.4	1.4	1.2	0.8	4.3	4.6	2.6	5.1
Timor-Leste									
Viet Nam		2.3		0.8 (96)	1.3 (04)		3.8		2.7
Developed ESCAP economies									
Australia	6.9	6.4	5.1	1.1	1.1	2.8	3.1	2.4	2.7
Japan	2.1	4.7	4.4	1.1	0.9	2.6	2.5	2.3	2.1
New Zealand	7.8	6.0	3.7	0.9	1.2	2.3	3.6	2.5	3.2

Sources: ILO Laborsta database, <http://laborsta.ilo.org/> (November 2006); United Nations Statistics Division, *Millennium Development Goals Indicators* (New York, UNSD, 2006), <http://mdgs.un.org/unsd/mdg/Default.aspx> (November 2006).

Table 25. Telecommunications

	Personal computers			Internet users			Telephone subscribers					
							Land lines			Mobile cellular		
	Per 100 population						Per 100 population					
	1990	2000	2005	1995	2000	2005	1990	2000	2005	1995	2000	2005
Developing ESCAP economies												
East and North-East Asia												
China		1.6	4.1		1.7	8.4	0.6	11.2	26.6	0.3	6.6	29.9
DPR Korea							2.5	2.3	4.4			
Hong Kong, China	4.7	35.4	59.3	3.3	27.8	50.1	45.0	58.9	53.9	13.0	81.7	123.5
Macao, China		16.2	29.0	0.3	13.9	37.0	25.5	40.9	37.9	8.8	32.7	115.8
Mongolia		1.4	12.8		1.3	10.1	3.2	5.0	5.9		6.5	21.1
Republic of Korea	3.7	40.5	54.5	0.8	41.4	68.4	30.6	56.2	49.2	3.7	58.3	79.4
North and Central Asia												
Armenia		0.7	6.6	0.1	1.1	5.0	15.7	17.3	19.3		0.6	10.6
Azerbaijan			2.3		0.2	8.1	8.6	9.8	13.0	0.1	5.2	26.7
Georgia		2.2	4.3		0.5	3.9	9.9	10.8	15.1		4.1	32.6
Kazakhstan					0.6	2.7	8.0	12.2	16.9		1.3	33.4
Kyrgyzstan		0.5	1.9		1.1	5.3	7.2	7.7	8.3		0.2	10.3
Russian Federation	0.3	6.3	12.1	0.2	2.0	15.2	14.0	21.9	27.9	0.1	2.2	83.6
Tajikistan					0.1	0.1	4.5	3.6	3.8			4.1
Turkmenistan					0.1	0.7	6.0	8.2	7.7		0.2	1.0
Uzbekistan					0.5	3.3	6.9	6.7	6.7		0.2	2.7
Pacific island economies												
American Samoa							11.8			3.9		
Cook Islands							16.3					
Fiji		4.4	5.2		1.5	7.2	5.8	10.7	12.4	0.3	6.8	16.8
French Polynesia		31.8	10.9		6.3	21.5	19.4	22.7	20.9	0.5	16.9	34.0
Guam				0.7	16.2	47.9	29.3	48.0		3.5	17.6	59.4
Kiribati		0.9	1.2		1.8	2.4	1.7	4.0			0.4	0.7
Marshall Islands		3.9	8.8		1.6	3.5	1.1	7.8	8.3	0.6	0.9	1.1
Micronesia (Fed. States)					3.7		2.5					
Nauru										4.5		
New Caledonia					14.0	32.1	16.8	23.8	23.3	0.4	23.3	56.7
Niue												
Northern Mariana Islands										2.5		
Palau												
Papua New Guinea		5.5	6.3		0.9	2.9	0.8	1.3	1.1		0.2	0.4
Samoa		0.6			0.6	3.3	2.6	4.8	7.3		1.4	13.0
Solomon Islands		3.8	4.6		0.5	0.8	1.5	1.8	1.6	0.1	0.3	1.3
Tonga		1.3	5.0	0.1	2.4	3.0	4.6	9.8		0.3	0.2	16.4
Tuvalu					5.3		1.3					
Vanuatu		1.3	1.4		2.1	3.5	1.8	3.5	3.2	0.1	0.2	5.8
South and South-West Asia												
Afghanistan						0.1	0.2	0.1	0.3			4.0
Bangladesh		0.2	1.2		0.1	0.2	0.2	0.4	0.8		0.2	6.4
Bhutan		0.8			0.3		0.4	2.2				
India		0.5	1.5		0.5	5.4	0.6	3.2	4.5		0.4	8.2
Iran (Islamic Republic of)		6.3	10.5		1.0	10.1	4.0	14.9	27.3		1.5	10.4
Maldives		3.7	11.0		2.2	5.8	2.9	9.1			2.8	
Nepal		0.3	0.5		0.2	0.4	0.3	1.2	1.7		0.1	0.9
Pakistan	0.1	0.4			0.2	6.8	0.8	2.2	3.4		0.2	8.3
Sri Lanka		0.7	2.7		0.7	1.4	0.7	4.2	6.0	0.3	2.3	16.2
Turkey	0.5	3.8	5.1	0.1	3.8	21.9	12.2	27.0	25.9	0.7	23.6	59.6
South-East Asia												
Brunei Darussalam		6.9	8.5	1.1	9.0	15.3	13.6	24.3		12.6	28.6	56.3
Cambodia		0.1	0.3		0.1	0.3		0.2	0.3	0.1	1.0	7.6
Indonesia	0.1	1.0	1.4		0.9	7.2	0.6	3.2	5.7	0.1	1.8	21.1
Lao PDR		0.3	1.7		0.1	0.4	0.2	0.8	1.3		0.2	10.8
Malaysia	0.8	9.5	19.2	0.2	21.4	42.4	8.9	19.9	16.8	5.0	22.0	75.2
Myanmar		0.2			0.0		0.2	0.5				
Philippines	0.4	1.9	4.5		2.0	5.3	1.0	4.0	4.2	0.7	8.4	39.5
Singapore	6.6	48.3		2.8	32.4	57.9	34.6	48.4	43.5	8.7	68.4	103.4
Thailand	0.4	2.8	5.8	0.1	3.8	11.0	2.4	9.1	11.0	2.3	5.0	43.0
Timor-Leste												
Viet Nam		0.8	1.3		0.3	12.7	0.2	3.2	18.8		1.0	11.4
Developed ESCAP economies												
Australia	15.0	47.0	68.9	2.8	34.5	70.4	45.6	54.0	56.9	12.4	44.7	91.4
Japan	6.0	31.5	54.2	1.6	29.9	50.2	44.1	48.8	45.9	9.3	52.6	74.0
New Zealand		35.8	48.2	4.9	39.3	58.9	43.4	47.5	45.1	10.1	40.0	87.6

Source: United Nations Statistics Division, *Millennium Development Goals Indicators* (New York, UNSD, 2006), <http://mdgs.un.org/unsd/mdg/Default.aspx> (November 2006).

Table 26. Infrastructure and transport

	Total road network		Length of paved road		Railway network			Passenger cars		
	km per 1 000 km²		(%) of total network		km per 1 000 km²			per 1 000 population		
	1990	2003	1990	2003	1995	2000	2004	1990	2000	2003
Developing ESCAP economies										
East and North-East Asia										
China	126.6	194.0		79.5	5.9	6.3	6.5	1.4	6.7	
DPR Korea	230.9	259.1 (99)	5.7	6.4 (99)						
Hong Kong, China	1 374.1	1 664.5 (99)	100.0	100.0 (99)				37.7	52.7	51.9
Macao, China	2.3 (96)	12.6	100.0	100.0 (00)				67.2	110.5	125.5
Mongolia	27.1	31.4 (02)	10.2	3.5 (02)		1.2	1.2			
Republic of Korea	574.4	985.0	71.5	76.8	31.4	31.6	31.7	48.4	172.8	216.6
North and Central Asia										
Armenia	272.7	270.7	99.2	96.8 (98)	30.0	29.9	25.2			
Azerbaijan	630.6	327.1	93.9 (94)	47.0				36.1	40.8	44.6
Georgia	310.8	291.4	93.8	39.4	22.7	22.5	22.5	88.3	51.9	55.9
Kazakhstan	58.7	95.6	55.1	95.9		5.0	5.1	49.1	66.5	
Kyrgyzstan	98.5	98.2 (04)	90.0	90.0 (04)			2.2	44.4	38.4	
Russian Federation	25.6 (92)	32.8 (01)	74.2	67.4 (99)	5.3	5.3	5.2	60.4	138.1	160.9
Tajikistan	213.4	198.4 (00)	71.6	82.7 (95)					19.0	
Turkmenistan	45.3	51.1 (99)	73.5	81.2 (99)						
Uzbekistan	170.4	191.8 (99)	79.0	87.3 (99)		8.6	9.7			
Pacific island economies										
American Samoa								84.9		
Cook Islands										
Fiji	166.9	188.3 (99)	44.5	49.2 (99)				55.3		
French Polynesia										
Guam								530.2	418.3	
Kiribati	917.8 (96)	917.8 (99)								
Marshall Islands										
Micronesia (Fed. States)										
Nauru										
New Caledonia								315.7	404.1	420.4
Niue										
Northern Mariana Islands										
Palau										
Papua New Guinea	40.9	43.3 (99)	3.2	3.5 (99)					4.7	
Samoa	279.2 (96)	279.2 (99)	42.0 (95)	42.0 (99)						
Solomon Islands	43.2	48.6 (99)	2.1	2.5 (99)						
Tonga	944.4 (96)	944.4 (99)	27.0 (95)	27.0 (99)				21.2	49.9	
Tuvalu										
Vanuatu	82.9 (93)	87.8 (99)	21.6	23.9 (99)				26.8	15.7	
South and South-West Asia										
Afghanistan	32.2	53.3	13.3	23.7				2.1	0.3	
Bangladesh	1 444.3	1 837.8 (04)	7.2 (91)	9.5 (04)	20.8	21.1		0.4		
Bhutan	49.7	171.3	77.1	62.0						
India	672.7	1 295.4 (02)	47.3 (91)	62.6 (02)	21.1	21.1	21.3	3.2	6.0	
Iran (Islamic Republic of)	80.1	108.9 (02)	47.2 (94)	66.3 (02)	3.3	4.1	3.9	27.5	17.2	
Maldives								4.6	6.9	6.4
Nepal	47.8	111.2	37.5	53.9				1.1	2.0	
Pakistan	219.5	330.0	54.0	60.0	11.4	10.1	10.1	5.0	7.5	
Sri Lanka	1 439.0	1 505.3	32.0 (91)	81.0	23.1			9.8	16.9	21.8
Turkey	477.4	460.5 (02)	23.0 (95)	41.6 (02)	11.1	11.3	11.3	28.8	64.8	66.0
South-East Asia										
Brunei Darussalam								416.3	548.8	592.9
Cambodia	202.8	69.8 (00)	7.5	16.2 (00)	3.4	3.4	3.7	0.5	0.6	
Indonesia	159.4	203.3 (02)	45.1	58.0 (02)	2.8			7.2	14.5	
Lao PDR	60.5	141.3 (02)	24.0	14.1 (02)						
Malaysia	262.1	218.6 (01)	70.0	77.9 (01)	5.1	5.1	5.1	8.7	15.2	17.7
Myanmar	38.0	42.5 (99)	10.9	78.0 (99)				1.9	3.6	
Philippines	538.5	670.9	16.6 (94)	9.9	1.5			17.5	28.5	
Singapore	4 176.1	4 723.9	97.1	100.0				95.1	103.1	101.2
Thailand	141.3	112.4 (00)	55.3	98.5 (00)	7.9	7.9		22.4	43.4	53.8
Timor-Leste										
Viet Nam	295.2	662.5 (00)	23.5	25.1 (98)	8.7	9.7	8.0			
Developed ESCAP economies										
Australia	105.5	105.6 (99)	35.0	38.7 (98)		1.2	1.2	454.7		
Japan	3 057.3	3 229.8 (02)	69.2	77.7 (02)	55.2	55.3	55.0	282.7	415.1	432.2
New Zealand	345.8	345.8	57.0	63.8	14.6			440.1	499.2	517.5

Sources: World Bank, *World Development Indicators Online* (Washington, D.C., World Bank, 2006), <http://devdata.worldbank.org/data-query/> (November 2006); United Nations Statistics Division, *United Nations Common Database* (New York, UNSD, 2006), <http://unstats.un.org/unsd/cdb/cdb_help/cdb_quick_start.asp> (November 2006); Food and Agriculture Organization of the United Nations FAOSTAT database, <http://faostat.fao.org/site/348/default.aspx> (November 2006).

Table 27. Land area and use

	Land area 1 000 km²	Population density persons per km²	Forested land area, as a share of land area (%)			Protected area, as a share of land area (%)		
	2005	2005	1990	2000	2005	1990	2000	2005
Developing ESCAP economies								
East and North-East Asia								
China	9 327	137	16.8	19.0	21.2	11.6	13.7	14.9
DPR Korea	120	187	68.1	56.6	51.4	2.4	2.4	2.4
Hong Kong, China		6 407						
Macao, China		17 699						
Mongolia	1 567	2	7.3	6.8	6.5	4.1	13.9	13.9
Republic of Korea	99	480	64.5	63.8	63.5	3.8	3.9	3.9
North and Central Asia								
Armenia	28	101	12.3	10.8	10.0	9.1	9.1	10.0
Azerbaijan	83	97	11.3	11.3	11.3	6.1	6.6	7.3
Georgia	69	64	39.7	39.7	39.7	3.0	4.0	4.0
Kazakhstan	2 700	5	1.3	1.2	1.2	2.5	2.9	2.9
Kyrgyzstan	192	26	4.4	4.5	4.5	2.9	3.6	3.6
Russian Federation	16 380	8	47.9	47.9	47.9	7.5	8.8	8.8
Tajikistan	140	45	2.9	2.9	2.9	6.8	18.2	18.2
Turkmenistan	470	10	8.8	8.8	8.8	4.0	4.1	4.1
Uzbekistan	425	59	7.4	7.8	8.0	2.0	4.6	4.6
Pacific island economies								
American Samoa	0.20	326	91.9	90.3	89.4			
Cook Islands	0.24	76	63.9	66.5	66.5			
Fiji	18	46	53.6	54.7	54.7	0.2	0.3	0.3
French Polynesia	3.7	64	28.7	28.7	28.7			
Guam	0.6	309	47.1	47.1	47.1			
Kiribati	0.7	137	3.0	3.0	3.0	0.8	1.5	1.5
Marshall Islands		342				0.1	0.7	0.7
Micronesia (Fed. States)	0.7	157	90.6	90.6	90.6	0.1	0.1	0.1
Nauru	0.02	649						
New Caledonia	18	13	39.2	39.2	39.2			
Niue	0.26	6	66.2	58.1	54.2			
Northern Mariana Islands		174	75.3	73.4	72.4			
Palau		43	82.9	86.1	87.6	0.0	0.3	0.4
Papua New Guinea	453	13	69.6	66.5	65.0	3.3	3.6	3.6
Samoa	3	65	45.9	60.4	60.4	0.8	1.6	1.8
Solomon Islands	28	17	98.9	84.7	77.6	0.0	0.1	0.2
Tonga	1	157	5.0	5.0	5.0	0.1	27.6	27.8
Tuvalu	0.03	402	33.3	33.3	33.3		0.004	0.004
Vanuatu	12	17	36.1	36.1	36.1	0.1	0.2	0.2
South and South-West Asia								
Afghanistan	652	46	2.0	1.6	1.3	0.3	0.3	0.3
Bangladesh	130	985	6.8	6.8	6.7	0.4	1.2	1.3
Bhutan	47	46	64.6	66.8	68.0		26.4	26.4
India	2 973	336	21.5	22.7	22.8	4.8	5.4	5.4
Iran (Islamic Republic of)	1 636	42	6.8	6.8	6.8	4.7	5.4	6.6
Maldives	0.30	1 105	3.0	3.0	3.0			
Nepal	143	184	33.7	27.3	25.4	6.8	16.0	16.3
Pakistan	771	198	3.3	2.7	2.5	9.0	9.1	9.1
Sri Lanka	65	316	36.4	32.2	29.9	15.5	17.1	17.2
Turkey	770	93	12.6	13.1	13.2	2.6	3.9	3.9
South-East Asia								
Brunei Darussalam	5	65	59.4	54.6	52.8	32.9	38.3	38.3
Cambodia	177	78	73.3	65.4	59.2	0.1	21.6	21.6
Indonesia	1 812	117	64.3	54.0	48.8	6.6	8.8	9.1
Lao PDR	231	25	75.0	71.6	69.9	0.9	16.0	16.0
Malaysia	329	77	68.1	65.7	63.6	15.9	17.2	17.3
Myanmar	658	75	59.6	52.5	49.0	1.2	2.6	4.6
Philippines	298	277	35.5	26.7	24.0	4.0	6.4	6.5
Singapore	1	6 333	3.4	3.4	3.4	2.1	2.1	2.2
Thailand	511	125	31.2	29.0	28.4	13.0	18.8	19.0
Timor-Leste	15	64	65.0	57.4	53.7		1.2	1.2
Viet Nam	325	254	28.8	36.0	39.7	0.9	3.1	3.6
Developed ESCAP economies								
Australia	7 682	3	21.9	21.4	21.3	9.1	15.0	17.5
Japan	365	339	68.4	68.2	68.2	8.0	8.5	8.6
New Zealand	268	15	28.8	30.7	31.0	16.3	17.9	19.6

Sources: Food and Agriculture Organization of the United Nations FAOSTAT database, <http://faostat.fao.org/site/348/default.aspx> (November 2006); United Nations Population Division, *World Population Prospects, The 2004 Revision* (New York, UNPD, 2006), <http://esa.un.org/unpp/> (November 2006).

Table 28. Energy and water use

	Consumption of electricity for domestic purposes (kilowatt-hrs. per capita)		Energy use per $1,000 [2000 PPP] GDP			Water withdrawal					
						Share of total renewable water resources (%)			Withdrawal for domestic purposes (m^3 per capita)		
	2000	2004	1990	2000	2003	88-92	93-97	98-02	88-92	93-97	98-02
Developing ESCAP economies											
East and North-East Asia											
China	131	188	485	230	220	17.7	18.6	22.3	30.3	20.6	32.6
DPR Korea								11.7			81.9
Hong Kong, China	1 349	1 362	92	89	91						
Macao, China	1 179	1 061									
Mongolia	122	217					1.2	1.3		35.6	36.0
Republic of Korea			221	251	237			26.7		138.0	141.6
North and Central Asia											
Armenia	506	543	398	278	191	33.3	27.8	28.0	275.6	266.8	285.4
Azerbaijan	1 385	1 425		556	437	51.4	54.6	57.0	102.1	100.0	102.0
Georgia	564	624	387	326	243	5.5		5.7	134.2		152.5
Kazakhstan	393	396	937	580	538	33.4	30.7	31.9	38.5	36.8	39.2
Kyrgyzstan	475	479	509	319	317	53.4	49.0	49.0	62.8	65.4	64.7
Russian Federation	960	996	559	591	519	1.8	1.7	1.7	98.9	96.5	98.2
Tajikistan	528	481	807	600	486	75.2	74.3	74.8	91.7	71.4	71.5
Turkmenistan	272	279	605	876		100.1	96.2	99.7	52.0	83.5	93.2
Uzbekistan	292	292		1 338	1 241				99.9	112.8	112.0
Pacific island economies											
American Samoa											
Cook Islands											
Fiji	117	131						0.2			12.3
French Polynesia											
Guam	3 473	2 972									
Kiribati											
Marshall Islands											
Micronesia (Fed. States)											
Nauru											
New Caledonia											
Niue	1 863	2 053									
Northern Mariana Islands											
Palau											
Papua New Guinea	23	22									7.6
Samoa	225	256									
Solomon Islands											
Tonga											
Tuvalu											
Vanuatu											
South and South-West Asia											
Afghanistan	4	5						35.8			17.5
Bangladesh	43	59	102	98	97			6.6	16.3	34.5	19.6
Bhutan	15	20						0.4			10.3
India	74	88	253	210	191	26.4		34.1	29.4		51.2
Iran (Islamic Republic of)	471	590	275	320	311		50.9	53.0		70.6	74.8
Maldives	152	209									
Nepal	22	26	294	253	248			4.8		11.3	12.3
Pakistan	150	178	258	240	236	69.9		76.1	22.4		22.9
Sri Lanka	87	107	137	115	113	19.5		25.2	11.0		15.1
Turkey	350	382	172	177	167	14.8		17.6	90.7		81.5
South-East Asia											
Brunei Darussalam	2 420	3 167				0.9	1.1				
Cambodia								0.9			4.7
Indonesia	146	145	238	230	235	2.6		2.9	26.1		31.6
Lao PDR											
Malaysia	493	616	229	238	258	1.7		1.6	45.8	65.9	66.1
Myanmar	27	42						3.2			8.6
Philippines	170	195	110	139	128		5.8	6.0		62.4	62.4
Singapore	1 425	1 527	297	234	220						
Thailand	317	388	176	193	199			21.2	27.4		35.3
Timor-Leste											
Viet Nam	140	219	303	237	227	6.1		8.0	30.2		70.4
Developed ESCAP economies											
Australia	2 557	2 853	251	225	208			4.9			184.6
Japan	2 030	2 141	153	159	154	21.3		20.6	137.6		137.0
New Zealand	2 968	3 072	247	230	208			0.6			266.8

Sources: United Nations Statistics Division, *Energy Statistics Yearbook* (New York, UNSD, 2004), <http://unstats.un.org/unsd/energy/yearbook/default.htm> (November 2006); Food and Agriculture Organization of the United Nations AQUASTAT database, <http://www.fao.org/AG/AGL/aglw/aquastat/dbases/index.stm> (November 2006); United Nations Statistics Division, *Millennium Development Goals Indicators* (New York, UNSD, 2006), <http://mdgs.un.org/unsd/mdg/Default.aspx> (November 2006).

Table 29. Pollution and access to water and sanitation

	CO_2 emissions (metric tons per capita)		Ozone-depleting substances use (grams per capita)		Share of population with access to improved drinking water sources (%)				Share of population with access to improved sanitation (%)			
					Rural		Urban		Rural		Urban	
	1990	2003	1990	2004	1990	2004	1990	2004	1990	2004	1990	2004
Developing ESCAP economies												
East and North-East Asia												
China	2.1	3.2	51.7	27.1	59	67	99	93	7	28	64	69
DPR Korea	12.4	3.5		98.6	100	100	100	100		60		58
Hong Kong, China	4.6	5.5										
Macao, China	2.8	4.1										
Mongolia	4.5	3.1		1.7	30	30	87	87		37		75
Republic of Korea	5.6	9.6		150.7		71	97	97				
North and Central Asia												
Armenia		1.1		37.9		80	99	99		61	96	96
Azerbaijan		3.5		1.8	51	59	82	95		36		73
Georgia		0.8		12.3	67	67	91	96	94	91	99	96
Kazakhstan		10.7	142.8	3.1	73	73	97	97	52	52	87	87
Kyrgyzstan		1.0		7.0	66	66	98	98	51	51	75	75
Russian Federation		10.3	880.1	7.7	86	88	97	100	70	70	93	93
Tajikistan		0.7		0.5		48		92		45		70
Turkmenistan		9.2	39.6	12.4		54		93		50		77
Uzbekistan		4.8		0.1	91	75	99	95	39	61	69	78
Pacific island economies												
American Samoa	6.1	4.7										
Cook Islands	1.2	1.7		1.8	87	88	99	98	91	100	100	100
Fiji	1.1	1.3	57.8	6.6		51		43	55	55	87	87
French Polynesia	3.1	2.8			100	100	100	100	97	99	99	97
Guam	17.0	25.0			100	100	100	100	98	99	99	98
Kiribati	0.3	0.3		0.1	33	53	76	77	21	22	33	59
Marshall Islands			26.2	1.6	97	96	95	82	51	58	88	93
Micronesia (Fed. States)				16.6	86	94	93	95	20	14	54	61
Nauru	13.9	10.8		1.3								
New Caledonia	9.4	8.2										
Niue	1.5	2.0		0.0	100	100	100	100	100	100	100	100
Northern Mariana Islands					100	97	98	98	78	94	85	96
Palau	15.3	12.3		51.4	98	94	73	79	54	52	76	96
Papua New Guinea	0.6	0.4		3.6	32	32	88	88	41	41	67	67
Samoa	0.8	0.8		2.0	89	87	99	90	98	100	100	100
Solomon Islands	0.5	0.4	6.5	3.3		65		94		18	98	98
Tonga	0.8	1.1		0.6	100	100	100	100	96	96	98	98
Tuvalu				1.0	89	92	92	94	74	84	83	93
Vanuatu	0.5	0.4		0.0	53	52	93	86		42		78
South and South-West Asia												
Afghanistan	0.2	0.0		6.4	3	31	10	63	2	29	7	49
Bangladesh	0.1	0.3	1.9	2.2	69	72	83	82	12	35	55	51
Bhutan	0.1	0.2		0.1		60		86		70		65
India	0.8	1.2	0.0	9.3	64	83	89	95	3	22	45	59
Iran (Islamic Rep. of)	3.9	5.6	24.6	89.9	84	84	99	99	78		86	
Maldives	0.7	1.4	20.9	7.0	95	76	100	98		42	100	100
Nepal	0.0	0.1		0.0	67	89	95	96	7	30	48	62
Pakistan	0.6	0.8	13.0	10.2	78	89	95	96	17	41	82	92
Sri Lanka	0.2	0.5	12.3	9.7	62	74	91	98	64	89	89	98
Turkey	2.6	3.1	76.1	12.2	74	93	92	98	70	72	96	96
South-East Asia												
Brunei Darussalam	22.7	12.7		173.2								
Cambodia	0.0	0.0		5.4		35		64		8		53
Indonesia	0.8	1.4		19.4	63	69	92	87	37	40	65	73
Lao PDR	0.1	0.2		4.0		43		79		20		67
Malaysia	3.1	6.4	235.0	59.2	96	96	100	100		93	95	95
Myanmar	0.1	0.2		0.7	47	77	86	80	16	72	48	88
Philippines	0.7	1.0	56.9	19.2	80	82	95	87	48	59	66	80
Singapore	15.0	11.3	1 609.6	50.5			100	100			100	100
Thailand	1.8	3.9	127.8	39.7	94	100	98	98	74	99	95	98
Timor-Leste		0.2				56		77		33		66
Viet Nam	0.3	0.9		5.0	59	80	90	99	30	50	58	92
Developed ESCAP economies												
Australia	16.2	18.0	440.6	9.5	100	100	100	100	100	100	100	100
Japan	8.7	9.7	972.0	15.3	100	100	100	100	100	100	100	100
New Zealand	6.9	8.8	350.5	9.7	82		100	100	88			

Source: United Nations Statistics Division, *Millennium Development Goals Indicators* (New York, UNSD, 2006), <http://mdgs.un.org/unsd/mdg/Default.aspx> (November 2006).

Technical notes

Table 1. Real GDP growth rates

GDP growth rate at constant prices. The real (at constant market prices) annual percentage changes in GDP in national currencies are reported in this table. Most countries use constant market price values. The growth rates of some countries are at factor cost, including Fiji, India, Iran (Islamic Republic of) and Pakistan, while Bhutan and Nepal are at purchasers' prices. The table contains historical data from 1995 to 2005. Historical data are mainly obtained from country sources. For a few countries, data are collected from statistical publications, secondary publications and IMF documents. The data for 2006 are generally ESCAP estimates and calculations, although some projections are in line with the economic programmes/projections of the governments concerned. The figures for Bangladesh, India, the Islamic Republic of Iran, Myanmar, Nepal, Pakistan and Tonga are reported on a fiscal year basis.

Tables 2 and 3. Gross domestics savings and investment rates

Gross domestic savings (GDS) and investment (GDI). Gross domestic savings are calculated as the difference between GDP and total consumption expenditure in the national accounts statistics. Gross domestic investment (GDI) is the sum of gross fixed capital formation and changes in inventories. Gross fixed capital formation is measured by the total value of a producer's acquisitions, minus disposals of fixed assets in a given accounting period. Additions to the value of non-produced assets, e.g. land, form part of gross fixed capital formation. Inventories are stocks of goods held by institutional units to meet temporary or unexpected fluctuations in production and sales. All figures used in computing the GDS and GDI as a percentage of GDP are in current prices. Historical data are mostly collected from ADB, Key Indicators of Developing Asian and Pacific Countries 2006; World Bank, World Development Indicators 2006 and input provided by country authorities. The 2006 data are obtained from input supplied by national authorities and ESCAP calculations and estimates.

Table 4. Inflation rates

Inflation rates. Rates of inflation in this table refer to changes in the consumer price index (CPI) and reflect changes in the cost of acquiring a fixed basket of goods and services by an average consumer. Historical data are obtained from country sources, statistical publications, secondary publications and IMF documents. The data for 2006 are generally estimates and based on ESCAP calculations. The projections/estimates are also provided by national authorities. For India, data refer to industrial workers index. The consumer price inflation of the following countries are for a given city or group of consumers: Sri Lanka is for Colombo, Timor-Leste is for Dili and excludes currency in circulation, on which no data are available due to dollarization of the financial system; and the data for Nepal is for national urban consumers.

Table 5. Budget balance

Government surplus or deficit, as share of GDP. The Government fiscal balance (surplus/deficit) is the difference between total revenues and total expenditures as a percentage of GDP. This provides a picture of the changes in the Government's financial position each year. When the difference is positive, the fiscal position is in surplus, otherwise, it is in deficit. The Government revenue is the sum of current and capital revenues. Current revenue is the revenue accruing from taxes, as well as all current non-tax revenues, except for transfers received from other (foreign or domestic) governments and international institutions. Major items of non-tax revenue include receipts from Government enterprises, rents and royalties, fees and fines, forfeits, private donations and repayments of loans properly defined as components of net lending. Capital revenue are the proceeds from the sale of non-financial capital assets. As for Government expenditures, they are the sum of current and capital expenditure. Current expenditures comprise purchases of goods and services by the central Government, transfers to non-central Government units and to households, subsidies to producers and the interests on public debt. Capital expenditures, on the other hand, cover outlays for the acquisition or construction of capital assets and for the purchase of land and intangible assets, as well as capital transfers to domestic and foreign recipients. Loans and advances for capital purposes are also included. In most countries, the budget surplus/deficit is the balance and excludes grants. In the case of Afghanistan, Bhutan, Fiji, India, Maldives, Mongolia, Myanmar, Nepal, Papua New Guinea, Samoa, Singapore, Solomon Islands, Tonga, Turkey, Vanuatu and Viet Nam the budget balance includes grants. The budget surplus/deficit of Singapore is computed from Government operating revenue minus Government operating expenditures and minus Government development expenditures; while the budget balance of Thailand refers to a Government cash balance comprising the budgetary balance and non-budgetary balance. For developed ESCAP countries, the budget balance refers to general Government fiscal balance. In the case of Australia, the budget balance also refers to data on a cash basis and in the case of New Zealand, the Government balance comprises revenue minus expenditure plus the balance of state-owned enterprises, excluding privatization receipts.

Table 6. Current account balances

Current account balance, as share of GDP. The current account balance refers to the net difference between credit and debit flows from goods, services and income. It also includes current transfers crossing national borders. In contrast, transactions in financial assets and liabilities are recorded in the capital account. A positive (a negative balance) shows that the foreign currencies flows into (out of) the domestic economy. The figures are reported as a percentage of GDP (current prices, national currency) to allow for cross-country comparisons. Historical data are mainly obtained from national sources; ADB, Key Indicators of Developing Asian and Pacific Countries 2006; IMF, International Financial Statistics, 2006 and secondary sources. The 2006 data are derived from projections supplied by national authorities and ESCAP estimates. For Mongolia and Pakistan, the current account balance excludes official transfers.

Table 7. Change in money supply

Growth of money supply. The annual growth rates of board money supply (at the end of a given period) as represented by M2. M2 is defined as the sum of currency in circulation plus demand deposits (M1) and quasi-money which consists of time and savings deposits, including foreign currency deposits. Historical data for M2 are obtained from national sources and IMF publications. The data for 2006 are computed by ESCAP on the basis of IMF data and estimates based on national sources.

Tables 8 and 9. Merchandise export and import growth rates

Growth rates of exports and imports. The annual growth rates of exports and imports, in terms of merchandise goods only, are shown in these tables. Data are in millions of United States dollars, which are primarily obtained from the balance-of-payments accounts of each country. Exports are in general reported on a free-on-board (f.o.b.) basis. In this case, exports are valued at the Customs frontier of the exporting country plus export duties and the costs of loading the goods onto the carriers unless the latter is borne by the carrier. It excludes the cost of freight and insurance beyond the Customs frontier. As for imports, data are reported either on an f.o.b. or c.i.f. (cost, insurance, freight) basis. On a c.i.f. basis, the value of imports includes the cost of international freight and insurance up to the Customs frontier of the importing country. It excludes the cost of unloading the goods from the carrier, unless it is borne by the carrier.

Historical data on exports and imports are mainly obtained from IMF publications, national sources and statistical publications. The figures for 2006 are generally estimates based on secondary sources and ESCAP calculations, and are also provided by national authorities.

For South-East Asia and Pacific island economies, all countries report imports on a c.i.f. basis except for Cambodia, Indonesia, Philippines, Tonga and Vanuatu, which records them on an f.o.b. basis. Imports are also valued on an f.o.b. basis for New Zealand, while the rest of the developed ESCAP countries' imports are reported on a c.i.f. basis. Data of most countries in South and South-West Asia, except for Maldives, Sri Lanka and Turkey, are reported on a fiscal year basis.

Table 10. Population, size and dynamics

Population, mid-year. The population figures are based on the *de facto* definition, which counts all residents, regardless of legal status or citizenship, except for refugees not permanently settled in the country of asylum, who are generally considered part of the population of the country of origin. The figures are estimates, as of 1 July of the year indicated, based upon population data available for reference years only and usually derived from censuses or population registers. Series are updated with information on fertility, mortality and international migration. The time series is commonly used as denominator for the calculation of values of Millennium Development Goals and other indicators.

Population growth rate. The rate represents the average annual population growth rate and is calculated as the exponential rate of change (see statistical methods) for the period. Annual averages of five-year periods and the estimated annual growth rate for 2005 are reported. Each period covers the time from 1 July of one year to 1 July of the following year.

Total fertility rate. The total fertility rate refers to the number of children a woman would have by the end of her reproductive period if she experienced the current prevailing age-specific fertility rates throughout her childbearing life. It is expressed as children per woman. Annual averages of five-year periods are reported. Each period covers the time from 1 July of one year to 1 July of the following year.

Table 11. Population, structure

Share of children (0-14 years old) to the total population. Data are presented as a percentage and refer to 1 July of the year indicated.

Share of elderly (65 years old and above) to the total population. Data are presented as a percentage and refer to 1 July of the year indicated.

Women per 100 men. Data refer to 1 July of the year indicated.

Urban population as share of the total population. The urban population as a percentage of the total population is the share of the *de facto* population living in areas classified as urban (according to the administrative criteria used by each country or area) of the total population. Data are presented in percentage and refer to 1 July of the year indicated.

Table 12. International migration

Immigrant population, share of the total population. The share of the immigrant population in the total population refers to the estimated number of immigrants divided by the total population and is expressed as a percentage (as of mid-year for each of the years indicated). Immigrants are defined as people born in a country other than that in which they currently live in. For countries lacking data on place of birth, the mid-year estimate of the number of non-citizens is used. In either case, the migrant stock includes refugees, some of whom may not be foreign-born. The number of women per 100 men in the migrant stock is also reported.

Net migration rate. This refers to the number of immigrants minus the number of emigrants over a period, divided by the person-years lived by the population of the receiving country over that period. It is expressed as the net number of migrants per 1 000 population. The net migration rate for five-year periods is reported. Each period covers the time from 1 July of the beginning year to 1 July of the end year.

Table 13. Education, primary level

Net primary enrolment rate. The net primary education enrolment rate is the number of children of official primary school age (as defined by the national education system) who are enrolled in primary school divided by the total population of children of official primary school age.

Country notes: India: projected at the national level (593 districts) on the basis of data by age collected for International Standard Classification of Education (ISCED) level 1 in a sample of 193 districts under the District Information System on Education. Cook Island, Kiribati, Marshall Islands, Niue, Palau: national population data were used to calculate enrolment ratios. Russian Federation: the most common structure is three grades of primary education starting at age 7. However, a four-grade structure also exists, in which about one-third of primary pupils are enrolled. Gross enrolment ratios may therefore be overestimated. China: children enter primary school at age 6 or 7. As the most common entrance age is at 7 years old, enrolment ratios were calculated using the 7-11 age group for both enrolment and population.

Girls to boys ratio. This is the ratio of the female gross enrolment rate in primary school to the male gross enrolment rate.

Country notes: Refer to the country notes of indicator 'net primary enrolment rate'.

Completion rate is the percentage of students completing the last year of primary school. It is calculated by taking the total number of students in the last grade of primary school, minus the number of repeaters in that grade, divided by the total number of children of official graduation age. The primary completion rate reflects the primary cycle as defined by International Standard Classification of Education (ISCED), ranging from three or four years of primary education (in a very small number of countries) to five or six years (in most countries) and seven (in a small number of countries). Because curricula and standards for school completion vary across countries, a high rate of primary completion does not necessarily mean high levels of student learning.

Country notes: Cook Islands, Kiribati, Marshall Islands, Nauru, Palau and Tuvalu: national population data were used to calculate enrolment ratios.

Table 14. Education, secondary and tertiary levels

Net secondary education enrolment rate. The net secondary enrolment rate is the ratio of the number of children of official secondary school age (as defined by the national education system) who are enrolled in secondary school to the total population of children of official secondary school age.

Girls to boys ratio, secondary level enrolment. This is the ratio of female gross enrolment rate in secondary school to the male gross enrolment rate.

Gross tertiary education enrolment rate. Gross tertiary enrolment ratio refers to the number of students enrolled in tertiary level of education, regardless of age, as a percentage of the total population of official school age for that level. The gross enrolment ratio can be greater than 100% as a result of grade repetition and entry at ages younger or older than the typical age at that grade level.

Women to men ratio, tertiary level enrolment. The ratio of women to men in tertiary education is the number of female students enrolled at tertiary level in public and private schools divided by the number of male students. When analysing the data, one needs to bear in mind that the sex ratio at birth is significantly unbalanced in some countries. This imbalance, of course, then influences the women to men ratio in education.

Country notes: Marshall Islands and Palau: national population data were used to calculate enrolment ratios.

Table 15. Health, life expectancy

Life expectancy, years. Life expectancy at birth is the number of years a newborn infant would live if prevailing patterns of mortality were to stay the same throughout the infant's life. The table shows values for five-year periods, each covering the time from 1 July of the beginning year to 30 June of the end year.

Table 16. Health, morbidity

Number of adults (15 years old and over) living with HIV/AIDS. This indicator refers to the estimated number of adults (15 years or older) who are living with HIV/AIDS at a given point in time. Data for both sexes combined and for female adults only are reported.

Share of total in age group 15-49 years. This indicator refers to the proportion of population aged 15-49 who are estimated to be infected by HIV at a given point in time.

Malaria, reported cases. Malaria prevalence refers to the number of (reported) malaria cases per 100 000 people. In most countries, reported case rates represent only part of the actual total number of malaria cases, since many people are treated at home or in private facilities that do not report to the national health information system (HIS). Nevertheless, if HIS reporting is reasonably consistent and complete over the years, trends in reported cases can give some indication of the local trend in the malaria burden.

Tuberculosis incidence. Tuberculosis incidence refers to the estimated number of new TB cases arisen during the given time period, i.e. 2004 (expressed as per capita rate). A tuberculosis case is defined as a patient in whom tuberculosis has been bacteriologically confirmed or diagnosed by a clinician. All forms of TB are included, as are cases of people infected with HIV.

Tuberculosis prevalence. Tuberculosis prevalence is the number of people living with tuberculosis per 100 000 population.

Table 17. Mortality

Infant mortality rate. The infant mortality rate is typically defined as the number of infants dying before reaching the age of one year per 1 000 live births in a given year.

Children under five mortality rate. The children under five-year old mortality rate is the probability (expressed as a rate per 1 000 live births) of a child born in a specified year dying before reaching the age of five if subject to current age-specific mortality rates.

Children one-year old immunized against measles. This indicator refers to the percentage of children under one year of age who have received at least one dose of measles vaccine.

Maternal mortality ratio. The maternal mortality ratio refers to the number of maternal deaths per 100 000 live births during a specified time period, usually one year. The maternal mortality ratio can be calculated directly from data collected through vital registration systems, household surveys or other sources. However, those sources all have data quality problems, particularly related to the underreporting and misclassification of maternal deaths. World Health Organization, The United Nations Children's Fund and United Nations Population Fund have developed a method to adjust existing data in order to take into account these data quality issues. This method involves a dual approach whereby existing data are adjusted for underreporting and misclassification of deaths and model-based estimates are made for countries with no reliable national level data.

Table 18. Poverty and malnutrition

Share of population below $1 (1993 PPP) per day. The share of population below $1 per day is the percentage of the population living on less than $1.08 a day at 1993 international prices. The $1 a day poverty line is compared with consumption or income per person and includes consumption from own production and income in kind. Because this poverty line has fixed purchasing power across countries or areas, the $1 a day poverty line is often called an "absolute poverty line".

Country notes: The value of 2 per cent indicates that the actual headcount is less than or equal to 2 per cent and should be treated with caution. This is the case for Armenia, Georgia, Iran (Islamic Republic of), Kazakhstan, Kyrgyzstan, Malaysia, Russian Federation, Thailand.

Share of population below the national poverty line. This indicator describes the proportion of the population whose incomes are below the official threshold (or thresholds) set by the national government. National poverty lines are usually set for households of various compositions to allow for different family sizes. Where there are no official poverty lines, they may be defined as the level of income required to have only sufficient food or food plus other necessities for survival.

Gini coefficient of income distribution. The Gini coefficient measures the extent to which the distribution of income (or consumption) among individuals or households within a country deviates from a perfectly equal distribution. A Gini coefficient of 0 represents perfect equality, while a coefficient of 1 represents perfect inequality.

Children under 5 moderately or severely underweight. Children under five-year old moderately or severely underweight refers to the percentage of children under five years old whose weight for age is less than minus two standard deviations from the median for the

international reference population ages 0-59 months. The distribution and the median weight of the international reference population was determined by the National Center for Health Statistics as a reference for the United States of America and later adopted by World Health Organization for international use (often referred to as the NCHS/WHO reference population).

Country notes: Myanmar (90): Age group is 0-36 months. Bangladesh (90): Age group is 6-59 months. DPR Korea (04): Age group is 0-71 months.

Table 19. Gender parity and legislation on violence against women

Women wage employment in non-agricultural sector, as share of total non-agricultural employees. This indicator refers to the share of female workers in wage employment in the non-agricultural sector expressed as a percentage of total wage employment in the sector. The non-agricultural sector includes industry and services. Employment refers to people above a certain minimum age who worked, or held a job, during a reference period. Employment data include both full-time and part-time workers whose remuneration is determined on the basis of hours worked or number of items produced and is independent of profits or expectation of profits.

Women in parliamentary seats, as share of total parliamentarians. This refers to the number of seats held by women in national parliaments expressed as a percentage of all occupied seats.

Quality index of legislation on violence against women. The index refers to the existence of legislation punishing acts of violence against women, namely domestic violence, rape and sexual assault, and sexual harassment. A value of 1 means that specific legislation is in place, 0.75 signifies that legislation is in place but of general nature, 0.5 means that specific legislation is being planned, drafted or reviewed, 0.25 signifies planned legislation of general nature and 0 stands for the absence of any relevant legislation.

Table 20. Employment dynamics and share of total population

Employment growth rate. The average annual increment of the number of employed person during a 5-year interval is calculated based on the geometric growth model with annual compounding (see statistical methods).

Country notes: Primary sources of data of countries as reported in Laborsta are Labour Force Surveys (LFS) except for the following: population censuses for American Samoa, Brunei Darussalam, Iran (Islamic Rep. of) (1996), Lao PDR, Maldives, Marshall Islands (1999) and New Caledonia; official estimates for Armenia, Azerbaijan, China, Kazakhstan (years prior to 2001), Kyrgyzstan, Mongolia, Myanmar, Tajikistan and Uzbekistan.

Employment to population ratio. Employment to population ratio refers to the number of employed persons aged 15-64 years divided by the total population of the same age group.

Table 21. Employment, by economic activity

Share of total employment by economic activity – agriculture, industry and services. Employment share by economic activity refers to the share of agriculture, industry, and services of total employment. All persons working in a given establishment are classified under the same economic activity irrespective of their particular occupations.

Table 22. Employment, by status

Share of total sex-specific employment by status – employees, employers and other self-employed. Employment by status refers to the share of each status group of total employment. Status refers to job classifications with respect to the type of explicit or implicit contract of employment the person has with other persons or organizations. The basic criteria used to define groups are the type of economic risk and the type of authority over establishments and other workers which the job incumbent has (or will have). The International Classification of Status in Employment (ICSE) recognizes five groups: employers, own-account workers, employees, members of producer's cooperatives and contributing family workers. Due to space constraints, own-account workers, members of producer's cooperatives, and contributing family workers are grouped together in this publication under "Other self-employed".

Table 23. Labour productivity, by economic activity

Labour productivity by economic activity. Labour productivity, expressed in United States dollars at constant 1990 prices, is defined as output – measured by gross domestic product (GDP) – per unit of labour input. Labour input here is understood as persons employed. The table thus shows GDP per employed person separately for agriculture, industry, and services.

Table 24. Unemployment, by gender and age group

Unemployment rate. The unemployment rate is calculated by dividing the number of persons who are unemployed during the reference period to the total of employed and unemployed persons during the same period. The unemployed comprise all persons above a specified age who were not employed during a specified reference period but were available for work and had taken concrete steps to seek paid employment or self-employment. National definitions of unemployment may differ from this recommended international standard definition. Beyond the question of definition, measuring unemployment remains a challenge, particularly in countries with large informal and agricultural sectors underreporting is common, especially in the case of women.

Women to men ratio. The women-to-men ratio refers to the female unemployment rate divided by the male unemployment rate. A ratio above 1 indicates, for example, that there were more women than men unemployed during the reference period.

Youth to adult ratio. The youth-to-adult ratio refers to the number of unemployed persons aged 15-24 divided by the number of unemployed persons aged 25 and above. A ratio above 1 indicates, for example, that there were more youth than adults unemployed during the reference period. The table shows data on the youth-to-adult ratio disaggregated by sex.

Table 25. Telecommunications

Personal computers per 100 population. Personal computers (PC) are computers designed to be used by a single user at a time.

Internet users per 100 population. The internet is a linked global network of computers in which users at one computer, if they have permission, get information from other computers in the network.

Telephone subscribers, land lines per 100 population. This refers to the number of land lines connecting equipment to the public switched network and that have a dedicated port in the telephone exchange equipment.

Telephone subscribers, mobile cellular per 100 population. This refers to users of mobile telephones who subscribe to an automatic public mobile telephone service that provides access to the public switched telephone network using cellular technology.

Table 26. Infrastructure and transport

Total road network per land area. This indicator is derived from dividing the total road network (measured in kilometres) of a country by its land area (expressed in 1 000 Km^2). The total road network includes motorways, highways, and main or national roads, secondary or regional roads, and all other roads in a country.

Length of paved road, as percentage of total road network. Paved roads are roads surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, with concrete, or with cobblestones, as a percentage of all the country's roads, measured in kilometres.

Railway network per land area. This indicator is derived by dividing the length of rail lines by the land area (in Km^2). Rail lines are the length of railway routes available for train service measured in kilometres, irrespective of the number of parallel tracks.

Passenger cars per 1,000 population. Passenger cars cover road motor vehicles designed for the conveyance of passengers and seating not more than nine persons (including the driver). Taxies, jeep-type vehicles and station wagons are included. Special purpose vehicles, such as two-wheeled or three-wheeled cycles or motorcycles, trams, trolley-buses, ambulances, hearses, military vehicles operated by police or other governmental security organizations are excluded.

Country notes: Afghanistan (2001): Source: World Automotive Market Report, Auto and Truck International (WAMR/ATI). Australia: Data refer to fiscal years beginning 1 July. Macao, China: Including special-purpose vehicles. Fiji: Including private and government cars, rental and hired cars. Iran: Source: (WAMR/ATI). Data refer to fiscal years ending 20 March. Japan: Excluding small vehicles and including cars with a seating capacity of up to 10 persons. Republic of Korea: Number of registered motor vehicles. Myanmar: Including vehicles operated by police or other governmental security organizations. New Zealand: Data refer to fiscal years ending 31 March. Pakistan: Data refer to fiscal years beginning 1 July. Including vehicles operated by police or other governmental security organizations. Papua New Guinea: Source: (WAMR/ATI). Russian Federation: Beginning 1996, data provided by State Inspection for security of road traffic of the Russian Federation Ministry of Internal Affairs. Sri Lanka: Including vehicles operated by police or other governmental security organizations. Thailand: Including micro-buses and passenger pick-ups. Turkey: Including vehicles seating not more than eight persons, including the driver. Vanuatu: Source: (WAMR/ATI).

Table 27. Land area and use

Land area. This refers to total land area of a country, excluding areas under inland water bodies. The definition of inland water bodies generally includes major rivers and lakes. Possible variations in the data may be due to updating and revisions of the country data and not necessarily to any change of area. Data are expressed in 1 000 Km^2.

Population density. The indicator is calculated as the mid-year population divided by land area. Land area is a country's total area, excluding areas under inland bodies of water and coastal waterways. Density is calculated using the most recently available data on land area.

Forested land area, as share of land area. This indicator gives the forested land area as a percentage of total land area. Forested land or forests and woodland as indicated by FAO refer to land under natural or planted stands of trees, whether productive or not. This category includes land from which forests have been cleared but that will be reforested in the foreseeable future, and excludes woodland or forest used only for recreation purposes. Data on forested land may be incomplete as there is no data available for the category of shrub land/savannah since the year of 1995.

Protected area, as share of land area. This indicator gives the area protected to maintain biological diversity as a percentage of total surface area of a country. The generally accepted IUCN-World Conservation Union definition of a protected area is an area of land or sea dedicated to the protection and maintenance of biological diversity and of natural and associated cultural resources and managed through legal or other effective means. Protected areas, both terrestrial and marine, are totalled and expressed as a percentage of the total surface area of the country. The total surface area of the country includes terrestrial area plus any territorial sea area (up to 12 nautical miles).

Table 28. Energy and water use

Consumption of electricity for domestic purposes. Domestic electricity consumption refers to total annual electricity consumption by households given in the UNSD energy database. The indicator is calculated by dividing the annual household electricity consumption by population and is expressed in kilowatt-hours per capita per year.

Energy use per $1,000 (2000 PPP) GDP. Energy supply (apparent consumption; Kg oil equivalent) per $1 000 (2000 PPP) GDP is commercial energy use measured in units of oil equivalent per $1 000 of GDP converted from national currencies using purchasing power parity (PPP) conversion factors. Total commercial energy consumption is converted to metric ton oil equivalence using standard tables. GDP data must be converted using PPP tables so that real output is compared with real energy input. National total GDP is deflated (currently to 2000 United States PPP dollars) by reference to PPP tables derived from the International Comparisons Programme. Energy input is divided by GDP to derive the ratio.

Water withdrawal, as share of total renewable actual water resources. Water withdrawal as a percentage of total renewable water resources is water withdrawal divided by total renewable water resources multiplied by 100. The numerator is expressed in billion cubic meters per year in AQUASTAT. Water withdrawal or water abstraction refers to the gross amount of water extracted from any source either permanently or temporarily for a given use. It can be diverted towards distribution networks or directly used. It includes consumption, conveyance losses and return flow. Water sources can be either withdrawn from surface water, groundwater or produced (non-conventional water sources) like re-used treated wastewater and desalinated water. Water abstractions from groundwater resources are defined as the difference between the total amount of water withdrawn from aquifers and the total amount charged artificially or injected into aquifers. The amount of water artificially charged or injected is attributed to abstractions from the water sources where they were originally withdrawn.

Renewable water resources are rechargeable due to the hydrological cycle unless they are overexploited, comprising groundwater aquifers and surface water – like rivers and lakes and is calculated as a sum of internal and external renewable water resources. Renewable water resources here correspond to the maximum theoretical amount of water actually available for a country at a given moment. The figure may vary with time. The computation refers to a given period and not to an inter-annual average. Internal renewable water resources comprise the average annual flow of rivers and groundwater generated

from endogenous precipitation. External renewable water resources are generated outside the country. The total external resources are the inflow from neighbouring countries (trans-boundary groundwater and surface water inflows), and the part of shared lakes or border rivers. Renewable water resources are expressed in cubic kilometres per year in AQUASTAT.

Water withdrawal for domestic purposes. Domestic water withdrawal per capita refers to drinking water plus water withdrawn for homes, municipalities, commercial establishments and public services (e.g. hospitals). To calculate the domestic use, AQUASTAT has scaled the data according to GDP per person. For example, if the GDP per person increases, water use per person increases. For poor countries, AQUASTAT considers an almost linear relationship; the richer the countries get, the less linear the relationship (the percentage increase in water withdrawal is much less than the percentage increase in GDP/person). Domestic water withdrawal is expressed in cubic meters per 5-year periods and is divided by population in order to obtain the per capita figure.

Table 29. Pollution and access to water and sanitation

Carbon dioxide emissions. The indicator is obtained by dividing carbon dioxide national emissions expressed in metric tons by the mid-year estimated population. Data on carbon dioxide emissions are calculated by the Carbon Dioxide Information Analysis Center (CDIAC) located at the Oak Ridge National Laboratory. National emissions of CO_2 from industrial sources are derived from United Nations consumption data for gas, liquid and solid fuels plus cement manufacturing and gas flaring statistics, to which appropriate emission factors have been applied. In order to calculate the amount of emissions from fuel production and trade data the below general equation is customized per fuel:

$$CO_{2i} = (Pi)(FOi)(Ci)$$

where CO_2 is the amount of carbon dioxide emissions, P is the annual production or consumption of fuel and C is the carbon content. The subscript "i" refers to the unit of measurement for the particular fuel at hand. Carbon dioxide emissions can be expressed in carbon dioxide or converted to carbon content.

Ozone-depleting substances use. Consumption of ozone-depleting chlorofluorocarbons (CFCs) in tons (ozone-depleting potential) is the sum of the national annual consumption of the weighted tons of the individual substances in the group – metric tons of the individual substance (defined in the Montreal Protocol on Substances That Deplete the Ozone Layer) multiplied by its ozone-depleting potential. Ozone-depleting substances are any substance containing chlorine or bromine that destroys the stratospheric ozone layer. The stratospheric ozone absorbs most of the biologically damaging ultraviolet radiation. The consumption of CFCs is the national production plus imports, minus exports, minus destroyed quantities, minus feedstock uses of individual CFCs.

Share of rural population with access to improved drinking water sources. The proportion of rural population with sustainable access to an improved water source is the percentage of the population in rural areas who use any of the following types of water supply for drinking: piped water, public tap, borehole or pump, protected well, protected spring or rainwater. Improved water sources do not include vendor-provided waters, bottled water, tanker trucks or unprotected wells and springs. Global Water Supply and Assessment Report 2000 defines reasonable access as "the availability of 20 litres per capita per day at a distance no longer than 1,000 meters." However, access and volume of drinking water are difficult to measure and so sources of drinking water that are thought to provide safe water are used as a proxy.

Share of urban population with access to improved drinking water sources. Please see "Share of rural population with access to improved drinking water sources" for a definition of the indicator. In the urban case, refer to the percentage of the urban population.

Share of rural population with access to improved sanitation. The proportion of the rural population with access to improved sanitation refers to the percentage of the population in rural areas with access to facilities that hygienically separate human excreta from human, animal and insect contact. Facilities such as sewers or septic tanks, poor-flush latrines and simple pit or ventilated improved pit latrines are assumed to be adequate, provided that they are not public, according to the World Health Organization (WHO) and United Nations Children's Fund's (UNICEF) Global Water Supply and Sanitation Assessment 2000 Report. To be effective, facilities must be correctly constructed and properly maintained.

Share of urban population with access to improved sanitation. Please see see above for a definition of the indicator. In the case of urban settings, it refers to the percentage of the urban population.

Statistical methods

Exponential growth rate. The average annual growth rate between two points in time for certain demographic data, notably labour force and population, is calculated from the equation

$$r = \left(\frac{\ln P_n / P_1}{n} \right) .100$$

where P_n and P_1 are the last and first observations in the period, n is the number of years in the period, and ln is the natural logarithm operator. The growth rate is based on an exponential growth model between two points in time using continuous compounding. Note that it does not take into account the intermediate values of the series.

The **geometric growth rate** uses discrete compounding instead of continuous compounding. Therefore, it is applicable to capture compound growth over discrete periods. Although continuous growth, as modeled by the exponential growth rate, may be more realistic, many economic phenomena are measured only on an annual basis, in which case the annual compound model is appropriate. If the underlying data are levels, the formula for the average annual percentage change over *n* periods is

$$r = \left[\exp \left(\frac{\ln P_n / P_1}{n} \right) - 1 \right] .100$$

Note that it does not take into account the intermediate values of the series. However, if the underlying data are already reported as annual changes, the formula becomes

$$r = \{[(1 + g_0)(1 + g_1)...(1 + g_n)]^{1/n} - 1\}.100,$$

where $g_0, g_1, ..., g_n$ denote the annual changes from the year 1 to n.

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