

ASIA'S DEVELOPMENT CHALLENGES

The Asian Century: Plausible But Not Pre-ordained

...a five lecture series

Rajat M. Nag

Distinguished Fellow, NCAER

June 9, 2015





NCAER LECTURES
2015

LECTURE 5: GREEN GROWTH, GOVERNANCE AND INSTITUTIONS



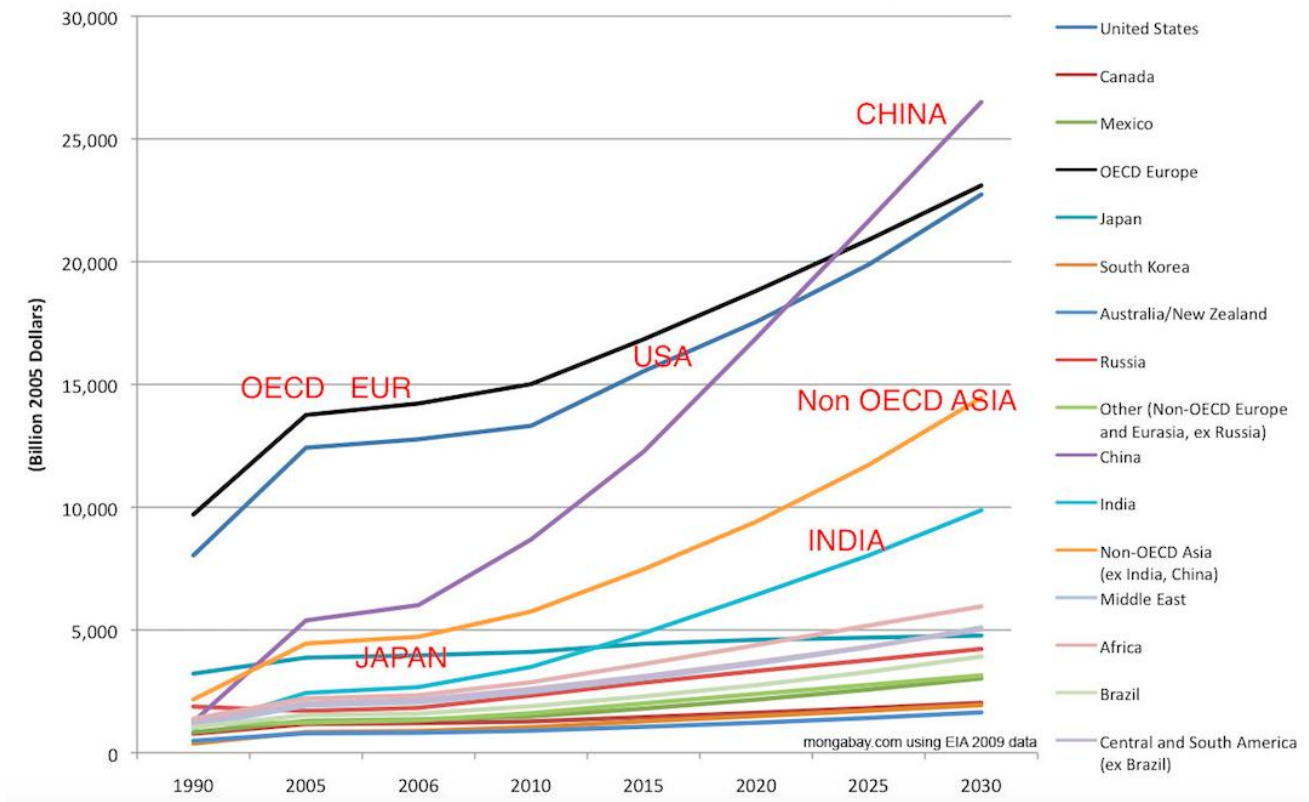
NCAER LECTURES
2015

LECTURE 5: GREEN GROWTH



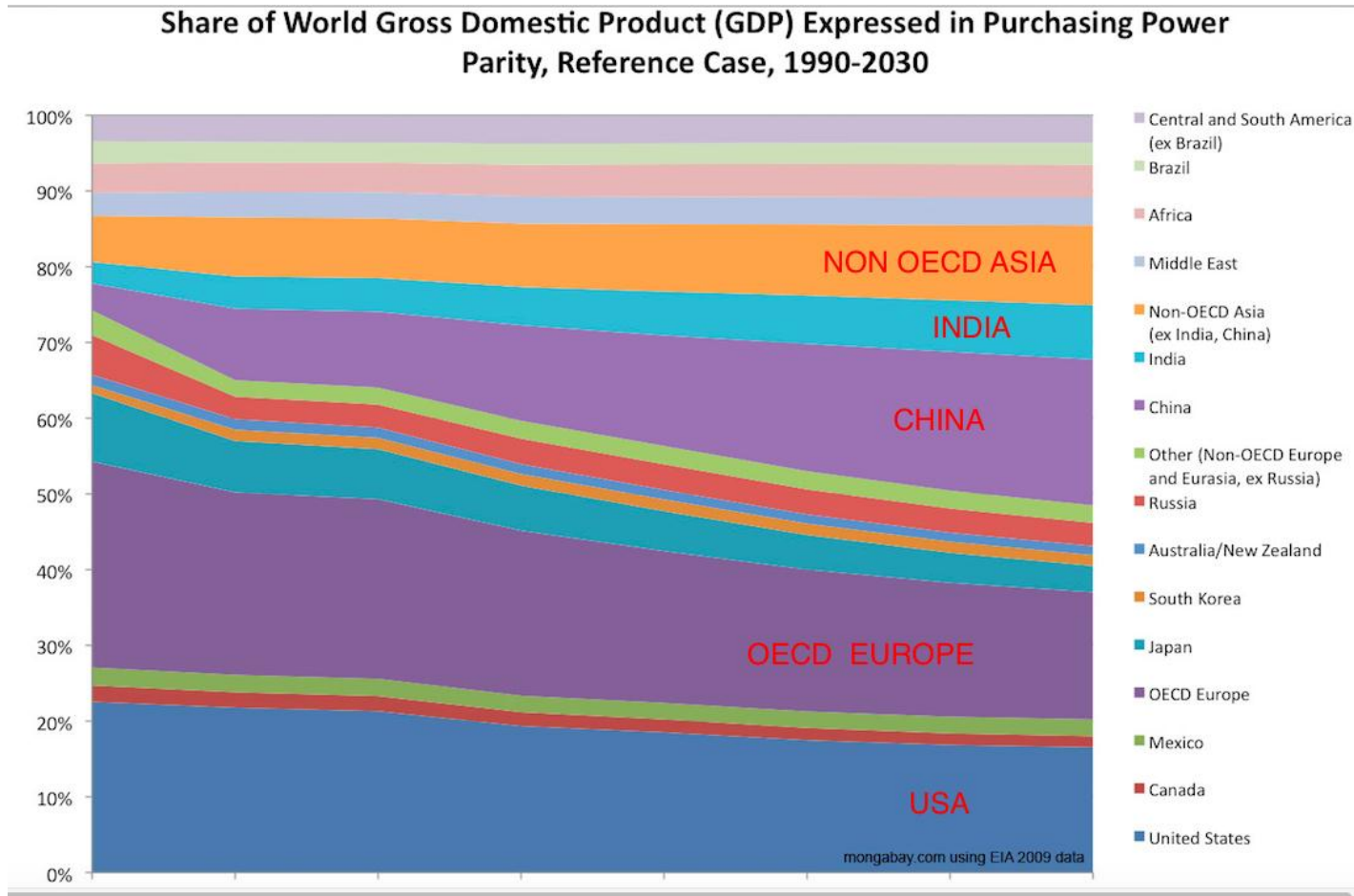
LECTURE 5: Green Growth

World Gross Domestic Product (GDP) by Region Expressed in Purchasing Power Parity, Reference Case, 1990-2030





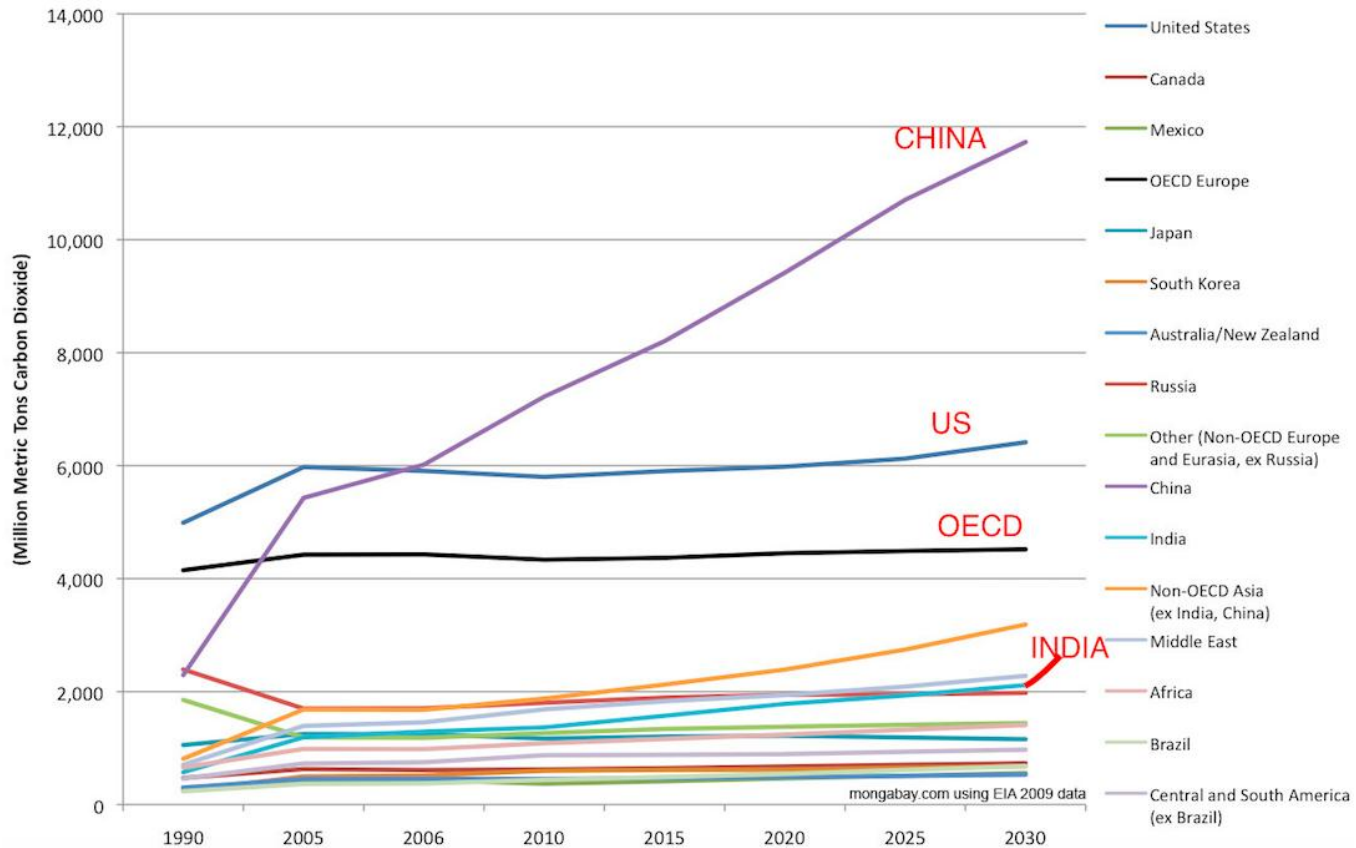
LECTURE 5: Green Growth





LECTURE 5: Green Growth

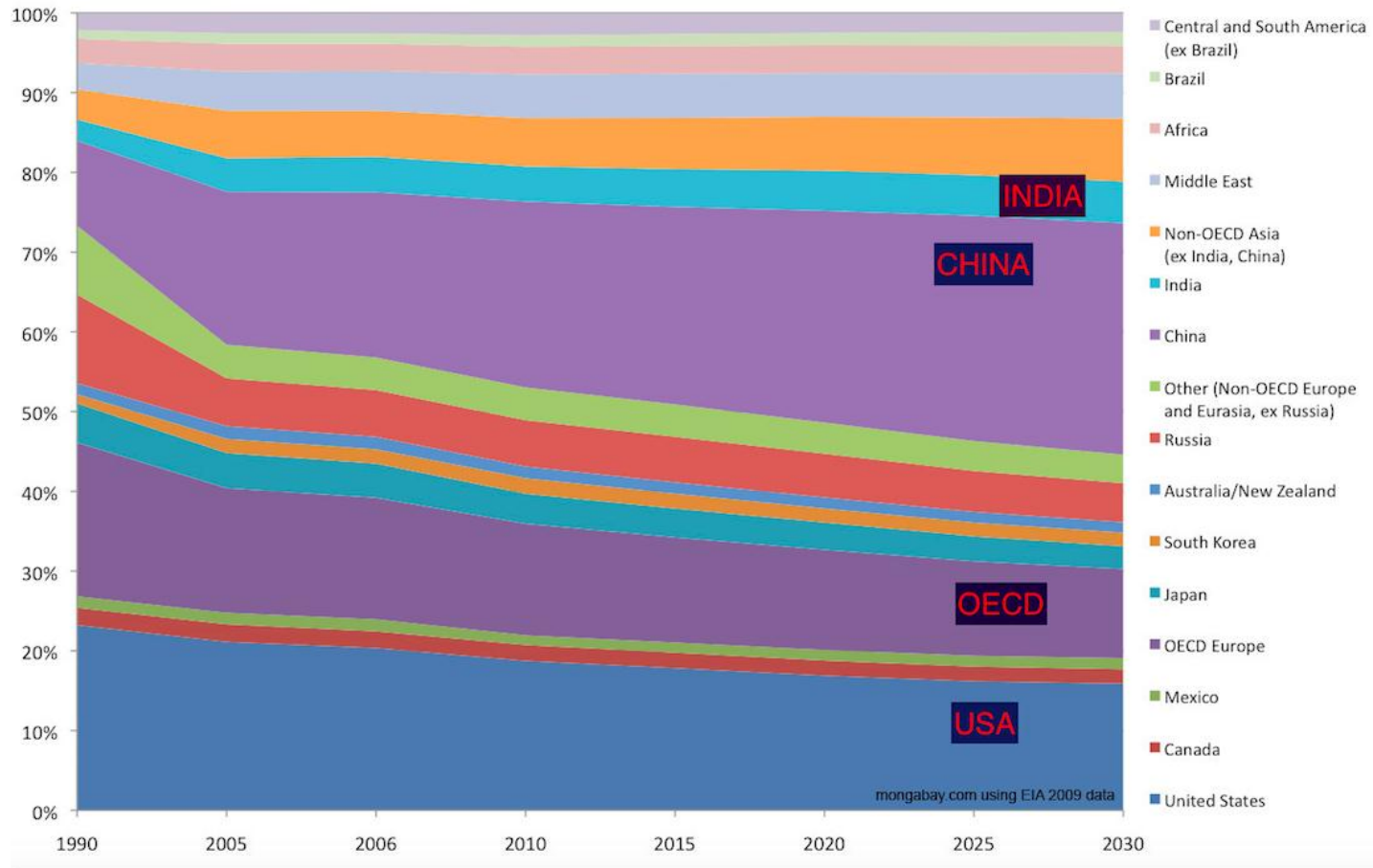
World Carbon Dioxide Emissions by Region, Reference Case, 1990-2030





LECTURE 5: Green Growth

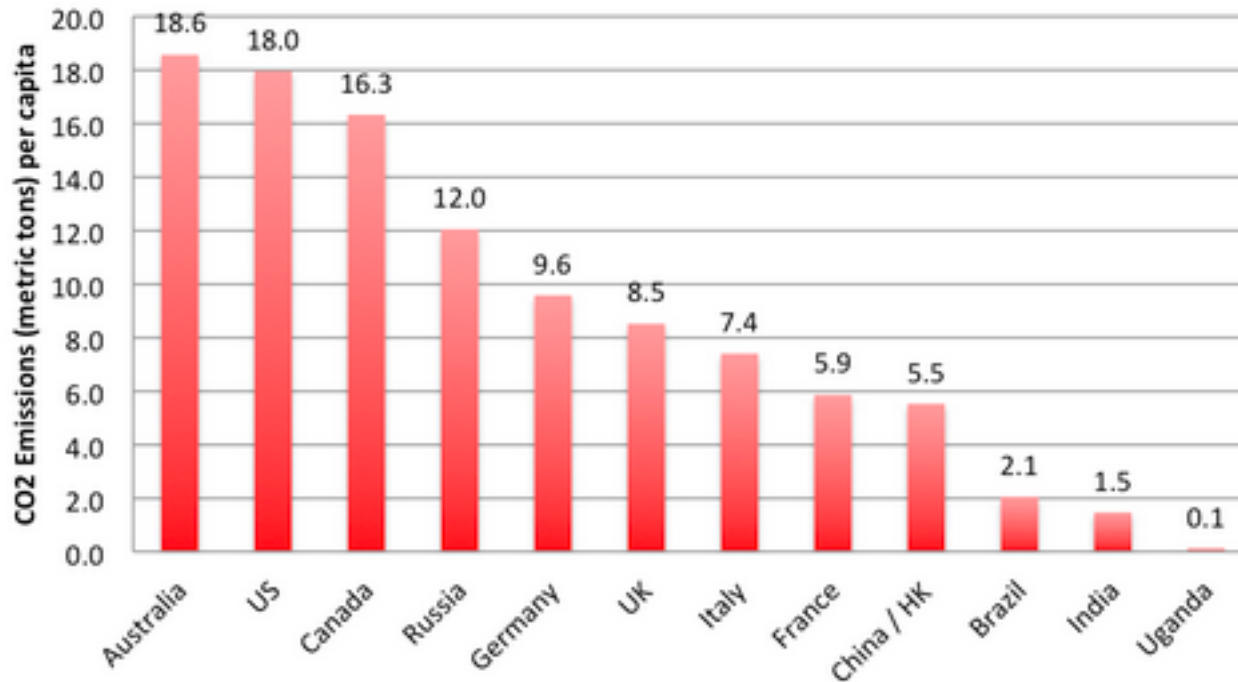
Share of World Carbon Dioxide Emissions by Region, Reference Case, 1990-2030





LECTURE 5: Green Growth

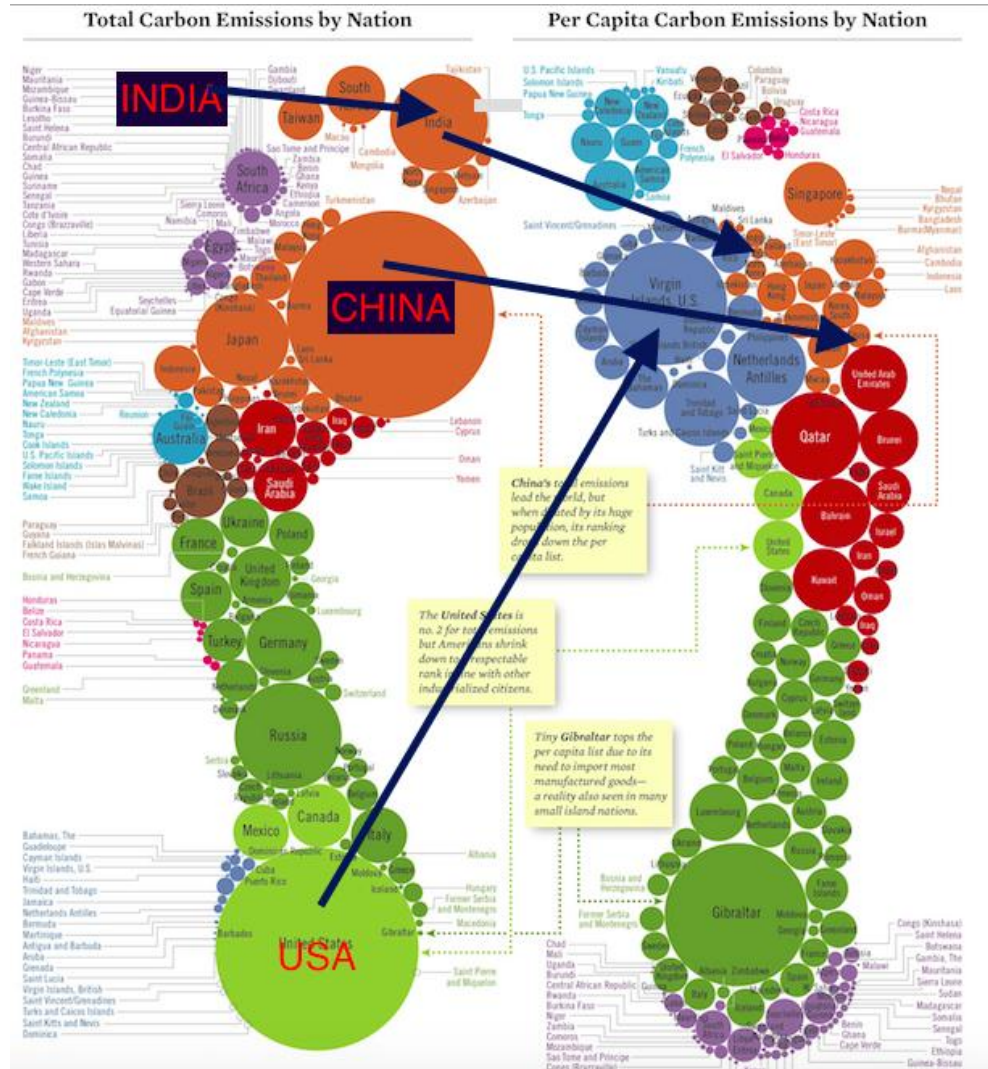
CO2 Emissions per Capita



www.economicshelp.org | Source: World Bank EN.ATM.CO2E.PC

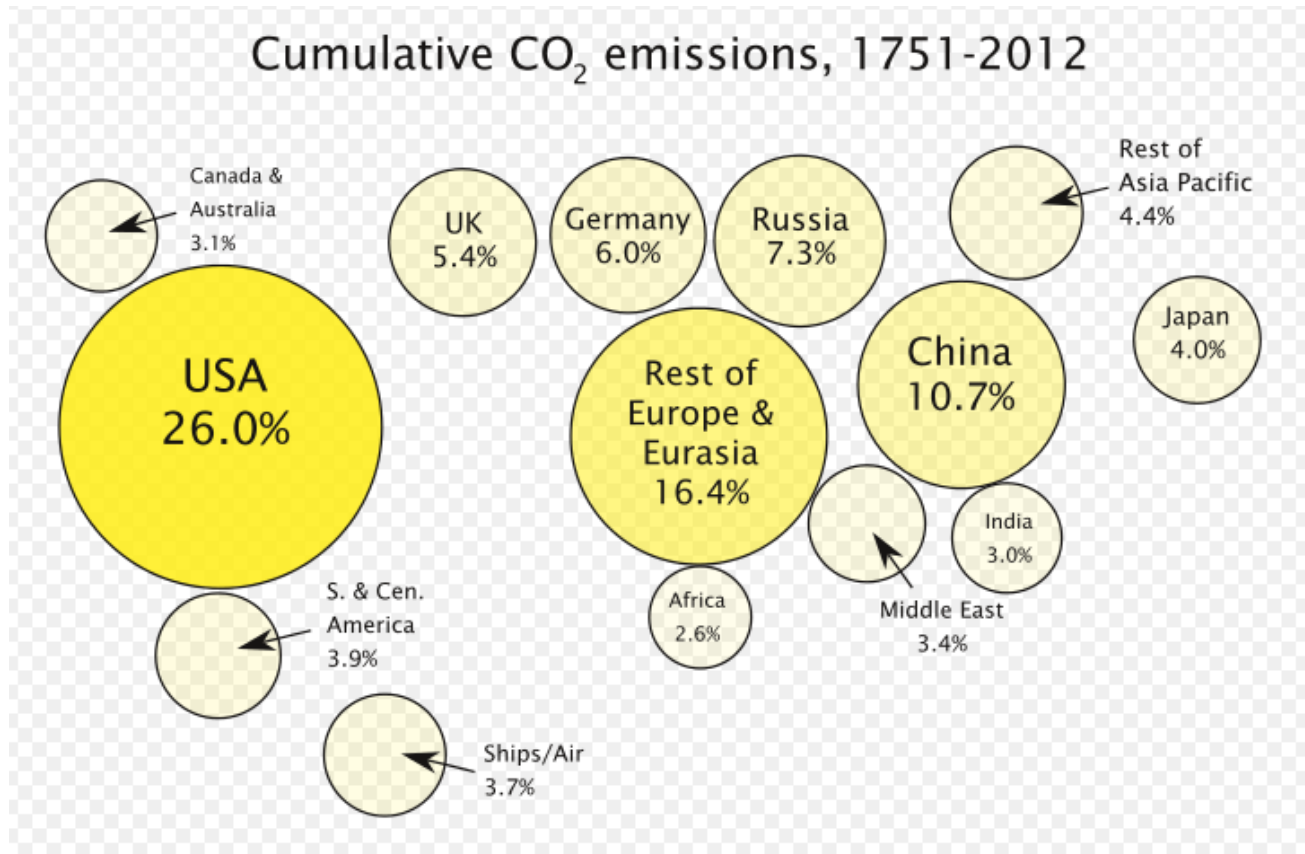


LECTURE 5: Green Growth



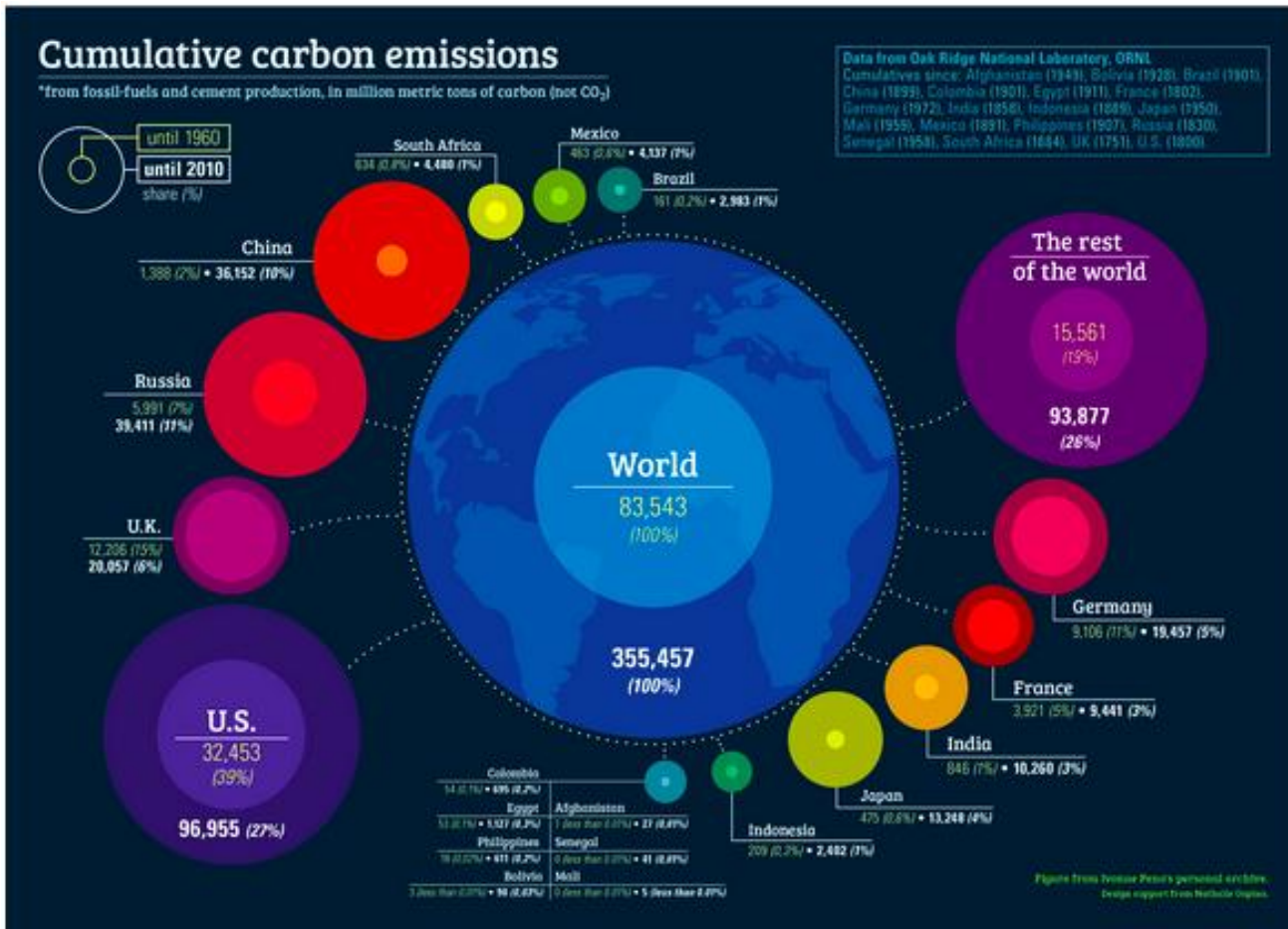


LECTURE 5: Green Growth



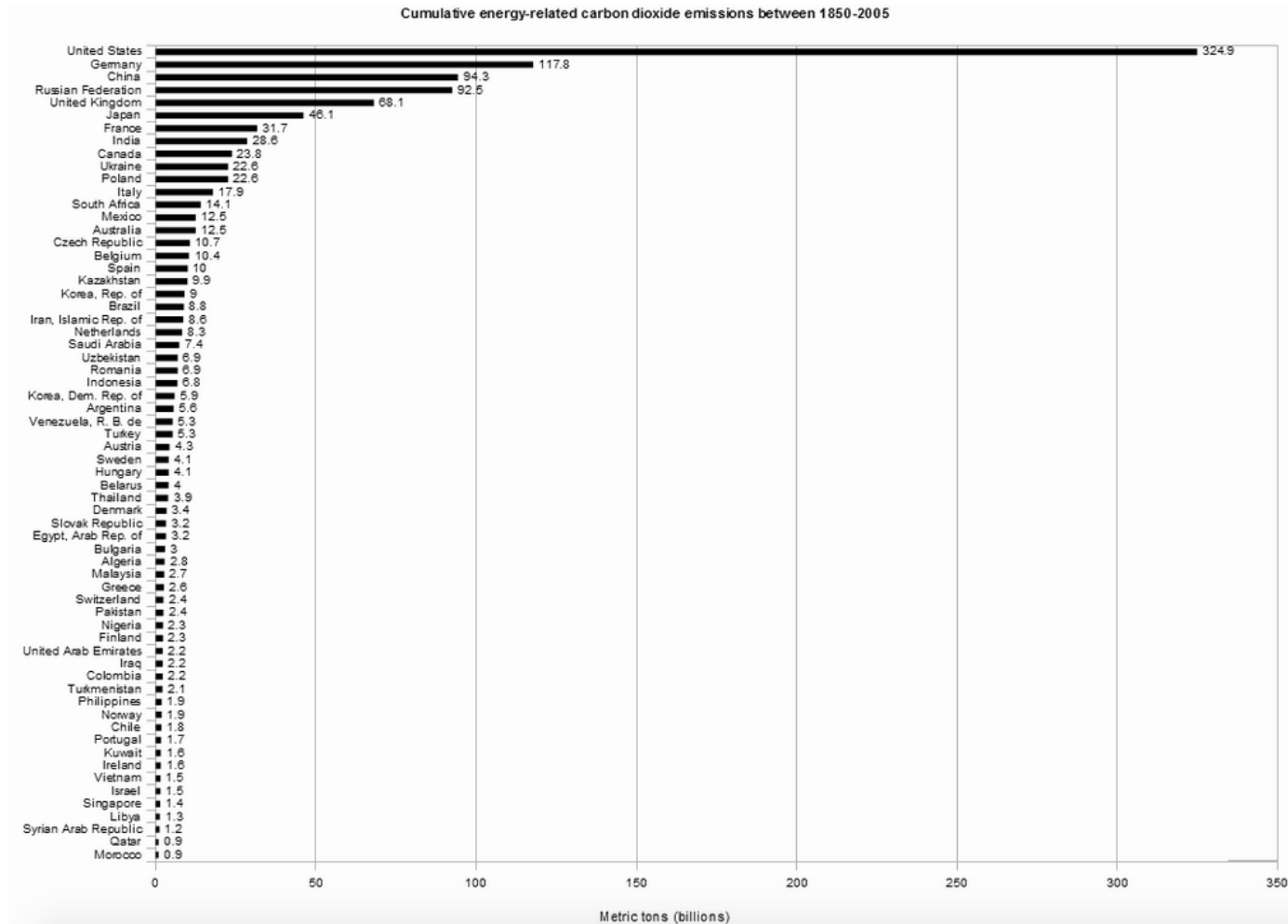


LECTURE 5: Green Growth





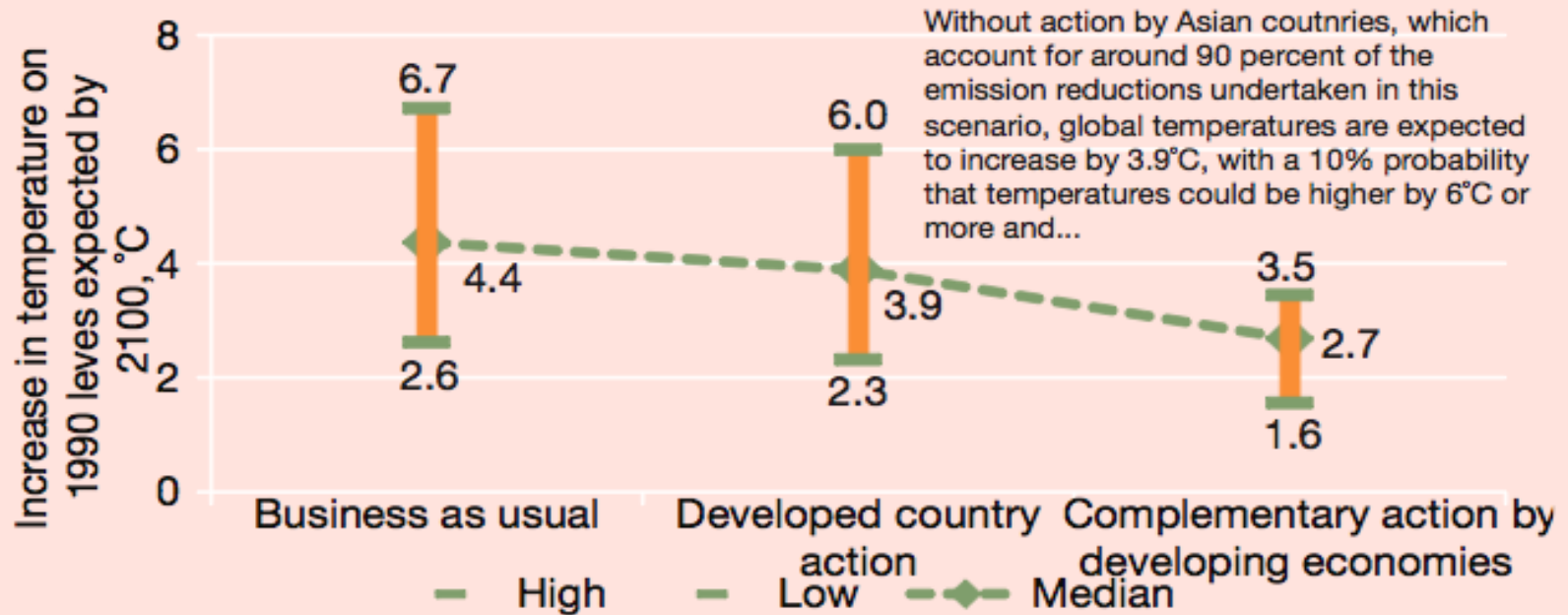
LECTURE 5: Green Growth





LECTURE 5: Green Growth

Action by Asian countries can significantly mitigate damage from climate change

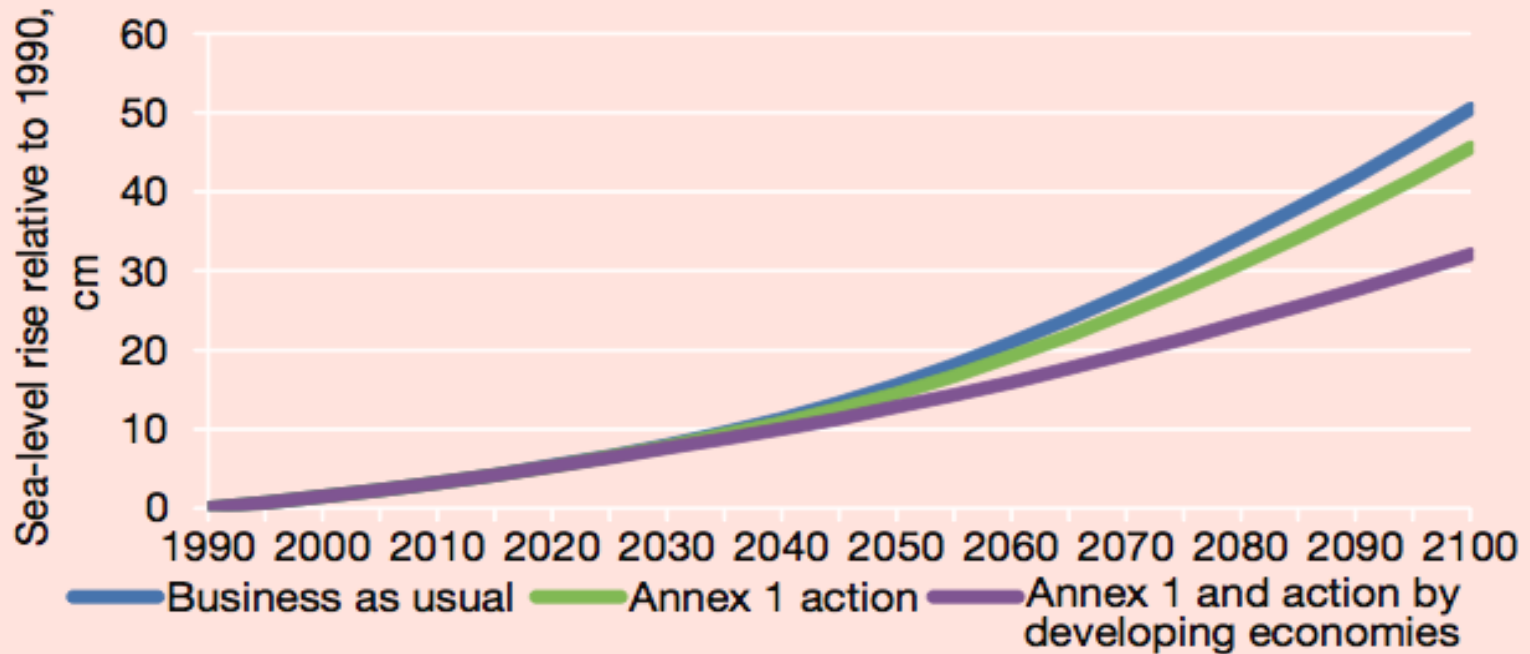


Source: Centennial Group International calculations, 2011.



LECTURE 5: Green Growth

Emerging market action significantly reduces sea-level rise

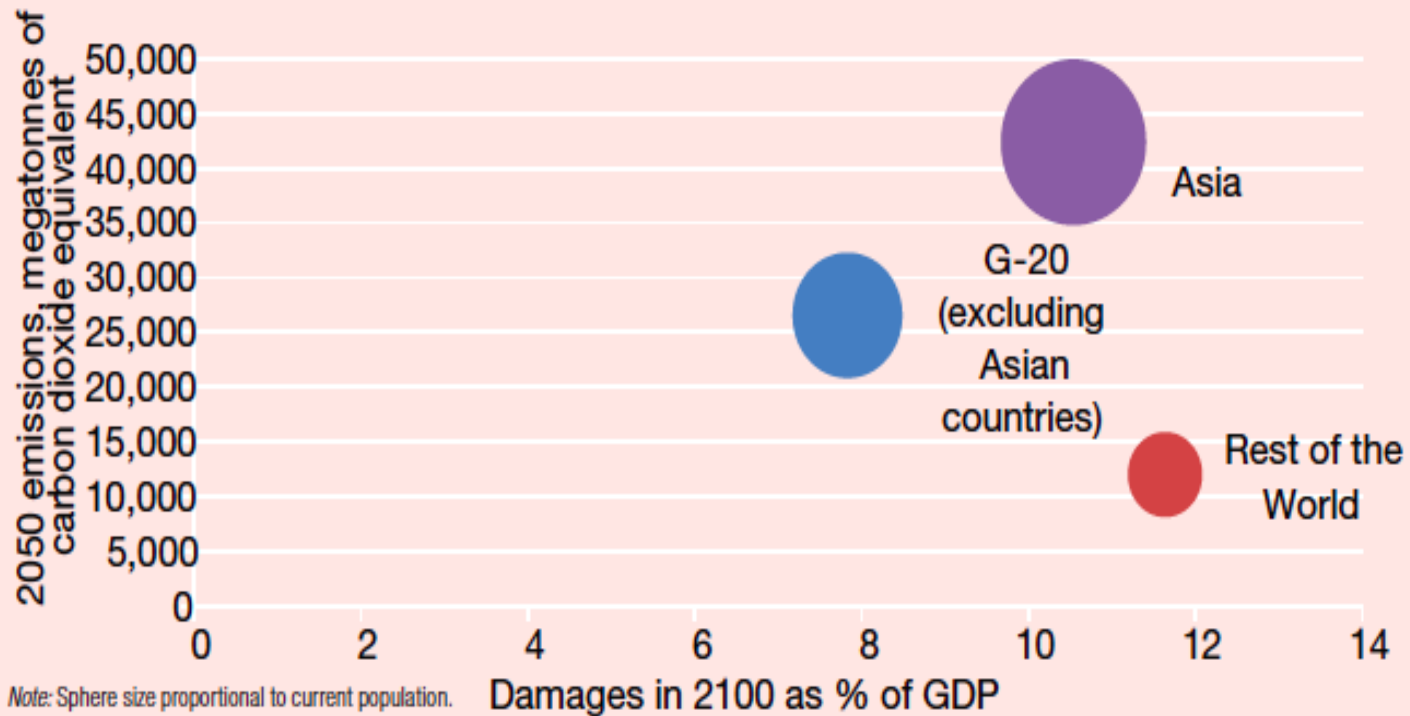


Source: Vivid Economics and MAGICC 5.3 and Centennial Group International forecasts.



LECTURE 5: Green Growth

Asia has the ability and incentives to address climate change



Note: Sphere size proportional to current population.

Source: Vivid Economics (2010).



LECTURE 5: Green Growth

Transition to low-carbon economies: GREEN GROWTH

By making the transition to low-carbon economies, Asian countries can move toward a new technological paradigm.

Such a transition offers greater energy security, healthier and more productive citizens, cleaner cities, more productive agriculture, and more efficient and competitive industry.

Overall, it will make Asian economies more globally competitive and thus sustain the region's high growth rates over the long-term.



NCAER LECTURES
2015

LECTURE 5: GOVERNANCE AND INSTITUTIONS



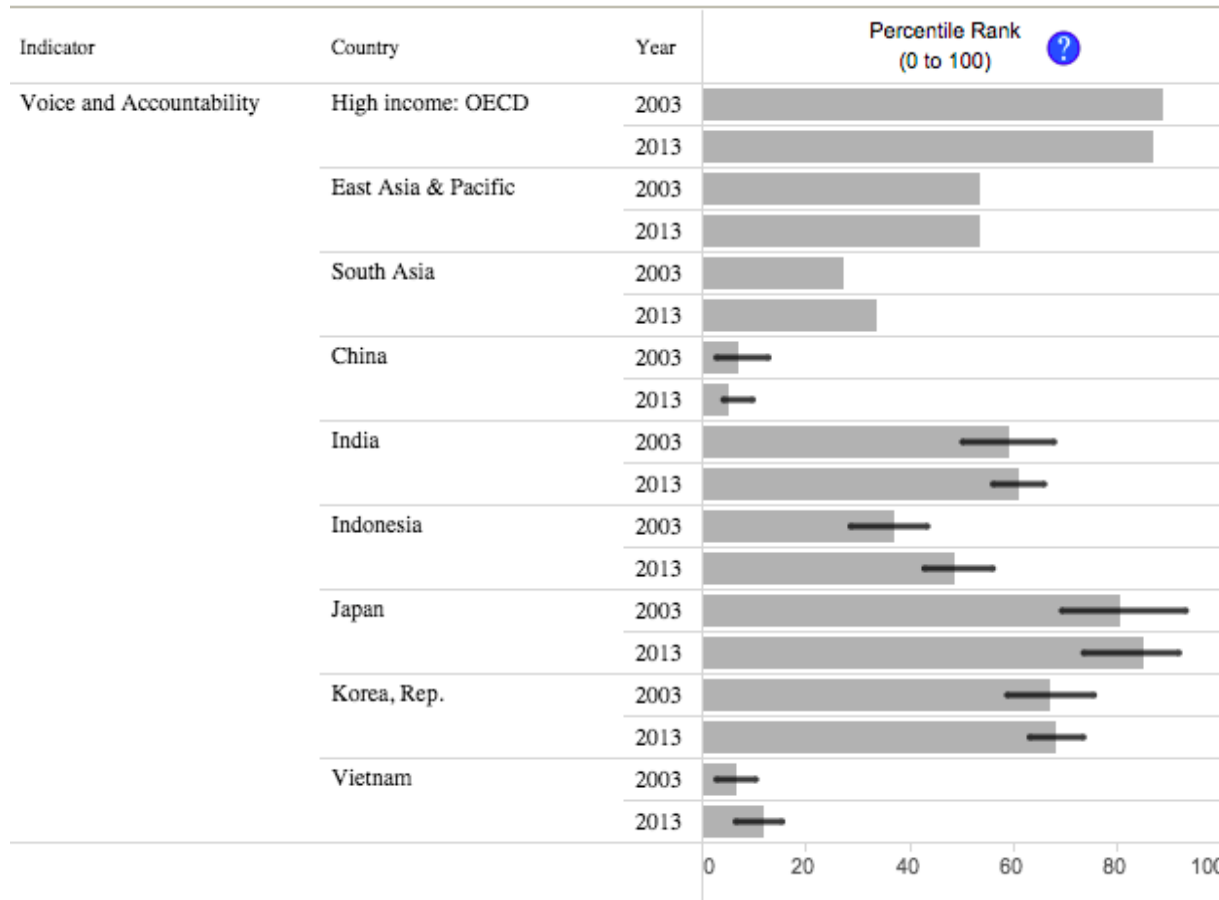
LECTURE 5: Governance and Institutions

- **Worldwide Governance Indicators**
 - Six dimensions of Governance:
 1. Voice and Accountability
 2. Political Stability and absence of violence/terrorism
 3. Government Effectiveness
 4. Regulatory Quality
 5. Rule of Law
 6. Control of Corruption



LECTURE 5: Governance and Institutions

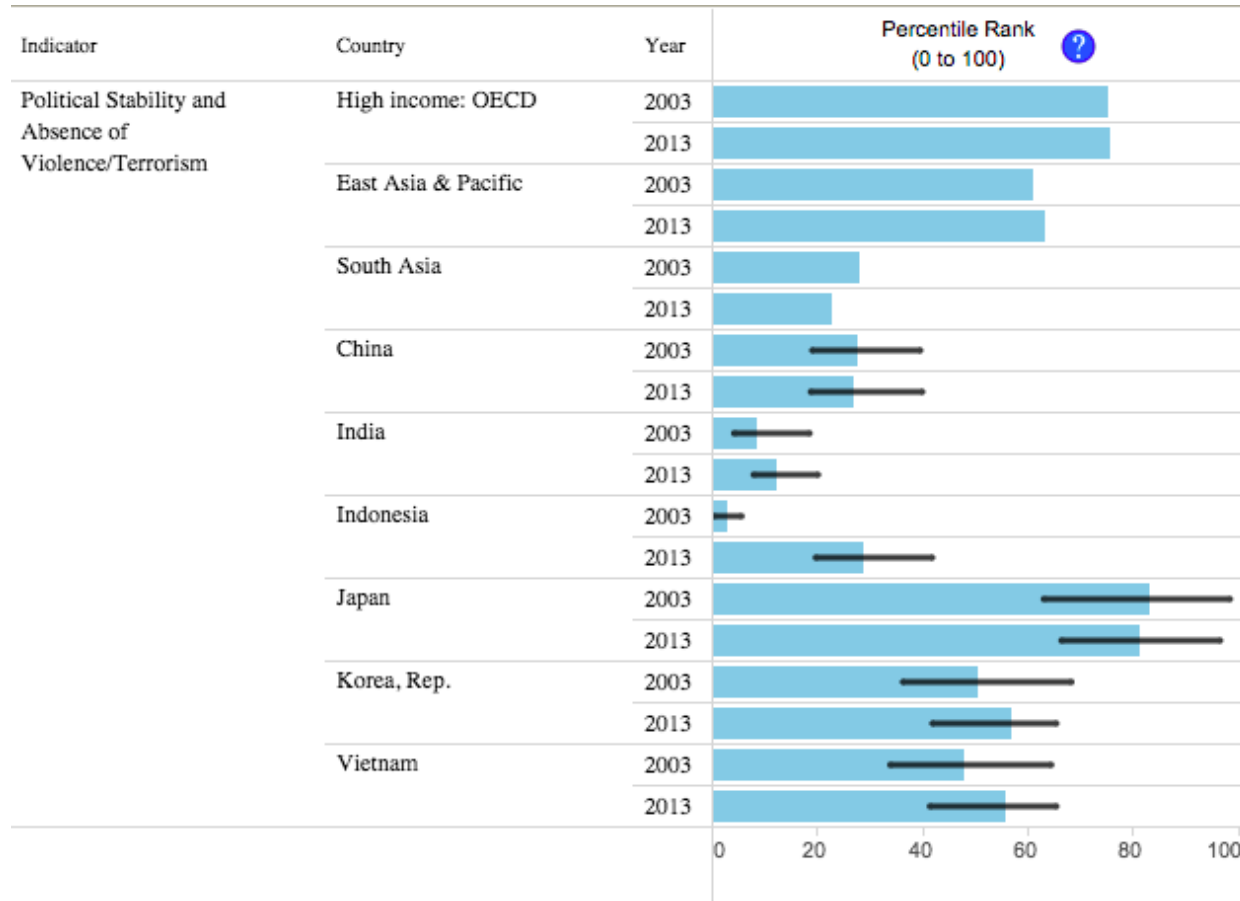
Worldwide Governance Indicators





LECTURE 5: Governance and Institutions

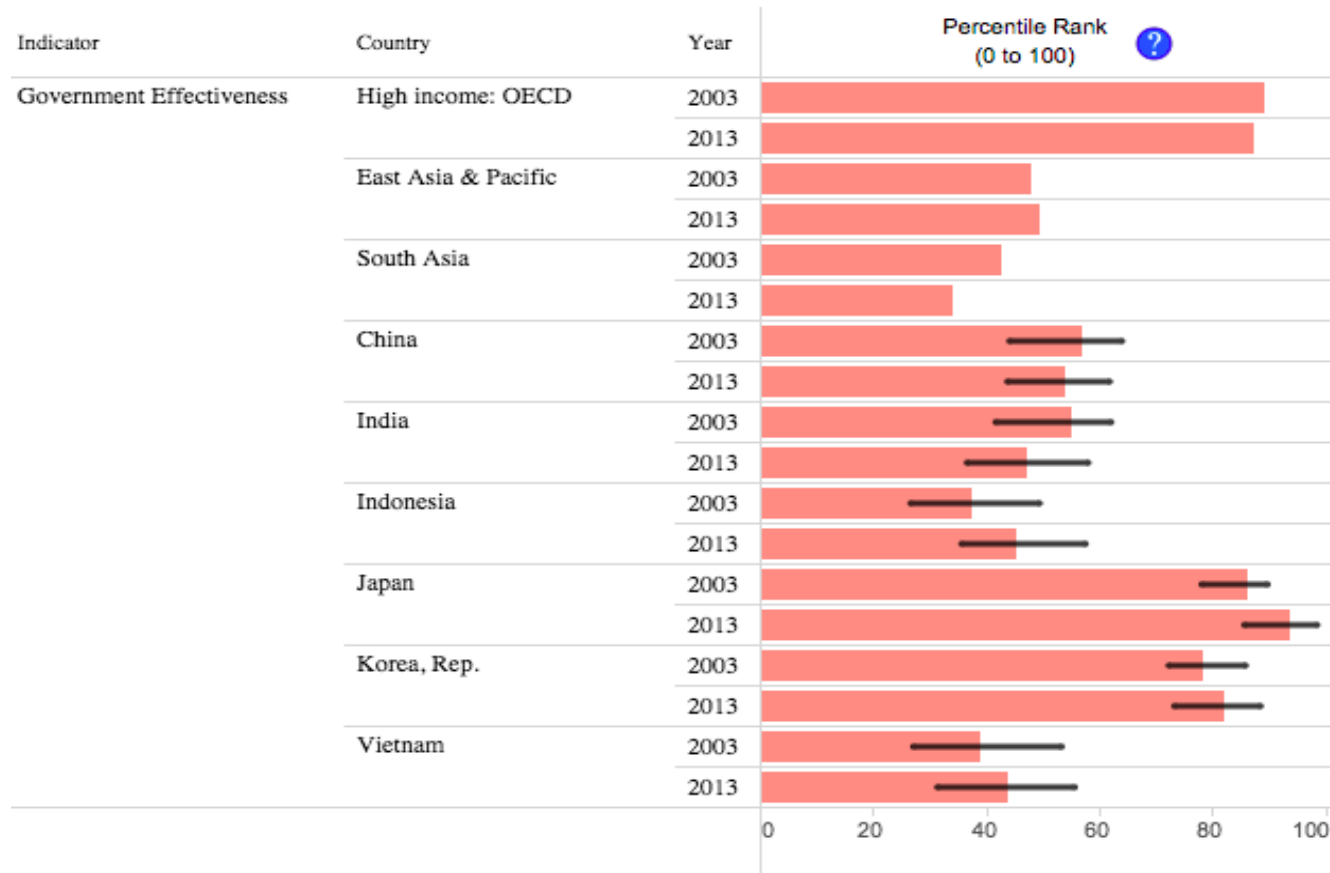
Worldwide Governance Indicators





LECTURE 5: Governance and Institutions

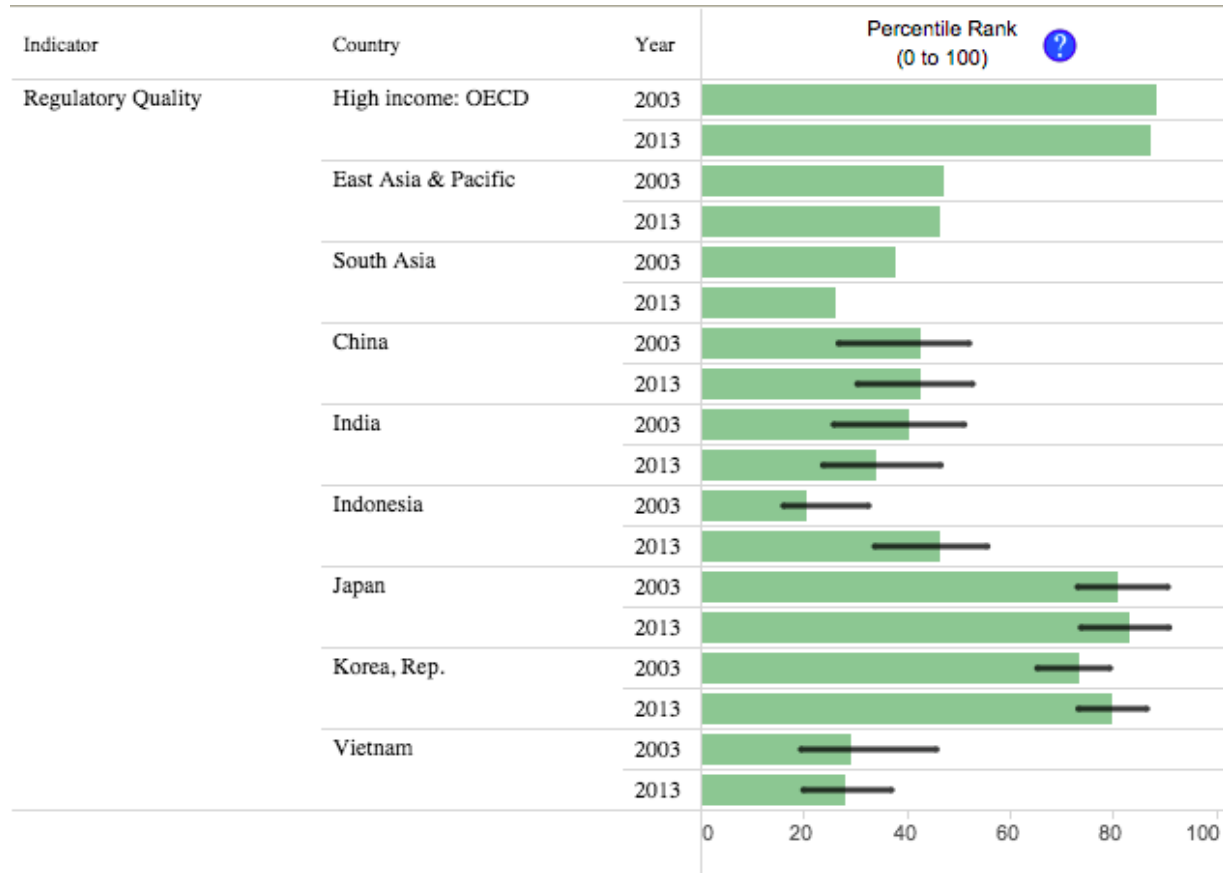
Worldwide Governance Indicators





LECTURE 5: Governance and Institutions

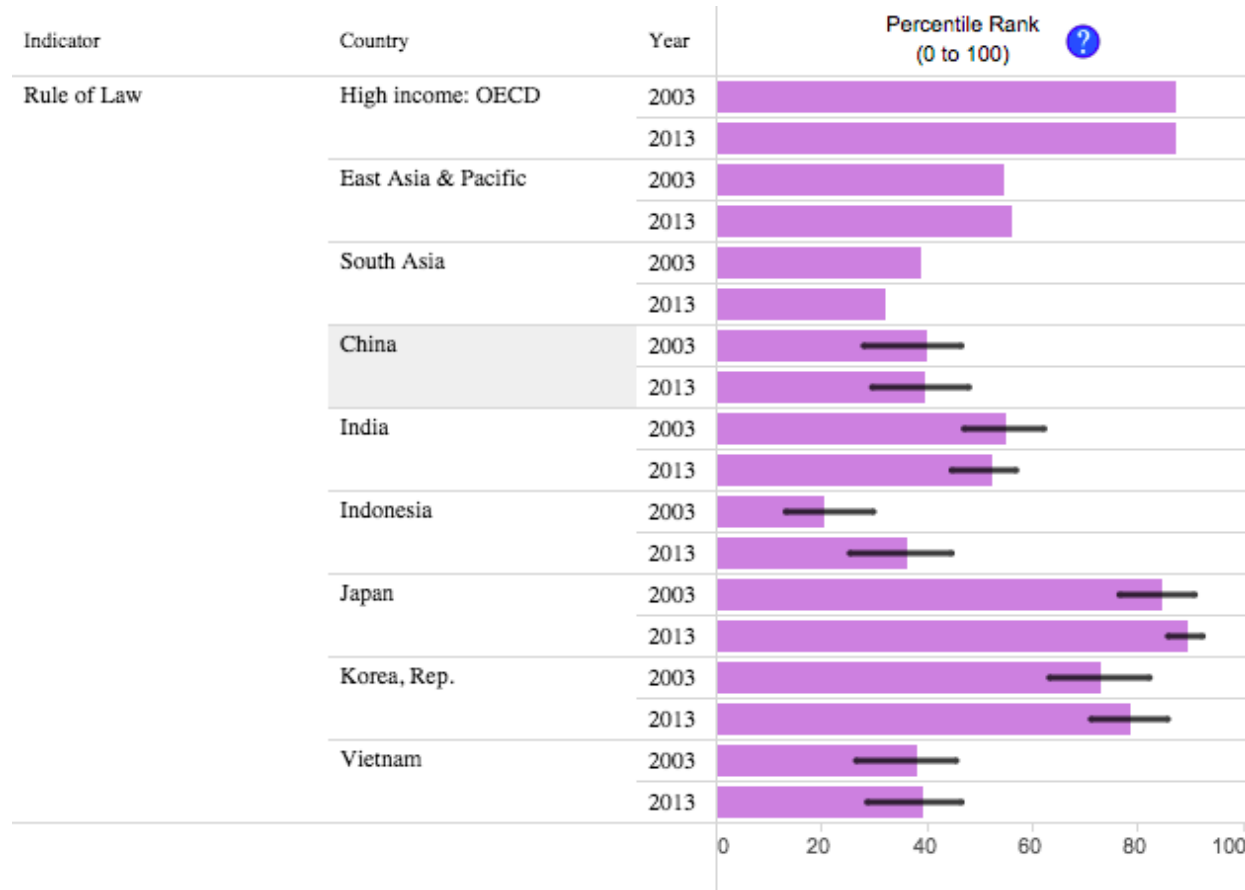
Worldwide Governance Indicators





LECTURE 5: Governance and Institutions

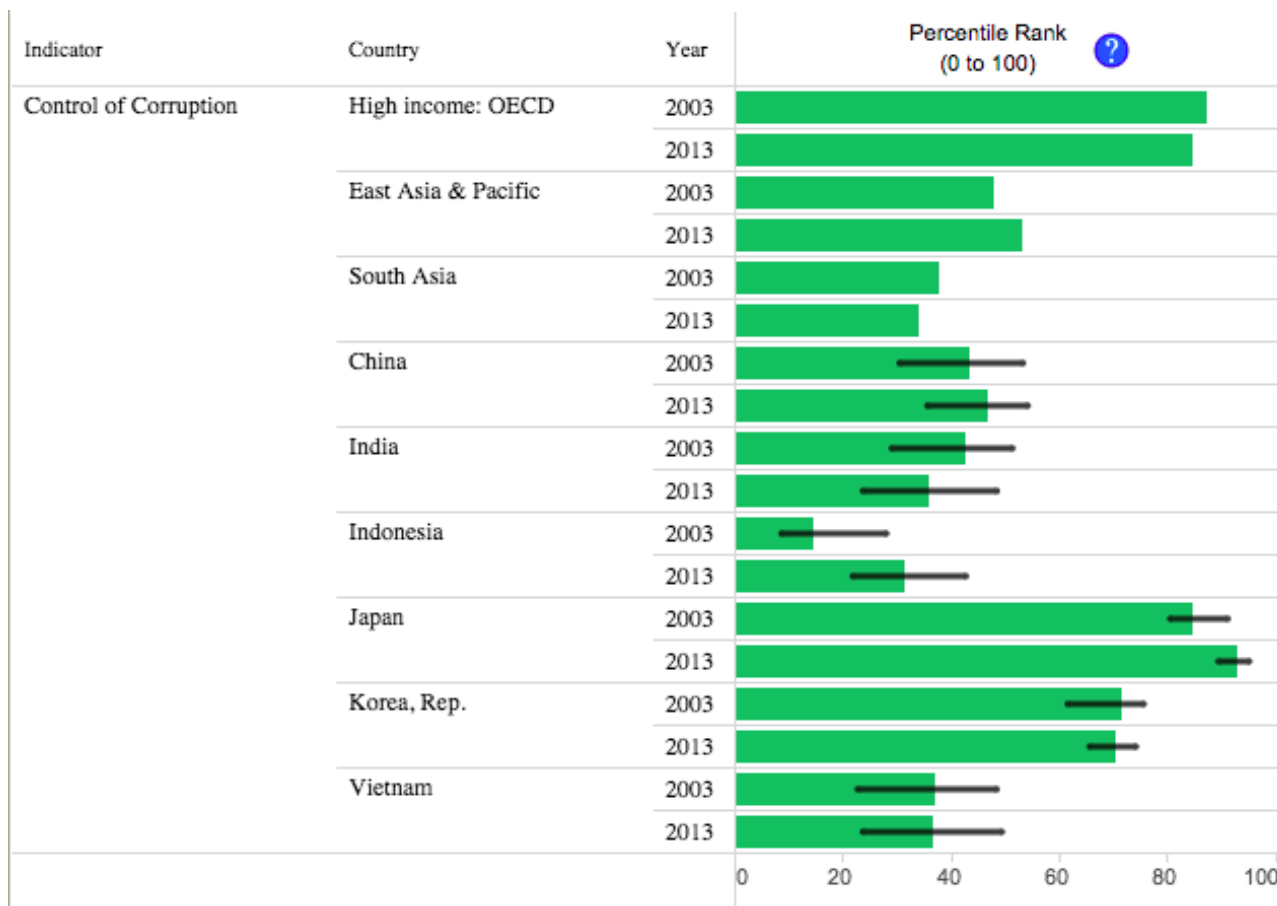
Worldwide Governance Indicators





LECTURE 5: Governance and Institutions

Worldwide Governance Indicators





LECTURE 5: Governance and Institutions

- **The WJP Rule of Law Index** (around 8 themes):
 - constraints on government powers
 - absence of corruption
 - open government
 - fundamental rights
 - order and security
 - regulatory enforcement
 - civil justice, and
 - criminal justice



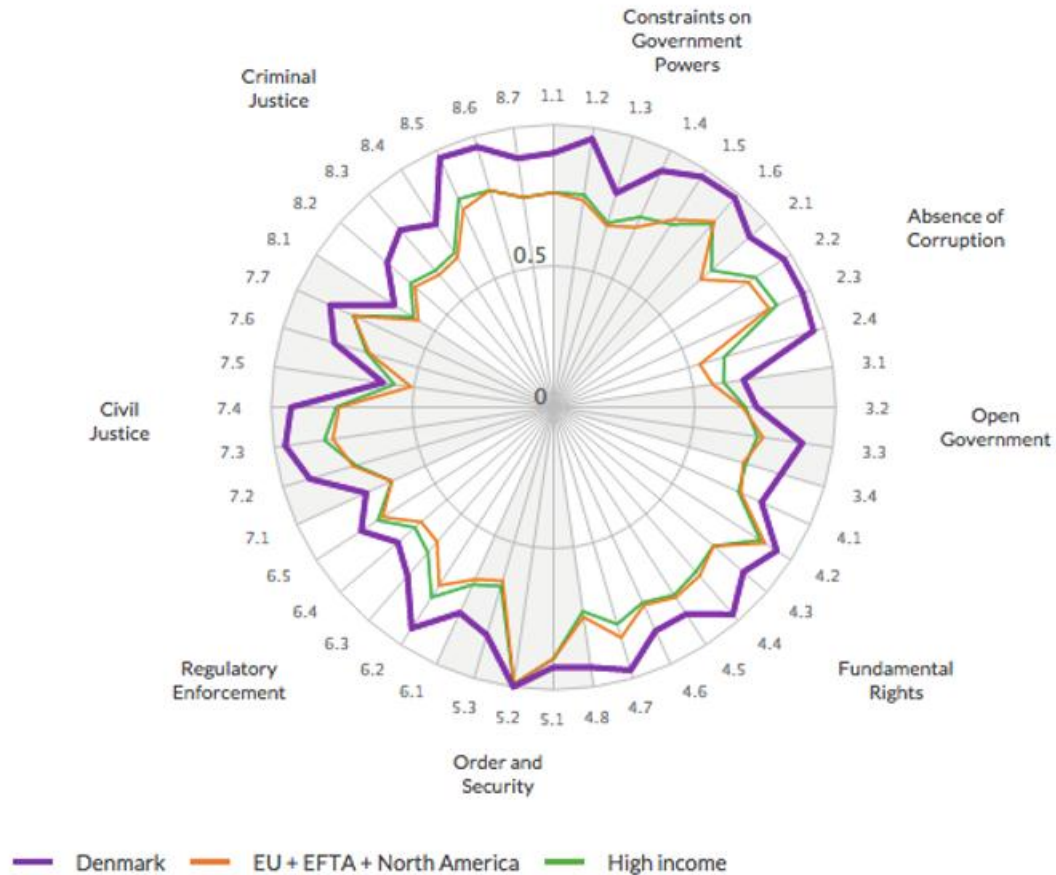
LECTURE 5: Governance and Institutions

| Country | Score | Global Ranking/102 |
|-----------|-------|--------------------|
| Denmark | 0.87 | 1 |
| Singapore | 0.81 | 9 |
| Korea | 0.79 | 11 |
| Japan | 0.78 | 13 |
| Indonesia | 0.52 | 52 |
| India | 0.51 | 59 |
| China | 0.48 | 71 |



LECTURE 5: Green Growth

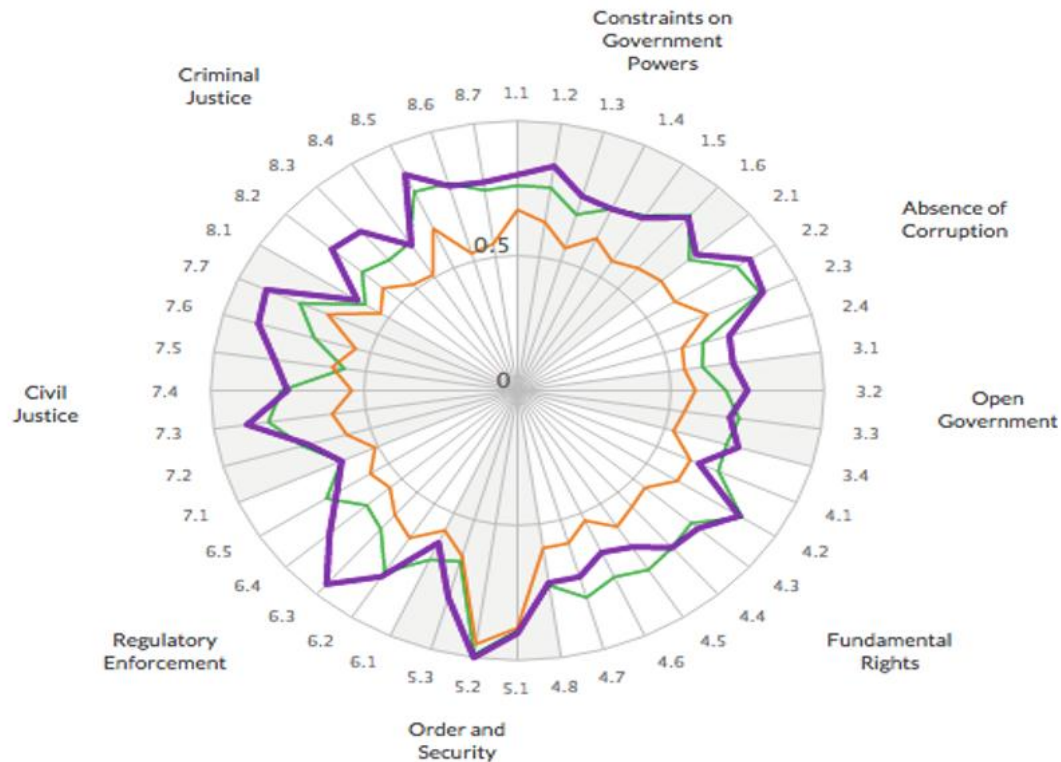
Rule of Law Index: Denmark





LECTURE 5: Green Growth

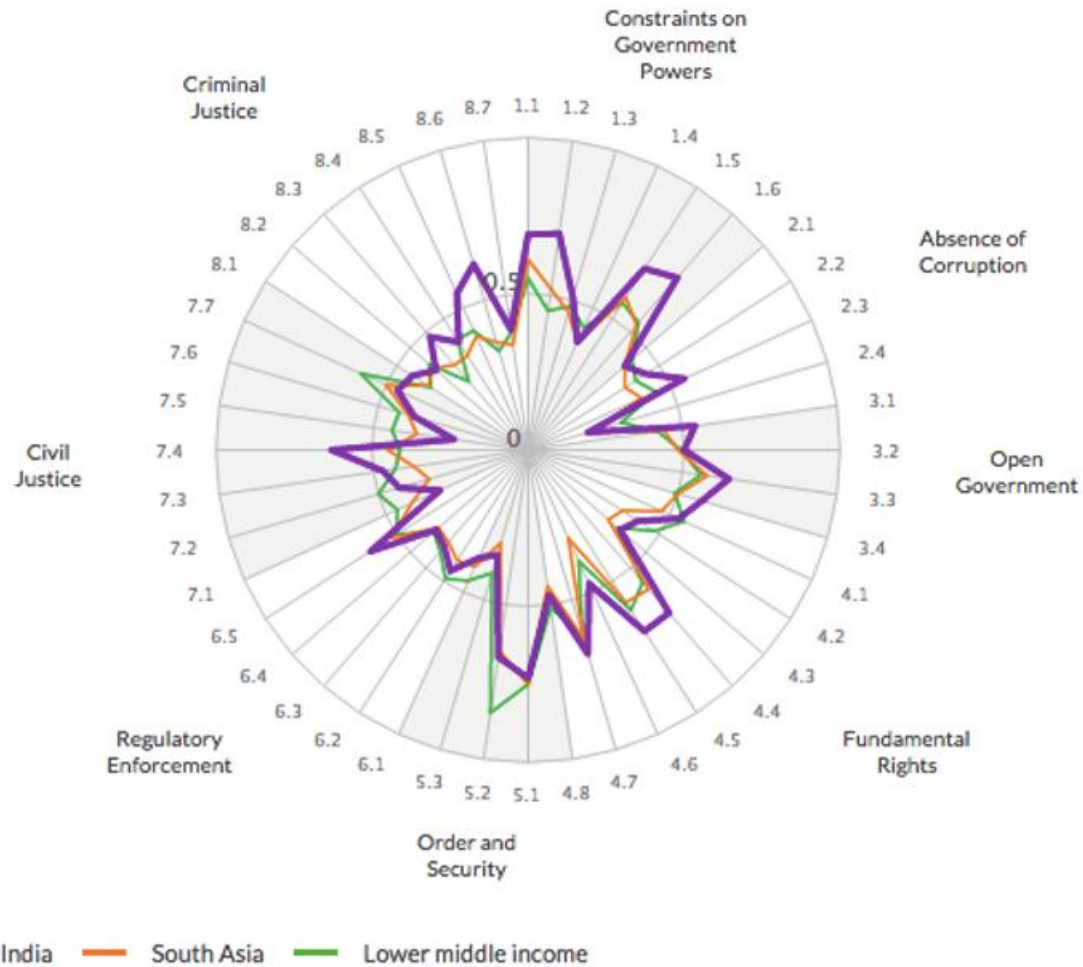
Rule of Law Index: Republic of Korea





LECTURE 5: Green Growth

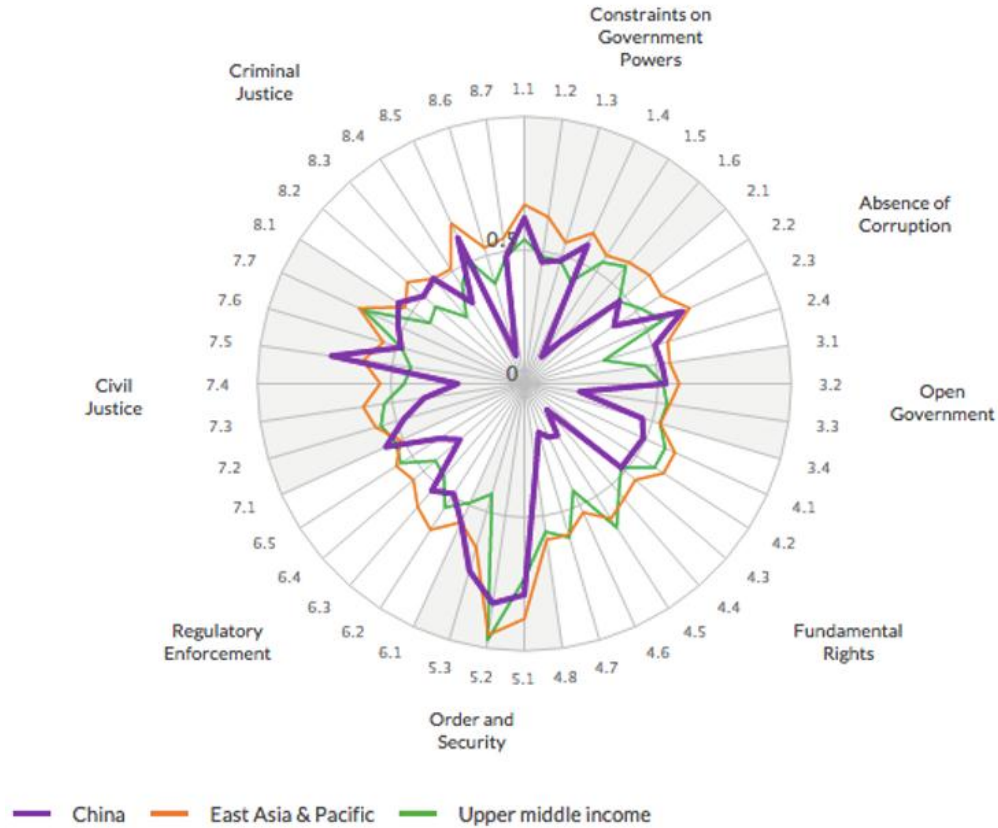
Rule of Law Index: India





LECTURE 5: Green Growth

Rule of Law Index: China





Some observations:

- Advanced economies score much higher
- Governance is not only about corruption, though this is a very major consideration



LECTURE 5: Governance and Institutions

- A clear message from the research on governance for development: good governance encourages growth; bad governance has a disproportionately high negative impact on the poor.

- **GOVERNANCE MATTERS.**



LECTURE 5: Governance and Institutions

- Good Governance Matters.
- To deliver governance, need Institutions.
- (Why Nations Fail? Daron Acemoglu and James Robinson)
- Institutions, institutions, institutions



LECTURE 5: Governance and Institutions

- Institutions: systems of “shared beliefs, internalized norms, rules and organizations “
- Can be “formal or informal”
- Social “rules of the game,” the “core social factors that influence...human behavior”



LECTURE 5: Governance and Institutions

- Drivers of Governance and Institutional Changes
 1. *Demographics*
 2. *Urbanization*
 3. *ICT Revolution*
 4. *Globalization*
 5. *Growing middle class*



LECTURE 5: Governance and Institutions

Key actors of institutional change:

Governments have to design and implement the sound growth-oriented and inclusive economic and social policies.

To do so, they must devise enabling institutional and regulatory frameworks that are rule based, thus predictable, equitable, and accountable to the citizen.

Role of civil society and the citizen



LECTURE 5: Governance and Institutions

Principles and priorities

- Focus on building strong transparent institutions—they define success.
- Corruption cannot be left unchecked; failing this, it will eventually suffocate rule-of-law institutions.
- Devise participatory approaches to policy making and build accountability mechanisms.
- Designing policies is only a start; implementation is what matters.



LECTURE 5: Governance and Institutions

- Ensure that the rule of law applies equally to everyone.
- Build a civil service based on merit.
- Realize that a healthy relationship between authorities and citizens is a function of trust.
- Realize that best practice approaches will not suffice. Countries have to adapt for “best fit”.



LECTURE 5: Governance and Institutions

- Building of Institutions: multi-generational efforts
- Destruction: can be fairly rapid but multi-generational effects



LECTURE 5: Governance and Institutions

- Quality of institutions will be decisive in enabling fast-growing countries to avoid the Middle Income Trap



LECTURE 5: Governance and Institutions

Middle Income Trap:

Since the 1960s, only 13 of 101 countries have escaped it.

Success Stories: Japan, Korea, Hong Kong, Singapore, Taiwan

China, Southeast Asia: catch up?

India, South Asia: further back

Classic Case: Latin America: salutary warning



LECTURE 5: Governance and Institutions

- Strong relationship between institutional quality and growth
- But, perhaps need to focus on quality on institutions relative to the level of development
- Institutions well suited to one phase of development may be ill suited to another



LECTURE 5: Governance and Institutions

- Are authoritarian institutions better for economic growth?
- At lower levels of income, maybe
- No large country has yet reached advanced economy status with authoritarian regime
- China???



LECTURE 5: Governance and Institutions

Social Justice: Niti, Nyaya and Matsyaynaya

Link the third pillar (Clean Growth) to the first pillar (Inclusive Growth).



LECTURE 5: Governance and Institutions

Justice in the world of the fish, even with all the rules and regulations, basically allows a big fish to devour the small fish at will.

Such a situation is obviously a fundamental violation of human justice, no matter how well laid out the rules, regulations, and institutional structures are.



ASIAN CENTURY LECTURES: A WRAP UP

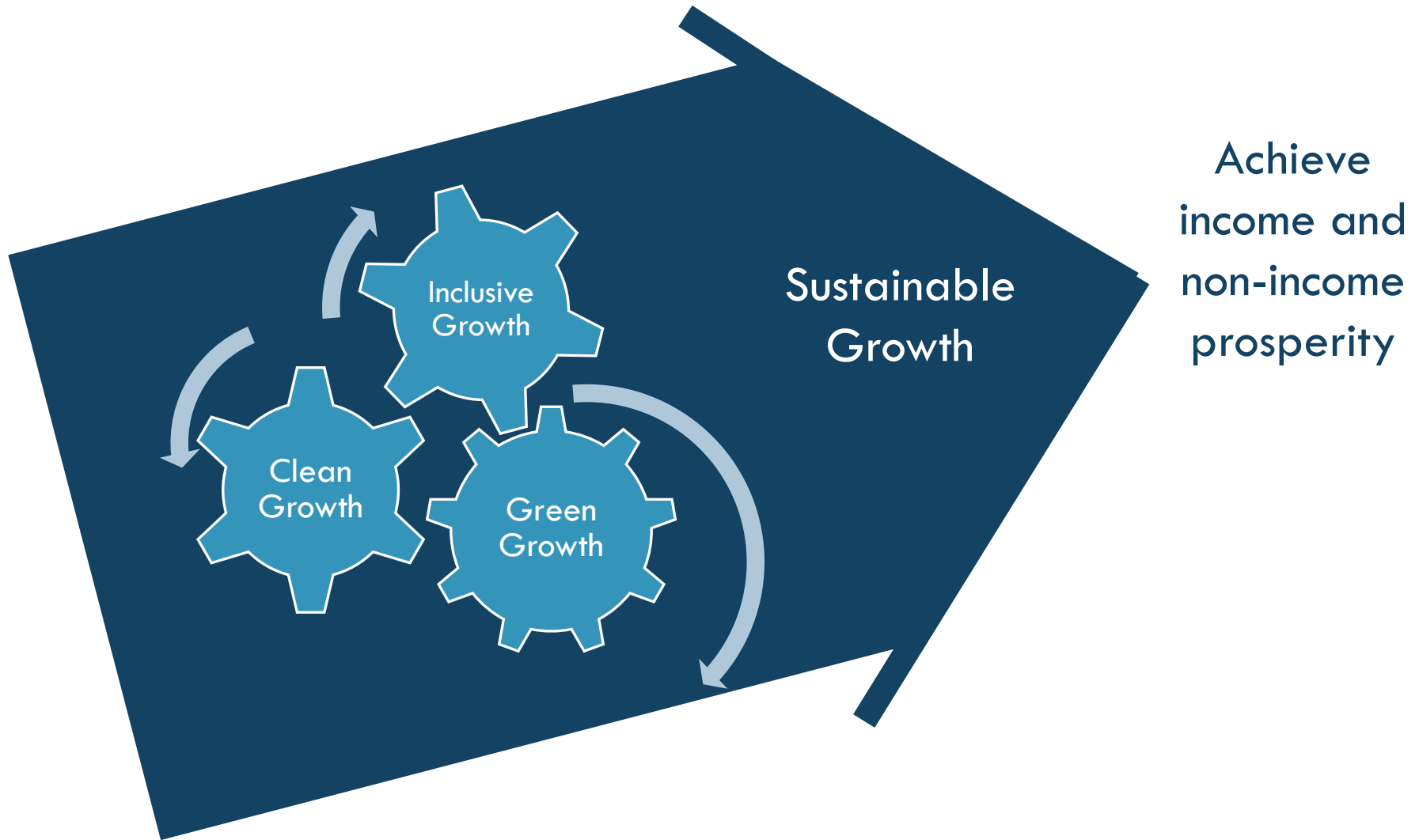


THE ASIAN CENTURY- PLAUSIBLE BUT NOT PRE-ORDAINED

- The Asian story of the last four decades is one of stellar achievements and hope.
- Transformational changes have taken place on economic and social fronts.
- But, Asia faces several mega challenges and risks which have to be faced at the national, regional and global levels.

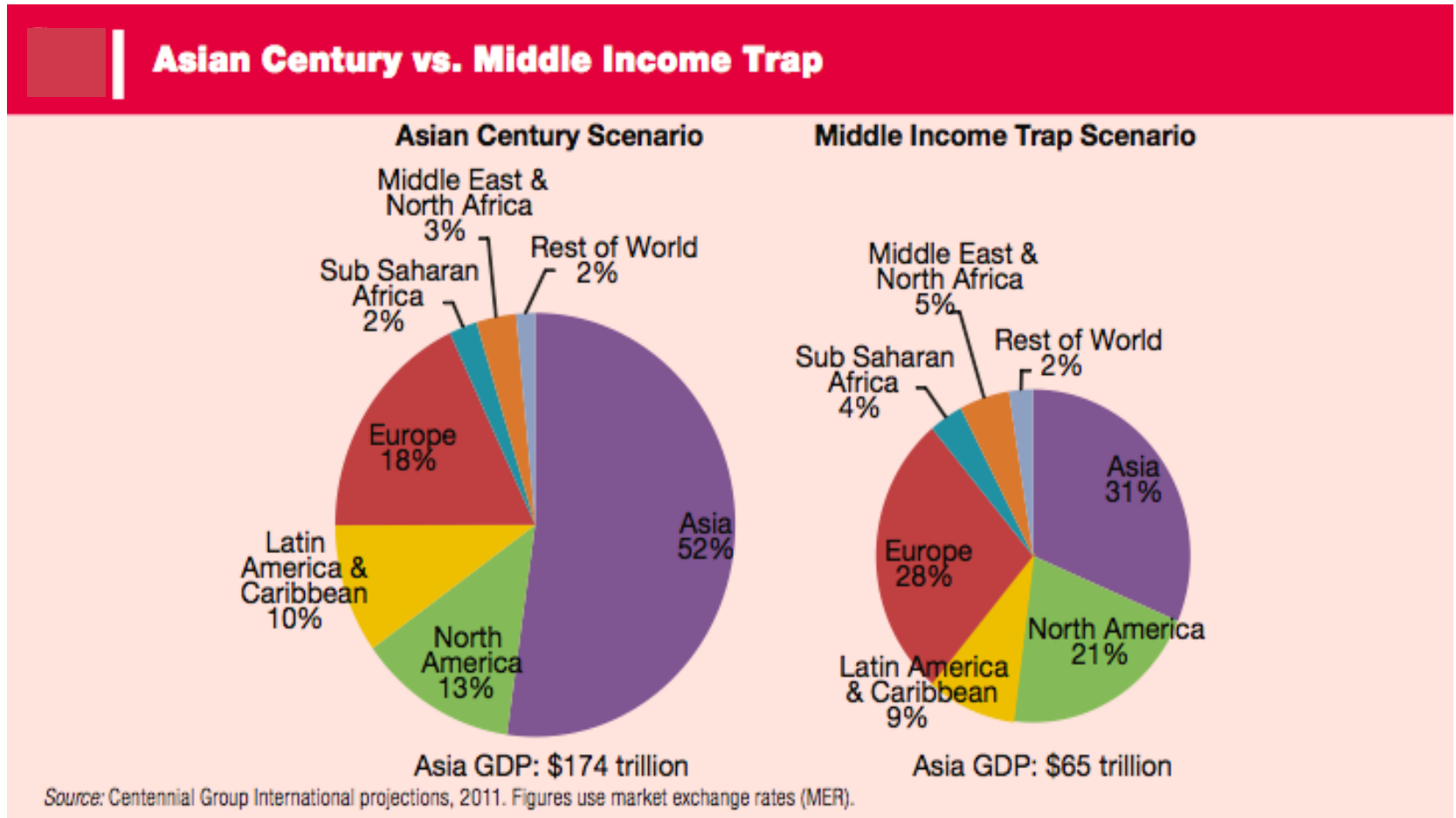


THE ASIAN CENTURY- PLAUSIBLE BUT NOT PRE-ORDAINED





THE ASIAN CENTURY- PLAUSIBLE BUT NOT PRE-ORDAINED





THE ASIAN CENTURY- PLAUSIBLE BUT NOT PRE-ORDAINED

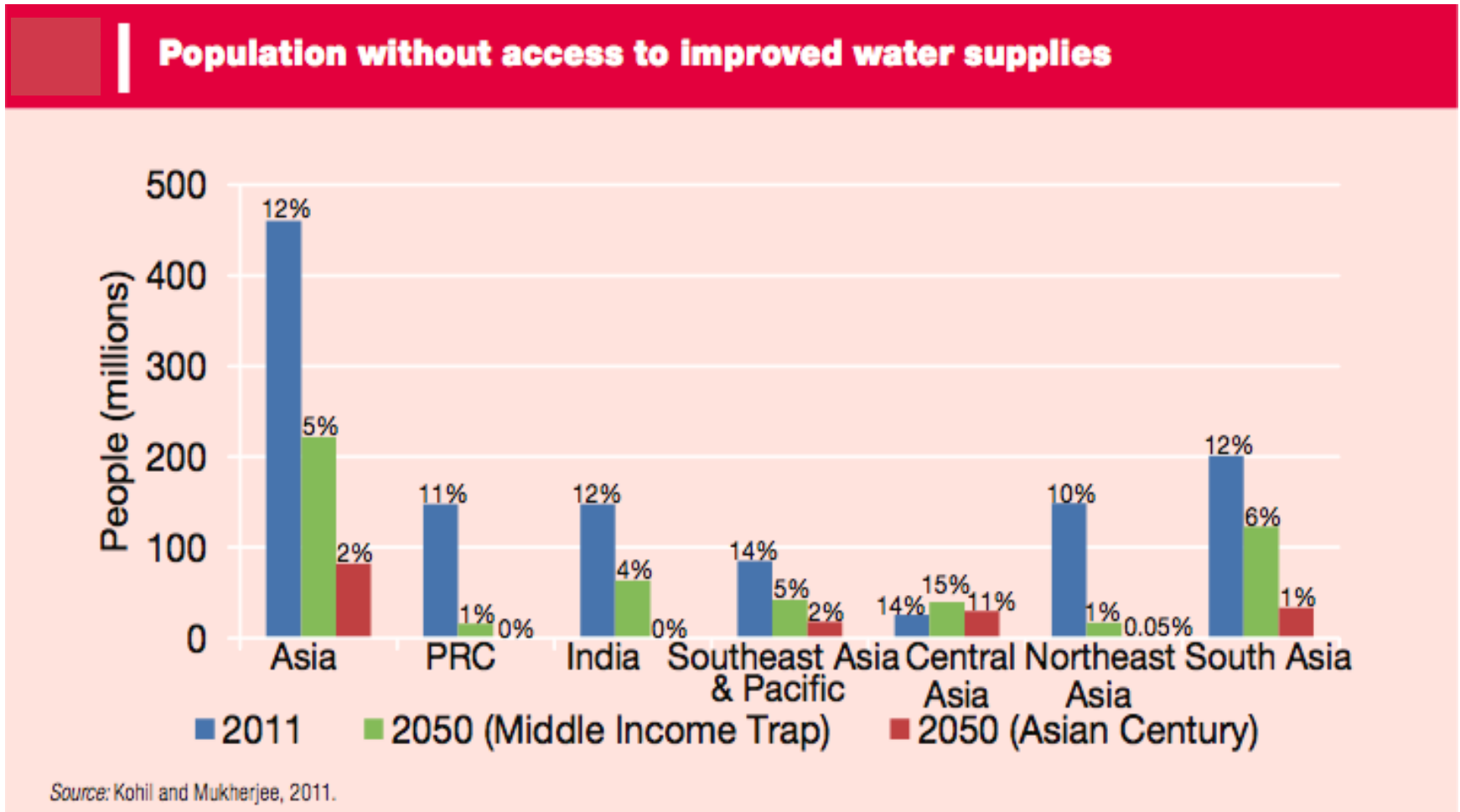
Economic 2050 outcomes in two scenarios— Asian Century and the Middle Income Trap

| Share of global GDP (%), MER | Asian Century | Middle Income Trap |
|--------------------------------|---------------|--------------------|
| Asia | 52 | 31 |
| PRC | 20 | 10 |
| India | 16 | 7 |
| United States | 12 | 18 |
| GDP (\$ trillions, MER) | | |
| Asia | 174 | 65 |
| PRC | 68 | 20 |
| India | 53 | 14 |
| United States | 38 | 38 |
| World | 333 | 208 |
| GDP per capita (\$ PPP) | | |
| Asia | 40,800 | 20,600 |
| PRC | 52,700 | 23,500 |
| India | 40,700 | 17,900 |
| United States | 94,900 | 94,900 |
| World | 37,300 | 25,600 |

Note: MER = market exchange rates.



THE ASIAN CENTURY- PLAUSIBLE BUT NOT PRE-ORDAINED





THE ASIAN CENTURY- PLAUSIBLE BUT NOT PRE-ORDAINED

- The costs of missing the Asian century are **HUGE**.
- So are the **CHALLENGES** of achieving the potential of the Asian century

The Asian Century: Plausible but not pre-ordained

