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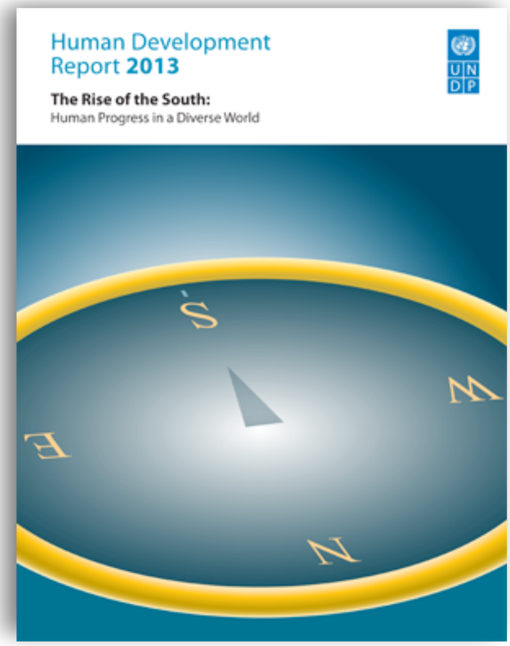
Asia-Pacific to comprise two-thirds of global middle class by 2030, Report says

2013 Human Development Report says Asian countries at forefront of 'Rise of the South' must address ageing, environment, inequality to sustain current progress

Mexico City, 14 March 2013— The rapid human development progress of China, Indonesia, Thailand and many other nations of East Asia and the Pacific is helping drive a historic shift in global dynamics, with hundreds of millions of people lifted from poverty and billions more poised to join the South's fast-growing middle class, according to the 2013 Human Development Report, which is being launched by the United Nations Development Programme (UNDP) here today.



The 2013 Human Development Report—*The Rise of the South: Human Progress in a Diverse World*—analyses more than 40 developing countries that have made striking human development gains in recent years. The Report attributes their achievements to strong national commitments to better public health and education services, innovative poverty eradication programs and strategic engagement with the world economy.

"The rise of the South is unprecedented in its speed and scale. Never in history have the living conditions and prospects of so many people changed so dramatically and so fast," it says.

By 2030, the Report projects, more than 80 percent of the world's middle class will reside in the South. The Asia-Pacific region will be home to about two-thirds of the new global middle class, with billions of people becoming increasingly educated, socially engaged and internationally connected, though at significantly lower income levels than their counterparts in the middle class of the industrialized North.

"Emerging powers in the developing world are already sources of innovative social and economic policies and are major trade, investment and increasingly development cooperation partners for other developing countries," UNDP Administrator Helen Clark says in the Report's foreword.

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The 2013 Human Development Report warns, however, that short-sighted austerity policies, persistent inequalities and unresponsive political systems could threaten global and national progress unless corrected.

"Economic growth alone does not automatically translate into human development progress," the Report says. "Pro-poor policies and significant investments in people's capabilities—through a focus on education, nutrition and health, and employment skills—can expand access to decent work and provide for sustained progress."

"New ideas and entrepreneurship are coming from the South and will be the defining movers of the 21st century," says Ajay Chhibber, UNDP Regional Director for Asia and the Pacific. "In our changing world, solutions are moving across the South, not just from North to South."

East Asia's most dynamic economies—including China, Indonesia, Malaysia, Viet Nam and Thailand—could use their foreign reserve holdings and other resources for creative new approaches to development assistance within the region and beyond, the Report suggests.

"The South as a whole is driving global economic growth and societal change for the first time in centuries," the Report says, providing a detailed overview of this change and its significance:

- The high achievers in East Asia include not only China, but also Indonesia, Viet Nam, Malaysia, Thailand and Brunei.
- By 2020, the combined economic output of the three leading developing countries alone—Brazil, China and India—will surpass the aggregate production of Canada, France, Germany, Italy, the United Kingdom and the United States.
- In 2011, 61 of the world's biggest corporations on the Fortune 500 list were Chinese—up from 16 five years earlier.

The Human Development Report analysis showed that while these countries differed greatly in their histories, political systems and economic profiles, they share common factors. Most had assertive governments that sought to take strategic advantage of the opportunities offered by global trade, while reducing poverty and inequality through pioneering home-grown social programs.

China illustrates this most vividly. Since market-oriented reforms in the late 1970s, China has experienced vast changes, emerging as a dominant market economy in a new global system in which it increasingly sets the pace. The scale of these changes required a long-term vision to build the necessary institutions and capacities. The state reformed, and opened markets, gradually. It built on a strong foundation of educational investment laid down in preceding decades.

Indonesia, another of the region's successes, has also tried to find a new balance between the state and the market, moving from import-substituting industrialization with a major thrust in agriculture and rural development to a more open, trade-focused strategy. Malaysia, Thailand and Viet Nam, from different perspectives, also tried to balance state control with trade and investment. The Republic of Korea, one of the first economies in the region to transition to developed status, combined state and private sector in its industrialization while supporting education, infrastructure and health efforts.

The result of their success is a new pattern of globalization, shaped by the South. In 1990, companies in the South made up only 4 percent of the Fortune Global 500 ranking of the world's biggest corporations; in 2011, their share was 22 percent. Today, one in four transnational corporations is based in the South.

The countries of the South have moved rapidly to adopt and innovate in the field of communications, boosted by the spread of affordable technology and increasingly educated populations.

Indonesia, for example, used telecommunications technology to connect its large cluster of far-flung islands and to open the country to the outside world. This required extensive private and public investment. By 2010, 220 million mobile phones were registered in a country of 240 million people. The human development benefits of this digital revolution are apparent, Indonesian analysts say, with mobile phones giving rural communities access to health information, banking services and agricultural market prices. Civic engagement has benefited. Environmentalists use online databases and Google Earth mapping tools to publicize deforestation.

Globally, the five countries with the largest number of Facebook users are Brazil, India, Indonesia, Mexico and the United States, while China has more than half a billion people accessing the Internet daily through smart phones.

One result of this increase in incomes and the diffusion of technology is the emergence of a new middle class in the South, which is driving economic, social and political expectations in households with income levels well below those of the middle class in the industrialized North. Increasingly, the most important engine of growth for countries of the South is their domestic market. By 2025, annual consumption in emerging markets is estimated to rise to US$30 trillion. By then, the South will account for three fifths of the one billion households worldwide earning more than $20,000 a year, creating a new global middle class.

But East Asian countries face many of the same challenges of developing countries in other regions—ageing populations, environmental risks, political pressures and inequality—and countries will need to stay smart to maintain their momentum, the Report cautions.

Many countries in East Asia and the Pacific will see a striking increase in the share of the elderly in the near future. This will drive up the dependency ratio, which is the ratio of younger and older people to the working-age population. The productive-age population (ages 35–50), currently the largest population share, will reach retirement in 15–25 years.

Investment in education could help to mitigate this, the Report says. A more skilled and productive workforce could offset some of the negative effects of a high dependency ratio and a large share of older people.

Despite China's growth and reduction in poverty, it has become a more unequal society, both in terms of income and human development. There is potential for redistributive policies to reduce poverty and improve food security. For instance, extending equal rights to migrants in cities can help them access social services. While China's overall health status has continued to improve, disparities have grown. In many parts of the country, quality health care has become unaffordable for the poor.

The report warns that failure to build accountable and responsive political structures may also cause unrest and civil strife regionally and globally if economic opportunity fails to keep pace with educational advancement.

Environmental problems have also become a focus for unrest and mass protests against environmental pollution are widespread. The Internet and social media, as "low-cost aggregators" of public opinion, are amplifying people's voices.

East Asian states can—and should—be a powerful force in development, the Report argues, as they become important in other developing regions. China is already influential in Africa, through trade and investment as well as through assistance and cooperation. Between 1992 and 2011, China's trade with sub-Saharan Africa rose from U$1 billion to more than $140 billion.

The rapid growth in China and other Asian economies also benefits commodity producers in Sub-Saharan Africa and elsewhere through a prolonged commodity boom. Cheap imports also increase the purchasing power of low-income consumers and the competitiveness of export-oriented producers. While supporting industrial clusters and economic zones and expanding regional trade and investment, China and other emerging countries are also creating finance and credit facilities for small and medium-size enterprises in Africa. Many countries have also benefited from technology transfer and Foreign Direct Investment into sectors that contribute to human development. Indian firms, for example, are supplying affordable medicines, medical equipment, and information and communications technology products and services to countries in Africa.

Burgeoning South-South trade and investment in particular can lay the basis for shifting manufacturing capacity to other less developed regions and countries. International production networks provide opportunities to speed development by allowing countries to leap-frog to more sophisticated production modes. New institutions can facilitate regional integration and South-South relationships. In this regard, the report recommends the establishment of a new South Commission to share knowledge, experiences and technology as well as to promote trade and investment across the South.

The report suggests that developing countries with large reserve holdings or sovereign wealth funds can use these to invest in development infrastructure. Global foreign exchange reserves rose from $1.9 trillion to $10.1 trillion between 2000 and 2011, with China alone holding more than $3 trillion. Public investment in South Asia and sub-Saharan Africa could increase to 11.7 percent of GDP using just 3 percent of international reserves from some of the largest economies in the South.

The Report argues that the emergence of a new South is shaking up existing global institutions. As a result, the South needs more say in international governance.

"The emergence of the Group of 20 is an important step in this direction, but the countries of the South also need more equitable representation in the Bretton Woods institutions, the United Nations and other international bodies," the Report says.

For example, China, which is the world's second largest economy, has had a smaller voting share in the World Bank than either France or the United Kingdom.

The rise of the South should be seen as beneficial for all countries in the world, the Report concludes. Human Development is not a zero-sum game. "The South needs the North, and increasingly the North needs the South."

Human Development Data Highlights: East Asia and the Pacific

- Most countries in the region (15) are in the medium human development group, while three (Solomon Islands, Myanmar and Papua New Guinea) are in the low human development group. Two countries (Palau and Malaysia) are in the high human development group.
- The average HDI value for the region of 0.683 is below the world average of 0.694 and places it in third position, behind Europe and Central Asia and Latin America and the Caribbean.
- Between 2000 and 2012, the region registered annual growth of 1.31 percent in HDI value, placing it third in comparison to other regions. Looking at individual countries in the region, Timor-Leste

registered the highest average annual growth followed by Myanmar. Palau and Tonga registered the least growth relative to other countries in the region.

- The region's average life expectancy at birth is 72.7 years (second to Latin America and the Caribbean; and more than 2.5 years higher than the world average of 70.1 years.
- The region's average mean years of schooling of 7.2 years places it behind Europe and Central Asia and Latin America and the Caribbean.
- The region's average gross national income per capita of $6,874 (PPP$ constant 2005 international) is a little over two-thirds the world average of $10,184.
- The region is ranked second out of the six regions in terms of overall loss to HDI due to inequality in distribution. Loss due to inequality is highest in the income component, followed by education.
- The biggest loss due to inequalities is suffered by Timor-Leste (33 percent) followed by Cambodia (25.9 percent). The country suffering least overall loss is Viet Nam.
- The average Gender Inequality Index value for the region is 0.333—placing it second to Europe and Central Asia. The region's average GII value is significantly better than the world average. China is the best performer in the region, followed by Malaysia.
- The region has one of the highest employment-to-population ratios (74.5 percent), above the world average of 65.8 percent. The employment-to-population ratio ranges from 62.7 percent in Fiji to 86.7 percent in Cambodia.
- Among countries in the region with data, child labour is relatively high for Cambodia, where 39 percent of children of ages 5 to 14 years are economically active followed by Mongolia (18 percent). Timor Leste has the lowest child labour rate at 4 percent.
- On overall life satisfaction based on the Gallup World Poll, the people of Thailand are the most satisfied in the region—6.7 (on the scale from 0 to 10), followed by Malaysia and Viet Nam.

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ABOUT THIS REPORT*: The Human Development Report is an editorially independent publication of the United Nations Development Programme. For free downloads of the 2013 Human Development Report in ten languages, plus additional reference materials on its indices and specific regional implications, please visit: http://hdr.undp.org.*

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