Asia Business Council

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INTRODUCTION: GDP AND ITS LIMITS

Asia has seen remarkable economic growth in the past half-century. The Four Asian Tigers of Hong Kong, Singapore, South Korea, and Taiwan are economic miracles, achieving average growth rates in excess of seven percent annually between the 1960s and the 1990s. Japan maintained growth for three decades in the post-World War II period. China attained its annual gross domestic product (GDP) growth target of eight percent for seven years up to 2011. Many others have seen spurts of growth unheard of outside Asia.

But while GDP growth has been impressive on the surface, many countries still face immense challenges. Even though hundreds of millions in Asia have been lifted out of extreme poverty in the past few decades, the region remains home to two-thirds of the world's poor, with more than 800 million people living on less than $1.25 a day and 1.7 billion on less than $2 a day.1 Not everyone is benefitting from growth, especially those who are less educated and those residing further away from centers of commerce and industry. Higher GDP growth for countries has not necessarily translated to better incomes and purchasing power for families. Some countries have seen inequality widening within their populations, even as they are catching up economically to developed countries around the world. Growth has also occurred at the expense of the environment. While experiencing rapid growth rates, air and water pollution in major Asian cities has been among the worst in the world.

One key issue is how growth is measured. GDP has been the standard national measure for economic success since the end of World War II. Around Asia, national leaders from Park Chung-hee to Deng Xiaoping made GDP growth their rallying cry. As Asian countries move beyond their early phase of economic development and GDP per capita surpasses around $10,000—which is the case for many Asian countries—populations begin to demand a higher quality of growth. They do not just want rapid growth of production output, but better national progress and well-being, which include benefits to broader populations and sustainability of the environment and other important natural assets. Populations are concerned harmful externalities of current economic growth that may have occurred at the expense of future well-being, such as carbon emissions from pollution and increased indebtedness of economies prior to a financial crisis, for which GDP fails to account. GDP may indicate how much a country produces, but it does not indicate who benefits. As such, measuring GDP is necessary, but not sufficient. In his book *Capital in the Twenty-First Century*, Thomas Piketty argues that the rate of capital return in developed nations outpaces economic growth. If left unchecked, the increasing concentration of wealth at the top will cause the inequality to widen.

Criticism of GDP's limits is not new; from its inception, the economists that championed GDP for what it measured were aware and vocal that it was a poor measure of holistic well-being. Simon Kuznets, the originator of the GDP concept, wrote in 1962 about the need to look for other measures to indicate the health of an economy, stating that "distinctions must be kept in mind between quantity and quality of growth, between costs and returns, and between the short and long run."[2] Nobel-winning economist Joseph Stiglitz in 2009 called for an end to "GDP fetishism."[3]

ALTERNATIVE MEASURES: AN OVERVIEW

A comprehensive "beyond GDP" measure should include metrics that evaluate various aspects of national progress and well-being. Despite the fact that no single definitive measure has been widely accepted as a replacement for GDP, there are several measures that complement GDP and enable a more holistic assessment of how countries are performing. A review of a variety of these measures reveals that many of them have several dimensions in common. According to psychologist Abraham Maslow's influential theory of the "hierarchy of needs", on a personal scale, humans must first meet adequate physiological needs such as nutrition and shelter before worrying about higher order processes. Likewise, no measure of national well-being would be complete without taking into account the health and personal safety of its citizens. Another key dimension is access to education to fulfill basic learning needs. In addition, the broader population's access to opportunities can increase intergenerational mobility in the future. At the top of the pyramid of needs, governance in a broad sense, based on the effectiveness of governments in providing basic public services for its citizens, as well as the sustainability of the environment, are common elements included.

In 2009, former French President Nicholas Sarkozy brought together a commission of economists, including Joseph Stiglitz and Amartya Sen, to discuss how best to measure economic performance and social progress.[4] The commission emphasized the need to shift from measuring economic production to measuring people's well-being, including dimensions such as real household income, health, education, governance, security, and the environment. The commission also emphasizes the need to account for whether the well-being is sustainable and can be passed on to future generations. In 2013, the Reflection Group chaired by Jacque Attali prepared a study on the positive economy for French President François Hollande, in an effort to re-direct economies to focus on long-term economic activities like socially responsible investing and fair trade.[5] The Organisation for Economic Co-operation and Development (OECD) has established the Better Life Initiative to implement the finding of the Stiglitz commission, though the assessments are limited to OECD countries, a group of nations that already perform well on economic and social measures. Likewise, the Attali assessment of countries in the Ease of Doing Positive Economy Index covers only the OECD.

There have been many other attempts to develop "beyond GDP" measures. Some studies include objective, quantitative data. The Genuine Progress Indicator is a methodology developed in the 1990s that focuses on the accounting of income generated from growth, such as increased private consumption, as well as the negative costs of growth, such as resource depletion. The indicator has been calculated for two U.S. states, Vermont and Maryland, as well as Alberta in Canada, Australia, and a handful of European countries. The Human Development Index, developed in the 1990s by the United Nations Development Programme, focuses on the progress of human welfare in countries, though it is seen by some critics as being redundant to GDP per capita in terms of country rankings.[6]

The Japan-based United Nations University in May 2014 released a study that called for unconventional, but simple, measures of well-being to supplement GDP, including average hours of sleep and share of teenage girls attending school.[7] Another United Nations project, the Inclusive Wealth Index launched at the Earth Summit in Rio in 2012 and to be published in late 2014 with measures including more than 100 countries, focuses on the notion of investing not just in manufactured capital, but also include natural capital and human capital.[8]

Other studies use subjective data, collected through surveys, to assess sentiment among the public or specific communities toward conditions in the country. Among the best-known of such measures is the Gross National Happiness indicator, coined in 1972 by the fourth ruler of Bhutan, Jigme Singye Wangchuck. A survey, building upon Buddhist principles of well-being, was used in the attempt to quantify the average per capita "wellness" of Bhutanese according to measures of economic, social, mental, and political health. These measures range from standard indicators such as the consumer price index to more non-traditional benchmarks such as levels of noise pollution and usage of anti-depressants. Perhaps in part due to the difficulty in consistently quantifying happiness, a new government administration in 2013 decided to de-emphasize its advocacy of Gross National Happiness in order to focus on domestic developmental issues.[9]

While many of these studies provide a better understanding of how to measure progress beyond the growth of GDP, one key difficulty in their widespread use is due to huge gaps in data availability across countries and years; thus, they often lack the real year-to-year comparability of GDP. Another criticism for some studies, such as for the Human Development Index, is the high correlation in rankings to other established economic measures like GDP. Nonetheless, the common goal of these studies is to foster a discussion among governments and businesses on what aspects to measure and take action on.

A review of various comprehensive measures of national progress and well-being reveals three composite metrics as most promising for more in-depth analysis and comparison—they measure many of the key factors commonly cited by multiple studies as complementary to the standard GDP measure, and they also include most countries in their assessments. They are the Social Progress Index, the Sustainability-Adjusted Global Competitiveness Index, and the Prosperity Index.

1) Social Progress Index

Harvard Business School professor Michael Porter and Mark Kramer of FSG pioneered the Social Progress Index in 2013, which measures countries' progress along three dimensions: basic human needs, foundations of well-being, and opportunity, each of which is comprised of several components. It aims to look beyond traditional economic output and bring social and environmental concerns to the top of the policy agenda. In 2014, 132 countries were ranked.[10] A key finding that sets it apart from other indices focused on development is that wealth does not necessitate social and environmental progress; conversely, it is possible to achieve progress at modest levels of national income. For example, some rich countries performed worse than expected on healthcare and environmental sustainability, while some poor countries performed better than expected on basic education and equality.[11]

2) Sustainability-Adjusted Global Competitiveness Index

The Global Competitiveness Index has been calculated annually by the World Economic Forum (WEF) since 2004. It is composed of both macroeconomic and microeconomic foundations of growth, including basic requirements like institutions and infrastructure, conditions for doing business like labor training and market efficiency, and higher-end factors like buyer and supplier sophistication and innovation. Since 2011, the WEF has published a sustainability-adjusted version of the index, measuring national competitiveness that takes into account the set of institutions, policies, and factors that determine the level of productivity in a country, while at the same time ensuring environmental stewardship and social sustainability. The adjusted index is based upon 14 "pillars" of competitiveness. In the 2013-2014 index, 148 countries were ranked; the adjusted index includes 121 countries. The data combine responses from executive opinion surveys received from a wide sampling of business leaders in each country with quantitative measures tracked by international organizations such as the World Bank and the Environmental Performance Index by Yale University and Columbia University.[12] As the index is mostly focused on conditions that businesses traditionally view as important, and tends to underweigh some basic elements of development like personal safety.

3) Prosperity Index

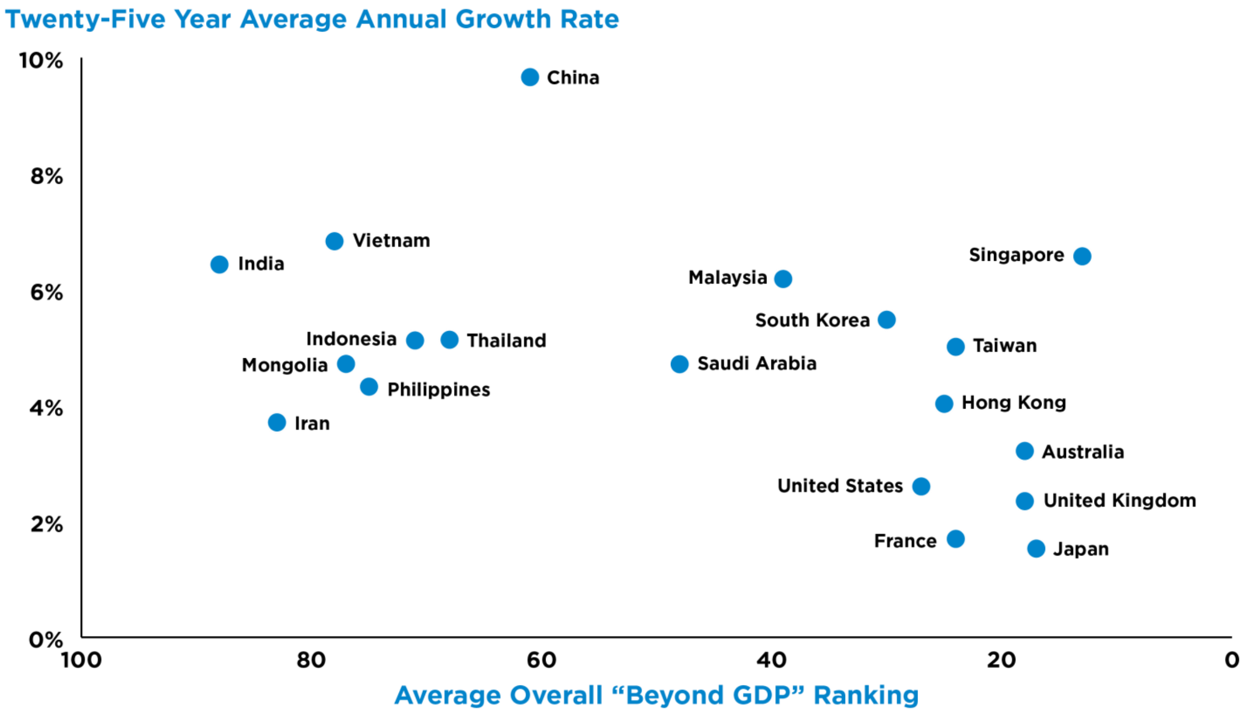
Calculated by the Legatum Institute in the United Kingdom, the Prosperity index has accumulated five years of data as of 2013, ranking 142 countries. It is composed of eight categories of rankings that blend objective indicators of economic growth, wealth, and well-being with opinion survey results from Gallup World Poll.[13] It combines more traditional measures of material wealth, such as economic growth indicators, with subjective measures of life satisfaction to determine a nation's level of prosperity. As with the results of opinion survey-driven data, subjectivity tends to bias cross-country comparisons. For instance, a question such as "do you think most people can be trusted," which touches on the important dimension of societal trust, is difficult to compare across countries, and is also hard to construe as directly contributing to national prosperity. The Prosperity Index is also notable for the factors it omits; unlike the Social Progress Index and the Sustainability-Adjusted Global Competitiveness Index, this index does not include metrics related to environmental performance or sustainability.

HOW ASIA IS DOING BEYOND GDP GROWTH

For Asia, a more wide-ranging "beyond GDP" measure is particularly relevant. Asia came up in the world at a time when absolute GDP numbers were king, and by that measure, the region's economies have come a long way. The final section of this briefing includes an overview of how Asian economies are performing on the "beyond GDP" measures of national progress and well-being, as compared to how their GDP has grown, with the goal of showing how alternative measures may give a different picture than that given by a traditional growth measures and informing decision-makers on areas that countries need to improve going forward.

Comparing the 25-year average annual GDP growth rate against the average overall ranking of countries on the three "beyond GDP" indices, it is apparent that rapid GDP growth has not necessarily gone hand in hand with greater overall national progress (see Figure 1).

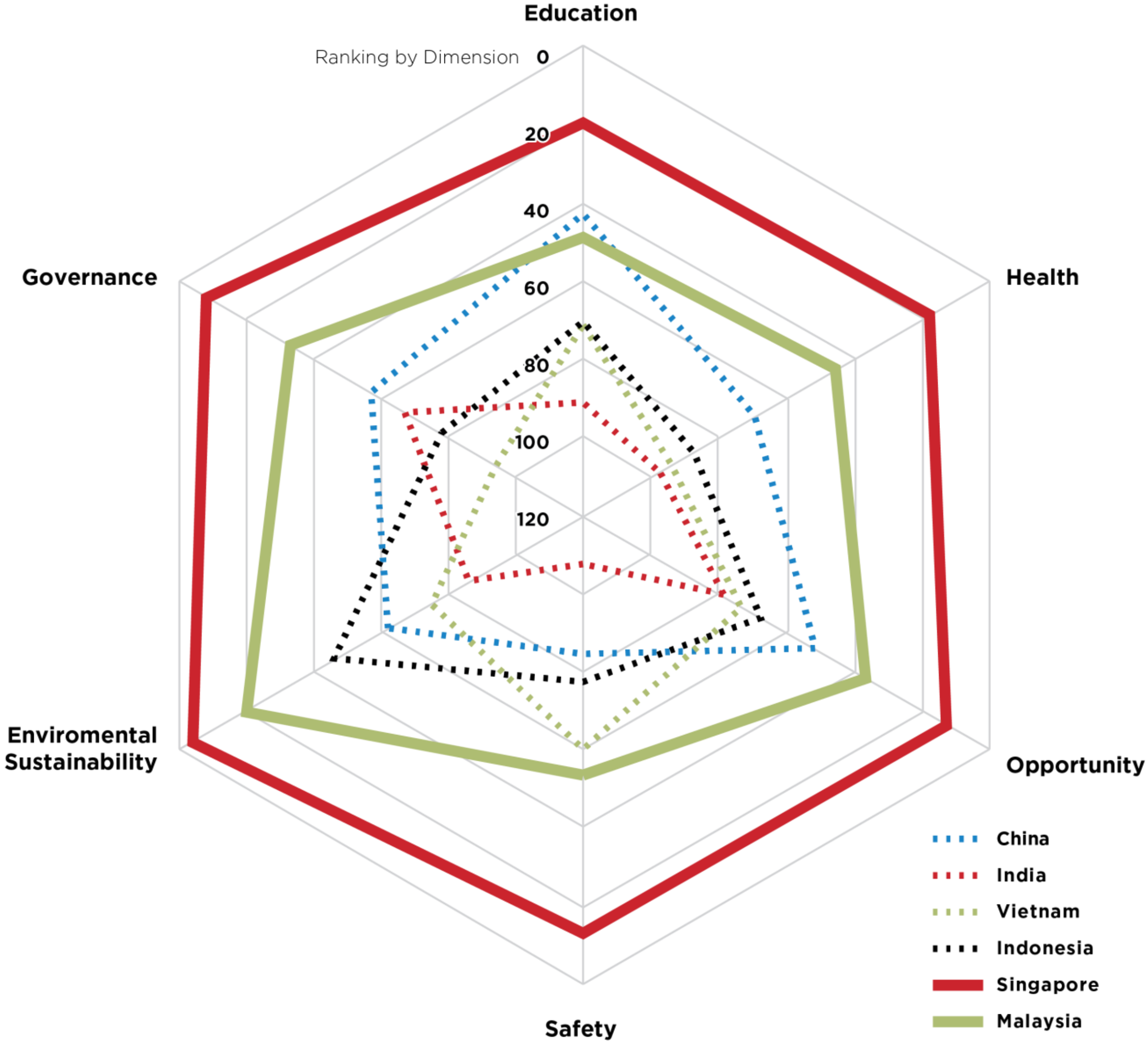
Figure 1: Twenty-Five Year Average Annual Growth Rate and Average Overall "Beyond GDP" Ranking of Selected Countries



Some of the factors that contribute to lower rankings in the "beyond GDP" indices are weak performance on environmental sustainability and health. Fast-growing countries that have done better on the environment while growing rapidly include Singapore and Malaysia, while China, India, Indonesia, and Vietnam perform poorly. The poor environmental performance reflects that the environment was left unchecked in the name of growth in many Asian countries. Overall standards of healthcare in many countries also remain poor despite growth, in these same countries.

Not all parts of Asia find themselves in this dilemma. Singapore and Malaysia have each grown above six percent over 25 years, yet demonstrated better overall national progress and well-being in various dimensions. As Figure 2 shows, the larger and more balanced the "web", the better countries fare in the various "beyond GDP" dimensions.

Figure 2: How Selected Countries Fare in Various "Beyond GDP" Dimensions



CONCLUSION: IMPROVING NATIONAL PROGRESS AND WELL-BEING IN ASIA

Many Asian economies are witnessing a new call, especially from younger generations, for governments and businesses to focus on greater inclusiveness of growth. Movements such as the Arab Spring, and the Occupy movements against inequality and against privileged access to various resources that have taken place around Asia, point to the urgency for change. While some country leaders have responded in rhetoric, central policy directives, and concrete details on implementation of new measures of progress, remain vague. Economic growth still ranks as the main criteria for government official promotions, weakening the incentive to seek and implement broader measures.[14] Measures are important, as governments and businesses tend to prioritize policies and actions that they can measure. A more holistic approach to measuring progress would help countries evaluate how well they are really doing, beyond how much they are producing. In turn, policy and corporate decisions can be shaped in a way that truly improves the well-being of nations and their citizens.

At the same time, it indeed seems as if the economy has to grow in order for people to even remain as happy as they are at present. The lack of growth has ramifications on a country's social objectives, reducing governments' ability to alleviate poverty, and dampens consumption demand, standards of living, and employment generation. As Asian countries move beyond their "catch-up" phase of development, they must focus on the quality of future growth.

While past growth performance in many Asian economies has been unprecedented, maintaining future growth, as well as ensuring that growth brings improved quality of life for people, will require deliberate action targeting areas that fall short. Growth will also inevitably slow and there will more pressure on equity. Countries must redistribute resources to those who are most vulnerable in their societies, put in equalizing mechanisms so that broader groups of people have access to opportunities and resources, and find better ways to account and pay for environmental costs in the longer term. What is clear is that countries must create the incentives and targets for decision-makers and officials to improve these areas of overall progress and well-being. Doing so will help future generations pave the way for a more prosperous Asia.

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