Asia's developed and emerging economies are both facing a common challenge following decades of rapid growth: how to address growing inequalities in wealth and income that are creating increasing social tensions and, in some instances, have the potential to threaten social stability.

While the problems require different solutions from one country to the next, all of Asia must address the need for inclusive growth, if the region is to keep itself on a path that is sustainable in the future.
Asia’s much heralded economic growth and reform in the decades following the Second World War have generated perceptions that rising incomes and wealth are inexorably reaching greater and greater numbers of people.

To be sure, Asia’s growth has had a significant impact on global poverty reduction, but as Stephan Haggard explains, the region is facing daunting challenges overcoming growing gaps in income and wealth that could threaten social and political stability.

**Reflections on Inequality in Asia**

By Stephan Haggard

Asia’s much heralded economic growth and reform in the decades following the Second World War have generated perceptions that rising incomes and wealth are inexorably reaching greater and greater numbers of people.

To be sure, Asia’s growth has had a significant impact on global poverty reduction, but as Stephan Haggard explains, the region is facing daunting challenges overcoming growing gaps in income and wealth that could threaten social and political stability.

The Asian growth experience generates somewhat contradictory messages in the resurgent debates about inequality. At the global level, Asia’s remarkable economic performance has not only driven an unprecedented decline in global poverty but a decline in global income inequality as well. Asia is responsible for a substantial share of what Branko Milanovic calls the “global middle class.” 1 This is not the middle class of the advanced industrial states, but the middle classes in emerging markets whose incomes have grown more rapidly than any other segment of the world’s population.

At the same time, the massive entry of Asian labor into the world economy has almost certainly had adverse effects on the incomes of less-skilled workers in advanced industrial states. The debate over globalization and income inequality in these advanced economies has gone through a number of cycles, but research is accumulating to the effect that trade does indeed have adverse distributional effects. The populist and protectionist impulses in the United States and Europe — on both the left and right — are not without empirical foundations. These social movements could have implications not only for the global trading system but for Asia’s growth strategy going forward.

Finally, Asia has fallen victim to the trend — already visible across advanced industrial states — toward greater income inequality at the national level. The phrase “growth with equity” was a virtual cliché in early descriptions of Asia’s development experience. At least for a number of important Asian countries — most notably China, India, Indonesia, Taiwan and Japan — those days are over. Incomes may not be stagnant at the bottom of the income distribution ladder, as they are in advanced industrial states, but even with enviable growth rates in the income of the poor, Asia is vulnerable to the many disabilities of rising income inequality, which range from underinvestment in education and health to weaker growth performance, vulnerability to financial crises, social polarization and weakening prospects for democracy.

Moreover, the problem may be worse than we think. Inequality in Asia is being driven in significant measure by growth in the incomes of the wealthy, although data on the incomes of these top earners is notoriously hard to get. The adverse effects of income inequality may also be compounded by even sharper inequalities in the distribution of wealth. Figure 1 shows some estimates of the share of total wealth controlled by the top 10 percent and the top 1 percent for a sample of Asian countries on which there is comparable data. In Thailand, Indonesia and India, the top one percent control more than half of the entire wealth of their countries, making them — along with Russia and Brazil among the top five most unequal countries in the world in this regard.

**Drivers: The Historical Setting**

What might be driving greater inequality? The most ambitious effort to explain inequality — and the book that helps account for the revival of interest in the subject — is without question Thomas Piketty’s Capital in the 21st Century. 2 Yet, isolating the core contribution of Piketty to an understanding of Asia is by no means straightforward. At the center of his work is the simple observation that the rate of return on capital is likely to grow more rapidly than average incomes, implying an ineluctable tendency toward greater concentration of both income and wealth. He also...

---


---

**Figure 1: Wealth Share Estimates, Selected Asia-Pacific Countries**

Source: Credit Suisse Global Wealth Database 2015, Table 6.5, P. 149.
The key issue going forward is whether governments are interested in and capable of acting in ways that offset the adverse forces that are operating in the form of globalization, technological change and the shift toward service economies.

First, it is important to partially correct the myth that Asia has done uniformly well in the provision of basic education and health services.

shows — almost in passing — that the extraordinary growth in the incomes of top managers and entrepreneurs has been an important force driving the new inequality in the advanced industrial states, a factor clearly operating in Asia as well.

But his account is not only economic; it is deeply historical, showing that the leveling of incomes in the advanced industrial states was a function of historical contingencies. The two world wars in the 20th century and the Great Depression destroyed the wealth of many ruling classes, and the postwar growth of the welfare state raised incomes at the bottom. What we are now witnessing, Piketty argues, is simply a reversal of the anomaly of relative equality and a return to the oligarchic capitalism of the pre-First World War era, if in somewhat different guise.

Given Asia’s heterogeneity, it is hard to know whether we can construct an equally plausible historical account of the new inequality in Asia. But some elements suggest themselves for certain clusters of countries, with wars, social revolutions and decolonization all playing a role. In Japan, South Korea and Taiwan, there is reason to think that the ending of the war era, if in somewhat different guise.

In Japan, the war left a legacy of relative equality and a return to the oligarchic capitalism of the pre-First World War era. In South Korea, the end of the war also marked the beginning of a period of rapid economic growth. This period was characterized by a focus on industrialization and export-oriented growth. However, this growth was unevenly distributed, with large concentrations of wealth in the hands of a small number of individuals and large corporations.

In Taiwan, the end of the war also marked the beginning of a period of rapid economic growth. This period was characterized by a focus on industrialization and export-oriented growth. However, this growth was unevenly distributed, with large concentrations of wealth in the hands of a small number of individuals and large corporations.

In China, the end of the war also marked the beginning of a period of rapid economic growth. This period was characterized by a focus on industrialization and export-oriented growth. However, this growth was unevenly distributed, with large concentrations of wealth in the hands of a small number of individuals and large corporations.

In India, the end of the war also marked the beginning of a period of rapid economic growth. This period was characterized by a focus on industrialization and export-oriented growth. However, this growth was unevenly distributed, with large concentrations of wealth in the hands of a small number of individuals and large corporations.

In Southeast Asia, the end of the war also marked the beginning of a period of rapid economic growth. This period was characterized by a focus on industrialization and export-oriented growth. However, this growth was unevenly distributed, with large concentrations of wealth in the hands of a small number of individuals and large corporations.

In South Korea, Northeast Asia, no less than other advanced industrial regions, is poised for its own immigration-cum-inequality debate.

For states undergoing social revolutions — most notably China and Vietnam — war and social upheaval also had leveling effects, but through quite different political mechanisms. In these cases, however, the weight of the countryside was much larger. While opening and reform had hugely positive effects on incomes, they ended up having largely detrimental consequences for equality. Reforms had an array of distributional effects, starting with spatial ones: those areas most linked to the global economy grew much more rapidly than the hinterland. Moreover, the introduction of market forces necessarily generated new inequalities as households lost access to the socialist social-safety net and some had the skills to exploit the new opportunities while others didn’t. The classic Kuznets curve would suggest that as this transition takes place from countryside to city, inequality should once again recede. But there is no evidence in China that such a process of declining inequality is operating.

Post-colonial Southeast Asia and India constitute a third cluster of cases. These countries have a more heterogeneous historical path in which the effects of war were mediated quite strongly by the nature of new nationalist leaderships. In Malaysia, a government committed to redistribution — along ethnic lines — managed to curb tendencies toward increasing inequality, although at the expense of the Chinese community. Even when taking into account top incomes, Malaysia exhibits surprising stability in its income distribution. In the Philippines, by contrast, the post-independence break with the old oligarchic order was not great and inequality remains high. In India, the Congress Party made an effort to incorporate the poor into the political system but in contrast to China, land ownership did not undergo any fundamental changes, a fact reflected in the continuing inequality in the distribution of wealth noted above. In many high-inequality cases, long-standing issues about the distribution of land exert an ongoing effect on inequality.

THE ROLE OF POLICY

Up to this point, I have said nothing about policy, although policy is of course central to the debate about inequality. Data from advanced industrial states increasingly distinguishes between market-income and post-tax and transfer income. This reveals three important findings. First, the evolution of the modern welfare state had a dramatic effect on muting income inequalities, and not only in the social democracies of Northern Europe but even in the Anglo-Saxon economies of Britain, the US and Canada. Second, neoclassical arguments about efficiency notwithstanding, these developments did not appear substantially to affect economic growth. Put differently, there was no great tradeoff between equity and efficiency in Europe, a phenomenon that Peter Lindert dubbed the “free lunch theory” in his classic analysis of the issue.3

But finally, at least for some of the advanced industrial states, the positive effects of government intervention may have diminished as a result of the swing to the right. These political changes are visible on both the revenue and spending sides: in the pursuit of tax cuts that benefit the wealthy and constrain the extent of redistribution, and in the animus against the welfare state.

Asia’s debate about social policy has focused largely on Japan and the middle-income cases of Northeast and Southeast Asia. The core observation is that newly industrializing South Korea, Taiwan and Hong Kong pioneered a distinctive “productivist” welfare state in which entitlements...
in the form of pensions, social transfers and health insurance were minimal, but investment in education was robust. Singapore was a partial exception to this pattern because (somewhat like Hong Kong) it inherited from the British a Central Provident Fund and an aggressive housing policy, but in other ways it fit the mold as well. This minimalist welfare state had its political foundation in authoritarian developmental states that were closely allied with private sector actors seeking to minimize taxes and maximize discretion on the shop floor. In countries such as Thailand and the Philippines, somewhat different political forces were at work, but welfare provisions also lagged under periods of authoritarian rule.

As Robert Kaufman and I show, there is strong evidence that democracy mattered in reversing these patterns. In South Korea and Taiwan, there are clear connections between transitions to democracy, electoral competition and the expansion of pension and health insurance. In Thailand, similar patterns were at work in the form of the so-called 30 baht scheme, named after the cost of a health card introduced under the Thaksin Shinawatra government that provided expanded access to basic services. Even in competitive authoritarian regimes such as Malaysia and Singapore, political leaders showed sensitivity to constituent interests, with Malaysian polities structured quite fundamentally around the redistributive policies of the ruling Barisan Nasional coalition and its dominant party, the United Malays National Organization (UMNO).

The key issue going forward is whether governments are interested in and capable of acting in ways that offset the adverse forces that are operating in the form of globalization, technological change and the shift toward service economies. First, it is important to partially correct the myth that Asia has done uniformly well in the provision of basic education and health services, particularly as we extend our lens to South Asia and take into account trends toward worsening inequality. South Asia may not show the same levels of inequality as China, if we simply look at a Gini coefficient, but there are particularly large gaps in educational attainment and access to healthcare for the wealthiest and poorest quintiles on the sub-continent. This is true of the low-income Southeast Asian countries as well. Nor is socialist China completely immune from such inequalities. Although the country was successful in providing primary education for its large population — much more successful than India — there are substantial differences between urban and rural households in secondary education. These inequalities extend up the income ladder as we look at growing inequalities generated by differential access to tertiary education in the more advanced Asian economies.

Nor has democratization alone been adequate to keep up with changing social policy needs. In South Korea, despite an expansion of the formal safety net, the country liberalized labor markets in the aftermath of the financial crisis of 1997-1998. While this was seen as a way of reducing the rents accruing to a labor aristocracy working inside the largest chaebol groups, the policy did not work out as intended. Some workers managed to protect themselves, while labor shedding and the informalization of labor markets resulted in downward mobility and increased insecurity for others, including older workers. Yet South Korea still has among the lowest — if not the lowest — social spending of all OECD countries, despite the fact that it faces daunting demographic challenges from an aging population. More generally, Asian governments remain relatively small, even as average incomes go up, reflecting much greater resistance to higher and more progressive taxes and transfers that would offset rising inequality.

**THE POLITICAL DIMENSION**

Politics clearly plays a very important role in these processes, both as cause and effect. Even among the new Asian democracies, it has long been noted that electoral systems tend to mute left-right or ethnic cleavages, generating catch-all centrist parties — many vulnerable to elite capture — and weakening the space for social democratic alternatives. Unions are also relatively weak in the region, reducing a second source of pressure for more ample social provision. Weak unions have also contributed to labor market dualism and informality, a key source of inequality in both developed and developing Asia.

In authoritarian regimes, governments may choose to be responsive to social demands for their own survival motives, but in principle such regimes are less accountable and more likely to be corrupt, both factors that should — ceteris paribus — serve to increase inequality. The concern with corruption on the part of the Chinese Communist Party demonstrates these dynamics, because corruption has been a source of increasing income concentration and even extreme accumulation of wealth, and casts a shadow over the party’s once-egalitarian brand.

The larger political challenge is whether inequality has an adverse effect on democracy itself, limiting the prospects for transitions from authoritarian regimes to democratic rule and increasing the likelihood of outright reversions to authoritarian rule in existing democracies. In work with Robert Kaufman, I show that these fears are exaggerated when looking across the range of democratic transitions during the so-called Third Wave of democratization from the mid-1970s to the present; there does not appear to be any systematic relationship between inequality and regime change one way or the other. But this does not rule out cases in which these dynamics are quite clearly at work, most notably in Thailand since 2006. As the data above suggest, Thailand is a highly unequal country, with those inequalities encompassing both spatial and class dimensions. Constitutional changes that permitted the emergence of more programmatic parties allowed former Prime Minister Thaksin Shinawatra’s Thai Rak Thai party to seize the public imagination with populist appeals. However, social polarization ensued — even as inequality probably fell — culminating in a cycle of military intervention from which the country has still not extricated itself.

Finally, even if we cannot find systematic evidence that high or rising inequality threatens democracy outright, we can see in debates in the US and Europe a growing concern about the effects of inequality on the quality of democratic rule. Money can pervert the functioning of democratic regimes in myriad ways. In a number of new Asian democracies, vote buying and clientelism are facilitated by small middle classes and large pools of poor voters. The concentration of income also increases opportunities for elites to manipulate politics through campaign contributions, direct access to political office, control of cultural institutions, domination of the media and bribery. There can be little question that the adverse effects of inequality should not be seen as limited to the economic sphere, as they extend into the political arena as well.

Stephan Haggard is the Lawrence and Sally Krause Distinguished Professor at the Graduate School of Global Policy and Strategy at the University of California, San Diego.