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.
The Politics of Inequality in Southeast Asia: A Comparative-Historical Perspective
By Erik Martinez Kuhonta

The patterns of inequality in Southeast Asia vary considerably, but they cannot easily be explained by traditional theories regarding the trade-off between high growth and equality. This is in part because many countries in the region have experienced periods of high growth, but with differing outcomes for equality. Erik Martinez Kuhonta argues that differences in political structures and institutions help explain the variance.

UNLIKE Latin America, Southeast Asia has generally not been characterized by high levels of inequality. The economic storyline of Southeast Asia has been one of high rates of growth. Yet, below the successful periods of growth there is significant inequality. This pattern of inequality, however, needs to be qualified, because it varies throughout the region. On the one hand, in Thailand and the Philippines, inequality remains stubbornly high or continues to increase. On the other hand, in Malaysia and Vietnam, inequality has declined or remained relatively low. What explains this divergence?

In the literature on the political economy of development, a first cut at explaining patterns of inequality looks at the so-called Kuznets Curve (based on a theory by the Nobel Prize-winning economist Simon Kuznets) that links economic growth to inequality. The argument of the Kuznets Curve is that as a country embarks on a path of high growth, inequality will increase, but as growth stabilizes, inequality will decline. Thus one should expect significant inequality in the early stages of economic growth. The idea is that the difference between income growth in the urban sector and the rural sector, as well as differences within the urban, modernizing industrial sector (between white-collar and blue-collar jobs), will lead to sharp differences in income. To what extent does this theory hold in Southeast Asia?

POLITICAL DECISIONS
The evidence for the Kuznets Curve in Southeast Asia is quite mixed. Thailand’s economic boom in the late 1980s to the mid-1990s did, in fact, lead to high levels of inequality. But other countries in the region, such as Vietnam and Malaysia, did not necessarily see a rise in inequality as a result of galloping growth rates. In other countries, like the Philippines, growth has not been significant enough to affect income inequality. So, the Kuznets Curve does not explain inequality in the region. In fact, even beyond Southeast Asia, there is contradictory evidence about whether the Kuznets Curve holds. One extensive study of the literature on the relationship between growth and inequality by economist Gary Fields noted that: “It is not the rate of economic growth or the stage of economic development that determines whether inequality increases or decreases … the decisive factor is the type of economic growth as determined by the environment in which growth occurs and the political decisions taken.”

It would therefore be useful to analyze patterns of inequality from a political angle, or as Fields puts it, in terms of “political decisions taken.” This essay argues that patterns of inequality can be traced to the kinds of political structures and institutions that are present in a country. Specifically, the presence of institutionalized parties and cohesive interventionist state structures is likely to provide the political foundations for effectively addressing inequality. By contrast, the absence of these structures means that a country will not have the political capacity necessary to attack inequality. What do we mean by “institutionalized parties” and “cohesive state structures”?

Institutionalized parties are well organized, cohesive, adaptable, rooted in society and structurally complex. The concept of institutionalized parties draws heavily from the classic work by Samuel Huntington, *Political Order in Changing Societies* (1968), where he argued that strong institutions were crucial for establishing stability in the developing world. Huntington’s insight, however, can be applied beyond the question of order toward problems of inequality and social reform. This is because the root issue that matters in addressing inequality is the effective use of organized power that can initiate, structure and sustain reform. Most crucially, organized institutionalized power in the form of a political party helps to subdue personalism, clientelism and populism—all of which hinder effective implementation of pro-poor reforms. As former Chilean President Eduardo Frei said: “The great masses of Chileans have no organization, and without organization no power, and without power no representation in the life of the country.”

THE STATE, POLICY AND REFORM
In conjunction with institutionalized parties, there needs to be a cohesive, interventionist state that intervenes forcefully to advance policy reforms, and that is capable of doing so through institutional attributes that include technical proficiency, rational goals and systematic procedures. A cohesive, interventionist state working in tandem with an institutionalized political party thus provides significant political power to push through reforms as well as to ensure consistency between the goals of the party and actual implementation on the ground.

Finally, two other factors also matter. The content of policy plays a key role in ensuring that social reforms are effectively implemented. It is important that policies not be zero-sum, so as not to alienate the upper classes. Pragmatism through positive-sum policies makes social reform more sustainable. Lastly, to get political elites to care about inequality, some crisis has to emerge. A crisis does not guarantee that elites will suddenly seek to attack inequality. They may also respond through repression. However, the presence of an institutionalized party makes it more likely that a crisis will lead to policy reform precisely because institutionalized parties have a greater tendency...
largely in smallholder agriculture, the Chinese in tin mining and urban commerce and the Indians in rubber plantations. The consequence of this tight linkage between ethnicity and economic function was to keep the Malays in a more subordinate economic position compared to the Chinese, with the Indians in the middle. In the post-independence period, this situation became unbearable as the Malay population realized that they occupied lower-paying jobs and had a very small share of corporate equity. Following ethnic riots on May 13, 1969, the Malay-led party, the United Malays National Organization (UMNO), pursued significant structural change through the New Economic Policy (NEP), whose goal was to alleviate poverty and reduce the income and wealth gap between Malays and the Chinese.

Formally promulgated in 1971, the NEP has succeeded in improving the economic condition of Malays. This was done through a battery of policies including redistribution of corporate equity to Malay-owned businesses; support of incipient Malay firms through licenses, loans, and subsidies; investments in skills training for Malays; restructuring the educational system at the secondary and tertiary level to increase the percentage of Malay students; and investment in support for farmers, especially through FELDA (a program that provided government land to small-scale farmers). The end result of these has been the creation of a solid Malay middle class.

The Gini coefficient in Malaysia thus declined from a high of 0.557 in 1976 to 0.401 in 2014. This sharp decline began during the heyday of the NEP and can therefore be traced to the state’s great efforts to reduce the gap between the Malays and the Chinese. The driving force for this redistributive program was organized political power in the form of UMNO, as well as through its linkages with a very cohesive bureaucracy. Without a forceful organization driven by the pursuit of social reform, it would have been very difficult for the state to sustain a systematic redistributive agenda. The close ties to the bureaucracy also ensured that the party’s agenda was implemented effectively on the ground. This does not mean that Malaysia has fully escaped from its earlier challenges. Malaysia’s Gini coefficient is still higher than some countries in Asia, such as Taiwan. Furthermore, as a result of the NEP, the gap within the Malay community has also widened due to the rise of a Malay entrepreneurial class (which did not exist prior to the 1970s). Yet, in the big picture, the trend has been clear: a sharp aggregate decline in inequality over several decades. This kind of consistent decline is rare in the developing world.

THAILAND: WEAK PARTIES

Thailand provides a stark contrast because, with Thailand taking the cake as the most unequal country in the region (see Figure 1). Both the Philippines and Thailand are notorious for having very weak political parties that are characterized by factionalism, superficial organization constant party switching and lack of ideology.

Malaysia and the NEP

Malaysia has historically been one of the most unequal countries in Southeast Asia in large part due to the ethnic cleavages at the foundation of the nation’s social structure. Under British colonialism, the three major ethnic groups — Malays, Chinese and Indians — were relegated to very different economic functions. Malays were kept to resort to programmatic policies when dealing with a systemic crisis, and will also have institutional constraints to ensure that demagogues in the party do not gain the upper hand.

Countries in Southeast Asia track relatively well with this analytical argument. Malaysia and Vietnam — both countries with strong states and parties — have been successful in reducing inequality. By contrast, the Philippines and Thailand have fared much worse in terms of inequality, with Thailand taking the cake as the most unequal country in the region (see Figure 1). Both the Philippines and Thailand are notorious for having very weak political parties that are characterized by factionalism, superficial organization constant party switching and lack of ideology.

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FIGURE 1 DISTRIBUTION OF INCOME IN MALAYSIA, THAILAND, PHILIPPINES, AND VIETNAM, 1970-2014


To the extent that inequality has declined in all four countries, it has primarily been due to the ethnic cleavages at the foundation of the nation’s social structure. Under British colonialism, the three major ethnic groups — Malays, Chinese and Indians — were relegated to very different economic functions. Malays were kept to resort to programmatic policies when dealing with a systemic crisis, and will also have institutional constraints to ensure that demagogues in the party do not gain the upper hand.

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THE PHILIPPINES: LOW GROWTH, HIGH INEQUALITY

The Philippines mirrors Thailand in some respects in terms of its economic trajectory. Inequality has remained stubbornly high with no indication of improvement, although unlike Thailand, economic growth in the Philippines has not been as strong. The central problem of the Philippines in terms of its political economy, and more specifically, in terms of inequality, has been the weakness of its institutions. Both the state and the party system have lacked any coherent organizational structures that might pursue programmatic and sustained social reforms.

The Philippines is a quintessential neopatrimonial structure, where personal connections, rather than rational-legal procedures and decisions, shape policy. With the exception of a few small parties, like the democratic socialist Akbayan, the party system is devoid of any institutionalized parties rooted in society and with a programmatic agenda. As a consequence, the Philippines lacks a solid organizational apparatus, whether in terms of the state or the party system, with which to advance social reform. This institutional vacuum, one must emphasize, exists despite the fact that there have been numerous pro-poor social and ideological movements — from the Sakdalistas in the 1930s to the Communist Party of the Philippines during the Marcos regime until today that have fought for social justice. But in the absence of strong organizations institutionalized with roots in society and with a programmatic agenda, there has been no structural basis for pursuing systemic social reform.

VIETNAM: COMMUNIST DISCIPLINE

In contrast to Thailand and the Philippines, Vietnam is more similar to Malaysia in terms of having been able to effectively attack inequality. The Vietnamese Communist Party is one of the most institutionalized parties in the region, and one that has remained consistent in terms of its ideology while also being quite pragmatic in terms of its leftist vision. Indeed, what is notable about the Vietnamese state is that it shifted gears in the mid-1980s toward a more liberal economic regime without excessive distortions in the distribution of income. In the past decades, Vietnam’s economy has grown steadily, yet most recent data show that inequality has declined from a Gini coefficient of 0.450 in 1993 to 0.375 in 2012.

CONCLUSION

I conclude with three key points. First, Southeast Asia exhibits significant variations in patterns of inequality. Some countries like Thailand and the Philippines have been characterized by high levels of inequality, while others like Malaysia and Vietnam have seen declining or very low levels of inequality. Second, the reasons for this variation lie with political institutions. Where institutionalized parties and cohesive state structures are present, such as in Malaysia and Vietnam, a country has a greater capacity to improve the distribution of income. However, where weak institutions are present, such as in Thailand and the Philippines, there is less capacity to reduce inequality. The central point then is that in order to attack inequality it is necessary for a country to have strong political institutions that provide the power and capacity to execute social reforms. The third and final point is that democratic regimes, such as Thailand in the 1990s and the Philippines for much of its postwar history, have not been especially capable of creating a more egalitarian society. This last point is perhaps worth reflecting upon in a global era in which we are often prone to assume that democracies are inherently better than other forms of government at solving myriad policy problems.

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