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 SUCCESSFUL economic performance has lifted millions out of poverty. Between 1990 and 2015, the region's real gross domestic product (GDP) grew 5.9 percent annually on average, compared to the world average of 3.6 percent. The region's real per capita GDP — in constant 2005 US dollars — rose from about US$730 in 1990 to US$2,720 in 2014. That is an increase of 3.7 times compared with about 1.4 times for per capita world GDP during the same period. From the early 1990s to the late 2000s, about 900 million people were lifted out of poverty.

Because the region's high population countries such as the People's Republic of China, India and Indonesia grew particularly fast, poverty declined substantially for the region as a whole. The number of poor living on or below the US$1.90-a-day “extreme” poverty line as a percentage of total population fell from 55 percent in the early 1990s to 16 percent in the late 2000s (see Figure 1). Taking the US$3.10-a-day poverty line, the poverty rate declined from close to 82 percent to about 42 percent. Nineteen out of 33 economies more than halved their extreme poverty rate in the same period. But poverty remains a stubborn challenge in many countries. The region remains home to about two-thirds of the world's poor living on less than US$1.90 a day, with evidence pointing to deteriorating income inequality in recent years.

Despite developing Asia's impressive aggregate growth, the poor have not been able to enjoy a proportionate share of the growth benefits. Income growth in the bottom quintile of the population has been much slower than that of the average income in China, India and Indonesia.

Asia's record on reducing poverty in recent decades has been impressive, a testament in large part to the region's high economic growth rates compared to most of the rest of the world.

But all is not well. The region remains home to two-thirds of the world's poorest, living at a level defined as “extreme” poverty. And as economies and incomes grow across Asia, the region's poor are not benefiting proportionally.

Cyn-Young Park looks at why policies aimed at ensuring inclusive growth could help address these inequalities.
nesia. By contrast, the income of the top quintile has grown rather quickly in recent years. In three other large countries in the Association of Southeast Asian Nations (ASEAN) — Malaysia, the Philippines and Thailand — the share of the richest quintile has been falling, but there is little growth in the share of the poorest 20 percent (see Figure 2 on previous page).

Evidence also points to mixed and uneven progress on non-income poverty across different sub-regions and countries. The United Nations General Assembly adopted the Millennium Declaration in September 2000 as the leaders of 189 countries signed it and committed their nations to a new global partnership to eradicate extreme poverty. A series of targets — the Millennium Development Goals (MDGs) — were set. The MDGs comprise eight goals with 18 time-bound, quantifiable targets and 48 indicators to realize the Millennium Declaration by the end of 2015. The MDGs encompass major aspects of social development, including eradicating extreme hunger and poverty; achieving universal primary education; promoting gender equality; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria and other diseases; ensuring environmental sustainability; and developing a global partnership for development. There are also elements of basic human rights — the right to health, education, shelter and security.

Developing Asia has made significant progress in achieving many of the MDGs, but progress has been far from uniform (see Figure 3). Progress on the non-income targets of the MDGs has also been significant, but varied across borders, leaving considerable room for improvement in many countries.1 Huge disparities also remain within countries. For example, poverty is much greater in rural areas, although urban poverty is also extensive, growing and often underreported by traditional indicators.

Growth is essential to improving overall social welfare, but inequality can increase during periods of high growth. Recent studies confirm that growth has become significantly less favorable to the poor in many Asian economies. A recent ADB study shows that 12 of the 30 Asian countries that have comparable data experienced rising inequality in per capita expenditure or income, as measured by the Gini coefficient from the early 1990s to the late 2000s.2 In terms of population, these 12 countries accounted for more than 80 percent of developing Asia’s population in 2010.

Recent trends of income inequality in Asia and the Pacific using a number of standard measures are as follows:

- First, the population-weighted average Gini index, a measure of income inequality, rose from 32.5 in the early 1990s to 37.3 in the late 2000s for Asia and the Pacific as a whole. The Gini coefficient fell in 15 of 30 economies in the same region. However, the Gini coefficient rose in the region’s large and highly populous economies, including Bangladesh, China, India and Indonesia. The Gini coefficient worsened from 28 in the early 1990s to 32 in the late 2000s in Bangladesh; from 32 to 42 in China; from 31 to 34 in India; and from 29 to 36 in Indonesia. These countries accounted for 80 percent of regional population in 2014.
- Second, worsening income inequality in developing Asia has been closely associated with the rapid increase in the income share of the richest group — that is, the rich are getting richer more than the average gains of other income groups. And this trend is more pronounced in large and populous economies in the region. In Bangladesh, the top 20 percent accounted for 41.4 percent of total national income in 2010, up from 37.4 percent in 1991. The share rose from 40.7 percent in 1990 to 47.1 percent in 2010 in China; from 40.1 percent in 1993 to 44.2 percent in 2011 in India; and from 38.9 percent in 1990 to 43.7 percent in 2010.


**FIGURE 3 MILLENNIUM DEVELOPMENT GOALS PROGRESS, DEVELOPING ASIA (SELECTED COUNTRIES)**

Source: Key Indicators for Asia and the Pacific 2015, Asian Development Bank.
2010 in Indonesia. In addition, the income share of the bottom 20 percent declined in these economies during the same period.

• Third, the distribution of wealth between countries in developing Asia is much better compared to the world, and it has marginally improved since 1990 (see Figure 4). However, this benign picture masks underlying income inequality, excluding a few highly populous countries. If China and India are excluded, the between-country inequality in developing Asia is substantially higher and has worsened over the past two decades to a level similar to the between-country income inequality for the world. This is because these countries’ significant within-country income inequalities are not captured by the between-country income inequality.

• Finally, the level of income inequality in developing Asia is still on average lower than in other developing parts of the world. The range of Gini coefficients is 26 to 46 for developing Asia compared to 31 to 63 for sub-Saharan Africa and 40 to 61 for Latin America and the Caribbean. Nonetheless, the fact that the population-weighted income inequality is rising in developing Asia is a major concern. In many Latin American countries, income equality has been on the decline in the past two decades. With the prospect of growth moderating in the region’s major economies, the pace of poverty reduction will likely slow. Eight years after the onset of the global financial crisis, recovery remains incomplete and the state of the global economy is fragile. Developing Asia has been a bright spot in these difficult times, but the key drivers of the post-crisis recovery in the region, including China, India, and Indonesia, are moderating. In the aftermath of the crisis, it has also become clear that achieving the MDGs in developing countries solely through national poverty reduction strategies can no longer be guaranteed. The trend of rising inequality is worrying, because it may undermine economic resilience and social cohesion. Income inequality can be destabilizing and undermine the ability of an economy to sustain long-term growth, said US Federal Reserve Governor Sarah Bloom Raskin, speaking at the New America Foundation Forum in July 2011. The trend of rising inequality is particularly worrying given uncertainties about economic strength in the region. Moreover, the recent rise in inequality can be characterized as a tendency toward concentration of income and wealth at the top. High-income earners tend to save more, so the increasing income concentration at the top may lead to higher overall savings, aggravating weak domestic and regional demand conditions.

Sustained growth is essential, but growth alone is insufficient for poverty reduction and at times exacerbates inequalities. Given the uncertainties over the strength of the global economy, inclusive growth in developing Asia is imperative, not only for the region’s own prosperity but also for a balanced and resilient global economy. In order to sustain high growth, national strategies should include formulating macroeconomic policies that are responsive to job creation, building infrastructure, deepening structural reforms to enhance competition and productivity, allowing more flexible labor markets, strengthening regional institutions for policy co-ordination and collective actions to foster regional business ecosystems. Equality of opportunity and social equity — together with social protections against market and employment transitions — as an essential element for sustaining growth and reducing poverty. Not only increasing the pace of growth but also fostering inclusive growth requires a focus on broadening the participation of people, especially the poor and excluded, in economic activities, and sharing the benefits from within by providing a level playing field for all economic actors and increasing productive employment opportunities. Education and health, which directly improve the quality of life, are also critical for human development and inclusive growth. Education enhances labor productivity, increases returns on capital and promotes innovation. Health can also advance growth through its contribution to human capital. Healthier individuals are more productive — they learn better, work longer and apply skills more economically. The challenge for policy-makers is to broaden the reach of socioeconomic benefits along with rapid economic expansion. Any successful strategy for inclusive growth should address augmenting human capital and providing adequate social protection, as much as strengthening physical and social infrastructure and improving the efficiency of resource utilization. Structural impediments prevailing in developing countries, however, often constrain inclusive growth. These include those relating to education, health and infrastructure, where more proactive public policy interventions are needed. A key instrument for inclusive growth is productive employment. More conscious policy efforts must be made to create quality jobs.

FIGURE 4 INTERNATIONAL INCOME INEQUALITY (GINI INDEX)
Source: World Bank World Development Indicators; PWT 7.1 and government statistics for Taipei, China.
Notes: Data for Afghanistan, Cambodia, Cook Islands, Maldives, Marshall Islands, Micronesia, Nauru, Palau, Timor-Leste, and Tuvalu are unavailable. Estimates are based on GDP per capita. PPP terms of a balanced panel of 185 countries, including 35 developing Asian economies.
Because a large share of the region’s poorest work in the agricultural sector and in small- and medium-sized enterprises, removing impediments to, and increasing productivity in these sectors is essential for the creation of productive employment and hence sustained poverty reduction. This means paying greater attention to the development of the rural sector, especially agriculture, by generating economic opportunities and fostering a business and investment-friendly environment for small- and medium-sized enterprises in general. The private sector is an important player in making growth more inclusive, but public policy interventions can help build the necessary legal and institutional framework that will enable the private sector to flourish.

There are mutually reinforcing policies that can tackle growth and inequality more effectively. In the short term, the policy for inclusive growth may be focused on switching macroeconomic expenditures around to improve income distribution relative to potential output — including government taxes on income and public spending on social programs. In the medium to longer term, however, the sustained reduction of poverty and income inequality will hinge on policies that help engineer growth that creates jobs and economic opportunities. Nationally, designing and adopting an appropriate set of structural reforms and labor and social policies will be a first step to promote economic opportunities and jobs, while ensuring that the resulting growth and economic benefits are shared widely. Regionally, it is important to strengthen policy co-operation and facilitate economic and financial integration aimed at creating jobs, enhancing productivity and building resilience.

Economic integration may have had adverse impacts on some sectors and communities, even when its overall effect on the economy is positive. Export-driven industrialization has been, in part, bolstered by policies to promote rural-to-urban migration, keep wages low, encourage savings and offer government support to certain sectors or industries. Increased competition and the inevitable restructuring that follows can lead to dislocation of some sectors and industries and to a loss of jobs, which could be devastating to the poor in developing countries, where social protection systems are weak. The benefits of economic integration have often been unequally distributed. Urban areas that are attractive for businesses and factories advance faster than rural areas in the process of industrialization. Coastal areas with easier access to overseas markets may grow faster than inland areas. People with desired skills will do well, especially the young, who can learn and adopt new technologies and have greater mobility both within and beyond borders.

Developing Asia must forge more forceful collaboration to maximize the opportunities arising from strong regional dynamics. There are great opportunities to be exploited through further regional co-operation for shared prosperity. First, the strengthening of regional trade and financial ties must be effectively leveraged to bring poor countries together in regional business and production networks. Connectivity, both physical and human, can enable the poor to take advantage of regional economic and social networks, enhancing job opportunities and improving their welfare. Second, international migration should be given particular policy attention. Migration presents large potential benefits for both the receiving and sending countries, especially through the positive poverty-reduction effects among the families left behind in the countries of origin. While cross-border labor migration should be promoted and facilitated with appropriate rules and regulations, collective action and co-operation are required to protect the basic rights and welfare of migrant workers and to stop illegal activities and human trafficking. Third, investing in regional public goods — infrastructure, healthcare and the environment — helps more effectively and efficiently tackle the common challenges facing regional economies. Effective investment in regional public goods will turn the region into an attractive place for business, investment and living. Regional co-operation can also play a catalytic role in mobilizing broad support and creating peer pressure for important causes directly related to critical economic, social, and environmental issues. Strong policy co-ordination on the back of sharing knowledge and experience could promote best practices and maximize policy effects by creating synergy and reducing duplication in addressing these critical issues.

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This article is an excerpt from the chapter “Regional Quest for Inclusive Growth?” in the book Ending Asian Deprivations: Compulsions for a Fair, Prosperous and Equitable Asia, published by ADB and National University of Singapore (2013).

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