Chapter 1
Addressing Inequality in Southeast Asia through Regional Economic Integration

Josef T. Yap[*]

Abstract

Over the past two decades, inequality—as conventionally measured—has been rising in many countries, including a few in Southeast Asia. Inequality relates to both outcomes (income, expenditure, and wealth) and opportunity, which relates to resources at an individual's disposal. The main economic causes of the rise in inequality are technological progress, globalization, and market-oriented reform that have led to increasing skill premiums and returns to human capital, a falling share of labor income, and increasing spatial inequality. However, inequality is the result of political forces as much as economic ones. Governments may fail in their role to ensure equality of opportunity. Regulatory capture may also prevent governments from addressing market failure and reducing rent-seeking activities. Addressing inequality is important because of the threat to long-term economic growth. Rising inequality erodes the middle class, which is the backbone of society; adversely affects incentives and motivation of workers in sectors that fall behind, thereby lowering labor productivity; hampers investment in human capital because lower income classes do not have access to credit; and, in general, undermines social cohesion. Policies to reduce inequality include more efficient fiscal policy, which includes allocating more resources to public education and human resource development in general; interventions to address lagging regions including infrastructure to improve physical connectivity; and measures to generate more employment-friendly economic growth, including policies to assist small and

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medium enterprises (SMEs). Regional integration in East Asia has made a significant impact on inequality particularly the spatial component as it has been anchored on regional production networks. Participation in these regional production networks has allowed several countries in Southeast Asia to narrow the development gap with Japan, Korea, and Taiwan. Regional production networks have been established through flows of foreign direct investment creating agglomeration effects in recipient countries. The more relevant policy interventions in this context are improving physical infrastructure to maximize the benefits of agglomeration and to assist SMEs in latching on to regional production networks. Better infrastructure and a greater role for SMEs are also the pillars of a strategy to rebalance economic growth in East Asia. Rebalancing economic growth, especially if rebalancing at the domestic level and rebalancing at the regional level are linked, will likely reduce inequality.

1. Introduction

In a December 4, 2013 speech, President Barack Obama declared that the "defining challenge of our time" is to reduce economic inequality and improve upward mobility. Inequality has become a prominent issue particularly in the aftermath of the 2008 global financial crisis. Arguably, the most significant event was the Occupy Wall Street movement, where protesters adopted the slogan "the 99 percent". They brought attention to the claim that only one percent of the US population was unaffected by the crisis. A more accurate representation, however, is that the income of the US middle class hardly changed in the three decades before the crisis (Stiglitz 2012). Meanwhile, the Middle East was the epicenter of uprisings against governments, which were perceived to foster social, political, and economic inequality. From a slightly longer historical perspective, the dramatic shift to the left in the leadership in Latin America in the past 15 years can be traced to the deep-seated inequality in that region (Castañeda 2006). A recent publication by the Organisation for Economic Co-operation and Development highlights the increase in income inequality in 17 of its 22 member countries in the past three decades (OECD 2011). East Asia has not been spared this trend.

East Asia has been the most dynamic economic region during the past 25 years. The reduction in poverty incidence during this period has been dramatic. However, inequality has been rising. The Asian Development Bank (ADB) reports that "of 28 countries that have comparative data between the 1990s and 2000s, 11—accounting for about 82% of developing Asia's population—experienced rising inequality of per capita expenditure or income, as measured by the Gini coefficient."[1] One major reason this has raised concern is because the rising inequality sharply contrasts with the "growth with equity" experience of the East Asian miracle in the 1960s and 1970s.

The terms "inequality" and "inequity" mean different things. Inequality primarily refers to the condition of being unequal, and usually relates to things that can be expressed in numbers. Inequity, meaning injustice or unfairness, usually relates to more qualitative matters. Perhaps the best way to state it is that inequality is a necessary but not a sufficient condition for inequity to exist. The literature also deals with "inequality" more than "inequity". For these two reasons, this paper will deal primarily with inequality. However, there is an implicit assumption that the growing inequality in East Asia reflects growing inequity.

The data in Table 1 show that for the 10 East Asian countries[2] included in the ADB report, five have significant increases in inequality: China, India, Indonesia, Korea, and Lao PDR; one has a significant decrease: Thailand; and the rest have more or less the same level of inequality. While only half of the countries recorded a rise in inequality, China, India, and Indonesia alone account for 83 percent of the population of the ASEAN+6 countries.

—Table 1 —

Meanwhile, Japan, Australia, and New Zealand are among the 17 OECD member countries that experienced an increase in inequality (OECD 2011). All three countries experienced rising inequality between the mid-1980s and late 2000s with New Zealand

[1] ADB (2012), page 38.

[2] For this paper, "East Asia" refers to the original members of the East Asia Summit or ASEAN+6. The data in Table 1 and Table 2 use conventional measures of inequality. A more accurate measure of inequality would take into account the dynamics of poverty. The static concept of poverty assumes that the "poor" at the bottom of the distribution comprise the same families over time. An application of dynamics to the Philippines can be found in Reyes, et al. (2011). In their study a distinction is made between the "chronic" poor and the "transient" poor.

recording the largest increase. The level of inequality, however, is far lower than that of developing East Asia.

Data in Table 2 show more detailed data on inequality in Southeast Asia. Malaysia shows some volatility in terms of the Gini coefficient. This is unusual for measures of inequality. Table 1, therefore, represents a more accurate picture for Malaysia.[3] There is an increase in inequality in Singapore but not to the same extent as the sharp increase indicated in Bhaskaran et al. (2012).

Among the countries in Southeast Asia, only Lao PDR and Indonesia have inequality trends that are a cause of concern. In Thailand's case the improvement in inequality is likely due to factors that are not sustainable (Jitsuchon, 2013). The concern of Thai policymakers and politicians is the possible backlash when inequality deteriorates.

—Table 2—

Inequality by itself is not a cause for concern. Income cannot be expected to be equal among members of society because of varying abilities and circumstances. Rising inequality automatically becomes a concern if it is accompanied by an increase in poverty incidence. However, the experience in East Asia has been that of rising inequality and a decline in poverty incidence.

In this context, the more important questions that have to be addressed are as follows (Kanbur 2010):

- Why should rising inequality be a concern if poverty is falling?
- If the concern is valid, what should be done and what is the role of government?
- What specific forms of inequality—in assets, between genders, and between ethnicities and other salient groups—in various economies should be addressed in order to spur economic growth?

[3] Data from the Economic Planning Unit of Malaysia are more consistent with the data reported in Table 1, www.epu.gov.my/household-income-poverty.

The next section of the paper explains why rising inequality is a concern. Section III explores the causes of the rise in inequality, particularly in East Asia. One interesting finding is that factors that brought about faster economic growth may have also caused inequality to rise. Section IV is devoted to analysing inequality in Southeast Asia. Understanding the causes of inequality is important in order to identify the correct policies to address the problem. This is the subject of Section V. The relationship of regional economic integration and inequality in Section VI consolidates the discussion.

2. Consequences of Rising Inequality: Why is it a Concern?

The traditional view of economists on inequality is largely based on the Kuznets curve, which shows the relationship between inequality and per capita income to be an inverted-U. At low income levels, economic growth tends to create more income inequality. The flip side is that inequality is beneficial for development, which is the main tenet of the classical hypothesis.[4] The argument is that since the marginal propensity to save increases with wealth, inequality brings more assets to individuals with a higher marginal propensity to save. This raises aggregate savings, investment, and economic growth.

At a critical threshold, further rises in per capita income lead to a more equitable distribution of income. What seems to happen is that once nations pass a critical threshold level of income, government expenditures on health, education, social security, and other social and human capital areas tend to rise relative to total expenditures in the economy as public revenues rise (Cypher and Dietz 2009).

A similar empirical inverted-U relationship between economic development and regional inequality was estimated. This phenomenon largely depends on the role of migration. In the neoclassical framework, which assumes decreasing marginal product of labor, workers move from a labor-abundant location to a labor-scarce one, attracted by higher wages. Since migration leads to factor price equalization, this implies faster and more complete income convergence.[5] In other words, inequality declines.

[4] The most cited study is Kaldor (1955).

[5] Hamaguchi and Zhao (2011) cite the seminal work of Williamson (1965) on the relationship between economic development and regional inequality. The explanation of the role of migration is quoted from Hamaguchi and Zhao, page 402, citing Magrini (2004).

The missing component in this explanation is the initial income inequality, i.e., why industries agglomerate in the first place. A possible explanation is provided by the new economic geography (NEG) models. The main factor in this framework is trade cost, particularly transportation. High trade costs lead to dispersion as firms locate near consumers. As trade costs decline, firms that experience increasing returns to scale tend to locate near bigger markets because of the attendant scale economies. Meanwhile, the lower trade costs allow them to service their traditional markets. At extremely low levels of trade costs, firms move from the high cost industrial agglomeration to the lower cost periphery. NEG models show that regional income disparity increases with agglomeration and then equalizes with dispersion, a finding that is consistent with the seminal work in this area.[6]

If the aforementioned empirical relationships are robust, then policymakers should be concerned more about economic growth and technological development. ***Inequality should not be a major concern since it will eventually decline***. Policies should put more emphasis on generating economic growth or improving technology to lower transportation and trade costs. This can be described as the passive approach to inequality.

A key feature that bolsters the passive approach to inequality is the decline in poverty incidence that accompanied the rise in inequality. This corresponds to the East Asian experience in the past 25 years. In terms of the Kuznets curve, the nine ASEAN+6 countries that experienced rising inequality may be in the left side of the curve. The discussion then shifts to the first issue that was raised earlier: Why should rising inequality be a concern if poverty is falling?

One reason is that rising inequality can indicate—albeit indirectly and inconclusively—that a significant portion of the population is becoming absolutely worse off even during a period when poverty incidence is declining (Kanbur 2010). This implies that the depth of poverty may have remained the same or increased. Similarly, if the rate of population growth is higher than the rate of decline of poverty incidence, the absolute number of the poor will increase. This will likely show up as an increase in the

[6] The explanation of the new economic geography is taken from Hamaguchi and Zhao (2011), page 402, who cite Fujita et al. (1999).

measure of inequality. Policymakers must be aware of these possibilities when assessing the poverty situation.

The passive approach to inequality is the wrong policy stance if the validity of the empirical relationships on which it is based is questionable. For example, the Kuznets hypothesis was evaluated in later years and the results are generally mixed (Kanbur 2010). The latest empirical work deals with "growth spells", which are episodes where growth accelerates to a higher rate and falls again (Berg and Ostry 2011). The framework distinguishes between accelerating growth in the short run and sustaining it over the longer term. The latter depends on structural factors and institutional underpinnings.

The results show that income distribution is one of the more robust and important factors associated with growth duration. In other words, if rising inequality is not addressed directly, long-term growth will be threatened. One likely scenario is that widening inequality will lead to the hollowing out of the middle class. Birdsall (2010) articulated the importance of the middle class when she argued that "growth driven by and benefiting a middle class is more likely to be sustained—both economically, to the extent that the rent seeking and corruption associated with highly concentrated gains to growth are avoided, and politically, to the extent that conflict and horizontal inequalities between racial and ethnic groups are easier to manage…"[7]

The view of Birdsall underscores the impact that inequality may have on the quality of institutions. This is evident in the US where the lopsided distribution of income and wealth in favor of the affluent few distorts the policy mix. This is discussed extensively by Stiglitz (2012) and is related to the rent-seeking behavior mentioned above. Underlying this outcome is the divergence between policies that generate private rewards and policies that generate significant social returns. The political influence of the wealthy led to lower taxes and deregulation in the US, which created instability because the policy environment spawned a real estate bubble. Meanwhile, lower taxes and the ideological bias of the wealthy towards a smaller role for government led to lower public investment. Both economic instability and lower public investment have had an adverse impact on the poor and middle class.

[7] As cited in ADB (2012), page 41.

A similar concern was recently raised in an op-ed column by Krugman.[8] He argues that "the really crucial role of inequality in economic calamity has been political." He cites as examples the decision to deregulate the financial sector which led to the 2008 crisis and the decision to prematurely adopt fiscal austerity. These policy measures benefited only a small minority of Americans.

Addressing inequality is also important for the sake of reducing inequality; in other words, for normative purposes. Following the Bergson-Samuelson social welfare function, the well-being of each individual counts positively but at a diminishing rate at the margin. This implies that all else being equal, it would be better to have a more equal distribution for a given mean.[9]

A more direct interpretation of this normative concern is related to the importance of relative income and relative deprivation. What matters is not just an individual's absolute income, but his income to relative to others (Stiglitz 2012). This concept was analyzed by Chen and Ravallion (2012) who explored possible measures of relative poverty. The threshold of relative poverty can vary depending if it is based on social effects—which translate to relative deprivation—or social norms or social determinants of welfare—which translate to social exclusion. Using a weakly relative class of measures of relative poverty, the authors find that while the number of absolutely poor has fallen since the 1990s, the number of relatively poor has changed little, and is higher in 2008 than in 1981.

Meanwhile, relative income is important for establishing fairness. In particular, it is important that workers sense that they are being fairly treated. As Stiglitz explains (page 103):

> *"While it is not always clear what is fair, and people's judgements of fairness can be biased by their self-interest, there is a growing sense that the present disparity in wages is unfair. When executives argue that wages have to be reduced or that there have to be lay-offs in order for corporations to compete, but simultaneously increase their own pay, workers rightly consider that what is going on is unfair. That will affect*

8 P. Krugman."Why Inequality Matters." New York Times. December 15, 2013.

9 Kanbur (2010), page 51.

both their effort today, their loyalty to the firm, their willingness to cooperate with others, and their willingness to invest in its future."

Rising inequality may therefore adversely affect labor productivity. This is another channel by which rising inequality can threaten long-run economic growth. Of course, a sense of unfairness can have more serious repercussions on social cohesion as gleaned from the Arab Spring and the change in the political landscape in Latin America.

Even if the empirical relationships are valid—the Kuznets curve and that between regional inequality policy and per capita income—there are still important considerations that compel policymakers to address inequality directly. One, there is no clear idea on how long it will take to reach the threshold income. This brings up the issue of inter-temporal comparison of welfare.

Two, interventions to minimize the trade-offs can still deal directly with inequality especially if it leads to underinvestment in human capital. The so-called modern perspective on the relationship between inequality and economic development focuses on credit market imperfections (Galor 2009). The most important outcome is that "in a world in which families have little or no wealth, and in which only limited educational opportunity is provided by the government, there is underinvestment in human capital."[10] Poor families generally do not have access to credit that will help pay for the education of their children.

3. Causes of Rising Inequality

In many developing countries, some factors that cause inequality to rise and persist are historical and cultural in nature. These are structural factors that spawn gender, racial, and ethnic bias. Meanwhile, societies that are semi-feudal or are characterized as oligarchies constrain the equitable distribution of assets. The Philippines is a *de jure* democratic country but political and economic power is in the hands of a relative few and in many provinces political dynasties prevail. This is a primary example of a semi-feudal society where rent-seeking is prevalent.

[10] Stiglitz (2012), page 108.

In this paper, the more important consideration are factors that led to a sharp rise in inequality in East Asia during the past 20 years. China and Indonesia are the relevant examples. Structural factors are less important because they change slowly over time.

Valid arguments that support policies to directly address rising inequality have been raised in the previous section. Crafting appropriate interventions requires understanding the causes of the rising inequality. The ADB (2012) report succinctly presents the major economic reasons underlying the rising inequality in Asia. [11]

Global economic growth has been supported by technological progress, globalization, and domestic reforms geared towards liberalization, deregulation and increased participation of the private sector. These factors have favoured skilled rather than unskilled labor, capital rather than labor, and urban and coastal areas rather than rural and inland regions. These outcomes can explain a great deal of inequality not only in East Asia but also in other regions of the world. The ADB report identifies the following as the main indicators of greater inequality:

> "***Increasing skill premiums and returns to human capital.*** *The emergence of vast new economic opportunities, unleashed by trade and financial integration, technological progress, and market-oriented reform, has increased returns to human capital and the skill premium, with individuals having higher educational attainment and skill endowment able to benefit more from the new opportunities. Our analysis shows that, in many countries, as high as 25–35% of the total income inequality can be explained by inter-person differences in human capital and skill endowments.*
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> ***Falling labor income shares.*** *As in many countries in other parts of the world, technological progress appears to have favored capital over labor. The abundance of labor relative to capital, which depresses wage rates, is also a contributing factor to the declining labor income share in*

[11] The discussion is based from ADB (2012), page 62 and page 74. Another useful reveiw is provided by Chusseau and Hellier (2012).

developing Asia. Since capital is less equally distributed, this has contributed to rising inequality.

Increasing spatial inequality. *Some regions, especially urban and coastal areas, are better able to respond to the new opportunities because of their advantages in infrastructure and market access, as well as agglomeration economies from a self-perpetuating process of increasing concentration. The process of urbanization reinforces the inequality effects of agglomeration. Our analysis shows that in many Asian countries about 30–50% of income inequality is accounted for by spatial inequality due to uneven growth."*

Economic factors can therefore explain why inequality is rising. However, inequality is the result of political forces as much as economic ones (Stiglitz 2012). With regard to political forces, this paper focuses on the role of government in addressing inequality of opportunity and in dealing with market failure, particularly the rent-seeking behavior of the private sector.

Inequality of opportunity is one of two major components of inequality, the other being inequality of outcome. The former is related to the resources one has available and the latter is related to the level of effort applied. Another way of putting it is "inequality of opportunity is the portion of inequality of outcome that can be attributed to differences in individual circumstances." The latter refers to features outside the control of an individual such as gender, race, ethnicity, or place of birth; and this also includes a child's parental characteristics such as the father's education or income.[12]

The government has an important role in ensuring greater equality of opportunity. It can do this by providing free public schooling, subsidized health care, adequate physical infrastructure, taxation on inheritance, and direct transfers to vulnerable and under-privileged groups. Rising inequality is therefore partly caused by government's deficiencies in this role. For example, if not enough resources for public schools are allocated, the imperfections in the credit market cannot not be overcome and the result will be underinvestment in human capital.

[12] ADB (2012), page 39, which cites Roemer (1998).

Government can correct for market failures—mainly through taxes and regulations—in order to bring private incentives and social returns into alignment. It sets the rules of the game, for example by enforcing competition laws that limit the amount of monopoly rents that can be earned by firms. Rent-seeking by the private sector usually leads to distorted government policies. Stiglitz (2012) cites the example of the resistance of the financial sector to subject trading of derivatives to regulation. Hence, there was a concerted move towards financial liberalization and deregulation, which to a great extent was a result of regulatory capture.

There is a bidirectional relationship between the quality of institutions and inequality. In Section II, it was described how inequality affects the policy mix. This occurs when leaders in key economic sectors—which include the affluent few—use their political influence to get people appointed to the regulatory agencies who are sympathetic to their perspectives. Hence, inequality in political power leads to regulatory capture. The latter then is an avenue for rent-seeking and subsequently an inequality in outcomes.

4. Inequality in Southeast Asia

The causes of rising inequality can be classified as: 1) structural, which include historical and cultural factors that spawn ethnic, racial, and gender bias; 2) economic, which pertain to technological progress, globalization, and market-oriented reform; and 3) political, which deals mainly with government's inability to ensure equality of opportunity and the quality of institutions. Weak institutions lead to regulatory capture and pervasive rent-seeking. The section looks at the more prominent factors most of which are country-specific. Policy interventions are required to reduce inequality because of its possible adverse impact on long-term economic growth and social cohesion. However, country-specific circumstances must be taken into account because for policy interventions, since one size does not fit all.

The last part of Section IV discusses the role of the manufacturing sector in the Philippines. The inability of the Philippine firms to participate more extensively in regional production networks was a contributing factor to higher poverty incidence compared with other East Asian countries.

Structural Factors

There still seems to be an existing gender gap in many Asian countries which is known to be caused by a bias in intra-household resource allocation and employment in the labor market. In Malaysia and Viet Nam, education is known to be more income inelastic for boys than girls. Similarly, some provinces in China spend less on medical and educational benefits for girls in poor households living in agricultural areas. Besides cultural and social factors, economic hardships and capabilities are sources of gender inequalities such that they dictate resource allocation between males and females within a household—favoring skilled and educated individuals (Niimi, 2009).

Gender inequality in the labor market does not only result in the inefficient use of resources and slower economic growth, but also has repercussions on the power relationship between men and women within the household. Women are often restricted to enter the labor market due to limited educational attainment, lower wage, and the incompatibility of labor market participation with their childbearing role as well as the preexisting traditional division of labor (Niimi, 2009). Despite progress within the years 1989-2009, Viet Nam is seen as an example in which there continues to be lack of opportunities for women to occupy a position or to contribute economically (Belanger, et al. 2012).

Meanwhile, beliefs and traditions predisposed to Confucianism are the probable cause of the high discrimination against women in Viet Nam (Niimi, 2009). A large degree of difference with regard to gender varies across northern and southern regions due to the difference in socio-economic policies under separate governments during the years 1954 to 1957. The north, adopting socialist policies, has discouraged Confucian-based practices both within the household and the labor force while the south was exposed to Western information and practices which are still held at present (Teerawichitchainan, et al. 2008).

A large proportion of the poor in Viet Nam are part of ethnic minorities (Kang and Imai, 2010). Geographic disparities are prevalent between the majority (Kinh Vietnamese and Chinese) and minority groups (Khmer, Central Highlands, and Northern Upland minorities). The minorities occupy "less productive areas" which are often located in mountainous or remote sections that have limited access to infrastructure or social service facilities.[13] A similar situation exists in Lao PDR where

[13] Niimi (2009), page 25.

poverty is most pervasive in the South-Central highlands, a region where minorities are concentrated and shifting cultivation is widely practiced.[14] Highland farming is less productive because of the contour of the land. Moreover, Laotians who live there have very little access to functioning markets, unlike those who live in the border and lower-altitude areas.

Van de Walle and Gunewardena (2000) and Kang and Imai (2010) discuss how equal access to infrastructure and a fair distribution of assets (such as land) can lead to poverty reduction and a decrease in ethnic inequality. However, it is also necessary that the policies intended for these ethnic minorities should be specific to their socio-economic as well as geographic needs.

Land is a primary determinant for income distribution (Molini and Wan, 2008). Inequality in terms of land distribution amidst a commodity boom in Viet Nam has been the root of several protests in the past and it remains to be an issue within the country. Customary land rights and traditional agricultural practices that have been abandoned during the Viet Nam War are slowly being revived as ethnic minorities continue to resettle and migrate. These reasons are known to contribute to the worsening ethnic marginalization within the country (Benjamin, et al. 2010). The problem primarily lies in the lack of land that is available for distribution and the process in which these lands are to be distributed (Molini and Wan, 2008).

Malaysia and Indonesia find affinity in eradicating ethnic inequality. In order to break ethnic division whilst developing state-owned enterprises, Malaysia enforced a foreign and local capital reform agenda and adopted an emerging “new international division of labor” through imposing the New Economic Policy. This reinforced institutional structures that permitted state-led growth allowed for the use of state revenues for public projects to be geared towards poverty reduction. Rural development has also been seen as a vital solution in achieving ethnic equity (Saari, et al. 2010).

Structural change and economic growth within the years 1970-1990 led to the narrowing of income inequalities between ethnic groups in Malaysia. If the income of the income of the Malay is set at 100, the index for the income of the Chinese decreased from 229 to 174, and of the Indian from 177 to 129. Conversely, rapid economic growth in the following years did not necessarily improve income distribution. In 2002, the per

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[14] OECD (2013), page 338 which quotes Riggs (2005).

capita income of the Chinese was pegged at 180 while the Indians and Malays had a 128 and 100 per capita income respectively (Saari, et al 2010).

Economic Factors

A study mentioned by Wei and Liefner (2011) indicate that the distribution of foreign direct investments (FDI) are often in favor of core and emerging cities or regions such as Shanghai and areas in the Yangtze River Delta creating a considerable disparity and competition between traditional and emerging centers. There is, as indicated by to Wei (2007) via Wei and Liefner (2011) an existent regional inequality; however, there are also multiple ways to achieve regional development.

There are different models in achieving regional development which are namely: the Wenzhou model directed towards "institutional change, technological upgrading, industrial diversification and spatial restructuring" (Wei and Liefner, 2011: 104); the Sunan model which aims to develop local enterprises through drawing foreign direct investments under the guidance of the local state; and others aimed at improving innovation and "moving beyond the divide between new regionalism and global production networks". Accordingly, "research on industrial clusters has emphasized the role of the state and globalization in cluster development and the dynamics of industrial clusters in China" (Wei and Liefner, 2011: 104).

Inequality in Indonesia is also largely a problem of geography, between the western and eastern parts of the country, and between urban and rural areas. There has therefore been a focus on improving physical connectivity. In particular, transport infrastructure has been deemed to be a serious bottleneck (OECD, 2013). To accelerate infrastructure projects, the main policy tool has been decentralization. However, the lack of coordination has impeded this process.

Improved coordination can be achieved by enhancing the capacity of local government units. Ultimately this capacity is dependent on the quality of human resources. The disparity in level of education between urban and rural areas is still widespread as shown by literacy, enrolment rates, and attainment levels (OECD, 2013). This is caused primarily by shortages of educatonal infrastructure and quality teachers in disadvantaged areas.

In the effort to reduce discrimination, Viet Nam abolished the centrally determined wage system and opted to reward employees based on productivity (Niimi, 2009). Poverty reduction is seen as a suggestion in reducing inequality. However, it is noted that these program should not only be targeted to poor areas with a large number of minority groups but it must be specific to the needs and situations of these individuals. Moreover, it is also necessary to improve social services and physical infrastructures in these areas in order to ensure that these ethnic minorities are not disadvantaged and further marginalized (Van de Walle and Gunewardena, 2000).

Meanwhile, the decline in inequality in Thailand as shown in Tables 1 and 2 does not necessarily mean an improvement in the welfare of the lower income classes. The decline is governed primarily by the fortunes of the upper income class (Jitsuchon, 2013). In addition, after controlling for spatial price differences, real income figures indicate that income inequality remains at a relatively highl level (Rueanthip, 2012).

The Case of the Philippines

Section VI deals with the role of regional production networks in reducing inequality between countries in East Asia. The primary beneficiary of the expansion of regional production networks has been the domestic manufacturing sector. The economic transformation can be observed from the increase in the share of value added from the manufacturing sector to total GDP for Indonesia, Malaysia, and Thailand between 1980 and 2011 (Table 3). In 1980, the share of value added in manufacturing for Indonesia was only 13 percent. At that time, the Philippines already achieved a share of 27 percent.

—Table 3—

This study will not present a detailed explanation for the stagnation of the Philippine manufacturing sector. The reader can refer to other studies on this subject (Hill and Balisacan, 2003; Yap 2009). However, the major factors are as follows:

- As shown in Table 4, the Philippines lagged behind other Southeast Asian countries in terms of attracting FDI;
- The investment rate in the Philippines has been historically lower than that of major East Asian economies;

- The low investment rate is partly due to low public infrastructure expenditure. For example, between 2000 and 2010 public spending of Thailand and Malaysia on infrastructure averaged 8-10 percent while this was only 2-4 percent in the case of the Philippines (IMF, 2010); and
- The peso appreciated in real terms between 1987 and 1997 while the currencies of Indonesia, Malaysia, and Thailand depreciated. This was at the time that Japanese FDI to Southeast Asia surged.

—Table 4—

This section explains how the stagnation in the manufacturing sector of the Philippines has contributed to a higher poverty incidence compared with its neighboring countries (Table 5). This would also explain why regional economic integration did not foster inclusiveness in the Philippines.

—Table 5—

Data from the Family Income and Expenditure Survey show that families whose household head has a lower educational attainment have a higher incidence of poverty (Table 6). For example, in 2009, the poverty incidence of families whose household head only completed an elementary education is 34.1 percent. For families whose household head completed high school, the poverty incidence falls to 16.6 percent. Meanwhile, the poverty incidence for those who completed college is a mere 1.7 percent.

—Table 6—

The next strand of the argument is that the education attainment of the workforce in the manufacturing sector is lower than the education attainment of the workforce in the services sector. This can be observed in Figure 1 and Figure 2, which show the frequency distribution of education attainment in 2001 and 2011 respectively.

The services sector employs more college graduates while the manufacturing sector employs more high school graduates. Data for 2011 are presented to address the possibility that the services sector relied more on college graduates because of the surge in opportunities from the Business Process Outsourcing (BPO) sector. The pattern for both years is similar.

—Figure 1—

—Figure 2—

The next strand in the argument is that because the manufacturing sector has higher labor productivity, there would be more high productivity jobs in this sector. In other words, with the same education attainment, a typical worker would find a higher paying job in the manufacturing sector compared with either the agriculture or services sectors. Indeed data show that the manufacturing sector on average has five times labor productivity than the agriculture sector and 2.5 times the labor productivity of the services sector (Table 7). This is supplemented by data showing that on average the manufacturing sector pays out higher wages (Table 8). For example, the average wage rate in 2010 for the group composed of high school graduates and those with a high school education is PhP264.60. For the same educational attainment, the average wage rate is PhP209.40 in the services sector.

—Table 7—

—Table 8—

The main conclusion that is derived from this analysis is that a more dynamic manufacturing sector would have provided more higher-paying jobs to the less-educated workforce, thereby making poverty reduction faster. It is of course recognized that there are other reasons for non-inclusiveness and poverty in the Philippines, e.g. poor physical infrastructure, inequitable access to health and education, lagging performance of small and medium enterprises, and weak institutions.

The Philippines presents a case where the adjustment process that comes with increased economic integration and globalization induced socially undesirable outcomes (Intal et al. 2010). While the Philippines may have been successful in significantly changing its trade structure and latching on to regional production networks—being the region's major supplier of technology-intensive semiconductors— the country's manufacturing sector stagnated and failed to generate needed growth and employment for the economy. The malaise in the manufacturing sector meant less high productivity employment opportunities and lower wages for workers without tertiary education. This could partly explain why improvement in the poverty situation has lagged that of many East Asian countries.

5. Policy Implications

Policies to address rising inequality should then have the following objectives:

- Distribute the fruits of economic growth and development more equitably without sacrificing productivity gains;
- Make government interventions—largely through fiscal policy— more effective; and
- Strengthening institutions and governance.

These policies should be aimed at reducing the excesses of the wealthy, strengthening the middle class, and increasing opportunities for the poor.

A major hurdle for policy recommendations is to address the possibility that there is a trade-off between inequality and efficiency. In other words, as Kanbur (2010) phrases it, are equality-enhancing polices good for economic growth? This was partly answered in Section II which cited the adverse effects of inequality on sustainable economic growth. The channels are a hollowing out of the middle class, a less motivated workforce, and underinvestment in human capital. However, the question is directed more at the policy intervention itself. For example, populist measures aimed at redistributing wealth may create a disincentive for businessmen to invest. The Laffer curve postulated that increasing tax rates beyond a certain point will be counterproductive for raising tax revenue.

The ADB study identifies a set of policies that are intended to reduce inequality but need not necessarily lower economic productivity:[15]

[15] ADB (2012), page 75.

- *Efficient fiscal policy*. Measures include increasing spending on education and health, especially for the poor; developing better targeted social protection schemes, including conditional cash transfers that target income to the poorest but also incentivize the building of human capital; and greater revenue mobilization through broadening the tax base and improving tax administration, and switching spending from inefficient general subsidies to targeted transfers.
- *Interventions to address lagging regions*. Measures include improving regional connectivity; developing new growth poles in lagging regions; strengthening fiscal transfers for greater investment in human capital and better access to public services in lagging regions; and removing barriers to migration from poor to more prosperous areas.
- *More employment-friendly growth.* Policies include facilitating structural transformation and maintaining a balanced sectoral composition of growth between manufacturing, services, and agriculture; supporting the development of small and medium-sized enterprises; removing factor market distortions that favor capital over labor; strengthening labor market institutions; and introducing public employment schemes as a temporary bridge to address pockets of unemployment and underemployment.

Measures related to "efficient fiscal policy" are aimed primarily at ensuring equality of opportunity. The latter two categories—interventions to address lagging regions and encourage employment-friendly growth—are designed to distribute the benefits of economic growth more equitably. These policies are particularly important for Indonesia which has the fastest deterioration in inequality in Southeast Asia. These policies are fleshed out in Section VI in the context of regional production networks. Specific policies depend on causes of inequality and circumstances in the country. Some policies have been mentioned in Section IV.

Addressing historical and cultural roots of inequality is a more complex issue. In many cases, there is direct conflict that is involved that makes it difficult to implement redistributive policies. Deeply entrenched interests also prevent structural reform.

In the case of the Philippines, the existence of a semi-feudal society has weakened institutions. The Philippines is an example of a country where "the exogenous introduction via colonial experience of political and economic institutions amid great and persistent social inequities and a parallel network of informal, personal, and kin-based institutions, clearly placed such institutions beyond the reach of the larger part of the population."[16] As a result, the formal institutions have not been given the proper respect and became largely ineffective. Instead what became dominant almost by default were primordial institutions, such as the clan or family, or religious and ethnic affiliations, with their workings being superimposed upon the formal political process (De Dios 2008). Weak institutions and an oligarchic private sector are two sides of the same coin. A gridlock has evolved wherein stronger institutions are required to loosen the grip of the oligarchs but at the same time the influence of oligarchs has to be reduced in order to strengthen institutions.

Many studies overlook the fact that recommendations to strengthen and improve institutions do not readily flow from neoclassical economic analysis. A political economy framework must be adopted along with a variant of the new institutional economics. For example, De Dios (2008) emphasizes the need to nurture and reinforce existing groups and constituents that adhere strongly to democratic principles. Meanwhile, Nye (2011) outlines a framework for incorporating institutions in the reform process. For example, the oligarchy will support reforms only if a critical subset of the coalitions that form the oligarchy will see that the changes are in their best interests. "Ideally reforms are started where resistance is weakest and where changes become self-sustaining and hard to resist once under way."[17]

The *2008-2009 Philippine Human Development Report* focuses on institutions in the Philippines.[18] The discussion deals mainly with reforms that will allow the government to deliver better-quality public goods. The proposals contained in the PHDR aim to change institutions by (i) updating or improving the scope and content of formal rules; and (ii) realigning norms and beliefs so that compliance with formal rules is better effected.

6. Regional Economic Integration and Inequality

The pattern of economic growth during the East Asian miracle of the 1960s and 1970s was different from the development experience of East Asia in subsequent years in

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[16] De Dios (2008), page 27.

[17] Nye (2011), page 18.

[18] Human Development Network (2009).

terms of the behavior of income distribution. Both episodes were anchored on export-oriented economic growth. However, East Asia experienced rising inequality since the 1980s. This can be attributed primarily to economic growth that was largely driven by regional economic integration anchored on FDI and regional production networks. In contrast, Japan, Korea and Taiwan did not rely heavily on FDI. Widespread education was a key factor in promoting equality in these countries (Cypher and Dietz, 2009).

Regional economic integration in East Asia was preceded by a stage of industrial development in Japan, Korea, and Taiwan, characterized by the creation of dense industrial agglomerations. The sharp appreciation of the Japanese yen, rising wages and congestion in agglomerated areas, and declining trade and transport costs prompted the relocation of labor-intensive industries to lower-wage countries, initially in the larger ASEAN member countries and then, after economic liberalization, to China and Viet Nam. The outflow of foreign direct investment (FDI) led to the establishment of regional production networks. With a modest start in the electronics and clothing industries, multinational production networks have gradually evolved and spread into many industries such as sports footwear, automobiles, televisions and radio receivers, sewing machines, office equipment, power and machine tools, cameras and watches, and printing and publishing. Table 4 shows the rapid increase of FDI in East Asia.

NEG models, as described in Section II, readily explain the pattern of income distribution in Southeast Asia and China. The inflow of FDI created imbalances within the recipient country. Economic and productive forces that coalesce in areas where foreign firms decide to locate skewed income distribution and caused some peripheral areas to be neglected. In other words, because of agglomeration economies, there exist in the recipient countries some small areas of intense economic concentration driving national economic growth, which has caused income gaps to widen. The inequality in opportunities is by no means an accident, just as it is not a coincidence that production concentrates in big cities and opulent countries. The infrastructure and amenities in these areas like roads, telecommunications, and access to skilled labor attract trade and investments from abroad (Hamaguchi and Zhao, 2011).

In theory, foreign investment should allow governments to pursue equality-promoting policies. The modern perspective on the relationship between inequality and economic development also argues that physical capital accumulation is more important in the short-run while human capital accumulation becomes the prime engine of economic growth in the long-run (Galor, 2009). Hence inequality should be tolerated in the short-term. However, the presence of FDI reduces the role of inequality in stimulating investment. The inflow of FDI should therefore provide leverage for the government to allocate more resources to human resource development.

NEG models explain why deepening regional economic integration and narrowing of development gaps between countries can occur simultaneously. The essence of the theoretical framework is the need to reduce the costs of fragmentation, namely service link costs and network set-up costs. The former are the recurring costs to link fragmented production blocks, and the latter are one-time costs to establish new production blocks in production networks.

Firms in developing countries can participate in regional production and distribution networks because of the disparities in factor prices. In this context, development gaps can be transformed into a source of economic dynamism. A prerequisite is for service link and network set-up costs can be reduced. One argument is that a policy package that contains elements of liberalization and facilitation of trade in goods and services and investment will be sufficient to meet this pre-requisite. The conclusion therefore is that it is possible to pursue deepening economic integration and narrowing development gaps at the same time. What is proposed is as follows:[19]

> *"At the early stage of development, prime concerns are how to attract the initial wave of production blocks by utilizing dispersion forces and how to participate in production networks to be able to utilize their location advantages, e.g. abundant unskilled labor. A country at this stage does not have to immediately improve the overall investment environment. Rather, a minimal set of FDI facilitation, infrastructure services, and convenient service link arrangements should be provided at a specific industrial estate or a special economic zone."*

The agglomeration-dispersion framework can explain why deepening trade integration is associated with income convergence in East Asia (ADB 2012; Hamaguchi and Zhao 2011). However, more crucial to policymakers is channelling the benefits of

[19] Soesastro (2008), page 21.

regional production networks to narrowing within-country inequality. This paper considers two main areas for policy intervention: improving physical infrastructure and connectivity, and enhancing the role of SMEs. These are two of the 10 priority measures recommended by ERIA (2012) to ensure the successful establishment of the ASEAN Economic Community (AEC).

Regional infrastructure development in East Asia has improved tremendously in the past 20 years. Increasing regional connectivity will increase ability of firms in developing countries to participate in regional production networks. ERIA's assessment shows the importance of connectivity in improving competitiveness of firms in the region.[20]

Greater connectivity makes logistics and distribution services more efficient thereby improving access of rural areas to major markets. This has important implications for equitable development. Improved infrastructure is also important for the goal of a single market and production base in ASEAN. ASEAN Member States must therefore exert more effort to finalize Protocol 2 and to ratify Protocol 7 of the ASEAN Framework Agreement on Facilitation of Goods in Transit (AFAFGIT). Meanwhile, "there is a need to support concerned AMSs to raise necessary funds, by utilizing the ASEAN Infrastructure Fund (AIF) or sharing experiences on effective scheme of Public–private Partnership (PPP), for critical segments of the ASEAN Highway Network and the Singapore-Kunming Rail Link."

Improved physical infrastructure can also facilitate the agglomeration process and reduce within country inequality at the same time. Poor infrastructure may be constraining the development of industrial agglomerations that are part of the regional production networks. In this situation, priority should be given to infrastructure investment in these regions and the population migration from the poor regions should be encouraged. It may be even counterproductive to encourage industries to move to backward regions (Hamaguchi and Zhao 2011). In other words, the benefits of agglomeration must be maximized and, in the process, this will increase the incomes of migrants from the peripheral areas.

Meanwhile, Kuroiwa (2013) examines the impact of trade liberalization on various countries using the NEG framework. Appropriate policies to reduce inequality

[20] ERIA (2012), pages 28-30.

depend on whether frontier regions are located in the metropolitan area or are located in the border. Agglomeration effects are different in each area and may also differ for each economy. Hence in some cases the government should prioritize infrastructure investment in the metropolitan area and other areas with heavy concentration of economic activity (e.g. the case of China) and in some cases the government should advocate for a more equitable distribution of resources for infrastructure development (e.g. the case of Viet Nam).

Participation of SMEs in regional production networks must be encouraged. SMEs have a larger impact on employment than large firms. The studies of ERIA (2012), Narjoko (2012), and Wignaraja (2012) provide analysis and recommendations on how this can be accomplished. In particular, Wignaraja compares the opportunities of SMEs with those of large firms and points out that the former face greater constraints.[21]

In terms of resource constraints, SMEs are disadvantaged in the areas of finance, information, management and technological capability. They also face greater external barriers in terms of market imperfections and regulations. The net result is a lower chance for SMEs to join regional productions networks as either direct exporters, indirect exporters, or overseas investors. The inherent disadvantage faced by SMEs is a justification for government intervention that "opens access to markets, reduces bureaucratic impediments against SMEs, and provides appropriate SME institutional support services (e.g., technological, marketing, and financial support)."

The specific recommendations of ERIA are as follows:[22]

- Prioritize the implementation of measures in the Strategic Plan by focusing on the setting up and strengthening of technology incubators, establishment of one-stop SME service center, and strengthening of SME financial facility by 2015.
- Intensify the initiatives to encourage business matching for SMEs, with multinationals as well as with other well-performing SMEs within the AMSs, the region, and with SMEs in East Asia.
- Promote SME clusters, networks, and alliances.

[21] Wignaraja (2012), pages 5-6, page 22.
[22] ERIA (2012), pages 61-62.

- Establish the ASEAN SME Policy Index by 2013 to ensure policy coherence between the regional initiatives and national SME policies.

The SME Policy Index essentially assesses the quality and level of implementation of policies in support of SMEs, by quantifying and comparing some qualitative policy features.

Meanwhile, Narjoko (2012) cites access to finance as a major constraint both for development of SMEs and their participation in regional production networks. In particular financial access has a significant impact on SMEs' innovation capability and participation in export market. He proposes several policy reforms including the establishment of industry organizations for SMEs that will represent the interests of members and provide market information and capacity building; and introducing credit guarantee schemes subject to rigorous and viable business plans, and a reliable credit rating and information system.

Increasing physical connectivity and enhancing the role of SMEs will be the pillars of the strategy to rebalance economic growth in East Asia. It should be noted that rebalancing will mean different things for different economies. For example, in China, there is a need to increase the share of consumption expenditures. Meanwhile, the investment/GDP ratio in the Philippines is relatively low and is one of the major constraints to economic growth.

One approach is to link domestic rebalancing to rebalancing at the regional level. The framework is shown in Figure 3.

—Figure 3—

In this context, Asia's outward-oriented development model does not need to be overhauled. What will be required is adjustment in net exports and some shift toward production for Asian demand. In other words, the main thrust of regional rebalancing should be an increase in intra-regional trade and investment among East Asian economies but with more of the final exports going to economies in the region instead of the US and Western Europe.

Rebalancing will likely reduce inequality since there will be a shift from external demand to internal demand as the main driver of economic growth. This will be true in countries where consumption expenditure will be given emphasis rather than exports. A strong middle class is required to support consumption spending.

If the region will rely less on the US and Western Europe, the type of goods and services produced will change. There will be more “wage goods” produced rather than “luxury goods” thereby benefiting the middle and lower income classes.

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Table 1: Trends in inequality in developing Asia

Economy	Initial Year	Final Year	Gini Coefficients 1990s	Gini Coefficients 2000s	Gini Coefficients Annualized growth rate (%)	Quintile ratios 1990s	Quintile ratios 2000s	Quintile ratios Annualized growth rate (%)
China	1990	2008	32.4	43.4	1.6	5.1	9.6	3.6
Korea	1992	2010	24.5	28.9	0.9	-	-	-
India	1993	2010	32.5	37	0.7	4.8	5.7	1.1
Cambodia	1994	2008	38.8	37.9	-0.1	5.8	6.1	0.3
Indonesia	1990	2011	29.2	38.9	1.4	4.1	6.6	2.2
Lao PDR	1992	2008	30.4	36.7	1.2	4.3	5.9	1.9
Malaysia	1992	2009	47.7	46.2	-0.2	11.4	11.3	0
Philippines	1991	2009	43.8	43	-0.1	8.6	8.3	-0.2
Thailand	1990	2009	45.3	40	-0.6	8.8	7.1	-1.2
Viet Nam	1992	2008	35.7	35.6	0	5.6	5.9	0.2

Source: ADB (2012), Worldbank PovcalNet, CIA, 2012

Table 2: Income inequality in Southeast Asia, 1990-2011

Country	Gini coefficient of inequality				
	1990	**1995**	**2000**	**2005**	**2011**
Brunei	-	-	41.3 ('03)	41.3	-
Cambodia	-	38.3 ('94)	-	41.9 ('04)	37.9 ('08)
Indonesia	29.2	31.3 ('96)	29.7 ('02)	34.0	38.9
Lao PDR	30.4 ('92)	34.9 ('97)	32.6 ('02)	-	36.7 ('08)
Malaysia	46.7 ('92)	48.5	-	37.9 ('04)	46.2 ('09)
Myanmar	-	30.0 ('01)	-	-	-
Philippines	43.8 ('91)	46.2 ('97)	46.1	44.0 ('06)	43.0 ('09)
Singapore	-	-	43.4	45.1	45.2
Thailand	45.3	42.9 ('96)	42.8	42.4 ('06)	40.0 ('09)
Viet Nam	35.7 ('93)	35.5 ('98)	37.6 ('02)	36.8 ('04)	35.6 ('08)

Note: The Gini coefficient is the most common used measure of inequality. It ranges from 0 to 1 (or 100 on percent scale), where 0 denotes perfect equality (all other values being equal) and 1 (or 100 on percentile scale) expresses complete inequality, with a single person having all income. For Indonesia, the Gini coefficient for 2011 is an estimate combining the separate urban and rural distributions weighted by share of urban/rural to total population. For Singapore, the Gini coefficient refers to household income from work including employer CPF contributions per household member after accounting for government transfers and taxes.

Source: OECD (2013), Poverty and inequality disparities in Cambodia, Lao PDR, Myanmar and Viet Nam

Table 3: Share of Manufacturing in GDP (%)

	1980	1990	2000	2006	2011
China	43.9	36.5	40.4	32.9	32.2
Indonesia	13.5	23.0	27.7	27.5	24.3
Malaysia	21.6	22.7	29.9	28.8	24.6
Philippines	27.7	26.8	24.5	23.6	21.1
Thailand	21.5	24.9	33.6	35.0	29.9
Viet Nam	16.1	12.3	18.6	21.2	19.4

Source: UN Statistics Division (http://unstats.un.org/unsd/dnlList.asp; accessed, 6 October 2013)

Table 4: FDI Inward Stock (million US$), ASEAN and China

	1990	2000	2010	2012
Indonesia	8,732	25,060	154,158	205,656
Malaysia	10,318	52,747	101,510	132,400
Philippines	4,528	18,156	26,319	31,027
Singapore	30,468	110,570	461,417	682,396
Thailand	8,242	29,915	137,191	159,125
Viet Nam	1,650	20,596	65,348	72,530
China	20,691	193,348	587,817	832,882

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics), accessed on 20 September 2013

Table 5: Poverty and Inequality in East Asia

	Population in Poverty (in percent) [1]	Proportion of Population Below $1.25 (PPP) a Day [2]	Gini Coefficient [3]
China	4.2 (2008)	11.8 (2009)	0.425 (2005)
Indonesia	12.0 (2012)	16.2 (2011)	0.381 (2011)
Malaysia	1.7 (2012)	0.0 (2009)	0.462 (2009)
Philippines	26.5 (2009)	18.4 (2009)	0.430 (2009)
Thailand	13.2 (2011)	0.4 (2010)	0.394 (2010)
Viet Nam	20.7 (2010)	16.8 (2008)	0.356 (2008)

Sources/Notes:

[1] *World Bank, WorldDevelopment Indicators accessed 6 October 2013*

[2] *Asian Development Bank, Statistical Database System accessed 6 October 2013*

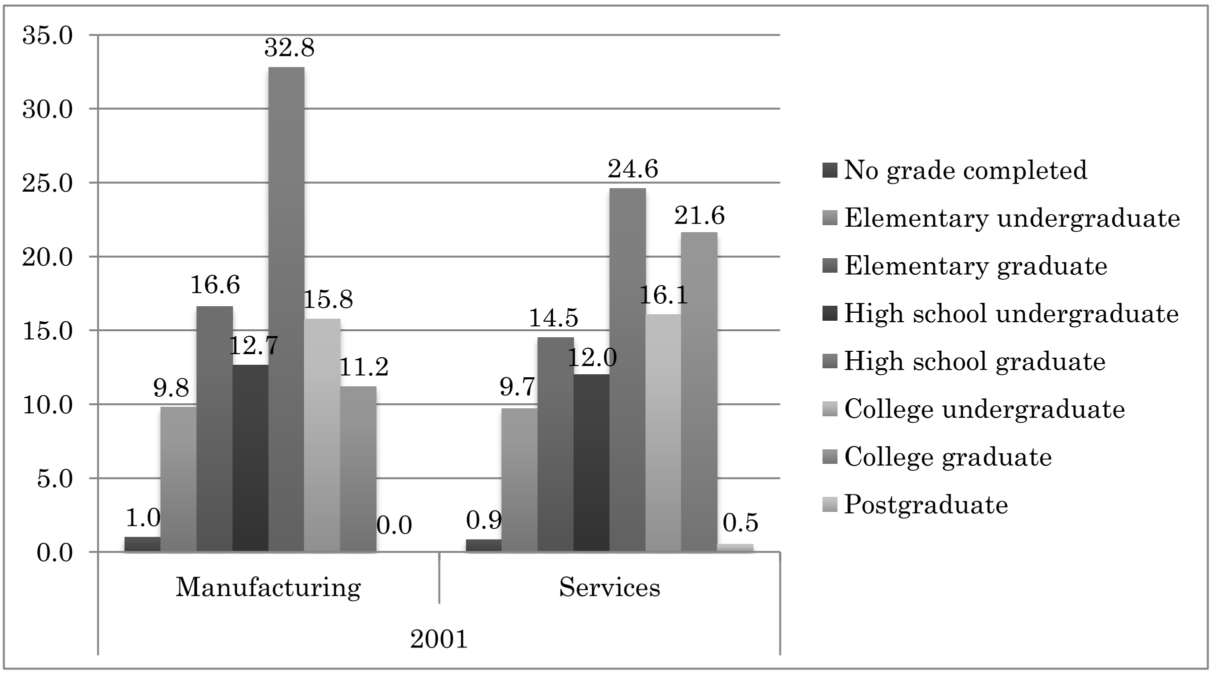
[3] *http://www.adb.org/sites/default/files/pub/2013/ki2013.pdf accessed 6 October 2013*

Table 6: Poverty incidence of highest educational attainment of the household head

HH Head Educational Attainment	Poverty Incidence		
	2003	2006	2009
All individuals	20.0	26.4	26.5
No Grade Completed	44.4	56.1	62.4
Elementary Undergraduate	36.8	44.6	46.6
Elementary Graduate	25.4	36.0	34.1
High School Undergraduate	20.7	28.3	30.3
High Graduate	11.1	16.5	16.6
College Undergraduate	4.5	6.9	7.5
At least College Graduate	1.0	1.2	1.7
Post Graduate	0.8	0.0	0.0

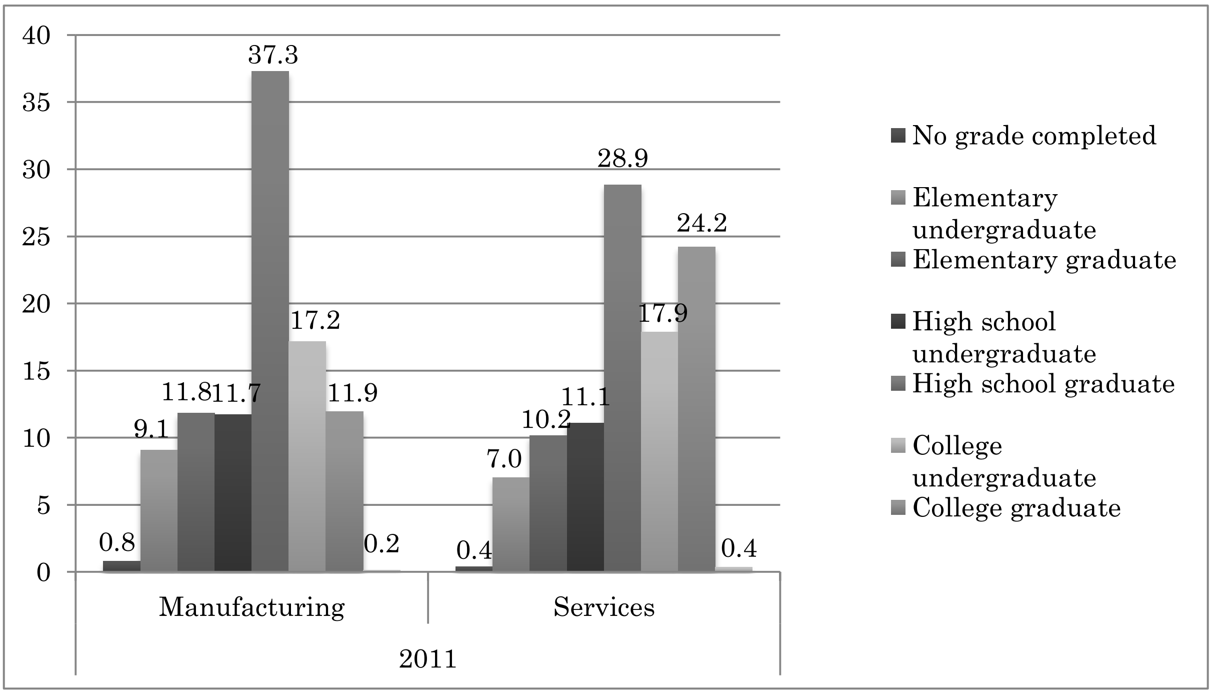
Source: Reyes, C. M., A. D. Tabuga, R. D. Asis, M.B. Datu,(2012), Poverty and Agriculture in the Philippines: Trends in Income Poverty and Distribution (PIDS DP 2012-09)

Figure 1: Frequency Distribution of Educational Attainment of Workforce in Manufacturing and Services, 2001



Source of basic data: Labor Force Survey (2001), NSO

Figure 2: Frequency Distribution of Educational Attainment of Workforce in Manufacturing and Services, 2011



Source of basic data: Labor Force Survey (2011), NSO

Table 7: Real value added per worker*, (in 2000 constant prices)

	Agriculture (pesos)	Ratio			
		Industry to Agr	Industry to Services	Mfg to Agri	Mfg to Services
1995	39,872	6.5	1.8	na	Na
2000	49,122	5.6	1.9	6.5	2.2
2005	51,318	5.7	1.9	6.7	2.2
2009	55,110	5.9	2.0	7.1	2.4
2011	55,420	6.2	2.1	7.8	2.5

**Defined as Value added divided by Total employment in the sector*

**Each entry is a three-year average of the year indicated, the previous year, and the succeeding year, using 2000 prices Source: Bureau of Labor and Employment Statistics*

Table 8: Average Daily Basic Pay of Wage Workers in 2009 (pesos)

	Manufacturing Sector	Services Sector
Elementary graduates, elementary education	198	164.7
High school graduates, high school education	264.6	209.4

Source: Labor Force Survey (January 2010), National Statistics Office

Figure 3: Linking Regional and Domestic Rebalancing