



Tondo slum in Manila, Philippines (2014). Credit: Dewald Brand / Miran for Oxfam

# ASIA AT A CROSSROADS

Why the region must address inequality now

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**Rising inequality poses a dire threat to continued prosperity in Asia, where an estimated 500 million people remain trapped in extreme poverty, most of them women and girls. The huge gap between rich and poor hinders economic growth, undermines democratic institutions and can trigger conflict. A determined effort to combat discrimination, combined with improved policies on taxation and social spending, is needed now if the region is to secure a stable and prosperous future.**

# 1 SUMMARY

Asia's phenomenal economic growth over the past two decades is a remarkable success story in the fight against poverty.<sup>1</sup> However, this growth has also led to a sharp widening of the gap between rich and poor. In cities from Mumbai to Bangkok state-of-the-art condo and office towers stand alongside shantytowns where people live with no basic services and little protection from the elements.

Almost five hundred million Asians continue to live in abject poverty; their life chances largely untouched by the booming regional economy.<sup>2</sup> But the economy may not remain untouched by the great distance between rich and poor. Research by economists at the International Monetary Fund (IMF), the Asian Development Bank (ADB) and other institutions indicates that extreme inequality, such as Asia faces today, constitutes a structural barrier to future growth.<sup>3</sup>

Rising inequality has pervasive consequences for everyone. It stifles social mobility and undermines the fabric of society. It encourages crime, sparks corruption and can lead to violent conflict. And it determines vulnerability to natural disasters and other effects of climate change.

Inequality is not a natural outcome of development. Deliberate policy choices have fostered the extremes of wealth and poverty seen across Asia today.

Longstanding discrimination against women, ethnic minorities and lower castes, among others, sustains and is sustained by economic inequality. Limited economic opportunities and exclusion from political power can trap such groups at the bottom of the ladder.<sup>5</sup>

Policies must be reformed if Asian countries are to secure a stable future. An Asian approach to tackling inequality should rest on five pillars:

- **People empowerment:** Ensure that poor people, especially women and marginalized groups, actively participate in shaping institutions, policies and actions, so that these do not further widen the gap between rich and poor.
- **Fair access to essential services:** Provide everyone with good quality, free public health services and education.
- **Fair access to land and other productive resources:** Strengthen poor people's right to land, and expand their access to resources and assets that are crucial to their livelihood and survival.
- **Fair wages:** Guarantee equal pay for equal work, and pay workers a living wage sufficient for families to thrive.
- **Fair taxation:** Ensure that everyone pays their fair share and that tax measures do not unduly burden the poorer sections of society.

All five pillars will require greater attention to the needs of disadvantaged groups and a determined effort to roll back discrimination based on poverty, gender, caste or ethnicity. In particular, public policies must explicitly promote women's equality and defend women's rights.

Today, Asia sits at a crossroads. In order to ensure future development is inclusive, equitable and sustainable, national decision makers must face up to the challenge of reducing inequality.

*The persistence of inequality could trigger social and political tensions, and lead to conflict, as is currently happening in parts of Asia.*

Asian Development Bank<sup>4</sup>

## 2 A PORTRAIT OF INEQUALITY IN ASIA

In 2015, Asia presents a stark picture of contrasting realities.

Together, China and India have over 1.3 million millionaires; at the same time there are estimated to be more than 300 million people still living in extreme poverty in these two countries.<sup>6</sup> The region's richest man, Hong Kong's Li Ka-Shing, has amassed \$31bn in wealth, while in the rest of Asia 500 million people barely survive on \$1.25 a day.<sup>7</sup> It would take one of these poor individuals almost 68 million years to earn that much money, even assuming they could save all of their daily earnings.<sup>8</sup>

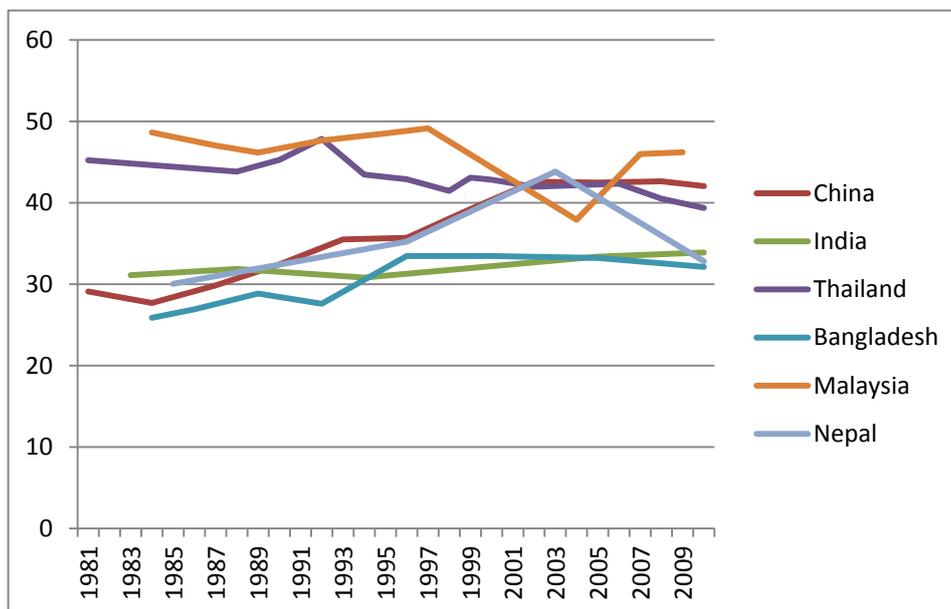
Nearly every Asian country has grown wealthier since 1990, most strikingly China, Vietnam, Korea, India, Sri Lanka, Indonesia, Thailand, Malaysia, Singapore, Cambodia and Bangladesh.<sup>9</sup> Despite this growth poverty still remains; across the region the gap between the rich and poor has increased and more than 563 million Asians still go hungry each day.<sup>10</sup>

Four out of five Asians have seen a rise in economic inequality.<sup>11</sup> Between the early 1990s and late 2000s, the Gini coefficient – the standard measurement for economic inequality – for the region as a whole increased an astounding 18 percent.<sup>12</sup> In comparison, in OECD countries the Gini coefficient rose by 10 percent between the mid-1980s and late 2000s.<sup>13</sup>

*The children of rich are taught seriously but our children are paid no attention to. While our daughters have no access to the school at all, our boys receive no attention from the teachers.*

Low-caste woman, Sindh, Pakistan

**Figure 1. National inequality trends for selected Asian countries**



The above graph shows Gini coefficient trends for selected Asian countries based on the relevant data available. While some countries, such as Malaysia, had previously achieved a great deal in the fight against inequality and poverty, in recent years the tide has turned for many as inequality has increased.<sup>14</sup>

## Inequality in health

Among the poorest households in Nepal twice as many children die before the age of five than in the richest households, and this gap is widening.<sup>15</sup> In India, while more than 8 out of 10 of the richest mothers can access a healthcare facility to deliver a baby, only 1 in 10 of the poorest mothers can access this service.<sup>16</sup>

Who are the people who have not shared in Asia's general prosperity? More often than not, they are female, rural, members of ethnic minorities or lower castes, elderly or disabled. In other words, they are people dispossessed of economic and political power.

## Inequality between men and women

Discrimination against women and girls is rife throughout Asia, and both sustains and is sustained by economic inequality. The United Nations considers South Asia the world's second most unequal region for women after sub-Saharan Africa.<sup>17</sup> In countries like India and Pakistan, fewer than one in three women hold paid work, and of these more than four out of five have low-end insecure jobs in the informal economy.<sup>18</sup> In Bangladesh, women are estimated to earn 21 percent less per hour than men.<sup>19</sup>

Despite their predominance in Asian agriculture, women head only 7 percent of farms, compared to an average of 20 percent in the rest of the world.<sup>21</sup> In nearly half of all Asian countries, legal and customary barriers impede women from owning land and other forms of property.<sup>22</sup> With such significant constraints on women's economic opportunities, it comes as no surprise that women and girls represent two-thirds of all people living in poverty in Asia.<sup>23</sup> To make matters worse, women's under-representation in the political sphere hinders their ability to challenge such inequalities.<sup>24</sup> Asia's national legislatures have the lowest percentage of women of any region outside the Arab States.<sup>25</sup>

*Despite laws guaranteeing equal pay for equal work, women in this region still earn considerably less than men, with the pay gap ranging from 54 to 90 percent.*

United Nations  
Development  
Programme<sup>20</sup>

## Innovations to remedy gender inequality

Some Asian governments are taking innovative steps to address inequality between men and women.<sup>26</sup> Since 1995 the Philippines has required each government department to earmark at least 5 percent of its budget for efforts to promote gender equality and the empowerment of women.<sup>27</sup>

Nepal tracks spending across different ministries, scoring budget allocations according to their impact on increasing women's employment, income generation opportunities or job skills.<sup>28</sup>

Increased gender awareness and greater participation of women in decision making can also strengthen overall government accountability.<sup>29</sup>

## Inequality based on ethnicity and caste

More than 260 million people are affected by caste discrimination worldwide and the majority of them live in South Asia.<sup>30</sup> Dalits – members of the 'untouchable' castes – comprise 12 percent of Nepal's population,

and 17 percent of India's.<sup>31</sup> Dalits face severe marginalization, segregation in housing, limited access to basic services and employment, and are often obliged to work in conditions similar to slavery.<sup>32</sup>

Ethnic minorities and indigenous groups also face systematic discrimination. They make up a significant portion of Asia's population: 8 percent in India, 10 percent in Vietnam, and 37 percent in Nepal, for example.<sup>33</sup>

Poverty remains endemic amongst lower caste and minority groups. In rural India, poverty rates are 14 percent higher among indigenous people and 9 percent higher among Dalits than for non-minority groups.<sup>34</sup> The gap between Dalits and other groups is widening as poverty amongst low castes declines at a slower pace.<sup>35</sup> In Nepal, Dalits are four times more likely to be poor than upper-caste Hill Brahmins.<sup>36</sup>

Marginalization based on ethnicity or caste is compounded by the fact that such groups often live in remote areas. In China, ethnic minorities are largely concentrated in the poor western regions of the country.<sup>37</sup> Similarly, 80 percent of India's Dalits live in rural areas.<sup>38</sup> Children from ethnic minorities and lower castes enjoy fewer opportunities to obtain healthcare and education.<sup>39</sup>

Echoing the situation of women, ethnic and lower caste groups have often been excluded from political power. Although recent parliamentary quotas are turning the tide on this trend, Dalits in Nepal were virtually unrepresented in their national parliament until the mid-2000s.<sup>40</sup>

### 3 INEQUALITY IS HURTING THE REGION

For the third year running, the World Economic Forum's Global Risks 2013 survey found 'severe income disparity' to be one of the top global risks for the coming decade.<sup>41</sup> Across rich and poor countries alike, societies with higher levels of economic inequality experience lower growth rates over time, higher crime rates and lower life expectancy.<sup>42</sup> Inequality has negative consequences for everyone.

#### **Inequality undermines economic growth**

An increasing body of evidence has demonstrated that income inequality drags overall growth rates down.<sup>43</sup> High levels of inequality obstruct productive investment, limit the productive and consumptive capacity of the economy and undermine society's institutions, reducing the chances that growth will be robust and long lasting.<sup>44</sup> OECD analysis suggests that Japan, for example, has lost 5.6 percentage points from its growth rate over the past two decades due to increases in inequality.<sup>45</sup>

Social inequalities also threaten economic progress. When marginalized groups cannot engage with the economy or access educational opportunities, the region's workforce and skill base is undermined, in turn

diminishing growth. A conservative estimate shows the GDP of India, Indonesia or Malaysia could be 2 to 4 percent higher if the rate of women's employment were comparable to that of developed countries.<sup>46</sup>

## **Inequality undermines institutions**

Extreme inequality reinforces the concentration of power in the hands of a few, undermining the social and political institutions essential to a prosperous society.

When those at the top buy their education and health services individually and privately, for example, they have less of a stake in the public provision of such services to the wider population. In Pakistan, the number of private schools increased by 69 percent between 2000 and 2008 in order to meet increased demand.<sup>47</sup> When wealthier people do not use public services, they also feel less incentive to pay their taxes, threatening in turn the financial sustainability of these services.<sup>48</sup>

The concentration of economic power tends to concentrate political power, undermining democracy and giving elites the ability to block reforms that could reduce the gap between rich and poor.<sup>49</sup>

## **Inequality impedes poverty reduction**

Evidence shows that in more unequal societies economic growth pulls fewer people out of poverty. The hope that wealth will trickle down to the lower reaches of society has not been borne out by Asia's experience. The ADB estimates that an additional 240 million people in Asia – 6.5 percent of the total population – would have escaped extreme poverty had growth been more equitably distributed over the past two decades.<sup>50</sup> This story is replicated at the country level. In Indonesia, the poverty rate would have fallen to 6.1 percent by 2008 had inequality not increased; instead it stands at 16.3 percent.<sup>51</sup>

### **Indonesia and India: Inequality hinders poverty reduction**

Oxfam estimates that Indonesia could reduce the number of people living in extreme poverty to 1.7 million if it reduces inequality. If inequality stays at current levels though, there will be almost 15 million Indonesians still living in extreme poverty in five year's time.

India could almost eliminate extreme poverty if it reduced inequality by the same degree; lifting 173 million people above the extreme poverty line by 2019.<sup>52</sup>

## **Inequality determines vulnerability to natural disasters and climate change**

Asia's high level of inequality leaves the majority of its people at great risk of death or injury, or loss of livelihood and home, in the event of a natural disaster. People in poverty often live in substandard housing or in dangerous locations, such as flood plains, riverbanks or steep slopes,

and are less able to escape disaster zones.<sup>53</sup> They are also less likely to have savings, insurance or other safeguards to help them recover from shocks.<sup>54</sup>

#### **Asia's vulnerability to disasters**

Between 1980 and 2009, Asia accounted for nearly half of all natural disasters worldwide.<sup>55</sup> More recently, 85 percent of the people killed by disasters in 2013 lived in Asia.<sup>56</sup> Other impacts of climate change, such as increasing temperature and rising sea levels, are already being felt across the region.

Marginalized groups also face more difficulties recovering from natural disasters, since access to assistance tends to mirror existing societal inequities.<sup>57</sup> Compounding this, disasters often push people further into poverty, deepening inequalities and leaving more people vulnerable to future disasters.<sup>58</sup>

## **4 WHAT DRIVES INEQUALITY IN ASIA?**

Poverty persists when people do not have access to opportunities, like education and health services, or productive resources, like job skills, land and capital. Inequality grows when such access is systematically denied through regressive taxation regimes and low social spending. The elite domination of politics which emerges from this situation can further impede efforts to address inequality.

### **Unequal access to opportunities**

According to the ADB, as much as 25 to 35 percent of the region's inequality can be explained by differences in human capital and skill endowments.<sup>60</sup> Having job skills relevant to the labour market allows people to improve their lives, while a lack of relevant job skills traps others in poverty. The same is true of health services. Ill health prevents people from working, and sudden health costs often plunge entire families into poverty.<sup>61</sup>

#### **Innovations to build human capital**

Acknowledging the link between the lack of public services and rising inequality, several Asian countries, including China and Thailand, are rapidly scaling-up public investment in healthcare and education. Thailand's universal coverage scheme halved the amount of money that the poorest people spent on healthcare within its first year, as well as cutting infant and maternal mortality rates.<sup>62</sup>

*Unequal access to public services, especially education and health, is central inequality of opportunity.*

J. Zhuang, Asian Development Bank<sup>59</sup>

## Unequal access to productive resources

The skewed distribution of land and capital is a second key driver of inequality. In Thailand, 10 percent of landowners hold more than 60 percent of the country's titled lands, while millions of smallholders subsist on 0.16 hectares or less.<sup>64</sup> As mentioned above, women in Asia face significant legal and customary obstacles to owning property, which often disqualifies them for loans that might be put to productive use.<sup>65</sup>

*In India, female workers receive roughly 40 percent less (than their male co-workers) in rural areas and 25 percent less in urban areas.*

International Labour Organization<sup>63</sup>

## Vastly unequal wages

Without access to land or capital, the poor must rely on their labour to earn a living. Asia's growth model relied on low-cost unskilled/semi-skilled labour as its economies transitioned from agriculture to a manufacturing base. This initially led to higher wages and poverty reduction.<sup>66</sup> However, the growth into the higher-value services sector, with its need for skilled labour, has exacerbated wage inequality and led to a rise in the cost of living. This has left many in the unskilled/semi-skilled labour force without access to higher wage jobs or a living wage.<sup>67</sup>

The abysmal wages paid to the unskilled/semi-skilled labour force in many industries is widening the gap between rich and poor. Wages in the tea industry in Assam, India, for example, although legal, keep workers below the poverty line.<sup>68</sup> As noted above, women often receive far less than their male co-workers for comparable work.

## Skewed taxation

Badly-designed tax systems – where the most prosperous citizens and companies enjoy low rates, exemptions and loopholes, or can hide their money in overseas tax havens – aggravate inequality in two ways: they deprive governments of revenue that could be invested to fight poverty and they place an undue burden on poorer taxpayers who must fill the gap. Every year Bangladesh loses \$310m in potential corporate taxes to deliberate over- and under-pricing for transfers between affiliates of large companies – equivalent to 20 percent of the country's primary education budget.<sup>69</sup>

Trade liberalization across Asia since 1990 has sharply lowered revenue from trade taxes and led to a greater reliance on payments from citizens. Many countries in Asia rely more on service taxes (such as the value-added tax), which are often more unfair and increase income inequality because they take a proportionally greater amount from those on lower incomes. In contrast, a personal income tax can be structured so that those with higher incomes pay more in tax.<sup>70, 71</sup>

Moreover, as Thomas Piketty demonstrated in *Capital in the Twenty-First Century*, without government intervention, the market economy tends to concentrate wealth in the hands of a small minority causing inequality to rise.<sup>72</sup> There are clear lessons to be learned from recent history. In the 1980s and 1990s, debt crises saw countries in Asia subjected to a process of deregulation, reductions in public spending, privatization,

financial and trade liberalization, generous tax cuts for corporations and the wealthy, and a ‘race to the bottom’ to weaken labour rights. Inequality grew as a result.<sup>73</sup>

## Low social spending

Compared to other regions of the world, Asia spends far less tax revenue on social protection or healthcare, as a proportion of GDP, according to the IMF.<sup>74</sup> Asia’s social protection transfers are lower than those of sub-Saharan Africa, and barely one-quarter those in Latin America. Such transfers cover only a small percentage of low-income groups in Asia, the IMF notes, with most of the benefits going to higher-income groups.<sup>75</sup>

## Elite capture of political power

The undue influence over government decision making wielded by wealthy elites can hinder efforts to address inequality. For instance, a proposed property tax in Thailand, which would have compelled the relatively well-off to contribute to improved public services for people living in poverty, has made little progress in a parliament made up mostly of Thailand’s largest landowners.<sup>76</sup> In Pakistan, which has the lowest ratio of tax to GDP in the world, only a few parliamentarians pay tax, despite an average worth of \$900,000.

# 5 WHAT CAN BE DONE?

Asia sits at a crossroads. The policies that achieved vast improvements in living standards in some countries since 1990 continue to exclude a significant section of the populace, leaving society polarized between rich and poor. Beyond the human suffering faced by millions of people living in poverty, economic inequality now represents a threat to future growth and stability.

Among the many concrete steps Asia’s governments can take, Oxfam recommends prioritizing five:

- **Empowering people:** Ensure that poor people, especially women, are able to actively participate in shaping institutions, policies and actions, so that these do not further widen the gap between rich and poor.
- **Fair access to essential services:** Provide everyone with good quality, free public health services and education.
- **Fair access to land and other productive resources and assets:** Strengthen poor people’s right to land, and expand their access to resources and assets that are crucial to their livelihood and survival.
- **Fair wages:** Guarantee equal pay for equal work and pay workers a living wage sufficient for families to thrive.
- **Fair taxation:** Ensure that everyone pays their fair share and that tax measures do not unduly burden the poorer sections of society.

These pillars are inter-reliant: people's participation in decision making should lead to policies that support fair taxation, just wages and equitable access to land and other productive assets; fair taxation should speed expanded access to services; fair wages and equitable access to assets to support people's livelihoods should enhance revenue collection; and fair access to services should facilitate expansion of jobs that pay fair wages.

For these measures to work effectively they must be accompanied by greater attention to the needs of disadvantaged groups and a determined effort to roll back discrimination based on poverty, gender, caste or ethnicity. In particular, public policy must explicitly promote women's equality and defend women's rights.

If Asia's policymakers hold tight to yesterday's truths, hoping against hope that an expanding economy will trickle down to all, they will put everyone's welfare at risk. But if there are courageous leaders, willing to tackle inequality head-on, they can ensure continued progress toward an inclusive and sustainable development for all of Asia's people.

# NOTES

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