

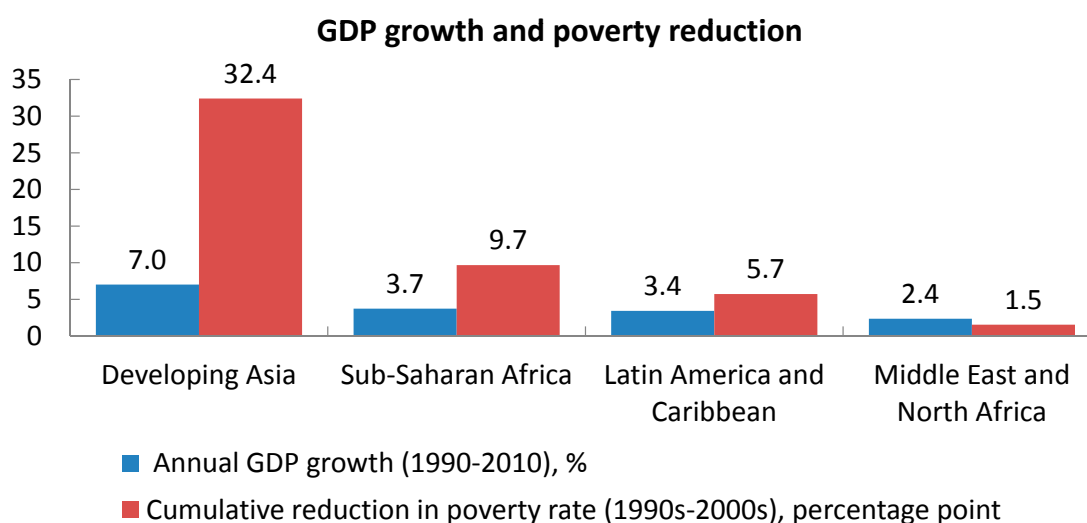
Inequality in Asia: Trends, Drivers and Policy Implications

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Views expressed are those of the author and do not necessarily reflect those of ADB



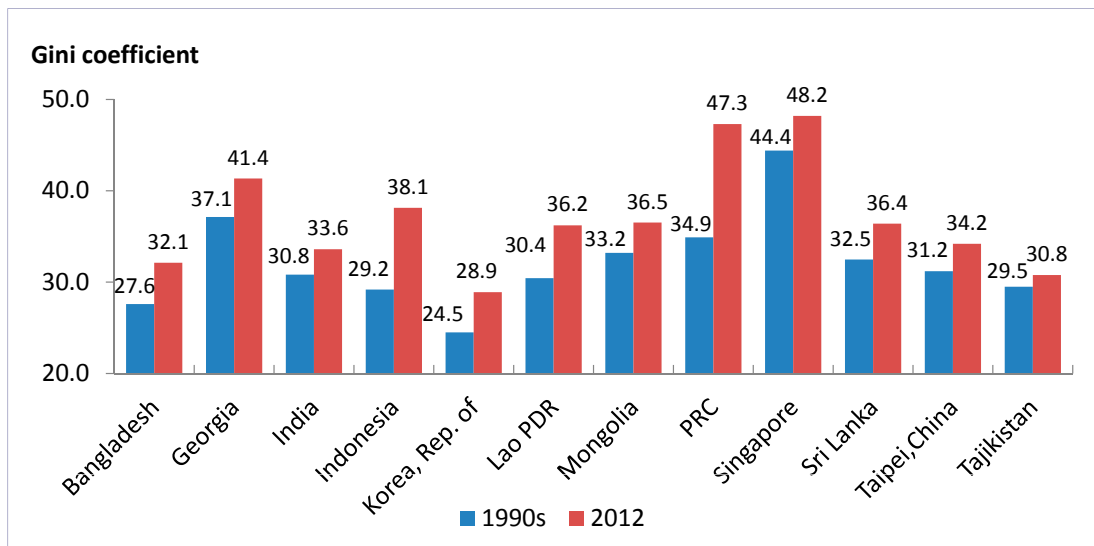
Asia's high growth has led to large reductions in poverty ...



Source: ADB (2012)



... but has been accompanied by rising inequality in many countries



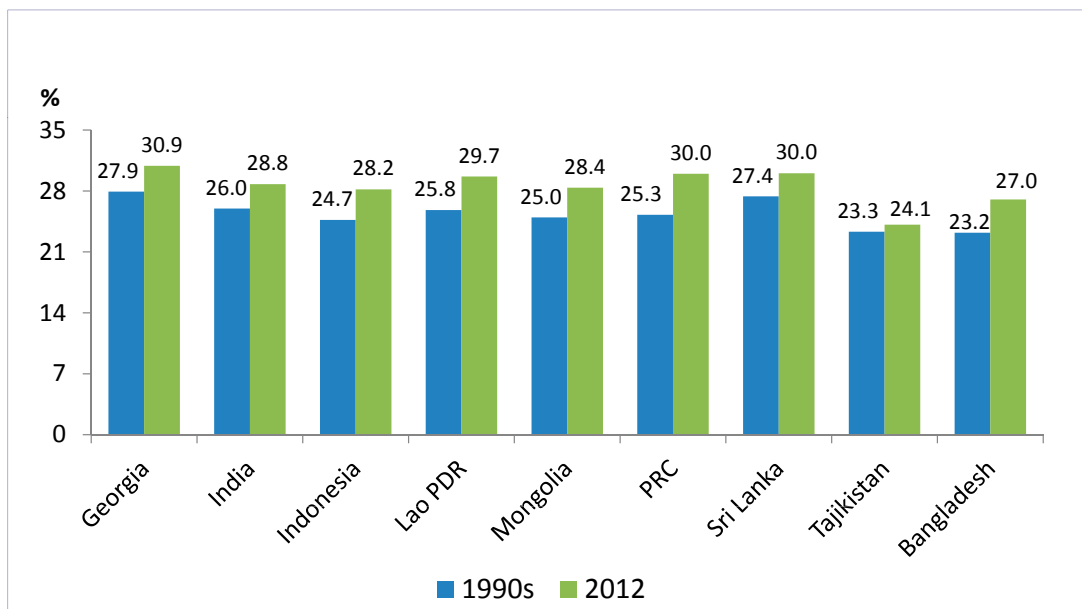
Notes: (a) refers to earliest available data for the 1990s and nearest available data for 2012; (b) Data for Singapore, Taipei, China, Korea, and China are income-based and for other countries are consumption-based.

Sources: The World Bank PovCalNet; ADB studies.

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Income share of the top 10% increased as well



Source: The World Bank PovCalNet.

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Globally, Asia's inequality is lower, but its rise over time is a concern

	Median Gini	Maximum Gini	Minimum Gini
Developing Asia (consumption)	37.0	50.9	27.8
OECD (income)	30.0	49.6	23.0
Latin America & Caribbean (income)	52.3	59.5	44.7
Middle East & North Africa (consumption)	36.8	41.4	29.8
Sub-Saharan Africa (consumption)	42.8	65.8	30.0

Source: ADB (2012)



Why inequality matters?

- Rising inequality slows down the pace of poverty reduction
 - If inequality had been stable, additional 240 million Asians (6.5% of Asia's population) would have been lifted out of poverty (ADB 2012)
- Inequality can weaken the basis of growth by affecting human capital, social cohesion, middle class, and quality of governance
 - Empirical studies show lower inequality is associated with longer growth duration. A 10-percentile decrease in inequality increases the expected length of a growth spell by 50% (IMF 2011)



Drivers of changes in inequality: A simple framework

- $$\frac{Income}{H} = \frac{W L}{H} + \frac{R K}{H}$$

K: wealth; *R*: return to wealth; *L*: labor; *W*: wage; *H*: household size

- Changes in income inequality can be caused by
 - Changes in relative returns to assets
 - Relative wages of skilled vs. unskilled workers
 - Relative importance of labor and capital incomes
 - Spatial distributions in returns to assets
 - Changes in the distribution of assets
 - Wealth distribution
 - Human capital distribution



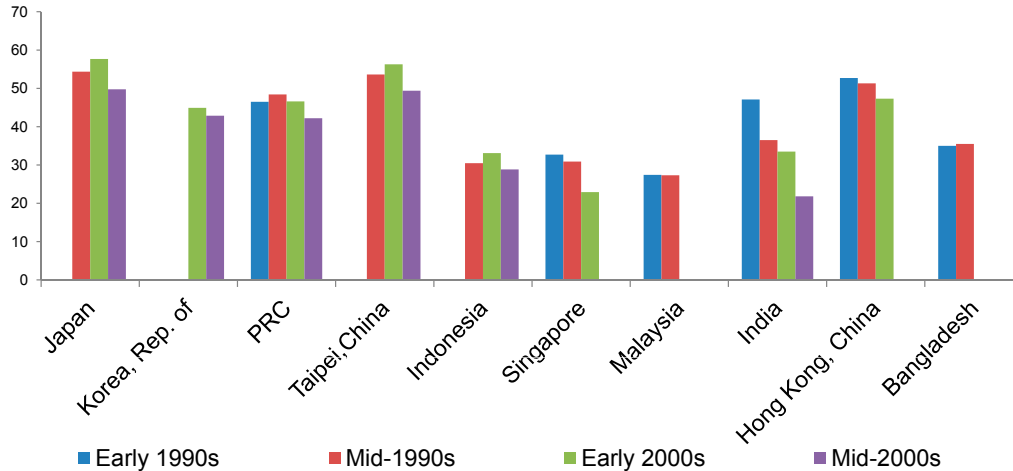
Why inequality has risen in Asia?

- Technological progress, globalization, and market-oriented reform have led to rapid growth in Asia, but working together they have favored:
 - capital over labor – falling share of labor income
 - skilled over unskilled workers – rising skill premium
 - Cities/coastal regions over rural/inland areas – rising spatial inequality
- These have been compounded by unequal access to opportunity due to social exclusion.
- Rising income inequality increases wealth inequality, which in turn contributes to rising income inequality.



Share of labor income declined, and of capital income— which is more unequal—increased

Labor Income Share
Manufacturing



Source: ADB (2012)



Skill premium has risen; education inequality accounts for 25–35% of total inequality

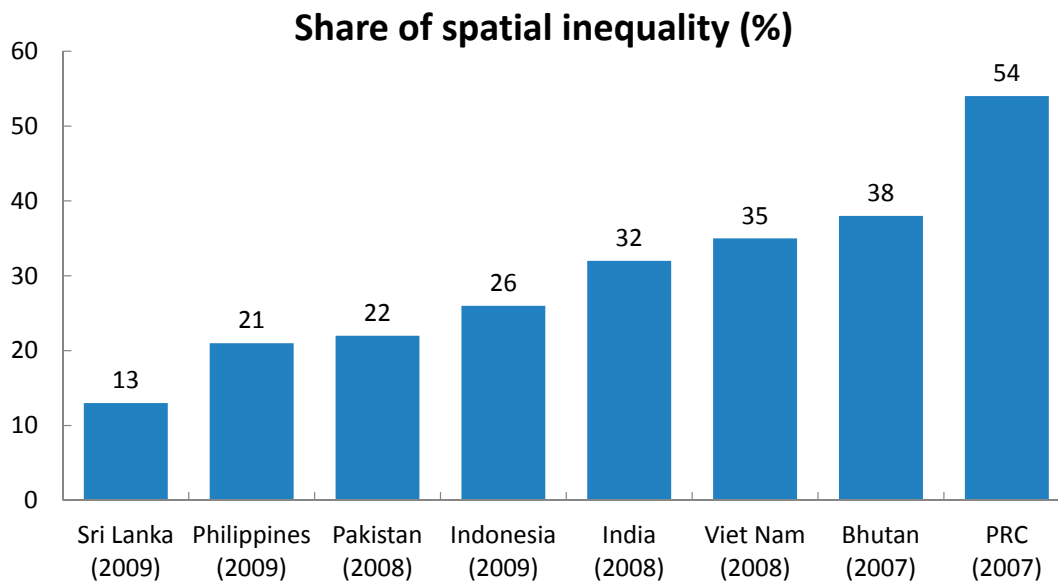
Income inequality decomposition by educational attainment of household head



Source: ADB (2012)



Spatial inequality—urban-rural and inter-province combined—accounts for a large share of total inequality

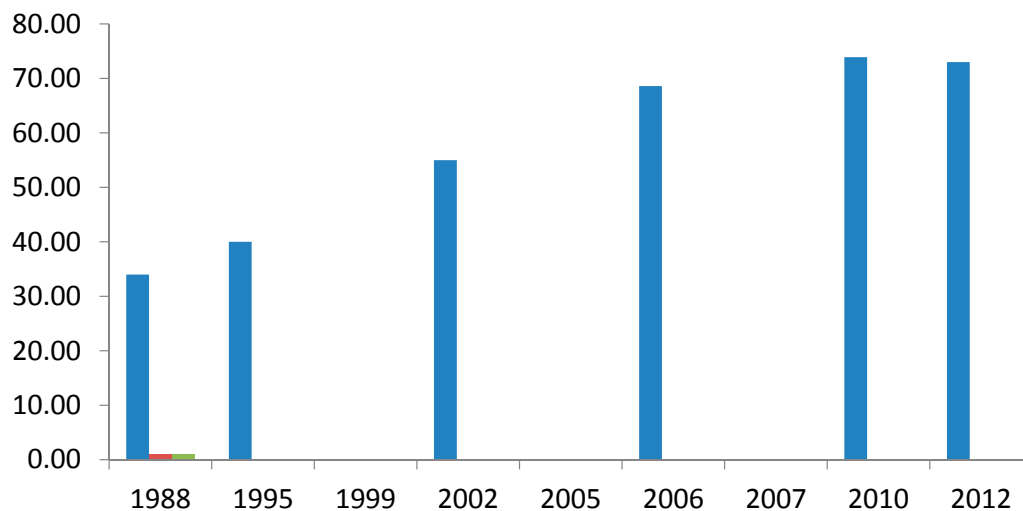


Source: ADB (2012)

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In China, the wealth Gini coefficient doubled during 1988-2012



Source: Li, Wan and Xie (2014)

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How to respond to rising inequality?

- Three drivers of growth cannot be hindered
- Governments can reverse rising inequality through
 - Growth that is more employment friendly to increase the labor income share
 - Interventions to address lagging regions to reduce spatial inequality
 - Public spending to reduce inequality in human capital
 - Fiscal reform to make tax system more progressive
 - Governance reforms to equalize opportunities

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More broadly, move toward inclusive growth

- Inclusive growth means everyone can participate in and benefit from growth process on an equitable basis.
- Inclusive growth makes a distinction between
 - Inequality due to differences in individual efforts, and
 - Inequality due to differences in individual circumstance, or inequality in opportunity.
- Reducing or eliminating inequality in opportunity is at the heart of an inclusive growth strategy.
 - Inclusive growth is “growth coupled with equality of opportunities”.

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Figure 1 Policy Pillars of Inclusive Growth



Source: Adapted from Zhuang (2010).

Thank you!

The presentation is based on Asian Development Outlook 2012. For the full report, please visit
ADB web site at
www.adb.org

For more details on inequality in Asia, please read the book Inequality in Asia and the Pacific: Trends, Drivers, and Policy Implications, edited by Ravi Kanbur, Changyong Rhee, and Juzhong Zhuang, published by Routledge in 2014.

For more details on the concept of inclusive growth, please read the book Poverty, Inequality, and Inclusive Growth in Asia: Measurement, Policy Issues and Country Studies, edited by Juzhong Zhuang, published by Anthem Press in 2010

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