



**POLICY OPTIONS AND CHALLENGES
FOR DEVELOPING ASIA—
PERSPECTIVES FROM THE IMF AND ASIA**

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**COMMENTS ON ERIK LUETH
“RISING INEQUALITY AND POLARIZATION IN ASIA”**

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PERSPECTIVES FROM THE IMF AND ASIA*

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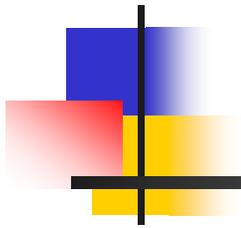
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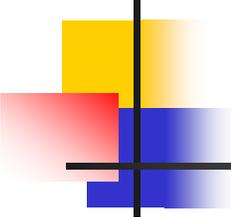
Comments on Erik Lueth

“Rising Inequality and Polarization in Asia”



Hidemi Kimura
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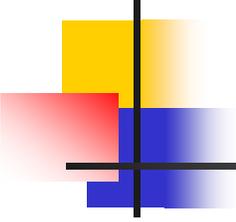
Research Institute of Economy, Trade, and Industry



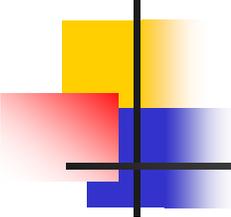
Main Points of Discussion

- Summary and Findings of the Paper
- Remaining Econometric Issues
- Inequality in a global context

Summary of the Paper

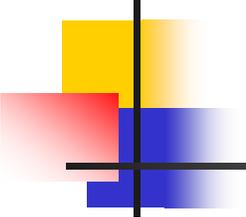


- Trends and Patterns of income inequality and polarization across Asia over the last decade.
- Determinants of Inequality and Polarization
- Possible Government Policies to tackle this rising trend



Findings of the Paper “Rising Inequality and Polarization in Asia”

1. Inequality and polarization have risen significantly in Asia.
2. Positive association between growth and inequality at low levels of development, and negative association for more advanced countries.
3. Impact of trade on inequality appears small.
4. The transition from agriculture to industry is a likely driving force of development in developing countries



Remaining Econometric Issues

1. Omitted Variable Bias?
2. Endogeneity Bias?
3. Sample Selection Bias?

Remaining Econometric Issues

1. Omitted Variable Bias?

- The Kuznets Hypothesis indicates a nonlinear effect of the share of agriculture on inequality
- ☺ Better include the agriculture share and the squared agriculture share?

Remaining Econometric Issues

1. Endogeneity Bias?

- Endogeneity Bias due to spurious correlation?
 - Since income per capita and income inequality measures are calculated from the same income distribution function, the nexus of these two variables may involve a spurious correlation, which generates a correlation between error term and per capita income.
 - Using a fixed-effect model does not perfectly correct for endogeneity. Possible to use further elaborated estimation method to exclude endogeneity?

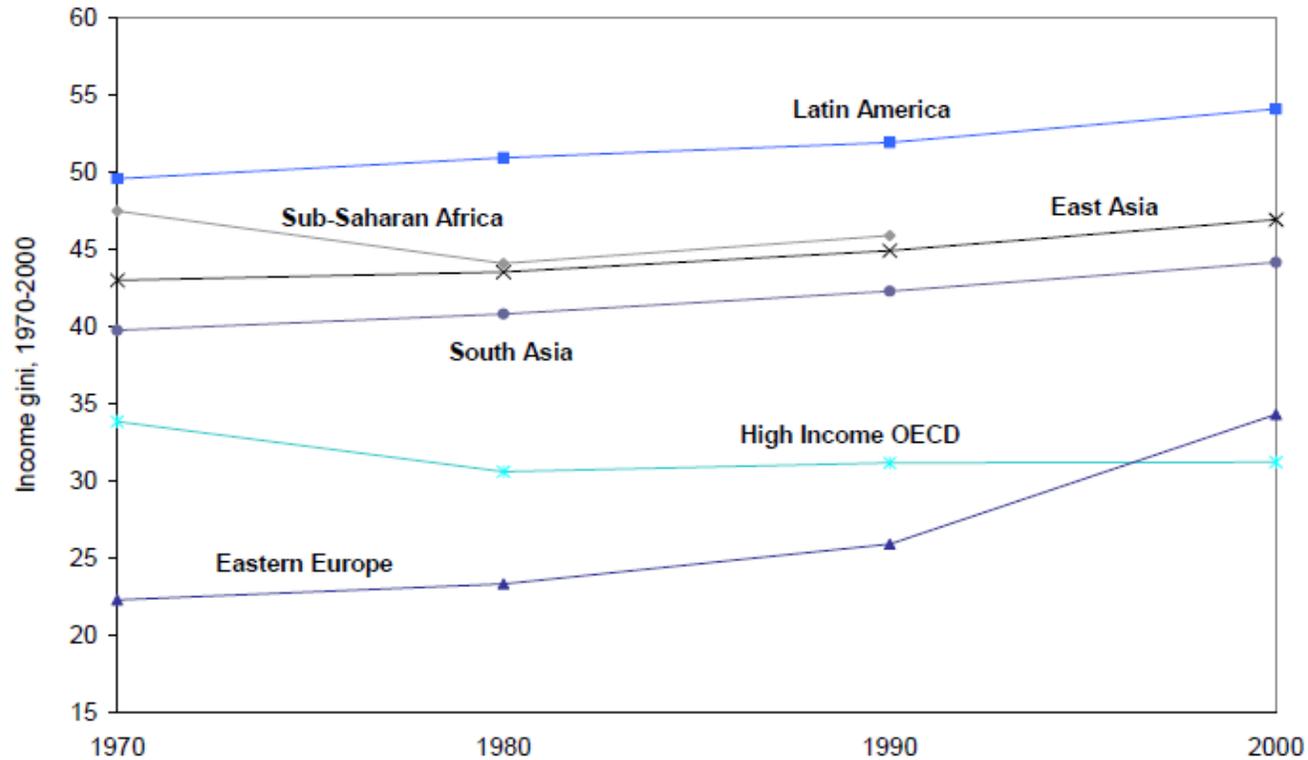
Remaining Econometric Issues

3. Sample Selection Bias?

- When the inequality data availability is systematically related to income level, country size, political instability, and external political/economic regime, there will be a sample selection bias.
- The regression between Gini index and per capita income does not include China nor India in a sample which are major actors in the discussion of inequality.

Inequality in a global context

FIGURE 2
REGIONAL INEQUALITY BY DECADE, 1970-2000



Sources: WIDER WIID2a, Sub-Saharan Africa data from Birdsall (2001).

Inequality in a global context



Note: coefficient: 0.055; t-statistic: 0.76 (not statistically significant); robust se: 0.072.

Source: World Bank (2006b); WIDER WIID 2.0a (2005).

Inequality in a global context

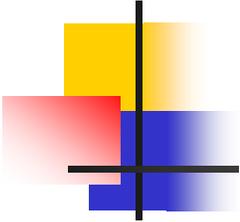
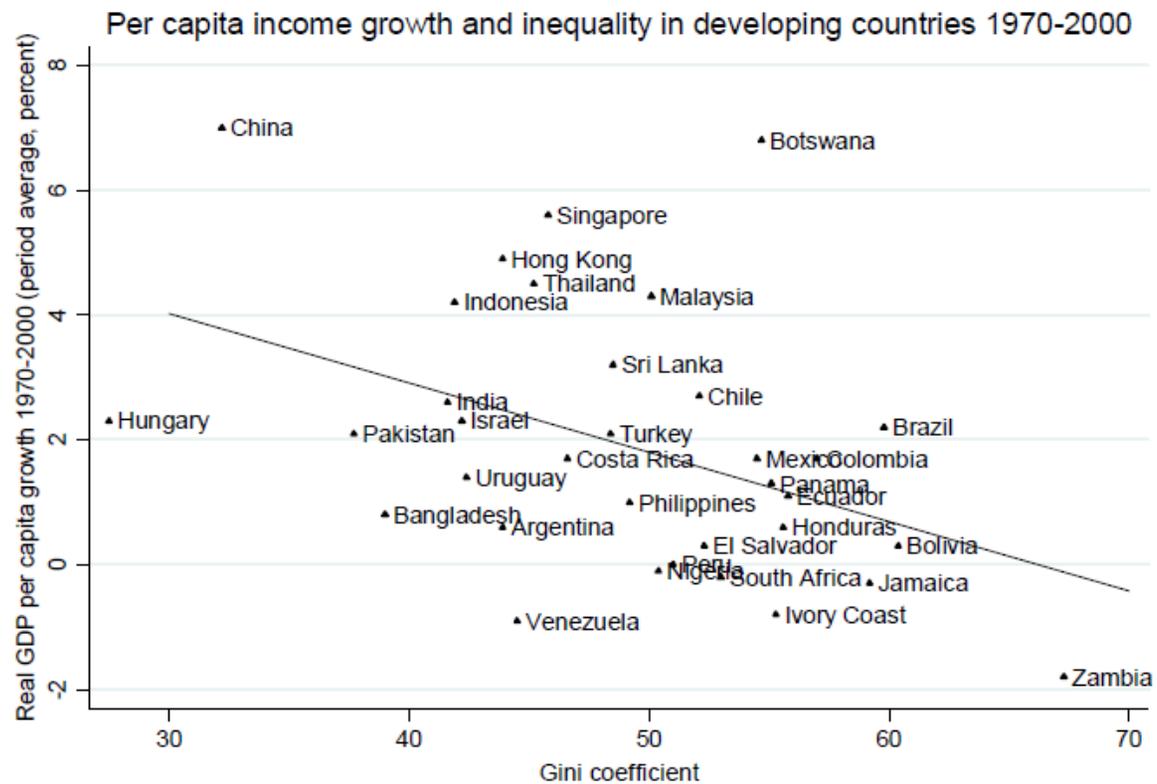
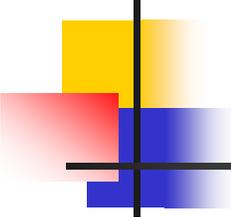


FIGURE 4
INEQUALITY AND PER CAPITA INCOME GROWTH
IN DEVELOPING AND RICH COUNTRIES, 1970-2000



Note: coefficient: -0.105; t-statistic: -2.65 (statistically significant); robust se: 0.04.

Inequality in a global context



- China may contribute to decreasing of global inequality, however, the inequality within China is increasing. Very ironic.
- The problems arising from inequality does not significantly appear in a society when economic growth continues; however, once economic growth slows down, these problems such as social instability will surface.
- In that case, policy makers need to stick to economic growth and the attention to environment or sustainability may not be possibly considered.