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Growth with Equity in East Asia?

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Abstract

Rapid growth and structural change have reduced poverty in East Asian economies. Income inequality has been low in Korea and Taiwan, but has risen in recent years with economic liberalization. In the Southeast Asian economies of Thailand, Malaysia and Indonesia, poverty has declined, while income inequality trends have varied, rising most clearly in Thailand. With its strengthened (private) property rights, market liberalization and sustained rapid growth, China has also experienced increased inequality despite considerable poverty reduction. Hence, the common claim of egalitarian growth in East Asia may have been exaggerated, especially since the 1990s.

JEL Classification: D31 (Personal Income, Wealth, and Their Distributions), D63 (Equity, Justice, Inequality, and Other Normative Criteria and Measurement), F02 (International Economic Order; Economic Integration: General).

Keywords: East Asia, China, Indonesia, Malaysia, Korea, Taiwan, Thailand, inequality, poverty

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Growth with Equity in East Asia?[1]

Jomo K.S.

The 'growth with equity' said to characterize East Asia owes to a variety of political, social, and economic factors. In addition to government interventions crucial to growth and structural change, there has been considerable economic liberalization over the last two decades. The rapid economic development characterizing the region has undoubtedly raised living standards, but the impacts of this growth on inequality have been much less clear. In this paper we investigate these relationships through a comparison of East Asian countries' social records in recent decades. We consider not only the effects of growth and liberalization on inequality, but also the inherent consequences and redistributive mechanisms associated with recent policies.

This paper explores the consequences of trade and financial liberalization—including liberalization of the rules governing foreign direct investment (FDI)—on inequality and poverty in several East Asian economies that have grown rapidly for several decades. The exercise begins with a review of the historical policies and events that have shaped these economies. In Northeast Asia, the study focuses on the Republic of Korea (South Korea) and the Taiwan Province of China (henceforth, Taiwan), while selected Southeast Asian countries include the second-generation newly industrializing economies (NIEs) of Malaysia, Thailand and Indonesia. The paper reviews the distributional impacts of liberalization in Thailand, Indonesia, Malaysia, and China. The unusual urban economies of the Hong Kong Special Autonomous Region (SAR) of China and the island Republic of Singapore, which have seen greater and rising inequality, and the Philippines, which has experienced modest and volatile growth during recent decades, are also brought into this review.

All of the economies in consideration experienced unprecedented growth and structural transformation over the last few decades (see Tables 1, 2 and 3). Average annual gross domestic product (GDP) growth

Table 1.
Six high performing Asian economies: Economic indicators, 1970-2002

	Per capita income (US$)		Annual GDP growth (%)			Manufacturing/GDP share (%)					
Economy	1995	2002	1970	1985	1995	1970	1980	1990	1995	1999	2002
South Korea	9700	9930	8.3	6.8	9.2	21.0	29	28.8	27	31.8	29.2
Taiwan	8788[a]	na	10.1	7.71		35.0[d]	na	na	42.0[a]	na	na
Malaysia	3890	3540	6.0	-1.1	9.8	12	21	24.2	33	31.6	30.7
Indonesia	980	710	8.2[c]	3.5[c]	8.4[c]	10	13	20.7	24	25.8	25
Thailand	2740	1980	11.4	4.6	9.2	16	22	27.2	29	32.4	33.8
China[e]		940	19.4[b]	13.5[b]	10.5[b]	na	42.2	37	na	43.1	44.9

Sources: GDP Growth Data from United Nations Statistics Division (UNSTAT) except for Taiwan; Other data from World Bank (1997: Tables 12, 13, 15); 2002 figures from ADB (2003); Taiwan figures from Yu (1994) and Lee (1994).

Notes: a: for 1991; b: Data for China do not include data for Hong Kong; Macao; or Taiwan; c: Data for Indonesia include Timor-Leste for 1976-1999; d: for industry; e: China's 1970 GDP growth rate of 19.4 % appears implausible; especially since China was deeply mired in the chaos of the 'Great Cultural Revolution' and many factories were closing. Even though this is the same GDP growth rate reported by the State Statistic Bureau of China, most economists do not compare China's current statistics with data collected prior to 1978.

1 Assistance from Foo Ah Hiang, Mohd Aslam, Lee Hwok Aun, Anis Chowdhury, Ragayah Mat Zin and especially Lauren E. Anderson is gratefully acknowledged. The usual caveats apply.

Table 2.
Six high performing Asian economies: Economic indicators, 1980-2002

	Agriculture/GDP share (%)					Services/GDP share (%)				
Economy	1980	1990	1995	1999	2002	1980	1990	1995	1999	2002
South Korea	15	8.5	7	5	4	45	48.4	50	51.5	55.1
Taiwan[a]	na	4.18								
Taiwan[a]	na	4.18	3.48	2.55	1.85	na	na	na	na	69
Malaysia	22	15.2	13	10.8	9.1	40	44.2	44	43.1	46.4
Indonesia	24	19.4	17	19.4	17.5	34	41.5	41	37.7	38.1
Thailand	23	12.5	11	10.4	9	48	50.3	49	49.6	48.5
China	30.1	27	na	17.3	14.5	21.4	31.3	na	32.9	33.7

Sources: World Bank (1997: Tables 12, 13, 15); Taiwan figures from Yu (1994) and Lee (1994); 2002 figures from ADB (2003). Data for Taiwan agriculture share from The International Centre for the Study of East Asian Development; Data for Taiwan services share from CIA World Fact Book, 2005 estimates.

Note: a: Taiwan agriculture share of GDP measured in current new Taiwan dollars (NT$).

Table 3.
East Asia: Size and Growth of National Economies, 1980-2000

Country	GNP p/c	PPP GNP p/c	PPP p/c as % of Japan	PPP GNP p/c rank	GDP growth rates 1980-1990	GDP growth rates 1990-2000	GDP growth rates 1980-2000
Japan	35,620	27,080	100.0				
Singapore	24,740	24,910	92.0	1	6.7	8	7.4
Korea	8,910	17,300	63.9	2	8.9	5.7	7.3
Malaysia	3,380	8,330	30.8	3	5.3	7	6.2
Thailand	2,000	6,320	23.3	4	7.6	4.2	5.9
Philippines	1,040	4,220	15.6	5	1	3.3	2.2
China	840	3,920	14.5	6	10.1	10.3	10.2
Indonesia	570	2,830	10.5	7	6.1	4.2	5.2
Vietnam	390	2,000	7.4	8	4.6	8.1	6.4

Source: World Bank (2002a; 2002b) as cited in Medhi and Ragayah (2006: Table 1).

Note: p/c = per capita; GNP = gross national product; PPP = purchasing power parity.

rates exceeded seven per cent and six per cent in the periods of 1970-1980 and 1980-1996, respectively. The manufacturing sectors grew most rapidly, greatly contributing to growth, until some economies such as Hong Kong, Singapore, and Taiwan began de-industrializing. Exports grew at double-digit levels annually between 1980 and 1992, resulting in a significant increase in average per capita incomes. As a proportion of total growth, primary exports fell sharply, while machinery and transport equipment production grew, especially in the manufacturing sectors. In addition to the eight high performing Asian economies (HPAEs) of Japan, Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand and Indonesia (see World Bank, 1993), China has also grown very rapidly over the last twenty-five years.

The remarkable economic growth in East Asia over the last four to five decades has generally improved living standards. According to the World Bank, falling poverty levels and better income distribution have accompanied the expansion of manufacturing and exports in these economies. Extensive interventions in the market were important for late industrialization yet, most governments substantially liberalized their economies in the mid 1980s due to pressure from the West. The World Trade Organization (WTO) and international financial institutions (IFIs), in addition to a renewed interest in deregulation following unpopular and counter-productive government interventions, also encouraged this wave of liberalization.

East Asian economies also developed by subsidizing an array of social development programmes. Asian policymakers have pursued for instance; (1) regime initiatives to secure greater political support and legitimacy (such as land reform and rural development initiatives), (2) human resource development (HRD) programmes (especially meritocratic publicly-funded education to the tertiary level), (3) significant household savings ('forced' or otherwise) and (4) a greater role for government. This paper investigates all of these factors--human resource development (especially education and training); redistribution and poverty targeting; more effective social safety nets; social corporatist and communitarian initiatives; quality-of-life improvement efforts; technology promotion; and the more gradual liberalization of agricultural trade--in light of their impact on the distribution of wealth and poverty.

Though East Asian growth and structural changes led to spectacular reductions in poverty, the impact on inequality has been much less apparent. Income inequality has been low in Korea and Taiwan, but has increased with globalization. Trends in Southeast Asia, including Thailand, Malaysia and Indonesia, have been harder to discern as poverty declined and inequality rose in conjunction with economic liberalization. With rapid growth and strengthened (private) property rights, China has also experienced a swift increase in inequality and unemployment despite considerable poverty reduction. This evidence suggests that the World Bank's (1993) claim of egalitarian growth in East Asia may be exaggerated, if not erroneous. The 'initial conditions' that appeared to be primarily responsible for more balanced growth in the Northeast (as compared to Southeast Asia) were not sufficient to prevent a spike in Chinese inequality. There are, of course, exceptions. Northeast Asian countries for instance, experienced low unemployment and skill enhancement that generally strengthened the bargaining power and remuneration of labour. In East Asia, Korea is unique because it institutionalised some redistributive and welfare measures during its recent democratisation.

For most of the economies under consideration, the 1997-1998 regional financial crises had great, but varied impacts on equity. The substantial rhetoric on social safety nets during the crisis obscured the negative impacts of structural adjustment and economic liberalization programs in the 1990s on redistribution, welfare rights, and social protection provisions and institutions. Yet, there has been some retreat from Washington Consensus market fundamentalism (pro-liberalization policies) in recent years, as reflected in the World Bank's image under James Wolfensohn (1995-2005), the International Monetary Fund's (IMF) more recent espoused commitment to poverty reduction, and the World Trade Organization's (WTO) apparent commitment to a 'Doha Development Round'. Nevertheless, considerable and growing scepticism remains regarding the depth and extent of these changes sometimes referred to as the 'post-Washington Consensus' consensus'.

Unfortunately, available evidence does not allow robust and comparable commentary on recent trends in the distribution of assets, employment, social services (especially health and education), access to information and political participation in East Asia. The following discussion therefore focuses on poverty and income distribution trends, but even here, most available data were collected in the early part of this decade. It remains very difficult to assess the impact of East Asian government declarations promising greater equity, including those made at the 1995 World Summit for Social Development in Copenhagen.

A Brief Review of Poverty Alleviation and Redistribution in East Asia

The incidence of poverty declined sharply in the East Asian economies shown in Table 4. Income inequality declined or remained constant in Korea, Taiwan, Malaysia and Indonesia between 1976 and 1985. The exception to this trend was Thailand, which did not make a significant commitment to egalitarian redistribu-

Table 4.
Five high performing Asian economies: Poverty incidence, 1970-2002

Economy	1970	1976	1980	1985	1993	1998	2000	2002
South Korea	23.4	14.8	9.8	na	na	4.5[b]	3.6	na
Malaysia	52.4	42.4	29	20.7[a]	13.4	7.5[b]	5.5	5.1
Indonesia	57.1	50.1	39.8	21.6[a]	na	23.4	na	18.2
Thailand	39	30	23	29.5	na	12.9	13.1	na

Sources: Medhi (1995: 58-73); Malaysia (1996); Habibullah (1988); Yu (1994: 6); Chowdhury and Islam (1993); data for 1998 and 2000 from ADB, Key Indicators (various years) and data for Malaysia from Malaysia (1999, 2003, 2006).

Notes: na – not available; a 1984; b 1989. While inter-country comparison of changes is possible, cross-comparisons of rates in particular years is not possible due to classification differences.

tion. All these economies had explicit poverty alleviation and redistribution policies, though the impacts of these programs varied between countries. These countries also directed development relatively independently and maintained a strong commitment to achieving growth and redistribution.

Redistribution and Land Reform

The South Korean and Taiwanese land reforms in the late 1940s were the first important initiatives to reduce poverty and inequity in the Northeast Asian economies under consideration (see Hamilton, 1983; Hsiao, 1996). In 1947, during the Korean War, the United States military forces distributed land confiscated from the Japanese colonial government to tillers in exchange for low rents. At the conclusion of the war, the Korean government acquired land from landlords and resold it at subsidized prices to 90,000 tenants (Amsden, 1989). In Taiwan, the Kuomintang government exchanged shares in public companies for landlord's lands, and also sold it at favourable prices to tillers. These reforms reduced land rents to 37.5 per cent of the yield for major crops, resulted in the sale of public land to cultivators and tenants, and effectively limited ownership by landowners in Taiwan (Yu, 1994: footnote 1).

Meanwhile, competition among food producers and United States food aid under Public Law 480 ensured low food prices in East Asian countries and beyond. The terms of trade between agriculture and manufacturing favoured the latter, as small-scale farmers enjoyed little market power or political influence (Hamilton, 1983; Yu, 1994: footnote 2). The Gini coefficient measure of income inequality in Taiwan declined from 0.358 in 1966 to 0.318 in 1972 as farmers moved out of agriculture and into manufacturing and services. The change for Korea however, was negligible, as the Gini moved from 0.334 in 1965 to 0.332 in 1970 (Rao, 1993; Medhi, 1995: Table 1).

When food aid ceased following the 1973 oil shock, the Korean government launched the Saemaul Undong program that, inter alia, increased domestic food supply. With the help of price controls, the state succeeded in providing industrial workers with cheap food, thus lowering the wage bill for manufacturing firms. Price controls helped keep consumer prices low so that both savings and investment rates rose in these economies. Taiwan also emphasized rural industrialization, encouraging manufacturing alongside farming. In the 1970s, both Korea and Taiwan introduced hybrid grain varieties and modernized farming, which helped expand the food supply and free more farm workers for industry. Since the 1980s, with increased liberalization, income inequality has risen in both of these economies. In Korea, the Gini coefficient rose to 0.400 in 1988 and then again from 0.312 in 1993 to 0.32 in 2000. In Taiwan, the Gini coefficient went from 0.277 in 1980 to 0.345 in 2002 (see Table 5).

Table 5.
Six high performing Asian economies: Household income distribution Gini coefficients, 1970-2002

Economy	1970	1976	1980	1985	1999	2000	2002
China	na	na	na	na	0.32[g]	na	na
Indonesia	0.35	0.34	0.34[c]	0.33	0.31	0.3	na
Malaysia	0.506	0.529	0.493[a]	0.474[c]	0.4432	na	0.4607
South Korea	0.332	0.391	0.389	0.357[d]	0.3204	0.32	na
Taiwan	0.294	0.28	0.277	0.29	0.325	na	0.345
Thailand	na	0.451	0.473[b]	0.500[f]	0.444	0.43	0.428

Sources: Medhi (1995: 58-73); Malaysia (1996, 2003); Habibullah (1988); Taiwan Gini coefficients are from Yu (1994: 6); Chowdhury and Islam (1993); 1999, 2002 data are from ADB website; Thailand data from the Thailand National Statistical Office.

Notes: a 1979; b 1981; c 1984; d 1989; e 1998; na – not available.

In the Southeast Asian economies, political and environmental circumstances have not induced pro-active land redistribution measures comparable to those in Northeast Asia. Countries like Korea and Taiwan are not rich in natural resources. This is a contrast to the Southeast, where more abundant natural wealth may have weakened the imperative to industrialize, especially to promote export-oriented manufacturing. Political considerations as well as ethnic diversity may have further limited more activist industrial policy initiatives in Southeast Asia. After seceding from Malaysia in 1965, Singapore's leaders sought to quickly develop a large foreign stake in their economy to secure protection against potentially belligerent neighbours. With the introduction of pro-Malay affirmative action policies beginning in the early 1970s, it is widely believed that foreign investment was encouraged to 'balance' the ubiquitous ethnic Chinese presence in the Malaysian economy.

As a consequence, the region, especially Singapore and Malaysia, has relied far more on foreign direct investment (FDI) to industrialize and especially to develop export-oriented manufacturing capacity. Labour, in particular wage repression, has attracted FDI. Currency under-valuation also discouraged imports and boosted export competitiveness, attracting investments in new manufacturing activities. Different colonial interests and policies (such as those employed in the Japanese colonies of Taiwan and Korea) may have also been more or less conducive to industrialization. The success of agricultural exports as well as greater natural resource wealth further diminished the imperative to industrialize and develop higher value-added services. US-led Cold War efforts to secure a political *cordon sanitaire* around the 'communist bloc' ensured considerable aid as well as economic policies conducive to equitable and rapid development. Compared to Korea and Taiwan, Southeast Asia has developed more modest planning and pro-active selective industrial promotion capacities and implemented fewer effective education, training and research programs conducive to rapid technological advancement. This has deepened the divide in the development of their industrial and technological capabilities, and hence, their prospects for greater productivity growth and labour remuneration (Jomo, 2001).

Although there has not been any major land reform in Malaysia, new agricultural areas have been distributed through land development schemes managed by government agencies such as the Federal Land Development Authority (FELDA), Federal Land Consolidation and Rehabilitation Authority (FELCRA) and the Rubber Industry Smallholders Development Authority (RISDA). Although these programmes have had some effect on poverty alleviation, their impact has been limited (see Halim, 1991; Jomo, 1986). Malaysia deepened its rural development efforts following the 1971 introduction of the New Economic Policy (NEP), a program committed to poverty reduction and greater inter-ethnic parity via redistribution. Besides

extensive investments to develop infrastructure in rural areas where Bumiputera were heavily concentrated, special ministries and government agencies, such as Bank Bumiputera, Majlis Amanah Rakyat (MARA), and Pernas, were also set up to enhance the socio-economic standing of the Bumiputera.[2] With rapid economic growth led by export-oriented manufacturing in the 1970s, poverty rapidly declined over the next two decades. In addition, the Green Revolution in rice cultivation, which involved double cropping, green revolution strains, fertilizers, pesticides, ploughing and harvesting machinery, raised yields and incomes. Income inequality trends are unclear, but seem to suggest growing inequality in the 1960s, declining inequality in the 1970s and 1980s, and increasing inequality thereafter (Jomo and Ishak, 1986; Hashim, 1997).

Like Malaysia, Thai authorities emphasized agricultural diversification. In the 1960s, new lands were opened with little emphasis on land or income redistribution to help disadvantaged groups (Onchan, 1995: 7-8). Thai land reforms were formally introduced with the 1975 Agricultural Land Reform Act, however most property was transferred to wealthy, politically influential businessmen instead of the less fortunate (Onchan, 1995).

Though land reforms have generally been unsuccessful despite these important initiatives, growth has helped lower the overall incidence of poverty (except in the mid-1980s). The governments of Japan, Taiwan, and Korea have been fairly successful in boosting rural household incomes through the promotion of off-farm rural work. As a consequence, the proportion of rural household incomes from off-farm activities rose from 46 per cent in 1971-1972 to 63 per cent in 1986-1987 (Onchan, 1995: 32). This helped further reduce rural poverty in the 1985-1990 period, when urban poverty was on the rise (see Rasiah, Ishak and Jomo, 1996: Tables 4a, 4b). Unfortunately despite such poverty reduction, income inequality has worsened (see Tables 5 and 6).

Table 6.
Gini Ratios for Household Income in Eight East Asian Economies, 1961-2005

	Asian NIEs				ASEAN-4			
Year	Korea	Singapore[a]	China	Indonesia[b]	Malaysia	Philippines	Thailand	Vietnam
1961						0.49 (0.486)		
1962							0.414	
1964								
1965	0.344					0.49 (0.491)		
1966		0.498						
1967					0.498			
1968							0.429	
1970	0.332				0.506 (0.502)			
1971						0.480 (0.478)		
1972								
1973		(0.46)						
1974		(0.45)						
1975		0.448 (0.45)					0.451 (0.426)	

2 *Bumiputera* translated literally means "sons of the soil", but is generally used to refer to ethnic Malays and other indigenous people of Malaysia.

Table 6 (cont'd)

	Asian NIEs		(New)		ASEAN-4			
Year	Korea	Singapore[a]	China	Indonesia[b]	Malaysia	Philippines	Thailand	Vietnam
1976	0.391	(0.44)		0.34 (0.492)	(0.529)			
1977		(0.46)						
1978		(0.42)						
1979		0.424 (0.42)			0.493 (0.493)			
1980	0.389	(0.41)		0.34				
1981		0.443 (0.44)	0.288	0.33	0.443		0.473 (0.453)	
1982	0.357	0.465 (0.46)			0.465			
1983		(0.48)						
1984		0.474 (0.47)	0.297	0.33	0.474 (0.48)			
1985		(0.46)				0.452 (0.446)		
1986		(0.46)					(0.500)	
1987		(0.47)		0.32	(0.458)			
1988	(0.400)	(0.48)				(0.445)	(0.479)	
1989		(0.49)	0.349					
1990		0.436					(0.504)	
1991								
1992	0.284						0.536	
1993	0.281				0.459			0.33
1994	0.285					0.46	0.521	
1995	0.284	0.443	0.389		0.464			0.356
1996	0.291		0.375	0.366			0.516	
1997	0.283	0.444	0.379		0.47	0.51		
1998	0.316	0.446	0.386				0.509	0.348
1999	0.320	0.467	0.397	0.373	0.452		0.531	
2000	0.317	0.490	0.458			0.51	0.525	
2001	0.320	0.493		0.31				0.407
2002	0.312	0.505		0.33	0.461		0.505	
2003	0.341	0.512						
2004	0.344	0.517			0.462			
2005	0.348	0.522						

Sources as cited by Medhi and Ragayah (2006: Table 2): Figures not in parentheses are from Rao (1988). Figures in parentheses are new series derived from the following sources: Hong Kong: T.B. Lin (1994) as cited by Medhi and Ragayah (2006); Korea, Leipziger et al. (1992); Singapore, Rao (1993); Taiwan: C.Y. Lin (1994) as cited by Medhi and Ragayah (2006); Indonesia: Tjondronegoro et al. (1992), World Bank (1990); Malaysia: Ishak and Ragayah (1990); Philippines: Balisacan (1992); Thailand: Medhi (1994). From 1992 onward, for most countries, a new series of data are used. Data sources are as follows: Korea: UFIES (2003), Korea National Statistical Office (2006); Singapore: Department of Statistics (DOS) (2003; 2006); China: Tian He, Wang Xiaoming, and Liu Fande (2003); Indonesia: Alisjahbana et al. (2003); BPS (BPS is Indonesia Central Bureau of Statistics (Badan Pusat Statistik) for 2001-2002; Malaysia: Ragayah (2003); Philippines: Balisacan and Piza (2003); Thailand: Somchai and Jiraporn (2001).

Notes: a Up to 1989, for employed population, not households. From 1990, it is based on ranking of all resident households by per capita monthly household income from work. b Employed expenditure, not income, data.

Human Resources and Education

Though the effects of land reform have been mixed, investments in human resources have helped reduce poverty and inequality. Through government efforts, Korea and Taiwan have developed highly educated labour forces. Universal primary education since the 1960s has been complemented by high enrolments in secondary and tertiary levels, and a strong emphasis on technical and engineering disciplines. Clearly these investments in human capital went well beyond the primary schooling limit recommended by the World Bank, with labour market interventions based on long-term considerations beyond current prices (Rodrik, 1994). The expansion of education not only helped generate technical and professional human resources for industrial upgrading, but also enhanced opportunities for upward socio-economic mobility, including skills enhancement and higher remuneration (Deyo, 1989).

Achievements in secondary and particularly in tertiary education in Malaysia, Thailand and Indonesia have not been comparable to those in Korea and Taiwan, as shown in Table 7 and Table 8. Interestingly, the Philippines performed better on many educational achievement indicators than Malaysia, Thailand and Indonesia, raising serious doubts about the actual role and contribution of human resource development to growth and equality. While basic education has offered access to low-skilled jobs, such schooling has offered limited upward social mobility in the absence of significant technological change and value addition. Furthermore, while Taiwan and Korea have generated ample supplies of technical labour, Malaysia, Thailand and Indonesia continue to face serious shortages. In 1990, these three South Asian countries had around 400 technologists and scientists per million people, compared to 2,200 for Korea; 2,100 for Taiwan; and 6,700 for Japan (UNDP, 1994: 17). Though Malaysia and Indonesia managed to reduce inequality over long periods, this success was not due to market forces, but rather to significant government expenditures on rural development, education, and employment programs.

Table 7.
Selected Asian countries: Workforce share with primary education or less

Country (Year)	Percentage
China (1982)	62.7
Malaysia (1980)	58.4
Philippines (1980)	56.5
Singapore (1980)	71.3
South Korea (1980)	49
Taiwan (1980)	44
Thailand (1990)	83

Sources: Pasuk and Isra (2000: Table 10); Myers and Chalongphob (1991: 14)

Table 8.
Selected Asian countries: Gross education enrolment ratios, 1980s, 2000s

	Primary		Secondary		Tertiary	
Economy	1980s	2000	1980s	2000	1980s	2002
China[a]		106.4		62.8		7.5
Hong Kong	106	100	74	na	13	na
Indonesia	119	110	48	57	7	14.6
Malaysia	102	98.7	57	70.3	7	28.2
Philippines	110	112.6	71	77.3	28	31.2
Singapore	111	97.5[b]	69	na	12	na
South Korea	104	101.1	87	94.1	37	77.6
Thailand (1990)	95	94.8	29	81.9	10	35.3

Sources: Pasuk and Isra (2000: Table 11); Myers and Chalongphob (1991: 14); ADB (2003).

Notes: a 1999; na - not available; b 1998.

Labour

Rapid growth, rising education levels, and declining unemployment have pushed up real wages in all fast growing economies despite the weakness of organized labour (see Table 9). In Korea, real wages grew at average annual rates of 10 per cent and 8.2 per cent over the periods 1970-1980 and 1980-1992, respectively (World Bank, 1995: 175). In Taiwan, real wages grew by 6.0 per cent (comput-

Table 9.
Five HPAEs Wage employment growth and unemployment rates, 1970-2002

Economy	Average annual growth of wage employment, 1970-1990 (%)	Unemployment rate (%)				
		1970	1983	1992[a]	2000	2002
China		na	na	na	3.1	4
Indonesia	na	na	2	8	6.2	na
Malaysia	8.2	8	6	4.1	3.1	3.5
South Korea	6.6	na	4.1	2.4	4.5	3.1
Taiwan	na	1.7	2.7	1.51	2.99	5.17
Thailand	6.6	na	2.9	3	3.6	2.2

Sources: World Bank (1995); Taiwan figures from Yu (1994: 6); Ragayah (2002b).
Note: a 1991; na – not available.

ed from Deyo, 1989: 93) and 7.5 per cent (Lee, 1994: 16) over the periods 1970-1980 and 1976-1986 respectively. Although labour was harshly repressed in Korea and Taiwan until democratization in the late 1980s, efforts to enhance labour productivity, product quality, and firms' competitiveness helped raise wages. Some of these trends also reduced occupational hierarchies and income differentials within enterprises. By the time unions grew in strength, real wages had already substantially risen.

The growth of wage labour in Malaysia, Thailand and Indonesia intensified following rapid export-oriented manufacturing expansion during the 1970s and 1980s. This also reduced disguised unemployment and raised household incomes. As Table 9 shows, during this decade, wage labour grew by annual average rates of 8.2 per cent in Malaysia and 6.6 per cent in South Korea and Thailand, with noteworthy increases in female participation (see Kamal and Young, 1985; McGee, 1986; Onchan, 1995; World Bank, 1993). The migration of rural labour to urban industrial areas was pronounced enough to put upward pressure on wages.

The growing presence of foreign labour beginning in the early 1980s, commodity price declines, and union repression undermined improvements in real wages and working conditions in plantation agriculture in Malaysia (see Jomo, 1990; Jomo and Todd, 1994). However, inter-ethnic and other redistribution efforts, the expansion of more remunerative employment (in particular the absorption of Bumiputera into the public sector), and manufacturing and modern service wage employment caused the Gini coefficient for income inequality to decline to 0.474 in 1984; to 0.445 in 1990; and to 0.4607 in 2002 (see Table 5). Overall growth in wage employment and consequent increases in household incomes reduced poverty and inequality.

There has also been less corporatism at the firm level in Malaysia, Thailand, and Indonesia in comparison to Taiwan and Korea. In export-oriented high-technology firms (semi-conductor firms, in particular), enterprise-level corporatism has involved mutually beneficial cooperation between management and labour, but such enterprises tend to be much more exceptional in Southeast Asia. Meanwhile, rising demand for skilled labour in Malaysia and Thailand substantially pushed up the wages of skilled workers (World Bank, 1995; Rasiah and Osman-Rani, 1995). This increased wage differentials between skilled and unskilled labour, which was further undermined by labour imports.

While unions and labour militancy have been treated unsympathetically, if not brutally, in all five economies, the NICs of Malaysia, Thailand and Indonesia have experienced much worse wage and working conditions. This is even in comparison to Korea and Taiwan, where labour protests are routinely suppressed. In Thailand and Indonesia, militant leaders have been beaten and murdered, unions weakened, and sometimes even destroyed (Narayanasamy, 1996). Collective bargaining rights for labour continue to be minimal in practice. Rising wages were mainly due to the exhaustion of labour reserves and technological deepening in a few export-oriented industries, but not union strength.

Unlike Korea and Taiwan, industrial policy in Malaysia, Thailand and Indonesia emphasizes low production and labour costs, which suppress rapid wage growth and attract investment. On average, real wages grew by 2.0 per cent in Malaysia and 5.3 per cent in Indonesia over the 1970-1980 period, and by 2.3 per cent and 4.3 per cent, respectively, over the 1980-1992 period (World Bank, 1995: 1974-1975). Real wages in Thailand grew by 2.0 per cent over the 1973-1981 and by 2.8 per cent from1981-1989 (Rasiah, 1994: 210).

Besides poverty alleviation and redistribution mechanisms, the five governments have to varying extents, introduced social safety nets to reduce the dislocation caused by rapid structural changes and cyclical influences. The effects of such instruments have however, been mixed. In Malaysia, the cost-of-living-allowance (COLA) for workers is one such provision, but the unemployed do not qualify for it. There has been a pronounced tendency to minimize provisions on the presumption that full employment could be indefinitely assured and that this would eliminate the need for 'welfare'. It was also often claimed that the unemployed could always count on 'traditional' social safety nets provided by families, communities, and informal sector participation. The social dislocations during the recessions following the 1997 East Asian financial crises have underscored the inadequacy of such provisions and the need for formal safety nets.

Summary

It is generally agreed that Korea and Taiwan were far more interventionist in the 1950s and 1960s than Malaysia and Thailand have been in recent decades. Income distribution was and remained better in Northeast Asia during periods of high growth while it has fared less well in Southeast Asia. Contrary to the Kuznets' hypothesis, the cases of Korea and Taiwan suggest that lower inequality can be complementary to rapid growth in its early stages. The Northeast Asian experiences suggest a strong case for intervention to improve asset distribution and to enhance human resources in order to generate rapid growth. With increasing liberalization since the 1990s, income inequality in Taiwan and Korea began to worsen. The Korean and Taiwanese experiences, however, have been rejected by the World Bank (1993) as special cases unsuitable for emulation by other developing countries.

The cases of Malaysia and Thailand offer different lessons. The Malaysian economy remained largely laissez-faire until around 1970 with income distribution worsening in the 1960s (World Bank, 1995). After interventionist redistribution policies were adopted, growth, industrialization, and income distribution improved in the next two decades, before deteriorating again in the 1990s with economic liberalization. While Thailand did not pursue redistribution policies or an explicit industrial policy, its income Gini coefficient continued to rise.

These experiences suggest that poverty alleviation and the reduction of income inequality can not only accompany, but may even be conducive to rapid growth and industrialization. Income inequality however tends to worsen with economic liberalization, especially in the absence of effective provisions for redistribution. Furthermore, the fact that income inequality in Taiwan and Korea declined in the initial stages of growth, and worsened as the two economies liberalized, turns the Kuznets hypothesis on its head. However, the unique circumstances of post-war asset redistribution (including land reforms) suggest that initial conditions, rather than subsequent growth itself, may better explain these Northeast Asian exceptions.

The next few sections examine the experiences of Thailand, Indonesia, Malaysia and China more closely, paying particular attention to the impacts of economic liberalization on inequality and poverty. The effects of public policy and the role of education are also considered.

Thailand

Inequality

Though poverty in Thailand declined markedly over the last four decades, income distribution actually worsened (Pasuk and Isra, 2000: Table 3). Since 1962, when data first became available, Thailand's Gini coefficient continuously rose and peaked at 0.54 in 1992 (Rao, 1998: Table 9). There is no evidence supporting the World Bank's claim of a dramatic decline in income inequality in Thailand (see Tables 10 and 11 using different data sets or series).

Since the 1960s, income inequality generally deteriorated, as indicated by a rise in the Gini index from 0.453 in 1980-1981 to 0.531 in 1992 (Suganya and Somchai, 1988; Isra, 1995). Equality improved only in 1988, when agrarian prices were exceptionally high, and in recent years since 1992, i.e. after the World Bank's (1993) study period. Full employment, economic diversification with new agricultural and manufacturing exports, and increased tourism earnings have all raised earnings among low income groups. Between 1980-1981 and 1992, the share of income going to the top 10 per cent of the population rose steeply from 35 to 42 per cent (Pasuk and Isra, 2000: Table 29). Between the years of 1992 and 1998, this trend reversed (Table 12; Pasuk and Isra, 2000). The Gini index improved slightly, declining to 0.508 in 1998, or roughly its level in the mid-1980s. This reversal of trend most likely reflected the country's tight labour markets, as real wages in the formal sector quickly increased by the mid-1990s. In 1999, the Gini index rose again to 0.53 (its 1992 level), suggesting that recent improvements were reversed by the financial crisis (World Bank, 2000). The World Bank found

Table 10.
Thailand: Gini coefficients, 1962-1992

Year	Set 1	Set 2	Set 3
1962	0.41	-	0.41
1968	0.43	-	0.43
1975	0.42	0.43	0.42
1981	0.44	0.45	0.43
1986	0.47	0.5	0.47
1988	-	0.48	0.47
1990	-	0.5	0.49
1992	-	0.54	0.51

Sources: Pasuk and Isra (2000: Table 3); Suganya and Somchai (1988: Table 2.2); Isra (1999b: Table 7).

Table 11.
Thailand: Per capita household income distribution, 1962-1998

	Series I			Series II				Series III				
Year	1962-1963	1968-1969	1971-1973	1975-1976	1980-1981	1985-1986	1988	1990	1992	1994	1996	1998
Quintile 1	2.9	3.4	2.4	6.1	5.4	4.6	4.9	4.4	4.1	4.1	4.3	4.3
Quintile 2	6.2	6.1	5.1	9.7	9.1	7.9	8.5	7.6	7.2	7.4	7.6	7.8
Quintile 3	10.5	10.4	9.7	14	13.4	12.1	12.4	11.7	11.2	11.7	11.9	11.9
Quintile 4	20.9	19.2	18.4	21	20.6	19.9	19.7	19.4	18.8	19.6	19.8	19.7
Quintile 5	59.5	60.9	64.4	49.3	51.5	55.6	54.5	56.9	58.7	57.1	56.5	56.3
Top 10%					35.4	39.2	37.8	40.4	42.3	40.6	40	39.8
Gini Index	0.456	0.482	0.535	0.426	0.453	0.5	0.49	0.51	0.53	0.52	0.51	0.51
Shorrocks Index								1.58	1.76	1.49	1.28	1.11
Series I: Medhi (1977)												
Series II: Suganya and Somchai (1988)												
Series III: Isra (1999b), compatible with Series II												

Sources: Pasuk and Isra (2000: Table 3); Suganya and Somchai (1988: Table 2.2); Isra (1999b: Table 7).

Table 12.
Thailand: Gini coefficient and quintiles of income inequality, 1975-2000

Year	Gini Coef	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
1975	42.6	6.0	9.7	14.0	21.0	49.2
1981	44.2	5.5	9.3	13.7	21.1	50.4
1986	49.6	4.5	7.9	12.3	20.3	55.0
1988	48.9	4.6	8.0	12.4	20.6	54.5
1990	51.5	4.3	7.5	11.7	19.5	57.0
1992	53.6	4.0	7.1	11.1	18.8	59.1
1994	52.1	4.0	7.3	11.7	19.7	57.2
1996	51.6	4.1	7.5	11.8	19.9	56.7
1998	50.9	4.2	7.7	11.9	19.8	56.3
1999	53.1	3.8	7.1	11.4	19.4	58.2
2000	52.5	3.9	7.2	11.4	19.9	57.6

Source: Pasuk and Isra (2000).

Table 13.
Thailand: Decomposition of changes in individual income inequality by income source, 1988-1996

	1988-1992		1992-1996	
Source	Share	Inequality	Share	Inequality
Total	29.05	70.95	-0.36	-99.64
Wages & salaries	12.84	-0.69	-1.29	31.07
Non-farm profits	37.01	46.69	7.53	-136.5
Farm profits	-21	20.41	-9.21	21.7
Transfers	-3.24	0.16	4.61	-5.12
Property incomes	3.12	1.8	-1.76	-5.31
Other money receipts	0.32	2.57	-0.23	-5.48

Source: Pasuk and Isra (2000: Table 20).

that the 1997-1998 crisis had the hardest impact on workers in small enterprises, wage earners below 24 years old, and the less educated.

Overall inequality increased between 1988 and 1992, and then declined until 1999, which was the first recovery year following the financial crisis. (It is worth noting that the East Asian crisis was preceded by a recession that reduced the income of the wealthy more than for others, thereby initially decreasing inequality. When the crisis actually hit, income inequality rose sharply.) During this entire period, non-farm profits made the largest contribution to changes in distribution (see Table 13). Between the years of 1988 and 1992, increasing inequality in non-farm earnings contributed to 47 per cent of the total increase in inequality. The boom during this period almost doubled inequality in non-farm profits, thereby increasing overall inequality. From 1992 to 1996, declining inequality in these same profits contributed to a 137 per cent overall decline in inequality. However, profit levels generally declined and inequality in non-farm profits fell back to their 1998 levels by the end of this latter period. During the 1992-1996 bubble, profits fell as wages and salaries continued rising due to full employment.

Changes in farm profits had the second largest impact on inequality, increasing inequity before and after the boom. Inequality in farm profits increased steadily and significantly, signifying widening disparity among farmers. The gains from agricultural commercialization and agro-technological changes were not well shared among farmers in different regions and agricultural sub-sectors. Some (e.g. small and medium farms operated by older farmers) were left behind while others gained disproportionately.

Inequality in wages and salaries decreased between 1988 and 1992, and then rose sharply until 1996. This increase was most likely due to the spectacular high-level salaries of managers and professionals, particularly in the finance, insurance, and real estate (FIRE) sectors, during the height of the boom and bubble. Shifts among the various sources of income contributed greatly to income inequality during the first period, but not in the second period. In the first set of years, increases in the share of wages and salaries and the share of non-farm profits accounted for most of the 29 per cent rise in inequality. Also during this timeframe, there was a pointed increase in manufacturing labour and a boom in FIRE.

These shifts boosted the returns to capital and wages, raised business profits, and squeezed agriculture with higher costs. In the 1992-1996 period, when shares of the FIRE and manufacturing sectors remained almost constant, changes in income shares from various sources contributed almost nothing to the changes in overall inequality. Shifts in overall mean income were barely significant, but positive in both periods. This suggested that while growth tended to reduce inequality, its contribution was very small. Covariance among different income sources was not significant. Although the study only covered a limited period, the results clearly showed that the main determinants of inequality in Thailand before the crisis were business profit levels and returns to agriculture.

Orakoch (1999) found that 95 per cent of overall (individual) income inequality can be explained by inequality (among individuals living or working) in the same region or community, or economic sector. Moreover, the contribution of such 'within-group' inequality increased slightly between 1988 and 1996. Hence, the contribution of income disparities among regions, communities and economic sectors—which explained only around 5 per cent of overall inequality—decreased correspondingly over this period. Thus, the distribution of development benefits became more balanced between 1988 and 1996. Inequality among different communities, regions or sectors decreased compared to inequality within the same community, region or sector (Pasuk and Isra, 2000). Meanwhile, however, regional disparities have been increasing, especially between Bangkok and other regions (Isra, 1999).

Despite the government's introduction of a minimum wage policy in 1973, the minimum wage has not significantly impacted the labour market. In 1996, only 26 per cent of workers were protected by minimum wage regulation. During the financial crisis, real wages proved highly flexible, suggesting that the minimum wage law had not introduced much rigidity. Average real wages in the formal sector rose by less than 2 per cent per annum between 1982 and 1991, but then surged to 10 per cent during the 1991-1994 period. From 1990 to 1995, real wages increased by approximately 30 per cent for the workforce as a whole, and by 48 per cent for those in manufacturing (Pasuk and Isra, 2000: Table 20). The wage differentials among workers with different education levels were still very significant in 1995 (Pasuk and Isra, 2000: Table 24).

In the 1960s, 1970s and 1980s, industrial protection and concentration in Bangkok and its vicinity increased sectoral and regional inequality. Growing inequality due to trade protection policies outweighed any countervailing effects of industrial decentralization policies and the promotion of small-scale industries. Resources were allocated in favour of manufacturing, banking, and finance, insurance and real estate (FIRE) sectors at the expense of agriculture. This increased inequality between agricultural and non-agricultural incomes, as well as between rural and urban populations. Continued high industrial concentration in Bangkok and the surrounding area reinforced regional inequalities. Throughout this period, urban-rural inequality rose. Pasuk and Isra (2000) cite studies that suggest that protection had regressive impacts on income distribution in Thailand, while Suphanee (1995) and Chalongphob and others (1999) show that trade taxes had been regressive in impact.[3]

3 According to Pasuk and Isra (2000), Fabers and Kennes study, based on a multi-sectoral macro-economic model, show that a reduction in the rates of import tariffs increases the share of agriculture in GDP significantly. Isra uses a computer generated equilibrium (CGE) model to show that the structure of industrial protection in Thailand has favoured urban households, particularly those in the upper expenditure classes. Studies by Pairote (1975), Paitoon and others (1989) as well as Sunee and Sombat (1997) show the impact of the protective structures in the 1970s, 1980s and 1990s on the sectoral and regional bias of protection.

Income disparities among economic sectors and regions have been growing. Agriculture has 42 per cent of the population, but only 10 per cent of GDP. Industry has 21 per cent of the labour force but accounts for 41 per cent of output, while services account for 37 per cent and 50 per cent respectively. Regional disparities have also grown in recent years. In 2004, Bangkok, with 17 per cent of Thailand's population, accounted for 44 per cent of GDP, while the rest of the Central region (excluding Bangkok) had another 17 per cent of the population and 27 per cent of output. With 14 per cent of the population, the South had 9 per cent of GDP, while the mountainous North had 18 per cent of the population and also 9 per cent of output. Meanwhile, the Northeast had 34 per cent of the population, but only 11 per cent of output (Kasian 2006: 11, f.n. 4).

Improvements in income distribution have also been associated with favourable agricultural prices, suggesting that policies that enhanced rural incomes also improved the overall distribution of income. While non-agricultural wage employment growth reduced poverty by raising the incomes of the employed, it may also have raised overall inequality. The equalizing effects of the growth of labour-intensive export-oriented industries may not be strong enough to counter either pre-existing structural inequalities or new sources of inequality. Therefore, policies required to check growing inequality should include: better educational policies and access; better social security provisions; agricultural growth; progressive fiscal policies; and more equitable social expenditures.

The Thai government has not made use of fiscal policy or other measures to redistribute income progressively. The bulk of government revenue came from regressive indirect taxes (sales taxes and tariffs), suggesting a regressive tax structure. In the 1960s and 1970s, fiscal policies were clearly regressive and most likely exacerbated inequality due to regressive revenue, especially tax trends. Though personal and corporate income taxes were progressive between 1986 and 1994, indirect taxes, which accounted for the majority of total revenue, were regressive. The tax on rice exports (abolished in 1985) also increased the urban-rural gap.

Inequality and social services

The government's expenditure on education, health and other social services could not counter the regressive effects of other fiscal policies and may not even have been all that progressive. Government expenditure on education, health, and services has not grown as much as other expenditure items, and has been urban biased. Myers and Chalongphob (1991) showed that the government did not seek to transfer income to the poor via social services or other public expenditure, while Medhi (1980) also concluded that the government did not try to use fiscal policies to improve income distribution. Chalongphob and others (1999) found that well-to-do households received proportionately larger shares of the direct benefits of expenditures on education, public health, and infrastructure in agriculture, transport and communications. Although wealthier households bore a larger burden of the taxes, they also gained more than the poor. Thus, the overall impact of tax and expenditure policies in the 1980s and early 1990s probably increased inequality.

Thailand also did not have social policies that adequately protected workers from economic fluctuations. As a result, younger, rural, and less educated employees of small enterprises felt the worst impacts of the 1997-1998 crisis, which most severely burdened the poor.[4] Only a small percentage of the workers received compensation for layoffs, and no unemployment insurance was available. Ad hoc attempts at providing social safety nets post crisis were not very successful, as the government lacked the machinery and

4 Thai society has several informal social safety nets, such as the extended family, informal credit networks, community projects, charity in Buddhist temples and among ethnic Chinese clan groups, associations and foundations. Without these informal social safety nets, poverty incidence and income distribution may have been worse.

experience to institute such measures.[5] Government regulations and policies designed to assist workers, such as the minimum wage, social security, and severance pay, were not widely observed or implemented among poorer wage labourers. Employment generation programs mainly benefited the more affluent workers.

Table 14.
Thailand: Employed labour force by education, 1975-2000
(percentages)

	1975	1987	1999	2000
Less than elementary	11	6.3	3.9	3.42
Elementary	82.3	77.6	65.3	65
Secondary	3.7	7.8	17.1	18.27
Vocational	0.9	2.7	3.2	3
Teachers' college	1.1	2.4	2.2	1.9
University and equivalent	0.4	2.8	8.2	8.39
Others and not known	0.5	0.4	0	0.02

Sources: Pasuk and Isra (2000: Table 9); Thailand National Statistical Office, *Report of the Labour Force Survey* (various years).

Table 15.
Thailand: Gross enrolment ratios at secondary and tertiary levels for children from households of different occupations, 1985
(percentages)

	Secondary ratio	Tertiary ratio	Population distribution
Professions and business	95.8	57.7	12.8
Labourers	24.2	7.1	21.3
Farmers	14.5	1.7	65.9

Sources: Pasuk and Isra (2000: Table 12); Myers and Chalongphob (1991: 15).

Access to education has also been very unequal (see Tables 14 and 15) and has not improved significantly over time (Myers and Chalongphob, 1991). Inequality in access to educational opportunities higher than secondary school most likely worsened income distribution throughout the 1960s and 1970s. Households with incomes below the poverty line in 1986, 1990, and 1994 received very low shares (14-23 per cent) of the direct benefits of government education expenditure, compared to households above the poverty line (75-86 per cent). This inequality increased over time. The pattern of government educational expenditure thus reinforced existing inequality (Chalongphob and others, 1999). Low secondary school enrolment ratios and the high share of the workforce limited to a primary education constrained productivity, value-added growth and equality (Myers and Chalongphob, 1991). Learning by doing, on-the-job training, and other training policies adopted for lowly educated workers, could not overcome the legacy of insufficient and unequal access to education.

During the mid-1980s, as Thailand became more committed to export-oriented industrialization, the government began to address inequality in access to education. Secondary school enrolment doubled between 1990 and 1997, when it reached over 60 per cent.[6] However, dropouts from secondary schools

5 The government extended the severance pay requirements from six to ten months (for employees with more than ten years experience); set up a fund to make severance payments to workers whose firms had gone bankrupt; extended the social security benefits for laid off subscribers from six to twelve months, while the tripartite contribution rate for such benefits was reduced by one-third; launched a major rural job-creation program in March 1999, and then continued in 2000, to absorb returning migrants; launched training programs to upgrade the skills of workers laid off during the crisis, through free short-term vocational and technical training with subsequent job placement. But the government also decided not to launch an unemployment insurance scheme as a long-term response to the crisis, ostensibly for fear of its fiscal burden.
The World Bank (2000) argued that unemployment insurance schemes are not feasible or equitable for labour markets characterized by relatively small formal sectors. Yet, a detailed feasibility study conducted by the International Labour Organization (ILO) in 1998 concluded that an unemployment insurance scheme in Thailand, phased in over three years, would be affordable and administratively feasible (World Bank 2000).

6 In 1987, 69 per cent of children surveyed did not go to secondary school for financial reasons. Ten per cent of them said they had to work, and only 11 per cent reported no interest in further studies. Since 1996, the government has promoted education by providing low-interest loans for education at all levels. The number of students receiving these loans increased from 148,444 in 1996 to 881,835 in 1999.

remained high and increased during the economic crisis. Government spending on education is still biased towards the tertiary level, even though increases at the secondary and vocational levels would have a more favourable impact on income distribution (Isra, 1995).

Poverty

Overall, Thailand has been much more successful in reducing poverty than in making social provisions. In 1997, for example, the country ranked 58th out of 174 countries in terms of GDP per capita, but 88th in terms of the social (non-income) components of the United Nations Development Program (UNDP) human development index (UNDP, 1997). Since 1975-1976, poverty incidence has been calculated using the nutritional adequacy method. The first calculation in 1975-1976 found 30 per cent below the line. This was slightly less than the 33 per cent calculated using another method for the same year (Tables 16 and 17). Although there have been several recalculations since, resulting in a number of slightly incompatible series, the overall trend has been clear. Poverty fell rapidly throughout the 1960s and 1970s, remained rather static through the 1980s, and then fell rapidly during the 1990s to six per cent in 1998. Non-income measures of poverty confirm the trend. Infant mortality and maternal mortality rates decreased significantly over the 1980s (Pasuk and Isra, 2000: Table 16). During 1980-1985, life expectancy was 60 years for males and 66 for females, and by 2010-2015, it was projected to increase to approximately 69 for males and 73 for females.

The significant decline in poverty levels in the 1960s and 1970s (see Tables 17, 18 and 19 summarizing different data sets) may be explained by the effects of the expansion in cultivated land. This occurred until the early 1980s, when wage employment in manufacturing and other non-agricultural sectors expanded as a result of industrialization mainly based on import substitution. The decline in poverty stagnated over the 1980s, but then picked up in the early 1990s, with the acceleration of export-oriented industrialization.

Table 16.
Thailand: Poverty incidence by household consumption function methodology, 1962/1963-1998 (percentages)

	1962-1963	1968-1969	1975-1976	1981	1990	1998
Thailand	57	42	33	31	27.2	12.9
Bangkok	28	11	12	4		
Urban	38	25	22	21	6.9	1.5
Rural	61	45	37	35	33.8	17.2

Sources: Pasuk and Isra (2000: Table 14); ADB (2003).

Within five years, 20 per cent of the labour force had transferred out of agriculture. The tight labour market pushed up real wages rapidly, and some of this flowed back to rural areas as remittances, helping to reduce poverty. Poverty incidence increased from 23 per cent in 1980-1981 to nearly 30 per cent in 1985-

Table 17.
Thailand: Poverty incidence using nutritional adequacy methodology, 1975/1976-1998

	Series I				Series II			Series III				
	1975/1976	1981	1986	1988	1988	1990	1992	1990	1992	1994	1996	1998
Entire Kingdom	30	23	29.5	21.2	22.8	18.6	13.7	20.1	14.5	11.5	6.4	6.1
Bangkok	7.8	3.9	3.5	3.5	4.1	2.3	1.2	2	1.1	0.6	0.1	0.4
Municipal	12.5	7.5	5.9	6.1	6.1	5.4	2.5	18.3	11.6	10.5	6.1	6
Sanitary district	14.8	13.5	18.6	12.2	29.6	25.8	17.2					
Village	36.2	27.3	35.8	26.3	26.3	20.7	15.7	23	16.9	13.1	7.3	7

Sources: Pasuk and Isra (2000: Table 15) from Series I: Suganya and Somchai (1988); Series II: Medhi (1996, 1999), prices adjusted; Series III: Isra (1999), recalculated; municipal and sanitary district amalgamated as 'urban'.

Table 18.
Thailand: Poverty incidence by region, 1962-1981

	Series I		Series II	
	1962/1963	1968/1969	1975/1976	1980/1981
Poverty line (baht)				
Rural			1,981	3,454
Urban			2,961	5,151
Poverty incidence (%)				
Thailand	57	39	30	23
North	65	38	33.2	21.5
Northeast	74	68	44.9	35.9
Central	40	18	12.9	13.5
South	44	40	30.7	20.4
Bangkok	28	11	7.7	3.9
Rural	61	45	36.1	27.3
Urban	38	25	12.5	7.5

Sources: Pasuk and Isra (2000: Table 5); Medhi (1996); Pranee (1995).

1986, and then declined to 22 per cent in 1988 due to better agricultural prices (Suganya and Somchai, 1988; Isra, 1995). Poverty fell more rapidly during the economic boom, from 22 per cent in 1988 to 6 per cent a decade later (Pasuk and Isra, 2000: Table 27).

All regions benefited from poverty reduction, though not equally (Table 19). Until the late 1980s, poverty incidence dropped much faster in urban than in rural areas. By 1981, the characteristics of the poor were very clear: 90 per cent lived in villages; 80 per cent were involved in agriculture; and 98 per cent only had an elementary education or less (Suganya and Somchai, 1988; Medhi, 1996; Begemeier and Hoffman, 1988). Over the 1990s, poverty fell slightly faster in rural areas compared to urban areas (see Table 20). This was mainly because of out-migration and remittances by urban wage labour. The northeast remained the poorest area not only because of unfavourable resource endowments, especially low rainfall and poor soil, but also due to low investment in productive capital (irrigation) and human capital (Isra, 1995; Suganya and Somchai, 1988).

Table 19.
Thailand: Poverty incidence by region, 1962-1998

	Series I		Series II			Series III				
	1962/1963	1968/1969	1975/1976	1980/1981	1987/1988	1990	1992	1994	1996	1998
Total	57	39	30	23	24	20	15	11	6	6
North	65	38	33	22	23	18	15	11	6	6
Northeast	74	68	45	36	37	31	24	18	10	9
Central	40	18	13	14	16	14	7	6	3	3
South	44	40	31	20	22	20	13	13	7	8
Bangkok (outskirts)	28	11	8	4	3	2	1	1	0	0
Rural	61	45	36	27	29	23	17	13	7	7
Urban	38	25	13	8	7	12	8	7	4	4

Sources: Pasuk and Isra (2000: Table 17); Pranee (1995); Isra (1999).

Table 20.
Thailand: Urban/rural distribution of population and poverty, 1990-1998

Areas	1990	1992	1994	1996	1998
Share of Population					
Rural	74.1	74.8	71.6	72.2	71.7
Urban	25.9	25.2	28.4	27.8	28.3
Share of Poverty					
Rural	84.7	86.9	82.1	82.6	82
Urban	15.3	13.1	17.9	17.4	18

Sources: Pasuk and Isra (2000: Table 28). Data calculated from Household Socioeconomic Survey, by Thailand National Statistical Office.

Indonesia

Inequality

The World Bank contends that inequality in Indonesia declined from a Gini Coefficient of 0.4 in the 1970s to 0.3 in the 1980s. Given the absence of reliable data on Indonesia's income distribution until recently, it is likely that this claim is based on expenditure trends. Rao (1998) notes that significant reductions in absolute poverty since the early 1970s would be manifested in narrowing consumption gaps and declining expenditure inequality, especially since the ostentatious consumption of the rich is barely reflected in most household expenditure surveys. More importantly, such a reduction in expenditure inequality (see Table 21) would not necessarily imply reduced income inequality. Hence, he argues, it is not entirely clear that economic inequality went down as much as asserted by the World Bank. He notes, for instance, the lack of any significant reduction in the relevant Gini coefficients between 1976 and 1993 (Rao, 1998: Table 7).

Table 21.
Indonesia: Household expenditure Gini coefficients, 1964-2000

Year	Urban	Rural	Overall
1964-1965	0.34	0.35	0.35
1969-1970	0.33	0.34	0.35
1976	0.35	0.31	0.34
1978	0.38	0.34	0.38
1980	0.36	0.31	0.34
1981	0.33	0.29	0.33
1984	0.32	0.28	0.33
1987	0.32	0.26	0.32
1990	0.34	0.25	0.32
1993	0.33	0.26	0.34
1996	0.36	0.27	0.36
1997	na	na	0.38
1998	na	na	0.37
1999	na	na	0.31
2000	na	na	0.3

Sources: Tubagus (2000a: Table 3.3); Indonesia Central Bureau of Statistics; Booth (2000); Data for 1997 and 1998: World Bank (2000); ADB (2003).

In the mid-1960s, Gini coefficients were estimated at around 0.34 in urban areas and 0.35 in rural areas. By 1978, the urban Gini coefficient increased to 0.38, while rural measures of inequality declined to 0.34. For all of Indonesia, the Gini coefficient increased from approximately 0.35 in the mid-1960s to 0.38 in 1978. Worsening Gini coefficients from 1970 to 1980 suggest that rapid economic development during this period involved rising urban inequality.

The 1970s oil boom and rapid appreciation of the rupiah in real terms had negative impacts on non-oil exporters and producers, especially in the agricultural sector. While rice was protected through import controls and various producer subsidies, smallholder producers of other agricultural commodities, such as rubber, cocoa, and tea, suffered from adverse terms of trade trends. The sharp increase in rice prices during the early 1970s helped rice producers, but adversely affected the rice consumers that accounted for the majority of society.

In the early 1970s, during the oil boom, non-agricultural real wages rose very steeply, by 12.3 per cent per annum for textiles, and by 15 per cent for the civil service. Agricultural real wages remained unchanged and rural poverty reduction was slower than in urban areas. Interestingly, general agricultural productivity, especially rice output, only increased in the oil boom years of the late 1970s, possibly due to increased investments financed by oil rents. Since the late 1970s, wage inequalities appear to have declined in agriculture, manufacturing, and urban and rural areas (Table 22).

Since the 1970s, wages have increased rapidly, even though real wage growth was somewhat lower but more uniform than in the previous decade. The growth of real wages for women was also impressive. In

Table 22.
Indonesia: Wages Gini coefficients, 1977-1992

Sector	1977	1982	1987	1992
Agriculture	38	35	34	33
Non-agriculture	na	na	na	na
Urban	46	39	36	37
Rural	46	41	35	32
Manufacturing	48	45	38	38
Urban	48	40	37	39
Rural	43	44	34	31

Sources: Tubagus (2000b: Table 3.5); Manning (1988).

agriculture, manufacturing, services, and even construction, monthly wages for women rose faster than for men. After increasing by more than 10 per cent per annum in the 1970s, the real wages of civil servants were relatively stagnant in the 1980s and 1990s. Economic deregulation, trade liberalization and booming exports increased wages very sharply as the labour market tightened.

Off-farm employment and income failed to reduce rural income inequalities as they had in the 1970s. Instead, rural incomes continued to decline relative to the national average, and their fall was sharper for agricultural labourer households (Booth, 2000). This trend clearly worsened income distribution. The decline in government oil revenues in the mid to late 1980s reduced agricultural development spending. The rice self-sufficiency program, which required massive subsidies, was no longer sustainable.

During the 1980's recession, the growth of agricultural real wages was very high, and the Gini coefficient declined from 0.36 to 0.32 in urban areas, and from 0.31 to 0.26 in rural areas by 1987. This period between the late 1970s to the late 1980s was characterized by rural-urban migration, and by a transition from protected import substitution to an export oriented growth strategy. Akita, Lukman, and Yamada (1999) show increasing expenditure inequalities associated with rapid growth during this timeframe. They reported increased inequality, especially in urban areas, between 1987 and 1993. Urban-rural inequality had a greater effect on overall national inequality than inter-provincial disparities. While there have been larger inter-provincial GDP gaps, inter-provincial expenditure inequality was less significant.

Table 23.
Indonesia: Wage income differentials by schooling, 1987-1994

	Male			Female		
	1987	1990	1994	1987	1990	1994
Primary school	100	100	100	100	100	100
Lower secondary	133	120	126	176	161	147
Upper secondary						
General	166	175	167	248	228	237
Vocational	167	171	176	272	253	270
Tertiary	291	300	322	430	401	424
Manufacturing						
Primary school	100	100	100	100	100	100
Lower secondary	121	122	120	143	136	135
Upper secondary						
General	174	167	161	248[b]	197	188
Vocational	164	171	160	226[b]	196	163
Tertiary	340	447	400	520[b]	439[b]	471
Services[a]						
Primary school	100	100	100	100	100	100
Lower secondary	124	119	124	182	178	156
Upper secondary						
General	144	157	151	227	222	263
Vocational	152	158	163	257	265	327
Tertiary	248	236	244	373	368	427

Sources: Tubagus (2000b): Table 3.6); Manning (1998).

Notes: Primary school = 100; a: Government, community and personal services; b: 10-99 cases in category.

Akita, Lukman, and Yamada (1999) argued that education determined expenditure inequality (see Table 23), where between the years of 1987 and 1993, the expenditure of the more educated grew faster than those with less schooling. They

showed that from 1987 to 1993 within-group inequalities increased for households with higher education and remained the same for households with elementary or junior high school education. In other words, expenditure inequalities among people with higher education increased during this period. However, income inequality with respect to education declined from 1987 to 1994, meaning that those with less education experienced faster increases in earnings compared to those with more education.

In later years, the 1997-1998 financial crisis reduced inequality, as the Gini coefficient declined from 0.38 in 1997 to 0.37 in 1998 and to 0.30 in 2000 (World Bank, 2000; ADB, 2003). During the crisis, the rich reduced their expenditures more than the poor. Personal consumption expenditure declined by less than 3 per cent compared with the overall economic contraction of almost 14 per cent in 1998. The crisis was marked by massive declines in real wages, but only relatively small increases in unemployment. The crisis hit urban centres more than rural areas, coming down hardest on Jakarta and West Java, which had grown the fastest during the early 1990s.

Table 24.
Indonesia: Rates of absolute poverty, 1976-1998

	As a percentage of the population			Millions of people		
Year	Urban	Rural	Total	Urban	Rural	Total
1976	38.8	40.4	40.1	10	44.2	54.2
1980	29	28.4	28.6	9.5	32.8	42.3
1987	20.1	16.1	17.4	9.7	20.3	30
1990	16.8	14.3	15.1	9.4	17.8	27.2
1993	13.4	13.8	13.7	8.7	17.2	25.9
1996	9.7	12.3	11.3	7.2	15.3	22.5
1998 BPS[a]	21.9	25.7	24.2	17.6	31.9	49.5
World Bank[b]			20.3			41.5

Sources: Tubagus (2000b: Table 3.1); Indonesian Central Bureau of Statistics.

Notes: a: using new standards, BPS is Indonesia Central Bureau of Statistics (Badan Pusat Statistik); b: using consistent estimates.

Poverty

Table 24 shows the reduction of Indonesian poverty between 1976 and 1998. By 1976, absolute poverty incidence had declined to 38.8 per cent in urban areas and to 40.4 per cent in rural areas. At this time, around 54 million people still lived below the poverty line.

Poverty reduction was uneven between urban and rural areas in the early 1970s. While poverty incidence declined sharply in urban areas from 54 to 39 per cent, rural poverty increased slightly from 39 to 40 per cent. In other words, people in the urban areas and in the oil related sectors seemed to benefit more than those living in the countryside. This trend changed during the late 1970s, when the incidence of rural poverty fell (40 to 26.5 per cent) more rapidly than in urban areas (39 to 28 per cent). While absolute poverty significantly declined for all areas of the country throughout the 1970s, relative poverty waned more slowly, with faster reductions in absolute and relative terms, for the rural poor between the years of 1970 and 1980.[7]

The program to achieve rice self-sufficiency in the early 1980s significantly reduced rural poverty. It included heavy agricultural subsidies, rice price stabilization, and high protection. Indonesia achieved rice self-sufficiency in 1984. More importantly, the government channelled its oil revenues to rice agriculture, and the rice program was favourable to the poor, for both producers and consumers. Large investments in rural infrastructure reduced production and marketing costs for farmers and boosted returns to rice agricultural investments. Thus, the real purchasing power of all households increased directly. However, these massive public outlays became a major fiscal problem when oil revenues declined in the 1980s.

7 Relative poverty measures the percentage of the population earning or spending below a certain percentage (say 33 or 50 per cent) of the average per-capita income or consumption expenditure (see Tubagus, 2000: Table 3.2).

Improvements in infrastructure also reduced poverty during the early 1980s. The poor were able to migrate more easily in search of better work opportunities at a time when a more flexible labour market encouraged labour mobility. New land settlement, increased rural off-farm activities as well as other rural activities such as increased logging also created new employment in rural areas. Off-farm employment and incomes increased significantly, which helped increase and diversify the sources of income for those living in the countryside.

Rapid economic development in Indonesia in the last three decades, and especially since the mid-1980s, significantly reduced absolute poverty in both urban and rural areas. However, household consumption inequality trends, as measured by Gini ratios, were mixed. During the first oil boom (1970s), increased output of non-tradables increased urban inequity. Rapid rural economic development significantly raised rural incomes. Both poverty and inequality declined until the mid-1980s. Rapid economic development during this period did not seem to adversely impact income distribution. Though rapid economic growth during the mid-1980s was associated with declining poverty, improvements were smaller compared to the previous decade, partly because poverty was more heterogeneous and scattered. Meanwhile, the Gini ratio increased, especially in urban areas. As in the 1970s, consumption growth in urban, modern, and capital-intensive sectors tended to be faster than in rural sectors. Also, the expenditure of those with higher education increased faster than for the less educated.

Rapid economic liberalization during the late 1980s and early 1990s appeared to be accompanied by economic growth and continued poverty reduction. From 1987 to 1996, absolute poverty declined from about 20 to 10 per cent in urban areas and from 16 to 12 per cent in rural areas (see Table 24). Rural poverty also continued to decline from 1987 to 1996, but much more slowly than between the years of 1978 and 1987. Slower poverty reduction during the 1990s era of rapid growth might have also been due to the various pockets of poverty in the country that were bypassed by such growth. Though poverty was reduced, inequality increased, which meant that the benefits of more rapid economic growth had not been equally shared. Inequality rose in both rural and urban areas, but was more apparent in urban centres such as Jakarta and urban West Java (see Tables 25 and 26). The Gini coefficient in both urban and rural areas increased from 0.32 to 0.36 between 1987 and 1996, and continued to rise until just before the crisis. These data point to a trend of rising inequality during the 1990s' era of liberalization and rapid growth.

Table 25.
Indonesia: Relative poverty estimates, 1970-1996

Percentage of the population spending below 50 per cent of average per-capita consumption expenditure:			
Year	Urban	Rural	Overall (urban + rural)
1970	20.8	21.9	22.9
1980	22.6	16.7	20.5
1984	18.8	13.5	19.0
1987	18.1	10.0	17.0
1990	20.2	10.3	16.0
1993	19.8	9.5	18.5
1996	23.2	11.8	21.2
Percentage of the population spending below 30 per cent of average per-capita consumption expenditure:			
Year	Urban	Rural	Overall (urban + rural)
1970	7.2	7.9	8.1
1980	6.6	4.5	5.9
1984	4.9	3.7	4.0
1987	4.4	0.8	2.9
1990	4.1	2.3	2.4
1993	4.8	1.3	3.0
1996	6.0	1.2	5.0

Sources: Tubagus (2000b: Table 3.2); Booth (2000).

Table 26.
Indonesia: Relative poverty by region, 1987 and 1996

Proportion of population spending below half of average per-capita expenditure		
Areas	1987	1996
Urban Areas	18.1	23.2
Jakarta	13.9	22.1
West Java	16.9	23.9
Central Java	13.3	15.2
East Java	18.3	16.4
North Sumatera	12.5	13.8
South Sumatera	11.0	15.7
South Sulawesi	12.8	16.0
Rural Areas	10.0	11.8
All Indonesia	17.0	21.2

Sources: Tubagus (2000b: Table 3.4); Booth (2000).

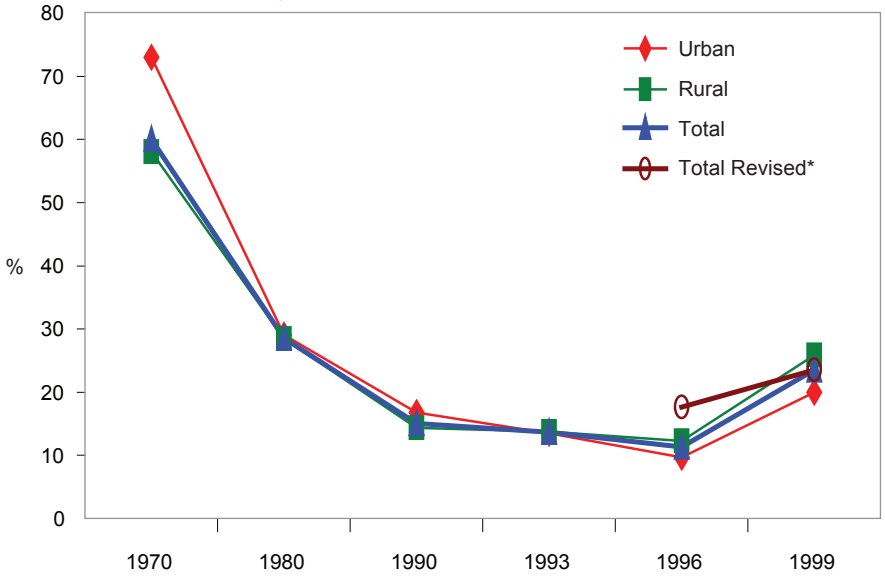
Rapid economic development and poverty reduction took place despite limited social safety nets and income transfer programs. Tax collection was also generally low and ineffective. Despite such uncertainties, investments in primary and lower secondary education seems to have had strong impacts on poverty reduction and equity improvement. Thus, rapid growth in Indonesia from 1987 to 1996 was accompanied by reduced poverty in absolute terms, but not by improved equity, especially in urban areas. Growing inequality, especially in urban centres, was not because poor or rural people did not benefit from the booming economy, but because the rich benefited far more. Another reason for growing inequity was the absence of effective and progressive income transfer programs. Besides the regressive nature of the tax system, the social security system and government social spending have also been abused by politicians as well as other military and government officials.

The Indonesian economy grew at an average annual rate of 7 per cent between 1975 and 1996. During this period, overall poverty dropped by 82 per cent, and rural poverty declined from 33.9 to 14.3 per cent (ADB, 1997: 190: Table 3.3). The proportion of people living in absolute poverty stood at 11.3 per cent in 1996. With the beginning of the economic crisis in 1997 and the sudden reversal of confidence and capital inflows, the economy contracted by 14 per cent, inflation rose by 80 per cent, the rupiah depreciated by more than 75 per cent, and real wages fell by more than 30 per cent in 1998. Thus, GDP growth fell from around 7 per cent per annum before 1998 to -14.3 per cent in 1998.

All estimates indicate a rapid rise in poverty incidence during the financial crisis (Dhanani and Islam, 2000). The World Bank (2000) notes that "a large swath of the Indonesian population that is today 'not poor' is nevertheless at risk of becoming poor… between 30 and 60 per cent of households are vulnerable to poverty over a three year horizon." The Central Bureau of Statistics (CBS) estimates suggest that poverty incidence rose from 19 per cent in February 1996 to 37 per cent in September 1998 at the height of the crisis, before declining to 23 per cent in February 1999. While poverty undoubtedly rose during the crisis, the increase was perhaps not as much as initially feared. According to the World Bank (2000), the number of poor increased from 11 per cent in 1996 to about 19 per cent in August 1999 (also see Figure 1).

The increased poverty, due to inflation as well as recession (income loss), was more marked in urban areas than in the countryside. Between February 1996 and February 1999, the number falling below a reduced 'extreme poverty' line, defined as of 65 per cent of the official poverty line, increased by over 70 per cent (Dhanani and Islam, 2000). More recent data suggest that urban poverty has dropped back to the pre-crisis level, though the rural index remains above the pre-crisis mark. While the over-all school enrolment ratio and dropout rates did not seem to have changed very dramatically in the short-run, the impact of the crisis on poorer and more vulnerable communities, especially females and children, was more severe (Chow-

Figure 1:
Indonesia: Poverty head count ratio, 1970-1999



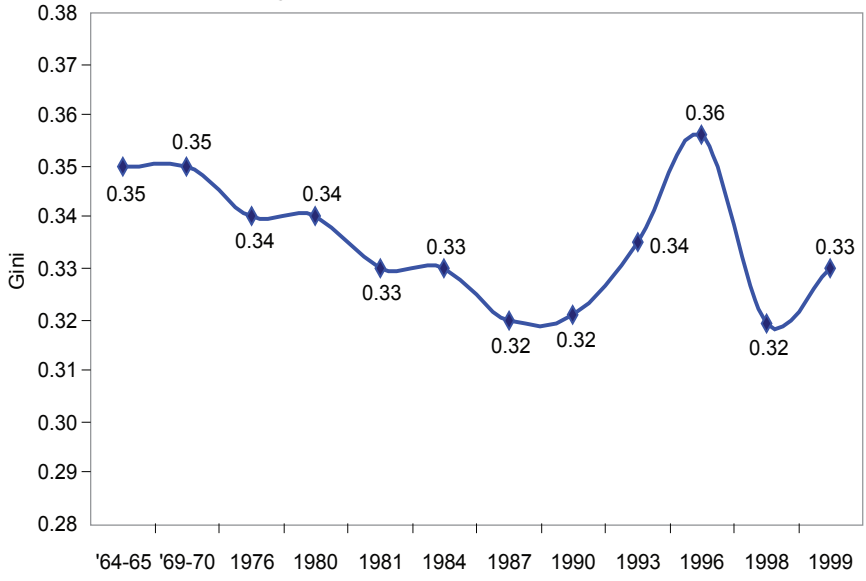
Source: Indonesia Central Bureau of Statistics (Badan Pusat Statistik [BPS]).

Note: * Based on BPS revised estimate of Indonesia's poverty lines to reflect current consumption pattern.

dhury, 2001). The effect of the crisis on poverty has certainly been varied. Poverty is chronic in remote areas and is unlikely to be affected by aggregate economic growth. More targeted polices, such as those implied by the social safety net approach, may be difficult to implement because of weak bureaucracies, limited institutional capacities, and ambiguous decentralization processes.

Evidence also suggests that income inequality fell during the economic crisis (see Figure 2). However, Skoufias, Suryahadi, and Sumarto (2000) suggest that such findings fail to distinguish between nominal

Figure 2:
Indonesia: Poverty head count ratio, 1970-1999

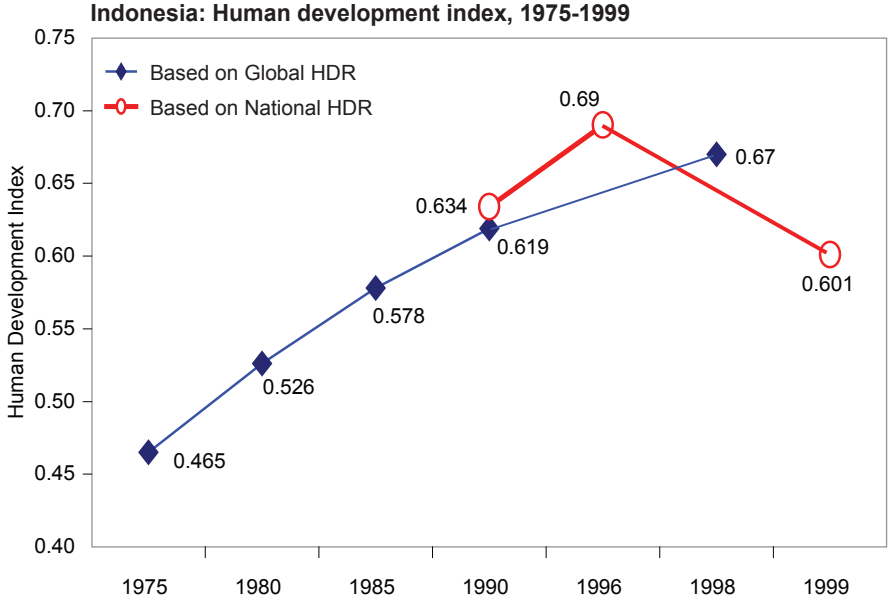


Source: Indonesia Central Bureau of Statistics (Badan Pusat Statistik [BPS]).

inequality and changes in income distribution adjusted for the differential impact of inflation on households. Also, more recent data suggest that any possible decline in nominal inequality during the crisis had been reversed by mid-1999 (Chowdhury, 2001).

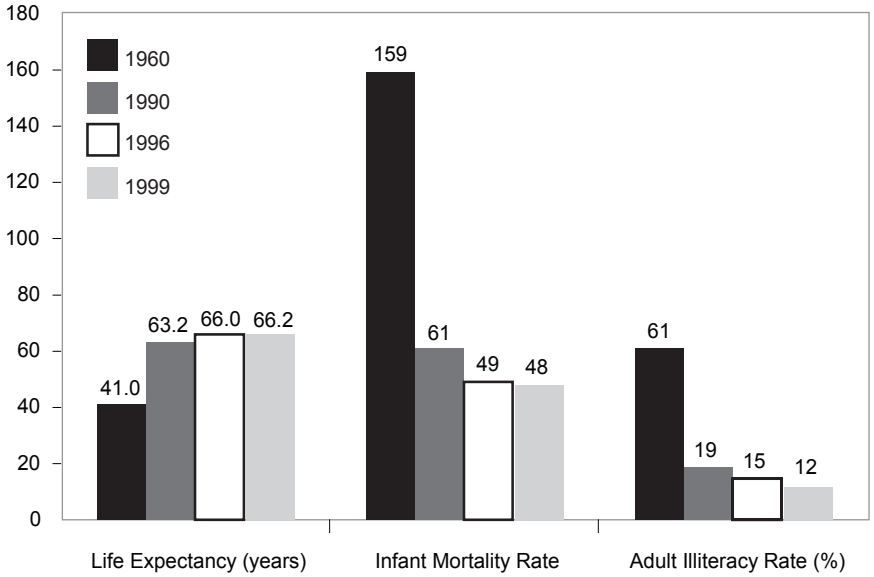
According to the UNDP, Indonesia's human development index (HDI) increased from 0.465 in 1975 to 0.670 in 1998, while the sharp drop in HDI in 1999 was primarily due to the decline in purchasing power (see Figure 3). Meanwhile, its human poverty index (HPI) dropped from 0.34 in 1990 to 0.24 in 1997. Figure 4 shows that the non-income components of HDI remained unaffected by the 1998 recession.

Figure 3:
Indonesia: Human development index, 1975-1999



Sources: UNDP (2000); Indonesia Central Bureau of Statistics (Badan Pusat Statistik [BPS].

Figure 4:
Indonesia: Human development indicators, 1960-1999



Source: Indonesia Central Bureau of Statistics (Badan Pusat Statistik [BPS].

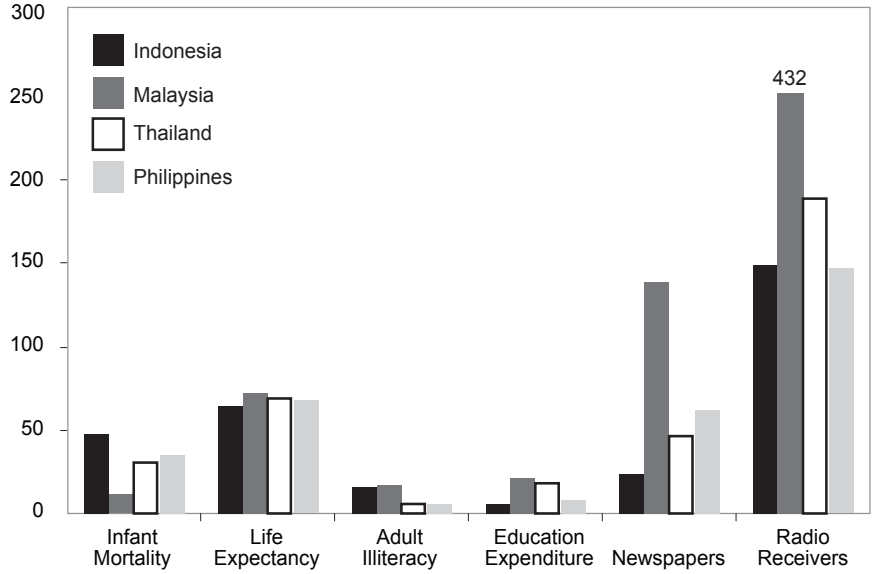
Life expectancy at birth rose from 41 years in 1960 to 66.2 years in 1999. Over the same period, the infant mortality rate fell from 159 to 44.9 per thousand, while the adult illiteracy rate declined dramatically from 61 per cent to 11.6 per cent (Chowdhury, 2001).

Indonesia had around 70 million people (60 per cent of the population) living in absolute poverty in 1970. The number of absolute poor declined dramatically to 42.3 million (28.6 per cent) in 1980. By 1996, the proportion had fallen further to 11.3 per cent. According to the UNDP's human poverty index (HPI), 34 per cent of the population lived in poverty in 1990 and 24 per cent in 1996. Using an alternative consumption based measure to take account of the many poor households that spend more than two thirds of their expenditure on food, Dhanani and Islam (2000) estimated the incidence of poverty in 1996 at 33 per cent. Provincial and district level data indicate that regional disparities in most HDI components either declined or remained unchanged. Inequality measures of non-income welfare indicators such as education, health, and the HDI suggest modest regional inequality.

Inequality and social services

Despite impressive gains, Indonesia's achievements in HDI and HPI rankings are still well behind the other second-tier newly industrializing East Asian countries (see Figures 5 through 8). However, starting from a lower base, Indonesia made more HDI gains than Malaysia, Thailand and the Philippines, until around 1990. This was also despite spending proportionately less on education and health relative to other countries in the region. Chowdhury (2001) argues that "Indonesia not only spent consistently less on human development than the regional norm", but also that "social spending ... had to bear the burden whenever the need for adjustment arose." Total development expenditure dropped from over 51 per cent of total government expenditure to about 38 per cent over the same period. Expenditure on education and health fell from a peak of over 8 per cent of total government expenditure in 1984-1985 to about 6 per cent in 1990-1991, though Thorbecke (1991) claims that Indonesia could not have done better with alternative packages. School dropout rates have been high (10 per cent for primary schools and 60 per cent for lower secondary schools).

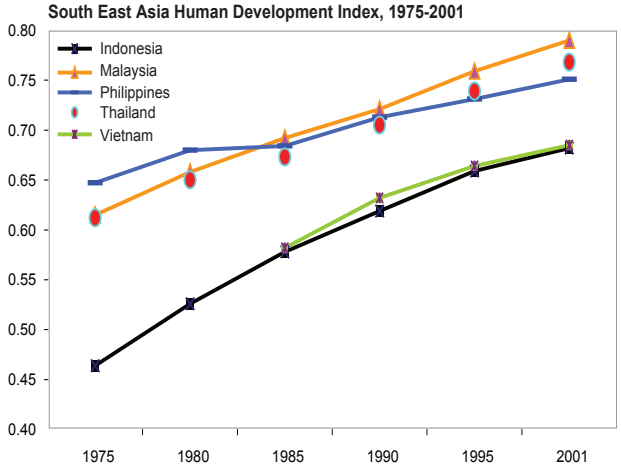
Figure 5:
South East Asia: Selected social indicators, 1995



Sources: ADB (2000); UNESCO (1998).

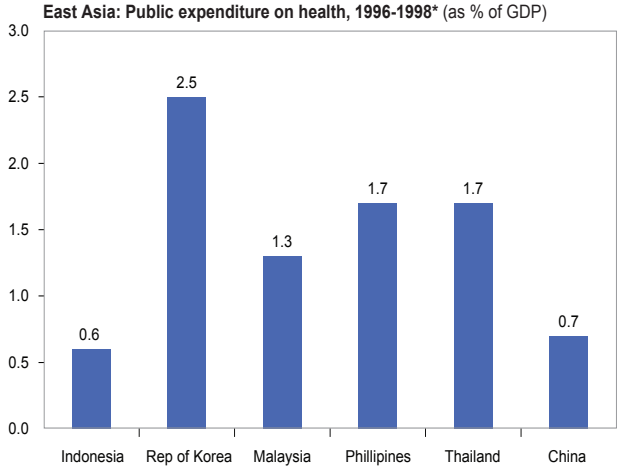
Notes: Education expenditure % of govt. budget, for Indonesia 1998, newspapers and radio receivers per 1000 inhabitants.

Figure 6:
South East Asia Human Development Index, 1975-2001



Sources: UNDP, Human Development Report Office (HDRO).

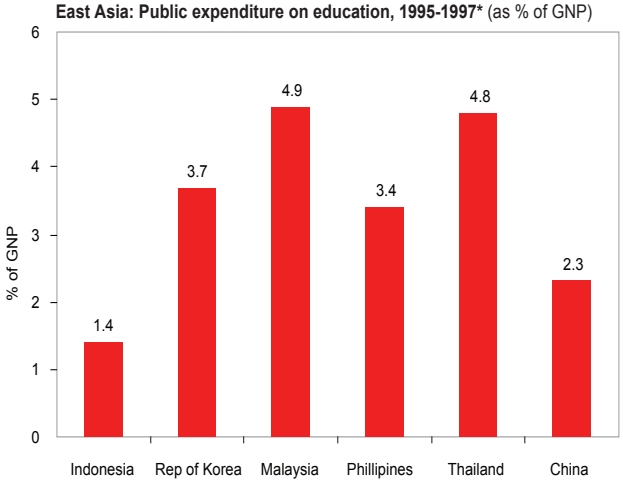
Figure 7:
East Asia: Public expenditure on health, 1996-1998* (as % of GDP)



Sources: UNDP (2000).

* Data are for most recent year available.

Figure 8:
East Asia: Public expenditure on education, 1995-1997* (as % of GNP)



Sources: UNDP (2000).

* Data are for most recent year available.

More troubling has been the decline in the rate of transition from primary to lower secondary schools from 84.5 per cent in 1980 to about 60 per cent in 1990 (World Bank, 1993: 117).

The main social welfare policy has been to rely on employment growth. Central government expenditure on social security has been very low, for example, less than one per cent of GNP in 1995 (World Bank, 2000: 148: Figure 8.2). The absence of social safety nets became obvious in the aftermath of the crisis, with the economically vulnerable most severely hit. However, the official unemployment rate did not rise dramatically despite the severe output contraction. Those who lost employment in the urban and formal sectors are believed to have survived in the rural and informal sectors. About a million people were probably absorbed by the previously shrinking agricultural sector. The sudden movement of a huge number of unemployed to the agricultural and informal sectors obviously had negative repercussions on the earnings of those already there. The sudden increase in price inflation from 6 per cent in 1997 to 58.5 per cent in 1998, and the slower growth in nominal wages sharply reduced real wages by about 34 per cent (Chowdhury, 2001). Thus, although official unemployment did not rise due to the crisis, earnings contracted severely, sharply increasing poverty.

There were also declines in the development budget as well as in health and education spending from 1998. This downturn was all the more serious in view of Indonesia's historically low social spending and relatively modest human development gains by regional standards. The World Bank (2000: 11) noted that the problem with health and education "is not so much the new impact of the crisis as the continuing, and chronic, problems that have developed in the basic healthcare and education delivery systems in Indonesia."

Malaysia

Inequality

Curiously, the World Bank's (1993) 'Miracle Volume' suggests that Malaysia was the only exception to the regional trend of declining income inequality. In fact, it appears that government efforts to reduce inter-ethnic inequality during the 1970s and 1980s apparently reduced overall inequality as well. Inequality increased from the late 1950s to the mid-1970s, then declined among all major groups, especially in the 1980s, before rising again between the 1990s and 2004 except during the 1997-98 crisis (see Tables 27 and 28). Between 1973 and 1987, real per capita incomes rose by 63 per cent, or by an annual average of 3.8 per cent, despite a population growth rate averaging 2.7 per cent yearly (Kharas and Bhalla, 1991: 8). More significantly, per capita income levels generally rose with the rapid growth and structural change during the seventies, though this was checked by labour immigration from the 1980s.

Table 27.
Malaysia: Distribution of households by monthly gross household income, 1995-2002

	Percentage share			
Income Class (RM)	1995	1997	1999	2002
499 and below	10.6	6.3	6.0	3.7
500 - 999	23.9	18.6	19.0	15.3
1,000 - 1,499	19.9	18.3	18.8	16.4
1,500 - 1,999	13.1	13.7	13.9	13.4
2,000 - 2,499	8.9	10.1	10.1	10.4
2,500 - 2,999	6.1	6.9	7.3	8.3
3,000 - 3,499	4.2	5.4	5.7	6.3
3,500 - 3,999	2.8	4.0	3.9	4.7
4,000 - 4,999	3.8	5.6	5.5	6.7
5,000 and above	6.7	11.1	9.8	14.8
Total	100.0	100.0	100.0	100.0

Sources: Ragayah (2002b: Table 12); Malaysia (2003).

Table 28.
Malaysia: Mean monthly gross household income and Gini coefficient by ethnic group and location, 1999, 2004

Ethnic group & strata	In current prices (RM)		Avg. annual growth rate (%)	In constant 1999 prices (RM)		Avg. annual growth rate (%)	Gini coefficient	
	1999	2004	2000-2004	1999	2004	2000-2004	1999	2004
Bumiputera	1,984	2,711	6.4	1,984	2,522	4.9	0.433	0.452
Chinese	3,456	4,437	5.1	3,456	4,127	3.6	0.434	0.446
Indians	2,702	3,456	5	2,702	3,215	3.5	0.413	0.425
Others	1,371	2,312	11	1,371	2,150	9.4	0.393	0.462
Malaysia	2,472	3,249	5.6	2,472	3,022	4.1	0.452	0.462
Urban	3,103	3,956	5	3,103	3,680	3.5	0.432	0.444
Rural	1,718	1,875	1.8	1,718	1,,744	0.3	0.421	0.397

Source: Malaysia (2006).

Using Theil index decompositions, Ikemoto (1985: 358) argued that much of the (modest) decline in overall inequality between 1970 and 1979 was due to reduced inequality between—rather than within—ethnic groups. However, since Anand (1983) found that less than ten per cent of overall income inequality in 1970 may have been due to ethnic factors, the modest impact of its considerable ethnically-oriented 'affirmative action' efforts on overall income inequality is not surprising. With the average Malay fertility rate about double the Chinese rate, and with the Indian rate slightly above the Chinese rate, Malay per capita income levels will continue to remain lower, and Malay poverty correspondingly higher, due to larger household sizes and dependency ratios.

Table 29 shows monthly household income trends by ethnicity and location in Malaysia, especially in Peninsular Malaysia, since the 1970s. These trends suggest that rising incomes and poverty reduction in the 1970s may have been accompanied by growing income inequality. However, other evidence suggests that income inequality declined during the seventies and eighties, but has since increased (see Tables 29 and 30). Average inter-ethnic income disparities also declined during the New Economic Policy (NEP) period (1971-1990), but have risen since the 1990s. The apparently slightly greater decline of overall inequality in the 1980s compared to the 1970s (also see Hashim, 1997) may have been due to a change in the nature of the data (household income surveys only started in 1984 and much of the earlier data are for household budgets or expenditure). It is also likely that the mid-1980s' recession reduced inequality by limiting the incomes of the higher income groups. Partial economic liberalization and relatively less government interventions for redistribution since the late 1980s appear to have contributed to increased overall as well as inter-ethnic inequality since the early 1990s (see Tables 27 to 30).

Table 30 shows income distribution trends for the whole country as well as by location in Malaysia. The first official Household Income Surveys for 1984 and 1987 suggested declining overall income inequality in the 1980s. However, inequality between Bumiputeras and non-Bumiputeras as well as between town and country appear to have been falling fairly steadily since the seventies in Peninsular Malaysia. Inter-ethic and urban-rural disparities seem to have risen in the 1990s except during the 1997-98 crisis. Evidence available for 1984 and 1987 suggests greater inequality in Sabah and Sarawak as compared to Peninsular Malaysia. The 1985-1986 recession reduced all major income disparities in Sabah, Sarawak, and the peninsula by adversely affecting the wealthy while sparing the poor.

Table 29.
Peninsular Malaysia: Mean monthly household incomes by ethnic group and stratum, 1970-2004

	1970	1973	1976	1979	1984	1987	1990	1992	1995	1997	1999	2002	2004
All	423	502	566	669	792	760	1,167	1,563	2,020	2,606	2,472	3,011	3,022
Bumiputera (B)	276	335	380	475	616	614	940		1,604		1,984	2,376	2,522
Chinese (C)	632	739	866	906	1,086	1,012	1,631		2,890		3,456	4,279	4,127
Indian (I)	478	565	592	730	791	771	1,209		2,140		2,702	3,044	3,215
Others	1,304	1,798	1,395	1,816	1,775	2,043	955		1,284		1,371	2,165	2,150
Urban (U)	687	789	913	942	1,114	1,039	1,617		2,589	3,357	3,103	3,652	3,680
Rural (R)	321	374	431	531	596	604	951		1,326	1,704	1,718	1,729	1,744
C/B disparity ratio	2.3	2.21	2.28	1.91	1.76	1.65	1.74	1.73	1.8	1.83	1.74	1.8	1.64
I/B disparity ratio	1.73	1.69	1.56	1.54	1.28	1.26	1.29	1.26	1.33	1.42	1.36	1.28	1.27
U/R disparity ratio	2.14	2.11	2.12	1.77	1.87	1.72	1.7	1.75	1.95	2.04	1.81	2.1	2.11
Gini Index	0.5	0.5	0.57	0.49			0.442	0.459	0.464	0.47	0.443		0.462
Theil Index	0.48	0.43	0.71	0.42									

Sources: Malaysia (1981, 1989, 1996, 2001, 2003, 2006); Ragayah (2002b: Table 11)

Notes: Figures for 1970-1987 in constant 1978 prices; figures for 1990-1999 in constant 1990 prices; figures for 1999 and 2004 in constant 1999 prices.

Table 30.
Malaysia: Income shares by income group and location, 1970-2004

	1970	1973	1976	1979	1984	1987	1990	1995	1997	1999	2004
Total											
Top 20%	55.9	53.7	61.9	54.7	53.2	51.2	50.0	51.3	52.4	50.5	51.2
Middle 40%	32.5	34.0	27.8	34.4	34.0	35.0	35.5	35.0	34.4	35.5	35.3
Bottom 40%	11.6	12.3	10.3	10.9	12.8	13.8	14.5	13.7	13.2	14.0	13.5
Urban											
Top 20%	55.0	–	–	–	52.1	50.8		49.8	50.2	48.9	
Middle 40%	32.8	–	–	–	34.5	35.0		35.7	35.6	36.7	
Bottom 40%	12.2	–	–	–	13.4	14.3		14.5	14.2	14.9	
Rural											
Top 20%	51.0	–	–	–	49.5	48.3		47.4	48.2	48.0	
Middle 40%	35.9	–	–	–	36.4	36.7		37.1	36.6	36.7	
Bottom 40%	13.1	–	–	–	14.1	15.0		15.5	15.2	15.6	

Sources: Malaysia (1981, 1989, 1991, 1994, 1996, 1998, 2001, 2003, 2006); Ragayah (2002b: Table 11.

Note: The published figures for urban and rural Malaysia in 1990 and 1995 do not add up to 100.0 per cent, but only the 1990 calculations are omitted because of the much greater disparities involved.

Poverty

Although there is some controversy over the reliability of official measures of poverty, it is generally agreed that there has been considerable reduction of absolute poverty in Malaysia, especially in Peninsular Malaysia, during the New Economic Policy's first Outline Perspective Plan (OPP) period (1971-1990).[8] Official

8 Detailed information on poverty and income distribution in Malaysia is not publicly available, but has been culled from official sources, especially government five-year plan documents. The credibility of official Malaysian poverty data has been questioned on several grounds, e.g. the non-disclosure of the official poverty line in plan documents until 1989 (Malaysia, 1989) has raised doubts about the possibility of poverty eradication by statistical manipulation or redefinition of the poverty line. Even after the official announcement of the poverty line, independent researchers do not have access to the data from which official poverty measures are calculated. There are also concerns about the choice of measures (e.g. see Anand, 1983; Jomo and Ishak, 1986; Kharas and Bhalla, 1991).

statistics suggest impressive (by international standards) reductions of poverty in the 1970s and early 1980s (World Bank, 1990). The NEP's Outline Perspective Plan, 1971-1990 (OPP1) aimed to reduce the official poverty level from 49 per cent in Peninsular Malaysia in 1969 to 16 per cent in 1990.

Since the government views poverty in absolute, rather than relative terms, and claims to monitor the incidence of poverty in relation to a poverty line, income inequality can grow while the poverty rate declines if economic growth rates are sufficiently high. The disclosure of the official poverty line in 1989 suggested that at least some of the poverty reduction, especially between 1976 and 1984, may have been due to the reduction of the per capita poverty line income from RM33.00 in 1970 to RM30.30 in 1987 in 1970 prices (or from RM74.15 in 1970 to RM68.09 in 1987, in 1987 prices). There is also no way of independently verifying the comparability of the official data, e.g. in terms of methods of measurement, since they are not publicly available. Also, the different nature of the three kinds of surveys involved means that they are not strictly comparable from a statistical point of view.[9] It also seems likely that some methods of measurement may have changed.[10]

Nevertheless, for want of more acceptable alternative data sources, official figures have to be used. The prevailing official poverty measures use a household, rather than a per capita poverty line income yardstick. Malaysia (1989: 47) noted that if a per capita measure is used, instead of a household measure, the official poverty rate for households in 1987 would have been 12.4 per cent, instead of 17.3 per cent, in Peninsular Malaysia. However, according to Kharas and Bhalla (1991: Table 3a)—who had access to the same official data, but used a 30 per cent sample to measure per capita income distribution—14.9 per cent of households, or 18.6 per cent of the population, were poor in 1987, compared to 40.7 per cent of households, or 44.8 per cent of the population, in 1973, and 16.8 per cent of households, or 19.9 per cent of the population, in 1984.

Malaysia (2006: Box 16-2) finally revised the poverty line income (PLI) upwards in 2005 by 17.5 per cent, from RM588 using the 1977 methodology to RM691 using the new 2005 methodology and corresponding changes by region (Peninsular Malaysia, Sabah and Sarawak) as well as location (urban/rural). This increase is mainly due to a significant 41 per cent upward revision of the food PLI from RM294 using the 1977 methodology to RM415 using the new 2005 methodology. The food PLI is now the hardcore poverty line, i.e. much higher than the earlier definition of half the PLI. Not surprisingly, Malaysia (2006) reports a higher incidence of poverty for 2005 using the new methodology (5.7 per cent) compared to the old methodology (4.4 per cent), for 2004 as well as 1999.

Table 31 summarizes official data on the incidence of poverty by sector since 1970. Poverty incidence has declined very significantly from 49.3 per cent (official estimate) or 56.7 per cent (Anand, 1983) in 1970. Besides the considerable reduction in the incidence of poverty (officially estimated to have declined from 49.3 per cent in 1970 to 15.0 per cent in 1989 in Peninsular Malaysia), the ratio of the incomes of those still below the poverty line to the poverty line income (PLI) increased considerably from 60.4 to 69.5

9 A closer examination of the poverty reduction during the 1970s and 1980s raises many troubling questions.

10 For example, the *Fifth Malaysia Plan, 1986-1990* (Malaysia, 1986: 83) explicitly favours a more comprehensive concept of income "which takes into account the imputed values for own produce consumed at home and owner-occupied housing as well as the full value of public services enjoyed by households, either free or at subsidized rates {including} health, education, transport and utilities, and the various subsidies granted by the Government."

Table 31.
Malaysia: Incidence of poverty, 1970-2004

	1970	1980	1990	1997	1999	2002	2004	1999[a]	2004[a]
Total	49.3	29.2	16.5	6.1	7.5	5.1	4.4	8.5	5.7
Rural	58.6	37.7	21.1	10.9	12.4	11.4	-	14.8	11.9
Urban	24.6	12.6	7.1	2.1	3.4	2.0	-	3.3	2.5
Hard-core Poor			3.9	1.4	1.4	1.0	0.7	1.9	1.2

Source: Malaysia plan documents (various years).

Note: The 1999a and 2004a figures are based on a new, higher poverty line (Malaysia, 2006: Box 16-2).

per cent.[11] In other words, the mean income of the poor was 30.5 per cent—instead of 39.6 per cent—below the PLI (Kharas and Bhalla, 1991: Table 36).

Throughout Malaysia, the incidence of poverty is higher in rural areas and among the indigenous Bumiputeras. Progress in poverty reduction was brisk until the early 1980s. The official data suggest that poverty reduction was not steadily achieved over the two decades, but largely achieved between 1976 and 1984. Table 31 suggests that much of the reduction in poverty incidence was achieved in the late 1970s and early 1980s, with slower progress since then. It is likely that higher prices contributed significantly to poverty reduction among rubber smallholders and rice farmers, two of the largest poverty groups, before farmers switched to other more remunerative occupations. Tables 32 and 33 survey recent poverty declines after the 1997-1998 crisis by location and among the three major ethnic groups. Between 1999 and 2004, the incidence of overall poverty declined from 8.5 to 5.7 per cent (see Tables 32 and 33).

Table 32.
Malaysia: Incidence of poverty and hardcore poverty by location, 1999, 2004

	1999			2004		
	Malaysia	Urban	Rural	Malaysia	Urban	Rural
Hardcore Poverty						
Incidence of hardcore poverty (%)	1.9	0.5	3.6	1.2	0.4	2.9
# hardcore poor households	91.7	11.9	79.8	67.3	14.1	53.2
Poverty gap (%)	0.4	0.1	0.8	0.2	0.1	0.6
Overall Poverty						
Incidence of poverty (%)	8.5	3.3	14.8	5.7	2.5	11.9
# poor households	409.3	86.1	323.2	311.3	91.6	219.7
Poverty gap (%)	2.3	0.8	4	1.4	0.6	3
Total households	4,800	2,612.50	2,187.50	5,459.40	3,605.90	1,853.50

Source: Malaysia (2006: Table 16.1).

Note: These figures are based on new, higher poverty line incomes and a new definition of the food poverty line income as the hardcore poverty line income (Malaysia, 2006).

11 According to Malaysia (1989: 45), the poverty line income (PLI) is defined as the minimum expenditure level to secure a certain standard of living. It is "updated annually using the Consumer Price Index (CPI) to reflect changes in price levels." The PLI "is about RM350 per month for a household of 5.14 persons in Peninsular Malaysia, RM429 per month for a household of 5.24 in Sarawak, and RM533 per month for a household of 5.36 in Sabah." The PLI should be adjusted to reflect changes in the costs of specific items making up the PLI, as their relative weights presumably differ from the breakdown of the CPI. Also, per capita consumption expenditure is probably a far better proxy for economic welfare than household income.
The government probably has a success story to tell with its data, and the credibility of the story would only be enhanced by better public access to it. It may also be useful to reconsider the composition of the PLI and to compare it with detailed consumer price trends to make more accurate inflation adjustments to the original PLI, and also to determine a more meaningful PLI with the benefit of hindsight and the experience of the last two decades of NEP implementation. Needless to say, significant differences in regional and location-based living costs—e.g. between urban and rural areas and perhaps even among some of the major metropolitan centres—should be taken into consideration.

Table 33.
Incidence of poverty and hardcore poverty by ethnic group, 1999, 2004 (%)

	1999			2004		
	Bumiputera	Chinese	Indians	Bumiputera	Chinese	Indians
Hardcore Poverty	2.9	0.2	0.3	1.9	0.1	0.3
Urban	0.7	0.1	0.2	0.7	<.05	0.2
Rural	4.4	0.4	0.5	3.3	0.3	0.5
Overall Poverty	12.4	1.2	3.5	8.3	0.6	2.9
Urban	5.1	0.8	2.4	4.1	0.4	2.4
Rural	17.5	2.7	5.8	13.4	2.3	5.4
Poverty Gap	3.3	0.2	0.7	2.1	0.1	0.6

Source: Malaysia (2006)

Note: These figures are based on new, higher poverty line incomes and a new definition of the food poverty line income as the hardcore poverty line income (Malaysia, 2006).

Given the rapid growth of the Malaysian economy during this time period, poverty as defined by the government, could have been further reduced if more effective redistribution policies had been implemented and government waste minimized. The poor would have also benefited had government allocations been used more effectively for poverty reduction, instead of for enriching politicians, their 'clients', and for private contractors securing jobs for rural development projects. However, the significance, consistency and credibility of official poverty data have been challenged on several grounds. For instance, part of the decline in poverty may have been due to a lowering of the poverty line.[12] Conversely, the *Ninth Malaysia Plan, 2006-2010* has announced a slightly higher poverty line based on recalculation of the costs of meeting food requirements, resulting in higher poverty figures for 1999 compared to those previously announced in the *Eighth Malaysia Plan, 2001-2005*.

Poverty and Policy

Despite the ostensible official concern about poverty and the strong correlation between growth and poverty reduction, after more than three decades of the NEP, there is still relatively little detailed information about the characteristics of the poor that could help explain the reasons and causes of poverty, as well as appropriate, effective and efficient measures and efforts to overcome it. Such careful analytical poverty profiles are especially urgent in view of the officially recognized phenomenon of 'hard-core poverty', that is said to be relatively unaffected by existing poverty eradication policies.

The absence of a clear official understanding of poverty has allowed eradication policies to go on regardless of their efficacy. This has led to suspicion that these policies are maintained to facilitate patronage by the ruling party and for the benefit of certain interest groups in the rural community, contractors, and other business interests, rather than for the purpose of genuinely improving the economic welfare of the poor. A great deal of what is officially categorized as spending on 'poverty eradication' actually refers to expenditure on rural and agricultural development, much of which does not benefit the poor. Much expenditure for poverty eradication does not actually benefit those in need.

The evidence suggests that poverty reduction has been largely due to rising incomes due to structural transformation, employment changes (Table 34), occupational mobility, higher commodity prices and in-

12 There is also some doubt as to whether the definitions of income used in the various surveys concerned have been consistent.

Table 34.
Peninsular Malaysia: Percentage distribution of the employed labour force by sector and ethnicity, 1970, 1986, 2003

	1970				1986				2003			
Economic Sector	Malay	Chinese	Indian	Total	Malay	Chinese	Indian	Total	Malay	Chinese	Indian	Total
Primary	65.2	33.5	47.6	51.6	35.1	14.7	30.1	27.4	10.8	5.1	7.8	11.9
	(67.6)	(23.0)	(9.4)	(100.0)	(68.6)	(18.8)	(11.7)	72.7	(18.9)	(8.4)	(100.0)	(100.0)
Industry	6.0	21.0	5.9	11.4	18.5	30.9	23.4	23.4	30.5	32.6	36.8	30.4
	(28.2)	(65.2)	(5.3)	(100.0)	(42.5)	(46.3)	(10.6)	56.2	(33.0)	(10.8)	(100.0)	(100.0)
Services	23.7	40.0	40.9	31.6	46.4	54.4	46.6	49.2	58.7	62.3	55.4	57.7
	(40.1)	(44.8)	(13.2)	(100.0)	(50.6)	(38.7)	(10.0)	57.6	(33.7)	(8.7)	(100.0)	(100.0)
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	(53.5)	(35.4)	(10.2)	(100.0)	(53.6)	(35.0)	(10.6)	58.5	(32.2)	(9.3)	(100.0)	(100.0)

Sources: Department of Statistics, Population Census, 1970; Labour Force Survey, 1986; Labour Force Survey Report 2003: Table A 3.10; Mid-Term Review of the Eighth Malaysia Plan, 2001-2005: Table 3.7.

Notes: For 1970, these were collectively categorized as the 'commerce' sector. The labour force figures in thousands for 1957 were: Total = 2,126.2; Malay = 1,004.3; Chinese = 759.0; Indians = 307.2. 1970: Total = 2,736.4; Malay = 1,435.0; Chinese = 990.0; Indians = 286.1. 1986: Total = 4,726.0; Malay = 2,535.3; Chinese = 1,655.7; Indians = 501.2.

creased productivity. In rural areas, especially among peasants, reduced poverty seems to be largely attributable to increased productivity (and prices) as well as out-migration and higher non-farm incomes. However, rising productivity mainly benefits those who own their own economic resources, especially land. Inequality in resource allocation, both in terms of ownership as well as access, has therefore meant that such productivity gains have tended to benefit the more well-to-do. Hence, expenditure ostensibly for poverty eradication has actually brought greater benefits to the relatively well endowed, not the poor.

That fewer people participate in activities associated with poverty, such as rice cultivation, rubber smallholdings, fishing and plantation labour, has helped decrease poverty. There has been a significant decline in the number of people working in most agricultural occupations. There has also been some abandonment of previously cultivated land, and population/land ratios have risen despite earlier increases in cultivated land. Furthermore, the migration of younger workers to urban centres has aged the remaining rural population. The economically active proportion of the population in agriculture has declined, which has left more land idle. This phenomenon is also exacerbated by the uneconomic size of the land involved.

China

Inequality

Over the past half century, inequality has peaked thrice in China; during the Great Famine, at the end of the Cultural Revolution, and most seriously, in the current era of globalization. In the early decades following the 1949 'liberation,' land reform helped keep inequality relatively steady and low. With the Great Leap Forward and the ensuing Great Famine however, inequality reached an all time high by 1960. It subsequently fell during the recovery from these events, until the Cultural Revolution, which began in 1966. Inequality peaked again by 1976. The post-Cultural Revolution period of rural reform improved the distribution of wealth until 1984, after which China decentralized. As the Chinese opened their economy to more international trade and foreign direct investment, inequality rose steadily and sharply until 1999. In fact, the Gini coefficient of regional inequality in China in 1999 exceeded the peak of inequality reached in 1976 (Kanbur and Zhang, 2001). Table 35 summarizes these economic indicators for China from 1952 to 1999, while Table 36 presents long-run inequality trends.

Table 35.
China: Economic indicators, 1952-1999

Year	GDP (Billions)	Import (Billions)	Tariff (Billions)	Total revenue (Billions)	Central budget (Billions)	Tariff rate (%)	Centralization	Industria-lization
1952	67.9	3.8	0.5	18.8	14.9	12..8	79.4	15.3
1953	82.4	4.6	0.5	22.2	18	11	81	17.3
1954	85.9	4.5	0.4	25.9	19.3	9.2	74.2	18.9
1955	91	6.1	0.5	26.6	19.9	7.6	74.8	19.7
1956	102.8	5.3	0.5	30.2	22.9	10.2	76.1	21.7
1957	106.8	5	0.5	33	23.2	9.6	70.3	25.5
1958	130.7	6.2	0.6	43.6	32.4	10.4	74.4	35.2
1959	143.9	7.1	0.7	58.4	15.1	9.9	25.9	43.8
1960	145.7	6.5	0.6	69	18.3	9.2	26.4	52.1
1961	122	4.3	0.6	41.3	9.6	14.5	23.2	37.7
1962	114.9	3.4	0.5	37.7	11.5	14.3	30.4	32.3
1963	123.3	3.6	0.4	39.4	9.6	11.6	24.5	33.5
1964	145.4	4.2	0.4	46.5	12.3	10.4	26.4	34.4
1965	171.6	5.5	0.6	54.9	18.2	10.3	33.1	30.4
1966	186.8	6.1	0.7	64	22.4	10.6	35	32.7
1967	177.4	5.3	0.4	50.3	16.1	7.3	31.9	28.1
1968	172.3	5.1	0.6	43.9	13.3	12.4	30.4	26.9
1969	193.8	4.7	0.6	61.4	20.1	13.5	32.7	31.7
1970	225.3	5.6	0.7	76.4	21.7	12.5	28.4	36.4
1971	242.6	5.2	0.5	86.3	15.9	9.5	18.5	39.5
1972	251.8	6.4	0.5	90.1	15.1	7.8	16.8	40.2
1973	272.1	10.4	0.9	100.1	18.4	8.7	18.4	39.9
1974	279.0	15.3	1.4	100.3	20.9	9.2	20.8	38.7
1975	299.7	14.7	1.5	106.7	18.1	10.2	17	40.2
1976	274.4	12.9	1.5	105.2	19.2	11.6	18.2	40.3
1977	320.2	13.3	2.6	118.6	21.9	19.8	18.5	41.9
1978	362.4	18.7	2.9	147.9	29.3	15.3	19.8	42.8
1979	403.8	24.3	2.6	159.9	38.4	10.7	24	41.3
1980	451.8	29.9	3.4	171.7	47.2	11.2	27.5	38.5
1981	486.0	36.8	5.4	177.7	51.4	14.7	28.9	34.5
1982	520.2	35.8	4.7	201.5	61.8	13.3	30.6	34.9
1983	595.7	42.2	5.4	233.5	85.0	12.8	36.4	36.1
1984	720.7	62.1	10.3	283.1	113.6	16.6	40.1	37.0
1985	898.9	125.8	20.5	353.5	140.6	16.3	39.8	38.6
1986	1020.1	149.8	15.2	385.9	149.5	10.1	38.7	38.6
1987	1195.5	161.4	14.2	422.8	156.4	8.8	37.0	38.7
1988	1492.2	205.5	15.5	471.8	168.2	7.5	35.6	38.4
1989	1691.8	220.0	18.2	532.4	189.5	8.3	35.6	39.4
1990	1859.8	257.4	15.9	584.6	206.6	6.2	36.6	38.3
1991	2166.3	339.9	18.7	639.3	231.9	5.5	36.3	41.5
1992	2665.2	444.3	21.3	733.8	268.7	4.8	36.6	44.8
1993	3456.1	598.6	25.6	578.1	194.3	4.3	33.6	49.7
1994	4667.0	996.0	27.3	708.1	319.0	2.7	45.0	35.5
1995	5749.5	1104.8	29.2	864.9	357.4	2.6	41.3	33.1
1996	6685.1	1155.7	30.2	1130.1	460.9	2.6	40.8	30.0
1997	7314.3	1180.7	31.9	1147.7	437.2	2.7	38.1	29.2
1998	7801.8	1162.2	31.3	1295.8	489.2	2.7	37.8	27.0
1999	9191.1	1373.7	56.2	1144.4	584.9	4.1	51.1	23.6

Source: China SSB (1999).

Note: Industrialization is share of the value of heavy industry output in the gross output value of agricultural and industry: tariff rate is defined as the ratio of tariff revenue to total imports; Centralization index is the ration of central government's revenue (both budgetary and extra-budgetary) to total government revenue.

Table 36.
China: Inequalities and decompositions, 1952-1999

			Within		Between	
Year	Gini (%)	GE	Rural-Urban	Inland-Coast	Rural-Urban	Inland-Coast
1952	21.6	0.084	0.027	0.078	0.057	0.006
1953	24.2	0.103	0.032	0.096	0.071	0.007
1954	23.2	0.092	0.027	0.086	0.065	0.006
1955	21.6	0.081	0.022	0.077	0.059	0.004
1956	22.3	0.087	0.025	0.084	0.063	0.003
1957	23.2	0.092	0.021	0.09	0.07	0.002
1958	23	0.089	0.02	0.085	0.069	0.003
1959	29.1	0.136	0.031	0.133	0.105	0.003
1960	31.8	0.162	0.03	0.159	0.132	0.004
1961	28.7	0.134	0.027	0.132	0.108	0.002
1962	25.5	0.109	0.023	0.108	0.086	0.001
1963	25.5	0.105	0.025	0.104	0.08	0.001
1964	25.3	0.106	0.024	0.104	0.082	0.002
1965	24.4	0.101	0.022	0.1	0.079	0.001
1966	23.4	0.093	0.019	0.092	0.074	0.001
1967	23.2	0.092	0.017	0.091	0.075	0.001
1968	23.5	0.094	0.017	0.092	0.077	0.002
1969	23.7	0.098	0.015	0.095	0.083	0.003
1970	23.3	0.094	0.016	0.092	0.078	0.002
1971	23.8	0.099	0.014	0.098	0.085	0.002
1972	24.8	0.106	0.014	0.104	0.091	0.002
1973	24.6	0.108	0.013	0.103	0.092	0.002
1974	25.3	0.11	0.016	0.108	0.094	0.002
1975	26	0.116	0.017	0.112	0.099	0.003
1976	27	0.127	0.017	0.123	0.11	0.004
1977	26.8	0.125	0.017	0.111	0.108	0.004
1978	25.9	0.115	0.015	0.095	0.1	0.004
1979	24.2	0.1	0.015	0.1	0.085	0.005
1980	24.9	0.106	0.016	0.089	0.091	0.006
1981	23.8	0.096	0.015	0.076	0.081	0.006
1982	22.4	0.083	0.017	0.072	0.065	0.007
1983	21.8	0.078	0.017	0.07	0.06	0.005
1984	21.6	0.075	0.018	0.071	0.057	0.005
1985	21.7	0.076	0.017	0.075	0.058	0.005
1986	22.5	0.08	0.02	0.073	0.06	0.005
1987	22.6	0.08	0.023	0.077	0.057	0.007
1988	23.4	0.086	0.024	0.075	0.061	0.009
1989	23.1	0.083	0.024	0.078	0.059	0.008
1990	23.6	0.086	0.023	0.082	0.063	0.008
1991	24.3	0.092	0.024	0.089	0.068	0.01
1992	25.7	0.103	0.029	0.09	0.074	0.014
1993	26.2	0.107	0.029	0.092	0.078	0.017
1994	26.8	0.111	0.032	0.091	0.079	0.019
1995	27.1	0.114	0.036	0.091	0.078	0.023
1996	27.5	0.118	0.042	0.091	0.076	0.027
1997	27.7	0.121	0.044	0.092	0.076	0.028
1998	28.3	0.127	0.046	0.097	0.08	0.03
1999	30.3	0.159	0.065	0.124	0.094	0.034

Source: China SSB (1999).

Chinese inequality is comprised of disparities between urban and rural areas as well as within urban and within rural centres (see Table 37). A number of studies suggest that urban and rural income disparities explain 75-80 per cent of overall Chinese inequality in the last two decades (e.g. Wei and Wu, 2001). The World Bank (1997) estimated that inter-provincial inequality explained almost one-quarter of total inequality in 1995, and a third of the increase in inequality since 1985. Results show that inter-regional inequality accounted for over 70 per cent of inter-provincial inequality in 1999, and all of the increase in inter-provincial inequality after 1978 (Bhalla, Yao, and Zhang, 2003). In recent years, gaps among the Eastern, Central and Western provinces seem to have grown the most. Inter-regional disparities declined before the mid-1960s, but have since risen continuously. China's regional inequalities at the end of the 1990s were much larger than at the beginning of 1950s.

China has a huge population of almost 1.3 billion that increases by approximately 15-16 million people each year (China SSB, 2002). From 1990 to 1999, the Chinese working-age population grew from 679 million to 829 million, an increase of no less than 150 million in under a decade. Almost 70 per cent of the population still lives in the countryside, and employment in agriculture is stagnant, if not declining (333 million people in 1995, falling to 329 million people in 1999). There may be as many as 150 million 'surplus' farm workers constraining the growth of real incomes for low-skilled non-farm occupations.

Table 37.
China: Gini Indices of Income Inequality

Year	Rural	Urban	Without adjustment for CoL* difference	With adjustment for CoL difference
1980	24.99	na	na	na
1981	24.73	18.46	30.95	27.98
1982	24.4	16.27	28.53	25.91
1983	25.73	16.59	28.28	26.02
1984	26.69	17.79	29.11	26.89
1985	26.8	17.06	28.95	26.45
1986	28.48	20.66	32.41	29.2
1987	28.53	20.2	32.38	28.9
1988	29.71	21.08	33.01	29.5
1989	30.96	24.21	35.15	31.78
1990	29.87	23.42	34.85	31.55
1991	31.32	23.21	37.06	33.1
1992	32.03	24.18	39.01	34.24
1993	33.7	27.18	41.95	36.74
1994	34	29.22	43.31	37.6
1995	33.98	28.27	41.5	36.53
1996	32.98	28.52	39.75	35.05
1997	33.12	29.35	39.78	35
1998	33.07	29.94	40.33	35.37
1999	33.91	29.71	41.61	36.37
2000	35.75	31.86	43.82	38.49
2001	36.48	32.32	44.73	39.45
2002	na	32.65	na	na

Source: Ravallion and Chen (2005).
Note: (*): CoL: cost of living.

Pressure on rural employment will probably intensify. The thousands of new 'township and village enterprises' (TVEs) established in the early 1990s faced increasing competition from greater market integration, both nationally and internationally. This meant that the main alternative source of rural labour absorption stagnated in terms of employment creation (at around 127 million employees) after the mid-1990s. The rapid growth of TVEs in the 1980s and early 1990s was mainly based on the rapid expansion of small businesses in labour-intensive activities, which used simple technologies. Now, to compete internationally, TVEs have to increase productivity quickly, often by shedding labour or by raising labour output. As a result, rural underemployment will most likely continue its rapid ascension.

The farm sector continues to grow at around five to six per cent per annum, and still invests on a large scale. The total power of agricultural machinery rose from 361 million kWh in 1995 to 489 million kWh in 1999 (China SSB, 2002). However, prices paid to farmers are estimated to have dropped by 22 per cent between 1997 and 2002, reducing the growth of farm incomes. According to official data, per capita farm income growth averaged about three per cent in the late 1990s, but many observers insist that rural incomes have stagnated, or even declined since the mid-1990s. For example, Chen Xiwen estimated that China's farmers "suffered an average decline in income in 1998, 1999, 2000 and 2001" (*Financial Times*, 31 October, 2002). Rural income distribution has become much more unequal, with the Gini coefficient rising from 0.21 in 1978 to 0.40 in 1998 (Yao, 2002). Qu Hongbin (2002) showed that the rural share of total consumption fell from around 60 per cent in the early 1980s to 42 per cent in 2001. The rural share of China's population still stands at 65 per cent, with "grim prospects for most rural households" in the years ahead.

Poverty

In the late 1970s and early 1980s, during the early years of China's rural reform, absolute poverty rapidly declined (Nolan, 1988). However, in terms of international poverty lines, many people still qualify as poor. In eight out of 29 provinces, the incidence of poverty rose significantly between 1985 and 1996 (Yao, 2002). In 1995, 716 million (58 per cent of the population) made less than US $2 per day, and 280 million lived on less than US $1 per day (World Bank, 2001: 236). Most of them were rural dwellers or recent rural migrants

to the cities. Official data for 2001 showed that the average per capita income of China's 800 million rural residents was just US $290 (RMB $2,366), or 80 cents per day (China SSB, 2002: 343). Of the total rural population, approximately 580 million in the countryside (72.5 per cent of rural households) had less than US $360 per year (China SSB, 2002: 343).[13] In other words, the number of poor people remains huge, and may even be growing.

The substantial growth of rural underemployment encouraged rural-urban migration and depressing non-farm wages for unskilled and low-skilled occupations. By 2002, around 150 million people, mainly with limited skills, worked in urban areas without permission for permanent urban residence. Even in the fastest growing region of China, the Pearl River Delta, real wages for unskilled labour during the 1990s did not increase, suggesting a Lewisian labour market and a 'subsistence' wage rate.

Meanwhile, China's state-owned sector was rapidly shrinking and reducing employment. It has been estimated that between 1996 and 2001, thirty million workers were laid off by state-owned enterprises (SOEs) (*Financial Times*, 21 November 2002). Some researchers estimate that more than 48 million people lost jobs due to the reform of SOEs. Thus, relatively large numbers of rural migrants struggle for survival on subsistence wages in China's urban areas. They have minimal social rights and after decades of an egalitarian social ethos, they observe the high-income lifestyles of privileged wage earners. Not surprisingly, urban social tensions have risen sharply.

In recent years, China began to overhaul its SOE sector while encouraging the emergence of a modern corporate sector. Since then, many loss-making SOEs have been shut down, merged, or sold, causing sharp decreases in state employment. As elsewhere, privatisation in China has been characterized by widespread insider dealing and corruption. As much as RMB10 trillion (around US$1.2 trillion) in government assets may be privatized in the years ahead (Qu Hongbin, 2002). This has major implications for the distribution of wealth and income. Even a privatization enthusiast warns that "the privileged classes are likely to find ways of further enriching themselves" (Qu Hongbin, 2002). A recent study of mainland bank deposits estimates that only 0.16 per cent of the population owns 65 per cent of the nation's US $1.5 trillion liquid assets. China arguably has the highest concentration of wealth in Asia, with just two to three million people able to 'get rich quickly' (*South China Morning Post*, 29 March 2003).

A further source of rising urban social tensions has been the rapid growth of FDI, with an accumulated stock of nearly US$400 billion in 2001 (UNCTAD, 2002). This FDI often created isolated clusters of modern businesses in China's cities, such as Beijing's new financial district, Shanghai's Pudong Development Zone and numerous 'high-technology' parks across the country. These enclaves have considerable *de facto* autonomy. They provide pockets of relatively high-income employment for both Chinese and foreigners who then live in protected compounds, isolated from the rest of society.

The accelerated pace of 'reform' and 'opening up' since the mid-1990s has increased urban inequality. The Gini coefficient for urban income distribution using official data rose from 0.25 in 1992 to 0.34 in 2001 (China SSB, 2002). The income of the richest ten per cent of the urban population rose from 3.3 times that of the poorest ten per cent in 1992 to 5.4 times in 2001. Over the same period, the income of the poorest ten per cent fell from 57 per cent of the 'median income' to 44 per cent. However, the official data do not include most of the 150 million unauthorized rural migrants that unofficially inhabit cities.

13 Just 8.9 per cent of the total number of rural households, or approximately 71 million people, had an average per capita income of over US$600 (RMB5000) per year.

Unemployment and inequality appear to have been exacerbated by the 1990s reforms, even though average living standards continue to rise, at least in urban areas. Furthermore, the data greatly underestimate the income of the richest urban Chinese and exclude the much larger incomes of foreign employees of multinationals, a fast growing segment of society. If all these factors were taken into account, the distribution of China's urban incomes is likely to approach those of the most inegalitarian countries in the world. Meanwhile, progressive income tax accounts for a mere 6 per cent of government income compared with 30 per cent in many parts of Asia.

With rapid growth for more than two decades, the Chinese urban 'middle class' already appears to be quite large. Data for 2001 (China SSB, 2002) show that the top decile of the urban income distribution (around 48 million people) had an average per capita income of US $1,834, while the following decile (another 48 million people) averaged around US $1,258 per capita. Though we may conclude that the Chinese 'middle class' is around 90-100 million, this is misleading.

The average per capita income of China's 480 million officially registered urban residents in 2001 was just US $830, on par with the gross national product (GNP) per capita of low-income countries such as Albania, Uzbekistan, Sri Lanka and Cote d'Ivoire (World Bank, 2001: 274-275). If we include the unofficial urban population of around 150 million migrant workers, then the average income would be even lower. However, a recent study estimates that the average income of approximately 20 million urban Chinese households—i.e. around twelve per cent of the total number of officially registered urban households—is on par with the average for urban households in East Asia's newly industrialized countries (Qu Hongbin, 2002).

According to Hu Angang (1999), the government reported a registered unemployment rate of 3.1 per cent in 1998, while his own estimate was 8 per cent. In 1998, new employment growth was 0.1 per cent, the lowest since 1949, despite near double-digit growth. Overall unemployment, including layoffs and rural migrants who lose their jobs, remains higher. Hu (1999) estimated urban unemployment at around 160 million and rural unemployment at 170 million, for a national total of 330 million. Not surprisingly, incomes for those who have lost their jobs have been low. According to Hu, a laid-off urban worker could get about 15 per cent of the average monthly wage of Chinese workers in 1996-1997, while those laid off in remote regions and provinces hosting large SOEs received surprisingly little. As a result of increasing restructuring and massive layoffs, inequality in China rose sharply since 1992. Starting in 1999, China began to increase living allowances for laid off workers, however a 30 per cent across-the-board wage hike did not fully materialize in most Chinese regions because local governments could not afford to pay.

East Asian Contrasts

The World Bank's *East Asian Miracle* volume created a myth of egalitarian export-oriented growth in the region by claiming that, "The positive association between growth and low inequality in the HPAEs, and the contrast with other economies, is illustrated…. Forty economies are ranked by the ratio of the income share of the richest fifth of the population to the income share of the poorest fifth and per capita real GDP growth during 1965-1989…. There are seven high growth, low inequality economies. All of them are in East Asia; only Malaysia, which has an index of inequality above 15, is excluded" (World Bank, 1993: 29-30). However as Rao (1998) notes, "All that the data… can convey is that there are 22 (out of 40) economies with low relative inequality and varying economic growth rates. Thus, the evidence is not strong enough to establish

a firm relationship between growth and relative inequality, notwithstanding the fact that seven high growth and low relative inequality economies are located in East Asia."

Hence, the available evidence suggests that Taiwan is almost unique in East Asia in having established and sustained an egalitarian income distribution. Its Gini coefficient remains close to the 0.30-0.31 level, with no significant decline after the late 1960s. In the case of Korea, too, the Gini coefficient did not fall after 1965. Indonesia showed some decline in the Gini coefficient for household expenditure, but there was no evidence that income inequality had declined. Reduction of inter-ethnic income differences has been the main factor behind the reduction of the Malaysian Gini coefficient from 0.5 to around 0.45 in the 1970s and 1980s, before rising again in the 1990s. Meanwhile, the Thai Gini coefficient for income distribution rose from 0.41 in 1962 to a little over 0.5 in 1992.

Regardless of trends, income inequality in Southeast Asia seems to be significantly higher than in Taiwan and Korea, where significant asset redistribution took place with land reforms in the late forties and early fifties. Malaysia, Thailand and possibly Indonesia have income Gini coefficients of 0.45 or more. None of them had low Gini coefficients at the beginning of their rapid growth phases or have had sustained reductions in income inequality since then. Only in Korea and Taiwan did land reforms contribute to low initial levels of income inequality. The subsequent evidence suggests the maintenance of these relatively low levels of inequality, at best.

The evidence on income inequality in these five HPAEs does not support *The East Asian Miracle*'s claim of declining income inequality during the rapid growth phase after 1965. Corroborating Rao (1988), You (1998) also found that, among the World Bank's eight HPAEs, only Japan, Korea and Taiwan have had unusually low inequality. He argues that they were able to combine low inequality with rapid growth because:

(1) they started rapid growth with an exceptionally egalitarian distribution of real and financial assets as a result of post-war, mainly agrarian, reforms;

(2) rapid income growth was based on capital accumulation as well as employment expansion;

(3) high profit shares were crucial for accumulation, by generating high savings rates and inducing high investment rates (though high profits are not sufficient for rapid growth, the three achieved rapid accumulation because effective institutions and policies translated large profits into high savings and investment rates);

(4) wealth distribution was relatively even due to the highly egalitarian post-war redistribution and the unusual savings behaviour of low-income households, especially in Japan and Taiwan;

(5) although wage distribution was not particularly egalitarian, rapid employment expansion and near full employment probably meant a wider and more even distribution of wage-earning opportunities among households.

For You (1998), the future prospects for income distribution in the relatively egalitarian, three Northeast Asian countries are not good. The favourable influence of the initially egalitarian wealth distribution will only continue to diminish over time, and little more can be achieved from further employment expansion. In fact, there is evidence of growing wealth concentration in all three relatively egalitarian HPAEs, especially with the recent asset-price bubbles from the late 1980s. It appears that income inequality rose in Japan; Taiwan; and Korea during the 1980s.

The World Bank's generalization about income inequality reduction is erroneous. Gini coefficients in Korea and Taiwan have been low, and relatively the same, while inequality in Indonesia, Malaysia and Thailand has fluctuated from higher levels. Korea and Taiwan maintained relatively low Gini coefficients since the 1960s, although there is evidence of increasing income inequality in recent years, as in Japan. Most of the data for Indonesia has been for consumption, and earlier declines in inequality have given way to more recent increases, as in Malaysia. Thai income inequality has declined less than in the other two Southeast Asian economies while progressive public—especially social—expenditure has been more recent in Thailand than in Malaysia and Indonesia.

The relatively low Gini coefficients for Korea, .34 in 1965 and 0.33 in 1970 have been attributed to a number of factors. The most important of these include the 1947 and 1949 land reforms (which reduced income inequality among farm households), asset destruction during the Korean War, and confiscation of illegally accumulated wealth (Choo, 1975). Rao (1998) also notes no evidence of a continued decline in income inequality, as suggested by the World Bank (1993).

The available evidence suggests that the Gini coefficient for Taiwan declined from the 1950s until the early 1970s, and then stayed in the range of 0.28-0.30 during most of the 1970s and in the early 1980s. The measure has risen slightly since the mid-1980s. Land reform, labour-intensive industrialization, full employment, off-farm work, educational expansion and industrial organization (with large state-owned enterprises coexisting with small and medium-sized private firms) are believed to have contributed to the relatively egalitarian income distribution of Taiwan.

The World Bank and others have argued that, owing to the exceptional nature of Japan and the first generation newly industrialized economies (NIEs) of East Asia, the rest of the developing world should emulate the second-tier Southeast Asian newly industrializing countries (NICs) instead. While the more recent experiences of the second-tier Southeast Asian NICs may be more relevant to the rest of the South in some respects, such as resource wealth, the superior industrial policy as well as the more egalitarian initial conditions and development outcomes of Japan, Korea and Taiwan should not be overlooked.

Despite impressive gains in recent decades, Southeast Asian achievements in literacy, health and media access as well as HDI and HPI rankings have been modest and quite uneven, as reflected in Figures 5 and 6. Malaysia is generally ahead of Thailand, the Philippines and Indonesia, with the Philippines still ahead of Indonesia on most indicators despite its dismal economic performance in recent decades. As Figures 7 and 8 show, public spending on health in Korea was proportionately well ahead of its Southeast Asian counterparts. Surprisingly, this was not the case with education, where the figures reflect the much higher private spending on education in the peninsula.

Globalization, Growth and Inequality

It has been claimed that economic liberalization and globalization have helped spur economic growth throughout the world. However, according to Weisbrot, Naiman, and Kim (2000), the official data for the last two decades (1980-2000) suggest a different outcome. Economic growth has slowed dramatically, especially in the less developed countries, as compared with the previous two decades (1960-1980). For example, from 1960-1980, output per person grew by an average, among countries, of 83 per cent, while average

growth was 33 per cent during 1980-2000. Eighty-nine countries, or 77 per cent of all countries considered saw their per capita growth rate fall by at least five percentage points between 1960 and 1980 and the 1980-2000 time periods. Only 14 countries, or 13 per cent, saw their per capita growth rate rise during this timeframe. In Latin America, GDP per capita grew by 75 per cent during 1960-1980, but only by 6 per cent during 1980-1998. GDP per capita for sub-Saharan Africa grew by 36 per cent in the first period, and has since fallen by 15 per cent.

Southeast Asia achieved high growth rates especially during 1987-1997, but did not surpass its growth between 1960 and 1980. The only regional exception to this trend was East Asia, which grew faster from 1980 to 1998 than in the previous period. This anomaly however can be explained by the quadrupling of GDP, over the last two decades, in China, where 83 per cent of the population of East Asia resides. Hence, advocates of the Washington Consensus cannot point to any region in the world as having succeeded by adopting the neo-liberal policies they prescribed—or, in many cases, imposed—on borrowing countries. Understandably, they are reluctant to claim credit for China, which maintains a non-convertible currency, with state control over its banking system, and other major violations of Washington Consensus prescriptions.

Weisbrot, Naiman, and Kim (2000) argue that if globalization and other policies promoted by the IMF and the World Bank have not led to increased growth, it becomes extremely difficult to defend these prescriptions. The costs of these changes such as the destruction of industries and the dislocation of people, the harsh 'austerity' medicine often demanded by these institutions and by international financial markets, burden society without any clear countervailing benefit. Weisbrot, Naiman, and Kim (2000) also note that the IMF promulgated policies that have undoubtedly reduced cumulative economic growth for hundreds of millions of people. In East Asia, IMF policies exacerbated the financial crises by requiring pro-cyclical macroeconomic responses, which deepened the crises in the region and delayed recovery. In Russia and Brazil in 1998, the Fund's support for overvalued exchange rates that ultimately collapsed caused serious economic damage. IMF policies in the economies of the former Soviet Union and Eastern Europe have, over the last decade, contributed to one of the worst economic disasters in the history of the world. Russia lost more than half its national income, as transition economies accounted for 70 per cent of the economic stagnation in the 1990s (Reddy and Minoiu, 2003). This is in sharp contrast to the East Asian transition economies of China and Vietnam.

Easterly (2000a, 2000b) has argued that, "The poor in developing countries are often better off when their governments ignore the policy advice of the International Monetary Fund and World Bank." IMF and World Bank policymakers claim that their reforms often require necessary short-term pain for the sake of long-term gain. Yet, as Easterly points out, during times of economic growth, the poor did not gain as much in countries in where the IMF lent money as they did in places with no programs. In countries without an IMF presence, the poor were also not hurt as badly by recessions. He also found that China, India and other countries that did not follow IMF and World Bank economic programs saw more poverty reduction in times of economic growth than nations that took the advice of Washington-based lenders.

Significant increases in inequality appear to have accompanied accelerating globalization. In the first ever study to calculate world income distribution from household income surveys, Milanovic (1999) found that the distribution of individual incomes and expenditures were more unequal in 1993 than in 1988. His

study found world income inequality to be very high.[14] The Gini coefficient for incomes in 1993 was 66 adjusted for purchasing power parity (PPP), and almost 80 using current US$ incomes. Milanovic found income inequality increased during 1988-1993 as the Gini for PPP-adjusted incomes in 1988 was 62.5. Depending on the measure used (Gini or Theil), inter-country inequality accounted for 75 to 88 per cent of total inequality. Inter- as well as intra-country inequality rose between 1988 and 1993, with the former rising much more when economic globalization was on the rise.

UNDP (1999) offers evidence of growing global inequality. Government roles have also changed over the last two decades, and their impact has become more regressive. Tax systems have also become more regressive. In many countries, income tax rates have become less progressive, causing direct taxes to also become less progressive, if not regressive. Meanwhile, the share of direct taxes has tended to decline compared to the generally more regressive indirect taxes. All this has been accompanied by various efforts to reduce overall tax rates, in line with supply-side economic philosophy, which became especially influential during the 1980s under the United States President, Ronald Reagan.

Lower tax revenues and increasing insistence on balanced budgets or fiscal surpluses has generally constrained government spending, especially what is deemed as social expenditure, with some deflationary consequences. Privatisation in many countries has provisionally increased government revenues, enabling governments to temporarily balance budgets or have surpluses on the basis of one-off sales income. Such budgetary balances are clearly unsustainable, but have succeeded in, at least momentarily, obscuring the imminent fiscal crises such policies may cause.

Implications of Economic Liberalization for Equity in East Asia

The fiscal and foreign debt crises of the early and mid-1980s took a heavy toll on many countries in the region. Most governments emerged leaner by the late 1980s, though not necessarily more effective, partly due to economic liberalization. Government expenditure as a percentage of total economic activity has been reduced, public sectors checked, state-owned enterprises constrained, and privatisation policies pursued. Government regulations have been reduced, mainly to induce greater private, especially foreign, investments. While economic welfare has often been adversely affected, some waste and undesirable regulation have also been eliminated in the process. Overall though, available information does not support the creation of meaningful welfare balance sheets.

14 Milanovic (1999) offers other dramatic measures of global inequality such as:
- The bottom five per cent grew poorer while the richest quintile gained 12 per cent in real terms, i.e. more than twice as much as mean world income (5.7 per cent)
- The richest one per cent of people in the world receive as much as the bottom 57 per cent, i.e. less than 50 million receive as much as 2.7 billion, or more than 54 times as many people.
- An American with the average income of the poorest US decile is better off than two- thirds of the world's population.
- The top decile of the US population had the aggregate income of the poorest 43 per cent of the world's people, i.e. the total income of 25 million Americans was equal to that of almost two billion people, or almost 40 times as many people.
- The ratio of the average income of the world's top 5 per cent to the bottom 5 per cent rose from 78 in 1988 to 114 in 1993.
- 75 per cent of the world population received 25 per cent of the world's PPP-adjusted income, and vice versa.
- 84 per cent of the world population received 16 per cent of the world's unadjusted US$ income, and vice versa

Milanovic has since shown that world inequality declined slightly between 1993 and 1998, though inequality in 1998 was still higher than in 1988.

The consequences of globalization and liberalization for growth, poverty and income inequality in East Asia are quite complicated and also quite contingent. The information available does not allow a carefully considered assessment of the welfare consequences of recent liberalization and globalization for different socio-economic groups, including those in poverty. Korea and Taiwan lacked natural resources, but have transformed their economies through interventionist industrial policies. Malaysia, Thailand and Indonesia have relied more on resource rents to alleviate poverty, though growth has also been important. Export-oriented industrialization, driven primarily by foreign capital in Southeast Asia, has helped reduce unemployment and raise household incomes there.

Rapid growth has facilitated poverty alleviation. The East Asian economies reviewed here seem to have managed to grow quickly without seriously worsening income distribution. All these economies introduced policy instruments to alleviate poverty and, to a lesser extent, to improve income distribution. Poverty, both urban and rural, has generally continued to decline.

Income distribution in Korea, Taiwan, Malaysia, and Indonesia has intermittently improved. Only Thailand, which has historically been the most liberal of the six main economies under consideration and the least committed to redistribution, experienced a long-term tendency toward greater income inequality. In fact, it was the only economy among the six that recorded increased poverty in the mid-1980s and greater urban poverty in 1990.

Before the currency and financial crises of 1997-1998 induced a regional recession in 1998, liberalization had not significantly increased poverty in the region (except perhaps in Thailand), but seems to have by worsened inequality in Malaysia, Korea and Taiwan—a trend more consistently pronounced in Thailand from an earlier period. In other words, although poverty in these economies continued to fall with rapid growth, productivity gains and declining unemployment, income inequality has worsened in Korea, Taiwan, and Malaysia since the 1980s.

After 1980, liberalization seems to have adversely affected income distribution in the region. Rising income inequality under essentially laissez-faire conditions in the past have re-emerged as the economies of the region liberalized once again. Deregulation, reduced government intervention, declining commitment to earlier redistributive mechanisms, and greater government efforts to meet investor expectations probably all contributed to increased inequality in the region. Recent and current trends suggest the likelihood of worsening inequality in the future (see Ishak, 1996; Onchan, 1995). Liberalization and renewed commitments to protecting property rights have discouraged redistributive policies and aggravated social inequality in these countries. More liberalization will likely exacerbate these regressive trends.

Contrary to the claims of the World Bank, the East Asian economies do not demonstrate any clear relationship between export-oriented industrialization and better income distribution (see also Alarcon, 1996). Though export orientation can sustain long-term growth, effective mechanisms for redistribution usually implemented through government intervention are needed to improve equity. The World Bank recommends that other developing countries try to emulate the second-tier Southeast Asian NICs, especially their 1980s liberalization policies. However, the evidence suggests that Korea and Taiwan had much more egalitarian growth when compared to Malaysia, Indonesia and Thailand, and that inequality has increased all-around since liberalization, especially in Southeast Asia.

The simplistic World Bank picture of East Asian 'growth with redistribution' or 'egalitarian growth' does not stand up to careful empirical scrutiny. Northeast Asia has been distinctly more egalitarian than Southeast Asia, and recent economic liberalization has exacerbated inequality in the region (see Table 38). Interestingly, those economies with more elaborate, effective and successful industrial policies have also been more egalitarian, although available data does not allow a meaningful testing for correlation, let alone causality.

Table 38.
Six East Asian Countries: Income Share by Quintile

		Q1	Q2	Q3	Q4	Q5	T/B ratio[a]
China	1998	5.9	10.2	15.1	22.2	46.6	7.9
Korea[b]	1965	5.8	13.6	15.5	23.3	41.8	7.3
	1970	7.3	12.3	16.3	22.4	41.6	5.7
	1976	5.7	11.2	15.4	22.4	45.3	7.9
	1982	6.9	11.9	16.2	22	43	6.3
	1988	7.4	12.3	16.3	21.8	42.2	5.7
	1993	7.5	12.9	17.4	22.9	39.3	5.2
	1996	8.2	13.3	17.5	23.1	37.9	4.63
	1998	7.4	12.8	17.1	22.9	39.8	5.41
	1999	7.3	12.6	16.9	22.9	40.2	5.49
Indonesia	1976	6.6	7.8	12.6	23.6	49.4	7.5
	1987	8.8	12.4	16	21.5	41.3	4.7
	1990	8.7	12.1	15.9	21.1	42.3	4.9
	1999	9	12.5	16.1	21.3	41.1	4.6
Malaysia	1973	3.5	7.7	12.4	20.3	56.1	16
	1987	4.6	9.3	13.9	21.2	51.2	11.1
	1989	4.6	8.3	13	20.4	53.7	11.7
	1997	4.4	8.1	12.9	20.3	54.3	12.3
	1999	14.0	35.5	50.5	na		
	2002	13.5	35.2	51.3	na		
	2004	13.5	35.3	51.2	na		
Philippines	1961	4.2	7.9	12.1	19.3	56.4	13.4
	1965	3.5	8	12.8	20.2	55.4	15.8
	1971	3.8	8.1	13.2	21.1	53.9	14.2
	1985	5.2	8.9	13.2	20.2	52.5	10.1
	1988	6.5	10.1	14.4	21.2	47.8	7.4
	1997	5.4	8.8	13.2	20.3	52.3	9.7
Thailand	1975-1976	5.6	9.6	13.9	21.1	49.8	8.9
	1981	4.6	7.9	12.1	19.9	55.6	12.1
	1988	4.5	8.1	12.3	20.3	54.9	12.2
	1990	4.1	7.4	11.6	19.7	57.3	14
	1992	4	7.1	11.1	18.8	59.1	14.8
	1998	4.2	7.7	11.9	19.8	56.3	13.4

Source: Medhi and Ragayah (2006: Table 4).

Notes: a T/B ratio is the ratio of income share of the Top (richest) quintile to Bottom (poorest) quintile. b After 1993, data from www.gpn.org/data/korea/korea-data.pdf.

In light of these developments, it is important to consider possible measures to try to sustain declines in poverty and reductions in inequality despite continued pressures for trade, financial and investment liberalization. Poverty alleviation and redistribution policies are still needed, particularly in Thailand, where they have been absent and income distribution has deteriorated over the last few decades. Evidence from other countries in the region suggests that efforts targeting poor groups, such as land reform, subsidized housing, and subsidized access to education, have been successful and should be emulated.

Liberalization of agricultural, especially food, trade should be gradual to facilitate adjustment. With real wage increases in Korea and Taiwan from the late 1980s, such agricultural trade liberalization allowed cheap food imports from abroad to destroy the livelihoods of many farmers in Korea, though the problem has been less significant in Taiwan due to greater agricultural productivity and the importance of off-farm work. Similarly, Malaysia, Indonesia and, to a lesser extent, Thailand too will face similar challenges as cheap rice imports from Vietnam and China enter their economies. The livelihoods of farmers would have been negatively affected, though the collapse of many Southeast Asian currencies since mid-

1997 changed the terms of trade for agriculture once again, at least for the near future. Alternative employment sources such as the promotion of industrial dispersal to raise off-farm incomes, as in Japan and Taiwan, also need to be developed by the governments under consideration. The regional recession in 1998 temporarily revived interest in questions such as food security, which had been largely forgotten with the enthusiasm for liberalization and globalization in the preceding decade.

While direct subsidies may be difficult to sustain, new forms of indirect subsidization may well compensate. For example, increased government education and training efforts can become an important means of advancing industrial and technological capabilities. Taiwan and Korea have successfully pursued such efforts for some time. While the demand for skilled labour has risen substantially in Malaysia and Thailand, earlier government efforts have been inadequate to meet these requirements. The improvement of the labour force should help raise the competitiveness of firms and economies, and narrow wage differentials and income inequality more generally.

The East Asian experience with labour market liberalization has therefore been quite complicated. Labour market liberalization has undoubtedly undermined labour market segmentation in significant ways, but such labour market rigidities still prevail. Some rigidities are becoming even more pronounced with more educational and skill specialization as well as greater use of foreign labour—with reduced 'citizenship rights'—at both ends of the labour force. In most East Asian economies, except for the 'new democracies' of Korea and Taiwan, labour regulations have not improved significantly in recent decades, resulting in more casualized and vulnerable labour relations. This has enhanced labour flexibility without a concomitant improvement in labour security. The significance of corporate savings in explaining the high savings rate associated with the East Asian region suggests that this may have been at the expense of labour incomes.

While changing production relations at the international level, variously described as international or global 'production networks' or 'value chains', have brought about some of this greater flexibility, much of this has been promoted by governments trying to attract investments and thus enhance growth. However, there has been relatively little resistance to such casualization, as its negative consequences were partly offset by the post 1985 boom (after the appreciation of the yen and the currencies of the first-tier East Asian NIEs), which has been accompanied by declining unemployment as well as improved labour remuneration to retain employees. However, such casualization negates the likelihood of corporatism, and hence, of greater commitment by workers as 'stakeholders', as in Japan, Korea, and Singapore. Weak institutional development governing labour relations exacerbated the welfare of workers in the region. Liberalization also weakened the bargaining power of workers in Malaysia, Thailand and Indonesia, and may thus have worsened income distribution.

Unions could instead be encouraged to collaborate with management and the government to enhance social corporatism so that enhanced trust, commitment and efficiency from such partnerships can help raise competitiveness and workers' remuneration. This would probably involve more multi-skilling, cross-skilling and institutionalization of the work process, including union participation in worker training to strengthen effective tripartism, i.e. institutionalized consultations involving labour, employers and the government. Such flexible work practices can also reduce occupational hierarchies, status differentials and income inequalities.

Technological development is essential for the success of such efforts. Growth should become a shared responsibility, with all parties benefiting. Commitment to technology development—e.g., through

subsidization of catching-up activities—will become increasingly crucial to sustaining industrialization, growth and improved living standards. However, technology development efforts should not merely focus on firms alone. The broader institutional set-up for promoting a better national system of innovation, including upgrading labour force skills, will be critical.

As traditional industrial policy measures are increasingly negated, there is likely to be greater interest in and attention to human resource development (HRD) efforts, offering a rare window of opportunity for social development proponents to advance their agenda. However, there is also a danger that only social development measures considered supportive of economic growth and industrialization, especially in the short and medium term, will be adopted, as others are neglected and eventually quietly forgotten.

In the long term, continued progress in health, education and labour productivity will be necessary to sustain economic growth and improve living standards. Economic growth and social development should increase in tandem. Ramirez, Ranis and Stewart (1997) postulate a cumulative cycle of economic growth and human development, based on two chains: one linking economic growth to human development, the other linking human development to economic growth. They found that higher social expenditure improves human development, and that high investment rates and more equitable income distribution bolstered economic growth. Some East Asian economies seem to have such 'virtuous circles', with relatively high literacy rates and life expectancies, among other positive social indicators. These countries may well be poised for further social development and economic growth. Yet, as the Korean experience suggests, institutional reforms to ensure such an outcome will only come about through public pressure for and government commitments to social development.

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