

Social Equity in ASEAN

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Robust economic growth with equity is an enduring goal in development policy. Indeed, equity or more generally inclusiveness is now considered an essential element of sustainable robust growth, in part to generate popular support for growth-generating policies and in part due to the dynamics of growth itself. Econometric results indicate that income inequality reduces economic growth especially in developing economies, where per capita annual income is less than \$11,900 in 2000 prices, according to Robert J. Barro (“Inequality and Growth Revisited”, *Working Paper Series on Regional Economic Integration*, No. 11, Asian Development Bank, 2008). Similarly, as reflected in the third pillar of the ASEAN Economic Community (AEC) Blueprint and in the ASEAN Framework for Equitable Economic Development, robust growth with equity (couched mainly in terms of narrowing development gaps between and within ASEAN member states) also strongly underpins regional integration initiatives like the ASEAN Community in order for Southeast Asian nations to, among other things, “...liv[e] in peace, stability and prosperity...” (Cha-am Hua Hin Declaration on the Roadmap for the ASEAN Community, 2009-2015).

This short paper looks into the issue of social equity in ASEAN, the policy challenges it poses to ASEAN member states, and the role of regional cooperation to further social equity in the region.

Social Equity in ASEAN

There are many definitions of social equity depending on the fields of inquiry. Nonetheless, social equity can be broadly defined either as equality of opportunity or equality of results or outcomes. This is M. J. Peterson’s definition in his 2009 paper “The Concepts of Social Inclusion and Social Equity” (available at www.umass.edu/sts/ethics). Normatively, social equity or inclusiveness means – to quote Michael Spence in *The Next Convergence: The Future of Economic Growth in a Multispeed World* (New York, 2011) – that “...people should not be left out or excluded from opportunities created by growth, and...there should be limits to the amount of inequality in income and access to basic services that are tolerable.” In this paper, social equity in terms of results is viewed from two angles: social equity as poverty alleviation and social inequity as income inequality. Social equity in terms of equality of opportunity is viewed in this paper primarily in terms of access to education, health and infrastructures.

Social equity as poverty reduction

Poverty reduction in many ASEAN countries during the 1990s and 2000s has been remarkable, although not as spectacular as in China. The number of the very poor (i.e., people with income of less than \$1.25 per day in purchasing power parity terms) in ASEAN-7 (excluding Brunei, Singapore and Myanmar; Myanmar is excluded due to lack of data) declined from around 171 million in the early 1990s to around 88 million in the mid-2000s. Much of the decline is due to successes in Indonesia and Vietnam. The decline

in the number of the very poor in ASEAN meant an increase in the number of the poor (those with income of \$1.25 to \$2.00 per day in PPP terms) by around 32 million and low income (those earning \$2.00 to \$3.00 per day in PPP terms) by around 57 million during the period.

Correspondingly, there has been a remarkable increase in the size of the middle class in the ASEAN region. All developing ASEAN member states registered significant increases in their middle class during the 1990s and the 2000s (Myanmar not included due to data constraints), most especially Indonesia, Vietnam and the Philippines. The size of ASEAN’s middle class was in fact substantially higher than India’s by the mid-2000s, although the gap can be expected to have narrowed significantly since then given India’s much higher growth rate than those of the populous ASEAN countries (Indonesia, Vietnam and the Philippines) during the last decade.

The substantial increase in the size of the ASEAN middle class can be expected to have a positive growth effect. Four growth-inducing impulses are worth noting. First, the middle class tends to invest more in education, thereby raising human capital, a critical element in the greater competitiveness of the region and its technological upgrading. Second, the widening of the middle class in ASEAN is the foundation for the deepening of the domestic markets in the region, which in turn facilitates the growth and upgrading of domestic firms in ASEAN. Third, the middle class tends to be a pressure group for transparency and good governance. And fourth, taking note of the first three factors, the growing middle class in the region is an investment magnet itself, from firms both outside and within ASEAN. These are the kinds of

TABLE

Indicators of income inequality in ASEAN

Gini_Net (after tax): income based					PovcalNet report: consumption based		
AMSs	1990-1995	1996-2000	2001-2005	2006-2010	AMSs	Year	Gini Index
Brunei	N/A	N/A	N/A	N/A	Cambodia	1994	38.28
Cambodia	42.89	43.68	42.76	N/A	Cambodia	2007	44.37
Indonesia	35.54	32.94	34.90	36.46	Cambodia	2008	37.85
Laos	32.13	35.67	34.92	36.24	Indonesia-weighted	1990	29.19
Malaysia	43.25	44.40	39.81	N/A	Indonesia-weighted	2005	34.01
Philippines	43.03	44.89	43.37	42.20	Indonesia-rural	1990	26.46
Singapore	40.13	40.00	40.04	41.26	Indonesia-rural	2009.5	30.49
Thailand	51.08	48.60	44.17	N/A	Indonesia-urban	1990	34.66
Vietnam*	34.50	34.79	37.57	N/A	Indonesia-urban	2009.5	37.62
Gini_Market (before tax): income based					Laos	1992.20	30.43
AMSs	1990-1995	1996-2000	2001-2005	2006-2010	Laos	2008	36.74
Brunei	N/A	N/A	N/A	N/A	Malaysia	1992	47.65
Cambodia	43.90	45.05	44.30	N/A	Malaysia	2009	46.21
Indonesia	38.84	34.52	35.90	37.29	Philippines	1991	43.82
Laos	32.97	36.74	35.88	37.23	Philippines	2009	42.98
Malaysia	45.80	45.56	40.30	N/A	Thailand	1990	45.27
Philippines	57.93	55.14	45.21	43.71	Thailand	2008.5	40.265
Singapore	44.86	47.52	48.74	50.20	Vietnam	1992.70	35.68
Thailand	52.59	47.00	45.29	N/A	Vietnam	2008	35.57
Vietnam*	35.55	36.70	38.56	N/A			

Note: a) Gini_Net: Estimate of Gini index of inequality in equivalized (square root scale) household disposable income, using Luxembourg Income Study data as the standard; and b) Gini_Market: estimate of Gini index of inequality in equivalized (square root scale) household gross (pre-tax, pre-transfer) income, using Luxembourg Income Study data as the standard.

Source: Gini_Net and Gini_Market from Solt (2009) and Gini index PovcalNet from the PovcalNet Report, World Bank (2012)

growth-inducing impulses that make inclusiveness an essential element of sustainable robust growth, as Spence pointed out.

Social inequity as inequality of income and/or opportunities

Indicators of income inequality (either in terms of gross or net income or consumption) shown in the [Table](#) present a mixed picture for ASEAN countries during the 1990s and 2000s. The inequality measures are both in terms of expenditure and income (before and after tax). Income inequality measures using income (gross) are known to indicate greater inequality (e.g., higher value of the Gini ratio) than those based on (consumption) expenditure; this is largely borne out in the [Table](#).

The [Table](#) presents four broad features. First, income inequality in Malaysia, the Philippines, Singapore, and Thailand has been higher than in Indonesia, Laos and Vietnam. Second, these more unequal countries have largely experienced secularly declining income inequality (especially in the case of the income-based indicators) during the past two decades, while the less unequal

countries have experienced some rise in income inequality, most especially in the cases of Laos and Indonesia. (Note, however, that the marked rise in income inequality using consumption expenditure for Laos differs from the relatively stable gross income inequality measure for the country since the latter 1990s; similarly, the rise in gross income inequality in Indonesia during the latter 2000s is much more subdued.) Singapore experienced rising income inequality in gross income terms but remained largely constant in net income (i.e., after tax) terms, likely the result of progressive income taxation. Third, the case of Cambodia is less clear as it appears to straddle both groups depending on the indicators used and the year of interest. Cambodia's income inequality worsened during much of the 1990s and early 2000s before it improved substantially in 2008. (However, a sharp drop in the Gini ratio over a one-year period only (2007-2008) is very unusual for Gini ratios, suggesting either a temporary phenomenon or some data comparability problem.) Fourth, the East Asian crisis of 1997-1998 corresponded to the temporary worsening of income inequality in a few ASEAN countries (Cambodia, Laos, Malaysia, the Philippines) but not in the others.

Using the standardized world income inequality database (as discussed by Frederick Solt in *Social Science Quarterly*, 90 (2), 2009), it is useful to look into the longer term trend of income inequality for a number of ASEAN countries. Malaysia's declining income inequality in the 1990s and 2000s is in fact a continuation of a declining trend since the late 1970s. Thailand's pattern of income inequality in the 1990s and 2000s appears to be a reprise of the same pattern of secular decline from the late 1960s to the early 1980s before income inequality worsened again from the mid-1980s to early 1990s. Indonesia's pattern of income inequality echoes Thailand's to a large extent, albeit with lower amplitude; namely, declining inequality from the latter 1970s to the mid-1980s, followed by a rise in inequality through the early 1990s, then a decline in the late 1990s and early 2000s, and followed again by some rise in income inequality in the latter 2000s to the level of the early 1990s. Gross income inequality in the Philippines has stayed high since the early 1960s; it is only in the 2000s and especially the latter part that inequality has declined.

In terms of inequality of opportunities, there are indications of the narrowing of the opportunity gap, especially with respect to education. The combined gross enrolment rate for primary, secondary and tertiary levels increased in all ASEAN countries except Singapore during the past two decades, especially in Thailand, Vietnam, Cambodia, Laos, Myanmar and Malaysia. With primary education gross enrolment rates of more than 100% in most ASEAN countries, the rise in the combined gross enrolment rate was due mainly to the large expansions in secondary education and, for Malaysia and Thailand, especially the tertiary level.

Access to electricity can be a proxy for access to basic infrastructures. Based on the results of a study on inequality of human opportunities in Indonesia, the Philippines and Vietnam as compared with four South Asian countries by H. H. Son ("Inequality of Human Opportunities in Developing Asia", *ADB Economics Working Paper Series*, No. 328, 2012), inequality with respect to access to basic infrastructures appears to be higher than inequality with respect to access to education, especially primary education. This is largely due to the rural-urban divide, the very large number of islands in archipelagic Indonesia and the Philippines, and to poverty itself given the relatively high cost of electricity, especially in the Philippines.

In summary, while there is general commonality of social equity in terms of reduced poverty incidence among ASEAN countries, there is a much more mixed picture in the region with respect to social inequity as income inequality. The mixed picture on income inequality is not surprising since, barring effective implementation of progressive income taxation as is apparently the case in Singapore, income distribution is largely determined by economic forces and, to some extent, individual and locational (or infrastructural) constraints. Thus, the pursuit of social equity in

both absolute (poverty alleviation) and relative (distribution of income or opportunities) senses invariably involves influencing the character and dynamics of economic growth as well as addressing policy and infrastructural constraints to individual volition and enterprise.

Engendering Growth with Equity: National & Regional Dimensions

There remain a large percentage of very poor and poor people in ASEAN; hence, the pursuit of robust or high economic growth is still paramount to achieve social equity in terms of poverty alleviation in the region. At the same time, ensuring that robust growth does not lead to intolerably unequal distribution of income is a continuing challenge for the region.

It is widely acknowledged that developing countries starting from a low per capita income base can be expected to experience worsening of income inequality as their per capita income increases until some threshold point of around \$3,050 (in 2000 US dollar terms) after which the rise in per capita income tends to be characterized by declining income inequality; this is the well-known inverted U curve or Kuznets curve. The worsening of income inequality early on is embedded in the development process itself; for example, the shift of labor from the low-paying agriculture sector to higher paying and faster growing non-agriculture sectors, the interplay of agglomeration economies and better infrastructure in urban areas as compared with rural areas, the rising wage premium for skilled labor engendered by technological developments, and even the deepening of globalization itself.

Indeed, World Bank and other studies show that the rise in income inequality in Cambodia and Vietnam (using income-based indicators) is due in substantial part to the rural-urban divide, with most of the better paying jobs (relative to agriculture) in garment manufacturing, tourism and construction concentrated mainly in Phnom Penh, Siem Reap and Sihanoukville, or to the higher returns stemming from the individual characteristics of the more educated and skilled workers in Vietnam's urban areas than can be achieved in rural areas. The rural-urban divide is even more pronounced in Laos, in large part because the infrastructural and market access constraints facing the rural populace are more daunting in such a mountainous country where many areas of the highlands have poor roads and rely on low technology agriculture.

Country-specific characteristics also shape the nature and severity of income inequality. This is best exemplified in ASEAN by the case of Malaysia, which arguably had very unequal distribution of income during the 1960s determined substantially by combustible inter-ethnic income disparities. The ethnic riots of May 1969 led to Malaysia's embrace of (robust) growth with equity embodied in the New Economic Policy, with the equity part significantly skewed in favor of the *bumiputeras* (essentially, the

Malays and other indigenous peoples). The country has succeeded in this regard, with a secular narrowing of inter-ethnic income disparities at the same time as several decades of robust economic growth has seen it achieve upper-middle income country status with virtually no incidence of abject poverty. Current concerns over income inequality in Malaysia appear to be focusing more on intra-ethnic income inequality than on inter-ethnic income disparity.

Although Malaysia's *bumiputera* policy is singular given the unique circumstances the country faced, Malaysia's success story suggests that the pursuit of robust growth with equity can be workable in ASEAN. Virtually all ASEAN countries aim for a high economic growth rate and their governments have been working assiduously at improving the policy, infrastructural and institutional support to robust or high growth. The World Bank Commission on Growth and Development's *Growth Report* for 2008 highlights key factors that help explain the high growth phase of a few developing countries during the past few decades, including a number of ASEAN members. Among them are (1) economic openness, outward orientation, and the full exploitation of the global economy in terms of ideas, knowledge, technology and access to markets, much of it through foreign investment; (2) macroeconomic stability with sustainable public finance, modest to low inflation and resilient financial sectors; (3) high rates of investment and savings which represent future orientation; (4) reliance on markets and incentives to allocate resources; and (5) good governance and capable institutions. Although the operational details differ among them, the ASEAN countries remain wedded to these key principles, albeit in their own ways and not always successfully (for example, in macroeconomic management and institutions). Additionally, Spence notes the critical importance of public investment in education and infrastructure to both complement and attract higher private investment; both are top priorities for ASEAN countries, with infrastructure being particularly pressing for a number of them.

It is in the pursuit of the equity element of robust growth that there remain significant challenges in a number of ASEAN countries. There are many areas of concern; this paper focuses only on three of them. As indicated earlier, infrastructural constraints have a large bearing on the rural-urban divide and a number of ASEAN countries face significant deficits in this area; raising the connectivity of rural areas with urban areas increases the returns to agriculture and rural-based industries, raises mobility of people, and tempers the propensity toward urban migration, thereby engendering greater equity as well as better management of urbanization that accompanies high economic growth. Investing in agriculture in terms of better seeds, research and development systems, irrigation, and farmer training as key drivers of both growth and social equity remains cogent in many ASEAN countries, especially Cambodia, Laos and Myanmar. Joseph Schumpeter's theory of "creative destruction" (arising from

competition domestically and from abroad as well as the entry and exit of firms) that underpins economic growth presents challenges to many ASEAN countries in establishing robust temporary facilitation mechanisms and safety nets (such as in retraining, subsidized education and basic health) to help people adapt to changing economic and labor markets; in effect, "protecting people and not jobs" in Spence's words. Gender inequality in access to education is not a serious concern for the region.

The pursuit of robust growth with equity can be facilitated by regional cooperation and initiatives, and ASEAN is cognizant of it. Indeed, much of the AEC Blueprint and related ASEAN documents are measures and initiatives that support robust growth with equity as much as regional economic integration *per se*. Thus, for example, given the centrality of investment in the growth process, AEC Blueprint measures on investment and trade facilitation, connectivity and transport facilitation, as well as investment liberalization and even services liberalization, are all contributory to the improved investment regime in ASEAN countries and the region. Similarly, regional initiatives on capital market development and skilled labor mobility boost the investment attractiveness of the region. ASEAN considers SME development as an essential element of the AEC's efforts to narrow development gaps, even if the region is still trying to implement effective SME development initiatives in tandem with national programs and policies. ASEAN carries out a wide range of regional cooperation initiatives in agriculture and fisheries as well as for food security in cooperation with a number of its dialogue partners. The implementation of the Master Plan on ASEAN Connectivity has equity implications because it connects countries (especially Cambodia, Laos and Myanmar) and regions (especially in Indonesia and the Philippines) that have been hitherto peripheral in regional production networks and makes them more integrated, thereby providing a growth driver for the less developed areas in ASEAN.

In conclusion, the story of the pursuit of social equity as growth with equity in ASEAN is a promising one. The performance in poverty reduction is for the most part satisfying even if there remains much to be done. Income inequality in hitherto high inequality ASEAN countries has been coming down, although the Gini ratios are still slightly above the global average of 0.39 in the 2000s. The rise in income inequality of hitherto low inequality ASEAN countries has been modest, at least as compared to China. The challenge is in keeping forward this process of secular decline in inequality in some countries and modest rise followed by decline in others, thereby making ASEAN a good exemplar in the pursuit of social equity in the developing world. **JS**

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