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DIFFERENT DIMENSIONS OF INCLUSIVE GROWTH SPECIFIC TO THE REGION AND POLICY RESPONSES DRAWING ON INDONESIA'S EXPERIENCE TACKLING THE ISSUE OF INEQUALITIES

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DIFFERENT DIMENSIONS OF INCLUSIVE GROWTH SPECIFIC TO THE REGION

There is no doubt that inclusive growth is important to help sustain economic growth and to reduce inequality. Historical data shows us that a country with high economic growth tends to produce higher inequality within its economy, if the country does not provide appropriate measures to minimize such negative side-effects of high economic growth. Inequality is a major constraint to opportunity. As highlighted in a recent article in the Atlantic, "poverty is not only a matter of near-term material deprivation—too often, it also robs low-income children of the chance to realize their intellectual and economic potential".i

When Indonesia was chair of ASEAN in 2011 we wanted to strengthen the equitable development pillar of integration. At the 19th ASEAN Summit in Bali we agreed to the "ASEAN Framework for Equitable Economic Development: Guiding Principles for Inclusive and Sustainable Growth". The Framework emphasizes "that equitable economic development is characterized by narrowing development gaps within and between Member States, better access to opportunities for human development, social welfare and justice, and more inclusive participation in the process of ASEAN integration and community building".

POLICY RESPONSES DRAWING ON INDONESIA'S EXPERIENCE TACKLING THE ISSUE OF INEQUALITIES.

In Indonesia we could define inclusive growth as "growth must be the result of efforts of the whole society, where the results can be enjoyed by the entire community equitably, both by high-income people and low-income people, and across all regions."

Implementation of inclusive growth, including efforts to reduce inequality, began to be implemented at the beginning of the Suharto era in the late 1960s, where the development trilogy set as a strategy in development plans, namely: 1) encouraging high economic growth, (2) maintaining a dynamic national stability, and; (3) equitable development and results for the whole of society, and supported by eight equalization agenda which includes equity in: (1) the fulfillment of basic needs; (2) educational opportunities and health services; (3) distribution of income; (4) employment; (5) business opportunities; (6) the opportunity to participate in the construction; (7) the spread of development in all regions of the country; and (8) to obtain justice.

The government issued various policies such as the implementation of a progressive tax system, provided assistance to underdeveloped villages, credit to poor farmers and cooperatives in the countryside, as well as providing various types of subsidies to the goods needed for the production process (subsidy seed, and others), as well as for basic consumer goods. With these efforts, Indonesia's economic growth reached an average of 6.5 percent between 1969-1998, supported by increased investment and exports. With this development, per capita income continued to rise, the poverty rate declined from about 60 percent in 1970 to around 12 percent in 1996. Unemployment was maintained at a low level, however, we did not see the necessary strengthening economic fundamentals and good economic stability. In this economic condition, Indonesia experienced a severe crisis in 1998-1999. Economic growth in 1999 contracted by 13.1 percent, inflation reached 60 percent, poverty increased to about 24 percent, and unemployment rose sharply. This indicates that the economic fundamentals are very influential for achieving inclusive economic growth goals. Therefore, at the beginning of the period after the crisis of 1998, policies focused on the recovery and strengthening economic fundamentals. The Government legislated to limit the budget deficit to no more than 3 percent, and made efforts to decrease debt to below 30 percent. Budget limitations had implications on equalizationpolicies and programs.

The government of President Susilo Bambang Yudhoyono (SBY, 2004-2014) focused on fostering economic growth and increasing equity by reducing unemployment and poverty to improve people's welfare. The government implemented a four-track pro-growth, pro-poor, pro-jobs, and pro-environment strategy. Economic growth was pursued by increasing investment and exports. The government set a target of reducing Indonesia's poverty rate to between 8 and 10 percent by the end of 2014. To achieve the goal, the government implemented poverty alleviation efforts by enhancing social protection programmes, improve access to basic services by the poor, community empowerment, and inclusive development.

In regard to the above strategies, the GoI established instruments for the alleviation of poverty, divided into four clusters. The first cluster relates to integrated family-based social assistance programmes, such as health and educational assistance, and also the Family Welfare Programme (*Program Keluarga Harapan*, or PKH). The second cluster includes community empowerment-based poverty alleviation programmes, such as PNPM Mandiri. Rural oriented PNPM Mandiri was transformed into a specific block grant to all rural villages in Indonesia while maintaining a community driven development approach. The transformation allows rural villagers to have larger financial, administrative and development autonomies in promoting their welfare. The third cluster consists of poverty alleviation programmes targeting small and micro enterprises. The fourth cluster includes affordable housing and transportation programmes.

With these policies, economic growth in the period 2005-2014 reached an average of 5.9 percent. The number of poor and unemployed both declined from 15.97 percent and 10.3 percent respectively in 2005 to 11.37 per cent and 5.9 per cent in 2013. However, the level of inequality shown by Gini ratio increased, due to the level of income of high-income earners rising faster than low-income earners. Furthermore, the aim of distributing development opportunities to poorer regions did not happen, and economic activity continued to grow in Java and but not in other areas.

Learning from this experience, efforts to promote inclusive growth should be supported by the availability of adequate infrastructure and development, with a focus on improving infrastructure in less developed areas..

Therefore, the strategies adopted in the new government of President Joko Widodo (Jokowi) now are: to encourage high economic growth, accelerated poverty reduction and unemployment through affirmative action, giving priority to accelerating the availability infrastructure, and prioritize the development of less developed areas. Within this context, Indonesia's medium term plan for 2015-2019 has mainstreamed inclusiveness into development policy of some priority sectors. For example, financial sector development is supported by a sound policy in financial inclusion directed to increase people's and SMEs access to formal financial services. Financial literacy is also a part of financial inclusion policy; where the more people having access to financial services, the better business opportunity and financing will be. To realize our economic potential and ensure political stability, President Jokowi is heavily investing in the skills, health and social welfare of our citizens for overall inclusiveness, as well as a strategy for maritime and eastern indonesia development to improve regional inclusiveness.

Furthermore, Indonesia's investment policy is also directed to increase inclusive investment. This will be achieved by promoting investment in productive sectors, local-resource based manufacturing sectors, and labour-intensive sectors; which in particular through encouraging more participation of Small and Medium Enterprises as well as domestic investors to invest in the country. Besides, inclusive investment will also be achieved through facilitating a more balanced investment across region in Indonesia, as for reducing the investment and development gap between regions in Indonesia. A more mutual partnership between foreign investors and local SMEs will also be a part of our inclusive investment strategy; because stronger business relationships between local and foreign investors can create a higher multiplier effect to the local economy. In addition to this, we will also encourage a process of technology and knowledge transfer from foreign investors to local businesses, as this can better ensure positive externalities from foreign businesses to the marginal community and local businesses, as well as to create more benefits to local economic development.

BOOSTING ECONOMIC MOBILITY IN ASIA: SMEs AS THE DRIVER OF A MORE INCLUSIVE GROWTH

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Over the last four decades, Asia has experienced unprecedented economic growth that has shifted the global economic center of gravity to the region. Asia enters 2015 as the world's fastest growing region, with the International Monetary Fund predicting that GDP will increase by 5.5 percent this year. But although Asia has become wealthier faster than any other region of the world, striking disparities in growth between and within countries are creating new social tensions and economic vulnerabilities. Indeed, Asia embodies a number of very twenty-first-century paradoxes. Extremes of poverty and prosperity mingle strikingly. Among the key challenges facing Asia in this new century are the issues of income distribution and inclusive growth, and their corollary, economic mobility.

According to the Asian Development Bank (ADB), income inequality has risen more than 20 percent in Asia over the last two decades. The 2015 International Labor Organization (ILO) report, **WORLD EMPLOYMENT AND SOCIAL OUTLOOK, WARNS OF THE RISK OF CONTINUING, GROWING INEQUALITIES IN AN ASIA WHERE UNEMPLOYMENT LEVELS ARE ON THE RISE,** especially among the young, and where falling wage shares may threaten future growth and stability in the region. These trends may be symptoms of a slowdown in economic mobility in many Asian countries, where education may not be enough to ensure a better income than one's parents, where quality jobs are scarce, and where entrepreneurs face a myriad of barriers that prevent them from seizing their share of the growth. By putting economic mobility in jeopardy, increasing inequality is threatening the expansion of a middle class that has been driving the growth of Asian countries for several decades, a middle class that aspires to better employment opportunities, but also to a "right" to entrepreneurship.

The debate on reducing inequality and boosting economic mobility often focuses on key factors such as ensuring equal access to education, health, basic utilities, and public services; enhancing food security; expanding fiscal redistribution; increasing government expenditures on social security and welfare; and reducing gender inequality. All are important and necessary measures. However, creating open and transparent business environments that support entrepreneurship and small and medium-sized enterprises (SMEs), so they can grow and create jobs and wealth, may be just as important in the fight for more inclusive growth. According to the ADB, SMEs comprised 98 percent of all enterprises in the Asia-Pacific, employed 66 percent of the national labor force, contributed 38 percent of GDP, and accounted for 30 percent of total export value from 2007 to 2012. Women-led enterprises have a critical role to play among SMEs, with a UN report finding that limiting the inclusion of women in the economy costs the region $89 billion a year.

However, SMEs face a host of challenges. Studies show they are more vulnerable than large businesses to unfair trade practices and nontransparent domestic regulations. Limited access to markets and technologies, non-tariff barriers to trade, poor access to finance, lack of access to business information, and difficulty hiring and training skilled employees also diminish their potential to contribute to the economy. Women entrepreneurs face additional hurdles, such as laws restricting a woman's right to own a business, limited collateral for borrowing, difficulties filing credit applications and meeting bank requirements, limited access to formal business associations and networks, and lack of awareness of new technology, in addition to the responsibilities that come with often being the primary family caregiver.

Overcoming these barriers to improve economic mobility in Asia will require collaboration between the public and private sectors. SMEs often have fewer opportunities than large businesses to engage in high-level discussions, despite being the bedrock of local economies. Yet their input is necessary for policymakers to understand and address day-to-day business operations, as well as behind-the-border and at-the-border trade challenges. Additionally, for SMEs to be able to play their role in creating jobs and economic mobility, there needs to be targeted policies for adapted technological development, innovation, and upgrading; improved access to finance; business services for clusters of firms; and actions to overcome human resource gaps and skills mismatches.

In Southeast Asia, where informal employment and working poverty are high, growth is failing to create the decent work and economic opportunities required for inclusive development. Building the capacity of SMEs across Asia to access information, network, join forces, enter into partnerships, improve their compliance with international standards in all areas, integrate into global and regional value-chains, and build their voice to interact more effectively with the public authorities would be an effective way to create more decent work opportunities that would boost economic mobility and inclusive growth. ◊

Social Protection to Promote Inclusive Growth: the case of Vietnam

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It is widely recognized that the region of Southeast Asia achieved a relatively high and sustained economic growth in comparison with that in other regions. This achievement narrowed the gap of GDP per capita of ASEAN as compared to that of the world, from lower than 6 times in 1980 reduced to lower than 2.7 times in 2013. Furthermore, it is believed that the ASEAN Economic Community (AEC) that is going to establish in 2015 will create more economic growth opportunities for the region. However, the differences of human capital, social capital, financial capital, natural resources, fiscal resources, ethnic identities, etc... are the barriers in supporting every Southeast Asia people to contribute to and benefit from the economic growth. Those are, to some extent, the roots of social disparity and social exclusion. Hence, high economic growth does not fully mean inclusive growth.

One among measurements to sustain robust economic growth with greater inclusiveness in the Southeast Asia is to strengthen a social protection system. With this, people especially the poor and other vulnerable groups will have more opportunities to access: (1) productive employment (so it will improve labour productivity and narrows income gap between the rich and the poor); (2) income redistribution; and (3) essential social services with high quality.

In the case of Vietnam, Vietnam has developed a social protection system with four-components, including:

- *Active labour market programs and poverty reduction* to support people prevent actively risks through preferential credit policies (business, education, professional training, vocational training), employment promotion and labour market information. Over period 2010-2014, each year the economy on average, created employment for 1.6 million people; the share of employment in agricultural sector deceased from 48.7% to 46.4%; the rate of unemployment remained at under 3%; the poverty rate decreased from 9,5% to under 6%; GINI coefficient remained around 0.4.
- *Social insurance* to support people mitigating risks of sickness, maternity, working accident-occupation diseases, old-age, death... through compulsory social insurance, voluntary social insurance (since 2008), unemployment insurance (since 2009), and health insurance. Over period 2010-2014, the coverage of social insurance increased from 20% to 22% labour force; the coverage of unemployment insurance accounted for 17,5% labour force in 2014; the coverage of health insurance increased from 60% to 71% of the total population.
- *Social assistance* to support people coping-up with risks of old-age, disability, orphan, chronic poor, etc... through regular social assistance; and un-foreseen risks of disaster, hunger, etc... through emergency relief. Over period 2010-2014, the monthly cash transfer (social pension) for oder-people and other vulnerable people from 2% increased to 3% of the total population.

- *Basic social services* to support people accessing basic education, primary health care, housing, clean water and information.
- Implemeting the Socio-Economic Development Strategy 2011-2020 and the Resolution 15 on key social policies for the period of 2012-2020, the social protection has been reviewed and assesed annually by the Government. Many targets have been achieved but some others have faced challeges, including:
- The quality of employment is low with high share of agricultural employment and large informal sector. The target of agricultural employment accounted for 30%-35% in 2020 is difficult to be achieved. Relative inequality is not high but absolute inequality (income gap bettween the richest and poorest) is widdened, from 4 times in early 1990s increased to nearly 10 times in 2012. The ethnic minorities seem to be lacked behind of the development process.
- The low coverage of social insurance imples that a large number of older-people will have no pension in the furture. This will put a heavy burden on the State budget, especially in the context of aging population, the population aged 60+ has accounted 10% of total population since year 2010.
- The State budget for social protection is rather high (5% GDP) but due to GDP of Vietnam is small, hence the basic level of social assistance is still far to meet the target of ensuring the minimum income for the beneficiaries.
- The quality of basic social services for people in remote areas is still rather poor.
- Last but not least, in the context of AEC, the regional migration flows will increase. This requires the social protection system of Southeast Asia countries in general and Vietnam in particular must be adjusted to suit the regional framework and action plan to implement the ASEAN declaration on strengthening social protection. Particularly, the social insurance programs need to be adjusted to protect not only local people but also the Southeast Asia people working inside the country.