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Review of social development trends and challenges in the context of the development agenda beyond 2015

Confronting rising inequalities in Asia and the Pacific: trends and opportunities in the context of the development agenda beyond 2015

Note by the secretariat

Summary

As the development agenda beyond 2015 takes shape, it is increasingly being recognized that inequality is an impediment to the integration of economic growth, social inclusion and environmental sustainability. Despite high and enduring economic growth and significant progress in terms of poverty eradication, inequalities persist in Asia and the Pacific, and in some instances they have intensified, between women and men, girls and boys, urban and rural areas, and different age and ethnic groups. Over time, the rich and poor may both be better off; yet, the gap between them is increasing in many countries in the region. Multiple forms of inequality reinforce each other, creating “an inequality trap” that disproportionately affects women and the most vulnerable members of society, including the poor, youth, persons with disabilities, migrants and older persons.

An analysis of the different forms and pathways of inequalities in Asia and the Pacific is contained in the present document. It is suggested that market-led growth alone has not been enough to achieve inclusive and sustainable development. It is further suggested that a combination of measures is needed to reduce inequalities of outcome and opportunity, including the enhancement of social protection, the promotion of productive and decent work, the introduction of a progressive tax system and the strengthening of evidence-based policymaking through more and better research and data collection.

The Committee is invited to review the issues and proposed policy recommendations in the present document and provide the secretariat with guidance for its future work in the area of inequality, including gender disparities, particularly in the light of the development agenda beyond 2015.

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I. Introduction

1. As the development agenda beyond 2015 takes shape, there is growing recognition by the international community of the powerful and corrosive effects of inequalities on sustainable development. The outcome document of the United Nations Conference on Sustainable Development and the Secretary-General's High-level Panel of Eminent Persons on the Post-2015 Development Agenda both underscored the importance of addressing inequality.¹ Moreover, the Open Working Group on Sustainable Development

¹ Outcome document of the United Nations Conference on Sustainable Development, held in Rio de Janeiro, Brazil, from 20 to 22 June 2012, entitled "The future we want" (General Assembly resolution 66/288, annex); High-level Panel of Eminent Persons on the Post-2015 Development Agenda, *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development*. Available from www.post2015hlp.org/wp-content/uploads/2013/05/UN-Report.pdf. See pp. 16-17.

Goals has identified inequality as both a stand-alone and cross-cutting issue.² Inequalities in Asia and the Pacific in particular were considered by government delegations and stakeholders to be a priority area in several past forums, including the recently concluded Asia-Pacific Forum on Sustainable Development.³

2. Despite high and enduring economic growth and significant progress in terms of poverty eradication, inequalities persist in Asia and the Pacific, and in some instances have intensified, between women and men, girls and boys, urban and rural areas, and different age and ethnic groups.⁴ These multiple inequalities reinforce each other creating “an inequality trap” that disproportionately affects women and the most vulnerable members of society, including the poor, youth, persons with disabilities, migrants and older persons.

3. The Asia-Pacific region as a whole has had considerable success in achieving the Millennium Development Goals, particularly in reducing levels of poverty.⁵ Yet, the framework for those Goals did not fully address the various forms of inequality, nor their structural underpinnings.⁶

4. Given this context, the present document is aimed at examining the different forms and pathways of inequality and their implications for sustainable development in Asia and the Pacific. It also suggests key policy measures for reducing inequality that countries may want to consider. Since the third session of the ESCAP Committee on Social Development is serving as a preparatory body for the Asian and Pacific Conference on Gender Equality and Women’s Empowerment: Beijing+20 Review (17-20 November 2014), particular attention has been given to the gender dimensions of inequality.

II. Why does inequality matter?

5. **Inequality is an impediment to poverty reduction.** High levels of inequality make it more difficult to reduce poverty through growth.⁷ It has been estimated, for instance, that, had income inequality not increased in China, the poverty headcount rate (using the \$1.25-a-day poverty line) would have been reduced to 5 per cent in 2008, instead of stalling at 13 per cent. Similarly, in India, the poverty rate would have declined to 30 per cent, instead of remaining at 33 per cent; and in Indonesia, it would have declined to 6 per cent, instead of 16 per cent.⁸ In other words, in terms of absolute numbers, had inequality not increased, an additional 128 million people

² Open Working Group on Sustainable Development Goals, “Introduction and proposed goals and targets on sustainable development for the Post-2015 Development Agenda”, Zero Draft. Available from <http://sustainabledevelopment.un.org/focussdgs.html>.

³ “Chair’s summary”, Asia-Pacific Forum on Sustainable Development, Pattaya, Thailand, 19-21 May 2014. For details of the meeting, see www.unescap.org/events/apfsd.

⁴ Economic and Social Commission for Asia and the Pacific, Asian Development Bank and United Nations Development Programme, *Asia-Pacific Aspirations: Perspectives for a Post-2015 Development Agenda. Asia-Pacific Regional MDGs Report 2012/13*. Available from www.unescap.org/sites/default/files/MDG-Report2012-2013%28lowres%29_0.pdf.

⁵ Ibid.

⁶ See United Nations Millennium Declaration (General Assembly resolution 55/2).

⁷ *Combating Poverty and Inequality: Structural Change, Social Policy and Politics* (United Nations publication, Sales No. E.10.III.Y.1).

⁸ Asian Development Bank, *Asian Development Outlook 2012: Confronting Rising Inequality in Asia* (Manila, ADB, 2012), p. 41.

would have been lifted out of poverty in China. In India this number would have been 24 million and in Indonesia, 37 million.⁹

6. **Inequality adversely affects economic growth.** Unequal societies constrain the productive capacity of the poor and thus their potential contribution to growth. In highly unequal societies, the poor are more likely to be locked into a subsistence economy and have limited disposable income for the purchase of manufactured goods. This dynamic generates lower effective aggregate demand in the economy, limiting the size of the domestic market.¹⁰

7. **High inequality also contributes to social instability.** A growing divide between the rich and the poor is often a factor in rising levels of crime and social unrest, as it undermines trust and weakens bonds of solidarity.¹¹ Under certain conditions, inequality can also lead to political instability. In extreme cases, especially where inequality is manifested along ethnic lines, it can lead to conflict and failure of the State.¹²

8. **Inequality can undermine environmental sustainability.** In equal societies with a high degree of social cohesion, people tend to work together to protect global public goods, including the environment. In contrast, in societies where inequality abounds, collective action is trumped by the pursuit of individual or group interest. In such societies, there is less public support for policies designed to protect the environment and “govern the commons”.¹³

III. What drives inequality?

9. **Technological change and globalization are considered by some analysts to be the main drivers of the region’s rapid growth as well as the basic forces behind rising inequality.**¹⁴ Technological change and globalization have favoured skilled over unskilled labour, capital over labour, and urban and coastal areas over rural and inland regions. One manifestation of this interplay is that economic growth is not generating sufficient decent and productive employment opportunities, as evidenced by the large and underproductive agricultural sector in many countries, as well as the high share of workers in the informal economy.¹⁵ Another manifestation is the unequal access to science, technology and innovation. This dynamic is exemplified by the “digital divide” that exists between and within countries in the region.¹⁶

⁹ ESCAP calculations.

¹⁰ *Inequality Matters: Report on the World Social Situation* (United Nations publication, Sales No. 13.IV.2); and *Asian Development Outlook 2012*.

¹¹ Sameer Khatiwada, “Social unrest index: an overview”, International Institute for Labour Studies Discussion Paper, No. 215, forthcoming.

¹² *Combating Poverty and Inequality: Structural Change, Social Policy and Politics* (United Nations publication, Sales No. E.10.III.Y.1).

¹³ Joseph Stiglitz, “Inequality & environmental policy”, Resources 2020 lecture, 5 October 2012 (Washington, D.C.); Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action* (New York, Cambridge University Press, 1990).

¹⁴ Asian Development Bank, *Asian Development Outlook 2012* (Manila, ADB, 2012).

¹⁵ *Economic and Social Survey of Asia and the Pacific 2013* (United Nations publication, Sales No. E.13.II.F.2).

¹⁶ Refer to the work of the Asian and Pacific Training Centre for Information and Communication Technology for Development, a regional institute of ESCAP based in Incheon, Republic of Korea, see www.unapcict.org.

10. **Some of the policies that have dominated the development agenda since the 1980s have exacerbated inequalities in the region.**¹⁷ Designed to create a “race to efficiency” through market incentives, these policies have, in certain contexts, created a “race to the bottom”. Such policies include financial liberalization, regressive taxation, privatization in the context of weak regulation, public expenditure policies that fail to protect the poor during crises or adjustment periods and labour market policies that lead to precarious forms of employment.

11. **Inequality is also perpetuated in and through discriminatory political, legal and sociocultural norms, based on gender, ethnicity, race and language.** These discriminatory structures disproportionately affect women and vulnerable population groups, excluding them from civic and political life, undermining their access to land, asset ownership, credit, education, health services and other resources needed for leading a productive life.¹⁸

IV. What forms does inequality take?

12. In order to do justice to its multifaceted nature, the many forms and pathways of inequality need to be considered. These can be divided into four main types:

- (a) Inequality in income;
- (b) Inequality in access to health care;
- (c) Inequality in access to education;
- (d) Inequality across key population groups.

A. Income inequality remains high

13. During the last two decades income inequality, as measured by the Palma index,¹⁹ has increased in Bangladesh, China, India, Indonesia, the Lao People’s Democratic Republic, Mongolia and Sri Lanka (see figure 1). In contrast, it has decreased in Armenia, Cambodia, Pakistan, Kazakhstan, Malaysia, the Russian Federation, Thailand and Turkey. It should also be pointed out that in China and Sri Lanka income inequality rose strongly over the 1990s, but has been falling slightly since 2000 in the case of Sri Lanka and since about 2004 in China. Particularly in China, social protection

¹⁷ *Combating Poverty and Inequality: Structural Change, Social Policy and Politics* (United Nations publication, Sales No. E.10.III.Y.1).

¹⁸ *Report on the World Social Situation 2013: Inequality Matters* (United Nations publication, Sales No. 13.IV.2).

¹⁹ The Gini coefficient is the most commonly used indicator to measure income inequality. Recently, arguments have been made in favour of an alternative measure – the “Palma index” – which measures the ratio of the income share of the top 10 per cent to the bottom 40 per cent of a country’s population. The Palma index offers a way to more intuitively understand income inequality. For a given elevated Palma value, it is clear that the gap between rich and poor can be reduced either by raising the share of national income of the poorest 40 per cent or decreasing the share of the top 10 per cent. See Alex Cobham and Andy Sumner, “Putting the Gini back in the bottle? ‘The Palma’ as a policy-relevant measure of inequality”, working paper, King’s International Development Institute (London, King’s College, 2013). See also, José G. Palma, “Homogeneous middles vs. heterogeneous tails, and the end of the ‘Inverted-U’: it’s all about the share of the rich”, *Development and Change*, vol. 42, No. 1 (January 2011), pp. 87-153.

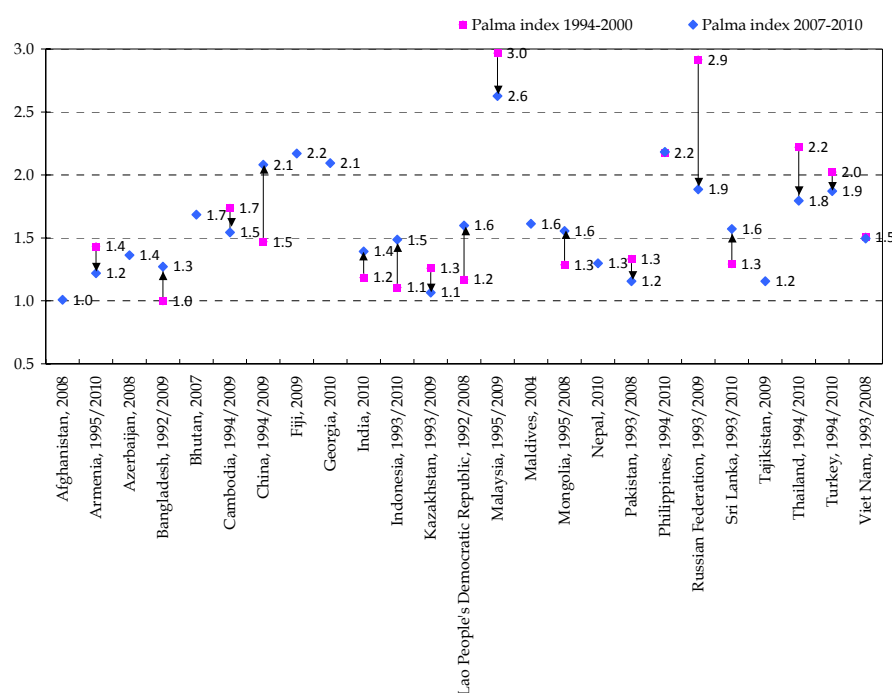
policies aimed at increasing the income of the poor may have contributed to reversing this trend.²⁰

14. An analysis of each income decile over time confirms the basic idea behind the Palma index, namely that change usually occurs in the highest and lowest quintiles, while the share of the middle quintiles remains relatively stable in the majority of countries. This suggests that over time the rich and poor both may be getting better off; yet, because the rich are getting disproportionately richer, the gap between the rich and the poor is increasing. The figure for China in the annex illustrates how there was a sharp increase in the income share of the highest income decile over the 1990s in this country, while the income share of the lowest decile fell. In contrast, the income share of the middle classes remained relatively stable.

15. There are, however, some notable cases where changes in income inequality can be attributed to a rise of the middle classes. In Thailand, where overall inequality has fallen over time, the income share of the top income decile has decreased since about 2000, giving space to the rise of the middle classes and lower income groups. In like fashion, in Cambodia, the income share, particularly of the highest income decile, has decreased sharply since about 2007; while the share of the fifth and sixth income deciles – the middle classes – rose, and the share of the poorest group remained relatively stable.

Figure 1

The richest 10 per cent have almost twice as much income as the poorest 40 per cent: Palma index in selected Asian and Pacific countries, 1994-2010



Source: ESCAP calculations based on World Bank's PovCalNet.

16. A structural factor explaining the persistent – and at times increasing – gap between rich and poor is that in the last decades the income of capital owners has grown faster than the income of workers in the major economies in the region. As a result, the labour income share has fallen. For example, although wages in China roughly tripled over the last decade, GDP increased

²⁰ International Labour Organization, *World of Work Report 2014: Developing with Jobs* (Geneva, 2014).

faster than the total wage bill, thus leading to a decrease in the labour income share. There have been similar trends in the Republic of Korea and Turkey.²¹

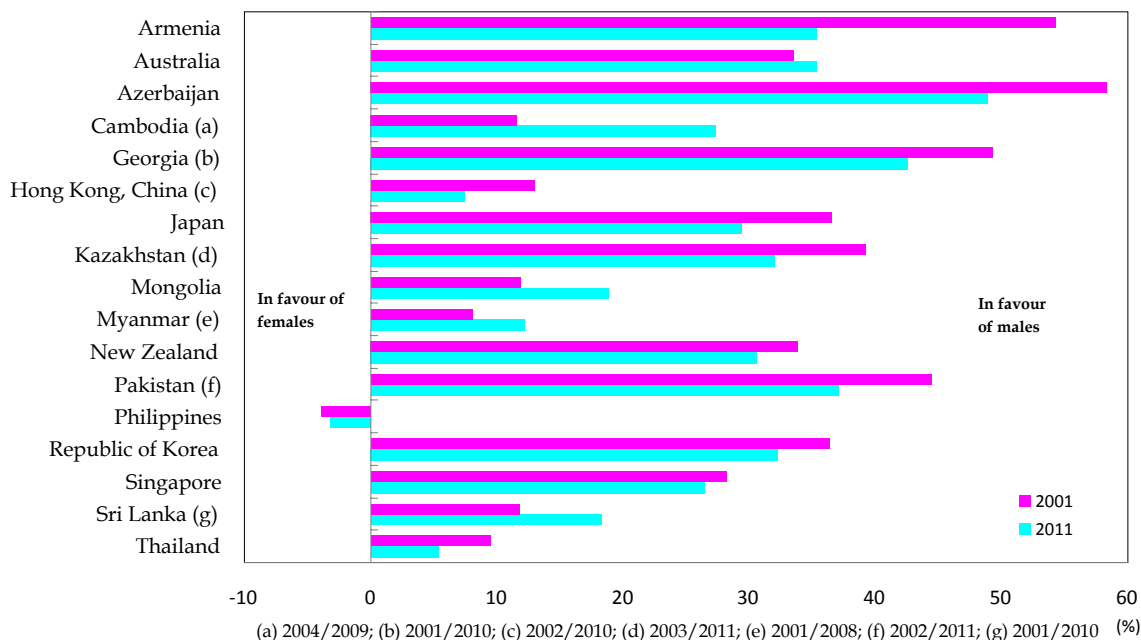
17. Agricultural wages in particular have grown at a slower pace than wages in other sectors, reinforcing and even exacerbating inequalities between rural and urban areas. This is the case in China, for instance, where wages in the agricultural sector have grown significantly slower than overall wages, including wages in the industrial sector. In many countries in the region, moreover, the share of the labour force working in agriculture does not proportionally correspond to the agricultural sector's share in GDP.²² This implies low productivity and wages. For instance, in India and Nepal more than half the labour force is employed in agriculture, whereas the share of agriculture in GDP is 14 per cent and 35 per cent respectively. In Papua New Guinea, about 90 per cent of the labour force is occupied in rural areas, whereas the agricultural sector accounts for only 36 per cent of GDP.

18. Significant income inequalities between men and women abound in Asia and the Pacific. Figure 2 depicts the uneven progress that has been made over the past decade in closing the gender wage gap across the region. The gender wage gap is particularly high in Azerbaijan, Georgia and Pakistan. In contrast, in the Philippines this gap is negative, that is, women on average receive a higher income than men. Moreover, while the gap has fallen in several economies, such as Armenia; Azerbaijan; Georgia; Hong Kong, China; and Thailand, it has increased or remained the same in other economies where data are available.

Figure 2

The gender wage gap is still high, but falling in some economies

Selected Asian-Pacific economies, 2001 and 2011



Source: ESCAP Online Statistical Database

²¹ International Labour Organization, *Global Wage Report 2012/13: Wages and Equitable Growth* (Geneva, 2013), p. 42.

²² *Economic and Social Survey of Asia and the Pacific 2013* (United Nations publication, Sales No. E.13.II.F.2), p. 159.

19. The gender wage gap persists in part because women are more likely to be in vulnerable employment than their male counterparts: in East Asia, 52.7 per cent of women are engaged in vulnerable employment, compared with 45.4 per cent of men; in South-East Asia and the Pacific, the corresponding percentages are 65.9 and 58.5; and in South Asia, the figures are 83.8 per cent and 75.5 per cent respectively.²³ Moreover, the need to combine work with childcare often pushes women into insecure jobs in the informal sector. It also needs to be mentioned that in the Asian and Pacific region in 2012, 28.9 per cent of females were engaged as contributing family workers compared with 9.2 per cent of males.²⁴

20. Several countries in the region have already taken measures to address increasing income inequality by introducing cash transfers for the poor and other vulnerable groups. For example, to facilitate the transition from a planned to a market economy, China established minimum living standard guarantee schemes (*dibao* in Chinese), which provide means-tested cash transfers to those living under the established minimal standard of living; and India developed a scheme under the Mahatma Gandhi National Rural Employment Guarantee Act, which guarantees 100 days of wage employment in a financial year to any rural household whose adult members are willing to participate in unskilled manual work.²⁵

B. Poor access to health-care services exacerbates inequality

21. In addition to income inequality, there are also inequalities that stem from unequal access to the resources required to sustain and improve livelihoods and lead meaningful lives. Such inequalities take form principally through unequal access to health services and education.

22. Availability and access to affordable health-care services is a key determinant of inequality of well-being. Sometimes, services are not available in certain areas, even to those who can afford it. In other cases, services may be available, but unaffordable to the large majority. There may also be cases where sociocultural norms, which can vary across population and income groups, limit the use of health-care services.

23. In many countries in the region, availability of health-care services in rural – remote and mountainous – areas is limited. For example, in the Lao People’s Democratic Republic in 2006, skilled birth attendance was six times less likely in rural than in urban areas.²⁶ The adverse effects of this scarcity is compounded by the underdeveloped transportation and communication infrastructure which makes it a challenge for rural residents to access the

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