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Asian Economies Recalibrate to Address Inequality

By ALAN WHEATLEY | REUTERS

BEIJING — Asia should have a smile on its face. The region's economy is displaying resilience in the teeth of a structural rise in oil and commodity prices. Overheating is a greater threat than a swoon in growth.

Yet the tone of some officials' recent comments has been strikingly cautious, reflecting an awareness that Asia has failed to seize the chance during the past decade of strength to address longstanding vulnerabilities.

Asia is still hopelessly dependent on final demand from rich countries. Investment, the seed corn of growth, remains far below levels scaled before the 1997-98 financial crisis, except in China and India.

Cross-border financial and monetary linkages are puny. Infrastructure, the sinews of every economy, is patchy. Asia generates less electricity than Latin America and has proportionately fewer phone connections.

So far, so familiar.

But policy makers are drawing increasing attention to another shortcoming of Asia's export-oriented growth model: inequality.

Disquiet over a widening gap between the haves and the have-nots was a factor in Singapore's election Saturday, which ended in gains for the opposition.

And the urban-rural fault line running through Thai politics is in good part a rich-poor divide.

"There has been a significant increase in attention to inequality globally, and particularly in Asia," said Xiaoqing Yu, the World Bank's lead economist for social protection in East Asia and the Pacific.

"Countries realize that inequality is contributing to social tensions and lost opportunities," Ms. Yu said.

“Global events in recent months point to that,” she added, alluding to turmoil in the Middle East.

Even the International Monetary Fund, synonymous with stony-hearted austerity, has taken to stressing that “inclusive” growth is critical to the credibility of market-oriented reform and long-term development.

Inequality, up to a point, helps drive efficiency. But excessive inequality holds people back and stifles consumption. People cannot be expected to spend freely if they have precarious, low-paying jobs and scant social protection.

“It’s really important for the region to continue to target more inclusive growth,” Anoop Singh, director of the I.M.F.’s Asia-Pacific department, said recently in Hong Kong.

“It would not only reinforce stability, it would also help facilitate the rebalancing that Asia needs toward domestic demand and against simply an export-led model over the medium term,” he said.

China is the best-known illustration of the economic and income imbalances spawned by such a model. Living standards on the seaboard, where export industries are concentrated, are many times as high as in the interior.

But South Korea is also counting the cost of a political economy geared toward supporting exporters at the expense of consumers and domestic service providers, according to Young Sun Kwon, an economist at Nomura.

The Korean economy recovered strongly from the 2008 global financial crisis, thanks to a largely undervalued won, huge fiscal stimulus and lower interest rates.

The ensuing increase in inflation and domestic debt penalized wage earners, while corporate profits rose as a share of national income.

The resulting widening in income inequality was one reason why the governing Grand National Party fared poorly in by-elections held on April 27, Mr. Kwon wrote in a report.

He said he expected the government to tweak policy in response, favoring consumers, smaller companies and lower-income families, rather than producers, big companies and rich families.

Other governments across Asia are also reacting. China is increasing health and welfare spending, while Hong Kong has just introduced a minimum wage. The Philippines is experimenting with a conditional cash transfer program to help the poorest.

Ms. Yu of the World Bank said the 2008 crisis had brought home the need for a degree of social protection in a region where the umbrella of the extended family has largely substituted for public welfare.

"Even governments that traditionally have not put a lot of emphasis on poverty, inequality and protection now realize that they need some kind of mechanism, even if it's modest, to cope with a shock," she said.

Of course, it will take more than a social safety net to temper inequality. As technological progress puts an ever-growing premium on skills, poorly educated workers are falling behind.

Here, the task for governments was to ensure a more level playing field by investing in skills development, Ms. Yu said, adding that Singapore, Australia and South Korea were showing the way.

In the grander scheme of things, nurturing a more equal, better-educated society will be critical if Asia is to avoid falling into the middle-income trap. This is when per capita incomes stall because countries fail to graduate from a reliance on resources and cheap labor to growth based on innovation and productivity.

South Korea has successfully made the transition. Malaysia and the Philippines are struggling to escape the trap.

If it avoids the trap, Asia would account for half of world output by 2050, up from 27 percent now; if it fails, the proportion will be about 32 percent, according to a report prepared for the annual meeting of the Asian Development Bank, held last week in Hanoi.

The report captured the prevailing circumspect mood, warning that Asia needed to address "daunting multigenerational challenges and risks."

The A.D.B.'s managing director general, Rajat M. Nag, said the message was clear. "Your rise is not preordained; it is plausible, but you've got to earn it," he said.

"You've got to make some policy decisions now to reduce inequity, increase the basic education, address issues of governance and corruption, show leadership and have strong regional integration if you are going to avoid the middle-income trap," Mr. Nag said.

Alan Wheatley is a Reuters correspondent.